



What Every Small Business Needs to Know about PAYROLL



RMI

Resource Management Inc.

Table of Contents

.....	3
What Every Small Business Needs to Know about PAYROLL Why It Was Created	
.....	4/5
Components of Payroll	
.....	6/7
Handling Taxes	
.....	8
Avoiding Penalties and Complications	
.....	8
Meeting Law and Regulations	
.....	9/10
Techniques for Streamlining Payroll	
.....	11/12
Outsourcing as an Option for Business Owners	
.....	13
Payroll Checklist	
.....	14/15
Appendix	
.....	16
Resources	

What Every Small Business Needs to Know about PAYROLL

Payroll is an integral part of any business's operations. Prompt and accurate payroll is not only important for properly compensating employees and maintaining positive morale, but it also plays a big part in the net earnings of most businesses. Not to mention, it must meet regulations on the local, state and Federal level.

When you're a small to mid-sized business owner without a formal department to handle payroll, it's up to you to ensure that everything gets taken care of correctly. The problem is that this can be a bit overwhelming at times. Even if you only have a handful of employees, doing payroll can get complicated in a hurry. Combine this with ever-changing laws and regulations, and you can feel like you're in over your head.

In this guide, we will break down the basics of the payroll process to help you get a better grasp of your responsibilities. We will also provide you with information and resources that can help you simplify the process and reduce your stress.

Components of Payroll

EARNINGS

Calculating the number of hours each employee works by his or her regular pay rate is the first step of payroll. If anyone has worked overtime hours, then you must include overtime pay. You also have to take into consideration the frequency of payment. For example, you may pay your employees weekly, bi-weekly or monthly.

DEDUCTIONS

Once the grand total has been calculated, it's time to make the necessary deductions and subtract them from each employee's earnings. This typically starts with Federal income tax, which is broken down into tax brackets according to how much an individual earns annually. You can find the tax rates for 2014 in the appendix. As for the other most common deductions, they are as follows:

- » Social security where employers are required to withhold at least 6.2 percent from employee earnings up to \$ \$117,000 in 2014. This amount changes each year so you will want to stay up to date to insure that you are compliant.
- » Medicare where employers are required to withhold 1.45 percent from employee earnings.
- » State income tax, which varies from state to state. [This list](#) provides an overview of each state in the U.S.
- » Local tax which can include various withholdings like unemployment insurance, state disability, city taxes, school district taxes, etc.

PAYCHECK DISTRIBUTION

When it comes to the date and time that employees receive paychecks, it's usually up to you, the employer. There are no Federal laws that dictate the frequency in which you must distribute paychecks. However, certain states have laws that mandate the frequency in which employees must be paid. In addition, employers must pay their employees on their regularly scheduled pay date or face possible fines or penalties.

In the past, paychecks were delivered through mail or on a business's premises. But now, direct deposit has become increasingly common because of its efficiency and convenience. And besides the paper reduction, there can also be financial savings on your end. That's why direct deposit is definitely something to look into if you want to streamline your paycheck distribution.

BONUS PAYROLL

Adding bonuses to employee paychecks is definitely a nice gesture and can increase employee loyalty. The only issue is that you have to account for taxes and other deductions. Generally speaking, it's best to process bonus payroll from your regular payroll because it shouldn't negatively impact your employees' taxes and deductions. By giving a bonus through a separate check, there should be a flat tax of 25 percent. Otherwise, combining the bonus check with the regular check can easily lead to excessive taxing.

COST OF LIVING ADJUSTMENT

The Cost Of Living Adjustment (COLA) is a term that affects how much is paid out to social security. This accounts for the rising costs of basic necessities to live such as housing, utilities, food, transportation, etc. As of October 22, 2014, the Social Security Administration determined a 1.7 COLA, and the next one would be announced in October 2015. Understanding these changes is important because it can alter the way you approach employee benefits and retirement planning. You can learn more about [this topic here](#) and see how it can affect your business's payroll.

W-2S

The definition of a W-2 [according to Investopedia](#) is “the form that an employer must send to an employee and the IRS at the end of the year. The W-2 form reports an employee's annual wages and the amount of taxes withheld from his or her paycheck.” As a business owner, it's up to you make sure that every employee receives their W-2 so their taxes can be accurately filed.

Handling Taxes

EMPLOYER RESPONSIBILITIES

You definitely have quite a bit on your plate with handling taxes, and you need to ensure that everything is compliant on the local, state and Federal level. Not only must you maintain accurate payroll and tax records, but you must also make sure that reporting is done correctly. Typically, you will be required to report your business's income and employment taxes withheld from your employees on an Employer's Quarterly Federal Tax Return, which is Form 941 from the IRS. Then, tax deposits must be made electronically through the Electronic Federal Tax Payment System (EFTPS). You can enroll and make payments through the [EFTPS website](#).



