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HUMAN RESOURCES & PAYROLL

Payroll Services for Your Clients: Which Model is Right for Your Firm?

Isaac M. O'Bannon • Marty McCutchen • Sep. 05, 2014



Over the past two decades, payroll processing has had an ebb and flow relationship with many professional practices. Small and mid-sized business owners or management either try to manage payroll themselves without assistance, or they instinctively turn to their public accountant. In the first case, most will inevitably face penalties for missing due dates or reporting deadlines or experience other compliance errors. As far as those who have turned to their accountant, the result has greatly depended on the professional, the firm and their conception of the payroll service.

Few will disagree that managing payroll effectively is a critical element of running a business. After all, the fines can be painful and missing a payroll run can be destructive to the relationship between the business and its employees. But for many, keeping up with changing payroll tax issues, reporting and payment deadlines, and other issues can be a challenge.

While most accountants certainly have the skill and knowledge to manage the processes, professionals have developed several views of the service over the years, with firms adapting different strategies for handling payroll. Many practices have found success in developing very profitable payroll offerings as a fully managed in-firm service, having developed a strategic workflow that uses a combination of technology and appropriately paid data-entry staff. In fact, some firms can see six-figure profits from models with only two staff dedicated to managing payroll for 50 to 100 clients.

Other firms, however, have preferred to leave most payroll functions to their clients, sometimes advising them toward using one of the national payroll service companies. For some, this allows them to dedicate limited staff toward other engagements, while also ensuring that clients have reliable payroll processing functions.

There are also many variations in between, where professionals can use automated systems that maintain the firm's presence in the payroll process, but with little investment of time or resources.

For this year's review of payroll systems, we identified four general models that professional accountants use to service their clients, and we start each review by identifying which type of product it is (see box at right for how we identify each payroll model). The fifth model listed is primarily for direct business use. You know your firm's capabilities and interests, so you're in the best position to determine which model is best suited to your practice and your clients.

Payroll services have the potential to be very profitable and can be one of the strongest relationship-building services you offer, with clients and their employees frequently interacting with the firm and the firm's brand through web-based self-service portals. The same advances in technology over the past decade that have made the national payroll companies so successful are now available to professional accounting practices; it's just a matter of integrating those payroll services into your firm's workflow. n

(Box-out with "Best fit" highlighted or something.)

SNAPSHOT: Payroll Service Models

– **Wholesale Payroll Professional** — *Best fit:* High-volume accounting or bookkeeping firm where payroll is a major revenue center. For this firm, payroll is a significant part of their practice, with payrolls prepared on a production basis for numerous employers with complex needs. This model is designed for use by sophisticated users, has multiple levels of rights/access permissions, and interfaces with multiple benefits management options. Such products are probably being used to manage 50+ business payrolls with any number of employees. In this model, the professional firm is handling every aspect of payroll processing and compliance reporting. Employer clients do little more than submit employee time spreadsheets, while the vendor plays no role after the sale/licensing of the software.

– **Practitioner/Multiple Employer** — *Best fit:* A firm managing payroll for multiple employers, but the service isn't as significant a volume as the "wholesale" group. These firms are usually managing up to around 50 payrolls with varying numbers of employees. Such products are designed for firms who offer payroll services but whose practice is not primarily payroll. At this level, in a professional firm, most aspects of the processing and reporting/payment are directly managed, but one or two things like EFT direct deposit or benefits management might be used as a service of the software company.

– **Professional Prepared, with Assistance** — *Best fit:* Firms who want to manage the payroll processes of all/most of their clients, but not perform all of the work. Aside from data entry by either the firm or the client, the direct deposit and all/most compliance issues (federal, state, local reporting and payments) are performed by the technology vendor as a service, possibly with escrowed funds, but with all or most branding and client invoicing remaining in the control of the accounting practice. Therefore, clients perceive the service as being provided by the firm, which can bill/markup as it sees fit.

– **Outsourced/Referral** — *Best fit: Accounting firms who want little interaction with their clients' payrolls, other than final reporting* for import into write-up or financial consulting. Under this model, firms refer clients to use a software program or payroll service provider, such as the national big brands, with the client performing their own data entry and interacting directly with the technology vendor to accomplish payroll. The vendor usually manages payroll compliance, including reporting and payments. The accountant may or may not have online access rights to view live data and client payroll reports. The client is either invoiced directly by the service provider or possibly by the firm as a pass-through bill for the service. The client is likely aware that the service is being provided by the technology vendor.

– **Direct Client/Business Use** — These systems are designed for direct business use, providing little or no support for multiple employers. A few products that fit this model are included here, but the tax and accounting professional has no direct or tangential interaction with the payroll service.

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