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CONTENT GUIDE

The Quick Guide to Payroll Compliance

Advice from the experts on how to manage and maintain compliance

Contents

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Staying informed

How are you keeping up with the ever-changing compliance factors impacting the payroll function?

Managing the many aspects of payroll compliance can be tricky with the landscape of rules changing so often. While changes like tax reform and changes to withholdings are routine, legislative upheaval adds a new level of complexity to the function, making it difficult to keep tabs on everything.

The consequences for failure to maintain compliance hits businesses where they feel it most: their time and their wallets.

Inaccuracies in payroll means spending work hours checking and double-checking figures.	It's reported that one in three small businesses are penalized for incorrect payroll.[1]	Employer payroll tax issues cost U.S. small businesses $6 billion in civil penalties.[2]

To protect your company from costly fines and possible litigation, you need to stay informed about employment laws, reporting rules, and other factors of compliance.

This guide looks at frequent compliance challenges as reported by governing agencies and payroll experts, and offers best practices and solutions to help your payroll function run smoothly and confidently.

[1]Payroll compliance: Navigating compliance mandates for business success (Sage.com)
[2]2015 IRS Databook

Tax-related compliance
Most common payroll tax mistakes

Not keeping tabs on local laws and requirements

Globally, regulations are becoming more complex because of continual amendments. Even the most experienced payroll professionals turn to different resources to keep them up to date. Missing any important mandates can have significant repercussions for a business, which is why it's important to invest in resources with the expertise to keep you informed. We'll explore those options later in this guide.

Misclassifying employees and contractors

Understanding worker classification and getting it right is important because it impacts income and employment tax. It also impacts whether the worker is entitled to applicable benefits and how their compensation should be reported.

Late payments

Deadlines are another complexity of payroll tax—specifically payment due dates.

And, depending on your organization, there's much more to consider than traditional tax season. It's important to keep a calendar that outlines important dates, so nothing slips through the cracks.

No audit controls

If you're not keeping up with local legislation and don't have a system in place to regularly check for compliance, your organization is vulnerable to discovering inconsistencies when it's too late. Businesses that implement processes to control compliance are more prepared in case of an audit, and can catch costly inconsistencies in advance.

Data inaccuracies

Businesses that use outdated tools to manage payroll data inherently need to spend more time double-checking their figures because of the higher margin of human error. 88% of spreadsheets contain significant errors that can result in overpayment, underpayment, and penalty[3].

[3]Payroll compliance: Navigating compliance mandates for business success (Sage.com)

Four tips for continuous compliance

TIP 1: Consider outsourcing

If you don't have an in-house accountant, look for accountancy firms that can help you maintain up-to-date records, remit taxes, and file returns. They can also find discrepancies in records and give you advice.

Investigate the cost of having an outsourced payroll vendor take care of all your payroll needs. You'll find the easiest way to keep compliant is to have experts handling tasks like collecting your employee's time records, processing the payroll, printing the checks, submitting direct deposit, and even filing your taxes with the proper authorities.

TIP 2: Keep employees engaged and informed

Ensure your employees understand their part in remaining compliant, such as adhering to your expenses policy or keeping their time records accurate. Explain to employees how to document expenses and time properly so you're not left exposed. Create a comprehensive set of policies and practices for all issues that affect employees' pay.

This will provide a useful guide for employees to follow when inquiring about additions or deductions to their earnings.

TIP 3: Adopt a self-service model for employees

Speaking of personnel data accuracy, payroll teams can use a self-service platform for employees to document and track their personal information, work hours, sick leave, and time off requests. This ensures accuracy and frees up time to manage other payroll tasks.

Even if your payroll is outsourced you still can keep your employees engaged through various options for employee self-service portals. They can keep your workforce up on the latest releases, policies and procedures.

TIP 4: Implement automation

Using software is a very popular avenue for managing payroll—and this has been a growth area in recent years with cloud software providing many benefits. Often the payroll software will be built from the ground up to consider regulatory requirements like local tax laws, making it more difficult to make a mistake.

You'll find that most outsourced payroll vendors have technology stacks that can automatically adjust to all the compliance and regulations twists and turns and other traditionally manual processes. In most cases they can take them off your plate and allow you to manage your business more closely.

Regulatory compliance

Personal data compliance

Maintaining the safety of your company's employee and payroll data is emphatically important in today's digital society. When you decide to outsource your payroll processes, you are allowing your payroll vendor to ensure the right security measures are in place and up to compliance standards.

Personal data security checklist

Whether you outsource or not, here's a data safety compliance checklist to help you mitigate the most common data security mistakes:

1. Consolidate your personnel and payroll data.

If you currently have your personnel and/or payroll data in lots of different locations like spreadsheets, pull everything together into as few locations as possible. Keeping this data in one place will help your payroll team oversee it properly.

2. Adopt relevant rules and standards.

By adopting relevant rules and standards you can make some of the legislation's security requirements as they are updated and introduce new measures.

3. Consider all sorts of data.

It's a challenging proposition when it comes to payroll management, yet you need to consider lots of different types of data. How are you handling and storing timesheets? Emails or text messages from employees who are asking for holiday leave? Sick notes?

