

Proper year-end payroll preparation is vital to ensuring compliance, avoiding penalties, and starting the new year smoothly. Use this 7-step checklist to manage your final payroll cycle, prepare for upcoming changes, and streamline your tax reporting.

1. Review Employee Information and Records

- Verify employee details (name, SSN, address, etc.) to prevent tax and payroll issues.
- Send a company-wide reminder to review and update Form W-4 information.

2. Reconcile Payroll Accounts

- Ensure accurate wages, overtime, PTO, and deductions (e.g., benefits, garnishments).
- Cross-check payroll data with local, state, and federal regulations.

3. Process Year-End Tax Forms

- Prepare W-2s, 1099s, and other forms (e.g., Forms 940, 941, 1095-B).
- Distribute forms to employees and submit to relevant agencies by January 31.

Tip: Payroll Freedom offers cost-effective bulk form filing to save you time.

4. Update Payroll Tax Rates and Limits

- Adjust for new tax rates, wage regulations, and labor laws effective January 1.
- Implement necessary compensation changes before the new year.

5. Final Payroll and Bonus Runs

- Avoid common errors:
 - Incorrectly classifying bonuses for W-2 employees.
 - Failing to deduct retirement contributions or apply proper tax rates.
 - Missing FLSA requirements for overtime on nondiscretionary bonuses.

6. File Year-End Reports

- Generate and review key reports, including:
 - Payroll Summary Report (Jan 1–Dec 31).
 - Employee Summary Reports (individual wages, taxes, deductions).
 - Retirement Contributions and PTO Reports.
 - Workers' Comp Reports for insurance reassessments.

7. Archive Payroll Records

- Retain payroll records for at least four years for compliance.
- Use digital archiving for secure, reliable, and accessible record-keeping.