

Financial Incentives for Graduate Tax Education Offered by Public Accounting Firms

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Abstract

Partners in public accounting firms recognize the benefit of a graduate degree for future advancement in the tax service area. To study if firms are offering financial incentives to encourage and reward individuals in the tax service area who seek graduate degrees, a questionnaire was sent to 592 personnel partners in public accounting firms. The results indicate the types of support that public accounting firms are willing to provide for graduate tax education.

Introduction

If graduate tax education is perceived as important for success, public accounting firms may offer employees a variety of financial incentives to reward or encourage them to earn an advanced degree. Payment of higher salaries is one possible financial incentive a public accounting firm may offer. Public accounting firms may also offer financial incentives directly to students to reduce their costs of graduate education. They may offer students scholarships or internships to offset some or all of their costs for additional tuition and books. They may make loans to their employees or pay their employees' tuition.

Firms may reduce the cost of graduate tax education by providing financial support to colleges and universities. For example, graduate programs usually maintain costly research libraries, a research oriented faculty, extensive computing equipment, and small (therefore, costlier) class sizes. External support from public accounting firms can bridge the gap between excellent programs and average programs by providing supplemental funding for these purposes. Additionally, firms may support colleges and universities by encouraging personnel to act as adjunct faculty for specialized graduate tax courses.

But do public accounting firms offer financial incentives to encourage and reward individuals who seek graduate tax education? This question is the focus of this paper.

Previous Research

Arlinghaus and Salzarulo (1986) studied the impor-

tance of post-baccalaureate education for Ohio tax professionals. They found a significant difference in the creativity and problem solving ability of individuals with either law or Master's degrees as compared to individuals with a BA. While the effect of a graduate degree on starting salary was not considered, they did examine the perceived importance of that degree to promotion. They found that a total of 64.7 percent of the partners thought that a graduate tax degree was important for future advancement. However, only 33.3 percent of the staff agreed with the importance of a graduate degree for promotion.

Earlier, Salzarulo and Bean (1981) studied the educational profile of Ohio tax professionals. They found that 43.7 percent of the tax staff with two years or less on the tax staff had at least one advanced degree. But after 9 or 10 years (approximately the time required to achieve partnership), the percentage of the tax staff with an advanced degree increased to a 61.1 percent.

Alford et al. (1990) found that approximately 45 percent of individuals promoted to partnership in "Big Eight" firms in the ten years beginning with 1978 held a graduate degree. This percentage increased to 57 percent and 65.4 percent when the response was limited to the service areas of tax and management advisory services, respectively. Moreover, the growth in graduate tax programs correlated positively with an increase in graduate degrees held by partners. The percentages of new partners in the tax service area who held graduate degrees were: 59.1 percent in 1985, 60.7 percent in 1986 and 72.3 percent in 1987.

The number of graduate tax programs in accounting has grown dramatically. Broden and Lubell (1979) document the exponential growth of graduate tax programs in the 1970's. Moreover, the number of graduate tax programs doubled in the 1980's (see Broden and Lubell, 1989). However, Arlinghaus and Salzarulo (1986) reported that the annual demand for new tax professionals in the early 1980's exceeded the numbers supplied by educational institutions with a graduate education in taxation.

Despite this apparent shortage, the ratio of Master's degrees in accounting to Bachelor's degrees remained steady at 10 to 12 percent during the period 1980-1987 (Williams, 1989, p.41.). This period experienced growth rates in conferred Master's degrees of -6.6 to 9 percent. The absolute number of Master's degrees awarded ranged from a low of 5,280 in 1980, to a high of 6,330 in 1984 and down to 5,580 in 1987. One cannot be sure how many of these graduate degrees were in taxation. Perhaps the number of degrees in taxation grew while the total number of graduate accounting degrees remained relatively constant. Williams (1989, p. 42) indicates that this is unlikely. Although the number of schools offering graduate tax degrees doubled in the 1980's only 11.3 percent of all graduate accounting programs offered a specialty in taxation. Indeed, Broden and Lubell (1989) provide evidence that even those graduate programs which offer a tax specialty sequence allow students to complete as few as four courses for their tax specialty degree. It does not appear that the market forces of supply and demand were operating effectively.

