

Taming the Year-End
Payroll Beast:
A Comprehensive Guide

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The race is on! Like runners on the last leg of a marathon, CPA firms and payroll service bureaus everywhere are gearing up for the hectic year-end sprint to make sure employer clients and their employees have all they need to file their taxes, issue their reports and start 2024 in full compliance.

“Year-end is a beast,” says Tyler Winn, CPA, Owner of Cirrus Payroll, who uses IRIS Payroll Software to successfully run payroll for 800 clients throughout the U.S. and Puerto Rico with just 10 staff members of its own.

He’s right. Year-end payroll is a multifaceted undertaking that demands meticulous attention to detail, adherence to evolving tax regulations, and a thorough understanding of the ever-shifting employment landscape. As we approach the close of another fiscal year, it becomes abundantly clear that year-end payroll is more than just a routine task—it is a strategic imperative.

However, it’s a beast that can be tamed with the right software, service and processes.

This white paper delves into the critical tasks, challenges, and best practices for deftly handling the complexities of year-end payroll.



2 CRITICAL TASKS

There are many crucial tasks CPA firms and payroll service bureaus must complete to ensure that their payroll clients remain

compliant with tax regulations and reporting requirements. These functions can vary depending on the specific needs and regulations of each client, as well as the many federal, state and local regulations.

A comprehensive list of common year-end payroll functions that payroll companies often perform include:

1. **W-2 Preparation:** Generating and distributing W-2 forms to employees, which report their annual earnings and tax withholdings.
2. **W-3 and W-2 Copy A Filing:** Filing W-3 (Transmittal of Wage and Tax Statements) with the Social Security Administration (SSA) and providing Copy A of the W-2s to the SSA.
3. **1099 Preparation:** Preparing and distributing 1099 forms for any non-employee compensation, such as independent contractors.
4. **State and Local Tax Forms:** Preparing and filing state and local tax forms, such as state W-2 equivalents and state unemployment forms.
5. **Quarterly Tax Reconciliation:** Ensuring that quarterly tax deposits and filings align with the annual totals, making any necessary adjustments.
6. **Payroll Reconciliation:** Reconciling the year's payroll data to ensure accuracy and compliance.
7. **Year-End Reporting:** Generating reports summarizing the year's payroll data, including payroll expenses, deductions, and other relevant information.
8. **Employee Benefit Reporting:** Preparing reports for employee benefits such as retirement plan contributions, health insurance, and other fringe benefits.
9. **Taxable Fringe Benefits:** Calculating and reporting the value of taxable fringe benefits provided to employees.
10. **State Unemployment Reports:** Filing annual state unemployment reports and ensuring compliance with state unemployment insurance requirements.

11. **Workers' Compensation Audits:** Assisting with annual workers' compensation audits to determine premium adjustments.
12. **Labor Law Compliance:** Ensuring compliance with federal and state labor laws and regulations, including minimum wage and overtime requirements.
13. **ACA Reporting:** Preparing and filing Affordable Care Act (ACA) reporting forms, such as 1095-C for applicable large employers.
14. **Year-End Updates:** Updating payroll software and systems to account for any changes in tax laws, rates, or regulations for the upcoming year.
15. **Records Retention:** Advising clients on record retention requirements and helping them maintain records in compliance with legal mandates.
16. **Tax Document Distribution:** Assisting in the distribution of tax-related documents to employees and contractors, such as 1095-C forms for healthcare coverage.
17. **Account Reconciliation:** Reconciling payroll-related accounts, such as payroll tax liabilities, to ensure they match year-end financial statements.
18. **Year-End Employee Communication:** Providing guidance to employees on year-end tax-related matters, such as how to interpret their W-2 forms.
19. **Tax Credits:** Identifying and applying for any available tax credits, such as Work Opportunity Tax Credits (WOTC).
20. **Payroll Audits:** Conducting internal audits of payroll data to identify and rectify any discrepancies or errors.
21. **Consultation:** Offering expert advice and support to clients on year-end payroll tax strategies and planning for the upcoming year.

It's essential for payroll providers to stay informed about changes in tax laws and regulations and to work closely with employer

clients to ensure that all year-end payroll functions are executed accurately and in compliance with all applicable laws.

