MERCANS

Country Payroll
Standard Operating Procedure

United States

Fiscal Year 2026 · Version 1.0 · Mercans Internal
United States of America (federal, 50 states, and local jurisdictions)

Document **Control**

Field	Detail
Document	United States, Country Payroll Standard Operating Procedure
Version	1.0
Status	Approved for internal use
Fiscal Year	2026 (1 January 2026 to 31 December 2026); calendar-year basis
Effective From	22 June 2026
Next Review	22 June 2027 (annual cycle, plus alert-driven updates per Mercans Loop B)
Document Owner	Mercans Americas / US Compliance Lead
Classification	Mercans Internal, Confidential. Restricted distribution to engaged client teams.
Legal Framework	Internal Revenue Code (federal income tax withholding and the Federal Insurance Contributions Act, FICA); the Federal Unemployment Tax Act (FUTA); the Fair Labor Standards Act (FLSA, minimum wage and overtime); the One Big Beautiful Bill Act (OBBBA, Public Law 119-21, July 2025) as reflected in the 2026 tables; and, at state and local level, each state's income-tax withholding, unemployment-insurance, and disability or paid-leave statutes.
Source Hierarchy	Tier 1: Internal Revenue Service (IRS) and Social Security Administration (SSA); US Department of Labor (DOL) and US Citizenship and Immigration Services (USCIS); each State Department of Revenue and State Workforce (unemployment) Agency. Tier 2: specialist payroll-compliance publications.
Geographic Scope	United States of America. Payroll compliance is layered: federal rules apply nationwide, while income-tax withholding, unemployment insurance, disability and paid-leave programs, minimum wage, and some local income taxes are set at state and local level and depend on each employee's work location.

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United States Country Payroll SOP v1.0, Mercans Compliance Operations

Section 1: Introduction & Country **Context**

1.1 Purpose, Scope & Audience

This Standard Operating Procedure documents the end-to-end Mercans payroll service-delivery framework for the United States. It defines the regulatory ecosystem, the activity calendar, the statutory administrative requirements, the full statutory levy stack with rates and worked examples, the filings landscape, and the Client and Mercans responsibility split for any payroll engagement covering one or more legal entities operating in the United States.

- **Scope:** United States of America, all states and the District of Columbia. The federal layer is uniform; the state and local layer (income-tax withholding, unemployment insurance, disability and paid-leave programs, minimum wage, and local income taxes) is set per jurisdiction and applies according to each employee's work location. The framework covers single-state and multi-state engagements.
- **Audience:** Mercans payroll operations, implementation leads, compliance reviewers, and engaged client payroll, HR, and finance teams. This document is the canonical operational reference; deeper technical artifacts (Wage Type Catalogue, Data Dictionary, Statutory Filings specification, Statutory Payslip configuration) are derivative.
- **Engagement-model baseline:** This SOP is written against the Managed Payroll engagement, in which the Client is the registered US employer (holding the federal Employer Identification Number and the state accounts) and Mercans operates the payroll, calculations, deposits, and filings on the Client's behalf. Where Mercans is engaged as Employer of Record (EOR), Mercans is itself the registered employer; rows marked Client for entity-level registration, credential ownership, and statutory funding shift to Mercans. Each such row carries an EOR-delta note.

> **Default-to-Client rule: any activity not explicitly placed within Mercans scope by the contract and the responsibility matrices in this document is the Client's responsibility. Silence never defaults to Mercans. An unresolved row is a gap to escalate before go-live, not a blank cell.**

1.2 Administrative & Authority Framework

US payroll compliance is administered by federal agencies for the uniform federal taxes and, separately, by an agency in each state (and sometimes locality) for the state and local layer. There is no single unifying authority or portal. The bodies a Mercans engagement touches are:

Authority	Abbreviation	Jurisdiction & Mercans Touchpoint
Internal Revenue Service	IRS	Federal tax administration. Owns income-tax withholding, FICA (Social Security and Medicare), FUTA, the EIN registry, and Forms 941, 940, and W-4.
Social Security Administration	SSA	Receives the annual wage report (Forms W-2 and W-3) and maintains the Social Security earnings record.
US Department of Labor	DOL	Owns the Fair Labor Standards Act (minimum wage, overtime) and federal leave law (FMLA).
US Citizenship and Immigration Services	USCIS	Owns employment-eligibility verification (Form I-9 and the E-Verify system).
State Departments of Revenue	per state	Administer state income-tax withholding and its registration and filing (in the states that levy it).
State Workforce / Unemployment Agencies	per state	Administer state unemployment insurance (SUI or SUTA), experience rating, and quarterly wage reporting.
State disability / paid-leave programs	per state	In a subset of states, administer disability insurance (SDI or TDI) and paid family and medical leave (PFML).