Filing Requirements

The IRS has some fairly strict guidelines for when employment taxes are due. When it comes to quarterly Federal tax returns, the dates are:

- » April 30
- » July 31
- » October 31
- » January 31

Reporting Taxes

When it comes to reporting your business's taxes, you are responsible for the following:

- » Paying your share of payroll taxes as an employer
- » Depositing the money that was withheld from your employees' paychecks
- » Preparing any reconciliation reports
- » Covering the cost of payroll
- » Filing payroll tax returns

Besides this, you will need to file an Employer's Annual Federal Unemployment (FUTA) tax return, which is Form 940 and deposit those taxes. You can find more information on these forms [through this link](#) to the IRS.

GETTING EMPLOYEE INFORMATION

When you hire new employees, you will need to gather all pertinent information. Having each person fill out a W-4, which is a Federal Income Tax Withholding Form, can accomplish this. This will make it easier to get everyone into the payroll system and should help keep everything on track on your end.

You must also be sure to file W-2 forms for all of your employees at the end of the year. This will include wages, tips and any other type of compensation. These must be distributed to your employees by January 31 of each year. However, if the 31st falls on a weekend or holiday, then it will be due on the next business day.

For further information on deadlines, you can find everything you need to know via the [Employment Tax Due Dates](#) from the IRS. All other information concerning depositing and reporting employment taxes can be found on [this resource](#).

Avoiding Penalties and Complications

The last thing you want to do is run into trouble with the IRS. Not only can this cost you financially by incurring penalties, but also it can create a lot of unnecessary headaches. Whether it's because you file too late, misclassify workers or there are mathematical errors, it's just not a situation you want to be in.

To avoid penalties, you need to be diligent about maintaining accurate payroll records. You may want to invest in some type of accounting software to simplify the process or hire an outside party with extensive experience in this area. It's also important that you understand the difference between [employees vs. independent contractors](#). That's because the way you classify workers will determine whether or not they're entitled to benefits, whether they receive a W-2 or a 1099 form, how you're supposed to report their tax information, etc.

In addition, you need to always be aware of filing deadlines so you don't fall behind and get penalized. This can be especially problematic for new business owners who haven't figured out all the details and haven't yet fallen into a filing routine. So be sure to do whatever it takes to remind yourself when the various forms are due.

Meeting Laws and Regulations

ADHERING TO FEDERAL, STATE AND LOCAL LAWS

While running your own business is rewarding in many ways, it also comes with many complications. In particular, there are a plethora of laws and regulations that dictate how you handle payroll, employee withholdings, FICA rates, minimum wage, etc. As a business owner, it's of the utmost importance that you stay on top all laws affecting your company. Besides complying with Federal laws that are applicable to all business owners in the U.S., you need to have an understanding of the ones involving your state, county and city.

STAYING UP-TO-DATE WITH CHANGES

One problem that business owners often run into is dealing with the ever-changing laws and regulations concerning payroll taxes. For instance, the percentage of money that's withheld to cover Social Security and Medicare changes periodically. Also, when large-scale reforms like the Patient Protection and Affordable Care Act (PPACA) are signed into law, it can affect the way employers cover employee benefits. If you have trouble keeping updated on these changes, it's wise to enlist the help from an expert so you don't unknowingly make any mistakes.

MINIMUM WAGE REQUIREMENTS

Finally, it's necessary that you meet the minimum wage requirements of your state. While the Federal minimum wage is \$7.25 for the majority of states, there is a disparity among the others. See appendix for a breakdown of the minimum wage for each state in 2015.

Techniques for Streamlining Payroll

GETTING ORGANIZED

Staying on top of every single component of payroll is essential. Otherwise, inefficiencies can quickly add up to the point where you have a huge mess on your hands. The first step to getting organized is to keep employee information such as social security numbers, benefits, bonuses, etc. filed away in paper documents.

Because these will contain sensitive information, it's a good idea to establish a privacy policy for records and only allow certain employees to view these files. You may also want to have a designated place in your office to store payroll tax forms and other documents. Keep everything carefully categorized, and indicate the date when forms need to be filed.

UTILIZING TECHNOLOGY

Technology is incredibly helpful for streamlining payroll and can make your life as a business owner much easier. For starters, you should utilize payroll software like QuickBooks or Intuit. These act as a one-stop-shop that allow you to do everything from time tracking to sending direct deposits to automatic tax calculations. You can also perform document management to keep close tabs on status forms and performance reviews. Some more advanced systems even assist you with benefits administration.

