

Why many companies are giving bonuses — not raises — after the new tax cuts

By [Jena McGregor](#) January 18



Apple has announced it is planning to build another corporate campus and hire 20,000 workers during the next five years as part of a \$350 billion commitment to the U.S. economy. (Kiichiro Sato/AP Photo)

On Wednesday, yet another company -- this time [Apple](#), which pledged to give \$2,500 restricted stock awards for most of its employees, in addition to [investing](#) \$350 billion in the U.S. economy -- joined the ranks of employers offering bonuses in the wake of the new U.S. tax law. Companies such as [American Airlines](#), [Bank of America](#) and [AT&T](#) have also made one-time payouts, each offering \$1,000 cash bonuses for many employees as a way of sharing their savings haul from the new tax bill.

Yet the number of employers offering such bonuses appears to be greater in number than those putting their savings toward a boost in base pay. A number of

companies, including [Walmart](#) and many banks, have announced increases to their minimum wage or other adjustments to salaries. But the number of companies offering bonuses -- or who say they may do so -- are thus far higher. The human resources consulting firm Willis Towers Watson, in an analysis of public announcements made by employers, found 88 companies as of Jan. 12 that have committed to making one-time bonuses ranging from \$150 to \$3000, compared with 35 that have made adjustments to their minimum wage and 10 or so others that have announced some other form of compensation or salary change.

A [list](#) compiled by the conservative group Americans for Tax Reform promotes even more companies that have announced financial adjustments for employees, with roughly three times as many citing bonuses as wage increases. And a survey from December by Aon found that 17 percent of employers said they would offer workers a bonus as a result of the tax cut, compared with 11 percent who said they expected to increase salaries.

Human resources experts and economists say they are not surprised one-time bonuses are getting more play in response to the tax cut for several reasons. For one, bonuses are easier for employers to hand out than bumps in base pay because they don't increase a company's fixed costs.

"The one-time bonus is an easy thing to do: It generates good will, puts money into employees' pockets, and you're not committed long-term to anything," said Gregg Levinson, a senior retirement consultant at Willis Towers Watson.

"Salaries represent the single largest percentage of direct labor costs" for employers, said Ken Abosch, the North American compensation practice leader for Aon. "Any time you give someone an increase in their salary, it's an annuity. It's not a one-time event like a bonus. It's additive and it compounds."

It also reflects a long-term trend in how compensation for rank-and-file employees has been paid: For more than two decades, employers have increasingly allocated more of their payroll budgets to discretionary bonuses and less and less to paying

increases in salaries. In 1992, said Abosch, spending on "variable pay" was just 5.7 percent of employers' payroll budgets, and salary increases were 4.6 percent. Today, those numbers are 12.7 percent and just 2.9 percent, respectively.

Meanwhile, the speedy announcements about one-time bonuses that have come out in recent weeks give companies a chance to get good P.R. and foster worker goodwill even while many are more careful about base pay increases, said Andrew Chamberlain, the chief economist at the careers site Glassdoor.

"The way it's supposed to work is that companies get a tax cut, they invest more, they expand their operations, and that investment makes workers more productive per hour. That raises wages," he said. "The fact that these bonuses are coming out surely has mixed motives -- it's partly the P.R. benefit, partly trying to get on the bandwagon because the tax bill has been in the news, and partly playing follow the leader" with other companies in their industries.

Indeed, many of the companies that have announced bonuses or base pay increases fall into similar industries, such as airlines and banks, which compete for workers. Chamberlain said more base salary bumps could come over time, but "that's not going to happen overnight."

Even if employers do make investments that lead to pay raises -- rather than merely returning the money to shareholders in the form of dividends or buybacks, as [some CEOs](#) have said they'll do -- employers may still be cautious. "We might see a contraction in the economy, we might see a whole new political environment that wipes this out," Levinson said. "A one-time bonus that hits the books now and a more cautious approach going forward is what most companies will do, I think."

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