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they need to be prepared for.

Isaac M. O'Bannon • Sep. 24, 2012



Every small business gets started a little differently.

For some, it's a hobby of love that turned into a viable business opportunity. For others, it may have been a sideline project that supplemented the wages they made from an employer. In other cases, it's a big idea that had immediate potential for

success and the entrepreneur was ready to accept the risk, put in the long hours and

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owner wearing all of the hats.

These frequently include specialty contractors (such as plumbers, HVAC, painters, electricians), as well as consultants, surveyors, interior designers, artists and even accountants, along with countless other business types, from web-design to boutiques and unique manufacturing ideas.

Yet, if the business continues to grow, there will likely also be a time when product demand, the needs of clients, or work production are just too much for a single person to manage. The choice then comes down to letting the business remain at that level, or to seek continued growth by hiring an employee.

Are You Ready to Hire Your First Employee?

This is the point where many entrepreneurs, confident in their own ability and willing to make the risks that got them this far, often face insecurity and doubt. While using a contractor does involve some trust in their capabilities, and by this point many small businesses will have used contractors, hiring a full- or part-time employee is an act of faith.

“I tell clients not be so hard on themselves,” said Joyce Washington, CPA, the president of [Common Cents Consulting](#), a Baltimore accounting firm. “Hiring a team member is a process not an event. The process doesn't end with the selection of “the right person”... that's only the beginning.”

She notes that small business owners need to be constantly looking at how a team member fits and how best to use them, even if there is only one.

“There's nothing that says you can't customize the position to the strengths of both you and the new team member. Be upfront with expectations and check-in often. Communication is extremely important to the success or failure of the employee/employer relationship.”

Of course, some of the trepidation of hiring that first new employee is that the

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What is your goal in hiring the employee? This depends not only on the type of business and where growth might have occurred, but also on the personal needs of the owner.

- Is it to allow someone else to manage the store so that you don't have to work 14-16 hour days?
- Is it to work on administrative-level tasks, thereby freeing up your time for billable (or higher billable) hours and projects?
- Will this position be full or part time?
- What is the going rate in your market, and what are you willing to pay for someone with more experience?

2. Obtain an EIN

If the business has not already done so, it must register as a business entity in their state and also apply for and receive an [Employer Identification Number](#) from the IRS. Partnerships and corporations will already have one, but many sole proprietors will not have done so yet.

3. Employer Requirements

Employers have many responsibilities when it comes to reporting on their employees, wages and benefits.

- **Reporting new hires** to their state employment department or similar agency.
- **Income tax withholding:** Employers must withhold and remit those funds at state and federal levels.
- **FICA taxes:** Social Security and Medicare taxes must be withheld at the appropriate rates and remitted to the SSA.
- **Unemployment Tax:** These are not deducted from workers' pay, but are a direct cost of the business.
- **Workers Compensation Insurance:** Most states require businesses (even with only one non-owner employee) to obtain insurance to cover employee workplace injuries. Some states also require Disability Insurance.

- **Employment Eligibility:** Employers must ensure that new employees are

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accounting professionals, such as a CPA, can save time and prevent costly penalties for non-compliance.

These professionals have helped numerous other small businesses, including their own business, stay in compliance. So, they know the requirements for your type of business and your state.

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