Sage 100 ERP | White Paper

Stay in Control: The benefits of in-house payroll software

How in-house payroll systems deliver long-term control and flexibility over the payroll process

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Introduction

Paying employees is a mission-critical duty for any organization. You have to process paychecks and direct deposits correctly on time, every time. Payroll is one of your company's largest expenses, and payroll mistakes can have a negative impact on employee satisfaction. The accuracy of your payroll affects your company's compliance with local, state, and federal regulations. Inadequate record-keeping can expose your company to employee litigation or tax fines and penalties.

To benefit from a smooth payroll process, you need a reliable plan supported with the right tools. Today, businesses have several options for processing payroll. You can rely on in-house payroll software, outsource to a payroll service, or blend both strategies by processing your payroll in-house but outsourcing your tax filing and payments.

You've probably read a lot about payroll outsourcing, but you might not know as much about the value of in-house payroll. In this guide, we'll show you the other side of the story by discussing the benefits of integrated, in-house payroll software. You'll find comparisons of how in-house payroll software stacks up against outsourcing in terms of:

- Cost and personnel requirements.
- Compliance with tax regulations and other laws.
- Control over data security and accuracy.
- Organizational efficiency.
- Control over the scheduling of your payroll.

Why choose in-house payroll?

According to the American Payroll Association, more than half of companies produce payroll completely in-house.[1] 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 small to midsized businesses, processing payroll in-house can offer a number of important benefits, including:

- Accurate, timely payroll with a solid return on investment (ROI).
- Total control over payroll processing, including check printing, reporting, and forms, as well as managing direct deposits and payroll taxes
- 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.
- Fewer employee requests and questions through integration with self-service software that allows employees to access their own paycheck data easily.

Finally, for Sage HRMS customers, there are additional benefits to choosing in-house payroll processing with Sage HRMS Payroll. Integration with Sage HRMS, Sage ESS, and potentially your accounting and timekeeping systems will greatly reduce the amount of data entry necessary to process payroll. Eliminating the need for data reentry from one system to another lowers the risk of errors and improves data accuracy.

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"With Sage 100 ERP we can do payroll and accounts payable in half the time it took us before, and we have usable, real-time data."

Mary Erlenmeyer, accountant, Raleigh Racquet Club

Questions to ask when considering outsourcing or in-house payroll:

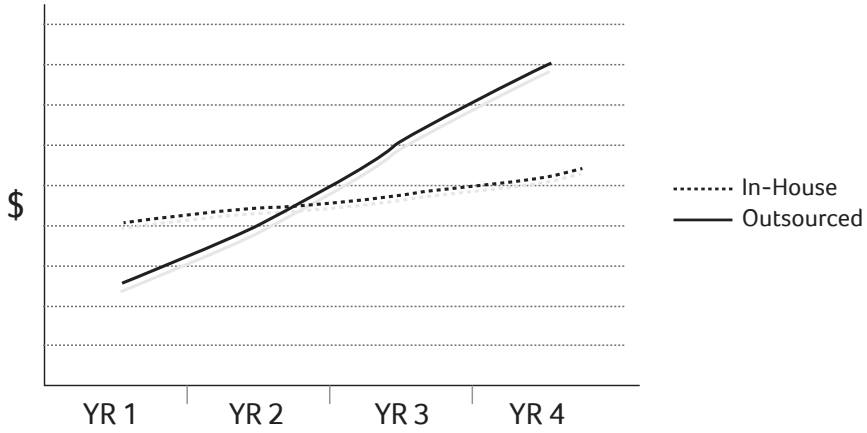
- Which method will cost less this year? Over the long term?
- How can you ensure proper tax filings and payments?
- How much control do you want over the payroll process?
- How often do you process payroll?
- How complex is your payroll?
- How often do you have to create last-minute paychecks?

Does in-house payroll cost more than outsourcing?

Do small and midsized companies save money by outsourcing payroll? Nearly half of companies surveyed cite difficulty in proving the cost benefit as a key barrier to outsourcing.[2] The following examines what types of costs are associated with in-house and outsourced payroll.

Commercial in-house software typically involves a one-time software license purchase, as well as an annual support contract for software enhancements, tax table updates, and technical support. Payroll software requires a larger front-end expense for the software license, but the costs drop dramatically in the second year of ownership and beyond. Many software companies, including Sage, offer flexible payment terms that enable you to structure a purchase of in-house payroll software so that you spread payments out over a fixed timeframe.

In contrast, outsourcing expenses stay the same each year and could possibly increase. Basic payroll processing services usually cost about $2 per check, plus a base account fee.[3] The base fee depends on a number of factors, including how often you issue paychecks and how many employees your company has on the payroll. Additional services, such as W-2 printing or 1099 mailing can increase the cost of each payroll substantially. Because you never own the ability to create your own payroll, the expenses simply compound every year.



