

Instructions for Form 941

(Rev. January 2004)

Employer's Quarterly Federal Tax Return

Section references are to the Internal Revenue Code unless otherwise noted.



Department of the Treasury
Internal Revenue Service

Items To Note

Electronic filing option. File Form 941 electronically and receive proof of filing acknowledgement. Electronic payment options may also be available. Visit the IRS website at www.irs.gov/efile for details.

Enhanced Third-Party Designee authority. The authority given to a representative when a filer completes the **Third-Party Designee** section of Form 941 has been **enhanced** and is now **revocable**. Third-party designees will now be able to exchange information with the IRS concerning Form 941. They may also request and receive written tax information relating to Form 941, including copies of specific notices, correspondence, and account transcripts. The named third-party designee may now be any individual, corporation, firm, organization, or partnership. As a result, the enhanced Third-Party Designee authorization will be substantially equivalent to **Form 8821**, Tax Information Authorization. See **Third-Party Designee** on page 4 for details.

Revision to line 2 instructions. Filers should now use amounts that would be entered in box 1 of **Form W-2**, Wage and Tax Statement, when entering wages, tips, and other compensation on line 2 of Form 941. See **Line 2—Total Wages and Tips, Plus Other Compensation** on page 3 for details.

Social security wage base for 2004. Stop withholding social security tax after an employee reaches **\$87,900** in taxable wages during 2004. (There is no limit on the amount of wages subject to Medicare tax.)

Zero Wage return. Beginning in April of 2004, all U.S.-based (domestic) taxpayers may file their "Zero Wage" Forms 941 by telephone using the 941TeleFile system. Eligible filers must have had: **(a)** no withholding, **(b)** no federal tax deposits, and **(c)** no taxes to report for the quarter. Dial 1-800-583-5345 (toll free) to use 941TeleFile.

General Instructions

Purpose of Form

Use Form 941 to report income tax that you withheld from wages (including tips), distributions from **nonqualified** pension plans (including nongovernmental section 457(b) plans), supplemental unemployment compensation benefits, and third-party payments of sick pay. Also use Form 941 to report social security and Medicare taxes.

Telephone Help

You can call the IRS toll free at 1-800-829-4933 to order FTD coupons (Form 8109) and for answers to your questions about completing Form 941, tax deposit rules, or obtaining an employer identification number (EIN).

Who Must File

Employers who withhold income tax on wages, or who must pay social security or Medicare tax, must file Form 941 each calendar quarter. After you file your first Form 941, you must file a return for each quarter, even if you have no taxes to report (but see the **seasonal employers** and **final return** information below). If you

filed Form 941 by electronic or TeleFile methods, do not also file a paper Form 941. For information about filing Form 941 electronically, visit the IRS website at www.irs.gov/efile.

Seasonal employers are not required to file for quarters when they regularly have no tax liability because they have paid no wages. To alert the IRS that you will not have to file a return for one or more quarters during the year, check the **Seasonal employers** box on line B of Form 941 for **each** quarter. See section 12 of **Circular E (Pub. 15)**, Employer's Tax Guide, for more information.

Note: Employers of the following categories of workers do not usually file Form 941.

- **Household employees.** See **Pub. 926**, Household Employer's Tax Guide, and **Schedule H (Form 1040)**, Household Employment Taxes.
- **Farm employees.** See **Form 943**, Employer's Annual Federal Tax Return for Agricultural Employees, and **Circular A (Pub. 51)**, Agricultural Employer's Tax Guide.

Business reorganization or termination. If you sell or transfer your business, you and the new owner must each file a return for the quarter in which the transfer occurred. Each should report only the wages it paid. A change from one form of business to another, such as from sole proprietorship to partnership or corporation, is considered a transfer and requires a new EIN. See section 1 of Circular E (Pub. 15). If a change occurs, please attach a statement to your return that shows: new owner's name (or new name of the business); whether the business is now a sole proprietorship, partnership, or corporation; kind of change (sale or transfer); and date of change. When two businesses merge, the continuing firm must file the return for the quarter the change took place. The other firm should file a final return.

Final return. If you go out of business or stop paying wages, file a **final return**. Be sure to check the final return box on line A and enter the date final wages were paid in the area at the right. See the **Instructions for Forms W-2 and W-3** for information on the earlier dates for the expedited furnishing and filing of Form W-2 when a final Form 941 is filed.

