



Your Simple Guide to Payroll

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THE IMPORTANCE OF PAYROLL MANAGEMENT

Payroll is an integral part of any business and it is an important HR / accounting function that needs to be handled with the utmost caution and confidentiality. While payroll processing is known to be very time consuming and hectic, making sure that this process is as efficient and streamlined as possible plays an important role in protecting your company's reputation by ensuring compliance with various legislations as well as labor laws in your country.

HERE ARE SOME IMPORTANT PAYROLL FACTORS TO KEEP IN MIND:

- **Types of Pay**

Most companies have different types of Pay Schemes, such as salaries, wages and commission. The way each person in the company gets paid varies based on the type of their employment contract including full-time, part-time, freelancers, contractors...etc.

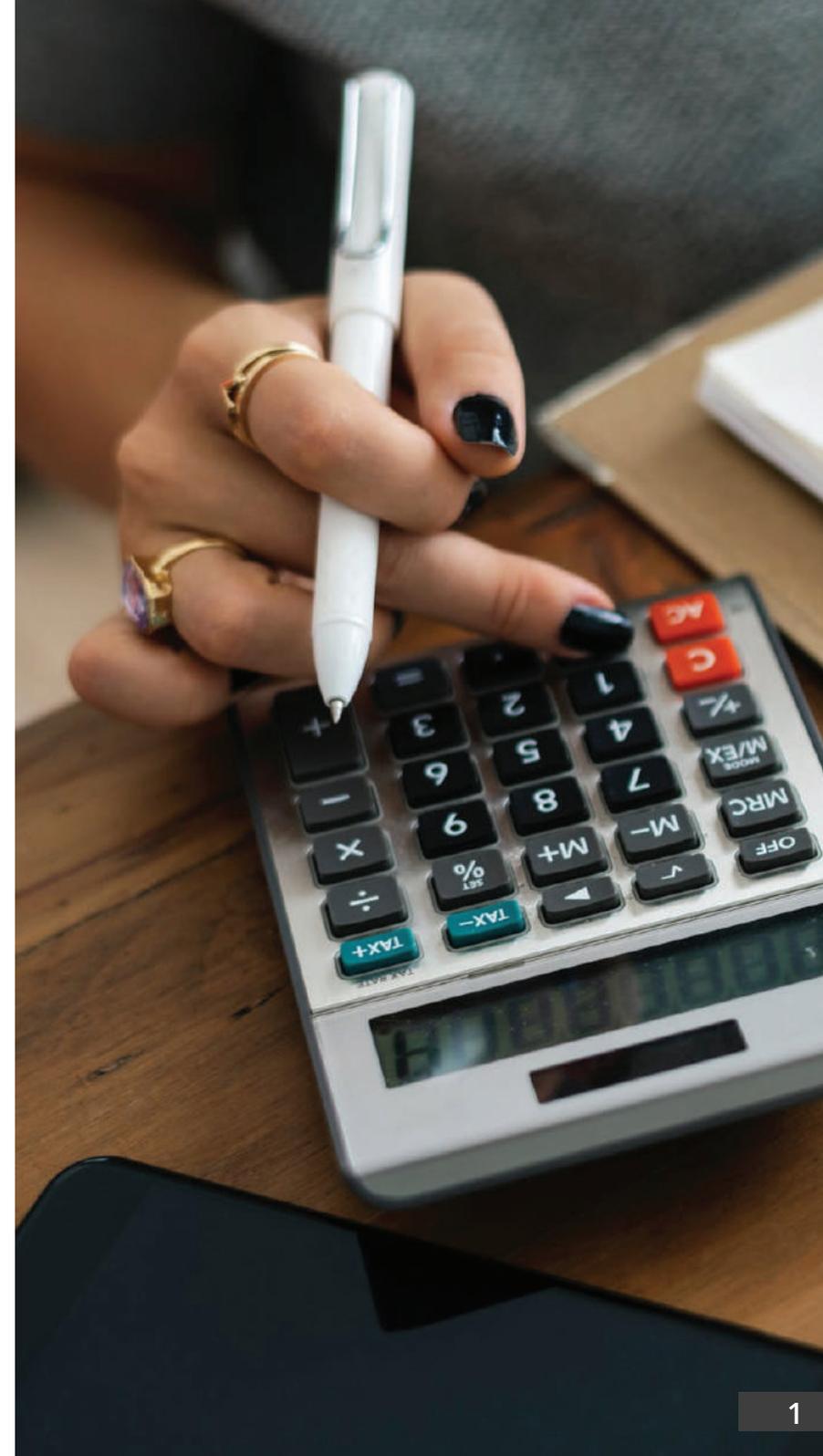
- **Tax Withholding**

Companies must withhold taxes from each employee's salary or wage according to local taxes and social security laws.

- **Benefits and Deductions**

Any benefits and deductions you provide your employees with and you add to their employment contracts such as health insurance, childcare, education assistance, overtime pay, or any other item should be included in calculating payroll precisely.

Failing to calculate payroll properly according to your country's laws and regulations will result in penalties and fines to the company.