In addition to the fees charged to customers, payroll processing companies earn revenues using the money paid by their customers for payroll taxes. Outsource providers collect and hold tax payments in interest-bearing accounts and then submit the payments to local, state, and federal agencies at the last possible moment. The interest they collect in the interim days is known as "float," which represents a significant portion of most payroll providers' profits. Your company could earn and invest this interest if you kept the process in-house.

Return-on-investment studies show savings for in-house payroll

After studying many outsourced and in-house HR services, CedarCrestone Consulting made observations about the costs of each method in the 2008-2009 HR Technology Survey. The authors noted that:

> "Payroll administration run in-house is 37% lower than when provided by an outsourced provider. As this solution is often added to the application offerings of the core HRMS solution, these lower costs may reflect an overall lower total cost of ownership with in-house resources being able to deploy this application rapidly as they already have expertise in the chosen platform."[4]

Sage has also conducted studies concerning the return on investment (ROI) of Sage Payroll versus outsourced payroll services. For a company with 150 employees that issues paychecks every other week, in-house Sage 100 ERP Payroll solutions could save nearly $10,000 compared to outsourcing over the course of three years. In this scenario, the software pays for itself in just 19 months.

The ROI your company could achieve depends on the number of times per year you issue paychecks, your number of employees, and a few other factors. For a customized ROI estimate, it's best to consult with your Sage 100 ERP business partner, or to call Sage at 800-424-9392.

Many executives think they can try outsourcing for a short time and then quickly return to their old payroll methods if the cost savings aren't realized. But that isn't what really happens–the more time that passes, the harder it becomes to bring a process back in-house. That means that the decision you make today needs to take into account your long-term plans and the potential consequences.

What about tax compliance?

Staying up to date with changing tax regulations and filing taxes in a timely manner are important parts of the payroll process. This is a particularly burdensome task for most payroll professionals. Tax tables and regulations are ever-changing, and you can't make any mistakes. An error or a missed deadline can incur expensive fines and penalties for your company.

In addition to ensuring that standard and supplemental tax tables are updated regularly, tax compliance also requires the filing of tax returns and making tax payments, as well as management of pretax deductions, electronic media reporting through the Electronic Federal Tax Payment System (EFTPS), and tracking liabilities and tax deposits for federal, state, and local taxes.

The hassle of tax compliance is one of the reasons that some small to midsized businesses decide to outsource payroll. Outsourcing can certainly help you maintain payroll tax compliance, but it doesn't eliminate your compliance responsibilities. In order to make timely tax payments and filings on your company's behalf, you must supply your provider 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.

Using a payroll outsourcer will not necessarily absolve your company from liability for noncompliance with payroll taxes. If your payroll service makes a mistake in processing payroll or filing and submitting your payroll taxes, the provider will generally pay resulting fines. However, 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.

If the idea of processing payroll in-house appeals to you in many ways but you'd prefer to mitigate tax compliance risks, consider in-house payroll with outsourced tax filing. This combination allows you to outsource specific functions, including federal, state, and local tax filings, SDI and SUI filing, electronic and manual funds transfers, W-2 and 1099 printing and

delivery, and W-2 electronic filing to the Social Security Administration. Sage 100 ERP offers several options, Payroll and Direct Deposit modules and pay-as-you-use eFiling features, and Sage HRMS. These two options offer you many benefits.

Sage ERP Payroll makes it easy to manage compliance internally by offering automatic tax table updates, support of EFTPS, and alerts that remind you of important due dates as part of the software support package. The Sage Business Care staff includes experienced payroll professionals to ensure that you get fast, accurate answers to all of your payroll questions. Additionally, Sage offers comprehensive payroll training to help you use Sage ERP Payroll most effectively. Sage also offers an optional tax filing service, if you would prefer to outsource this aspect of your payroll duties. With Sage HRMS, you always have the support and services you need to stay in compliance with payroll taxes and filings.

In-house payroll puts you in control

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. Employee salary and benefits information is sensitive and needs to be handled securely and privately.

Sending payroll information electronically to an outside payroll service may pose an unnecessary risk to your company's data security. In-house payroll systems provide security features such as password access and the ability to store information on your own internal hardware so that it is protected by your internal IT security assets such as firewalls.

Outsourced payroll services tend to be less flexible than in-house software, because they rely on standardized processes that are designed for a high volume of transactions. Customers must adapt to these processes in order to use the service. If your organization tracks a variety of pay rates, shift differentials, overtime, pay cycles, and other variations, an in-house system may be a better solution for you.

In-house payroll software places all the control within your company. It's flexible enough to cut special on-demand checks at the last minute. It enables you to run trial payrolls to make sure everything is correct.

A payroll software system stores all of the data you need to produce comprehensive, customizable reporting and analysis, so you can perform compensation planning and analysis. It also centralizes the data you will need for compliance with government mandates and provides record-keeping for proactive defense against any employee litigation that involves compensation.