Preparing the Form

The following will allow the IRS to process Form 941 faster and more accurately:

- Make dollar entries without the dollar sign and comma (0000.00).
- Enter negative amounts in parentheses.
- File the Form 941 that has your preprinted name and address.

When To File

File starting with the first quarter in which you are required to withhold income tax or pay wages subject to social security and Medicare taxes.

Quarter	Ending	Due Date
Jan.-Feb.-Mar.	March 31	April 30
Apr.-May-June	June 30	July 31
July-Aug.-Sept.	Sept. 30	Oct. 31
Oct.-Nov.-Dec.	Dec. 31	Jan. 31

If you made deposits on time in full payment of your taxes for a quarter, you have 10 more days after the above due dates to file. Your return will be considered timely filed if it is properly addressed and mailed First-Class or sent by an IRS-designated delivery service on or before the applicable due date. See Circular E (Pub. 15) for more information on IRS-designated delivery services. If the due date for filing a return falls on a Saturday, Sunday, or legal holiday, you may file your return on the next business day.

Where To File

See the back of Form 941 for the mailing address for your return. **Do not** send Form 941 or any payments to the Social Security Administration (SSA).



*Your filing or payment address may have changed from prior years. If you are using an IRS-provided envelope, use **only** the labels and envelope provided with this tax package.*

Depositing Taxes

If your net taxes (line 13) are \$2,500 or more for the quarter, you must deposit your tax liabilities at an authorized financial institution with **Form 8109**, Federal Tax Deposit Coupon, or by using the **Electronic Federal Tax Payment System (EFTPS)**. You may pay the taxes with Form 941 instead of depositing if your total taxes for the quarter (line 13) are less than \$2,500 and you pay in full with a timely filed return. See section 11 of Circular E (Pub. 15) for information and rules concerning Federal tax deposits and to determine your status as a **monthly** or **semiweekly** schedule depositor.

Reconciliation of Forms 941 and W-3

Certain amounts reported on your four quarterly Forms 941 for 2004 should agree with your **Form W-2**, Wage and Tax Statement, totals reported on your 2004 **Form W-3**, Transmittal of Wage and Tax Statements, or equivalent magnetic media reports (Form 6559) filed with the SSA. **The amounts that should agree are:** income tax withholding, social security wages, social security tips, Medicare wages and tips, and the advance earned income credit payment. If the totals do not agree, the IRS may require you to explain any differences and correct any errors. For more information, see section 12 of Circular E (Pub. 15).

Penalties and Interest

There are penalties for filing a return late and paying or depositing taxes late, unless there is reasonable cause. If you file or pay late, please attach an explanation to your return. There are also penalties for failure to: **(a)** furnish Forms W-2 to employees and file copies with the SSA or **(b)** deposit taxes when required. (Do not attach an explanation of why the return is late to Forms W-2 sent to the SSA.) In addition, there are penalties for willful failure to file returns and pay taxes when due and for filing false returns or submitting bad checks. Interest is charged on taxes paid late at the rate set by law.



*A **trust fund recovery penalty** may apply if income, social security, and Medicare taxes that must be withheld are not withheld or are not paid. The penalty is the full amount of any unpaid trust fund tax. This penalty may apply when these unpaid taxes cannot be immediately collected from the employer or business. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. See section 11 in Circ. E (Pub. 15) for more information.*

Forms W-4

Each quarter, send with Form 941 copies of any **Forms W-4**, Employee's Withholding Allowance Certificate, received during the quarter from employees claiming: **(a)**

more than 10 withholding allowances or **(b)** exemption from income tax withholding if their wages will normally be more than \$200 a week. For details, see section 9 of Circular E (Pub. 15).

Forms W-5

Each eligible employee wishing to receive any advance earned income credit (EIC) payments must give you a completed **Form W-5**, Earned Income Credit Advance Payment Certificate. The employer's requirement to notify certain employees about the EIC can be met by giving each eligible employee **Notice 797**, Possible Federal Tax Refund Due to the Earned Income Credit (EIC). See Circular E (Pub. 15) and **Pub. 596**, Earned Income Credit, for more information.

Employer Identification Number (EIN)

If you do not have an EIN, apply for one on **Form SS-4**, Application for Employer Identification Number. Get this form from the IRS or the SSA. If you do not have an EIN by the time your return is due, write "Applied For" and the date you applied in the space shown for the number. Form SS-4 has information on how to apply for an EIN by mail, fax, or by telephone. You may also apply for an EIN online at **www.irs.gov/smallbiz**.

