

# PAYMASTER *Hospitality*

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## PAYROLL INTO PROFIT\$

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**Steps to Vital New  
Control Over Wages, Tips  
and Shift Pay**

***In today's hospitality industry, time really is money.***

After all, the faster you serve customers, the more customers you can serve. That's why you invest in staff who can make the most of every minute they're on the clock. And with salaries and wages accounting for a full 30% of hospitality-business costs, it's important to know you're getting the best possible return on such a sizeable investment. You should expect this same return on the time you invest in *managing* that payroll.

**TIME TO CUT OVERHEAD.** While salaries and wages account for 30% of your costs, another factor — overhead — accounts for an additional 27%. Hidden in this figure is the cost of handling payroll. How much time do you and your staff spend tracking and managing salaries and tips? How long does it take to comply with IRS and DOL reporting requirements? How many hours go into sorting out tax issues with your accountant? How much time *and money* get spent fixing mistakes?

**Clearly, improving how you handle payroll has a direct impact on profit margins.** Automated payroll solutions cut costs and streamline both compliance and accounting. That's why these systems are playing an increasingly important role in every industry. But not every industry faces the hospitality industry's challenge of handling payroll for employees who receive tips and who may work at different pay rates — waiter, hostess, administrative support — all in one day. And that's why restaurants, taverns, catering services, chains, restaurant management firms, and other hospitality businesses need to choose the *right* solution to automate payroll tracking, reporting, and compliance.

**How do you find the right payroll solution for your business?** You start by taking a look at all your options, from outsourcing to doing things yourself. Next, you need to take a look at how you run your business. That's a key factor in zeroing in on the best solution to support your people, processes and business structure. Finally, you want a system that is going to save you more than time: you want a payroll system that can take full advantage of money-savers (such as IRS tax credits) *and* make sure that your wage-hour-tax compliance is so clean you never spend a dime on penalties, lawsuit, or making up back pay.

How can you cover all this ground? It's easy — just follow these three simple steps...

## STEP 1 **Outsourcing vs. In-House:**

### Choosing what's best for *your* hospitality business

Outsourcing has been touted as the business solution for everything from information technology management to human resources. And it may well be your best solution for payroll. Before you make that decision, take a hard look at these four questions:

**Can you always wait for payroll services?** Or are there times when you need the ability to cut a check, adjust tax status, or make other changes *without* delay?

**Do you need flexibility?** Do your employees often work different jobs or shifts within your business? Do you have seasonal changes in personnel and payroll?

**Do you like to involve others in your finances?** Or do you prefer to retain control — and privacy — when it comes to payroll?

**Can you afford an outside service?** Are the monthly rates, transaction charges and other fees actually saving you money compared with doing things in-house?

Kevin Brown, owner of the Sea Ketch Seafood Restaurant in Hampton Beach, NH, recently compared outside Automated Data Processing (ADP) to keeping things in-house.

Kevin had been managing his employees using an internal spreadsheet and wanted a far more efficient solution — and a better way to keep tip reporting and other issues from causing him trouble with the IRS and Department of Labor. Kevin considered ADP, but he has seasonal employees. He couldn't find an outsourced solution that could satisfy his need to adjust from 125 employees at the height of the season, down to 50, then just 10 and finally to 0 employees when Sea Ketch closed for the off-season. ADP was just too expensive for a seasonal business.

He also found it too cumbersome. The “fixes” ADP companies would have to put in place to handle Kevin's specific tips, allocation, and wage adjustment requirements added up to a lot more fees than Kevin felt he needed to spend. Plus, he'd be spending that money and still having to spend his own time getting data formatted and organized to send to the ADP company.

The final factor against outsourcing was giving up control. Kevin had run Sea Ketch successfully for 35 years and didn't want an outside firm suddenly getting into all his business.

So, Kevin decided to look for an internal payroll solution. But that was just the first step. Because while keeping payroll in-house lets you save money and hang onto control, it also presents challenges. From tip reporting and review, to calculations, rules, and deadlines for everything from overtime to Social Security, there is an incredible amount to know and do — and so many different deadlines to meet.

While the good news is that many programs allow you to automate payroll and bring it in-house, not just any program can meet your specialized tracking and reporting needs. In fact, when Kevin Brown first started looking for in-house payroll software, he found that Quick books, Peachtree and other programs he looked at did not handle tips and wage adjustments.

