

Proper Compensation Design Takes Effort

As business owners, the frustrations of attempting to maintain an effective financial strategy are heightened by the search for efficient methods of compensating you and your key people.

With “buzz terminologies” like 401(k), Cafeteria Plans, 501(c) 9 trusts, D.B.O.’s, Section 189, and Performance Awards Programs, it is easy to throw up your hands and say, “cut the payroll checks and forget it.”

The problem with that thought process is that the I.R.S. wins while you and your key people lose. The “name of the game” in compensation design is catching a dollar earned as far up stream as possible within your business and detouring it away from taxation. In other words, identifying, creating, and preserving tax-advantaged cash flow. Strewn throughout the 40,000 plus pages of tax law are hundreds of tax-affecting tools which you can use to generate tax-advantaged cash flow.

Benefits must be used prudently or you will spend more time earning dollars to pay taxes (Federal Income, Social Security, Workers Compensation, Federal Unemployment, etc.) than you will for yourself.

Evaluating your present employee benefit program is the first step.

- Are you satisfying the proper employee groups?
- Are the benefits producing reverse discrimination?
- Do your people properly perceive the value of such benefits?
- Are your people properly utilizing the benefits for which you are paying?
- Are the costs of such benefits being contained?
- Have benefits been updated to comply with current benefit related tax law?
- Were benefits custom designed to meet your objectives, or did you have to accept pre-packaged programs?

Once these questions have been answered, it is time for positive action. Sitting down with your financial advisory team and sorting out the methods of change necessary to minimize taxation and maximize the flow of dollars to those who work so hard to achieve the success of your business.

It will not be easy. Tax reform has upset the fringe benefit apple cart while flip-flopping personal versus corporate tax bracket advantages. But procrastination, as always, will cost you dearly.

In summary, compensation design is a very complex art, which should be dealt with for the continued success of your business. As long as people-value appreciates and equipment value depreciates, more emphasis should be placed on motivating your employees through tax-advantaged compensation - - especially your key employees.

Written By: Nicholas L. Gregory, CEBA, CIC