Payroll

Ways to Reduce Payroll Costs, Compensation Plans & Process Streamlining
Contractor vs employees

- Anyone still utilizing contractors?
- **Changes to law at state level**
  - Judges / Choreographers / etc.
- Privates don’t receive contractor status
- Use the McDonald’s / Target test
Contractor vs employees

- McDonald’s / Target test
  - They don’t have contractors
  - They have part timers
  - Their employees have other jobs
  - They make less than $600 annually
  - All McD’s treats them the same across the country
Contractor vs employees

- See IRS letter ruling
- Employees have a way of raising the red flag
- Disgruntled employee will burn you
  - Penalties can be HUGE!
- How much extra does it cost to turn them into employees?
Lets Talk Payroll....

- Big Picture.. What’s payroll anyway?
  - Gross pay
  - Net pay
  - SS / MC matching
  - FUTA
  - SUTA
  - Workers compensation
# Lets Talk Payroll....

## Payroll Register Report (Pre-Approval)

**Widget Manufacturing Corp.**

Pay Period From 10/20/2018 to 10/26/2018, Pay Date: 10/26/2018, Payroll # 2 (Standard)

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Hours*</th>
<th>Rate</th>
<th>Current</th>
<th>YTD Taxes</th>
<th>Current</th>
<th>YTD Deductions</th>
<th>Current</th>
<th>YTD ER Taxes**</th>
<th>Current</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grand Tot:</strong></td>
<td>160.00</td>
<td>2,610.00</td>
<td>2,935.00</td>
<td>152.43</td>
<td>153.03</td>
<td>139.20</td>
<td>139.20</td>
<td>99.42</td>
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</table>

**Payroll Summary**

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Total Net Pay:</th>
<th>2,318.37</th>
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</thead>
<tbody>
<tr>
<td>Regular</td>
<td>120.00</td>
<td>1,040.00</td>
</tr>
<tr>
<td>Personal</td>
<td>40.00</td>
<td>320.00</td>
</tr>
<tr>
<td>Bonus</td>
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<td>1,100.00</td>
</tr>
<tr>
<td>Meet fees</td>
<td>25.00</td>
<td>NJ State Tax</td>
</tr>
<tr>
<td>Birthday Parties</td>
<td>250.00</td>
<td>NJ SDI</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NJ SUI</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NJ Family Leave Int</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NY SDI</td>
</tr>
</tbody>
</table>

**Payroll Totals:**

<table>
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<th>Rate</th>
<th>Current</th>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

* Hour totals represent total work hours and do not include any overtime or double-time premium hours.

** Individual checks include FICA and unemployment taxes only. For summary, other employer tax YTD's represent total employer tax as of pay date.

**Note on Departmental Reporting:**

Employee will be included in default department only. Report will not reflect allocation to different departments.
Lets Talk Payroll....

- **Employer Taxes:**
  - SS / MC matching – 7.65%
  - FUTA – .06%
  - Federal unemployment. It’s $42/person per year max.
  - SUTA – Your % times wage base
    - AZ is 7K; CA is 7K; IL is 13K; MA is 15K; MN is 32K; MT is 32K; TX is 9K, etc.
    - As you terminate folks this increases
Let's Talk Payroll....

What does a $1000 cost me?

- MC / SS tax - $76.50
- FUTA $6.00
- SUTA @2% $20.00

- Total ER $102.50
- Total $1,102.50*

*plus workers comp insurance
Payroll Benchmarks

- Payroll is expensive
- Think percentages and NOT dollars!
- Paying “by the class” vs “by the hour”
- What does payroll cost me?
  - Benchmark / guideline
Sales

100%
Labor 50%
Rent 20%
Other 30%
Rent: 20%
Profit: 15%
Labor: 50%
Other: 15%

Utilities, Marketing, Prof fees, Merch fees, Insurance, Benefits, etc, etc
Payroll Benchmarks

- Cost of payroll is single biggest expense

- Thrivers spend about 35% on payroll
- Stragglers spend about 50%+ on payroll

- Thrivers and stragglers have nearly the same hourly rates for their staff
  - Typically driven by market rates

- The number of hours that you pay, or utilization, is the more important factor. Schedule diligently to ensure they’re generating revenue efficiently.
Payroll Benchmarks

Gymnastics business:
- 35% - 50% payroll costs

Ranges are driven by recreational vs competitive programs
- Higher coaching costs
- Lower cost per hour for students
- More Admin time

Try cutting admin time out if needed

* Payroll, taxes & benefits included
### Pass through can skew:

<table>
<thead>
<tr>
<th>Category</th>
<th>Value 1</th>
<th>Value 2</th>
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</thead>
<tbody>
<tr>
<td>Tuition &amp; PT</td>
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<td></td>
</tr>
<tr>
<td>Tuition only</td>
<td></td>
<td>400,000</td>
</tr>
<tr>
<td>Labor</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>%</td>
<td>50%</td>
<td>63%</td>
</tr>
</tbody>
</table>
Improving Payroll %

Every % improvement is $$ in your pocket

- Competitive teams spikes %
- Watch your creep
- Raise prices will decrease %
- Use time sheets
- Multiple pay rates
- Improve Ratio’s
Improving Payroll %

Every % improvement is $$ in your pocket

- Jr. Instructors
- Setting pay rates based on job (not experience)
- Increase pay rates using %’s & not $'
- Limit admin time
- Check workers compensation rates
- Bartering
Payroll creep

- The process by which small time from employees accumulates to large payroll costs
- Let's see an example....
Payroll creep

- 5 Employees on staff
- ½ hour creep per day per employee
- $15 rate of pay per employee on average
- School is open 5 days per week
- School is open 48 weeks per year

Creep = $9,375
Payroll creep

5 Employees @ $15/ hr = $9,375

10 Employees @ $25/ hr = $15,625

15 Employees @ $15/ hr = $28,125

15 Employees @ $25/ hr = $46,875

10 Employees @ $25/ hr = $31,250

15 Employees @ $15/ hr = $28,125

5 Employees @ $25/ hr = $15,625
Awards to employees – BAD NEWS!

✓ Discount Programs
  - Careful of friends & family discounts
  - May trigger taxable income if discount for service exceeds 20% and/or outside ordinary course of business
  - You may provide discounts to current or retired employees; their dependents or spouses
  - If eligible person receives discounts exceeding 20% of the price offered to customers the excess discount is includable in EE’s income
Awards to employees

- Cash awards to employees are taxable

- Gifts up to $25 per employee per year are excluded from income (Staples Gift Card secret)

- Don’t forget Turkey Day

- Tangible achievement awards are still OK (ie. Company watch)
Awards to employees

- Tickets to sporting events are not taxable income if occasional

- Educational assistance is tax free up to $5K per year

- Consider gifting frequent flyer & hotel awards as these are not taxable to employee
Payroll Strategies

- Day care for owners' kids

- Put kids on payroll
  - If you pay your child $17,700 a year to work summers and part-time for you ... and you're in the 30% tax bracket ... that's a direct tax savings to you of $5,310.
Payroll Strategies

- Hire spouse for medical / dental accounts & HSA

- IRA for self / kids / spouse
  - Simple vs 401K
  - Employer match & tax reduction
Trending Ideas

Employment trends

- HR services are likely overkill
- Handbooks are necessary
- Millennials are demanding more (and different)
- Vacation & sick time pay are coming!!
- Top employment benefits
- Be careful hiring outside your state
Sean Dever, CPA & Associates
TAX / PLANNING / CONSULTIING
www.devercpa.com

Express Payroll
www.express-payroll.com

877-774-3327
sean@devercpa.com