1.3 Digital Ecosystem Analysis

ECOSYSTEM CLASSIFICATION: Fragmented and decentralised across federal, state, and local jurisdictions

The United States sits at the opposite end of the spectrum from single-platform jurisdictions. There is no unified reporting system: federal deposits and returns run through the IRS channels (the Electronic Federal Tax Payment System, EFTPS, for deposits, and e-file for Forms 941, 940, and the W-2 set to the SSA), while every state operates its own separate registration, withholding portal, and unemployment-insurance portal, and some localities operate their own again. A single multi-state employer therefore holds one federal account plus a distinct set of state accounts and logins for each work state.

This fragmentation, rather than a single integration, is the defining operational characteristic and drives every responsibility split in Sections 3 to 7. The registered employer holds the federal EIN and each state account; under Managed Payroll that is the Client, under EOR it is Mercans. Mercans maps each employee's work state to the correct registrations at onboarding and maintains a per-jurisdiction filing calendar, because deadlines, portals, and rates differ by state.

Channel inventory

Channel	Authority	URL	Used For
EFTPS	IRS / Treasury	eftps.gov	All federal payroll tax deposits (income tax withheld, FICA, FUTA)
IRS e-file / business account	IRS	irs.gov	Forms 941 (quarterly), 940 (annual FUTA), 944 (annual, if assigned)
SSA Business Services Online	SSA	ssa.gov/bso	Annual Forms W-2 and W-3
State revenue portals	each state	per state	State income-tax withholding registration, deposits, and returns

Channel	Authority	URL	Used For
State unemployment portals	each state	per state	SUI registration, quarterly wage reports, and contribution payment

1.4 Digital Identity Framework

Identity in US payroll rests on federal numbers plus per-state employer accounts. There is no single national identifier for the employment relationship; the pieces below must all be in place before an employee is paid.

Identity	Issued To	Format & Mercans Operational Notes
Social Security Number (SSN)	Each employee	The nine-digit worker identifier used on Form W-4, the payslip, and Form W-2.
Form I-9 and E-Verify	Each new hire	Employment-eligibility verification completed within three business days of hire; E-Verify is required for federal contractors and in some states.
Form W-4	Each employee	Federal withholding certificate (redesigned in 2020, no allowances); many states require a separate state withholding certificate.
Employer Identification Number (EIN)	Employer entity	The federal employer tax identifier for all IRS filings.
State employer accounts	Employer entity	A state income-tax withholding account and a state unemployment-insurance account in each work state.
Foreign-national work authorization	Foreign nationals	A valid visa status permitting US employment (for example H-1B, L-1, or an EAD) and an SSN before payroll activation.
Client credential responsibility	Managed Payroll baseline	The Client, as registered employer, holds the EIN and each state account and delegates scoped access to Mercans. EOR delta: Mercans holds these credentials.

1.5 Currency, Language & Precision

- **Currency:** United States dollar (USD), symbol $. All payroll and statutory reporting is in dollars.
- **Reporting language:** English. Mercans payslip output is in English; bilingual output is available on request for the client's workforce.
- **Precision:** Tax and contributions are computed to the cent. Social Security applies only up to the annual wage base; Medicare, FUTA (on its own small base), and the employer match apply as set out in Section 3.
- **Tax year:** Calendar year, 1 January to 31 December. Federal and state income tax is withheld each pay period and reconciled by the individual on the annual return in the following year.

Section 2: Payroll Calendar & **Year-End**

2.1 Fiscal Year & Pay Cycle

- **Tax year:** 1 January to 31 December (calendar year).
- **Pay cycle:** Set by the employer and by state pay-frequency law: weekly, biweekly, semimonthly, or monthly. Biweekly and semimonthly are the most common. Several states mandate a minimum pay frequency and a maximum lag between the period end and the pay date.
- **No mandatory 13th salary:** The United States has no statutory 13th salary or holiday bonus. Bonuses are discretionary or contractual and, when paid, are supplemental wages subject to withholding.
- **Minimum wage:** The federal minimum wage is $7.25 per hour and has been unchanged since 2009. Many states, counties, and cities set higher rates that prevail; the applicable rate follows the employee's work location.
- **Overtime:** Under the FLSA, non-exempt employees receive at least 1.5 times the regular rate for hours worked over 40 in a workweek. Some states add daily-overtime or double-time rules.

