



TOP 10 THINGS Small Businesses Should Know About Payroll

Small-business owners do not have room for error when it comes to payroll. Most small businesses lack large, dedicated human resources teams to manage payroll for them, and they lack the profit margins or legal teams needed to either withstand errors or hold up against litigation. These factors come together to make sophisticated payroll management functions especially important for small organizations.

Human capital management solutions can integrate relevant data pertaining to any element of human resources, giving small-business leaders clear visibility into payroll-related data. Having the right information is a key first step, but it is also important that small-business owners understand exactly what is required when managing their payroll. The top 10 things small businesses need to know about payroll are:

1. DELIVERING PAYCHECKS ON TIME IS ESSENTIAL FOR YOUR EMPLOYEES

Approximately 67 percent of respondents to the 2014 "Getting Paid in America" survey explained that they would find it either very difficult or somewhat difficult to meet their basic financial demands if their paychecks were to be delayed by a week.

Small businesses depend on just a few workers to maintain operations, and financial stress within the workforce will contribute to tension and lost productivity in the office. Getting behind on payroll tasks and delaying paycheck delivery can have cascading implications for your small business as employees struggle to deal with the fallout of delayed wages.

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2. ACCURATE PAYMENT ISN'T JUST ABOUT COUNTING WORKERS' HOURS

A great deal of data collection goes into creating an accurate paycheck. Processes that must be completed to ensure payroll accuracy include:

- Collecting and verifying time-worked data.
- Input data and paperwork pertaining to new hires.
- Enter payroll details into the system.
- Perform a self audit to ensure accuracy.
- Handle core record-keeping tasks.
- Distribute paychecks.
- Handle tax deductions.
- Manage payees (insurance, garnishments, etc.).

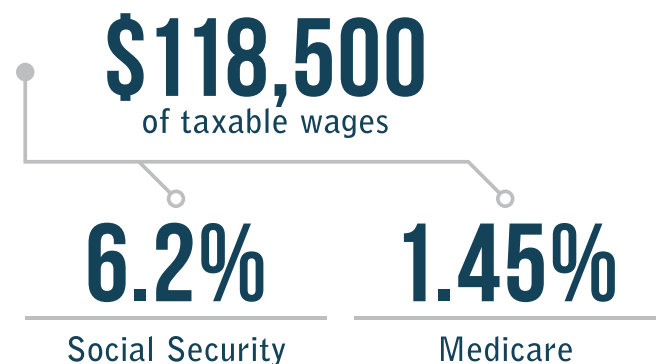


4. UNDERSTAND HOW TO CALCULATE DEDUCTIONS MANDATED BY LAW

Deductions that must be withheld from every paycheck as required by law can be difficult to calculate. Laboring over these deductions can become extremely time-consuming if you have to manually do the math or create equations in spreadsheets each pay period.

Some of the key deductions to understand are Social Security – which is 6.2 percent of the first \$118,500 of taxable wages earned in the calendar year, and Medicare – which is 1.45 percent of all taxable earnings in the calendar year. Some high-income earners will need to pay another 0.9 percent for Medicare. These two deductions are taxes that must be withheld regardless of whether an employee is exempt for some reason from Federal and State Income Taxes.

Other deduction types that can sometimes be difficult to determine the proper handling of are Child Support and/or Garnishment deductions. There are many rules, usually defined by the State, that come into play when determining what the proper amount to withhold from an employee should be and the court orders that are provided by the client are not always easy to read. Because these types of deductions are mandated by law to be properly handled, it's imperative that the calculations are done properly, taking all factors into account.



The volume of processes surrounding payroll make efficiency particularly critical for small businesses. Owners who are trying to run every facet of their business need tools that let them efficiently manage these key payroll tasks without taking on unnecessary costs.

