

For Business Owners Only

STOP

IRS Headaches!

How to Overcome
and Avoid
Payroll and Payroll
Tax Problems

E. Adrian Van Zelfden



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(How to Overcome and Avoid Payroll and Payroll Tax Problems)

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Stop IRS Headaches!

(How to Overcome and Avoid Payroll and Payroll Tax Problems)

Something is troubling you, though maybe with only a vague sense of foreboding. Payroll and payroll taxes seem extremely complicated. You have friends who have made what you thought were simple errors, but with big consequences.

You're right. Payroll is the single largest expense item in almost every business. Mistakes can cost you more and hurt you faster than virtually any other type of error you can make. The Internal Revenue Service (i.e., the IRS) and state agencies are absolute bears when it comes to payroll taxes, allowing no deviation from extremely strict rules on reporting and paying.

Over many years of helping business owners with their finances, I've learned that the most important analysis I can make is a realistic evaluation of their payroll and payroll tax returns. Fortunately, most errors can be fixed fairly quickly and easily, and payroll can be made into a mechanical process. Knowing your situation, I made a list of more than a dozen of the worst mistakes that I've identified during my career (some of which you may be making), and tips on how you can cure them.

It's really a few more than a dozen. And this list is not exhaustive, in that I am not going to list everything that can go wrong, just the things most commonly seen or the most serious. My clients vary so widely, that I've not tried to put this list into any particular order of least to worst. And this is not a comedy list; so don't expect a funny punch line.

Fortunately, almost nobody has all these problems. I hope that you have none (or very few) of them. But if you recognize anything, I recommend that you take quick action to avoid the unfavorable effects.

So on with the list.

1. Failure to Give Yourself Enough Time

When you process your payroll, you must deal with two dates, the cutoff date and the date of the paycheck. Some business owners make them too close together, or worse, try to make the two dates the same. If your payday is Friday, you may collect timecards and pay all your hourly employees for time worked through maybe Thursday. Thus in this example, Thursday is the cutoff date, and Friday is the date of the paychecks. I strongly recommend that you spread the time between the cutoff day and payday as far as you reasonably can.

Why is that? As long as your company remains small, the time it takes to prepare paychecks will be minimal, but as you grow, the task increases in complexity as well as size. Take the example we just posed. If your employees turn in time records at the end of work on Thursday, you only have one day to get the paychecks prepared for a Friday payday. But that's assuming you pay at the end of the day. However, most people want their paychecks by noon so they can get some money before the weekend. This reduces your preparation time to just a few hours. That may be plenty of time if your business is small or you run into no snags, but you'll feel better leav-

ing yourself a margin of safety.

What if you have no hourly employees, but pay instead on salary?

While you may think this analysis does not apply to you, please remember that there are variations in salary, all of which require computations. You may have vacations, sick pay, or some other variance that may cause you trouble if you cut your time too short. And you may have some employees who are paid a commission or other incentives, which take time to compute. But even if the processing goes smoothly, let me tell you a little story . . .

When I was young lawyer working at my first job, our office had a secretary. We were all paid on salary the first and fifteenth of the month. One month the fifteenth happened to fall on a Friday. We were all given our paychecks before lunch. When I came back after eating and going to my bank, I noticed that the secretary had not returned yet. I thought nothing of it at first. But she never returned, and I have never seen her again (going on 30 years now). We found out that she had not been a victim of foul play, but had just quit her job. She never gave any notice, and it was a surprise to us all. My boss was the most surprised of all. He was rich enough that having paid her for that half day of work, when she didn't actually show up, did not hurt him financially. But needless to say, he changed the payday policy of the firm.

This was an event I actually experienced, but I imagine that lots of people could tell us a variation of the same story.

Even if all your employees are honest and candid, you still need some lag time between the cutoff date and the paycheck date. What if your electricity goes out for a few hours (or worse, a few days – it happens)? What if you're sick and don't feel well but still have to go in and do payroll? What if there is an ice storm, and you and your employees cannot get into work? The solution to all these (and any similar problems) is to give yourself more time to produce the payroll checks.

Changes in an established company

That's fine for a startup company, but what about somebody like you? Your employees are familiar and comfortable with the present method. They'd howl if you tried to change them to a different payday.

The change I'm recommending is quite small, and I don't think you should be worried at all about setting up a different policy. I had a florist client who had been in business for thirty-seven years at the same location. When I recommended this change, he thought it was impossible. He (and his father and mother before him) had always collected timecards Thursday evening and paid Friday before lunch. I asked him to move back the cutoff day at least a little, because he had grown to the level that the quality of his payroll and payroll tax process was deteriorating, and I knew he really needed the extra time. He was exceedingly reluctant to make the change. But he implemented the new policy, and without a single employee complaint. If he can do it, so can you!

So, how much time should you allow yourself?

For any business a one day lag is never nearly enough. I recommend something in the vicinity of a week. That gives you plenty of time to get all the information in and do a good job of computing payroll and payroll taxes with accuracy, despite your growing size and complexity.

For people who normally pay on the first and fifteenth, you can move your payday to the fifth and the twentieth of each month. I formerly had a pizza restaurant franchisee, with three large profitable locations, that changed to those dates. Despite a major turnover of minimum wage, part-time employees, they now have adequate time to get their payroll done and done correctly.

2. Misclassifying Workers as Independent Contractors Instead of Employees

Simply put, if workers look like they can possibly be construed to be employees, the IRS will try to take that position. If you disagree, tough, too bad for you, lump it. They will assess you anyway. You can contest or appeal their assessment, but that is neither an easy nor a cheap procedure. State agencies are not usually so aggressive, but if they have occasion to reclassify your employees, they will tattle to the IRS, which will come knocking on your door in short order. The taxing agencies feel that every working person in the United States should get a Form W-2 instead of a Form 1099, and they have been on a determined program for more than a decade to try to accomplish that.

What Does the Term “Contract Labor” Mean?

“Contract labor” is roughly equivalent to an independent contractor. I dislike the term “contract labor,” because of the labor part of it. When you hire an employee, you are, in effect, buying his or her labor. Labor is what employees do, and the last thing you want to do is inadvertently imply the person is an employee. Additionally, there is rarely a contract with somebody you are calling “contract labor.” Or if there is a contract, it’s usually inadequate. I prefer the term “independent contractor” to describe anybody who is doing work for a company, but not as an employee.

How do you know if a person can be legitimately classified as what people call “contract labor?”

