

Payroll Basics For New Employers

AN INTRODUCTION TO PAYING YOUR EMPLOYEES

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What's involved in Payroll anyway?

PREPARATION

- Knowing what you need to know
- Having what you need to have

PAYING EMPLOYEES

- Collecting data
- Applying Taxes and Deductions
- Producing payments

AFTER PAYROLL

- Making tax payments
- Filing tax reporting

Preparation: Knowing what you need to know

EMPLOYEE VS. INDEPENDENT
CONTRACTOR

FAIR LABOR STANDARDS ACT
(FLSA)

PAYROLL TAXES

Employee vs. Independent Contractor

Employee

- ▶ Employer assigns when, where and how the employee will work
- ▶ Once hired, employer provides work on an on-going basis
- ▶ Subject to dismissal; can quit without liability
- ▶ Paid a salary or hourly wage
- ▶ Everything needed to complete assigned work is provided by the employer

Independent Contractor

- ▶ Sets own hours and processes of work
- ▶ Self employed, working for multiple clients; services available to the public
- ▶ A contract governs the client/contractor relationship how it can be severed
- ▶ Paid by the job with an opportunity for profit or loss
- ▶ Must provide tools, equipment, and training required to complete the job

Employee vs. Independent Contractor - totally different legal requirements

For Employees

- ▶ Employer must withhold from wages, deposit and report income, Social Security, Medicare and in some states unemployment taxes
- ▶ Employer must pay the employer's share of Social Security, Medicare and unemployment taxes
- ▶ Employer must provide a W-2 to the employee and Social Security Administration following each tax year
- ▶ Employer must treat the employee according to the requirements of the Fair Labor Standards Act

For Independent Contractor

- ▶ Contractor is responsible to pay their own share of income, Social Security and Medicare taxes
- ▶ Contractor is responsible to pay the employer's share of Social Security and Medicare taxes
- ▶ Company must provide a 1099-M to the contractor and the IRS following each tax year in which the contractor was paid \$600 or more
- ▶ The Company and Contractor must abide by the rules of their contract / FLSA does not apply

Fair Labor Standards Act (FLSA) of 1938

aka
Federal Wage-Hour Law

EXEMPT VS. NON EXEMPT
EMPLOYEES

MINIMUM WAGE AND OVERTIME
RATES

FAMILY AND MEDICAL LEAVE ACT
(FMLA)

REQUIRED RECORD KEEPING FOR
EMPLOYERS

CHILD LABOR LAWS

Non-Exempt vs. Exempt Employees

- ▶ Non-Exempt Employees are covered by the requirements of the Federal Fair Labor Standards Act
- ▶ Exempt Employee status is determined by actual job duties and minimum salary level
 - Not by job title
 - Not by employer choice
- ▶ White Collar Exemption Classifications include:
 - Administrative Employees
 - Executive Employees
 - Professional Employees
 - Outside Sales Employees

FLSA Regulations

Minimum Wage

Federal minimum wage is \$7.25 hour / NYS varies from \$10.40 hr and up depending on location

Tipped employees' federal minimum cash wage is \$2.13 / NYS \$7.50+ hour as long as the employee makes enough in tips to make up the difference to minimum wage

States with higher minimum wage rates outweigh federal minimum wage rates

Overtime

Total regular pay divided by total number of hours worked equals Regular Rate of Pay

All compensation is included in total regular pay except what is specifically excluded by the FLSA, i.e. shift differential,

In general, all hours over 40 worked in a workweek must be paid at 1.5 times the regular rate of pay

Special rules for certain employees

- 8/80 rule for hospitals and nursing homes
- Exceptions for police/fire/rescue personnel

Family & Medical Leave Act (FMLA)

Required for employers with 50+ employees within a 75 mile radius

Guarantees eligible employees up to 12 weeks of unpaid job protected leave within a 12-month period for qualifying events

Some states have enacted Paid Family Leave programs with additional rules and requirements