2.2 Recurring Statutory Deadlines

Statutory Activity	Cycle	Deadline & Notes
Federal deposit (income tax withheld + FICA)	Semiweekly or monthly	Monthly depositors by the 15th of the following month; semiweekly depositors within a few days of payday. A $100,000 accumulated liability triggers a next-business-day deposit. All deposits by EFTPS.
Form 941 (quarterly federal return)	Quarterly	Last day of the month after the quarter (30 Apr, 31 Jul, 31 Oct, 31 Jan); a timely full depositor gets 10 extra days.

Statutory Activity	Cycle	Deadline & Notes
FUTA deposit (Form 940)	Quarterly if over $500	Deposit by the last day of the month after the quarter when accumulated FUTA exceeds $500; otherwise carry forward.
Form 940 (annual FUTA return)	Annual	By 31 January (a timely full depositor gets 10 extra days).
Forms W-2 to employees and W-3 to SSA	Annual	By 31 January (the 2025 forms are due 2 February 2026, as 31 January is a Saturday).
State income-tax deposit and return	Per state	Deposit and return frequency set by each state; commonly aligned to the federal schedule.
State unemployment (SUI) wage report and payment	Quarterly	Filed and paid quarterly to each work-state agency.
New-hire report	Per hire	Reported to the state new-hire directory, generally within 20 days of hire.

2.3 Federal Holidays, 2026

The United States has federal public holidays that bind federal offices. Private-sector employers are not required by federal law to give paid holidays or paid time off; holiday and vacation pay is set by employer policy or, where applicable, by state law or a collective agreement. The federal holidays for 2026:

Holiday	2026 Date	Notes
New Year's Day	Thu 1 Jan	Fixed.
Birthday of Martin Luther King Jr.	Mon 19 Jan	Third Monday in January.
Washington's Birthday (Presidents' Day)	Mon 16 Feb	Third Monday in February.
Memorial Day	Mon 25 May	Last Monday in May.
Juneteenth National Independence Day	Fri 19 Jun	Fixed.
Independence Day	Sat 4 Jul	Observed Friday 3 July by federal offices.
Labor Day	Mon 7 Sep	First Monday in September.
Columbus Day	Mon 12 Oct	Second Monday in October.
Veterans Day	Wed 11 Nov	Fixed.
Thanksgiving Day	Thu 26 Nov	Fourth Thursday in November.
Christmas Day	Fri 25 Dec	Fixed.

Holiday and leave note: unlike most jurisdictions, US federal law mandates no paid public holidays, no paid vacation, and no general paid sick leave for private-sector employees. Paid time off is an employer-policy or state-law matter; a growing number of states and cities mandate paid sick leave, and a subset run paid-family-leave programs (see 3.5). Mercans applies the Client's PTO policy and any applicable state or local mandate per work location.

2.4 Year-End Activities Timeline

Window	Activity
December (tax year)	Process final pay runs and any year-end bonuses as supplemental wages; confirm cumulative wages, withholding, and the Social Security wage-base cut-off per employee.
Early January (T+1)	Reconcile the four quarterly Forms 941 and state filings to the year's payroll register; verify Social Security, Medicare, and additional Medicare totals.
By 31 January (T+1)	Furnish Forms W-2 to employees and file the W-2 and W-3 set with the SSA; file Form 940 (annual FUTA); file Form 941 for the fourth quarter; issue Forms 1099-NEC to contractors.
Quarterly and annual (per state)	File year-end state reconciliations where the state requires them, on each state's schedule.
Following spring	Employees file the federal (and any state) income-tax return; Mercans provides Form W-2 as the basis.

Section 3: HR & Payroll Statutory **Administration**

3.1 Employee Onboarding, Statutory Workflow

Onboarding fixes both the federal setup and the correct state layer for the employee's work location.

