

Payroll Guide

for Small Business Owners



HOW A PAYROLL PROVIDER CAN HELP YOUR BUSINESS

Even if your business has only a few employees, you may be considering outsourcing your payroll processing to a specialist. What can a payroll processing service do for you?

Compliance

You may have employees in more than one state and need to comply with reporting, withholding, and paying state and local income taxes. This can be complicated, especially if you have to deal with FICA taxes on wages, Social Security withholding that's capped for highly paid employees, and additional Medicare tax. Payroll services keep up to date with employment tax law changes and update your policy for you.

Tax Filing

You won't have to worry about the schedules and details for making payments and filing payroll tax reports for federal tax, state tax, tax withholding, FICA taxes, unemployment insurance, and workers' compensation insurance, nor for individual state payroll options. The payroll service can provide detailed records of each payroll, including gross pay, withholdings, and net pay. An outsourced partner can take care of this for you.

Some services file for you, charging an additional fee for each check to assign a payroll specialist to file your tax forms based on the information you give them. Others provide you with a subscription for payroll software as part of their service; you use the software to pay taxes. Payroll providers can integrate with other services you use, including accounting, time-tracking software, and HR functionality.



SBAM Payroll & HR Solutions powered by Ahola easily scales to include time tracking, benefits enrollment, applicant tracking and onboarding.

By bringing the essential functions of payroll and HR together in a unified technology, Ahola simplifies your people management.

All the critical functions are in one database so you no longer have to deal with exporting, importing or clunky integrations.

- User friendly online payroll system
- Federal, State & Local payroll tax calculation and filing
- Dedicated Payroll Specialist for your account
- Employee self-service with online access to paystubs
- Third party check payments such as garnishments and child support orders

Contact us at (800) 362-5461 or visit www.sbam.org/payroll today!

Human Resources Services

Some payroll service providers offer an array of human resources and risk management services such as providing job description templates and access to job-posting sites. They can provide background check support as well as recruiting procedures and benefits provisions.

Adding New Hires

Payroll services make your firm nimble. If you need to rapidly scale up your number of employees, you can add them to payroll seamlessly. If you need to scale down effectively and rapidly, they can help you downsize payroll.

Manage Benefits

Payroll services manage and streamline rules, regulations, and services regarding withholding and employee benefits. For example, if you provide a 401(k) plan, errors can cost you. Employee salary deferrals must be deposited in individual accounts within seven days of payroll. If you miss even one day, the IRS may audit your plan. Payroll providers can ensure these deposits will be made on time.

Best Practices

Do you have a business with a lot of compliance issues? Some service providers can help you comply with applicable safety and inspection standards, relevant Equal Employment Opportunity Commission standards, and federal laws on harassment.

No matter whether you outsource or not, you are still legally responsible for tax and other compliance issues. However, by hiring a qualified service provider, you'll take a lot of weight off your shoulders. A good payroll service isn't cheap, but it greatly reduces your risk of an IRS fine. Consider your outsourcing options today.



When to Switch Payroll Providers

It's best to switch at the start of the quarter or at the end of the year, when you've already closed out your last payroll for the quarter or year...

PAYROLL TAXES, FILINGS AND LOOKBACK PERIODS

Employers must withhold federal income tax, Social Security tax, and Medicare tax from employees' wages, plus pay their own share of Social Security and Medicare taxes. These taxes must be paid together to the IRS.

Most employers must report these taxes to the IRS quarterly via Form 941. However, small employers with a said amount of tax liability may be allowed to file annually via Form 944.

The amount of taxes you reported during your lookback period dictates your deposit schedule – which can be monthly or semiweekly. The actual time frame that makes up your lookback period depends on whether you're a Form 941 or a Form 944 filer.

To determine whether your federal income tax, Social Security tax, and Medicare tax deposits are due monthly or semiweekly, you'll need to know the amount of taxes reported during your Form 941 or Form 944 lookback period.

Lookback period

A lookback period is the length of time that the IRS uses to measure the amount of taxes paid by an employer. The lookback period also helps the employer determine its deposit schedule.

The lookback period for Form 941 filers comprises 12 months – covering four quarters, starting on July 1 and ending on June 30.

