

Turning Payroll into Profit:

A Practical Guide for CPAs

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Optimizing payroll processes for greater efficiency

Payroll is a mission-critical operation for all businesses, regardless of size. For Certified Public Accountants (CPAs), making money from providing payroll services can seem like a distant wish, as it has long been perceived as a resource-heavy, low-margin offering.

Many practitioners view payroll as a complex, heavily regulated area requiring significant time and effort that does not always translate into revenue to the same level as other revenue streams. They are apprehensive about the risks involved in keeping up with compliance issues associated with payroll's intricate laws and deadlines across different states and what this could mean for their reputation and client relationships.

But this isn't the case with all CPA firms. A growing number of CPAs view payroll services as a strategic avenue for expanding their business scope, enhancing client relationships, and generating consistent revenue streams. This optimistic group argues that with the right tools, technology, and approach, the challenges of payroll can be efficiently managed, transforming it from a necessary burden into a profitable service offering.



What sets them apart?

These CPAs can recognize the potential of payroll services and strategically position themselves as industry leaders. By adopting a practical, informative, and professional tone, they can establish trust with clients and showcase their expertise in this ever-growing field.

This guide offers a roadmap for CPAs aiming to enhance their payroll services and secure a competitive edge in the industry.



Why are CPA firms not embracing payroll?

If payroll is such a fundamental service, why are CPA firms reluctant to embrace the service? What is putting them off and preventing them from embracing the opportunity payroll can provide?

A constant fear of non-compliance

The primary reason CPA firms often hesitate to fully integrate payroll services into their portfolio is the perceived complexity and regulatory nature of payroll management.

The fear of non-compliance is substantial; failing to accurately manage payroll can result in significant financial penalties, damage to relationships with clients, and a tarnished reputation in the industry. Firms are very aware that payroll encompasses not just the calculation of wages but also the intricate details of tax withholdings and filings and ensuring adherence to both federal and state-specific labor laws.

A burden on already maximized resources

A close second comes the impact of running a payroll function on resources. Many CPA firms have experienced firsthand the resource-intensive nature of payroll services. It demands continuous investment in both human capital and technology to stay current with changing regulations, something that small to medium-sized firms find challenging.

In addition, the constant need for updates and training can divert resources from other potentially more profitable or strategic areas of the business.

A low-value activity that is not worth the effort

Another significant deterrent is the historical perception of payroll as a low-margin service. With the rise of automated payroll solutions that offer businesses do-it-yourself options, CPA firms often find it difficult to compete on price while still maintaining a level of service that justifies their fees. Consequently, these firms worry about the viability of payroll as a sustainable revenue stream in the face of stiff competition from both software solutions and larger firms that can operate on thinner margins due to economies of scale.

A point of failure that could damage client relations

Given the direct impact payroll errors can have on an employee's livelihood, the stakes are incredibly high when payroll mistakes are made. Errors not only trigger immediate financial repercussions for employees, but they can also lead to a loss of trust from clients, who expect their CPA firms to manage these operations flawlessly.

This anxiety around error prevention acts as a strong deterrent against the adoption of payroll services for many CPA firms, regardless of the promise of new revenue streams or business growth opportunities.



Common payroll barriers

Which of these common barriers to providing payroll services apply to your CPA firm?

Identifying the blockers is the first step to overcoming them and being able to maximize the potential of payroll within your practice.

Answer these questions about your firm.

1. Keeping Up with the Rules

- Are we equipped to stay updated with the constantly changing payroll regulations across different states?
- Do we have the resources and processes in place to ensure compliance with complex payroll laws?
- How do we manage the stress and effort required to keep pace with evolving payroll rules?

2. Time and Resources

- How much time and resources are currently allocated to payroll processing within our firm?
- Do the financial returns justify the investment of time and resources in payroll services compared to other services we offer?
- Are there ways to streamline our payroll processes to make them more efficient and cost-effective?

3. Tech Savviness

- Are we proficient in using the latest payroll software and tools to enhance efficiency?
- Do we have the necessary technological infrastructure and expertise to leverage modern payroll solutions?
- How can we bridge any gaps in tech-savviness within our team to ensure we remain competitive in offering payroll services?

