

Why CPAs

# Should Offer Payroll Services



**DEVELOP A PROFITABLE,  
resilient revenue stream that  
increases business customer  
engagement**

# Payroll is the ultimate “essential business”

In these uncertain times, are you looking for ways to build new revenue streams and increase your firm's financial resilience? CPAs should consider adding a payroll service.

Every business—no matter how small or large—has to pay employees and it is critical they calculate payroll correctly and meet complex compliance requirements. Most small and medium-sized businesses (SMBs) need a partner to help with this essential task, and it's natural to seek this service from trusted advisors.

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# What Makes Payroll the Ultimate Essential Business?

Small business owners rank payroll as their highest human resources priority. They need help to get their people paid on time and stay in compliance with changing payroll laws.

SOURCE: **ASURE SMALL BUSINESS SURVEY**

## Accurate, timely pay is essential to employee satisfaction & retention

There's no more important employer-provided benefit than a paycheck. Companies need that to run smoothly to stay productive and financially sound. When asked what would happen if their next paycheck were delayed by just one week, 74% of surveyed employees said it would be somewhat or very difficult to meet their financial obligations.<sup>1</sup>

Payroll can be a very sensitive topic for employees—especially if anything goes wrong on payday. Mistakes in payroll calculations cause employee distress. Repeated mistakes can erode employee satisfaction and trust. A recent small business survey revealed nearly one in three employees has been paid late and one in six employees said they would consider quitting their job if they received a single inaccurate paycheck.<sup>2</sup>

## Payroll compliance is complex & mistakes can be costly

There are a lot of ways businesses can run afoul of employment laws with inaccurate or untimely payroll. The Fair Labor Standards Act establishes the Federal minimum wage, overtime rules, and recordkeeping requirements for payroll. Many states and localities impose their own minimum wage and other wage rules, making payroll particularly complex for businesses with employees in multiple states. Failure to calculate overtime correctly or failure to pay on time can result in noncompliance penalties. In 2019, the Wage and Hour Division recovered \$322 million in back wages from noncompliant employers.<sup>3</sup> Keeping up with changing compliance regulations, tax forms, and deposit deadlines is a headache many business owners prefer to avoid.

## Operating a payroll service adds resiliency to your business

In a challenging economy, having a payroll services operation within your business provides a valuable, reliable stream of revenue. Payroll isn't seasonal or temporary; it's an ongoing, critical business function. It takes a little time to grow a payroll service operation, but once it's established, it is very resilient and elastic. During a deep recession, layoffs and business failures may reduce client counts and revenue, but an established payroll revenue stream won't go to zero. In fact, during tough times, most small businesses really need the support of payroll providers. For example, during the COVID-19 pandemic, payroll providers have played an invaluable role in helping struggling business owners navigate compliance with new leave and payroll rules embedded in the Families First Coronavirus Response Act (FFCRA) and the Coronavirus Aid Relief and Economic Security Act (CARES).

## Providing payroll services increases client engagement

Payroll providers typically have high retention rates and keep clients for a long time. Business owners don't enjoy switching payroll providers and many find it particularly burdensome to make a change before closing their accounting books for the year. You already enjoy strong client relationships. Being able to remove the burden of payroll and tax compliance from your customers adds another regular point of interaction with clients and further cements your role as a trusted advisor. For example, this year, payroll providers have served as essential advisors to small and mid-sized businesses struggling to understand the Paycheck Protection Program (PPP) loan applications, regulations and rules for loan forgiveness.

**Seventy-three percent of organizations outsource some aspect of payroll processing and tax compliance.**

SOURCE: **PWC**

**Forty-three percent of small business owners fell behind on making payroll tax deposits during the pandemic. Thirty nine percent were unaware of the fines for untimely deposits.**

SOURCE: **TAXAUDIT**

<sup>1</sup> American Payroll Association, "Getting Paid in America Survey Results," 2019

<sup>2</sup> TSheets by Quickbooks, "Late Paydays Put Employees (and Employers) at Risk," September 6, 2018

<sup>3</sup> Bloomberg Law, "DOL's Wage and Hour Collects Record \$322 Million in Back Pay," October 28, 2019

## The Business Case for Payroll:

# CPA Firms

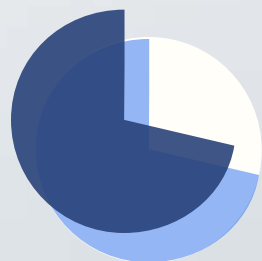
**Business clients already trust your firm with their taxes and accounting, so payroll is a natural extension.**

In the tax and accounting profession, client relationships run on trust and expertise. Reputation means everything. CPAs help small and mid-sized businesses ease the burdens of tax preparation, compliance, and business planning and forecasting.

