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PAYROLL SERVICE

THE GUIDE TO **HIRING YOUR FIRST EMPLOYEE IN INDIANA**

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Hiring an employee for your new business is an exciting prospect that signifies your business has grown and is ready to open work opportunities and to grow its team. But before you can hire any employees, your business will need to have a variety of processes in place and hiring steps completed.

In Indiana, as in other states, there are many legal forms and requirements associated with hiring and having employees. Below is a guide to hiring your first employee in Indiana, providing information on taxes, costs, payroll, labor laws, benefits, and other pertinent information. Making sure that your business complies with employment regulations is essential for any business.

This guide will help you be informed about and knowledgeable of Indiana employee practices. While the exact practices and onboarding requirements for each company differ, laws and regulations require almost all companies to complete certain steps.

TAXES

Taxes are an inevitable part of employment. All new employees must pay payroll tax, which includes a percentage of income withheld from an employee's pay that's paid to the government by an employer on an employee's behalf.

Federal Income Tax Withholding

Employers withhold money from each employee's paycheck to pay federal income taxes based on the information provided in their W-4. An employer does not pay any of the withholding tax but must collect and remit the withheld taxes.
Federal income tax withholding reports must be filed using Form W-2 with the IRS. Additionally, IRS Form 941 is due quarterly while IRS Form 940 is filed annually to report any unemployment taxes due.

State Income Tax Withholding, Social Security, and Medicare

In addition to federal income taxes, additional taxes are withheld from an employee's paycheck for state income taxes. Use Form WH-4, Employee's Withholding Tax Form for state taxes.

Social Security and Medicare taxes fall under the Federal Insurance Contributions Act (FICA). An employer pays half of FICA and the other half is deducted from an employee's paycheck.

Employers also pay state and federal unemployment taxes based on a percentage of each employee's salary. These taxes are known as State Unemployment Taxes (SUTA) and Federal Unemployment Taxes (FUTA).

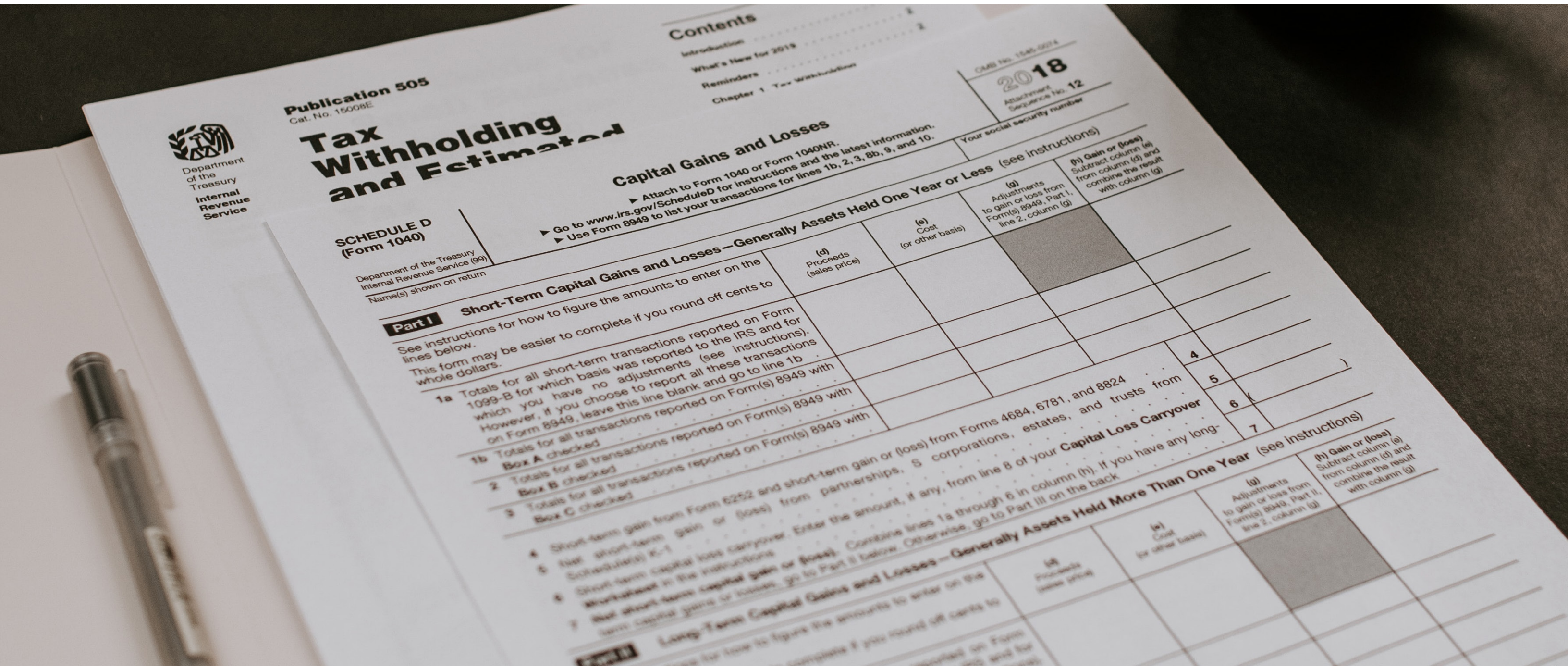
Understanding Indiana’s WH-4 Form for State Tax Withholding

