

Stay in control: The benefits of in-house payroll software

Why in-house payroll offers tighter control, better access to information, and safer compliance than outsourced payroll.

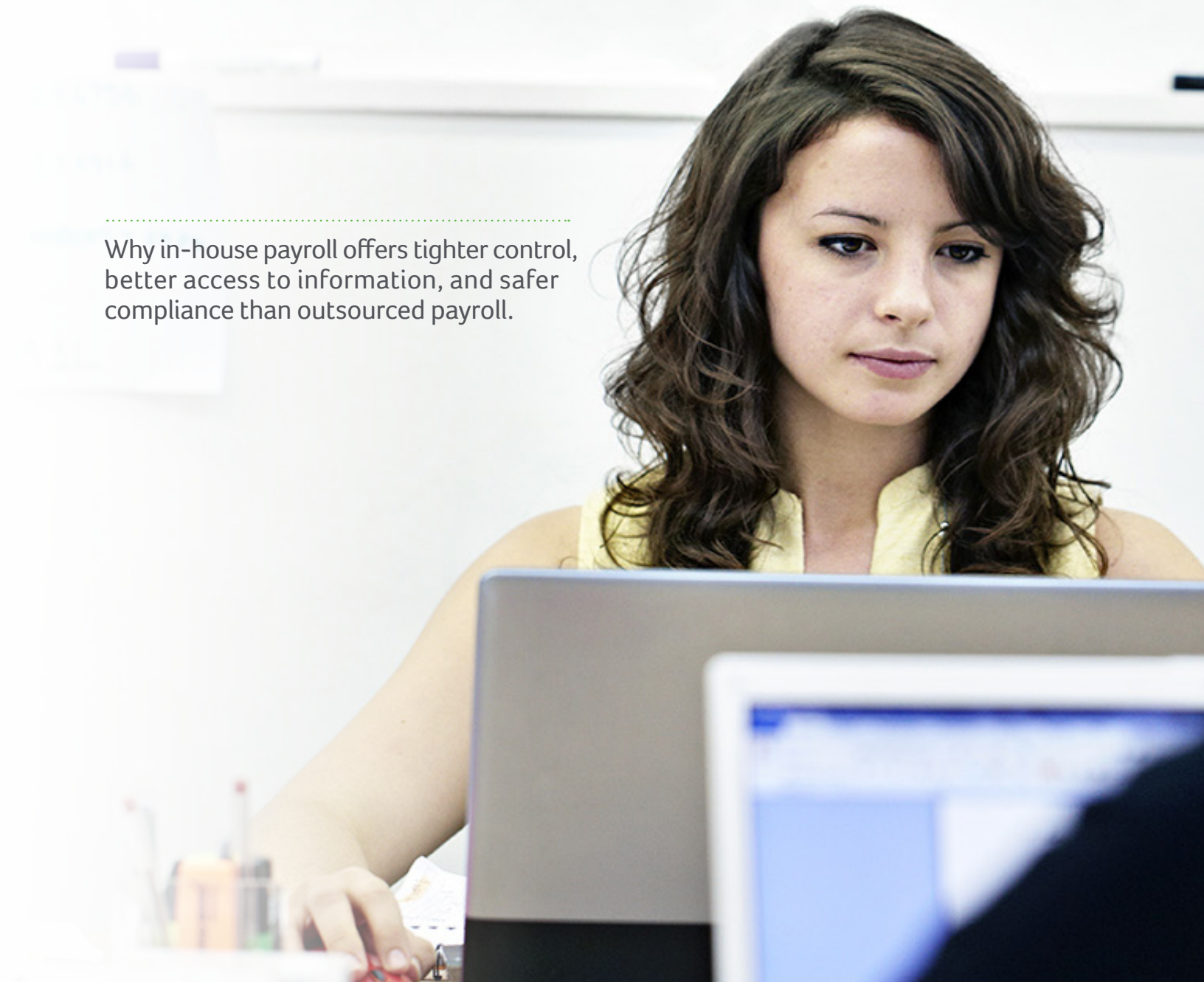


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Introduction

With employee payroll, there's no room for error. Paychecks and direct deposits need to be processed on time and accurately, every payday. Payroll is one of your organization's largest expenses, and payroll mistakes definitely leave a bad impression with your employees. Payroll accuracy impacts your organization's compliance with local, state, and federal wage and hour regulations, taxation, and employee benefits. Inadequate recordkeeping can expose your company to employee litigation or tax fines and penalties.

