



In-House or Outsourced Payroll

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In-House Payroll or Outsourced Payroll? Questions to Ask Before Deciding

Deciding whether to process payroll in-house or outsource to a payroll provider is a big decision. The choice can cost tens of thousands of dollars. With such a big decision, there are a lot of questions you need to ask yourself before finalizing your choice. To help with the decision-making process, this whitepaper addresses the top questions you should ask yourself before choosing whether to go with in-house payroll or outsourced payroll.

How much control do you want over the pay process?

If you're looking for control over the aspects of your payroll like its timing, and the flexibility to make changes more easily, then in-house payroll may be your best option. With in-house payroll, you have greater control over each aspect of the pay process, giving you the most flexibility. It can also be much cheaper and easier to make updates, changes, and adjustments when they are needed. If you have collective bargaining agreements or other rules that change frequently, in-house payroll may be preferable.

On the other hand, by outsourcing payroll, you give up some control over the payroll process but you no longer have to worry about doing the payroll process. Some of the steps, like gathering time and absence information, would likely need performing. And you will still need to double check information before you send it off, and checks after processing, as last minute changes or adjustments may be harder to do with outsourced payroll.

How frequently do your employees get paid? Do different groups of employees get paid at different intervals?

Paying people at different intervals such as bi-weekly, weekly and monthly, means frequently sending batches of pay to a third-party for processing. If you have multiple groups of employees who need to be paid at different intervals, it can be easier to use an in-house payroll solution instead. If you have only one pay cycle to administer, then outsourcing becomes less complex.

How often do you have to give out last minute pay checks and changes? Process off-cycle payments?

Maintaining payroll in-house gives you the ability to quickly process a last-minute paycheck or, make an off-cycle payment. When outsourcing payroll, last minute pay may not be processed in time or it may cost you more to be expedited.

Additionally, with outsourced payroll you usually pay per pay check so each additional off-cycle or last minute payment will cost you more. With an in-house payroll solution, you usually pay a license fee based on the number of employees every year. This means you can process as many additional last minute and off-cycle payments without paying more or running the risk of being unable to deliver them on time.

How complicated is your payroll?

How many...

- Benefits and deductions
- Time codes
- Earning codes
- Allowances

Does your company have?

If your organization has complicated payroll, processing data before creating payments is your largest and most complicated step in the payroll process. For many companies, they must do all the gross earnings or the gross to net calculations themselves, before submitting final payment amounts to their payroll service bureau. If you are in this situation of processing most of the data yourself before handing it over to a third party, an in-house payroll system could save you money without increasing workload much beyond what you have now.

Software solutions like Scissortail HCM and Sage HRMS provide detailed checks and balances for each step of the payroll process from importing time records to closing the pay period. This helps to ensure there is no missing data and it complies with your rules and regulations. An additional benefit is that you have full control over your own payroll data, so if you need to write a new report or query to perform payroll checks, you can do this without having to pay anything additional to access your own transaction and setup history.

Is there someone on your team with a good understanding of payroll and statutory reporting?

Even with a powerful payroll system with smart checks and balances, you still need to have someone with an understanding of payroll who can uncover potential errors. Keeping track of legislative updates, bargaining agreement interpretation, and monitoring compliance is a specialized job function. Depending on the skill mix of your staff, this could have an impact on which option makes the most sense for your organization.

If you don't have someone in your company with these skills and your payroll is fairly straight-forward, then outsourcing may be a better option. If you have a skilled and experienced payroll team, then in-house payroll processing becomes easier.

How many accounts do you need to update on the general ledger?

With in-house solutions like Scissortail HCM and Sage HRMS that are integrated with a full financial system, payroll can post transactions directly to the general ledger and the accounts payable in seconds. If you have a high volume of ledger accounts, or complex postings requirements such as splitting the cost of an employee's pay between two projects, an in-house solution can usually do that more easily than outsourcing payroll to a bureau.

Do you want a record of all payroll transactions and changes made?

For some industries and organizations, being able to audit changes to payroll information is a number one priority. To assist with the auditing process, in-house solutions generally provide you with a record of all the data field changes made and by whom. This may be available through your payroll service bureau as a report, but sometimes it is not. You will also likely have to pay additional amounts each time this or other reports are requested from your bureau.

When making the decision to outsource payroll or keep it in-house, it also depends how you view payroll. Payroll can be an integrated value-added process to your company, proving valuable and actionable insight on your workforce. By keeping payroll in-house, you not only gain flexibility in the process, but valuable data that can be leveraged to improve your business. However, by outsourcing payroll, the process can be simplified by handing it to someone else to process.

Why choose in-house payroll?

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

- 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.

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.

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. Huge enterprises can 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 must 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?

When you own your payroll software, you also own your payroll database and all your employees' history. 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.

Common misconceptions with outsourced payroll

The hassle of tax compliance is one of the reasons that some small to midsized 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 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. 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.

Comparison Matrix

	In-house Payroll	Outsourced Payroll
Client collects and compiles payroll data	✓	✓
Client has tax compliance responsibility	✓	✓
eFiling of Payroll taxes, W-2, ACA, 1099	✓	✓
Employee Self Service	✓	✓
Control over timing, processes and costs	✓	
Ability to customize systems and reporting	✓	
Security of data	✓	
Integration between HR, payroll and financial systems	✓	
Access to your organization's payroll data	✓	
Direct deposits processed on client's behalf		✓
Check printing and distribution on client's behalf		✓

Summary

If you want greater control over the payroll process, better payroll accuracy, more flexibility to react to last-minute changes, on-demand access to payroll information and history, powerful reporting and analysis, strong data security capabilities, internal control over tax compliance, and increased efficiency due to integration between systems, then you should go with an in-house payroll solution.