



# How to Decide if Outsourcing Payroll is Right for Your Business



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## Introduction

Payroll is a key driver of your business, so it's important to get it right. Organizations with proper payroll processes in place are free to thrive, while companies with flawed payroll systems can be susceptible to significant legal risks, fines, and employee relations issues.

However, payroll and regulations are extremely complex. With payroll rules and regulations constantly changing, it's almost impossible for the average business to keep up.

There are upwards of 10,000 federal, state, and local tax regulations that affect the way employers process payroll. And failing to follow these properly can result in large fines from the IRS. According to the IRS, more than 1.8 million tax returns were audited in 2016 for businesses with income between \$200,000 and \$1 million. In 2016, 978,564 businesses of all sizes were assessed civil penalties.

Growing businesses want to avoid these potential risks but find it nearly impossible to keep up with the wide range of laws pertaining to employment. This is why more and more businesses are turning to outsourced payroll providers to bridge this gap in expertise. Recent research by Robert Half indicates that 39% of U.S. companies outsource payroll processing.

There are three core reasons that business opt to outsource payroll:

- Save time (time that can then be used to focus on growing your business)
- Gain access to the technology and expertise to perform payroll well

- Reduce costs and risks associated with failing to follow tax and employment regulations

Ultimately, as your business evolves and grows, your team will become larger and your payroll processes will become increasingly complex. As an employer, you're expected to understand and all hour, wage, and employment laws. Mistakes in these key areas can lead to audits and penalties, something a growing business simply doesn't need.

For many growing businesses, outsourcing payroll prevents a good opportunity to streamline operations and reduce risk. However, each company must decide if working with a payroll partner is right for them. We put together this guide to help you explore the pros and cons of outsourcing payroll, so you can make an informed decision about how to handle your business's payroll.

In this guide you will learn:

- Advantages of outsourcing payroll
- Disadvantages of outsourcing payroll
- What to look for in a payroll provider
- Why leverage a payroll provider's HRIS
- Questions to ask a potential payroll provider



# Advantages of outsourcing payroll



- **Time savings:** payroll is a time-consuming process. From keeping track of benefits deductions, wage garnishments, new hires, terminations, PTO, and state and federal regulations can be challenging. Outsourcing payroll allows you and your team to focus on core business functions that drive revenue and help you grow.

- **Reduced risk:** Penalties for errors, omissions, or late payroll tax filings can be very costly. The IRS estimates that 40% of small businesses pay annual penalties for incorrect filings. Beyond tax risks, your organization must also comply with all state and federal wage and employment laws. Failure to comply with these laws can lead to audits and fines. However, working with a payroll provider can ensure that your business has all compliance bases covered. This will give you the peace of mind knowing your business won't be susceptible to these risks and fines.

- **Access to experts:** as your business continues to grow, you'll have to comply with more and more state and federal regulations. Have a team of HR and compliance experts by your side to help you navigate these complex changes can be invaluable for your organization.

- **Data security:** payroll providers use secure online portals to store and protect your employees' sensitive information.

- **Reduced costs:** for many small-to-mid-sized businesses, completing payroll in-house can be a money burner. Of course, actual cost is company-specific, but you can calculate how much time your team currently spends calculating payroll, preparing w-2's, onboarding new-hires, producing reports for accounting, etc. Paying a salaried team member (or doing it yourself) can end up costing your organization a lot more than working with an outsourced provider. For most growing businesses, working with a payroll provider is a cost-effective option.



# Disadvantages of Outsourcing Payroll



While outsourcing payroll to payroll experts affords your organization many benefits, there can be some potential drawbacks.

- **Difficulty obtaining employee data:** For your payroll provider to process employees, they'll need W-4s and direct deposit information. Tracking down and collecting physical documentation of these assets can be challenging. However, some payroll providers operate entirely digitally. If your payroll provider offers a system where employees can upload their own information, this can eliminate these challenges.
- **Delayed corrections:** When working with an outsourced payroll provider it can sometimes take longer to fix payroll errors. However, if your provider leverages proactive communication which includes a review and editing processes then this can help significantly reduce the number of potential errors.
- **Cost:** There will be an added cost to your business for outsourcing payroll. To determine if outsourced payroll is a cost-effective solution for your business, you should aim to quantify the current costs associated with your payroll practices. In most cases, outsourced payroll ultimately ends up being cheaper than an in-house team member handling it.





## What to Look for in a Payroll Provider

### **Experience Serving Businesses Like Yours**

Research if the payroll provider has worked with organizations of an industry or size like yours. Explore their website for customer stories and ask for case studies about the value they've provided clients. Does the payroll provider have a strong track record of serving businesses your size? Is the provider experienced in your industry?