In a business environment that's becoming increasingly digital, what do business owners want from accounting professionals? They want someone who can embrace online technology to make communication and client service easier, but who doesn't let the impersonal nature of technology get in the way of delivering tailored client service. They want a trusted advisor who can help them with a gamut of business problems, including how to reduce taxes, manage and pay a workforce, and contain expenses. In response, accounting firms are increasing their range of business services in order to increase client engagement and serve as a one-stop shop for client needs.

**72% of small business owners turn to accountants, lawyers, and other trusted business advisors for help with employment law compliance**

SOURCE: **COMPLYRIGHT**



## 6 Reasons

# CPA Firms Benefit by Adding a Payroll Revenue Stream

## 1. Year-round payroll services increase client engagement touch points

Accounting firms often engage with small business clients only one or a few times each year, making it harder to stay top of mind. Tax preparation and advising is mostly seasonal. Business advisory services like forecasting and budgeting take place annually. Even bookkeeping services are concentrated at month-, quarter- and year-end. Payroll isn't seasonal—it continues on a weekly, bi-weekly, semi-monthly, or monthly schedule all year long.

## 4. CPAs are already compliance experts

Tax and accounting compliance are an integral part of your business, so you understand the gravity of getting payroll compliance right. And you have your finger on the pulse better of your local economy and community or your vertical industry of choice. Your clients already think of you when they think about any form of business taxation, so payroll is a natural extension of your firm's portfolio of business services.

## 2. Recurring revenue smooths out firm cash flow

Because so much of the billing in tax and accounting occurs seasonally, adding a payroll service is a great way to add predictable, recurring revenue that is vital to off-season cash flow. Once you build a payroll client base, your firm can forecast a stable amount of revenue on a regular basis, while increasing your bottom line.

## 5. Payroll reinforces your role as a trusted advisor and one-stop solution

Every small and mid-sized business in your locality or niche market is a potential customer for your new payroll service. Delivering a full range of business services—including payroll—will help cement your reputation as a one-stop-shop and trusted business advisor, leading to increased word-of-mouth referrals to your firm as business leaders share experiences through social media, business networks, and membership associations.

## 3. Payroll can expand your market

As business clients demand more business services online, accountants are spending less time in face-to-face client engagement. Many firms are looking to specialize in vertical industries or other business segments in order to break out of geographic constraints and choose their best clients anywhere. Every business needs payroll, so it is one business service that can expand your existing local market share as well as your online niche visibility.

## 6. Delivering a payroll service has low labor requirements after startup

The labor requirements for payroll processing and compliance are much lower than for business advisory or tax. After the initial setup of software and customer accounts, automation provides most of the labor. Clients will use self-service automation to input their new hires and employee terminations. Once you have a well-oiled process and good efficiency, very few man-hours are required to deliver on-time, accurate payrolls.

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**In seventy-two percent of small businesses, one person handles both HR and accounting**

SOURCE: CLUTCH



# Planning Your Go-to-Market Strategy

Every company's go-to-market strategy will look different. Take your existing business, your resources, and customer base into account when you tailor your plan

## What product & service do you plan to offer?

When adding a payroll revenue stream to your business, your core offering must be payroll and tax compliance. Payroll tax compliance poses the greatest risk for small business customers. The taxes and reporting are complex and keeping up with tax forms, filing deadlines, and tax deposits will drain small business owners' most precious resources—time and focus to grow the business.

Beyond the core competency of payroll and tax, there are many other services you could offer customers to help them manage the workforce, including Human Capital Management (HCM), time and labor management (TLM), benefits management, and fully outsourced HR.

Consider what combinations of services would be most beneficial to your customers and match your firm's strengths. For example, Employee Benefits Brokers already help customers source benefits carriers and conduct open enrollment, so expanding into HCM administration or outsourced HR might be a natural next step after payroll and tax. Accounting firms might prefer TLM as the next offering after payroll and tax.

## What market will you target?

In the past, most business owners chose their partners based, in large part, on geography. Working with your local CPA usually resulted in better customer service. There is still value in providing a personal touch, but as the world becomes more digital, many business owners are seeking partners with specialized knowledge, regardless of location.

Many CPA firms have analyzed the client base and decided to go all-in on one or several niches. A niche might be an industry you focus on, such as restaurants, or it could be an attribute of business operations, such as companies pursuing a green agenda. Developing deep expertise and knowledge in a niche area builds your reputation as a trusted advisor.

