

BRIGHTADVISOR®

Payroll Compliance Checklist

Tax Withholding, Reporting Deadlines, and Record Retention Requirements

Payroll Compliance Essentials

Payroll compliance is one of the most critical responsibilities for any employer. Errors in tax withholding, late filings, or incorrect classifications can result in severe IRS penalties, state fines, and employee lawsuits. This checklist covers the essential requirements every employer must meet to stay compliant.

The IRS assessed over \$6 billion in civil penalties related to employment taxes in a single year. Late deposits, incorrect filings, and misclassification are the leading causes of payroll penalties for small businesses.

Federal Tax Withholding Requirements

Requirement	Details	Status
Obtain W-4 from every employee	Before first paycheck; update when employee submits new W-4	
Withhold federal income tax	Based on W-4 elections and IRS tax tables	
Withhold Social Security tax	6.2% on wages up to annual wage base (\$168,600 for 2024)	
Withhold Medicare tax	1.45% on all wages; additional 0.9% on wages over \$200,000	
Match employer FICA taxes	6.2% Social Security + 1.45% Medicare	
Pay FUTA (Federal Unemployment Tax)	6.0% on first \$7,000 per employee; reduced by state credits	
Deposit taxes on schedule	Semi-weekly or monthly based on lookback period liability	

State Tax Withholding

- Register for state income tax withholding in each state where employees work
- Obtain state withholding allowance certificates (equivalent of W-4)
- Apply correct state tax tables and rates for each jurisdiction

- Pay state unemployment insurance (SUI) taxes per state requirements
- Register for local/city income tax withholding where applicable
- Check for reciprocity agreements between states for cross-border workers

The Trust Fund Recovery Penalty (also known as the 100% penalty) allows the IRS to personally assess the full amount of unpaid employment taxes against any responsible person who willfully fails to collect, account for, and pay over withheld taxes.

Critical Filing Deadlines

Missing payroll tax deadlines triggers automatic penalties. Use this calendar to track every required filing throughout the year.

Filing	Deadline	Frequency	Penalty for Late Filing
Form 941 (Quarterly Employment Tax)	April 30, July 31, Oct 31, Jan 31	Quarterly	5% of unpaid tax per month (max 25%)
Form 940 (Annual FUTA)	January 31	Annual	5% of unpaid tax per month (max 25%)
W-2 to employees	January 31	Annual	\$60-\$310 per form depending on delay
W-2 to SSA (Copy A)	January 31	Annual	\$60-\$310 per form depending on delay
1099-NEC to contractors	January 31	Annual	\$60-\$310 per form depending on delay
1099-NEC to IRS	January 31	Annual	\$60-\$310 per form depending on delay
Form 944 (Annual Tax, if eligible)	January 31	Annual	5% of unpaid tax per month
State quarterly tax filings	Varies by state	Quarterly	Varies by state
State annual reconciliation	Varies by state	Annual	Varies by state

Deposit Schedules

Deposit Schedule	Criteria	Deposit Deadline
Monthly	Total tax liability \$50,000 or less in lookback period	By 15th of following month
Semi-weekly	Total tax liability over \$50,000 in lookback period	Wed-Fri payday: deposit by following Wed; Sat-Tue payday: deposit by following Fri
Next-day	Accumulate \$100,000+ in undeposited taxes	Next business day

Electronic filing is mandatory for employers filing 10 or more W-2 forms. The IRS strongly encourages electronic filing and deposit through EFTPS (Electronic Federal Tax Payment System) for all employers regardless of size.

Garnishment Processing

Employers are legally required to comply with court-ordered wage garnishments. Failure to properly withhold and remit can make the employer liable for the full garnishment amount.

Garnishment Type	Maximum Withholding	Priority
Child support (current)	Up to 50-65% of disposable earnings	1st priority
Child support (arrears)	Additional 5% if 12+ weeks in arrears	1st priority
Federal tax levy (IRS)	Based on filing status and dependents (exempt amount varies)	2nd priority
State tax levy	Varies by state	3rd priority
Student loans (federal)	Up to 15% of disposable pay	4th priority
Creditor garnishment	Lesser of 25% of disposable earnings or amount exceeding 30x federal minimum wage	5th priority
Bankruptcy order	As ordered by court	Varies

Overtime Calculation Requirements

- Calculate regular rate including commissions, bonuses, and shift differentials
- Overtime rate is 1.5x the regular rate for hours over 40 in a workweek
- Some states require daily overtime (e.g., California: over 8 hours/day)
- Non-discretionary bonuses must be included in regular rate calculation
- Fluctuating workweek method allowed only with prior agreement and salary basis
- Track all hours worked including off-the-clock work, travel time, and training

Record Retention Requirements

Record Type	Retention Period	Authority
Payroll records (wages, hours, deductions)	3 years minimum	FLSA
Timekeeping records	2 years minimum	FLSA
Tax records (941, 940, W-2, W-4)	4 years after tax due date	IRS
I-9 forms	3 years from hire or 1 year from termination	USCIS
Benefits and pension records	6 years	ERISA
EEO-1 reports	1 year (3 years recommended)	EEOC
Workers comp records	Duration of employment + 30 years	OSHA

BrightWealth® ensures payroll compliance through our PEO partnerships, handling tax withholding, filings, deposits, garnishments, and record retention. Our systems automate deadlines and calculations so nothing falls through the cracks. Contact us for a complimentary payroll compliance review.