4. Handle payments more securely.

Do you leave printed pay statements on your employees' desks? If your business is still using printed statements, consider upgrading to online statements where employees can securely access them.

5. Employ or assign a data protection officer if necessary.

Certain types of businesses will need to appoint or hire a data protection officer (DPO) who could be someone contracted from outside your business or an existing employee. Business examples include public authorities, firms that regularly monitor individuals on a large scale, and companies whose core activities involve the processing of special categories of personal data on a large scale. The DPO will help you monitor internal compliance and inform your business on its data protection obligations.

6. Remember what data you can and can't collect.

Compliance means you won't be able to collect and store lots of personal data if there isn't a purpose for it and consent hasn't been given. Make sure your payroll team is collecting and processing only necessary personal data that is required for each purpose.

Regulatory compliance

7. Give employees full visibility of data you hold about them.

Your employees need to know what personal data of theirs your payroll team and business holds. Meanwhile, you will have to respond to subject access requests (SARs) and requests for their personal data to either be rectified or erased. You do have the right to refuse excessive or unfounded personal data requests, however you will need to demonstrate how they are unfounded in your compliance documentation.

8. Create compliance privacy notices for your employees.

Let your employees know what information they are entitled to as per any local requirement for transparency. This must be done in a way that's clear. Remember, you can't use your employees' data for a different purpose without notifying them. And you might need to offer simple functionality that allows your employees to opt out of the different ways you use their data.

U.S. Tax Reform
Tax Cuts and Jobs Act

The biggest changes for U.S. payroll processors this tax year are the Tax Cuts and Jobs Act, which introduces new tax brackets for single and joint filers. There are still seven federal income tax brackets—but at slightly lower rates and adjusted income ranges.

The personal exemption has been eliminated, and the standard deduction has been increased to $12,000 for single filers, $24,000 for joint filers.

Compliance summary

- Most employees will take home a slightly higher pay check with the new lower tax.
- New tax brackets applicable to income earned as of January 1, 2018 will expire in 2027.
- Personal exemptions are eliminated through 2025.

ACA Individual Mandate

Starting Jan. 1, 2019, consumers who do not purchase health insurance will no longer face penalties.

Keeping up with tax reform
Connect with local government resources

The IRS website has an extensive resource section that covers topics specific to payroll professionals, like employment taxes for business and considerations for businesses with employees. You can also subscribe to IRS-sponsored e-newsletters from IRS.gov like e-news for Payroll Professionals, e-news for Small Businesses, and IRS Guidewire for advance copies of tax guidance.

Adopt payroll software

Next-generation payroll software is automatically updated with the latest mandates from federal, state, and local tax agencies. This means you don't have to worry about applying those factors manually, saving you on time, accuracy, and costly penalties due to non-compliance.

Reform around the globe
Trust Sage for payroll compliance

When you decide to outsource your payroll, you are trusting your vendor, which with Sage has a tremendous history of keeping customers compliant. In the U.S. we have seen quite a few changes to the tax codes and regulations over the past few years. Yet that's just the tip of all that is happening around the globe regarding payroll regulations and keeping companies compliant.

Look at these four countries—notice how they are building into their various payroll applications the ability to handle complex compliance and regulatory issues for companies of all sizes.

France – Withholding tax of 2018
Previously, French employees were responsible for setting aside money to pay their yearly income tax bills, which they receive at the end of the summer. Now companies must withhold tax for employees' earned income and remit it monthly to the tax authority.

Australia – Single-Touch Payroll (STP)
Effective July 1, single-touch payroll is mandatory for substantial Australian employers (those who employ 20 or more full-time employees). This means Australian employers will need to start digitally reporting their payroll information to the taxation office. This will be required for all businesses starting July 1, 2019.
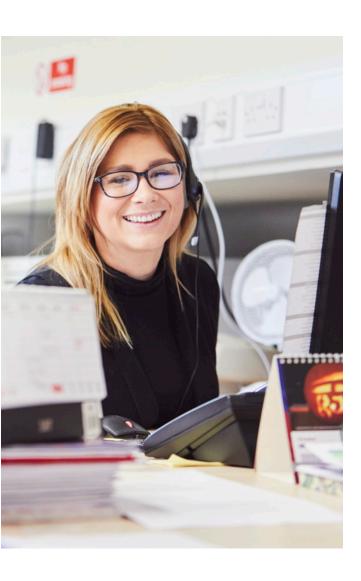
Germany – Tax Withholding updates
There is a new withholding tax on dividends, none on interest unless in the case of publicly traded debt, and a new withholding tax rate on royalties.

UK – General Data Protection Regulation (GDPR)
Effective May 25th, the GDPR is one of the biggest shake-ups ever seen and will affect how payroll data should be handled in all EU member states. It adds new requirements around access to personal data, how it's stored, and how long it's kept.

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Get control of payroll with Sage Payroll Services

Sage Payroll Services helps you stay compliant, eliminate penalties, and reduce risk. Let Sage do it for you so you can focus on growing your business.

Schedule a Payroll demo today. Visit www.sage.com/en-us/products/ sage-payroll-services/ or call 1-888-591-5151.

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