

The A to Z of payroll

*Your guide to the terms and concepts
required to manage payroll*

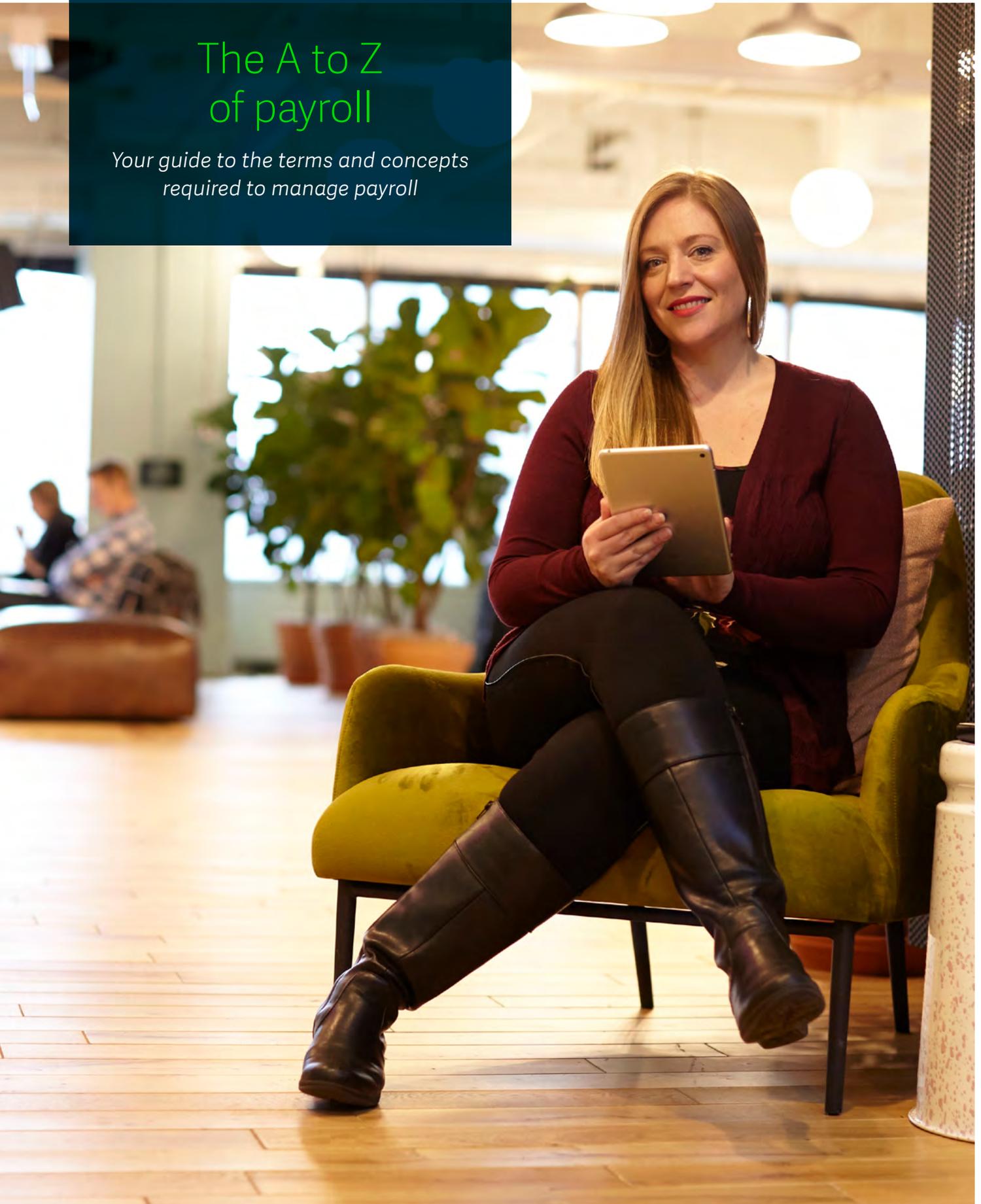
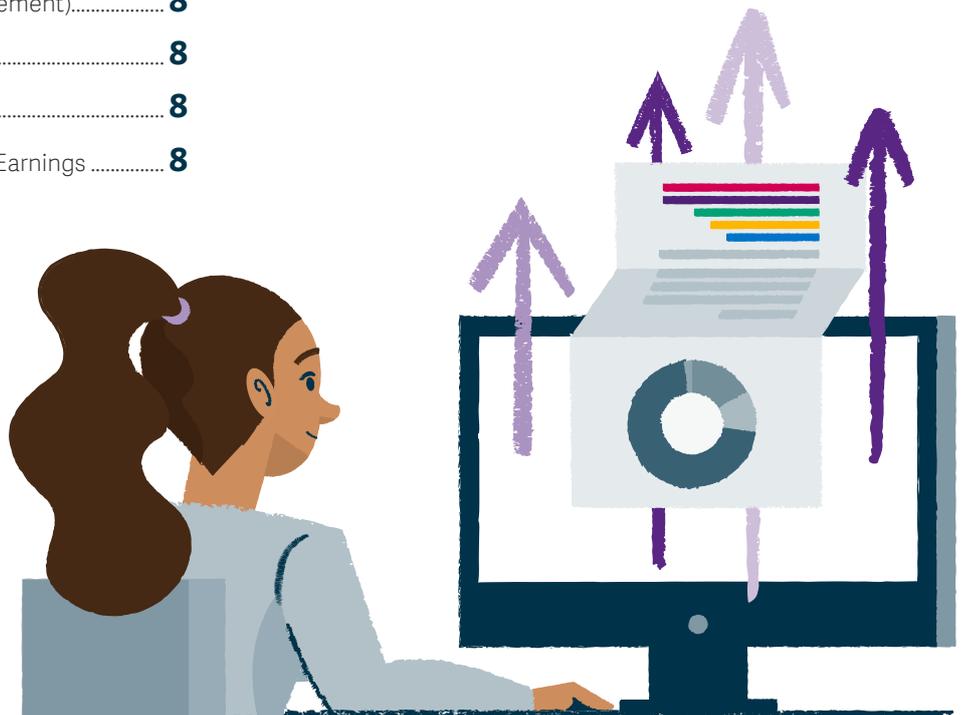