Indiana employers are required to withhold both state and county taxes from employees’ wages, generally. Employers have to register to withhold tax in Indiana and must have an Employer Identification Number issued by the federal government. Every employee is liable to pay part of Indiana’s state payroll taxes, which are charged at a flat rate of 3.23%. Additionally, employees also pay a county income tax, where every county has its allocated tax rate.

Overall, an employer is eligible to register for withholding tax if the business has:

- Employees
- Non-resident partners
- Non-resident shareholders
- Beneficiaries for income distributions

All Indiana employees must fill out the WH-4 Indiana state tax withholding form, titled Employee’s Withholding Exemption and County Status Certificate, which ensures that state income tax is accurately withheld from an employee’s pay. It also assists in determining the correct county income tax to withhold from employees’ wages by providing the correct tax rates for each of the 92 counties. The Indiana WH-4 form can be downloaded under the withholding tax form section of the Indiana Department of Revenue website.



HOW MUCH WILL HIRING AN EMPLOYEE COST?

Hiring an employee can be more expensive than what employers and new businesses realize; there are many expenses beyond an employee's wages, including time-related expenditures.

Recruitment and Hiring

Hiring takes time and money. Other employees and managers must screen candidates and review resumés, cover letters, and other materials before hiring. Job interviews also take time. Advertising an opening and hiring recruiters will incur costs.

Salary and Employee Wages

Employers must figure out a fair salary for a new hire that does not undercut an employee's qualifications or offer overly generous pay. There are many questions and considerations behind salary negotiations and decisions, including:

- Will this employee be part-time or full-time?
- Will the employee be paid hourly or salaried?
- What is the rate that will be paid for any overtime (a minimum of 1.5x the standard hourly payment is required)?
- What kind of schedule will the employee be asked to work?
- How will holiday pay work?
- What kind of personal time off (PTO) will be available to the employee?
- Will PTO be paid out to the employee when they leave the job?

Training and Taxes

New employees must be trained. Many jobs require a separate training period where new employees dedicate all of their time to training. Training, therefore, costs a significant amount in terms of time and payment for employees who aren't yet performing their actual roles.

As described above, the government requires taxes to be paid by both an employee and employer. Both entities pay portions of certain taxes, increasing an employer's expenses for holding employees.

WHAT FORMS ARE REQUIRED?

When a new employee joins a business, companies often have many of their internal forms to be reviewed and signed by new employees. Additionally, tax forms are required so that new employees can pay their fair share of taxes.

The U.S. Department of Labor also has a comprehensive list of forms online employers may need for new employees.

