

FEDERAL RESERVE BANK
OF NEW YORK

Fiscal Agent of the United States

[Circular No. 5815]
May 19, 1966

New Rules for Deposit of Certain Employment Taxes
on Wages Paid On or After June 1, 1966

To All Banks and Trust Companies
in the Second Federal Reserve District:

New regulations for depositing Social Security taxes and withheld income taxes effective with respect to wages paid on or after June 1, 1966, were approved by the Treasury on May 16. The new regulations have been published in the *Federal Register* of May 17. The Treasury has prepared a notice to employers that describes the new regulations and, as requested by the Treasury, we are enclosing a copy of the notice with each depositary receipt for \$3,000 or more that is validated and returned by this Bank through June 10. For your information, the text of the notice is as follows:

1. New regulations, effective with respect to wages paid during June 1966 and subsequent calendar quarters, require special deposits of social security taxes and withheld income tax by any employer who had more than \$4,000 of such taxes for any month of the preceding calendar quarter. Such special deposits are required to be made on a semimonthly, rather than a monthly, basis and the taxes on the wages paid in the semimonthly period must be deposited within 3 banking days after the 15th and the last day of each month. Thus, if an employer had more than \$4,000 of such taxes for January, February, or March 1966, he must make a deposit of such taxes in respect of wages paid during each semimonthly period in June (June 1 to June 15, inclusive, and June 16 through the end of the month). An employer will be considered to have complied with the requirements of the new regulations for a semimonthly period under either of the following conditions: (1) His deposit for the semimonthly period is not less than 90 percent of the aggregate amount of the taxes for such period; or (2) his deposit for each semimonthly period in the month is not less than 45 percent of the aggregate amount of the taxes for the month. This latter option is not available to an employer who normally pays more than 75 percent of his wages in the first semimonthly period of each month. In the case of either option, any underpayment for a month other than the last month in a calendar quarter shall be deposited within 3 banking days after the 15th day of the following month. (An underpayment for the first or second month of a calendar quarter should, if possible, be combined on the same depositary receipt with the amount to be deposited for the first semimonthly period of the following month.) An underpayment for the last month of a calendar quarter may be paid with the quarterly return on Form 941 filed on or before the last day of the first month following the period for which the return is made or may be separately deposited on or before such date.

2. An employer who fails to meet the requirements of the new regulations as to the amount to be deposited for any semimonthly period in the months of June, July, August, and September 1966, will not be subjected to penalty, if his deposit for the semimonthly period is not less than 50 percent of the aggregate of the taxes for the preceding month. He must, however, deposit any underpayment for July or August within 3 banking days after the 15th day of the following month. Any underpayment for June or September may be paid with the quarterly return on Form 941 or may be separately

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deposited on or before the last day of the following month. This special transitional provision will not be available to employers who normally pay more than 75 percent of their wages in the first semimonthly period in the month.

3. A deposit for May 1966, if combined on the same depository receipt with a deposit for the first semimonthly period in June 1966, may be made on or before June 20, 1966, instead of the usual June 15 date. Employers are urged to exercise the option of consolidating these deposits.

4. No change is made in the deposits of other employers. They are required to make deposits if the social security taxes and the withheld income tax exceed \$100 for any month (other than the last month of a calendar quarter) within 15 days after such month. Taxes due for the last month of a quarter may be paid with the quarterly return on Form 941, instead of deposited.

(The new regulations do not change the rules for depositing taxes on wages for agricultural labor as shown in Circular A. Please consult pages 9 and 10 of Circular E for other information on deposits.)

We quote below from a Treasury statement made public April 29, indicating the purposes of the proposed regulations:

The increased frequency of these employer deposits covering both the withheld income taxes and social security taxes is part of the effort of the Treasury Department and Internal Revenue Service to improve the efficiency of tax collection, and to put tax payments on a more current basis. The Tax Adjustment Act of 1966, signed by President Johnson on March 15, 1966, initiated a new graduated income tax withholding system for income taxes, to take effect on May 1, 1966, and made other changes in the tax law to put both individuals and corporations on a more current payments basis.

The new plan is expected to save the Federal government between \$50 million and \$75 million per year in interest costs on the public debt.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.