Ideally, you will back up important documents virtually on Cloud-based software so information can be recovered in case paper documents are lost or destroyed. Rather than using a traditional time card system where employees clock in and out on paper punch cards, it's smart to use a computerized system. This will ensure that your employees' work hours are transmitted and stored electronically, which should keep things on track.

Going Paperless

Besides the obvious environmental benefits, going paperless with payroll can save you a considerable amount of money and reduce your clutter so you can stay more organized. Rather than printing out traditional checks that may get lost or stolen, going paperless through direct deposit ensures that your employees get their paychecks on time and without incident. Most quality payroll software platforms will help you cut back on your paper consumption dramatically, and some may eliminate it altogether.

Outsourcing as an Option for Business Owners

Due to the complexity and time-consuming nature of payroll, many business owners opt to outsource it to a Human Resources Outsourcing (HRO) firm.

HOW AN HRO WORKS

This type of firm handles your business's payroll tasks and works with you to come up with a customized solution. HROs offer a range of services that can accommodate the individual needs of practically any business regardless of the industry. Common payroll services include:

- » Paycheck preparation
- » Tax filing
- » Garnishment administration
- » Time off accruals
- » W-2 preparation
- » Direct deposit
- » Time and attendance
- » Client accounting



BENEFITS OF AN HRO FOR PAYROLL

Perhaps the biggest advantage is the time you can save from outsourcing. Instead of being bogged down with redundant tasks, you are free to focus on more important aspects of running your business. This can have a profound impact in the long run because it can expedite company growth. Not to mention, you can save yourself from a lot of stress.

HRO firms are highly knowledgeable on all aspects of payroll including changing laws and regulations, so you can be assured that you won't get penalized simply because you weren't aware of a recent change. They will also ensure a high degree of accuracy, and you know that all forms will be filed on time so that deadlines are always met. To learn more about how an HRO can help with payroll as well other services that are offered, download the [New Business Owner's Guide to Human Resources](#).



Payroll is an integral part of running any company. While it can be challenging for small to mid-sized business owners, there are several solutions available to simplify payroll and make it more manageable. By understanding the basic components and your responsibilities, you can keep your payroll on track and stay compliant. And by using the services of an HRO, you can take it one step further and streamline the entire process.

Payroll Checklist

- ☒ Download “What Every Small Business Needs to Know about PAYROLL”
- ☐ Learn basic components of payroll
- ☐ Learn about common deductions
- ☐ Choose a paycheck distribution option
- ☐ Familiarize yourself with Forms 940 and 941
- ☐ Learn about W-2s and in some cases 1099s
- ☐ Research form filing deadlines
- ☐ Familiarize yourself with Federal, state and local laws
- ☐ Develop a system for recording employee information
- ☐ Explore different types of payroll software
- ☐ Explore other forms of technology to stay organized
- ☐ Research HROs to determine if outsourcing is a viable option for your business

Appendix

Minimum Wage 2015

Below please find the minimum wage rates by state. Federal minimum wage will remain at \$7.25. States that do not set their own minimum wage will default to \$7.25 per hour.

RATES BELOW ARE WHAT IS PUBLISHED AS OF NOVEMBER 7, 2014:

Alabama: \$7.25

Alaska: \$7.75

(\$8.75 effective February 24, 2015, \$9.75 effective January 1, 2016)

Arizona: \$8.05 (tipped workers \$5.05)

Arkansas: \$7.50 (\$8.00 effective January 1, 2016, \$8.50 effective January 1, 2017)

California: \$9.00

(\$10.00 on January 1, 2016)

- **Oakland \$12.25** effective 3/2/15

- **Richmond: \$9.60** (increase to \$11.52 in 2016, \$12.30 in 2017, and \$13 in 2018, with exceptions based on employer)

- **San Diego: \$9.75**

(increase to \$10.50, January 1, 2016, \$11.50 January 1, 2017)

- **San Francisco: \$11.05**

(\$12.25 effective May 2015, \$13.00 effective July 2016, \$14.00 effective July 2017, \$15.00 effective July 2018)

- **San Jose: \$10.30**

Colorado: \$8.23 (tipped workers \$5.21)

Connecticut: \$9.15 (\$9.60 January 1, 2016, \$10.10, January 1, 2017)

Delaware: \$8.25

District of Columbia: \$10.50

on July 1, 2015 (\$11.50 in 2016)

Florida: \$8.05 (tipped workers \$5.03)

Georgia: \$7.25

Hawaii: \$7.75 (\$8.50 in 2016, \$9.25 in 2017, \$10.10 in 2018)

Idaho: \$7.25

Illinois: \$8.25

- **Chicago** (\$10.00 July 2015, \$10.50 July 1, 2016, \$11.00 July 2017, \$12.00 July 2018, \$13.00 July 2019)

