

INCREASING MARGINS: Exclusive Survey Data Reveal Higher Hourly Rates & a Shift to Alternate Billing

The question of how much—and how—to charge your clients is one that CPA firm owners regularly revisit now that market change is a constant. For this reason, *PR* is glad to be able to offer the latest information on hourly rates and some chargeable hour data that lead us to believe that more partners and firms are choosing alternative billing approaches: engagement fees, set fees, and value billing.

The accompanying tables set forth data from our annual *CPA Firm Practice Management Survey*, which contains the latest information on this subject.

Chargeable and total hours. As always, these findings indicate trends—not absolutes—and we encourage our readers to consider as many sources of information as possible on billing rates. (For details about survey respondents and definitions, see the two sidebars.)

The total number of hours at CPA firms is high, while chargeable hours, especially for CPA firm owners, have not risen commensurately. This is an interesting observation at a time when many CPA firms are re-examining the role that chargeable hours can—and should—play in the billing mix. As firms continue to add alternative billing methods, we expect to see the trend continue.

The average number of chargeable hours for CPA firms in 2007 was 67,510, and total hours averaged 138,756 (see Table 1). Though the respondent pool varies from year to year, the results from 2006 found average chargeable hours for CPA firms at 71,616, with total hours at 125,353—also a respectable "spread" between the hours that are charged to clients and the total hours, which include both chargeable and all other time spent working for the firm.

Chargeability (charge hours divided by total hours) computed by firm hours was 52.3% (see Table 3). Per active owner, chargeability was 53.4%. Professionals' and paraprofessionals' chargeability was somewhat higher: For professionals (all CPAs who bill time), 67.7% was the average, and for paraprofessionals, it was 61.8%.

Is there a trend toward increased use of alternative billing including value and set fees for engagements?

It seems likely to us that this is the case. Not only are firms becoming more comfortable in experimenting with alternatives to billed hours, they also are looking for ways to increase profits and efficiency. The latter is a critical issue now in firms that are experiencing a staffing shortage—the "old" all-hourly billing, all-the-time model is harder and harder to make work in such an environment.

Couple this with firms' growing embrace of the trusted adviser status and increased emphasis on the value of their services, and you have the perfect environment for a change in how billing occurs.

Owners' hours. The average chargeable hours for CPA firm owners is 1,217, with total hours at 2,324 (see Table 1). Owners are billing only slightly more than half their time on

an hourly basis—a clear indicator that more nonbillable activities are keeping them busy. Such activities may include marketing, mentoring, and administration—but also may include work in which high-level partner expertise is being delivered in a value or set-fee billing environment.

The overall averages for chargeable and total hours for non-CPA owners and for nonequity owners would seem to bear this out: Charge hours for non-CPA owners averaged 1,181, and total hours were 2,214; for nonequity owners, charge hours averaged 1,236, and total hours were 2,272.

The spread between chargeable and total hours for owners can be seen by reviewing the data broken out by gross fees of the responding firms (Table 1) and by the number of personnel (Table 2).

Staff hours. The shortage of staff and the likelihood that younger staff are less likely to be involved in the kind of engagements that would garner a value-bill or set-fee arrangement mean that the chargeable hours remain higher for staff. For instance, overall, chargeable hours for juniors averaged 1,470, while total hours were 2,117. For seniors, the average chargeable hours were 1,535, while total hours were 2,206 (see Table 1).

Billing rates. The average per hour billing rate for CPA firm owners among survey respondents is \$229, for non-CPA owners it is \$207, and for nonequity owners, \$235 (see Table 5).

As expected, rates charged by owners tend to rise with the size of the CPA firm, both in terms of the responding firms' average gross fees billed (see Table 5) and the total number of personnel at the firms (see Table 6).

For a general comparison, in the prior year's survey owners' per-hour rate averaged \$214; non-CPA owners averaged \$215; and nonequity owners, \$210.

