

Ask SCORE

PROS & CONS OF OUTSOURCING YOUR SMALL BUSINESS PAYROLL PROCESSING

Paying employees involves far more than just cutting a check on payday. Managing your small business's payroll encompasses a variety of responsibilities that need to be met accurately and on time.

As an employer, you must:

- Withhold employee taxes.
- Pay withholdings to government agencies.
- File quarterly reports.
- Issue W-2 forms at the end of the tax year.
- Issue summary filings to the state.
- Manage your employees' health plan and retirement contributions.
- Handle state disability, unemployment and family leave assessments.
- Inform the government when you hire new employees and when employees leave your company.

If that sounds overwhelming, you might be wondering if you would be better off delegating the work to a payroll company. Outsourcing your small business payroll has its advantages and some disadvantages.

Pros of Outsourcing Payroll:

- **It could save you time.** You will not be bogged down with calculating payroll deductions, remitting checks, etc.
- **It could give you greater peace of mind.** With a service provider specializing in handling your payroll, you might sleep better at night knowing payroll taxes will be calculated accurately and paid on time. A reputable payroll company will have a staff knowledgeable and up-to-date on all payroll tax deduction rules.
- **It could save you money and make you more productive.** Although you are paying someone else to manage your payroll, you free up your in-house

resources (including yourself) to take care of other important aspects of your business. Rather than spend time trying to figure out payroll and fix errors, you can instead focus on generating sales and innovating new products and services.

Cons of Outsourcing Payroll:

- **You may pay for more than what you really need.** Some payroll services bundle offerings together in all-inclusive packages. Be wary of these as they might include services you do not need and will never use.
- **Errors might happen if your business has unique circumstances.** If your business deals with situations the payroll service provider is not familiar handling (e.g., union employees, tips made by restaurant or salon employees, etc.), the company may make unintentional errors. You need to be sure you choose a service with staff that understands your industry/type of business and your company's specific needs.
- You relinquish some control but are still ultimately responsible. This can be a bit unnerving; even if a mistake was not your fault, you may be subject to fines for inaccuracies or late payroll tax payments.

Tips for Choosing A Reputable Payroll Service Provider

- **Ask around.** Talk with other small business owners to find out whom they use and what their experience with those providers has been like. SCORE mentors can also help you evaluate and connect with reputable payroll service providers.

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- **Talk with your accountant.** This can give you insight into the right questions to ask and what expertise to look for.
- **Ask for detailed pricing.** When getting a quote, ask for an itemized breakdown of fees. That way, you will see if their services cover what you need and you can make sure you will not be paying for anything you will not need.
- What are your customer service and technical support hours?
- Is your system capable of handling employees' health and retirement plan contributions?

A Choice Worth Careful Thought

When deciding whether to keep payroll responsibilities in-house or outsource them, you will need to carefully weigh the pros and cons. Consider the level of comfort and expertise your staff has (or lacks) in dealing with payroll tasks and weigh that against the ongoing costs associated with contracting a payroll service provider. Do not make this important decision in haste, as it will affect your bottom line and how you spend your time.

Since 1964, SCORE "Mentors to America's Small Business" has helped more than 10 million aspiring entrepreneurs and small business owners through mentoring and business workshops. More than 11,000 volunteer business mentors in over 320 chapters serve their communities through entrepreneur education dedicated to the formation, growth and success of small businesses. For more information about starting or operating a small business, contact SCORE TriCounty. You can call 610.327.2673, email tricity@scorevolunteer.org or visit the website at www.tricity.score.org.

Questions To Ask Prospective Providers

- When and how often will I receive reports from you?
- Will your system integrate with my accounting software?
- What is the turnaround time to process payroll after you have my information?
- If a mistake is made, how quickly will you correct it?
- Do you charge additional fees for adding employees or changing employee payroll information?
- If we have to file taxes in multiple states, do you charge an additional fee?
- Will you assign my company a dedicated representative?



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