- New-hire forms for Indiana employees include:
- Employee’s Withholding Allowance Certificate: W-4
- Employment Eligibility Verification: I-9
- Employee Withholding Exemption and County Status Certificate: WH-4
- Direct Deposit Authorization Form
- Employee Master File Set-Up Form
- Work Opportunity Tax Credit
- IRS Form W-9

Workers' Compensation Insurance

All Indiana businesses with employees, including even just one employee, are required to carry workers' compensation insurance coverage. Workers' compensation covers medical costs if employees are injured on the job and provides coverage for injured workers' wages. Workers' compensation Insurance is administered through the Indiana Workers' Compensation Board.

The Workers' Compensation Process Basics

- Employees are eligible for workers' compensation if their injuries or illnesses occur while on duty. If they occur when off duty, they don't qualify for workers' compensation.
- Indiana workers' compensation does not cover independent contractors.
- If you have to stay out of work for one day or more, an employer must submit an injury report form to you and the insurance company within seven days. The insurance company has to file the report with the Indiana Workers' Compensation Board. Additionally, the insurance company must either accept or deny the claim within 29 days.
- Injured workers can pursue an appeal if an employer or insurance company denies or disputes a claim. The process involves filing an Application for Adjustment form with the Workers' Compensation Board of Indiana.
- After a hearing is held regarding a compensation claim dispute, a workers' compensation judge issues a written decision. If an employee doesn't agree with the judge's decision, the employee has 30 days to file an appeal with the full board.

Indiana workers' compensation forms are available through the Workers' Compensation Board of Indiana.

PAYROLL SETUP

Adding employees to the payroll system is the first step. Ensuring that they're paid accurately and on time is crucial.

Some employers choose to manage payroll themselves, which means being responsible for payroll accounting, payment disbursement, and all payroll taxes and fees. Many software programs like QuickBooks can help with this process. However, there are some liability considerations when businesses self-manage payroll. Payroll managers might commit:

- Miscalculations of payments and withholdings
- Record-keeping errors
- Missed deadlines or miscalculated pay or tax amounts, resulting in government penalties
- Security gaps that leave information accessible to external entities

Outsourcing Payroll for Easier Processing

One of the best ways to avoid these penalties, risks, and general payroll-related stressors is to outsource payroll to the experts. [Professional payroll] companies can manage every aspect of your business's pay, from tax forms to direct deposit, and post-pay record keeping.

HR BASICS

Small businesses hiring their first employees typically don't have a dedicated HR staff. This means that someone is serving in an HR role, even without having HR experience or degree.

A person serving in an HR capacity needs to have at least basic familiarity with HR-related duties and responsibilities, which include:

- Recruitment and training
- Record keeping
- Payroll and benefits
- Employee relations
- Employee performance improvement plans

ONBOARDING REQUIREMENTS

Adding a new employee to your payroll involves the proper submission and completion of various tax forms, as described above. No matter your business's size or type of service, a checklist of steps for new employees includes many universal requirements beyond filling out tax forms. Four requirements include:

1. I-9 and Employment Eligibility Verification

Form I-9 is used to verify the identity and employment authorization of persons you are considering to hire in the U.S. As an employer, you must complete this form for all individuals you hire, whether they are citizens or non-citizens. The form requires employees to attest to their employment authorization and present their employers with satisfactory documents that prove identity and employment authorization.

Ensure you review the documents an employee provides to ascertain that they are genuine and relate to the employee, and be sure to record that the documents were received.

2. Personal Information File and Employee Record

Employers must keep personal information files for each employee. Ensure you keep employees' I-9 Forms, payroll records, agreements, and collective bargaining agreements for at least three years and for at least a year after they leave.

Additionally, employers should keep basic employment and earning records, such as wage rates, for at least two years. When an employee leaves a company, employers should follow the recommendation to hold all employment records from the date of termination of employment.

3. Background Checks

Background check reviews occur before employee onboarding. The review looks at the reportable public information of an individual's life, such as criminal records and credit history.