The key issue is control over the worker. If you exercise significant control, the worker looks more like an employee than an independent contractor. You may have heard of the “20 Questions Test,” but I don’t set much store by it. This is a set of questions used by the IRS (on Form SS-8) to analyze how many characteristics of an employee versus how many characteristics of an independent contractor your workers exhibit. (It now has many more than the original 20 questions from when the form first came out, but they still call it that.) The test is based on common law precedents. Some business owners mistakenly think that if you pass more than half of the questions, you can get by. Don’t believe it. I have seen aggressive IRS agents reclassify using just a few of the questions. (Incidentally, if you ever get a Form SS-8 in the mail from the IRS,

with instructions to fill it out for one or more of your workers, it's not a good sign.)

What if you look at the list, but you're still not sure?

There are only two safe havens I know of. First, it's good if the worker performs these same types of services, on a regular basis, for customers other than you. It helps if that worker has a business listing in the Yellow Pages or otherwise advertises such services. Second, you will be even safer if the worker's business is incorporated.

Why is this classification thing so important?

The costs are so high that any problem can put you out of business. If you are hit with a reclassification, you will be subject to at least 15% of the total payments you've made to the reclassified workers for the last three years. On top of that is the possibility of penalties and interest that amount to another 15% or more. Payroll is usually the single biggest expense of most businesses. So, if you have to go back and pay up to 30% or more of what you paid to contract labor workers in previous years, it can easily be enough to sink your business. Just doing a rough calculation of the numbers can be a scary experience.

So if you get a large assessment, you might have to file your business for bankruptcy?

It's quite a bit worse than that. Payroll taxes enjoy a special category in bankruptcy law, allowing the IRS special protection. One of those special protections is that anybody in the business who had any responsibility for payroll can be charged personally with the payroll taxes, jointly and severally. That includes the officers, directors, and owners. But it also includes anybody who was on the signature card for the business bank account.

If this comes up, you need a good lawyer. A good attorney can help you contest or appeal any reclassification attempt, and you will have a better hope of success than if you try to handle the problem by yourself. But, of course, a good lawyer is expensive. Accordingly, I strongly recommend that you take protective measures now and be extremely careful with contract labor. It's worth the cost of getting a professional opinion if you are at all unsure. It will be considerably cheaper to switch questionable workers to employee status and to start withholding payroll taxes on them now, than it will be to go through the trauma of a reclassification case later. I am not recommending that you be over cautious, but I am telling you to go into this with your eyes wide open and to get professional help if you have any notion that you might have a problem.

This leads us to start thinking about another potential payroll problem with employees that is unrelated but has similar unpleasant consequences.

3. Improperly Classifying Employees as Salaried Instead of Hourly

Improperly classifying employees as salaried instead of hourly is a common problem, and

it is usually triggered by an employee complaint. But so few employees know about it that it doesn't come up very often. I've never understood why.

A Surprise to Most Business Owners

When you hire somebody, you have to decide if you are going to pay them based on the hours they work or a flat monthly salary. Most employers mistakenly think they have a choice.

Most think you can pay people by either salary or hourly.

But no, the law makes that decision for you. And it's related to overtime. The law says that you have to pay overtime at one and one-half times the regular hourly rate to every worker, unless that worker qualifies for an exemption. Overtime is defined as any time in excess of 40 hours per week. And you can't do that calculation cumulatively or any other way than per week. As an example, if you have somebody who worked 30 hours the first week, 42 hours the second week, and 38 hours the third week, you would have to pay him or her extra for the second week, because that week had hours in excess of 40. The less than 40 hours in the other weeks are immaterial, and none of that has any effect on the calculation of overtime in that second week.

Which workers are exempt from this?

The only people who can be exempt are owners, officers, and directors of the company plus certain managers. The problem comes down to the definition of what is a manager. The answer unfortunately is strict. I know many business owners who want to say that everybody except maybe the very lowest level employees, are managers. The legal definition of a manager is somebody who has supervisory authority and who actually supervises a number of other employees.

Examples of Exemption

In a small company, you almost never have a person, other than the owner, who fits the definition of manager, even if you call him or her that. Let's take a bigger company, like a grocery store chain. The top level executives obviously fit the definition of manager, as do the store managers of each individual store. But the person they call the produce manager or the meat department manager does not qualify.

The Licensed Professional Exemption

If you had an architectural firm in which you employed architects who had actual professional licenses from a state agency, they would be exempt even if they were not owners, officers, directors, or managers. The same would be true of physicians, dentists, lawyers, or accountants.

What about professional sales people on pure commission?

The only sales people I know of who have state licenses are real estate agents, insurance agents, and stock brokers. Every other sales person is not exempt from getting overtime even if their pay is pure commission.

This Sounds Crazy

Everybody you know pays salary to people that seem to have to be on hourly. You've probably never heard of this before. Join the club. The reason is that this problem raises its head when an employee complains, and most employees don't know about this either. So, you rarely have to deal with complaints, but when they do occur . . .

How to Compute It

How do you even know how much to pay in overtime? You may think that since these people have a salary, you don't know how much their hourly is, and so you can't compute time and a half.

Ah, but you can. You take their monthly salary and multiply it by 12 to get their annual salary. Then you compute the number of work hours per year. Some people use 2,080 hours, which is 40 hours per week times 52 weeks in a year. Others use 2,000 hours because the math is much easier and because you can justify two weeks in an average year taken up by holidays, sick time, time off, etc. Just divide the annualized salary by the number of hours available.

As an example, say you've got somebody you pay \$30,000 per year. Just take \$30,000 and divide by 2,000 hours, and you get \$15 per hour. If you are paying somebody \$50,000 per year, that person is earning the equivalent of \$25 per hour.

Keeping Track of Hours

Okay, fine. So you can compute what their hourly rate is. But how do you know how many hours they worked? You have to keep track of it, and you have to do that tracking each week.

But what if you pay on the first and fifteenth? How can you compute the hours by the week? Sorry, you just have to do it. The law doesn't care how inconvenient it may be for you.

Should you just switch everybody over to hourly instead of salary? If you did, it would make it a whole lot easier to keep track of the weekly hours.

But there's a stigma to being paid hourly. It's like the old term "blue collar." Everybody wants to be on salary, because that's how "white collar" employees get paid. Besides that there's much more work. You have to add up all the hours every pay period, whereas now you just pay the same amount every time.

I know this is a tough one for you. I regret having to bring it up, but I don't make the laws. I am just giving you the information you need to help you live within them. Again, this does not come up very often, because most employees don't know about their rights in this area.

**What if you blissfully ignore this?
What's the worst that can happen?**

It can be quite bad. Let's say that you have a disgruntled employee, maybe more than one. It may be somebody who got mad at you and quit. It might be somebody you fired. They decide to go to the federal government and file a wage and hour claim. Then it becomes a matter of evidence. If they have a calendar or computer spreadsheet where they make a reasonable case that on certain weeks they worked more than 40 hours, it becomes your turn to prove that they didn't. Since you have not been keeping track of hours, you probably do not have anything you can offer as proof. Some evidence always beats no evidence; so they win, and you lose.

