

Ready to Hire Your First Employee?

You've put in the hard work building your business from the ground up. And it's finally starting to pay off. The only problem: now you have more work than you can handle. Growth is always a good problem to have. But it does come with its own share of challenges. If you've made it to this point, you have two options. The first is to let new business opportunities pass you by, ensuring you don't take on more than you can handle. The second option is to lighten your load by hiring someone to help.

Should I hire an employee or independent contractor?

If you need help building your business, there are two ways to hire an extra set of hands - adding an employee or signing an independent contractor. While there are pros and cons to both, it's important to understand the difference.

Employee: An employee is hired to work for your company on a full- or part-time basis. This means you, as the employer, have control over how, when and where they do their job. However, this control comes with added responsibility. When you hire an employee, you'll need to withhold payroll taxes and report their income, in addition to abiding by other federal, state, and local employment laws. Then, there are additional benefit considerations – like offering vacation, sick time, and health insurance. These are just some of the basic responsibilities that are tied to having employees.

Independent contractor: A contractor is a self-employed worker that is hired for specific services. According to the IRS, that means the payer only has the right to direct the result of the work - not how, when or where it's accomplished. Contractors can also perform work for multiple clients at the same time. When hiring a contractor, you still need to report their income using the appropriate tax form. But they are responsible for their own taxes and benefits.

Contractors can be a great option if you need additional work that doesn't have to be done at your location in a time you require. They can bring their specific skillset to the table, without the long-term commitment of hiring an employee.

When is the right time to hire an employee?

Every business is unique. So, there's no right answer to when the best time is to hire an employee. Instead, you'll need to find the right balance for your situation.

Too early: The biggest challenge to hiring your first employee is typically a financial one. Hire someone too soon and you'll run the risk of encountering cash-flow problems. Or if you don't have enough work to support a team member, you could be paying someone who doesn't have enough to keep them busy.

Too late: However, if you start hiring too late, you may miss out on opportunities to grow your business. Or you could get in over your head and risk disappointing your current customer base.

Either scenario is less than ideal. That's why it's important to plan ahead.

Decide in advance when it's a good time to bring on an employee – like when you hit a certain sales goal, or at a time when an employee can perform work that will significantly increase your revenue. Remember, it never hurts to interview employee options and also speak with a contractor before deciding which one works best. You can also speak with a contractor and use that option in the short-term before hiring someone.

What changes do I need to make to my business before hiring an employee?

One big obstacle to hiring your first employee can be the logistics. The truth is, hiring an employee means you'll have a lot more rules to follow. If you have specific questions about your business, talk to an experienced lawyer for legal advice. And I always suggest using your CPA not only to answer all the financial questions, but as a sounding board as they usually have worked in these situations with other clients.

Generally speaking, before you make your first job offer, you need to:

- File for a federal employer identification number (EIN). If you don't already have one, this number will be used for tax documents that are submitted to the IRS.
- Register with the state. Depending on where you live, you may need a separate tax ID number for your state. You may also need to pay your state's unemployment compensation tax, which is used to support workers if they lose their job. Also, check with your locality to see if they require local taxes be withheld as well.
- Set up your payroll. You'll need to set up regular pay periods and decide if this employee is salaried or hourly. It is usually best to pay the person hourly. You do not want to have someone on salary and find out later that they should have legally been receiving overtime. Again, speak with your CPA if you do not know the difference. Always have your employee complete a W-4 form, as employers withhold the state and federal taxes based on the information completed in the employee's W-4 form.
- Display required notices. You may be a small business. But as an employer, you're now subject to many federal, state, and local labor laws. And depending on your industry, that may require displaying certain notices or posters for your employees to see. The Department of Labor's FirstStep Poster Advisor tool can help you decide what rules apply to your business.
- Create an employee handbook. This step may seem like overkill for your first employee. But if you don't have anything in writing, you may be left defenseless against future bad behavior. It is always best to get your policies set before you have any disputes. Contact us directly at Maria@Maria-L-Novak.com if you would like more information on a handbook.
- Prepare your onboarding process. Before making your first hire, it's wise to think through how you'll train your employee. Developing an onboarding process in advance can help your new hire get up to speed faster and eliminate any frustrations caused by a lack of direction.

How do I find the right candidate for the job?

Your first hire will likely have a significant impact on the future of your business – good or bad. That's why it's critical to find the right person to fill the job.

- Understand hiring laws. When hiring, keep in mind that there are questions that you can't (or shouldn't) ask. To avoid being discriminatory in your hiring decision, steer clear of asking about topics such as a candidate's age, religion, disability, marital status, or any other protected characteristic. The U.S. Equal Employment Opportunity Commission (EEOC) has a helpful guide on their website to understanding employment laws and avoiding discrimination in hiring decisions. If you have specific questions, it's best to consult a lawyer for legal advice tailored to your business or situation.

- Write a compelling job description. When writing a job description, make sure it clearly describes the work that will be performed, as well as any qualifications you expect from applicants. Be practical. Have realistic expectations. And don't forget to explain why it will be great working for your growing company. Then, post your listing to online job sites like Indeed and LinkedIn.
- Consider a benefits package. With so many job opportunities available right now, an offer with competitive pay and benefits can help attract top talent.
- Use your network. For businesses with fewer than 100 employees, it's estimated that about half of all new hires are generated by referrals. So be sure to use your personal network to your advantage. Let your friends, family and professional contacts know you're hiring and ask if they know anyone that would be a good fit. And don't ignore the power of social media platforms.
- Prepare for the interview. Once you've narrowed down the field of candidates, it's time to conduct interviews. Be sure to prepare your questions ahead of time and make a list of the attributes you're looking for. This will make it easier to compare applicants.

What should I do during the hiring process?

After you've found the perfect candidate, it's time to make an offer and set a start date. But of course, it's not quite that easy. Here are some steps you should take to protect your business and ensure a smooth hiring process.

- Fact-check their resume. A resume is a great starting point to learn about someone's background, but it won't tell you everything. Consider following up with previous employers or alma maters to make sure a candidate's experience checks out. Be aware that most employers only need to provide dates of employment and/or whether the individual would be considered "eligible for rehire."
- Conduct a pre-employment screening. Your first employee may have access to everything from important files to financial records. So, you'll want to make sure they can be trusted. Consider a background check and drug screen to check for any signs of past criminal conduct or substance abuse.
- Write an offer letter. Write up the details of your job offer and submit it to your soon-to-be employee. This should include information on the position, salary, and any benefits you're offering. The offer will serve as the foundation from which any negotiations start.
- Be prepared to negotiate. Applicants are likely to try and negotiate for higher pay or benefits. Be prepared in advance for any compromises you're willing to make. And be honest with them if you can't budge on salary; consider offering other incentives like vacation time or training opportunities.

Complete your paperwork.

Congratulations! Your offer has been accepted and your new employee is ready to start. Now it's time to get working on all the forms required by the U.S. Department of Labor. Be sure to keep copies of everything for your own records.

And start that important employee file, keeping track of any problems and all assets so you are prepared in case of employment issues, or hopefully those great employee reviews. Then, as you grow, the hiring and onboarding process will get easier and easier!