

A Guide to Running US Payroll



deel.

Contents

2 - 12	A guide to running US payroll
2-4	➊ Gather all relevant business information
4-6	➋ Gather all the relevant employee information
6-7	➌ Choose a payroll schedule
8	➍ Choose your payment method
9	➎ Calculate each employee’s gross pay
10	➏ Subtract payroll tax deductions and withholdings
11	➐ Distribute payments and pay stubs
12	➑ Keep meticulous payroll records
13-16	Options for running US payroll
17-18	Run hassle-free payroll in the US and beyond with Deel

A guide to running US payroll

Running payroll in the US is a critical task for businesses of all sizes. It's not just about paying your employees—it's about ensuring compliance with complex tax laws and regulations. In this guide, we introduce you to a step-by-step roadmap for the process.



1 Gather all relevant business information

1

US Small Business Administration,
Opening a business bank
account, May 2023

Before processing payroll, you need to gather all the necessary business information. The required information will differ slightly depending on your company's location, though it typically includes the following items.

Federal Employer Identification Number (FEIN or EIN)

An Employer Identification Number (EIN), also known as a Taxpayer Identification Number (TIN), is a nine-digit identifier issued by the Internal Revenue Service (IRS) to businesses and organizations for tax-related purposes in the United States. It is used for reporting employee wages, filing tax returns, and fulfilling other tax obligations at the federal level.

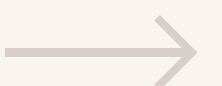
State Tax ID

A State Tax ID is a unique identification number issued by a state tax authority for tax-related purposes within the state. It is primarily used to track and manage state employee income taxes and state unemployment taxes. Companies must have these ID numbers for each state they have an employee in.

All states have state unemployment taxes, and in most states, there are state income taxes as well. Typically, these are two different ID numbers reported to two different tax agencies, and some states also have additional taxes that require their own separate ID numbers.

Local Tax ID

Local or municipal authorities issue a Local Tax ID for tax-related purposes within a specific locality or jurisdiction. It is typically used to track and manage local taxes, such as income tax or school district tax in a particular geographic area.



Bank account information

Typically, companies open business bank accounts during the incorporation stage. Having a dedicated business bank account for payroll is essential, as it serves as the financial center for processing employee payments.

According to the US Small Business Administration,¹ the exact information required to open a business account can vary, but typically includes:

- EIN (or a Social Security number, if you're a sole proprietorship)
- Business's formation documents
- Ownership agreements
- Business license

To ensure a smooth setup of your payroll system, have your company's bank account information readily and securely available.

2 Gather all the relevant employee information

US companies need specific employee information to accurately calculate wages, manage payments, withhold taxes, and ensure legal compliance. Requirements will vary depending on where you're based, but here is a general breakdown of what is required:

- **Full Name:** The full legal name of the employee, including their first name, middle name (if applicable), and last name. Ensure the name matches official identification documents
- **Social Security Number (SSN):** The employee's nine-digit SSN or Individual Taxpayer Identification Number (ITIN)
- **Address:** The current residential address of the employee, including street address, city, state, and ZIP code
- **Date of Birth:** The employee's date of birth to verify their identity and calculate certain tax-related deductions, such as age-based credits



- **Employment Status:** Indicate whether the employee is full-time, part-time, temporary, or seasonal, as this can affect their pay rate and benefits eligibility
- **Pay Rate:** Specify the employee's pay rate, whether it's hourly, salary, commission, or another payment structure. Include the rate or salary amount
- **Pay Frequency:** The frequency at which the employee is paid
- **Hours Worked:** For hourly employees, record the hours worked during the pay period to calculate gross wages, overtime, and other pay-related factors
- **Employee Deductions:** Document any deductions from the employee's pay, such as health insurance premiums, retirement plan contributions, or wage garnishments
- **Tax Withholding Information:** Gather the employee's W-4 form, which specifies their federal income tax withholding preferences. It includes the number of allowances and any additional withholding amounts
- **State Tax Forms:** Employees must complete state-specific tax forms in some states to determine state income tax withholding
- **Bank Account Information:** If you offer direct deposit, collect the employee's bank account details, including bank name, routing number, and account number
- **Benefit Elections:** Record the employee's choices regarding benefits, such as health insurance, dental coverage, retirement plans, and other company-provided benefits
- **Filing Status:** For tax purposes, know whether the employee is single, married, or claiming a different filing status, as it affects tax withholding calculations
- **Work Authorization:** If applicable, ensure you have documentation of the employee's eligibility to work in the United States, such as an I-9 form and appropriate identification
- **Employee Identification Number (EIN):** For businesses that use employee identification numbers, record the unique identifier assigned to each employee



Accurate and up-to-date employee information is critical for payroll processing, tax compliance, and maintaining a record of employment. Handling this information with care is essential to ensuring privacy and security in accordance with applicable laws and regulations, such as the Health Insurance Portability and Accountability Act (HIPAA) and the Fair Labor Standards Act (FLSA).

