

## How To Avoid Costly Payroll Mistakes



COMBINED BUSINESS SOLUTIONS LIMITED  
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For most firms, payroll is *the* largest operational expense and making payroll mistakes can have a significant impact on business – a dent in cash flow, an investigation by the taxation authority, even a court case with a disgruntled employee.

Payroll is at the heart of any relationship between employer and employee and mistakes are not only embarrassing, but sometimes costly. You need to work on this at two levels – setting up fair and transparent policies about pay, and setting up a system that minimises the chance for error.

#### *Pay policies*

1. ***Have a pay policy and put it in writing.*** Not being able to point to the firm's policy on why some people got a raise and others didn't is a sure way of setting yourself up to have a group of unhappy team members, complaints, and maybe even legal action. Come up with a policy that describes the bases for giving bonuses, rises and promotions – and then *put it in writing*. For example, you may state that pay *will* be based on their role, their level of competency, and their level of responsibility. However, it *won't* be based on how long they have served with the company, or their age or sex. Policies based on objectively assessed performance keep you within the law and out of court.
2. ***Implement pay changes at the correct time.*** It's not uncommon for there to be a disconnect between the process of awarding a pay increase and getting that information into an employee's payroll record. If that increase doesn't turn up in the employee's bank account at the agreed time you've sent some bad messages about your reliability and what you think of their interests. Another example of this sort of thing is the sales executive who knows the customer has paid, but doesn't get his commission on time because the information hasn't filtered through to the payroll system. This person will eventually become fed up and look for another company that treats its employees better.

3. ***Deal with overpayments immediately.*** Research has found that almost half of employees have been overpaid at some time in their work life, but a third didn't own up and pocketed the cash. Payroll mistakes like this cut two ways – they can undermine an employer's trust in their team, and they can, if not handled correctly when recognised, damage the employee's feelings about their employer. Demands for immediate and total repayment may be perceived as unfair and imposing a real burden for instance.
4. ***Assess termination pay accurately.*** Take the time to find out exactly what a terminating employee is entitled to. Mistakes can go in either party's favour but you probably won't get back an overpayment while you can find yourself in trouble over an underpayment.

If you are preparing your own payroll you'll know just how much time it takes to monitor this crucial, yet recurring task. And maybe you've decided that in fact it's taking up just too much time. Options?

Basically two – buy a suitable payroll software system or outsource the whole thing to an agency.

Even small companies can save money by outsourcing their payroll processing. In most cases, a professional payroll processor will calculate the payroll each pay period, prepare employee earnings statements, provide direct deposit arrangements, determine and deposit necessary taxes and file tax returns for your business. All of these can save your business time and help avoid payroll mistakes and late or inaccurate tax filings.

Payroll services aren't everyone's best option, however. It makes sense to keep doing it yourself if you:

- Have a relatively simple payroll, and
- Can get good help understanding the thicket of rules and regulations that go with payroll.

If you opt to do it yourself with a payroll software programme, the system you choose must be able to calculate all employee payroll obligations, payroll deductions and payroll tax obligations, as well as record and update all payroll information in a general ledger. You would file taxes yourself in this case, usually with the help of your accountant who specialises in payroll.

If payroll is becoming too complicated and too time consuming then there are options – but whether you go for outsourcing or software, seek some independent professional advice and do your homework thoroughly.



Want to find out more? Need some assistance with your payroll function?

Call today on 01743 249992, or  
Email: [outsourcing@cb-solutions.co.uk](mailto:outsourcing@cb-solutions.co.uk)

Visit: [www.cb-solutions.co.uk](http://www.cb-solutions.co.uk) for more free resources!

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