Note: *Always be sure that the EIN on the form you file matches the EIN assigned to your business by the IRS. Do not show your social security number on forms calling for an EIN. Filing a Form 941 with an incorrect EIN or using the EIN of another business may result in penalties and delays in processing your return.*

Preprinted Name, EIN, and Address

If your preprinted name, EIN, or address on Form 941 is not correct, cross it out and type or print the correct information. However, **do not** change any of the preprinted information on your **Form 941-V**, Payment Voucher.

Specific Instructions

State Code

If you made your deposits by FTD coupon or by using an EFTPS bank account in a state other than that shown in your address on Form 941, enter the state code for the state where you made deposits or initiated EFTPS transfers in the box provided in the upper left corner of the form. Use the Postal Service two-letter state abbreviation as the state code. Enter the code "MU" in the state code box if you deposit in more than one other state. If you deposit or initiate EFTPS transfers in the **same state** as shown in your address, **do not** make an entry in this box.

Line A—Final Return

Check the box and enter the date final wages were paid in the space provided if you do not have to file Form 941 in the future. See also **Final Return** on page 1.

Line B—Seasonal Employer

Check this box if you are a **seasonal employer** described on page 1.

Line 1—Number of Employees

Enter the number of employees on your payroll during the pay period including **March 12** (on the January-March calendar quarter return **only**). **Do not** include household employees, persons who received no pay during the pay period, pensioners, or members of the Armed Forces.

An entry of 250 or more on line 1 indicates that you must file Forms W-2 electronically or on magnetic media. Call the SSA at 1-800-772-6270 or access the SSA

website at www.socialsecurity.gov/employer for more information on electronic or magnetic media filing.

Line 2—Total Wages and Tips, Plus Other Compensation

Enter amounts on line 2 that would also be included in box 1 of your employees' Forms W-2. See the **Instructions for Forms W-2 and W-3** for details.

If you get timely notice from your insurance carrier concerning the amount of third-party sick pay that it paid to your employees, include the sick pay on line 2. If you are an insurance company, **do not** include sick pay that you paid to policyholders' employees here if you gave the policyholders timely notice of the payments. See **Pub. 15-A**, Employer's Supplemental Tax Guide, for details.

Line 3—Total Income Tax Withheld

Enter the income tax that you withheld on wages, tips, taxable fringe benefits, and supplemental unemployment compensation benefits. An insurance company should enter the income tax that it withheld on third-party sick pay here.

Line 4—Adjustment of Withheld Income Tax

Use line 4 to correct errors in **income tax withheld** from wages paid in **earlier quarters** of the **same calendar year**. You **may not** adjust or claim a refund or credit for any overpayment of income tax that you withheld or deducted from an employee in a **prior year**. This is because the employee uses the amount shown on Form W-2 as a payment when filing his or her income tax return. Because any amount shown on line 4 increases or decreases your tax liability, the adjustment must be taken into account on line 17, Monthly Summary of Federal Tax Liability, or on **Schedule B (Form 941)**, Employer's Record of Federal Tax Liability. For details on how to report adjustments on the record of Federal tax liability, see the instructions for line 17 (on page 4) or the instructions for Schedule B (Form 941). Explain any adjustments on **Form 941c**, Supporting Statement To Correct Information, or an equivalent statement. See section 13 of Circular E (Pub. 15).

Note: *You may adjust income tax withholding for quarters in earlier years **only** to correct an **administrative error**. An administrative error occurs if the amount you entered on Form 941 is not the amount that you actually withheld. For example, if the total income tax actually withheld was incorrectly reported on Form 941 due to a mathematical or transposition error, this would be an administrative error. The administrative error adjustment corrects the amount reported on Form 941 to agree with the amount actually withheld from the employees.*

Line 6a—Taxable Social Security Wages

Enter the total wages subject to social security tax that you paid to your employees during the quarter. Also include any sick pay and taxable fringe benefits subject to social security tax. See section 5 of Circular E (Pub. 15) for information on types of wages subject to social security tax. Enter the amount before deductions. **Do not** include tips on this line. Stop reporting an employee's wages (including tips) after he or she reaches \$87,900 for 2004. However, continue to withhold income and Medicare tax for the whole year on wages and tips even when the social security wage base of \$87,900 is reached. See the **Line 7a** instructions for Medicare tax. **If none of the payments are subject to social security tax, check the box in line 8.**

Line 6c—Taxable Social Security Tips

Enter all tips that your employees reported during the quarter until tips and wages for an employee reach \$87,900 in 2004. Do this even if you were not able to withhold the employee tax (6.2%). See the **Line 9**

instructions for the adjustment for uncollected employee's share of social security tax on tips.

