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How in-house payroll solutions help agencies meet Off-Payroll obligations: part 2

Due to be extended to the private sector in April 2021, the Off-Payroll legislation imposes an additional compliance requirement upon hiring firms and agencies, the latter of whom will typically be tasked with deducting and reporting tax on payments made to contractors deemed within scope of the rules.

Though alternative options are available, many agencies will find incorporating a payroll software service in-house to be the most straightforward, safe and cost-effective solution.

In our previous guide we identified the legislative and practical factors impacting decisions by agencies to establish an in-house payroll and detailed the process of setting one up.

Here we will explore the ongoing administration and running costs, explain how integrating payroll software alongside front and back office applications can enhance operational efficiencies, and identify the key features to look for in a payroll software provider.

How can payroll software mitigate the compliance burden?

To process a payslip, payroll software requires some basic information for the worker in question. This includes the worker's National Insurance (NI) number and tax code. Due to the nature of their work, many contingent workers will already be on another payroll, possibly that of their own limited company.

In which case, they should be assigned the "BR" tax code, which taxes their earnings at the basic rate, with any subsequent adjustments taken care of by HMRC once the extent of the worker's other earnings is realised.

In any case, the agency can check the worker's tax code via HMRC's PAYE Online service. In addition to this, some input from the worker may be required, such as assistance with the completion of a right to work checklist.

The data input required is relatively minor but can prove time-consuming for agencies processing payslips for large contingent workforces. Fortunately, many payroll software services enable integration with other applications used by the customer. This offers advantages with regards to data gathering as well as overall efficiencies, as managing director of payroll provider Merit Software, Ben Noden, explains:

"Most agencies will already use a front office system through which they make and record bookings, such as a customer relationship management (CRM) system or a vendor management system (VMS), whereas timesheets will also typically be entered into an online portal such as iMerit.

"By integrating with these services, payroll software can pull most of the information it needs for each worker from the relevant source,

meaning all that should be left for the agency to input is the gross amount payable."

"If the agency has access to good technical skills as well as familiarity with application programming interfaces (APIs), they can integrate payroll software with their existing systems and there will be very little work left to do," adds Duane Jackson, founder of Staffology Payroll. "In this case, taking care of payroll in-house would likely make their entire operation far more efficient."

In addition to front office applications, both Noden and Jackson highlight that many payroll services will also integrate with back office systems such as accounting software. Jackson observes that, in this instance, the payroll solution is the application sharing the relevant data to inform accounting entries:

"Fortunately, many payroll services can be integrated so that the gross amount of each payment feeds into the accounting software automatically. Services that do not offer integration will typically provide a CSV file that can be uploaded onto your accountancy software."

Do agencies need prior payroll experience within their ranks?

Even without integrated front office systems in place, agencies shouldn't expect to have to devote significant additional administrative resources to processing payslips, as Noden explains:

"If the agency's process involves hard copy application forms then obviously that data would need to be entered into the payroll system, which might require extra administrative capacity depending on the number of workers. But most agencies these days already adopt front office systems to collect this information so the overhead for most agencies would be minimal.

"For example, a large client of ours that processes as many as 64,000 payments in a single week has a complete payroll team of just ten people, so it's not a huge burden when you have the right software in place."

Similarly, agencies needn't worry about accumulating a wealth of experience within their payroll team as the software removes most of the complexity, as Jackson highlights:

"We work with a lot of tech start-ups, many of whom often worry that they need to hire someone with payroll experience. However, they tend to manage without, and when they do encounter problems it tends to be from employee queries regarding issues that don't apply to contractors affected by Off-Payroll, such as holiday pay or pensions."

How much should agencies be paying for payroll software?

The efficiencies afforded by payroll solutions are illustrated by the fact that a single payslip can be processed in a matter of seconds, whereas ongoing running costs are also minimal, as Jackson highlights:

"Realistically, you should not be paying any more than £1 per payslip that you produce. Our prices work out as low as 5 pence per payslip for companies processing high volumes of payslips. But £1 is basically your starting point.

"Neither should agencies find themselves subject to hidden charges. Some providers might charge extra for services such as auto-enrolment, but there shouldn't be any additional fees for processing contractors affected by Off-Payroll because the tax calculation is so simple."

Noden adds: "With Merit, once you have the package installed it's just a set monthly fee for the software and support contract. Other providers might increase their costs as the business using the software scales up, but our prices remain pretty much static."

What should agencies look for in a payroll solution?

In addition to an API that enables easy integration with front and back office applications, Noden identifies a number of features that agencies ought to look for in a payroll software service, to ensure accuracy and ease of use.

"You will need the ability to make corrections rapidly if mistakes are made," says Noden. "You will also want to ensure that all the data is fully audited and stored securely, that Real Time Information (RTI) is reported accurately, and that you have full reporting capacity available should you need to report data from previous submissions or for any audit purposes."

As opposed to simply purchasing an off-the-shelf payroll package, both Noden and Jackson emphasise the importance of ensuring that the service is geared towards supporting Off-Payroll compliance, with both Merit Software and Staffology Payroll offering tailored solutions.

Meanwhile, Jackson urges agencies to try before they buy: "In any case, before you pick a payroll solution, have a play with it. Most solutions will provide a free trial so that you can familiarise yourself with the software and ensure that it satisfies your requirements before you commit."

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