SQUARE GUIDES

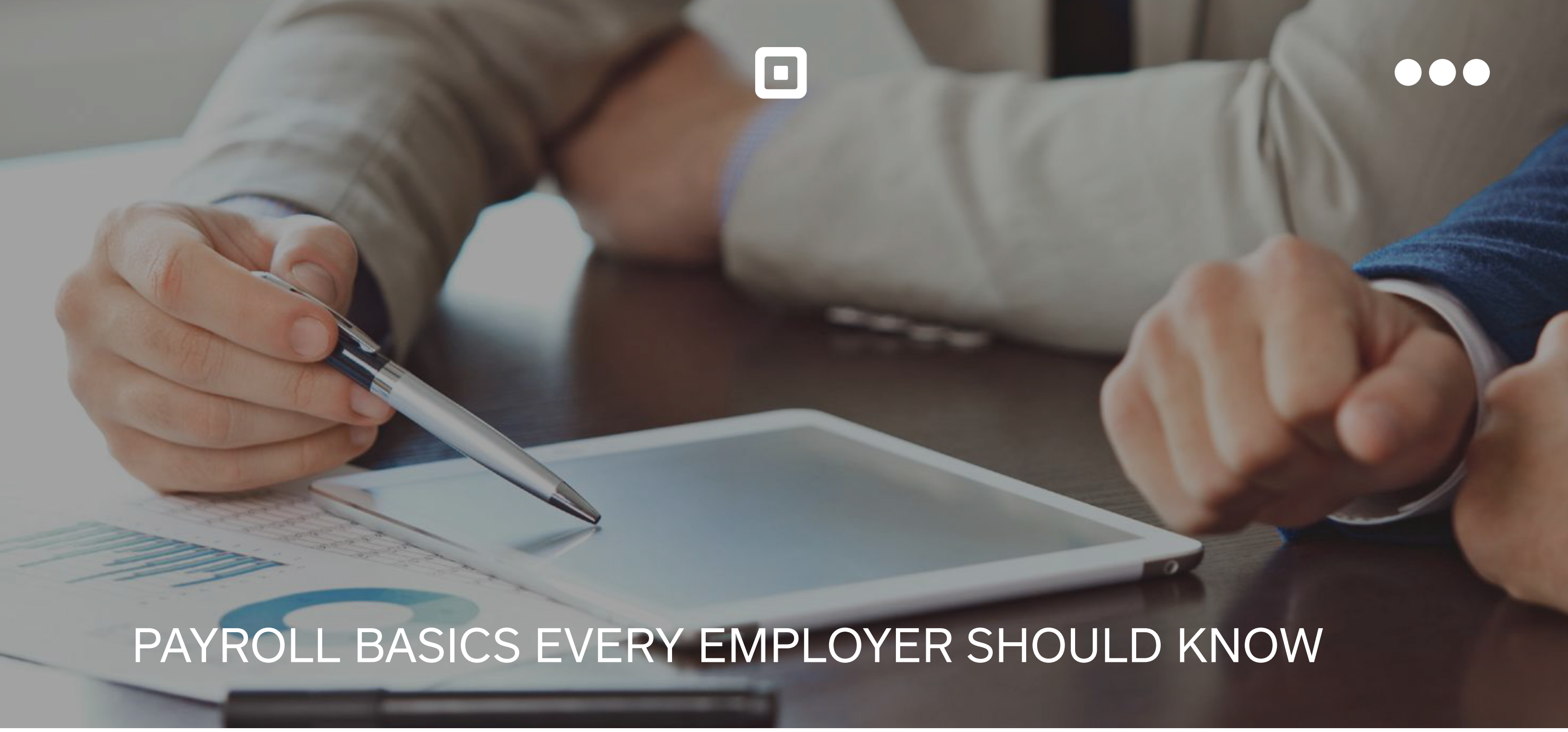
Beginner's Guide to Restaurant Payroll

BEGINNER'S GUIDE TO RESTAURANT PAYROLL

Whether you've just hired your first employee or contractor or you are hiring your twentieth, you need to make sure your workers get paid. There are different requirements when it comes to paying employees and paying contractors. So if you're new to payroll, you might find yourself in some uncharted waters, navigating a sea of new terminology: pay periods, unemployment tax, W-2s, and 1099 forms.

