

How to Do Payroll in Alabama

Use this downloadable checklist to help you stay on track!

✓	TASK
	<p>Step 1: Set up your business as an employer.</p> <p>To register your business for withholding and unemployment taxes in Alabama, you must have a Federal Employee Identification Number (EIN). Although it's not required, we also encourage you to enroll in the Electronic Federal Tax Payment System (EFTPS), making it easy to pay your federal taxes online or over the phone.</p> <ul style="list-style-type: none"><input type="checkbox"/> Applied for a Federal Employer Identification Number (EIN)<input type="checkbox"/> Enrolled for the Electronic Federal Tax Payment System (EFTPS)
	<p>Step 2: Register your business with the State of Alabama.</p> <p>If your business is new, you need to register on the Alabama Secretary of State's website. Any company that pays employees in Alabama must also register with the Alabama Department of Revenue.</p> <ul style="list-style-type: none"><input type="checkbox"/> Register with the Alabama Secretary of State<input type="checkbox"/> Register with the Alabama Department of Revenue
	<p>Step 3. Set up your payroll process.</p> <p>You'll need to decide how often you're planning to pay employees, if you need to track work hours, which payroll forms you need to collect and when, how you'll perform payroll calculations, and so forth. To do this, you have three options (check off which option you're electing to use for tracking purposes):</p> <ul style="list-style-type: none"><input type="checkbox"/> Do payroll yourself<input type="checkbox"/> Use Excel payroll templates<input type="checkbox"/> Sign up for a payroll service
	<p>Step 4: Collect employee payroll forms.</p> <p>The best time to collect payroll forms is during your new hire orientation. Required payroll forms for Alabama employees will include:</p> <ul style="list-style-type: none"><input type="checkbox"/> W-4<input type="checkbox"/> I-9

- [Direct Deposit Authorization Form](#)
- [Employee's Withholding Tax Exemption Certificate \(Form A4\)](#)

Step 5: Collect, review, and approve time sheets.

You must collect and approve timesheets before submitting payroll. You have three options to use (check off which option you're electing to use for tracking purposes):

- A [paper timesheet](#)
- Free or low-cost [time and attendance software](#)
- A payroll service that has a time and attendance system

Step 6: Calculate employee gross pay and taxes.

Calculating Alabama payroll by hand is not recommended. Alabama has a progressive income tax that quickly hits the top bracket. Most employees will pay the top state tax rate on the vast majority of their income.

Alabama Tax Rate	Taxable Income for Single Filers, Married Filing Separately, and Head of Household	Taxable Income for Married Filing Jointly
2%	\$0-\$500	\$0-\$1,000
4%	\$501-\$3,000	\$1,001-\$6,000
5%	\$3,001 and up	\$6,001 and up

Step 7: Pay employee wages, benefits, and taxes.

Most companies today pay all employees through [direct deposit](#). But [cash](#) (not the best way) and [paper check](#) are also options. Alabama [does not have a state minimum wage](#), so make sure that you are paying your employees at least the federal minimum wage of \$7.25 per hour. You can pay your federal and [Alabama state taxes online](#). If you use a benefits provider, it should work with you to make deductions simple, automatic, and electronic.

Step 8: Save your payroll records.

As with any business record, you want to make sure you have a copy for at least several years. Alabama law requires companies to keep timesheets or time records for at least two years and all other [payroll records](#) for at least three years. These records may be kept electronically, so using a payroll software will save you file cabinet space.

Step 9: File payroll taxes with the federal and state government.

	<p>All Alabama state taxes need to be paid to the applicable state agency on the schedule provided, usually quarterly, which you can do online at the Alabama Department of Revenue website.</p> <p>To pay federal taxes, you can make those payments online using the EFTPS on one of the following two schedules:</p> <ul style="list-style-type: none">● Monthly: When the IRS assigns you a monthly schedule, you need to deposit employment taxes on payments made during a calendar month by the 15th of the following month.● Semiweekly: When the IRS assigns you a semiweekly schedule, you must deposit employment taxes for payments made on Wednesday, Thursday, and Friday by the following Wednesday, and payments made Saturday, Sunday, Monday, and Tuesday by the following Friday.
	<p>Step 10: Process annual payroll reports:</p> <p>Every employer, regardless of which state your business is in, will need to complete W-2s for all employees and 1099s for independent contractors. By law, you must provide all employees and contractors with their annual tax form no later than January 31 of the following year.</p> <ul style="list-style-type: none"><input type="checkbox"/> Generated W-2s for all employees<ul style="list-style-type: none"><input type="checkbox"/> Distributed to employees<input type="checkbox"/> Filed with appropriate government agencies<input type="checkbox"/> Generated 1099s for all contractors<ul style="list-style-type: none"><input type="checkbox"/> Distributed to employees<input type="checkbox"/> Filed with appropriate government agencies