BUSINESS.COM GUIDE TO PAYROLL SERVICES

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OVERVIEW OF PAYROLL SERVICES

HOW

Processing payroll used to be a choice between two alternatives: using standalone payroll software or hiring a payroll management firm. Today, businesses large and small have embraced a third choice: online payroll services.

Online payroll services combine the convenient automatic payroll calculation of software with the "access from anywhere" benefits of cloud computing. When you use online payroll services, both your payroll data and payroll software live in the cloud.

"ONLINE PAYROLL SERVICES COMBINE THE CONVENIENT AUTOMATIC PAYROLL CALCULATION OF SOFTWARE WITH THE "ACCESS FROM ANYWHERE" BENEFITS OF CLOUD COMPUTING."

PAYROLL SOFTWARE

AND PAYROLL DATA

SECURELY IN THE CLOUD
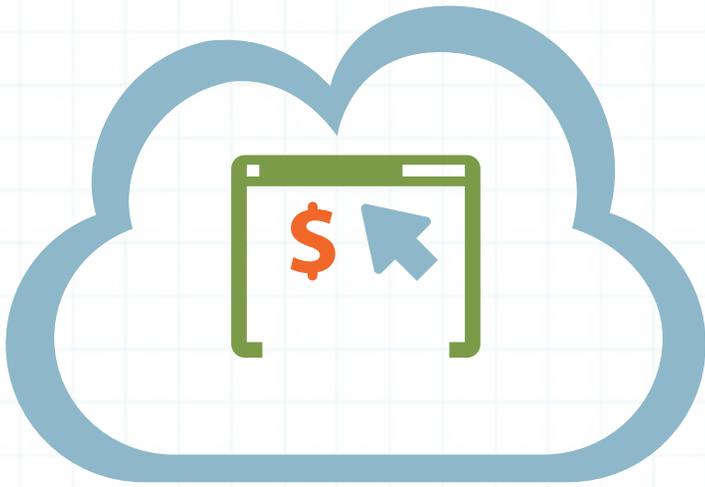
Even though it's in the cloud, your payroll data is more secure using online payroll services than your own system. That's because online payroll services automatically provide multiple layers of backup to ensure that your data is never lost-not in a hurricane, not in a fire, and not as the result of a service outage.

Furthermore, online payroll services allow you to manage access to your data better than standalone payroll software. You can assign and change passwords and offer different levels of access based on a user's need. For example, you can limit some users, such as employees, to viewing their data; while other users, such as accountants, can be empowered to make changes to the data.

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What is driving the rush to online payroll services? Saving money! Online payroll services can significantly reduce the costs spent on bookkeepers and accountants when it comes to calculating paychecks and payroll-related taxes. Online payroll services also reduce late fees, penalties, and fines-not to mention anxiety, headaches, and dissatisfied employees.

One major reason for using payroll services is that the cost of making mistakes can be extremely high. "The penalties for screwing up are so much more expensive than the cost for payroll," says Inc. Magazine. Adding, "The IRS penalizes about one out of every three business owners for payroll errors."

Basic online payroll services can handle everything from paychecks to monthly and quarterly tax filings and payments. Advanced online payroll services include employee benefits management, retirement benefits management, workers' compensation insurance payments, job and time tracking, scheduling, and other optional components.

REDUCE COSTS FOR

- BOOKKEEPING
- ACCOUNTING
- CALCULATING PAYCHECKS AND PAYROLL TAXES
- LATE FEES, PENALTIED AND FINES

- TIME TRACKING
- BENEFITS
- RETIREMENT — 401K
- INSURANCE

INCREASE EFFICIENCY

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WHY

This guide to payroll services will help you determine what kind of services you'll want, how much they'll cost, and how to negotiate the best possible payroll solution-whether you choose a standard package or one that is more advanced.

KIND

COST

$

DEAL

FEATURES

Payroll software vs. online payroll services. With payroll software, you are responsible for installing software updates and tax table updates, and backing up your own data. Although online payroll services have the highest level of security, you might feel more comfortable having your payroll information stored on your own computer system rather than being available online.

The software used in online payroll services is continually updated for your payroll system, as are the tax tables used to process payroll. Online payroll services allow you to access your payroll system via the Internet from a computer, tablet, or smartphone. If that's the kind of convenience you want, you'll be pleased with the variety of vendors offering cost-effective, secure payroll processing in your area.

