

Payroll Services Guide

Complete Guide to Understanding and
Selecting Payroll Service Vendors



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Most business owners realize the obvious benefits of outsourcing payroll, such as saving money: outsourcing payroll can save your company up to 30% over the cost of in-house processing. In fact a 2009 survey by Black Book HRO found that most businesses who use top- ranked payroll suppliers are highly satisfied with their vendor's service delivery.

The survey, which measured customer satisfaction with vendor performance using 18 key indicators, reported that 94.5 percent of small to midsized businesses are satisfied with their payroll service provider.

The first important step, of course, is finding the right payroll provider to meet your needs. This guide is designed to help you through that process with questions you should ask and criteria to consider when comparing payroll vendors.

What is Payroll Accounting?

Processing payroll in a timely and accurate manner is essential for any company. Because of the complexities involved in monitoring and maintaining salary, benefit and tax information, many small businesses choose to outsource their payroll accounting to qualified specialists. Companies that provide payroll accounting services can provide some or all of the following services:

- Computing salaries and wages, including bonuses and commissions.
- Withholding payroll taxes.
- Administering employer-paid benefits ([insurance](#), [profit-sharing](#), etc.)
- Electronic tax filing and payments

Why is Payroll Accounting Important?

Payroll accounting is a critical part of any successful business. Through payroll accounting, businesses manage the following items for their employees and for the business:

- Paycheck distribution.
- Federal taxes
- State taxes
- Record keeping
- Bonus withholding
- Tip reports
- W-2 taxable wages
- Year-end payments
- Benefits, such as health care, life insurance, and vacation time
- Social security taxes
- Year-end balances
- Year-end checklists

While payroll accounting is often done on-site, some businesses choose to outsource their payroll functions to payroll accounting firms. These firms specialize in providing paychecks as well as special reports and services while meeting tax filing deadlines and keeping the business's payroll accounting organized.

Payroll Services

Here are just a few of the services your company can take advantage of when you outsource your payroll:

Paycheck processing for multiple company locations can be easily handled by your payroll supplier. Some vendors have a branch in every major city. Smaller suppliers will distribute paychecks to multiple locations via an overnight delivery service.

Direct deposit is a feature that most employees appreciate and that smaller businesses are unable to offer through an in-house system. Funds deposited directly into employees' bank accounts are often available a day earlier than a paper check would be.

Check stuffing for those employees who prefer a paper check. Your payroll service will handle the time-consuming chore of printing checks and placing them in envelopes.

Special reports. Ask your payroll vendor for a list of their report-writing packages. This service can be of real value if your company needs any type of specialized report. Again, many in-house payroll systems do not have this capability.

Data backup. You won't need to be concerned about losing payroll information because most payroll providers back up their data regularly.

New employee reports. The law in most states requires businesses to file a report for each new hire. Your payroll service can compile the data of all your new employees and submit this information to the government electronically.

Tax services. Save yourself the anxiety of possible penalties due to inaccurate tax payments by having your payroll provider remit all employee taxes.

Expertise. You will have a team of payroll processing experts at your service. Your payroll provider will usually be able to answer your questions over the phone and some will even come to your location for a consultation.

Your provider can also take over many processes normally handled by your human resources department, such as the administration of 401k plans and other benefits, saving your company even more labor dollars.

How Should a Vendor for Payroll Accounting be Selected?

When selecting a vendor for payroll accounting, it is important to ensure that your vendor has experience in providing payroll services for your industry. For example, if you are in the restaurant industry, then the vendor should understand how to work with tips. If you are in the retail industry, then the payroll accounting vendor should understand how to work with bonuses based on sales.

Consider the following before hiring a payroll vendor:

- Ease of setup and overall ease of use.
- In the U.S., is the vendor a member of the APA ([American Payroll Association](#))?
- Do they have a proven ability to meet tax deadlines?
- Can they pass a background check, including a check through the Better Business Bureau?
- Do they use accountants and individuals that are financially savvy and comfortable with financial calculators?
- A good payroll accounting firm will use due diligence to find out answers to questions, such as the amount of vacation that employees had, overtime hours and more.
- Does the firm file taxes electronically as well as by mail? It may be important that your company has options when it comes to filing.
- Is the vendor able to electronically file state employment taxes in a particular state?
- The company should have access to all tax and reporting forms.
- Does the vendor have the ability to pay 1099 workers such as contractors?
- The company should provide a detailed end-of-year report of the business's payroll situation on an annual basis. Some companies also provide detailed monthly reports.
- Is customer service widely available anytime you have a question?
- What is the cost of payroll processing? It's wise to weigh this factor along with quality of service and features, rather than basing your choice on savings alone.

