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BUSINESS MANAGEMENT

5 Things To Do When Hiring Your First Employee

When a small business is ready to hire their first employee, there are several things 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 sweat equity, and make it a reality.

In each of these start-up scenarios, particularly for the first time small business owner who previously worked for others, there came a time when that new project or hobby became significant enough to make it a full-time endeavor.

While some types of businesses require multiple staff at the very beginning, particularly restaurants, retail outlets and those focused on distribution, many service-focused businesses get started and often do quite well initially with the 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 owner/operator may feel like they are allowing someone else to take on some of the responsibilities they’ve held so close, and to at least occasionally serve as the face or voice of the business to an already established client base. This step also requires much more reporting and compliance with federal and state taxing agencies.

For those who are ready to take that step, here are some of the reporting and regulatory issues to consider.

1. Determine the General Position

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 legally allowed to work in the U.S.

4. Benefits

Depending on whether an employee is full-time or part-time, and the state/community the business is located in, there may be different requirements as to providing sick time or other benefits.

5. Seek Professional Advice

While there are many online resources for information on this, and many small business payroll systems offer guides, seeking the advice or service of a payroll or accounting professional, 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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