Supervisor and manager rates now average \$167, while seniors are at an average of \$121 per hour, juniors at \$102, and juniors who have not passed the CPA exam are at \$91. Other staff data appear in Tables 5 and 6. For comparison, the 2006 research found the overall average rates billed for supervisors and managers stood at \$152. For seniors, it was \$114; for juniors, \$94; and for non-CPA juniors, \$86.

While it would seem that staff rates would rise with firm size as seen in the owner rates, this is not seen in the results in all cases. The reasons may be because of the differences in staffing makeup at CPA firms, which are becoming more marked as firms continue to struggle to find staff in the middle years of practice.

For more information:

The *CPA Firm Statistical Analysis Reference Handbook 2008* containing complete survey results is available from IOMA Subscriber Services at 800-401-5937, ext. 2. Ask for product 2639M. Price: \$449 plus \$12.95 shipping and handling.

CPA Firm Practice Management Survey Vital Statistics

IOMA received 111 responses to the *2008 CPA Firm Practice Management Survey* from CPA firms throughout the United States.

Key facts about the respondents:

Respondents, by gross fees:

Less than \$1M	23.6%
\$1 M to \$1.99 M	12.3
\$2 M to \$2.99 M	14.2
\$3 M to \$3.99 M	9.4
\$4 M to \$9.99 M	14.2
\$10 M to \$19.99 M	11.3
\$20 M and more	15.1

Respondents, by number of personnel:

1 to 5	11.9%
6 to 10	14.7
11 to 15	10.1
16 to 20	7.3
21 to 35	18.3
36 to 50	8.3
51 to 100	16.5
More than 100	12.8

Organizational structure:

Limited Liability Partnership (LLP)	27.0%
Professional Corporation (PC)	20.7
S Corp	16.2
Limited Liability Corporation (LLC)	11.7
Partnership	9.0
C Corp	8.1
Sole Proprietorship	4.5
Other	2.7

(Source: IOMA's *2008 CPA Firm Practice Management Survey*)

Understanding AOMAR's CPA Firm Practice Management Survey Results

The definitions presented below will help you make the best use of the survey results.

Note: Our information does not always follow the same CPA firms from year to year, so comparisons to previous years' results indicate trends only.

We also highly recommend that CPA firms consult multiple resources for benchmark data, since it is the best way to enrich your firm's benchmarking and assessment initiatives.

- All information is annualized for the responding firm's most recent fiscal year.
- All responses are based on averages unless otherwise indicated.
- Nonequity owners are individuals with leadership responsibilities who are paid a salary and do not own any share of the firm.
- Non-CPA owners are true owners, holding ownership of the firm.
- Professionals are nonowner CPAs.
- Paraprofessionals are non-CPA accountants, bookkeepers, and any other individuals who bill time and do not fit into other support, administration, or professional categories.
- Gross fees are the total fees before write-ups or write-downs.
- Net fees are gross fees plus or minus write-ups or write-downs.
- Compensation is base pay or owner draw only and does not include benefits, bonuses, overtime, or perks.
- Bonuses are cash bonuses only.

From the December 2007 issue of Partner's Report for CPA Firm Owners.

Copyright © 2007 IOMA, Inc. The Institute of Management and Administration.