- Will the company provide options for your business growth if you take on more employees and payroll expenses?
- Is the vendor able to export payroll data to various accounting software packages?
- Is online help and technical support available?

Vendor References

Of course, you will want to check the references and reputation of any new provider you are considering. Just as perusing a vendor's website can provide you with information about their services, a reference check can inform you about the quality of those services. References can give you an idea of how well a vendor meets a deadline, responds to queries and provides support.

How to Perform a Reliable Reference Check

In many cases, references avoid saying anything negative about a vendor for two reasons:

1. There is a legal liability associated with giving references. Giving a bad reference may constitute slander or libel, which can result in legal action taken against the reference on part of the vendor.
2. Many references are coached by a vendor in terms of what information they can and should share with a new business.

That is not to say that all references listed by the vendor are unreliable sources but if the only positive comments you find about a business are from the references they have given you, that can be a clue to look elsewhere.

While obtaining an unbiased reference may be difficult, it is not impossible. One way to find unbiased references is to seek out companies that have used the vendor's services – but that are not specifically listed as references by the vendor. How can you find such companies? Here are a few ideas.

- Take a look at the vendor's press releases for information about business partnerships and relationships.
- Perform a simple search engine search.
- Browse a vendor's LinkedIn profile.
- Go to industry trade events to meet companies that work with the vendor you're considering ([this is especially useful if a business is large or well-known](#)).
- Look for references from businesses that are similar to yours in terms of type, size and/or location.
- Ask to speak to the person who actually deals with the company you're inquiring about. They should be able to give you more in-depth information about what it's like to do business with this vendor.

Once you have gathered several unbiased sources, take some time to think about and write down the questions you want to ask. Be specific with your questions. You could begin by simply asking the referral how long they have had a relationship with this vendor and if they are happy with the company's service. If they say yes, don't stop there. Search for details about what the company has done to fill their needs.

Ask the reference to rate the vendor on factors that are most relevant to business services, such as timeliness, expertise, reliability, customer support, communication and availability. Find out how the company deals with complaints or issues that arise. Even if the reference gives a glowing review of the company, ask what they think may be the company's weaknesses. When comparing more than one vendor, remember to record your findings for later review.

Doing a thorough reference check may seem like an annoying task, but finding a top-notch vendor who will provide reliable service to your company for what may be many years is well worth the time and effort.

When You Have to Switch Vendors

Unfortunately, there may come a time when you have to consider a change in service providers. How do you know when your association with a particular vendor has come to the breaking point? There are a few clues that can indicate a need to look elsewhere for a vendor:

Unreliability

It is bound to happen occasionally that a provider to whom you outsource a great deal of work simply has become overbooked or understaffed. This state of affairs could be temporary. Most good service providers will readily apprise you of the situation, sometimes before you even have to ask, and let you know what they are doing to remedy it. You might consider sticking with them through an occasional rough patch, but if communication problems and delays in service become a regular occurrence, it may be time to look elsewhere for a provider that will deliver more reliable service.

Excessive Rise in Costs

Inflation is inevitable, and you can expect that your service providers will need to raise their prices from time to time. If their pricing increases seem exorbitant, however, or occur very frequently, but in smaller increments that you may not have noticed at first, it might be in your best interest to at least compare the new fees with those of a few other providers. You could find that price break you're looking for with another vendor.

Lack of Communication

Communication is key in maintaining good business relationships. Many providers welcome frequent interactions with their clients and are quick to respond to questions and feedback. They will gladly listen to your concerns and will work to make any changes in order to meet your needs. If you feel you are being neglected in this area, perhaps it is time to find a provider with better customer service skills.

Payroll Vendor Service Providers

Advantage

National provider of outsourced payroll processing, tax filing and tax payments. Advantage uses EFTPS as well as a variety of other electronic means to file returns and payments, including 940s, 941s and online W-2 and 1099 submissions. Account set up is free and the service is available 24 hours a day.

