PROFIT AND PAYROLL GUIDE

The small business owner’s essential guide to getting and using money

nerdwallet + GUSTO

What's inside

Need more money knowledge? Start here

Money — one of the most dramatic words in the English language. And as a small business owner, it's one of the most important things you'll ever have to deal with. To help defuse some of the drama, personal finance website NerdWallet and HR platform Gusto have teamed up to bring you this comprehensive guide on some of the biggest money-related topics for entrepreneurs. In Part One, NerdWallet explains how to get funding for your business so you can put your mission in motion. Then in Part Two, you'll find a list of resources that will help you plan ways to make and manage your money more effectively. And in Part Three, Gusto explores what the act of compensation means, and exactly how to pay yourself and your team.

Let the learning begin.

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How to get money for your business

So you want to be your own boss. While answering to yourself is an ambition shared by millions, owning a small business comes with its own unique set of challenges — and one of the biggest is financing. Luckily, with a little knowledge by your side, you'll be able to set yourself up for financial success. Part One of this guide focuses on the basics of getting access to funding to help you start, run, and grow the business of your dreams.

Why you might need funding

Before you start looking at all of the offers and ads out there, take a step back and ask yourself why you might need a small business loan. Your answer will likely fit into one of the categories below:

- ☐ To start your business
- ☐ To manage day-to-day expenses, such as payroll, rent, and other bills
- ☐ To grow your business, such as expanding to a new location, adding a new product, or buying a new piece of large equipment
- ☐ To have a safety cushion in case of an emergency

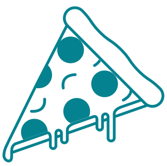
Once you uncover the reason you need funding, you are ready for the next phase: how to get it.

What's out there (and where you should get it)

If you're starting a business, you'll likely have to rely on a mix of business credit cards, loans from family and friends, crowdfunding, personal loans, or microloans from a nonprofit lender. While it is fairly tricky to get a small business loan in your company's first year, don't worry. If you need money to manage day-to-day expenses, here are some of your options:

- **Short-term cash flow loan.** This kind of loan is a quick, one-time injection of cash that's repaid over a short period of time.
- **Line of credit.** Similar to a credit card, a line of credit lets you borrow and repay only the money you need.
- **Accounts receivable financing.** With this option, also known as invoice financing, your unpaid invoices are advanced, then you repay that amount (plus a fee) after your customers pay you. Selling your invoices at a discount for a lump sum of cash is called invoice factoring.

If you're more focused on growing your business, consider applying for a term loan, which is basically just an amount of cash that requires fixed payments. Keep in mind that your loan shouldn't outlast your product or any equipment purchases you make.



FOR EXAMPLE: If you're buying a pizza oven that you expect to use for five years, be sure to get a loan with a term of about five years, too.

If you need a financial safety cushion in case of a crisis, find a line of credit or a term loan with the lowest rate possible. But be sure to get it long before you need it, so you're not scrambling for cash if an emergency strikes.

Where should you go for financing for your small business? A bank? Online lender? Nonprofit microlender? Let us show you the way.

Do you have collateral, good credit, and don't need cash fast?

Excellent. Try a traditional bank that offers term loans, lines of credit, and commercial mortgages to buy properties or refinance. The U.S. Small Business Administration (SBA) provides general small business loans through banks that range from about $5,000 to $5 million, with an average loan of $371,000.

Small businesses can have a tough time getting approved for a variety of reasons — including low sales numbers and limited cash reserves. Small business owners who have bad personal credit or no collateral, such as real estate, could also come up empty-handed. Don't let that get to you. While those who get an SBA loan can find that the process takes two to six months, it may be worth the wait, since banks generally have the lowest annual percentage rate, or APR.

State and local governments also offer financial assistance, so check out the SBA's loans and grants search tool for a list of financing programs that may work for you.

TRIVIA

Wondering where the phrase "break the bank" comes from? The word "bank" comes from the Italian word *banca*, which means "bench." During the Renaissance, money exchanges would happen on the lender's actual bench, and if they ran out of money, people would literally break the bench in half.