The lookback period for Form 944 filers is the second preceding calendar year.



5 Tips for Easier Payroll Processing

1. Get organized
2. Simplify your policies
3. Electronic pay stubs
4. Consider technology
5. Prepare for the future

TAXES FOR SEASONAL AND PART-TIME EMPLOYEES

Part-time and seasonal employees are subject to the same tax withholding rules that apply to other employees.

Quarterly Filing

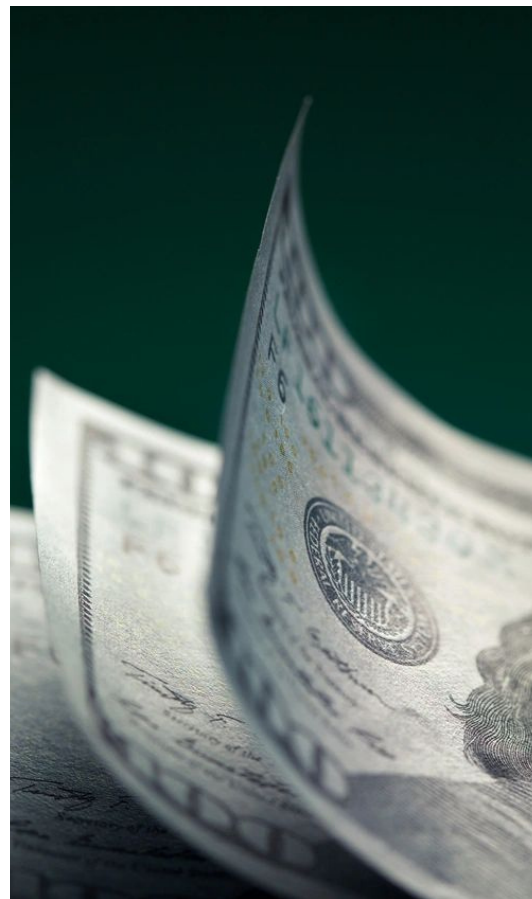
As an employer, you normally have to file a quarterly Form 941 to report your employees' wages and withholding. Each quarter, if you pay wages subject to income tax withholding (including withholding on sick pay and supplemental unemployment benefits) or Social Security and Medicare taxes you must file Form 941, although there are some exceptions.

However, seasonal employers don't have a Form 941 for quarters where no wages have been paid and, therefore, there is no tax liability. You will find a line on Form 941 that lets you check a box noting that you are a seasonal employer and thus will not have to file a return for every quarter of the year.

The preprinted label on Form 941 doesn't include the date the quarter ended. You need to enter it yourself when you file the return. The IRS doesn't inquire about unfiled returns if at least one taxable return is filed each year. However, you need to check the seasonal employer box on every Form 941 you file.

IRS Guidelines

You are required to keep good records so that you can file accurate returns. It's a good idea to keep all receipts, payment information, and tax data in one location to make filing your taxes easier.



HOW TO READ A PAYSTUB

Pay Date and Pay Period

The pay date is the actual day that the employee gets paid, and the pay period is the length of time that the pay date covers. Let's say you pay biweekly, with a week lag.

Gross Wages

This entails all payments made to the employee for the pay period before any deductions are taken out. Gross wages may include salary, regular hourly wages, overtime wages, double-time wages, holiday pay, vacation pay, commissions, tips, bonuses, and expense reimbursements.

