Is Outsourcing Payroll Right for You?

Payroll is an essential function for any employer, and there are many aspects to consider when making the decision whether to outsource or continue to use internal resources. This ebook will empower you to consider all your options and make a plan that is best for your business, employees, and growth strategy.

At first glance, payroll seems simple enough—run the hours, issue the check. But as you already know, that is not the full story. Management must now consider cybersecurity, protect employee data and bank account information for direct deposits, track stipends and reimbursements, and make sure tax withholdings are accurate and timely. There is so much to consider, which is likely why you've downloaded this ebook.

Businesses of all sizes are facing unprecedented changes, including reorganization, staffing, shifts to online sales, remote work, major fluctuations in revenue, and an ever-shifting market. You'll be better prepared to meet these changes and make a thoughtful decision about payroll management when you complete this ebook.

You should read this ebook if you are:

- ► A business owner considering payroll options.

- ► An HR manager looking for ways to free up time to focus on recruitment, strategic goals, or business growth.

- ► An employee managing payroll who wants to make a case to your manager that your time and talents could be redirected to more strategic activities.

- ► A CFO or CIO looking for ways to minimize risks to the company.

- ► A business leader who already outsources payroll but is considering switching vendors.

Table of Contents

What Is the Right Payroll Solution for You?

As remote work becomes common, businesses are especially vulnerable to security threats and scams. Your payroll staff needs extensive training to avoid scams that steal employee information and payroll data. Plus, employees working remotely may live in different states, requiring an understanding of tax and payment laws that vary from state to state.

These dependencies make your business vulnerable. Knowledge gaps from employee turnover, expensive technology requirements, and legal and compliance issues could expose you to penalties, fines, and time wasted on activities that are important but are not adding value to your core business.

When you process payroll in-house, you rely on staff who are knowledgeable about not only payroll but also related tax, compliance, and reporting requirements. You must also regularly invest in software, security, and technology updates to keep your data safe and your systems operational.

Outsourcing payroll might be a good fit if your company:

- ▶ Anticipates significant growth

- ▶ Experiences turnover in your HR or payroll department

- ▶ Employs workers living in different states

- ▶ Needs to invest in technology updates

- ▶ Requires HR team to focus on recruitment and hiring due to growth

- ▶ Shows interest in off-site data backups and greater confidentiality of employee wage information

- ▶ Wants employee self-service portal as transitions to remote work increase

- ▶ Prefers to put your payroll in the hands of experienced payroll professionals

What Do Payroll Services Offer?

These experienced professionals have the expertise and technology to manage a wide range of solutions for your business, including:

- Payroll processing

- Software integrations (accounting, time and attendance, HR resources)

- Time and attendance solutions, including a variety of time clocks

- Off-cycle payments

- Garnishment order payments

- Customized/detailed reports

- Paid time off management

- Staff scheduling

- W2s and reporting

- Mobile access for employees and managers

- Full tax filings and compliance at local, state, and federal levels

- Self-service onboarding

- Employee self-service

- Direct deposits

- Paper checks

- Prepaid debit cards

- Unemployment insurance

- Alerts to reduce errors

Payroll service providers offer access to dedicated experts who are highly trained and certified payroll and HR professionals at the ready to handle your company's payroll needs.

All that's left for your team to do is simply review, approve, and run payroll in a matter of minutes.

Some payroll companies also offer a menu of additional HR management tools and services that can save time and add value for your human resources department. Ask about the following services that can make your human resources department even more efficient:

- ▸ Recruitment and applicant tracking

- ▸ Onboarding

- ▸ Benefits administration (including Affordable Care Act compliance)

- ▸ Employee self-service website

- ▸ Robust electronic performance compliance

- ▸ HR compliance reporting (including EEO, OSHA)

Benefits of Outsourcing Payroll

When you process payroll in-house, chances are your business is totally responsible for the whole process, including the people and technology that make it all happen. When you outsource payroll, those resources can then support more strategic functions for your business, while your company enjoys benefits like saving time and money, even while increasing access to expertise and technology that may otherwise have been too expensive.