1. **Offer and classification:** Confirm the employee is properly classified as an employee (not an independent contractor) and as exempt or non-exempt under the FLSA, which determines overtime eligibility. Employment is generally at-will.
2. **Form I-9 and E-Verify:** Complete Form I-9 within three business days of the start date; run E-Verify where required.
3. **Federal withholding:** Collect Form W-4; capture the SSN. The W-4 filing status and adjustments drive federal withholding under IRS Publication 15-T.
4. **Work-state setup:** Identify the work state (and locality). Confirm the entity holds the state withholding and unemployment accounts for that state; collect the state withholding certificate where required.
5. **New-hire report:** File the state new-hire report, generally within 20 days.
6. **Bank & master data:** Capture direct-deposit details and the master-data set in 3.2.

3.2 Master Data Requirements (Per Employee)

Minimum master-data set for compliant processing (detailed field-level definitions live in the US Data Dictionary):

- Full legal name and Social Security Number; date of birth.
- Work location (state and locality) and residence state, for correct withholding and reciprocity handling.
- FLSA status (exempt or non-exempt); pay rate and pay frequency.
- Form W-4 elections (filing status, multiple-jobs, dependents, extra withholding) and any state withholding certificate.
- Work-authorization status for foreign nationals (visa or EAD) and I-9 or E-Verify confirmation.
- Benefit and pre-tax deductions (for example 401(k), Section 125 health premiums, HSA or FSA) that affect taxable wages.
- Direct-deposit bank details; cost centre and GL mapping per the Mercans and client convention.
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3.3 The Statutory Levy Stack, Rates & Bases

A US paycheck carries federal income-tax withholding and the employee share of FICA, plus, depending on work location, state and local income tax and any state disability or paid-leave contribution. The employer pays a matching FICA share, federal and state unemployment tax, and workers' compensation. Federal rates below are the 2026 figures; the state and local layer is set out in 3.5.

Employee side, federal (per pay period)

Item	Rate	Base / Notes
Social Security (FICA)	6.2%	On wages up to the 2026 wage base of $184,500; maximum employee tax $11,439.
Medicare (FICA)	1.45%	On all wages; no wage base.
Additional Medicare	0.9%	Employee only, on wages over $200,000; no employer match.
Federal income tax	Progressive	Withheld per Form W-4 and IRS Publication 15-T (see 3.4).

Employer side, federal

Item	Rate	Base / Notes
Social Security match	6.2%	On wages up to $184,500; matches the employee share.
Medicare match	1.45%	On all wages; no match on the additional 0.9%.
FUTA	0.6% effective	6.0% on the first $7,000 of wages, less the standard 5.4% state credit; about $42 per employee. Higher in credit-reduction states (for 2026, California, New York, and the US Virgin Islands).

- **Employer statutory load:** The federal employer load is comparatively light: 7.65% FICA plus roughly 0.6% FUTA, plus the state unemployment rate and workers' compensation. US employment cost is driven more by benefits (notably health insurance) than by statutory payroll taxes.
- **Supplemental wages:** Bonuses and other supplemental wages are withheld at a flat federal rate (a percentage method set by the IRS) or aggregated with regular wages; FICA applies in the normal way.

3.4 Federal Income Tax Withholding, Computation

Federal income tax is withheld each pay period using the employee's Form W-4 and the methods in IRS Publication 15-T (the percentage method or the wage-bracket method). Withholding approximates the employee's annual liability, which is computed on the progressive bracket schedule after the standard deduction. The 2026 brackets and the standard deduction reflect IRS Revenue Procedure 2025-32 and the OBBBA, which made the seven-rate structure permanent.

2026 federal brackets (single filer) and standard deduction

Taxable income (single)	Marginal rate
Up to $12,400	10%
$12,400 to $50,400	12%
$50,400 to $105,700	22%
$105,700 to $201,775	24%
$201,775 to $256,225	32%
$256,225 to $640,600	35%
Over $640,600	37%

- **Standard deduction 2026:** $16,100 single and married filing separately; $32,200 married filing jointly; $24,150 head of household. Married-filing-jointly bracket thresholds are roughly double the single figures.
- **OBBBA note:** The OBBBA created income-tax deductions for qualified tips and qualified overtime (2025 to 2028) that the employee claims on the annual return; these do not change FICA, and tips and overtime remain fully subject to Social Security and Medicare withholding.

