

# How to Address Restaurant Payroll Challenges

Get your employees paid accurately  
and on time, every time.



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# Introduction

**If there is one thing that's guaranteed to demotivate staff, it's not being paid accurately or having to wait longer than they should for the money they've worked hard for. The ripple effects on customer service, upselling, staff retention, brand reputation and more are obvious.**

If things go wrong, fixing mistakes can take up valuable time that managers don't have. What's more, employers who get it wrong run the risk of non-compliance with federal, state or city rules around minimum wage, which can result in fines of up to \$10,000.

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## The Unique Challenges of Payroll for Restaurants

Payroll in any industry can be hard to get right with various federal, state and local regulations. However, for restaurants in particular, specific regulations that relate to the industry, coupled with the unique nature of staffing provide a particular challenge. For example:

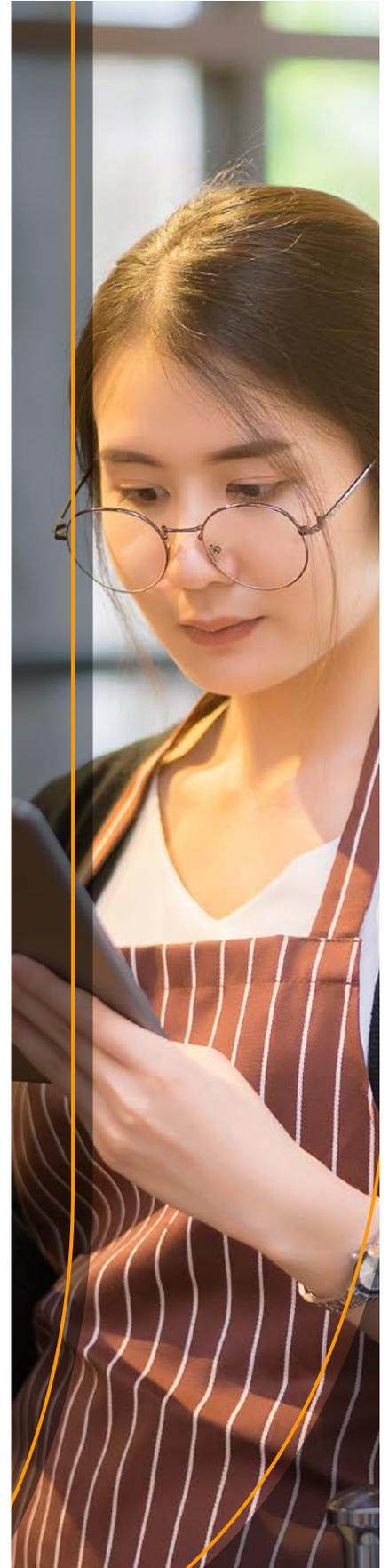
- There's a lot of legislation and many regulations that are specific to restaurants, including those regarding:
  - Ever-changing state/local minimum wage and tip credit
  - Spread of hours
  - Tip sharing/pooling
  - Predictive scheduling
  - Tax reforms
- In addition to regulatory compliance, there's a number of other factors that make payroll for the hospitality sector a challenge, such as:
  - Employees regularly have more than one job role, work in different locations and allocated to different cost centers.
  - Hourly and salary paid staff work alongside each other, and are often paid at different times.
  - Employees require variable hours to accommodate family commitments and changes in demand.
  - Temporary staff are commonly used to allow for seasonal peaks and troughs.

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## Minimum Wage and Tip Credit

Make sure employees are paid for the time they actually work (including the time it takes to change into a work uniform or take part in a debrief). Biometric time and attendance solutions can ensure that accurate clock-in and clock-out times (including breaks) are captured and sent through to payroll so employees are paid for the time they have actually worked.

For employees that receive tips, you'll need to ensure that you're complying with the relevant state requirements for tip credits. This includes keeping full records of the tips received by an employee, to make sure they're meeting the relevant thresholds for the state. Managing these in spreadsheets or standalone systems runs the risk of errors creeping in, whereas a fully integrated solution that includes tip management will ensure all tips and service charges are properly distributed in line with the relevant state requirements.



