



The Ultimate Payroll Compliance Checklist for SMBs

Running a small business often means wearing multiple hats and tackling areas outside your expertise. You work hard to keep things running smoothly, but certain areas—like payroll—require precision. With federal, state, and local regulations to meet, there's little room for error. Following best practices in payroll ensures that processing is accurate, and you're well-prepared for year-end reports and taxes.

To support you, here's a payroll checklist to help keep your small business compliant and ready for the future.

Employee Onboarding

This checklist focuses on adding new employees to your payroll process. This process should be completed for each employee to ensure that necessary withholdings and files are completed before their first paycheck.

- ☐ **Determine pay rate**
- ☐ **Collect Employee Data**
 - ☐ **Name**
 - ☐ **Address**
 - ☐ **Social Security Number**
 - ☐ **Bank details for direct deposits**
 - ☐ **Any information needed for benefits enrollments** (like retirement plans or health insurance)
- ☐ **Classify Employees**
 - ☐ **Employee or independent contractor?**

As a general rule of thumb, if your business can control what will be done, how it will be done, and how the worker will be paid, the worker should be classified as your employee.
 - ☐ **Part-time or full-time?**
 - ☐ **Exempt or non-exempt?**

Does your employee qualify for overtime pay? [Federal wage and hour laws are changing](#), and more employees are starting to qualify for overtime pay.
- ☐ **Verify Employment**
 - ☐ **Verify that each employee is legally eligible to work with an [Employment Eligibility Verification Form \(I-9\)](#).**

☐ Complete All Necessary Tax Forms

Common tax forms include:

- ☐ **W-4 - Federal income tax withholdings**
- ☐ **W-2 - Wage and tax withholdings**

Not required until year-end processing.
- ☐ **1099**

Only necessary for independent contractors. Not required until year-end processing.
- ☐ **All state and local tax forms**
- ☐ **Establish and Verify Your [Employer Identification Number \(EIN\)](#)**

This is necessary for reporting and filing federal taxes. Typically this is established within the first month of your organization being in business.



Payroll Calculations

This checklist should be completed every pay period. This helps ensure that each employee is paid the correct amount while also deducting any relevant withholdings.

☐ Track Employee Hours

All employees, regardless if they are salary, hourly, exempt, or non-exempt, should have their working hours recorded. Time clocks are not required under law, but **all employers must keep records of hours worked by their employees.**

☐ Calculate Wages

Exempt salaried employees receive consistent pay, while non-exempt salaried employees' pay varies based on hours worked, including overtime.

☐ Include Additional Bonuses

☐ Tips, commissions, quarterly or annual bonuses

Be sure to account for reimbursements, sick leave, vacation time, and any other compensation or benefits provided to employees.

☐ Apply Deductions, Withholdings, and Garnishments

Include any other necessary deductions, such as loans or other withholdings. These can be categorized under 'Other Miscellaneous Deductions.'

- ☐ Federal Income Tax
- ☐ Social Security and Medicare Tax (FICA)
- ☐ Federal Unemployment Tax (FUTA)
- ☐ State Income Tax - where relevant
- ☐ State Unemployment Tax - where relevant
- ☐ Local Taxes
- ☐ Health Insurance Premiums

☐ Retirement Plan Contributions

☐ Child Support

☐ Tax Levies

☐ Creditor Judgements

Payroll Processing

With everything on the checklist completed, it's time to finally process paychecks and make sure your employees get paid. It is possible to process payroll entirely by hand, but it's strongly recommended and considered an industry-wide best practice to use payroll software. The payroll software will help organize data, streamline the process, and help improve accuracy and timeliness.

☐ Establish a Payroll Schedule (pay period).

Many states have regulations around **pay period length**. Make sure your pay schedule is compliant with your area and employees. Set reminders for payroll deadlines to ensure timely submissions and on-time employee payments. Automated alerts or payroll software notifications can streamline this process, ensuring reliability and compliance.

☐ Distribute Paychecks with Pay Stub

- ☐ Printed Check
- ☐ Direct Deposit
- ☐ Payroll Card
- ☐ Cash



Tax Filing

Payroll doesn't end when employees have been paid. The payroll process continues with filing and reporting taxes. Reporting happens quarterly and annually. Inaccurate, late, or missing reports can lead to additional fines, audits, and legal action.

Tax filings you need include:

- ☐ **Form 941** - Employer's Quarterly Federal Tax Return - This is used to report and pay federal income tax, Social Security tax, and Medicare tax.
- ☐ **Form 940** - Employer's Annual Federal Unemployment (FUTA) Tax Return - This is used to report and pay federal unemployment taxes
- ☐ **Form W-2** - Wage and Tax Statement - This is used to report annual wages and paycheck deductions. This must be returned to each employee and the Social Security Administration at the end of the tax year.
- ☐ **Form W-3** - Transmittal of Wage and Tax Statement - This is submitted to the Social Security Administration with W-2 Forms and summarizes all federal employee tax withholdings.
- ☐ **Form 1099-NEC** - Non-employee Compensation Form - This form is used for reporting all payments made to independent contractors or freelancers of a total of \$600 or more over the fiscal year.



Recordkeeping

As a final step, you are legally required to save and protect your employee tax records. You must keep the following records for at least four years, but due to some states having longer required retention periods, it's recommended to retain documents for seven years. This helps protect you against future audits or investigations. Your records should detail:

- ☐ **Total paid wages**
Keep a detailed Payroll Journal with a complete check history, including wages, deductions, and taxes, mirroring the information on employee paychecks. This ensures compliance during audits or legal inquiries, where such records are often required. Organized payroll documentation safeguards against disputes and demonstrates professional accountability.
- ☐ **Withheld taxes**
- ☐ **Processed tax payments**

Streamline Payroll with IRIS

Managing payroll and staying compliant can be overwhelming, especially with ever-changing regulations and the meticulous attention to detail required. For many small and midsize businesses, keeping up with these demands is time-consuming and carries the risk of costly errors. By partnering with a trusted provider like IRIS, you can eliminate the risks associated with non-compliance and streamline payroll administration. **IRIS' Payroll and HCM Services** handles the complexities for you, ensuring that your payroll processes are not only accurate and compliant but also efficient, freeing you up to focus on what truly matters—growing your business.

Ready to simplify payroll and stay compliant? [Contact us](#) to learn more about **IRIS' Payroll and HCM Services**.

