



Payroll startup kit for new businesses

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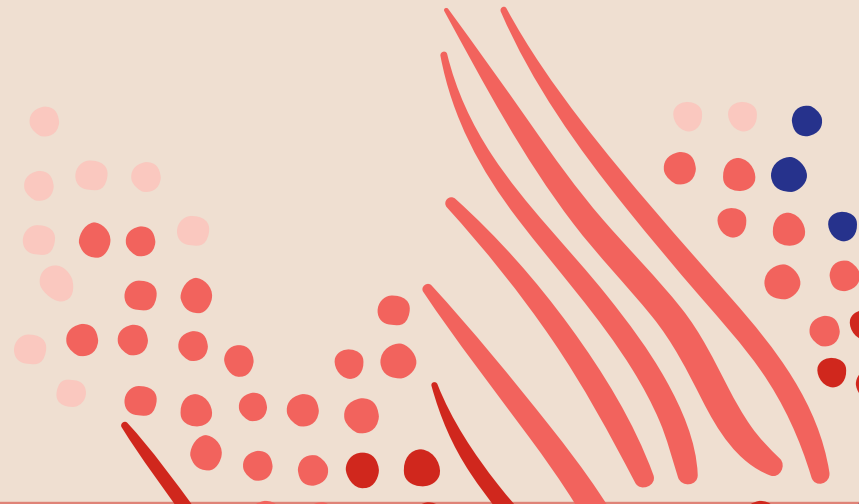


Introduction

Let's be honest, while the payroll process is not the most exciting part of running your business, ensuring payroll is done right is one thing you can't get wrong.

ADP® makes payroll easy. And we've created this payroll starter guide designed specifically for small business owners like you. In it, you'll find information and advice for what you need to begin processing payroll with ADP, addressing everything from tax compliance to paying your people.

Spend less time worrying about payroll and more time doing what you love.





How to set up payroll, a step-by-step guide

STEP 1

Get an EIN

Think of your EIN (Employer Identification Number) as the Social Security Number (SSN) for your business. Just as you need your SSN to file your personal taxes, your business needs an EIN to file payroll taxes. You can easily [file for an EIN online](#) for free by completing Form SS-4, Application for Employer Identification Number.

STEP 2

Obtain your local or state business ID

Some state and local governments require a state or local tax ID separate from your federal EIN. Some states also require a state unemployment ID number. For example, New Mexico, Washington and Wyoming need a specific ID number to apply for workers' compensation insurance.



[Contact the business registration office](#) in your state for specific details. Having your EIN handy will help expedite these processes.



STEP 3

Collect employee documents

Once the registration for your business is taken care of, you'll want to ensure your employees are accounted for. The basic information you'll need to collect for each employee includes:

- First and last name
- Date of birth
- Social Security Number
- Home address
- Start date
- Compensation details and information

On or before a new hire's first day, they must complete [Form I-9, Employment Eligibility Verification](#) and [Form W-4, Employee's Withholding Certificate](#). Form W-4 is a federal tax withholding document. If the employee does not complete this form, then — as per IRS guidelines — the employer would need to withhold taxes for the employee at the status of "single" with no other entries on steps two, three or four. Employees must fill out a state withholding form in states requiring state income tax. Keep in mind that not all states have a state income tax, so whether your employees need to fill out state withholding forms depends on the location of the company and the employee.

Lastly, you will need each employee to provide their home address and Social Security Number which are required for their [Form W-2, Wage and Tax Statement](#) and benefits selections.

STEP 4

Classify your employees

Classifying your employees typically refers to classifying them as: 1) exempt or non-exempt or 2) an employee or an independent contractor.

Exempt employees are those who, under the Fair Labor Standards Act (FLSA), are exempt from overtime pay when they work more than 40 hours in a week. Most employees are classified as non-exempt, meaning they receive overtime pay at one and one-half times their regular rate.

A worker is considered an independent contractor if you, the employer, have the right to direct the result of the work, but they dictate what will be done or how it will be done. Independent contractors pay self-employment tax directly to the IRS or a state tax agency. You as the employer do not deduct income or Medicare and Social Security taxes from their wages, as you would with an employee. Independent contractors are sometimes called "1099" workers because employers use [Form 1099-NEC](#) to report how much they paid independent contractors in a tax year.



Choose pay periods

This next step is important. Choosing how frequently you will be processing payroll will impact other areas of your business operations. Some jurisdictions require specific pay frequencies for certain types of industries or circumstances, so you should always check with your [state's department of labor](#) first.

