



# Payroll Accounting

A Practical, Real-World Approach | 6th Edition

## Chapter 1: Processing a New Employee



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# Learning Objectives


- After studying this chapter, you will be able to:
  - Define the Fair Labor Standards Act
  - Utilize Circular E
  - Complete various forms for new employees
  - Convey the importance of workers' compensation insurance
  - Create an employee earnings record

# The Employee Paystub

- Paystubs list amounts not included in your check.

Deductions		
Statutory		
Federal Income Tax	- 40.60	2,111.20
Social Security Tax	- 28.05	1,458.60
Medicare Tax	- 6.56	341.12
NY State Income Tax	- 8.43	438.36
NYC Income Tax	- 5.94	308.88
NY SUI/SDI Tax	- 0.60	31.20
Other		
Bond	- 5.00	100.00
401(k)	- 28.85*	1,500.20
Stock Plan	-15.00	150.00
Life Insurance	- 5.00	50.00
Loan	- 30.00	150.00
Adjustment		
Life Insurance	+ 13.50	

- Other information (company, pay period, employee information) is also found on the paystub.



MY CONSTRUCTION COMPANY  
1001 Fifth Avenue  
New York, NY 10022

Period ending: 12/9/2018  
Pay date: 12/11/2018

CLARK MITCHELL  
547 Smith Street  
New York, NY 10033

Earnings	Rate	Hours	This Period	Year to Date	Deductions	This Period	Year to Date
Regular	\$14.00	40.00	\$560.00	\$28,000.00	Statutory		
Overtime	\$21.00	4.00	\$84.00	\$6,615.00	Federal Income Tax	\$19.00	\$1,350.00
Holiday	\$30.00	0.00	\$0.00	\$2,250.00	Social Security Tax	\$39.93	\$2,285.63
					Medicare Tax	\$9.34	\$534.54
					NYS Income Tax	\$12.67	\$783.33

# The Employee Paystub (cont.)

## ■ Using the Summary of Tax Rates

➤ Refer to these tax rates throughout the book:

Tax Type	Tax Rate
State income tax withholding	5%
Social Security (OASDI) tax	6.2%
Social Security wage base (threshold)	\$128,400
Medicare (HI) tax	1.45%
FUTA (federal unemployment) tax	0.6%
FUTA wage base (threshold)	\$7,000
SUTA (state unemployment) tax	3.4%
SUTA wage base (threshold)	\$8,500

# The Fair Labor Standards Act (FLSA)

- Employers must ensure compliance with the Fair Labor Standards Act.
  - It establishes a federal minimum wage.
  - It establishes the overtime wages rate.
  - It establishes child labor restrictions.

*The FLSA contains many other provisions and allows a wide range of exemptions.*



# The Federal Minimum Wage

- U.S. Congress sets the federal minimum wage.

Effective Date	Minimum Wage Rate
July 24, 2009	\$7.25

- Individual states may also pass their own minimum wage laws.
  - When state-established rates disagree with the federal rate, the larger wage prevails.



# Exceptions to the Federal Minimum Wage

- Workers with disabilities
- Full-time students
- Young workers
- Tipped employees
- Student learners

# Who Must Pay the Minimum Wage?

- The minimum wage applies to people employed by:
  - Large businesses (revenues of \$500,000+)
  - Governmental agencies (local, state, or federal)
  - Hospitals
  - Schools
- It also covers domestic workers and employees working for interstate commerce businesses.





# Calculating Overtime Wages

- Hours worked over 40 in a workweek are paid at 1.5 times regular wages (“time and a half”).
- Certain employees are exempt, such as executive, administrative, and professional workers.



# Child Labor Restrictions

- Restrictions vary depending on age groups:
  - **Under 14 years of age** – May only perform specific activities
  - **Ages 14 and 15** – May work a variety of jobs but are subject to extensive hour limitations
  - **Ages 16 and 17** – May work an unlimited number of hours

***WARNING!*** No child under 17 may work in a job classified as hazardous.



# Circular E

- An employer's tax guide written by the IRS
- Benefits provided include:
  - Due dates for payroll forms
  - Tables to calculate tax withholding
  - A summary of regulations
  - IRS contact information

# Form SS-4

- Complete Form SS-4 to obtain an Employer Identification Number (EIN).

