Payroll software

Good payroll software does more than just calculate wages and print payslips. It enables you to gather information on your employment costs and to keep track of individual employees.

One of the strengths of the best packages is the range of extra modules that can be bought as add-ons. These give you the option of expanding the capability of your payroll software to cover specific tasks, such as automatic bonus calculations and BACS transfers.

This briefing tells you:

- If you are likely to benefit from using payroll software.
- The advantages and disadvantages of using payroll software.
- How to purchase suitable software.

1   Is it for you?

Payroll software is not suitable for everybody.

1.1 You are most likely to benefit if you have **already computerised** your accounts.

- Most accounting packages provide a payroll module.
- Specialist payroll software can often link to different accounting packages.

  An integrated approach means you can automatically update your ledgers.

1.2 If your **payroll changes** frequently, payroll software will be particularly helpful. This might be the case if:

- You often hire employees on short-term contracts.
- Employee pay is made up of several elements, such as basic pay, commission and bonuses.
- You make deductions, such as pension contributions.

1.3 You may need to analyse your **employment costs**.

- Some bespoke software may make it easier to allocate employment costs to cost centres.

1.4 To get the best out of the software, you will need to keep up to date with **PAYE and National Insurance legislation**.

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- The software ensures that you use all the right tables and that all the forms are filled out in the approved manner.
  But it cannot advise you on the best course of action.

See Payroll for more information on the alternatives to using payroll software.

2 The advantages

Using software to do your payroll gives you greater control over your data.

2.1 The software reduces the amount of **time** spent, by automating repetitive and sometimes difficult tasks.

- It becomes almost as easy to pay people weekly as to pay them monthly.
  Most packages offer you the option of paying employees every week, every fortnight or every month.
- Payslips are produced automatically.
  Some software packages have an optional module that allows you to make direct credit payments through BACS.
- You no longer have to perform complex calculations involving different tax and National Insurance tables.
  The software interprets tax codes and National Insurance letters and does the calculations for you.

Continuing costs

Compared with the business benefits, the costs of maintaining and supporting payroll software are relatively insignificant.

A Typically, you will have to pay a yearly **support charge** of around 15 to 20 per cent of the initial package price.

B Maintenance and support services normally include **back-up** for both accounting and IT problems.

- Major software suppliers provide a regular information update service.
  This will ensure that you are always conforming to the latest legislation and using the latest tax and National Insurance rates.
- There will also be an enquiry service you can call for technical software support.

You may need to upgrade your computer hardware as your requirements increase.

- You can easily make additional deductions from each employee's wage packet. Permissible deductions include pension contributions, union dues, employee savings, student loan repayments and voluntary charitable donations.
- The software should automatically calculate a range of additional payments.
  These include statutory sick pay, statutory maternity pay, statutory paternity pay, holiday pay, back pay and tax credits.
- The software will automatically give you information for your end-of-year returns.

2.2 The software ensures **compliance** with statutory rules and procedures.

2.3 You can **share data** between different software applications.

- You can minimise the number of times you have to enter the data.
- You can automatically update ledgers.
- You can integrate data generated by different parts of your business. For example, you may be able to use your payroll information to address letters and circulars automatically.

2.4 More sophisticated software provides you with detailed **management information**. (See Key performance indicators).

Most payroll software enables you to run queries and generate reports.

- The software should include a suite of standard reports. For example, a report to show National Insurance contributions.
- The reports should enable you to see how each figure was calculated by 'drilling down' to detailed explanations.
  You should be able to look at the report at different levels, such as the level of the company, the cost centre or the employee.

3 Initial costs

As with most pieces of software, your greatest cost will be implementing the system. You will also need to consider longer-term maintenance and support costs (see box).

3.1 **Basic** payroll software — which often comes as part of an accounting package — costs from £100 to £500.

- A typical system may cost around £400 for up to 50 employees.

3.2 More **advanced** software packages — usually sold in modules which form part

of an integrated human resources system — cost from £500.

3.3 Your computers will need enough memory and disk capacity to run the software.

- Most Windows packages need a minimum of 64Mb of RAM and 150Mb of free disk space, on at least a Pentium PC.

3.4 Converting existing data can be expensive.

- Converting computerised data should happen automatically. Your supplier may have to write a conversion utility for you.
- You will need to check the data, even if the conversion was done automatically.

3.5 Employees will usually require **training**.

- A three-day course, covering the whole subject of payroll, costs from £700.

4 Making a purchase

Ideally, you will buy one payroll system and develop it over a period of at least ten years.