Can't get a traditional bank loan because your company is small?

Look at microlenders, which are nonprofits that offer short-term loans less than $35,000. Keep in mind that the APR on microloans is usually higher than for bank loans. The application may require a detailed business plan and financial statements, as well as a description of what you'll do with the loan, so be prepared. Microloans may work well for small business owners who can't qualify for traditional bank loans because of a limited operating history, poor personal credit, or a lack of collateral.

If you're thinking about going with a microlender, here are a few to check out:

- Kiva Zip
- The Opportunity Fund (note: California only)
- Business Center for New Americans (New York Pacific)

TRIVIA

Wondering how micro a microloan is? The average SBA version is around $13,000.

Do you lack collateral and operating history or need cash fast?

Online lenders may be your best bet. These companies provide small business loans and lines of credit from $500 to $500,000. The APR for online loans ranges from 7 percent to 113 percent, depending on the lender, the kind and size of the loan, the length of the repayment term, the borrower's credit history, and whether collateral is required. These lenders can rarely compete with traditional banks when it comes to APR, but approval rates are higher and funding is quicker than banks — as fast as 24 hours.

Interested in going with an online lender? Here are some suggestions:

- OnDeck
- SmartBiz
- Lending Club
- Funding Circle
- Kabbage
- Dealstruck
- Prosper

PRO TIP

If you qualify, the most affordable financing option is usually from traditional lenders and SBA loans.

FIND AND COMPARE EVEN MORE ONLINE LENDERS HERE

What you need to apply for a loan

To get financing, you'll likely go through an application process that involves a lot of moving parts. Here's a good starting point for the things you may need to have on hand when you apply:

- [ ] **Your personal credit history and credit score**, which can determine whether you qualify for a loan, your ability to repay it, and how much money you'll be able to borrow. More established businesses may be required to provide a business credit score.

- [ ] **Personal and business income tax returns** for the past two or three years.

- [ ] **Legal documents** such as articles of incorporation, business licenses, and franchise agreements.

- [ ] **The financials of your business**, such as profit and loss statements, balance sheets, cash flow statements, and financial projections.

- [ ] **An overview of your business and its history**, as well as a detailed financial plan that clearly states why you need the money and what you plan to do with it.

- [ ] **A link to your online business or accounting software**, such as QuickBooks or Xero. Invoice financing companies may require a link to your bookkeeping app so they can upload invoices.

- [ ] **A personal guarantee to secure financing** could be required by some lenders. This allows the lender to go after your personal assets if you fail to repay the loan.

PRO TIP

Do the loan legwork. Before you sign a loan agreement, analyze your business's financials, especially cash flow, and evaluate how much money you can afford to put toward loan repayments. Some online lenders expect repayments daily or twice a month, so it's important to know the requirements upfront.

What to know before applying for a loan

At first, the fine print on your small business loan may sound like another language. But with a little studying, you can master the lingo in no time.

Here are seven terms to brush up on before taking out a loan:

1. **Origination fee**

   This is what the lender charges for evaluating and processing your business credit request. The cost may be listed as a dollar amount ($500, for example) or as a percentage of the loan (such as 0.5 percent of $100,000). You may be able to negotiate the fee, so make sure you ask before signing anything.

PRO TIP

Have you found a lender with a super–low origination fee? It doesn't always mean they're offering you the best deal. To find out the true cost of a loan, always be sure to ask for the annual percentage rate as well.

2. **Fixed rate**

   This means the interest rate you pay on a loan doesn't change during the repayment period. When interest rates are low, it's often better to take out a fixed-rate loan than one with a variable rate, since you can lock in that lower rate.

3. **Variable rate**

   A variable-rate loan is the total opposite of a fixed-rate loan. The interest charged on the loan — and your monthly payments — can rise and fall with market fluctuations. Business term loans are generally fixed-rate loans because they're tied to a specific repayment period. Business credit cards and lines of credit tend to carry a variable rate, since there's no specific time frame to repay the entire balance.

