

[Back](#)

## Easing Payroll's Burden

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BY ALEXANDRA DEFELICE

Maurizio Adornetto wanted nothing to do with payroll. When AccountantsWorld approached him about its online Payroll Relief product about six years ago, he did not want to add it to his tax and consulting practice, figuring he couldn't make a profit.

Three years later, he was using the vendor's services to help his Katonah, N.Y.-based firm customize and optimize its Web site and was again approached about Payroll Relief, this time offering him a free six-month trial.

So Adornetto, who previously had been referring payroll services to ADP and Paychex, read the advertisement on AccountantsWorld's Web site, and decided to take it in house instead of shifting money to someone else.

Since then, his revenue has climbed 20 percent and he started a separate practice called **Adornetto Payroll Solutions** to highlight those services. About 50 of his roughly 200 corporate clients are also utilizing his payroll services and while Adornetto says he doesn't push them in that direction, the number is growing.

**He also gets new clients in reverse, offering those who come to his payroll company additional services and passing on savings that AccountantsWorld offers him to his customers, many of whom were using ADP or Paychex but switched because they wanted a closer relationship with their payroll provider, he says.**

"Most of the time with big payroll services, they have geographical distance. Now they can keep the face-to-face relationship and get a real person on the phone and get all reports online anytime," Adornetto says of the services he provides using Payroll Relief. "When they call us and tell us their name, we know what they look like, clients like that."

They also like the fact that he provides as little or as much help as they need. The product is designed so the clients can do some of the payroll and the accountant can monitor it to make sure everything is correct and the taxes are paid on time or clients can run their own payroll from anywhere because it's Web-based.

Often, accountants don't want to take on the full responsibilities associated with processing payroll.

A 2007 survey by **Thomson** found that 38 percent of accountants handle payroll processing for their clients; 30 percent have their clients do it themselves and 32 percent outsource it to a third-party vendor.

A December 2007 survey by **PayCycle** found similar results: of 239 respondents, it was divided roughly evenly with one-third of accountants shying away from payroll; one-third doing payroll reluctantly as a client service and one-third wanting to acquire as many payroll clients as possible.

Accountants who avoid it or who are only reluctantly involved offer many reasons: they don't want to be tied to their desks (though this issue is being addressed with Web-based services), it's time-consuming with many deadlines and they don't want the liability associated with failure to pay the right amount of taxes in a timely matter.

**Payroll is not just about issuing checks, but is about the ability to keep on top of complex employee regulations and laws.**

During a presentation at Intuit's Accounting Professional Users Conference this summer on the topic of effectively advising clients about payroll, **Michelle L. Long**, a CPA and owner of Missouri-based **M. Long Consulting**, outlined some of the areas for potential mistakes along the payroll process:

Understanding and applying relevant payroll regulations; keeping track of changes in withholdings, rates and rules; tracking time worked by hourly employees and calculating wages; deducting all the appropriate withholdings; tracking when to pay taxes and files forms; integrating payroll details into financial accounting software and generating year-end forms and payments.

Reports show that one in three small businesses incur annual payroll penalties of \$1,500 on average because of mistakes such as those and missed deadlines for tax deposits or filings. Long even knows of one business owner who ignored notices that it was time to pay.

"While many clients want to process payroll in-house to save money or maintain control, the clients often lack the time, knowledge and skills to do so properly," Long says. So accountants have a decision to make regarding how involved they want to be.

### Choosing Roles

Three roles exist for them to choose from: provider, collaborator and recommender, Long says.

Providers set up payroll, enter employee hours, issue paychecks, enter payroll transactions into the general ledger and prepare federal and state payroll tax forms, which the accountant signs.

Collaborators help clients set up payroll, fix problems created by the client, enter payroll transactions into the general ledger and prepare federal and state payroll tax forms, which the

### Can Accounting Firms Profit From Payroll?

Can firms really profit from processing payroll?

Crunching the numbers can help determine whether it's worth the effort.

