

IN-HOUSE Vs OUTSOURCED PAYROLL PROCESSING

AN ANALYSIS OF THE PROS & CONS

Payroll processing is an integral part of running every business if it has employees. Whether you are the business owner or a CPA firm, it is important to make the right choice; whether to process payroll in-house or outsource it.

In this paper, we analyze the two options to help you make the right choice. Your right choice is unique to your business and should be based on its unique industry, degree of complexity and other internal requirements.

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Introduction

The decision to outsource payroll or process it in-house should be well thought out.

Your company's payroll is probably the largest expense in your budget. Therefore, payroll accuracy and compliance are of paramount importance. An error in calculating employee paychecks or tax payments can result in a bad impression with your employees or even fines and penalties from government agencies.

Chances are that you are most likely familiar with the terms "in-house payroll" and "outsourced payroll services". For those who might not be familiar with these terms, I will very briefly explain the difference between the two.

In-house payroll is the arrangement where an organization utilizes a payroll application installed and hosted locally on a private cloud server. Such applications are usually leased from bigger software development companies which are also responsible for tax and security updates.

On the other hand, outsourced payroll is an arrangement where an organization utilizes a payroll bureau's software, whether cloud based or on the bureau's premises. The bureau processes payroll, provides paychecks and direct deposits, remits taxes to the respective tax agencies and files the respective tax returns.

Factors to Consider

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- ✓ Data Flexibility & Security
- ✓ Access to Payroll Information
- ✓ Tax Compliance & Electronic Services
- ✓ Overall Cost

1. Data Flexibility and Security

Information security is probably one of the most important factors to consider when deciding between in-house and outsourced payroll processing. Most companies consider data housed in their servers as more secure than cloud servers, and for good reason.

In-house payroll also offers data control over outsourced payroll. The ability to export data in the most basic format and being able to manipulate it into reports can be very attractive to many companies. Furthermore, in-house systems offer the ability to make last minute changes to payroll, something most outsourced systems are not be able to offer.

Most organizations that choose in-house payroll have the advantage of applying existing payroll processes and procedures. This can ultimately save them time and reduce the headache of learning new systems and processes.

On the flip side, outsourced payroll can easily be a better option for an organization if the above outlined factors can be affordably overcome. For instance, in-house servers can be easily compromised as much as bureau

servers. In fact, bureau servers are mostly hosted by some of the best cloud companies such as Amazon AWS, Google Cloud, and Rackspace just to mention a few.

Most modern bureaus allow their payroll customers to export data into common file formats such as excel and csv. They also provide Business Intelligence (BI) features and the ability to create custom reports.

In terms of payroll processes, outsourced payroll usually comes as a package which includes the actual payroll processing, direct deposit, payroll tax payments, and payroll tax filing. Only the internal processes of time collection and submission to the bureau or entering into the bureau's web-based system) are the company's tasks. In fact, most bureaus also provide time keeping solutions as an add-on, eliminating manual time entry into the payroll system.

Flexibility can be arguably a major factor, but most bureau payroll applications are built with a wide range of scenarios in mind. This is because they are built to accommodate a wide range of requirements which are sourced from thousands of clients. The beauty of it is that such flexibility features can be enabled on an as needed basis per organization.

2. Access to Payroll Information

The most important aspect of information access to consider here is that of Employee Self Service (ESS). It is important to have access to all employee data internally by payroll administrators. More importantly, having the ability to provide employee information and control the level of access can be a make it or break it factor.

ESS ultimately reduces the number of calls to the HR department and increases employee trust and satisfaction. Nothing beats a happy employee in the work place. Overall, this results in increased productivity and less transaction costs.

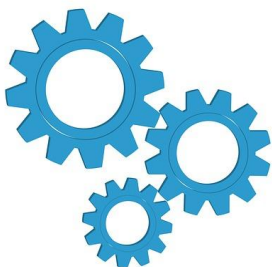
While in-house payroll provides this level of information access without barriers, modern bureau software has caught up and provides comparable or even better control over what employees have access to.

There is a high chance that outsourcing payroll will provide you with the ability to manage employee on-boarding features from the application process to employment paperwork to termination. While evaluating your options, you may want to find out if a fully integrated HR is available with payroll processing if utilizing an outsourcing company.

3. Tax Compliance & Electronic Services

Besides paycheck accuracy and timeliness, tax compliance is hands down the second most important aspect of the payroll process. When you process your payroll in-house, you are in charge of ensuring that taxes are remitted accurately and timely to the respective government agencies.

You are also responsible for ensuring the filing of quarterly and annual tax returns, W-2s, and 1099s. This is a crucial role and if the relevant tools and processes are in place and you complete them as required, it provides a great sense of relief and peace of mind.