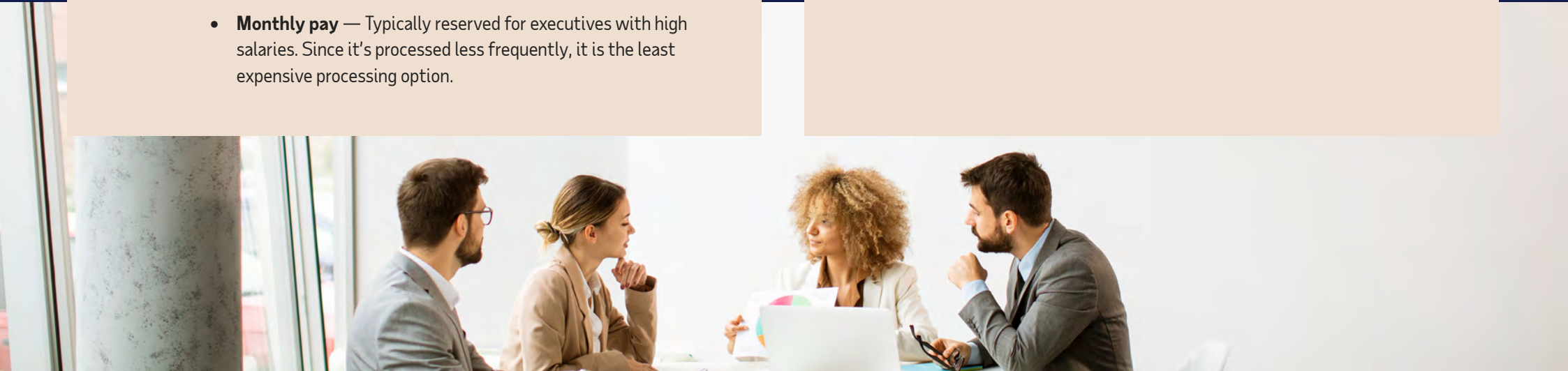
Finding a balance between cost considerations and adherence to local regulations is also crucial. The more frequently you process payroll, the more you will incur processing fees.

- **Weekly pay** — This may be ideal for manual labor jobs with lower wages. Weekly pay is most common in the manufacturing, construction and restaurant industries.
- **Biweekly pay** — This may be best for hourly workers because overtime is typically charged by the workweek. We see this most commonly in the retail industry.
- **Semi-monthly pay** — Ideal for salaried workers due to its consistency and cash flow predictability. This pay period is common across many industries, including financial services and healthcare.
- **Monthly pay** — Typically reserved for executives with high salaries. Since it's processed less frequently, it is the least expensive processing option.

Purchase insurance to protect your business

Workers' compensation insurance helps to protect employers and employees against financial loss in the event of a work-related injury or illness. Workers' compensation coverage is typically required by state law when you hire your first employee. There may be other required coverages depending on the location of your business. The need for workers' compensation and other business coverages — and when you buy it — can vary depending on many factors, including the stage of business (new vs. established), number of employees, industry and location. Depending on your situation, you may consider purchasing other lines, such as an umbrella or business owner's policy, before you hire your first employee.

Whether looking to protect your business through workers' compensation or other lines of coverage, licensed agents within ADP's affiliate, Automatic Data Processing Insurance Agency, Inc. (ADPIA®), can provide access to top-rated carriers who can assist with all your insurance needs.



STEP 7

Offer benefits to employees

Competitive benefits, like health and dental insurance offered through ADPIA and retirement plans, can help you attract and retain top talent. Typically, a portion of the cost is deducted from the employee's paycheck. A few factors determine how much is deducted, including which plans you offer and what the employee selects among these options. ADP's solutions offer all of these and other benefits, like employee wellness programs and discounts on everyday items that help you hire and keep employees. It's important to remember that the Affordable Care Act (ACA) may affect what you are required to offer employees when it comes to benefits cost and coverage. Requirements depend on the number of full-time employees you have. Consulting with a benefits or HR expert is a great way to confirm what the requirements are for your business.

STEP 8

Open a payroll bank account

Some businesses opt to open a payroll bank account, separate from their business account, to pay employees and fulfill tax obligations. This practice can make it easier to keep more accurate records of your payroll transactions and avoid mistakes.

You should also create separate accounts to enhance security. If there were ever a breach in your payroll account, the rest of your business finances would be safe and out of reach. Likewise, if your business account became compromised, you wouldn't have to worry about paying your people.

