How to Do Payroll in California

Use this downloadable checklist to help you stay on track!

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| ✔ | **TASK** |
|  | **Step 1: Set up your business as an employer.**  To register your business for withholding and unemployment taxes in California, you must have a [Federal Employee Identification Number](https://www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online) (EIN). Although it’s not required, we also encourage you to enroll in the [Electronic Federal Tax Payment System](https://www.eftps.gov/eftps/) (EFTPS), making it easy to pay your federal taxes online or over the phone.  Applied for a Federal Employer Identification Number (EIN)  Enrolled for the Electronic Federal Tax Payment System (EFTPS) |
|  | **Step 2: Register with California’s Employment Development Department (EDD).**  If you operate a business, employ one or more employees, and pay wages over $100 in a calendar quarter, you’re required to register as an employer with the EDD.  Household employers with one or more household employees must register with the EDD after paying $750 or more in wages in a calendar quarter. Use [e-Services for Business](https://edd.ca.gov/Payroll_Taxes/e-Services_for_Business.htm) to complete registration. |
|  | **Step 3. Set up your payroll process.**  Under California law, employees must be paid at least twice during each calendar month, and paydays must be designated in advance. Notice of regular paydays must also be posted, including the day, time, and location/method of payment.  You’ll need to decide [how often you’re planning to pay employees](https://fitsmallbusiness.com/pay-period/), if you need to track work hours, which payroll forms you need to collect and when, how you’ll perform payroll calculations, and so forth. To do this, you have three options (check off which option you’re electing to use for tracking purposes):  [Do payroll yourself](https://fitsmallbusiness.com/how-to-do-payroll/)  Use [Excel payroll templates](https://fitsmallbusiness.com/free-payroll-template/)  Sign up for a [payroll service](https://fitsmallbusiness.com/best-payroll-services/) |
|  | **Step 4: Collect employee payroll forms.** |

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|  | When onboarding new employees, request the [necessary payroll forms](https://fitsmallbusiness.com/payroll-forms/), including those specific to California.  The best time to collect payroll forms is during your new hire orientation. Required payroll forms for California employees will include:  Federal [Form W-4](https://www.irs.gov/pub/irs-pdf/fw4.pdf)  [Employee’s Withholding Allowance Certificate (DE 4)](https://www.edd.ca.gov/pdf_pub_ctr/de4.pdf)  [I-9](https://www.uscis.gov/sites/default/files/document/forms/i-9-paper-version.pdf)  [Direct deposit authorization form](https://fitsmallbusiness.com/wp-content/uploads/2022/05/Direct-Deposit-Authorization-Form.pdf) |
|  | **Step 5: Collect, review, and approve time sheets.**  You’ll need to collect timesheets for all hourly employees and [non-exempt salaried](https://fitsmallbusiness.com/exempt-vs-non-exempt-employees/)  [workers](https://fitsmallbusiness.com/exempt-vs-non-exempt-employees/). To do this, you have three options to use (check off which option you’re electing to use for tracking purposes):  A [paper timesheet](https://fitsmallbusiness.com/timesheet-templates/)  Free or low-cost [time and attendance software](https://fitsmallbusiness.com/best-time-and-attendance-software/)  A payroll service that has a time and attendance system |
|  | **Step 6: Calculate payroll and pay employees.**  [California payday law](https://www.dir.ca.gov/dlse/faq_paydays.htm) states that wages earned between the first and 15th day of the calendar month must be paid on or before the 26th day of that month. Work performed between the 16th and last day of the month must be paid by the 10th day of the following month. Depending on your accounting preferences, [use payroll software](https://fitsmallbusiness.com/best-payroll-software-reviews/), a calculator, or even [Excel](https://fitsmallbusiness.com/how-to-do-payroll-in-excel/) to [calculate payroll](https://fitsmallbusiness.com/how-to-calculate-payroll/).  Calculate Gross Pay  Calculate FICA, FUTA, & Income Taxes to withhold/pay  Perform any other payroll calculations, i.e., for expense reimbursement  Calculate net payroll  Decide to pay using check, paycard, direct deposit |
|  | **Step 7: File payroll taxes with the federal and state government.**  All state tax payments need to be made directly to the applicable agency based on whatever schedule is assigned to your business. Federal tax payments must be made via EFTPS. Generally, you have to deposit federal income tax withheld and both employer and employee Social Security and Medicare taxes based on the schedule assigned to your business by the IRS.  *The IRS can assign you to one of the following depositing schedules:* |

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|  | * **Monthly Depositor:** Requires that you deposit employment taxes on payments made during a month by the 15th day of the following month. * **Semiweekly Depositor:** Requires that you deposit employment taxes for payments made Wednesday, Thursday, and/or Friday by the following Wednesday. Deposit taxes for payments made Saturday, Sunday, Monday, and/or Tuesday by the following Friday.   It’s important to note that schedules for depositing and reporting taxes are not the same. Employers who deposit both monthly and semiweekly should only report their taxes quarterly or annually by filing [Form 941](https://fitsmallbusiness.com/how-to-fill-out-form-941/) or [Form 944](https://fitsmallbusiness.com/form-944/). |
|  | **Step 8: Document and store your payroll records.**  Keep records for all of your employees, including those who have resigned or were terminated, for at least four years (eight years for exempt employees). Learn more in our resource on [retaining payroll records](https://fitsmallbusiness.com/payroll-records/). |
|  | **Step 9: Complete year-end payroll reports.** Send the federal Forms [W -2s](https://fitsmallbusiness.com/how-to-fill-out-w2-form/) (for employees) and [1099s](https://fitsmallbusiness.com/form-1099-reporting/) (for contractors) by Jan. 31 following the year for which you’re reporting. You’ll also need to send copies to the IRS along with a summary form for each.  **Federal:**  File & Distribute W-2’s for all employees  File & Distribute 1099’s for all contactors  **State:**  File California state W-2 forms by January 31st |