The major advantages of outsourcing payroll functions include:

SAVING MONEY

Outsourcing payroll tasks may help your business avoid costly mistakes and penalties. **Consider this: According to the IRS, companies were assessed almost $7 billion in penalties related to employment taxes in 2017.** Filing taxes correctly and on time is one way outsourcing payroll can save your business money. Another is that in-house systems require significant capital expenditure, and ongoing software maintenance can be as high as 25% of the original license fee per year. Outsource solutions have no capital investment requirements.

SAVING TIME

Processing payroll, paying taxes, running reports—these and other related payroll tasks may not be the most efficient use of your team's time. Plus, self-service

options allow employees to view their payroll information, enter their onboarding details, make requests for time off, and more. Shifting these responsibilities to a trusted payroll company can free up your staff to focus on more strategic work, so they can add even more value to the company. Consider the amount of time you can give back to your team in December and January by outsourcing W-2 mailings. When time is the most valuable around the holidays, there is no need for staff to work overtime stuffing envelopes.

ACCESS TO TECHNOLOGY AND TALENT

Did you know payroll service providers often face even greater scrutiny than your own business? High client expectations and a multitude of audits ensure that payroll services have the most experienced personnel and the most current software and processes for keeping your data safe and your payroll accurate. Plus, outsource solution providers go to elaborate lengths to have disaster recovery plans in place so that in case of natural disasters, the work goes on. Few in-house departments can afford such investments to ensure the people get paid no matter what happens.

For in-house solutions, software enhancements and upgrades cost money. For outsource solutions providers, you receive a continuous stream of enhancements at no extra charge.

TAX AND REGULATORY COMPLIANCE

Keeping up with changing regulations and reporting requirements isn't easy for human resources professionals who wear many hats. But for payroll services, staying abreast of this information is a must that's built into their operations. They'll stay on top of these details to ensure your business won't face financial or legal penalties for late payments or non-compliance. This includes complex tax regulations that are sometimes enacted retroactively.

HELP WHEN YOU NEED IT

When an HR or payroll employee gets sick or goes on vacation, it may be impossible to reach them when a problem arises. With a payroll company, however, someone knowledgeable about your business is available to answer questions and offer guidance any time you need help with a payroll matter. These dependable support team members are also highly trained experts in their fields and certified. Tax professionals and legal teams are always consulted to ensure the latest and best practices are followed.

Remember that if there is turnover in the payroll or HR department, you can always reach out to your solution provider to process payroll on your behalf until you replace the key personnel. If payroll is processed in-house, you have no one to turn to.

Because these systems operate in the cloud, your business can access its data anytime and anywhere—without having to install, maintain, or protect your own hardware and software.

Social Security numbers, addresses, wages, and bank account numbers are just some of the sensitive data you will find in a payroll department. Data breaches can be detrimental to your company's reputation and financial standing; small businesses, especially, may never recover. Staff at a payroll company receive training to spot phishing schemes and protect your data. A payroll company will also have internal controls and processes to defend against payroll fraud, such as removing terminated check signers from your authorized check-signer list, checks kept in a secure location, and strong firewalls—just to name a few.

Plus, your records are regularly backed up off-site, so your employees' wage information won't be lost in the event of a major data loss or hack. Fewer employees with access to payroll data lowers the chance that sensitive data will accidentally be revealed on a computer screen or shared printer. For instance, in-house systems give personnel in the IT department access to payroll data, so internal confidentiality may become compromised. Outsource solutions limits access to the payroll/HR departments exclusively, therefore blocking the info from every other department.

Consider that a payroll company is held to a much higher standard through audits and testing than any small or mid-sized business would be, so you gain exceptional expertise and protection. **Did you know that, in many cases, clients can use the payroll company's bank account for their payroll process? Save time on accounting and bank reconciliations, eliminate escheatment tasks, cut down on fraud, and protect your own account all at the same time.**

Getting Started: Checklist

Are you ready to consider outsourcing some or all of your payroll functions? Before you do, use this checklist to help you select the right outsourcing partner and make the conversion as smooth as possible. This checklist can also help you prioritize your needs and ensure you are comparing the companies based on the same criteria.