An employee must report to you cash tips, including tips you paid the employee for charge customers, totaling \$20 or more in a month by the 10th of the next month. The employee may use **Form 4070**, Employee's Report of Tips to Employer, or submit a written statement.

Do not include allocated tips on this line. Instead, report them on **Form 8027**, Employer's Annual Information Return of Tip Income and Allocated Tips. Allocated tips are not reportable on Form 941 and are not subject to withholding of income, social security, or Medicare tax.

Line 7a—Taxable Medicare Wages and Tips

Report all wages and tips subject to Medicare tax. Also include any sick pay and taxable fringe benefits subject to Medicare tax. See section 5 of Circular E (Pub. 15) for information on types of wages subject to Medicare tax. There is **no limit** on the amount of wages subject to Medicare tax. **If none of the payments are subject to Medicare tax, check the box in line 8.** Include all tips that your employees reported during the quarter, even if you were not able to withhold the employee's share of Medicare tax (1.45%). However, see the **Line 9** instructions below.

Line 9—Adjustment of Social Security and Medicare Taxes

Current period adjustments. In certain cases, amounts reported as social security and Medicare taxes on lines 6b, 6d, and 7b must be adjusted to arrive at your correct tax liability. See section 13 of Circular E (Pub. 15) for information on the following:

- Adjustment for the uncollected **employee share** of social security and Medicare taxes on tips.
- Adjustment for the **employee share** of social security and Medicare taxes on group-term life insurance premiums paid for former employees.
- Adjustment for the **employee share** of social security and Medicare taxes withheld by a third-party sick pay payer.
- Fractions of cents adjustment.

Enter the adjustments for sick pay and fractions of cents in the appropriate line 9 entry spaces. Enter the amount of all other adjustments in the "Other" entry space, and enter the total of the three types of adjustments, including prior period adjustments (discussed below), in the line 9 entry space to the right. Use parentheses (if possible) to show a net decrease to the amounts reported on lines 6b, 6d, and 7b. Provide a supporting statement explaining any adjustments reported in the "Other" entry space.

Prior period adjustments. Use line 9 to correct errors in **social security and Medicare taxes** reported on an earlier return. If you report both an underpayment and an overpayment, show only the net difference.

Because any prior period adjustments shown on line 9 increase or decrease your tax liability, the adjustments must be taken into account on line 17, Monthly Summary of Federal Tax Liability, or on Schedule B (Form 941). For details on how to report adjustments on the record of Federal tax liability, see the instructions for line 17, later, or the instructions for Schedule B (Form 941).

Explain any **prior period** adjustments on Form 941c. **Do not file Form 941c separately from Form 941.** Form 941c is **not** an amended return but is a statement providing necessary information and certifications supporting the adjustments on lines 4 and/or 9 of Form 941. If you do not have a Form 941c, you may file an equivalent supporting statement with the return providing the required information about the adjustment(s). See section 13 of Circular E (Pub. 15).



If you are adjusting an employee's social security or Medicare wages or tips for a prior year, you must file **Form W-2c, Corrected Wage and Tax Statement, with Form W-3c, Transmittal of Corrected Wage and Tax Statements.**

Line 12—Advance Earned Income Credit (EIC) Payments Made to Employees

Enter any advance EIC payments that you made to your employees. Your eligible employees may elect to receive part of the EIC as an advance payment. Eligible employees **must** expect to have a qualifying child and must give you a completed Form W-5 stating that they qualify for the EIC. Once the employee gives you a signed and completed Form W-5, you must make the appropriate advance EIC payments. Advance EIC payments are generally made from withheld income tax and employee and employer social security and Medicare taxes. See section 10 of Circular E (Pub. 15) and Pub. 596.

If the amount of your advance EIC payments exceeds your total taxes (line 11) for the quarter, you may claim a refund of the overpayment or elect to have the credit applied to your return for the next quarter. Provide a statement with your return identifying the amount of excess payment(s) and the pay period(s) in which it was paid. See section 10 of Circular E (Pub. 15).

Line 15—Balance Due

You do not have to pay if line 15 is under \$1.

