

# Are You Making These 5 Common Payroll Mistakes?

(Plus Best Practices You Need to Know)



A smooth payroll process in your organization is like oxygen—when it's there, you hardly notice it; when it's missing, you can't think about anything else. That makes payroll one of the least appreciated yet most important functions within a business. Payroll, when done well, can keep employees satisfied and help your organization avoid legal consequences. On the other hand, when payroll mistakes crop up, their impact can ripple across an entire company.

According to **2022 research** by EY, companies make an average of 15 payroll mistakes per payroll period—and each mistake costs an average of \$291. That adds up to \$4,365 every time you run payroll.



Fortunately, the most common payroll errors are easily avoidable with education, proper planning, and the right tools. Read on to learn about these payroll mistakes and how to prevent them.

## Free Download: Payroll Checklist

Nothing squashes employee morale like a botched payday. That's why we've wrangled all the important payroll to-dos you need to ensure accurate, on-time payroll runs for your company.

[Get the Checklist](#)

# The 5 Most Common Payroll Mistakes

## 1. Misclassifying Employees

The **Fair Labor Standards Act (FLSA)** provides benefits and protections, like overtime pay and minimum wage, for most employees. Independent contractors, however, are not afforded these same protections. Likewise, **exempt** and nonexempt employees also have different legal rights. Some organizations slip up and **misclassify their employees** as independent contractors or exempt employees.

Not only can misclassification deny an employee important benefits and wages, it may also mean the government misses out on valuable tax dollars. If left unchecked, the resulting underpayment or overpayment can turn into **a costly payroll error**, with EY reporting 12% of companies were fined by a regulatory body for misclassification errors. These fines cost an average of \$5,200, with the largest fine reported as \$100,000.

## 2. Miscalculating Pay

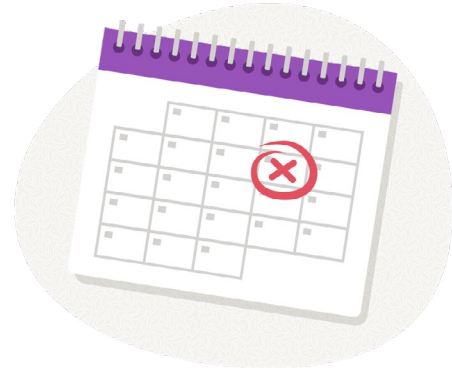
With overtime, commissions, deductions, PTO, and more, payroll administrators have a lot to keep track of when **calculating pay**. For overtime wages, the general rule is 1.5 times an employee's regular wage for any time worked beyond 40 hours in a workweek. However, your state may have different policies regarding overtime; always comply with the law that is more generous for the employee.

Poor time tracking capabilities can also contribute to miscalculated pay. If your company doesn't have a reliable way to track employee hours or paid time off, your chances of making a payroll overpayment or underpayment mistake skyrocket. Mistakes like these will result in a payroll correction.

### WHAT IS A PAYROLL CORRECTION?

A payroll correction is required when adjustments need to be made to amounts paid. Poor payroll organization, like forgetting to account for vacation days, can cause the need for money to be added or subtracted from the original amount.

Payroll regulations vary based on state laws. Some, like employees looking to recover lost wages from underpayment, can pop up as much as **two years later**, requiring your team to dig through historical data. This takes time and effort that could have been avoided if the mistakes had been caught early or prevented entirely.



### HOW LONG DOES A COMPANY HAVE TO FIX A PAYROLL ERROR?

While legal time frames differ depending on the state, the short answer is that errors should be paid promptly. Fixing shortages in payroll as soon as possible should help you avoid penalties. Labor laws require full payment for work completed, and most companies will either add the missing pay to the next pay period or cut a check between pay periods.

## 3. Missing Payroll Deadlines

Timing is everything in payroll. But with so many steps in the **payroll process**, missing a key deadline is all too easy. Your employees count on your organization to deliver payment consistently and on time; failing to stick to a reliable schedule can damage employees' trust and opinion of the company. Not to mention, **many states have pay frequency requirements**.

When it comes to payroll taxes, deadlines are no less important. Missing a tax deadline can cost your company a considerable amount with late fees, penalties, or even legal trouble. Knowing your timeline—both internal for paydays and external for taxes—is vital to a smooth payroll process.

