



# Tax Reduction Letter

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## Internal Revenue Manual Section 5.19.14.1.6 (08-29-2013)

### Trust Fund Calculation

1. Employment tax is comprised of trust fund and non-trust fund taxes. The trust fund portion of these taxes is the amount of Social Security and Medicare (FICA), and income tax the employer is responsible to withhold and remit to the government on behalf of the employee. The non-trust fund portion of these taxes is the amount of Social Security and Medicare taxes the employer is responsible, in most instances, to match and pay to the government.

#### Caution:

Due to legislation changes the employer is not required to match the employee Social Security and Medicare Taxes in the following situations:

- Additional Medicare Tax, see IRM 5.19.14.1.6 (2) second Note.
  - Hiring Incentives to Restore Employment (HIRE) Act, see IRM 5.19.14.1.6 (3) Note.
2. Non-trust fund tax is determined by dividing the FICA tax of the related BMF module in half. Trust fund tax is usually calculated by adding one-half (1/2) the FICA and all of the income tax withheld for the period. The non-trust fund tax amount is always the same for the corporation. It does not change from RRP to RRP when they are assessed different amounts.

#### Note:

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reduced the amount of FICA taxes required to be withheld on behalf of the employee. The employee portion of Social Security tax is reduced to 4.2% from 6.2% on Form 941 for all quarters in the calendar years 2011 and 2012 and annual Forms 944 and 943. As a result, when calculating the Trust Fund portion of tax for these years, the amount is calculated as demonstrated in the examples below.

#### Reminder:

When TXBL SSA TIPS is present for tax period 2011XX/2012XX; tip income must be added to the TXBL SSA WAGES before multiplying by 4.2%.

#### Note:

Beginning January 1, 2013, employers are responsible for withholding a 0.9% Additional Medicare Tax on an employee's wages and compensation that exceeds \$200,000, in addition to withholding Medicare tax at 1.45%. There is no employer match for the Additional Medicare Tax. The literal *ADDL-MED-WAGE* will only display on TXMOD for wages subject to the 0.9% Additional Medicare Tax; the literal will not be present unless there is a value. This amount needs to be taken into consideration when calculating Non-Trust Fund for correct payment application. This corresponds to Line 5d of Form 941 and represents the total Additional Medicare Wages.

The following table shows the calculation of total trust fund tax and total non-trust fund tax from CC TXMOD for the most common form for TFRP assessment, Form 941.

STEP	ACTION
1	Access CC TXMODA for the related corporation.
2	Reference the amount of <i>TTL-INC-TX-WTHLD</i> or <i>ADJ-INCM-TX-WTHLD</i> . This corresponds to Line 3

STEP	ACTION
	of Form 941 and represents the total income tax withheld for the quarter.
3	Reference the amount of <b>TOT-SS-MED-TAX-AMT</b> or <b>ADJ-FICA-TX-WTHLD</b> . This corresponds to Line 5d of Form 941 and represents the total Social Security and Medicare (FICA) tax.
4	Calculate the Total Trust Fund Tax by adding the full amount from step 2 and one half of the amount from step 3. These two figures combined equal Total Trust Fund Tax.
5	The Non-Trust Fund Tax is one half of the referenced amount in step 3.

3. The table below outlines the calculation of the TFRP assessment amount.
1. Using the table above, calculate Total Trust Fund Tax and Total Non-Trust Fund Tax
2. Review TXMODA for payments and other credits.

