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Small business owner's guide to switching payroll software at year-end

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Payroll and compliance updates businesses should know for 2027

As you plan for the year ahead, there's a few important changes to keep on your radar. They're worth tracking no matter which payroll provider you use.



New tax form reporting per the One Big Beautiful Bill Act (OBBBA)

- **Form W-2 Box 12 additions:** Includes Code TP for qualified tips (cash, credit card, and pooled tips) and Code TT for qualified overtime premium pay (the extra FLSA "half-time" portion).
- **Form W-2 Box 14 updates:** The previous Box 14 ("Other") is now Box 14a, creating space for Box 14b to report the worker's Treasury Tipped Occupation Code.
- **Form 1099-NEC layout:** Nonemployee compensation moves from Box 1 to Box 1a.

Filing thresholds and deadline shifts

- **1099-NEC reporting threshold:** Increases from $600 to $2,000 for contractor service payments made in 2026.
- **1099-K digital payment threshold:** Reverts to $20,000 and 200 transactions for third-party network processors (e.g., PayPal, Venmo).
- **Zelle payment exception:** Zelle transfers money directly between bank accounts without issuing 1099-Ks, meaning contractor payments made via Zelle do count toward your $2,000 1099-NEC threshold.
- **Worker form delivery deadline:** W-2 and 1099-NEC distribution to workers (and agency filings) can be submitted by February 1, 2027 (since January 31, 2027 falls on a Sunday), but waiting till the last minute can cause stress!

Key 2027 thresholds and compliance reviews

- **Social Security wage cap:** Increases from $184,500 in 2026 to $192,300 for 2027.
- **Dependent Care FSA exclusion:** Maximum tax-free exclusion increases to $7,500 under OBBBA.
- **FLSA exempt salary thresholds:** Review salary levels for exempt employees under the Fair Labor Standards Act and state laws (e.g., California, New York, and Washington may have their own state thresholds).
- **FUTA credit-reduction states:** Check if you have employees in a FUTA credit-reduction state, which require paying a higher Q4 federal unemployment tax rate.



Year-end offers new possibilities

For business owners, switching payroll companies can mean more than a fresh start. Perhaps you're ready to offer perks like retirement savings to your employees, but your current provider doesn't have a dedicated benefits team. Or maybe support isn't up to par when you need a hand. Whatever is on your mind, many business owners use the end of the year to determine whether the payroll software they rely on is meeting all their needs — or if it's time to move on.

Why businesses switch payroll software at year-end

As the year comes to a close, many companies reevaluate budgets, operations, and the tools they depend on every day — including payroll. Because payroll is tied directly to tax reporting, the end of the year is often the smoothest time to make a change.

Additionally, an end-of-year switch has other advantages for businesses.

- **W-2 alignment:** You avoid having payroll split between two systems for the same tax year.
- **New-year updates:** Many businesses adjust compensation, benefits, or schedules starting January 1 — the perfect moment to align with a new system.
- **Seasonal offers:** Payroll companies often provide year-end promotions.

Did you know?



66%

of businesses handle HR-related responsibilities without any assistance.

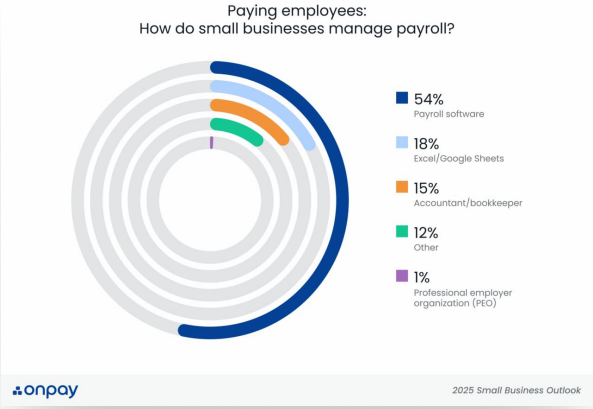
Source: 2025 OnPay Small Business Outlook

Evaluating your current provider

Your payroll provider plays a big role in keeping your business running smoothly. Year-end could be the ideal time to switch if:

- Payroll takes more time than it should.
- You need better support or faster responses.
- You want to offer benefits, but your provider doesn't make it easy.
- Integrations with accounting, time tracking, or HR tools are limited.
- You're growing — and outgrowing your current system.

If you're nodding "yes" to any of these, it's worth exploring your options.



Preparing data for a smooth transition

Oftentimes, preparation is what makes or breaks a payroll switch. Gathering and verifying data ahead of time ensures a clean import and a stress-free January.