4. **Default interest rate**

   This term refers to the higher interest rate lenders can charge if you fail to make timely payments on your loan. It's a common feature of credit cards — if you miss payments or spend above your available credit limit, you can be hit with a higher penalty rate, which usually hovers around 29.99 percent.

5. **Contract duration**

   Small business owners should be aware of whether or not the financing they receive lasts for a specific period of time. For example, with invoice factoring, a financing option in which you sell your accounts receivable at a discount in exchange for cash, the contract may require you to factor invoices for six to 12 months. If you try to end the contract before the set duration, you could have to pay an early termination fee.

6. **Prepayment penalty**

   You might think that repaying your loan balance early will save you money in the end. However, some lenders will slap you with a prepayment penalty — a fee that's a percentage of the remaining loan balance. For example, 1 percent of $10,000 remaining on a loan balance is equivalent to a $100 fee. Make sure you know the cost if a lender charges a prepayment fee. Online lenders such as BlueVine, Prosper, Funding Circle, Lending Club, Kabbage, and OnDeck don't charge prepayment penalties, which also are prohibited by federal credit unions.

7. **Covenants**

   There may be conditions in a loan agreement that restrict your actions or require you to do specific things. For example, a covenant might restrict management changes or selling the company without first getting approval from the lender. A covenant might also require that you provide financial information whenever the lender asks for it. Definitely familiarize yourself with your loan's covenants, since they could have an impact on your business.

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How to make money

Now that you have a better understanding of how to get funding, it's time to graduate to the next level: how to make money. The truth is, 99% of this part depends on around 99+ variables, so there's no magic answer. But here's where you can start. In this section, we've listed a bunch of resources that will enable you to map out a practical, sustainable path to making money. Sketching out a profitability plan is an absurdly fun part of starting a business, and it's the part you should dedicate the most time to getting just right.

Resources to help you out

Organizations

- Small Business Administration If you need to know more about anything small business-related, the SBA is where you should start your search. This site is chock–full of amazing resources that will help you turn your business into a success.

- Small Business Development Centers These local organizations are sponsored by the SBA and provide valuable mentorship for new business owners. Find your local chapter right here.

- SCORE (Service Corps of Retired Executives) SCORE, a nonprofit that has been around for half a century, provides unparalleled mentorship and educational opportunities to entrepreneurs across the country.

- Local chamber of commerce Take advantage of networking events and classes in your area by checking out your local chamber.

Tools

- SCORE's break-even chart This handy tool enables you to track your profit so you can then learn how to make that number grow.

- Bankrate's gross profit margin ratio calculator Use this tool to figure out how much of the money you make is actually profit.

- SBA's pricing models worksheet This worksheet from the Small Business Administration will help you determine the right prices for your products.

- Financing comparison tool Whether it's to hire more employees, renovate your office, refinance existing debt or to get started, a small business loan can help make it happen. NerdWallet's small business loans comparison tool will help identify your best financing option.

Free ways to get the word out

- Fill out your Google My Business profile
- Claim your Yelp profile
- Get on YellowPages.com
- Set up your social media profiles on Facebook, Twitter, LinkedIn, Pinterest, etc.

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What to do once you have money

Funding secured? Check. Money flowing in? Check. The next step is to learn what to do once you have some cash in the bank. If you or others are working to make your business blossom, it probably means that someone needs to get paid along the way. In this section, we'll explain how to do just that. Specifically, you'll learn about the technical details of how to compensate both your team and yourself, along with the essential tax knowledge you need to know about. You'll walk away with a deeper understanding of payroll, and why all this money stuff matters in the first place. Are you ready? Superb.

Why payroll matters

Ah, payroll. Everyone loves to get paid but no one seems to love the machine that makes it all work. We know what you're thinking when we say the P-word: never-ending forms, rules, and surprises. The thing is, payroll can be pretty worthwhile if you know how to make it work for you. Yes, running payroll may look impersonal at first, with all those tiny numbers and weird acronyms. But really, those details are what make the personal part shine through. And when you start to peel away the layers, something really special emerges.