CompuPay, Inc.

Founded in 1980, CompuPay, Inc. is the nation's largest privately held payroll provider and among the top five overall. The company offers flexible and innovative payroll and tax filing, human resources and benefits solutions to small and mid-sized companies nationwide. CompuPay uses EFTPS and currently files Forms 940 and 941 in the latest electronic formats. In-house tax experts, led by CPAs, guarantee tax filings are accurate and on time.

CompuPay's features include expert payroll and tax filing on a local, state and federal level in all 50 states. Serving employers with one to over 10,000 employees, CompuPay has local offices in many major markets nationwide with knowledgeable payroll professionals on staff, many of whom are certified as CPP or FPC by the American Payroll Association.

Paychex

Provides payroll, human resources and benefits outsourcing to over a half a million U.S. businesses. Offers a variety of products and services, from calculating payroll and filing tax payments to administering retirement plans and health insurance. Paychex has solutions for both small and large businesses, including payroll services, tax services, 401(k) and retirement services, insurance and employee benefits, HR administration and compliance and time and labor solutions.

Netchex

A fully integrated web-based payroll, human resource, and time and attendance service bureau. Netchex has dedicated support professionals and value based pricing with bundled services to maximize the investment.

Netchex offers a full range of solutions that include full outsourced payroll processing, direct deposit origination, tax administration, new hire reporting, W2 processing, COBRA administration, benefits and HRIS application solutions. Time management system is fully integrated with the payroll system to enable punch-to-paycheck efficiency.

MasterTax

Designed specifically for companies with employees in multiple FEINs, state and local taxing jurisdictions. MasterTax schedules, pays, balances and files your payroll taxes. Offers software or payroll tax outsourcing service in over 10,000 Federal, state and local taxing jurisdictions in the U.S.

PayCycle

On-demand payroll for small businesses and their accountants. Their online solution includes email reminders for paydays and tax deadlines, instant paycheck calculations, free direct deposit, completed tax forms, electronic federal tax deposits, automated payment reminders and live customer support with payroll experts.

PayCycle also lets you electronically file W-2's, 940s, 941s and 1099s from your own computer. PayCycle works with QuickBooks®, QuickBooks Online Edition and Microsoft® Money, so you don't have to re-enter data.

ADP

Provider of payroll, tax compliance and human resource solutions for employers worldwide. Payroll services include W-2 and check printing, including fraud prevention technology, direct deposit, tax filing (including the new Form 944, Employer's Annual Tax Return) and deposits for all local, state and Federal jurisdictions.

Human Resource services include benefit administration (such as flexible spending accounts, 401K, and defined benefit plans), time and attendance systems, and COBRA and HIPAA administration. ADP also helps to ensure compliance with wage and hour rules as well as new hire reporting requirements.

Fidelity HR Services

Fidelity is a business unit of Fidelity Investments, which serves the HR and Payroll needs of small, mid-sized and large employers. Portfolio of services includes comprehensive tax filing, human resources management, payroll, talent management, recruitment and benefit management and consulting.

Self-service employee access feature provides a complete view of their financial picture and tools that offer guided support to address their needs based on individual situation and life stage.

Paylocity

Payroll and human resource solutions for small and mid-sized companies Paylocity is an Inc. 500 company that has twice been ranked the nation's #1 independent payroll provider by The Independent Payroll Providers Association (IPPA). Also a Microsoft Gold Certified Partner.

WebPaySM, Paylocity's flagship product, leverages the Internet to deliver payroll and HR functionality in a hosted environment. Users can save time, increase accuracy and streamline their operations. WebPaySM has advanced employee self-service capabilities for companies who want to implement paperless payroll. WebPaySM also seamlessly integrates with many retirement plan, general ledger, and time and attendance applications.

Features a comprehensive report library, built-in custom report writer as well as custom reports upon request

Time+Plus Payroll Services

Developers and marketers of payroll, payroll tax, human resources and timekeeping software solutions and services Payroll services include complete payroll and payroll tax processing using security enabled technology. Time+Plus has a variety of client input options, from traditional telephone/fax submission to 3 levels of internet entry and pc enabled software including interfacing with all electronic time and attendance systems as well as providing time clock hardware.