Size: how big is your payroll? If you only have one employee, you can easily calculate your own payroll deductions using free spreadsheet software. But if you have two or more employees, processing payroll starts

to get complex. If you have employees in more than one state or country, processing payroll can quickly turn into a nightmare. If you have between 2 and 50 employees, online payroll services can save you time and money. Companies with more than 50 employees face very different regulations in terms of mandatory benefits and electronic tax filing. Most online payroll services can accommodate these needs, although prices may be higher for managing mandatory payroll benefits.

Which optional payroll services do you want? All online payroll services should be able to cover basic paycheck calculations, including direct deposit of employee paychecks, electronic payroll tax filing, and electronic payroll tax payments-all for a nominal monthly fee. Most services charge a flat rate for that package, plus an extra amount per month, per employee. You might also be charged extra for more than one user who can access the system. Other fees are charged based on the optional extras in the payroll package. For example, employers may choose to add benefits management, 401K management, health insurance management, or other enhancements to the basic payroll processing service. Many employers require time and attendance tracking systems that allow employees to log in, or to log time to specific accounts or tasks. Time tracking is usually an optional add-on and is available from most payroll services vendors.

Optional Enhancements

The trend toward online cloud-based payroll systems is the next step in the evolution of payroll services. One can add on a variety of enhancements that supercharge ordinary payroll services, turning them into employee benefit management systems. Let's take a look at some of the most valuable and interesting add-ons:

Retirement Benefits Management. Some payroll systems allow employees to choose how to invest their

401(k) retirement accounts. Systems will automatically make payments to the accounts through payroll deductions, to make one-time investments, to track the progress of investment accounts, and to shift funds between approved accounts.

"THE TREND TOWARD ONLINE CLOUD-BASED PAYROLL SYSTEMS IS THE NEXT STEP IN THE EVOLUTION OF PAYROLL SERVICES."

Medical Benefits Management. Employers are increasingly giving employees greater control over their health benefits. Some payroll systems allow payroll deductions for employee health insurance premiums and health savings accounts. Don't be surprised if your online payroll service becomes the gateway to health insurance exchanges for employees.

Time and Attendance Tracking. Most payroll services vendors offer optional services to track employee attendance, hours, and time-related billings. Systems allow employees to "punch in" and "punch out" virtually, and to track their time related to specific tasks or accounts.

Deep Data Analytics. Many modern payroll services have the ability to go beyond calculating paychecks and depositing taxes. They can compare your data against industry averages, and alert you to areas where your company departs from the norm. For example, employees can compare their 401(k) balances and deductions with goals they've set for themselves. And with time-tracking software, managers can compare the cost of having different employees do the same task. Deep data analytics can help managers grow their companies while giving employees better feedback about how their performance stacks up.

> "MANY MODERN PAYROLL SERVICES HAVE THE ABILITY TO GO BEYOND CALCULATING PAYCHECKS AND DEPOSITING TAXES."

Getting Started: Step by Step

Setting up a payroll service is complex because it involves coordination between the payroll service, banks, and government agencies-plus, the data is sensitive and needs to be kept secure. In order to take advantage of the benefits of an online payroll service, follow these steps to get your payroll service, your bank, and your tax collectors to all play nicely with each other.

Step 1: Enroll for a Free Trial. Most services offer a 30-day free trial. Take advantage of it and try to test the service before your 30 days are up. This is the easiest time to get personal assistance with setting up your new payroll system.

Step 2: Migrate Existing Payroll Data. You should be able to input historical payroll data into the new payroll system electronically. It might require exporting data from your old system and importing it into the new system. Often you can add employees to the system now, and add historical data later.

Step 3: Adding New Employees to the System. The payroll service should provide an easy way to add new employees to the system. Ask if the service produces employment forms, such as W-4s, which employees use to indicate their deductions.

Step 4: Setting Up Direct Deposit. You may need to sign authorization forms for your payroll service, your bank, the IRS, and state taxing agencies to allow direct deposit of employee paychecks and electronic payment of payroll-related taxes. The payroll service will help you gather these authorization forms and fax, mail, or email them to the proper authorities.

Step 5: Paying Taxes Electronically. Once electronic payments have been authorized, you should be able to pay all your federal, state, and local payroll-related taxes through your payroll service. Not all taxing jurisdictions have implemented ePay or eFile yet, but most do; and those who don't, likely will soon.

