



Payroll Myths

This white paper will identify the common misconceptions about the complexity of payroll, highlighting the essential but often overlooked functions involved in the payroll cycle.

Overview

Payroll administration is the tracking of the hours employees work and the distribution of their corresponding checks each payday. Simple, right?

This is the common misconception about payroll. The typical view among managers and small business owners is that payroll is a single event — the issuing of checks each payday. If you have a bit more in-depth understanding of the complexity of payroll, you may think that it also involves the management of taxes associated with each payroll. This still does not even begin to cover the scope and depth of payroll administration. And while this is the prevailing thought, the consequences of this misunderstanding can be extremely costly.

For most businesses in the US, labor is the biggest expense they'll face. These costs can average up to 70 percent of expenses, and 30 percent of total revenue. If business owners and HR managers do not proactively manage their payroll costs, they leave little room for profit and growth.

Paying overtime, keeping employees who don't produce, scheduling mistakes and so much more can lead to thousands of dollars in revenue turning into an expense. These critical errors don't have to continue. There are tools and services available that help you effectively manage and track these potential profit killers so your business can run smoothly and successfully.

Payroll is not just an event — it is a cycle. It is a cycle that never stops moving. Without the right system, this cycle can become fragmented, disjointed and often mismanaged. Payroll is a living, breathing system composed of employees, technology and rules. Knowing the full complexity and steps, and having a trusted system to manage each moving part is the only way to keep it in line and under control.

This white paper will cover some of the aspects of payroll that many managers overlook. It will detail how a payroll services partner can provide solutions to keeping costs in check through comprehensive management and strategic planning tools.

Tracking the Cycle

The myth is that payroll occurs when a check is cut. The reality is that the Payroll Cycle is the end result of a host of actions that have happened in concert with or often well prior to the payroll cycle beginning. While the payroll will be processed successfully, it's too late to change results related to expense, scope and ratio to overall employee payment. In other words, by the time the ink is on the check, there has already been an abundance of actions that, if not properly managed prior, can put your bottom line in the red.

The cycle does not have a definitive beginning or end, but for the purposes of this white paper, it starts as soon as you decide to hire a new employee. Through the cycle, you'll face hiring decisions, scheduling demands, performance reviews, budget conflicts, regulations and a myriad of other obstacles. Let's take a look at how a payroll outsourcing service can help in each of these areas.

Off on the right foot - Get the best employees

A business can only be as successful as its best employees, and a good manager knows the detrimental effects a bad employee can have. How do you weed out the bad apples? Some payroll outsourcing partners provide applicant tracking systems to help. These systems can take you from job opening through to inputting the new hire into your system in a streamlined process.

Applicant tracking systems allow you to create a job posting within the system and then post it to multiple career boards with one click. You can also specify whether to make the job posting open only to internal employees. The system tracks submitted applications, organizing each job seeker's information in an efficient database. As each applicant moves through the screening process, objective rating scales assist in moving the most promising applicants to the top of the stack and excluding the unqualified ones. A convenient scheduling calendar, which syncs with your Outlook or Google calendar, allows you to organize interviews, referral calls and follow-ups.

When you've narrowed down your search, applicant tracking systems can also provide background screenings to ensure your potential employee does not have any disqualifying information in their history. If you've found your perfect fit, Payroll Service providers with an integrated applicant tracking system allow you to merge all of the information you've already collected into the new employee's personnel profile. New hires will also complete enrollment, training manuals and other essential forms all from the system.

Manage employees from hire to retire

The life of an employee - it's a long, complex road when you take a good look at it. Tracking hours worked and issuing checks on time is simply the base-level function of payroll. Effective managers must be able to make sound decisions on paid-time off requests, promotions, benefits enrollment, schedule management and a host of other processes. All put together, Employee Lifecycle Management creates a significant need for a payroll outsourcing partner that integrates the administration of each of these functions.

Because labor costs are typically the largest expense for businesses, this cost needs to be precisely tracked to keep the expense under control. Paying overtime can be disastrous for your bottom line, but poor planning and management can leave you with no other choice. Efficient scheduling with a demand-driven scheduling tool is the key to maintaining labor in the safety zone of below 30% of total revenue. Alerts from payroll outsourcing providers notify you if an employee is approaching overtime, so you can make key scheduling changes to avoid it.

As your employees grow with your company, there will be many occasions when you'll need a strategic personnel management system. A raving performance review may lead to a raise, but is it in your budget? What if they have a baby and need to change their benefits plan? One employee retires and another wants to apply to take over their position - is that the best move? Does the retired employee understand their 401 (k) options? Do you know the answers to these key questions?

Employees working overtime can lead to excessive labor costs, an increase in workplace injuries, decreased productivity and long-term absenteeism.

It's all in the numbers - Reports keep you in line

Those who don't learn from history are doomed to repeat it. How can you discover your critical cash leaks, wasted expenses, and detrimental labor issues? An absolutely essential element of effective payroll management is reporting - pulling specific data about your employees, expenses and revenue for in-depth analysis. Reporting allows for proactive management, making you an informed decision-maker when it comes to scheduling, approving expenses and budgeting for the future.

Some vital reports include:

Employee turnover - Shows new hires, re-hires and terms over date, along with turnover ratio

Anticipated billing and benefit reconciliation - Ensures your insurance bill is accurate

Accrual history - Shows check entries for accrual plans and paid hours

Labor distribution detail - Shows true employee, check, department, project, etc. costs

No late or penalty fees, please

One of the most important parts of the payroll cycle is ensuring your company is staying compliant with all levels of government regulations. Keeping up with the ever-changing landscape of local, state and federal reporting and tax requirements is a significant challenge for business owners and managers. In addition to several deadlines and mandates, the IRS is pushing for all-electronic filings of taxes, which introduces another hurdle for the average business owner.

Consider the following penalties:

- Failure to file:** Not filing your payroll forms is a federal crime. Your case could be referred to the Criminal Investigation Division. In the best case scenario, you will have to pay a fine.
- Failure to deposit:** You can incur financial penalties that quickly add up when you do not make payroll tax deposits, or if they are made late.
- Failure to pay:** In extreme cases, the IRS can shut your business down and go after business owners personally.

Partnering with a registered IRS e-filer and a certified SSA W2 printer is the best way to protect yourself from these penalties. Make sure electronic remittance and reporting, quarterly online tax statements, W2 preview and year-end W2 processing with the latest health care reform are managed properly.

From Time Magazine:

“...tax compliance is one of the best reasons to consider a payroll service. As IRS penalties for payroll tax errors can be steep, it might make sense to outsource this function even if you have time to do it yourself. As an entrepreneur, your time is best spent growing your company, not worrying about the complications that arise from growth.”

Netchex offers employers more than a payroll software. We are a team of payroll, tax, and HR professionals that become an extension of your staff by providing the service and support today's businesses need. With easy access to HR metrics & reporting like Average Hours Worked, Employee Salary Reports, and Total Compensations, Netchex offers all the resources you need to manage your employees in one location. Give us a call to see how we can help your team today.



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