



END OF YEAR PAYROLL CHECKLIST

2024 - Are You Ready?

END OF YEAR

At the end of each year, it's essential to ensure your payroll, tax preparation, reporting, and recordkeeping are error-free and in alignment with all of the regulations that apply to your business. Running final payroll and preparing for the new year's first payroll are two major steps in the process, but it's also an ideal time to review your internal payroll controls, processes, and software to determine whether it's time to implement more intuitive and time-saving solutions.

Our end of year payroll checklist provides a step-by-step guide to fully prepare your business for the year-end payroll process, covering everything from verifying employee information to identifying payroll errors, planning for ACA reporting, and preparing for the new tax year. Let's explore the ten major payroll year-end tasks you should complete to bring you peace of mind about year-end payroll preparation and a seamless transition into the new year.



1. Verify Employee Information

An essential first step in the end-of-year payroll process is to confirm that all employee details are fully accurate and up-to-date. Key employee information includes full names, addresses, Social Security Numbers (SSN)s and additional contact information necessary for distributing tax documents digitally or physically.

The IRS imposes penalties not only for incorrect SSN #'s or incorrect names, but also for any missing or incorrectly formatted information required in a Form W-2 or Quarterly Tax Report, so be sure to confirm all of the above personal/tax information with each of your employees to avoid penalties. Also remember to properly code any deceased employees and ensure that you abide by state law(s) related to providing final pay for employees.



2. Review Tax Forms

Once you've confirmed that all employee information is up-to-date and accurate prior to filing, you will need to double-check that all necessary tax forms, including W-2s and 1099s, are completed correctly and ready for distribution.

To calculate annual summary figures, you will need to total and review each employee's wages, paid taxes, and benefits (including fringe benefits) earned across the entire year. Fringe benefits are typically included in an employee's income (and reported under employee earnings) and could include items ranging from stock options to tuition reimbursement, company car use, and personal or sick days. Other items that need to be included on [Form W-2](#) should also be recorded on end-of-year payroll as well, including items like third-party sick pay, group term life, or other items based on business size/structure (S-Corp status or businesses with over 250 employees).

In addition to determining these year-to-date wages and taxes, you should also confirm each employee's pre-tax amounts, filing status (exempt or non-exempt), and worker status (whether active, terminated, on leave, or otherwise). If you're working with a qualified payroll provider, you will be able to print (physically or digitally) completed Form W-2 and 1099s directly from your payroll management system.





3. Process Final Payroll

With properly completed W-2s, 1099s and other payroll-related tax forms, you can now prepare to run your organization's final payroll for the year, ensuring all final payments, bonuses, and deductions are accurately calculated and processed.

Your final payroll will occur around a major holiday period, but must be processed before December 31st to avoid potential penalties or interest charges. This is especially important if your organization provides year-end bonuses, since bonuses added to your regular payroll are taxed at a standard rate (aggregate method) while [bonuses provided through a separate paycheck are taxed at 22%](#).

As you process final payroll, it's also an ideal time to search for (and confirm) any updated tax rates that will apply in your area in the first payroll period of the new year. This helps ensure transparency with your employees and sets expectations regarding tax rates, upcoming deductions, etc. We'll discuss how to identify and address new tax rates, wage bases, limits and regulatory changes further in Step 5.

4. Reconcile Payroll Accounts & Identify Discrepancies

Before processing end-of-year payroll, it's vital to reconcile your payroll accounts to ensure that all amounts paid to employees (and taxes withheld) match your own company financial records.

One of the biggest concerns to address is whether any overpayments were made to employees over the tax year. If you identify any overpayments or underpayments, you should resolve them with the employee to recover or distribute funds promptly and avoid penalties or inconsistencies with your year-end reporting.

In addition to overpayment concerns, you should also double-check for errors in payroll deductions, overtime tracking, vacation & sick day tracking, employee classification, and compliance with the current year's payroll regulations. Fortunately, when you work with a qualified payroll provider like ASAP Payroll, you can avoid the stressful and time-consuming process of manually searching for discrepancies and errors. Instead, ASAP Payroll's automated payroll platform identifies (and provides year-round protection against) issues with deductions, withholdings, employee classification, and much more.

5. Prepare for New Tax Rates, Limits, and Regulatory Changes

As part of a broader year-end and new year payroll compliance checklist, we advise organizations to review and adjust their payroll systems to prepare for new tax rates, limits, wage bases, and other regulatory changes that will take effect in the new year. With the right payroll software and [tax management solution](#), it's possible to ensure compliance from the start of the new tax year, adapting to the needs of your organization based on its size, operational jurisdictions, local regulations, and many other factors.

Some federal tax rates are subject to change on an annual basis, including federal income tax, FICA tax (Social Security and Medicare), and federal unemployment tax (FUTA). Many state and local taxes change annually as well: everything from state income tax and state unemployment tax (SUTA) to local income tax and minimum wage rates at the local and state levels. Employers must prepare to adhere to these new requirements, which are often effective immediately on January 1st of the new year.

6. Review Benefit Contributions

In addition to reconciling payroll accounts with payment records and completing other key year-end steps, we recommend verifying that all employee benefit contributions, such as retirement plans and health insurance, are correctly processed and recorded.