Table of contents

Introduction.....	3	Net pay.....	9
Attrition.....	4	Non-exempt.....	9
California Consumer Privacy Act.....	4	Overtime.....	9
Certified payroll.....	5	Payroll.....	10
Compensation.....	5	Pay runs.....	10
Deductions.....	5	People science.....	11
Dependent.....	5	Performance management.....	11
Direct deposit.....	6	Performance metrics.....	12
Employee Disability.....	6	Recruitment.....	12
Employee Eligibility.....	6	Subject do not take tax.....	13
Employee Engagement.....	6	Tax.....	13
Excludable disposable income.....	6	Time and a half.....	13
Exempt.....	7	Unemployment deduction.....	14
Federal Insurance Contributions Act.....	7	Withholding.....	14
Garnishment.....	7	Workers compensation.....	14
Gross pay.....	8		
HCM (Human Capital Management).....	8		
I-9.....	8		
Income tax.....	8		
Memo Deductions or Memo Earnings.....	8		



Introduction

Nobody needs to tell payroll teams that their work involves a lot of pressure and comes with significant responsibility.

There are many complexities in getting everyone paid and satisfying compliance requirements. Getting it right each time is rewarding. Getting it wrong can compromise the future of the company, and significantly demoralize employees.

Getting payroll right isn't just a responsibility. It reflects how much the company values and prioritizes its workforce. When employees feel valued, appreciated, and nurtured throughout their relationship with a company, they become committed to giving it their best. They take personal stock in the company's successes and motivate their colleagues to do the same.

An engaged workforce drives better performance, and a smooth payroll process is critical for engagement.

Whether you're new to payroll and don't know where to start, or looking to refresh your knowledge, this guide will help you understand the essential terms and concepts for your role.



Payroll terms and concepts from A to Z

Attrition

Attrition refers to the unpredictable reduction in employed workforce. Causes of such reduction are often unavoidable, such as retirement, resignation, permanent sick leave, and death.

To have a full understanding of attrition in business, it is necessary to understand how attrition differs from the concept of “turnover.” Turnover refers to a scenario in which an employer acts to replace employees who have left the company or division. By contrast, attrition describes a scenario in which no replacement actions are taken, effectively resulting in elimination of the position or asset.

