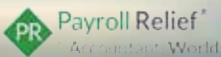


Payroll Special Report

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Payroll Special Report

By Antoinette Alexander

Labor-intensive, complex and unprofitable are words that have often been associated with payroll, especially back in the day when most people phoned or faxed their payroll data to a service provider. With the influx of cloud-based solutions, innovative technology and an increasingly competitive tax and accounting marketplace, some firms are now rethinking payroll and how to successfully integrate it into their practice.

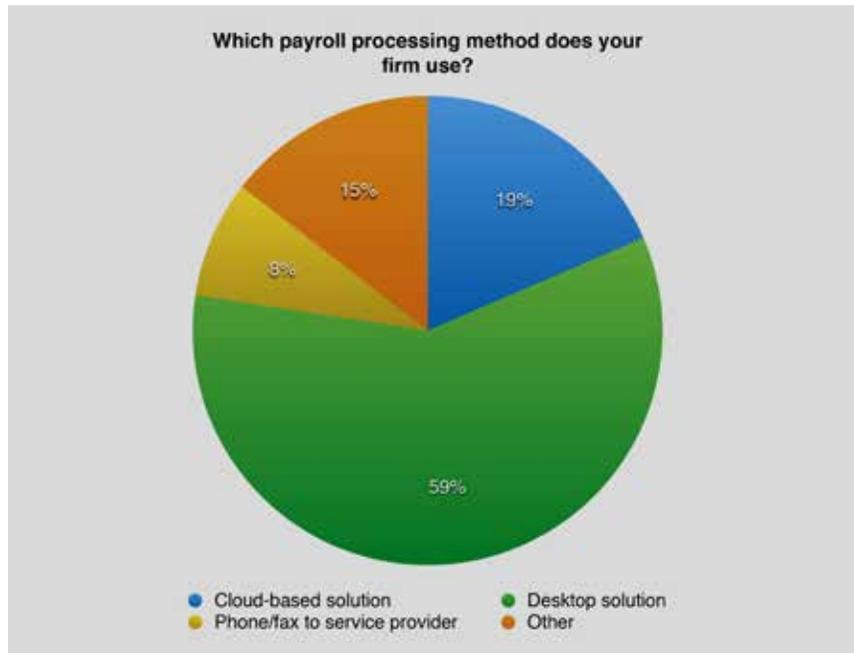
“Payroll is a commodity, but with ‘you’ associated with payroll [it] becomes a value-added service that you should be able to more than just break even with and, more importantly, enjoy all of the other benefits that come along with it,” said Rick Dopuch, client services manager at St. Louis, Mo.-based Business in Balance, which works as an internal accounting department and Back End Support Team (BEST) for its business clients. “There’s no doubt in my mind that client satisfaction goes up and referrals increase when you process or help manage their payroll. With the availability of so many easier ways to process or manage your client’s payroll, it’s worth taking another look at providing these services.”

“What I think has changed, mainly because of some of the environmental factors, is that folks, when they had previously said ‘no’ to payroll, they are now looking at their peers and they are questioning it a lot more, and many are diving into it,” said Louie Calvin, product manager, Accounting and Payroll at Thomson Reuters.

In fact, a recent Progressive Accountant survey found that more than half (56



Rick Dopuch



The findings are based on the results of a recent online survey conducted by *The Progressive Accountant*. As part of the survey, industry professionals were asked to share the payroll processing method used within their firm.

percent) of respondents currently process payroll for their clients. In addition, about 24 percent of respondents indicated that they plan to increase their payroll processing service.

The findings are in line with ADP data, which, according to Anthony Horton, general manager - Specialty Products for Small Business Services at ADP, suggested that, “Roughly 53% of firms process payroll today, and, of those that don’t, a lot of those firms realize that their businesses will be more marketable if they actually provide payroll services.”

What’s Keeping Your Clients Up at Night?

Given today’s complex regulatory and legislative environment and its impact on business clients — especially small businesses — it comes as little surprise that more firms are interested in ramping up their payroll offering in an effort to



Louie Calvin

better serve clients. Among the topics that are top of mind for many business clients: The Affordable Care Act, which has resulted in an increase in payroll reporting requirements (i.e., Forms 1094-C and 1095-C)

and a flood of questions and concerns from employers; updates to overtime regulations come December 2016; and worker classification.

Further embracing the role of a trusted advisor and offering payroll services can deepen client relationships, especially when bundled with other services, and help businesses stay compliant.

“There’s many environment factors that make payroll really smart right now. ... There’s a lot more existing businesses that they are already doing business with coming to them for help. Right now, you have the new overtime rules, you have the Affordable Care Act, you have minimum wages and these business owners really don’t know where to turn, and, oftentimes, the first person they pick up the phone to talk to is their accountant and they are asking payroll-related questions,” Calvin said.