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## Spread of Hours

Spread of hours laws require additional payments to be made if the total spread of hours in a particular day exceeds 10 hours. For example, if an employee worked a double shift from 11:30 am to 2:30 pm and then from 8 pm to 11:30pm, they would be entitled to 7.5 hours of pay. 6.5 hours for the time worked, plus 1 hour extra because the spread of hours exceeded 10 hours in one day.

With a fully integrated scheduling and payroll solution, rules are in place to ensure that these additional payments aren't missed in the payroll run. Managers can also be alerted when the schedule they have created would incur these additional payments.

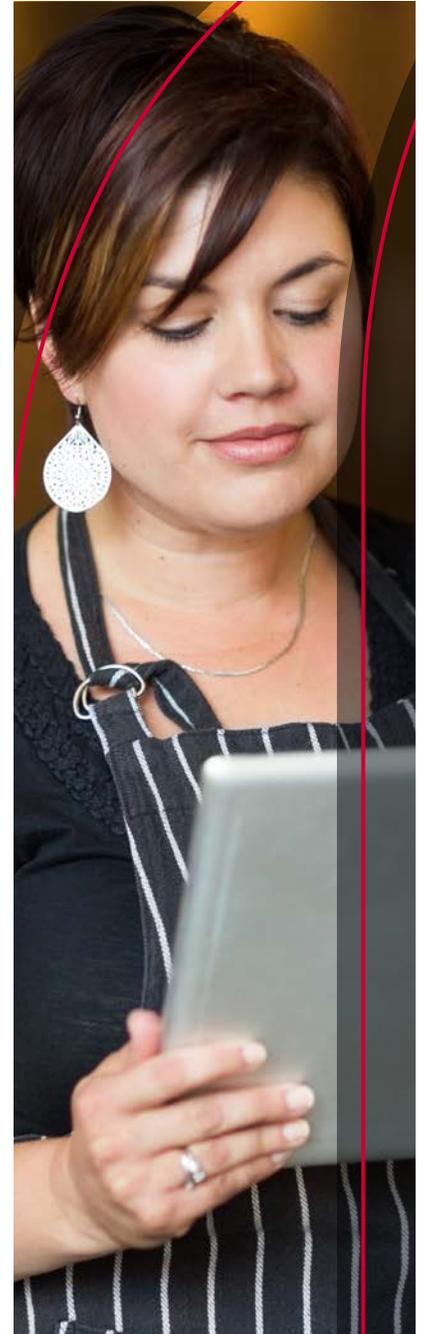
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## Predictive Scheduling

Starting life as Oregon's Fair Work Week Act, predictive scheduling, as it has become known will have a significant impact on restaurants as other states take Oregon's lead. Among the requirements, employers must provide all covered employees, which includes those paid hourly, with a written schedule seven days in advance of the first day of the scheduled work week. By July 1, 2020, this will increase from seven to 14 days.

For the hospitality sector, which is traditionally quite unpredictable, this could be a substantial challenge. The key here will be to create the most accurate schedule possible by taking into account multiple data sources, such as current and past trend analysis, notable days and events, weather forecasts and the like, and applying machine learning to identify and incorporate this into the schedule.

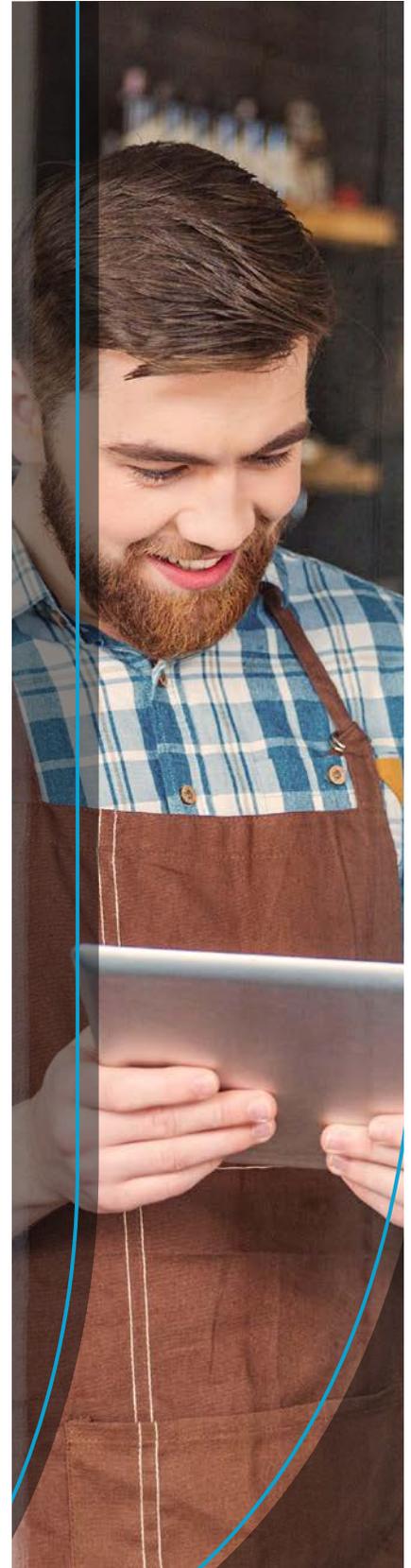
You'll also need to make sure you're using a system that will incorporate the activity required to sell and serve the items you expect to sell, rather than simply using covers or a sales by labor hour figure to create schedules. Without knowing the items that you're likely to sell and what activity or effort that requires, you can't properly staff to meet demand and maximize your sales opportunities.