One more aspect of compliance is producing live paychecks or direct deposit files and distributing those in a timely fashion. Most employees love to receive their duly earned pay into their bank on pay day.

Outsourced payroll on the other hand has some very obvious benefits that many organizations would find more attractive than those of in-house payroll. Tax payments and quarterly filing for example can be daunting exercises for many people.

Timely payroll processing, accurate and expertly printed pay checks, and employee direct deposit are some of the basics of outsourced payroll. Direct deposit using an in-house system can be a tricky affair and should be handled with care.

Instead of dealing with all these strict overly compliance sensitive aspects of payroll, many organizations choose outsourced payroll over in-house processing. The risks are too much to bear and best left to the experts to handle.

4. Overall Cost

Over the long term, in-house payroll may be cheaper depending on many factors such as the initial software cost and elimination of other costs such as compliance fines and penalties. If your organization can quantify the costs and minimize fines and penalties, in-house payroll could be a big money saver and should be your first choice.

If the initial cost of software and implementation, ongoing maintenance fees and fines, and penalties far outweigh the mostly flat and predictable outsourced payroll fees, you may be better off outsourcing your payroll.

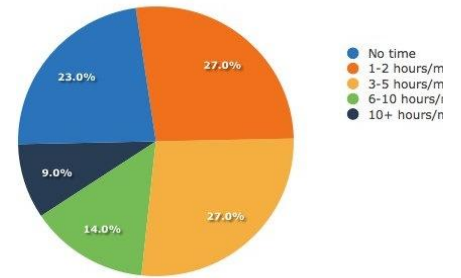
Conclusion

Payroll processing is such an important process in any organization that how you do it should be evaluated carefully in order to make the right choice. Each business is different and should make this important decision based on weights allocated to all factors considered in this paper.

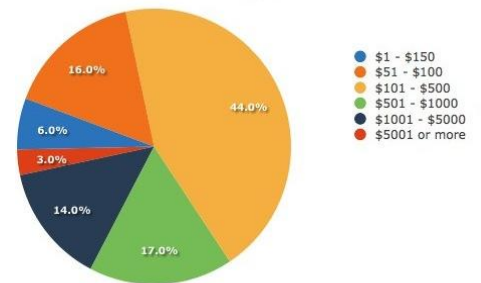
Making the right decision whether to opt for in-house payroll or outsource it can pose some major challenges. Most decision makers are influenced to choose one over the other by friends or business partners or simply by their general knowledge of the two options. Hearing of one organization's decision alone is not enough to validate your selection.

To be most effective in the decision making I would suggest creating an excel spread sheet such as the one below and allocating points of importance/weights to each consideration factor. Use a scale of 1-10 and tally them at the bottom to help you make the right decision.

Time Spent on Internal Payroll per Month



Money Spent on Outsourced Payroll Per Month



Decision Making Exercise

Consideration Factor	In-House	Outsourced
Data and Security Control		
1. Data Security		
2. Data Control		
3. Existing Processes and Procedures		
4. Time Savings		
Better Access Without Barriers		
1. Employee Self Service		
2. Application Tracking & Onboarding		
3. Greater Employee Satisfaction		
4. Integrated HR		
Tax Compliance and Electronic Services		
1. Payroll Accuracy and Timeliness		
2. Involvement with Direct Deposit		
3. Responsibility for Tax payments		
4. Responsibility for Quarterly and Annual Tax Filing		
Overall Payroll Cost		
1. Initial Cost of Implementation		
2. Ongoing Support and Maintenance Costs		
3. Costs Caused by Errors		
TOTAL POINTS		

Use a scale of 1-10 on the consideration factors. Tally the points at the bottom of the table. Based on the score, you should be able to easily decide whether to outsource or process in-house.

Take the time to evaluate and compare these two options and make a decision that serves your organization's needs the best.

The effort required in setting up payroll is prohibitive and costly, hence the magnified importance to make the right decision.

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About AccuPay

AccuPay (dba AccuPay Systems) is a payroll bureau based in Irvine, California. AccuPay was the payroll tax filing engine (AccuPay Systems) and business arm established and owned by CCH in the mid 1980s.

As a result of restructuring and business focus realignment, AccuPay was spun off in 1992 and immediately sold to two of CCH's employees to become what we call AccuPay Systems today.

Today, AccuPay is one of California's leading payroll bureaus serving the small and medium sized business community. Our focus is businesses with 1 to 150 employees within the 50 states of the United States.

Our business model is primarily focused on helping CPA firms, Accountants, and Insurance agencies to offer affordable full service payroll processing to their clients. We believe in making payroll easy and affordable to businesses that deal with us directly and accounting professionals so they can focus on growing their business.