If you're feeling overwhelmed, we've got you covered. This guide walks you through setting up payroll for your restaurant, cafe, bar, food truck, or whatever kind of eatery you run.

Note that this in no way attempts to cover all of the rules employers are exposed to, so be sure to consult with a professional if you have specific questions regarding your obligations as an employer.



PAYROLL BASICS EVERY EMPLOYER SHOULD KNOW

Doing payroll probably wasn't a task that ranked high on your list when you dreamed of starting your business. But having to do payroll is a good sign — it means your restaurant is growing and you need more help to handle the overflow.

Payroll at its core is very simple. It's about paying the people you've hired. But there are some details you should understand before diving in.

Pay periods and paydays

One of the first decisions you have to make is your pay schedule, which is when your workers are paid for certain days of work. The beginning and ending dates of this schedule is your pay period for when your staff logged work time or earned wages. Examples of pay periods include weekly, biweekly, and semi-monthly.

A payday is the date on which employees are paid (this may be different for contractors). It's usually a fixed number of days after the end of the pay period. For tax purposes, your payday is used to determine the period in which you need to pay and file payroll taxes.

Collecting employee and employer taxes

On to the fun part (we kid): taxes. When it comes to payroll taxes, there are two parties — employees and employers — who are required to pay taxes on wages. These taxes are usually owed to both the federal and state governments, and in some cases to cities and municipalities as well.

Generally, employers are responsible for collecting federal income tax, Social Security, and Medicare tax from employees' paychecks based on what employees marked in their Form W-4 (which all your employees should fill out before they begin work at your business). Employers must also pay a matching amount of Social Security and Medicare tax as well as Federal Unemployment Tax (FUTA). FUTA is a federal employer tax that, along with state unemployment tax (if applicable), provides unemployment compensation to workers who have lost their jobs. Depending on your state, employers may also be required to collect and pay state income tax.

Paying and filing taxes

So when do you have to pay these taxes? Generally, you need to pay federal and state income taxes on a monthly basis. Other types of taxes, like FUTA, are usually paid quarterly. However, how often you need to pay these taxes depends on the size of your business.

Most employers need to pay taxes on a monthly basis, and they receive notifications from the state and federal government if they need to pay taxes more frequently. Full-service payroll providers usually withhold these taxes each pay period and pay them to the government when they're due.

Now for filings. If you're paying employees, you also need to file some forms. Federal Form 941 (quarterly federal tax return) must be filed each quarter, and Form 940 (FUTA tax return) must be filed annually.

You may also have to file similar forms with the state. Employers are also required to send Forms W-3 and W-2 to the Social Security Administration (SSA) each year. Again, most payroll services handle these filings for you electronically.

Federal, state, and local laws

Then there are employment laws. As you set up payroll, you must adhere to federal, state, and local labor and employment laws, even if the laws have different standards. For example, although the federal minimum wage is $7.25, it's $10 in California and $13 in San Francisco.

The federal Fair Labor Standards Act (FLSA) establishes minimum wage, premium pay for overtime, and protections for children who work. You should be aware of FLSA requirements as well as state and local wage and hour laws, and always follow the provisions more favorable to your employees (i.e., pay $13 per hour if you're located in San Francisco).

Most states have informative websites to help you figure out which laws apply. It's a good idea to start there and then talk with a professional to make sure you're following the right set of laws.

Timekeeping

As an employer, you must keep track of hours worked for hourly, nonexempt employees. Most workers are classified as either exempt or nonexempt depending on their salary and the type of work they do. Make sure you educate yourself about these and other classifications in the FLSA and your state's wage and hour laws.

Employees and independent contractors

There are two types of workers you might hire, and whether you hire one type or another (or both) affects the way that you do payroll.

Employees are hired by your business under an employment agreement. You withhold taxes from their wages, train them, pay employment taxes for them, and may provide them with benefits.

Independent contractors are self-employed. You enter into a contract with an independent contractor to do a specific role or complete a specific task. Since they are self-employed, you do not withhold taxes from their paychecks, pay unemployment, or provide benefits.

5 THINGS TO KNOW BEFORE YOU DO PAYROLL FOR YOUR RESTAURANT

Restaurant payroll presents a particularly tricky challenge because of the complex laws governing employees who earn income through tips. If you have tipped employees, you need to comply with laws that range from employment tax to reporting obligations of total tips earned. Let's walk through the basics:

Who qualifies as a tipped employee?

