



WHICH PAYROLL SCHEDULE SHOULD YOU USE?



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Which Payroll Schedule Should You Use?



What's the best payroll schedule for your small business?

When it comes to payroll, small businesses have a few different schedule options, and there are several important factors to consider, including regulations, expenses, and the needs and preferences of your employees.

Pay Periods, Pay Dates, Payroll Numbers?

First, let's get these commonly confused terms straight. *Pay periods* are the recurring amount of time during which an employee's wages are calculated (e.g., twice a month). *Pay dates* are the exact calendar days on which employees receive their wages (e.g., the 15th and 30th of every month). *Payroll numbers* are unique codes used to identify individual employees or paycheck issuances.

Now, let's take a look at the four standard pay frequencies you can choose from, and their advantages and drawbacks.

Weekly (52 Paychecks Per Year)

Who uses it: Weekly schedules are most commonly used in industries like construction, mining, and manufacturing.

Pros: This pay schedule is most favorable for contract workers or hourly employees with a lot of overtime or irregular hours. If they've worked extra hours one week, they won't have to wait to get that pay.

Cons: Because this schedule has the largest number of pay periods per year, it's likely to be the most expensive option for small businesses to implement, whether they process payroll in-house or opt to use a payroll service.

Biweekly (26 Paychecks Per Year)

Who uses it: Biweekly is the most popular choice overall – especially in education, healthcare, and hospitality.

Pros: With this popular payroll option, it's easy to calculate overtime for hourly employees because each pay period always comprises the same number of days and ends on the same day of the week.

Cons: Since two months each year will have three pay periods instead of two, managing benefit deductions and expense accruals can be trickier, as can household budgeting for some employees.

Semimonthly (24 Paychecks Per Year)

Who uses it: Semimonthly pay is most frequently used in information, financial, and business services.

Pros: This option can make financial reports easier to manage because the number of pay periods per month and quarter is consistent. The regularity works well for salaried, noncommissioned employees.

Cons: Semimonthly schedules don't work as well for hourly or commissioned employees, since workweeks may be split between two pay periods and employees may have to wait to receive the extra pay they've earned.

Monthly (12 Paychecks Per Year)

Who uses it: Monthly is the least popular overall but isn't rare in professional services or firms with under 10 employees.

Pros: This method can be the most cost-effective choice for small businesses and contractors, because there are many fewer pay periods to process. It's also easy to manage voluntary deductions for healthcare or retirement.

Cons: This option is not suitable for hourly employees; it may cause difficulties for new hires who have to wait for their first check and can make household budgeting difficult for employees who have to ensure that a single paycheck lasts all month.

Can You Use Multiple Payroll Schedules?

If your firm has multiple different types of employees or remote workers in different jurisdictions, you may be wondering whether using multiple payroll schedules is an option. In rare cases, it may be called for, but in general, you're better off picking one schedule and sticking with it.

Things to Consider

Here are some questions to find answers to before deciding on a payroll schedule:

- What are your state's laws regarding minimum pay schedules?
- What are the needs and expectations of your employees?
- Are your employees mostly salaried or hourly?
- Are their hours mostly consistent or highly variable?
- How much time and money will it take your business to administer payroll each period?
- What are your company's liquidity and cash flow capacities?
- How will you calculate benefits deductions?
- How will you handle overtime payments?
- How will you handle commissions?

P.S. – Should You Outsource Payroll?

While many business operators prefer to handle payroll internally, many others choose to outsource it to professional services. Outsourcing is often the right option for small businesses and startups that need to ensure efficiency and compliance, as well as growing businesses that are bringing on more staff and need to scale their current payroll process.

Ask an Expert

Entrepreneurs like you are constantly faced with complex decisions that can have big impacts. Have any questions? Reach out to your financial institution.

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