Worked example, federal deductions on $80,000 (single, standard deduction)

Step	Computation	Amount ($)
Gross annual salary		80,000.00
Less standard deduction	single	16,100.00
Taxable income		63,900.00
Tax, 10% band	10% x 12,400	1,240.00
Tax, 12% band	12% x 38,000	4,560.00
Tax, 22% band	22% x 13,500	2,970.00
Annual federal income tax		8,770.00
Social Security	6.2% x 80,000	4,960.00
Medicare	1.45% x 80,000	1,160.00
Employee FICA		6,120.00
Total federal deductions (annual)	income tax + FICA	14,890.00

> **Withholding versus liability: the payslip withholds federal income tax each period from the W-4 and Publication 15-T so that the cumulative amount approximates the annual liability shown above; the employee reconciles the exact figure on the annual return. State income tax, where it applies, is withheld separately (see 3.5).**

Employer federal cost on the same $80,000

Component	Rate	Amount ($)
Social Security match	6.2% x 80,000	4,960.00
Medicare match	1.45% x 80,000	1,160.00
FUTA	0.6% x 7,000	42.00
Federal employer cost		6,162.00

State unemployment tax and workers' compensation are added on top of the federal employer cost and depend on the work state and the employer's experience rating.

3.5 State & Local Layer

The state and local layer is where US payroll fragments. Each item below applies according to the employee's work location and is configured per engagement; this is the normal structure of US payroll rather than an open item.

Layer	Who pays	How it varies
State income-tax withholding	Employee	Nine states levy no wage income tax (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming). The rest apply flat or progressive rates through their own withholding tables.
State unemployment (SUI / SUTA)	Employer	Experience-rated; each state sets its own wage base (at least the $7,000 FUTA floor, usually higher) and rate range. New employers receive a state-assigned starting rate. A few states (for example Alaska, New Jersey, Pennsylvania) also take an employee contribution.
State disability (SDI / TDI)	Employee (mostly)	Mandatory in California, Hawaii, New Jersey, New York, and Rhode Island (and Puerto Rico). For

Layer	Who pays	How it varies
		example, California SDI is 1.3% of all wages with no cap in 2026.
Paid family and medical leave (PFML)	Varies	A growing set of states (for example Washington, Massachusetts, Connecticut, Colorado, Oregon) run PFML programs funded by employee, employer, or shared contributions.
Local income tax	Employee	Some cities and counties levy a local income tax (for example New York City, Philadelphia, and many Ohio municipalities).
Workers' compensation	Employer	Mandatory insurance in nearly every state, priced by job class code and payroll; carried through a private insurer or a state fund.

Mercans configures each employee's work-state and locality profile at onboarding and maintains the per-state registration, rate, and filing calendar so that withholding and employer contributions are correct for every jurisdiction in the engagement.

3.6 Benefits, Pre-Tax Deductions & Fringe

US compensation relies heavily on benefits, many of which reduce taxable wages. Pre-tax items such as employee 401(k) contributions, Section 125 cafeteria-plan health premiums, health savings account (HSA) and flexible spending account (FSA) contributions, and qualified transportation benefits reduce the federal income-tax base, and some also reduce the FICA base. Taxable fringe benefits (for example personal use of a company vehicle or group-term life insurance over the exempt threshold) are added to wages and taxed. Employer contributions to health insurance are generally not taxable to the employee. Each item is configured in the wage-type catalogue with its correct tax treatment.

3.7 Working Time

- **Standard week:** The FLSA sets no maximum hours for adult employees but requires overtime for non-exempt employees.
- **Overtime:** Non-exempt employees receive at least 1.5 times the regular rate for hours over 40 in a workweek. A number of states add daily overtime (for example over 8 hours a day) or double-time rules that prevail where more generous.
- **Exempt status:** Executive, administrative, professional, and certain other employees who meet the duties test and a salary threshold are exempt from overtime. Classification is confirmed at onboarding and reviewed on role change.

3.8 Termination & Final Settlement

US employment is generally at-will: either party may end it at any time, with or without cause, subject to anti-discrimination and anti-retaliation law and any contract or collective agreement. There is no federal statutory notice period and no federal statutory severance.