The ultimate decision to obtain graduate tax education is an individual one. While Arlinghaus and Salzarulo (1986) showed that a large portion of the staff who became tax partners have graduate tax educations, only a small portion of the staff in public accounting firms attribute importance to graduate tax education as a catalyst to their ultimate success in the firm. These findings are mirrored by Erickson and Hollingsworth (1991-92). Therefore, if public accounting firms value advanced tax education for their staffs, they must encourage their staffs to enroll in graduate tax programs. This study focuses on whether firms encourage employees to seek graduate tax education, and if so, what financial incentives they offer employees to encourage or reward their attainment of graduate tax education.

Methodology

A direct-mail questionnaire was designed to determine if firms actively recruit individuals with advanced degrees or recommend graduate education to current employees; and, if so, what financial incentives they offer to encourage graduate education.

The questionnaire was initially sent to four practitioners known to the authors for review and criticism. Modifications were made based on the comments received. Next the questionnaire was pilot tested by a mailing to a sample of 10 public accounting firms in a limited geographic area that had several colleges and universities offering graduate tax programs. Excluded from the sample were the firms of the four practitioners who reviewed the initial questionnaire. Included in the sample were all public accounting firms with offices in more than two states and a random sample of firms with a minimum of four certified public accountants. The questionnaire was directed to the managing partner of the firm office within the selected geographic area. Based on responses to the pilot test, further revisions were made to enhance clarity of the questionnaire and to shorten it.

The final version of the questionnaire was mailed to a random sample of public accounting offices drawn from the AICPA membership list. The population was comprised of all offices of firms which in total had 200 or more members of the AICPA. The AICPA provided a sample of 1,184 offices. Half (592) of these were used as a final sample. The questionnaire was directed to the personnel partner of each office. A second mailing followed four weeks later.

The questionnaire consisted of four parts. Part I included demographic information of the respondent's office and firm. Part II contained questions regarding the curriculum, other aspects of graduate tax education, and incentives offered by the respondent's office for employees who received an advanced tax degree. Part III asked respondents to identify the factors important in their recommendation of a graduate tax program as well as when they would recommend enrollment in such a program. Part IV asked what assistance their office would offer to a graduate tax program offered within 50 miles of that office or to employees who wished to enroll in a graduate tax program.

The responses for all parts were compiled to provide a consensus. A summary of that compilation as it relates to the type of graduate degree preferred and the financial incentives or assistance offered to employees, students and graduate programs follows.¹

Research Results

The Respondents

Two hundred twenty-four (224) of the 592 mailed surveys were returned for a response rate of 37.8 percent.² The respondent profiles are summarized in Table 1. More than half (53.6 percent) of the respondents were from offices with more than 50 professionals. The job titles of the respondents vary but almost half

were partners/officers-in-charge of the tax area. Additionally, for most offices, at least 25 percent of gross receipts were from tax engagements and more than one-fourth of all professionals spent at least 25 percent of their chargeable time in tax related work. In 91 of the 224 offices, at least 50 percent of the individuals who spent the majority of their time in the tax area either hold advanced degrees or have taken graduate courses.

Support for Graduate Tax Education

Table 2 indicates that 168 offices, or 75 percent of the respondent offices, are actively recruiting individuals with advanced degrees for tax work. Moreover, a

majority (61.7 percent) of those firms actively recruiting indicated that they preferred to hire individuals holding a Masters in Taxation degree. In addition to the overwhelming majority of offices actively recruiting individuals with advanced tax degrees, 48.2 percent³ of those not actively recruiting individuals with advanced tax degrees indicated that they preferred graduate tax courses at colleges and universities over in-house training and other forms of advancing the tax education for their personnel. Thus, 87.1 percent of the respondents perceive a need for graduate tax education and 84 percent recommended enrollment in graduate tax programs to their staff.