BASIC STEPS IN PAYROLL

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Payroll processing includes 3 basic stages:

Stage One:

Pre-Payroll Preparations

1. Setting a clear payroll policy

As a first step, a standard and clear payroll policy should be identified and clearly communicated with all employees.

2. Gathering data

The task of gathering employees' data to be used in payroll processing is one of the most important and complex tasks of payroll and it is usually done by the HR and finance teams.

Salary-related data includes employee time and attendance schedule, leaves and vacation days, employee position, organizational structure, and market rate.

3. Data Validation

Most payroll mistakes occur due to incorrect payroll data. That's why validation becomes essential in keeping your payroll process on track.

By validating your payroll data, you can avoid costly payroll errors that might lead to financial mistakes, employees' grievances, or legal penalties.

Stage Two:

Payroll Calculation

Once all employees' data is gathered and validated, you can start processing payroll to calculate the net pay through a manual or an automated payroll processing system.

***Net pay = gross salary - gross deductions**

Gross Salary = regular salary + any allowances + any one-time benefit

Gross Deductions = regular deductions (social security, medical insurance, childcare, or any deductions highlighted in your payroll policy) + any legal deductions + any one-time deduction

Stage Three:

Post Payroll Reporting & Recording

All companies – whether small or large – need to keep records of all financial transactions including salaries. Those records are to be sent to the accounting or finance department. This allows you to document all salary reports so you can extract any needed payroll data in an easy and organized manner.



PAYROLL PROCESSING OPTIONS

PAYROLL PROCESSING OPTIONS

Options

Definition

Advantages

Disadvantages

Options	Definition	Advantages	Disadvantages
<p>IN-HOUSE MANUAL PAYROLL PROCESSING</p>	<p>A designated employee in your company calculates the payroll manually on paper or using a computerized spreadsheets such as Excel.</p>	<ul style="list-style-type: none"> • Inexpensive • No startup costs 	<ul style="list-style-type: none"> • Time-consuming • Error-prone • Environmentally unfriendly • It needs continuous monitoring of changes in relevant laws and taxes
<p>OUTSOURCED PAYROLL PROCESSING</p>	<p>The company assigns an external payroll services provider to handle all payroll-related matters.</p>	<ul style="list-style-type: none"> • Time-saving/productivity • Accuracy • Lower error risks 	<ul style="list-style-type: none"> • Additional costs • Lack of control over your payroll processes • Confidentiality and privacy threats
<p>AUTOMATED PAYROLL</p>	<p>Opting for a Human Resources Management System (HRMS) with a payroll module that allows you to manage your payroll processes automatically.</p>	<ul style="list-style-type: none"> • Time saving • Secure • Lower error risks • Automatic data backup • No need for expertise • Tax updates and localization • Automatic system updates • Support • Environmentally friendly • Data storage 	<ul style="list-style-type: none"> • Subscription costs • Training employees to use the system • Updates downtime

HOW TO CHOOSE THE RIGHT PAYROLL SYSTEM

HOW TO CHOOSE THE RIGHT PAYROLL SYSTEM; MANUAL, OUTSOURCED, OR AUTOMATED?

Choosing the best payroll system that fits your company needs depends on the below important factors:

1. Company Size (Number of Employees)

• Small companies (Less than 10 employees)

If you run a business that has less than 10 employees, it's very likely that you or anyone in your team calculates payroll manually using spreadsheets. While you might be able to rely on one accounting employee to handle this task for the time being, as your company grows, you need to be able to scale payroll processing as well.

Most Human Resources Management Systems offer free services to companies with less than 10 employees, so a safer bet for you would be to opt for an automated payroll module (such as ZenHR).

• Medium Companies (10 – 50 employees)

For companies with more than 10 employees, it's not feasible to process payroll manually. Subscribing to a payroll software is the optimal solution for medium-sized companies. Automating Payroll allows you to stay up-to-date with payment timelines, taxes, and any other financial related matters that can be managed with a click of a button.

• Large Companies (More than 50 employees)

Manual payroll processing is not even an option for large companies with more than 50 employees as it would be very risky for one person to process payroll and to file taxes for many employees. The best solution in that case is to either hire an in-house payroll specialist while opting for a payroll software that fits your business needs. Another good option would also be is to outsource all payroll matters to an external service provider.

2. Complexity of Your Payroll Process

The optimal payroll process for your business depends also on the extent to which your payroll process is complex. If you have a one clear pay scale with a few simple pay rates and basic benefits, a manual system that relies on spreadsheets might work for you, but the more complex your payroll process is, the more essential it would be to start using an automated payroll software or to even outsource the whole process.



A hand holding a pen is shown pointing at a checklist on a document. The checklist consists of several square boxes, each containing a checkmark. The background is a light blue color with a subtle pattern of dotted lines. The overall image has a teal overlay.

