PAYROLL SETUP CHECKLIST FOR NEW US BUSINESSES

COUNTSURE.COM

Payroll Setup Checklist for New US Businesses 12 Steps to Set Up Payroll Correctly From Day One For Business Owners, Founders & Startup Operators

2026 Edition

WHY THIS CHECKLIST EXISTS

Setting up payroll for the first time is one of the most compliance-sensitive tasks a new US business owner will face. A missed registration, misclassified worker, or incorrect withholding can trigger IRS penalties, state tax notices, and employee disputes — often months after the error was made.

This checklist walks you through the 12 essential steps every new US business should complete before running its first payroll. Work through each item in order. Do not skip steps based on assumptions — the IRS does not accept "I didn't know" as a defence.

SECTION - A

Legal & Tax Registration

01 | □ | Obtain Your Employer Identification Number (EIN)

Your EIN is your federal tax ID as an employer.
You must have one before running payroll or making any federal tax deposits.
Apply online through the IRS website - the EIN is issued immediately. If you already have an EIN for business purposes, confirm it is registered for payroll tax obligations specifically.

02 | □ | Register for State Payroll Tax Accounts

Most states require employers to register separately for state income tax withholding, state unemployment insurance (SUI/SUTA), and in some states, disability insurance. Requirements vary by state. Register before your first payroll run — retroactive registration does not eliminate penalties for late deposits. Check your state's Department of Revenue and Department of Labor websites.

03 | □ | Determine Your Business Entity & Tax Classification

Your business structure (sole proprietor, LLC, S-Corp, C-Corp, partnership) determines how payroll taxes are calculated for owners and employees. Owner-employees of S-Corps, for example, must pay themselves a reasonable salary subject to payroll tax. Confirm your entity classification is correct before setting up payroll — errors here create significant back-tax liability.

SECTION - B

Employee Classification & Documentation

04 | □ | Correctly Classify All Workers as Employees or Independent Contractors

Misclassifying employees as contractors is one of the most penalised payroll errors in the US. Use the IRS three-category test (behavioural control, financial control, relationship type) to classify each worker. When in doubt, classify as an employee. Do not base classification on what the worker prefers or what is most convenient for cash flow.

05 | □ | Collect Completed W-4 Forms from All Employees

Every employee must complete a federal Form W-4 (Employee's Withholding Certificate) before their first payroll. The W-4 determines how much federal income tax you withhold. Store completed W-4s in employee records. Also collect any required state withholding forms — many states have their own equivalent forms.

06 | □ | Verify Employment Eligibility with Form I-9

Federal law requires every employer to verify each employee's identity and work authorisation using Form I-9 within three business days of their start date. Keep completed I-9s in a separate file from personnel records. I-9 audits carry civil and criminal penalties for non-compliance — do not treat this as a formality.

SECTION - C

Payroll System Setup

07 | □ | Choose a Payroll System or Provider

Decide whether you will process payroll in-house using software (Gusto, ADP Run, QuickBooks Payroll) or outsource to a payroll service provider. For most new businesses, a managed payroll service reduces compliance risk significantly. Whatever you choose, confirm the system handles federal and state tax deposits, generates pay stubs, and produces year-end W-2s automatically.

08 | □ | Set Your Pay Frequency and Confirm State Requirements

Pay frequency (weekly, bi-weekly, semi-monthly, monthly) affects cash flow and tax deposit schedules. Several states mandate minimum pay frequencies for hourly employees. Confirm your chosen frequency meets state law before setting it up in your payroll system — changing pay frequency later disrupts tax calculations and employee expectations.

09 | □ | Set Up Direct Deposit and Employee Payment Records

Collect banking details from each employee for direct deposit setup. Confirm your payroll system will generate itemised pay stubs showing gross pay, all deductions, and net pay — many states require this by law. Keep payroll records for a minimum of four years per IRS guidance.

SECTION - D

Compliance, Tax Deposits & Reporting

10 | □ | Understand Your Federal Tax Deposit Schedule

Employers must deposit withheld federal income tax, Social Security, and Medicare taxes either monthly or semi-weekly, depending on your lookback period. New employers default to monthly. Deposits must be made electronically through the IRS EFTPS system. Missing a deposit deadline triggers penalties that begin at 2% and escalate to 15% — do not wait to understand this.

11 | □ | Schedule Quarterly Payroll Tax Filings

Federal Form 941 (Employer's Quarterly Federal Tax Return) must be filed four times per year — due April 30, July 31, October 31, and January 31. Many states have parallel quarterly filing requirements. Set calendar reminders before your first payroll run. Late filings carry penalties separate from late deposit penalties.

12 |□ | Plan for Year-End W-2 and 1099 Obligations

W-2 forms must be distributed to all employees and filed with the SSA by January 31 each year. If you use independent contractors paid $600 or more in a calendar year, 1099-NEC forms carry the same January 31 deadline. Set up your payroll and accounting systems to capture the data needed for accurate year-end filings from day one.

HOW TO USE YOUR RESULTS

12 / 12

Ready to Run Payroll. All required steps are complete. Run your first payroll and maintain the compliance calendar you have set up.

9 – 11 / 12

Almost Ready. Complete remaining steps before processing payroll. Missing tax registration steps in particular must be resolved first.

8 or below

Stop and Resolve Gaps First. Running payroll before completing foundational steps creates compounding compliance liability. Work with a payroll professional to close the gaps before proceeding.

SEE HOW COUNTSURE SIMPLIFIES PAYROLL SETUP AND COMPLIANCE

Countsure supports US businesses and CPA firms with payroll setup, ongoing payroll processing, and year-end filings. Whether you are running payroll for the first time or cleaning up a previous provider's errors, our team handles the compliance so you can focus on running your business.

BOOK A FREE 15-MINUTE PAYROLL CONSULTATION

countsure.com