- **Final pay timing:** Set by each state. Some states require final wages immediately on an involuntary termination; others allow payment by the next regular payday. The work-state rule governs, and Mercans applies it to the settlement.
- **Accrued PTO payout:** Whether unused vacation is paid out at termination is a state-law and employer-policy matter; several states treat accrued vacation as earned wages that must be paid.
- **Severance:** Discretionary or contractual, not statutory; taxed as supplemental wages when paid.
- **Health continuation (COBRA):** Employers with 20 or more employees must offer continuation of group health coverage; notices are issued on qualifying events.
- **Mass layoffs (WARN):** The federal WARN Act (and stricter state mini-WARN laws) may require 60 days' advance notice of a plant closing or mass layoff.

3.9 Foreign Nationals

- **Right to work:** A foreign national needs work authorization (for example an H-1B or L-1 visa, or an Employment Authorization Document) and an SSN before payroll activation; Form I-9 evidences eligibility.
- **Tax residency:** Residency for tax follows the green-card test or the substantial-presence test. Resident aliens are taxed like citizens on worldwide income; non-resident aliens are taxed on US-source income and are subject to special Form W-4 withholding rules.
- **Social security:** Wages are generally subject to FICA; totalization agreements with a number of countries can exempt short-term assignees and prevent double social-security contribution.

3.10 Client & Mercans Responsibility Matrix

Default scope split for a standard Mercans Managed Payroll engagement. Custom scope is captured in the engagement Statement of Work and overrides the defaults. EOR deltas shift entity-level rows to Mercans.

Activity	Owner	Note
Federal EIN and state account registration	Client	EOR delta: Mercans.
EFTPS, IRS, SSA, and state portal access	Client	EOR delta: Mercans.
Employee master data (SSN, W-4, work state)	Client	Mercans validates.
Form I-9 / E-Verify	Client	EOR delta: Mercans.
Work-state and locality tax setup	Mercans	Mapped at onboarding.
Monthly / per-period payroll calculation	Mercans	Federal, state, and local, from approved inputs.
Payroll register approval	Client	Approval triggers pay & filing.
Payslip generation & distribution	Mercans	
Net pay funding & disbursement	Client	EOR delta: Mercans pays from funded amounts.
Federal deposits (EFTPS) & Forms 941/940	Mercans / Client funds	On the applicable schedule.
W-2 / W-3 year-end	Mercans / Client approves	By 31 January.
State withholding & SUI filings	Mercans / Client funds	Per state, quarterly and annual.
Workers' compensation policy	Client	Mercans supplies payroll data by class code.
Termination & final settlement	Mercans calculates / Client decides	Applying the work-state final-pay rule.

Section 4: Statutory **Filings**

4.1 Filings Catalogue (In-Scope)

Filing	Authority	Frequency	Channel
Federal tax deposit (income tax + FICA)	IRS	Semiweekly or monthly	EFTPS
Form 941	IRS	Quarterly	IRS e-file
Form 940 (FUTA)	IRS	Annual (deposits quarterly if over $500)	EFTPS / e-file
Forms W-2 and W-3	SSA	Annual, by 31 January	SSA Business Services Online
Form 1099-NEC	IRS	Annual, by 31 January	IRS e-file (contractors)
State income-tax deposit and return	State DOR	Per state	State portal
State unemployment (SUI) wage report	State agency	Quarterly	State portal
New-hire report	State	Per hire	State new-hire directory

4.2 Monthly / Per-Period Operational Cycle

Mercans operates the US cycle on the client's pay frequency, with deposits and filings on the federal and per-state schedules.

Window	Activities
Inputs cut-off	Client uploads variable inputs (new hires, terminations, hours for non-exempt staff, bonuses, benefit and W-4 changes, work-state changes).
Calculation	Mercans runs payroll across federal, state, and local layers; iteration 1 review with Client; draft payslips; variance report.
Approval gate	Client approval; iteration 2 if needed; final payslip release; direct-deposit file generation (typically ACH).
Pay date	Net pay disbursed (Client-funded, or by Mercans under EOR).
Deposit	Federal income tax and FICA deposited via EFTPS on the semiweekly or monthly schedule; state deposits on each state's schedule.
Quarter close	File Form 941 and each state SUI wage report; reconcile.
Post-cycle	Archive EFTPS confirmations, filing receipts, and reports in the client vault by entity and period.