### **Additional Resources & Complimentary Adds-on**

Some payroll providers go above and beyond to extend additional value to their clients. These add-ons might include guidance on HR best-practices, access to employee handbook and policy templates, or support for safety compliance.

### **Other Service Offerings**

When looking at a payroll provider, consider the other products and services they offer and how those align with your future plans. As you grow, you'll require additional support in scaling your human resource practices. Does your payroll provider offer additional services such as human resources consulting, technology, employee benefits, or worker's compensation coverage?

### **Regulatory Compliance Capabilities**

Is the potential payroll provider up-to-date on changing laws, compliance regulations, health care considerations, and tax rules? Are they a thought-leader in the space? You should aim to establish a clear track record of your payroll provider helping their customers meet federal and state

compliance regulations.

### **Technology**

You should evaluate and determine the quality of payroll technology your potential provider leverages. Consider if they use modern technology and have the technology infrastructure to support your organization as you grow.

### **Accountant Interfaces & Integrations**

Consider how easily your team can retrieve necessary payroll records for tax and reconciliation purposes.

### **Service Level**

You should aim to understand the level of service your payroll partner provides. Will you have a dedicated account manager you can call anytime with questions? Or will you be left with an automated inbox or queue without answers? Payroll is a complex, essential component of your business. Having a high level of service is important.

### **Stability**

When it comes to finding a payroll provider, stability is essential. You should determine how many years a potential provider has been in business. Also, consider how many clients they have and the caliber of their client portfolio.

### **Scalability**

Ultimately, your goal is to grow your company. Therefore, you shouldn't pick a payroll provider





## What to Look for in a Payroll Provider (continued)

whose infrastructure cannot support your growth. Instead, you should select a provider that offers robust solutions that can integrate time and attendance, retirement plans, and benefits administration as you grow.

### **Scope of Services**

Your payroll provider should provide the highest level of service, freeing up your time to focus on other more important tasks. Some payroll providers expect the client to onboard new-hires, track time and attendance, and handle other administrative tasks. In an ideal scenario, your payroll provider should be taking on your entire payroll process, end-to-end.

### **Implementation & Onboarding**

Uncover the process the potential payroll provider will use to get your organization onto their system. They should provide a quick, seamless transition to avoid interruptions to your employees.

### **Partners & Integration**

You should ensure that your payroll provider's systems will seamlessly integrate into your team's existing workflows.





## The Importance of HRIS

An additional value-add of working with an outsourced payroll provider is gaining access to their Human Resource Information System (HRIS). An HRIS system allows employers to easily provide their employees access to online statements and direct deposit. In today's market, many job seekers expect an employer to provide these. An HRIS system can provide your employees several benefits including:

- Online benefits enrollment
- Review benefits information
- Review checks
- Update information
- Access corporate documents

Beyond the benefits it affords your employees, HRIS helps create a centralized hub for all your team's sensitive information. This means better organization and better security for your business. Some additional benefits employers can get from a HIRS include:

- View invoices and payroll reports
- View and update employee information
- Digitally onboard new hires
- Collect time-off information
- Offer online benefits enrollment
- Total compensation reports
- Upload an employee handbook and other files

While you may not have the resources or manpower to administrate your own HRIS, leveraging a payroll partner's system is a great option.





# How to Choose a Payroll Provider



Questions to ask a payroll provider you're considering:

- How long have you been in business?
- How do I know you are paying all payroll taxes?
- How much of the responsibility of payroll processing do you handle?
- How secure is the information?
- Can I call and talk to a real person without going into a queue for several minutes?
- If there are corrections on the payroll, how long will it take to make the correction?
- What technology platform do you use and how reliable is it?
- What are your fees for processing payroll?



## Key Takeaways



Payroll is a complex, constantly changing function that many small teams struggle to manage. If your organization is spending too many resources managing your payroll in-house, outsourcing payroll can be a great option. In today's guide, we covered the pros and cons of outsourcing payroll, how to leverage HRIS technology, and how to vet a potential payroll partner. Some key takeaways are:

- Outsourcing payroll affords many benefits including saved time, reduced risk, and cost-savings
- Working with a payroll provider can help you leverage modern HRIS software
- When considering a payroll provider, there are several factors to look out for including service level, technology, proven track record, and more

# Discover Your Trusted Payroll Partner

Launchways' payroll specialists leverage scalable technology to manage your payroll process. Unlike other payroll administrators that require the employer to handle new-hire onboarding, Launchways' team manages your entire payroll end-to-end. Our process ensures you can stop worrying about payroll and focus on growing your business.



**Focus on growing  
your business, not on  
managing payroll**

Speak with a team member today to learn more about how Launchways can become your trusted payroll partner.

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