Payroll

When you think of payroll you probably associate it with issuing paychecks. While this is an important part of payroll, payroll is also responsible filing and withholding taxes and handling paycheck deductions like benefits and garnishments.

Payroll typically makes up the largest deductible for a business because of the expense it takes to compensate each employee’s salary or wage. Pay periods can also vary due to situations like overtime or sick days.

Besides compensating employees, payroll also involves the taxes that employees are required to pay, such as withholding taxes. Also known as Pay-As-You-Earn (PAYE) taxes, these are taxes that employers must withhold from the wages of every employee. Income tax withholdings are assigned by the federal, state, and local governments.

Employees and employers are required to also pay payroll taxes like Social Security and Medicare. The IRS states that “The current tax rate for Social Security is 6.2% for the employer and 6.2% for the employee, or 12.4% total. The current rate for Medicare is 1.45% for the employer and 1.45% for the employee, or 2.9% total.” Another required payroll tax would be unemployment taxes to compensate employees who have lost their job.

Organizations must pay employees on a timely and accurate manner - which a payroll system will provide. If you do not compensate employees their full salary or hourly wages, you’re essentially stealing from them, and thereby breaking the law.

The U.S. Department of Labor, Wage, and Hour Division has established numerous guidelines that determine everything from minimum wage, minimum paydays, overtime pay requirements, which deductions are allowed and which employees are exempt or nonexempt. If a business fails to comply with these laws, the employer will be forced to pay the employee’s back wages, a waiting time penalty, attorney fees, liquidated damages, and may even face criminal or civil penalties.

Due to the complexities in the U.S. Tax Code and significance of making an error in payroll, most small businesses that cannot afford its own payroll department with certified payroll professionals outsource their payroll needs to a third party vendor.

Payroll processes more than just a paycheck. The different payments processed by payroll include:

* Involuntary deductions
* Voluntary deductions
* Payroll information

Involuntary Deductions

These are deductions that are required by law:

* Pretax Deductions (i.e . Flexible Spending Accounts, Health Savings Accounts)
* FICA – Medicare, Social Security
* State and Local Taxes
* Federal Taxes (IRS)
* Garnishments (i.e. court ordered child support, IRS levy, debt collector)

Voluntary Deductions

These are deductions that are either chosen by the employee, such as benefits, or required as a result of accepting certain positions, such as union dues or expense accounts.

* Benefit premiums
* Retirement Plan contribution (i.e. 401K)
* Life Insurance
* Union Dues
* Disability Insurance Premiums
* Job expense account repayments

Payroll Information

Payroll provides information on each pay stub to allow for a financial record of your income for yourself and your tax filing. Some or all of the following may be provided on your pay stub:

* PTO accruals
* Wages to date
* Gross wages
* Net Pay
* Itemized deductions
* Tax deductions
* Pay rate
* Total hours worked for that pay period

Responsibilities of payroll:

* Know the business tax account numbers. This includes your Federal EIN, state withholding and unemployment accounts, as well as local income and school district taxes.
* Know applicable tax rates for your business. This could something like a starting unemployment rate for your organization.
* Calculating a paycheck and subtracting tax withholdings.
* Calculating a federal payroll tax deposits, such as federal income tax and FICA.
* Know federal tax deposits. Your business could begin as a monthly depositors, but the IRS may revise that schedule.
* Know how to make federal tax deposits through systems like EFTPS.
* Know how to complete all federal and state tax filings.
* Minimum wage and overtime laws in your state.
* Any IRS record keeping requirements.
* Handling deductions like health insurance.
* Handling wage garnishes, such as child support.

As you establish your business, you will have to make numerous decisions regarding payroll. Some of the decisions include:

* Pay Frequency – weekly, biweekly, semi-monthly
* Time Clock – Punch card, key card, fingerprint scan, iris scan
* Adjustments – how to correct errors in the time clock and a paycheck
* Time of Requests – how to have staff request time off
* Overtime – how to ensure overtime compensation
* Scheduling – what parameters will be placed around schedule requests
* Direct Deposit – will direct deposit be offered or required
* Tax Forms – providing the correct tax forms for filing (I-9, W-4, W-2, W-9, 1099)

A company's payroll is the list of employees of that company that are entitled to receive pay and the amounts that each should receive. Along with the amounts that each employee should receive for time worked or tasks performed, payroll can also refer to a company's records of payments that were previously made to employees, including salaries and wages, bonuses, and withheld taxes, or the company's department that calculates and pays out these amounts.

One way that payroll can be handled is in-house. This means that a company handles all aspects of the payroll process on its own, including timesheets, calculating wages, producing pay checks, sending the ACH, or Automated Clearing House, for any direct deposits, and remitting any tax payments necessary. Payroll can also be outsourced to a full-service payroll processing company. When a company chooses to outsource their payroll, timesheets, wage calculations, creating pay checks, direct deposits, and tax payments can be handled all, or in part, by the payroll company.

Employees should be provided with a clear description of their pay is processed and by whom. Employees are required to be issued a W-2, the tax form that summarizes taxable income for the year. This is required by law to be issued by January 31st of the following year. Employees should also be allowed to make alterations to their W-9 to allow for changes in marriage, dependents, or general withholdings.

Employee should be provided information regarding payroll frequency, exceptions due to holidays, holiday pay, deductions due to use of PTO (Paid Time Off), among other things that affect their pay frequency.

Nowadays, most payroll services, whether internal or external, provide some form of online service where employees can view their tax forms and paystubs. If a company uses direct deposit, the bank information can be listed in the online account allowing the employee to make changes to how much of their paycheck and to which bank and account the paycheck is deposited.

Everyone wants to be paid. Having a reliable payroll service is critical to staff morale and retention. Providing staff an understanding of when, where, and how they are paid, as well as access to their tax and payroll information is the responsibility of every employer.

To review pay stub laws by state, go to:

<https://www.patriotsoftware.com/blog/payroll/pay-stub-requirements-by-state/>

To review overtime laws by state, go to:

[https://www.patriotsoftware.com/blog/payroll/overtime-laws-by-state/#](https://www.patriotsoftware.com/blog/payroll/overtime-laws-by-state/)