STEP 9

Set up retirement services

While setting up a retirement services plan might seem unrelated to payroll, some states have mandated that employers provide retirement plans. The mandatory requirements differ from state to state, so how this affects your business will depend on your location and the location of your employees. Employers in states where retirement plans are mandated can choose to utilize a state-sponsored plan or offer their own through the private market. Consult with your ADP payroll provider to see if the partnerships available through ADP Retirement Services are right for your organization.

If you are concerned about the cost of offering retirement plans, don't worry. With the SECURE Act of 2022 start-up tax credit, small business employers with up to 50 employees are eligible to receive a credit covering 100% of administrative expenses (up to \$5,000) for the first three years of a new plan. There's also an additional credit for employers with 100 or fewer employees that would help offset the cost of employer contributions to a retirement plan for up to \$1,000 per employee.



How to use ADP's payroll services

We're thrilled that you are considering us as your partner in payroll and HR! You can rest assured you are in good hands, leaving you free to focus on running your business. Our team stands ready with 24/7 phone or chat support to help you through these next few steps to ensure everything runs smoothly.

1 Provide ADP with your tax info and documentation

First, we'll need all proper documentation and payroll records, including:

- Employee personal information
- Job information
- Company information
- Information regarding state and local regulations

2 Report payroll service provider authorization to the IRS

Next, you must notify the IRS that you've chosen to work with ADP as your payroll service provider. Complete [Form 8655, Reporting Agent Authorization](#) to inform them our handling of your payroll and tax records is authorized.

3 Process your payroll

Now you're ready to pay your people! Enter your employee and business data into RUN powered by ADP®, and you can run payroll and HR tasks anytime, anywhere, with our RUN Mobile app. Or, if you'd like more support, we offer 24/7 phone and chat support to help guide you through the process.





How payroll is calculated and processed

RUN powered by ADP's automated service makes it easy to process and run payroll 24/7 from a desktop or mobile device. Here are all the key steps to the payroll process that ADP's software handles for you behind the scenes.

1 Calculate hours worked and gross pay

First, the total number of hours worked by each employee must be calculated and multiplied by their pay rate.

2 Process payroll deductions

Once gross pay has been calculated, payroll deductions must be subtracted. These include pre-tax deductions, such as health and retirement benefits; state, local and federal tax deductions; and post-tax deductions, such as any court-ordered wage garnishments or Roth IRA retirement plans.

3 Calculate net pay

Subtract the deductions from gross pay to calculate an employee's net pay.

4 File tax reports

Next, payroll tax records must be filed with state, local and federal agencies.

5 Document and store payroll records

Detailed and organized records of all pertinent payroll data must be stored securely to avoid compliance issues. For tax purposes, these records must be kept on file for at least four years.



Whew, that's a lot. But don't worry, ADP has these important steps covered, so your payroll is processed and filed accurately and timely.



Common payroll mistakes

Automating your payroll with a payroll service provider like RUN powered by ADP is a great way to eliminate the possibility of payroll mistakes. RUN powered by ADP has built-in error detection to help you avoid costly errors. However, there are still a few common mistakes you should be aware of when it comes to payroll.

- [Misclassifying employees as independent contractors](#)
- [Inaccurate payroll records](#)
- [Losing or misplacing payroll records](#)
- [Late tax payments](#)
- [Misprocessed garnishments](#)
- Unreported compensation, such as stock options or employee discounts
- [Falling victim to an email phishing scam](#)



Payroll FAQs

1. What is payroll?

Payroll is the method and factors by which employees are paid. From the employee perspective, this includes the frequency and rate they are paid. From the employer's standpoint, this consists of all the calculations and report filing associated with producing a paycheck.

2. How do I start payroll?

To begin processing payroll, you will need all the necessary tax and personal information about your business and employees. This includes your EIN, worker classifications, and employees' Social Security Numbers. Then you'll need to determine factors like payroll frequency and benefits before you can process payroll. These and more are all covered in detail in this guide.

3. What are the benefits of using a payroll service?

The primary benefit of using a payroll service is saving you valuable time by automating a labor-intensive administrative process. Additionally, a payroll service can help you save money by avoiding costly miscalculations or tax-filing mistakes that may result in heavy penalties.

4. How are payroll taxes calculated?

Payroll taxes are calculated by deducting federal income tax, Social Security tax (12.4% of wages by both employer and employee, 6.2% each), Medicare tax (2.9% of wages by both employer and employee, 1.45% each), state taxes and local taxes from gross pay.