Step 6: Filing Tax Returns Electronically. Your online payroll service might charge extra for filing your tax returns electronically. Most services now provide 941 tax deposits, 941 filings, and annual W-2s and W-3s. Most online payroll services offer similar eFile capabilities for state income taxes, state unemployment taxes, and other state and local taxes.

Step 7: Integrating Payroll with Accounting. Payroll is just one piece of a total accounting solution. Information from your payroll service needs to be combined with the rest of your accounting functions to generate financial statements and tax returns. Many payroll services offer full-service accounting solutions that integrate seamlessly with your payroll data.

CALCULATING COSTS

Pricing for payroll services is usually quoted on a monthly basis, with additional fees depending on: (1) the size of your business, or (2) the level of services included in the package.

For example, you might pay $39/month for payroll services, plus $1.50/month for each employee covered. Expect to pay additional charges for each employee, or for multiple users who have access to the system. Also, expect to pay additional monthly fees for optional services such as employee benefits management, time and attendance tracking, or other advanced payroll services.

Some examples of additional charges might be $1 per month for each person with access to the payroll system, such as an accountant or a bookkeeper; or $10 per month

extra for employees to be able to access their pay and benefits information online.

Year-end forms such as W-2s are usually not included in the basic plan and often result in additional charges such as $2 per W-2.

"YEAR-END FORMS SUCH AS W-2S ARE USUALLY NOT INCLUDED IN THE BASIC PLAN AND OFTEN RESULT IN ADDITIONAL CHARGES SUCH AS $2 PER W-2."
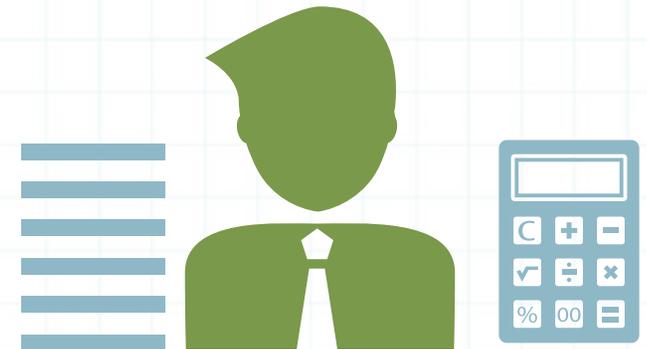
PURCHASING TIPS

Get help importing your existing payroll data. Most payroll services will import from a variety of file formats. You should be prepared to tell vendors which payroll program you currently use and ask specifically if they can import from that program. Ask for free assistance with importing your data. This is a good way to gauge how you like working with the service while you're still in the free-trial period.

Start small. Don't be lured into a long-term contract by being offered a discount with a company you're not sure you like. Try to buy the minimal payroll services package you need, then add advanced features as your confidence grows.

