



TIPS FOR ENTREPRENEURS



Expanding a Business by Adding Paid Employees

Many businesses begin with a single person or family. As a business expands, it may take on paid employees. An employee is a person on a business's payroll. Under that contractual relationship, a business has the right to control when, where, and how an employee's work is performed. An independent contractor, however, is an autonomous business entity, a client that negotiates a hiring/work arrangement with another business and that invoices other businesses for work completed.

Necessary Steps for Taking On Paid Employees

- Obtain a federal Employer Identification Number (EIN).
- Determine if you need a state or local tax ID number.
- Determine if you are hiring an employee or an independent contractor.
- Have employee(s) complete Form W-4, Employee's Withholding Allowance Certificate.
- Create a compensation plan.
- Choose an in-house or external service for administering payroll.
- Schedule pay periods to coordinate tax withholding with the Internal Revenue Service (IRS).
- Report payroll taxes as needed.
- Understand what records the business must keep and for how long.
- See record-keeping requirements posted by the U.S. Equal Employment Opportunity Commission: <https://www.eeoc.gov/employers/recordkeeping.cfm>.
- Notify the Idaho Department of Labor about any new hires at <https://www.labor.idaho.gov/dnn/newhire>.

Federal and State Identification Numbers

A business must have a federal Employer Identification Number (EIN) if it

- Pays employees.
- Operates as a corporation or partnership.
- Files tax returns for employment, excise, or tobacco and firearms.
- Withholds taxes on income, other than wages, that are paid to a nonresident alien.
- Uses a Keogh Plan (a type of retirement plan for self-employed individuals and their employees).
- Is involved with trusts, estates, real estate mortgage investors, nonprofits, farmers' cooperatives, or plan administrators (for more information, visit <https://www.irs.gov/businesses/small-businesses-self-employed/do-you-need-an-ein>).

PLEASE NOTE: This handout does not offer or substitute for legal advice. For more information: CALS-RuralStudies@uidaho.edu

Federal and State Identification Numbers (cont.)

A federal EIN is needed to pay federal taxes, hire employees, open a bank account, and apply for business licenses and permits. **To get a federal EIN**, apply through the IRS at <https://www.irs.gov/businesses/small-businesses-self-employed/how-to-apply-for-an-ein>.

Your business **must also obtain a state tax ID** number if it has employees and is required to pay state taxes. To learn more, visit <https://tax.idaho.gov/i-1159.cfm>, or go directly to <https://www2.labor.idaho.gov/ibrs/ibr.aspx> to apply.

Forms Employees Must Hand Out before Being Hired

When hiring a paid employee, a business needs to work with that employee to verify and/or complete the following:

Proof of Eligibility to Work in the United States

You must verify that each new employee is legally eligible to work in the United States. To do so, have the employee fill out **Form I-9, Employment Eligibility Verification**. A copy of Form I-9 must be retained by the employer.

Social Security Number (SSN)

It is required that you enter each employee's name and SSN on their **Form W-2, Wage and Tax Statement**. You should ask to see the employee's Social Security card, which they may show you if it is available. Although it's not required, you may make a photocopy. If the employee does not have a Social Security card, they should apply for one, if they are eligible, using **Form SS-5, Application for Social Security Card**. Do not accept an Individual Taxpayer Identification Number (ITIN) in place of an SSN. ITINs are nine digits long and begin with the number "9." Form W-2 must be filed with the IRS by January 31 of the next year.

Requested Withholding Allowances

Each employee must fill out a **Form W-4, Employee's Withholding Allowance Certificate**, which the employer must keep on file. This form becomes effective with the first wage payment. If applicable, exemption from income tax withholding must be indicated on this form. If Form W-4 is incomplete, withhold tax as if the employee is single with no withholding allowances. Additional withholding may be required on wages paid to nonresident aliens. See the **Employer's Tax Guide** (<https://www.irs.gov/pub/irs-pdf/p15.pdf>) for exceptions and what to do about an invalid Form W-4. Employers are only required to submit Form W-4 to the IRS if directed to do so in a written notice.

Required Employee Benefits

You must provide paid employees with the following benefits:

- Social Security taxes
- Workers' compensation
 - » Under Idaho law, employers with at least one full-time, part-time, seasonal, or occasional worker are required to obtain a workers' compensation insurance policy prior to hiring employees, unless the business is exempt. Employers who operate without required workers' compensation insurance can be fined a minimum penalty of \$25/day.
- Disability insurance
- Leave benefits as outlined in the Family and Medical Leave Act (FMLA)
- Unemployment insurance

Staying Informed

Once you have paid employees, make sure you become and stay informed about the following:

- Appropriate business practices as defined by your industry's regulations (see your industry's state trade association, e.g., the Idaho Lodging and Restaurant Association, for pertinent regulations)
- Laws for hiring veterans, foreign workers, household employees, children, and people with disabilities
- Laws your business must comply with for hiring, terminating, and/or laying off workers, or downsizing the company

SOURCES: US Small Business Administration (<https://www.sba.gov/business-guide/manage-your-business/hire-manage-employees>; <https://www.sba.gov/business-guide/launch-your-business/get-federal-state-tax-id-numbers>), Idaho State Tax Commission (<https://tax.idaho.gov/m-formpub.cfm>), and US Treasury, Internal Revenue Service (<https://www.irs.gov/businesses/small-businesses-self-employed/>).

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