TABLE 1
Respondent Profiles

Characteristic	Number of Respondents	Percentage of Sample
Type of professional office		
A "Big Six" accounting firm	145	64.7
One of the "top 20" accounting firms in the U.S.	79	35.3
Number of professionals in local office		
10 or less	7	3.1
11 - 20	26	11.6
21 - 50	71	31.7
51 - 75	25	11.2
More than 75	95	42.4
Job title within local office		
Managing partner/officer	26	12.6
Personnel partner/officer	29	14.1
Recruitment partner/officer	25	12.1
Partner/officer-in-charge of tax area	96	46.6
Partner/officer-in-charge of continuing education	4	1.9
Other	26	12.6
Percentage of local office's gross receipts from tax engagements		
10 percent or less	2	.9
At least 15 percent	32	14.5
At least 25 percent	85	38.6
At least 35 percent	75	34.1
45 percent or more	26	11.8
Percentage of professionals spending at least 25 percent of their chargeable time with tax related work		
10 percent or less	2	.9
11-15 percent	16	7.1
16-25 percent	77	34.4
26-35 percent	66	29.5
36-45 percent	33	14.7
More than 45 percent	30	13.4
Percentage of professionals who spend the majority of their time in the tax area and who either hold advance degrees or have had graduate college courses		
10 percent or less	63	28.1
At least 25 percent	70	31.3
At least 50 percent	27	12.1
More than 50 percent	64	28.6

TABLE 2
Attitudes Towards Graduate Tax Education

Characteristic	Number of Respondents	Percentage of Sample
Does local office actively recruit individuals with advanced degrees for tax work?		
Yes	168	75.0
No	56	25.0
If you answered yes to the above question, which of the following advanced degrees does your local office most prefer for a person who is to practice in the tax area?		
Juris Doctorate	12	7.4
LLM (taxation)	6	3.7
Masters of Accounting	2	1.2
Masters of Accounting with tax concentration	38	23.5
Masters of Business Administration	2	1.2
Masters of Taxation	100	61.7
Other	2	1.2
If the following choices were available, what single method would your office prefer for advancing the tax education of its personnel?		
Part-time student enrolled in a daytime graduate tax course at local college or university	6	2.8
Part-time student enrolled in night or weekend graduate tax courses at local college or university	91	41.7
Full-time student enrolled in graduate tax courses at college or university	26	11.9
Seminars administered by your firm	84	38.5
Seminars sponsored by organizations	8	3.7
Self-study	1	0.5
Other	2	0.9
Which of the following best describes when your office would recommend enrollment in a graduate tax program at a college or university to its professional personnel?		
Would recommend after the individual has practiced as a tax professional 2 years or less	67	30.3
Would recommend after the individual has practiced as a tax professional more than 2 years	42	19.0
Would recommend regardless of period individual has practiced as a tax professional	78	35.3
Would not recommend	34	15.4

In light of these results, a comparison was made to determine if the apparent demand for graduate tax education is commensurate with the firm's recommendation of graduate education. The respondents were asked if their office would recommend enrollment in a graduate tax program at a college or university to its professional personnel. Approximately 85 percent of the respondents indicated that they would. Only 19 percent suggested the individual first practice as a tax professional for more than two years. Approximately nine percent⁴ would not recommend enrollment in a graduate tax program although they actively recruited individuals with advanced college degrees.

There appears to be a gap between partner and staff expectations as to the desirability of an advanced degree in taxation. On one hand, the responses of partners overwhelmingly expressed the need for graduate tax education. On the other hand, growth in the number of Master's degrees was stagnant. One possible explanation for this is that the partners responded to the survey in a manner in which they believed academics would view favorably. Or, in theory, a graduate tax education is desirable. But partners may try to keep morale high in their offices by down-playing such degrees in informal conversations with their staffs, especially if the partners do not hold graduate degrees themselves. Furthermore, average starting monthly salaries of Master's of Accounting holders historically have been lower than other fields of business (Williams, 1989, p. 45). Knowing that many staff will not remain in public accounting, partners may be hesitant to increase the entry cost for potential staff by stressing the importance of an advanced degree. These factors may discourage staff personnel from continuing their education while surveys indicate a need for graduate education.