Payroll Taxes

FEDERAL TAXES

Social Security
 Medicare
 Federal Unemployment
 Federal Income Tax

STATE TAXES

State Income Tax
 State Unemployment

LOCAL TAXES

City, County or Municipal Income Tax

Calculating Federal Taxes

Social Security (OASDI)

Employee Tax of 6.2% of gross wages

Employer Tax of 6.2% of gross wages

Up to annual wage base (\$128,400 in 2018)

Medicare (HI)

Employee Tax of 1.45% of gross wages

Employer Tax of 1.45% of gross wages

Additional Employee Tax of .9% on wages over annual threshold of \$200,000

Federal Income Tax

Based on filing status / allowances claimed by employee

Dependent on taxable wages earned per pay period

Dependent on pay frequency i.e. weekly; bi-weekly; monthly

Supplemental wages taxed at a flat rate

- > 22% under \$1 million
- > 37% over \$1 million

Calculating Other Taxes

State Income Tax

All but nine states have state income tax

Each state has their own tax forms, rates and reporting

Multi-state income tax rules must be followed when a company has operations in more than one state

Local Income Tax

Some cities, counties and municipalities in 15 different states have additional income tax
i.e. NYC; Yonkers, etc.

Unemployment Taxes

Federal Unemployment Tax Act (FUTA) requires an employer tax equal to 6% of the first \$7,000 of each employee's wages each year

- Nonprofits may be exempt
- Pre-tax deductions may be exempt
- FUI may be offset by on-time SUI payments

State Unemployment Tax (SUI)

- Employer tax in all States
- Rates depend on state and experience rating

Preparation: Having what you need to have

EMPLOYER REGISTRATION NUMBERS

- Federal EIN
- State EIN

EMPLOYER REQUIRED INSURANCES

- Workers' Compensation
- Statutory Disability
- Paid Family Leave

EMPLOYEE FORMS

- I-9
- W-4
- W-9
- IT-2104

Employer Registration Numbers

Federal EIN

- ▶ Employer Identification Number
- ▶ Registration number with the IRS
- ▶ Can be obtained online
- ▶ Required for most businesses prior to having employees
- ▶ Required for making Federal tax payments and filing Federal payroll tax reports

State EIN

- ▶ NYS uses the Federal EIN as the State EIN for withholding tax
- ▶ Employers must register with NY State to obtain a separate SUI Identification Number
- ▶ NYS-100 form can be used to register for both federal and unemployment numbers in New York
- ▶ Required for making State tax payments and filing State payroll tax reports
- ▶ Each state has different requirements for state identification numbers for withholding and unemployment insurance

Employer Required Insurances

Workers' Compensation

- ▶ Required in every state to cover employee injuries sustained on the job
- ▶ Premium is based on multiple factors
- ▶ Payment Frequency options are determined by the carrier
- ▶ NYS WC Insurance Fund is guaranteed if no other insurance company will provide policy

Statutory Disability

- ▶ Required by New York State to cover employees for illness or injury occurring outside of work
- ▶ Up to 60 cents per week can be charged to the employee to help toward premium; employer is responsible for the rest
- ▶ Premiums are based on several factors
- ▶ Minimum Premiums exist regardless of size of company

Paid Family Leave

- ▶ Required by New York State for all private employers starting January 1st, 2018
- ▶ Addition to the NYS Disability policy
- ▶ Funded through employee deductions calculated based upon earnings with an annual maximum
- ▶ Number of weeks available, amount of employee deductions and benefits increase through 2021

Employee/Contractor Forms - Federal

I-9

Employment Eligibility Verification

- Used to verify that the employee is legally authorized to work in the United States
- Lists legal documents acceptable for verification
- Employer must examine documents to determine they reasonably appear to be genuine
- Must be kept on file for three years after the date of hire or one year after the date of termination, whichever is later

W-4

Employee's Withholding Allowance Certificate

- Worksheet and instructions provided help the employee complete the form
- Employers cannot legally advise employees on entries
- Forms must be signed and dated by the employee to be valid
- If no W-4 is provided withhold at the single rate with zero allowances

W-9 (Contractors Only)

Request for Taxpayer Identification Number and Certification

- Form should be completed by any independent contractor working for the company
- Allows the company to produce 1099 for the contractors pay without withholding income taxes
- Payments to contractors who do not provide Taxpayer Identification Number and Certification are subject to Federal backup withholding of 24% in 2018

Keep all records of employment taxes for at least four years after filing the 4th quarter for the year.