What are the consequences of losing?

If you lose (and you probably will) the wage and hour board makes a determination of how much overtime was worked, and what time and a half for that overtime should have been, and enters a judgment against you. Then you pay the judgment, and the former employee walks away with the money.

That may not sound too bad, but unfortunately, there's more. The wage and hour office then asks to look at all of your payroll records. Then they call each of your employees in (also all your former employees) and get them all to give statements, under oath, about their own working of overtime. After the completion of the investigation, they enter a judgment against you for the unpaid overtime for all of your employees. Then they determine a fine against you for flouting the wage and hour laws.

I'm not trying to scare you, but just issue a warning. Payroll is the largest single expense in your company and in most companies. If you only took just a few hours per week, and multiplied them by 1.5 and only for a few employees, going back several years, you would end up with a huge number. Add to that the disruption of your life, not to mention the fines and penalties, and it could put you out of business.

Changing to an hourly system seems difficult. How should you go about it?

You may not have a huge number of employees yet. I would just tell them that you are changing to hourly, and changing the pay periods to weekly. But that might be too much for you.

Is there something not so extreme? Is there any way you can ease into this? Fortunately, yes. First change from a twice per month payroll to once per week (or at most once every two weeks), so that at least you have even weeks on which to do your computations. For all new people you hire, put them on hourly. If you want a suggestion about how to handle this, would say something like *"We are offering you an annual pay of \$40,000. We pay hourly, so that's the equivalent of \$20 per hour."*

Changing the Company Culture

You can take care of new hires. You are probably less worried about them than imposing a big change on the people who have been with you for a while. How do you handle that?

You'll be making an announcement about the new pay periods. At the same time you can also inform them that you're going to design the company so that everybody gets their work done during regular business hours. As a benevolent employer you don't want people to have to work

evenings, weekends, holidays, or even long days. Tell them that if anybody cannot get his or her work done in 40 hours or less per week, he or she should counsel with you about it so you can help with the problem. It's not necessary to give your employees any education about the wage and hour laws. If they want to file a complaint about anything in the past, let them do their own research.

This is really tough. If I hadn't made such a good case for having to make these changes, you'd be tempted to let this slide. I know change can be painful. But think of it this way. Someday, maybe in the near future, one of your toughest competitors is going to be hit with a claim from a disgruntled former employee. That conflict is going to grow to other disgruntled employees, and after maybe many months of trauma, wipe out the business completely. And you will be in position to pick up all those customers, from your now former competitor.

4. Failure to Pay Weekly

The employer gets to pick the pay period. The longest is monthly. Some states make monthly pay illegal, and for good reason. It's too long to wait for your paycheck. I once had a job which was really bad. I hated the job, and I didn't like my boss or most of my co-workers. That company is still in business, but I don't know how. The point of the story is that even though I quickly determined that we were not a good fit for each other, I felt I ought to at least wait until the end of the pay period to turn in my resignation, to give it a fair chance. As it was, my boss was out of town for a week at the end of the month. Since I wanted to talk with him in person, I had to wait until he came back. So, I made my resignation effective as of the last day of the prior month and gave the company about a week of free work. I was just glad to be out of there. The point is that employees frequently arrange their date of quitting to coincide with the end of a pay period. Additionally, business owners frequently arrange to fire employees at a time coinciding with the end of a pay period. There's no percentage for either to have to wait as much as maybe a whole month.

You may not know anybody who pays monthly. But state and local governments formerly had that practice. Thus many people who left a government job and started their own company, just stayed with the method to which they'd grown accustomed. Not thinking things through is a very bad reason to do anything. Also, you see it in some professions, like engineers. I have had some successful engineering firms as clients, and it was difficult to convince them to change their ways, but once they did, they really liked the results. You don't see many companies that pay monthly, but I want to point that out first, because monthly payroll is the worst possible method a business owner can choose.

Paying semi-monthly on the first and fifteenth — is that okay?

Sorry to have to tell you, but semi-monthly is the second worst. The major problem is that you are dealing with odd weeks. Computing overtime is a nightmare when you have a week and a few days. Don't tell me that's not a problem because you pay salary instead of hourly. We already covered that.

That leaves once every two weeks (also called bi-weekly) and once every week. Obviously

bi-weekly solves the overtime calculation problem, but I seem to like weekly best. Why is that?

Advantages of Weekly Pay

There are many reasons. Let's explore some of them, starting with advances. Do any of your employees ever come to you and say, *"Boss, I'm short of money because of this reason or another. Can I have an advance on my pay?"*

That happens a lot more frequently than you ever guessed it would. You may even have a policy of no advances, but people still ask. Probably because you're a softie, you usually give in.

That's because your pay period is too long. Think about this. Say you have a Friday payday. Most people will not need or ask for an advance on Monday. Any other day of the week, you can say, "Can't you hold out just two or three more days until payday?"

Here is another advantage. Have you ever fired somebody and wanted to give them their paycheck right away, because you didn't want to deal with them anymore? If your payroll period is too long, you would have to do a special payroll. If you pay weekly, you can just run the final paycheck with the next regular payroll. It's only going to be a few days from now anyway. The same thing applies whenever somebody quits.

Cash Flow Benefits

But what about cash flow? Sometimes your customers may not pay right away, and you get tight on money. In that situation, you have enough trouble making payroll occasionally without payroll coming around so often.

This may sound counter-intuitive, but weekly payroll eases your cash flow problems considerably. The reason you have trouble getting the cash together for payroll sometimes is because you let it build up too much. You'll find it much easier to pay half as much weekly, instead of having to save up enough money to pay twice a month.

Is that really true? Not having such a big payroll to meet would be nice, but having to meet payroll more often seems like it would make your cash situation worse.

I know how you feel, but just try it. In every case I have ever seen, the business cash flow problems have gotten better, and in many cases cash flow problems have disappeared.

Time Benefits

What about your office staff? It takes them a long time to get payroll out now. If you get them to do it twice as often, won't it cost twice as much time? And what about your payroll service, won't they charge twice as much for processing?

No, it's just the opposite. It will take you and your people less than half as much time to do each payroll. It's much faster to do four easy payrolls instead of two harder payrolls. If they make a mistake and have to cover it with a do-over, they might be able to just add it to the next paycheck for somebody, instead of doing a whole rerun. They will get into a regular routine, instead of the present system of having to schedule a big production twice a month, avoiding the stopping and starting wasted effort. You'll find that your office staff will like weekly payroll much better after they get used to it, though you might get a little push-back at first.