California Consumer Privacy Act

The California Consumer Privacy Act (CCPA) is intended to give California consumers and households control over their personal information that’s used and sold by businesses.

In broad terms, the CCPA is a continuation of the California Constitution that says the right to privacy is inalienable. It forms part of California privacy legislation, which includes other legislation such as the Online Privacy Protection Act (CalOPPA), the Privacy Rights for California Minors in the Digital World Act, and—in particular—Shine the Light, which gives Californians the right to know how businesses handle their personal information.

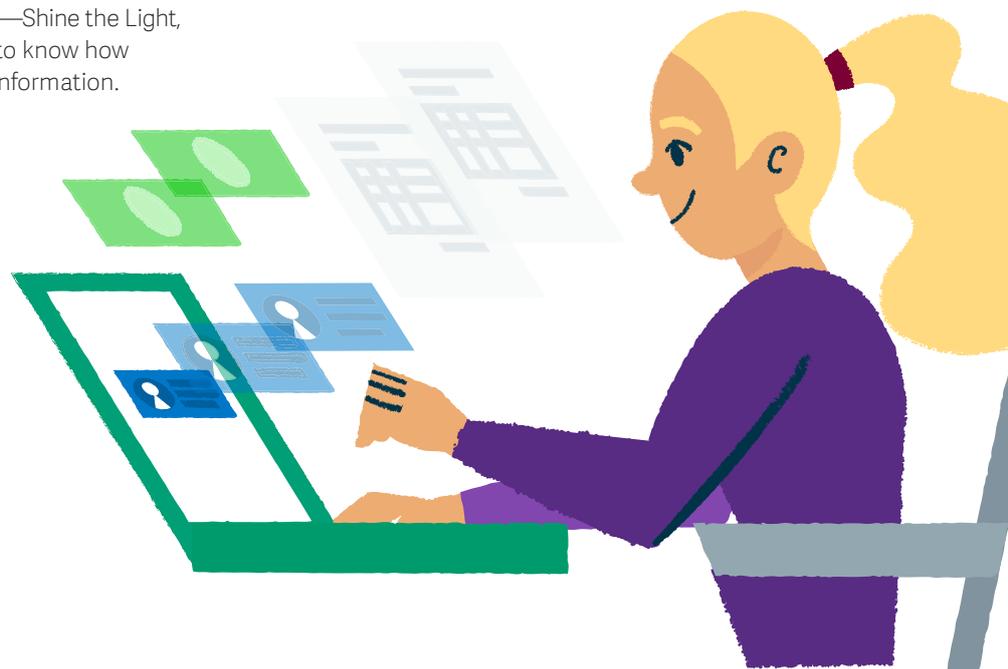
The CCPA specifically gives California consumers the right to know the following from businesses that conduct commercial activities in the state:

- What personal information is being collected about them.
- Whether their personal information is sold or disclosed—and to whom.

It gives them the right to:

- Say no to the sale of personal information, and request it is deleted.
- Request a copy of their personal information held by a business.
- Not be discriminated against in price or product/services offered should they exercise their rights under the CCPA.

Affected businesses need to put in place measures to ensure the above is possible.





Certified payroll

Payroll processed under a specific government contract (such as government-funded construction projects) requires special payroll reports that must be filed weekly. Certified payroll requirements can vary depending on the state where the work is performed.

Compensation

Compensation refers to monetary payment given to an individual in exchange for their services. In the workplace, compensation is what is earned by employees. It includes salary or wages in addition to commission and any incentives or perks that come with the given employee's position. Paid employees as well as outside or temporary consultants are entitled to compensation, meaning the individual will be paid for the product or service they provide.

Deductions

Deductions are any item or expenditure subtracted from the employee's gross income during payroll. Some deductions are related to business expenses, while other deductions are related to personal expenses. Company payroll deductions can include medical and vision benefits, union dues, retirement planning (such as 401(k) plans), employee health savings accounts, employee health improvement programs (such as smoking cessation, health club memberships, or weight reduction programs), fees or union dues, and education or trade school deductions.

Dependent

A dependent is a person, other than the employee, who entitles the employee to claim a dependency exemption. Each dependency exemption decreases income subject to tax by the exemption amount. Employees specify the number of dependents they wish to claim for each income tax (Federal, and State, as applicable) on the W-4 Form.



