

## Introduction

No matter how meticulous and experienced you are, handling payroll can be a headache. Add in the stress of potentially stiff penalties for tax filing omissions, and you're left with a financially-induced migraine. Hiring a qualified payroll service provider can help you increase efficiency and save both time and hassle.

Outsourcing payroll to a reputable payroll services provider can be an attractive and valuable alternative to in-house processing. It is less expensive and makes paying employees, filing taxes, and performing other essential but mundane tasks simpler. By contracting with a payroll service provider you will free yourself up to focus on other core business necessities (like sales and customer service).

You can rely on your payroll service provider to have extensive knowledge of payroll procedures and access to a sound payroll program; this virtually eliminates the margin for error. And given the ever-changing nature of tax regulations, a payroll mistake could affect your bottom line. Employees as well as federal, state, and local tax collection agencies need to be paid in full, on time, and in the proper manner. Usually, late payments are cause for monetary penalties. Every year, approximately 40% of all small businesses pay an average fine of \$845 (including penalties and interest) to the IRS.

BuyerZone can help you select the right payroll solutions for your business – this Buyer's Guide will give you the solid working knowledge you need in your search.

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## Pricing guidelines

While there are a number of add-on services you can choose, payroll processing prices are fairly consistent.

- \$2 to \$3 per check per pay period for basic services
- \$3 to \$5 per check per pay period for more comprehensive services
- Additional feeds for account service, tax filing, and delivery.

That's not to say that it's not worth shopping around – you'll definitely find a range of prices as you talk to different providers. Read on to find out more.

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## Why choose payroll outsourcing

Although many small businesses in the U.S. still process paychecks internally, this is not always as cost-effective as it appears. At minimum, processing payroll internally costs valuable hours of employee time every pay period plus expensive accounting software and training. In addition, the person who handles your payroll needs to keep up to date on changes in personnel, deadlines, and tax requirements on an ongoing basis.

Payroll outsourcing can be an affordable way to remove this burden. Particularly if your employees work hours each week or if you have significant turnover, a payroll service can be a time-saving and cost-effective alternative to internal processing.

The benefits of using a payroll service include:

1. **Accuracy.** A payroll service provider assumes liability for calculating payroll taxes, retirement deductions, and health insurance deductions.
2. **Efficiency.** You will save time, money, and hassle by letting a payroll service take care of the complex tasks involved in calculating and paying payroll and taxes.
3. **Customer service.** A qualified payroll professional will complete your payroll services on time, every time, and while being a mere phone call away if you need assistance.

Finding the right payroll service can also be helpful if you have to pay payroll taxes for multiple states.

Even if your payroll expenses are quite stable, companies with more than 10 employees may find that the time saved by outsourcing payroll easily makes up for the low costs.

## Payroll provider services

Payroll providers' basic services include:

- calculating paycheck and tax obligations for each employee
- printing and delivering checks, direct deposit, or digitally signed checks
- providing management reports such as vacation and sick leave accruals.

Many payroll services also offer online employee self-service, such as the ability to look up pay stubs. Paychecks can be issued on a weekly, bi-weekly, monthly, semi-monthly or yearly basis.

Additional payroll-related services that may carry separate fees include handling of year-end W-2's, garnishment checks, and workers compensation. You may also be able to add-on services such as integrating time and attendance systems (usually with no extra charge for exporting) and some human resource services. Many payroll services now offer tie-ins with 401(k) and Section 125 mutual fund plans, so your employees can set up automatic deductions from their paychecks, too.

For larger companies with more complex processing needs, some payroll providers offer HR software systems that track employee benefits information in addition to regular payroll data.

## Filing taxes

Many payroll services offer the option of filing state and federal payroll taxes for your business. This can be a helpful feature considering the fact that the Internal Revenue Service has reported that one out of every three employers has been charged for a payroll mistake, with total penalties reaching into the billions of



dollars.

Typically, this payroll tax filing service is offered at little or no cost. This is because the provider will impound the tax due at the time paychecks are issued, earning interest on the funds until the money needs to be handed over to the government.

Be aware, though, that just because another company handles your payroll tax filing does not mean you can stop worrying about making sure the filings are timely and correct. While most services assume responsibility for penalties resulting from incorrect filing, your company may be liable for any interest charges. It's best to get these terms spelled out in writing from your payroll services provider to give you peace of mind.

Another thing to keep in mind is that your payroll service may not include calculating all state or city payroll taxes if you have employees in multiple states. Make sure to inquire about this if it is a significant issue for you.

