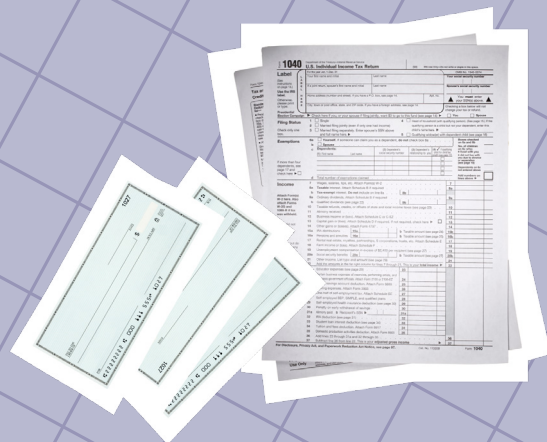


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# Glossary *of* Payroll



Need to brush up on payroll basics? We've compiled some important, high-level terms and phrases you should know. While it's not exhaustive, this glossary will arm you with the essentials you need to be in-the-know about payroll.

### **Exempt Employees**

Employees who are exempt from overtime pay and/or minimum wage requirements under the Fair Labor Standards Act (FLSA) and applicable state law. For an exemption to apply, the employee must meet applicable requirements regarding their job duties and salary.

### **Fair Labor Standards Act (FLSA)**

A federal law that regulates minimum wage, overtime, equal pay, recordkeeping, and child labor. The FLSA generally requires employers to pay employees at least the minimum wage for all hours worked and overtime pay at a rate of 1.5 times the employee's regular rate of pay for hours worked over 40 in a workweek. Be sure to check state wage and hour laws for additional requirements, particularly around record-keeping, overtime, minimum wage, exemptions, pay frequency and pay statements.

### **Federal Unemployment Tax Act (FUTA)**

On the federal level, employers also pay an unemployment tax, called the Federal Unemployment Tax Act (FUTA). FUTA provides funds for payments of unemployment compensation to workers who have lost their job. FUTA is paid by the employer (i.e., not taken out of an employee's paycheck). The FUTA tax rate for 2020 is 6.0% and applies to the first \$7,000 you paid to each employee as wages during the year. Once the limit is hit, the employer is no longer taxed on that given individual. Most employers pay both a federal and a state unemployment tax.

<b>Form W-2</b>	An IRS tax form used to report wages, salary, and other compensation paid to employees and the taxes withheld from them. It reports how much an employee earned and the amount of federal, state and local taxes withheld from paychecks.
<b>Non-exempt Employees</b>	Employees who are subject to federal or state minimum wage and overtime laws. Non-exempt employees are entitled to be paid at least the applicable minimum wage per hour and a premium for overtime.
<b>Owner's Draw</b>	A distribution from the owner's equity account, an account that represents the owner's investment in the business. Owner's equity is made up of any funds that have been invested in the business, the individual's share of any profit, as well as any deductions that have been made out of the account.
<b>Sole Proprietorship</b>	An unincorporated business entity run and owned by one person with no tax or legal distinctions between the business and its owner. Unlike an employee, a sole proprietor is not distinct from the business and thus cannot be on the payroll. Sole proprietors are not paid W-2 payments because they are considered to be self-employed. Instead, sole proprietors take owner's draws from the business entity.
<b>State and Local Income Taxes</b>	Employers are responsible for withholding state and local income taxes from employees' wages. These vary state to state. The only states without an income tax are Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

### State Unemployment Taxes

Most states have their own unemployment tax under the SUTA, or State Unemployment Tax Act. SUTA is a payroll tax employers are required to pay on behalf of their employees to their state unemployment fund. In a few states, both the employer and employee pay SUTA taxes. The tax rates vary by state. States typically reassign their tax rates for state unemployment taxes that are effective January 1.

### Supplemental Wages

According to IRS Publication 15, (Circular E), Employer's Tax Guide, supplemental wages are "wage payments to an employee that are not regular wages." Most states have similar definitions of supplemental wages. The IRS considers many types of employee pay as supplemental income, including but not limited to accumulated sick leave, severance pay, bonuses, back pay, commissions, awards, prizes, nondeductible moving expenses, retroactive wage increases, the value of taxable fringe benefits, and expense allowances paid under a nonaccountable plan.

### Tax Withholdings

Any employer-provided compensation (salary, bonuses, commission, gambling winnings) may have taxes withheld. These taxes are remitted to the IRS and applicable state tax authorities. Employers will withhold from paychecks based on employees' Form W-4 (and applicable state tax forms).

## About Justworks

Justworks makes it easier to start, run, and grow a business by giving entrepreneurs and their teams access to simple software and expert support for payroll, benefits, HR, and compliance.

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*This glossary is meant to be an introduction to terms related to payroll and is not exhaustive of all key phrases and language related to the topic. Seek out appropriate legal consultation and confirm federal and state laws as needed before taking any action related to this topic.*