Direct deposit

A banking term describing a monetary deposit by a payer directly into a payee's bank account. Direct deposits are most commonly made by businesses in the payment of salaries and wages, and typically, they are made by electronic funds transfers or the physical deposit of money into a payee's bank account.

Employee Disability

Several states have a tax or mandated deduction to fund disability payments for state residents who qualify. Some states also have an employer (ER) tax as well.

Employment Eligibility

Refers to the process of verifying employee identity and eligibility to work in the United States.

Employee Engagement

Employee engagement is a workplace approach for motivating employees and driving their passion, commitment, and effort at work. Engaged workers have a clear understanding of how their organization is fulfilling its purpose and how they can contribute to it. As an HR leader, the more you know about your people, the more you can enable them to do their best work.

This isn't an easy task, though. Engaging your workforce can be difficult if:

- You don't have data so you rely on your gut feeling.
- You don't collect feedback from your workforce to gauge how satisfied they are with working for the company.
- You don't have the data you need to support managers in providing seamless work experiences.

Excludable disposable income

The income (net pay amount) after statutorily required deductions from an employee's pay that is subject to court-ordered withholding, or garnishment (see definition). Statutorily-defined deductions include taxes, prior garnishments and may include health insurance, union dues, and so on; these additional items would be specified in the garnish order. The "excludable" portion of the disposable income is that portion of the garnish-able income that is excluded from the garnishment (see definition). This is usually specified as a percentage but can be a dollar amount. It is done so that the employee does have some take-home pay.

Exempt

An employment classification that refers to an individual who is usually salaried and exempt from overtime requirements.

Federal Insurance Contributions Act

FICA is the law passed in the United States requiring all employees to pay a percentage of their earnings towards the country's Social Security and Medicare programs. That percentage is matched by the individual's employer and paid into the same programs. In the case of typical salaried employees, the percentage is simply withheld from their wages by their employer, while self-employed individuals are responsible for paying both halves bundled into an equivalent tax themselves.

Commonly referred to as the singular FICA tax, it is actually a combination of two separate tax rates. Social Security and Medicare define FICA tax rate. To calculate, apply these percentages to your earnings:

Social Security Tax Rate (6.2%)
+ Medicare Tax Rate (1.45%) = FICA Tax Rate (7.65%)

The FICA definition includes annual revision of tax rates as well as a limit on taxable wages, also annually revisable. While there is no limit in place for Medicare contribution, there is a cap set on mandatory Social Security contribution. Since FICA tax is set as a percentage, it increases with an individual's earnings.

FICA includes all earned income, with very few exceptions. Self-employed income is not included in FICA, but it is subject to an equivalent self-employment tax of 15.3%. Some states provide alternative plans to Social Security and allow employees and employers an exemption from the Social Security portion of FICA. The Social Security tax ceases to apply for earnings beyond the Social Security maximum for 2018, which is \$128,000.

Almost everyone working as an employee will have FICA taxes deducted from their wages. However, some types of income are exempt. Monthly tips under \$20, workers' compensation, employer contributions to retirement plans, employee insurance, and family employees under 18 are all exempt from FICA. Students involved with a work study program at their university may be exempt, if they meet certain qualifications.

Garnishment

A garnishment is when you receive a court order that states you must deduct a percentage of an employee's pay as payment towards a debt, such as child support arrears. Legally, up to 25% of an employee's disposable income can be garnished.

Title III of the CCPA (see definition) protects employees from being discharged because of garnishments. Wages, salaries, commissions, bonuses, and pension income are all subject to garnishment.



Gross pay

Gross pay is an individual's total earnings throughout a given period before any deductions are made. Deductions such as mandated taxes and Medicare contributions, as well as deductions made for company health insurance or retirement funds, are not accounted for when gross pay is calculated. The gross pay definition differs from that of net pay since it does not indicate the take-home salary of an individual.

Gross pay is simple to determine. Just plug your numbers into the gross pay formula:

Gross Pay = Net Pay + Taxes and Deductions

HCM (Human Capital Management)

Human capital management (HCM) refers to a systemized set of actions taken by a company in service of optimizing the value of its human resources. HCM strategy considers a company's human resources—or employees—to be assets, and that the value of these assets can be effectively increased through strategic management. These management tactics are deployed through the use of HCM software.