The employer can collect this information by requesting that each new employee complete a W-4 form, also known as an Employee's Withholding Certificate, at the start of employment.

3 Choose a payroll schedule

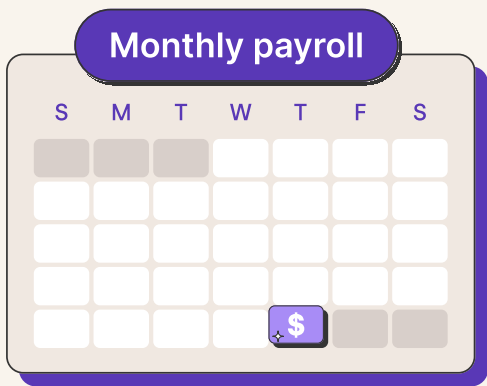
2
State Payday Requirements, US
DOL, January 2023

3
Minimumwage.org, South Carolina
Payday Frequency Laws, 2023

In the US, state laws dictate a minimum pay period, which directly impacts the payroll schedule. The US Department of Labor has outlined state payday requirements², which vary nationwide.

For example, in South Carolina, there are no regulations specifying mandatory paydays.³ In contrast, Arizona demands that payday occur at least twice monthly, not more than 16 days apart. The occupation determines the frequency in other states, such as California and Michigan.

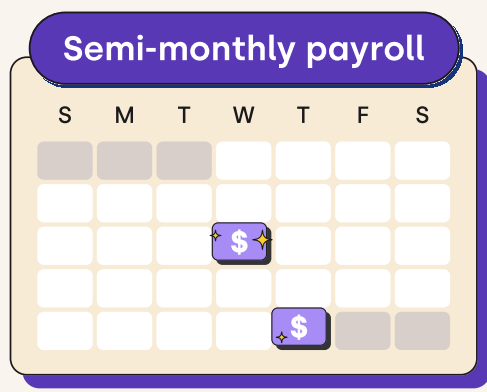
The most common pay schedules are monthly, semi-monthly, bi-weekly, or weekly:



Monthly

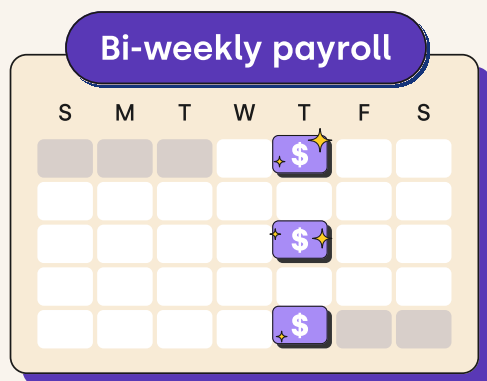
You make payouts once a month on a monthly payroll schedule, usually on the last day of the month. Due to state regulations, monthly payroll schedules usually only apply when you're the only employee (or one of the business owners) and running small business payroll. Or, if you pay employees on a commission-based model.





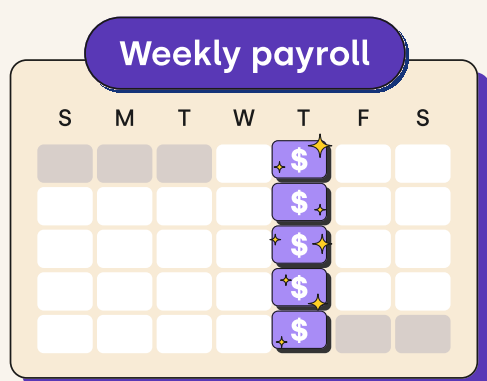
Semi-monthly

Running payroll semi-monthly involves sending payouts twice a month, totaling 24 paychecks a year. In most instances, a business will make payments at the beginning or end of the month, with the second paycheck going out on the 15th of the month. These payroll schedules are effective for managing benefit deductions, as many benefits (such as insurance) are charged on a monthly basis.



Bi-weekly

A bi-weekly payroll schedule involves paying employees on the same day of the week every two weeks. For example, employees get paid every other Friday, totaling 26 paychecks per year. A bi-weekly payroll schedule makes calculating overtime for hourly employees easier for payroll administrators and helps hourly employees manage their cash flow.