So what is payroll exactly? It's a symbol of gratitude. It's the vehicle that allows you to show appreciation for your team's hard work and the value they infuse into your business. And there's so much you can do to make the heart of payroll shine through. For example, if you add personal notes to paychecks and tie bonuses to milestones, people feel like they're being appreciated at each step. Done well, payroll can inspire your team to do things they never thought possible. Done well, payroll can make your business soar.

How to pay your team

Before showering your team with their hard-earned paychecks, there are a few details you need to get a grip on.

Step 1: Understand the kind of business you have

Flower shop or fitness studio? Coffee shop or creative agency? All are quite cool, but in this step we're talking about the kind of business entity you are. If you don't have one yet, don't worry. Here's a quick explanation of each type:

- **Sole proprietorship:** A sole proprietorship is one of the most popular business entities because it doesn't take a long time to start, and it gives the owner complete control. As a sole prop, you are personally responsible for all financial obligations of your business.

- **S Corp:** An S Corporation is another common option for businesses. S corps are more complex legally but can provide immense tax savings because they enable corporations to be taxed in the same way as partnerships.

- **C Corp:** A C Corporation is an alternative to the S Corp. Unlike the S Corp, C Corps can be subject to double taxation, which may make them an unpopular choice for small businesses. This means that profits are taxed first to the corporation, and then again to shareholders through dividends. Click here for more info on how it works, and ways to lessen the tax burden.

- **Partnership:** A partnership is when at least two people are in the driver's seat. However, like a sole prop, each partner is personally responsible for the company's finances.

TRIVIA

Oh, the times they are a-changin': When the first federal minimum wage was introduced in 1938, it was $0.25. In today's dollars, that amount is equivalent to around $4.19.

- **LLC:** A Limited Liability Corporation is a lightweight entity option. While it doesn't have the typical tax savings as the others, it is generally less confusing.

Step 2: Get Your Employer Identification Number (EIN)

Have your entity type nailed down? Excellent. You now need to get your hands on your federal and state EINs. These numbers aren't gibberish; they're what your payroll provider will need to file your tax returns. Plus, it will only take a few minutes to get. You can apply for a federal EIN on the IRS website, and to get the state version, just click here.

Step 3: Decide if your workers are employees or contractors

The next step is to make sure you correctly categorize your workers. Pay attention here because this impacts your workers' pay method, tax withholdings, and employer-side taxes. The IRS keeps a close eye on employee classifications to make sure owners don't try to skip out on their tax obligations, so take heed.

Okay, but what does all this labeling have to do with payroll? In a nutshell, employees need to be on your payroll and contractors should not.

For employees, you need to:

- Pay them on a regular basis (e.g. biweekly or semimonthly)
- Calculate and withhold payroll taxes with every paycheck (e.g. Social Security, Federal Income Tax)

- Pay employer-side payroll taxes (e.g. Federal Unemployment Tax)
- Report payroll tax withholdings and payments on a quarterly basis
- File W-2s at the end of the year

For independent contractors, you need to:

- Pay them according to their contract (like after they complete a project)
- Give them a 1099 form by the end of the year so they can report their personal taxes

If this list is making you dizzy, rest assured that there are services out there that will help you handle all of this (and more).

POP QUIZ

How to tell if your worker is an employee or contractor:

If you answer "yes" for any of the following questions, chances are your worker is an employee through and through:

- Do you determine their working hours?

  ____

- Do you provide them with tools to do their job?

  ____

- Do they work in the company office?

  ____

- Do you prevent them from working in another place during the employment period?

  ____

Step 4: Design the perfect compensation package

Compensation comes in all colors of the rainbow. By incorporating meaningful perks, commissions, and bonuses into your overall offer, you can show your team that you truly care about their lives and the great work they do. If you tie your team's compensation to milestones, it can incentivize them to go above and beyond the call of duty. Also, be sure to experiment with pre-tax benefits, which will boost retention and save you and your employees money down the road.