- Organize employee lists for each team member, including Social Security numbers, W-4s, and direct deposit information.
- Export quarterly filings (Forms 941, state returns).
- Verify deductions, benefit contributions, and garnishments.
- Check that each state unemployment (SUI) rate is correct if you have people working in other states.

Another way to think about it? Anything you don't want to input twice should be verified once — now.

What to keep in mind during your year-end move

Even with the timing advantages of a year-end switch, there are still a few key considerations to think through as you evaluate new providers.

- **Pay schedules and flexibility.** Do you pay employees at different intervals, such as weekly, bi-weekly, or semi-monthly? Make sure your new provider can handle various pay groups, departments, and frequencies without forcing you into a one-size-fits-all approach.
- **Historical data access.** Confirm how historical payroll data will transfer. Meaning, will you need to migrate it yourself, or does the new provider handle the heavy lifting? And if they do, is there a cost involved? It's worth asking upfront.
- **Previous quarter filings.** Remember, tax filings from earlier in the year still belong to your previous provider. It isn't safe to assume they'll automatically handle amendments or notices - confirm the handoff process before migrating.
- **Industry-specific needs.** If you are in a specialized industry, verify that the new platform can handle your requirements. For example, agricultural employers need Form 943 support. While some payroll companies, such as OnPay, offer it, not all do.



- **Tax accuracy and migration.** Payroll taxes need to be rock solid. Your new provider should be able to review previous quarter data to ensure accuracy when migrating. Double-check that they can handle your full tax picture, including multi-state filing if needed.

- **Transition timing.** Will there be any gap between providers? You'll want to ensure employees get paid on time during the switch, which might mean keeping your old system active for one final pay run.

- **Employee self-service.** Most modern platforms include employee portals where your workers can view pay stubs, update personal information, and access tax documents 24/7. If your current system doesn't offer this feature, be sure to check if the new one does.

Information needed to switch payroll providers

Have the data below ready to go before transitioning to your new vendor at year-end.

✓ Staff lists with SSNs and mailing addresses for each employee — this information is critical for preparing W-2s and 1099s.	✓ Year-to-date payroll summary (by employee and quarter).
✓ W-4 forms for all employees - likely completed during the onboarding process when new employees were hired.	✓ Current-year copies of Form 941 filings — available from the previous provider.
	✓ State unemployment rates (SUI) for all states that you report to
✓ Direct deposit information (routing and account numbers) if you use this payment method.	✓ Company tax identification (EINs, state, and local).
✓ Employee garnishments and documentation.	✓ PTO accrual policies and balances.
✓ Any special compensations — multiple pay rates, tips, bonuses, clergy housing, shareholder insurance.	✓ Employee deductions and employer contributions.
	✓ Bank account information for payroll funding.

Communicating the change to employees



Communication builds trust during a transition. If possible, announce the change early and walk employees through what's new. It can be a good idea to provide simple, clear instructions for:

- Accessing pay stubs and tax forms in the new system.
- Retrieving historical pay data from the old system.
- Using new portals or mobile websites for PTO requests and updates.
- A short "what to expect" email to your employees can prevent confusion later — and shows proactive planning.



86%

of small businesses say customer support plays a significant role when deciding which payroll software to use.

Source: OnPay 2025 Small Business Outlook

Post-implementation review

After the first payroll run in January, do a quick performance check.

- Confirm payroll and tax amounts processed as expected.
- Be sure to verify reporting and data accuracy.
- Gather feedback from staff to catch small issues early.

Special taxation is a reason to switch

Sometimes, it's not about timing at all — it's about complexity. Businesses often switch payroll providers when their current system can't properly handle specialized tax situations, such as:

- Clergy housing allowances that are reported but not taxed.
- Shareholder insurance that's taxed differently from wages.
- FUTA or SUTA exemptions.

If your provider struggles with these cases, relies on manual workarounds, or simply does not offer the capability, consider upgrading. A good payroll system should simplify specialized tax handling, not complicate it.