Weekly

Under a weekly payroll schedule, employees are paid on a specific day of the week, every week, throughout the year. For example, your employees get paid every Friday of the year, totaling 52 paychecks per year. Hourly employees who accumulate several hours of overtime and workers with irregular schedules are often paid weekly.



4 Types of Payroll Schedules and How to Choose Between Them. [Learn more.](#)

4 Choose your payment method

Another important decision you have to make is how you will distribute salaries. Employers must adhere to state and federal regulations when choosing a payment method and implementing payroll practices.

Some key points to consider include:

- **Consent:** Employers typically need to obtain employees' consent for certain payment methods, like direct deposit or payroll cards
- **Wage laws:** All payment methods must comply with federal and state wage laws, including minimum wage, overtime, and timely payment requirements
- **Recordkeeping:** Employers are required to maintain accurate payroll records, regardless of the payment method used, to demonstrate compliance with wage and hour laws
- **Fee disclosure:** Employers should provide clear fee disclosures to employees if they use payment methods that may involve fees

Direct deposits are the most popular and convenient method as employers can control cash flow better than paper checks, and employees can access their earnings easily from their bank accounts.

Another modern payment method is paying employees through online payroll systems, like Deel. Employers can send funds directly into an employee's digital wallet, cutting salary payment processing times and providing employees with flexible withdrawal methods.

Learn about alternative payment methods such as [cryptocurrency payroll](#) and [how long these payroll processes take](#).

5 Calculate each employee's gross pay

4
US DOL, Fact Sheet #23:
Overtime Pay Requirements of the
FLSA, 2019

How you calculate an employee's gross pay depends on whether they are salaried employees or receive an hourly wage.

To pay hourly employees, you must track the total hours worked and calculate their pay for every pay period, as their earnings may vary. You will need to check timesheets for their standard and overtime hours and multiply this by the pay rate.

For salaried employees, gross pay can be calculated by totaling their annual salary, bonuses, commissions, profit shares, merit pay, and other monetary incentives.

Be cautious of overtime laws in each state—exempt employees are not entitled to overtime pay,⁴ while non-exempt employees must receive overtime pay at a higher rate than regular hours.



What is gross income? [Learn more.](#)

6 Subtract payroll tax deductions and withholdings

Next, it's time to subtract payroll deductions and file them with the local authorities. Employees will require different deductions depending on their pay frequency, withholding allowances, and benefit entitlements.

In the US, the most common deductions are as follows:

- **Social Security tax:** 12.4% for Social Security (split evenly between employee and employer)
- **Medicare tax:** 2.9% for Medicare health insurance (split evenly between employee and employer)
- **Federal Unemployment Tax (FUTA):** Employers are required to report and pay FUTA tax separately from Social Security and Medicare taxes. FUTA tax is paid only from the employer's own funds, and employees do not pay this tax or have it withheld from their pay
- **State and local taxes:** Some states and municipalities have additional payroll taxes for short-term disability, paid family medical leave, or other programs. Employers should check with their local authorities for specific requirements
- **Voluntary deductions:** Voluntary deductions are amounts that an employee has elected to have subtracted from gross pay, such as retirement plan contributions, life, and dental insurance
- **Wage garnishments:** The state, IRS, or even private organizations can garnish employees' wages to collect any unpaid debt, such as:
 - Spousal or child support
 - Federal or state tax levy
 - Creditor garnishment
 - Student loans



Review the [IRS Employer's Tax Guide](#) for the latest tax rates and requirements.

7 Distribute payments and pay stubs

Once you've calculated gross pay and made all the necessary deductions, the remaining amount is the employee's net pay. The next step is distributing these payments to your employees and providing them with pay stubs.

A pay stub, also known as a pay slip or a paycheck stub, is a statement that outlines an employee's payment details for a specific pay period. If employees are paid with physical paychecks (also called paper checks), pay stubs are attached to the paychecks via perforation.

If the employees are paid digitally via a direct deposit to their bank account, they can access the pay stubs via the online payroll service they've agreed to use.



[Learn more](#) about what to include in a pay stub.

How do you distribute payroll?

Employers can distribute payroll payments via their preferred payment method (direct debit, checks, a payroll platform, etc.) as long as it complies with local payroll regulations.

Through Deel, clients can fund their payroll with a variety of methods, including ACH, SEPA, BACS, PAD, Brex, credit cards, and debit cards, or manual transfers from your bank, Wise, or Mercury accounts, or cryptocurrency options through Coinbase.

Once your payroll is funded, Deel distributes payments to your payrolled employees on your behalf (where possible) in compliance with the employee's local payroll regulations.

