

Gearing up for Payroll

In the early stages of running your business, you may engage freelance and/or casual help from time to time. This is the most cost-effective manner of getting things done by only paying for the results you need. But as your business grows and the need to rely on the performance of your team increases, you will find yourself ready to hire one or more individuals permanently.

Factors influencing the decision to hire employees:

- need to create more time for yourself to manage the business (growth through delegation)
- stability for your clients through consistency of staff
- implementing procedures that create a consistent product for your clients
- building team loyalty and support by offering a stable income and secure work environment



So you think you are ready to make that job offer? Are you ready for the new responsibilities?

In addition to the fees that you were paying your freelancers, you will now have the added expense of employer portion EI and CPP contributions, the added work of filing and remitting monthly payroll deductions and then annually issuing T4s and completing the T4 Summary (see blog posted Feb 18-11).

So how do you manage these new tasks? It is no longer as simple as issuing a cheque to “Freelancer, Jim”. Now you need to calculate the EI, CPP and federal tax amounts, there are TD1 forms, vacation pay accruals, record keeping requirements, etc.

One resource you may find helpful is the CRA website. “Employer Responsibilities – The Payroll Steps” <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/hwpyrllwrks/stps/menu-eng.html>

But as a business owner, what else might you need to consider?

- How does this affect my cash flow?
- How often do I need to pay my staff?
- How do I handle the record keeping requirements?

A top priority is to consider the cash flow impact. Review your bank account. What is manageable for your business? Consider your client billing and payment terms. How often and how much are you depositing to your company’s bank account?

Employees expect to be paid on a pre-determined schedule and the government expects to receive your monthly remittances on time. The most common schedules are weekly, bi-weekly and semi-monthly (15th and 31st). In addition to the pay period schedule, you will need to decide on the pay date (especially if paying on an hourly basis). Remember, you may need processing time.

Common example: Weekly pay period March 6 to 12. Employees are paid March 18.

You can do it yourself using tax tables and spreadsheets, but a much more convenient and cost effective way is to utilize accounting software such as Sage Simply Accounting. In a few easy steps, you can enter the employee’s personal details, tax information, wage rates and pay frequency. After that it becomes as easy as before. Just select “Employee, Jim” in the payroll module, enter the hours worked (if applicable) and print the cheque. The software handles the rest. It calculates the necessary deductions, records the amounts to be remitted to the CRA and captures the details required for record keeping. It’s as easy as that.