

# Signs You've Reached PayPal's Tipping Point

FAQs on Outgrowing PayPal Payouts for Mass Payments

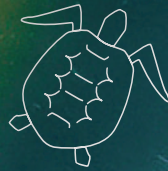


# Payables Growing Pains

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PayPal is a force of nature in payments. In the first quarter of 2018, the company stated it had over 237 million accounts. That's an increase from the previous quarter of 229 million. In fact, it has steadily increased adoption rates quarter-over-quarter since 2010. Yet PayPal can't be the only payment method you bank on for partner payments.

*This guide addresses tipping points in your company's growth related to using PayPal as a payment method.*



# Frequently Asked Questions

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# What are PayPal's advantages over other B2B payment methods?

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Paper checks slow processes, add costs, hinder reconciliation, and expose you to the highest fraud risk. Wires are expensive and have high fraud rates these days. ACH payments are a great option but can also be complicated to administer and do not work overseas. Global ACH is ideal for cross-border payments but can be complex to manage.

*PayPal is ideal for digitally-designed businesses such as those in the gig economy, e-commerce, media, and advertising. PayPal is already an accepted (and often expected) form of payment to contributors.*

# What transactions work best with PayPal?

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*For companies with a digital business model, some form of e-wallet is required. Based on our surveys, payees prefer PayPal.*

For example, in the adtech space, 51.5 percent of publishers and affiliates say they wished more businesses would offer PayPal.

**AdTech**

**51.5%**

**Freelancers**

**53.5%**

In a similar study of freelancers in the gig economy and online marketplaces, 53.3 percent say they wished businesses would offer payouts using PayPal.

# What are PayPal's global payment benefits?

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Internationally, PayPal offers a large footprint. It's relatively easy to set up an account, bypassing sometimes uncooperative regional banks. For suppliers to participate in the global economy, PayPal provides a low barrier to

entry. Many in under-banked nations have been able to contribute their goods and services because of their ability to accept PayPal payments.

From the payer perspective, PayPal remittance to these payees can be as simple as sending funds to an email address, uploading a payment file, or through APIs. Payments also land immediately, so there is little question whether payments were received. Even if only 10 percent of your suppliers might accept PayPal as a payment method, it may be worth offering it from an efficiency and immediacy standpoint. And depending on the situation, partners might appreciate PayPal over a risky paper check or an expensive wire transfer charge.

# Can PayPal be our only payment method?

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*Based on our remittance data and surveys with payees, the answer is “no.” When partners are offered choices of other methods, PayPal isn’t always the preferred method. It’s situational.*

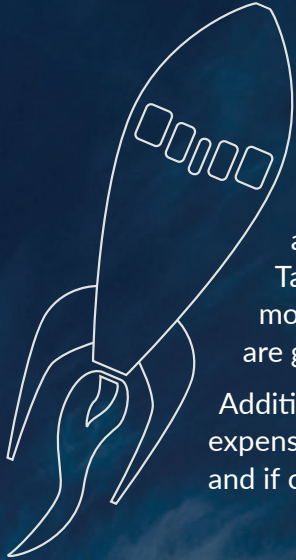
*Offering a wide mix of payment methods and a centralized, automated framework to manage it all is the best way to counteract some of PayPal’s challenges.*

You wouldn’t pay everyone with wire transfers, and likewise PayPal won’t suffice as the only remittance method. Each payment method provides unique characteristics that support the varied needs of an increasingly complex payee population.

In the U.S., ACH, wire, and PayPal are desirable forms of remittance. When making cross-border payments, it might be wire transfers, PayPal, or eCheck (a form of Global ACH that lands directly into bank accounts, such as SEPA in the E.U.). Even paper checks still have their fans.

# PayPal is inexpensive, and we're cost-conscious. Why would we do it differently?

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Cost is not the only consideration. When you're small, PayPal can be a solid option. But as the business grows, it needs to look for greater flexibility, address the needs of partners, and improve efficiency and scalability. Tasks become more complex, risks are more prevalent, and the expectations are greater.

Additionally, PayPal fees may actually become expensive as you make payments over \$500 and if currency conversion is involved.

*While many organizations address this through increases in staff, the more logical and cost-effective way is to employ technology to handle the increases in volume. Again, something may work now, and maybe next month, but what about in six months or a year?*



# What are some indicators a payee wouldn't want PayPal?

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## *They do not have an existing PayPal account*

Creating an account, getting it verified, and linking it to their normal bank account becomes an added step.

## *High-value transaction amounts*

Processing fees for PayPal can reduce its attractiveness for use.

## *Foreign exchange fees are involved*

Converting currency back and forth within PayPal can be problematic.