TRIVIA

Paper currency may look pretty papery, but there's more than meets the eye. Our dollar bills are made out of a special blend of 75% cotton and 25% linen and silk fibers. If our currency really was created entirely from paper, it would probably vanish quite quickly.

Step 5: Decide on your payroll method and schedule

Find your method

Time for the burning question: check or direct deposit? Direct deposit is usually the way to go for most business owners because it saves you the hassle of tracking paper checks while saving your employees from making a trip to the bank. However, if your team prefers to have the autonomy of cashing their paychecks when they want, a check may be the answer.

But first, a little background on how wages are paid

We believe the thrill of getting paid should be felt immediately. Most people prefer getting paid more frequently because they can see their work turn into earnings right when it's accomplished. Additionally, workers are in a better position to provide for themselves when their wages are received more often. When companies run payroll more frequently, they are also showing that they really care about their team's financial health and well-being. Ultimately, we believe that level of care is what makes companies thrive.

Today, most companies run payroll either semimonthly, which means twice per month on the 15th and 30th, or biweekly, which means every two weeks, usually every other Friday. The schedule you choose really depends on what you and your team prefer.

What about hourly employees?

Generally, hourly employees prefer getting paid weekly because it better matches with their cash flow needs. Picture this: an hourly employee works 50 hours one week and 10 hours the next. Weekly payroll makes sure that the person is paid that valuable overtime the week they've earned it, which may be when they need it most.

To help you pick the perfect payroll period for your business, here's a quick breakdown:

Gusto guide on payroll periods	MONTHLY	SEMIMONTHLY	BIWEEKLY	WEEKLY
FREQUENCY (PER YEAR)	12 months	24 months	26 (sometimes 27 weeks)	52 weeks
PAYROLL DATE	End of the month	Usually 1st & 15th or 15th & 30th	Every two weeks usually on Friday	Every week usually on Friday
HOURS PER PAY PERIOD (FOR HOURLY EMPLOYEES)	173.33	86.67	80	40
PAYROLL PROCESSING COST	Lowest	Low	Medium-Low	Medium
IMPLICATIONS TO ACCOUNTING	Lowest	Low	Medium-Low	Medium
IMPLICATIONS TO BENEFITS	Lowest	Low	Medium-Low	Medium
PROCESSING TIME	Lowest	Low	Medium-Low	Medium
SALARIED EMPLOYEES	Salaried employees prefer being paid more frequently but the differences are minor. Most companies pay their salaried employees semimonthly or biweekly.			
HOURLY EMPLOYEES	Lowest preference	Low preference	Preferred	Most preferred

Step 6: Pick a payroll provider

This is where the fun begins. First, figure out how involved you want to be in the payroll process. You can either outsource it to an accountant, CPA, or bookkeeper, or you can run it entirely on your own. Most payroll services allow you to do either, so it really comes down to what you'd like your level of involvement to be.

Here are the three kinds of payroll relationships:

1. In-house: When you run payroll yourself, you're in charge of every aspect. You can either use automated software, or calculate your withholdings by hand. An accountant will help you stay compliant, but they aren't involved in the day-to-day activities.

2. Completely outsourced: Outsourcing your payroll to an accountant or bookkeeper means they take care of everything, from bonuses to tax compliance.

3. Hybrid outsourced: This relationship means you take on a small portion of the payroll responsibilities, like reporting how many hours your team works, while your bookkeeper runs it, and your accountant makes sure you follow the law.

When deciding on which provider to go with, keep two things in mind: simplicity and automation. Here are a few more things to look for:

> **Convenience:** Payroll shouldn't be a struggle and you should be able to do it on your schedule. Find a provider that lets you be flexible.
>
> **Setup:** We're not all payroll experts, and that's totally okay. Look for a provider that doesn't require extensive training or hours of setup time.

