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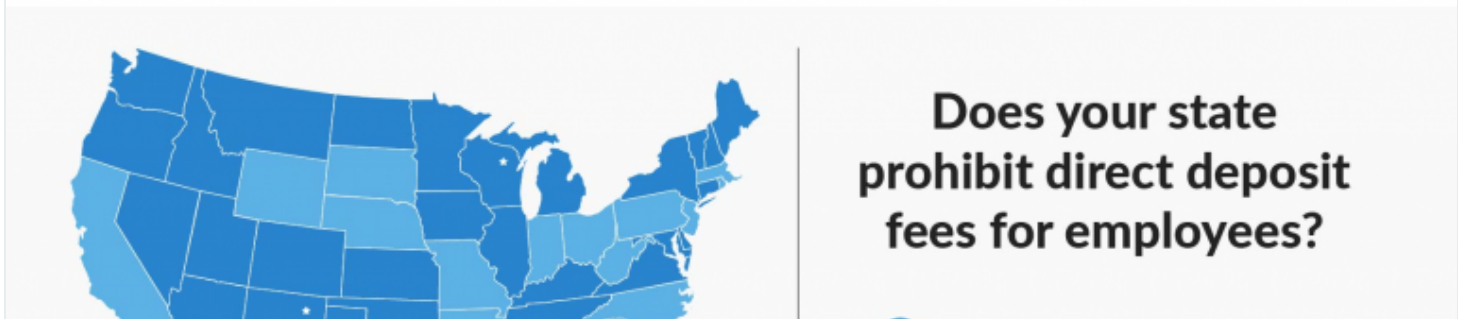
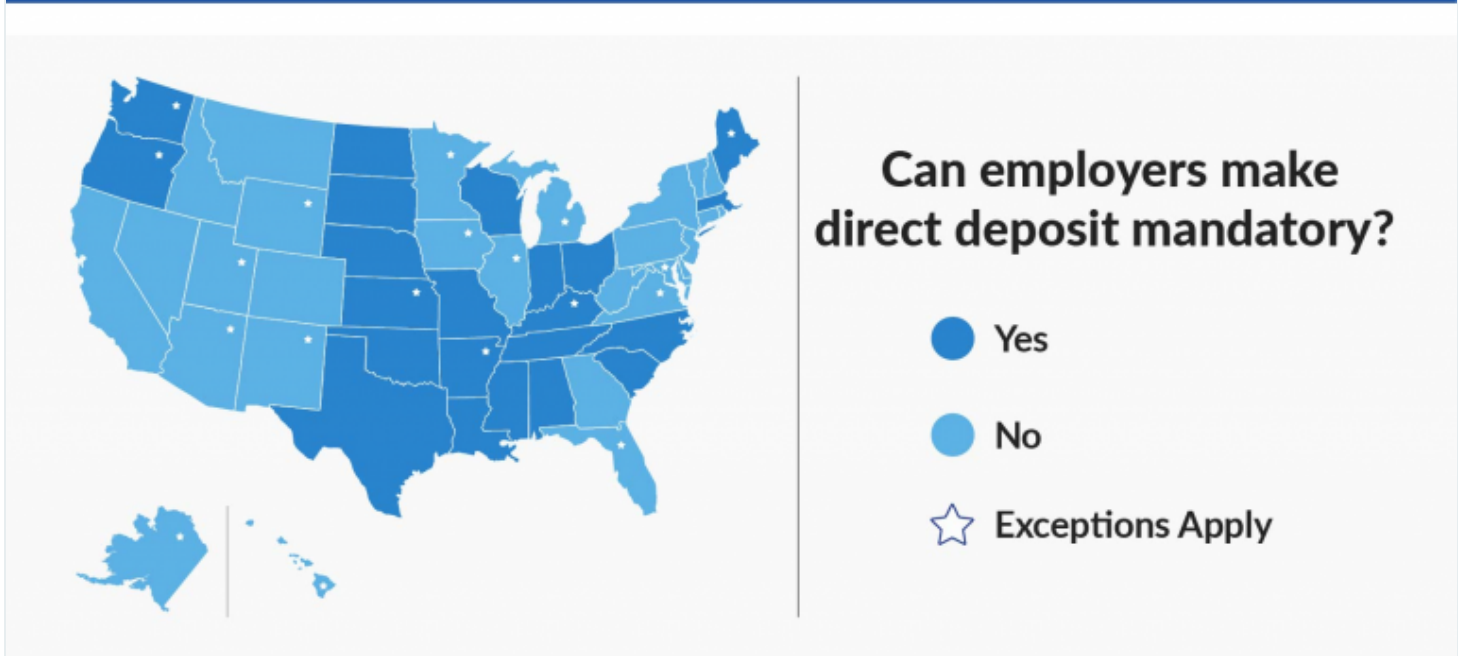
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direct deposit? To answer this question, you need to look at federal and state direct deposit laws.