Sometimes even the hostess gets a tip — so who counts? A tipped employee is a worker who regularly receives more than $30 per month in tips, according to the United States Department of Labor.

What are the rules and regulations around tipped employees?

Under federal law — the Fair Labor Standards Act (FLSA) — all nonexempt (hourly) employees must be paid a minimum wage of at least $7.25 per hour. (Learn more about the minimum wage, which varies by state, county, and city.)

In some states, employers can take a tip credit against the minimum wage for "tipped employees." Who qualifies as a "tipped employee" and the credit (if any) that can be taken vary by state. Some states follow the federal requirements — the Federal Insurance Contribution Act (FICA) Tip Credit — while other states impose additional requirements and/or limitations.

For “tipped employees,” however, an employer is permitted to credit up to $5.12 per hour in tips toward the minimum wage, provided that the employer pays the employee at least $2.13 per hour in cash wages (i.e., $7.25 minus $5.12), makes up the difference if the employee does not earn sufficient tips, and satisfies certain other requirements (including a notice requirement), which are discussed here.

Here’s an example: Your employee Joe works 30 hours in a week and makes $155 in tips that same week. You can take the maximum tip credit of $5.12 per hour worked for that week. That means you pay Joe $2.13 an hour and with his tips he makes more than the hourly minimum wage.

What tax issues should I be aware of if I have tipped employees?

Tips may qualify as taxable wages for your payroll. The Tax Equity and Fiscal Responsibility Act (TERFA) and Tip Reporting and Alternative Commitment (TRAC) laws govern taxable income. Under those laws, employees must earn more than $20 in a calendar month to have their tips taxed.

Automatic gratuities (such as adding an automatic tip to large-party bills) are considered revenue for the restaurant — not tips for the server — by the IRS. So, you may have to pay taxes on them.

To ensure they earn minimum wage — and you’re paying the right amount in taxes — your employees need to report the tips they earn. As an employer, it’s best to set up systems to track tips (often a POS can do this for you). Daily tip reports make payroll and your federal reporting the most accurate.

How do I figure out overtime for tipped employees?

Using the tip credit is common practice in the restaurant industry to save on labor costs, in states that allow it. But when you’re calculating overtime, you must calculate the overtime rate based on the full hourly wage — not the discounted tip credit. You can still use the discounted tip credit for all hours worked, but the overtime is calculated from the full rate.

Here’s an example of how to calculate overtime for a tipped employee from the Department of Labor’s Field Operations Handbook:

Let’s say an employer pays a cash wage of $2.13 per hour and claims tip credit of $5.12, and the tipped employee works 45 hours. The employer complies with the requirements to inform its employees about the tip credit, and the employee receives at least $5.12 per hour in tips.

Here's how wages would be calculated:

$2.13 (cash wage) + $5.12 (tip credit) = $7.25 (regular rate)

45 hours (total hours worked) × $7.25 (regular rate) = $326.25 (straight time wages due)

5 hours (overtime hours) × .5 × $7.25 (regular rate) = $18.13 (overtime wages due)

$326.25 (straight time wages due) + $18.13 (overtime wages due) = $344.38 (total wages due)

45 hours (total hours worked) × $5.12 (tip credit) = $230.40 (total FLSA 3(m) tip credit)

$344.38 (total wages due) – $230.40 (total FLSA 3(m) tip credit) = $113.98 (direct or cash wage due)

How do I treat benefits and deductions at my restaurant?

As an employer, it's your responsibility to provide uniforms and materials. You cannot deduct the cost of these items from employees' paychecks because it would result in them earning less than the minimum wage, according to the federal Fair Labor Standards Act (FLSA). That same law forbids deducting wages from employees because of negligent acts (all those broken dishes your new server drops) or because a customer did not pay.

If you provide your workers with meals while on the job, the IRS may consider this a "fringe benefit," which means it is treated as taxable income to the employee. Free meals can also increase the employee's overtime rate. (Make sure you check in with a tax professional to talk through what is considered a fringe benefit and what isn't.)

