

# Eight steps to processing payroll



**While paying your employees may seem like a simple matter of cutting checks every other week, payroll involves much more than making sure you've got enough money in your business checking account to cover your employees' wages.** These eight steps will help you establish a payroll system that addresses the key issues regarding payroll processing—and help you understand what you need to do to comply with payroll tax laws.

Register for federal, state  
and local employer  
identification numbers (EINs)

Ensure that your full-time  
and part-time employees  
complete Form W-4s

Check federal and state labor  
laws before setting  
pay periods and policies

Create a payroll  
records system

Decide your  
employee deductions

Decide the payment method  
and pay your employees

Keep up with non-withholding  
payroll taxes and paperwork

File and make deposits  
for IRS Forms 941 or 944  
on a quarterly basis

## 1. Register for federal, state and local employer identification numbers (EINs)

The first step to processing payroll is more like a prerequisite. Before you can start paying employees, contractors, and vendors, you need to register your business with the relevant federal and state government entities. Use IRS Form SS-4 to apply for a federal Employer Identification Number (FEIN), but first check the table on the form to determine whether your business requires an FEIN.

People tend to use EIN (Employer Identification Number), FEIN (Federal Employer Identification Number), and TIN (Tax Identification Number) interchangeably. All of these terms refer to the same nine-digit number issued by the Internal Revenue Service to businesses and non-profit organizations. You're required to use your EIN for banking, payroll, tax filing and other business purposes.<sup>1</sup>

Check with your state and municipal governments' revenue divisions to see if you need to apply for additional EINs. If your business operates in more than one state or municipality, you may need multiple state or local EINs.

## 2. Ensure that your full-time and part-time employees complete Form W-4s

Require each new hire to complete and submit an IRS Form W-4, the **Employee's Withholding Allowance Certificate**. You can use Form W-4 to determine the correct amount of tax withholding to deduct from employees' wages. The information found on Form W-4 is also needed to create IRS Form W-2, the Wage and Tax Statement, for year-end income tax reporting. You must prepare and send W-2s to all employees and applicable government agencies by January 31 of the following year. Instructions on how to fill out the W-2 form are available on the IRS website: <http://www.irs.gov/instructions/iw2w3/index.html>

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### **3. Check federal and state labor laws before setting pay periods and policies**

You'll need to understand the Fair Labor Standards Act (FLSA)—a federal labor law that sets rules on overtime, minimum wages, child labor protections and equal pay. For example, if you employ nonexempt workers, the law requires you to compensate them for orientation, sick days, vacation days and meal times.<sup>2</sup>

States also set regulations covering pay periods; most states require businesses to pay employees at least twice a month on regularly occurring paydays. However, there are exceptions; you should check with your state's labor department to determine your own state's required payment schedule.

### **4. Create a payroll records system**

For federal tax purposes, you must store key employee information for several years regardless of whether an employee is no longer working for you. Information you'll need to save include such items as employee payments, tax payments and tax deposits. Be sure to check with the IRS website or your accountant for a complete list of requirements for records you need to store.

Besides ensuring compliance with reporting requirements, accurate payroll records play a pivotal role in calculating workers' compensation insurance premiums. Most employers are required to subscribe to workers' compensation insurance; check with your state for specific requirements.

### **5. Decide your employee deductions**

Using tax tables and various revenue agencies' publications, you'll need to calculate each employee's withholdings for different taxes and deductions. These include taxes such as federal and state taxes and pre-tax employee deductions such as health insurance premiums.

IRS Publication 15, The Employer's Tax Guide, and Publication 15-A, The Employer's Supplemental Tax Guide, will help you determine federal income tax deductions. For other withholdings, check with the Social Security Administration, state and local tax agencies, your benefits administrators and any documents related to child support or court-ordered garnishments.

### **6. Decide the payment method and pay your employees**

Determine whether to pay your employees by check or through direct deposit to their checking accounts.

### **7. Keep up with non-withholding payroll taxes and paperwork**

Payroll isn't over once the checks are cut and deposits are made. For example, you must pay federal and state unemployment taxes. IRS Form 940 is the federal unemployment tax annual report form. The form helps you calculate your federal unemployment tax liability.<sup>3</sup> Consult the IRS website for specifics about federal unemployment taxes and check with your state's labor department for information about state unemployment taxes.

State unemployment offices will usually send you a notification by mail near the end of the year that details the following year's unemployment tax rate. Additionally, the IRS may send notices on filing different forms or notify you if you have failed to file paperwork or remit payment on time.

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## 8. File and make deposits for IRS Forms 941 or 944 on a quarterly basis

You need to file several forms annually and quarterly with the IRS based upon your business' payroll records. Most businesses must file Form 941, the Quarterly Federal Tax Return. Certain smaller businesses may file Form 944, a replacement for Form 941. The IRS website provides information on when to use Form 944.<sup>4</sup>

State tax forms vary considerably. Be sure to check with your state revenue and labor departments to identify which income and unemployment forms you need to fill out, how often to submit them and how to remit payment. Your state has a website that can help you with the basics of tax preparation. Most sponsor small business owner programs that allow you to hear from others in your industry.

You may want a payroll specialist to double check your calculations for all payroll and taxes owed, at least for the initial payroll. You may also wish to determine the best method to remit payment.

### Ask Citibank

For help with processing your payroll in compliance with payroll tax laws, speak with a Citibank Business Specialist.

<sup>1</sup> To apply for an EIN or for more information, visit <http://www.irs.gov/businesses/small/article/0,,id=102767,00.html>

<sup>2</sup> Source: <http://www.dol.gov/whd/flsa/>

<sup>3</sup> Visit <http://www.irs.gov/pub/irs-pdf/i940.pdf> to learn more about Form 940.

<sup>4</sup> Visit [http://www.irs.gov/irb/2009-45\\_IRB/ar12.html](http://www.irs.gov/irb/2009-45_IRB/ar12.html) to learn more about Form 944.