

## Instructions for Completing Compensation Worksheet

This worksheet provides a format for identifying all cash and non-cash taxable and non-taxable components of compensation. It helps assess true overhead cost/family unit and helps in planning compensation components. Two example scenarios are provided to illustrate possible combinations of compensation:

**Joe Owner-Operator** - This example depicts a typical owner operator taking a base salary or draw of \$2,000 per month. In addition to a taxable wage base, Joe receives housing, utilities, a meal allowance (paid to his spouse), half a beef a year, medical insurance, reimbursement of uncovered medical expense, a commuting pickup, gas, liability insurance, and limited maintenance on personal autos. Joe is also paid a bonus at year end of 10% of base salary, and qualifies for a 7% contribution to his retirement plan after meeting the three year minimum vesting period.

Assuming Joe works 270 days per year and 2,500 total hours, his total compensation value, including bonus and retirement contribution is \$24.05/hour or \$222.69/day. Note on lines 4-7, compensation components that are non-taxable to Joe have a total value of \$34,110 (see line 12 for total). Lines 13-15 allow the user to determine the tax savings realized from receiving certain benefits in a non-taxable form. The tax table on the bottom of the page allows the user to enter minimum and maximum tax rates appropriate for your state of residence. Using these tax rates for a high and low range, line 13 shows the "Pre-tax wage equivalent it would take to have enough after tax income to replace the same level of non-taxable benefits. Line 14 shows the tax savings from receiving benefits in a non-taxable manner. Lines 15 and 16 show the total dollars and dollars per hour of "Pre-Tax Wage Equivalent" Joe would have to earn off the farm working on straight salary to match his current compensation package.

Key questions to ask after this exercise:

1. Is Joe contributing \$60,126 of value to the farm in management and labor?
2. Is Joe engaging in management activities that return at least \$22.38/hour or \$223/day to the farm?
3. Could Joe move off the farm with his current skill base and experience and command a \$82,000 salary and benefits package?

**Jim Indispensable Hired Man** - This example depicts a typical mid-management, full-time employee. It could be a livestock herdsman, assistant crop operations specialist, or new family member joining the farm as part of a succession planning process. This case illustrates how non-cash benefits are often structure to fit the needs of the employee, and, as in the previous case, attempts to provide a considerable portion of compensation in a non-taxable form. Jim rides colts on the side to generate additional off-farm income; the farm provides board for two horses with a mutually agreed upon value of \$60/month.

Assuming Jim works 270 days and 2,500 hours per year total compensation is valued at \$35,595--\$14.24/hour or \$131.83/day. He would have to have a job off the farm that paid \$41-46,000 in salary off the farm to match the total compensation paid in this example. Possible questions that could be asked about Jim's compensation:

1. Does Jim realize what his real pay value is and what it would take to match his \$14/hour compensation?
2. If the farm were to add full or part-time help to replace or perform duties presently performed by Jim, what would the market rate be to hire someone on a straight wage/hour?

Note in both cases, the farm is paying the employee's share as well as the employer's share of social security and medicare, a tax option that is available to the employer. When employing this practice, the value of SS and Medicare paid on the employee's SS Wage base is included in W-2 earnings as "Other Taxable Benefits". Also, it may not be a apples to apples comparison to contrast off-farm vs farm compensation per day or hour, as employment off the farm generally involves less total work days or hours per year than farm employment.

### **Instructions:**

1. Enter details for each line concerning cash and non-cash payments.
2. Estimate number of hours and/or days worked to facilitate per hour and/or per day compensation.
3. Enter minimum and maximum tax rate levels for your state. Example rates are for Idaho.
3. Don't forget to enter bonus, retirement benefits, and all other non-taxable benefits.

Compensation Summary			Name:	Jim Indispensable Hired Man		
			Year:	2000		
	Period	Rate/Mo		No Mos.	Yearly Total	Your Data
1	Salary	Nov-Feb	\$1,200	Base	3	\$3,600.00
			Rate/Hr	Hrs/Mo		
2	Wages	Mar-Oct	\$6.00	250	9	\$13,500.00
<b>Cash Salary &amp; Wages Subtotal:</b>					<b>\$17,100.00</b>	
3	Social Security Benefit - % Rate:		7.65%			\$1,308.15
			Rate/Mo			
4a	Housing		\$350.00		12	\$4,200.00
4b	Utilities - Power, Phone, etc		\$100.00		12	\$1,200.00
4c	Meal Allowance, Groceries		270 days @ \$4.00/day			\$1,080.00
5a	Beef, Farm Produce		1/2 beef - 350# @ \$1.40/lb			\$490.00
5b	Board 2 extra horses		\$60.00		12	\$720.00
6a	Medical Insurance		\$400.00		12	\$4,800.00
6b	Uncovered Medical Reimbursement					
6c	Other-					
7a	Commuting Pickup					\$1,500.00
7b	Other- Auto Insurance, gas, maint.- Spouse & children					
7c	Other-					
8	<b>Total Wage and Benefits Value</b> (Items 1-7)					\$32,398.15
9a	Bonus- Based on Yearend Results					\$2,000.00
9b	Retirement Contribution @		7%			\$1,197.00
9c	<b>Total Compensation:</b>					\$35,595.15
10	Total Hours Worked Per Year					2500
			<b>(excl bonus &amp; ret.)</b>		<b>(incl bonus/ret)</b>	
11	Total Compensation per Hour		\$12.96	(line 8/line 11)		\$14.24
12	Total Value of Non-Taxable Benefits (Items 4-7)					\$13,990.00
	<b>Non-Taxable Benefit Analysis @ Tax Rate:</b>			43.15%		30.15%
13	Pre-Tax Wage Equivalent (Line 12/(1-TaxRate))			\$24,609		\$20,029
14	Total Tax Savings (Line 13-Line 12)			\$10,619		\$6,039
15	Tot. Pre-Tax Wage Equivalent-(Line 9c + Line 14)			\$46,214		\$41,634
16	" " " " " - Per Hour			\$18.49		\$16.65
	<b>Tax Table Summary</b>			<b>High Rate</b>		<b>Low Rate</b>
	Federal Tax			28.00%		15.00%
	State Tax			7.50%		7.50%
	Social Security Tax			7.65%		7.65%
	Total Tax Rate			43.15%		30.15%