4. Issuing an Employee Handbook

Every new employee must receive an [employee handbook]() or company policies and procedures manual. New employees should also have the chance to read and ask questions about any material before employers obtain a written acknowledgment of their understanding.

The acknowledgment should include an at-will provision reiterating that the employee or the employer may terminate the employment bond at any time and for any reason that is not illegal. A written acknowledgment protects an employer in case an employee claims that they were unaware of a certain employee policy outlined in the handbook.

An employee handbook should cover:

- Company history
- Family Medical Leave policies
- Benefits listing and information
- Paid time off policies
- Employee expectations and policies, as well as disciplinary procedures
- Equal employment and non-discrimination policies
- Pay and promotions information
- Workers' compensation policies
- A statement that says that handbook policies are subject to change
- Employee acknowledgment page

TIMEKEEPING CONSIDERATIONS

Employers need a timekeeping system that manages time worked, vacation time, accruals, and other employee data. This is most crucial for hourly employees but is useful for salaried employees as well.

Tracking Employees' Hours Worked

When you begin tracking time for hourly employees, ensure you are paying them fairly, and accurately tracking hours. Employees must have a minimum 30-minute meal break after six hours of work, and any overtime must be properly tracked.

While not essential, many employers also offer paid benefits, such as vacation time and holiday time. Whether essential or not, managing these aspects of hourly employees can be time-consuming.

Timekeeping Software

Software can help track hours for your hourly employees. Free time-tracking programs are available, although higher quality, affordable time-keeping apps and programs can also be used for employees in a wide range of industries and working environments.

Apps are now frequently used by employers to track their workers' time, and often the usage fees are low. The best apps and software integrate effectively with your payroll system and automate processes so that you do not have to spend time entering time-keeping data into your payroll program.

Overtime in Indiana

Indiana state laws grant most hourly workers the right to a special pay rate for hours worked that exceed 40 hours per week. The Fair Labor Standards Act defines this as any seven successive workdays.

In most states, the laws outline a daily overtime limit that requires employers to provide overtime pay for employees who have worked for more than the stated limit. However, regulations regarding overtime in Indiana don't specify a daily limit.

Indiana's Overtime Minimum Wage

The minimum wage for overtime in Indiana is usually one and a half times the amount of a worker's standard hourly wage. Based on the minimum wage rate of $7.25 for every regular hour worked, the minimum amount an employee makes per hour as overtime pay would be $10.88. Any amount beyond the minimum hourly wage should be multiplied by 1.5 to calculate overtime pay.

Notably, the state laws have special overtime regulations for service or retail businesses, transportation workers, hospital facilities, and personnel who earn based on a piece-by-piece approach.

Overtime Exceptions in Indiana

Whether state-specific or federal, overtime laws are designed to protect workers from exploitation by employers. Workers who are paid hourly and workers in blue-collar environments are the greatest beneficiaries of these laws.

Administrators, executives, and certain other salaried workers aren't entitled to overtime pay under FLSA. The law also exempts external salespeople and some IT-related professionals that work on their own hours.

Independent contractors who aren't legal employees, some transportation personnel, a section of live-in workers like housekeepers, and particular farm and agricultural staff are also not covered.

LABOR LAW POSTERS

Employers are required by law to display posters that contain important labor laws pertinent to employees. The Department of Labor provides information about necessary workplace posters you must display, as well as the potential penalties for not including the required ones. For example, an FLSA (Fair Labor Standards Act) employee-rights poster is also required to be displayed by all employers. Certain OSHA posters are required for all commercial employers, similarly.

EMPLOYEE BENEFITS

Although benefits vary widely from one company to the next, highly qualified job seekers often look for companies that provide a competitive benefits package in addition to their salary and any commissions or bonuses.

Paid Time Off (PTO)

PTO is expected by full-time salaried employees and many hourly ones, as well. In fact, PTO is frequently ranked as the second most important benefit that employers provide, second only to employer-sponsored health insurance. PTO policies typically cover vacation days, sick days, and personal days.

