

**10 COMMON PAYROLL
MISTAKES YOU DON'T
WANT TO MAKE AND
HOW TO AVOID THEM**



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About Patriot

After a rough start-up experience, we learned first hand what small businesses need to achieve success. So, we created a software service to help you keep the two things you don't have enough of ... time and money. Patriot Software, LLC provides fast, easy-to-use, and affordable accounting software and payroll for American small businesses. Learn more about our software at www.patriotsoftware.com or by calling 877-968-7147.

Overview

Running payroll can be time consuming. There are lots of steps, like reporting a new employee, calculating employee pay, and issuing Form W-2 at the end of the year. But the payroll process is not something you should rush through. Mistakes and skipped steps can come with penalties.

Here are 10 common payroll mistakes to watch out for. Each section includes why you should avoid the mistake, how to avoid it, and what to do if you've made the mistake.

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Failing to Verify and Report New Employees



You must verify the identity and legal work status of employees, have proper tax filing info, and follow new hire reporting laws.

WHY IS THIS IMPORTANT?

Possible consequences include incomplete or erroneous payroll records, fines, and increased scrutiny of your business.

HOW DO I AVOID THIS MISTAKE?

Get organized before your new employee starts, and follow laws in a timely manner.

1. Verify Name and Social Security Number

Record the employee's name and Social Security number (SSN) for Form W-2 reporting. See their card or use the [Social Security Administration's Verification Service](#) to verify the number.

2. Give New Employees Form W-4

Employees should complete [Form W-4](#), which asks for SSN, contact info, and filing status. Keep the W-4 on file. It remains in effect until an employee completes a new one. [Tax-exempt employees](#) must complete a new Form W-4 annually.

3. Follow New Hire Reporting Laws

New Hire Reporting laws ensure enforcement of child support orders. Each state has its [own New Hire Reporting Center](#).

4. Complete Form I-9 and E-Verify

Within three days of starting, use [Form I-9](#) to verify an employee's eligibility to work in the U.S.

- ✓ Have the employee complete Part 1 of [Form I-9, Employment Eligibility Verification](#).
- ✓ Ask to see documents proving identity and work eligibility. Complete Section 2, stating the documents appear to be authentic.
- ✓ Use [E-Verify](#) to verify the employee's information on the Form I-9 (optional in most states).

HELP! I'VE MADE THIS MISTAKE

If you fail to report or verify a new employee on time, you could face monetary and criminal penalties. File all forms and report your new employee as soon as possible. For state reporting, check with your state to see if there are additional steps to complete.

Classifying Workers Improperly



Misclassifying a worker as a contractor instead of an employee can be a costly mistake.

WHY IS THIS IMPORTANT?

Many people classified as contractors should actually be classified as employees. This misclassification affects taxes, minimum wage, and overtime.

If the IRS or U.S. Department of Labor (DOL) determines that you misclassified a worker, you will have to pay the employee and employer taxes, back wages, penalties, and interest. A misclassification audit can devastate a small business.

HOW DO I AVOID THIS MISTAKE?

The DOL recommends using six factors to determine to determine if someone is a contractor or an employee:

1. Is the work an integral part of the employer's business?

If the worker provides services that the company also provides, the worker is most likely an employee.

2. Does the worker's managerial skill affect the worker's opportunity for profit or loss?

If a worker can only increase profits by working overtime, the worker is probably an employee.

3. How does the worker's relative investment compare to the employer's investment?

If the worker relies on the employer's investments and risks to provide work, the worker is probably an employee.

4. Does the work performed require special skill and initiative?

If the worker relies on the employer for any special business skills, judgement or initiative, the worker might be an employee.

5. Is the relationship between the worker and the employer permanent or indefinite?

If someone works long term or repeatedly for an employer, the worker might be an employee.

6. What is the nature and degree of the employer's control?

If the worker does not have significant control over meaningful aspects of the job, the worker is most likely an employee.

If you are unsure whether a worker is a contractor or employee, you can file **Form SS-8** to request an IRS determination of your worker's status.

HELP! I'VE MADE THIS MISTAKE

Convert your contractor to an employee immediately. An IRS program allows employers to pay an amount equal to about 10% of their payroll tax liability for the past year—provided they properly classify workers going forward. Read about the [Voluntary Classification Settlement Program \(VCSP\)](#) for more information.

Not Issuing Form W-2



You paid your employees and withheld taxes throughout the year. That's all you had to do, right? Wrong.

WHY IS THIS IMPORTANT?

Send all your employees a Form W-2 after the year ends. They will use this to file their individual tax forms. You must also send a Form W-2 to the Social Security Administration (SSA) and state and local government (if applicable) for each of your employees.

HOW DO I AVOID THIS MISTAKE?

You must file a Form W-2 for all your employees, even if they were seasonal or quit after one day.