4 WHEN TO GET STARTED

In a recent poll by IRIS Global and Accounting Today, 29 percent of payroll, HR and accounting professionals said they typically start their year-end payroll preparations in November of each year sandwiched between 22 percent start in October and a surprisingly high 25 percent who wait until December.

The most proactive among them, 17 percent begin as early as September, and a woeful seven percent take their chances waiting until January.

To ensure a seamless and compliant process, the groundwork for year-end activities ideally should begin at the start of the fourth quarter, typically around October.

Starting early allows ample time for:

1. **Data Collection:** Gathering accurate and complete payroll data, including employee earnings, tax withholdings, and benefit information.
2. **Software and Systems Updates:** Ensuring that payroll software and systems are up-to-date and capable of handling year-end processing and reporting requirements.
3. **Compliance Assessment:** Reviewing changes in tax laws, labor regulations, and benefits to ensure clients remain in compliance with evolving standards. While much of this can be automated with the right payroll software platform, double-checking can make sure the most recent legal mandates are accounted for.
4. **W-2 and 1099 Preparation:** Preparing W-2s for employees and 1099s for contractors and verifying the accuracy of these crucial forms is top priority.
5. **Employee Communication:** Communicating with clients and their employees as early in the process as possible, offering guidance on year-end tax matters and document distribution, and encouraging them to help you help them by delivering all necessary data is crucial.
6. **Year-End Reporting:** Initiating the generation of year-end reports, reconciling payroll data and ensuring financial accuracy.

“We do some initial preparation, training for newer staff and a refresher for longer-tenure staff in November. Since most year-end functions are not issues that you’re dealing with throughout the year, you can get a little rusty, so we do a team-wide training to help get the wheels turning again,” says Winn. “Then, we

begin the process in earnest on December 1, setting up project and reaching out to clients. Because we’ve been doing this for 12 years, we have a proven checklist that evolves and improves over time. But if you’re a newer payroll firm and don’t yet have a solid plan or process in place, you’ll want to start earlier.”

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“We have a lot of newer staff, so we get started in October,” says Kevin Kardos, Vice President, Workplace HCM, a 15-year-old firm with 19 employees serving 1,100 payroll and HR clients. “So many facets of end-of-year payroll are very deadline-driven, plus we tend to bring on a surge of new clients in the last quarter of the year, so we like to get started early. With our HR clients, we’re also starting to have separate conversations about all the necessary employee updates and benefits changes for the new year so that we can minimize the number of frantic phone calls come January.”

Getting an early start allows payroll and HR companies to better help clients navigate the complexities of year-end payroll functions efficiently, minimize errors, and avoid last-minute compliance issues, thus ensuring a smooth transition into the new fiscal year. And it takes a heavy burden off bureau staff!



6 THE “NECESSARY NINE” YEAR-END PAYROLL FORMS

As of 2015, federal law requires employers to file copies of their Form W-2, Wage and Tax Statements, and Form W-3, Transmittal of Wage and Tax Statements, with the Social Security Administration (SSA) by January 31. That is also

the date the Forms W-2s and certain other Forms 1099-MISC, Miscellaneous Income and Forms 1099-NEC, Nonemployee Compensation also are due to workers. A rare exception happens when January 31 falls on a Saturday or Sunday, pushing due dates to the next business day.

The nine most necessary forms you’ll need to prepare and provide for your employer clients are:

1. **W-2 Form:** This form reports wages and withholdings to the IRS.
2. **W-3 Form:** This is a summary of the information in the W-2s and goes with employee W-2s to the SSA.
3. **1099-NEC:** This is a statement of income for contractors. Starting in the 2021 filing year, businesses must report wages over \$600 paid to non-employees (or over \$10 for royalty payments). Any income earned prior to 2020 by non-employees must be reported via 1099-MISC.
4. **Form 1096:** If your employer client paid any contractors and gave them a 1099-MISC or 1099-NEC, payment data will need to be summarized and submitted to the IRS with this form.
5. **Form 940:** This is the form your employer clients will need to pay their Federal Unemployment Tax (FUTA) liability to the government.
6. **Form 943:** This form should be filed if your client’s business paid wages to any farmworkers subject to Social Security, Medicare, or income taxes.
7. **Form 941:** This form is due quarterly and reports employee payroll taxes collected for each quarter. Payroll taxes include federal income taxes, Social Security, and Medicare taxes.
8. **Form 944:** If your small business clients’ payroll taxes are less than \$1,000 annually, they may qualify to pay them yearly instead of quarterly. In such cases, they’ll simply complete one of these forms.
9. **Form 1095-B:** Employer clients who offer health insurance must send copies of this form to the IRS and insured employees to document that health coverage.