Appendix: State-by-state resources

Alabama

- [Business registration](#)
- [Trade name registration](#)
- [Corporate income tax](#)
- [Sales and use tax](#)
- [Unemployment tax](#)
- [Withholding tax](#)

Alaska

- [Business registration](#)
- [Trade name registration](#)
- [Corporate income tax](#)
- [Employment security tax](#)
- [Sales and use tax](#)
- [Other taxes](#)

Arizona

- [Business registration](#)
- [Trade name registration](#)
- [Corporate income tax](#)
- [Transaction privilege tax](#)
- [Unemployment tax](#)
- [Withholding tax](#)
- [Other taxes](#)

Arkansas

- [Business registration](#)
- [Trade name registration](#)
- [Corporation income tax](#)
- [Sales and use tax](#)
- [Withholding tax](#)
- [Unemployment insurance tax](#)

California

- [Business registration](#)
- [Trade name registration](#)
- [Minimum franchise tax](#)
- [S corporation income tax](#)
- [C corporation income tax](#)
- [Sales and use tax](#)
- [Payroll taxes](#)
- [Withholding tax](#)
- [Unemployment tax](#)

Colorado

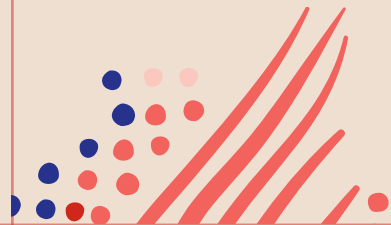
- [Business registration](#)
- [Trade name registration](#)
- [Business income tax](#)
- [Sale and use tax](#)
- [Withholding tax](#)
- [Unemployment tax](#)
- [Other taxes](#)

Connecticut

- [Business registration](#)
- [Trade name registration](#)
- [Corporation business tax](#)
- [Sales and use tax](#)
- [Withholding tax](#)
- [Federal/state employment taxes](#)

Delaware

- [Business registration](#)
- [Trade name registration](#)
- [Corporate income tax](#)
- [Franchise tax](#)
- [Gross receipts tax](#)
- [Withholding tax](#)
- [Unemployment insurance tax](#)



Florida

[Business registration](#)
[Trade name registration](#)
[Corporate income tax](#)
[Sales and use tax](#)
[Discretionary sales surtax](#)
[Reemployment tax](#)
[Other taxes](#)

Georgia

[Business registration](#)
[Trade name registration](#)
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Hawaii

[Business registration](#)
[Trade name registration](#)
[Corporate income tax](#)
[S corporation income tax](#)
[General excise tax](#)
[Withholding tax](#)
[Unemployment insurance tax](#)

Idaho

[Business registration](#)
[Trade name registration](#)
[Business income tax](#)
[Sales and use tax](#)
[City sales tax](#)
[Withholding tax](#)
[Unemployment tax](#)

Illinois

[Business registration](#)
[Trade name registration](#)
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[Sales and use tax](#)
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[Other taxes](#)

Indiana

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[Sales tax](#)
[Withholding tax](#)
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[Other taxes](#)

Iowa

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[Corporation income tax](#)
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Kansas

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Kentucky

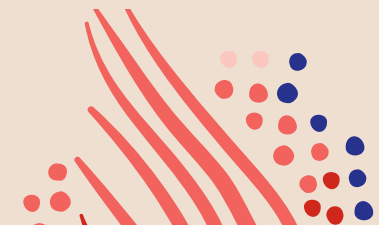
[Business registration](#)
[Trade name registration](#)
[Corporation income and limited liability entity tax](#)
[Sales and use tax](#)
[Withholding tax](#)
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[Other taxes](#)

Louisiana

[Business registration](#)
[Trade name registration](#)
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[General sales and use tax](#)
[Withholding tax](#)
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[Other taxes](#)

Maine

[Business registration](#)
[Trade name registration](#)
[Corporate income tax](#)
[Sales, use and service provider tax](#)
[Withholding tax](#)
[Pass-through entity withholding tax](#)
[Unemployment tax](#)
[Other taxes](#)



Maryland

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[Trade name registration](#)
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[Unemployment insurance tax](#)

Massachusetts

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[Trade name registration](#)
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[Sales and use tax](#)
[Withholding tax](#)
[Unemployment insurance tax](#)

Michigan

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Minnesota

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Mississippi

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[Other taxes](#)

Missouri

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Montana

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[Trade name registration](#)
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Nebraska

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[Unemployment tax](#)