Many hospitality businesses find themselves in the same situation. That's when it's time to move to **Step 2** for turning the payroll process into a profit driver...

## STEP 2 **Generic vs. Hospitality Specific:** Finding the best match for *your* processes

Tipped income presents hospitality industry employees and employers with unique responsibilities – and stiff penalties for not complying with the letter of the law. Here's just one example:

The DOL recently filed a lawsuit against a restaurant, claiming the employer owes its employees more than \$100,000 in back wages.

DOL claims the restaurant failed to keep proper track of the hours worked, failed to pay the minimum hourly wage, and failed to pay over-time wages. What went wrong?

The restaurant's employees worked as servers, busboys, cooks, and dish-washers and DOL claims servers were working only for tips, while the busboys and kitchen staff were working for a fixed weekly rate that did not meet the minimum wage standards.

### **How can there be any question about meeting minimum wage standards?**

In the hospitality industry, as in every industry, the minimum wage is \$5.85 per hour. But unlike other industries, the \$5.85 per hour can include both hourly wages *plus* tips.

If you pay employees *less* than \$5.85 in base wages, they must make enough in tips to total \$5.85.

If you *do* pay employees a lower base wage, remember that \$5.85 — not the lower hourly wage — is the base for calculating overtime. Once you've multiplied that regular rate of pay (at least \$5.85) by time-and-a-half, *then* you subtract out the hourly tip credit.

### **Factoring in the tip credit and tracking the FICA tip credit could yield significant savings to restaurant owners.**

In addition to correctly calculating pay, you're also required to keep accurate records of the hours that employees work. You must file your Form 8027 correctly, make sure employees file their monthly 4070 forms, *and* be certain that the tips they're reporting are at least 8% of total receipts. But, again, things aren't quite that straightforward: that 8% can't include "non-allocable" receipts.

And there's more! You need to choose a voluntary compliance agreement (TRDA, TRAC, EMTRAC) and make sure you meet the differing requirements that come with each of those options.

Plus, you must factor in issues like different pay for different shifts, different pay for different positions (like when a waiter also trains staff or serves as a host), immigration status, and much more.

**It's clear that payroll for the hospitality industry is a very complicated area – and it's why a general payroll program just won't serve your best interests.**

Even generic payroll programs that claim they've been "modified" to include tip reporting and hospitality industry processes will quickly fall short. You'll find that the modifications leave too many "cracks" that could expose you to mistakes that you'll have to make a major investment of time and money to correct.

**Even hospitality-specific programs often have "missing pieces" that can expose you to oversights, underpayments and penalties.** Below is a list of specific features and functionalities that make all the difference in keeping your payroll easy, efficient, and trouble-free. Be sure to check this list against any program you are considering purchasing.

## **Must-Have Payroll Software Features for Optimum Cost Savings and Trouble-Free Reporting**

<b>IRS Compliant</b> <i>PayMaster Hospitality's</i> tip-handling capabilities were designed by a former IRS restaurant auditor
<b>Multi-state taxes</b> (employees who work in or move to different states)
<b>Job costing multi-location batch and individual data entry</b>
<b>Job titles</b> Allows employers/employees to choose from a nearly endless supply of job titles.
<b>Cost centers:</b> Allows different cost centers to be processed separately or together (up to 50 divisions possible)
<b>Calculates overtime <i>plus</i> related compensation for tipped employees</b>
<b>Interfaces</b> to and from Time & Attendance
<b>Exports to common spreadsheets and programs (e.g. Microsoft Excel)</b>
<b>Prepares reports</b> for <i>all</i> required government formats including mag media, scannable and special forms
<b>Prints reports</b> for tax credit for FICA taxes on Tips
<b>Prints state unemployment reports and W2s</b> on paper formats

## STEP 3 **Better Margins**

### Turn bullet-proof compliance into lower costs

Once you've zeroed in on the right payroll system, it pays to use *all* its features. That's how you get the maximum benefit — not just efficient management and trouble-shooting compliance, but of bottom-line savings. In fact, the right software should reward you with three “savings streams”:

#### **OVERHEAD:**

A good program not only cuts overhead, it *manages* overhead. In terms of payroll, this means reducing the time it takes (and perhaps the number of staff needed) to handle tracking and reporting. A good payroll system gives you this greater management capability two ways. First, it does in fact reduce time and staff requirements. Second, it gives you good payroll records that can dramatically cut the hours (and therefore the cost) of having your CPA go over your figures at tax time and for end-of-year reporting.

