Tips for Businesses Hiring Seasonal or Part-Time Employees

Hiring seasonal or part-time workers can help businesses manage fluctuating workloads, but it's essential to understand the tax and labor law implications that come with these employment arrangements.

Understanding Payroll Tax Timing:

Wages are considered paid when they are credited to the employee's account or set apart so the employee may draw upon them without substantial limitation or restriction. This timing matters for reporting purposes. For example, if you pay seasonal workers on January 5 for work performed in late December, those wages will be reported on the following year's Form W-2, and you'll report the payroll tax liability in the first quarter of the new year, regardless of your accounting method.

Proper Form W-4 Collection:

Employers must withhold federal income tax from each wage payment according to the employee's Form W-4 and the correct withholding rate. Make sure every seasonal or part-time employee completes this form before their first paycheck. The IRS provides an online W-4 calculator at www.irs.gov/individuals/tax-withholding-estimator to help employees determine appropriate withholding.

Minimum Wage and Overtime Compliance:

The Fair Labor Standards Act applies to most employers, including those hiring seasonal workers. The federal minimum wage is $7.25 per hour for most workers, though many states and localities have higher rates. Youth workers under age 20 may be paid $4.25 per hour during their first 90 consecutive calendar days of employment, provided they don't displace other workers.

Employers must pay covered nonexempt employees overtime at one-and-one-half times their regular rate for all hours worked over 40 in a workweek. This applies to seasonal and part-time workers just as it does to full-time employees.

Employment Tax Obligations:

When you hire employees, you must withhold and pay employment taxes, including the employer's portion of Social Security and Medicare taxes (FICA) and federal unemployment tax (FUTA). You must also withhold federal income tax and the employee's portion of FICA taxes from wages. These obligations apply regardless of whether workers are seasonal, part-time, or full-time.

Form 941 Filing Requirements for Seasonal Employers:
Most employers must file Form 941, Employer's Quarterly Federal Tax Return, to report wages paid and employment taxes. However, seasonal employers have special considerations. If your total tax liability for the quarter is less than $2,500, you can pay the tax with Form 941 when you file it, rather than making deposits throughout the quarter. This can simplify compliance for businesses with limited seasonal operations.

Some employers may qualify to file Form 944, Employer's Annual Federal Tax Return, instead of quarterly Form 941 returns if their annual employment tax liability is $1,000 or less [3]. The IRS must notify you that you qualify to file Form 944. If you want to switch from Form 944 to quarterly Form 941 filing, you must call the IRS at 1-800-829-4933 by April 1, or send a written request by March 15 of the current calendar year.

Understanding Deposit Schedules:
Your deposit schedule depends on your total tax liability during a lookback period. If your total tax liability during the lookback period was $50,000 or less, you're a monthly depositor and must deposit taxes by the 15th day of the following month. If your liability exceeded $50,000, you're a semiweekly depositor with more frequent.

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