Nevada

[Business registration](#)
[Trade name registration](#)
[Commerce tax](#)
[Sales and use tax](#)
[Unemployment insurance tax](#)

New Hampshire

[Business registration](#)
[Trade name registration](#)
[Business profits tax](#)
[Business enterprise tax](#)
[Unemployment compensation tax](#)

New Jersey

[Business registration](#)
[Trade name registration](#)
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[Sales and use tax](#)
[Withholding tax](#)
[Unemployment tax](#)

New Mexico

[Business registration](#)
[Trade name registration](#)
[Corporate income tax and franchise tax](#)
[Gross receipts tax](#)
[Compensating tax](#)
[Wage withholding tax](#)
[Unemployment insurance tax](#)
[Other taxes](#)

New York

[Business registration](#)
[Trade name registration](#)
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North Carolina

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[Trade name registration](#)
[Corporate income and franchise tax](#)
[Sales and use tax](#)
[Withholding tax](#)
[Unemployment insurance tax](#)

North Dakota

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[Trade name registration](#)
[Corporate income tax](#)
[S corp and partnership tax](#)
[Sales and use tax](#)
[Income tax withholding](#)
[Unemployment business tax](#)
[Other taxes](#)

Ohio

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[Trade name registration](#)
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[Sales and use tax](#)
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Oklahoma

[Business registration](#)
[Trade name registration](#)
[Corporate income tax](#)
[Franchise tax](#)
[Business sales tax](#)
[Business use tax](#)
[Withholding tax](#)
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Oregon

[Business registration](#)
[Trade name registration](#)
[Corporation estimated tax](#)
[Commercial activity tax](#)
[C corporation excise tax](#)
[S corporation tax](#)
[Withholding tax](#)
[Payroll taxes and unemployment insurance tax](#)

Pennsylvania

[Business registration](#)
[Trade name registration](#)
[Corporate net income tax](#)
[Sales, use and hotel occupancy tax](#)
[Withholding tax](#)
[Nonresident withholding tax](#)
[Unemployment compensation tax](#)

Rhode Island

[Business registration](#)
[Trade name registration](#)
[Corporate tax](#)
[Streamlined sales and use tax](#)
[Withholding tax](#)
[Unemployment tax](#)

South Carolina

[Business registration](#)
[Trade name registration](#)
[C corporation income tax](#)
[S corporation income tax](#)
[Sales tax](#)
[Use tax](#)
[Withholding tax](#)
[Unemployment insurance tax](#)
[Other taxes](#)

South Dakota

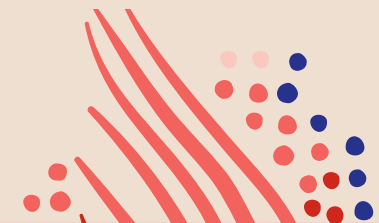
[Business registration](#)
[Trade name registration](#)
[Sales and use tax](#)
[Reemployment assistance tax](#)

Tennessee

[Business registration](#)
[Trade name registration](#)
[Franchise and excise tax](#)
[Business tax](#)
[Sales and use tax](#)
[Unemployment insurance tax](#)

Texas

[Business registration](#)
[Trade name registration](#)
[Franchise tax](#)
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[Unemployment tax](#)



Utah

[Business registration](#)
[Trade name registration](#)
[Corporation franchise and income tax](#)
[Sales and use tax](#)
[Withholding tax](#)
[Unemployment insurance tax](#)

Vermont

[Business registration](#)
[Trade name registration](#)
[Corporate income tax](#)
[Business entity income tax](#)
[Sales and use tax](#)
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[Unemployment tax](#)

Virginia

[Business registration](#)
[Trade name registration](#)
[Corporation income tax](#)
[Pass-through entities tax](#)
[Sales and use tax](#)
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[Unemployment insurance tax](#)

Washington

[Business registration](#)
[Trade name registration](#)
[Business and occupation tax](#)
[Retail sales tax](#)
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West Virginia

[Business registration](#)
[Trade name registration](#)
[Corporate income tax](#)
[Business and occupation tax](#)
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Wisconsin

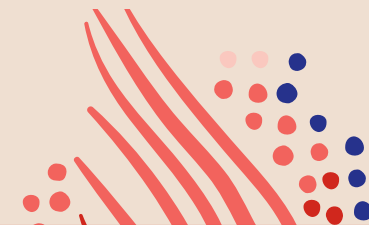
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[Trade name registration](#)
[Corporation and partnership tax](#)
[Sales and use tax](#)
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[Unemployment tax](#)