THE MOST COMMON PAYROLL MISTAKES

Mistakes — they happen to the best of us. But it's probably best not to make them with payroll. Unfortunately, there's quite a bit that can go wrong. To help you make sure you don't slip up when doing your payroll, we've outlined the most common mistakes below — and how to avoid them.

Setting up your payroll incorrectly

Taxes are some of the more complicated and important aspects of payroll. You need to make sure you withhold the right amount of taxes from your employees' paychecks and understand how much you, as an employer, have to pay as well. To get it right, sign up for a payroll service, hire an experienced accountant, or do it yourself using online resources from the federal, state, and local government.

Falling behind on tax payments and filings

Again, taxes. Depending on the amount of payroll taxes you collect, your tax deposits may be due monthly (most common), biweekly, or even the next day. If your state or city collects income taxes, too, check with them to confirm due dates. Late payments may come with penalties and accrue interest, so follow submission guidelines and get your payments in on time.

Also, make sure you plan ahead and register your business well before taxes are due. Get federal, state, and local payroll tax identification numbers, as applicable, so you can pay the government and submit filings on time.

Miscalculating overtime

The FLSA establishes that you have to pay people more for overtime. But calculating overtime can get tricky since you may have to follow state and local wage and hour laws if they're more favorable to your employees.

For example, if you live in California, overtime isn't as simple as "anything over 40 hours in a week." Daily overtime (one and a half times the regular rate of pay) and double time (twice the regular rate of pay) rules apply as well.

Running payroll too late

As a small business owner, you're always busy. But you need to make sure you don't let payday slide by. Forgetting to process payroll leads to unhappy employees and potentially costly mistakes.

You could underpay or overpay a worker if you rush through the payroll process. You might have to spend extra time making corrections. You might even face fines. These can easily be avoided by using a payroll service to remind you of deadlines and catch mistakes.

Another tip: Depending on whether an employee quits or gets fired, there are a number of states that require employers to give the departing employee their final paycheck in a fairly short amount of time — sometimes the very same day. Even if you don't expect any employees to leave, check the rules in your state to be prepared.

Forgetting to keep records

Whether you're a big company or a small business, "audit" is a word that's dreaded by almost everyone.

In the unfortunate event that this should happen, meticulous business records will help you get through it — especially payroll records. You're required to have your payroll records for at least the last three years. Some states require businesses to keep them even longer, so check with your state labor office. The documents you need to hold on to vary from state to state, but they typically include I-9s, W-4s, timesheets, and payroll files (tax forms, pay stubs, etc.).

Bad bookkeeping

You have to integrate payroll into your books. After all, it has a direct impact on your cash flow. Knowing how much money you have available at any given time tells you how much you can invest in your business and your employees.

Don't want to deal with it? Get a good bookkeeper or hire an accountant. Or you could find bookkeeping software that integrates with your payroll system.

HOW TO PROCESS PAYROLL

There are three ways to approach payroll processing — do payroll yourself, use a payroll service like Square Payroll, or hire an accountant.

Below, we walk you step by step through what each way entails, as well as which option might be best for your business.

Processing payroll yourself

Summary: Low cost but time consuming and prone to errors.

If you're tax savvy, you may be able to take on a DIY approach to paying your employees. But given all the mistakes you can make (and nasty fines you can incur as a result), make sure you're completely comfortable with everything you need to do before you dive in.

To get started:

1 **Step 1:** Find or sign up for employer identification numbers. Before you do payroll yourself, make sure you have your federal Employer Identification Number (EIN) ready. An EIN is kind of like an SSN for your business and is used by the IRS to identify a business entity and anyone else who pays employees. You may also need to get a state EIN; check your state's employer resources for more details.

Step 2: Have all employees complete a W-4. To get paid, employees need to complete Form W-4 to document their filing status and keep track of personal allowances. The more allowances or dependents workers have, the less payroll taxes are taken out of their paychecks each pay period. Note that for each new employee you hire, you need to file a new-hire report.

If you are hiring an independent contractor, you want to have them fill out Form W-9.

Step 3: Choose your payroll schedule. After you register for your employer identification numbers, get insured (don't forget workers' compensation), and display workplace posters, you need to add three important dates to your calendar: employee pay dates, tax payment due dates, and tax filing deadlines.

Step 4: Calculate and withhold income taxes for employees. When it comes time to pay your employees, you need to determine which federal and state taxes to withhold from your employees' pay by using the IRS Withholding Calculator and your state's resource or a reliable paycheck calculator. You must also keep track of both the employee and employer portion of taxes as you go.

Step 5: Pay taxes. When it's time to pay taxes, you need to submit your federal, state, and local tax deposits, as applicable (usually on a monthly basis).

Step 6: File tax forms and employee W-2s. Finally, be sure to send in your employer federal tax return (usually each quarter) and any state or local returns, as applicable. And last but not least, don't forget about preparing your annual filings and W-2s at the end of the year.

If you have independent contractors, you need to prepare a 1099-MISC at the end of the year for each contractor whom you have paid more than $600. Once you've filled out all your 1099-MISC forms, fill out Form 1096 with a summary of all the 1099s you prepared, and send this to the IRS by January 31. If you file 1099s electronically, you don't need to file a 1096.

Note: This is not an exhaustive list of your responsibilities as an employer. For advice specific to your business, be sure to go over federal and state requirements or consult with a professional.

Use a payroll service

Summary: Low-to-medium cost and reliable

If the DIY method is not for you, you should consider using a payroll service. Most payroll services calculate employee pay and taxes automatically and send your payroll taxes and filings to the IRS and your state's tax department(s) for you. Some even take care of your contractor filings as well.

With a full-service provider like Square Payroll, you can even keep track of hours worked, import them directly to your payroll, and pay employees or contractors by direct deposit.

Just like with the DIY option above, if you have employees, you need to have them complete Form W-4. If you have contractors, you need to have them fill out Form W-9. From there:

- **Step 1:** Choose a full-service payroll provider (more on that later). If you're not sure how to do payroll yourself, use payroll software that reduces the risk of errors or fines. Many payroll processing services, like Square Payroll, handle your payroll taxes, filings, and new-hire reporting for you. Sign-up takes minutes — so you can quickly start doing your own payroll the same day you sign up.

- **Step 2:** Add your employees or contractors. You need to set up your workers before you process their payroll. Adding people you're paying for the first time is generally quicker; if you're switching to a new payroll provider, then you also need to add your current workers' year-to-date payroll information.

  Either way, you generally need to enter employee names, addresses, Social Security numbers, and tax withholding information. If you're using Square Payroll, you can just enter your employees' names and email addresses, and they can enter their personal information in their account themselves.

- **Step 3:** Track hours worked and import them. The U.S. Department of Labor requires employers to keep track of wage records such as timecards for up to two years. Certain states may have longer retention requirements; be sure to check the specific requirements in your state. You can track time using your Square Point of Sale app and import the timecards to payroll.

- **Step 4:** Process your first payroll run. Click Send and you're done!

- **Step 5:** Keep track of your tax payments and filings. The IRS requires tax forms to be kept for three years. Certain states may have longer retention requirements; be sure to check the specific requirements in your state. With Square Payroll, you can find copies of your tax filings in your dashboard.

Hire an accountant

Summary: Most expensive option but reliable

If you don't want to learn how to do payroll yourself or use a payroll service, consider hiring an accountant. A good accountant can process your payroll and make sure your tax payments and filings are taken care of. Even if you hire an accountant, they often prefer that you use a full-service payroll provider to help with some of the heavy lifting.

DEMYSTIFYING PAYROLL TAXES

Payroll taxes can be intimidating and complicated. Good payroll software can ease this process by calculating and depositing your payroll taxes, and filing the appropriate tax filings to the federal and state agencies. Still, you should understand how payroll taxes generally work.

First, remember that these taxes only apply to your employees.

The federal government levies payroll taxes on wages and uses most of the revenue to fund Social Security, Medicare, and other social insurance benefits. Federal income taxes also go toward things like defense and security. State income taxes go toward a variety of areas, the most important being education and health care, as well as transportation, corrections, state police, parks, and recreation.

There are taxes for employees and employers. Employee payroll taxes are usually made of these four taxes:

Federal income tax
State income tax
Social Security
Medicare

Employer payroll taxes are usually made up of these four taxes:

Federal Unemployment Tax
State unemployment tax
Social Security
Medicare

The amounts of these payroll taxes and what they pay for are highlighted in the table below. Both the IRS and state tax agencies publish annual tables to determine the amount of tax to be withheld from each paycheck depending on the employee’s gross wages, filing status, number of withholding allowances (exemptions), and pay frequency. Social Security and Medicare taxes put together are called FICA (Federal Insurance Contributions Act) taxes and have specific rates and thresholds.

