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2026 year-end payroll and HR checklist

Prepping for end of the year? Cover all your bases below.

Employee and contractor data

- Run an employee summary or W-2 preview report to confirm names, Social Security numbers, and addresses for all workers.
- Identify any independent contractors paid $2,000 or more for services in 2026 to ensure they receive a Form 1099-NEC.
- Exclude credit card, PayPal, and, Venmo payments from Form 1099-NEC/1099-MISC; 3rd-party networks report on Form 1099-K ($20,000/200 transaction threshold).

Review data and YTD totals

- Ensure wages, taxes, deductions, bonuses, and off-cycle payouts are accurate before your final payroll to avoid amended returns.
- Confirm any handwritten, voided checks, or reversed paychecks are accounted for and submitted in the payroll system.
- Record taxable perks such as gift cards or gym memberships in payroll history.
- Update employee income records with insurance payment notices by 12/31/26.
- Report the cost of employer-sponsored health coverage on Form W-2 (mandatory in Box 12 with code DD if you filed 250+ W-2s last year).
- Ensure 2%+ shareholders have taxable fringe benefits (like company-paid health insurance) properly added to gross earned income.

Get ahead of final payouts

- Schedule bonus or commission runs early so they complete processing before 12/31/26.
- Confirm observed holidays for the upcoming year and update rules around premium pay, scheduling, or floating holidays.
- Calculate and process unused PTO payouts before running the final payroll of the year.

Collect & preview tax documentation

- Generate W-2, 1099-NEC, and payroll summaries early to catch and fix discrepancies.
- Prep for nonemployee compensation to move from Box 1 to Box 1a on the 2026 Form 1099-NEC.
- On Form W-2, verify your payroll software properly tracks Box 12 Code TP (qualified tips), Box 12 Code TT (qualified overtime), and Box 14b (Treasury Tipped Occupation Code).
- Check if you have employees in FUTA credit-reduction states, which requires paying a higher Q4 federal unemployment tax rate.

File and communicate

- Remind employees to use any expiring vacation time or flexible spending account (FSA) funds that don't roll over.
- Postmark or digitally deliver Form W-2 and Form 1099-NEC copies to workers no later than 2/1/27 (because 1/31/27 is a Sunday).
- Submit Copy A of Forms W-2 to the Social Security Administration and Forms 1099-NEC to the IRS by 2/1/27.
- File Q4 Form 941 (federal payroll tax return) and Form 940 (annual FUTA return)
- Notify workers claiming exemption from federal income tax withholding they must complete a new Form W-4 by mid-February 2027 to maintain their exempt status.

Review reasonable compensation (if it applies)

- If you have an S Corp, some accounting professionals recommend using year-end to check that owner compensation still aligns with IRS "reasonable compensation" guidelines. It's optional, but worth a quick review if applicable.

Before new year

- Review 2027 federal/state law changes, such as minimum wage increases, state unemployment wage base updates, plus new paid sick or family leave laws.
- Review salary levels for exempt employees under the Fair Labor Standards Act (FLSA) and state laws (e.g., California, New York, and Washington may have higher salary thresholds taking effect 1/1/27).
- Update state unemployment insurance (SUI) rates in your payroll software (check your state tax notice received in December/January).
- Also, add the new Dependent Care FSA tax-free limit ($7,500) and note the 2027 Social Security wage base of $192,300.
- Order new compliance posters and post updated state/federal labor law notices in full view in employee areas before January.
- Review your 2027 payroll calendar for pay dates and federal bank holidays — take a well-earned break!



Reviewed by:
Tom Brock CPA, CFA

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