<b>Form SS-4</b> (Rev. December 2017) Department of the Treasury Internal Revenue Service		<b>Application for Employer Identification Number</b> (For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.) ▶ Go to <a href="http://www.irs.gov/FormSS4">www.irs.gov/FormSS4</a> for instructions and the latest information. ▶ See separate instructions for each line. ▶ Keep a copy for your records.		OMB No. 1545-0003	
		<b>EIN</b>			
Type or print clearly.	<b>1</b> Legal name of entity (or individual) for whom the EIN is being requested				
	<b>2</b> Trade name of business (if different from name on line 1)		<b>3</b> Executor, administrator, trustee, "care of" name		
	<b>4a</b> Mailing address (room, apt., suite no. and street, or P.O. box)		<b>5a</b> Street address (if different) (Do not enter a P.O. box.)		
	<b>4b</b> City, state, and ZIP code (if foreign, see instructions)		<b>5b</b> City, state, and ZIP code (if foreign, see instructions)		
	<b>6</b> County and state where principal business is located				
	<b>7a</b> Name of responsible party		<b>7b</b> SSN, ITIN, or EIN		

# Hiring an Employee

- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 enables better enforcement of child-support laws.
- Complete Form SS-5 to obtain a Social Security number.

SOCIAL SECURITY ADMINISTRATION			
Application for a Social Security Card			
Form Approved OMB No. 0960-0066			
1	NAME TO BE SHOWN ON CARD	First	Full Middle Name Last
	FULL NAME AT BIRTH IF OTHER THAN ABOVE	First	Full Middle Name Last
	OTHER NAMES USED		
2	Social Security number previously assigned to the person listed in item 1	<input type="text"/> <input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	

# Hiring an Employee (cont.)

## ■ Complete Form W-4

- It indicates the number of tax allowances being claimed.

<b>Form W-4</b> Department of the Treasury Internal Revenue Service		<b>Employee's Withholding Allowance Certificate</b> ▶ Whether you're entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.		OMB No. 1545-0074 <b>2018</b>
<b>1</b> Your first name and middle initial		Last name		<b>2</b> Your social security number
Home address (number and street or rural route)		<b>3</b> <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married filing separately, check "Married, but withhold at higher Single rate."		
City or town, state, and ZIP code		<b>4</b> If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶ <input type="checkbox"/>		

- The Personal Allowances Worksheet helps the employee determine the number of allowances to claim.



# Additional Hiring Considerations

- The Immigration Reform and Control Act of 1986
  - Intended to reduce illegal employment of foreign workers in the U.S.
- Form I-9
  - Completed by the employee; acceptable documents are verified by the employer
- E-Verify
  - Compares information from employee with that possessed by various government agencies

# General Payroll Topics

- Considerations prior to hiring employees:
  - Obtain workers' compensation insurance
  - Obtain payroll certifications
  - Utilize payroll service providers
  - Establish employee earnings records



# Workers' Compensation Insurance

- Required by most states
- Provides financial assistance to employees injured on the job
- Employers pay for the insurance
  - Premiums are based on the relative risk associated with different job types.

# Payroll Certifications

- The American Payroll Association offers two certifications:
  - Fundamental Payroll Certification (FPC)
    - ◆ Establishes a baseline level of payroll competency
  - Certified Payroll Professional (CPP)
    - ◆ Designates a higher level of payroll mastery

# Utilizing a Payroll Service

- Calculates employee net pay
- Generates paychecks
- Completes and files monthly, quarterly, and annual payroll tax forms

# Employee Earnings Record

- Contains key employee and payroll information
- Summarizes annual payroll figures
- Facilitates completion of payroll tax forms

<u>Employee Earnings Record</u>																	
Name _____				Marital Status _____													
Address _____				Fed. Withholding Allow. _____													
SS# _____				State Withholding Allow. _____													
Earnings								Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay