



# 5 Steps to Help Prevent Common Mistakes

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Payroll mistakes are common—but you can help avoid them if you know what to look out for. Follow our 5-step guide to hassle-free payroll:

## STEP 1

Don't misclassify your employees and vendors.

Employers often misclassify certain employees as independent contractors—and this can become problematic quickly. If you're knowingly or unknowingly misrepresenting the employment status of your workers, you could be liable to pay back-dated employment taxes, plus penalties.

To stay compliant, understand employment status criteria and report compensation using the appropriate forms—W-2 for employees and 1099 for freelancers. Be aware that employers must issue a Form 1099 to most vendors who provide more than \$600 in services.



### QUICK TIP

Avoid third-party sick pay discrepancies—work closely with the insurer to be certain that you're both reporting the correct information.

## STEP 2

Do approach recordkeeping with timeliness and precision.

The Fair Labor Standards Act (FLSA) requires employers to keep pay records, like daily hours worked and payment dates, for at least three years. It's safe to keep these records for at least four years—that's the IRS requirement. To minimize the risk of costly time reporting errors, consider implementing, and frequently auditing, an automated time and attendance system.

Administrative duties are also important, even if they seem basic. For example, Social Security number (SSN) typos on W-2 forms can result in penalty fees—\$50 per incorrect form. Avoid unnecessary expenses by checking for inaccurate, incomplete, or missing records—including confidential documents such as medical forms and background check reports.



### STEP 3

Don't miss deposit deadlines.

Your deposit frequency is determined by the total taxes you report on your Form 941. It's important to stay on schedule. Otherwise you'll be subject to compliance penalties, which are often tiered between 2 and 15 percent, based on the lateness of each past-due deposit.

If it's difficult to keep track of these important deadlines, consider outsourcing your payroll tax filing to ADP. We'll make sure your deposits are reported and filed on time.

#### QUICK TIP

Remember that you're responsible for processing your employees' wage garnishments. Make sure you understand the requirements.

### STEP 4

Do stay compliant with federal, state, and local laws.

At least 10 federal payroll laws have changed in recent years. These include the Affordable Care Act (ACA), the Working Families Tax Relief Act, and the Federal Unemployment Tax Act (FUTA). Make sure to keep up with these evolving regulations, or you may over-withhold federal income tax or incorrectly calculate fringe benefits—meaning you'll owe money (and possibly penalties) later.

Besides federal laws, it's crucial to stay informed about your state and local laws. For instance, many states regulate how often you must pay employees, while federal law does not. Again, it's best to stay informed now to prevent headaches in the future.

**STEP 5**

Don't forget to report all taxable forms of compensation.

Fringe benefits, such as employee awards and prizes, are subject to federal income and employment tax withholding. Unless explicitly stated otherwise, these forms of compensation must be reported to the IRS—or else you could face significant penalties. Be sure to stay up-to-date on the rules for taxable benefits.

**QUICK TIP**

Your overtime policies may not comply with federal or state laws. It's best to double check before implementing any rules.

Want to learn more about payroll management from ADP's experts?

Talk to one of our knowledgeable representatives at 1-800-225-5237 or visit [www.adp.com/payroll](http://www.adp.com/payroll).