4. Customizing Services

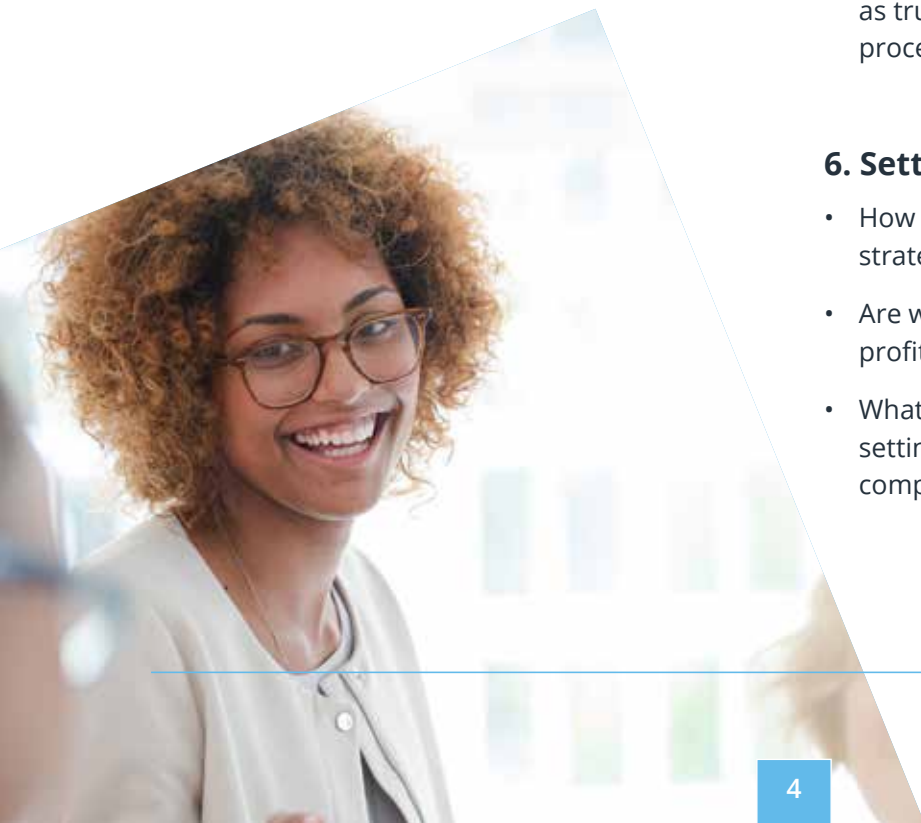
- How do we tailor our payroll services to meet the unique needs of each client?
- Are we equipped to handle the diverse requirements of businesses in different industries and sizes?
- What strategies can we implement to provide personalized payroll solutions effectively?

5. Advisory Role

- How can we transition from solely processing payroll to offering value-added advisory services to our clients?
- What steps do we need to take to enhance our advisory capabilities in areas such as tax savings and compliance?
- Are there opportunities to expand our role as trusted advisors beyond traditional payroll processing?

6. Setting the Right Price

- How do we determine the optimal pricing strategy for our payroll services?
- Are we balancing competitiveness with profitability when pricing our payroll services?
- What factors should we consider when setting prices to ensure we are adequately compensated for our expertise and services?



Unleashing the potential of payroll

Compliance complexity may be a deterrent for CPA firms in providing payroll services, but this same issue also opens up an opportunity. With businesses also recognizing the challenges of payroll, ranging from tax compliance to managing employee benefits, there is a significant opportunity for CPAs to expand their service offerings

By positioning payroll services as a key component of their portfolio, CPAs can not only meet this growing demand, but also strengthen their relationships with clients.

A shift in mindset

The challenges of providing payroll are universal, yet there are CPA firms who are making it work for them, processing hundreds of payrolls using only a handful of staff. What's their secret?

The distinction between CPA firms that excel in payroll services and those that view it as a financial afterthought largely boils down to mindset.

Many accounting professionals view payroll as a service with slim profit margins. They offer payroll primarily because it's requested by their clients or used as a loss leader in a broader strategy for client retention. They operate under the philosophy, "If my clients need payroll services, and it contributes in any way to keeping them on board, then I might as well provide it."

On the other hand, CPAs who manage exceptionally profitable payroll departments approach this service with a different mindset from the outset-not merely as an obligatory task but as a significant source of profit. They view payroll as a vital profit center, which drives them to explore and implement strategies aimed at optimizing profitability.

With this mentality, simple but effective measures can be adopted to elevate profitability through payroll services. This involves diligent efforts to streamline processes, reduce the workload, and intelligently adjust pricing and marketing strategies. Adopting this approach not only enhances efficiency but also opens up new avenues for revenue generation, proving to be substantially rewarding for those willing to shift their perspective and invest in the potential of payroll services.





Streamlining operations with technology

Technological advancements have revolutionized the delivery of payroll services. Investing in state-of-the-art payroll software can significantly reduce the time and effort required to process payroll, by increasing efficiency and profitability.

Features such as automated tax calculations, electronic filing, and direct deposit can streamline operations and minimize errors. Adopting cloud-based solutions can offer added flexibility, allowing CPAs to serve clients remotely and expand their market reach.

Offering tailored solutions

One size does not fit all when it comes to payroll services.

Businesses vary in size, structure, and industry, each presenting unique payroll challenges. CPAs can differentiate themselves by offering customized payroll solutions catering to their clients' needs. Whether it's addressing compliance issues in a particular sector or providing scalable services for growing companies, tailoring your offerings can significantly enhance client satisfaction and loyalty.

Leveraging payroll as a consultative service

Beyond the mechanics of payroll processing, CPAs can add value through consultative services. This can include advising clients on tax-saving opportunities, compliance with federal and state regulations, and strategies for optimizing employee benefits.

By positioning themselves as trusted advisors, CPAs can elevate their role from service providers to strategic partners, opening new revenue streams and strengthening client engagement.