## *Specific regions are involved*

Payees in certain countries can't use PayPal. At its own discretion, PayPal has been known to pull operations from various jurisdictions.

## *Support issues*

Payees don't always go to PayPal for support issues, instead choosing to approach the payer, even though it often is an issue with PayPal.

# Are there fraud risks with using PayPal for remittance?

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PayPal is no riskier than credit cards, however, like any payment method, there is still fraud potential. For example, someone billing your business and saying they accept PayPal, shouldn't be enough to trigger payment. It's important to do your own onboarding outside of PayPal, including collecting tax identification details. In the case of overseas payees, collecting the proper IRS documentation (W-9, W-8BEN, W-8BEN-E, etc.) can go a long way in establishing payee identity. Because this is also a requirement for the IRS, you're killing two birds with one stone.

PayPal does have their own payee screening and fraud processes, but it does that for liability reasons to protect themselves from regulators, rather than as a service to the payer. Mistakes can happen. Payees in emerging countries may be shut down for a variety of reasons without warning, even if they were seemingly innocent of any wrongdoing. Payers can even get shut down if PayPal deems them high-risk.

*The best approach would be to work with a payment partner that understands these challenges and has a deep understanding of PayPal.*



# How can we instill trust into our PayPal processes?

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In the digital economy, payees tend to move from network to network or marketplace to marketplace. As a result, poor communication or operational gaps become reasons payees may abandon working with you and go somewhere else.

When offering payees a portal to communicate with, an integrated PayPal experience is crucial to ensuring trust with them. The portal should feature your business's brand and feel "whole," including options to switch payment methods, pick their local currency, and update their payment information. It may also help to localize portal content based on the country.

*In particular, a white-labeled partner experience emphasizes that your business is not some "fly-by-night" operation.*



# What fee considerations does PayPal introduce?

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If a payer is using PayPal Payouts, the sender always pays the transfer fee to send the payment. The situation becomes expensive for the payee when they may be charged foreign exchange conversion fees, withdrawal fees, and other charges.

In some countries such as India or Israel, payees may prefer to have payments sent in USD rather than take a hit on exchange fees. It's a balancing act that businesses need to account for.

One way to alleviate some of the fee issues is to offer to pay for or split fees with payees. This is not something that can be done natively in PayPal. It requires a centralized back-end payment processing system able to manage fees separately before payments are sent. Fee-splits can introduce reconciliation issues later as well if the system isn't sophisticated enough to track fees as part of the payment process.

# What operational challenges does PayPal present when other methods are involved?

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Manual payment reconciliation across multiple payment methods can be incredibly challenging without a centralized payable solution.

Payables staff will need to instill external financial controls and proactive OFAC SDN verification prior to sending payments.

*If paying in local currency, PayPal requires additional manual effort including separate pay files for each currency. Note that PayPal is limited to 24 countries for funding currency.*

# Doesn't PayPal handle tax reporting? Why do we need a separate system?

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Although PayPal sends 1099-Ks to the IRS (if the payee receives more than \$20,000 and more than 200 payments) for payouts, the payer still needs processes for tax collection and validation for other payment methods and for smaller volumes of payments.

Centralizing tax compliance as part of the remittance process, with digitized tax form collection and validation, withholding calculations automatically deducted from payments, and 1099 / 1042-S tax prep reporting, is a more comprehensive approach.

According to KPMG, for international payees, who may be subject to FATCA and/or Chapter 3 withholding regulations, a 1099-K may not be adequate to remain in compliance with the IRS. Without proper and validated identification (e.g. W8-BEN, W8-BEN-E, etc.), the payer may be responsible for the tax on payments — a value that can default to 30 percent of the transaction value.<sup>1</sup>



# Our developers say they can integrate with PayPal. Why do we need Tipalti?

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PayPal's API is very flexible and rich. However, it is another code base to contend with and it's limited in terms of an out-of-the-box experience. For example, PayPal doesn't do much in terms of partner onboarding (i.e. collecting detailed payee data or gathering and validating tax identities).

PayPal is one payment method. If your business is destined for growth, it will need to accommodate other forms of payment. That requires a completely different code base including the development resources to support, manage, and maintain that code.

*Even Tipalti's larger customers, such as Amazon Twitch and Twitter, have opted to skip an in-house payment processing project for our approach that can be implemented in a matter of weeks.*



*PayPal is a vital payment component for global, growing networks and marketplaces, but it's not the end-all solution for partner payouts. To achieve multiple, payee-optimized payment methods, across 190 countries and 120 currencies, a mass payment automation solution like Tipalti will get you there today and will scale with your business in the future too.*



**Contact Us for an ROI Assessment ▶**

**To get started, contact us.**

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