# 10 Things Every Business Owner Should Know About Payroll

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## The 10 Things

- 1. How to avoid misclassifying workers
- 2. Hiring family members
- 3. New hire forms and reporting requirements
- 4. Exempt versus nonexempt status
- 5. FLSA and federal minimum wage
- 6. Recordkeeping
- 7. Pay day accruals, fringe benefits, deductions
- 8. Overtime calculations
- 9. Payroll taxes
- 10. What's new in 2011



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#### 1: Misclassification of Workers

- U.S. DOL
- State DOL
- State unemployment
- Workers' compensation



• U.S. Citizenship and Immigration Services

#### 1: Misclassification of Workers

- Statutory Employees
  - Agent or commission drivers
  - Full-time life insurance salesperson
  - Home workers
  - Traveling or city salespeople
- Statutory Nonemployees
  - Qualified real estate agents
  - Direct sellers



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#### 1: Misclassification of Workers

- Temporary Help Agencies
- Leased Employees

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# 2: Family Members

### **Taxability**

- FICA
- State unemployment
- Workers' compensation
- FUTA

# 3: Hiring an Employee

- |-9
- W-4
- W-5 (AEIC has been eliminated for 2011 and beyond)
- State equivalent
- SSN verification
- Employee file
- Recordkeeping





# 3: Hiring an Employee

#### **I-9 Employment Eligibility Verification**

- Verify eligibility
- Protection from discrimination
- Who needs to complete?
- Retention
- Missing forms
- Discovering an unauthorized employee
- Successor employers/reorganizations

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# 3: Hiring an Employee

#### **New Hire Reporting**

- Federal law 10/1/96
- National Directory of New Hires (NDNH)
- Date of hire
- State requirements

# 4: Exempt vs. Nonexempt

#### Exempt from OT

- Administrative
- Executive
- Professional
- Computer professional
- Outside sales

# 4: Exempt vs. Nonexempt

#### Nonexempt from OT

- Some salaried
- Docked salaried
- Hourly

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# 5: FLSA and Federal Minimum Wage

#### FLSA Federal Law

#### Does cover

- Minimum wage & overtime (DOL)
- Child labor laws (DOL)
- Recordkeeping (DOL)
- Equal pay (EEOC)





# 5: FLSA and Federal Minimum Wage

#### FLSA Federal Law

#### Does not cover

- Vacation pay, sick pay, jury duty leave, holidays, breaks etc.
- Pay frequency
- Restrict hours for over 16

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# 5: FLSA and Federal Minimum Wage

#### Federal Minimum Wage

- \$7.25 per hour as of 7/24/2009
- \$2.13 for tipped employees
- Youth employment rules

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# 6: Recordkeeping

- FLSA
  - EE records 3 years after date of last entry
  - Employment and earnings records 2 years after last date of entry
- FLMA



# 6: Recordkeeping

- IRS
  - EE records 4 years after the due date of the tax paid (or pmt. date)
  - Penalties
- State Unemployment
  - Check with state (4 to 7 years)

The Voice of Small Business.

- Pay day vs. period end
- Pay frequency
- Payment methods
- Pay statements
- Extra pay periods



#### Paid Time Off Accruals

- Vacation pay
- Sick pay
- Jury leave
- Bereavement
- Personal



#### **Fringe Benefits**

- Taxable
  - Personal use of company auto
  - Free or discounted flights
  - Discounts on property or services
  - Club memberships
  - Life insurance
  - Moving expense
  - Educational assistance



#### **Fringe Benefits**

- Non-Taxable
  - No-additional cost services
  - Qualified employee discounts
  - Working condition
  - De minimus
  - Qualified transportation benefits
  - On-premises athletic facilities
  - Qualified moving expense



#### **Deductions from Pay**

- Tax levies
- Child support
  - % of disposable earnings
  - priority over other earnings
  - combined payments
- Creditors
  - % of disposable earnings



#### **Deductions from Pay**

- Bankruptcy
- Student loans
- Federal agency loans
- Board, lodging, facilities
- Uniforms
- Employee loans
- Union dues



- Section 125 Pretax Benefits
  - Health insurance
  - Dependent care
  - Flex spending
  - Health savings account
  - Health reimbursement account
  - Group insurance



#### 8: Overtime

#### **Overtime:**

47 Hours @ \$10 per hour

 $40 \times $10 = $400.00$ 

 $7 \times $10 \times 1.5 = 105.00$ 

Total Pay \$505.00



#### 8: Overtime

#### Overtime - Premium Rate:

47 Hours at \$10 per hour

$$47 \times $10 = $470.00$$

$$7 \times $10 \times .5 = 35.00$$

Total Pay = 
$$$505.00$$

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#### 8: Overtime

#### Overtime - Multiple Rates:

30 Hours @ \$10

20 Hours @ \$20

$$30 \times $10 = $300$$

\$700

\$700 / 50 hrs = \$14 per hour average rate

$$10 \times $14 \times .5 = $70$$

Total Pay \$770.00



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# 9: Payroll Taxes

- Federal Deposit Frequency
  - Semiweekly, monthly, next day
  - EFTPS
  - Holidays
  - Form 8109



- State Deposit Frequency
  - Check for electronic requirements
  - Resident vs. nonresident withholding



# 9: Payroll Taxes

- Unemployment Taxes
  - Experience rating
  - Limits
  - More than one state
  - Managing claims
  - States with reduced credit for 2010
  - Possible federal reduction to 6% in July 2011



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#### 10: What's New in 2011

#### Health Care Reform Act

- Beginning in 2010, small employers (25 or fewer EEs/average annual wages \$50k or less) will have a sliding scale tax credit (must contribute at least 50% of coverage for eligible EEs)
- In 2010 small employers (fewer than 10 EEs/average wage \$25k or less) full credit

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#### 10: What's New in 2011

#### Health Care Reform Act

- Beginning in 2010 small employers (between 11-25 EEs/average wage between \$26k and \$50k) reduced credit
- Play or pay after 2013 large employers with 50+ EEs

#### 10: What's New in 2011

#### **Changes to Social Security**

- Employees contribute 4.2%
- Employers contribute 6.2%
- No change to Medicare contributions
- SS wage base limit is \$106,800 for 2011

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#### Valuable Resources

- Internal Revenue Service, <u>www.irs.gov</u>
- U.S. Department of Labor, <u>www.dol.gov</u>
- American Payroll Association, <a href="http://www.americanpayroll.org/states.html">http://www.americanpayroll.org/states.html</a> (state links)
- www.electronicpayments.org
- U.S. Citizenship and Immigration Services, <u>www.uscis.gov</u>

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- 15% off checks and forms
- Flexible, innovative services designed for small business



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#### Additional NFIB.com Resources

# What the 2011 Payroll Tax Holiday Means for Your Business

http://www.nfib.com/business-resources/business-resources-item?cmsid=56376

# The Unique Challenge Tipped Employees Present to Payroll

http://www.nfib.com/business-resources/business-resources-item?cmsid=55443



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