TRIVIA

How long does money last? Definitely not forever, say the pros at the Federal Reserve Bank (and just about everyone else). The $50 bill has the shortest lifespan at 3.7 years, followed by the $10 bill at 4.2 years.

Cost: Do you know what's included in the monthly fee? Read the fine print and make sure you're clear about any extras in advance.

Exhaustive feature list: Your payroll should have all the bells and whistles. Keep an eye out for direct deposit, reporting, payment, filing of employment-related taxes, PTO tracking, and anything else that would make your life easier.

Whatever provider you decide on, make sure it allows you to focus on what paying your team is all about.

Already figured out which one to go with? Nice work. You're now ready to pay your team with pizazz.

How to pay yourself when you're the boss

When you're a business owner, paying yourself can feel very meta. Aren't you your business and vice versa? Don't worry, this isn't as weird as it sounds. When you bring your business to a point of profitability, it means that you can finally enjoy the fruits of your labor. In this chapter, we'll show you how to pay yourself when you're the one in charge.

TRIVIA

If you were actually worth your weight in gold, the average person would be valued at nearly $3 million dollars. Whoa. That's quite a bit of heavy metal.

Step 1: Figure out which payment style works best

Know the kind of business you have? Awesome. Now, it's time to decide how to take home your paycheck. This decision depends on the kind of business you have, but there are ways to get creative with it. We've simplified the options here, but be sure to check with your accountant or business advisor to see which one makes the most sense.

Draw: An owner's draw is how most founders pay themselves. Since owners of LLCs, sole props, and partnerships are seen as self-employed by the IRS, they are actually never compensated with wages. That's where the owner's draw comes in. A draw is an amount that is not subject to any tax deductions at the time it's received. However, you'll still have to pay taxes on it once you file your return.

- Which business entity is it suited for? Sole props, LLCs, and partnerships. If you're an S corp, you'll also have the option to take a draw in addition to your regular salary.

Salary: A salary is a fixed, regular payment that is subject to all state and federal taxes, in addition to business-specific payroll taxes. If you own a corporation and are involved in the day-to-day operations, the IRS will expect you to be a salaried employee.

- Which business entity is it suited for? C corps and S corps.

Ideas for designing your compensation package:

- 100% cash: Paying yourself in cold, hard cash will probably be the first thing that comes to mind. You can reap some tax benefits if you combine cash with stock, so be sure to investigate your options.

- 100% stock: This is a risky, yet tax-efficient option. Taking stock can be wise tax-wise, but it might not make sense financially if you don't have another source of income.
- A mixture of both: If you own stock in your business, a mixture of cash and dividends can be another alternative. Since dividends are taxed at a lower rate than salaries, you can hedge your bets by taking a blend of both.

Step 2: Pick an amount

Once you've settled on the right pay makeup, you'll have to figure out the amount. The main rule is kind of a no-brainer: don't go crazy. The IRS requires all compensation to be reasonable, or basically, whatever you'd get paid working at a similar company, in a similar role. Use a salary estimator tool, like the ones from PayScale and Indeed, to get a rough idea of what that number should be.

It's also important to subtract your own pay from your net profit, not just from your total revenue. Why exactly? Because you want to pay yourself from the sum that remains after you take care of all your other crucial expenses: paying your awesome team, buying supplies, and whatever else you need to keep your business going strong.

PRO TIP

If you decide to take deferred compensation, be sure to talk to your accountant or business advisor first. There's a chance you'll have to pay taxes on the total amount, even if you won't be paid until later down the line.

Step 3: Have yourself a payday

Check signed, cash deposited, payday complete? Congrats! Take some time to reward yourself for all you do day in and day out. One thing to keep in mind once you get paid is that the money you just received is now yours. Unless you want to loan your company money (and get taxed on it), don't pour it back into the business without having a plan in place first.

Paying yourself for the first time is a pretty big milestone to hit. Your success is real, and all that hard work is finally paying off.