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YEAR-END PAYROLL REPORTS

Apart from fulfilling mandatory reporting requirements to the IRS and SSA, the year-end payroll process presents an ideal opportunity for businesses to evaluate their payroll strategies. Conducting year-end payroll reviews can equip both your clients' management and their employees with valuable insights for making informed decisions concerning any necessary payroll adjustments as the new year approaches.



Among the recommended payroll reports to consider when managing year-end payroll are:

- **Payroll Summary Report:** Customize the date range to encompass the entire tax year, from January 1 to December 31. Generating this report will provide a comprehensive overview of payroll specifics, including tax withholdings, gross and net wages, deductions, and other pertinent payroll particulars.

- **Retirement Contributions:** This report consolidates all contributions made by both employers and employees to retirement accounts. It can serve as a basis for individuals to consider potential changes in their contribution levels for the upcoming year.

- **Workers' Compensation Report:** If your employer client disbursed workers' compensation to any employees during the tax year, this report can offer valuable data for potential reassessment of your insurance premiums.

- **Employee Summary Reports:** These reports provide a detailed breakdown of an individual employee or contractor's wages, deductions, and tax withholdings, facilitating a comprehensive understanding of their financial situation.

- **Paid-Time-Off (PTO) Report:** To effectively manage staff scheduling and ensure optimal workforce coverage, it's advisable for employer clients to have insights into PTO utilized and remaining hours, helping to prevent scheduling conflicts and ensuring proper staffing levels.

While not required, providing these and similar reports during your year-end payroll service can help your employer clients better understand their company's financial landscapes and make informed decisions for the next year. It's an added value that will further cement your client relationship and boost chances they'll refer your payroll firm to colleagues.

WHEN IS IT DUE?

PAYROLL FORM / REPORT	IRS ELECTRONIC FILING DEADLINE	EXCEPTIONS
W-2	January 31	
W-3	January 31	
1099-NEC	January 31	
Form 1096	February 28	January 31 when filed with Form 1099-NEC May 31 when filed with a Form 5498
Form 940	January 31	
Form 941	January 31	
Form 944	January 31	Deadline may be extended to February 10 provided deposits are made in full and on time
Form 1095-B	March 31	

DIGITAL VS PAPER

The corporate world has gone digital, particularly since the COVID-19 pandemic shutdowns forced a final push away from manual processes. Yet, there remain a few instances where paper documents are preferred, either by payroll providers, employer clients or both.

“We’re not printing and mailing any paychecks,” Winn says. “Our software allows our clients to go in and access a PDF of checks. Once the payroll has been approved, they can print those on site if they like. And, of course, we do a lot of direct deposit, and all the forms employees may need from the prior January are housed in the system accessible via the client portal.”

One exception to the paperless approach, however, is larger clients in high-turnover industries like restaurants.

“For me to say, ‘Here’s your digital file with 200 W-2s,’ knowing that the client then will have to distribute them to all current and prior employees, including someone who may have worked five hours the prior January and never showed up again, is not feasible. So, we do have to balance that out. Typically, if an employer client has 10 or fewer employees, we’ll go digital. For employers with more than 10 workers, we print and mail W2s.”

Payroll firms offering digital and paper W-2s and other tax forms to employer clients each have their own set of pros and cons. Here’s a breakdown of the advantages and disadvantages of each option:



Digital W-2s and Tax Forms:

Pros:

- **Cost-Efficient:** Digital forms are typically more cost-effective for both the payroll firm and the employer, as they eliminate the need for printing, postage, and physical storage.
- **Accessibility:** Employees and employers can access digital forms from anywhere with an internet connection, making it more convenient for remote or distributed workforces.
- **Faster Delivery:** Digital forms can be distributed to employees more quickly, reducing the time and effort required to ensure everyone receives their documents on time.
- **Environmentally Friendly:** Going paperless reduces the environmental impact associated with printing and mailing paper forms.
- **Easier Storage and Retrieval:** Digital forms are easier to store and retrieve, reducing the need for physical filing and archiving.
- **Reduced Errors:** Automation can help reduce data entry errors, improving accuracy.