The HCM definition is nearly synonymous with that of human resources management (HRM) software in modern business practice. HCM functions include any processes designed for employee recruitment, monitoring, management and development, providing users with access to employee data and providing valuable workforce reporting and analytics.

I-9

The federal form that lists the required documents for verifying the identity and employment authorization of individuals hired for employment in the United States. The I-9 form records each employee's employment eligibility verification.

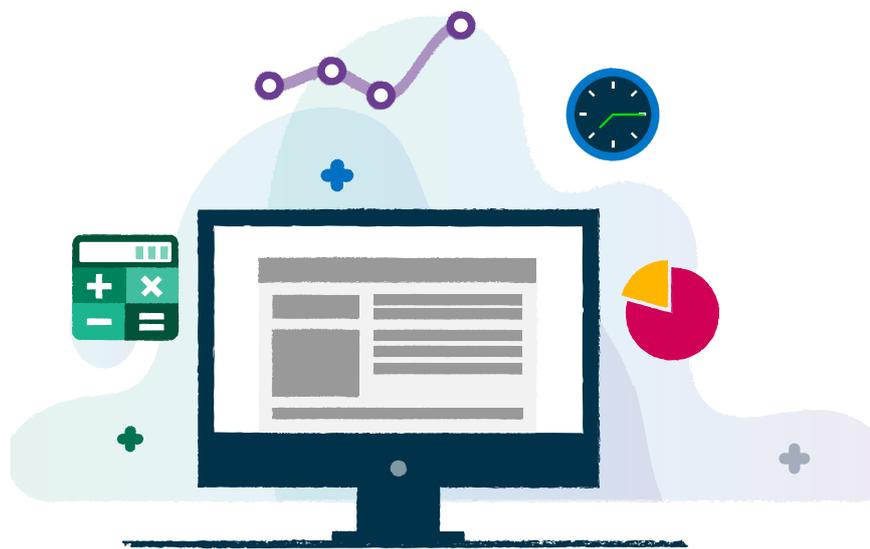
Income tax

The definition of income tax is the mandatory tax imposed by government entities onto businesses and legally employed citizens. In the U.S., income tax is collected and enforced by the Internal Revenue Service, or IRS. The IRS defines income tax levies on an individual basis, according to the taxable net income or revenue of a given person or organization.

Memo Deductions or Memo Earnings

Deductions or earnings that should not affect the employee's pay. For example, if you want to record a line item for uniforms on the employee's paycheck but the employee paid for the uniform with cash, you could create a memo deduction but not withhold the amount from the employee's pay.





Net pay

Net pay is an employee's earnings after all deductions are taken out. Obligatory deductions such as the FICA mandated social security tax and Medicare are withheld automatically from an employee's earnings. Other deductions come in the form of benefits, which may be optional. Health, dental and vision insurance, life insurance, or a retirement fund may be offered through an employer. These costs will come in the form of a deduction from the employee's gross pay, or salary.

Gross pay is pay before deductions. Jobs advertising a \$40,000 salary are referring to gross pay. It may consist of tips, bonuses, tips, commissions, overtime, wages, and so on.

Net pay is pay after deductions. It's what's left over after union dues, wage garnishments, pension contributions, FICA taxes, income taxes, 401K contributions, and similar deductions have been accounted for.

Here is a formula to calculate your net pay:

Net Pay = Gross Pay – Taxes and Deductions

A broader net pay definition includes implications for the employer, such as the obligation to match an employee's retirement or savings fund.

Only a portion of an employee's costs are directly paid to the employee. Net pay refers to the amount an employee takes home, not the amount it costs to employ them.

Retirement plan contributions, employee benefits, and employer FICA taxes are deducted before an employee receives their net pay.

Non-exempt

An employment classification that refers to an individual who is not exempt from overtime requirements (and usually paid hourly), meaning they are eligible to receive overtime.

Overtime

Overtime refers to any hours worked by an employee that exceed their normally scheduled working hours. While a generalized overtime definition refers simply to those hours worked outside of the standard working schedule, overtime commonly refers concurrently to the employee's remunerations of such work. The overtime rate of pay varies between companies and by specifics of the overtime, such as the number of overtime hours worked. Standard overtime rates include time and a half and double time.