Wyoming

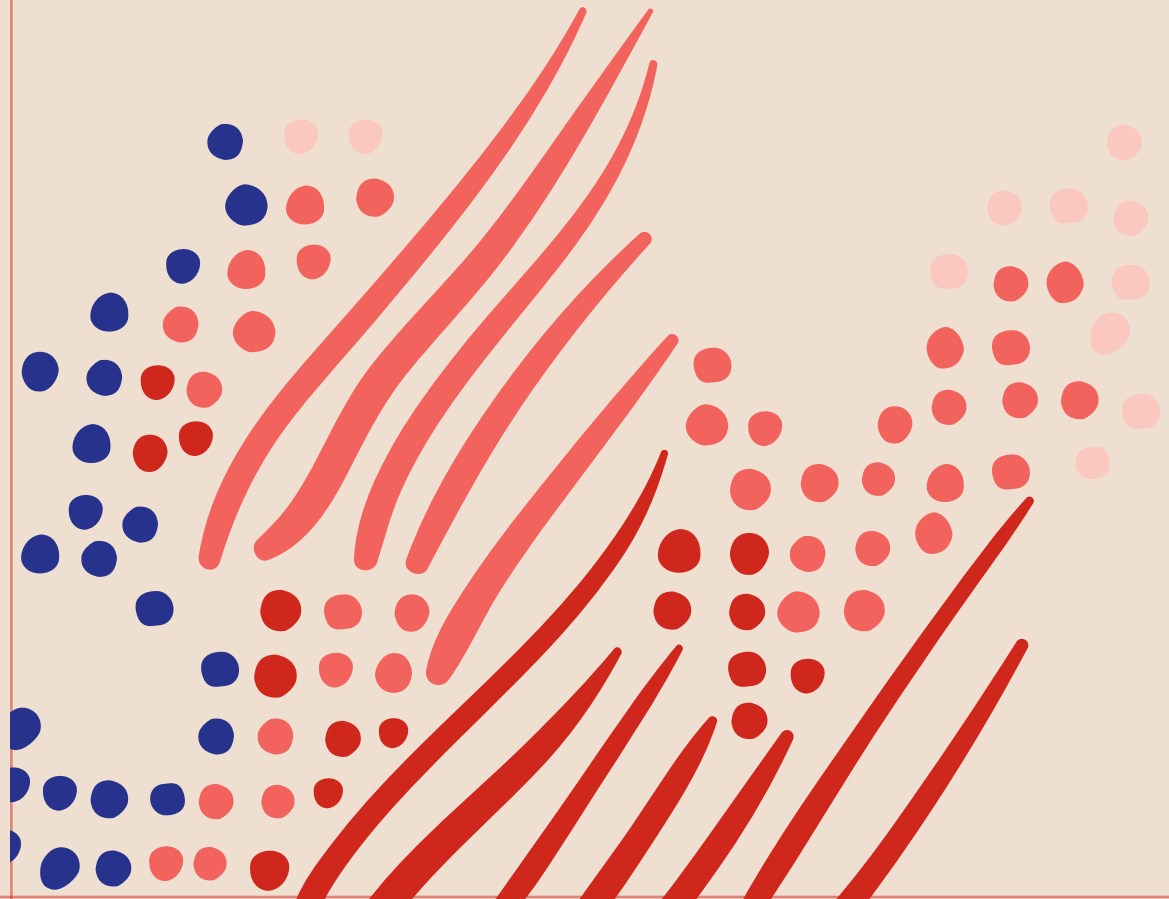
[Business registration](#)
[Trade name registration](#)
[Excise tax](#)
[Unemployment tax](#)

Washington, D.C.

[Business registration](#)
[Trade name registration](#)
[Business franchise tax](#)
[Sales and use tax](#)
[Withholding tax](#)
[Unemployment insurance tax](#)



We hope you found this guide helpful! For more information on ADP small business services, visit ADP's [Small Business Resource Center](#) to discover all the ways ADP can help you run your business better to get started today.



This guide is intended to be used as a starting point in analyzing an employer's payroll and workers' comp obligations and is not a comprehensive resource of requirements. It offers practical information concerning the subject matter and is provided with the understanding that ADP is not rendering legal or tax advice or other professional services. Please consult your personal tax or legal advisor should you have specific questions related to your circumstance.

Tax figures provided are as of the 2020 tax year.

¹There are additional requirements for the basic records that an employer must maintain under various federal and state laws. Remember to check each jurisdiction's requirements for compliance.

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