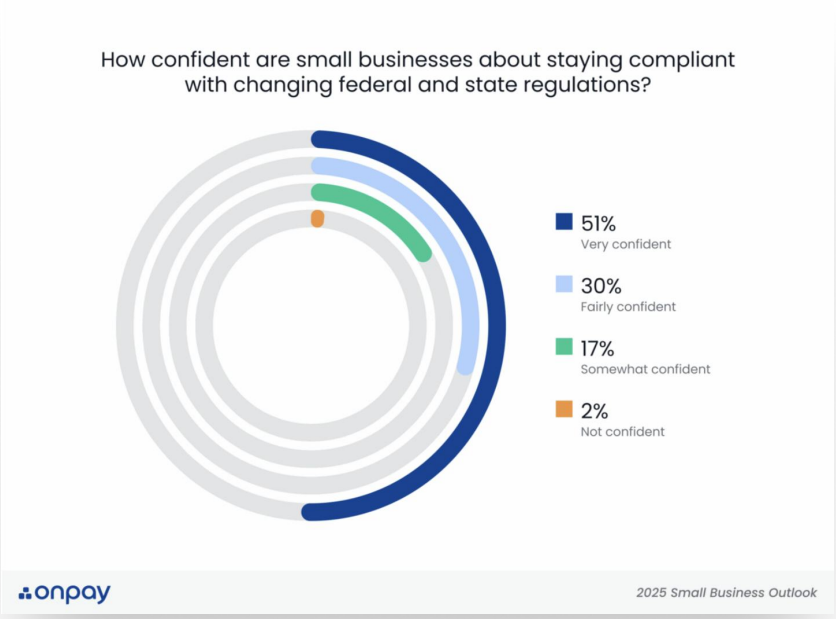
Marit Burmood, CPA & Enrolled Agent

Year-end topics for your accountant

As you plan your payroll switch, here are some tips from Marit Burmood, CPA and small business coach, which you may want to ask your accounting professional to guide you through:

1. **Start year-end with clean financials.** When your books are accurate, decisions about payroll, benefits, and compensation become much easier.
2. **Think before making major purchases.** A quick conversation with your accountant can help you avoid unnecessary spending or unexpected tax consequences.
3. **Plan ahead before selling assets.** Different types of sales can impact your tax liability — and timing can matter.
4. **Ask how income timing works.** Understanding when revenue is recognized can help you prepare for tax time more effectively.
5. **Schedule expenses with intention.** Knowing what's deductible (and when) can help you make smarter decisions before the year closes.

In addition to making your payroll switch a success, we also hope the following checklist helps you complete your year-end payroll tasks with ease.



Year-end payroll checklist

As you wrap up the year, below are a few key payroll and HR tasks to double-check to help keep your business compliant and set you up for a smooth start to 2027.

- [ ] **Verify worker information:** Run an employee summary or W-2 preview report to confirm names, Social Security numbers, and addresses for all current and former employees. Update anything that's incorrect before forms are issued.
- [ ] **Review year-to-date payroll data:** Generate a year-to-date payroll summary and make sure wages, taxes, deductions, bonuses, commissions, and any off-cycle runs are accurate. Fixing discrepancies now prevents amended forms later.
- [ ] **Plan ahead for bonus pay:** If you're issuing bonuses, schedule those runs early. Bonus payrolls may require extra processing time due to IRS Next-Day Rules and bank deposit limits. Aim to run them a week or two before December 31.
- [ ] **Review or finalize holiday pay policies:** Confirm the holidays your business will observe in the year ahead and update rules for premium pay, scheduling needs, and floating holidays. Make sure the policy is documented and available to employees.
- [ ] **Account for S Corp shareholder benefits:** Shareholders who own 2% or more must have certain benefits — like company-paid health insurance, or personal vehicle use — included as taxable income on their W-2s. Be sure to update payroll records before year-end.
- [ ] **Record employer healthcare contributions:** Request a year-end benefits summary from your insurance provider and verify employee and employer premium totals. Enter the employer-paid amounts so they show up correctly on workers' W-2s.

- [ ] **Document third-party sick pay:** If an insurance carrier issued sick or disability payments directly to employees, add those payments to your payroll records. These amounts are taxable and need to be included before the year closes.
- [ ] **Add any taxable fringe benefits:** Record any taxable perks, such as gift cards, gym memberships, or personal use of a company vehicle, so they're properly reflected on employees' W-2s.
- [ ] **Review 2027 federal and state law changes:** Check for updates to minimum wage rates, state unemployment wage bases, or new paid family and sick leave laws that start in the new year.
- [ ] **Order updated compliance posters:** Federal and state labor law notices change often. Order new posters now and display them where all employees can see them before January.
- [ ] **W-2 & 1099-NEC Deadlines:** Make sure W-2s and 1099s are delivered to employees and contractors by February 1, 2027.*
- [ ] **Relax, reflect, recharge!** Before signing off for the year, review your 2027 payroll calendar for pay dates and bank holidays. Then take a well-earned break — you've made it through another year.

Extra credit: Review reasonable compensation (if it applies)



Not required for every business — but if you have an S Corp, some accountants recommend using year-end to double-check that owner compensation still aligns with IRS "reasonable compensation" guidelines. It's optional, but worth a quick review if applicable.

*Because January 31 falls on a weekend in 2027, the deadline shifts to the next business day: Monday, February 1. Filing early is still the best way to stay on track.

