TEN COMMON PAYROLL PITFALLS AND HOW TO AVOID THEM
PART ONE
Running a business involves a litany of moving parts, and successfully handling payroll duties is just one of them. With so much going on, even within the payroll process itself, it’s easy for business owners to slip up from time to time. Not paying your employees or satisfying your governmental obligations, however, is not an option.

*Keep an eye out for these frequent payroll faux pas:*
Reporting and depositing taxes in a timely manner to federal, state and local taxing agencies is job one. Failing to do so can lead to costly penalties and interest charges, as well as frustration.

“People are busy; they’re running a business and trying to grow a business,” says John Kennedy, division president of Insperity Payroll Services. “Let’s say it’s the 15th of the month and you’re swamped. You’re out on three calls with customers, you have a fire drill you have to do, then it’s the end of the day and you’ve now missed your window to make that deposit, incurring a penalty.”

By using an automated payroll processing system, this oversight can easily be avoided. Marking up – and sticking to – a calendar with all of the year’s deadlines is another helpful tactic.
Failing to keep up with changing payroll regulations

No matter the level of government, tax laws and regulations can change often – and without notice. Staying in the know can be difficult, especially for smaller businesses, but it can save you time and money.

“With an automated tax update service, a business owner can reach out to multiple tax bureaus for guidance on changes in tax law,” Kennedy says. “Online payroll processing, for the most part, can also help with that.

“The mom-and-pop companies can often miss these kinds of changes without a subscription to something like the Bureau of National Affairs or by checking the IRS and state websites – all while running the rest of the business.”
Less-than-stellar data entry

The mismatching of employee names and Social Security numbers is so rampant among employers that the Social Security Administration (SSA) has established a special phone number for verification purposes.

An incorrect filing with the SSA can impact an employee’s future retirement. Additionally, failing to keep an accurate account of employee hours can distort payroll records and lead to costly penalties.
Discarding payroll records prematurely

Depending on which government agency you’re dealing with, payroll information must be stored for a specific period of time. Documents such as timesheets, canceled checks and W-4 forms should be retained for four to six years. If you’re audited, failing to produce the requested documentation can lead to fines.

“Typically, the penalty would be a certain amount of money per employee for whom you didn’t have the proper information,” says Kennedy. “Those fines can stack up quickly.”
Misclassifying employees

Not understanding the difference between exempt employees, non-exempt employees and independent contractors can lead to misrepresentations in reporting income and withholding taxes, as well as the mishandling of overtime.

A rise in the number of independent contractors, such as temporary workers and consultants, makes knowing the difference even more important. These workers, who receive $600 or more in compensation during a given year, expect to be sent their 1099 form by Jan. 31 of the following year.

The Fair Labor Standards Act contains guidelines to help you figure out the category in which your employees belong and stave off any potential oversight.
Having the correct information is crucial when processing payroll, but knowing what to do with it is just as important. The second installment of this guide will unveil five more payroll missteps and outline a course of preventative action for each.

Stay tuned.

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