Your company can customize in-house payroll software to match your corporate processes exactly. For example, in-house software can process paycheck stubs that need to include the names of time-off plans or medical benefits. You can also customize your general ledger account numbers to better meet the needs of your accounting system, track secondary jobs, and create templates to import and export information from other databases.

System integration improves productivity

To enjoy the biggest time savings, it's important that your payroll information flows smoothly back and forth across all areas of your system, from General Ledger, Payroll, Accounts Payable, and other parts of your system. This minimizes the amount of manual data entry or importing and exporting of files that you have to perform.

Sage 100 ERP

"Ten years ago, we had two people processing payroll of $1 million a year. When we switched to Sage 100 ERP, we had three people doing about $6 million a year. Now we have three people processing $1 million every month. That's a huge improvement in efficiency," he says. "Next to our people themselves, Sage 100 ERP is the most valuable asset we have."

Gary Wright, president and CEO, Union Payroll Agency

There are may be additional benefits of having integrated HR capabilities with the payroll software or self-service:

- No duplicate data entry minimizes errors and reduces time spent.
- Less paperwork saves time that you can spend on strategic projects. Integrated reporting allows you to perform better analysis and planning.

Integration between your payroll solution and your ERP or accounting solution ensures automatic creation of general ledger posts and bank reconciliation data, as well as accurate financial reporting. HR, payroll, and benefits functions have tremendous data overlap. Tight Integration ensures that all systems are in sync and using the most recent and accurate employee information.

Streamline the payroll process with Sage ERP Payroll

For Sage customers, deciding whether to process payroll in-house or use a service is made easier by the exceptional integration benefits of Sage 100 ERP Payroll and Direct Deposit modules. Or, adding Sage ERP Payroll to your existing Sage system is far more cost effective than long-term outsourcing or purchasing different payroll software. It also produces a much cleaner, more efficient payroll process.

These solutions yield efficiency gains across your organization. Integrated payroll with Sage HRMS Payroll ensures greater accuracy of data in your HR and accounting systems. Also eFiling and Reporting features will assist you in meeting Federal and State filing requirements, and deliver your employees their copies with ease.

Sage 100 ERP Payroll helps you produce timely, accurate, and compliant payroll in-house to lower the cost of your payroll process and improve efficiency. And it includes built-in direct deposit and payroll card support in addition to the ability to print paychecks.

Offering unparalleled flexibility, Sage ERP Payroll makes payroll easy with unlimited trial payrolls, gross-to-net calculations, and support for customized paychecks on demand. It supports a wide range of earnings types, including base pay earnings, premium pay earnings, and tax only earnings.

Both Sage 100 ERP Payroll solutions ensure your full compliance with federal, state, and over 2,200 local tax jurisdictions. Quarterly tax updates keep up with ever-changing tax laws and are provided as part of your Sage Business Care plan. You'll enjoy a smooth year-end with the ability to easily print W-2s, 1099s, W-3s, Forms 941 and 943, and unemployment tax reports.

Direct deposit and payroll cards deliver valuable savings

There are two additional ways that you can lower your payroll costs: payroll cards and direct deposit. Both alternatives to paper paychecks can save your company $1-2 per paycheck by replacing the check with an electronic payment.[5] When you add in additional expenses such as check distribution, lost productivity (when workers leave early to cash paychecks), and replacement of lost or stolen checks, your savings can add up to $10-12 per employee paycheck.

Sage ERP Payroll supports direct deposits and Sage Payroll PayCard for flexible and cost-effective electronic payroll options.

1 American Payroll Association, Survey of Salaries & The Payroll Profession, 2005.
2 PricewaterhouseCoopers, Outsourcing comes of age: The rise of collaborative partnering, 2009.
3 Mie-Yun Lee and BuyerZone, "Outsource Your Payroll," Entrepreneur.com.
4 CedarCrestone, 2008-2009 HR Technology Survey.
5 American Payroll Association.

For more information about how Sage 100 ERP Payroll can help your company reduce payroll expenses and streamline processes, please call 866-530-7243 or visit: www.Sage100ERP.com

About Sage

Sage North America is part of The Sage Group plc, a leading global supplier of business management software and services. At Sage, we live and breathe business every day. We are passionate about helping our customers achieve their ambitions. Our range of business software and services is continually evolving as we innovate to answer our customers' needs. Our solutions support accounting, operations, customer relationship management, human resources, time tracking, merchant services, and the specialized needs of the construction, distribution, manufacturing, nonprofit, and real estate industries. The Sage Group plc, formed in 1981, was floated on the London Stock Exchange in 1989 and now employs 12,600 people and supports more than 6 million customers worldwide. For more information, please visit the website at www.SageNorthAmerica.com or call 866-996-7243. Follow Sage North America on Facebook at: http://www.facebook.com/SageNorthAmerica and Twitter at: http://twitter.com/#!/sagenamerica.

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