Table 3 summarizes the responses to three survey questions regarding support and incentives offered by public accounting firms to encourage graduate tax education. The first question pertained to general support for graduate education. Less than 40 percent favored time off for staff to attend graduate courses. But if a graduate tax program was offered within 50 miles of their local offices the respondents were most willing to offer support by supplying firm personnel to teach specialty courses and by employing student interns. They were least amenable towards direct financial support of professors.

Plausible explanations for firm preferences of teaching specialty courses and employing student interns may take the form of self-serving motives. For example, if a manager or partner teaches graduate courses they are in an advantageous position for recruiting the best students. They have the advantage to know their prospective hires better and make more informed hiring decisions by observing their students for a term or semester

rather than being confined to a 60 minute interview. Hiring interns allows firms to recruit new staff on a trial basis. If they are not satisfied with the performance of the interns they are not committed to employ the students beyond the intern period.

The second question asked for the type of financial support firms would provide their employees who wished to take graduate tax courses. While 21 percent indicated that they would unconditionally offer the payment of tuition, 50 percent would choose to pay employee tuition only if a minimum grade point average was maintained. Fifteen percent⁵ of the firms indicated that they would not provide any financial support to assist employees who take graduate tax courses.

The third question dealt with employee rewards for earning a graduate tax degree. There appears to be promise for more rapid promotion as a result of a graduate tax degree but little likelihood of substantial pay raises.⁶ The prospects of more rapid promotion within the firm after completing a degree is consistent with the findings of Arlinghaus and Salzarulo (1986).

Implications

While public accounting firms actively recruit individuals with advanced degrees for tax work, sufficient numbers are not available to meet the firms demands for tax staff. While partners in firms may perceive an advanced degree as important to promotion, firms generally are not willing to provide substantial pay increases upon completion of an advanced degree. They may view the additional education as the cost for rapid promotion within the profession with the cost borne by the students. But with recent personnel cut backs in major firms, promotions are less likely. Employees may not view the promise of rapid promotion as an incentive when their potential success in the profession is uncertain.

A significant number of the firms are willing to pay tuition for employees. But only 21 percent pay tuition for an employee without requiring that either the employee maintain a minimum grade point average or remain with the firm for a stated period. Since only 39 percent of the firms give employees time off to take classes, employees may not view the tuition payment as a sufficient financial incentive for the additional personal sacrifice a graduate program requires of them.

Employees are expected to work a full day, spend less time with their families and either maintain a high grade point average or commit to remain with the firm. In exchange, the employers generally offer no significant salary increase, tuition payment only if the stated requirements are met and a more rapid but still uncertain promotion path. Employees may remain unwilling

TABLE 3

Support and Incentives Offered by Public Accounting
Firms to Encourage Graduate Tax Education

1. Assuming a graduate tax program were offered within fifty miles of your office, what support for the program would you office or firm normally offer?

	<u>YES</u>	<u>NO</u>
(a) Personnel to teach specialty courses	60%	40%
(b) Scholarships to students	19%	81%
(c) Time-off for staff to attend courses	39%	61%
(d) Stipends for professors	5%	95%
(e) Internships for students	60%	40%
(f) Other	12%	88%

2. What type(s) of financial support would your office provide for its employees who wished to take graduate tax courses at a college or university?

	<u>YES</u>	<u>NO</u>
(a) Payment of tuition	21%	79%
(b) Payment of tuition IF:		
(1) minimum grade point maintained	50%	50%
(2) remain with firm for stated period	29%	71%
(c) Loan for tuition	9%	91%
(d) Forgiveness of tuition loan if remain with firm for stated period	13%	87%
(e) Other financial support	8%	92%

3. Which, if any, of the following incentives would your office offer to its employees who receive an advanced tax degree?