## Tax Reforms

The \$1.5 trillion Tax Cuts and Jobs Act of 2017 (TCJA) tax reform overhaul means more take-home pay for the majority of American workers, but also creates payroll challenges that restaurant operators must consider as the impact of TCJA continues and brings more change. These challenges include:

- Compliance remains a key issue as current employee-completed W-4 forms, which include withholding allowances, must be paired with revised withholding tables in 2018 to ensure existing W-4 forms work with the changes in tax rates and tax brackets, increased standard deductions and repealed personal exemptions. Employees will need to consider filling out a new W-4 if their marital status changes, their number of dependents change or their spouse quits or joins the workforce. With more withholding changes to come in 2019, the IRS will increase pressure on employers to get workers to file new W-4s.
- There's also a decision to be made when it comes to supplemental pay, such as bonuses or severance. Supplemental pay should be included with standard wages and then employers can withhold as they normally would. The new optional withholding rate for supplemental pay up to \$1 million is now 22% and more than \$1 million is now 37% through 2025. Any employers who used the old rate of 25% (up to \$1 million) at any point so far in 2018 does not have to correct that error.
- Some fringe benefit deductions have been eliminated. For example, reimbursement for moving expenses is no longer tax-free. They are now taxable under supplemental pay.
- Transportation fringe benefits have changed. Free parking, transit passes and van pooling are tax-free up to \$260 a month, but operators may not deduct that benefit. However, the law has eliminated until 2026 a \$20 monthly exclusion for employees who ride bikes to work.
- The law also further changes the wage base ceiling for FICA's Social Security portion to \$128,400 in 2018, compared with \$127,200 in 2017.
- While the new law has eliminated the Affordable Care Act's "individual mandate" that Americans must buy health insurance or face an IRS fine, the "employer mandate" is still federal law. That means operators with 50 or more employees that are full-time remain legally required to offer health insurance and file forms to the federal government to show they offered that coverage.
- TCJA incentivizes giving employees time off for family and medical leave, giving qualified employees 12 weeks of unpaid and job-protected leave. Operators can qualify for a 12.5% tax credit if they offer to pay employees on family or medical leave at least 50% of their regular salary. They can qualify for a tax credit of up to 25% for offering to pay employees on family or medical leave more than 50% of their salary while they are out.



While the law does put more money in workers' hands, it also means operators are taking less from employee paychecks and are handing less money back to federal and state governments. In response, some states are examining their tax codes to see if payroll tax hikes can make up the difference. It is therefore vital that restaurants stay informed of all potential pending legislative tax changes.

You therefore need to make sure that your technology and payroll service providers are ready, willing and able to stay on top of all of these changes so you can be confident in your ability to pay your staff accurately.

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## Non-Regulatory Challenges

In addition to the combined challenges of increased legislation and regulation described above, there are other aspects of workforce management that can make payroll a challenge for restaurants.

You therefore need a solution that can handle all the nuances of the sector, including multiple roles, different pay times for differently paid staff, variable hours and temporary workers. By choosing a technology and payroll service provider that works exclusively with the hospitality sector, you can be confident that the people you talk to are familiar with the changing legislative landscape and unique characteristics of the sector, and that the systems you use have been built with all of this in mind.