As to the increased cost, my experience has been that all of the reputable payroll process-

ing companies have embedded into their price schedules a discount for weekly payroll, whereby they charge you less per paycheck. While it's true that because you're running more checks, you will ultimately pay more, the difference is so small as to be insignificant.

This is a pretty convincing case for weekly payroll. Why don't you give it a try?

5. The Perils and Problems of Direct Deposit

I think direct deposit is terrible. So much so that I made it Number Five on my list, the perils and problems of direct deposit.

But isn't it much more convenient? The cost of that convenience is enormous.

With direct deposit, you do a draft out of your checking account into the bank account of each employee each pay period. This is all electronic. What happens if there's a mistake? People typing on computer keyboards can make errors. What would happen to you with something as small as putting a decimal point in the wrong place? Say your payroll clerk accidentally pays somebody gross pay not of \$1,000 which is the right amount, but instead it mistakenly gets put in as \$10,000. One measly decimal point can make a big difference.

But if a mistake like that happens, you can just reverse the transaction can't you? Yes, of course, unless . . .

What if the employee has already spent some of the money, or worse all of the money? Your electronic debit on that employee's checking account for recovery will bounce. Remember, this is your mistake, not the employee's. He or she can claim ignorance, and say sorry Charlie. But there's another problem.

What if you don't find the error right away? What if it doesn't show up until next month or the end of the quarter or the end of the year? Of course you can see how bad that would be, but if you're careful, maybe this won't happen to you. However, there is another problem with direct deposit.

What Payroll Represents to Your Employees

It chops a link out of the chain between employer and employee. There is something psychologically powerful in being able to hand a paper check to an employee, with a handshake, a look at him or her in the eye, and say something like "*here's your paycheck,*" or maybe "*thanks for your hard work this past week,*" or whatever else you want to say.

That's nice, but it takes up time. Even when you had paper checks, you let your office manager give them out. Do I think what I'm talking about is important?

More than important. It's critical to the success of your company. I'm about to say something, and I don't want you to misinterpret it because of the type of analogy I am using. Let me be very clear up front that I am not calling your employees dogs, or saying that they are like dogs. I'm only using an analogy.

The story I am going to tell is how when my boys were little and had puppies, we trained the dogs that my boys were their source. Very simply put, we had the boys bring the dogs their food. The dogs were good, and they were obedient to me and my wife, but their relationship with the boys was much different. Even though the boys were just children, and they had not devel-

oped any kind of leadership ability, the dogs assumed that the boys were their masters. Why? Because the dogs instinctively and automatically knew that one of the most important things in their lives, that is their daily food, was supplied by the children.

I'm sure you get the story, and you see the point, but is that really applicable? Certainly humans are much more complex. But they want and expect there to be leadership in the company. That naturally implies that the company is led by a leader, somebody they can look up to as the source of direction and provision. Under that theory, I would never let an office manager or anybody except an officer or director hand out the paychecks. Something as simple as handing out the paychecks yourself will not make a leader out of you, but it does solidify your position and authority in very subtle, but powerful, ways.

But if you don't use direct deposit, you will be giving your employees paper checks. What if some employee wants to endorse the paycheck and give it back to you in exchange for cash? Can you be nice person, a benevolent employer, and can you accommodate them?

Don't Cash Employee Checks

I was once in a restaurant and saw a sign something like this, "*We made a deal with the bank. They don't sell food, and we don't cash checks.*" The sign was obviously intended for customers, who the restaurant wanted to pay with cash or credit cards, but it got me to thinking.

Many businesses have a cash register (or several of them). There is a tendency to make cash disbursements from the register. Avoid that temptation to the maximum extent possible. Currency distributions make your audit trail terribly hard to follow. You don't have to take my word on this. Call up your CPA (if you don't have a CPA, just pick one at random from the phone book) and ask if an IRS or sales tax audit is easier, or harder, with many currency disbursements from your cash register.

When you cash your own company's checks through your company cash register and then deposit those same checks in your company bank account, the audit trail becomes very muddy. Worse yet, is not depositing the checks and just using them as some kind of voucher with your cash register tapes.

In short, tell your employees to go to a bank or a check cashing service. This is only a minor inconvenience to them (and maybe also a small cost) but a step that will save you considerable hassles in the future.

Sometimes an employee wants to write you a check and give it to you in exchange for cash from your register. Again, a terrible idea. Your cash register is only for checks from customers.

While we are on the subject, that goes for you too. Do not cash your own paycheck or personal check using your company receipts. If you do, the audit trail becomes even more muddled. Go to a bank or a check cashing service yourself. The little extra time it may cost you will be well worth it in the long run.

You are not a bank. So stop cashing checks.

6. Trying to Do Everything Yourself

Payroll and payroll taxes sometimes seem easy, but in reality the field is filled with traps

for the unwary. I cannot count how many times I've heard, "*I thought I was (or my secretary was; or my computer was; or my bookkeeper was) doing everything right, but when I got the IRS notice. . .*" You've probably thought the same yourself.

Besides the interest and penalties you'll have to pay, however minor the mistakes, the very time you waste is costly. If you have a secretary or bookkeeper, or any other in-house employee doing payroll, it's easy to calculate your cost by multiplying the hourly rate that person gets times the number of hours necessary to do the paychecks for every payday. Then do a similar computation for the cost of the time to do the quarterly and end-of-the-year payroll tax returns. Those numbers add up to be quite high. And if the person who normally does that job is sick, on vacation, gets fired, or quits, you have to figure replacement costs and training costs.

What if you just do it yourself or get your spouse to do it?

The calculation is even worse. You make money by running the company, not by writing little numbers into little boxes on green sheets of paper or punching numbers into a computer program. Every minute you take away from selling and managing hurts you severely.

Let me ask you a hypothetical question. If you saw a newspaper help-wanted classified ad seeking a payroll clerk to compute and write payroll checks, prepare all the payroll tax returns, and do the related payroll and payroll tax work for a company of about your size, would you apply for the job? No, certainly not. If you did apply, would you get hired? Again no, probably not.

Every time I ask that question of a business owner, they answer with the same no. Despite the obvious, the cut in pay you'd take, most business owners know deep down that they're really not qualified. Besides that you like your present line of work a whole lot better, and you would never in a million years want to apply for the job of a payroll clerk. It's a terrible idea for a business owner to be fiddling with the mechanics of payroll and payroll taxes.

And every time I've seen an owner's spouse do payroll and payroll taxes, I've seen an extremely overburdened person. Take that task off their shoulders! You will see many other things in the company get done, taken care of a lot better, all to the benefit of the business as a whole.

