

What Is Performance-Based Compensation?

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Performance-based compensation (PBC) is a system for rewarding employees financially, outside of their regular salaries. The financial compensation is based on how individual employees, departments, the company, or the company's stock price performs during a specific time frame and in accordance with pre-determined goals set by the organization. These programs may also be called Pay-For-Performance systems. Companies who utilize these systems must be prepared to define and track performance, as well as provide compensation, such as bonuses, when objectives are met according to benchmarks. The supplemental income will also have tax implications for employees.

This type of compensation within public corporations was affected by the 2017 Tax Cuts and Jobs Act (TCJA), which went into effect in 2018. The TCJA eliminates the exemption for performance-based compensation and commissions that public corporations pay out during the year. Following the law's passage, the compensation became subject to the \$1 million individual compensation limit, which could affect how top executives are compensated.

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