Table 1. Chargeable & Total Hours, Overall & by Gross Fees

	Overall	<\$1M	\$1M to \$1.99M	\$2M to \$2.99M	\$3M to \$3.99M	\$4M to \$9.99M	\$10M to \$19.99M	\$20M or more
Chargeable hours for firm	67,510	5,538	11,179	21,577	34,628	49,896	91,839	215,542
Total hours for firm	138,756	11,166	21,451	37,821	63,949	96,088	169,992	408,567
Chargeable hours for CPA owners	1,217	1,085	1,558	1,340	1,305	1,202	1,069	1,169
Total hours for CPA owners	2,324	1,948	2,458	2,340	2,473	2,396	2,401	2,550
Chargeable hours for non-CPA owners	1,181	1,116	NR	NR	NR	1,205	1,198	1,364
Total hours for non-CPA owners	2,214	2,048	NR	NR	NR	2,013	2,193	2,605
Chargeable hours for nonequity owners	1,236	1,681	1,463	1,371	1,861	1,084	1,091	1,222
Total hours for nonequity owners	2,272	2,080	2,464	1,787	2,445	2,151	2,273	2,490
Chargeable hours for supervisors/managers	1,382	1,129	1,581	1,327	1,343	1,415	1,297	1,444
Total hours for supervisors/managers	2,215	2,072	2,260	2,037	2,200	2,259	2,159	2,430
Chargeable hours for seniors	1,535	1,370	1,630	1,369	1,513	1,706	1,487	1,564
Total hours for seniors	2,206	2,043	2,260	1,965	2,129	2,450	2,142	2,245
Chargeable hours for juniors	1,470	1,430	1,284	1,455	1,348	1,612	1,469	1,512
Total hours for juniors	2,117	2,063	2,122	1,990	1,936	2,239	2,069	2,230
Chargeable hours juniors (not yet CPAs)	1,406	1,196	1,382	1,360	1,525	1,456	1,511	1,482
Total hours juniors (not yet CPAs)	2,023	1,738	2,136	1,885	2,205	2,064	2,186	2,142
Chargeable hours for consulting staff	1,170	1,200	NR	NR	1,004	1,016	1,332	1,142
Total hours for consulting staff	2,089	NR	NR	NR	2,061	1,983	2,102	2,091
Chargeable hours for paraprofessionals	1,276	1,062	881	1,343	1,277	1,333	1,449	1,447
Total hours for paraprofessionals	2,065	1,898	1,719	2,039	2,188	2,243	2,034	2,125
Total hours for firm administrators	2,165	1,974	1,950	2,058	2,162	2,310	2,283	2,434
Total hours for marketing directors	2,186	NR	NR	NR	NR	1,995	1,882	2,058

(Source: IOMA's 2008 CPA Firm Practice Management Survey)

Table 2. Chargeable & Total Hours, by Number of Personnel

	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	>100
Chargeable hours for firm	2,039	9,821	13,816	24,392	48,620	48,210	85,556	273,451
Total hours for firm	4,504	16,524	26,091	44,904	91,482	89,321	159,314	527,402
Chargeable hours for CPA owners	934	1,393	1,423	1,226	1,406	1,171	1,099	1,102
Total hours for CPA owners	1,492	2,528	2,326	2,367	2,480	2,317	2,470	2,510
Chargeable hours for non-CPA owners	NR	1,116	NR	NR	1,114	1,200	1,318	1,102
Total hours for non-CPA owners	NR	2,048	NR	NR	1,984	2,188	2,305	2,528
Chargeable hours for nonequity owners	NR	1,891	1,120	1,544	1,430	1,239	1,034	1,118
Total hours for nonequity owners	NR	3,392	1,310	2,318	2,294	2,302	2,148	2,458
Chargeable hours for supervisors/managers	840	1,436	1,463	1,450	1,377	1,310	1,355	1,444
Total hours for supervisors/managers	1,974	2,202	2,078	2,195	2,206	2,240	2,231	2,405
Chargeable hours for seniors	1,528	1,426	1,389	1,592	1,625	1,575	1,536	1,546
Total hours for seniors	NR	2,106	2,102	2,270	2,330	2,204	2,143	2,247
Chargeable hours for juniors	NR	1,228	1,450	1,507	1,514	1,408	1,542	1,510
Total hours for juniors	NR	2,063	2,122	2,121	2,119	2,027	2,130	2,226
Chargeable hours juniors (not yet CPAs)	986	1,355	1,416	1,504	1,367	1,518	1,462	1,477
Total hours juniors (not yet CPAs)	1,530	1,889	2,036	2,191	1,948	2,087	2,096	2,178
Chargeable hours for consulting staff	NR	1,200	NR	NR	722	1,056	1,340	1,198
Total hours for consulting staff	NR	NR	NR	NR	2,052	1,503	2,037	2,226
Chargeable hours for paraprofessionals	1,382	1,058	808	1,255	1,422	1,163	1,370	1,615
Total hours for paraprofessionals	1,630	1,899	2,023	2,116	2,127	2,184	2,056	2,331
Total hours for firm administrators	2,127	2,174	2,538	2,194	2,066	2,201	2,313	2,063
Total hours for marketing directors	NR	2,076	1,826	2,190	NR	NR	2,401	NR