## What is your initial go-to-market strategy?

Your existing customer base is the best place to start marketing a new payroll service. Your established base of loyal customers gives you a significant advantage over other new payroll providers. These customers already trust you with very critical aspects of their businesses—their money, their tax compliance, and their employee benefits.

## How will you scale up as time goes on?

Don't try to launch additional services at the same time you add payroll and tax. Instead, create a plan that accomplishes growth in phases as you scale up in customers. Have measurable targets in terms of time, customers, or total revenue that you will accomplish before adding the next service. For example, plan to spend the first year growing your payroll service, or wait until you reach 100 payroll customers before launching your next product.



## TOP TIPS

**Think beyond geography.** Seek out problems your company would be good at solving in the wider world.

**Study your existing customer base.** Any type of client or industry representing 20% or more of your revenue is a natural niche with a good customer base.

**To start out, focus on industries with easier payroll characteristics.** Businesses that primarily pay employees by the hour, have high employee turnover, or hire lots of seasonal employees have more complex payroll calculations and a greater number of payroll changes.

**Concentrate on one niche at a time.** Establishing your company as a dominant player requires strong focus and execution.

**Become a subject-matter expert.** Establish your company as a thought leader and problem solver in your niche.

**Don't rely solely on word-of-mouth marketing.** You'll enjoy stronger results by investing in marketing programs for payroll and tax.

## What Makes Payroll Tax Compliance So Complex?

New providers to the payroll business quickly discover tax compliance is the most complicated aspect of a payroll service to deliver. There are more than 11,000 state and local taxing agencies—all with their own distinct processes, requirements, and deadlines.

### Payroll webinar series

for Banks, CPAs, and Benefits Brokers:

[Why Banks, CPAs, and Benefits Brokers need to be in the Payroll Business: Top 10 Questions Answered](#)

[Top 10 Considerations for Banks, CPA's and Benefits Brokers entering the Payroll Business](#)

## Here are the 13 most common mistakes made in payroll tax management:

1. *Failure to obtain all information needed from a prior payroll provider*
2. *Inaccurate tax accounting for payroll deductions like insurance payments or retirement contributions*
3. *Overlooking a state or local taxing agency where there is a tax liability*
4. *Not being familiar with new filing requirements*
5. *Submitting filings at the wrong frequency*
6. *Filing late*
7. *Using the wrong rate for calculating state unemployment insurance withholding*
8. *Being unaware of state-by-state paid family medical and leave provisions that may require a withholding tax calculation*
9. *Submitting inadequate payment*
10. *Making mistakes on state W2 filings or year-end reconciliation*
11. *Mistakenly including things like mileage reimbursements as wages*
12. *Submitting a payment by check after a jurisdiction has switched to electronic*
13. *Misreading or overlooking an agency notice*

# Getting Started with a Payroll Offering

Execute your go-to-market plan by assembling a strong team and good technology as well as establishing solid security practices.



## Staffing

### How to choose the right team

Payroll is immediate and emotional. Employees want accurate payroll delivered on-time. Picking the right staff for this job is one of the most important factors determining your success.

If you don't have someone who understands the ins and outs of payroll, it will be difficult to grow your payroll business and delight your customers. That's why the first person you hire should be a very strong compensation/payroll specialist who has worked in a payroll service bureau. That provides operational experience and an understanding of payroll taxes, wage and labor laws, and compliance issues. Someone who understands the security issues involved and the internal controls that are needed.

At some point, you will also hire a payroll tax manager and a dedicated sales person. As you grow your customer base, you will add customer service representatives (CSR) for payroll. You will also need to support the team with either in-house or outsourced tech support.

If you have an up and running service bureau, you can have 1 CSR per 200 clients. Starting out, you need to staff up a little more – maybe 1 CSR for every 100 clients. Once you scale, 1 person can probably cover more clients, especially if you have automation to run the.

## Technology

### Hardware & software requirements for payroll operations

As a payroll service provider, you will need a solid payroll and tax platform that ensures your ability to pay your customers' employees on time and accurately with flawless tax compliance. Once you set your customers up in the software, automation will enable you to process payroll at scale without a heavy time or staff commitment. The hardware and software investment required to run an in-house payroll service can be substantial for many firms:

#### Hardware requirements:

If you're hosting your own payroll operation, you will need servers along with multiple backups to provide redundancy and get the service back up and running right away if the primary server fails. You will also need desktop or laptop computers for the customer service representatives you will dedicate to payroll. Finally, you will need specialized printers for paychecks. Although the vast majority of employees choose direct deposit, some still prefer paper checks. You will need printers that prints with the press and seal style. They are fairly expensive and you will need duplicate printers, so you will not miss a payroll in the event that one breaks down.