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Cons:

- **Security Concerns:** Digital forms may be susceptible to data breaches or hacking if not adequately secured.
- **Tech-Savvy & Access Required:** Employees need access to and proficiency with digital tools to use and print these forms.
- **Compliance Challenges:** Ensuring compliance with electronic delivery and consent requirements can be complex, and employers must navigate relevant regulations.



Paper W-2s and Tax Forms:

Pros:

- **Universal Access:** All employees, regardless of their access to technology, can receive and use paper forms.
- **Reduced Cybersecurity Risks:** Paper forms are not susceptible to hacking or data breaches.

- **Easier for Some Employees:** Some individuals may find paper forms easier to work with and understand, especially if they are not tech-savvy.
- **Compliance Simplicity:** Complying with tax regulations regarding paper forms can be simpler and better understood.

Cons:

- **Higher Costs:** Producing and mailing paper forms can be more expensive in terms of printing, postage, and labor.
- **Slower Delivery:** Paper forms require physical delivery, which can lead to delays in employees receiving their tax documents.
- **Storage Challenges:** Employers must find space to store physical copies, which can be burdensome over time.
- **Environmental Impact:** Using paper forms contributes to the consumption of resources and environmental impact.
- **Increased Potential for Errors:** Manual data entry can lead to more errors on paper forms, which can create complications in tax reporting and processing.

The choice between digital and paper W-2s and tax forms depends on a variety of factors, including the preferences and needs of the employer and their employees, cost considerations, and regulatory requirements. Many organizations opt for a combination of both digital and paper forms to accommodate a diverse workforce while balancing cost and convenience.

WHAT YOU NEED...

To complete year-end payroll processing, your firm will need to get certain information and documentation from employer clients to ensure accurate and fully compliant reporting to tax authorities and employees. Key items and info include, but certainly may not be limited to:

Employee Information:

- Employee details: Full names, addresses, Social Security Numbers, or taxpayer identification numbers (TINs), and employment start and end dates for the year.
- W-4 forms: Copies of completed W-4 forms, which determine federal income tax withholding.
- State withholding forms: Copies of state withholding forms, such as state W-4 or equivalent forms, as required by each state in which the employee works.

Payroll Records:

- Payroll register: A record of all payments made to employees throughout the year, including regular wages, bonuses, commissions, overtime, and any other forms of compensation.
- Timecards or timesheets: Documentation of employee hours worked, including any overtime hours.
- Expense reports: Any reimbursements or expense payments made to employees that need to be included in year-end reporting.

Benefits and Deductions:

- 401(k) contributions: Employee and employer contributions to retirement accounts.
- Health and wellness benefits: Information on health insurance premiums, flexible spending accounts, health savings accounts, and other benefits.

- Other deductions: Deductions for items like union dues, garnishments, and any other employee contributions or deductions.

Records of Year-End Adjustments:

- Any adjustments or corrections made to payroll throughout the year, such as corrections to prior wage reports.

Year-End Compliance Documents:

- Compliance reports: Any reports related to compliance with labor laws, such as compliance with the Fair Labor Standards Act (FLSA) or Family and Medical Leave Act (FMLA).

Employee Consent and Acknowledgments:

- Employee consents: Any consents or acknowledgments from employees related to benefits, tax withholding, or any other payroll-related matters.

Accounting Records:

- General ledger: Detailed accounting records that support the payroll transactions, including both employee compensation and payroll tax expenses.

Year-End Instructions:

- Any specific instructions or guidelines provided by the payroll provider for year-end processing.

It's important for employers to work closely with their payroll provider to ensure all necessary information and documents are provided accurately and in a timely manner to facilitate a smooth year-end payroll process and remain compliant with tax regulations. Additionally, employers should keep copies of all these documents for their own records.

