



# Payroll Basics For New Employers

AN INTRODUCTION TO PAYING YOUR EMPLOYEES

Kelley L. Carson, CPP  
Corporate Trainer  
Complete Payroll  
7488 Route 39  
Perry, New York 14530  
[www.completepayroll.com](http://www.completepayroll.com)

# 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 \$11.10 hr and up depending on location, size and type of business

Tipped employees' federal minimum cash wage is \$2.13 /hr 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

Generally, all compensation is included in total regular pay

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

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 / 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 that are in addition to FMLA.



# 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 (\$132,900 in 2019)

## 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

Two (2) local employee income taxes in New York City area:

- New York City tax
- Yonkers tax

Two (2) local employer taxes:

- NYC Metropolitan Transportation Authority tax
- NY / NJ Waterfront tax

## 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
- No employee tax in NYS
- 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

## COMPLETED WORKER 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 once your business entity has been established in the state
- ▶ 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 state unemployment numbers in New York
- ▶ Required for making State tax payments and filing State payroll tax reports

# Employer Required Insurances

## Workers' Compensation

- Required in most states to cover employee injuries sustained on the job
- Employers in New York must carry coverage with very limited exceptions
- 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 including gender of active employees
- 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
- Detailed information is available on the [NYS website](#)

# 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 to 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 until one can be obtained

## 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%

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

## Taxes

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)
- Employee 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

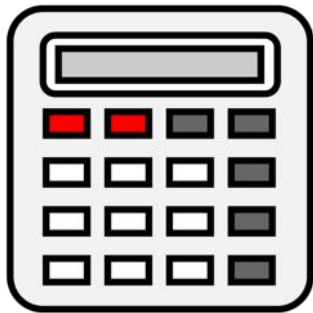
- Employees must be allowed a way to withdraw funds from the bank card with no fee
- Debit transactions can incur charges if employees elect to use the card in point of sale transactions

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

# Activity: Anatomy of a Paycheck

40 hours at Minimum Wage of \$11.10/hour	\$444.00
+ 2 hours Overtime at time and a half	+ \$33.30
<b>= Gross Wages</b>	<b>= \$477.30</b>
- Pre-tax deduction for healthcare	- \$50.00
<b>= Taxable Wages</b>	<b>= \$427.30</b>
- 6.2% Employee Social Security Tax	- \$26.49
- 1.45% Employee Medicare Tax	- \$6.20
- Employee Federal Income Tax at Single/0	- \$38.78
- Employee State Income Tax at Single/0	- \$12.57
<b>= Disposable Wages</b>	<b>= \$343.26</b>
- After-tax deduction for Uniforms	- \$15.75
- NYS Disability Insurance required premium share	- \$.60
- NYS Paid Family Leave required premium	- \$.73
<b>= Net Pay</b>	<b>= \$326.18</b>
- Direct Deposit	- \$326.18
<b>= Net Check</b>	<b>= \$0.00</b>

# After Payroll: Dealing with Taxes



Calculating Taxes



Making Tax Payments

Quarterly  
Tax  
Reporting

[Choose another Federal Quarterly Form](#)  
Form 941-First Quarter

Part 1: Answer these questions for this quarter.

1	Number of employees who received wages, tips, or other compensation for the pay period including Mar. 12 (Quarter 1)	1	<input type="text" value="1"/>
2	Wages, tips, and other compensation	2	<input type="text" value="1100.00"/>
3	Total income tax withheld from wages, tips, and other compensation	3	<input type="text" value="198.20"/>
4	<input type="checkbox"/> If no wages, tips, and other compensation are subject to social security or Medicare tax Check and go to line E.		
5a	Taxable social security wages	<input type="text" value="1100.00"/> X .124 =	5a <input type="text" value="136.40"/>
5b	Taxable social security tips	<input type="text" value="0.00"/> X .124 =	5b <input type="text" value="0.00"/>
5c	Taxable Medicare wages & tips	<input type="text" value="1100.00"/> X .029 =	5c <input type="text" value="31.90"/>
5d	Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d)	5d	<input type="text" value="168.30"/>

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 Deposit Frequency

- ▶ 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 31<sup>st</sup> or February 12 if all payments have been submitted timely

# Resources

Internal Revenue Service website: [www.irs.gov](http://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](http://www.tax.ny.gov)

NYS Department of Labor website: [www.labor.ny.gov/home/](http://www.labor.ny.gov/home/)

NYS Minimum Wage information: <https://www.ny.gov/new-york-states-minimum-wage/new-york-states-minimum-wage>

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

NYS Minimum Wage for Tipped Workers - <https://www.labor.ny.gov/formsdocs/factsheets/pdfs/p717.pdf>

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

NYS Paid Family Leave – <https://paidfamilyleave.ny.gov/employer-responsibilities-and-resources>

Many free resources are available at [www.completepayroll.com](http://www.completepayroll.com)

# Questions