Following is a sample analysis provided by Michelle L. Long, CPA, owner of M. Long Consulting, including some of the factors to consider.

Assume a firm has 50 clients with an average of 10 employees; a gross billing average of \$1,500 per client (\$75,000 annually); a part-time payroll processor working 15 to 20 hours per week at \$15 per hour plus 35 percent benefits (\$21,060 annually). Also include the cost of roughly one hour per week of accountant review time (\$200 per hour) and the cost of marketing, software supplies and other fees (\$10,000).

**Revenue:** \$75,000

**Salary:** -\$21,060

**Review:** -\$10,000

**Costs:** -\$10,000

**Gross Profit** = \$33,940.

Long suggests recalculating this for different numbers of clients to keep in mind different salaries and costs of service may apply based on geographical location and to examine which vendors offer wholesale pricing or software discounts to accountants.

Several accountants said that processing payroll for less than 5 clients is not monetarily beneficial, though many of them do it anyway as a client service.

Research from PayCycle, which provides Web-based payroll products, found that accountants who use online payroll service earn net income of \$89 per hour, compared to \$66.35 per hour for those who use traditional services and \$41.54 per hour for those who conduct manual payroll.

Using online services, accountants report earning an average of 50 to 70 percent gross margin.

client signs.

Recommenders essentially hand off all responsibilities to the client and provider and fix any problems the provider makes.

The trend that Long and others in the industry are seeing is a move toward taking on multiple roles depending on the needs of individual clients. When choosing which role to pick, it is important for firms to examine not only the needs of each client but of the firm itself, she says. These include issues such as the staff's payroll knowledge and additional skills or trainees they will need; other services the firm offers and strategic plans on how payroll could fit into the future direction of the company.

**Areas in which they can serve as either a collaborator or a provider include creating and distributing paychecks; making tax deposits on behalf of clients; preparing monthly, quarterly and/or annual payroll tax returns and printing W-2 forms at the end of the year.**

Vendors are starting to realize that accountants want these options and are changing their products or introducing new ones to be more flexible.

For example, **AccountantsWorld** offers Payroll Relief Full-Sourced Payroll in which the vendor handles the complete payroll processing on the accountant's behalf, including payroll entry, printing and delivery of paychecks and electronic payments and a "no penalties guarantee." AccountantsWorld charges the accountant and the accountant charges the client at a price they deem fit.

ADP introduced an online payroll product in October called Run, Payroll for Accountants, and Run with Tax Filing, in which the accountant is responsible for importing clients' hours, but ADP handles tax payments, also guaranteeing against penalties.

"There's minimum work the client has to do and we do the heavy lifting. If there's a problem, assuming the information was imported correctly, we will work with the IRS directly to adjudicate it," says **Don Weinstein**, ADP's vice president of strategy and marketing. Weinstein adds that **ADP** is seeing about double the demand for the tax filing product. "During tax season, it really becomes a burden. We could do (filings) while they still manage clients."

Thomson, which offers Payroll CS as part of the **Thomson Reuters Tax and Accounting CS Professional Suite**, quietly launched a payroll service call MyPay Solutions about a year in order to serve accountants who want to refer services to Thomson instead of handling it themselves. There are roughly 7,000 accountants using Payroll CS and about 200 to 300 referring clients to Thomson, but about 40 percent of those also have Payroll CS, according to senior vice president **Jack LaRue**.

**Thomson provides payroll reports for firms' MyPay Solutions clients and shares 10 percent of the revenue generated from their clients' payroll processing.**

Intuit offers several options, including **QuickBooks Enhanced Payroll for Accountants**, which lets accountants offer end-to-end payroll processing for up to 50 clients with a single subscription. Meanwhile, QuickBooks Assisted Payroll targets companies with little payroll experience. Employers calculate earnings, deductions, and net pay and print paychecks using QuickBooks, then Intuit files their federal and state payroll taxes, makes tax deposits and processes W-2s.

**PayCycle** lets accountants monitor their clients' status online. Recently the vendor added the ability to customize the level of access for each client. With no client access, the accountants manage payroll and it takes less than five minutes to run and file taxes electronically, according to **Julie Lubetkin**, PayCycle's marketing director. Other options exist in which clients enter payroll hours and run payroll while accountants assist with setup, tax payments and filings or accountants only handle tax-related tasks and help answer questions.

#### Helping Hands

**Newman Associates** prefers helping.

"It has never been our intention to provide a payroll service for our clients and we don't want to be a payroll provider," says Andrew Newman of his Northern California CPA firm. "We see a collaboration with PayCycle as an opportunity to assist the clients with questions and payroll processing issues, while passing on the savings of the service to the clients. We bill for the time, if needed, and we charge our clients our cost for the service."

**Newman's firm does not prepare the tax forms, calculate the weekly payroll or make the tax payments. Instead, it monitors the clients accounts to make sure that the taxes and reporting are done in a timely manner, something Newman says is easily achieved with PayCycle's email notifications and client to-do screens.**

"By simply offering the service and providing backup for any issue a client may have, I am separated from the day-to-day payroll, but available at any time, pretty much anywhere in the world, to answer the clients' payroll questions and concerns," Newman says. "PayCycle customer service is also a strong ally and has always been available to help me if there is a concern I can't address. It offers the best and cheapest 1099 service I have ever seen. You can't buy forms for what they charge for the entire service."

PayCycle's wholesale pricing for its payroll services including setup, unlimited payroll runs and customer support, is \$14.99 per month per client for up to five employees, and 25 cents additional employees. This also includes direct deposit, electronic federal tax payments for 36 states and HR tools.

Many other vendors such as ADP and Intuit also offer discounted prices for accountants.

On the other hand, firms that do want to take on all the work could serve to benefit with increased revenue (See related story, "**Can Accounting Firms Profit From Payroll?**") and more connections with clients, plus it helps smooth out seasonal cash flow, Long says.

Intuit conducted a survey that showed firms providing payroll services have an average of 29 touch points with their clients during the year. "These touch points provide additional opportunities to offer other services or simply increase your connection to the client," Long notes. "Payroll has been identified as a sticky service—the client will be less likely to switch accountants if they provide them with multiple services."

**Touching clients on a regular basis also avoids the issue of having to reconcile problems at the end of the year or getting calls when something goes wrong during the year Adornetto adds.**

Even when serving solely as a recommender, firms need to stay on top of all the different vendors and various products offered by each vendor in order to figure out what's the best fit for each client, Long warns.

Things to consider include how many employees they have and how many they anticipate having in the next two to three years, how are they currently processing payroll and what do they like/dislike about that system, how often do they pay employees, do they want to be able to do job costing, do they want to invoice clients for employees' time, do they want to maintain some level of control and keep some of the process in-house?

Beyond knowing some of the basics of each product is trusting the payroll vendor.

**Juravel & Co.**, a small CPA firm outside of Atlanta, used to process payroll for several clients and made money doing it, but has started referring work to Paychex instead.

"Today people want more than payroll—direct deposit, everything electronic and benefits, which payroll companies can bundle. We couldn't even do payroll alone for less money," says:

**Phil Juravel**, one of 28,000 CPAs referring clients through the Paychex Partner Program from AICPA Business Solutions.

**But he was not quick to pass on the work. He had a relationship with Paychex for eight or nine years. One of his reps even cooked home-cooked meals for his firm and on helped him hire a part-time CPA. He saw stability in the staff at Paychex, which he values as important to building trust. "It might take us a year to consider referring. Don't refer blindly."**

Juravel also expects to get their cell phone numbers so he can call them in case of a client emergency.

"Most clients that use **Paychex** call me first, so I make sure it's dealt with. I can call the right person and follow up," Juravel says. "If we refer someone and it's not working perfectly, I want to know about it because my business and reputation are at stake."

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