"We kept a spreadsheet of all our clients with all the year-end items listed so we knew what we needed from our clients: bonus runs, 1099s, Group Term Life., 2% shareholder etc.," advised Pat McTamney,

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Owner of Premier Payroll for 14 years and now, a Sales Executive for IRIS Payroll Software. “Our processors could quickly look at what they got last year, and it helped to prevent any item from getting overlooked. Once the item was in, we would color code that item so everyone knew it was in we could move on from there.”

WHEN YOU NEED IT

Let’s face it – anyone who is succeeding in business is busy – including your employer clients, whether a tiny, family-run business or a major corporation employing thousands. But the IRS doesn’t care how busy your employer clients’ payroll or HR contacts are and it’s imperative that they understand that when it comes to timely delivery of the information and documentation your payroll firm needs.

To that end, savvy payroll firms know when and how to communicate with employer clients about the info and items they need and don’t back down on deadlines, particularly when it comes to that last payroll of year.

“We instruct our clients to get everything in by December 31 though in some cases, we may secretly allow a three-day grace period where we’ll backdate something if they get it to us quickly” Winn says. “But there is a point in January where we’re just not going to do that anymore. Once my team is filling out Form 940s, we’re done. We’ll put any new information into a queue to file an amendment in February. That may sound strict, but it’s best for all involved, including the client.”

Wynn’s team sends reminders on December 1, December 15 and at the beginning of the final month, reminding clients that they need to send everything in by the 31s so that Cirrus Payroll’s tax team “can hit the ground running with filing returns in January.”

Sticking to deadlines also is important for your payroll firm’s own in-house morale, Wynn insists.

“It may not seem like a big deal to make an exception. But by making that exception, you’re training your client to step over that boundary with you and you’re creating stress for your team by not allowing them to have a tried-and-true process that they can follow and succeed. And if you do make an exception, charge for it! Make it hurt a little bit so that next year, that client will do things better. Your team wants to see that you stand up for them.”

W-2s – TO CHARGE OR NOT TO CHARGE?

While many payroll firms count W-2 preparation, printing and mailouts as covered by their monthly fees, others consider them and certain other year-end services as add-ons and charge accordingly. Both Winn and Kardos recommend the latter.

“We’re not looking to nickel-and-dime our clients,” Winn says, noting a stark difference between platform access-based offerings with no support and more full-service payroll firms that offer both software access and support. “But while clients don’t see or fully appreciate what your firm does on a quarterly basis earlier in the year, they definitely see the results of your team’s hard work during the year-end and tax season. Having those W-2s in their hands is essentially the culmination of a year of service and helps the client feel the nuances and see the value of what you’re providing.”

Plus, it’s simply a smart move financially, as W-2 preparation alone can prove an average 5-percent annual revenue boost for most payroll firms. Not to mention, it’s worth every penny for the client, considering the time savings, risk mitigation and compliance assurance.

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SOLUTIONS

IRIS offers customizable and automated software solutions to help make payroll year-end run smoothly and accurately for both year-end and year-round payroll, HR, HCM and tax solutions, including:

Payroll Relief by IRIS Payroll Software: Used by Tyler Winn's Cirrus Payroll, this is a payroll management system for firms that want to provide in-house payroll services for their clients but want a solution that does "heavy lifting" with fully automated payroll & compliance obligations.

- Automatic direct deposit, tax payment, filing of tax forms, and year-end processing.
- Streamlined payroll processing to manage a high-volume payroll practice.

- Employee Self Service (ESS) enables clients to onboard and train employees through an online portal while empowering employees to manage their data from anywhere.

Apex HCM by IRIS Payroll Software: Used by Kevin Kardos' Workplace, HCM, this is an all-in-one, cloud-based, configurable HR and payroll management system with the power to handle complex payroll tasks with the flexibility of full control over all payroll and tax functions.

- Modern, easy to use interface with employer and employee mobile access.
- Includes HR tools to help your clients find, grow, and manage their employees.
- Simple and seamlessly integrated, our proprietary time and attendance solutions.



IRIS provides the payroll solutions you need to boost your firm's profitability and can scale with you as you grow and your needs change. [Contact us](#) today to learn more about which IRIS payroll or HR solution is right for your growing business.