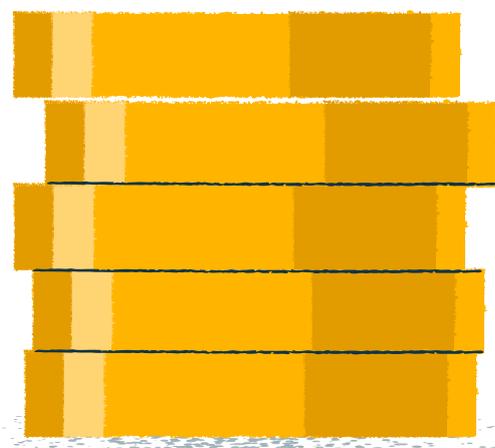
To calculate hourly overtime rate, multiply normal rate of pay by the company's overtime rate. To find total overtime wages, simply multiply the amount of overtime hours worked by the calculated rate of overtime.

- \$10 hourly wage becomes \$15 (\$10 x 1.5), with time and a half pay.
- An 8-hour day yields \$120 (8 hours x \$15).

In federal law, overtime applies after 40 hours. An employee working five days a week for eight hours a day is working 40 hours per week. Exceeding eight hours per day would trigger overtime because their working hours would surpass the 40-hour maximum. Additionally, in some state law, overtime is required for work past eight hours.

Some salaried employees get overtime pay, and some do not. To be exempt from overtime pay, an employee needs to earn more than \$47,476 annually. They must be treated as a salaried employee, and must be paid in set portions, at set intervals. Exempt employees also need to do some type of white-collar work consisting of professional duties or administrative tasks.

Legally, by the Fair Labor Standards Act passed in 1938, any hours worked by an employee which exceed the standard 40-hour work week define overtime hours and are subject to overtime remuneration rates.



Payroll

Payroll typically refers to the compensation awarded to employees for their work at a company. This includes salaries, wages, benefits, and overtime. Recorded as an expense, payroll is often one of the largest expenses a company has.

Keeping an accurate record and ensuring payroll is operating smoothly is of utmost importance for most companies. For this reason, companies often outsource payroll, meaning they utilize a third-party payroll service to handle payroll matters. Other options for managing payroll are to handle it manually, in-house, or through the use of payroll software.

Depending on context, individuals often define payroll in different terms. A broader payroll definition includes the actual department in charge of employee remuneration and may refer simply to a company's list of paid employees or the records of such compensation.

Pay runs

Pay run is a term used for a payroll. Pay runs include several elements required to pay your employees. When you are ready to process your payroll for a specific check date, you start your pay run.



People science

People science is a way that businesses can use data, analytics and actionable insight about people to understand the workforce and the way it behaves as it does. This gives an insight into how people interact with the environment, and how this affects system and performance. People Science allows companies to make better people decisions.

Performance management

Performance management refers to the range of company processes enacted in service of predetermined strategic business objectives. Performance management is a varied term, as companies have strategies and objectives specific to their organization—a simplified performance management definition is as follows: the strategic activities associated with the management of a company's performance.

Companies utilize performance management strategies in different forms. Processes may be applied to monitor and track employee and company-wide performance on a simple or complex scale. At the very least, employee performance reviews are commonly given in order to push performance in a desired direction, though frequency may vary greatly between companies.

The term has taken on specific meaning in reference to emerging performance management software, available to businesses of any size. Performance management software is a more robust and effective solution to company performance monitoring and tracking, providing a system in which early and personalized feedback is given to employees in service of goals set by the company over a specified period of time.

Performance metrics

Performance metrics are used to measure the behavior, activities, and performance of a business. This should be in the form of data that measures required data within a range, allowing a basis to be formed supporting the achievement of overall business goals. Measuring performance through metrics is key to seeing how employees are working, and whether targets are being met.

Recruitment

Recruitment is the process of actively seeking out, finding and hiring candidates for a specific position or job. The recruitment definition includes the entire hiring process, from inception to the individual recruit's integration into the company.

While the recruitment definition and process varies from company to company, there are some basic steps that any employer can take to make recruitment smoother and more successful, such as the following:

- Comparing different types of job recruitment software to find the ideal fit.
- Establishing clearly defined standards and expectations for the ideal job applicant.
- Taking proactive steps to integrate new employees with comprehensive "on-boarding."
- Staying ahead of the latest trends and best practices in recruiting.