## Choosing a payroll provider

There are several key points to consider when comparing payroll service providers:

- **Price.** Find out what's included in the basic services. The fees should be very clear. Payroll services are a competitive business, but maintain a 50-75% profit margin, so you may be able to negotiate for a better price.
- **Customer service.** You will need to communicate regularly with your payroll provider, so make sure they have qualified personnel available to work with you. It is best when a single payroll professional is assigned to work with your company. Speak with the customer service reps to verify their accessibility and knowledge.
- **Speed.** What turnaround time do they offer? If there are mistakes in your payroll, how quickly can they be corrected and re-issued?
- **Accuracy.** You are still liable for paying your employees correctly, even if you outsource the processing so find out what assurances they offer with regards to accuracy.
- **Ease of use.** Tracking and updating employee information should be easy and quick for maximum efficiency.
- **Qualifications.** Check that your payroll service is licensed and bonded to ensure your company will not be at risk for potential financial mishandling. Ask for references from current clients to gauge the quality of customer service and longevity.

## Relaying information



Each pay period, payroll data has to be submitted to the payroll service provider. While this used to be done via a phone call, fax, or modem, almost all data is now uploaded via a secure online web portal. Online provides you with a tailored service experience that is accessible from any computer. Once you enter your payroll information, it is fed directly to the payroll service provider. You can also access employee information, payroll reports, input employee hours, and even print checks.

Your tax filing can be handled electronically, as well. With the Electronic Federal Tax Payment System (EFTPS), your company transfers funds electronically to pay taxes due, rather than relying on checks. You will be required to pay taxes via EFTPS if your company has paid more than \$200,000 in federal taxes to the IRS within the past two years. If for example, your company owes over \$200,000 in taxes in 2012, then by January 2014, you must pay taxes electronically.

EFTPS is free to use and available to any business. However, you'll need to find out definitively if your payroll service provider files electronically and if paying payroll taxes through EFTPS is included in their standard

package. Ask your payroll services provider if they are an EFTPS batch provider for the IRS. Batch provider software is set up to give payroll service providers the ability to send taxes to the IRS through EFTPS for hundreds of companies at the same time. For more information, call EFTPS Customer Service Unit at (800) 945-8400 or (800) 555-4477.

## Payroll service pricing

The market for payroll services is competitive and reflects local market conditions. The cost for basic payroll processing service will depend on how often a company processes payroll, plus a base account fee. Services such as tax filing and delivery can increase costs each payroll period. Add-ons like direct deposit often carry a nominal per-check charge, as well.

A typical breakdown of costs would be as follows:

- Monthly paycheck - \$40 base fee + \$2.00/check
- Bi-weekly paycheck - \$25 base fee + \$1.75/check
- Weekly paycheck - \$12 base fee + \$1.50/check

Furthermore, there can be fees for quarterly reports, adding or dropping employees, adjusting employee information, year-end W-2s, or setting up your account. It's advisable to learn details about all these charges up front. Fees for various services can differ dramatically across payroll services, so it's important to understand which ones you want before signing up for a service. That way, you can ensure you are comparing the relevant pricing when evaluating different providers.

As with many other business services, the more you buy, the cheaper it gets. If your company has significant plans for expansion, find out when you will be eligible for volume discounts.

## Questions to ask

### Features

- What does your basic service include?
- What are your most popular add-on features? How much do they cost?
- How quickly can you re-run a payroll if there is a mistake?
- How long does the average client stay with you?
- Does the payroll services application integrate with accounting software (such as Quickbooks)?

### Customer service

- How long does the average client stay with you?
- Will my company be assigned a personal customer service rep?
- How accessible is a real human when I call for customer service?
- Can I get customer service via phone, email, web, or other means?

### Tax filing

- If I use your tax filing service, do you cover the penalties and/or interest charges?
- Do you provide filing assistance for local taxes?
- What is the cost to file taxes for multiple states?



## Charges

- What is the cost for your service for one year, including year-end W-2 forms?
- How long are these rates in effect? What rate increase should I expect after that?
- How much will it cost to set up our payroll account?
- If there are payroll data mistakes, how long will it take to reconcile the errors and what will it cost?

## Questions for references

- How responsive is the provider to your questions?
- Have you had any problems with accuracy? How did they help resolve the problem?
- Have you used another payroll service? If so, why did you switch?

## Buying tips

### Look for a stable provider

If a firm's only business is payroll, make sure to check the number of clients it supports. To ensure stability, a payroll service should ideally maintain at least several hundred clients.

### Observe customer service's demeanor

Not only do you want a payroll service provider who has accessible customer service, you want to deal with helpful representatives. If one of your employees has a concern with the amount on their paycheck you want a customer service rep who will be patient and "problem-solve" while explaining the numbers on the check.

### Watch prices over time

Do not be swayed by services that waive charges upon sign-up. Often rates go up or charges start accruing after six months to a year of service.

### Be wary of low fees

Watch out for providers that offer low base processing rates with expensive add-on features. Your total fees paid may wind up being more costly than those of a provider with slightly higher fees.

## Tips for transitioning between service providers

### Double-check the math when switching

Transitioning to a new payroll firm rarely occurs without glitches. Be especially thorough in reviewing the first paychecks issued through the service as well as the money paid to cover tax obligations.

### Transition at the end of a quarter

It isn't *totally* necessary to begin working with a new payroll services provider at the end of a quarter. However, it can be a cleaner changeover and a more efficient time to make the switch.