Indiana: \$7.25

Iowa: \$7.25 (\$10.10 by 2016)

Kansas: \$7.25

Kentucky: \$7.25

Louisiana: \$7.25

- **Louisville \$7.25** (\$7.75 July 2015, \$8.25 July 2016, \$9.00 July 2017)

Maine: \$7.50

Maryland: \$8.00 (\$8.25 July 1, 2015, \$8.75 July 2016, \$9.25 July 2017, \$10.10 July 2018)

Massachusetts: \$9.00 (\$10.10 on January 1, 2016, \$11.00 on January 1, 2017)

Michigan: \$8.15 (\$8.50 in January 2016, then annual increases to \$9.25 per hour by 2018)

Minnesota: \$8.00

(Effective August 1, 2015, large employers are required to pay workers \$9.00/hour and small employers \$7.25, \$9.50 in August 2016, with similar exceptions based on worker age and company size)

Missouri: \$7.65

Mississippi: \$7.25

Montana: \$8.05

Nebraska: \$8.00 (\$9.00 effective January 1, 2016)

New Hampshire: \$7.25

New Jersey: \$8.38

New Mexico: \$7.50

- **Albuquerque: \$8.75** (\$7.75 with benefits)

Nevada: \$7.25

(for employees who receive qualifying health benefits, \$8.25 for employees who do not receive qualifying health benefits.)

New York: \$8.75 (\$9.00 effective December 31, 2015)

N. Carolina: \$7.25

N. Dakota: \$7.25

Ohio: \$8.10

Oklahoma: \$7.25

Oregon: \$9.25

Pennsylvania: \$7.25

Puerto Rico: \$7.25

Rhode Island: \$9.00

S. Carolina: \$7.25

S. Dakota: \$8.50

Tennessee: \$7.25

Texas: \$7.25

Utah: \$7.25

Virginia: \$7.25

Vermont: \$9.15 (\$9.60: 2016, \$10: 2017, \$10.50: 2018)

Washington: \$9.47

-**Seattle: \$10.00 or \$11.00** effective 4/1/15 (\$15 over 7 years, depending on employer size)

West Virginia: \$8.00 (\$8.75: 2016)

Wisconsin: \$7.25

Wyoming: \$7.25

Appendix

2014 Tax Brackets (for taxes due April 15, 2015)

Tax rate	Single filers	Married filing jointly or qualifying widow/widower	Married filing separately	Head of household
10%	Up to \$9,075	Up to \$18,150	Up to \$9,075	Up to \$12,950
15%	\$9,076 to \$36,900	\$18,151 to \$73,800	\$9,076 to \$36,900	\$12,951 to \$49,400
25%	\$36,901 to \$89,350	\$73,801 to \$148,850	\$36,901 to \$74,425	\$49,401 to \$127,550
28%	\$89,351 to \$186,350	\$148,851 to \$226,850	\$74,426 to \$113,425	\$127,551 to \$206,600
33%	\$186,351 to \$405,100	\$226,851 to \$405,100	\$113,426 to \$202,550	\$206,601 to \$405,100
35%	\$405,101 to \$406,750	\$405,101 to \$457,600	\$202,551 to \$228,800	\$405,101 to \$432,200
39.6%	\$406,751 or more	\$457,601 or more	\$228,801 or more	\$432,201 or more

Resources

<http://www.bankrate.com/finance/taxes/tax-brackets.aspx>

http://www.taxadmin.org/fta/rate/ind_inc.pdf

<http://www.ssa.gov/oact/cola/colasummary.html>

<http://www.investopedia.com/terms/w/w2form.asp>

<http://www.irs.gov/uac/Form-940,-Employer%27s-Annual-Federal-Unemployment-%28FUTA%29-Tax-Return>

<http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Employment-Tax-Due-Dates>

<http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Depositing-and-Reporting-Employment-Taxes>

Resource Management Inc (RMI)

is an HRO solution that helps businesses simplify and save time. With RMI to handle the necessary Human Resources and compliance programs for your company, you and your staff can concentrate on what you do best.

The experts at RMI include certified professionals in HR, Risk Management, IT, Accounting and Payroll. Our breadth of experience in multiple areas of HR business helps us create customized suites of benefits and services to meet your unique needs.

.....

Toll Free Number for All Offices: 800-508-0048

New England
281 Main Street
Suite 5
Fitchburg, MA 01420

Doral/Miami
3900 NW 79th Ave
Suite 560
Doral, FL 331

Orlando
8251 Presidents Drive
Suite 101
Orlando, FL 32809

New York
1221 Avenue of Americas
Suite 4200
New York, NY 10020

Port Orange/ Daytona
5889 S. Williamson Blvd.
Suite 1311
Port Orange, FL 32128

