

A man and a woman are sitting at a desk in a modern office, high-fiving each other. The man is wearing glasses and a grey sweater, and the woman is wearing a light-colored sweater. They are both smiling. On the desk, there is a laptop, some papers, and a pen. The background is a blurred office environment with glass partitions and shelves.

# THE ULTIMATE PAYROLL HANDBOOK

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How to Pay Employees  
Accurately and On Time  
(and Stay Compliant)

# Understanding Payroll

Processing payroll isn't just about cutting checks; it's about ensuring your employees feel valued and your business remains compliant with tax laws. Timely and accurate payment is the backbone of employee satisfaction and trust.

According to a survey by the American Payroll Association, 74% of employees said timely and accurate pay significantly impacts their morale. On the flip side, errors can lead to dissatisfaction, legal troubles, and even penalties from regulatory agencies.

A clearly defined payroll process is essential for consistency—not just for your employees but for maintaining accurate records, meeting tax requirements, and ensuring compliance with federal and state labor laws. Payroll impacts multiple aspects of your business, including employee retention, financial stability, and legal standing. Mistakes can snowball, causing financial strain, audits, or fines that are entirely avoidable with the right systems in place.

**To succeed, businesses need to prioritize accuracy and efficiency in payroll processes. Whether you have a small team or hundreds of employees, understanding the ins and outs of payroll ensures smooth operations and satisfied staff.**

**49% of U.S. workers live paycheck to paycheck.** Missing or delaying payroll can create significant financial stress for employees.



Employers can face penalties of up to \$1,000 per employee for repeated payroll compliance violations.



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This guide is designed to cover the fundamentals of payroll to help small business owners navigate compliance, taxes, and employee compensation with confidence and ease.

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# Collecting Employee Information

Accurate payroll begins with collecting comprehensive employee information. This foundational step ensures legal compliance and facilitates smooth payroll processing. Here are the essential components:



## Employee Identification

Full name, Social Security Number (SSN), and address are critical for tax and employment records. Confirm this information through a secure process to minimize errors.



## Tax Forms

Employees must complete federal W-4 forms for tax withholding, and some states require additional forms. These documents dictate how much tax to withhold based on marital status, dependents, and other factors.



## Direct Deposit Details

If you offer direct deposit, gather accurate bank account details to streamline payments. Many employees prefer this option for its speed and convenience.



## Employment Agreements

Define terms such as salary, hourly wages, benefits, and job responsibilities. Clear agreements help prevent disputes and establish transparency.



## I-9 Form

Verify employment eligibility as required by federal law. Maintaining I-9 forms ensures compliance with immigration regulations and prevents legal repercussions.

Beyond collecting information, employers must safeguard sensitive data. Store documents securely, comply with privacy laws, and limit access to authorized personnel.



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Use a digital onboarding platform to collect and organize employee information. Digital tools enhance **accuracy, streamline workflows, and protect sensitive data** through encryption and access controls.

# Calculating Employee Pay

## Exempt vs. Non-Exempt

Exempt employees typically hold salaried positions and are exempt from overtime rules under the Fair Labor Standards Act (FLSA). Non-exempt employees are entitled to overtime for any hours worked over 40 per week.



Calculating employee pay is a multifaceted process influenced by classification, hours worked, benefits, and legal requirements. Errors at this stage can lead to dissatisfaction or compliance issues, making attention to detail crucial.

## Employee Classification

- **Hourly vs. Salary:** Hourly employees are paid based on the hours they work, while salaried employees receive a consistent amount each pay period. Accurate time tracking is critical for hourly staff.
- **Exempt vs. Non-Exempt:** Exempt employees are not entitled to overtime under the Fair Labor Standards Act (FLSA), whereas non-exempt employees must be paid 1.5 times their regular rate for overtime. Misclassifications can lead to significant fines.

## Additional Considerations

- **Overtime Pay:** Monitor hours worked to calculate overtime accurately for non-exempt employees.
- **Bonuses and Commissions:** Include performance-based incentives in pay calculations.
- **Payroll Schedules:** Decide on weekly, bi-weekly, semi-monthly, or monthly schedules based on business needs and compliance requirements.

