



2025 Year-End Payroll Processing Checklist

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With the final weeks of 2025 fast approaching we would like to offer the following checklist and reminders to help reduce or eliminate year-end payroll processing errors.

1. Make certain all personal information is up-to-date and correct for each employee.
2. If you issued manual checks and/or voided checks, be sure your payroll information is up-to-date and correct in your software or with your third-party payroll provider **before your final payroll in December 2025.**
3. Third Party Sick Pay: If you have employees who received sick pay from a third party (insurance company), be sure that these wages have been properly reported and the required taxes paid before you file your 4th quarter 941, annual 940 and W-2's. You are responsible for remitting the employer portion of the FICA/Medicare taxes on third party sick wages.
4. Review your paid time off (PTO) policy to determine any unused PTO that needs to be paid to employees before year-end. Consider doing the same for FSA/HSAs, if provided.
5. Be sure that you have up-to-date W-9's for subcontractors and vendors who will receive a 1099 from your business.
6. Verify that all cash and non-cash income has been recorded and taxed properly. Common W-2 adjustments include:

- Group-term life insurance in excess of \$50,000
 - Employer-paid health insurance premiums for subchapter S shareholders who own at least 2% of the company
 - Personal use of a company vehicle
 - Third-party sick pay
 - Company-provided transportation or parking
 - Non-qualified moving expense reimbursements
 - Non-accountable business expense reimbursements or allowances
 - Bonuses and other annual incentive pay
 - Employer-paid education not related to the employee's job
 - Non-cash payments, including stock options
 - Health care premiums– Employers with over 250 employees must report the total cost of employer-sponsored health care coverage
 - Partial Tuition reimbursement
7. The **new 2025 tax bill**, referred to as the **One Big Beautiful Bill Act of 2025** (OBBBA), introduced new reporting requirements related to qualified cash tips and overtime as follows:

For Employers

FORM W-2 REPORTING: *Starting in 2025, employers must report the following additional information on Form W-2:*

- The total amount of cash tips reported by the employee under Internal Revenue Code (IRC) Section 6053(a).
- The employee's occupation as described in IRC Section 224(d)(1).
- The total amount of qualified overtime compensation as defined under IRC Section 225(c).

INFORMATION RETURNS: *For payments made after December 31, 2025, businesses making payments of \$2,000 or more in a calendar year must file information returns that include:*

- A separate accounting of amounts reasonably designated as cash tips.
- The occupation of the person receiving the tips.

For Hiring Firms Using Independent Contractors

HIRING FIRMS MUST INCLUDE THE FOLLOWING ON FORM 1099-NEC:

- A separate accounting of amounts reasonably designated as cash tips.
- Any amount of qualified overtime compensation.
- The tip recipient's occupation.

TRANSITION RELIEF FOR 2025:

- For the 2025 tax year, employers and hiring firms may use any reasonable method specified by the IRS to approximate a separate accounting of amounts designated as cash tips and qualified overtime compensation.
- The implementation of these new reporting requirements will be gradual. The IRS has confirmed that certain information returns will remain unchanged for the 2025 tax year, with updates being made for the 2026 tax year.

8. Remind employees to fill out a new Form W-4 if their situation has changed.
9. Check for excess retirement contributions to 401(k), 403(b), or SIMPLE retirement plans as they cannot exceed IRS limits – not all payroll systems will automatically turn these off after the maximum allowable amount is contributed.
10. Start preparing for ACA Annual Reporting – Determine if your company had 50 or more full-time employees for form 1095 reporting:
 - 50 or More Employees: Complete and file Forms 1095-C and 1094-C

- Less Than 50 Employees (Self-Insured): Complete and file Forms 1095-B and 1094-B
 - Less Than 50 Employees (Fully Insured): The insurer is responsible for filing on behalf of the employer
 - Less Than 50 Employees (No Insurance): Reporting is not required
11. Check with your payroll provider to find out the last day you can submit final 2025 payrolls to avoid penalty and interest charges
12. Update Payroll Information for the New Year: ***Before running your first payroll of 2026:***
- *Be sure to update your payroll systems to account for new tax withholding tables and tax calculations*
 - *Implement **new W-2 reporting fields for tips and overtime deductions***
 - *Review Benefit Offerings:* Evaluate dependent care, student loan repayment, and childcare programs. Coordinate with benefit providers to ensure compliance with new limits and credits.
 - *Communicate with Employees:* Inform employees about new deductions (tips, overtime) and benefit changes. Update onboarding and open enrollment materials accordingly.
 - *Coordinate with Tax Advisors:* Confirm eligibility for credits (i.e. Paid Leave, Child Care, etc.).
 - *Monitor IRS Guidance:* Stay alert for IRS implementation rules and clarifications. Track effective dates for payroll-related provisions.

Holiday Impacts

If your check date falls on either of the following dates, you should adjust it to avoid delaying your employees' payroll checks/direct deposits:

Christmas Day: Thursday, December 25, 2025

New Year's Day: Thursday, January 1, 2026

Additional Year-End Information

In case you missed any of our year-end articles, including our 2025 [Year-End Tax Planning article for Businesses](#) or our 2025 [Year-End Tax Planning for Individuals](#), please visit our [News](#) page.

As always, should you have questions on this or other matters affecting you or your business, please call [215.675.8364](tel:215.675.8364) or [email us](#) to speak with a CPA today.

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