What if you only have one employee?

One employee companies are extremely common. If you are a sole proprietorship, or a partnership, or an LLC, you cannot put yourself on payroll. Thus, if you only have one assistant, you will have a single person payroll. If you are a corporation, you can be (and are required to be) on payroll yourself, but if you have no assistant, it is a one employee company. Can't you do your own payroll for just one person?

Sorry, but the answer is still no. Sure it takes less time to cut a single payroll check, instead of a bunch. But it costs as much time to do the quarterly and annual payroll returns for one employee as it does for multiple employees. That is where the major time and error crunch come in.

You are still better off doing the selling and producing, and the core functions of your business, instead of spending time and effort on payroll and payroll taxes.

What about just letting the computer do it?

Somebody (at some hourly rate) has to sit at a keyboard and make all those entries. And don't forget to account for the cost of check stock and paper. However, a larger cost is the expense of software upgrades that must be purchased, at least annually, to keep up with changes in payroll tax law. And the largest cost is normally the time it takes to get trained and stay trained on the program, the updates, the payroll tax law, and changes in the law. But there is a worse problem . . .

7. Giving Up Confidentiality and Control

If a business owner (or your spouse) does the payroll and payroll taxes, he or she maintains both confidentiality and control. However, because of the time this takes from other, more important functions, it's crazy for a business owner or a spouse to waste this time, as we just discussed. So what if you assign some employee to do it for you?

If you have a secretary, a bookkeeper, an office manager, or some person other than yourself, who does the payroll, you risk gossip. If you have an employee who knows what everybody in the company makes, you are vulnerable to that information becoming available to other workers. That knowledge can lead to petty quarrels, disputes, and a general feeling of malaise in your business. We're going to talk about hiring a payroll service later, but that is one of the advantages to outsourcing the payroll function.

Sending your information off-site seems like it would reduce confidentiality and control, not enhance it. Quite the contrary. Instead of having somebody inside the company who knows everything about everybody, you have an outside third party, bound by a confidentiality agreement. And you, yourself, the business owner, are controlling the information, not some other person in the organization. I have never heard of a breach of the fiduciary duty of secrecy by any reputable payroll service.

A Very Unpleasant Matter

Nobody likes to dwell on fraud or embezzlement. But payroll and payroll taxes is a prime place where a dishonest employee can get to you.

Many business owners think that they can maintain control by being the only signatory on the business checking account. That used to be true but no longer is. The IRS requires payment of payroll taxes electronically. Somebody has to make that electronic transfer to the IRS every pay period, and you are likely to delegate that job to the person who handles your payroll. You can probably already see where I'm going with this . . .

If an employee has the authority to make electronic transfers for payroll, he or she can make electronic transfers to anybody, including himself or herself. I have seen actual recent cases where the employee did not pay the IRS (amounting to hundreds of thousands of dollars), but instead directed that amount of the electronic transfers to his or her own account. Unfortunately, the IRS takes so long to send notices that the business owner is never quickly aware of the situation. In one case I saw recently, the employee was also in charge of opening the mail, and she intercepted the IRS notices. It was not until the IRS levied a lien that I saw in the newspaper and contacted the business owner that he found out. By then the numbers were huge. Let me

tell you about another associated problem . . .

The IRS does not care about who is at fault. They are completely within their rights under the law to say that the business owner is fully liable for the payroll taxes, both corporately and personally. They don't care if you ever collect from your employee or not. They assess the taxes against you, and send the matter to their collection division.

Well, isn't the crooked employee liable? Sure, to you, but not necessarily to the IRS. The IRS comes after the business owner directly and maybe or maybe not against the dishonest employee only secondarily.

But aren't fraud and embezzlement criminal acts? Yes, of course, but I think you may be missing the point. If the crook has not absconded, and if he or she has not spent the money yet, you may be able to recover restitution in a criminal trial or damages in a civil trial. But is that even going to be possible? And if so, how long is it going to take? How much is it going to cost in lawyer fees? Worse yet, how disruptive is all that going to be to your business?

If doing payroll yourself is not a good procedure, and getting an employee to do payroll and payroll taxes is a bad idea, what should you do? The answer is to hire a reputable bonded payroll service. But I want to hold that until later. We will get to it.

8. Getting the Numbers Wrong

When I started talking about this topic, you probably thought I was going to bring up as the very first thing getting the numbers wrong. That's what you're always worried about.

Okay, now is a good time to get to it. Even for those who were great students, loved math classes, and still enjoy numbers, simple mistakes can be our downfall. For those who are "math-impaired" this is a scary area. For all of us, payroll taxes require careful attention to (and 100% accuracy with) three different sets of numbers.

The Three Key Numbers

First, you have to get the payroll checks right. That means correctly computing the withholding amounts and keeping track of each item for each employee. This is mechanical and comes from tables or computations, but make sure you are using the latest version of the tax tables or the latest update to your computer program. Besides the tax withholding, do not forget things like advances, insurance, uniforms, child support levies, pension and profit sharing plans, etc.

Secondly, you must transfer the numbers correctly onto the tax returns. That sounds simple, but statistics compiled by the IRS indicate this to be the single largest cause of incorrect tax returns, producing notices of deficiency.

Thirdly, if you miss even as little as one digit on an employee's social security number, you will lose valuable time responding to governmental inquiries later. And heaven help the business that gets its employer identification number wrong, even on just one form.

Errors Creep In

Of course everybody is going to try to be careful with those three things, but errors creep

in anyway.

As a final hint, I strongly recommend to my clients that they take their four quarterly federal and state tax returns and make a schedule of the key numbers (i.e., gross wages, income tax withholding, social security, medicare, etc.). Next, add the four quarterly amounts to get an annual total for each category. Then compare those numbers to the totals of all your Forms W-2 that you will be giving to your employees and filing with the government. Also compare your state and federal unemployment returns. If there is any discrepancy, even by a penny, go back and reconcile until the totals of all those forms match each other. If there's an error and you fail to correct it, the IRS will be in touch. And that notice may be two or three years later, which will make it difficult for you to remember or even find your records, much less figure out what you did wrong. Even then, making a correction is extremely hard, because you will have to issue a new Form W-2 to each employee affected, and each of them will have to file an amended income tax return (a Form 1040-X). Your workers will be quite unhappy with you for that. So taking the effort at the end of the year to do a thorough job of checking and reconciling, will keep you from much greater pain later.

9. Failure to Keep Up with Changes

It seems like they keep changing the rules all the time. Your perception is correct, yes, they do. And it's a terrible mistake for business owners to fail to keep up with changes. There are three major problems with payroll and payroll taxes. First, the taxes are extremely complicated. Secondly, there are frequent changes (at least annually). And thirdly, the government taxing agencies bombard you with information.

