

New business guide

A guide to payroll, taxes,
and your new business for 2016¹



If you're thinking about starting a new business or you've just hired your first employee, the Sage Payroll Services powered by PayChoice new business guide simplifies each step . . . from applying for a federal identification number to offering your employees quality benefit packages.

You want to start a company.

You've done your research. You know your business. But what about the rest?

- What are the legalities of setting up a business?
- What about federal and state tax requirements?
- And what about all the information needed to hire employees?

Forms of businesses

"Which is right for me?"

We've come a long way from hanging an "Open" sign on the door. Today, starting a business is much more complicated. Deciding on a legal entity is sometimes one of the most confusing areas for any business owner. Among the choices are regular corporations, subchapter corporations, partnerships, limited partnerships, sole proprietors, and limited liability corporations with single or multiple members.

You should discuss the many complex tax and legal ramifications with a corporate attorney or tax accountant to weigh the advantages and disadvantages of each and to determine what's best for your business right now.

Understanding payroll

Even if you have just one employee, you are required to adhere to federal and state payroll regulations or you may incur costly penalties. The easiest way to manage payroll is to think through your requirements and set up an initial payroll system to track the necessary information in an orderly fashion.

Federal

Forms and applications

"I've just hired my first employee."

Every employee must complete an Employee's Withholding Allowance Certificate (**Form W-4**) and an Employment Eligibility Verification Form (**Form I-9**).

Form W-4: When completed by your employees, Form W-4 provides you with the basic information required for payroll: employee name, address, social security number, marital status, and tax exemptions. This form must be retained by

you, the employer, and a copy must be filed with your state in a timely manner (refer to **New-hire reporting**).

Form I-9: Information regarding Form I-9 may be obtained from the Immigration and Naturalization Service. Failure to comply may result in civil fines. You must also retain this form with your employee's W-4.

Federal identification number

You must file for a federal tax identification number or EIN (Employer Identification Number) to ensure that federal payroll tax withholding payments, Social Security contributions, and federal unemployment payments are properly credited.

Once your Application for Federal Identification Number (Form SS-4) is submitted to the IRS, it will respond by sending you a letter with your EIN.

Federal taxes

Federal taxes fall into three categories: federal withholding taxes paid by the employee, Social Security and Medicare taxes (FICA-Federal Insurance Contributions Act) paid by the employee with matching contributions by the employer, and federal unemployment taxes (FUTA—Federal Unemployment Tax Act) paid by the employer only.

Employee taxes withheld:

- Federal withholding taxes are calculated on individual employee data (wages, marital status, exemptions, and frequency of payroll). Commonly used tax tables are listed in the Internal Revenue Service Employer's Tax Guide (Circular E).

Employee taxes withheld and employer matching contribution:

- The employee portion of the Social Security tax for 2016 is 6.2% (0.062) on the first \$118,500 of each employee's covered wages.
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- Medicare tax for 2016 is 1.45% (0.0145) of each employee's covered wages. There is no wage limit. The employee and employer each contribute at this rate. The Employee Supplemental Medicare rate is .9% (0.009) on wages in excess of \$200,000 per year.

Employer taxes:

- Federal Unemployment (FUTA) tax is calculated on the first \$7,000 of covered wages paid to each employee at the rate of 6.0% (0.060).
- In figuring your FUTA tax, you can deduct a credit of up to 5.4% (0.054) for state unemployment taxes paid, resulting in a net federal unemployment tax of 0.6% (0.006).
- All percentages and gross wage limits should be verified every January 1.

Federal payments

There are two recurring federal tax payments. The first is the federal withholding and Social Security (FICA) taxes (combined into a single payment known as a **"941" deposit**). Frequency of payment and deposit method are determined by the amount of tax liability incurred. Consult Circular E to determine your frequency of deposit.

The second payment is the Federal Unemployment Tax (FUTA), known as a **"940" deposit**. Taxes for each quarter must be paid on or before the last day of the calendar month following each quarter. There is an exception—if the tax due is less than \$500, it is not necessary to make a deposit. That liability can be carried over to the next quarter.

Payments for both the 940 and 941 deposit are made by paying through the IRS EFTPS system (Electronic Funds Transfer Payment System) or through outsourcing services such as Sage Payroll Services.

EFTPS: The IRS has determined that an employer must deposit its withheld income and employment taxes (as well as other federal depository taxes) by electronic funds transfer (EFT).