How can you make sure a program will you this power to manage your overhead costs? You need to make sure that the software includes all the features listed in Step 2. *Plus*, make sure you choose a system that is very, very easy to use. You also want a system that comes with easy access to help from technical support people as well as people experienced in hospitality tax law. Should you ever have a question, you don't want to waste time waiting for “automated” or online customer support!

The goal is to choose a payroll program with real resource-management power to keep more of your revenues flowing into the PROFIT column than into overhead. Specifically, you want to ask these questions *before* you purchase the software:

- **Is it easy to use the program?** Is it simple to collect and input data, report forms? Does it make automatic calculations and apply data and changes without your having to make duplicate entries?
- **Is it easy to link to your other programs?** Can the data from your payroll system be integrated with data and functionality from your general ledger, point of sale, and time clock systems?
- **Is it easy to get help/expert advice when you need it?** You want access to excellent technical support PLUS real-person help from experts who know the system and the IRS/DOL/management issues you face in the hospitality industry. For instance, can you call and ask what you can do if a month's reported tips total less than 8% of your total receipts... or can you ask whether TRDA or TRAC is a better choice for your specific situation?

#### **FINES AND PENALTIES:**

As shown in the earlier example, DOL isn't shy about enforcing wage-hour law. IRS is just as serious. With a good payroll program, you do far more than minimize the risk of making a \$100,000 error. In addition, if an error *should* occur,

your system can provide the audit trail you need to defend yourself, show good intent, and minimize fines, penalties, and the impact on your business.

Since IRS and DOL are always tinkering with requirements, you need to make sure you are *never* working with outdated calculations or reporting rules. Telling the government that you made a mistake because you were using an old system won't help you one bit! That's why there's another question you need to ask before you buy any payroll system:

- **Is it easy to keep current?** Does the system offer automatic updates to keep you in step with the latest tax and wage requirements? If your business grows, can you expand the functionality of the system — easily and affordably?

### **TAX SAVINGS:**

Did you know you may be eligible for a tax credit for the FICA taxes you pay on tip income? That's right — and it can add up to considerable savings.

Certain food and beverage establishments are eligible to receive a business tax credit for all or a portion of the employer-paid Social Security and Medicare taxes (FICA) incurred on certain tip wages. To claim this tax credit, you use Form 8846, *Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips*.

This business tax credit has no impact on employees' pay or their wage and tax information. However, because it's calculated using data from the payroll system (e.g., employee's rate of pay, reported tips), a good hospitality-specific payroll system can give you the data you need to claim this credit.

**Learn more about the "tip" tax credit:**

The September 2005 issue of PayMaster Hospitality's newsletter offers a full explanation of the tax credit and how to claim it. For a free copy of the newsletter, please call:

**Sales, 703-281-7486**

When you have a program that is easy to use, easy to link and easy to update, you achieve more than just accurate payroll and worry-free compliance: you free your staff and your resources to focus on creating happier customers, higher earnings and lower overhead. That's the ROI you should expect — and it's why the right tips/payroll management program translates directly into bottom-line profits.

## AFTERWORD

Cutting overhead has always been critical to success in the hospitality industry. That's why, over 20 years ago, we created PayMaster Classic software was created. We built it from the ground up just for hospitality businesses and packed it with *all* the tip and payroll functionality employers need to steer clear of tax and labor problems.

As today's intense competition and sharply rising costs squeeze your margins, cutting overhead has become even more critical. And that's why I believe our new, Windows-based version — PayMaster Hospitality — can make such a difference to your profits. This powerful new program not only handles the very latest tip reporting requirements, but also streamlines your entire payroll management process.

I'm proud of the recognition PayMaster Hospitality is earning throughout the industry for its features and uniqueness, including:

- Ease of use
- Ability to cut overhead and deliver a measurable return on investment
- Best-in-the-business support and personal service
- Time-saving efficiency and accuracy
- Worry-free compliance with IRS and DOL requirements
- Reliability and in-house control

Let us give you a free online demonstration of how PayMaster Hospitality can save *you* time, money and worry. Please give us a call today.

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