If ...	Then ...
No credits appear on TXMODA,	The TFRP assessment amount (TC 240, RN 618) is the same as the Total Trust Fund Tax amount.
Credits appear on TXMODA,	Determine if the payments are designated payments.
Payments are designated for Trust Fund (DPC 02, 11)	Determine if the payments have already been considered in the trust fund assessment. If the Total Trust Fund Tax amount minus the DPC 02 or DPC 11 payment amount matches the TC 240, RN 618 amount of the related IMF account, then the payments have already been considered in the trust fund assessment. Do not cross-reference the payments. <b>See example #1 below.</b> Payments that have not been considered in the trust fund assessment must be cross-referenced per IRM 5.19.14.3.4. <b>See example #2 below.</b>
Payments are not designated, or are designated other than DPC 02, 11	Determine if the payments have already been considered in the trust fund assessment. Subtract the payments from the non trust portion first, then from the trust. If the Total Trust Fund Tax minus the payment(s) matches the TC 240, RN 618 amount of the related IMF account, then the payments have already been considered in the trust fund assessment. Do not cross-reference the payments. <b>See example #3 below.</b> Payments that have not been considered in the trust fund assessment must be cross-referenced per IRM 5.19.14.3.4. <b>See example #4 below.</b>

- 4.
5. **Example:**
6. #1

Tax period other than 2011XX/2012XX	Tax period 2011XX/2012XX
The <b>TOT-SS-MED-TAX-AMT</b> field on TXMOD shows \$3,958.08	The <b>TXBL SSA WAGES</b> field on BMFOLR shows \$29,760.00
The <b>TTL INCM-TX-WTHLD</b> field on TXMOD shows \$4,482.00	The <b>TXBL MED WAGE/TIPS</b> field on BMFOLR shows \$29,760.00
The TC 240 RN 618 amount assessed is \$4,961.04	The <b>TTL INC TX WTHELD</b> field on BMFOLR shows \$4,482.00
	The TC 240 RN 618 amount assessed is \$4,663.44
<b>CALCULATE TRUST FUND TAX:</b> <b>\$1,979.04</b> (½ TOT-SS-MED-TAX-AMT) <b>+\$4,482.00</b> (Full amount of INCM-TX-WTHLD) <b>=\$6,461.04</b> (Trust Fund Tax)	<b>CALCULATE TRUST FUND TAX:</b> <b>\$1,249.92</b> (TXBL SSA WAGES x 4.2%) <b>+\$ 431.52</b> (TXBL MED WAGE/TIPS x 1.45%) <b>+\$4,482.00</b> (Full amount of INCM-TX-WTHLD) <b>=\$6,163.44</b> (Trust Fund Tax)

7. The BMF tax module shows a TC 670 designated trust fund (DPC 02) payment for \$1,500.00 that is dated the same date as the TC 240 assessment.
8. The Trust Fund Tax amount minus the DPC 02 payment of \$1,500.00 equals the TC 240/618 amount. This payment has already been considered in the Trust Fund assessment.
9. If the TC 240/618 amount was equal to the Trust Fund Tax amount, the payment would not have been considered in the Trust Fund assessment and would have to be cross-referenced to the RRP account.

10. **Example:**
11. #2

Tax period <b>other than</b> 2011XX/2012XX	Tax period 2011XX/2012XX
The <i>TOT-SS-MED-TAX-AMT</i> field on TXMOD shows \$15,289.00 The <i>TTL INCM-TX-WTHLD</i> field on TXMOD shows \$9,427.46 The TC 240 RN 618 amount assessed is \$17,071.96	The <i>TXBL SSA WAGES</i> field on BMFOLR shows \$114,954.94 The <i>TXBL MED WAGE/TIPS</i> field on BMFOLR shows \$114,954.94 The <i>TTL INC TX WTHELD</i> field on BMFOLR shows \$9,427.46 The TC 240 RN 618 amount assessed is \$15,922.41
<b>CALCULATE TRUST FUND TAX:</b> <b>\$7,644.50</b> (½TOT-SS-MED-TAX-AMT) <b>+ \$9,427.46</b> (TTL INCM-TX-WTHLD) <b>= \$17,071.96</b> (Trust Fund Tax)	<b>CALCULATE TRUST FUND TAX:</b> <b>\$4,828.10</b> (TXBL SSA WAGES x 4.2%) <b>+ \$1,666.85</b> (TXBL MED WAGE/TIPS x 1.45%) <b>+ \$9,427.46</b> (TTL INCM-TX-WTHLD) <b>= \$15,922.41</b> (Trust Fund Tax)

12. The BMF tax module shows a TC 670 designated trust fund (DPC 02) payment for \$5,000.00 that is dated the same date as the TC 240 assessment.
13. The TC 240/618 amount equals the Trust Fund Tax; therefore, this payment has not been considered in the Trust Fund assessment and must be cross-referenced to the RRP accounts.