Types of payroll taxes (2018)

	Employer Pays	Employee Pays	Total	Cap	What they pay for
Social Security	6.2%	6.2%	12.4%	$128,700	Per dollar, 85 cents goes to a trust fund that pays monthly benefits to current retirees and their families and to surviving spouses and children of workers who have died. The other 15 cents goes to a trust fund that pays benefits to people with disabilities and their families.
Medicare	1.45%	1.45%	2.9%	No limit^	This tax goes to a trust fund that pays for some of the costs of hospital and related care of all Medicare beneficiaries.
State Unemployment	Variable	None^^	Variable	Variable	This tax, paid to state workforce agencies, is typically used to pay unemployment benefits to state workers. State law determines individual state unemployment insurance tax rates.
Federal Unemployment	6.0%^^^	None	6.0%	$7,000	This tax covers the costs of administering unemployment insurance and job service programs in all states.

^ Wages over $200,000 earned in 2018 will be taxed an additional 0.9%.
^^ Some states may require or allow employers to withhold a portion of state UI taxes from employee wages.
^^^ Employers can take a credit of up to 5.4% of taxable income if they pay state unemployment taxes. This credit is lower in "Credit Reduction States" where the state has not repaid money it borrowed from the federal government to pay unemployment benefits.

WORKERS’ COMPENSATION INSURANCE FAQ

As a business owner, you hear about all kinds of insurance. Coverage is available for pretty much every type of risk you might face — general liability insurance, business vehicle insurance, commercial property insurance, and of course, workers’ compensation insurance.

What is workers’ compensation?

Workers’ compensation ensures that employees who suffer from job-related injuries and illnesses get the medical care they need — as well as wage replacement while they’re unable to return to work. Workers’ compensation kicks in regardless of who is at fault, whether it’s an employee, the employer, coworkers, or even customers. In exchange for these guaranteed benefits, employees have limited rights to sue the employer for damages from those injuries.

Why do you need workers’ compensation insurance?

It’s important to check whether workers’ compensation insurance is required in your state. Failure to carry this insurance or otherwise meet state regulations can leave an employer exposed not only to paying these benefits out of pocket but also to paying penalties levied by the state.

Who is required to have a workers' compensation policy?

Not all employers are required to purchase workers' compensation insurance. State laws vary, but generally, an employer's responsibility to provide coverage may depend on the number of employees, the type of business, and the type of work. Also, states may exclude certain types of workers. These exclusions may include farm workers, domestic employees, and seasonal or casual workers.

If you're a sole proprietor, a workers' compensation policy may be optional until you have employees who aren't also owners. In some states, business owners' immediate family members (parents, spouses, and children) who work for the business may not require coverage. To confirm whether you are subject to these requirements, find your state's workers' compensation official from this list provided by the U.S. Department of Labor.

Where do you get workers' compensation insurance?

Not all employers are required to purchase workers' compensation insurance. State laws vary, but generally, an employer's responsibility to provide coverage may depend on the number of employees, the type of business, and the type of work. Also, states may exclude certain types of workers. These exclusions may include farm workers, domestic employees, and seasonal or casual workers.

If you're a sole proprietor, a workers' compensation policy may be optional until you have employees who aren't also owners. In some states, business owners' immediate family members (parents, spouses, and children) who work for the business may not require coverage. To confirm whether you are subject to these requirements, find your state's workers' compensation official from this list provided by the U.S. Department of Labor.

How are premiums set for workers' compensation?

Workers' compensation insurance premiums are calculated based on your industry classification code and payroll. Premiums for what are considered dangerous activities may be higher. Other factors include location (risk-prone areas lead to higher premiums) and, if applicable, the claims history of the business relative to other businesses in the industry.

How much does a workers' compensation policy cost?

Cost of coverage, which varies based on business type and number of employees, is something that small business owners often fear. In addition to the insurance premium itself, costs include payments made under deductibles, the administrative costs of handling claims, and reporting to the state and your insurer.

A great way to manage your insurance expenses is to find a provider that has a "pay-as-you-go" billing solution that bases premium charges on real-time payroll numbers, so you can pay your premium after each payroll instead of making large up-front payments and reconciling at the end of the year.