	<u>YES</u>	<u>NO</u>
(a) More rapid promotion track	72.6%	27.4%
(b) Pay increase of 5% or less	4.9%	95.1%
(c) Pay increase of more than 5% but less than 10%	17.9%	82.1%
(d) Pay increase of 10% or more	17.0%	83.0%
(e) Other	19.3%	80.7%

to pursue graduate tax education until either financial incentives or their ultimate success in the profession are more apparent.

Since firms will not give employees time off to attend courses, colleges and universities should consider their scheduling of graduate courses. Course offered on weekends or evenings would enable students to meet their educational demands without interfering with full-time jobs. Utilizing such times would also allow colleges and universities to accept the offer of 60 percent of the firms who are willing to provide personnel to teach specialty courses.

As state funding for colleges and universities are reduced due to tightened budgets, the students' costs of obtaining graduate degrees should increase. Public accounting firms may reduce the cost directly by assisting the student or indirectly by assisting the colleges and universities. The firms are willing to directly assist students by offering internships but they are less willing to offer scholarships. The firms are willing to indirectly reduce the cost by offering firm personnel to teach specialty tax courses but they are generally unwilling to offer stipends to professors. As the firms commit financial resources, they appear to expect greater control over the educational process.

Limitations

While the questionnaires were directed to the personnel partners, 85.9 percent of the questionnaires were not completed by personnel partners. Partners with administrative responsibilities in either tax, continuing education, recruitment or management responsibilities completed 73.3 percent of the questionnaires. Other individuals completed 12.6 percent of the questionnaires. The questionnaires asked the respondents to represent the view of their office. It is assumed that the respondents completing the questionnaires accurately represented that view.


Conclusion

While 75 percent of the public accounting firms actively recruit personnel from graduate tax programs, the firms offer limited financial incentives to employees to encourage them to seek graduate tax education. While a substantial number of the firms would assist their employees by paying tuition for graduate tax courses, employees generally must either maintain a minimum grade point average or agree to remain with the firm. Although substantial pay increases were not given to employees who received a graduate tax degree, firms do offer a more rapid promotion path.

Public accounting firms are willing to support graduate tax programs. But that support is offered primarily

in the form of personnel to teach specialty tax courses or internships for students. Firms are less willing to offer either scholarships for students or stipends for professors.

Suggestions for Future Research

This study surveyed the attitudes and opinions of personnel partners in public accounting firms. Future research may follow the career development of a sample of new hires for five to ten years. Such a longitudinal study would reveal correlations between promotions and graduate tax education, actual incentives provided, and the timing (i.e., at what point in their careers) and method (i.e., full-time or part-time) chosen to pursue graduate tax education. The advantage of using a forward-looking research design over a survey of current partner histories is that a forward-looking design will capture accountants who exit the firm, and possibly the accounting profession, and not just those who have attained partnership. 

Footnotes

1. A summary of the responses to questions regarding curriculum, other aspects of graduate tax education and the factors important in the recommendation of a graduate tax program was published in a related article [Stara et al. 1991].
2. The last three questions on Table 2 were used to test for nonresponse bias. Using the second mailing responses as surrogates for nonrespondents, a chi square test was used to test for differences. No significant differences were found. The remaining questions were not tested for nonresponse bias because they are questions of firm policy, not opinions.
3. This percentage cannot be directly calculated from Table 2. Twenty-seven of the 56 respondents indicating that they did not actively recruit staff with graduate degrees also indicated their preferences for college and university training over in-house training.
4. Fifteen of the 168 respondents (Table 2) indicating that they actively recruited individuals with advanced degrees also indicated that they would not recommend enrollment in a graduate tax program.
5. Thirty-four of the total 224 respondents answered "no" to all parts of question 2 on Table 3.
6. One should keep in mind that promotions may imply pay raises but it was impossible to determine the extent of such indirect pay raises from the questionnaire used.

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