Approval & escalation discipline: no deposit or filing is made before the Client approval gate is recorded. The Client approver is named in the engagement RACI. Because a missed deposit accrues federal failure-to-deposit penalties on a tiered scale, a late Client approval that risks a deposit deadline is escalated by Mercans Compliance Operations to the engagement Implementation Lead. Any late deposit or filing triggers a Mercans root-cause analysis within 5 working days, recorded in the engagement RAID log.

4.3 Federal Deposits & Returns, Detail

- **Deposit schedule:** Each employer is a monthly or semiweekly depositor for the year, set by the lookback-period liability ($50,000 threshold). Monthly depositors pay by the 15th of the following month; semiweekly depositors pay within a few days of payday. A $100,000 accumulated liability forces a next-business-day deposit.
- **Returns:** Form 941 reports wages, federal income tax withheld, and Social Security and Medicare (including additional Medicare) each quarter; Form 940 reports FUTA annually. Form 944 replaces the quarterly 941 for the smallest employers when the IRS assigns it.
- **Acknowledgement:** Mercans retains the EFTPS confirmations and the e-file acknowledgements in the client vault, keyed by entity and period.

4.4 State & Local Filings, Detail

- **Withholding:** In income-tax states, state income tax is deposited and returned on the state's schedule, commonly aligned to the federal cadence; the return and portal differ by state.
- **Unemployment:** SUI wage detail and contributions are filed quarterly to each work-state agency, at the employer's experience-rated rate on that state's wage base.
- **Local:** Where a locality levies an income tax, it is withheld and remitted on the locality's schedule.

4.5 Corrections & Records

- **Corrections:** Federal corrections use Form 941-X (and W-2c for wage statements); state corrections use each state's amendment process.
- **Records:** Employment tax records are retained for at least four years after the tax is due or paid; Form I-9 is retained for the statutory period after hire or termination.
- **Penalties:** Failure-to-deposit penalties rise on a tiered scale with lateness, and the Trust Fund Recovery Penalty can reach responsible individuals for unremitted withheld tax.

Section 5: Statutory & Operational **Reporting**

5.1 Reporting Catalogue

Report	Recipient	Mercans Note
Pay statement (pay stub)	Employee	Per pay period; content set by state pay-statement law; delivered via ESS portal or secure channel.
Payroll & employer-cost summary	Client	Gross-to-net, employer taxes, and statutory liabilities by jurisdiction.
EFTPS confirmations and filing receipts	Client / vault	Archived per entity and period.
Form W-2 (annual wage statement)	Employee / SSA	By 31 January; the basis for the employee's annual return.
Form 1099-NEC	Contractor / IRS	For non-employee compensation.
Engagement monthly status report	Client	Cycle KPIs, SLA, open items by state.

5.2 Statutory Pay-Statement Content

Most states require an itemised pay statement. The Mercans pay stub carries at least:

- Employer and employee identifiers; pay period and pay date; hours for non-exempt employees.
- Earnings: regular, overtime, bonuses, and any taxable fringe benefits.
- Employee taxes: federal income tax, Social Security, Medicare (and additional Medicare where applicable), and state and local income tax where they apply.
- Other deductions: state disability or PFML where applicable, benefit and retirement deductions.
- Net pay, payment method, and year-to-date totals.

5.3 Year-End: Form W-2

After the calendar year, the employer furnishes Form W-2 to each employee and files the W-2 and W-3 set with the SSA by 31 January (2 February 2026 for the 2025 forms). The W-2 consolidates the year's wages and federal, Social Security, Medicare, state, and local withholding, and is the basis for the employee's federal and state income-tax returns filed in the following spring.

Section 6: **Glossary**

Term	Definition
IRS	Internal Revenue Service; the federal tax authority.
SSA	Social Security Administration; receives the annual W-2 wage report.
FICA	Federal Insurance Contributions Act; Social Security (6.2%) and Medicare (1.45%) taxes.
Social Security wage base	The annual wage ceiling for Social Security tax; $184,500 for 2026.
Additional Medicare	An employee-only 0.9% Medicare tax on wages over $200,000, with no employer match.
FUTA	Federal Unemployment Tax Act; 6.0% on the first $7,000, effectively 0.6% after the state credit.
SUI / SUTA	State unemployment insurance; employer-paid, experience-rated, on a state wage base.
SDI / TDI	State (or temporary) disability insurance; mandatory in a subset of states.
PFML	Paid family and medical leave; state programs funded by payroll contributions.
FLSA	Fair Labor Standards Act; federal minimum wage and overtime law.
Form W-4	The employee's federal withholding certificate.
Form W-2 / W-3	Annual wage statement to the employee and its transmittal to the SSA.
Form 941 / 940	Quarterly federal employment-tax return / annual FUTA return.