To start, a company typically outlines what the job or position entails and creates a profile of the ideal candidate. The company must then attract the candidate through advertisement or the use of recruitment software. Applicants are screened and interviewed by predetermined criteria. When the ideal candidate is chosen, they are hired and integrated into the workplace, and the recruitment process is complete. Companies often place a high value on recruitment, meaning they devote the appropriate time and resources to the process.





Subject do not take tax

An employee-level setting in online payroll. Use it when the employee is subject to a tax but will not owe any tax at the end of the year (that is, any withheld tax will be refunded).

Tax

Tax is a fixed amount of money that companies and individuals have to pay back to the government.

Time and a half

Time and a half refers to an increased rate of pay typically reserved for hours worked overtime or those that exceed the 40-hour work week. Overtime pay policies vary between companies, time and a half being a common rate. It simply means that in addition to the employee's standard hourly rate, they will get paid an additional one half of that rate for each hour worked in the time and a half window.

Although it means employers will surrender more to payroll, they are also giving acknowledgment of the value of their employees' time and incentivizing hard work—both marks of a good employer.

Time and a Half Rate = Hourly Rate x 1.5

Assume an employee earns \$20 hourly during a 40-hour work week. Their time and a half pay would be $\$20 \times 1.5$ for a total of \$30 an hour.

Time and a half applies when an employee exceeds 40 hours during a working week. Some states have laws requiring time and a half for employees working more than eight hours. Working on holidays are not regarded as working overtime. This includes bank holidays like Labor Day, Independence Day, Easter, Memorial Day, New Year's Day, and Christmas.

With respect to religious holidays, company policy must be issued consistently without discrimination. Providing holidays off can help establish more amicable relationships between staff, and may promote a better work-life balance for employees.

Unemployment deduction

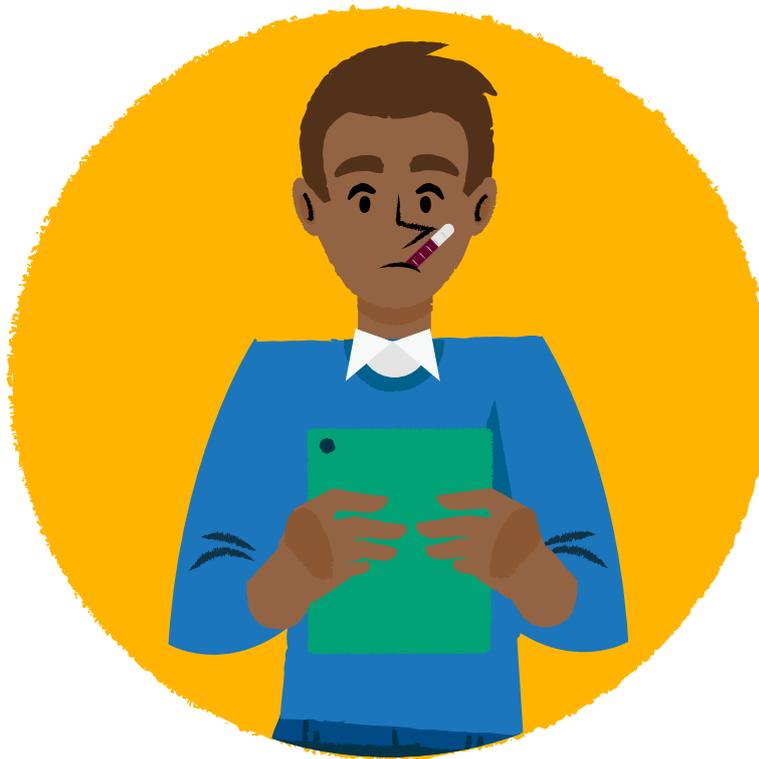
Employers must pay unemployment taxes for their employees based on the Federal Unemployment Tax Act (FUTA).

Withholding

Withholding refers to either federal or state withholding (of income) taxes. Withholding taxes are deducted from the employee's paycheck.

Workers compensation

Payments funded by employers and required by law to employees who are injured on the job or who become temporarily disabled due to on-the-job injury or illness.





271 17th St NW
Atlanta, GA 30363
United States

www.sage.com



© 2020 The Sage Group plc or its licensors. Sage, Sage logos, Sage product and service names mentioned herein are the trademarks of The Sage Group plc or its licensors. All other trademarks are the property of their respective owners.