



Payroll Checklist: How to Prepare Before the Last Payroll of the Calendar Year

There are many steps involved in preparing for year-end payroll. Here's a closer look at steps your business owners can take now to prepare for the end of the year, even before their last payroll check is processed.

Verify Business Information - The business information they have on file for tax purposes should always be accurate, so now is the time to verify that all of these details are correct.

Set Compensation for Next Year - As your business owners prepare their budget for the coming year, they may want to factor in any expected pay raises for their staff. Of course, the amount they offer depends on what they can afford after factoring in costs such as employee compensation and [payroll taxes](#).

Set Year-End Bonuses - Some companies choose to offer annual bonuses to employees. Bonuses may be tax-deductible, but when do they deduct them? Assuming that they report their income and expenses on a calendar-year basis, then:

- **Cash-basis business:** Deduct the bonuses in the year in which they are paid. If paid bonuses in 2022, they're deductible for 2022. If they pay 2022 bonuses in 2023, they're deductible in 2023.
- **Accrual-basis business:** Bonuses declared (and accrued) before the end of the year are deductible this year if they are paid within 2½ months after the close of the year.

Inform Employees About Unused Benefits - Some of the benefits that employees earned or paid for in 2022 may expire at the end of the year. Consider company policies for these benefits and advise employees accordingly:

- Vacation, sick days, or personal leave time.
- Flexible spending accounts (FSAs) for medical costs and dependent care.

Confirm Employees' Identifying Information - Check for inaccurate or outdated employee information, since these inaccuracies can lead to costly delays and reprints of W-2s, as well as IRS-imposed penalties.

Record All Processed Paychecks - While your business owners won't be able to finalize their annual payroll and tax numbers until after the final pay period, they can certainly get a jump start on recording and verifying everything that has already been processed. Review previous pay periods to ensure that all amounts are logged accurately by verifying:

- Employee wage amounts
- Benefits deductions
- Child support or other miscellaneous deductions
- Disability or other benefits payments
- Special tax exemptions that may have occurred throughout the calendar year (Coronavirus Aid, Relief, and Economic Security (CARES) Act for example), eligible employers may have deferred the employer portion of Social Security taxes through the end of 2022. If their company opted to take advantage of this relief measure, they'll also need to verify the deferred amounts, which can affect the amount of taxes due in 2023.

Order W-2s, W-3s, and Other Applicable Tax Forms - Your business owners will need to provide their employees with end-of-year tax statements via IRS Form W-2. They can get these necessary forms directly from their payroll service provider, printed from their payroll management system, or directly from the IRS. If they plan to obtain blank forms directly from the IRS for manual completion, they should order the forms well before the end of the year so they can begin processing them immediately after the final payroll period.

Determine Payroll Policies for the New Year - In the age of more employees expecting quick access to their paychecks, your business owners may want to evaluate whether options such as [pay-on-demand](#) make sense for their business.

Paychex can help your business owners with year-end preparations. Contact your Paychex rep today.