You've probably read a lot about payroll outsourcing, but you might not hear as much about the value of reliable, in-house payroll processing using automated payroll software. Preparing your own payroll puts you in complete control over this essential employee benefit and gives you access to all current and historical payroll information for your company, at any time, without any barriers. Managing payroll, tax filings, and payments in house puts you in control of your organization's compliance with payroll and tax regulations.

In this white paper, we'll illustrate the benefits of integrated, in-house payroll software. You'll find comparisons of how in-house payroll software stacks up against outsourcing in terms of:

- Control over data security and accuracy.
- Compliance with tax regulations and other laws.
- Control over the scheduling of your payroll.
- Access to your organization's payroll data.
- Cost and personnel requirements.

Why choose in-house payroll?

According to a 2014 survey by Robert Half and Financial Executives Research Foundation, 53% of U.S. and Canadian companies process payroll in house.¹ Large enterprises are more likely than small to mid-sized organizations to outsource their payroll. In fact, the National Small Business Association's 2013 Small Business Tax Survey revealed that 60% of small businesses process payroll in house.²

Businesses that reject outsourcing cite a number of compelling reasons for choosing to process payroll in house instead. In an APA-sponsored Trend Line survey, 38% of those who don't outsource payroll simply preferred to manage all HR-related activities in house. Nearly 9% cited higher costs with outsourcing, 8% didn't want to lose control, and almost 5% listed information security/employee confidentiality concerns.³

For small to mid-sized businesses, processing payroll in house can offer a number of important benefits, including:

Payroll processing: In-house vs. outsourcing

60% Small businesses that process payroll in house

40% Small businesses that outsource payroll



Reasons for processing payroll in house

38% Prefer to manage all HR-related activities

9% Cited higher costs with outsourcing

8% Didn't want to lose control

5% Cited info security/employee confidentiality concerns

¹ Ken Tysiac, "Payroll, tax top choices for outsourcing in finance," Journal of Accountancy, May 13, 2014.² Footnote copy, as needed.

² Marsall Jones, "Should You Keep Your Payroll In-House or Outsource It," New Talent Times.com, June 10, 2013.

³ Ceredian and the American Payroll Association Trend Line Survey, "Ceredian Survey Tackles HR-Related Outsourcing," reprinted from PayTech, July, 2009.

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- Accurate, timely payroll with a solid return on investment (ROI).
- Total control over payroll processing, including managing direct deposits, check printing, reporting, and forms, as well as payroll taxes.
- Maximum flexibility over last-minute changes prior to a payroll run.
- Comprehensive, customizable reporting to help you analyze compensation and plan for the future.
- More accurate data through integration with internal HR, accounting, and timekeeping systems.
- Fewer employee requests and questions through integration with self-service software that allows employees to access their own paycheck data easily.

Depending on your company's internal resources and the complexity of your payroll, it is likely that in-house payroll software can produce long-term savings over the cost of continual outsourcing fees. Payroll software also increases your control over employee data and the payroll process itself, so you can protect private information, including wage and salary details.

In-house payroll puts you in control

For many businesses, the greatest drawback to outsourcing is feeling that you have little control over the payroll process, your payroll data, and the accuracy of employee paychecks. Employee salary and benefits information is sensitive and needs to be handled securely and privately.