## 4. Neglecting to Send Out Tax Forms

The end of the year (and the start of the new year) is a hectic time for payroll professionals. After a year of processing payments and taxes, organizations must send employees all the necessary tax forms. Employees need **W-2 forms**, while independent contractors who earned \$600 or more need **1099s**.

Failing to get the right forms to the right people in a timely manner isn't just inconvenient for employees—it can also spell trouble for your company.

Be sure you are paying the right **tax rate** as well. Tax rates are subject to change and need to be kept updated in your payroll. Making sure tax rates are in order will help you avoid owing taxes or making a payroll correction.



## 5. Failing to Keep Complete Payroll Records

When it comes to payroll records, you can never be too thorough. FLSA requires employers to keep three years' worth of pay records. These records include hours worked, payment rates, payroll dates, and more. While this might sound like a lot of data, some states require even more.

Not only does this data keep your organization safe in case of future audits, it also helps you run payroll more smoothly. Without complete, **updated records**, you risk miscalculating pay, misclassifying employees, and more.

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## Best Practices for Preventing Payroll Errors

Preventing each error listed above takes a variety of strategies, but we've included our top suggestions. Incorporating these elements into your payroll process can help you catch errors before they happen, making payroll faster, easier, and more accurate.

### Invest in the Right Payroll Services

The best way to keep payroll mistakes from disrupting your organization? Invest in **payroll services** and an **HRIS** that get along. The right HRIS will manage and update important employee information, like wages, hours, account numbers, and withholdings, and then communicate those changes to your payroll system, eliminating the need for double entry.

At the same time, the right payroll software should sync with your HR system and automate the most time-consuming tasks. **Payroll software** makes it easy to run reports, file taxes, distribute pay stubs, and more.

### Maintain Payroll Compliance

Many payroll errors are the result of payroll admins not having enough information or not having the correct information around payroll compliance. Laws and policies are always changing, and they can vary from state to state; it's crucial for your payroll team to stay in the loop with current regulations for where your organization is located (especially if you have a national or global presence).

Doing some basic research and double-checking your assumptions can go a long way toward avoiding payroll errors. For example, make sure you can answer the following questions:

- What's the difference between **exempt and non-exempt**?
- Is this employee really classified correctly?
- What are the state regulations for this employee?
- How will we audit compliance when new regulations are released?

## Run Reports Prior to Processing Payroll

If you have access to payroll software, running a few key reports before processing payroll can help you catch and prevent mistakes as well. We suggest running the following reports to make sure all your check amounts are correct:

- **Deductions summary:** provides a summary of all deductions on every employee so you can double-check the amounts.
- **Payroll register:** allows you to see all payroll information in a summary format.
- **Cash requirement:** shows how much money your organization must have available in order to pay payroll, broken down by category like wages, taxes, deductions, etc.

## Keep a Payroll Process Checklist

You can never go wrong with the tried-and-true checklist. Payroll admins have a lot to keep track of, even if they have software to support their processes. With a checklist, they can go through every step of the payroll process every time, reviewing each piece and making sure everything is accurate.

You may also want to keep lists of all new hires, all pay changes, all deduction changes, and other updates in one central location, organized by pay period. Then, when you're working on payroll for that period, you can review each list to ensure all the changes made it into your system accurately.

## How to Fix Payroll Errors



If you've already processed an inaccurate payroll, you should act as soon as you realize the mistake and report the error to state and federal entities if necessary. In some cases, your organization could face penalties and fees as a result of an error, and these will only loom larger the longer they remain unaddressed.

For most minor payroll errors, you can usually do one of the following:

- Cancel the payroll immediately, make updates, and reprocess it.
- Run an additional manual payroll with the necessary adjustments for only the affected employees.
- Make adjustments on the next payroll to counteract previous mistakes and get things back in balance.

## Improve Your Payroll Process

While the fact that most companies achieve more than **80% accuracy in payroll** can seem encouraging, small payroll mistakes can add up over time. By establishing good payroll practices and partnering with solutions to help avoid errors, your company can save headaches, time, and money.

Being aware of the most common payroll mistakes is a great first step to avoiding them in your organization and maintaining a smooth payroll process. And while running a seamless payroll may sometimes feel like a thankless job, it affects many other elements of the larger organization, like employee satisfaction and even **company culture**. Invest now in perfecting the payroll process so your company doesn't pay for it later.

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