

THE JOURNAL REPORT: SMALL BUSINESS



Check It Out

A growing number of companies hope to convince small firms that outsourcing payroll services is worth the expense

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For nearly 10 years, bakery owner Madeline Lanciani did everything by hand -- from the pastries to the payroll.

The owner of Duane Park Patisserie in New York remembers the hours she spent each week poring over a gigantic tax chart to do her payroll. Armed with a ruler, a pencil and her ledger, she used the chart to calculate all the different deductions for her employees. The task took about six hours each time, and on a few occasions, she had to pay late filing penalties because of the confusing changes in the tax structure.

THE JOURNAL REPORT

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But as her business grew -- currently eight to 20 employees, depending on the season, up from three at the start -- Ms. Lanciani says she realized that it was no longer cost-effective to spend the better part of her Fridays doing paperwork. So six years ago, she started using an online payroll service called Peach Tree Complete Accounting from [Sage Software](#) Inc. of Norcross, Ga. And last year, she hired a part-time bookkeeper from the Bookkeeping Company, a New York bookkeeping consulting service.

Time Is Money

Having to deal with payroll is a painstaking chore for many small-business owners like Ms. Lanciani. Complicated tax regulations and the threat of heavy penalties for payroll mistakes take both time and money away from running the business. Payroll companies estimate there are several hundred employer-tax updates every year, including federal, state and local taxes. And according to the Internal Revenue Service, of the 30.5 million employment-tax returns and forms filed in 2004, 26% resulted in penalties, at an average of \$670 per penalty.

To help small-business owners avoid such penalties and save time and money, experts are increasingly suggesting that they pay someone else to crunch the numbers, or at least help owners do so faster. And a host of companies are available to do just that -- from payroll firms that do all the work for you to Web-based services that help you to quickly do it yourself.

BY THE NUMBERS

Some measures of what's involved in handling payroll

Estimated number of employer tax updates in 2005	400
Average annual penalty on employment-tax returns	\$670 ¹
Estimated time to fill out a quarterly payroll report for the IRS	13 hours (6.4 hours electronically)
Estimated annual cost for a one-person payroll department	\$29,000 ²
Approximate cost of using a payroll company	\$50 per pay period ³

¹Average among the 26% of returns that incurred penalties in 2004.

²Average salary of a full-time payroll clerk.

³For small business with 10 employees on a biweekly payroll.

Sources: *Internal Revenue Service; payroll companies; SalaryExpert.com*

"Generally, the benefits [of using some form of payroll service] outweigh the negatives significantly," says Lisa Rowan, program manager for human-resources services research at market-research firm IDC. "On the cost front, for example, you have to take everything into account when you do it yourself: cost of software, any additional hardware, checks, etc. Often, some of these [costs] get overlooked."

Still, there are caveats. For one thing, if the payroll company makes a mistake and refuses to pay any resulting government fines, the business owner is still ultimately liable for the penalties. Since the payroll companies are not liable, not all of them will pay for fines resulting from mistakes.

Jerry Sutkiewicz, former president of the National Association of Small Business Accountants, says only 20% of small-business owners outsource their payroll, because many have misconceptions about the industry. "There are still a lot [of business owners] that don't realize how efficient and how affordable it is," he says. "They think that if they're paying their accountant \$500 a month, it must cost \$500 a month to get their payroll done."

What owners also may not realize, he says, is that they will incur expenses from buying and updating software and tax tables, and from time spent away from the business itself. For instance, the average annual salary for a full-time payroll clerk is about \$29,000, excluding benefits, according to SalaryExpert.com, a compensation-research Web site based in Vancouver, Wash. Meanwhile, the going rate for a full-service payroll company is around \$50 per pay period for a client with 10 employees.

Payroll Plans

There are various options for small-business owners looking to outsource their payroll services.

Payroll services have traditionally been offered by professional employer organizations, which sell benefits and human-resources services to companies. They usually charge clients a percentage of their total payroll. Staff Resources Inc. of Chico, Calif., for instance, charges an administrative fee of 1.5% to 8% of the total payroll, with smaller companies paying the higher percentage and larger companies paying the lower one. Staff Resources basically takes on the role of a human-resources department and handles all payroll duties and even recruiting.

These organizations tend to cater to midsize and large companies or to small companies that employ high-income professionals, according to the National Association of Professional Employer Organizations.

More accessible and economical for smaller businesses are companies like Paychex Inc. of Rochester, N.Y., and Automatic Data Processing Inc., Roseland, N.J., which started off as payroll-only firms. These companies now offer plans ranging from just payroll to ones that include payroll, retirement and health benefits, and tax filings.

Paychex charges \$55 for a 10-person office on a biweekly payroll, while ADP charges \$43. They handle everything from printing checks and arranging direct deposit to filing taxes and paying penalties for filing mistakes. Clients just need to submit their employees' hours.

Many small businesses, however, feel that such a payroll service is more than they need. And some are hesitant to disclose payroll information. So a host of companies have cropped up that offer Web-based tools to help business owners.

These companies -- including SurePayroll of Skokie, Ill., and PayCycle Inc., Palo Alto, Calif. -- say the online tools do all the calculations and provide clients with the right forms. Business owners fill in employees' hours and follow prompts to file the appropriate tax forms. The companies also set up direct deposit from the business owners' accounts. And they give owners the option of either printing out checks themselves or having the companies mail them out.

SurePayroll charges \$46 per biweekly pay period for a 10-person business, while

PayCycle charges \$49 a month. Peach Tree Complete Accounting, the product used by Ms. Lanciani, the bakery owner, charges \$49 per biweekly pay period for a staff of 10. These companies also assume responsibility for calculation and filing mistakes and any fines that result from those mistakes.

Michael Alter, president of SurePayroll, says the advantage of having clients plug in the data themselves is that payroll information doesn't get passed through several different people, which can create opportunities for error. "Traditional services for the small-business market have been to phone or fax in your payroll two days before payday," Mr. Alter says. After that, "it's a game of handoff. You don't know if the process worked or not. The more handoffs you have, the higher the chance for an error. In the payroll world, an error is really expensive."

Both Paychex and ADP say they also provide the advantage of flexibility, so owners can decide how much work they want to do themselves. For instance, they offer phone-in, fax-in and computerized methods of submitting payroll information.

Big Savings

Rich Friedman, a senior project manager at telemarketing firm TranSource Automotive Solutions in Deerfield Beach, Fla., uses PayCycle and says being able to outsource his payroll has been a big relief. "Traditionally in call centers, you have a lot of turnover, so setup is a lot of work here," especially with most of the staff being paid hourly, says Mr. Friedman, who has eight employees.

He estimates that without the service, he would be paying double just to hire a part-time staffer to handle payroll. PayCycle charges him about \$45 per biweekly pay period, and he spends 20 minutes each time to sign in to the Web site and enter his employees' hours.

Andrew J. McDevitt, manager of government relations at the American Payroll Association, a trade association based in San Antonio, says the choice is really up to what each business owner feels comfortable with. What's most important, he says, is that a payroll company will step up and take responsibility for its clients, know how to dispute any fines and then pay any penalties that are owed. "Any surprise bill that comes in, any penalty, can really set back a company for a month or two, or even a year."