Federal recurring reports

Form 941: Once each quarter, a reconciliation of federal tax withholding and FICA payments must be made using Form 941. This form must be submitted by the last day of the month following the calendar quarter.

Form 940: A federal unemployment report Form 940 should be completed and filed by January 31, following the close of the calendar year for which the tax is due.

Form 945: Nonpayroll federal income tax withholding must be reported on Form 945, Annual Return of Withheld Federal Income Tax.

You must deposit employment taxes by electronic funds transfer. You must use electronic funds transfer to make all federal tax deposits.

Forms W-2, W-3, 1099, 1096: Annually, every employer must provide a Wage and Tax Statement (Form W-2) to each employee who earned taxable income. The employer is also required to submit a Transmittal of Income and Tax Statements (Form W-3), along with copies of all W-2s to the Social Security Administration. If you provided wages to a subcontractor, you must also provide miscellaneous income reports (1099 and 1096).

Penalties

Good records make the recurring tax deposits and reports a simple transfer of data. Failure to keep accurate records or make timely deposits may result in substantial penalties from the IRS. Penalties vary.

State wage hour laws

Many states have adopted their own wage-hour laws, which, oftentimes, are more stringent than federal laws. Many states also govern such employee wage practices as frequency of payment, method of payment, and employee's right to accrued vacation or paid time off. State and federal laws may overlap. In those areas, the law requires that the body more generous toward the employee always prevails.

New-hire reporting

The federal law requires employers to report W-4 information on all new employees, as well as the name, address, and federal employer identification number of the employer to a specified state agency within a certain number of days from date of hire (check individual state requirements). States may require employers to report more extensive information about newly hired employees.

Recordkeeping

It's probably obvious to you now that good recordkeeping is an essential part of owning and operating a successful business. With payroll, it is especially important because of the substantial penalties the IRS imposes on inaccurate and/or late payments and filings. Begin by recording gross wages, federal withholding, Social Security, Medicare, state withholding, and net wages paid each payroll. Remember that monthly totals are needed to make the proper monthly federal and state tax deposits. Also, quarterly and year-to-date totals are required for federal and state reporting. There should also be a summary of each individual employee wage record on a monthly, quarterly, and year-to-date basis for unemployment and workmen's compensation claims.

State

Refer to individual state applications, forms, and filing frequencies. Additional state information is available upon request; call your Sage Payroll Services team representative.

Independent contractors

Self-employed workers are independent contractors. They work for themselves, and they control the job and the performance. Independent contractors provide knowledge, experience, and labor needed to complete a job. Taxes and benefits become the responsibility of the independent contractor.

Payroll policies

When setting up your payroll system, make it work for you by incorporating as many elements into the process as possible. You should determine policies to answer the following questions:

- What constitutes regular hours?
- Will an individual employee be paid on an hourly basis or on salary?
- What is the frequency and sick time rate on commission or bonus checks?
- How will vacation and holidays be allocated and tracked?
- Who will research and coordinate employee benefits within the organization?

Also, give serious consideration to the use of payroll deductions as a way to reduce the number of money transactions and to ensure that you, the employer, get paid first.

Deductions

Some of the more common deductions used are employee portions of insurance benefits, savings plans, pension plan contributions, repayment of employee loans, garnishment payments, uniforms, union dues, and employee purchases. Another area for consideration is the inclusion of reimbursement of certain employee expenses such as mileage or travel.

Outsourcing

The decision on whether to process your payroll or outsource your payroll depends on various factors:

- Who will be calculating payroll taxes and accepting responsibility for timeliness and accuracy?
- What kinds of human resources do you have available?
- How much time do you have to devote to payroll and related tasks?
- Have costs of in-house software and stock been considered?
- Will you want to offer a retirement plan and direct deposit to your employees?

Sage Payroll Services

We hope that this guide assists you in learning the basics of starting a business and hiring employees. Our aim is to educate you as well as guide you to resources that can help make running your small business easy and hassle-free.

If you would like more information on how Sage Payroll Services can relieve you of most payroll and payroll tax burdens, or if you would like to learn more about our quality, full-service benefit plans, please contact your Sage Payroll Services team representative for more information.

1 The information contained in this guide is not and shall not be deemed or construed to be legal, tax, or accounting advice. You should consult with your own qualified legal, tax, accounting, or other professional advisors, as appropriate.

Thinking through your specific requirements will allow you to create a payroll process that you can control rather than having it control you.

For more info, visit: [Sage.com](https://www.sage.com)
or contact us at 888-591-5151