The IRS has developed Form 941-X, Adjusted Employer's Quarterly Federal Tax Return of Claim for Refund to replace Form 941c. Use Form 941-X to make corrections to previously filed Forms 941. Do not attach Form 941-X to Form 941; file Form 941-X separately.

To view the IRS Instructions, click on this link: <u>http://www.irs.gov/pub/irs-pdf/i941x.pdf</u>

How to process the form in Creative Solutions Accounting:

- 1. Make the required corrections to the client in Creative Solutions Accounting.
- 2. Go to Utilities / Payroll Tax Processing and click the 941X flag.
- 3. Click **Tasks / Retrieve Payroll Information** and choose the quarter and year that you are correcting and click **Ok.**
- 4. Click on **Setup / Supplemental Information**. The information you enter on this screen will flow onto the 941-X. See below for an explanation of each field.

941-X	
Part 1 and 2 O Adjusted employment tax return O Claim Refund Date discovered error:	I I ✔ Filed W-2 or W-2c forms
Combined FICA rates Social security: 12.4000	Medicare: 2.9000
Section 3509 rates Federal Income Tax: 0.0000 Social Security Tax: 0.0000	Medicare Tax: 0.0000
Signature information Name: Title:	Date: 07/28/09
Signature file	Modify Remove
Preparer information Hide paid preparer section Name:	Self-employed
Phone: SSN/PTIN:	EIN: Cancel

Part 1 and 2

• You must choose either **Adjusted employment tax return** <u>or</u> **Claim Refund** depending upon what kind of error you need to correct.

- Adjusted employment tax return is used if you:
 - Underreported amounts
 - Overreported amounts and would like to use the adjustment process to correct the error
 - Are correcting both underreported and overreported amounts
 - **Claim refund** is used if you:
 - Overreported amounts only and would like to use the claim process for a refund or abatement

For more information on when to choose Adjusted employment tax return or Claim Refund, see the table on the last page of the 941-X Form Instructions at <u>http://www.irs.gov/pub/irs-pdf/f941x.pdf</u>.

- Enter the date the error was noticed in the **Date discovered error** field
- Mark the box Filed W-2 or W-2c forms to certify you have or will file be filing these forms as required by the IRS.

Combined FICA rates

- Defaults to 12.4 % and 2.9 % which represents the employer and employee rates added together. These rates are used on the form to do the calculations on lines 8 through 10.
- If you are correcting only the employer share of a tax, change this value to be 6.2 (it will <u>NOT</u> change the rate that displays on the form but it will be used to do the multiplication.)
- In some instances if you are correcting both shares of tax for some employees and only the employer share for other employees, determining these rates may be difficult. In the case, enter the properly calculated amount directly into Column 4 of page 2 of the 941-X, and be sure to show your calculations on Line 21.

Section 3509 rates

- Enter the special rates for the employee share of FICA-SS, FICA-Med and Federal W/H when workers are reclassified as employees in certain cases; an example would be if an employer mistakenly classified an employee as an independent contractor.
- See the section below entitled "Section 3509 Rates Information" for more details.
- Consult the IRS Code Section 3509 or call the IRS for the actual rates to use.

Signature Information

• Enter the name, title, and if setup, attach a signature bitmap of the person signing the return.

