TaxStache 2026 Employer Payroll Setup Checklist

For business owners setting up payroll for the first time or auditing their current setup. Updated April 2026 — taxstache.com

This checklist is organized by timeline because order matters. Some obligations begin accruing before you run your first payroll. Some deadlines arrive faster than you expect. A few penalties are personal. Work through each phase in order and flag anything that needs professional guidance before you proceed.

Important reminder: Running payroll involves more than paying people. Federal, state, and, in some cases, local obligations all kick in simultaneously.

Phase 1: Before You Run Your First Payroll

Federal Setup

☐ Confirm your entity type and how it will be taxed. Everything below flows from this decision.

☐ Apply for your EIN at irs.gov/ein if you don't already have one. Free, takes 10 minutes, required before you can run payroll or open a business bank account.

☐ Enroll in EFTPS (Electronic Federal Tax Payment System) at eftps.gov. Allow 5–7 business days for processing. You cannot make federal payroll tax deposits without this. Set it up now, not the day before your first payroll.

☐ Determine your deposit schedule. New employers default to monthly depositors. Monthly deposits are due by the 15th of the following month. If your accumulated tax liability ever hits $100,000 in a single day, you become a semi-weekly depositor immediately.

☐ Collect a completed Form W-4 from every employee before their first paycheck. This determines federal income tax withholding. Keep it on file.

☐ Collect a completed Form I-9 (employment eligibility verification) from every employee within 3 days of their start date. This is a federal requirement, not optional.

State Setup

☐ Register with your state's department of revenue for income tax withholding purposes. This is separate from your business formation filing.

☐ Register with your state's workforce or labor agency for state unemployment insurance (SUTA). Most states require this before your first payroll run.

☐ Confirm your state's payroll tax deposit schedule and deadlines. State deadlines often differ from federal ones.

☐ Check whether your state has additional payroll obligations: paid family and medical leave (PFML) programs are now active in 13 states and the District of Columbia as of Jan. 1, 2026. If you operate in one of these states, verify withholding and employer contribution requirements before you run payroll.

Phase 2: Ongoing Payroll Obligations

Each Pay Period

☐ Withhold federal income tax based on each employee's Form W-4.

☐ Withhold the employee's share of FICA taxes: 6.2% Social Security (on wages up to $184,500 in 2026) and 1.45% Medicare (no wage cap).

☐ Calculate your employer match: 6.2% Social Security and 1.45% Medicare. This is your money, not the employee's — budget for it.

☐ Withhold state income tax per your state's requirements and the employee's state withholding form.

☐ For tipped employees: beginning with 2026 wages, your payroll system must separately track and report qualified tip income in Box 12 of the W-2 using new OBBBA codes. Confirm your payroll software supports this before it becomes a January problem.

☐ For overtime employees: qualified overtime premium pay must also be separately tracked for 2026 W-2 reporting. Same note: confirm your system handles this now.

Deposit Deadlines (Federal)

☐ Monthly depositors: deposit all withheld federal income tax and FICA by the 15th of the following month.

☐ Semi-weekly depositors: wages paid Wednesday–Friday → deposit by the following Wednesday. Wages paid any other day → deposit by the following Friday.

☐ $100,000 next-day rule: if your accumulated liability reaches $100,000 on any single day, deposit it the next business day — regardless of your normal schedule.

☐ Never miss a deposit to pay other business expenses. Using withheld payroll taxes for anything else is the exact behavior that triggers the Trust Fund Recovery Penalty. That penalty is personal, 100% of the unpaid amount, and won't be wiped out by bankruptcy.

Phase 3: Quarterly and Annual Filing

Quarterly

☐ File Form 941 (Employer's Quarterly Federal Tax Return) by the last day of the month following each quarter:

- Q1 (Jan.–March): due April 30
- Q2 (April–June): due July 31
- Q3 (July–Sept.): due Oct. 31
- Q4 (Oct.–Dec.): due Jan. 31

☐ File your state's equivalent quarterly payroll tax return on its schedule.

Annual

☐ File Form 940 (Federal Unemployment Tax — FUTA) by Jan. 31 of the following year. The standard FUTA rate is 6% on the first $7,000 of each employee's wages, reduced to 0.6% with the state unemployment tax credit. Note: California employers face a 1.2% FUTA credit reduction for the 2025 tax year due to the state's outstanding federal loan balance.

☐ Provide W-2s to all employees by Jan. 31. File copies with the Social Security Administration by Jan. 31 as well (electronic filing required if you have 10 or more information returns).

☐ Issue Form 1099-NEC to any contractor paid $2,000 or more during 2026 by Jan. 31, 2027. Note: the threshold was $600 for 2025 payments — do not apply the new limit to prior-year filings.

The Penalty You Need to Know About

The Trust Fund Recovery Penalty (IRC Section 6672) allows the IRS to hold any "responsible person" personally liable for 100% of unpaid employee withholdings, regardless of your business structure. An LLC or corporation does not protect you here.

Responsible persons include owners, officers, and anyone with authority over company finances, including bookkeepers and controllers.

This penalty survives bankruptcy in most cases. The best defense is depositing on time, every time.

👉 IRS Trust Fund Recovery Penalty overview: irs.gov/businesses/small-businesses-self-employed/employment-taxes-and-the-trust-fund-recovery-penalty-tfrp

S-Corp Owners: One Additional Item

☐ If you are an S-Corp owner-employee, you must pay yourself a reasonable salary before taking distributions. "Reasonable" means what the market would pay someone to do your job. Document your reasoning. The IRS has won this argument in court consistently, and under-paying yourself to minimize payroll taxes is one of the more reliable ways to attract an audit.

This checklist is for informational and planning purposes only and does not constitute professional tax or financial advice. Tax laws change frequently. Always verify current requirements at irs.gov and your state's department of revenue. TaxStache · taxstache.com · For the 2026 tax year.