Let's examine several aspects of payroll control that in-house payroll can provide better than outsourcing:

Outsourcing may not save much time over in-house payroll

The primary benefit of outsourcing is supposed to be the time savings of letting someone else handle your payroll, coupled with the reduced labor costs associated with payroll preparation. However, you may not save as much time as you think you will with outsourcing—particularly if your organization is not very large. Huge enterprises are able to quickly produce mass files and send them to the outsourcer for processing. But smaller businesses are often required to use an online interface and enter some of the payroll data manually.

Regardless of how an outsourcer processes a file, it's a guarantee that you or someone on your staff will have to provide the payroll data (timesheet info, paid time off, salary information, and so on). If you already have to collect and compile that information, how many extra steps do you save over completing payroll with in-house software? The answer might surprise you; for many organizations—especially those with integrated payroll, HRMS, and/or accounting systems—it doesn't really take much longer to handle payroll in house.

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In-house payroll uses your existing payroll processes

Outsourced payroll services tend to be less flexible than in-house software because they rely on standardized processes that are designed for a high volume of transactions. Customers must adapt to these processes in order to use the service. If your organization tracks a variety of pay rates, shift differentials, overtime, pay cycles, and other variations, an in-house system may be a better solution for you.

Your company can customize in-house payroll software to match your corporate processes exactly. For example, in-house software can process paycheck stubs that need to include the names of time-off plans or medical benefits. You can also customize your general ledger account numbers to better meet the needs of your accounting system, track secondary jobs, and create templates to import and export information from other databases.

In-house payroll offers strong information security capabilities

Employee payroll information is sensitive. Sending payroll information electronically to an outside payroll service may pose an unnecessary risk to your company's data security. In-house payroll systems provide security features such as password access and the ability to store information on your own internal hardware, so it is protected by your internal IT security assets such as firewalls.

Outsourcing isn't flexible for last-minute changes

In-house payroll software places all the control within your company. It's flexible enough to cut special on-demand checks at the last minute. It enables you to run trial payrolls to make sure everything is correct.

In contrast, outsourcing is not always very forgiving. If you need to change payroll details for an employee at the last minute, it may be too late to make the payroll run. If you need to recut a lost or stolen check and it's close to the end of the month or quarter, you could be locked out of the system for several days.

Retain better access to your payroll information without barriers

When you own your payroll software, you also own your payroll database and all of your employees' history. Period. You don't have to wait for access to your own payroll system. A payroll outsourcer may require you to jump through hoops to get your payroll information back if you want to leave the service, and the information you receive might not be in the format that is best for you.

An in-house payroll software system stores all of the data you need to produce comprehensive, customizable reporting and analysis, so you can perform compensation planning and analysis. It also centralizes the data you will need for compliance with government mandates and provides record-keeping for proactive defense against any employee litigation that involves compensation.

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Employee self-service lets employees manage their own payroll information

In-house payroll software will give you better access to your company's secure payroll data. But it can also provide better access to payroll information for your employees.

Employee self-service (ESS) technology enables you to streamline routine payroll processes using web-based technology with integrated workflow features. Employees can immediately view, print, and, when appropriate, edit personal information in an easy, automatic, and paperless process. This strategy reduces the administrative burden on HR and helps employees gain a sense of control over payroll information, making it a very attractive cost-containment strategy.

ESS benefits the company in a number of ways:

- **Fewer calls to HR**—Employees have direct access to a greater amount of their payroll information, so they can answer most of their own payroll-oriented questions.
- **Reduced transaction costs**—Using ESS in combination with direct deposits can eliminate or substantially reduce the need to produce paper paychecks or direct deposit advices. With ESS, employees can view pay stubs online and print them out.
- **Greater employee satisfaction**—Giving employees access to payroll information improves their knowledge of, and satisfaction with, compensation and benefits packages.

