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NEWSLETTER

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What Employees Need To Know About Income Tax Withholding

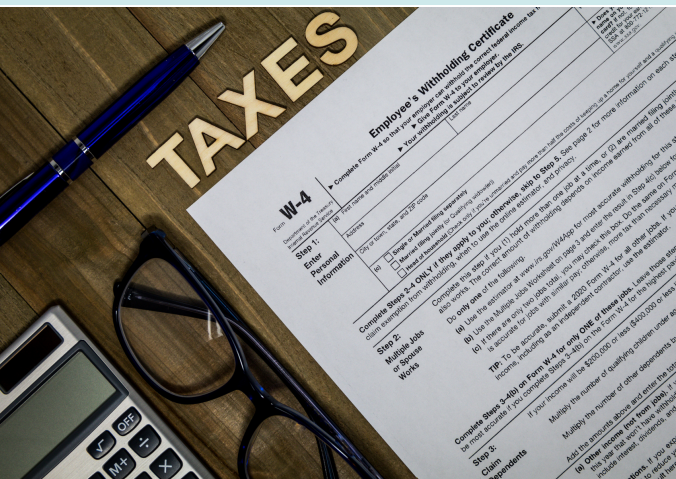
Workers who are considered employees do not have to pay their own taxes during the year. Instead, employers withhold income tax from their employees' paychecks and pay it to the IRS on behalf of the employee.

Now, if not enough tax is withheld from each employee's paycheck, then the employee might end up receiving an unexpected tax bill come tax season. They might even come face-to-face with penalties when filing their tax returns in the next year.

On the other hand, if employees end up overpaying taxes as a result of having too much tax withheld from their paychecks throughout the year, the employees may receive a tax refund. That's never a bad thing, but adjusting the tax that is withheld upfront may mean your employee will receive bigger paychecks throughout the year rather than a lump sum come tax season.

Ultimately, the amount of tax that is withheld from employee paychecks is determined by what employees do when they enter the workforce or change jobs. It all starts with the way employees fill out their W-4 form, the Employee's Withholding Certificate.

This information tells employers how much money they should withhold from an employee's paychecks for federal income tax. The information that employees submit is out of the employer's



hands, but if your employee notices that something is off with the tax being withheld in their name, you can refer your employees to the information they submitted.

Get the forms right

If need be, employees can submit new W-4 forms when their personal or financial situation changes. That way, their current situation can be reflected in their withholding amounts.

Also, if your employees are not sure whether the right amount of tax is being withheld from their paychecks, the IRS offers a Tax Withholding Estimator tool on the official IRS.gov website. This tool can help people estimate their federal income tax withholding amounts while seeing how it may affect their refund, take-home pay, or tax owed.

Keep in mind that all of this information applies only to workers whom you employ. If you pay contractors or freelancers to do work

for you, remember that they are responsible for paying their own taxes directly to the IRS. You do not have to automatically withhold any of those taxes from their income because it is their responsibility, not yours.

That said, all taxpayers are encouraged to keep copies of their tax-related documents. Store them in a safe place to ensure that they can be found or remain readily available when it comes time for you to file an accurate return.

General Advice On Payroll Security

While it's highly unlikely that you will be held responsible in the event that a third party hacks your payroll system, a data leak like that will more than likely result in negative outcomes, not only for you and your employees but between the two of you as well.

One of the biggest risks of having payroll information stolen from your company is that your employees will have to deal with identity theft for years to come. Additionally, your employees will likely hold you accountable and responsible for any damage they incur as a result of the data leak, even though they were not your fault.

However, even though data leaks or stolen information is not necessarily your fault, it will be your responsibility to salvage the situation on behalf of your employees. Plus, it may indicate poor data security on the part of your company, resulting in bad publicity for your business.

With proper payroll security, you can safeguard your company's money as well as the data of everyone involved. So, in order to reduce the

risk of serious issues that will cost you time, money and headaches down the road, it's imperative that you enhance your company's security measures when it comes to payroll.

