

## ***What are the real-world benefits of outsourcing payroll?***

If you own your business, no matter how small or large, you have had the opportunity to learn about payroll processing. Likewise, if you have been doing your own payroll processing for any length of time, you have probably already discovered what a challenge it can be due to the many, ever changing federal/state laws combined with the need to keep up-to-date on all of them.

All these and many other challenges aside, your main concern is likely the need to have error-free payroll processing – plain and simple – and the reason you want error free processing when it comes to payroll is that: (1) you will end up having to do payroll all over again should there be any mistakes (wasting valuable company time and resources); and (2) you may end up having to pay some hefty penalties to the government if the mistakes allowed your company to pay less in income taxes than were required. So, because of these and many other business-specific complexities, many companies (especially smaller ones) decide to outsource their payroll processing. If you are in this boat and considering outsourcing your payroll, here is a quick look at some of the direct benefits to you, the business owner or decision maker, of doing so:

**1. Compliance. This is one of the biggest benefits that companies end up seeing when they decide to outsource their payroll.** In fact, the IRS, Social Security Administration, and Department of Labor all have special regulations surrounding each type of business. Because a major part of payroll processing is meeting these requirements, it is oftentimes easier for the business owner to pay a payroll professional to handle regulatory compliance. That is the main driving force behind many companies utilizing payroll processing firms for tax payment services. In this way the payroll service bureau can ensure that all federal, state, local, and unemployment taxes are paid accurately and on time – and most importantly- transparently to the business owner.

**2. Confidentiality. This is an often overlooked feature inherently offered by payroll processing firms because it allows the business owner to give the responsibilities of payroll to an outside entity.** This can be extremely important in a family-run business, for example, because it prevents certain family members from knowing what others are making. Not to mention that it prevents non-family member employees from finding out the personal information of the other family members. Also, many people who own a small

business know how the payroll processing schedule can actually “control their lives” because they feel the need to be present when payroll is being processed in order to ensure the confidentiality and accuracy of payroll processing.

**3. Convenience. In fact, by outsourcing the payroll process business owners give themselves the peace of mind that once the hours are reported correctly, everything else is taken care of by the payroll processing company.** It also provides the convenience of only having to report the hours and doesn't necessitate their involvement in the specifics regarding tax or special employee payments and situations. Actually, all of the vital payroll information, custom reports, and checks (if appropriate) are sent via the business owners' delivery method preference with little or no additional involvement from the business itself (thereby allowing the business to focus on its core competencies). Not to mention that some premier payroll processing firms also provide the added convenience of integrating with other employee benefits and services, such as workers comp, 401K, and section 125 administration.

**4. Cost reduction. By outsourcing payroll a business can actually enjoy all of the benefits of an entire payroll department for a fraction of the cost.** The reason for this is basic Economics 101 -- it is almost always cheaper to pay a payroll processing company due to economies of scale and specialization. The payroll company has gained several layers of efficiencies by employing specialized software combined with process-focused training and employee experience -- something that most small and medium-sized businesses could not achieve without developing and staffing an internal payroll department. Even then, the overhead costs associated with hiring, training, and maintaining a payroll focused work-force is oftentimes cost prohibitive.

So, now that you are leaning toward outsourcing your payroll because you tend to think the benefits mentioned above are going to make it worth the costs, you are faced with the need to select an appropriate solution. There are many choices out there, so we've pulled together some thoughts that that may help you choose the one that is right for your business.

Your next question may likely be:

## ***What do I need to consider when analyzing my options?***

Consider asking the following questions:

### **1. What types of payroll systems are available?**

**A. Internal, computer-based.** Many companies offer computer software that will assist you in processing payroll. You will need to input information for each employee when he is hired, but after that, the software will calculate payroll taxes and other deductions automatically. Most programs will also process W-2 forms for each employee at year-end, which can be a real time-saver. The advantages of this type of payroll system are fewer potential mistakes and less time spent processing payroll (when compared to a distributed manual process). In addition, several employees can be trained to run the program, so you won't need to depend on just one person to process payroll. The disadvantages are that someone will have to input each employee's hours manually, and the software has to be updated annually or whenever new tax laws go into effect. There can also be additional charges if the software has to be configured specifically for your business.

**B. External payroll service.** Payroll service bureaus will process your payroll for you, including submitting all necessary tax payments and generating year-end reports. Although seemingly expensive on the service, it can have an extremely quick return-on-investment in many companies, which might otherwise have to hire a full- or part-time employee dedicated to processing payroll. Several recent studies have shown that the cost to process payroll internally is in the neighborhood of \$8-\$10 per check on average at most companies, whereas a payroll service provider can provide an oftentimes higher level of service for around \$2 per check – a substantial expense savings when considered over the long-haul. A payroll service center may also offer a direct-deposit option to your employees, which is very popular. When

researching payroll services, check to see what services they offer, and if the reports that they provide are helpful. If not, ask if they can customize their services to better suit your needs. Another important consideration is to find a payroll service that is bonded. This protects you from liability in the case of mishandled finances. Check with any potential payroll services to be certain that they will pay any applicable penalties if they make mistakes in remitting tax payments, and that they can re-process payroll quickly if there are mistakes. Also, keep in mind that you will still have to transmit employee payment information to the payroll service each pay period, so it won't be a totally hands-off experience. In this vein, be sure to inquire about their methods of transmission for employee information, at a minimum, fax, email, and online services should be offered.

## **2. How many employees do you have?**

If you have fewer than ten employees and their hours stay basically the same from one pay period to the next, or they are salaried, it may seem relatively easy to process payroll internally. If your company has between ten and fifty employees, a payroll software package may work well for you, as long as there are relatively few complex issues involved. If your company is large - fifty employees or more - you'll likely want to hire an outside payroll service, or hire an employee strictly to process payroll. Payroll service companies vary in the services they offer and the amount they charge - do your research to find the right payroll company for you. Again, when considering size, be sure not to underestimate the benefits mentioned early in the discussion. What may seem like an easy path, might end up causing you hours of headaches and tax penalties. Bottom line, do honest assessments of yourself or whoever will be working on payroll for your firm. If he/she/they do not have the time or inclination for the job, it is best to get a professional to do it!

## **3. What accounting software do you use?**

If your current accounting software includes a payroll processing system, you may want to use it, because you can then integrate all of your financial information into one package. When you consider this, think about how well the program meets your needs, and if it can be adapted to meet your future needs.

#### **4. How complex is your payroll?**

If your payroll is quite complex - for example, if you have many employees at different pay rates, and on different pay scales, possibly even with different insurance packages from which to choose, you may spend a lot of time processing payroll, and on trying to keep up with changes. Such a task may be better suited to an external payroll service. However, be certain that you understand what is included in your basic fee, and what is considered extra. Some companies include only the minimally necessary steps in processing payroll, and everything else is an extra charge. The best way to avoid this problem is to assemble a typical payroll for your company, then ask any potential payroll services to quote the job.

The key to determining an ideal payroll solution for your business is to be realistic about how much time and money you can devote to this task. Also, consider whether or not you have an employee in your company with the knowledge and time to dedicate to payroll. If a payroll system isn't working for you, don't feel tied to it just because that's the way it's always been done. It may take a little time to find a great fit!

Good luck in finding the best payroll system for your company!