Heslops

Chartered Accountants

Outsourcing payroll

Does it make sense for your business?

Around 1.4 million businesses in the UK employed members of staff in 2018, and all of them shared one thing in common: the legal requirement to run payroll.

This task consumes a large amount of time each month, with multiple processes to complete in order to comply with legislation and pay workers on time.

Most of the 35,000 medium-sized firms and 7,500 large businesses in the UK have their own in-house teams to handle payroll.

Apart from anything else, failing to pay staff on time can have a catastrophic effect on morale, and have knock-on effects in employees' lives.

But for almost 97% of the other businesses with employees in the UK, classed as small firms with 49 or fewer workers, the burden of payroll is patently clear – both in terms of time and the resources it takes up.

Deductions from salary

Whether or not you pay your workers weekly or monthly, you have to make certain deductions from their gross pay packets.

Gross pay is the term for total earnings before any income tax, national insurance contributions (NICs), workplace pension contributions, or student loan payments are deducted. What's left is what your employees receive as their net, or take-home, pay.

You must pay your employees at least the national living wage, which for over-25s is £7.83 an hour until 5 April 2019. The minimum hourly rate is set to rise to £8.21 from 6 April 2019, subject to the possibility of another Budget in the event of a no-deal Brexit.

Operating payroll is usually done monthly through PAYE, which is HMRC's system to collect income tax and NICs from your employees.

Firms that operate payroll themselves also have to report employee payments and deductions to the Revenue on a monthly basis, usually on or before each payday.

Auto-enrolment

Part of an employing business's responsibilities is to automatically enrol workers into a workplace pension scheme if they are aged between 22 and state pension age, and earning more than £10,000 a year – unless they choose to opt out.

From 6 April 2019, the minimum contribution into an employee's workplace pension will rise to 8% – 5% from the worker's pay packet and a 3% employer contribution.

Workplace pension duties include:

- setting up a workplace pension scheme
- identifying staff who qualify for auto-enrolment
- enrolling those staff in the workplace pension scheme
- deducting employee contributions from their pay
- paying those deductions and your employer contributions into the pension scheme.

For this purpose, your business should maintain accurate and up-to-date records, while your payroll system needs to integrate with your chosen pension system.

Accurate auto-enrolment records to maintain include details of staff enrolled, their contributions, staff who have opted out, and those who have left your business.

It also doesn't hurt to check your systems are paying your workers' contributions into the workplace pension scheme by the 22nd of each month if you're paying online, or the 19th if paying by cheque.

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Reporting taxable benefits

Businesses are spoilt for choice when it comes to providing employment benefits, and they have until 6 July 2019 to report any employee benefits provided in 2018/19.

Each taxable employee benefit will be calculated differently and deducted through payroll, as long as you've registered with HMRC before the start of the tax year on 6 April.

If you failed to meet the registration deadline, you may need to submit P11D and P11D(b) forms to the Revenue for any member of staff who received taxable benefits.

This helps HMRC calculate how much you need to pay in class 1A NICs, as well as how much PAYE is due from the employee on the benefit.

This is then normally collected from the employee by adjusting their tax code.

Late filing penalties

You need to submit a full payment summary to the Revenue, detailing staff pay and deductions from their pay packet, before you pay your employees.

If for whatever reason your business is unable to pay its workers in a tax month, an employer payment summary will still need to be sent to HMRC.

You need to submit these summaries ahead of the deadline or risk being penalised for late filing.

If you are fined, the amount usually ranges from £100 for PAYE schemes with one to nine workers, to £400 for schemes with more than 250 employees.

An additional penalty of 5% of the tax and NICs due may be charged if your report is submitted more than three months late.

Why outsource payroll?

The benefits of outsourcing payroll can outweigh the objections but, for the sake of balance, here are the potential disadvantages:

- if you choose the wrong firm, it can make things worse rather than better
- if you have a small workforce with a fairly simple structure, you might end up spending more than you need to
- outsourcing the work doesn't mean outsourcing ultimate responsibility for compliance.

For most business owners, though, outsourcing payroll reduces stress and leaves more time to reinvest in growth.

Assuming you pick an experienced, expert firm, it also frees you up from the burden of having to keep up with the latest legislation and best practice.

This ensures total compliance with HMRC and The Pension Regulator, which oversees auto-enrolment, with minimal effort.

Payroll: the costs

Fees for outsourcing payroll to a firm of accountants will vary depending on how many staff you employ and how frequently payroll is run.

In general, however, the cost of paying an employee to run your payroll usually far exceeds the amount you have to pay an experienced team to handle it on your behalf.

Let's say your business has five employees on its books and you want to run payroll weekly, you could expect to pay around £5,000 a year.

Compare that to employing a payroll administrator to run it in-house at around £20,000 a year and you could save 75% by outsourcing it to an accountant.

Is the time right?

For most firms with employees in the UK, there comes a tipping point when handling payroll in-house is no longer feasible, although when that point arrives varies from business to business.

Keeping up to date with constantly evolving regulations can be tiring for business owners, and the introduction of real-time information (RTI) legislation to the PAYE system can see businesses fined for failing to submit information to the Revenue each time a worker is paid.

Indeed, since RTI took effect in 2013, more businesses have chosen to outsource either certain aspects of their payroll or their entire payroll amid fears of becoming non-compliant.

Throw in GDPR legislation, which was introduced in May 2018, and keeping your employees' data confidential and secure has never been more important.

Research from Sage, which polled 850 accountancy practices in the UK in 2018, found that 62% of respondents had adopted cloud-based solutions.

It's therefore fair to say that the majority of accountants in the UK secure personal information, such as that of your employees, in an encrypted online environment.

Whichever way you look at it, outsourcing your payroll can save you money, give you more time, and provide peace of mind that you will never miss a deadline with HMRC.

Talk to us about your business's payroll needs.