The Bureau of Labor Statistics states that the average first-year employee can expect 10 days of PTO annually. Often, employers provide more PTO after an employee stays with a company for many years. Your company will need to decide if PTO can roll over from year to year, or if there will be a “use it or lose it” policy.

Employee-Sponsored Medical, Dental, and Vision Coverage

Employer-sponsored health insurance is the most important benefit to many employees. Under the Affordable Care Act, employers with 50 or more full-time employees are required to offer medical health insurance to full-time employees. Failing to offer health insurance can result in penalty fees. Companies with fewer than 50 employees may be eligible for tax benefits by providing insurance anyway.

If you provide health insurance, your company can negotiate with multiple health insurers to get the best rates by determining what the company contributes and what the employee contributes. You will also need to decide who will assume the risk if your actual costs exceed the expected ones, which can be discussed with insurance companies.

Healthcare Spending or Reimbursement Accounts (HSA, FSA, HRA)

Healthcare spending accounts may be an option for employees depending on the health insurance package that you offer.

Your insurance company can guide you as to what types of accounts may be available. Common types of spending accounts are described below.

- Health Savings Account (HSA): a savings account in which an employee can put pre-taxed funds throughout the year. HSA funds roll over from year to year and do not have to be spent within a given amount of time. The person who holds the HSA funds can use the money even after they are no longer covered by the plan or employed by the organization. HSA funds can be used for any medical expense.
- Flexible Savings Account (FSA): a savings account where the funds must be used within a certain amount of time or they expire. Employees typically fund their FSAs, although employers can contribute if desired. Some companies allow employers to contribute to both an HSA and an FSA.
- Healthcare Reimbursement Arrangement (HRA): an account that allows a specific reimbursement allowance that employees can use monthly to cover medical costs. Some reimbursement plans allow employees to fund their health insurance using these funds.

Retirement Accounts

A 401(k) is a retirement account offered through an employer. Typically, employers contribute a set amount of money every month to employees' 401(k) accounts. Employees can also have a portion of their pay withheld each month and placed directly in the account.

A 401(k) can stay with an employee from one employer to another, offering significant tax benefits for the employee contributor. There are tax penalties if an employee needs to access money from the 401(k) before retirement.

There are several other types of retirement plans, including:

- 403(b)
- Roth IRA
- Simple IRA
- SEP IRA
- Pension plans

HR ADMINISTRATION

Hiring even one employee means that you will have lots of paperwork, hiring data, and information to manage. One solution is to manage your HR paperwork using technology and web-based applications. These automated, streamlined technologies can cut costs and improve services.

Your organization may already have automated, basic HR administration in place, even among businesses with only a handful of employees.

“e-HR” and Automated HR

The term “e-HR” describes how HR delivery uses web-based technology. Now HR professionals must not only master traditional HR skills and knowledge, but they must also have the ability to apply that knowledge via technology. Small businesses, including those just hiring their first employees, might not yet have full HR teams at their disposal. But even basic “e-HR” and automated HR steps can simplify HR processes.

To put it simply, automated HR involves using technology to tackle tedious, recurring manual tasks related to HR functions. Examples include simplified employee onboarding, timesheet management, updating and relaying performance appraisals, and improving other HR workflows.

BEING PREPARED FOR YOUR FIRST EMPLOYEE

While this guide outlines many important practices and requirements surrounding hiring and managing your first employee in Indiana, there are still many initial and ongoing steps to account for.

Taxes, HR duties, payment processing, and other aspects of managing employees can be overwhelming. Both daily decisions and long-term choices in terms of hiring and management require time and expertise.

We want to help. ASAP Payroll offers an expanding range of services, such as payroll processing, time and attendance management, HR outsourcing, insurance compliance, and more.

We can help businesses both new and old, large and small.

Request a quote to find out more about our outstanding services and what we offer.

HOW ASAP PAYROLL CAN HELP

If your business is eligible for the ERTC we can assist by reviewing qualified wages, calculate credit amounts, and file amended returns. Contact us today or give us a call at (317) 887-2727 to discuss.

Contact Us