Employers should ensure that employee contribution amounts are correct, which includes the employee benefit portion for any group health plans and life insurance. Contribution amounts for long-term disability, qualified pension, fringe benefits, and sick pay should also be verified for accuracy. If any year-end adjustments or contributions are required, these should be completed before the year's end.

Additionally, if some of the benefits earned or paid into by employees during the year are set to expire by the year's end, employees should be notified and advised regarding the best next steps. Some decisions will be dictated by local, state, and federal laws affecting vacation, sick days, and personal leave time. In other cases, like [flexible spending accounts \(FSAs\)](#), the terms of each specific plan should be reviewed to see if remaining amounts are forfeited at the end of the year or if a grace period (generally 1-2.5-months) applies.





7. Plan for ACA Reporting

While reviewing benefit contributions, it's a good time to [plan and prepare for Affordable Care Act \(ACA\) reporting](#) by confirming that all required data is collected and ready for submission. We also recommend reviewing ACA requirements for the current and upcoming year to verify that your business is fully compliant.

First, remember that under ACA regulations, your business must report the cost of health coverage on W-2s. This includes reporting the aggregate cost of coverage (both employee and employer portions). Bear in mind, employers are not obligated to report coverages for HRAs, health FSAs, HSAs, as well as long-term care, visits to on-site medical clinics, church plans, government plans, or for employees who enroll in standalone dental or vision insurance.

If your business has at least 50 full-time employees, you qualify as an Applicable Large Employer (ALE) and must report health care coverage offered to full-time employees to the IRS, and remain in alignment with Equal Employment Opportunity Commission (EEOC) guidelines. If your business falls into this category, you will need to submit IRS Form 1094 and Form 1095, which share information regarding employee eligibility for tax credits and information about individuals who enrolled in a qualified healthcare plan through the Health Insurance Marketplace. Failure to submit these forms on time could lead to penalties of \$280 to \$580 per return.

8. Archive Payroll Records

To support accurate recordkeeping and avoid serious issues (or costs) in the event of an audit, employee lawsuit, or other legal action, it's essential to archive all payroll records for the year, ensuring they are securely stored and accessible for future reference.

The IRS requires businesses to retain and store payroll and paycheck records for at least four years. Records should include all of the following information: dates of wages, employment dates, amounts and dates of tax deposits. The four-year period begins following fourth-quarter filing. Local and state record retention requirements vary by jurisdiction, so it's important to incorporate this into your compliance monitoring process to ensure you are following all recordkeeping laws that apply to your business.

9. Conduct a Year-End Audit

As you near the final steps of your end-of-year payroll process, we recommend performing a thorough audit of your payroll records to identify and correct any errors. During the audit process, it's also an ideal time to review internal payroll controls and processes to determine whether you can improve accuracy and compliance.

Although we've already outlined some of the major steps of the year-end payroll audit process – confirming employee information, checking payroll deductions, reconciling payroll with employer financial records, etc. – we also recommend the following steps:

9. Conduct a Year-End Audit - continued

- **Confirm the accuracy of atypical and variable payments, including bonuses, tips, commission payments, reimbursements, shift differentials, and overtime.**
- **Confirm that direct deposits are documented and in alignment with bank statements**
- **Confirm employees' worked hours with documented time and attendance data**
- **Check for common but significant errors, especially including employee misclassification: employees as independent contractors and nonexempt workers as exempt employees.**
- **Review threats of internal fraud and consider separating HR responsibilities so one employee manages time tracking while another manages payroll, for example.**
- **Share the results of your year-end audit with your organization's HR and financial leaders**

The year-end audit process can be complicated and time-consuming when conducted manually or without professional support. With ASAP Payroll, error detection is built into your payroll platform to flag small issues before they escalate into large-scale problems during pay periods or tax season. In addition to making payroll processing more efficient and streamlined, we offer advanced data analytics and personalized support with regulatory compliance, ensuring your business is always in alignment with labor and tax laws.

10. Set Up for the New Year

After completing the first nine steps, it's time to prepare your payroll system for the new year ahead, including updating employee records, adjusting deductions, and scheduling payroll runs. It's also an ideal time to plan for any changes in payroll processes or software updates that will take effect in the new year.

Some businesses have employed the same payroll policies and schedule for many years, despite growing interest from employees and job seekers in more regular and readily accessible pay, including through pay-on-demand options, payroll debit cards, direct deposit, and other means. The end of the year is an excellent time to solicit feedback from your workforce, and to consider and implement such changes.

A Convenient and Lasting Payroll Solution with ASAP Payroll

If your organization's internal payroll process has become burdensome, led to errors, created issues with employee retention, or detracted time and energy from key business tasks, it's time to consider a better long-term solution.

ASAP Payroll's comprehensive payroll solution simplifies payroll, ensuring accuracy and timeliness while seamlessly integrating payroll with related HR processes like time & attendance, benefits administration, and HCM. In addition to payroll and HR resources, we offer professional and personalized support to ensure labor law compliance and provide tax management to protect your business year-round, during end-of-year payroll, and at the height of tax season.

Ready to streamline payroll, simplify tax management, and reduce the risk of noncompliance? Start the process today with ASAP Payroll.

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