

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

Paychex, Inc. 401(k)
Incentive Retirement Plan

(Full title of the Plan)

Paychex, Inc.
911 Panorama Trail South
Rochester, NY 14625

(Name and address of issuer of the securities held pursuant
to the Plan and the address of its principal executive office)

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Plan Committee has caused this Annual Report to be signed by the undersigned thereunto duly authorized.

Dated: June 24, 1999

PAYCHEX, INC. 401(k) INCENTIVE RETIREMENT PLAN
(Name of Plan)

By: /s/ Francis G. Provino

Report of Independent Auditors

The Plan Committee
Paychex, Inc. 401(k)
Incentive Retirement Plan
Rochester, New York

We have audited the accompanying statements of net assets available for benefits of Paychex, Inc. 401(k) Incentive Retirement Plan (the Plan) as of December 31, 1998 and 1997, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 1998 and 1997, and the changes in its net assets available for benefits for the years then ended, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of assets held for investment purposes as of December 31, 1998 and reportable transactions for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The Fund Information in the statement of net assets available for benefits and the statement of changes in net assets available for benefits is presented for purposes of additional analyses rather than to present the net assets available for benefits and changes in net assets available for benefits of each fund. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

May 20, 1999
Syracuse, New York

/s/ Ernst & Young LLP

PAYCHEX, INC. 401(k) INCENTIVE RETIREMENT PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
WITH FUND INFORMATION
DECEMBER 31, 1998
(In Thousands)

<TABLE>
<CAPTION>

	Combined	Paychex Stock	Total Return	Growth	Stable Value	IRT 500 Index	IRT Inter- national	
Loan	Funds	Fund	Fund	Fund	Fund	Fund	Fund	
Fund								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Investments at fair value:								
Paychex, Inc. Common Stock	\$ 160,277	\$ 160,277						
INVESCO Funds	46,927		\$ 11,030	\$ 18,035	\$ 14,269	\$ 3,593		
Global Asset Management Fund	2,953						\$ 2,953	
Participant Loans Receivable	5,061							\$
5,061								
Cash	4,983	4,983						

Net assets available for benefits	\$ 220,201	\$ 165,260	\$ 11,030	\$ 18,035	\$ 14,269	\$ 3,593	\$ 2,953	\$ 5,061
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</TABLE>

See accompanying notes to financial statements.

PAYCHEX, INC. 401(k) INCENTIVE RETIREMENT PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
WITH FUND INFORMATION
DECEMBER 31, 1997
(In Thousands)

<TABLE>
<CAPTION>

	Combined Funds	Paychex Stock Fund	Total Return Fund	Growth Fund	IRT Stable Value Fund	Inter-national Fund	Loan Fund
Investments at fair value:							
Paychex, Inc. Common Stock	\$ 104,984	\$ 104,984					
INVESCO Funds	30,061		\$ 9,766	\$ 11,951	\$ 8,344		
Global Asset Management Fund	3,251					\$ 3,251	
Participant Loans Receivable	4,602						\$ 4,602
Cash	3,488	3,488					
Net assets available for benefits	\$ 146,386	\$ 108,472	\$ 9,766	\$ 11,951	\$ 8,344	\$ 3,251	\$ 4,602

</TABLE>

See accompanying notes to financial statements.

PAYCHEX, INC. 401(k) INCENTIVE RETIREMENT PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
WITH FUND INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1998
(In Thousands)

<TABLE>
<CAPTION>

	Combined Funds	Paychex Stock Fund	Total Return Fund	Growth Fund	IRT Stable Value Fund	IRT 500 Index Fund	Inter-national Fund
Loan Fund							
Additions:							
Dividends and interest income	\$ 2,968	\$ -	\$ 565	\$ 1,358	\$ 585	\$ 3	\$ 79
Net realized and unrealized appreciation (depreciation) in fair value of investments	61,965	56,784	754	3,762	-	561	104
Total investment income	64,933	56,784	1,319	5,120	585	564	183
Contributions:							
Participants	13,041	8,003	1,085	1,971	846	416	720
Employer	3,432	2,199	293	511	177	71	181