#### Software requirements:

First and foremost, you will need a modern, proven payroll software to make payroll calculations, process payroll, and keep

records. Technology is a great equalizer; today, you can offer small business clients software with comparable usability and functionality to software than only the largest enterprises could enjoy just a few years ago. Features to look for in your payroll software include: Ease of use, an online interface, employee self-service to view paystubs, mobile capability, and support for paycards. Customer service representatives will also need office software (either on premise or hosted, such as Office 365) and secure tools for file sharing and encryption because payroll contains a lot of personally identifying information (PII).

**Over 40% of small business owners said keeping track of employee time and attendance was one of the most time-consuming parts of running their business.**



## Security

### Keeping customers' money and sensitive data safe

Whether you store client payroll data on-premises or host it in the cloud, your company will be responsible for the security of that data. Payroll fraud is a significant concern, and it can be attempted from the inside or the outside. A single fraudulent payroll run could cost tens or even hundreds of thousands of dollars. A data breach could result in the loss of highly sensitive data including employee Social Security Numbers and bank account information.

It can be very difficult for a small business to implement the controls necessary to adapt to any scenario and provide service seamlessly through any event, including natural disasters, electricity and hardware failures, and pandemics. In particular, maintaining high security building infrastructure and employee controls can be quite expensive. Fortunately, partnering with a security-focused payroll vendor can alleviate many data security concerns.

## Operations

### Onsite and in-house or outsourced and hosted in the cloud?

If you host payroll yourself, you will have to buy the necessary hardware and software up front; if you choose to outsource payroll to a partner, the hardware and software you need will be provided in the cloud. Outsourcing fees are based most on size (number of employees being paid), so your operational cost will scale as you add more customers, keeping the initial upfront investment much lower.

Using hosted payroll software or an outsourced vendor will also enhance security protocols. Hosted solution providers have access to the most secure data centers in the world, featuring solid internal controls and multiple redundancies to ensure rapid disaster recovery.

An automated, online payroll process greatly reduces payroll administration time. When starting out, plan staffing at a rate of one customer service representative for every 100 clients. In a well-established, automated service bureau, one CSR can cover up to 200 clients.

# 4 Common Pitfalls to Avoid

At Asure, we've had the privilege of supporting many partners as they opened a new payroll revenue stream, so we've observed the obstacles and the successes. In our experience, these are the four most common pitfalls companies face within the first year of delivering a new payroll service:

## 1. Lacking payroll-specific knowledge and experience

Payroll requires a unique and specific knowledge base and skill set. It can be tempting to try to reskill an existing employee to head your new payroll initiative, but additional training will not make up for a lack of experience. Avoid this pitfall by hiring an experienced operations person who previously worked in payroll—preferably for a payroll vendor.

## 2. Losing focus on good execution

After businesses take the time to develop a business plan with a go-to-market strategy, they need to keep an eye on follow-through. The best plan can be laid to waste by poor execution. This includes losing focus and deprioritizing the payroll business when existing product lines seem to require more attention. Have patience and maintain dedication. Run your payroll service as a distinct business within your business and dedicate the resources to bring your plan to fruition.



## 3. Rushing the business plan

If things have been going well at first, it can be very tempting to try to add customers to your payroll service at a faster pace than was set out in your business plan. Resist the urge to grow too quickly. Don't add too many customers or your largest customers before your team has the chance to overcome start-up challenges and smooth out the payroll process.

## 4. Setting unrealistic expectations

There will be hiccups on the journey to create an efficient, profitable payroll service offering. You need to give your business time to hire the right people, learn a new software system, and perfect your internal payroll processes. Understand your limitations and continue to patiently work toward your revenue goals.

**“Don't get starry-eyed over opportunities to sell big customers if your business isn't ready to service them yet. Stay focused on executing your plan and you'll have the opportunity to get there at the right pace”**

**Kathey Palmer**

Sr. V.P., SBO Business Development, Asure







Asure HCM for Partners is a white-label Human Capital Management platform built for payroll services providers. We are 100% committed to helping our partners grow while they help their own customers grow.

We've intentionally created white-label products that provide you with the technology and support to move into new service areas with purpose, enriching your customer engagement as trusted advisors to the SMB marketplace. Our cloud-based solutions give our payroll partners flexible options ranging from full-service payroll tax outsourcing to software products that allow complete control over back-end processing. We are SOC I audited for security and internal controls and we are compliant with over 11,000 federal, state, and local tax agencies.



# The #1 HCM partners for CPAs

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