Employees can access a lot of information through ESS. They can view or edit their current W-4 and direct deposit information. They can also view a detailed pay statement for the current pay period and access pay history. Most employees expect this kind of control over their payroll information. An American Payroll Association survey reveals that today, over 80% of employees have access to self-service payroll information.⁴

Ensure your organization's tax compliance

Staying up to date with changing tax regulations and filing taxes in a timely manner are important parts of the payroll process. This is a particularly burdensome task for most payroll professionals. Tax tables and regulations are ever-changing, and you can't make any mistakes. An error or a missed deadline can incur expensive fines and penalties for your company.

In addition to ensuring that standard and supplemental tax tables are updated regularly, tax compliance also requires federal, state, and local tax filings; SDI and SUI filing; electronic and manual funds transfers; W-2 and 1099 printing and delivery, as well as electronic W-2 filing with the Social Security Administration; electronic media reporting through the Electronic Federal Tax Payment System (EFTPS), and tracking liabilities and tax deposits for federal, state, and local taxes.

⁴ American Payroll Association, "Getting Paid in America," 2013.

Your company is ultimately responsible for tax compliance, no matter what

The hassle of tax compliance is one of the reasons that some small to mid-sized businesses decide to outsource payroll. But many don't realize that outsourcing doesn't eliminate your compliance responsibilities. If the outsourcer fails to file your forms or deposit tax payments, the IRS will come looking for you. In fact, the IRS issues this warning on its website:

The employer is ultimately responsible for the deposit and payment of federal tax liabilities. Even though the employer may forward the tax amounts to the third-party to make the tax deposits, the employer is the responsible party. If the third-party fails to make the federal tax payments, the IRS may assess penalties and interest on the employer's account. The employer is liable for all taxes, penalties and interest due. The employer may also be held personally liable for certain unpaid federal taxes.

In order to make timely tax payments and filings on your company's behalf, you must supply the payroll outsourcer with adequate payroll information. Instead of having to meet the government's filing deadlines, you'll need to provide data to your outsourcing provider to meet even earlier deadlines.

As you can see, using a payroll outsourcer will not necessarily absolve your company from liability for noncompliance with payroll taxes. If your payroll service makes a mistake in processing payroll or filing and submitting your payroll taxes, the provider may pay resulting fines, if your contract specifies such terms. However, if you miss a deadline, pull the wrong data, or make errors in the data you send to your payroll service, your company will be liable for any and all resulting fines and penalties.

Over time, in-house payroll costs less

Do small and mid-sized companies save money by outsourcing payroll? Initially, it may seem so, but while the cost of outsourcing continues to add up with every payroll issued, the return on investment of in-house payroll software will lower your total payroll processing costs over time.

When you buy in-house payroll software, your up-front expenses include the software license and an annual maintenance and support plan that provides you with software enhancements, tax table updates, and technical support. Costs drop dramatically in the second year of ownership and beyond, because the only ongoing expense is a maintenance and support plan. Many software companies offer flexible payment plans so you can spread the up-front license cost of in-house payroll software over a longer timeframe.

In contrast, outsourcing expenses stay the same every year or could possibly increase. Outsourcing fees depend on several factors, including how often you issue paychecks, how many employees your company has on the payroll, and how many additional services, such as W-2 printing or 1099 mailing, you require. Because you never own the ability to create your own payroll, the expenses simply compound every year.

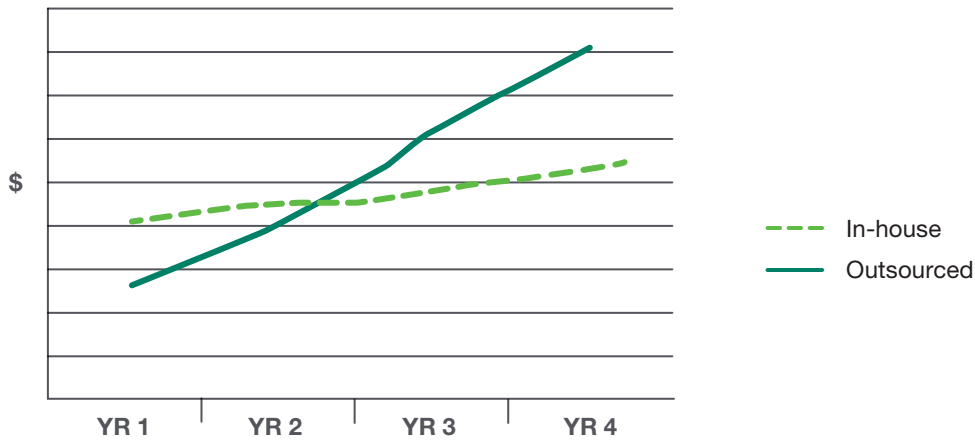
Questions to ask when considering outsourcing against in-house payroll:

- Which method will cost less this year? Over the long term?
- How can you ensure proper tax filings and payments?
- How much control do you want over the payroll process?
- How often do you process payroll?
- How complex is your payroll?
- How often do you have to create last-minute paychecks?

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Total expense of in-house payroll is lower than outsourcing over time



Fees aren't the only way outsourcers make money off your payroll

Payroll outsourcers have a little-known secret for making additional money off their customers. They collect and hold tax payments in their own interest-bearing accounts and then submit the payments to local, state, and federal agencies at the last possible moment. While perfectly legal, this maneuver enables the payroll provider to collect short-term interest, known in the finance industry as “float,” on your company’s funds. Float interest contributes a significant amount to most payroll outsourced payroll providers’ profits. Your company could earn and invest this interest if you kept the process in house.

Integration among payroll, HRMS, and ERP can significantly improve productivity

To enjoy the biggest time savings, it’s important that your payroll information flows smoothly back and forth among other systems such as your general ledger, HRMS, ESS, and timekeeping software. This minimizes the amount of manual data entry or importing and exporting of files that you have to perform.

There are many benefits of having integrated HR capabilities with the payroll software or self-service:

- No duplicate data entry prevents errors and helps you finish more quickly.
- Less paperwork saves time that you can spend on strategic projects.
- Integrated reporting allows you to perform better analysis and planning.

Direct deposit and payroll cards deliver valuable savings

According to the American Payroll Association, 98% of U.S. employees get paid by direct deposit.⁵ Each direct deposit can save your company \$1-2 by replacing a paper check with an electronic payment. When you add in additional expenses such as check distribution and replacement of lost or stolen checks, your savings may be even greater.

Employees without bank accounts have nowhere to direct a deposit; for these employees, a payroll card can be a welcome option, saving the employee check-cashing fees and reducing expenses for the employer as well.

5 American Payroll Association, “Getting Paid in America,” 2013.

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Consider your system integration requirements carefully. Integration between your payroll solution and your ERP or accounting solution ensures automatic creation of general ledger posts and bank reconciliation data, as well as accurate financial reporting. HR, payroll, and benefits functions also share tremendous information overlap. Integration ensures that all systems are in sync and using the most recent and accurate employee information.

Conclusion

Payroll is too important to entrust to an outsider. Employee information is sensitive. Mistakes can be costly. For this and many more reasons, a majority of businesses prefer to keep an internal payroll process. **The benefits of in-house payroll include:**

- Greater control over the payroll process.
- Better payroll accuracy.
- More flexibility to react to last-minute changes.
- Anytime, on-demand access to payroll information and history.
- Powerful reporting and analysis.
- Strong data security capabilities.
- Internal control over tax compliance.
- Lower payroll costs over time.
- Increased efficiency due to integration between systems.

Using integrated, in-house payroll software can ensure accurate, timely payroll and a solid return on investment (ROI). While reducing the cost of processing your payroll, you can also gain more control over its accuracy.

Sage is committed to supporting small and medium-sized companies by developing solutions that create greater freedom for them to succeed. For more than 30 years, we have been a leader in the development of human resource management systems (HRMS) software. Thousands of small and medium-sized businesses nationwide have implemented our popular Sage HRMS solutions.

For more information about our products and services, visit: [SageHRMS.com](https://www.sagehrms.com)

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