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## Why Some Choose to Outsource Payroll

Many operators find that outsourcing some or all of their HR and payroll needs is the best solution to ensure accuracy and limit liability. It also frees them up to focus on the parts their business that drive profitability and growth, and gives managers more time to spend with their teams. Instead of sorting through the nuances of retirement plan reporting, healthcare reform, workers compensation, and changing legislation, they get peace of mind.

### So what does that look like for payroll?

While outsourcing payroll and tax filing alone won't include day-to-day human resource management, workers' compensation (outside of reporting), or much by way of employee benefits, it will deliver major time-savings and prevent many legal headaches.



HR partners have the resources, expertise, and time to ensure that payroll is compliant, accurate, and completed on time, while limiting the risks facing your business.

As you know, hospitality payroll is especially complex, so be sure to select a partner well-versed in the specific nuances of the hospitality sector. Outsourcing gives you access to certified payroll specialists. That way, your team gets accurate answers when questions arise. Most importantly, the burden of payroll processing, direct-deposit management, tax (including State unemployment claims management and litigation) and W2 administration, new-hire reporting (and in some cases, garnishment management and employment verification for third parties) will be lifted from your managers.

Some organizations prefer to outsource benefits administration and HR along with payroll. HROs and PEOs provide options for fully outsourcing HR, benefits administration, labor-related insurances, and payroll. Outsourced HR services help ensure compliance, while PEOs can also take on the fiduciary responsibility, transferring risk away from your businesses and assuming it instead. PEOs also have the benefit, particularly for small to mid-sized businesses, of leveraging an economy of scale; by outsourcing payroll through a PEO, business owners can experience significantly lower costs for insurances and taxes.

To learn more about HROs, PEOs, and Payroll Services outsourcing, click to download our complimentary HR & Payroll Services white paper.

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## Summary

Managing your payroll effectively and efficiently isn't just good practice, it's a fundamental part of compliance with regulation and the law. So you have to get it right. Because of the unique complexities of payroll in the hospitality sector, it's vital to tap into software solutions and professional expertise that can reduce your administration while ensuring accuracy and timeliness. An integrated payroll system, such as Fourth's can transform payroll from a burden to a business asset.



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## Our Workforce Management Solution

We recognize the ever-changing workforce requirements in the hospitality industry and have built a cloud-based platform built on the evolving expectations of younger generations. Our HR Workforce Management solution delivers a core platform specifically built for the hospitality sector. Employee self-service, scheduling, engagement and collaboration apps are available to employees at the touch of a button. Manager self-service exists to ensure line managers can deal with task management and approvals on the go in a simple and effective way, getting them out of the back office and into front of house where they can make a real difference with their teams and their customers. This will lead to a huge reduction in unnecessary admin, meaning managers can spend more time driving their business.

Our Workforce Management Solution supports most of the end-to-end employee lifecycle, while acknowledging that certain areas of the cycle are best suited to best of breed partners. With this in mind, we easily interface with external partners to ensure the seamless transfer of employee records from the Fourth platform to approved software partners and back again. The employees themselves only have to visit one application regardless of the number of external partners via single sign on (SSO) with our full-featured mobile app.

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## How We Can Help

- Reduce administration costs with the industry's only fully-integrated.
- HR, scheduling and payroll solution.
- Avoid duplication and error with a core, cloud-based system for all employees.
- Empower employee and manager self-service with a mobile-enabled solution.
- Gain competitive advantage with a solution specifically designed for the hospitality sector (e.g. service charges and tips, scheduling and payroll).
- Drive employee engagement with a branded collaboration app with pulse surveys, mood capture, opportunity network and online documentation.
- Get all information in one place and actionable insights through intelligent people analytics with useful graphical dashboards.
- Easily integrate with best of breed HR technologies and experts with Fourth's dedicated partner program.