4.1 Decide your **business objectives**.

- Assemble a team of interested parties — not forgetting the end users — to set specific, quantified objectives.
- Ask the team to identify any current problems and shortcomings, as well as future requirements.
- Use this information to specify your requirements for the new system.

4.2 Various professional organisations can provide you with lists of **suppliers**.

- The HM Revenue & Customs Accreditation Scheme approves software that meets its payroll standards (visit www.hmrc.gov.uk/ebu/acclist.htm).
- For a comprehensive list of payroll system suppliers, visit www.paypershop.com.

4.3 Research **potential suppliers** by asking around, keeping an eye on articles and advertisements in business magazines, and going to trade shows. Shortlist suppliers by asking them qualifying questions.

- How many customers use their payroll systems? Products with a large number of users are generally better supported.
- Do they supply businesses similar to yours? Ask if you may call these businesses and question them about their experiences.

- Can the supplier give you a list of recommended 'third-party developers' to customise the software for you? A lack of third-party developers means that you cannot choose where to purchase the support you need.

4.4 Ask selected suppliers how their **products** can meet your needs.

- Does the system have to be modified to meet your specific needs? Do not ask for a system to be customised for you unless you are sure that the benefits will outweigh the costs.
- What additional features are there? You may not need many of these features, especially if your payroll rarely changes and you pay few benefits. But the number of features is a fair indication of how flexible a system is.
- Do they have other suggestions as to how their systems can benefit your company? Their suggestions may indicate how well they understand your business.

5 Testing a system

The cost of implementing a system is related to how easy it is to use. Ask for a demonstration.

5.1 How easy is it to input **joiners and leavers**?

- Does the program prompt you for all relevant tax and National Insurance information?
- Does the program automatically determine how much holiday pay or back pay the employee is entitled to?
- How easy is it to input details of additional deductions, such as pension contributions?
- Can you set up templates for different kinds of employees?

5.2 Can the program handle **end-of-year** reports?

- Does the program allow you to keep track of any taxable benefits and expenses paid to employees during the year?

  You usually need to buy separate software for P11D and P9D reporting.

5.3 How does the program calculate **net pay**?

- Can you input different rates of pay per employee?
- Can you buy an addition to the package that will let you calculate any set bonuses

and commissions automatically, using information stored elsewhere?

5.4 How easy is it to **change** an employee's pay details?

- Can you make global changes that will affect every employee?
- Can you roll back to a specific pay period to correct an error and reprocess for one employee without affecting the others?
- Does it matter in what order you input any changes?

5.5 How easy is it to make **one-off payments** or changes?

- Can you tell the software when to apply particular rates of pay? For example, periodic payments, such as year-end bonuses?

5.6 How easy is it to run **reports and queries**?

- Will you be able to do this yourself, or will you need additional support?

5.7 How **flexible** is the system?

- Are there any limits on the number of deductions or employees that the system can handle?
- Can the software handle different hourly rates for the same employee?
- Can the software handle foreign currencies and different tax systems?
- Can the software keep track of other relevant information?
- Can you customise the way the program looks and operates?
- Is there a browser version of the software? This allows employees — or line-managers — to access their pay details and print off pay slips via a company intranet.

5.8 How will the system handle new **legislative requirements**?

- For example, the working tax credit, repayment of student loans and statutory maternity, paternity and adoption pay.
- Will the system allow you to file PAYE returns electronically? This is compulsory for businesses with between 50 and 249 employees, and for all businesses from 2010.

6 Pitfalls

6.1 Integrating different pieces of software can be complicated and needs to be handled by someone with expert knowledge.

- Not all systems are compatible.
- Using one piece of software to provide another with data can make it difficult to track down errors.

6.2 Using software increases the **security risk** involved in payroll operations.

- You need to ensure only authorised personnel have access to payroll details. The risk of unauthorised access increases with the level to which payroll is integrated with your other systems.
- Periodically check payroll details to prevent fraud.

6.3 You are required to **archive** your payroll records for at least three years.

- You need to make sure you can still access old electronic data.

7 Getting help

7.1 Always involve your **accountant** when deciding what system to opt for.

- Using the same system as your accountant can save you time and money.

7.2 Consultants can help you determine the priorities for your payroll system.

- Choose a consultant who has experience of your type and size of business.

(See **Using a consultant**)

7.3 Resellers and developers can provide expert advice on specific products.

- Developers can tell you how much it will cost to implement certain systems.
- They can also advise you about any IT needs you might have. This will be limited to the systems they sell and support.

7.4 Contact the **Institute of Payroll and Pensions Management** for advice, training courses and networking opportunities (0121 712 1000; www.ippm.org).

Further help

There are other Directors' Briefing titles that can help you. These briefings are referred to in the text by name, such as **Payroll**.