All this stuff is extremely complicated. Most business owners do not have a college degree in accounting or tax law, or even any training. Unfortunately, such education is necessary to fully understand the requirements to comply with the system. Even professionals in the field have trouble keeping up with all the filing deadlines. Within three days *"for this,"* by the 15th of the following month *"for that,"* whenever the amount of tax due goes over \$100 in any quarter, are just some examples. And what about having to remember that social security is only withheld on the first certain amount of money in the current year, and a different amount (usually more) the next year, and an amount that changes every year? How about trying to remember that federal unemployment is only of the first \$7,000 in wages, but state unemployment is on the first \$9,000 in wages, depending upon the state. I could go on and on with examples, but I'm sure you get the point by now.

If you did this every day, it would be easier to remember. But some of these deadlines and amounts are required to be computed monthly, some quarterly, the rest only at the end of the year. All this changes from time to time. Your state unemployment experience rate may change quarterly. The rest of the forms change at least annually.

They Fill Up Your Mailbox With Notices

There's an avalanche of paper you have to go through. It seems like every week you receive some letter from the IRS or a state agency about payroll taxes. At the end of the quarter, you receive pre-printed forms in the mail, along with instruction sheets. The instructions are

long, boring, written in governmentese, and printed in small type. But you cannot afford to miss a single word, because you may have forgotten something since the last time you filled out this form, and even a small mistake can be very costly. There are twice as many forms (and instruction sheets) at the end of the year. And any time there is a change, you are inundated with paper, explaining the new system. What a burden.

As unfortunate as the design of this system is, it is something that we all have to put up with. Because, if we miss even a small thing, we will get a letter in the mail that we must answer, unless we make the next mistake . . .

10. Failure to Respond Quickly and Correctly to Notices.

Nobody I know likes to get inquiries from the IRS or any state taxing agency. But the worst thing you can do is throw it in a drawer, thinking you will get to it later, or let it get buried in a stack of paper on your desk. Maybe you've done that before.

Being a large bureaucratic organization, dealing with so many taxpayers, they assume the worst, assess you additional tax, and send it to their collection division, if you do not promptly answer a notice. Almost any letter from a taxing agency can be handled to your satisfaction if you take action on it right away. But if you delay until you get a second, or a third, or a final notice, it may be too late.

Unemployment Claims

State unemployment claims have very strict deadlines. If employees voluntarily quit or you fire them for good cause, they are not entitled to unemployment compensation. However, they may still go down to the local office and file a claim under the "nothing ventured, nothing gained" theory. If you contest the claim, you will almost certainly win. But if you are even one day late in mailing your protest, you will lose automatically. So look carefully at the deadline shown on the notice, and make sure you do not miss it.

Unfortunately, employers receive much mail from the IRS and state taxing agencies. Most are just blank forms and instruction sheets. Thus, it is easy to overlook a notice, thinking it is not yet due, and putting it aside for the end of the quarter. Try to avoid this mistake by opening every envelope and looking to see if any action is required right away. I know all that mail tends to pile up, and many letters seem to look alike, but you can write notes, in bright colors, on the envelopes, or find some other method of keeping track, to make sure you don't miss any deadlines.

11. Having Payroll Work Against You by Causing Cash Flow Problems

Besides payroll taxes, just payroll itself is a big burden sometimes. It has a tremendous impact on cash and cash flow. We've already talked about making a switch to paying weekly, and that will have an immediate positive impact on your cash flow. But sometimes that might not be

enough. What else can you do?

One of the most popular, though controversial, chapters in any of the books I have written is titled *“How to Make Payroll Work for You Instead of Against You.”* This is a problem I’ve observed in almost all businesses in determining a fair pay schedule for both the owner and the employees. By fair, I mean not only fair to the individuals, but more importantly fair to the business, the entity that has to have the cash to make such payments. I can’t reiterate the whole chapter here, but I can give you a little overview.

The essence is to design a payroll system that varies proportionately as cash flows through the business. The utopian situation for a company is to have sales and collections that are so steady you can expect the same amount to come in every week, but you rarely see that in real life. If you have a fixed payroll amount and variable sales or collections, you will invariably run out of cash at the worst possible times, unless you are extremely well capitalized (i.e., you have a lot of excess cash on hand). Very simply put, to solve those kinds of problems you arrange your affairs to have low payroll requirements during periods you are short of cash, and you can afford higher payroll requirements when you are flush with cash. Failure to match cash flow to payroll can put you into a bind that can be intolerable.

Is it possible to match up cash coming in with payroll going out? It’s not easy, because you have to develop a system that is a hybrid between salary, hourly, and bonus pay for every category of employee. But if you put the system together properly, your cash flow situation improves dramatically, the employees love it, and your company’s profits soar to the skies.

12. Failure to Use the Electronic Filing Apparatus Correctly

You can’t pay your federal payroll taxes by check anymore, can you? Not too many years ago, the IRS began a new program requiring payroll taxes to be paid by electronic transfers, instead of by paper checks. The first companies forced to meet these requirements were naturally the largest businesses in the country. The next round of companies to be caught in this net consisted of those with \$50,000 or more annually in federal payroll taxes. It is expected that all payroll taxes will have to be filed electronically, no matter how small you are, within just a few years.

No Matter How Small You Are?

No longer will you be allowed to pay your payroll taxes by mailing the IRS a paper check. You will not even be able to satisfy their hunger for taxes by writing a check to your bank and filing with those little blue scannable FTD coupons, like most companies are currently using. You must do an electronic transfer. This can be done by a personal computer (or even by a touch-tone phone), but it is a complicated procedure. It is also fraught with the potential for fraud or embezzlement by an employee. This leads us to the next item . . .

13. Failure to Document Your Workers

You've heard of undocumented workers. Is that what we're talking about? Yes and no, but let's start there. You must have payroll records. They can be as simple as individual file folders with employee information stored alphabetically in a file cabinet. That sounds easy enough.

It is, but the cabinet must be locked. You have a requirement for keeping your employee records secure. They contain social security numbers, addresses, and other confidential information which fits under federal and state privacy laws.

Besides the governmental requirements there is another important reason for security. Business owners typically experience more disputes with employees, people inside the business, than they do with people outside the business, like customers, vendors, or anybody else. When I put on my asset protection hat to talk with clients, I tell them that they are much more likely to be sued by a disgruntled employee than by a customer or a vendor or anybody else. In the case of a dispute with an employee, I have seen employee records go missing quite mysteriously. It is particularly bad if one of your office workers quits or gets fired, because he or she will normally have access to the file cabinet with the employee records. Therefore, I tell business owners to be as careful of employee records as they are with cash.