TIPS FOR CHOOSING THE BEST PAYROLL SOFTWARE FOR YOUR BUSINESS

QUICK TIPS FOR CHOOSING THE BEST PAYROLL SOFTWARE FOR YOUR BUSINESS

Once you make up your mind to move from a manual payroll system to an automated one, you should keep the below things in mind before taking the plunge:

• Cloud-Based Vs. On-Premise Payroll System

There are two types of payroll software: cloud-based or on-premise. Whichever option you decide to choose depends on the type of business you run, your company lifestyle, and your personal preference. However, a cloud-based software allows you to access payroll anytime and anywhere, through multiple computer devices while ensuring that your payroll information is protected at all times.

• Integration with Other Systems

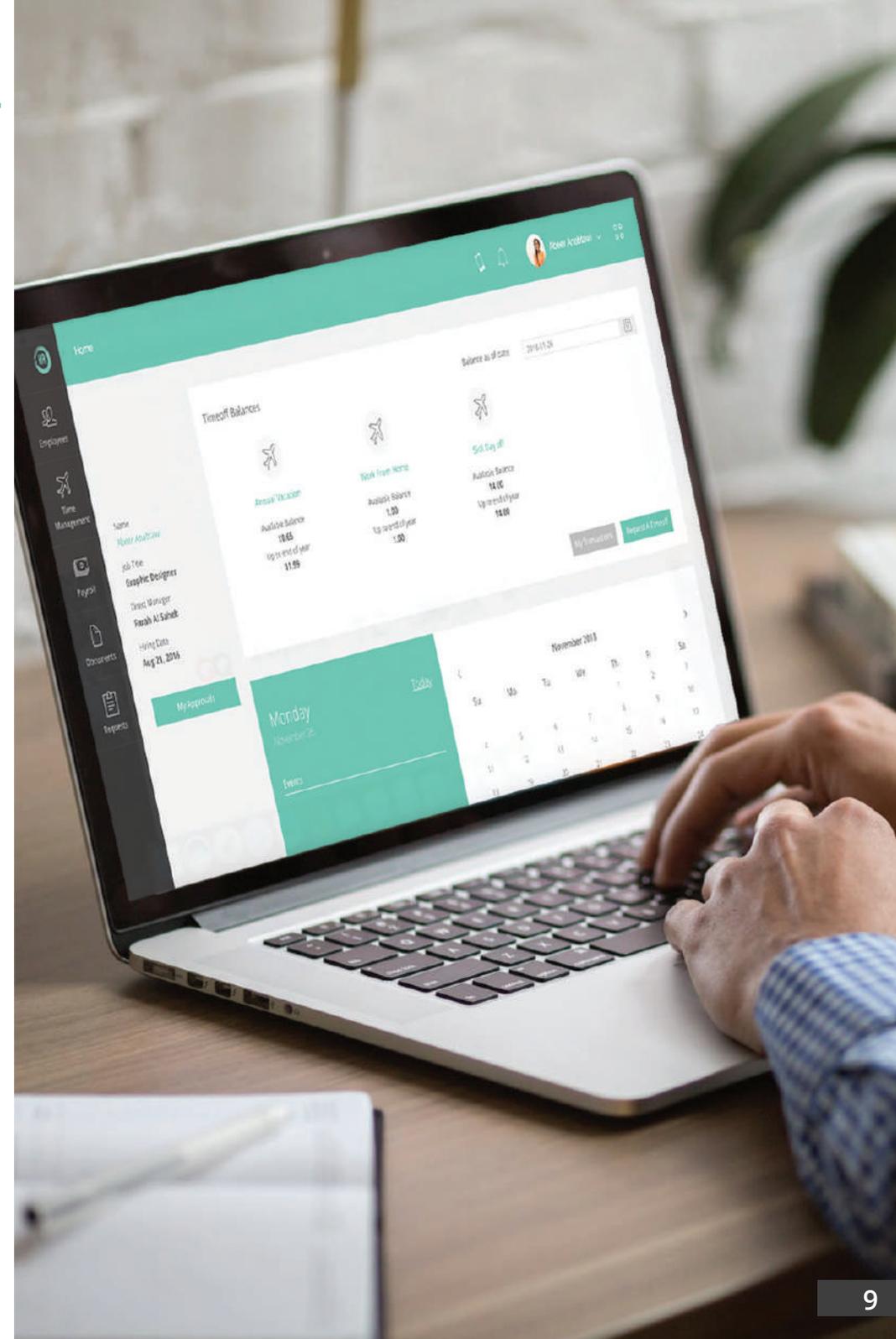
Keep in mind that it's always better to choose a payroll system that integrates with other payroll related systems that you already use for your company such as time & attendance as well as HR Software. It's worth mentioning that some Human Resources Management Systems (HRMS) such as ZenHR provide a one-stop platform for all HR and Payroll needs. [*Try ZenHR \(HRMS\) now for free](#)

• Scalability

You should always look for a payroll software that is scalable and can manage your payroll even if you're facing new changes within your company such as hiring more employees or if you are looking to expand in multiple locations.

• Ease of Use

Choose a payroll software that is comprehensive yet user-friendly and doesn't need a lot of training and guidance to use.



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