○ ### *Identify your stakeholders.*

Determine who will be affected and who should be part of the process for selecting a vendor and going through the conversion. Communicate with them early and often to solicit feedback and get buy-in.

○ ### *Determine your needs.*

If you anticipate company growth, consider your needs now, during future growth, and after the company has expanded. Don't partner with a vendor because you're excited about its bells and whistles. (They may not benefit you!) Instead, choose one that supports and enhances existing processes and anticipated needs. A service provider should have services that grow with you. Consider what tools you may need in the near future, such as seamlessly adding employee onboarding, so you don't have to transition to new software—just have your payroll provider turn on access to the new tools and services you need.

○ ### *Define your goals.*

What do you want to achieve by outsourcing? Aside from meeting your basic needs, what do you hope to gain from the relationship? Create a set of measurable outcomes you expect from outsourcing, then compare vendors against your stated needs and goals.

○ ### *Research vendors.*

Get to know as much as possible about your prospective vendors. You can do much of this research online through software review websites like G2.com and our list of questions on the next page can be your guide.

Build consensus.

Work with the leadership across departments and your current HR and accounting teams to make sure everyone is on the same page. Now is the time to calm worries, reassure staff that work isn't being outsourced in order to eliminate positions, and address concerns about making a shift in responsibilities. It can also help you catch problems with timing. For example, are you planning this transition at the exact time that another department is planning a major expansion or internal processes change? Working together to be sure everyone is on the same page regarding outsourcing and determining vendor finalists can create a smooth transition.

Select the best fit.

After researching and interviewing vendors, choose the one that knows your industry, has taken the time to understand your business and your goals, and displays true investment in your business.

Make time for onboarding.

You may have chosen a vendor, but your work isn't done! Many companies underestimate the time and effort involved in the first weeks of outsourcing a business function. Be sure to set aside enough time for the transition to get the process up and running.

Pause to evaluate.

Now that you've made the conversion, gather feedback from your stakeholders to gauge the effectiveness of the new process. Is it meeting your needs and achieving your stated goals? If not, talk to your vendor about areas for improvement.

What to Look for When Choosing a Payroll Company

Consider these questions when researching vendors online or in person. They'll help you narrow the field to find a provider that's the best fit for your needs and budget.

FEATURES

1. Does the system integrate with your accounting and other mission-critical software?

2. What features are included in the basic package?

3. What additional features are available?

4. How long do most customers stay with the provider?

5. Do you notice any trends in the vendor's online reviews (positive or negative)?

6. Will employees and contractors be able to access their own payroll information?

7. Can the service meet your needs as the business grows?

8. What software does the company easily integrate with? (Consider applicant tracking, timekeeping, etc.)

9. If you aren't currently using HR tools, might you want to in the future? If so, can they easily be activated with the payroll provider you're considering?

IMPLEMENTATION

1. How long does the implementation or onboarding process take?

2. Does the vendor work with you to set milestones, have regular meetings, and help you stay on course?

3. Does the vendor provide training or communications for employees who are affected but not on the implementation team?

4. Who handles which aspects of the conversion?

5. How long does it take to run the first payroll?

6. How does the vendor resolve issues or errors during and after implementation?

7. Do they offer an implementation team to provide complete support for your staff during the first few payroll runs after the full transition has been made?

SERVICE

1. Will your business have a dedicated service team?

2. How does the vendor provide customer service? (phone, chat, email, online tutorials)

3. How quickly can clients expect answers to their questions?

4. Is service available 24/7? If not, what are the service hours, and do they generally match your company's schedule, even for employees in different time zones?

5. Does the payroll company have experience working with other businesses in your industry and understand your unique needs? Employers in hospitality, restaurant, and healthcare, for example, have unique payroll and HR requirements, and it's important to ensure the vendor you select has the right industry experience.