3. CLEARLY DIFFERENTIATE BETWEEN GROSS WAGES AND TAXABLE WAGES

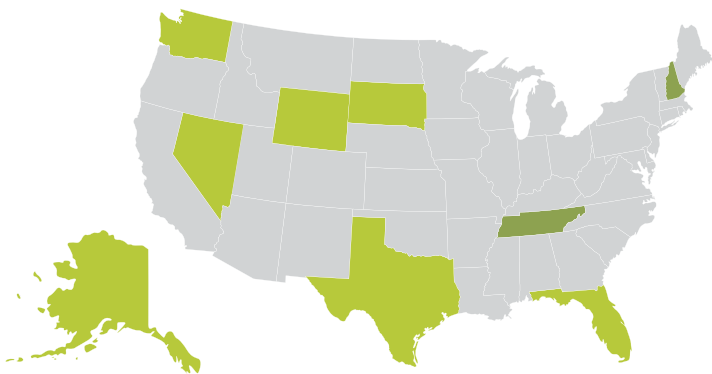
Members of the workforce have plenty of opportunities to deduct funds from their paycheck before they are taxed. These strategies impact your deductions for federal and state taxes. Ensuring payroll accuracy is only possible if you are able to effectively distinguish between gross wages (payment earned based on hours worked) and taxable wages (earnings after pre-tax deductions are removed).

Small-scale tax errors may not seem like a huge problem from a paycheck-to-paycheck basis, but the 2014 "Getting Paid in America" survey found that Americans are intentional about their tax preferences. Just 5 percent of those polled didn't know that they could fine-tune their deductions to either get more money each paycheck or receive a larger deduction. The vast majority of respondents specifically wanted to either maximize each check or get a larger refund. It is up to you to make sure deductions are handled properly on each paycheck.



5. TAX LAWS VARY SUBSTANTIALLY BETWEEN STATES

Seven states do not have income taxes, while another two do not tax wages. Florida, Alaska, Texas, Nevada, South Dakota, Wyoming and Washington do not collect income taxes. Tennessee and New Hampshire do not tax wages.



- States that do not collect taxes
- States that do not tax wages

6. VOLUNTARY DEDUCTIONS MUST BE ACCOUNTED FOR

Payroll processing success also hinges on accurately handling voluntary deductions that your staff members may be taking advantage of. Common voluntary deductions include:

- 401(k)
- Health insurance
- Dental insurance
- Group term life insurance
- Disability insurance
- Union dues
- Loans
- Uniforms
- Charitable contributions



Careful organization is needed to stay on top of all of these voluntary deductions on an employee-to-employee basis, even with a small workforce.

7. DIRECT DEPOSIT IS DOMINANT

The 2014 “Getting Paid in America” survey found that direct deposit is, by far, the dominant form of payment in the United States. Approximately 96 percent of respondents said they were receiving their wages through direct deposit. What’s more, many employers provided choices so that workers could choose how they wanted to receive their wages, so the 96 percent use of direct deposit shows that most people are choosing that method, not just having it forced on them.

8. WORKER CATEGORIZATION IS CRITICAL

Full-time, full-time exempt, full-time non-exempt, part-time, contract, temporary, statutory employee, and non-statutory statuses can be applied to your various workers, and each one can impact how your payroll is handled. Make sure you clearly understand which employees fall into each category and ensure you are taxing properly and delivering benefits correctly with each paycheck.



9. EMPLOYEE ONBOARDING SETS THE FOUNDATION FOR PAYROLL SUCCESS

Establishing documentation for new workers requires that you go through the process of filing W-9 and I-9 forms, taking care of the equivalent state documents, handling SSN verification and recording other key employee data for their files. All of this data must be documented accurately when an employee starts at your company and maintained over their time working there.

10. ACCOUNT FOR MAJOR REGULATIONS

The Fair Labor Standards Act covers areas like minimum wage, child labor laws and record-keeping requirements. Vacation pay, sick pay, jury duty leave, holidays and breaks are not handled by the FLSA. Pay frequency is also not controlled by the act. Ensuring everyday compliance to the FLSA while maintaining consistent best practices for other elements of payroll is essential to ensuring accuracy in each paycheck.

USING TECHNOLOGY TO ENSURE PAYROLL CONSISTENCY

With so many considerations coming into play with each pay period, small-business owners must carefully track large, complex data sets to ensure every paycheck is accurate. Human capital management systems can track all of the fields specific to your various employees' payroll details and automatically feed the correct data through the system, streamlining your pay processes and ensuring accuracy in paycheck calculations.

For more information on Evolution Advanced HR, please call 802-655-8347 or email sales@evolutionhcm.com.

Visit our website at www.evolutionhcm.com.



SOURCES

www.nationalpayrollweek.com/documents/2014GettingPaidInAmericaSurveyResults_FINAL_000.pdf
Evolution HCM Technology Presentation - "Everything You Need to Know About Payroll but are Afraid to Ask!"