Anthony Horton

Luke Reynebeau, accountant channel marketing manager for SurePayroll, agreed and said, “The current regulatory makeup is a patchwork of state and federal laws that have implications on small businesses of all sizes. An accountant’s role is

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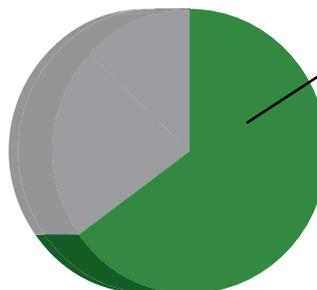
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to help clients sift through and decipher what is applicable to them in the short-term and what will be a consideration as the business grows.”

When asked about the latest hot button issues impacting payroll, Horton of ADP said, “We are nearing the Dec. 1st regulatory change for overtime rules, and, what I find, is that there is typically, amongst the client population, there is always confusion around these things. So, they read the regulations or see news stories but really understanding exactly how it is going to impact their business is not always completely understood. And I can guarantee you that a lot of business owners right now are going to their accountant and asking what they should be doing around this.”

In May, the U.S. Department of Labor finalized sweeping changes to the Fair Labor Standards Act (FLSA) overtime rules, dramatically expanding the number of employees eligible for overtime pay. Under the new rule, the standard salary threshold will double from \$455 per week to \$913 per week. This amounts to a change in an annual salary from \$23,660 to an annual salary of \$47,476. Further, the threshold exemption for highly compensated employees will increase from \$100,000 to \$134,004. These changes take effect Dec. 1, 2016, and will automatically update every three years.

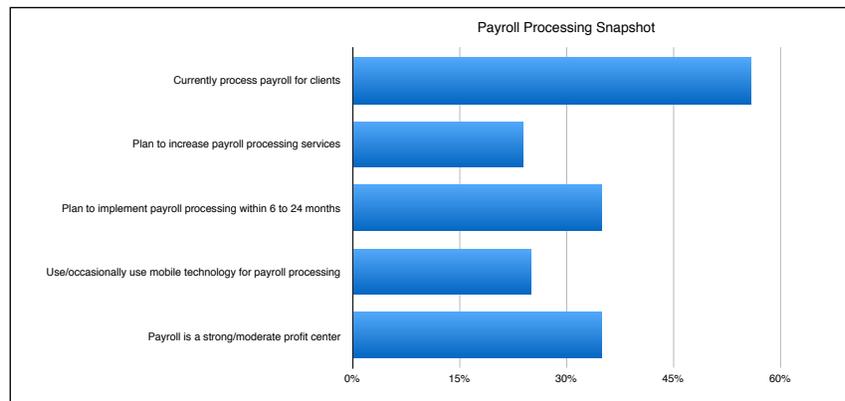
In commenting on the new rule, the AICPA stated, “This rule will cause significant burden to firms and businesses, and will have a disproportionately negative affect on small businesses.”

The AICPA added that, “In addition to absorbing payroll burdens, because DOL’s rule does not take into account the seasonal nature of the accounting profession, in order to meet the demands of tax season each year, yet continue to comply with the rule, many firms will be forced to reduce flexible options for their staff.”

Rita Trammel, president of Schultz & Associates in Chattanooga, Tenn., acknowledged that payroll isn’t exactly a money-making process for the firm but rather a valuable relationship builder in today’s complex compliance



Luke Reynebeau



The findings are based on the results of a recent online survey conducted by The Progressive Accountant. The survey was conducted in an effort to learn more about what industry professionals think about payroll, how they are serving the needs of their clients and leveraging today’s technology to reshape payroll.

environment.

“[Payroll] is just our way of accommodating our clients. With all the continual changes on the federal Obamacare and the new wage law going into place in December, we really feel that our clients need a payroll processor to keep them in compliance. We process payroll, do direct deposits, and all of their monthly, quarterly, yearly filings for clients

only if we are maintaining their complete books on a regular basis,” Trammel said.

Echoing the sentiment, Dopuch of Business in Balance said, “The ACA and worker classification are continuous discussion points with clients. Being involved with, or at least more aware of a client’s payroll, provides opportunities to discover issues and problems before they turn into real problems like [an] audit that determines your client’s independent contractors are really employees.”

Dopuch said that payroll processing also is important to the firm’s tax planning and management process.

“Payroll is very important to our tax planning and management process because it’s much easier to make changes to clients tax withholdings, get a bonus completed on time, and record taxable fringe benefits like personal use of company vehicle or 2 percent shareholder health insurance,” said Dopuch. “There was a time when we did not process payroll, and we were so frustrated with the mistakes the



Rita Trammel

big payroll processors made that we developed a system of follow-up and confirmation to make sure transactions were done properly, but that was time consuming.”

Unlock Growth Opportunities

As firms are increasingly discovering, offering payroll services not only strengthens client relationships, but can serve as a springboard for various payroll-adjacent services and provide an ongoing revenue stream.

Firms that offer payroll processing may find themselves in an ideal position to take on a greater advisory role when it comes to health care, 401k and other benefits.

“Using payroll as an entry point to the core of a client’s business allows firms to advise on things like 401k, health care and other benefits. Guiding clients through this bevy of solutions is how a forward-thinking firm partners to provide transactional services and ingrains themselves in clients’ minds as their go-to resource for consultancy and advisory,” said Reynebeau of SurePayroll, a Paychex company.

