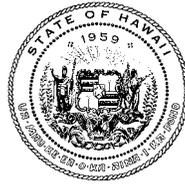


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February 15, 2005

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2005-01

RE: Instructions on Filing Federal Schedule B (Form 941), Report of Tax Liability for Semiweekly Schedule Depositors, for Hawaii Withholding Tax Purposes

GENERAL INSTRUCTIONS

What is Federal Schedule B (Form 941)?

Hawaii law requires you as an employer to withhold Hawaii income taxes from your employees' paychecks. Each time you pay wages you must withhold or take out of your employees' paychecks a certain amount for Hawaii income tax. Under the withholding system, taxes withheld from your employees are credited to your employees in payment of the employees' tax liabilities.

Federal Schedule B (Form 941) accompanies the Form HW-14, Withholding Tax Return, that is submitted for the last month of a calendar quarter. On federal Schedule B (Form 941), list your **tax liability** (i.e., the Hawaii income tax you withheld from your employees' paychecks) for each payday during the calendar quarter.

Do not show your Hawaii withholding tax remittances on the federal Schedule B (Form 941). Remittance information is taken from your submitted electronic funds transfer (EFT) or from the Form VP-1W, Tax Payment Voucher - Withholding. The Department of Taxation uses federal Schedule B (Form 941) to determine if you have timely remitted your Hawaii withholding tax liability.

Who Must File Federal Schedule B (Form 941)?

File federal Schedule B (Form 941) if you are required under Hawaii Revised Statutes (HRS) §235-62(a) to be a semiweekly remitter. Act 113, Session Laws of Hawaii (SLH) 2004, amended §235-62(a) to require employers who have Hawaii withholding tax liabilities in excess of \$40,000 per year to remit taxes on a semiweekly basis for pay periods on or after January 1, 2005.

When Must You File Federal Schedule B (Form 941)?

On a quarterly basis, federal Schedule B (Form 941), reflecting Hawaii income tax withheld from employees' wages, must be completed and attached to the Form HW-14, Withholding Tax Return, for the March, June, September, and December periods.

SPECIFIC INSTRUCTIONS

Completing Federal Schedule B (Form 941)

Fill in Your Business Information

Carefully fill in your federal employer identification number (FEIN) and your name at the top of the schedule. Write your Hawaii Tax I.D. No. in the space below your name. Make sure that your name and the your Hawaii Tax I.D. No. agree with the name and the Hawaii Tax I.D. No. shown on the attached Form HW-14.

Check the Box for the Quarter

In the box at the top of the schedule, check the appropriate box of the quarter for which you are filing this schedule.

Fill in Your Tax Liability by Month

On federal Schedule B (Form 941), report your quarterly tax liability. The Form contains 3 months that make up one quarter of a year. Each month has 31 numbered spaces that correspond to the dates of a typical month. Write your Hawaii withholding tax liabilities in the spaces that correspond to the dates you **paid** wages to your employees, not the dates your Hawaii withholding tax remittances were made.

For example, if your payroll period ended on December 31, 2004, and you **paid** the wages for that period on January 7, 2005, you would:

- C go to Month 1 (because January is the first month of the quarter) and
- C write the liability on line 7 (because line 7 represents the seventh day of the month).

Total Hawaii Withholding Tax Liability for the Quarter

To find your total Hawaii withholding tax liability for the quarter, add your monthly Hawaii withholding tax liabilities.

Hawaii Withholding Tax Liability for Month 1
+ Hawaii Withholding Tax Liability for Month 2
+ Hawaii Withholding Tax Liability for Month 3
Total Hawaii Withholding Liability for the Quarter

This amount should equal the sum of ALL the "TOTAL TAXES WITHHELD" line on the HW-14s filed for the quarter.

Here Are Some Examples:

Example 1: Employer A is a **semiweekly** remitter who pays wages for each month on the last day of the month. On December 21, 2005, Employer A also paid employees year-end bonuses (subject to Hawaii withholding taxes). Because Employer A is a semiweekly remitter, Employer A must record Hawaii withholding tax liabilities on federal Schedule B (Form 941). For the 4th quarter (October, November, December), Employer A should report his Hawaii withholding tax liabilities on federal Schedule B (Form 941) in this way:

<u>Month</u>	<u>Lines for dates wages were paid</u>
1 (October)	line 31 (pay day, last day of the month)
2 (November)	line 30 (pay day, last day of the month)
3 (December)	lines 21 (bonus paid) and 31 (pay day)

Example 2: Employer B is a **semiweekly** remitter who pays employees every other Friday. Employer B accumulates a \$20,000 Hawaii withholding tax liability on each of these pay dates: 1/14/05, 1/28/05, 2/11/05, 2/25/05, 3/11/05, and 3/25/05. Since Employer B is a semiweekly remitter, Employer B must record Hawaii withholding tax liabilities on federal Schedule B (Form 941) in this way:

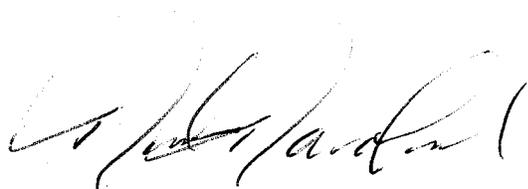
<u>Month</u>	<u>Lines for dates wages were paid</u>
1 (January)	lines 14 and 28
2 (February)	lines 11 and 25
3 (March)	lines 11 and 25

Example 3: Employer C started business in July 2004 paying wages every Friday. Employer C was a **monthly** remitter for 2004 with a Hawaii withholding tax liability for 2004 of \$27,000. In 2005, Employer C's Hawaii withholding tax liability was \$52,000 and continued to make monthly remittances. Although Employer C's Hawaii withholding tax liability for 2005 was \$52,000, Employer C was not required to make semiweekly deposits in 2005. Under Hawaii remittance rules (which tie into EFT provisions), employers become semiweekly remitters only when their previous year's Hawaii withholding tax liability exceeds \$40,000. Therefore, since Employer C's 2005 Hawaii withholding tax liability was \$52,000, Employer C **becomes a semiweekly remitter** for 2006. For 2006, Employer C has accumulated a \$1,000 Hawaii withholding tax liability on 1/6/06 and a \$3,000 Hawaii withholding tax liability on 1/13/06 and on every subsequent Friday during 2006.

Because Employer C became a semiweekly remitter for 2006, Employer C must complete federal Schedule B (Form 941) and file it with Form HW-14 for the months of March, June, September, and December. Employer C should record first quarter 2006 Hawaii withholding tax liabilities on federal Schedule B (Form 941) in this way:

<u>Month</u>	<u>Dates wages were paid</u>	<u>Amount to record</u>
1 (January)	line 6	\$1,000
1 (January)	lines 13, 20, 27	\$3,000
2 (February)	lines 3, 10, 17, 24	\$3,000
3 (March)	lines 3, 10, 17, 24, 31	\$3,000

Federal Schedule B (Form 941) is available at Internal Revenue Service's website at www.irs.gov/formspubs/. Hawaii tax forms and information are available on the Department's website at www.state.hi.us/tax. If you know which Hawaii tax form or publication you need, please call the Department's request line at 808-587-7572, or toll-free from the neighbor islands and continental U.S. at 1-800-222-7572. This service is available 24 hours a day, 7 days a week. Additional information is available by calling the Tax Service Branch during business hours at 587-4242, or toll-free at 1-800-222-3229, or by e-mailing them at Taxpayer.Services@hawaii.gov.



KURT KAWAFUCHI
Director of Taxation

HRS Section Explained: HRS Section 235-62(a)