

Small Business Guide: Becoming an Employer



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Introduction

Congratulations on your new business venture! As a small business owner, you've joined the ranks of a vital part of the U.S. economy. Small businesses:

- Represent 99.7 percent of all employer firms.
- Employ over half of all private sector employees.
- Pay 44 percent of total U.S. private payroll.
- Have generated 64 percent of net new jobs over the past 15 years.

Source: www.SBA.gov

If you're ready to hire employees to help your small business grow, this guide will help you through the process of becoming an employer.

About This Guide

While this is a general overview of the steps most small businesses will take in the process of becoming an employer, Patriot Software DOES NOT provide any legal advice. Users/recipients should consult with their own lawyer for legal advice.

There are many links to our own articles and government sites within this document, as well as links to every state so that you can research your state requirements. Check these sites frequently, as content often changes. Also, any tax rates used in examples are also subject to change.

We hope that this guide will help you reach your goal of growing your business, and we wish you the best in your business endeavor!

Patriot Software, Inc.

Apply for an Employer Identification Number (EIN).

Before you hire anyone, you must first apply for an Employer Identification Number (EIN) with the Internal Revenue Service.

Also known as a Federal Identification Number, an EIN is simply a unique nine-digit number that will identify your business in correspondence with the government. There is no charge for applying for the EIN.

There are several ways to get an EIN for your business:

- **Online.** Apply [online](#) through the IRS. After answering interview-style questions, you can get your EIN immediately.
- **By Phone.** You can call the IRS at 1-800-829-4933 and get your EIN immediately.
- **By FAX or Mail.** File [Form SS-4](#) with the IRS. If the IRS issues an EIN number to you, you'll receive it within four business days. Find the correct mailing addresses and FAX number on the [IRS website](#).

Once you have the EIN for your business, you can move forward with the next steps in the hiring process. Keep your EIN in a safe place -- you will use this number over and over, and have it memorized before too long.



Do your homework for your state and local area.

State Requirements

Every state has its own requirements for businesses. Depending on your state and the type of business you have, you may have different requirements than another business. Use the [Small Business Association's](#) tool for researching licenses, registrations, and permits.

Your business also may be required to register for unemployment insurance tax as well as disability insurance (in California, Hawaii, New Jersey, New York, Puerto Rico, and Rhode Island.) Once you register, you will receive details on your starting rate for state unemployment tax (SUTA); this rate is based on several factors, including your industry, and may be subject to change depending on your company's experience.

New Business Information for Each State

Alabama	Alaska	Arizona	Arkansas
California	Colorado	Connecticut	Delaware
Florida	Georgia	Hawaii	Idaho
Illinois	Indiana	Iowa	Kansas
Kentucky	Louisiana	Maine	Maryland
Massachusetts	Michigan	Minnesota	Mississippi
Missouri	Montana	Nebraska	Nevada
New Hampshire	New Jersey	New Mexico	New York
North Carolina	North Dakota	Ohio	Oklahoma
Oregon	Pennsylvania	Puerto Rico	Rhode Island
South Carolina	South Dakota	Tennessee	Texas
Utah	Vermont	Virginia	Washington
Washington, D.C.	West Virginia	Wisconsin	Wyoming

Local Requirements

Your city or locality may require employer registration, and you may be required to withhold local taxes from your employees. Call your local government office for more information, so that you can be legal from the start.

Get workers' compensation insurance and other business insurance.

According to the Small Business Administration, businesses with employees are required to carry workers' compensation insurance. Your state will determine the requirements; they may offer several options, including the state-run workers' compensation program, a commercial carrier, or self-insuring program. Find your state workers' compensation offices on the [Department of Labor website](#).

The cost for this insurance is based on several factors, including the amount of payroll in your company, your SIC industry classification, and your experience rating. Your state workers' compensation commission may assign you a starting rate based on your industry code.

Your state may offer a discount plan for businesses that enroll in certain safety programs. You may also find savings by enrolling in a group rating plan that includes similar businesses.

As the business owner, you may not be automatically covered by workers' compensation unless you add yourself to the payroll as an employee and report your payroll dollars when calculating your workers' compensation premium. It's important to research this and make sure all of your employees are covered from day one.

Make sure that your business is properly covered by business insurance. Typical kinds of business insurance include a business auto policy and liability insurance. For more information, visit the [Small Business Administration website](#).

Required Postings

Federal and state laws require certain posters for your workplace. These posters inform employees of their rights under employment laws such as the Fair Labor Standards Act, Equal Employment Opportunity, Job Safety and Health Protection, and the Family and Medical Leave Act, among others. You will also need to post your certificate of workers' compensation coverage. The Small Business Association maintains a [list of required posters](#).