Hours Worked

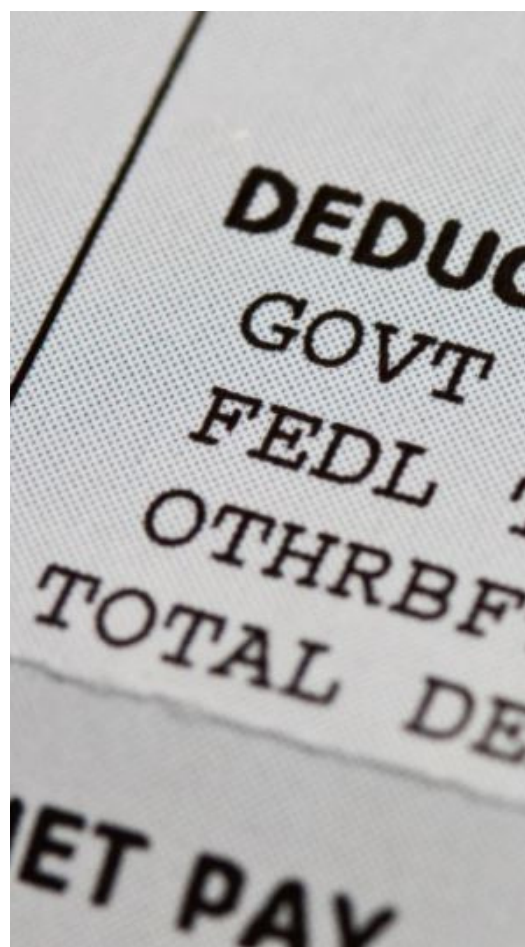
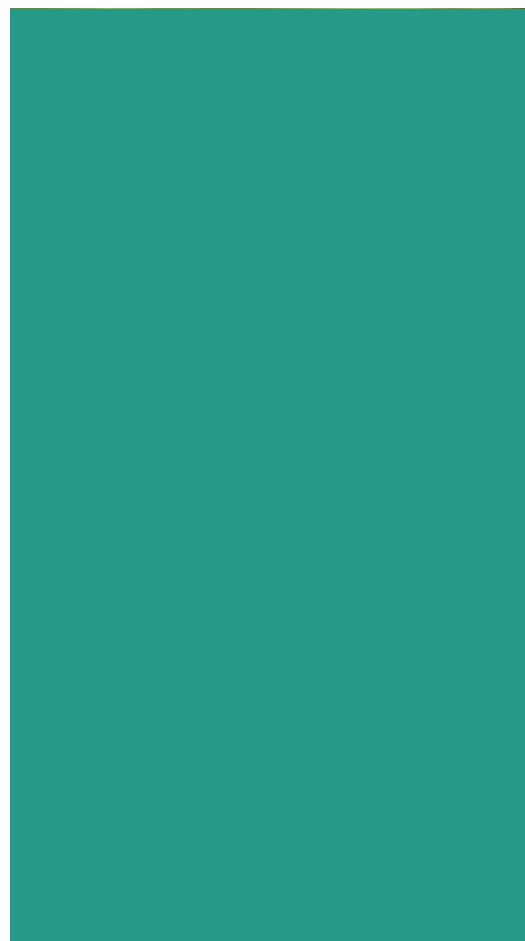
Pay stubs for nonexempt employees – whether hourly or salaried – should reflect the number of hours worked during the pay period.

Pay Rate

For non-exempt hourly employees, this is the regular hourly rate. For non-exempt salaried employees, this is the salary amount that was due for the pay period. If the non-exempt employee worked overtime or double-time, the increased hourly rate should be reflected. For exempt salaried employees, the pay stub can simply show the gross salary amount, as these employees aren't eligible for overtime or double-time pay.

Pretax and After-Tax Deductions

The employee's pretax deductions – such as traditional 401(k) contributions and Section 125 health insurance premiums – are subtracted from gross wages before the respective taxes. After-tax deductions – such as Roth 401(k) contributions and wage garnishments – are taken from gross wages after taxes. To simplify reading, pretax deductions and after-tax deductions should be categorized separately on the pay stub.



Taxable Wages

This is the employee's pay that is subject to taxation after pretax deductions have been subtracted from the gross wages. It does not include after-tax deductions.

Taxes

This includes federal income tax, Social Security tax, Medicare tax, and applicable state and local taxes that were deducted from the employee's taxable wages for the pay period.

Year-to-Date Wages and Deductions

Year-to-date wages are the employee's total earnings so far for the year, and year-to-date deductions are the employee's total deductions (including taxes) so far for the year. This information is especially important when reconciling employees' wages and deductions with their W-2.

Paycheck Adjustments

Any adjustments – such as retroactive pay or deductions for over payment – made to the employee's wages for the pay period should be revealed on the pay stub.

Net Pay

This is the employee's take-home pay, after all deductions have been taken out.



