Payroll Your Way: In-House Payroll With Outsourced Tax Filing

BY BILL ZINT

Overall, small and mid-sized businesses (SMBs) are split down the middle when it comes to outsourcing payroll versus in-house payroll processing. Some companies outsource the payroll function simply to avoid having to keep track of ever-changing tax-filing requirements, especially if they operate in multiple states. Tax processing used to be tightly coupled with payroll, so companies would just outsource everything.

Those who felt strongly about keeping payroll in-house would have to hire CPAs or others with the specific skills and knowledge base to keep up with the latest payroll tax regulations.

Fast-forward to 2007. There's a new and growing trend toward companies blending in-house products and outsourced services to create the best payroll solution for their business. SMBs that most prefer keeping payroll in-house, but lack the resources and expertise to stay on top of tax rules, can have the best of both worlds by turning to commercial software for payroll processing and a service provider for tax filing and reporting.

Tax filing and payment service providers will typically support all filings, including federal, state, and local payroll taxes; SDI and SUI filing; and other services, such as W-2 and 1099 printing, and W-2 electronic filing.

"SMBs are finding it convenient to keep payroll in-house, but outsource their payroll tax compliance," said Mark Dresser, President of Dresser and Associates, a human resource (HR) technology solution provider and consultant. "They can offload some of the most difficult tasks associated with the payroll function, while keeping the maximum amount of control and flexibility associated with using in-house software."

Metalwest, a flat-rolled metal service center, has nearly 400 employees in 15 states. Five years ago, the company brought their main payroll functions back in-house, but wanted to continue outsourcing their payroll tax filing and compliance processes.

"When I joined the company, the entire payroll process was outsourced, while I preferred handling payroll in-house" said Theresa Sheeran, Metalwest's Payroll Administrator. "At that time, our human resources manager was searching for an HR system, and we found an integrated HRMS for both payroll and HR functions. We were pleased to learn we could still outsource payroll tax reporting and filing while keeping payroll in house. I'm not a tax expert, and our accounting department doesn't have the bandwidth to handle those responsibilities. The tax compliance service removes the burden from us by ensuring things are handled on time and in compliance, and everything integrates with the in-house payroll software."

Whitmore Worsley, Inc., a family-owned nursery and landscaping business, has up to 340 employees at the height of the summer season. The company used to outsource the payroll process, but brought it back in-house in order to have more control over on-demand check processing and distribution, as well as access to all payroll information.

"We enjoy the full control that comes with using in-house payroll software, but didn't want to worry with payroll tax filing and compliance issues," said Linda Steckowski, Bookkeeper at Whitmore Worsley. "Outsourcing that portion of the payroll process, which is really the most complicated and risky, saves us time because our vendor researches and handles any issues that arise."

It's all about providing the right blend of software and services to meet a company's needs and wants. Let's call it payroll, the customer's way.

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