Partner with OnPay for an easy transition

Switching to a new payroll software doesn't have to be stressful. The right provider will guide you through data migration, setup, and onboarding — at no extra cost. Our team understands that year-end is one of the busiest times for business owners. We'll help make the switch seamless so you can focus on what matters most: growing your business.

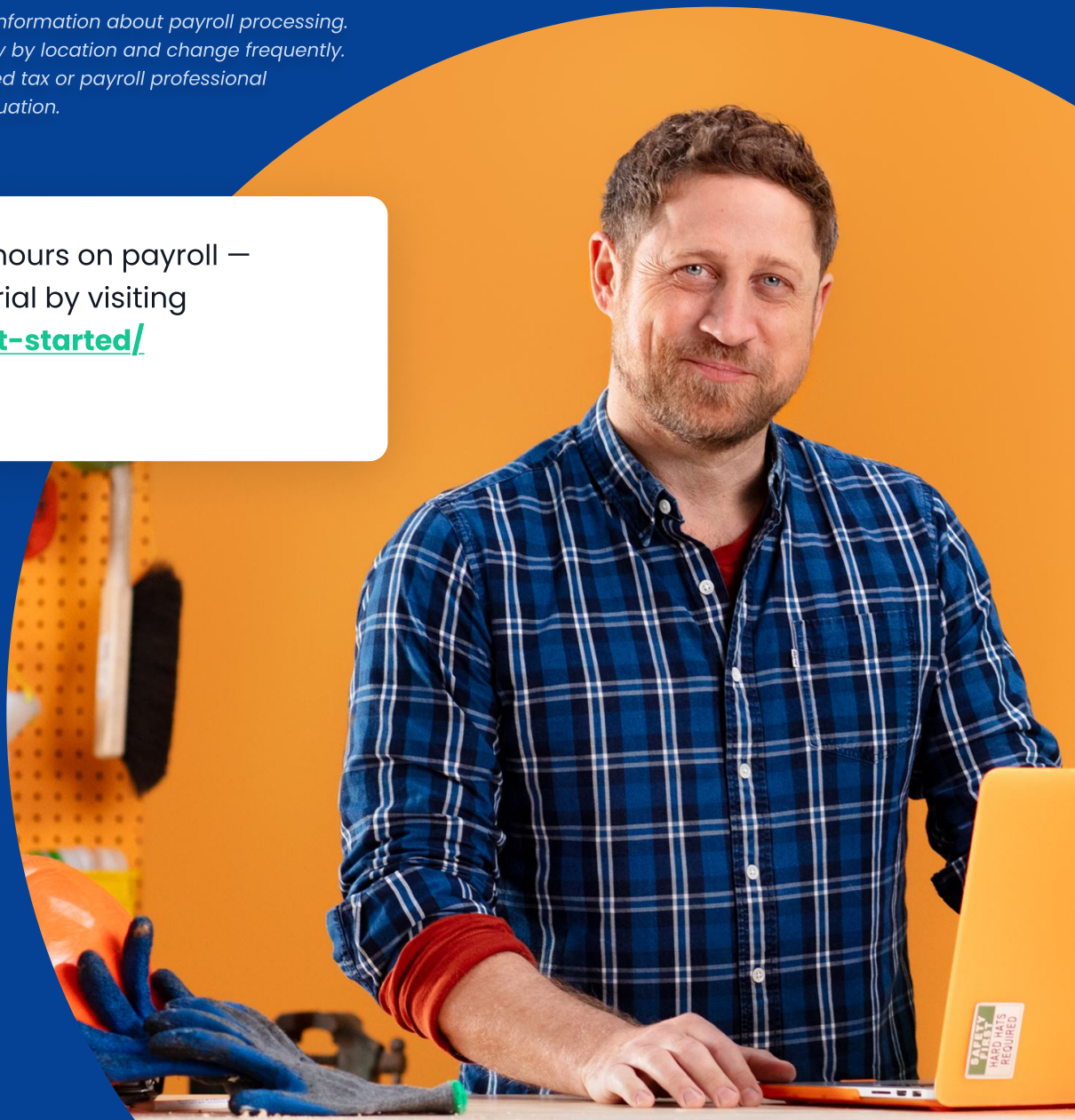
Takeaway

Year-end isn't just a time to wrap things up — it's the perfect opportunity to set your business up for success in 2027. By switching payroll software now, you can start the new year with clean data, stronger support, and a platform that makes managing payroll easier than ever. When you're ready, our team is here to help you make the move — quickly, safely, and with confidence.

This guide provides general information about payroll processing. Tax laws and regulations vary by location and change frequently. Always consult with a qualified tax or payroll professional for advice specific to your situation.

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