Most business owners have never thought of that. So lock up your employee records, and you keep the only key.

Contents of Employee Records

What should be in the file folder for each employee? Are they big and bulky? No, you only need two forms. The first is IRS Form W-4. This is what tells you their name, address, and social security number; whether they are married or single; and how many dependents they want to claim. This is a one-page form and has to be filled out again by all employees annually. The Form W-4 can be gotten from the IRS by mail, or you can download them from the IRS website. So at the beginning of every year get a bunch of copies, pass them out, and get all your employees to update their information by signing a copy. That includes you. Just because you are the owner, you are not exempt from having an employee folder and having a current Form W-4 in it.

The second item is Form I-9. This formerly was published by the Immigration and Naturalization Service (i.e., the INS), but that department has been absorbed and merged with other governmental agencies and is undergoing major changes. But the Form I-9 is required by various federal laws.

You already know something about this, because you hear something on the news almost every day about illegal aliens and the controversy on how to deal with the problem. Much of enforcement is centered squarely on the back of business owners. The laws require employers to be absolutely certain that every employee working for them is legally entitled to work in the United States. And every business owner is required to have adequate documentation to prove that about every employee, with no exceptions.

Documentary Proof

How do you go about getting that documentary proof? The Form I-9 is quite unlike the prior form we discussed where you just hand it to employees and have them fill it out. Instead with a Form I-9, an owner, officer, director, or other official of your company must fill it out. The

way it works is you have the employee give you a copy of documents that prove that he or she is either a citizen or under some other circumstances is legally allowed to work in the United States. What documents? A valid U.S. passport.

Most people you know don't have a passport. Sure, many people travel overseas, but not every potential employee. And what if they have a passport, but it's expired?

Expired is fine. It's still a U.S. passport. But the bigger question is if a person does not have a passport. In that case you have to have multiple forms of proof. Some examples are a driver's license, a social security card, a birth certificate. Also, you may have heard of the term "Green Card" for somebody who is not a citizen. All those are specified on Form I-9. You just go through the form and get documents from your employee that meet enough of the things on the lists to prove the person can be legally employed. Then what?

You just fill out the Form I-9 and file it in that person's employee record folder. I recommend that you make a photocopy of the items that you end up using, the passport, driver's license, green card, or whatever and staple those on to the Form I-9.

Do you have to do this every year, like the IRS Form W-4? No, just at the beginning of employment or soon as you can thereafter. However, remember I told you to get a new Form W-4 for everybody at the beginning of each year? Well that is a good time to review the employee records to make sure you have a valid Form I-9 on file, and verify that requirement has not been missed.

Are both these forms really necessary?

They are both necessary and extremely important. If any governmental agency does an audit, they will check your employee records as a routine part of the examination. If you don't have the proper forms for everybody, you are in big trouble. How big?

I saw a recent case where an employer was fined \$25,000 for just one missing Form I-9. This was egregious, because the employee in question was a natural-born U.S. citizen, and clearly working legally in the United States. The problem was not one of compliance with the spirit of the law, but merely a missing form. So, the question goes back to you. Are you so rich that you can afford a huge fine for all of your employees, or even just one?

Other Employment Folder Documents

Those two required documents, Form W-4 and Form I-9, are the only things required to be kept in your employee records for each employee. But you can keep anything else there you want. The most common things are employment contracts, performance reviews, and written reprimands.

So, that's it for documenting your employees. And that brings us to almost our final item on our list of the most common mistakes made by business owners . . .

14. Not Using a Payroll Service

There have been comments about this in passing during some of the other topics we've discussed. What is the deal with payroll services?

Many of the largest companies in the world have had their payroll and payroll tax processing done by an outside service, for years. This practice is often called “outsourcing,” which was one of the first uses of that term. These are large, profitable businesses that could easily afford CPAs, clerks, computers, and whatever they need to do this type of data processing in-house. But they have found it much more cost effective to outsource this and concentrate on their core businesses instead.

Outsourcing

Of course, you’ve heard of outsourcing, but maybe never quite thought of it in this context.

Many smaller companies are not aware that such services exist. However, this is a mature industry, and payroll processing is readily available anywhere. Some of my clients from time to time have had difficulties with payroll and payroll taxes. Throughout my career, for those clients, I’ve been recommending they hire a service. However, nowadays because of the increased complexity, the stringency of the penalties, and the electronic filing requirements, in recent years I have been recommending that all of my clients outsource their payroll and payroll tax processing by hiring an outside service.

Isn’t that expensive? No, the cost is extremely low. For an in-house employee doing your payroll, if you take his or her hourly rate and multiply it by the number of hours he or she spends, the payroll service ends up being much less. What if it’s a lower-level hourly employee? Even at the minimum wage, you can’t beat the cost of the service.

What if you only have one employee?

A sole proprietorship, or a partnership, or an LLC with only one assistant is a single employee company. Also a corporation with only the owner working is a one-employee company. You don’t need a payroll service for just one employee, do you?

Sorry, but the answer is still yes. Of course it takes less time to cut a single payroll check, instead of a bunch. But it costs as much time to do the quarterly and annual payroll returns for one employee as it does for multiple employees. That’s where the major time cost builds up and where errors occur.

You are much better off concentrating all your efforts on the core functions of your business, instead of spending time and effort on payroll and payroll taxes. And it’s so cheap to outsource the payroll and payroll tax work, why wouldn’t you?

Mistakes?

But what if the service makes a mistake? All the good services guarantee their work. So if your employee makes a mistake, and you get a penalty notice, you have to pay it. If you hire a payroll service, you can forget about ever having to deal with a letter from the IRS again.

Who can you outsource your payroll to?

I’ve personally worked with, on behalf of my clients, four national companies that do data

processing of payroll and payroll taxes, ADP (Roseland, NJ); Ceridian (Minneapolis, MN); Pay Systems of America (Cincinnati, Ohio); and Paychex (Rochester, NY).

There is also Intuit (Mountain View, CA) which does what it calls assisted payroll through its QuickBooks program, but which I recommend against, because it is really just a do-it-yourself application. It's not really a payroll service, but just a software program.

And there are also local and regional payroll processors in every state and city of any size. I have quite a lot of personal experience with the national companies I mentioned, and I generally feel better about their quality and stability than I do about the smaller companies.

What should a business owner look for in a payroll service?

The national companies have a full menu of services, like guaranteed tax pay, multi-state payrolls, debit cards, etc. If you go with a local or regional firm, they may not be able to give you all the things you need or want, and they may not be in a position to grow with you if your business does well and expands considerably.

