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## **Hire Power: Laws Set Path for Employment Relationship**

*By Finance New Mexico with assistance from Joy J. Forehand, MPA, deputy secretary of the New Mexico Department of Workforce Solutions*

A business owner might find the paperwork involved in hiring an employee to be intimidating, which is why many delegate those duties to a payroll service if they have enough workers to make the expenditure worthwhile.

According to Joy J. Forehand, deputy secretary of the New Mexico Department of Workforce Solutions, “entrepreneurs who do not outsource their payroll to an outside firm and choose to do it on their own need to know what state and federal laws apply to the employer-employee relationship.”



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### **First Things First**

Business owners need an employer identification number, or EIN, from the Internal Revenue Service before hiring help. Each employee must fill out a W-4 form detailing how much should be withheld from her paycheck to cover her income taxes and other payroll deductions, including her contributions to employer-provided benefits.

The Homeland Security Department requires employees to fill out an Employment Eligibility Verification Form and present the employer with a Social Security card or other government-issued identification, such as a passport, to substantiate their eligibility to work. In New Mexico, employers must report new employees to a state directory at <http://newhire-reporting.com/NM-Newhire/Default.aspx>.

Employers also have to secure workers' compensation insurance unless the employee is a private domestic worker, a ranch or farm hand or a real estate salesman. Premiums depend on many things, including whether the provider is a private insurer or an industry association that offers group insurance; the employer can opt to self-insure by setting aside money to cover losses. The type of work and dangers involved, the number of employees and their compensation and the company's claims history also influence premiums.

If benefits are offered to reward and retain employees, the employer withholds an amount designated by the employee for an individual retirement account or 401(k) plan — as well as the employer's match — a health savings plan or the employee's portion of health insurance benefits.

## Obligatory Deductions

The employer must withhold the proper taxes and other deductions from the employee's paycheck each pay period and send the appropriate forms and payments to taxing authorities. Here's what's subtracted from the employee's gross pay and the employer's pocket:

**Federal and state income taxes:** State and federal taxes based on the employee's W-4 and applicable tax tables must be sent each month, quarter or year to the proper taxing authorities. Filing frequency depends on the business' size.

**Social Security and Medicare:** Employees and employers each pay 6.2 percent on the first \$113,700 of the employee's earnings toward Social Security benefits and 1.45 percent of the employee's total earnings to the Medicare program. Payments are made through the Electronic Federal Tax Payment System.

**State Unemployment Compensation Tax:** Every quarter, a new employer pays 2 percent of each employee's pay – up to \$22,900 in 2013 – into a fund that provides unemployment insurance to eligible workers.

**Federal unemployment taxes:** New Mexico employers use Form 940 to file quarterly taxes on wages paid to non-household and nonagricultural employees who earn at least \$1,500 in a quarter to cover the federal government's share of administering unemployment and job service programs and extended jobless benefits. The 6 percent federal tax is calculated on the first \$7,000 of the employee's annual wages – but the rate falls to 0.6 if the employer also pays state unemployment taxes.

For more information about state and federal employment laws, visit the New Mexico Department of Workforce Solutions at [www.dws.state.nm.us/](http://www.dws.state.nm.us/).

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