Time+Plus also offers clients the option to print their own payroll reports, checks and direct deposit vouchers as well as tax reports. Time+Plus prepares, files and remits taxes to all local, state and Federal jurisdictions.

Human Resource services include: benefit administration (such as flexible spending accounts, 401K, workers compensation and defined benefit plans). Time+Plus uses EFTPS as well as many other electronic means to file Federal and State returns and payments including e-filing Federal Returns such as 940,941,W-2 and 1099.

Checkpoint HR

Web-based Human Resources Management (HRMS) technology platform offers an on-demand solution to manage payroll, benefits administration as well as other business-critical human resources processes to mid-market organizations.

Intended for companies with employees in multiple FEINs, state and local taxing jurisdictions. CheckPoint HR services also include online payroll, time and attendance interface, paid time off tracking, direct deposit, tax filing, year-end W-2 processing, robust reporting, on demand HRMS system, employee self-service, company intranet, wizard tools for employee handbooks, job descriptions, HR library, benefit administration and more.

Padgett/PayTrak

National payroll provider offering different levels of payroll, tax filing and tax payments. Padgett/PayTrak uses EFTPS and many electronic means to file returns and payments including e-filing quarterly and annual returns for accuracy and efficiency.

SurePayroll

Web-based payroll provider for small businesses. Process payroll in less than 3 minutes with free direct deposit and guaranteed tax filing. Save up to 50% on your payroll expenses.

Corporate Payroll Services

Provider of payroll services to small to medium sized companies since 1991, Corporate Payroll Services is headquartered in Atlanta with offices in Washington D.C., Philadelphia, Chicago and Charlotte.

Offers phone, fax or Internet transmissions of payroll data, electronic tax deposits (guaranteed on time), standard delivery of checks to your door and filing of all your quarterly returns (941,940 & state unemployment). It also offers Direct Deposit, check signing and stuffing of paychecks and a time clock and/or spreadsheet interface. Workers compensation, 401k and a variety of other reports are available. Produces and files W-2 and 1099 forms at the end of the year.

Glossary

125(k) Plan: a Flex or Cafeteria Plan in which employees have money deducted from their wages to fund certain benefit plans. Premium payments are usually taken on a pre-tax basis, reducing the employee's federal, Social Security, Medicare and state taxes.

401(k) Plan: a cash-deferred plan that allows employees to authorize their employer to invest their pre-tax earnings in a retirement plan. The employee's contributions and any earnings on them are not subject to federal income tax until they are withdrawn.

403(k) Annuity: a mutual fund that provides retirement income for public school employees and some tax exempt organizations.

Advance Earned Income Credit (AEIC): is the payment of earned income credit during the year to employees who expect to be eligible for the credit; employers make the payments out of federal income, Social Security and Medicare taxes withheld from the employees' wages.

Annual Wage Reporting (AWR): is the Social Security Administration's system of recording wages reported annually by employers.

Automated Clearing House (ACH): when a private financial institution or a Federal Reserve Bank acts as a clearinghouse for direct deposit transactions. Entries are transmitted by the Automated Clearing House under the rules of the association.

Child support withholding: amount deducted from an employee's wages to satisfy a court order for child support. The employer is responsible for withholding the amounts and paying them over to the party named in the withholding order.

Fair Labor Standards Act (FLSA): regulates minimum wage, overtime pay, and child labor laws for employers and employees covered by the law.

Federal Employer Identification Number (FEIN): is a number assigned to taxpayers and businesses by the federal government. This number is used for all tax transactions.

Internal Revenue Code (IRC): Federal tax laws.

Liabilities: outstanding business debts.

Medicare: a federal insurance plan for persons 65 or older, and some disabled individuals. Funded through the FICA; employee and employer pay matching amounts with no annual wage limit.

Social Security: insurance withholding for retirement, disability and survivor benefits.

Taxpayer Identification Number (TIN): a Social Security number or employer identification number (EIN) that serves as the taxpayer's account number with the Internal Revenue Service (IRS) and Social Security Administration, (SSA).

Withholding: deducting a portion of an employees wages for taxes, garnishments or other deductions, such as health insurance and union dues; these amounts are then paid to the government agency or other party to whom they are owed.