DATA PROTECTION AND LEGAL COMPLIANCE

1. How often is client data backed up?

2. How does the company stay aware of the latest digital threats and train staff to spot phishing scams?

3. What protections are in place to keep information safe?

4. Where is the data center?

5. Has the service ever experienced an outage? How would that situation be handled?

6. How does the service keep up and remain in compliance with regulatory changes?

PRICES AND FEES

1. What is the basic annual fee, and how is it calculated?

2. What services are included in the basic fee?

3. Does the vendor charge an implementation fee?

4. Are there any scheduled price increases after implementation?

5. How many employees can be added under the current contract?

6. Is there a penalty for early termination of the contract?

QUESTIONS FOR REFERENCES

1. Have you worked with another payroll vendor? What made you switch to this provider?

2. How long have you outsourced payroll services through this vendor?

3. How responsive are they to your questions and concerns?

4. Have you experienced any problem with accuracy?

Outsourcing Myths

Chances are you've heard, and may even believe, some of these myths about outsourcing payroll. They're often why businesses keep their payroll in-house for far too long before realizing the benefits of outsourcing payroll functions.

MYTH 1 / It's too expensive.

Yes, there are costs involved, but they're often lower than clients expect. Plus, hiring a payroll company helps you stay compliant to avoid fines and fees while allowing your employees to move away from transactional work and toward strategic work. Consider the whole package of services, tools, expertise, and customer service that you'll gain when you work with a payroll service provider.

MYTH 2 / It will shrink our team.

Processing payroll is a cumbersome, time-consuming process. And it's only part of what your staff is doing! They're likely also spending valuable time on things like tracking who took time off, calculating overtime, onboarding new employees, and reviewing hourly workers' timesheets. Once the new payroll system is up and running, processing payroll and handling related tasks will be much simpler, and your team will be free to focus less on transactional work and more on core business functions. Your business can still benefit greatly from their time and talents, all while enjoying the benefit of having payroll professionals handling payroll responsibilities.

MYTH 3 / We'll give up control over the process.

Your team won't have to handle every aspect of running payroll, but you'll still be in charge of your own process. A payroll company is there to support your business, not to make sweeping changes. You'll benefit from the deep expertise that comes with years of experience working with thousands of businesses, and you'll still be in control of the process.

MYTH 4

It's too time-consuming & difficult to make the switch.

When you choose the right partner, this shouldn't be an issue. They handle implementations all the time and will get to know your people and processes before getting started. The payroll company will let you know what information and files they need—and they'll do the heavy lifting as you transition from in-house to outsourced payroll. Plus, if you have a dedicated service team, you'll work with a customer service representative who knows your business and is available to answer your questions anytime.

MYTH 5 / We're not big enough (or too big) to outsource.

First, payroll companies can work with companies of any size—even a business with a single employee! Any business can benefit from having a partner available to answer questions and ensure proper withholding of taxes and timely filing and payment of payroll taxes, even if they don't need a full suite of services. Secondly, if growth is in your strategic plans, then partnering with a payroll company early on can make scaling your business—and growing your payroll process along with it—a much smoother process. Companies with thousands of employees may assume their payroll needs are too complex to benefit from outsourcing, but this is not the case. All the benefits listed in this guide can also help large companies streamline and save.

MYTH 6 / The transition has to happen at the start of a quarter.

Actually, you can choose to make the switch at any time that feels right for your business because there's no requirement to make the change at a certain time of year. Your payroll service will work with you to make the transition at a time that best suits your needs—whether at the beginning of a quarter or in the middle of a month.

Congratulations!

You've completed the first step toward making the smart transition to outsource your payroll, protect your employees' data, lower your costs, and give your staff the time to focus on strategic tasks that support your company's core business.

Inova offers smart online payroll and tax filing solutions to businesses nationwide. When you choose Inova, your business will enjoy friendly, helpful, timely support that ensures you are getting the service and resources you need. Inova is ready to answer all the tough questions! Contact us, and we'll help you further analyze the best payroll solution for you. We'll help you learn more about our cloud-based payroll solutions for companies large and small in a no-pressure environment.

Inova Payroll started out as a small, Nashville-based company determined to bring the highest-quality customer service and a boutique approach to an industry of big players. That same approach continues to serve our clients well, even as we've grown into a nationwide company. In 2020, we earned a spot on the Inc. 5000 list of fastest-growing companies in the United States for the fifth consecutive year and expanded into two new states. Today with nine offices and clients in every state, Inova is among the largest privately-held payroll companies in the U.S.