Although the Fair Labor Standards Act (FLSA) does not require that you give employees a pay stub, it does mandate that you keep accurate records of employees' wages and hours worked.

Also, many states require that employers supply employees with a pay stub. In some cases where it is a requirement, there may be a lack of specificity in terms of what information should be included.

FORM W-2 FAQ'S

Form W-2 is an important form for employers and employees during tax season. Employees often have questions about the form and the information it reports.

Q: What is the W-2 used for?

A: W-2 form is designed to provide a detailed and accurate report on the employee's annual taxable wages, as well as the amount withheld due to taxes and other mandatory or voluntary withholdings during the year for which the form is submitted. Employers have to fill out the W-2 forms and send them to each employee by a specific deadline as mandated by the IRS.

Q: If information is incorrect on W-2. What to do?

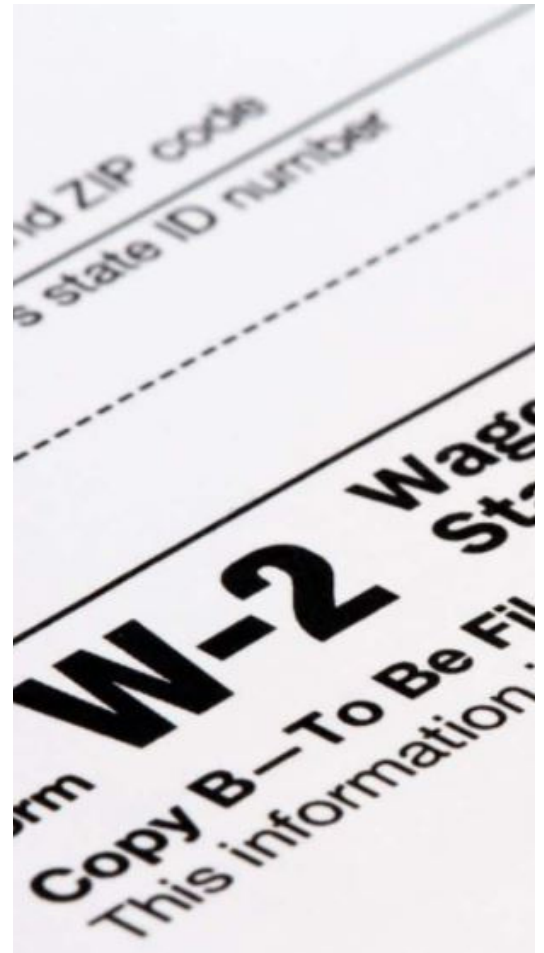
A: Submit a corrected form (Form W-2c).

Q: I never received a copy of my W-2. What to do?

A: Employers are required to mail or deliver W-2s to their employees no later than January 31st. If one hasn't received W-2 by mid-February, ask the employer for another copy, but note some employers will charge for an additional copy. If the employer refuses to provide a copy of your W-2, contact the IRS.

Q: I'm a freelancer and I didn't receive a W-2. Do I need a copy?

A: Freelancers and independent contractors will receive Form 1099-MISC, not Form W-2.



STRATEGIES FOR IMPROVING PAYROLL OPERATIONS

Think about all the different tasks that an employer has to accomplish to keep their business running. That task list is very long and undoubtedly includes payroll. While many employees may not recognize the work and depth of payroll processing, those who issue paychecks have a very good idea of all the intricacies involved. Payroll is a complex and ever-changing process.

Every business has its own payroll systems, here are three overarching aspects of payroll that can drastically improve your payroll operations and back office efficiency.

Pay satisfaction

Are your employees complaining about their pay? If so, they're in good company. According to Ceridian's 2019 Pay Experience Report:

- 80% of North American employees are frequently stressed about pay and money problems.
- Only 30% of employees are fully satisfied with their employer's pay transparency practices.
- Only 41% of employees receive pay reviews once a year or more.
- A surprising one in five employees were paid late in the past year.

Among the reasons for late pay are disorganization within the company, direct deposit problems, and issues with cash flow and mail delivery. These statistics highlight the importance of listening to employees' complaints about pay and taking steps to address them.



