Payroll Management Tips

When it comes to an employer's responsibility for non-exempt workers, according to the U.S. Department of Labor, there are many requirements businesses must follow related to payroll. In one example, there are strict regulations on what information employers must document for each non-exempt worker. While there's no requirement on how the information is recorded, there are three main categories.

Personal details: This should include the employee’s name, complete address, Social Security number, date of birth and gender.

Job details: This must include the worker’s job description and hours clocked in each day and week.

Pay details: The employee’s hourly wage based on straight time, and how employees are compensated – be it hourly, weekly, project or item-based. It should include the number of hours worked each week, per day or per week non-overtime earnings, overtime earnings per work week, and the compensation paid to employee for the pay period. Also included should be the day of the employee's check, for what time period worked is described, and all deductions or increases to the worker’s wages.

Depending on the type of record, employers have different time requirements for record archival. Payroll records must be maintained for 36 months. Schedules, timecards and deduction records for employee earnings must be held for 24 months and be readily accessible for inspection by the U.S. Department of Labor.

When there is minimal deviation from an employee’s schedule, employers simply have to confirm the employee adhered to the schedule. When there is a large deviation (working fewer or more hours than normally scheduled), the actual number of hours worked should be noted. It doesn't matter how time is kept for an employee, as long as it's kept – be it manually written by the worker, a supervisor or HR rep or with a time clock.

Other Documentation

The IRS explains that employers are required to complete Form W-2 to maintain compliance with tip and wage payments. This should be completed and submitted by the end of the calendar year.

Employees who fill out the Form W-4 can mitigate estimated tax liability by specifying how much to have withheld from their compensation by their employer. An employee can claim exemption from federal income tax withholding if she had no income tax liability the prior year and does not expect to pay taxes in the coming year. However, the employer is still required to deduct the FICA tax for that employee.

FICA Tax

Also known as the Federal Insurance Contributions Act (FICA), employers are required to withhold two different types of taxes: Social Security and Medicare. According to the Internal Revenue Service (IRS), employers are responsible to calculate and remit these taxes based upon each employee's wages.

For the 2019 tax year, Social Security taxes for employer and employee are both 6.2 percent, or 12.4 percent total. This tax is limited to the first $132,900 in wages. The Medicare withholding rate is 1.45 percent of wages for both employer and employee, totaling 2.9 percent. Unlike Social Security taxes, for Medicare there's no cap on the employee's total salary. Additionally, for wages exceeding $200,000 for 2019, only the employee is taxed an additional 0.9 percent, in addition to the 1.45 percent (for a total of 2.35 percent of any wages exceeding $200,000 for the 2019 calendar tax year) for Medicare taxes.

Individual Estimated Taxes

Estimated Taxes are meant to satisfy many forms of taxes, and not just income tax obligations. It also includes the alternative minimum tax (AMT) and self-employment taxes. Whether it's a single entrepreneur, a business partner or someone with equity in an S corporation, as long as they have $1,000 or greater in tax obligations, they have to pay estimated taxes, generally on a quarterly basis. When it comes to corporations, the threshold for estimated tax payments is $500 when they prepare their taxes. In additional to taxpayers under the tax liabilities outlined above, estimated taxes are not required for individuals who meet the following: there was no tax owed for the preceding year, the individual was a U.S. citizen or resident for the entire year, and the last tax year was for 12 months. Also note that self-employed workers must pay both the employer and employee portion of the FICA tax.

Much like the evolving landscaping of the U.S. Tax Code, the world of payroll is also subject to ongoing changes that are imperative to maintaining compliance.

Sources:

https://www.dol.gov/whd/regs/compliance/whdfs21.htm

https://www.irs.gov/businesses/small-businesses-self-employed/understanding-employment-taxes

https://www.irs.gov/pub/irs-pdf/p15.pdf

https://www.irs.gov/publications/p505