Furthermore, firms may be able to cross-sell new payroll clients on their other tax and accounting services. There’s no doubt that offering a more complete suite of services will attract new prospects.

Looking to unlock a more consistent cash flow? If so, payroll processing could be the key.

“A lot of [firms] have started to offer payroll services because it produces more of this steady stream of revenue on top of lowering their operating costs. It helps to kind of smooth out the revenue stream through the year,” said Horton of ADP. “A lot of times, just with filing cycles and the



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services they are providing, there will be peaks at filing times, and [payroll] really enables a CPA to have this ongoing revenue stream that provides them predictability and steadiness.”

What’s Your Strategy?

Back in the day, the payroll processing method was pretty straight forward as people often phoned or faxed their payroll data to a service provider. But times have changed — for most.

With the rise of cloud-based solutions, mobile technology and innovative software solutions, there are more choices today than ever before. What’s clear is that there’s no cookie-cutter approach. The strategy by which a firm delivers payroll services can vary greatly. Generally, firms will fall into one of the following buckets:

In-house: In-house processing affords firms the highest degree of control over the process, but it does require a high level of technical knowledge. It is recommended that at least one staff member is dedicated to payroll full-time. It should be noted that firms that choose an in-house approach may still refer some payrolls to an outside service.

Outsource: Firms that choose to outsource most of their payroll business to an outside service can benefit from the client loyalty and steady cash flow that come from offering payroll, without the staffing requirements or technical knowledge required to process it in-house.

Hybrid: Many firms choose a hybrid approach, processing some payrolls in-house and outsourcing others to a payroll service. As noted by Thomson Reuters, they often do this by creating a tightly defined business model, defining certain client types and sizes that they can efficiently process in-house. They then refer payrolls that don’t fit this model to an outside payroll service. This approach can enable a firm to maximize profit on a client-by-client basis, tailor their payroll business to their desired staff size and goals, and offer payroll services to every current and prospective client.



Chandra Bhansali

Chandra Bhansali, CEO of AccountantsWorld, a provider of cloud-based solutions, said that, in order to generate enough profit, a firm should first determine if they have enough clients with a need for payroll services. Firms that have fewer than 10 clients who have a need for live payroll may want to consider outsourcing. If a firm has 40 to 50 clients using a payroll service then “there is a very strong case for you to consider offering payroll services,” Bhansali said.

Firms interested in outsourcing their payroll business, for example, could turn to a company like SwiftChecks based in White Plains, N.Y.

Leveraging the cloud-based Payroll Relief solution from AccountantsWorld, SwiftChecks is a service provider that works with accounting professionals who are looking for an alternative to in-house processing.

“I want to give them a chance to offer a package product, and the same level of support that they give their clients on the tax side, I will be giving them on the payroll side. ... I’m going to give them the service. I’m that person that is going to be dedicated to the payroll for them so when tax times roll around they aren’t thinking about payroll. They are focused.” said John Magaletti, owner of SwiftChecks. He noted that those accountants who would like to access client data and reports can do so through a master client login.

Dopuch of Business in Balance said his firm is currently using more of a hybrid approach as it is in the midst of converting the majority of its clients to Thomson Reuters’ online payroll service myPay Solutions. They have converted roughly 20 clients to myPay and have another 30 or so to go.

“We’ve been full service payroll but we’re now outsourcing the majority to Thomson Reuters myPay Solutions. We bill the client, and then pay myPay. It’s the best of two worlds; we have seamless, 24/7 Web portal access to client data, a payroll GL data import file that really works, and a dedicated payroll processor that we work with closely to make adjustments to client files as needed. We no longer need



Chris Fleming

payroll processing staff in house,” Dopuch said.

In weighing the various strategies available to firms today, Andy Childs, vice president of marketing at Paychex, said firms that are new to payroll processing tend to opt for hosted solutions. “[Firms] tend to do it more the hosting route only because of the combination of the technology and the compliance burden is so great. ... By relying on a hosting partner taking that on that gives you a chance to be in the payroll business without taking on all that complexity.”



Andy Childs

The Cloud: To Be, or Not To Be?

Many accounting professionals continue to use desktop solutions to process payroll but industry sources insist that change is on the horizon as the cloud can deliver greater efficiencies and reduce risk.

“With the cloud the whole thing is that you can streamline or automate virtually every aspect of your payroll processing, which you cannot do with a desktop-based system,” Bhansali said.

Added Bhansali, “Everything is moving towards the cloud. Everybody in the world is on the cloud now. So, even people who are offering desktop solutions right now will have to move to the cloud ... So, there is no reason for you to start with something that is already outdated or going to be outdated.”

Chris Fleming, manager member of Claremore, Okla.-based Fleming & Associates, agreed and said his firm has transformed its front door to portals.

“Really, nobody comes in our office anymore, especially for payroll. It is all handled through our Web site. We have really transformed our front door from literally a physical front door to our client portals that we use via our Web site,” Fleming said.

Fleming started the accounting practice in 2004 but, in 2012, separated the payroll practice and rebranded it Premier Payroll Professionals.

“Rebranding the payroll practice allowed us to be more versatile in our offerings and to provide more structure too,” Fleming said.