

Building client loyalty with payroll services



With proper attention, this practice area can be
rewarding for CPAs and clients.

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Despite the sizable risks associated with payroll, some CPA firms believe it's an essential service to provide for small business customers.

"When you're offering an all-inclusive accounting outsourcing package, we believe you've got to offer [payroll services] to be that all-in-one trusted adviser for small business owners," said Gary Wood, CPA, a partner at Compere & Robinette in Ozark, Mo. Wood believes that offering payroll services shows a CPA firm's commitment to being a one-stop resource for small business owners' accounting, tax, and advisory needs.

Before offering payroll services, firm leaders need to understand the risks involved. Payroll is a high-risk job because it's a compliance exercise in which one mistake can have disastrous consequences. No client wants to have employees suddenly find problems with their paychecks or direct deposits. Regulatory scrutiny also is intense, as withholding for tax purposes may be monitored closely by the IRS. The risks associated with payroll services include:

- IRS penalties for mistakes that result in underpayment or late payment of payroll taxes.
- Cybersecurity risks related to the amount of personally identifiable information that is required to administer payroll.
- Fraud, which can be manifested in schemes such as payments to fictitious employees and unauthorized modifications to employees' pay.
- Reputational risk to the firm that can result from pay-

ments to employees that are either late or for the wrong amount.

"Accountants sometimes don't want to touch payroll because they say that if they make a mistake on an IRS deposit and the client starts getting letters, it may ruin the relationship," said Tyler Winn, CPA, founder and president of Cirrus Payroll in Tulsa, Okla. "And is it worth the revenue they can bring in by doing payroll to risk the whole relationship, which may include a lot of different services that the client is engaging them for?"

Debbi Warden, CPA, CGMA, a partner in Rubin-Brown's Entrepreneurial Services Group in Denver, believes any risks associated with providing payroll services for a client are mitigated when a CPA firm has appropriate processes and effective systems in place. The other option for a firm is directing the client to a provider that just performs payroll. But Warden said performing payroll for a client can help build loyalty and a stronger relationship with the client.

The key is doing it well, which means performing mistake-free work, guiding clients toward the practices and services that work best for them, and perhaps providing some value-added services. These tips from CPA experts can help firms succeed at performing the payroll services their clients need.

FIND AN OWNER

Some firms find that it helps to dedicate one staff member to perform the payroll services for all of the firm's clients. Winn, whose firm only performs payroll services, said he sees other firms get into trouble with payroll when ▶



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everybody on staff primarily handles other services for their individual clients, and also dabbles in payroll for each of those clients. He believes that if each person on a CPA firm's staff devotes just a small amount of time to payroll services, those services will not get the attention they need. A fully dedicated staff member can give payroll the appropriate amount of focus.

"I've had my company for over six years now, and I still learn weird, quirky things about payroll," Winn said. "So if you throw payroll at a staff person who's not really trained to do it and it's not all they do, that's where the mistakes are made. But if they've got a dedicated person — at least one — that really runs the payroll and the client base for the whole firm, and good software is being licensed, and good documented processes [are implemented], it can be a good revenue generator."

Dedicating the right resources to payroll extends beyond the devotion of one staff person. Winn suggested that it is a mistake to treat payroll as an area where firms can afford to work without the best software or resources. He said it's also not a good idea to treat payroll as a "loss leader," where firms provide minimum-level services at a cut-rate price while concentrating on making a profit in all their other services.

He advises pricing the payroll service at a level that will provide the firm with a profit. Firms that try to be the cheapest on payroll, Winn said, can end up in a downward cycle without the best people, software, or service.

"Don't be afraid to charge a little higher on the price than maybe you're comfortable with," Winn said. "What I found is that by pricing my services at more of a premium price, it forced me to raise my service level to match it and has given me the resources to hire really high-quality staff people."

When pricing, Wood cautioned, it's important to be prepared for software providers to raise their monthly subscription costs. Wood's firm has success serving business owners on flat-rate service plans, and when software subscription costs rise, the firm ends up bearing the cost of the increase, diminishing its profit margin for payroll services. Firms may wish to show their monthly software costs as a separate line item when invoicing. This allows transparency to the client that the CPA is not raising fees for payroll services, just merely passing along price increases from software companies.

KNOW YOUR LIMITATIONS

Warden enjoys doing payroll for clients, but there are certain clients that she would steer to an outsourcing provider for payroll. Restaurants are one such client, partly because they have a lot of turnover. For the firm, that means a lot of time spent entering new employees and deleting departing workers from the payroll system.

TRUST

Warden doesn't believe the revenue justifies the extra work associated with that turnover.

Some firms also prefer to offer payroll services only to clients with a small number of employees. A good threshold for some is the 50 full-time equivalents that bring into force the requirements of the employer mandate of the Patient Protection and Affordable Care Act, P.L. 111-148. Those requirements can make payroll services much more complicated.

Firms may have different parameters for their willingness to provide payroll services. For example, Winn's firm specializes in just performing payroll services and takes referrals from other CPA firms that don't want to work with payroll. Wood's firm wouldn't be willing to do that.

"I would not onboard a client that said they only need payroll services," he said. "They would not be a good fit for the design of our firm."

GET THE RIGHT FREQUENCY

It's important for CPA firms to recommend the best pay frequency arrangement to each of their clients. The best frequency may vary, depending on the employer. For example, Wood said a weekly pay frequency is the standard in the trucking industry, where a company deviating from that practice might put itself at a competitive disadvantage for recruiting new employees. But for sole proprietors, Wood advises a monthly pay frequency to keep payroll compliance costs to a minimum.

One of the IRS requirements for an S corporation, for example, is that an owner who provides services to the company has to be on the payroll. When the S corporation is an owner-only business, monthly payroll minimizes the amount of time Wood's firm spends on that payroll compliance, lowering the amount the firm is required to price for its payroll compliance services.

Often, though, clients find themselves choosing between biweekly and semimonthly options. At first glance, there wouldn't seem to be much difference between the ▶

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two, as employees generally get paid every 14 or 15 days in each scenario. But there are reasons for choosing one over the other.

Winn's own employees, for example, are paid semi-monthly because they are on salary and this allows him to budget his firm's monthly salary expenses equally, with two pay periods each month. A biweekly pay schedule would give him a couple months each year with three pay periods rather than two, creating an anomaly that's difficult to budget for.

Nonetheless, for clients with hourly employees, Winn recommends biweekly pay periods. This removes some of the confusion that can be associated with semimonthly payroll. For instance, on a semimonthly schedule that calls for a payday on the first and 15th day of each month, the payday may end up on a weekend or a holiday, creating confusion among employees on exactly when they are going to be paid each month.

With biweekly pay, meanwhile, employees know they are going to be paid on the same day every second week.

"Biweekly payroll is every other Friday, and so that is a nice routine," Warden said. "People do much better in a predictable routine, and biweekly pay can be scheduled in a cleaner manner. So I'm a fan of trying to talk to the client about biweekly payroll, creating that rhythm."

DON'T MESS WITH TIME SHEETS

One key for profitability with payroll is making sure the client and employees are responsible for getting time sheets filled out, coded, and approved, Warden said. A CPA firm can burn precious resources chasing time sheets and approvals. In addition, if a CPA firm agrees to enter and code time, it introduces the potential for errors on the part of the CPA firm.

"I try to create an environment where the client is responsible in whatever manner makes sense for them to get the time and the time sheets," Warden said. "I don't want to be making errors with putting time in the time sheets, and I'm not sure there's giant value for just coding time. So trying to get the client to do that and also approve it is a really important piece."

Warden also highlights the importance of providing clients with access to all the payroll filings the CPA performs. This is likely to be a regulatory requirement, depending on the filing, the regulator, and the jurisdiction. Some clients may choose to ignore those filings and disclosures, but meeting the regulatory requirements with regard to client access is critical. Warden also advises firms to ask their clients to sign IRS Form 2848, *Power of Attorney and Declaration of Representative*, to give the CPA power of attorney to discuss the clients' tax issues with the IRS.

PROVIDE VALUE-ADDED SERVICES

Although payroll usually is seen primarily as a compliance service, it may give firms a chance to provide additional value to their clients. Offering payroll as well as tax planning services to business owners gives Wood's firm an opportunity to provide value-added analysis of whether withholding is matching the owner's income tax obligations. For example, the firm may discover that an S corporation owner who is taking a monthly paycheck is not withholding enough from his or her salary to pay his or her personal income taxes before the end of the year. This provides Wood's firm the opportunity to advise that additional tax payments be made through the monthly tax withholdings being administered by its payroll department.

"We're able to advise them of that shortfall and say, 'Hey, no problem. We've got four to six months to make up for that shortfall. We'll just have more withholding tax taken out of your payroll checks,' to help smooth out that shortfall instead of getting to April 15 of the following year and having to deliver bad news to that business owner," Wood said. This puts the CPA-adviser in control of assisting with that shortfall, instead of hoping and trusting the business owners will make the tax payments themselves. Wood believes this improves the client-adviser relationship.

Generally, new business owners are referred to Wood's firm for assistance with tax preparation services. Through the firm's sales and onboarding process, the business owner learns about the firm's upfront, flat-rate tiered service plans and sees that payroll can be part of a monthly service plan that isn't too expensive and will let the business owner concentrate on the parts of the business that he or she enjoys the most (which usually isn't accounting or payroll).

As a result, Wood believes that as long as firms dedicate the appropriate resources to payroll, it can be rewarding for both the firm and the client.

"You can't dabble," he said. "You can't live in the middle. You've either got to be all in that it's a core service offering, or you don't offer it at all." ■

PAYROLL-RELATED RESOURCES

American Payroll Association, americanpayroll.org

Independent Payroll Providers Association, ippa.net

IRS Payroll Professionals Tax Center, tinyurl.com/y9kp3d85

National Payroll Reporting Consortium, nprc-inc.org

The Payroll Group, thepayrollgroup.org