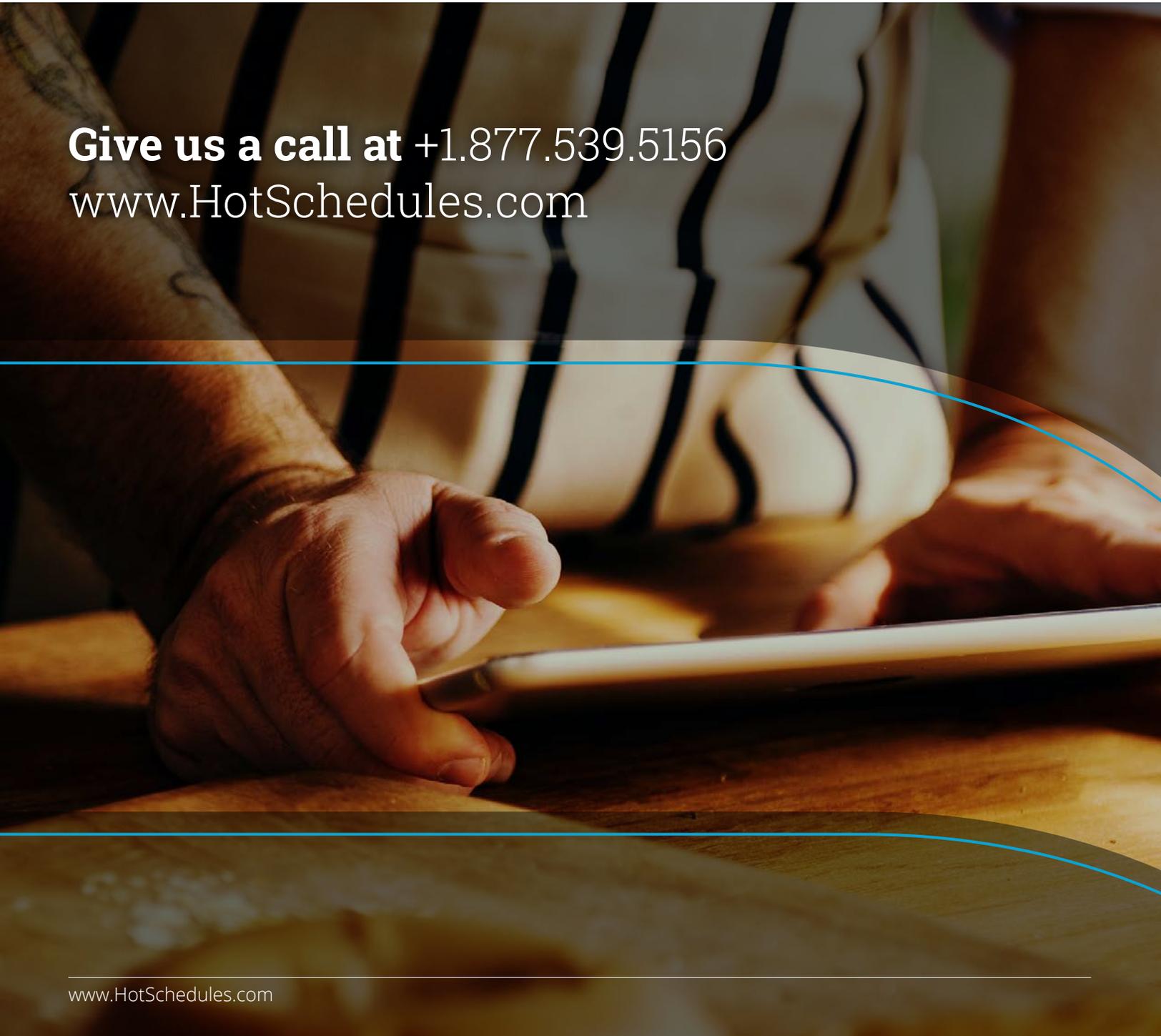


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## About HotSchedules, Now Powered by Fourth



HotSchedules, now powered by Fourth, provides end-to-end, best-in-class technology and services for the restaurant and hospitality industries. Their inventory and workforce management solutions, coupled with the industry's most complete data and analytics suite, give operators the actionable insights they need to control costs, scale profitability, improve employee engagement, and maintain compliance. Headquartered in Austin, Texas, HotSchedules, now powered by Fourth, serves more than 7,000 customers across 120,000 locations globally.



**Give us a call at +1.877.539.5156**  
[www.HotSchedules.com](http://www.HotSchedules.com)