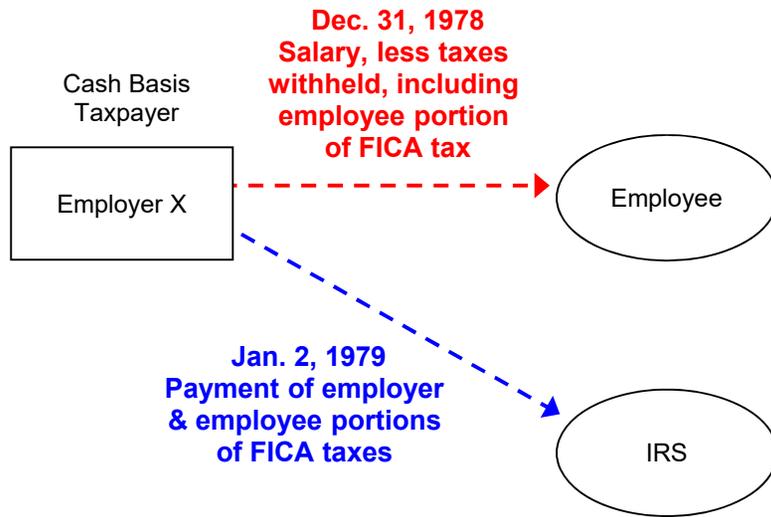


Cash Method Employer Timing of Deduction for FICA Taxes



These journal entries only focus on FICA taxes. They do not include federal income tax withholding or other payroll items.

Cash Method Journal Entries - December 31, 1978

Debit: Salary expense	100.00	
Credit: Cash (to employee)		92.35
Credit: Employee FICA tax payable to IRS		7.65

Fully deductible in 1978

Cash Method Journal Entries - January 2, 1979

Debit: Employee FICA tax payable	7.65	
Debit: Employer FICA expense	7.65	
Credit: Cash (to IRS)		15.30

Deductible in 1979

An employer, X, is engaged in business in the United States. X uses the cash receipts and disbursements method of accounting and reports income on a calendar year basis. During 1978, X paid wages to its employees and withheld from those wages amounts representing federal income and FICA taxes. The amounts that X withheld on the wages paid during the last quarter of 1978 were timely paid to the United States in 1979.

The withheld taxes on December 31 are considered paid as salary to the employees at the time they are withheld and are therefore included in a cash method employee's income for the year in which withheld. Therefore, for deduction purposes, X is viewed as actually paying withheld taxes at the time withheld, and is thus entitled to a deduction for the year in which they are withheld under Reg. 1.461-1(a).

An employer who reports income on the cash receipts and disbursements method of accounting should deduct under the provisions of section 162 the withheld federal taxes (imposed on the employee and withheld from the employee's wages) as wages for the taxable year in which such taxes are withheld. However, the FICA imposed upon the employer with respect to wages paid employees are deductible when paid to the United States.