Preparer Information

- You may choose to hide the paid preparer information by marking the Hide paid preparer section box, or you may enter the preparer information so it will appear on the form.
- 5. You will need to mark the appropriate boxes directly onto the form for Line 4 (if you chose option 1 in Part 1) or Line 5 (if you chose option 2 in Part 1.)
- 6. On page 2 in Part 3, enter the corrections for this quarter. If any line does not apply, leave it blank:
 - Line 6. When you retrieve the payroll data into the form via Tasks / Retrieve Payroll Information, the same amounts will pull into the Column 1 and Column 2 fields. If you have already corrected the data in the CSA client, you will need to manually edit the amount in Column 2. If you have not corrected the data in CSA, you will need to manually edit the amount in Column 1. The program will calculate the Column 3 difference.
 - Line 7. When you retrieve the payroll data into the form via Tasks / Retrieve Payroll Information, the same amounts will pull into the Column 1 and Column 2 fields. If you have already corrected the data in the CSA client, you will need to manually edit the amount in Column 2. If you have not corrected the data in CSA, you will need to manually edit the amount in Column 1. The program will calculate the Column 3 difference and fill in Column 4.
 - Line 8 Line 10. When you retrieve the payroll data into the form via Tasks / Retrieve
 Payroll Information, the same amounts will pull into the Column 1 and Column 2 fields. If
 you have already corrected the data in the CSA client, you will need to manually edit the
 amount in Column 2. If you have not corrected the data in CSA, you will need to manually
 edit the amount in Column 1. The program will calculate the Column 3 difference and
 multiple these values by the combined FICA-SS or FICA-Med rates. However, if you are
 correcting the employer share only, you will need to edit the Combined FICA rates in Setup /
 Supplemental Information while this will not change the number printed on the 941X
 form, the difference amount in Column 3 will be multiplied by the number you entered in the
 Supplemental Information. Also, you will need to explain on Page 3 Line 21 how you arrived
 at your calculations.
 - Line 11. Do not enter an amount on this line unless you need to correct any adjustments on lines 7a-7c on a previously filed Form 941. These amounts are manually input into columns 1 and 2 they are not retrieved with the payroll information but Columns 3 and 4 will be computed by the program.
 - Line 12 Line 14. Enter only corrections to wages resulting from reclassifying certain workers as employees when Section 3509 rates are used to calculate the taxes. Unlike OTHER LINES ON FORM 941-X, ENTER IN COLUMN 1 ONLY THE CORRECTED WAGES FOR

WORKERS BEING RECLASSIFIED, **NOT** THE AMOUNT PAID TO **ALL** EMPLOYEES. These amounts are manually input into columns 1 and 2 – they are not retrieved with the payroll information but Columns 3 and 4 will be computed by the program.

- Line 15. Subtotal calculated by the program.
- Line 16. When you retrieve the payroll data into the form via Tasks / Retrieve Payroll
 Information, the same amounts will pull into the Column 1 and Column 2 fields. If you have
 already corrected the data in the CSA client, you will need to manually edit the amount in
 Column 2. If you have not corrected the data in CSA, you will need to manually edit the
 amount in Column 1. The program will calculate the Column 3 difference and fill in Column
 4. Note: the program will switch the sign of the correction when it enters it into column 4 as
 a negative amount in column 4 represents a credit and a positive amount, a balance.
- Line 17a Line 17b. COBRA premium assistance payments and the number of individuals provided COBRA premium assistance amounts are entered directly on the form in Column 1 and Column 2. The program will compute the Column 3 and Column 4 amounts.
- Line 18. Total tax correction calculated by the program.
 - If less than 0, the amount can be either a credit or refund depending on whether you marked Line 1 or Line 2.
 - If more than 0, this is the amount owed.
- Line 19. Mark this box if any corrections entered on a line included both under- and overreported amounts.
- Line 20. Mark this box if any corrections involved reclassified workers.
- Line 21. Enter the detailed explanation of how you determined your corrections directly onto the form.
- 7. In Part 5, Signature and Preparer information will fill in from the **Setup / Supplemental Information** if entered or you can enter this data directly onto the form.

SECTION 3509 Rates Information:

Occasionally, an employer does make an error and classifies an employee as an independent contractor and has to correct that mistake.

When an employer does incorrectly classify an employee as an independent contractor, the employer is still responsible for paying the employee's federal income tax withholding and the employee's share of Federal Insurance Contributions Act (FICA)/Railroad Retirement Tax Act (RRTA), even if it was not withheld from the employee's wages. The employer still must pay the employer's share of matching FICA/RRTA and Federal Unemployment Tax (FUTA). Penalties and interest may also apply.

IRS relief

All these payments can add up for the employer, but the good news is that the Internal Revenue Service does provide some relief for employers who have made a classification error. Internal Revenue Code Section 3509 provides an opportunity to correct the tax treatment of misclassified employees. Code Section 3509 provides reduced rates for the employee's share of FICA taxes and for the federal income tax that should have been withheld. Employers are still responsible for the full amount of their share of FICA taxes. Code Section 3509 does not provide a reduced FUTA rate.

If the employee does not qualify for the reduced rates under Code Section 3509, the employer may still be relieved from paying the federal income tax that should have been withheld from the employee. They need to provide evidence that the employee reported the income on their federal income tax return and paid the federal income tax due. The employer who requests this relief must have the employee sign a Form 4669 (Employee Wage Statement) stating that the income was reported and the taxes attributable to the income have been paid.