



Payroll Setup Checklist for Small Businesses

Setting up payroll can feel overwhelming when you're running a small business. Between tax registrations, employee paperwork, and compliance requirements, missing a step can lead to costly mistakes. This Payroll Setup Checklist will walk you through everything you need to get started the right way.

Step 1 – Register Your Business for Payroll

- Apply for an **Employer Identification Number (EIN)** with the IRS.
- Register with your **state tax authority** for payroll tax accounts.
- Check if you need to register for **local payroll taxes**.

Step 2 – Classify Your Workers

- Decide if each worker is a **W-2 employee or 1099 contractor**.
- Follow federal and state guidelines for correct classification.
- Misclassification penalties can be expensive — review carefully.

Step 3 – Collect Employee Paperwork

- **Form W-4** (federal income tax withholding)
- **Form I-9** (eligibility to work in the U.S.)
- **Direct deposit authorization form**
- State-specific forms (where applicable)

Step 4 – Choose a Payroll Schedule

- Weekly, bi-weekly, semi-monthly, or monthly pay runs.
- Ensure compliance with **state wage payment laws**.
- Pick a schedule that aligns with your cash flow.

Step 5 – Select a Payroll System

- Decide whether you'll manage payroll **in-house** or with a **payroll provider**.
- Look for features like direct deposit, tax filing support, and compliance tracking.
- Integration with bookkeeping makes payroll much easier to manage.

Step 6 – Set Up Payroll Deductions

- Federal income tax withholding
- State/local income tax withholding
- Social Security & Medicare (FICA)
- Employee benefits (health insurance, retirement)
- Wage garnishments if applicable

Step 7 – Establish Recordkeeping Practices

- Store payroll records securely (digital or physical).
- Retain records for at least **4 years** (federal requirement).
- Maintain timekeeping, pay stubs, tax filings, and employee forms.

Tip: Review this checklist each time you onboard new employees or expand into new states to remain compliant.