Total contributions	16,473	10,202	1,378	2,482	1,023	487	901
Total additions	81,406	66,986	2,697	7,602	1,608	1,051	1,084
Deductions:							
Benefits paid to participants (340)	(7,591)	(4,102)	(601)	(1,079)	(1,168)	(37)	(264)
Loans to participants (3,025)	-	(2,412)	(148)	(235)	(171)	(18)	(41)
Loan payments (2,604)	-	1,936	175	231	188	19	55
Interfund transfers	-	(5,620)	(859)	(435)	5,468	2,578	(1,132)
Change in net assets	73,815	56,788	1,264	6,084	5,925	3,593	(298)
Net assets available for benefits at beginning of year (4,602)	146,386	108,472	9,766	11,951	8,344	-	3,251
Net assets available for benefits (5,061)	\$ 220,201	\$ 165,260	\$ 11,030	\$ 18,035	\$ 14,269	\$ 3,593	\$ 2,953

</TABLE>

See accompanying notes to financial statements.

PAYCHEX, INC. 401(k) INCENTIVE RETIREMENT PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
WITH FUND INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1997
(In Thousands)

<TABLE>
<CAPTION>

	Combined Funds	Paychex Stock Fund	Total Return Fund	Growth Fund	Stable Value Fund	IRT International Fund	Loan Fund
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Additions:							
Dividends and interest income	\$ 4,068	\$ -	\$ 378	\$ 2,879	\$ 342	\$ 140	\$ 329
Net realized and unrealized appreciation (depreciation) in fair value of investments	36,116	35,197	1,338	(737)	-	318	-
Total investment income	40,184	35,197	1,716	2,142	342	458	329
Contributions:							
Participants	9,385	6,237	855	1,351	456	486	-
Employer	2,937	1,985	265	413	164	110	-
Total contributions	12,322	8,222	1,120	1,764	620	596	-
Total additions	52,506	43,419	2,836	3,906	962	1,054	329
Deductions:							
Benefits paid to participants	(6,630)	(4,563)	(698)	(475)	(704)	(190)	-
Loans to participants	-	(2,059)	(202)	(211)	(173)	(52)	2,697
Loan payments	-	1,761	182	197	189	39	(2,368)
Interfund transfers	-	(6,377)	917	780	3,299	1,381	-
Change in net assets	45,876	32,181	3,035	4,197	3,573	2,232	658

Net assets available for benefits at beginning of year	100,510	76,291	6,731	7,754	4,771	1,019	3,944
Net assets available for benefits	\$ 146,386	\$ 108,472	\$ 9,766	\$ 11,951	\$ 8,344	\$ 3,251	\$ 4,602

</TABLE>

See accompanying notes to financial statements.

PAYCHEX, INC. 401(k) INCENTIVE RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE A. DESCRIPTION OF THE PLAN

The following description of the Paychex, Inc. (the "Company") 401(k) Incentive Retirement Plan (the "Plan") is provided for general information purposes only. More complete information regarding the Plan's provisions may be found in the plan document.

General - Established July 1, 1984, the Plan is a defined contribution plan, qualified under Section 401(a) of the Internal Revenue Code (the "Code"), which includes provisions under Section 401(k) allowing an eligible participant to direct the employer to contribute a portion of the participant's compensation to the Plan on a pre-tax basis through payroll deductions. The Plan is subject to the provisions of the Employer Retirement Income Security Act of 1974 (ERISA).

Plan Administration - The Plan is administered by the Paychex, Inc. 401(k) Incentive Retirement Plan Committee (the "Plan Committee") which is appointed by the Board of Directors of the Company. The Plan's trustee, INVESCO Trust Company (INVESCO), is responsible for the custody and management of the Plan's assets.

Eligible Employees - Employees of the Company and its subsidiaries must be employed for one year in which a minimum of 1,000 hours have been worked to be eligible for participation in the Plan. The employee becomes eligible to participate in the Plan on the first day of the month immediately following the completion of the service requirement.

Contributions - Employees may contribute up to 15% of their compensation through payroll deductions in increments of 1%, subject to the limit established by the Code. Discretionary employer contributions are equal to 50% of the participant's elective contribution, but not to exceed 3% of the participant's compensation. The Company may elect to make an additional discretionary contribution to the Plan, but has not done so for the years ended December 31, 1998 and 1997.