Take charge of your security

Payroll is a part of every business, and it contains an incredible amount of personally identifiable information. And while this isn't new information, it's unfortunate that there are people out there who use this fact to their advantage. In fact, Forbes says that payroll fraud occurs twice as often to smaller businesses as to larger ones, which often comes down to security measures and the money that goes into them.

So, no matter your budget, what can you do to protect your business from identity theft, loss of information or stolen data? An inexpensive way to take charge of your company's security is by educating your employees about proper data security measures. Make moves to train your employees on how to spot scams carried out via phishing emails

and text messages.

It's important to remind your employees to regularly alter their login information and professional credentials. A good rule of thumb is to change passwords every 60 to 90 days at a minimum.

This practice can help your employees minimize their risk of being a victim of data breaches or unwanted access to personal information. In the same vein, encourage your employees to opt into multifactor authentication.



Additionally, never leave your computer screen open or visible when you access employee information. People can do many unintentioned things with only a name and a Social Security number.

In fact, those two details alone are enough to steal someone's identity. To protect these details, invest in a physical privacy filter to conceal your screen if you frequently work in open or public environments.

Consider all the situations

Restrict who has access to your payroll information, and ensure that any of your employees who have access to private information first complete a training program that informs them about payroll security measures. Also, double-check that the people who receive this security clearance are trustworthy.

Another thing to avoid when working in public places is a connection with unsecured Wi-Fi networks. Hackers openly operate in public because that's where they can capture personal information. So, whenever you go online, make use of a virtual private network and tell your employees to do the same.

Similarly, always log out of email accounts and other work profiles when you are not logged into them on your personal work device. Also, remind yourself and everyone else that logging into your work accounts from someone else's computer can grant that person access to employee files if you are not careful. Similarly, the device you use might automatically save your username and password without your knowledge.

You should conduct an audit of

payroll security. Along with an official audit, talk to your team and ask if they have encountered any system-related issues over the years.

In fact, you should make this check-in as regular as your audits. Employees often develop ways to work with or around issues instead of bringing them to light, so request full transparency from your employees to avoid a security breach.

Think strategically

Allocate payroll duties among different employees. Instead of granting one person total access to everything, divide the responsibilities by asking one employee to handle timecards while another submits payroll and a third issues pay stubs.

By splitting up tasks like this, you can reduce the risk that one employee will change, alter or steal sensitive information from your company. Now, if your payroll department is only one person, make multiple accounts that can handle each part of the process instead.

Not only should you make sure physical copies of business documents are kept under lock and key, but it's imperative that you consistently update the payroll software you use. When new updates are available, accept them immediately.

Also, if you can, it's even better to choose software that automatically updates instead of requiring manual approval to do so. That way, you'll never forget to update the software, because updates will be automated.

It's wise to work with a payroll service provider that can help you ensure that your payroll data is secure and all personal information

remains confidential. Make sure the data you store is also encrypted at every endpoint. Keep in mind that disk-level encryptions can prevent files from being of any use to people who steal company devices like laptops, cellphones or servers.

By encrypting data at that level, you'll be taking yet another security measure to prevent online database breaches. Last but not least, perform vulnerability scans and penetration tests across your entire network to make sure there aren't any holes in your security.

At the end of the day, it is essential that you take a very close look at the security measures you have in place for your payroll data. Doing so can help you determine if there is any possibility of a security breach.

Likewise, you can also determine if there have been any security breaches in the past. Ultimately, it's better to be prepared than reactive, so if there's one thing you do, make sure you implement security measures as soon as possible.

Spot Your Rising Stars

Once the team is in place, it is generally up to the managers to continue to monitor members' development. They seek to identify those individuals likely to contribute most to the company. Especially in a smaller startup, it is helpful to recognize exceptional competency while the operation is still in its early stages. With an eye on the future, management can lay the groundwork for optimal performance later.