Pricing strategies for profitability

Developing an effective pricing strategy is crucial for making payroll services profitable. Rather than competing on price alone, CPAs should focus on demonstrating the value of their services. This can involve offering tiered pricing packages based on the level of customization and support provided. Additionally, transparent pricing models can help build trust with clients, ensuring they understand the value they are receiving.

Payroll Options for CPAs

CPA firms must make a critical decision regarding how they provide payroll services for their clients. Generally, the options are to use payroll software and manage the process in-house with your team or outsource these services to a specialized payroll provider. There is no one right way, but if you understand the distinct advantages and challenges of each, you can make the best choice for your firm.

Payroll Software

Adopting payroll software means bringing the process in-house, using specialized applications designed to automate and manage payroll functions.

Pros:

- **Control and flexibility:** You will have complete control over the payroll process, allowing for immediate adjustments and customizations based on client needs.
- **Integration capabilities:** Many payroll software options can integrate with existing accounting systems, providing a seamless workflow.
- **Cost-effectiveness:** Over time, in-house software can be more cost-effective, especially for firms with a large client base.

Cons:

- **Learning curve and upkeep:** You must invest time in learning the software and continuously update your knowledge to keep up with new regulations, even when the software itself is updated.
- **Resource Allocation:** Requires dedication of internal resources for management and operation, which could be allocated elsewhere.

Payroll Outsourcing

Outsourcing refers to the practice of hiring an external organization to handle all payroll-related activities. The payroll partner becomes an extension of your team.

Pros:

- **Expertise and compliance:** Outsourcing companies specialize in payroll, ensuring compliance with the latest tax laws and regulations without your team needing to keep abreast of every change.
- **Time savings:** It frees up your firm's resources, allowing you to focus on core activities and advisory roles instead of administrative tasks.
- **Scalability:** Outsourcing can easily scale without the need for additional internal resources.

Cons:

- **Less control:** Depending on the provider's software and platform, you may face limitations when customizing the service to meet your clients' unique needs.
- **Cost:** While outsourcing eliminates the need for in-house payroll software training and management, the ongoing costs can be higher, especially for firms with a significant number of clients.
- **Dependency:** Relying on a third party increases the risk of disruptions should the outsourcing service fail to deliver as expected. The service provider's delivery affects the perception your clients will have of your overall service.

As part of your firm's payroll review, you will need to assess your internal capabilities, client needs, and strategic priorities when choosing between payroll software and outsourcing. A well-considered decision will enhance the quality of service offered to clients while optimizing your firm's operational efficiency and profitability.

IRIS payroll solutions

For CPA firms exploring efficient, reliable, and flexible payroll management options, IRIS provides a comprehensive choice of payroll solutions, whether you choose software or partner with a managed payroll service.

Payroll Software

Talk to us about your payroll requirements, and we will provide the right software solution for your firm.

- **Automated compliance management:** Our software is designed to keep up with the latest payroll legislation changes automatically, ensuring your services remain compliant without the need for constant manual updates.
- **Integration capabilities:** Seamless integration with existing accounting systems and third-party applications enhances efficiency and streamlines the payroll process, offering a cohesive experience for both your firm and clients.
- **Scalable services:** Whatever the size of your payroll operation and clients, IRIS payroll solutions provide scalable options that grow alongside your client's business, ensuring consistent service.
- **Cloud-based flexibility:** with cloud-based software, you gain the ability to manage payroll operations from any location, offering unparalleled flexibility and the opportunity to extend your market reach.



The IRIS payroll solution is a game changer for HRmonious. The switch helped the company amass 100 clients with 1,000+ employees far more quickly than expected.

There's no question, with the software we were using before, we would not have been able to grow at all. It is a great software and a phenomenal benefit for small companies. It really is."

Jason Leff, CEO, HRmonious



Managed Payroll Services

In today's fast-paced business environment, CPA firms are looking for reliable and efficient ways to manage their clients' payroll services without additional strain on their resources. IRIS MyPay Solutions offers a comprehensive managed payroll service designed to meet the unique needs of CPA firms and their clients.

- **Seamless payroll:** Takes on the processing of your clients' payrolls, providing accurate and timely payroll processing of wages, deductions and taxes.
- **Compliance confidence:** Reduces the burden of compliance for you and your clients.
- **Tax filing and payments:** Automated tax filing and payment services ensure compliance with all tax regulations across all states, minimizing the risk of penalties.
- **Enhanced security:** Payroll data security is assured with our enhanced security systems and 24/7 monitoring.
- **Employee self-service:** Employees can access their pay stubs and W-2s online, anytime, reducing inquiries to employers and enhancing the employee experience.
- **Reporting:** Access to detailed payroll reports to support financial planning and analysis.
- **Integration:** We can integrate with your existing tax and accounting software, eliminating data entry duplication.
- **Support:** A dedicated payroll specialist will be your ongoing contact, providing support with set-ups, paychecks, and more.

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myPay Solutions feels more like a back-office partner than a separate service bureau. They let me maintain my relationship with my clients, but they're always there when we need them."

Christine Trumbull, Owner, CL Trumbull & Company, LLC



Find out more about the IRIS range of payroll services and solutions for CPA firms.