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One of the more difficult decisions made by small business owners involves the question "At what point does it make sense to hire your first employee?"

Mind you, there is never an easy answer. Much needs to be factored into the complex equation. Simply adding one person to the payroll essentially doubles your workforce and theoretical output. And there is the matter of financial commitments. Throw in the responsibility of being part of someone else's household income and you've got a witch's brew of anxiety, apprehension, angst and many sleepless nights.

Yet hundreds of thousands of entrepreneurs conclude yearly that they can no longer do it alone. So what lessons can be learned from the experience?

First off, never allow headcount to be your measure of overall business success. I have observed repeatedly employers with bloated workforces who proudly recite employee counts while completely ignoring bottom line profitability. It's as if the only thing they want to talk about is the number of personnel, all the while proudly advancing on the path to bankruptcy.

Put another way, vanity should never play a part in the hiring process. And as you might expect, seasoned business employers should also keep this in mind as well since they can sometimes be just as susceptible. I would much rather see an entity with an impressive sales-to-employee ratio than an organization drowning in payroll expenses and no sense of personnel productivity.

Then there is the matter of payroll taxes and required reporting. On average it is best to add another 20 percent to your payroll calculation to cover the costs of required taxes and payroll compliance burden. Besides FICA taxes, there are federal and state unemployment taxes, workman's compensation and employee benefits. Always see a qualified accountant to advise you on these matters.

For those tempted to engage "independent contractors," understand that if these folks are later deemed to be employees you will be held responsible for backup withholdings since the date of their effective hire. Besides the employer tax burden the government will charge you with the imputed income taxes that should have been withheld but were not. Obviously this can be a catastrophic consequence for a small business owner. It could wipe out the business.

Another caveat deals with the remittance of payroll taxes. Never allow these funds to be used to satisfy other financial obligations no matter how pressing they might be. These monies belong to the taxing authorities and there

are stiff penalties for failing to remit timely. Keep in mind that these types of obligations are not dischargeable in a bankruptcy petition. For this reason alone I recommend utilizing a payroll service. Again talk to your accountant.

There also is the sober realization of relative take-home pay. In most instances the first hires take home more of a paycheck than the owners of the companies who employ them. Not only is this a monetary issue but it can play havoc on your self esteem and overall confidence. The employees don't realize this, but it's really of no consequence when handing out a healthy paycheck all the while going without on a personal basis.

You should also always have some type of arrangement with your banker to ensure a working line of credit for payroll purposes. This way you have funds available to address your payroll and related tax responsibilities regardless of whether your customers might be late with paying you. This is not to suggest that you ignore your accounts receivable but rather have a plan in the event of payment delays and cash flow crunches.

There is no rule of thumb here but I suggest a line of credit no less than six months of your employee's annual compensation. The amount should drop with successive hires. This doesn't include other working capital requirements you might have.

Putting someone on your enterprise's first payroll can be very exciting and usually isn't forgotten. In many cases, it's not a matter of if but when.

There can be as much art as there is science when considering the decision and all that it entails. Good luck and good hiring!

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