5

IRS, Publication 15 (2023),
(Circular E), Employer's Tax
Guide, 2023

Keeping accurate employment tax and payroll records is a legal requirement to ensure compliance with tax laws and regulations.

These records can serve as a crucial piece of evidence in case of any payment disputes between the employer and the employees, as they serve as proof of payment and details of deductions made. They can also provide valuable insights into the business's financial health by identifying patterns and trends in employee compensation and benefits.

According to IRS guidelines⁵, your records should include:

- Your EIN
- Amounts and dates of all wage, annuity, and pension payments
- Amounts of tips reported to you by your employees
- Records of allocated tips
- The fair market value of in-kind wages paid
- Names, addresses, SSNs, and occupations of employees and recipients
- Any employee copies of Forms W-2 and W-2c returned to you as undeliverable
- Dates of employment for each employee
- Periods for which employees and recipients were paid while absent due to sickness or injury and the amount and weekly rate of payments you or third-party payers made to them
- Copies of employees' and recipients' income tax withholding certificates
- Dates and amounts of tax deposits you made and acknowledgment numbers for deposits made by EFTPS
- Copies of returns filed and confirmation numbers
- Records of fringe benefits and expense reimbursements provided to your employees, including substantiation
- Documentation to substantiate any credits claimed
- Documentation to substantiate the amount of any employer or employee share of social security tax that you deferred and paid for the year

Options for running US payroll



Options for running US payroll

How you run payroll will depend on the size of your human resources team, their capacity, and the location of your workforce. The most common solutions include manual in-house payroll, automated in-house payroll, and outsourcing to a US payroll provider.

Manual in-house payroll

Small business owners with few employees or a dedicated payroll manager or team with plenty of experience and know-how can process their own payroll in-house. Read our [12 Payroll Best Practices to Implement](#) if you're planning on running manual in-house payroll.

Automated in-house payroll

Automating payroll removes some of the stress of manually executing every aspect of payroll while saving time and increasing overall accuracy.

Payroll automation uses software to run payroll calculations and distribute payments automatically. That means less work (and math) for you since the payroll software calculates wages based on every employee's hours and applicable tax rates. Some programs will disburse the payment through direct deposit or another digital method at the end of the pay cycle.

Outsource to a US payroll provider

If you don't have the capacity for an in-house payroll team, then you might want to consider payroll outsourcing. Payroll outsourcing means bringing in a third-party provider to handle your payroll.

Hiring a third party to take care of your company's payroll ensures that all payments are accurate and timely and that all your payroll paperwork is in place.

Payroll isn't one-size-fits-all. Deel Payroll gives you the flexible way to run payroll — without re-implementing as you grow.

With Deel, you can run payroll in one platform with one accountable partner:

- **Efficient and localized:** Automated, compliant, and built for US employers
- **Expert-led payroll:** For US companies that want compliance and accuracy without the admin
- **State registration:** Available at an additional cost
- **Workers compensation/liability:** We can refer you to a workers' compensation insurance partner to stay compliant
- **Employee claims:** We assist you with finding a suitable workers' compensation policy for your business
- **Taxes:** We automatically calculate and help you file federal and state payroll taxes owed by your company
- **Benefits:** We can refer you to a benefits provider partner. Benefits administration is available as an add-on service through Deel
- **Global HR platform:** Manage your whole workforce—from direct employees to international workers—from a single platform
- **Background checks:** Optimize hiring and screening workflows with background checks
- **Time tracking:** Track time through clock-in/out and timesheets, apply approvals, and interpret approved hours into overtime and state break categories before payroll runs



[Learn more about Deel Payroll - US today.](#)



While we were very comfortable with hiring locally, we were apprehensive about the costs and legal responsibilities for compliance in the United States. We didn't want to hire full-time HR people to figure out things like health benefits and filing tax returns with the IRS.

Matthew Buchanan

CEO, Letterboxd

Run hassle-free payroll in the US and beyond with Deel



Run hassle-free payroll in the US and beyond with Deel

Paying your workforce shouldn't be stressful. With Deel, you can set up payroll with just a few clicks, automatically calculate taxes, and distribute employee paychecks without lifting a finger.

Whether your company only hires in the US or expands into foreign markets, Deel can scale with you. Our in-house payroll advisors are experts in local jurisdictions across 100 countries, and we regularly add new countries to our payroll operations. Our clients receive 24/7 in-app support, as well as a dedicated customer success manager to support you during the processes of onboarding and running payroll.



Learn more about your payroll options for the US and abroad. [Book a 30-minute demo with a product expert.](#)

Disclaimer: This content is for informational purposes only and does not constitute tax or legal advice. Consult a professional before proceeding.
