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payroll setup guide

# how do I set up payroll for the first time?

the entire employer's guide



# introduction

You've established your company and are now ready to hire a few additional employees and set up payroll. It's a significant achievement for you, and you've created a career for someone else. Isn't that amazing?

Growing a company brings a new set of obstacles. Words like "company structure" and "EIN" are likely entering your vocabulary, and you're probably starting to experience some perplexing emotions that are diametrically opposed to the elation you've had thus far. Countick has guided thousands of business owners through new challenges, such as the first time they set up payroll.



## Step 1: Get an EIN

Before recruiting anyone, you must obtain an EIN (Employer Identification Number) from the IRS. In case the language is unclear, EINs are also known as "Employer Tax IDs." Your EIN will be used to submit taxes and other information to the IRS and state agencies.

You can apply for an EIN online.

## Step 2: Get a local or state business identification number (if necessary)

Some state and local governments need businesses to have ID numbers in order to handle taxes. Check with your local and state governments to see whether you require an additional tax ID number.

## Step 3: Nail down your team's info

You'll be responsible for filing reports and taxes on behalf of your staff now that you're an employer. For each employee or contractor you hire, keep the following information (and forms) on hand:

- Complete name
- Employment start or end date
- Tax filing number (Social Security number or EIN)
- Date of birth
- Current address Make a point of putting facts concerning pay in writing to avoid misunderstandings.
- Form I-9 to check employees' eligibility to work in the United States
- Form W-4 for employees (or a W-9 for independent contractors)

Acquiring this information is only the first step. To comply, you must also submit your employees' I-9 forms for verification.

## Step 4: Sort your personnel

Before you even consider adding up the payroll figures, you must determine who is an independent contractor and who is a full-time or part-time employee. Even if this seems self-evident, there are legal definitions for each — and distinctions between the two — that affect how much you owe them and how you withhold their taxes. If you fill out **Form SS-8**, the IRS will assist you in figuring it out if it's uncertain.

**Steps 1-4** are all about gathering information before you begin working on payroll. Fortunately, you'll only have to go through most of these stages once.



# why is it critical to classify employees appropriately?

If you mistakenly identify an employee as an independent contractor, you would not withhold income taxes or pay payroll taxes for them. As a result of your error, you may be required to pay back payroll taxes.

Not to mention the possibility of modifying your taxes and paying interest or penalties. According to a report by the Economic Policy Institute, surveys in numerous states have revealed that **10 to 20 percent of employers misclassify their employees** as independent contractors. Because workers typically cost 25 to 30% more than contractors, you want to be sure you get it correctly.

Similarly, the FLSA distinguishes between exempt and nonexempt employees—those who are not entitled to benefits such as overtime and those who are.

## you're now ready to get started

Congratulations! You now have all of the information you need to start your payroll. Steps 5-7 will guide you through the rest of the procedure.

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## Step 5: Choose a pay period

Payday will be a day your staff looks forward to, but what day should it be? And how frequently should you get it? To select the best payroll schedule, consider the following three factors:

**1. What is your state's requirement** if there are any restrictions on when or how you can conduct payroll?

**2. When is the ideal time for you?** Will processing payroll cause cash flow issues? Is there a time when it would be more convenient for you to run it? Before your staff passes GO, get your \$200 and arrange your calendar in a way that suits you.

**3. What do your staff require?** Remember that payroll is about looking after your team. It can be difficult for them to wait a month for payment. Strive to understand their requirements and preferences, especially if they are likely to have cash-flow concerns of their own.

Once you've decided on a payment schedule, make sure to notify your staff so they can prepare accordingly.

## Step 6: Choose a payroll system

Payroll calculation can be complicated, and small business owners spend **between one and five hours** per month attempting to get it right.

You should explore your options and set up a payroll technique that will save you time and ensure accuracy. A payroll service should be simple to use and designed to expand your company. Of course, the payroll provider should be within your budget as well.

Ask other entrepreneurs what payroll companies they use and recommend, read internet evaluations, and determine whether you want to manage payroll in-house or outsource it. Ask yourself these questions while researching your options:

- **Is it simple to use?** Payroll can be confusing, so make sure your payroll provider guides you through the process smoothly. Make sure the chosen platform is mobile-friendly, with an intuitive menu layout, easy-to-read language, and properly labelled buttons.
- **Can I use it myself?** Even if you want to hire a bookkeeper, most of the functionality should be accessible to you. Ask the supplier whether there is a software demo available, and then navigate the service on your own. **Can you easily use the software? Do the features apply to your company? Is there a live chat facility and other help features available from the provider?**
- Create a list of your present and future payroll requirements and see if the provider fits them.