**14. Example:**

15. #3

Tax period <b>other than</b> 2011XX/2012XX	Tax period 2011XX/2012XX
The <i>TOT-SS-MED-TAX-AMT</i> field on TXMOD shows \$6,923.39 The <i>TTL INCM-TX-WTHLD</i> field on TXMOD shows \$5,072.00 The TC 240 RN 618 amount assessed is \$6,033.70	The <i>TXBL SSA WAGES</i> field on BMFOLR shows \$52,055.61 The <i>TXBL MED WAGE/TIPS</i> field on BMFOLR shows \$52,055.61 The <i>TTL INC TX WTHELD</i> field on BMFOLR shows \$5,072.00 The TC 240 RN 618 amount assessed is \$5,513.14
<b>CALCULATE TRUST FUND TAX:</b> <b>\$3,461.70</b> (½TOT-SS-MED-TAX-AMT) <b>+ \$5,072.00</b> (TTL INCM-TX-WTHLD) <b>= \$8,533.70</b> (Trust Fund Tax)	<b>CALCULATE TRUST FUND TAX:</b> <b>\$2,186.34</b> (TXBL SSA WAGES x 4.2%) <b>+ \$754.80</b> (TXBL MED WAGE/TIPS x 1.45%) <b>+ \$5,072.00</b> (TTL INCM-TX-WTHLD) <b>= \$8,013.14</b> (Trust Fund Tax)

16. The BMF tax module shows a TC 670 undesignated payment for \$2,500.00 that is dated the same date as the TC 240 assessment. Payments posted to the account prior to the TC 240 assessment have full paid the non-trust fund portion of tax.
17. The Trust Fund Tax amount minus the payment of \$2,500.00 equals the TC 240/618 amount. This payment has already been considered in the Trust Fund assessment.
18. If the TC 240/618 amount was equal to the Trust Fund Tax amount, the payment would not have been considered in the Trust Fund assessment and would have to be cross-referenced to the RRP account.

**19. Example:**

20. #4

Tax period <b>other than</b> 2011XX/2012XX	Tax period 2011XX/2012XX
The <i>TOT-SS-MED-TAX-AMT</i> field on TXMOD shows \$6,076.96 The <i>TTL INCM-TX-WTHLD</i> field on TXMOD shows \$3,374.00 The TC 240 RN 618 amount assessed is \$6,412.48	The <i>TXBL SSA WAGES</i> field on BMFOLR shows \$45,691.45 The <i>TXBL MED WAGE/TIPS</i> field on BMFOLR shows \$45,691.45 The <i>TTL INC TX WTHELD</i> field on BMFOLR shows \$3,374.00 The TC 240 RN 618 amount assessed is \$5,955.57
<b>CALCULATE TRUST FUND TAX:</b> <b>\$3,038.48</b> (½TOT-SS-MED-TAX-AMT) <b>+ \$3,374.00</b> (TTL INCM-TX-WTHLD) <b>= \$6,412.48</b> (Trust Fund Tax)	<b>CALCULATE TRUST FUND TAX:</b> <b>\$1,919.04</b> (TXBL SSA WAGES x 4.2%) <b>+ \$662.53</b> (TXBL MED WAGE/TIPS x 1.45%) <b>+ \$3,374.00</b> (TTL INCM-TX-WTHLD) <b>= \$5,955.57</b> (Trust Fund Tax)

21. The BMF tax module shows a TC 706 payment for \$250.00 that is dated before the TC 240 assessment.
22. The TC 240/618 amount equals the Trust Fund Tax; therefore, this payment has not been considered in the Trust Fund assessment and must be cross-referenced to the RRP accounts.