Payroll providers, such as Square Payroll, integrate with insurance brokers like AP Intego to automatically send over payroll information. This helps make workers' compensation premium payments more manageable by reducing large premium down payments, eliminating billing charges, and helping to avoid surprises during audits.

HOW TO HANDLE SEASONAL EMPLOYEES

If you're going to need more hands on deck for the holidays or a busy-season rush, seasonal (or short-term) employees are a solid option. The first step here is to find qualified people who can hit the ground running and also have a flexible schedule.

But before you go on a hiring frenzy, make sure you review this payroll checklist for onboarding and paying seasonal employees.

Review basic labor laws

Under the Fair Labor Standards Act, seasonal employees must be treated the same as full-time employees in regards to minimum wage, overtime, child labor, and general record keeping (among other things). They're not exempt from labor laws protecting against discrimination and workplace safety. So before you bring any seasonal employees on board this season, make sure you have a solid understanding of the basic labor laws for employers (see the references section of this guide).

Get Insured

It's important to check whether workers' compensation insurance is required in your state for seasonal employees. Usually, business owners are required to have coverage for seasonal, part-time employees as well. Consult your attorney to make sure you have your bases covered.

Add seasonal employees to your payroll

You need to add your seasonal workers to your payroll. They're generally subject to the same federal and state tax withholding rules that apply to your other employees. That means they also need to fill out the standard employee paperwork: Form I-9 (Employment Eligibility Verification), which confirms the employee's citizenship or eligibility to work in the U.S., and Form W-4 (Employee's Withholding Certificate), which asks the employee how much federal income tax to withhold from pay.

Classify your seasonal employees as full time or part time

Regardless of whether they're permanent or seasonal hires, employees need to be classified as either part time or full time under the FLSA to determine whether they qualify for benefits such as health insurance and retirement plans.

Most states define full-time employees as those working 40 hours or more per week. Review the U.S. Department of Labor's website for more information on classifying seasonal employees.

Review your benefits

There are generally two types of benefits, those required by law and optional "fringe" benefits. Mandatory benefits are generally those covered by your payroll taxes — unemployment insurance, Social Security, Medicare. In states like California, paid sick leave may also be required.

Optional benefits are typically things like paid vacation and retirement plans. Make sure to review requirements with your benefits provider to determine whether seasonal employees fall under any mandatory requirements. Also, be sure to set clear expectations with your new hires so they understand what benefits they'll receive.

HOW TO CHOOSE PAYROLL SOFTWARE

If you're overwhelmed by all of this information, payroll software can help you save time so you can get back to running and growing your restaurant. Here are five key areas to review when you're comparing payroll service providers:

Your business needs

Before you can compare software options, you need to have a clear idea of what your business needs from a payroll service. Here are a few questions to ask yourself:

How many workers do you have? (How many do you plan to hire?)

What kind of workers do you have, contractors or employees?

Do those employees have benefits?

Who will manage payroll and how much time do they have to devote to it?

Does your payroll manager always work from the same place?

How comfortable is your payroll manager with regulatory and legal issues when it comes to payroll?

How much budget do you have to allocate toward payroll processing? (Or how much are you already paying someone else to manually process your payroll?)

What is your biggest pain point in your current payroll process?

Use your answers to these questions to guide you through the rest of the criteria you need to evaluate before you choose payroll software for your restaurant.

Features

Whether a payroll software service's features are must-haves or nice-to-haves is really dependent on your answers to the questions above. But there are some features you should definitely be on the lookout for.

Tax filings: Taxes are definitely the trickiest part of running payroll. Look for a service that generates and files your federal and state payroll taxes (and makes payments as well).

Other compliance factors: When you bring on employees, your compliance obligation extends beyond taxes. Look for a service that helps you track sick leave and paid time off and that automatically calculates pre- or post-tax deductions for benefits every time you run payroll. Some payroll services also take care of documentation like new-hire reports.

Integrated timecards: Save yourself some time by making sure your payroll software integrates with your timecard software. That way, you don't have to spend time manually inputting hours before each pay run. Smart software should be able to calculate overtime once timecards are imported.

Direct deposit: Allow your workers to have their pay deposited directly into their bank accounts instead of mailing out checks every pay period.