Ask for free training. The monthly fees an online payroll service charges are usually not negotiable-they simply have a table rate and, if you want to use the service, that's the rate. But you might be able to get free personal training that companies sometimes charge extra for. Try to arrange free training sessions for all staff members who will be working with the new system.
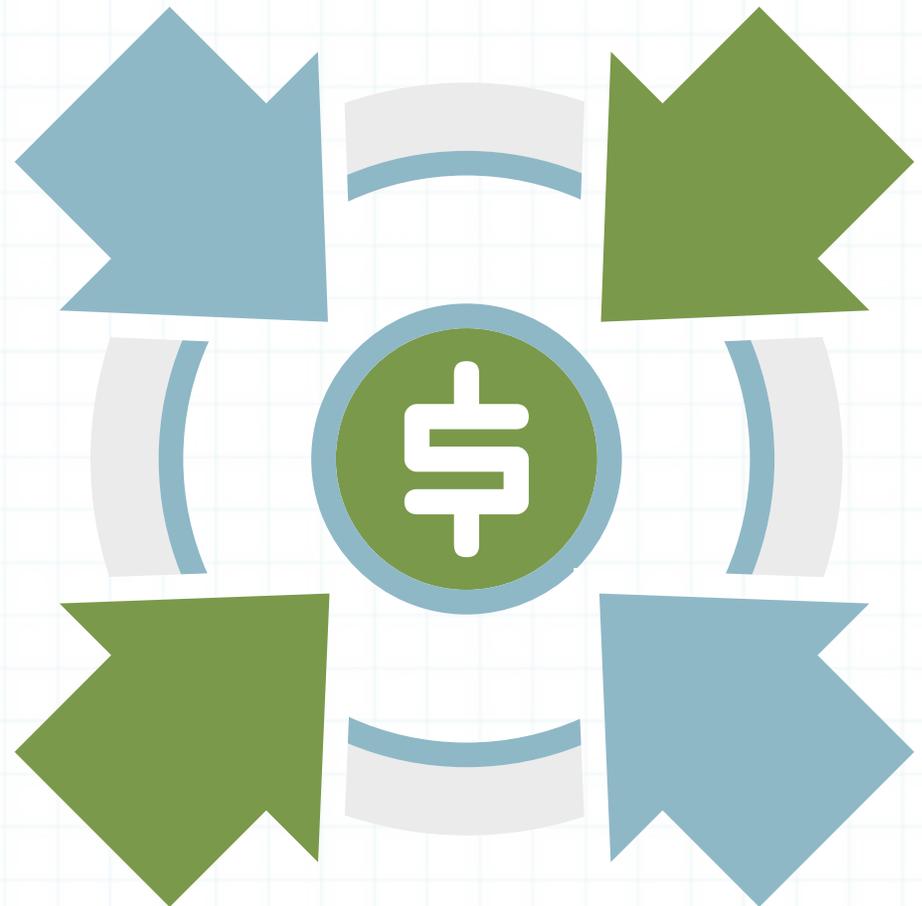
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PAYROLL SERVICES CHECKLIST

This checklist will help you quickly assess the best vendor for your needs.

Features	My Needs	Vendor 1	Vendor 2	Vendor 2
Monthly Charges				
Setup Charge				
Annual Charges				
Additional Cost Per Employee				
Additional Cost Per Authorized User				
Extra Charge for W-2's				
Pay State Taxes Electronically				
FileTax Returns Electronically				
Forms for StartingNew Employees				
Multiple Levels of Access				
Access From Officeor Home				
Can Use With Mobile device				
Live Online Help From Payroll Expert				
Live Phone Help From Payroll Expert				
Training Videos Available				
Free Training Available				

GLOSSARY OF TERMS

Cloud Computing: Refers to your files and software that live in "the cloud" (large file servers accessed through the Internet). Not only is your payroll data stored in the cloud (and backed up in yet another cloud), but the software you use to access the data also lives in the cloud and not on your computer.

Deep Data Analysis: The ability to compare a company's payroll information with standards established by analyzing the records of thousands of other companies.

Direct Deposit: Paying employees through direct transfer from your designated bank account(s) into their designated bank account(s).

Electronic Tax Filing (eFile): Filing tax forms and tax returns electronically. Eliminates printing and mailing tax forms-and usually automates completing the form.

Electronic Tax Payments (ePay): Making tax payments electronically, directly from your designated banking account(s) to taxing authorities including the Internal Revenue Service, and state and local tax departments.

Form W-4: Internal Revenue Service Form W-4 is completed by the employee when he or she is first hired. It indicates the federal tax-deduction preferences used to set up the employee in the payroll system.

Form W-2: Internal Revenue Service Form W-2 is a summary of an employee's annual wages and deductions. It is calculated by the employer and provided to the employee and the IRS.

Form 941: Internal Revenue Service Form 941 is used by employers to file statements indicating payroll paid out and payroll taxes withheld.

Levels of Permission: Also called levels of "access," permissions determine who can access what data in the payroll system and who can modify it.

System User: Any person who accesses the payroll services. Users may have different levels of permission, allowing greater or lesser access to payroll data and functions.

Tax Tables: Guidelines published by the Internal Revenue Service and state governments for deducting taxes from employee paychecks. These tables are automatically updated in most online payroll services.

Unemployment Insurance: Collected by the federal government and state governments, unemployment insurance is a payroll-based tax that must be remitted to the government.

Withholding Taxes: Social security taxes, Medicaid taxes, and federal and state income taxes are usually held back from employee paychecks and remitted directly to the government.

Workers' Compensation Insurance: Many states require employers to provide workers' compensation insurance to cover their employees in the event of an accident or injury at work.