**23. Note:**

24. The Hiring Incentives to Restore Employment (HIRE) Act was enacted March 18, 2010. It is a tax benefit that is available to employers who hire certain previously unemployed workers, or “qualified employees,” in their trade or business. This is a tax exemption that reduces the employer’s 6.2% share of social security (FICA) tax on wages paid to qualified employees during the second, third and fourth quarters of 2010 (201006, 201009 and 201012). Since this is an adjustment to the employer’s share of FICA, it affects the non-trust fund portion of the tax. This will have to be taken into consideration when applying payments to non-trust fund. There is no change to the tax withheld or the employee’s share of FICA tax. When calculating the Non-Trust Fund portion of tax for 201006, 201009 and 201012 the amount is calculated as demonstrated in the HIRE examples 1 - 3 below.

25. The following table shows the calculation of total trust fund tax and total non-trust fund tax from CC TXMOD when the **HIRE Act Credit** is involved.

STEP	ACTION
1	Access <i>CC TXMODA</i> for the related corporation.
2	Reference the amount of <i>TTL-INC-TX-WTHLD</i> or <i>ADJ-INCM-TX-WTHLD</i> . This represents the total income tax withheld for the quarter.
3	Reference the amount of <i>TOT-SS-MED-TAX-AMT</i> or <i>ADJ-FICA-TX-WTHLD</i> . Add that figure to the <i>CUR-QTR-FRAC-CT-AMT</i> . The total represents the Social Security and Medicare (FICA) tax.
4	Calculate the Total Trust Fund Tax by adding the full amount from step 2 and one half of the amount from step 3. These two figures combined equal Total Trust Fund Tax.
5	Reference the amount of <i>CURR-TX-HOL</i> or <i>CURR-TX-HOL-CMPTR</i> . If both fields are present and the amount is different, use the amount shown in <i>CURR-TX-HOL-CMPTR</i> . This figure represents the HIRE Act Credit for the quarter.
6	The Non-Trust Fund Tax is one half of the referenced amount in step 3 minus the referenced amount in step 5.

26. Once you have calculated the non trust fund, follow normal payment application procedures. To determine if BMF credits were already considered in the calculation of the TFRP assessment amount, see IRM 5.19.14.1.6(3).

27. In the following examples, you will see how the HIRE Act Credit affects the non-trust fund tax calculation and payment application.

**28. Example:**

**29. #1 HIRE**

The <i>TOT-SS-MED-TAX-AMT</i> field on TXMOD shows \$12,876.65. The <i>CUR-QTR-FRAC-CT-AMT</i> field on TXMOD shows \$0.01-. The <i>TTL INCM-TX-WTHLD</i> field on TXMOD shows \$6,556.00. The <i>CURR-TX-HOL</i> field on TXMOD shows \$1,032.08. The TC 240 RN 618 amount assessed is \$10,912.21.	
<b>CALCULATE NON TRUST FUND TAX:</b> <b>FICA Tax = \$12,876.64</b> ( <i>TOT-SS-MED-TAX-AMT</i> + <i>CUR-QTR-FRAC-CT-AMT</i> ) <b>\$6,438.32</b> (½ FICA Tax) - <b>\$1,032.08</b> ( <i>CURR-TX-HOL</i> ) = <b>\$5,406.24</b> ( <i>Non Trust Fund Tax</i> )	<b>CALCULATE TRUST FUND TAX:</b> <b>FICA Tax = \$12,876.64</b> ( <i>TOT-SS-MED-TAX-AMT</i> + <i>CUR-QTR-FRAC-CT-AMT</i> ) <b>\$6,438.32</b> (½ FICA Tax) + <b>\$6,556.00</b> ( <i>TTL INCM-TX-WTHLD</i> ) = <b>\$12,994.32</b> ( <i>Trust Fund Tax</i> ) The TC 240 RN 618 amount assessed is <b>\$10,912.21</b>

30. Notice that there is a difference in the Trust Fund Tax amount and the TFRP assessment amount. The table below shows there were BMF credits that were considered in the calculation of the TFRP assessment amount.