Choose how to handle your payroll.

Payroll can be complicated, so you should determine which payroll process will work for your business *before you hire anyone*. Here are some choices:

- ***Do it yourself by hand.*** The IRS provides [Publication 15 \(Circular E\)](#) -- the tax table booklet -- for every employer. You can also find this information online at IRS.gov.

- ***Use an accountant or a bookkeeper*** to handle your payroll, payroll taxes, and payroll tax filings.

- ***Choose a payroll provider or payroll software.*** Payroll providers offer many different levels of service. Some payroll services are designed for larger companies and handle all aspects of payroll, including paycheck delivery. Many off-the-shelf payroll software products are designed for larger businesses. Others are more appropriate for small business, offering online access to do-it-yourself payroll with a la carte options such as bookkeeping or timekeeping features.



You can also sign up for a payroll tax filing service, in which deposits and filings are made on your behalf.

Shop around carefully; look for a payroll provider that offers clear terms of service and a price structure you can afford. Factor in any hidden costs, such as limits to the number of payrolls you can run per pay period. For more on choosing a payroll provider, refer to our article [“Making Sense of Business Payroll Options.”](#)

Start hiring employees.

You've laid the groundwork, and it's time to start finding that right person. There are several ways to find a new employee. You can go through a recruiter, hire on a temporary or a trial basis, or go the traditional route of hiring direct.

Assuming you're hiring by traditional means, here are the basic steps. For information on hiring methods, visit [Patriot Software's resources on hiring and applicant tracking](#).

Steps to Hiring

1. *Figure out the most important skills* and experience required for the job.
2. *Advertise the position.* Tell everyone that you're hiring. Take advantage of the Internet, with resources such as online job boards and hiring websites that can attract a wider field of candidates. For more information, read "[How to Write a Job Ad.](#)"
3. *Evaluate your candidates.* Get organized and divide your potential new hires into piles of yes, maybe, and no. For more information, read "[The Hiring Process: Evaluating Job Candidates.](#)"
4. *Conduct interviews.* For tips, read "[Interviewing Tips to Assure Long-Term Retention.](#)"
5. *Check references.* Don't skip this important step, assuming everything the candidate has said is true. What others say about the candidate can either confirm your choice or raise doubts. For more information, read our [series on checking references](#).
6. *Extend the job offer,* contingent on the results of a background check. For more information, read "[How Do I Make a Job Offer?](#)"
7. *Conduct a background check.* For more information, read our [series on background checks](#).

Complete required hiring paperwork.

When you officially hire an employee, you and your new employee must complete forms that are required by law.



Name and Social Security Number

You are required to record the employee's name and Social Security number for Form W-2 reporting purposes at the end of the year. You may ask the new employee to see their card to verify their Social Security number.

You can also verify the number for free by using the [Social Security Administration's Verification Service](#). Note: If an employee presents an Individual Taxpayer Identification Number instead of a Social Security number, it may mean they are not eligible for work in the United States. Direct the employee to apply to the Social Security Administration for a number.

Form W-4

Give your employee [Form W-4](#), the Employee's Withholding Certificate, and the instruction page. This form asks the employee for their Social Security number and basic contact information and includes a worksheet to determine their tax filing status. Enter this information into your payroll system before you run payroll the first time. If your employee has questions about the form, direct them to the IRS website, where they have an easy [Withholding Calculator](#).

Form W-4 must be completed before your employee begins work the first day. You must keep the W-4 on file, and it remains in effect until the employee fills out a new one (Note: if an employee determines that they are tax-exempt, they are required to fill out a new one annually.)

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Form I-9 and E-Verify

Within three days of hire, federal law requires employers to verify eligibility of employees to work in the United States. Employees must complete Part 1 of the I-9 and show documents that prove their identity and eligibility to work in the U.S. As the employer, you can only request to see documents specified on the I-9 form, and you cannot require the employee to show a specific document. The employee must be allowed to select which documents to show the employer. Then, complete Section 2, which states that you examined the documents and they appear to be authentic. For more information on this process, refer to the training article [“What is a Form I-9?”](#)

Once you complete these steps, you can verify the employees through [E-Verify](#), an online system provided by the U.S. Citizenship and Immigration Services (note: currently, Arizona and Mississippi require most employers to use the E-Verify system). For more information, read our [article on E-Verify](#).

New Hire Reporting System

You must report each new hire to your state within 20 days of their hire or rehire. Your state maintains a [New Hire Reporting database](#) to ensure child support orders are enforced. Your state may contact you if you need to withhold child support for a particular employee.