Generally, you should show a balance due on line 15 **only** if your net tax liability for the quarter (line 13) is less than \$2,500. However, see section 11 of Circular E (Pub. 15) regarding payments made under the **accuracy of deposits rule**. (Make certain that the entity area above line A on Form 941 is properly completed).



If you fail to make deposits as required and instead pay the taxes with Form 941, you may be subject to a penalty.

Line 16—Overpayment

If you deposited more than the correct amount for a quarter, you can have the overpayment refunded or applied to your next return by checking the appropriate box. If you do not check either box, your overpayment will be applied to your next return. The IRS may apply your overpayment to any past due tax account under your EIN. If line 16 is under \$1, the amount will be refunded or applied to your next return only on written request.

Line 17—Monthly Summary of Federal Tax Liability

Note: This is a summary of your monthly tax liability, **not** of deposits made. If line 13 is less than \$2,500, **do not** complete line 17 or Schedule B (Form 941).

Complete line 17 **only** if you were a **monthly schedule depositor** for the **entire quarter** and line 13 is \$2,500 or more. (See section 11 of Circular E (Pub. 15) for details on the deposit rules.) You are a monthly schedule depositor for the calendar year if the total amount of your Form 941 taxes (line 11) reported for the **lookback period** is **not more than \$50,000**.

The lookback period is the four consecutive quarters ending on June 30 of the prior year. The 2004 lookback period begins July 1, 2002, and ends June 30, 2003.



If you were a semiweekly schedule depositor during any part of the quarter, **do not** complete columns (a) through (d) of line 17. Instead, complete Schedule B (Form 941).

Reporting adjustments on line 17. If your net adjustment during a month is negative (e.g., correcting

an overreported liability in a prior period) and it exceeds your total liability for the month, **do not enter a negative amount for the month**. Instead, enter “-0-” for the month and carry over the unused portion of the adjustment to the next month.

For example, Pine Co. discovered on February 6, 2004, that it overreported social security tax on a **prior quarter** return by \$2,500. Its Form 941 taxes for the 1st quarter of 2004 were: January \$2,000, February \$2,000, March \$2,000. Pine Co. should enter “\$2,000” in column (a), “-0-” in column (b), “\$1,500” in column (c), and the total, “\$3,500,” in column (d). The prior period adjustment (\$2,500) offsets the \$2,000 liability for February and the excess \$500 must be used to offset March liabilities. Since the error was not discovered until February, it does not affect January liabilities reported in column (a).

If excess negative adjustments are carried forward to the **next quarter**, do not show those excess adjustments on lines 4 or 9 because line 17 column (d) must equal line 13. Instead, on your **next quarter's** Form 941, report the excess negative adjustments on lines 4 or 9 and adjust (but not below zero) your line 17(a) liability.

Third-Party Designee. If you want to allow any individual, corporation, firm, organization, or partnership to discuss your Form 941 with the IRS, check the “Yes” box in the **Third-Party Designee** section of the return. Also, enter the name, phone number, and any five numbers that the designee chooses as his or her personal identification number (PIN). The authorization applies only to the tax form upon which it appears.

By checking the “Yes” box, you are **authorizing** the IRS to call the designee to answer any questions relating to the information reported on your tax return. You are also authorizing the designee to:

- Exchange information concerning your tax return with the IRS and
- Request and receive written tax return information relating to your tax return including copies of specific notices, correspondence, and account transcripts.

You are **not authorizing** the designee to receive any refund check, bind you to anything (including additional tax liability), or otherwise represent you before the IRS. If you want to expand the designee's authorization or desire automatic issuances of copies of notices, see **Pub. 947, Practice Before the IRS and Power of Attorney**.

The **Third-Party Designee** authorization automatically **expires** one year from the due date (without regard to extensions) for filing your Form 941. If you or your designee desire to terminate the authorization, a written statement conveying your wish to revoke the authorization should be submitted to the IRS service center where the return was processed.

Who Must Sign

- **Sole proprietorship**—The individual owning the business.
- **Corporation** (including an LLC treated as a corporation)—The president, vice president, or other principal officer.
- **Partnership** (including an LLC treated as a partnership) **or unincorporated organization**—A responsible and duly authorized member or officer having knowledge of its affairs.
- **Single member limited liability company (LLC) treated as a disregarded entity**—The owner of the limited liability company.
- **Trust or estate**—The fiduciary.

The return may also be signed by a duly authorized agent of the taxpayer if a valid power of attorney has been filed.