Is there a big difference in cost? I don't feel that price is much of a consideration. Outsourcing payroll and payroll tax processing is so cheap that everybody can afford it. It is cheaper than you can afford to do it yourself in-house. In fact, for the reasons we have been discussing here, you can't afford to be without it.

But there must be some differences in price, aren't there? Surprisingly little. Let me warn you of one thing though. Some have a model of quoting a low price and then charging extra for every service they can think of (e.g., general ledger interface, vacation tracking, earning and deduction types, check signing, check stuffing, unemployment claim administration, job verification, new hire reporting, direct deposits, etc). So be careful when you get quotes, and ask questions.

What else do I need to know about payroll services?

Many of the larger payroll companies are built on the hierarchical model, processing payroll and payroll taxes on mainframe computers and shipping them to your city. The better companies use micro computers and laser printers, giving them much more flexibility and faster turnaround time.

Check into some payroll services, and pick one you like. Then why don't you give them a try?

15. How the Law of Sowing and Reaping Applies to Payroll and Payroll Taxes

There is one more on the list, number 15. I was holding it until you had a chance to hear and react to the other, systematically and in context. I have one additional thing I want to discuss with you, one that's quite different from the rest. Consider it a bonus.

Everybody in the world is familiar with the principle. One of humankind's oldest manuscripts says that as long as the earth exists, seedtime and harvest shall not cease.

The way it works is that you are involved in the beginning and ending activities only. That is, you plant some seeds into the ground. Then after that plant grows, you harvest the result of it. It might be food, like corn or grain or apples or whatever. It might be a beautiful flower you give to a loved one.

There are two important aspects. First you have to do actual labor on only two stages, the beginning and the end, the planting and the harvesting. A big crop may require a large amount of physical labor, but only during those two stages.

The second aspect is that you have nothing at all to do during the middle portion, the germination of the seed and its growth into a mature plant. Sure, you might pull a few weeds or apply some fertilizer and water, but those actions are ancillary. You have an active role in the planting and harvesting, but you have no role in the life of the plant hidden from view. All you are doing is standing around waiting and watching.

All that's true, but how does it relate?

Think about our discussion so far. You wanted some information about payroll and payroll taxes, so you got this book. Let's call that a seed. It required some action just to make the request, but you also had to stop whatever else you were doing and somehow get this material in your hands. Call that planting the seed.

Then you and I began to interact, and I'll bet that even though you already knew some of the things I said, you were surprised at how much you did not know before this. The action you took, the seed that you planted by reading this book, began to grow without your causing that growth. You had an ancillary part in looking at the words and thinking about them, but essentially I did all the work, not you. You mainly sat here and absorbed.

The next step is harvesting. When you finish this book, I will no longer be in the picture. You will either take this knowledge and reform and refine your payroll system, or not.

How the Analogy Applies

Stay with me just a little bit longer. Let me ask you this: Do scientists know what makes a plant grow? Warning, this is a trick question because it deals with deep questions of what life is, how life occurs, why is there life, and that sort of thing.

The scientists have theories. And they know all kinds of things, down even to the cellular level. Some of them may think they have inklings of answers to some of the deep questions we're posing, but many scientists agree that they don't have a clue, nor even any way to get a clue.

How This Relates to Your Business

When a person starts a business, he or she plants a seed, hoping it will grow. The initial seed may just be an idea about a product or service that customers will buy, or the first seed might be the courage to file Articles of Incorporation, or deciding to leave your former job to strike out on your own might be a seed. Or signing a lease and putting up a security deposit may be the

seed of starting your business.

You have probably thought about that before. Everybody who ever starts a business was doing something else before. Then they decided to stop doing that other thing and start a new activity, their own business.

Then if that seed does not fail, at some point the business gets to breaking even, then becomes increasingly profitable. At some point you are able to reap the benefit of that business, as also maybe even your heirs for generations will do in the case of very successful companies.

I know that's what you want, and I want that for you. And one of the most important elements is keeping on top of payroll and payroll taxes. Look at mistakes as weeds that will try to choke out your little plant that's trying to grow.

Review this list carefully and analyze your own situation. If you are making any of these mistakes, now would be a good time to make the corrections you need. To restate that even stronger, I would say do not delay, not even for one more day, in fixing any problems with your payroll and payroll tax system.

About the Author

Eugene Adrian Van Zelfden, Jr., BS, MBA, JD, helps business owner and owners of professional practices. Adrian has worked in Austin, Texas as both a CPA and Attorney since 1978.

He earned the Eagle Scout award as a boy (and is still proud of it). Adrian graduated magna cum laude from the USAF Academy in Colorado, and later attained the rank of Air Force Captain. After mustering out, Adrian earned a Masters of Business Administration Degree (MBA) and Juris Doctor Degree (JD) before beginning his accounting and legal career.

Adrian holds licenses as an Attorney-at-Law from the Supreme Courts of the States of Texas (currently active) and Florida (retired status) and the U.S. Federal Court, Western District of Texas (currently active). He is also licensed as a Certified Public Accountant by the State of Texas.

He is also a member of the adjunct faculty of Wizard Academy, teaching periodic courses for business owners and owners of professional practices on business building topics, and holding a regular monthly seminar for accountants updating them on technical tax issues.

Adrian publishes materials designed to help business owners increase sales, solve cash flow problems, and generally have more fun operating their businesses. The materials you are holding in your hands were taken from an article he wrote for his published materials.

Please let us hear from you. When Adrian set out to write these materials, he relied upon situations he observed with his clients over the years. He is ready, willing, and able to add additional information or to revise any part of these materials in later editions if you have any suggestions based on your own real-life experiences. Adrian welcomes letters, e-mail messages, and telephone calls from business owners, owners of professional practices, and others who have questions and comments.

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What is Wizard Academy?

Composed of a fascinating series of workshops led by some of the most accomplished instructors in America, Wizard Academy is a progressive new kind of business and communications school whose stated objective is to improve the creative thinking and communications skills of sales professionals, internet entrepreneurs, business owners, educators, writers, ministers, authors, inventors, journalists, and CEOs.

Graduates participate in online discussions and contribute to the weekly newsletters, monthly musepapers, and books published by Wizard Academy Press.

Founded in 1999, the Academy has exploded into a worldwide phenomenon with an impressive fraternity of alumni who are rapidly forming an important network of business relationships.

“Alice in Wonderland on steroids! I wish Roy Williams had been my very first college professor. If he had been, everything I learned after that would have made a lot more sense and been a lot more useful. . . Astounding stuff.”

Dr. Larry McCleary,
Neurologist and Theoretical Physicist

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