How to Do Payroll in Kentucky

Use this downloadable checklist to help you stay on track!

✔	TASK
	Step 1: Set up your business as an employer. To register your business for withholding and unemployment taxes in Kentucky, 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. ☐ Applied for a Federal Employer Identification Number (EIN) ☐ Enrolled for the Electronic Federal Tax Payment System (EFTPS)
	Step 2: Register your business with the State of Kentucky. If your business is new, you need to register on the [Kentucky Secretary of State's](#) website. Any company that pays employees in Kentucky must also register with the [Kentucky Department of Revenue](#). ☐ Registered with the Kentucky Secretary of State ☐ Registered with the Kentucky Department of Revenue
	Step 3: Create your payroll process. This entails deciding how often you'll be paying employees and when, as well as what method you plan to use to issue their paychecks (paper checks vs. direct deposit), how onboarding will work, and how to update employee information. You can opt to [process payroll by hand](#) (not recommended), set up an [Excel payroll](#) template, or sign up for a [payroll service](#) to help you handle your Kentucky payroll.
	Step 4: Collect employee payroll forms. The best time to collect payroll forms is during your new hire orientation. Required payroll forms for Kentucky employees will include: ☐ [W-4](#) ☐ [I-9](#) ☐ [Direct deposit Authorization Form](#) ☐ [Kentucky's Withholding Certificate](#) (Form K-4)
	Step 5: Collect, review, and approve time sheets.

Fit Small Business

You'll need to collect timesheets for all hourly employees and non-exempt salaried workers. To do this, 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 payroll (including taxes) and pay employees.

Calculating Kentucky payroll by hand is not recommended. Kentucky has a flat income tax of 5% statewide. The flat tax helps employees anticipate their payroll and can make your calculations a bit simpler.

You will need to calculate:

- ☐ Payroll tax payments
- ☐ Employee paycheck amounts
- ☐ Paid time off balances

You can choose to pay employees in a number of different ways (i.e., cash, check, direct deposit, pay cards.) Federal taxes should be remitted through the EFTPS.

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

Most companies today pay employees through direct deposit. But cash (not the best way) and paper check are also options. Kentucky's state minimum wage mirrors the federal minimum wage, so make sure that you are paying your employees at least $7.25 per hour.

You can pay your federal and Kentucky 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.

Keeping your company business records is good practice. Kentucky law requires that employers keep the following records for at least one year:

- Employee's name and employee number
- Social Security number
- Home address
- Date of birth
- Sex
- Job title
- Hours worked during each workday, workweek, and pay period
- Regular rate of pay and total earnings
- Total overtime pay

	● All bonus payments and deductions from each pay period ● Total wages paid during each pay period and each pay date
	Step 9: File payroll taxes with the federal and state government. All Kentucky state taxes need to be paid to the applicable state agency on the schedule provided, usually quarterly, which you can do online at the [Kentucky Department of Revenue](#) website. To pay federal taxes, you can make those payments online using the EFTPS on one of the following two schedules: ● **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. ● **Semi-Weekly:** When the IRS assigns you a semi-weekly schedule, you must deposit employment taxes for payments made on Wednesday, Thursday, and Friday by the following Wednesday, and for payments made Saturday, Sunday, Monday, and Tuesday, by the following Friday.

	Step 10: Process annual payroll reports:
	
	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.
	
	☐ Generated W-2s for all employees
	    ☐ Distributed to employees
	    ☐ Filed with appropriate government agencies
	☐ Generated 1099s for all contractors
	    ☐ Distributed to employees
	    ☐ Filed with appropriate government agencies