Term	Definition
EFTPS	Electronic Federal Tax Payment System; the federal deposit channel.
EIN	Employer Identification Number; the federal employer tax ID.
SSN	Social Security Number; the individual worker identifier.
Form I-9 / E-Verify	Employment-eligibility verification form and the federal electronic check.
Publication 15-T	The IRS federal income-tax withholding methods.
At-will employment	Employment terminable by either party at any time, subject to law and contract.
COBRA	Continuation of group health coverage after qualifying events (employers of 20+).
WARN	Worker Adjustment and Retraining Notification Act; advance-notice rules for mass layoffs.
Supplemental wages	Bonuses and similar pay, subject to a flat federal withholding method.

Section 7: Summary of Activities & **Responsibilities**

Master activity table. RACI legend: R = Responsible (does the work), A = Accountable (final decision authority), C = Consulted, I = Informed. The reference column links each row to the defining section.

Activity	Cycle	Client	Mercans	Ref.
Onboarding & Registration				
Classification (employee, exempt status)	Per hire	R, A	C	3.1
Federal EIN & state account registration	Once / per state	A	R (support)	1.4
Form I-9 / E-Verify	Per hire	A	R	3.1
Form W-4 & work-state setup	Per hire	A	R	3.1
New-hire report	Per hire	I	R	2.2
Per-Period Processing				
Variable inputs collection	Each period	R	C	4.2
Payroll calc (federal, state, local)	Each period	I	R, A	3.3 to 3.5
Variance report & review	Each period	A	R	4.2
Payroll register approval	Each period	A	C	4.2
Pay-stub generation	Each period	I	R	5.2
Net pay funding & disbursement	Each period	R, A	C	3.10
Deposits & Filings				
Federal deposit (EFTPS)	Semiweekly/monthly	A	R	4.3
Form 941 / 940	Quarterly / annual	A	R	4.3

Activity	Cycle	Client	Mercans	Ref.
State withholding deposit & return	Per state	A	R	4.4
State SUI wage report	Quarterly	A	R	4.4
Corrections (941-X, W-2c)	As needed	A	R	4.5
Year-End & Reporting				
Forms W-2 / W-3	Annual, Jan	A	R	5.3
Form 1099-NEC	Annual, Jan	A	R	5.1
State year-end reconciliations	Annual	A	R	4.4
Engagement status reporting	Each period	I	R	5.1
Lifecycle Events				
Overtime & FLSA administration	Ongoing	A	R	3.7
PTO policy administration	Ongoing	R, A	C	2.3
Termination & final settlement	Per event	A	R	3.8
COBRA / WARN handling	Per event	R, A	C	3.8
Workers' compensation data	Ongoing	A	R	3.5
Governance				
Credentials & portal access	Ongoing	R, A	C	1.4
Records retention	Ongoing	A	R	4.5
Rate & threshold monitoring (fed + states)	Annual	I	R	2.2
Engagement RAID & SteerCo cadence	Monthly/Qtrly	A	R	Eng. Plan

Source **Directory**

- **Internal Revenue Service:** federal income tax, FICA, FUTA, Forms 941/940/W-4, Publication 15-T: irs.gov
- **Social Security Administration:** wage base and W-2 reporting: ssa.gov
- **US Department of Labor:** FLSA minimum wage and overtime: dol.gov
- **USCIS:** Form I-9 and E-Verify: uscis.gov and e-verify.gov
- **State agencies:** each State Department of Revenue (withholding) and State Workforce Agency (unemployment); consulted per work state.

Primary framework: the Internal Revenue Code (federal income-tax withholding and FICA); the Federal Unemployment Tax Act (FUTA); the Fair Labor Standards Act (FLSA); IRS Revenue Procedure 2025-32 and the One Big Beautiful Bill Act (Public Law 119-21) as reflected in the 2026 tables; and each state's withholding, unemployment, disability, and paid-leave statutes. Federal figures in this SOP are 2026 values; state and local rates are set per work location.

Thank You **For Your Time**

United States Country Payroll SOP v1.0, operational and regulatory handbook. Prepared by Mercans Compliance Operations.

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