Payroll Compliance Readiness Checklist

For Small & Midsize Businesses

How to use this checklist: Use it as a high-level readiness review. A checked item means you have reviewed the area; it does not by itself confirm legal compliance. Requirements vary by business size, industry, entity type, work location, and jurisdiction.

1. Payroll Foundation & Worker Setup

Payroll compliance starts with accurate worker and pay information.

- ☐ The business has an EIN and all payroll systems use the correct legal employer information.
- ☐ Employees have completed current federal withholding forms, and state/local withholding forms are collected when required.
- ☐ Worker status and exempt/nonexempt classifications are reviewed before payroll treatment is established.
- ☐ Pay rates, salary amounts, standard hours, work locations, and effective dates are supported by approved documentation.
- ☐ The regular payroll schedule is documented and aligns with applicable state pay-frequency rules.

2. Time, Wages, Deductions & Pay Statements

Pay calculations should be supported by complete and accurate records.

- ☐ Hours worked are captured accurately for nonexempt employees, including overtime and other compensable time when applicable.
- ☐ Minimum wage, overtime, regular-rate, and other wage rules are reviewed for the employee’s work location.
- ☐ Pre-tax and post-tax deductions are authorized and applied correctly.
- ☐ Garnishments, levies, child support orders, and other withholding orders are processed under applicable limits and priority rules.
- ☐ Pay statements include the information required by the employee’s state or locality.

3. Payroll Taxes, Deposits & Returns

Federal, state, and local obligations may have different registration, deposit, and filing schedules.

- ☐ Federal income tax, Social Security, and Medicare withholding and employer taxes are calculated and deposited on the required schedule.
- ☐ Required federal employment tax returns are filed, such as Form 941 or Form 944 as applicable, and Form 940 for FUTA when required.
- ☐ State withholding and unemployment accounts are active where required and use the correct account numbers and rates.
- ☐ Applicable local payroll or occupational taxes are identified and administered.
- ☐ Payroll tax notices, agency correspondence, and filing confirmations are reviewed and retained.

4. Reconciliation, Year-End & Records

Regular reconciliation helps catch payroll and tax differences before year-end.

- ☐ Payroll registers are reconciled to tax liabilities, deposits, and general-ledger totals on a regular schedule.
- ☐ Quarterly or annual employment tax returns are reviewed for consistency with payroll records.
- ☐ Forms W-2 and W-3 are prepared, furnished, filed, and reconciled to employment tax returns as required.
- ☐ Corrections are documented and processed using the appropriate amended forms when errors are identified.
- ☐ Payroll and wage records are retained for the required periods; federal rules include specific FLSA and IRS retention requirements.

5. Employee Changes, Special Payments & Separation

Changes that look administrative can create tax or wage-compliance issues.

- ☐ Bonuses, commissions, retroactive pay, reimbursements, taxable fringe benefits, and off-cycle payments are reviewed before processing.
- ☐ Employee name, address, residency, and work-location changes are communicated to payroll promptly.
- ☐ Final pay is processed based on the employee’s applicable state timing and payout rules.
- ☐ Payroll access, approvals, and change controls are limited to authorized individuals and reviewed periodically.

Multi-State / Multi-Jurisdiction Considerations

These items matter only when the business has employees, registrations, operations, or other obligations in more than one jurisdiction.

- ☐ Payroll registrations are reviewed before employees begin working in a new state or locality when registration is required.
- ☐ Work-state and resident-state withholding rules, reciprocity agreements, unemployment coverage, and local taxes are reviewed where applicable.
- ☐ State programs such as paid family/medical leave, disability insurance, or other payroll-funded programs are reviewed for each employee work location.
- ☐ Relocations and remote-work changes trigger a payroll tax and wage-law review rather than waiting until year-end.

A payroll can be accurate and still have compliance gaps. WMP Compliance Partners can help businesses review registrations, controls, notices, and recurring payroll compliance responsibilities.

Authoritative reference points

- IRS Publication 15 (2026) - Employer’s Tax Guide
- IRS Publication 15-A (2026) - Employer’s Supplemental Tax Guide
- U.S. Department of Labor - FLSA Recordkeeping Fact Sheet #21
- U.S. Small Business Administration - State tax obligations

Important: This checklist is general educational information, not legal, tax, accounting, or insurance advice. Confirm requirements with the appropriate federal, state, and local agencies and qualified advisers for your specific business.