Vesting - Each participant is fully vested as to their elective contributions and rollover contributions as well as any earnings or losses on them. Employees are fully vested with respect to Company matching contributions upon completion of three consecutive years of service, disability, death, or attainment of retirement age, 65.

Participant Accounts - The Trustee maintains an account for each participant, including participant directed allocations to each investment fund. Each participant's account is credited with the participant's contribution and allocations of any employer contribution and Plan earnings, less loans and withdrawals, based on the direction of the participant.

Investment Options - Upon enrollment in the Plan, a participant may direct contributions in the following investment options:

Paychex Stock Fund - The Fund consists primarily of Paychex, Inc. common stock; however, the fund will also contain a small cash component.

Growth Fund - The INVESCO Growth Fund is a mutual fund that primarily invests in companies that have better-than-average earnings growth potential.

Total Return Fund - The INVESCO Total Return Fund is a mutual fund that primarily invests in a mix of common stock, fixed and variable rate U.S. government bonds, and corporate bonds.

IRT Stable Value Fund - The INVESCO Retirement Trust Stable Value Fund is a mutual fund that consists of a diversified portfolio of high-quality investment contracts.

IRT 500 Index Fund - The INVESCO Retirement Trust 500 Index Fund is a mutual fund that invests with the objective of mirroring the total return of the S&P 500 Composite Index. This fund was added as an investment option as of January 1, 1998.

International Fund - The Global Asset Management International Fund is a mutual fund that primarily invests in equity securities worldwide, excluding that of the USA, though it may invest a substantial portion of assets in debt securities.

Number of Participants - The total number of participants at December 31, 1998 and 1997, was 5,071 and 3,279, respectively. The number of participants is as follows for each investment option:

	December 31,	
	1998	1997
Paychex Stock Fund	3,535	3,026
Total Return Fund	2,123	1,947
Growth Fund	1,552	1,477
IRT Stable Value Fund	1,212	1,116
IRT 500 Index Fund	574	-
International Fund	901	766

The total number of participants is less than the sum of the number of participants shown above because many were participating in more than one of the funds.

Payment of Benefits - Upon termination of service, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a fixed reasonable period of time.

Forfeited Accounts - Forfeited nonvested accounts are used to reduce future employer contributions.

Participant Loans Receivable - The Plan allows participants to borrow up to 50% of the vested balance from their account. Payroll deductions are required to repay the loan within five years, except for loans used for the purchase of a principal residence, which are required to be repaid within ten years. The rate of interest is the prime lending rate plus 1% at the time the loan is disbursed.

Plan Termination - Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become fully vested in their account balances.

NOTE B. SUMMARY ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Plan are prepared under the accrual method of accounting in accordance with generally accepted accounting principles.

Administrative Expenses - Administrative expenses of the Plan are paid by the Company.

Investment Valuation and Income Recognition - Investments are stated at their approximate fair value determined on the basis of a quoted market price, with the exception of the Stable Value Fund. The value of the Stable Value Fund is determined in the manner set forth above except that guaranteed income contracts, annuities, and other assets that provide for benefit payments or withdrawals on a contractual basis are at book value (cost plus accrued income). Participant loans receivable are valued at the principal amount which approximates fair value.

Purchases and sales of securities are recorded on a trade date basis. Net realized gains or losses upon the sale of investments are based on their average cost.

Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Payment of Benefits - Benefits are recorded when paid.

Contributions - Contributions from the Company are accrued for in accordance with the terms of the Plan. Participant contributions are recorded in the period the Company makes corresponding payroll deductions.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the financial statements and accompanying notes.

Actual results could differ from those estimates.

Reclassification - Certain prior year amounts have been reclassified to conform to current year presentation.

NOTE C. TAX STATUS

The Plan has received a determination letter from the Internal Revenue Service dated April 28, 1995, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code of 1986 (the "Code") and that the trust, therefore, is exempt from taxation under section 501(a) of the Code. Once qualified, the Plan is required to operate in conformity with the Code and ERISA to maintain its tax-exempt status. The Plan was amended subsequent to the IRS determination letter. Therefore, the amendments are not covered by the determination letter. The Committee is not aware of any course of action or series of events that have occurred that might adversely affect the Plan's qualified status.

