TAX PREPARER

COMPENSATION GUIDE

SURGENT IncomeTaxSchool

We all want to be paid as much as possible for the work we do. While the quickest way to maximize wages might be to start your own business (thus keeping all the profit for yourself), many people are simply not in position to do that. The risk of not finding enough clients could outweigh the reward. So, most of us choose to work for an established tax business, as it can be safer and more stable. Business owners, on the other hand, have a responsibility to pay their employees a fair wage without overstretching the business. Good business owners must work to find that middle ground between paying a fair wage and maximizing the health of their business. This push and pull can be difficult to navigate, so it's important that both business owners and employees know the options available to them.

Here are some different pay structures that employers and employees alike should consider:

1 Performance based pay

Performance based pay means that people get paid for what they produce, often using a commission. Say a tax preparer has a commission rate of 25% and they bring in $200,000 in revenue in a single tax season, that tax preparer would then earn $50,000 for their work.

2 Hourly wage plus commission

Some tax preparers don't want to work solely on commission, as there is some risk to it. In that case, a minimum hourly wage with a small commission rate is more appealing. Say that same tax preparer worked 40 hours per week for 10 weeks of the tax season and brings in the same $100,000 in revenue while at an hourly wage of $15 per hour, plus a 15% commission. Their hourly wage would equal $6,000 in addition to their $15,000 commission, for $21,000 total. The tax preparer would make a little less in this scenario but would have the $6,000 guaranteed as a wage rather than having to risk potentially not getting enough commission.

3 Draw against commission

One way to handle compensation is to do a draw against commission. Tax associates are paid a minimal hourly wage, in the beginning it may be just $15 an hour, and that's a draw against the percentage of the volume that they write - for the returns they prepare. So, if someone was working part-time, and wrote $10,000 volume, and their commission was 25%, their total pay for the year would be $2,500 for the season. And let's say they drew $1,000 in wages, then they would get a $1500 bonus after tax season (the difference between $2,500 - $1,000 = $1,500) – when you do all the accounting and reconciliation. If they don't complete the tax season, they would forfeit some or all their bonus pay.

4 Training pay

By law, you must pay people for training. However, you might be able to count the training as part of their draw against commission. This can help alleviate the burden on your business while still making sure the employee is compensated fairly for their time.

5 Salary vs hourly

Salary vs hourly can be a tough choice. Some tax preparers prefer the hourly rate, so they can be confident that their time is being compensated appropriately. Others may prefer the stability of knowing exactly how much they're going to make over a given period, regardless of how much time they're going to spend doing the work. As a business owner, you may want to put a full-time employee or even a close to full-time employee on salary. For example, an office manager could be put on salary. However, if the person is working hourly, you want to be careful they're not working overtime to avoid owing your employee more than you've planned for that year.

6 Incentive bonus

In addition to paying a percentage of the volume, part of that percentage can be based on professional education. You can offer higher commission for those who continue their professional education each year. This structure helps incentivize your tax preparers to start their continuing education early on, and ensure your business provides quality service and added value.

You can also offer an office bonus pool – which is based on the growth. So, if the office grows by $10,000 and the office pool says employees will receive 10-20% of that growth, then that portion of the increased revenue is distributed to all the employees based on the proportional volume they wrote. You might even factor in a receptionist or a tax office assistant, so they have some compensation as well, and an incentive to help generate growth in the office.

You could also have a performance-based incentive for client retention. Really, that's the most crucial factor. If clients are pleased, they're likely to return next year. So, client retention goes a long way in helping your business grow.

Overdraw: when wages exceed the amount of work someone produced, they are going to be overdrawn. One reason that commission is so attractive is because it reduces this risk.

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