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Hiring Your First Employee





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As a sole proprietor, you handle all business matters--from producing and marketing your goods or services to fixing paper jams in the copier. Your business has grown and now you're stretched too thin. Business is being lost because you just can't do it all yourself. It's time to consider hiring your first employee.

Taking the plunge

Having a new employee--an extra pair of hands--should increase your revenue enough to pay the employee's salary and benefits, plus add to your profits. If you're not quite ready for a full-time employee, think about hiring part-time help, temporary help, or independent contractors, or getting help from family and friends.

Besides salary and benefits, don't forget that the cost of hiring includes the time it takes you to train a new person. During this training, you'll have less time to devote to other aspects of the business. Filing government reports and keeping proper records will consume some of your time as well.

Hiring an employee requires that you complete paperwork and do certain tasks that weren't necessary when you were operating alone. For example, you'll have to:

- Obtain an Employer Identification Number (EIN) from the IRS
- Obtain IRS Form W-4, Employee's Withholding Allowance Certificate
- Obtain Form I-9, Employment Eligibility Verification, from the U.S. Citizenship and Immigration Services (USCIS)
- Comply with your state's new-hire reporting rules

Getting an Employer Identification Number (EIN)

Because you may be withholding taxes from your employee's wages, you must get an EIN (also known as a Taxpayer Identification Number, or TIN). Your EIN identifies your business to the IRS in the same way your own Social Security number identifies you. Applying for an EIN is a straightforward process: Simply complete Form SS-4, Application for Employer Identification Number, and submit it according to the instructions for the form. You can get both Form SS-4 and the instructions on the IRS website.

IRS Form W-4, Employee's Withholding Allowance Certificate

On his or her first day of work, your employee should complete Form W-4 so that you can determine how much federal income tax to withhold. You keep the form in your files; it doesn't have to be sent to the IRS unless:

- Your employee claims more than 10 withholding allowances
- Your employee claims exemption from withholding, and his or her wages are expected to be \$200 or more per week

Understanding your tax obligations

IRS Publication 15 Circular E, Employer's Tax Guide, provides information on employers' tax obligations, such as withholding Social Security and paying federal unemployment taxes. This publication is very important reading for anyone who is considering hiring an employee. To download or order Publication 15, go to the IRS website at www.irs.gov, or call (800) 829-1040 or (800) 829-4059 TDD.

Most states and certain municipalities also impose income taxes and require employers to withhold taxes from employees' pay. Contact your local taxing authorities to find out the specific requirements.



You may want to think about hiring a payroll service to handle paperwork and tax withholding for you. Research available services and consider whether the time that you would save justifies the cost of the service.

Form I-9, Employment Eligibility Verification

You're also required to verify that your employee is legally eligible to work in the United States. This means completing INS Form I-9, Employment Eligibility Verification, and keeping it on file. You have to establish your employee's identity and eligibility for employment by reviewing certain documents, such as a driver's license and Social Security card, or a U.S. passport. The instructions for Form I-9 also list a number of other acceptable documents. It's a good idea to photocopy these documents, but you are not required to. You can find Form I-9 and instructions on the USCIS website at www.uscis.gov, or call (800) 870-3676.

Complying with your state's new-hire reporting rules

Each state gathers data on people hired within the state. The information is the same as that provided on Form W-4 (which many states use). You have only a short period of time (20 days or less) to supply the required information to the appropriate state agency. Although the responsible agency varies by state, it's often the department that administers unemployment compensation or child support enforcement.

Anything else?

A lot. Remember, you can't exclude any job candidate from consideration on the basis of race, religion, gender, national origin, age, or disability. Be sure to keep records of all phases of the hiring process, from the advertisements that you place to the reasons why you made your ultimate selection.

State law may require you to purchase workers' compensation insurance to protect full-time employees in case of work-related injuries. You should also think about purchasing insurance to protect yourself if you are held liable for the actions of your employee. Check with your insurance agent.

Your best bet is to seek the advice of an expert, such as an attorney, accountant, or business consultant, to make sure that you are taking all of the required steps in hiring your first employee.

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