

Payroll Tax vs. Income Tax

What Is the Difference Between Payroll Tax and Income Tax?

Payroll and income taxes serve different purposes in the tax system, with one key distinction setting them apart: payroll taxes are split between employers and employees, while income taxes fall solely on employees' shoulders.

What Are Income Taxes?

The income tax definition says they are withholdings from your employees' paychecks to cover their federal tax obligations for the year. When considering wage tax vs. income tax, the actual amount that's withheld is based on information each employee provides on their Form W-4, which they complete when hired. This form captures key details used to determine how much is income tax — like their marital status, whether additional withholding should be made, and whether they may be entitled to deductions that would reduce their income taxes.

What Are Payroll Taxes?

The payroll tax definition explains that payroll taxes are federal and state taxes taken from an employee's taxable compensation. They are distinct from income taxes. The payroll tax meaning includes federal and state taxes on an employee's taxable compensation that help the government support social programs (e.g., Social Security and Medicare).

Knowing the Difference Between Payroll and Income Tax Is Critical

Employers' payroll tax responsibilities are extensive, and it's not always straightforward. When tax rules change, or questions come up about payroll taxes vs. income taxes, the obligations can feel overwhelming. Unfortunately, not knowing employment tax laws and deadlines won't protect you from potential penalties. Get tax expertise on your side and consider outsourcing to a payroll services provider.

Talk to your Paychex rep to see how they can help your business clients today.