Different characteristics drive success

Your star employees may exhibit diverse qualities and traits, depending on the company, the business or even the department. In some cases, doers who deliver results may be the key to the firm's success; in other businesses or industries, creativity and innovation set the firm apart. The first challenge is to realize the components vital for a company's success.

You first need to define talent in a business context. Many organizations benefit from a combination of skill sets. Maybe 80% of the workforce is made up of dependable, productive performers, with the other 20% providing that extra spark of brilliance. A company needs more than a collection of elite superstars. Therefore, HR focuses on the variety of roles and which people can match those needs. For example, a sales business requires employees with an ability to persuade and cultivate relationships, while hospitality employees need to solve operational problems quickly and attend to details rigorously.

It is also important to distinguish between today's performance and tomorrow's potential. Every employee does not come fully fledged, and a company must clarify the connection between current and prospective performance in its field. A truly effective manager will observe behaviors and project to envisage how an employee might develop.

The ultimate goals are broader than immediate promotions. The whole organization benefits when it can retain its long-term A team by steadily progressing the team into more senior roles. Incorporating

available talent into the long-term plan can galvanize engagement and leadership across the ranks.

Pinpoint potential

After you have decided how you will measure potential, you will need to monitor progress among those identified as high-potential individuals. Many companies simply rely on the instincts of management and look to ad hoc observations for predicting the paths their most dynamic workers are destined to follow.

There are also some tools available to help quantify a range of elusive personality traits. The High Potential Trait Indicator, created in 2006 by Adrian Furnham and Ian McRae, predicates its model on theoretically optimal characteristics for a given job. The model scores appropriate levels for:

- Conscientiousness
- Flexibility
- Curiosity
- Openness to risk
- Ambiguity
- Acceptance
- Competitiveness

On the cultural side, there may be fewer official tests, but managers should also watch for signs of common values among their workforce. Members who share the organization's mission and values will be more receptive to camaraderie and more likely to remain loyal. A strong employee value proposition acts as a recruiting magnet too. If you provide promotion opportunities for a variety of positions, you may pick up clues as to who in the group is keen to keep moving ahead within

the ranks.

Star material

How does an innately talented team member behave, and what features distinguish them from their colleagues? You will probably recognize the signs of a self-starter who:

- Is comfortable taking initiative and does not need micromanagement
- Is team oriented
- Is cooperative and collaborative with others
- Has a strong work ethic
- Is trusted by peers
- Has high personal standards for performance
- Has a proactive drive toward continuous improvement
- Demonstrates expertise, competency, and craftsmanship
- Thinks creatively, bringing fresh perspectives to challenges
- Exudes positive energy
- Is adaptable and flexible — they can accept being wrong and value feedback
- Thrives under pressure
- Has superior decision-making availability, sorting through complexity and ambiguity, making patterns and drawing connections
- Asks insightful questions

There is another key quality that sometimes trumps all these capabilities: In the end, you want someone on your team who stays cool and collected under fire. Emotional intelligence is the gift of self-awareness — the sensitivity to read situations and react appropriately.

The 1099 Story: Which Version Should You Be Using?

As each calendar year draws to a close, many businesses have to think about their tax filing responsibilities. It can be confusing to figure out which forms to send out, especially as the IRS made some changes to its venerable Form 1099-MISC, Miscellaneous Information, a few years ago and assigned some of its former responsibilities to the relatively new Form 1099-NEC, Nonemployee Compensation.

Do you have freelancers? Many businesses use freelancers, i.e., independent contractors, instead of or in addition to regular employees. Companies need to send these workers 1099-NECs if they paid them at least \$600 during the year. A copy of Form 1099-NEC must be provided to the independent contractor by Jan. 31 of the year following payment. You also must send a copy of this form to the IRS by the same date.

What about other payments?