Process payroll and make payroll tax deposits.

Once you set up your payroll system and begin to pay employees, you will deduct taxes from each paycheck, including state and federal income tax, Social Security, and Medicare. Other possible taxes include local taxes or school district taxes in some states. As the employer, you will also contribute your share toward the employee's Social Security and Medicare funds, as well as federal unemployment tax (FUTA) and state unemployment tax (SUTA).

Payroll Taxes

In most cases, you will deduct federal income tax, as well as Social Security and Medicare taxes, from your employees. You can figure these amounts by hand using tax tables found in [Circular E](#). If you use payroll software, your payroll system will calculate the payroll tax deductions based on the withholding exemptions, filing status (married, single, head of household, etc.), pay frequency (biweekly, weekly, semi-monthly, etc.) and wages you enter for your employee.

In general, these are the components of payroll taxes, deducted from gross pay to arrive at net pay:

GROSS PAY...

minus federal income tax

minus state income tax

minus Social Security (FICA)

minus Medicare (FICA)

minus state and local taxes = NET PAY

Federal Tax Deposits

When you deduct these payroll taxes from the employee, you must make a [federal tax deposit](#) of the funds in a timely manner. As the employer, you will also contribute a share of Social Security and Medicare toward this deposit.

A typical federal payroll deposit for the month would include:

- *Federal income tax withholding*
- *Medicare, employee's share*
- *Medicare, employer's share*
- *Social Security, employee's share*
- *Social Security, employer's share*

How to Make Payroll Tax Deposits

Most employers must now use the [Electronic Federal Tax Payment System \(EFTPS\)](#) to make electronic payroll tax deposits. When you hire your first employee, set up your account with EFTPS to start making your federal tax deposits in a timely manner.



The Internal Revenue Service will determine the frequency of your payroll tax deposits based on your payroll amounts. For the first year, new business owners who have never filed Form 941 should be a monthly schedule depositor. Your federal tax deposit will be due the 15th of each month for the previous month's payroll liabilities (note: with EFTPS, you need to initiate the transaction a few days before the deadline.) For more information, read Patriot Software's training articles about [EFTPS](#).

You must also use EFTPS to make federal unemployment deposits (FUTA) anytime your quarterly FUTA liability exceeds \$500. FUTA is assessed on each employee's wages up to a statutory wage limit (currently set at \$7,000).

State and Local Tax Deposits

Rules and methods vary among states and municipalities, and the variations are too numerous to include here. New business owners should consult their state department of taxation and any pertinent municipality tax agencies for this information.

File quarterly and annual reports and returns.

Quarterly Filings

Form 941

Once each quarter, you must file Form 941 with the Internal Revenue Service. This form is a reconciliation of the tax deposits you've made for the quarter. If your payroll taxes are calculated correctly, you should not owe a balance. You can find the current form on the IRS website.

SUTA

State unemployment tax is generally filed and remitted quarterly either online or on a tax agency pre-printed form. This filing typically requires by-employee wage detail for the quarter. Most states only collect SUTA on each employee's wages up to a statutory wage limit (similar to the \$7,000 FUTA limit mentioned above).

State (SIT) and Local Income Tax

State and local income tax rules vary greatly and are beyond the scope of this discussion. Contact your state and local jurisdictions for more information.

Annual Filings

Federal Unemployment Tax and Form 940

If you pay wages of more than \$1,500 in any calendar quarter, you're required to file the Annual Federal Unemployment Tax Return, Form 940, and pay FUTA tax on the first \$7,000 you pay for each employee. This tax contributes to a fund for workers who have lost their jobs. For more information, visit the [IRS website](#).

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Annual W-2/W-3

You are required to give each employee a W-2, the Wage and Tax Statement that shows the employees their annual taxable wages and the taxes you withheld, by January 31st of the following year. Your employees will examine the W-2s and if correct, will file with their income taxes.

You will also report these wages and taxes to the Social Security Administration by filing Copy A of the W-2 along with Form W-3, the Transmittal of Wages and Tax Statements. Form W-3 summarizes all W-2s that you issued to your employees, and is due at the end of February. For more information, read our article [“What is a W-2?”](#)

Many states and municipalities also require a set of W-2s to be sent to their offices for internal reconciliation purposes. Usually at the end of calendar year, the taxing agency provides a reconciliation form to accompany the W-2s, and the due date often coincides with the federal deadline.

Additional Resources

[Internal Revenue Service](#)

[Occupational Safety and Health Administration](#)

[SCORE](#)

[Small Business Administration](#)

[U.S. Department of Labor](#)

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and other software solutions for American employers.*

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