Employee Forms – State / Locals

▶ NYS IT-2104 Employee's Withholding Allowance Certificate New York State • New York City • Yonkers

- Must be completed by the employee
- If no IT-2104 is received, the employer can enter the same withholding allowances as the employee has completed on the W-4
- ▶ Every state has it's own requirements for employee forms and record-keeping
- ▶ Local areas in 15 states have income tax requirements which may have additional requirements for forms and record-keeping
- ▶ Always be sure to research any additional income tax requirements in the areas where employees work and live

Paying Employees:

COLLECTING DATA

APPLYING DEDUCTIONS

PRODUCING PAYMENTS

Collecting Data – Record Keeping

Manual Tracking

All required documentation is handled manually; often using paper, spreadsheets etc.

Disadvantages include:

- Lack of solid documentation can lead to costly Department of Labor fines
- Data must be entered manually into payroll which is time consuming and error prone

Electronic Timekeeping

Physical time clocks, web clocks (on computers) or mobile apps are used to track employee punches

Advantages include:

- Accurate and time stamped documentation can protect the employer from costly fines
- Data imported to payroll is more efficient and less prone to human error

Scheduling

When varying employee coverage is required, scheduling can be a very time consuming and stressful process for management and employees

Electronic scheduling with timekeeping allows:

- Efficient creation of schedules
- Electronic notification to employees
- Online ability for employees to pick up / drop / trade shifts
- Online monitoring and reporting for management

Applying Deductions

Required by Law

Federal Insurance Contributions Act (FICA) Taxes

- Social Security (OASDI)
- Medicare (HI)

Federal Income Tax (FIT)

State Income Tax (SIT)

Local Income Tax (Locals)

In some states

- Disability Insurance Tax (SDI)
- Unemployment Insurance Tax (SUI)

Involuntary

Ordered by a court of law or government agency

Tax Levies

Child Support Orders

- Income withholding
- Medical Support

Garnishments

- Civil / Commercial
- Educational
- Wage Attachments
- Bankruptcies

The Employer is legally responsible if employee' wages are not garnished appropriately

Voluntary

By request of the employee

- Health / Dental / Vision
- Life / Accidental Death
- Supplemental Health / Cancer Care etc.
- Retirement i.e. 401 (k)

Employers desiring to offer pre-tax deductions to employees must have an IRS approved 125 Premium Only Plan in place

The employer can choose to require employees to contribute toward premiums for:

- NYS Disability
- NYS Paid Family Leave

Producing Payments

Cash or Check

Most states require cash or check payment as an option available to employees

Generally employees cannot be charged a fee to receive all of their wages due

Cash payroll is fairly rare but it is still used by some employers

Direct Deposit

aka Electronic Funds Transfer (EFT)

Eliminates need for paper checks allowing paperless payroll reducing costs and manual processes

Can be encouraged but not required of employees in New York State

Payroll Card

Prepaid, debit cards to facilitate direct deposit for unbanked employees

Used in place of bank accounts for deposit of net pay

- Employees must be allowed a way to withdraw funds from the bank card with no fee
- Debit transactions can incur charges if employees elect to use the card in point of sale transactions

Can be encouraged but not required of employees in New York State

After Payroll: Dealing with Taxes



Calculating Taxes



Making Tax Payments

Quarterly Tax Reporting

Choose whether Federal Quarterly Form

Form 941-First Quarter

Change Quarter Preview Print

Part 1. Answer these questions for this quarter:

1	Number of employees who received wages, tips, or other compensation for the pay period including line 12 (Column 1)	1	
2	Wages, tips, and other compensation	2	0.00
3	Total income tax withheld (see wages, tips, and other compensation)	3	00.00
4	<input type="checkbox"/> If no wages, tips, and other compensation are subject to social security or Medicare tax check and go to line 5. <input checked="" type="checkbox"/>		
5a	Taxable social security wages	5a	0.00
		X 124 =	0.00
5b	Taxable social security tips	5b	0.00
		X 124 =	0.00
5c	Taxable Medicare wages & tips	5c	0.00
		X .029 =	0.00
5d	Total social security and Medicare taxes (Column 2, line 5a + 5b + 5c + line 5d)	5d	00.00

Annual Tax Reporting



Making Tax Payments

Payment Methods

- ▶ Federal tax payments must all be submitted using the IRS' Electronic Federal Tax Payment System (EFTPS)
- ▶ State and Local Payments are submitted according to specific requirements
 - Some require electronic payments
 - Some allow electronic or check payments
 - Some require check payments
- ▶ State and local tax payments can be due monthly, quarterly or may have a threshold upon which payment is due, depending on the jurisdiction and size of payroll

Federal Deposit Frequency

- ▶ Federal tax due dates depend on the size of the payroll over a lookback period of one year
- ▶ Monthly Deposit Frequency:
 - Federal tax liability of under \$50,000
 - Due the 15th of the following month
- ▶ Semi-Weekly Deposit Frequency:
 - Federal tax liability of \$50,000 or more
 - Due the following Wednesday or Friday depending on the day of the week check date falls upon
- ▶ One Day Deposit Rule
 - Once Federal tax liability reaches \$100,000 on any day during a monthly or semi-weekly deposit period, the taxes must be deposited by the close of the next business day

Quarterly Tax Filing

IRS Form 941 - Employer's QUARTERLY Federal Tax Return

- Filed with the IRS to provide a report of the employer's total taxable wages paid and payroll tax liability
- Can be matched against the employer's record of tax deposits
- Schedule B included for semi-weekly depositors showing actual deposits

NYS-45 - Quarterly Combined Withholding, Wage Reporting, and Unemployment Insurance Return

- Filed with NYS Department of Taxation and Finance to provide a report including wages, withholding and SUI information
- Each state has their own monthly/quarterly and/or annual filing

Annual Tax Filing – Primary Reports

Social Security Administration Reports

W-2 - Wage and Tax Statement

- Annual report required for each employee
- Must be provided to the employee and submitted to the SSA by 1/31 following tax year

W-3 - Transmittal of Wage and Tax Statements

- Cover letter with company totals submitted with W-2s

Internal Revenue Service Reports

1099-M - Miscellaneous Income

- Annual report required for each independent contractor paid \$600 or more
- Must be to contractor and submitted to IRS by 1/31 following tax year

Form 943 - Employer's Annual Federal Tax Return for Agricultural Employees

- Similar to 941 but for agricultural (farm) employees
- Filed annually by January 31st

940 - Employer's Annual Federal Unemployment (FUTA) Tax Return

- Filed annually by January 31st or February 12 if all payments have been submitted timely

Resources

Internal Revenue Service website: www.irs.gov

Publication 15: Employer's Tax Guide: <https://www.irs.gov/pub/irs-pdf/p15.pdf>

NYS Department of Taxation and Finance website: www.tax.ny.gov

NYS Department of Labor website: www.labor.ny.gov

Minimum Wage Poster – Misc. Industry: <https://www.labor.ny.gov/formsdocs/wp/l207.pdf>

Minimum Wage Poster – Hospitality Industry: <https://www.labor.ny.gov/formsdocs/wp/l207.3.pdf>

www.completepayroll.com

Questions