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## Step 7: It's game time

Now is an excellent time to review essential payroll data with employees. For example, when they can expect to be paid, how they'll be paid (written check vs. direct deposit), and any deductions they should be aware of. Include this information in your employee handbook.

But remember that reducing a few paychecks isn't the end of the journey. Continue reading to learn what you'll need to do once you've set up payroll for the first time.



## continuous payroll best practices

### **Payroll should be processed on time, every time**

Payroll should be submitted on time for each pay period. It keeps employees happy and prevents you from making errors like overpaying (or worse, underpaying) staff due to a hasty payroll.

However, many states have laws for how quickly you must give the final salary to a departing employee, so it's a good idea to get into the practice of keeping to a regular payday every month.



## Payroll taxes must be filed on time

Make sure to meet the **IRS deadline for payroll taxes** to avoid paying the 10% **Failure to Deposit Penalty**.

You must also pay city and state payroll taxes on schedule throughout the year or face additional fines of hundreds or even thousands of dollars from local tax offices. In addition, depending on your state, you may be required to open a state unemployment insurance account.

Here's a handy table to keep track of the vital deposit and filing deadlines throughout the year:



tax	when to deposit	file this form	deadline
Social Security, Medicare, & Federal Income Tax	Monthly or Semiweekly	Form 941	Quarterly: April 30, July 31, October 31, January 31
State & Local Income Tax	Varies	Varies	Varies
Federal Unemployment Tax (FUTA)	Quarterly: April 30, July 31, October 31, January 31	Form 940	January 31
State Unemployment Tax / Insurance	Varies	Varies	Varies

## Fill out forms correctly and with care

Make sure to align all those columns and lines before submitting your payroll taxes, and then triple-check that each line item conforms to your financial statement and payroll reports. Making mistakes means starting over, which can cost a lot of time and money in the long run.



## Keep spotless payroll records

You must withhold federal income tax, Medicare, and Social Security from your employees' salary every time you run payroll. You must return Form 941, also known as the Employer's Quarterly Federal Tax Return, each quarter to disclose how much you withheld (along with state-specific withholding forms).

Arrange and maintain up to four years' worth of I-9 forms, W-2s, W-4s, state new hire forms, and copies of all tax forms in a safe place (Form 941, Form 940, and state tax forms). In addition, you must keep track of the dates and amounts of all tax deposits, timesheets, and pay stubs. Maintain everything for all active employees on file, and preserve those files for at least three years after an employee is terminated. Verify with your state labor office and double-check federal regulations to ensure you're meeting all requirements.

This stage can make it simpler to identify problems before they occur, and it can help audits run smoothly (should they ever arise).

## Keep payroll checklists close at hand

When it comes to payroll, there's a lot to take care of, from locating the necessary tax documents to remembering significant dates. It's easy to overlook a form or two — or three — so created a few brief checklists to help you keep track of everything.

## Your payroll team

Payroll is difficult! That is why it is usually a collaborative endeavour. These are some people who may need to be involved in your payroll process:

- Your payroll provider
- An accountant or other financial professional
- A business partner in human resources

It's time to divide and conquer once you've assembled your payroll crew. Each employee will handle their own part of the payroll process and will meet as necessary. No worries if your company is small and does not yet have a finance or HR team. Just make sure you designate who will be in charge of entering payroll figures and approving payroll regularly.

## Forms

You'll need to fill out and submit numerous tax forms for payroll. We've compiled a list of them here:

- **Form I-9**, Employment Eligibility Verification
- **Form SS-8**, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding
- **Form W-4**, Employee's Withholding Certificate
- **Form W-2**, Wage and Tax Statement
- **Form W-9**, Request for Taxpayer Identification Number and Certification (for independent contractors)
- **Form 941**, Employer's Quarterly Federal Tax Return
- **Form 940**, Employer's Annual Federal Unemployment (FUTA) Tax Return
- **State new-hire reporting forms**
- **State and local withholding forms**



# closing

It's a lot to take in, but the good news is that you only have to set up payroll once. After the first time, you should establish a system for completing your weekly and monthly payroll duties, as well as quarterly and year-end tax filing and reporting. Nonetheless, it becomes easier with time. And you'll quickly be surprised at how easy payroll can be.

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