Although Form 1099-MISC is no longer applicable to freelancers, it still has plenty of uses:

- Rent payments
- Prizes and awards
- Other income payments
- Medical and health care payments
- Crop insurance proceeds
- Cash payments for fish (or other aquatic life) you purchase from anyone engaged in the trade or business of catching fish
- Generally, the cash paid from a notional principal contract to an individual, a partnership or an estate
- Payments to an attorney
- Any fishing boat proceeds

All these sources of income require Form 1099-MISC for payments of at least \$600. However, for

royalties or broker payments in lieu of dividends or tax-exempt interest, the threshold is \$10. In addition, Form 1099-MISC is used to report direct sales of at least \$5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment.

And don't forget Form W-9! It's important for independent contractors to send Form W-9 to any client they've worked for during the year. It basically confirms the contractor's name and Taxpayer Identification Number, and companies need this information to properly fill out Form 1099-NEC when tax season rolls around.

This is just a summary of the 1099 situation for both companies and payees. No matter your status, make sure you work closely with a tax professional so you meet all your responsibilities.



Avoid Incomplete Or Disorganized Records

Every employer covered by the Fair Labor Standards Act must keep records for each covered nonexempt worker. There's no required form, but the records must include accurate data about the employee and hours worked plus wages earned.

Once you've complied on a federal level, thoroughly research your state-specific requirements for each location you operate in. The scope and length of recordkeeping requirements may vary from federal obligations. Many states require pay stubs, either printed or electronic.

Here's a list of basic records you need to maintain:

- Employee's full name and Social Security number
- Address, including ZIP code
- Birth date if younger than 19
- Sex and occupation
- Time and day of the week when the employee's workweek begins
- Hours worked each day and total hours worked each workweek
- Basis for wages paid
- Regular hourly pay rate
- Total daily or weekly straight-time earnings
- Total overtime earnings for the workweek
- All additions to or deductions from the employee's wages
- Total wages paid each pay period
- Date of payment and the pay period covered by the payment

Generally, you must report forms of compensation to the IRS. Employee pay includes more than

salary, overtime and bonuses. The biggest issue is forgetting to detail smaller exchanges that are outside the standard or hourly payment, like not reporting sales incentive gifts. Even if it's just a \$25 Starbucks gift card, the IRS wants to know about it, and not reporting it may result in penalties and tax liability.

- At least two years for wage computations, timecards, piece-work tickets, wage rate tables, work and time schedules, and records of additions to or deductions from wages



How to be complete

Having incomplete or inaccurate records is a costly expense. Accurate recordkeeping is a must-have when it comes time to file taxes. How long should records be retained?

- At least three years for payroll records, collective bargaining agreements, and sales and purchase records

There are additional rules for tracking tipped employees' hours and earnings. Payroll records must identify the employee as a tipped employee and keep a record of reported tips, tip credit applied and any changes in tip credit. Separate records should be kept for tipped and nontipped work.

Having an efficient record management solution in place can prevent many errors, such as payroll miscalculations and tax filing delays, from happening.

Accuracy is job #1

Every mistake made during the payroll process must be corrected to ensure that accurate records are kept. The IRS must know exactly how much money was allocated for each employee. Sometimes, it can take longer to resolve errors because you have to identify and fix them, and that can be challenging.

Records must be open for inspection by representatives of the Department of Labor, who may ask for extensions, computations or transcripts. Records need to be kept at the place of employment or in a central records office.

Many employees work on a fixed schedule that seldom varies, so your records should show whether

employees followed the schedule. When a worker is on the job for a longer or shorter period than the schedule shows, record the number of hours actually worked as an exception.

Generally, you must report compensation to the IRS, and as you see, the DOL is also involved. In fact, your firm may be subject to an audit from either agency. Don't find yourself in hot water due to not keeping proper payroll records. Often in multistate or national firms, you may want to work with your counsel for guidance on what you need to store, for how long and where.

Employers of all sizes should develop a records management program addressing who has access to records and what form they're kept

in — paper and/or electronic. Of course, confidentiality of employee records and privacy of the information contained in them are key.

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