NOTE D. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the 1997 financial statements to the 1997 Form 5500:

	December 31, 1997 (In Thousands)
Net assets available for benefits per the Statement of Net Assets Available for Benefits with Fund Information	\$ 146,386
Amounts allocated to withdrawing participants	(1,036)
Net assets available for benefits per the Form 5500	<u>\$ 145,350</u>

The following is a reconciliation of benefits paid to participants per the 1998 financial statements to the 1998 Form 5500:

	For the Year Ended December 31, 1998 (In Thousands)
Benefits paid to Participants per the Statement of Changes in Net Assets Available for Benefits with Fund Information	\$ 7,591
Amounts allocated to withdrawn participants at December 31, 1997	(1,036)
Benefits paid to participants per the Form 5500	<u>\$ 6,553</u>

Amounts allocated to withdrawn participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, but not yet paid as of that date. At December 31, 1998, there were no unpaid claims outstanding.

SCHEDULE I - LINE 27a - SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES

PAYCHEX, INC. 401(k) INCENTIVE RETIREMENT PLAN
 EIN-16-1124166
 PLAN-0-40436
 DECEMBER 31, 1998
 (In Thousands)

<TABLE>
 <CAPTION>

Identity of Party Involved	Description of Investment including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	Cost	Current Value
<S> INVESCO*	<C> 13,418 shares of Paychex, Inc. Stock Fund	\$ 70,150	\$ 165,260
INVESCO*	352 shares of the INVESCO Total Return Fund	9,518	11,030
INVESCO*	2,792 shares of the INVESCO		

	Growth Fund	15,663	18,035
INVESCO*	14,269 shares of the IRT Stable Value Fund	14,269	14,269
INVESCO*	125 shares of the IRT 500 Index Fund	3,121	3,593
Global Asset Management Fund, Inc.	98 shares of the Global Asset Management Fund	2,922	2,953
Loan Fund	Participant Loans Receivable**	0	5,061
		<u>\$ 115,643</u>	<u>\$ 220,201</u>

</TABLE>

* Represents party-in-interest

** Loans to participants have various maturity dates
and bear interest at rates ranging from 7% to 11 1/2%.

SCHEDULE II - LINE 27d -SCHEDULE OF REPORTABLE TRANSACTIONS

PAYCHEX, INC. 401(k) INCENTIVE RETIREMENT PLAN (a)
EIN-16-1124166
PLAN-0-40436
YEAR ENDED DECEMBER 31, 1998
(In Thousands)

<TABLE>
<CAPTION>

Identity of Party Involved	Description of Asset	Purchase Price	Selling Price	Current Value of Asset on Transaction Date	Net Gain or (Loss)
<S> INVESCO	<C> Paychex, Inc. Stock Fund	<C> \$ 76,709	<C> \$ 76,706	<C> \$ 76,709 \$ 24,387	<C> \$ 52,319
INVESCO	INVESCO Total Return Fund	\$ 8,458	\$ 7,959	\$ 8,458 \$ 6,633	\$ 1,326
INVESCO	INVESCO Growth Fund	\$ 11,495	\$ 9,148	\$ 11,495 \$ 8,657	\$ 491
INVESCO	IRT Stable Value Fund	\$ 59,373	\$ 53,448	\$ 59,373 \$ 53,448	
INVESCO	IRT 500 Index Fund	\$ 7,459		\$ 7,459	

</TABLE>

(a) Represents a series of securities transactions in excess of 5% of plan assets at the beginning of the year ended December 31, 1998.

EXHIBIT 23 - Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement below, of our report dated May 20, 1999, with respect to the financial statements and schedules of Paychex, Inc. 401(k) Incentive Retirement Plan included in this Annual Report (Form 11-K) for the year ended December 31, 1998

- a. Form S-8 - Paychex, Inc. 401(k) Incentive Retirement Plan - as filed with the Securities and Exchange Commission on October 2, 1992 (No.33-52838).