Payroll processes

- **Standardization.** How structured, consistent, easily understood, and efficient are your payroll practices? Every member of your payroll team should be on the same page with regard to how things must be done in the payroll department.
- **Multiple payrolls.** Do you have more than one pay frequency? How often are you cutting manual checks throughout the pay cycle? The more payrolls you run, the higher your administrative costs and the greater the chance of errors. To examine how often you're running payroll and see where you can cut back.
- **Timekeeping.** Do you have nonexempt employees? If so, accurate timekeeping is essential to pay them for all hours worked. It's also vital to track employee time off and comply with payroll record-keeping laws. Look for weaknesses in your time card submission process and ways to enhance the veracity of information received.
- **Paycheck timeliness.** Are you doing everything you can to ensure employees are paid on time? You might, for example, eliminate mail delivery issues by encouraging direct deposit and offering pay cards to employees who do not have direct deposits. You should also have a payroll continuity plan for dealing with emergencies and natural disasters.
- **Compliance.** Are you meeting applicable federal, state, and local payroll requirements? If so, could the process be smoother or less expensive? A payroll provider can be an invaluable resource for complying with payroll laws.

Payroll technology

Effective payroll technology is crucial to payroll compliance and efficiency. Review your payroll technology and determine whether it's time for an upgrade.

The current payroll climate demands technology that integrates timekeeping, payroll, employee benefits and HR. An integrated system reduces manual activities and payroll errors and makes it easier to cross-reference information. It also:

- Allows you to detect and correct potential issues early, before employees receive their paychecks.
- Delivers employee self-service options and access to real-time payroll reports.
- Simplifies payroll-trend monitoring and adherence to payroll laws.

Ahola can connect you with cost-effective, advanced technology that's built to improve payroll processing and compliance.

6 IMPORTANT PAYROLL REPORTS TO RUN

Payroll reports are useful for reviewing compensation details, evaluating payroll accuracy, tracking payroll expenses, reconciling payroll activities, and meeting payroll obligations. Below are six important reports you should review regularly for compliance and accuracy.

1. Timesheets

Nonexempt employees are paid according to the hours reflected on their timesheets. Before payroll processing begins, run a report to confirm that employees' hours are correct and fix any errors before submitting the hours for processing. Timesheet reports can also be used to verify employees' hours from a prior pay period.

2. Payroll register

This report summarizes each employee's payroll information for the selected pay period. Information may include employee name, Social Security number, hours worked, gross salary or wages, deductions, net pay, and year-to-date earnings.

You can use the payroll register to double-check or reconcile payroll data for the pay period. Also, you can generate quarterly registers to verify your quarterly payroll tax filings and annual registers to reconcile annual Form W-2s.

A preliminary version of the register can be run before the current payroll closes; this way, errors can be caught and easily fixed before employees are paid.



3. Time off/leave of absence

If you provide paid or unpaid time off, you must monitor employees' accrued time off, days or hours taken, and available balances. This is essential, regardless of whether the time off is required by law or given at your discretion. By frequently running time off/leave reports, you can stay on top of time off requests and better track employee absences.

4. Paycheck deductions

Paycheck deductions are a core aspect of payroll. They come in many forms, such as voluntary deductions for cafeteria and 401(k) plans and involuntary deductions for employment taxes and wage garnishments. Proper administration of these deductions is vital to avoiding issues with employees' paychecks and regulatory compliance. (The complexity of paycheck deductions is one of the many reasons employers outsource payroll.)

You can obtain information on paycheck deductions by running a payroll register or examining employees' individual pay details. However, a report that zeroes in on just deductions will provide – in one document – the targeted information that you need.

5. Outstanding paychecks

If an employee takes too long to deposit or cash his or her paycheck, you need to be aware of it – and the sooner the better, as employers are bound by state escheatment laws, which regulate unclaimed paychecks. By running a report that shows uncleared checks, you can take proactive measures, such as contacting the employee or reporting the unclaimed paycheck to your state.

6. Labor cost

Like any other business expense, your payroll costs must be measured and managed. A report that breaks down your payroll expenses – including salaries, wages, benefits, taxes, and insurances – can help you measure and manage your labor cost percentage.

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