<b>\$7,488.35</b> (total BMF payments on TXMOD) - <b>\$5,406.24</b> (Non Trust Fund Tax) = <b>\$2,082.11</b> (total payments to apply to Trust Fund Tax)	<b>\$12,994.32</b> (Trust Fund Tax) - <b>\$2,082.11</b> (total payments applied to Trust Fund Tax) = <b>\$10,912.21</b> (TC 240 RN 618 amount assessed)
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31. Since Trust Fund Tax minus the total payments applied equals the amount assessed, the \$2,082.11 would not be cross-referenced. It has already been considered in the calculation of the TFRP assessment. Any subsequent payments can now be applied to the TFRP assessment and cross-referenced following normal procedures.

**32. Example:**

33. **#2 HIRE**

<p>The <i>TOT-SS-MED-TAX-AMT</i> field on TXMOD shows \$25,954.73.          The <i>CUR-QTR-FRAC-CT-AMT</i> field on TXMOD shows \$0.25.          The <i>TTL INCM-TX-WTHLD</i> field on TXMOD shows \$5,966.80.          The <i>CURR-TX-HOL-CMPTR</i> field on TXMOD shows \$616.86.          The TC 240 RN 618 amount assessed is \$3,458.39.</p>	
<p><b>CALCULATE NON TRUST FUND TAX:</b>  <b>FICA Tax = \$25,954.98</b> (<i>TOT-SS-MED-TAX-AMT</i> +  <i>CUR-QTR-FRAC-CT-AMT</i>)  <b>\$12,977.49</b> (½ FICA Tax)          - <b>\$616.86</b> (<i>CURR-TX-HOL</i>)          = <b>\$12,360.63</b> (<i>Non Trust Fund Tax</i>)</p>	<p><b>CALCULATE TRUST FUND TAX:</b>  <b>FICA Tax = \$25,954.98</b> (<i>TOT-SS-MED-TAX-AMT</i>          +<i>CUR-QTR-FRAC-CT-AMT</i>)  <b>\$12,977.49</b> (½ FICA Tax)          + <b>\$5,966.80</b> (<i>TTL INCM-TX-WTHLD</i>)          = <b>\$18,944.29</b> (<i>Trust Fund Tax</i>)          The TC 240 RN 618 amount assessed is <b>\$3,458.39</b></p>

34. Notice that there is a difference in the Trust Fund Tax amount and the TFRP assessment amount. The table below shows there were BMF credits that were considered in the calculation of the TFRP assessment amount.

<p><b>\$27,846.53</b> (total BMF payments on TXMOD)          - <b>\$12,360.63</b> (Non Trust Fund Tax)          = <b>\$15,485.90</b> (total payments to apply to Trust Fund Tax)</p>	<p><b>\$18,944.29</b> (Trust Fund Tax)          - <b>\$15,485.90</b> (total payments applied to Trust Fund Tax)          = <b>\$3,458.39</b> (TC 240 RN 618 amount assessed)</p>
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35. Since Trust Fund Tax minus the total payments applied equals the amount assessed, the \$15,485.90 would not be cross-referenced. It has already been considered in the calculation of the TFRP assessment. Any subsequent payments can now be applied to the TFRP assessment and cross-referenced following normal procedures.

36. **Subsequent Claims - HIRE**

37. There are times when the HIRE Act Credit will not be claimed on an original, but on an amended return. In this situation, a TC 291 will post to IDRS on the corporate account. The Reference Numbers you might see that are associated with the HIRE Act Credit are Item Reference Numbers 115, 116, 117 and Credit Reference Number 296. See example 3a below.