Rachel Blakely-Gray • Jun. 12, 2019

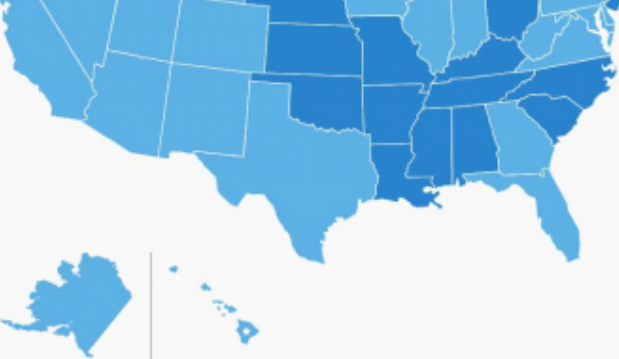
DIRECT DEPOSIT

WHAT ARE YOUR STATE'S REQUIREMENTS?



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Financial Institution?

● Yes (in compliance of federal law)

● No (regardless of federal law)

☆ Exceptions Apply

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PATRIOT
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Many employees—**82% of them** (<https://bit.ly/23LNLui>) — receive their wages via direct deposit. When you are deciding how to pay your employees, direct deposit likely comes to mind. However, not all employees want to receive their wages through direct deposit. Can you require mandatory direct deposit? Brush up on federal and mandatory direct deposit by state laws before requiring direct deposit for your workforce.

What is direct deposit?

Direct deposit is an electronic funds transfer (EFT) that lets you put your employees' paychecks directly into their checking or savings accounts. Sure, you can pay employees with paper checks, cash, or even pay cards. But, using direct deposit to pay your workforce can save you time and keep your payroll secure and organized. As with anything, there are pros and cons of direct deposit.

Employees can increase their personal savings and eliminate the hassle of running to the bank to deposit a paycheck every payday. However, some employees prefer handling paper checks. For employers, direct deposit is a convenient approach to

paying employees. Some payroll software providers, like Patriot Software, even offer

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receive their wages via direct deposit. However, employers must meet the federal requirements for direct deposit. You can make direct deposit mandatory if you do **ONE** of the following:

- Let the employee choose the bank to access their direct deposit
- Choose the bank the employee must access their direct deposit from, but you also offer another payment option (e.g., paper check or cash)

For more information on federal mandatory direct deposit laws, check out the [Federal Reserve System's website \(https://bit.ly/2QsDZfm\)](https://bit.ly/2QsDZfm). Although federal law might allow you to create a mandatory direct deposit policy, your state might not.

Mandatory direct deposit by state

Can an employer require direct deposit under state law? It depends on the state. If your state has a law either for or against required direct deposit, you must follow it. States without mandatory direct deposit laws follow federal laws. Because federal law allows mandatory direct deposit, employers in states without laws can require this payment method.

State laws aren't as straightforward as federal law. Each state can set its own direct deposit laws. And, they can set further regulations. For example, your state might have specific direct deposit laws that:

- Prohibit employees from incurring direct deposit fees
- Let employers choose the financial institution
- Refer to certain sectors, such as private employers
- Pertain to specific industries, like agricultural employers
- Allow employees to opt out of direct deposit with a written statement

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option, you must gather employee information. According to both federal and state law, your employee must authorize direct deposit by providing the following:

1. Bank name
2. Type of account (checking or savings)
3. Routing number
4. Account number

You may also want to ask your employees for a voided check with their direct deposit information to verify the account and routing numbers are correct. Make sure you keep your employees' direct deposit information on record. And, place the information in a secure location. If you choose to use direct deposit, you may need to give your employees a statement showing how much you deduct from their paychecks. This statement is known as a [pay stub](#). You can provide pay stubs either online or give employees paper pay stubs.

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Rachel Blakely-Gray is a writer for [Patriot Software](#), a provider of payroll and human resource management solutions.

Payroll

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