(Source: IOMA's 2008 CPA Firm Practice Management Survey)

**Table 3. Chargeability Averages,
Overall & by Gross Fees**

	Overall	<\$1M	\$1M to \$1.99M	\$2M to \$2.99M	\$3M to \$3.99M	\$4M to \$9.99M	\$10M to \$19.99M	\$20M or more
By firm hours	52.30%	49.60%	52.10%	57.10%	54.10%	51.90%	54.00%	52.80%
By active owners	53.4	63.9	61.4	65.7	64.4	53.2	48.9	49.1
By professionals	67.7	64.7	67	70	67.6	68.7	67.4	66.3
By paraprofessionals	61.8	55.9	51.3	65.9	58.4	59.4	71.2	68.1

(Source: IOMA's 2008 CPA Firm Practice Management Survey)

**Table 4. Chargeability Averages, by
Number of Personnel**

	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	>100
By firm hours	50.80%	60.40%	54.60%	56.30%	53.10%	54.00%	53.70%	51.80%
By active owners	62.6	55.2	69.9	59.1	58.4	53	49.8	44.3
By professionals	67.6	65.9	68.6	69	68.4	67.9	68.5	66
By paraprofessionals	84.8	55.7	39.9	59.3	66.9	53.3	66.6	69.3

(Source: IOMA's 2008 CPA Firm
Practice Management Survey)

**Table 5. Billing Rates, Overall
& by Gross Fees**

	Overall	< \$1M	\$1M to \$1.99M	\$2M to \$2.99M	\$3M to \$3.99M	\$4M to \$9.99M	\$10M to \$19.99M	\$20M or More
CPA owners	\$229	\$172	\$200	\$222	\$211	\$241	\$293	\$300
Non-CPA owners	207	109	NR	150	NR	168	NR	298
Nonequity owners	235	120	148	205	NR	218	274	287
Supervisors/managers	167	151	129	146	136	165	205	204
Seniors	121	107	104	105	106	124	141	140
Juniors	102	99	94	92	88	95	113	117
Non-CPA juniors	91	77	88	80	78	90	106	104
Consulting staff	176	141	NR	95	140	180	192	206
Firm administrator	99	70	81	72	63	101	147	154
Marketing director	115	NR	NR	NR	NR	80	132	129
Paraprofessionals	81	67	66	73	66	87	104	91

(Source: IOMA's 2008 CPA Firm Practice Management Survey)

Table 6. Billing Rates, by Number of Personnel

	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	>100
CPA owners	\$164	\$197	\$203	\$211	\$238	\$243	\$279	\$290
Non-CPA owners	87	95	128	NR	125	210	297	247
Nonequity owners	NR	145	135	NR	192	224	279	279
Supervisors/managers	130	126	132	145	153	190	193	196
Seniors	97	107	105	108	113	136	131	137
Juniors	65	92	85	95	93	93	115	116
Non-CPA juniors	65	77	84	75	85	72	104	102
Consulting staff	100	NR	NR	90	146	205	189	194
Firm administrator	70	72	88	63	90	128	135	107
Marketing director	NR	NR	NR	NR	145	90	118	109
Paraprofessionals	49	75	82	68	76	97	95	86

(Source: IOMA's 2008 CPA Firm Practice Management Survey)