**38. Example:**

39. **#3a HIRE**

<p>The <i>TC 291</i> amount on TXMOD is \$1,442.31-  <u><b>Item Reference Numbers</b></u>          115 is \$23,263.00          116 is \$1,442.31-          117 is \$4,769.75  <u><b>Credit reference Number</b></u>          296 is \$295.72</p>
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40. Since there is no change to the tax withheld or the employee's share of FICA tax, no adjustment to the trust fund assessment will be necessary. However, as shown in the previous examples and in example 3b below, the employer's portion of the FICA Tax (non-trust fund) is reduced by the HIRE Act Credit. For more information on Reference Numbers and Employment Taxes, refer to IRM 21.7.2.4.1, Item Reference Numbers (IRN's) and Credit Reference Numbers (CRN's) — Employment Taxes .

**41. Example:**

42. **#3b HIRE**

<p>The <i>TOT-SS-MED-TAX-AMT</i> field on TXMOD shows \$19,776.52          The <i>CUR-QTR-FRAC-CT-AMT</i> field on TXMOD shows \$0.03          The <i>TTL INCM-TX-WTHLD</i> field on TXMOD shows \$1,163.00</p>
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The <i>CURR-TX-HOL-CMPTR</i> field on TXMOD shows \$1,442.31 The TC 240 RN 618 amount assessed is \$11,051.28	
<b>CALCULATE NON TRUST FUND TAX:</b> FICA Tax = <b>\$19,776.55</b> ( <i>TOT-SS-MED-TAX-AMT + CUR-QTR-FRAC-CT-AMT</i> ) <b>\$9,888.28</b> ( $\frac{1}{2}$ FICA Tax) - <b>\$1,442.31</b> ( <i>CURR-TX-HOL-CMPTR</i> ) = <b>\$8,445.97</b> ( <i>Non Trust Fund Tax</i> )	<b>CALCULATE TRUST FUND TAX:</b> FICA Tax = <b>\$19,776.55</b> ( <i>TOT-SS-MED-TAX-AMT + CUR-QTR-FRAC-CT-AMT</i> ) <b>\$9,888.28</b> ( $\frac{1}{2}$ FICA Tax) + <b>\$1,163.00</b> ( <i>TTL INCM-TX-WTHLD</i> ) = <b>\$11,051.28</b> ( <i>Trust Fund Tax</i> ) The TC 240 RN 618 amount assessed is <b>\$11,051.28</b>

43. Notice that the Trust Fund Tax amount and the TFRP assessment amount are the same. This tells us that there were no BMF payments considered in the calculation of the TFRP assessment amount. You can also see in the table below that Non Trust Fund has not been paid yet.

<b>\$4,355.38</b> (total BMF payments/credits on TXMOD) <b>\$8,445.97</b> (Non Trust Fund Tax) Notice that there are not enough payments/credits to cover the Non Trust Fund Tax. Payments can not yet be applied to the TFRP assessment.	\$11,051.28 (Trust Fund Tax) - <b>\$0.00</b> (total payments applied to Trust Fund Tax) = <b>\$11,051.28</b> (TC 240 RN 618 amount assessed)
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44. Once the Non Trust Fund is paid, payments can be cross-referenced and begin paying the TFRP assessment per normal procedures.
45. When a subsequent tax assessment (TC 290, 298/ 300) has not been considered in the Trust Fund assessment, calculate the non-trust fund portion of the original BMF tax (TC 150) using the adjustment reference codes for FICA/Medicare tax and withholding or research ATFR-AO for Form 4183 calculations. If the subsequent tax assessment is not considered in the Trust Fund assessment, BMF payments with received dates after the TC 290 posted are applied first to the non-trust portion of tax before cross-referencing to the MFT 55 accounts. Payments with received dates prior to the TC 290 posting may be applied to the trust fund portion of tax if the non-trust fund was fully satisfied prior to the additional assessment.
46. If the original Form 941 tax, including penalty and interest, was paid prior to an additional assessment (e.g., TC 290, TC 300, TC 308, TC 294, TC 298), any payments made towards the previously satisfied amount may not be reapplied to the additional tax assessment for calculation of the TFRP.
47. TC 766 Action Code (AC) 299 is a Consolidated Omnibus Budget Reconciliation Act (COBRA) credit that is treated as a TC 650 for the purpose of TFRP calculation. However, it is not cross-referenced to related responsible parties.