Information needed on a Form W-2 includes:

- ✓ Employee Social Security number (SSN)
- ✓ Your Employer Identification Number
- ✓ Your business name and address
- ✓ Employee's name and address
- ✓ Total compensation (including tips, bonuses, commissions, etc.)
- ✓ Total taxes withheld from the employee's wages

You can order Form W-2 on the [IRS website](#) or by calling 1-800-TAX-FORM. You cannot download and use a Form W-2 from the internet.

You must send a Form W-2 to each of your employees by January 31. You must also mail or electronically file the forms with the SSA and state governments by January 31. Form W-3 should accompany the forms you send to federal and state governments.

E-filing is required if you have 10 or more information returns to file.

HELP! I'VE MADE THIS MISTAKE

If you did not send out Form W-2 when you should have, do it as soon as possible. You can receive a penalty for each unsent form, and the penalties increase the longer you wait.

Improperly Classifying Exempt Workers



Exempt employees do not receive compensation for overtime hours; however, nonexempt employees do.

WHY IS THIS IMPORTANT?

If you misclassify an employee as exempt, they could potentially miss out on a lot of compensation, and you could owe them back wages.

HOW DO I AVOID THIS MISTAKE?

Just because you pay an employee a salary or you give them a certain job title, they are not automatically classified as exempt. To qualify for the executive, administrative, or professional exemption status under the Fair Labor Standards Act (FLSA), an employee must:

- ✓ Be paid on a salary basis,
- ✓ Make a minimum of \$35,568 per year (\$684 per week), AND
- ✓ Have job duties that include great responsibilities that directly affect the company's operations.

For more specifics on classifying an employee as exempt vs. nonexempt, see the [FLSA guidelines](#).

HELP! I'VE MADE THIS MISTAKE

If you discover that you misclassified an employee as exempt, reclassify them as nonexempt and begin paying them overtime wages. Also, pay the employee any back wages for overtime hours in the past that were not compensated. If the employee sues you, you may have to pay interest, damages, and other penalties.

Miscalculating Overtime Wages



Overtime is not as simple as time-and-a-half after forty hours.

WHY IS THIS IMPORTANT?

If you are not aware of all the overtime laws, your employees might get short-changed.

HOW DO I AVOID THIS MISTAKE?

The basic Fair Standards Labor Act (FLSA) [rules](#) say employers must generally pay employees 1.5 times their regular rate of pay for any time worked beyond 40 hours in a workweek.

Some states also have their own overtime laws. You must follow whichever laws are more generous—either the federal or the state laws. Some states require overtime pay after only 8 or 12 hours in a workday. Doubletime may also be applicable in some situations. Make sure you're in compliance with your state's [minimum wage and overtime laws](#).

Other things to consider:

- ✓ When calculating overtime, you must include wage augments, such as shift differentials.
- ✓ If your employees are paid biweekly, semimonthly, or monthly, you must still pay them overtime for time worked in excess of 40 hours for each workweek.
- ✓ Offering compensatory time off instead of paying overtime wages is almost always illegal.
- ✓ Neither the employer nor the employee can waive overtime pay.

HELP! I'VE MADE THIS MISTAKE

If you discover that you owe an employee compensation for overtime hours, pay them their owed back wages. As with misclassifying an employee as exempt, the employee can sue you, resulting in interest, damages, and penalties on top of the back wages.

Not Applying for Payroll Tax Accounts



Before you hire your first employee, sign up for all tax accounts that apply to your company.

WHY IS THIS IMPORTANT?

Failing to set up proper payroll tax accounts can mean fines, government audits, and paperwork nightmares.

HOW DO I AVOID THIS MISTAKE?

Apply for all applicable tax account numbers as soon as possible. Here are the most common account numbers you will need:

- ✓ Federal Employer Identification Number (EIN): Use your EIN number for federal taxes, including federal unemployment (FUTA). [Apply online.](#)
- ✓ State Income Tax: Apply for an income tax withholding [account for your state.](#)
- ✓ State Unemployment (SUTA): Apply for a SUTA [account with your state.](#)
- ✓ Local income tax and school district tax: Some states have local income tax and other special taxes. If you withhold local tax as a courtesy, apply for account numbers in the employee's city of residence. For multiple worksites, be sure to apply for withholding accounts in those cities.

HELP! I'VE MADE THIS MISTAKE

Contact the agencies immediately to apply for withholding accounts and get up to date with your tax filing and payments.

Paying the Wrong Tax Rates



Tax rates can change. Make sure you're using the right rates for your company.

WHY IS THIS IMPORTANT?

Use the wrong tax rate, and you may pay more in the long run with penalties and interest piling up.

HOW DO I AVOID THIS MISTAKE?

Do the following to keep current with federal, state, and local tax rates:

- ✓ Choose a payroll processing method, like Patriot's [online payroll software](#), that automatically updates universal rate changes and tax tables.
- ✓ Watch the mail for business-specific rate changes. For example, your state should annually notify you of your business's state unemployment tax rate.