## Deductions

Consider deductions for taxes, benefits, and garnishments. Miscalculating these amounts can create compliance issues and employee dissatisfaction.



Technology plays a pivotal role in ensuring accurate calculations. Payroll software can automate calculations, reduce human error, and simplify complex scenarios like multi-state taxation or shift differentials.

# Filing Payroll Taxes

Navigating payroll taxes is one of the most intricate parts of payroll management. Employers must calculate, withhold, and pay taxes at multiple levels. Compliance requires meticulous attention to detail and staying updated with tax regulations.

## Federal Taxes

- Income tax withholding based on W-4 forms.
- Social Security and Medicare taxes (FICA), split between employer and employee.



Using payroll software with built-in tax calculations simplifies these processes. Automated systems reduce the risk of errors, ensure timely payments, and adapt to tax law changes.

## State and Local Taxes

Tax obligations vary by state and, in some cases, by local jurisdictions. Ensure your payroll system accounts for these variations.

## Employer Responsibilities

Employers must also pay unemployment insurance taxes (FUTA and SUTA) and sometimes contribute to disability insurance programs.

## Reporting and Filing

Employers are required to report wages and taxes via forms such as W-2 (for employees), W-3 (summary of all W-2s), and 1099 (for contractors). Failure to meet deadlines can result in penalties.

There are **over 15,000 tax codes** in the U.S., and many change annually. Automating your payroll tax calculations can reduce errors and avoid penalties.

# Benefits & Deductions

Payroll and employee benefits are closely intertwined. Employers must account for a variety of deductions and contributions when processing payroll. Common deductions include:



## Health Insurance

Premiums for medical, dental, and vision plans are typically deducted pre-tax, lowering taxable income.



## Retirement Contributions

Contributions to 401(k) plans or similar programs may be deducted pre-tax or post-tax, depending on the plan.



## FSA and HSA Contributions

These accounts allow employees to set aside pre-tax dollars for medical expenses, directly impacting their taxable income.



## Garnishments

Court-ordered deductions for child support, loans, or tax levies must be processed accurately and promptly.



## Union Dues and Charitable Contributions

Voluntary deductions require clear employee authorization.

Employers should establish clear communication with employees about how deductions work. Transparency builds trust and reduces confusion. Additionally, managing varying deduction schedules is essential; some benefits are deducted monthly, while others align with pay periods.



## FSA vs. HSA



FSAs are employer-sponsored and must be used within the plan year.

HSAs are tied to high-deductible health plans and offer more flexibility for carrying over funds.



## Spotlight on Payroll Cards

Payroll cards are gaining traction as a cashless solution. They're convenient for employees and can offer features like:

- Access to earned wages before payday.
- Deposit rewards or cashback incentives.



**Pro Tip:** Partner with a payroll provider that supports multiple payment methods to meet diverse employee needs.

# Delivering Payroll

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Once payroll is calculated, delivering pay to employees is the final step. Employers have several options, each with their own benefits and challenges:

## Paper Checks

These provide a tangible payment option but require manual processing and are susceptible to fraud or delivery delays.

## Direct Deposit

The most popular method, direct deposit transfers funds directly into employees' bank accounts, offering convenience and reliability. It's also eco-friendly and reduces administrative costs.

## Payroll Cards

Ideal for employees without bank accounts, payroll cards function like debit cards. Employees can access their earnings securely and conveniently. Some payroll cards offer additional benefits, such as earned wage access or deposit rewards.

Employers should aim to provide flexibility by offering multiple payment options to suit diverse employee needs. Direct deposit remains the gold standard for efficiency, but payroll cards are an excellent alternative for unbanked workers.





# Manage Payroll **Effectively**

Managing payroll effectively requires a blend of compliance, technology, and clear processes. By understanding the ins and outs of paying employees, you can ensure your team is compensated accurately and on time while reducing the risk of costly errors.

Remember, the right tools and partners can transform payroll from a complex task to a seamless experience. Empower your business and employees with efficient payroll management.

Partner with Asure to develop great teams, stay compliant, and allocate your resources toward growth.

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