Self-service portal for staff: Whatever service you choose should provide an easy experience for your employees (as well as the person in charge of payroll). Allowing your staff access to online accounts where they can pull pay stubs and update contact information saves you time sending documents or chasing down addresses.

Employment options: Do you employ contractors or full-time employees or both? Most payroll services only cater to contractors or employees. So if you have both (or think you might in the future), you want to look for software that allows you to run payroll for both. That way you don't have to jump between two different programs and you won't have to manually consolidate records.

Integrations: We've already mentioned it a few times, but ensuring your payroll software integrates with your other systems is critical — it saves you time and costly mistakes. So check to make sure your employee management software, your POS, and/or bookkeeping software integrate with whatever service you choose.

Cost

The cost of payroll software is dependent on both the service you choose and the needs of your business. On the low end, it might cost you somewhere in the $20 to $30 range; on the high end, you could pay several hundred dollars per month.

Most payroll services don't just charge a flat fee each month. Instead they charge for both the use of the software and the features you take advantage of. So when you're evaluating pricing, here's what you should look for:

Base cost: Most payroll services charge a base account or subscription fee. You need to be sure of what is included in that cost and, more importantly, what is not.

Pay runs or workers: Most services charge a fee based on either how often you're running payroll — whether it's weekly, biweekly, or monthly — or the number of workers you're running payroll for. Some charge for both. When you're evaluating options, pay attention to how the service charges so you can estimate monthly costs.

Taxes and compliance: Some payroll software services charge for assistance with taxes and other types of compliance. This might include W-2 printing, mailing, and reporting. And the cost of this assistance may depend on the complexity of your payroll, such as whether or not you contribute to your employees' pre-tax benefits, such as 401(k), HSAs, FSAs, etc.

Miscellaneous: There may be other costs that fall outside the first three categories. Some payroll services, for example, charge extra for direct deposit, paper checks, check signings, and per-envelope stuffings. You should also ask if there's an addi-tional charge for setup fees.

This list is not exhaustive, but rather a jumping-off point to review the costs of working with any provider. You need to ask a lot of questions so you aren't caught off guard by hidden fees.

Fortunately, the cost for Square Payroll is very easy to understand. You pay a monthly sub-scription fee of $29, then $5 per employee or contractor you pay each month. (If you only have contractors, then it's just $5 per contractor each month — no subscription fee.) And there are no extra fees, ever.

Support

Many companies provide resources to help small businesses get onboarded with their payroll services. Many have email and phone support in case you have a payroll issue. But sometimes this support comes with a cost. Ask about these costs up front so you can budget accordingly.

Ease of use

As important as paying your staff is, payroll should be almost a "set-it-and-forget-it" task, after the initial setup of entering an employee into the system.

You shouldn't have to be an accountant to understand how to use payroll, and your software should also be easy enough for all your employees to use, if necessary. Square makes it possible for small businesses to pay employees and contractors in a few clicks. In addition, we allow you to automate payroll so you never miss a pay run.

When you turn on Square Automatic Payroll, we automatically import timecards, calculate salaries and deductions, and run payroll for you each pay period. Before each run, you get an email confirming what your employees will be paid and have until the end of the day to cancel or make any changes as needed. Then you can just sit back and relax.

PAYROLL REFERENCE LINKS

IRS

Employer's Tax Guide (Circular E)

All You Need to Know About Employment Taxes

Independent Contractor or Employee?

W2 Form

1099 Form

FLSA

Wage and Hours Guide

Record Keeping

Department of Labor:

Seasonal Employment

Is Your Employee Eligible for Overtime

Town Square Blog:

How to Hire Employees: An Intro to Basic Labor Laws

Everything You Need to Know About Minimum Wage

Payroll Taxes Defined

What Is an EIN?

Can You Pay Your Employees in Cash

How Much Should You Pay Employees

Workers' Compensation 101

Running payroll can feel overwhelming at first, but the right tools and resources can make it a seamless and efficient part of your operations. When you work with Square Payroll, we're here for you every step of the way and our experienced team helps you make sure that your payroll is always compliant.

ABOUT SQUARE PAYROLL

It's our mission to make payroll the easiest thing to do on your list. In fact, with Square Payroll, you can pay your entire team in just a few clicks.

GET 1 MONTH FREE