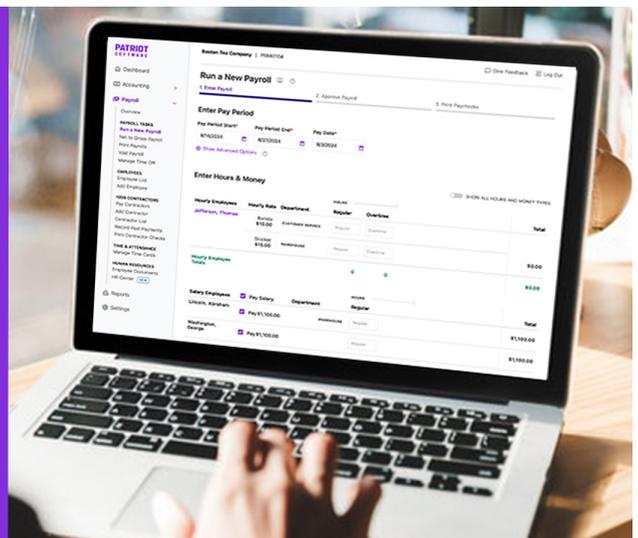
HELP! I'VE MADE THIS MISTAKE

When you realize you've paid a wrong tax rate, contact the tax agency immediately, and they can tell you how to proceed.

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Want to see how easy
running payroll can be?

Try It Free



Missing Employment Tax Deadlines



It's easy to get so busy with your business that you don't realize you've missed a tax deadline.

WHY IS THIS IMPORTANT?

Missing employment tax deadlines can quickly land employers in hot water. Missed or late tax payments can result in hefty late charges, penalties, or legal trouble.

HOW DO I AVOID THIS MISTAKE?

- ✓ Get organized. Mark federal tax deadlines on your calendar.
- ✓ Register for EFTPS when you start your business at www.eftps.gov.
- ✓ Initiate your tax payments through EFTPS by 8 p.m. ET the day before the due date.
- ✓ Indicate the proper tax period when paying taxes. If you select the wrong tax period, the government may apply your payment to the wrong quarter.
- ✓ Double-check mailing addresses for tax payments, and opt for a return receipt so you know your payment has safely arrived.
- ✓ Consider using a [payroll tax filing service](#) so you don't have to worry about deadlines.

HELP! I'VE MADE THIS MISTAKE

If you miss a payment, contact the tax agency. Sooner is better. Late charges can pile up quickly.

Not Running Payroll on Time



You should consistently run your payroll, whether it is weekly, biweekly, semimonthly, or monthly.

WHY IS THIS IMPORTANT?

Your employees rely on knowing when their wages will be available to them. They have bills to pay too. If you fail to run your payroll on time, you may lose your staff's trust. Also, most states have [pay frequency requirements](#).

HOW DO I AVOID THIS MISTAKE?

Set a schedule for yourself. Decide how frequently you will pay your employees. To learn about the various pay frequencies that you can choose from, read ["How Often Should I Pay My Employees?"](#)

From there, figure out which day you will pay your employees and how soon before that you need to run your payroll. If you give your employees written or printed checks, you may be able to run payroll and pay your employees on the same day. If you pay your employees with direct deposit, you may need to run your payroll a few days ahead of when your employees should receive their pay.

HELP! I'VE MADE THIS MISTAKE

If you do not run your payroll on time, run it as soon as possible; your employees are waiting on their money. Be transparent with your employees and explain to them that their pay will be late. Try to avoid combining pay periods as this can complicate taxes and withholdings.

Using an Inefficient Payroll Process



Payroll errors are all too easy to make—especially if you figure payroll by hand or use outdated software.

WHY IS THIS IMPORTANT?

- ✓ Changing laws, tax tables, and filing requirements are complicated and confusing.
- ✓ Payroll is time consuming, whether you have two employees or 50.
- ✓ Payroll errors can be costly and difficult to correct.

HOW DO I AVOID THIS MISTAKE?

More than ever, it's vital to have an accurate, efficient way to handle payroll for your business. Luckily, you have options. You can:

- ✓ Outsource your payroll to an accountant or a payroll service provider. This hands-off method can be time-saving but costly.
- ✓ Choose **online payroll software**. You can log into a secure website to run payroll anytime or anywhere you have an internet connection. The software updates automatically for free, and if your computer crashes, your data is securely saved. With online payroll, you can file your own taxes or sign up for an optional **payroll tax filing service**.

HELP! I'VE MADE THIS MISTAKE

It's never too late to choose a more efficient, reliable payroll process for your business. When you're choosing a payroll method, look for guaranteed accuracy, security, ease of use, affordable cost, and reliable customer support.

Fast, simple, and affordable payroll
built for your business.

Try It Free