How to make sure you're following the law

Paying your team isn't as easy as just handing out paychecks. To abide by the law, there are three main things you have to do:

1. Withhold employee taxes and pay employer taxes

When you run payroll, you need to withhold income and payroll taxes from your employees' pay, and then pay your taxes on time. Since you have to pay payroll taxes, the total cost of paying your team adds up to more than just your employees' salaries. It's the gross pay + your employer taxes + any additional expenses. Understanding this concept will help you make better hiring and budgeting decisions in the future.

2. Report them to the government

You need to report your payroll tax withholdings, payments, and employee statuses separately to local, state, and federal government agencies on a quarterly or yearly basis. Reporting requirements vary depending on your business type and the size of your payroll.

TRIVIA

Thirteen is one lucky number. And it's all over the one dollar bill. The number represents the 13 colonies, and it can be seen in the stars, pyramid steps, olive branch leaves, berries, arrows, hats, and more. Where else do you see 13 appear?

3. Stay compliant

States have different labor regulations in terms of minimum wage, overtime rules, employee termination, and more. Therefore, it's incredibly important to know the rules for your specific state.

Here's how to make sense of the whirlwind of forms that you and your team will have to handle:

> **TRIVIA**
>
> According to the Bureau of Engraving and Printing, the $ symbol comes from the Spanish *peso*, which was the main currency used in 16th century Colonial America. The word "*peso*" was shortened to PS, then the S went over the P, and it eventually turned into the $ symbol.

For your employee

Form I-9: Every new hire needs to fill out Form I-9 to verify their eligibility to work in the U.S. Make sure you keep the form on file for the entire time they work with you. You can also use E-Verify, a tool created by the Department of Homeland Security, to help you quickly check their status online.

Form W-4: To figure out your employee's tax withholding amount, have them fill out Form W-4. It doesn't have to be sent anywhere, but be sure to keep it on file for at least four years.

For you

New hire reporting for states: All 50 states require employers to report the employees they bring on board. Be sure to check your local state tax, labor, and workforce websites to see what your exact reporting timeframe is.

Form 941: Every payroll period, you have to withhold a specific amount of taxes from your employees. Therefore, you have to file Form 941 each quarter to report that amount.

State-specific withholding forms: Most states also require employers to withhold state income tax. If you live in California, you would use Form DE-9 to tell your state how much you withheld.

Form 940: This form is used to calculate your Federal Unemployment Tax Act (FUTA) tax. Form 940 only has to be sent in once a year, but you'll have to pay your FUTA tax every quarter.

Form W-2: Remember to file your employees' W-2s and then hand them out so they can finish their taxes. You can find more employer-specific filing instructions right here.

Thanks for reading!

We really appreciate you taking the time to read this guide. By now, we hope you have a better understanding of the lending and payroll space so you can make the best possible choices for your business.

Want to keep up with NerdWallet and Gusto? Check out the following resources:

- **Gusto Small Business Resources Center:** Come here to learn about the latest and greatest in small business topics and trends.

- **NerdWallet Small Business Blog:** Visit NerdWallet's blog for articles, advice and more to start, run, and fund your small business.

About us

NerdWallet is your go-to resource for making smart financial decisions. Whether you're looking to start or grow your small business, we'll get you to the best answer faster. Our entrepreneur-focused advice and tools for small-business loans, tax, and legal issues do the hard work for you — saving you time and money. We also connect you with experts who can answer questions about your venture.

www.nerdwallet.com

Humans aren't resources. Gusto is fundamentally changing how the world works by empowering everyone to put people first. Gusto reimagines payroll, benefits, HR, and personal finance by automating the most complicated, impersonal business tasks and making them simple and delightful. Gusto has offices in San Francisco and Denver and its investors include Google Capital, General Catalyst, Kleiner Perkins Caufield & Byers, and the founders of Instagram, Stripe, Nest, PayPal, Yelp, Dropbox, and Eventbrite, among others.

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NerdWallet and Gusto writers Steve Nicastro, Benjamin Pimentel, Teddy Nykiel, and Kira Deutch contributed to this e-book.