ZAZEN TAX

The Agency Owner's Tax and Money Handbook

The rate card built from cost, the two leaks measured, the WIP cut honestly, the bench papered properly and the year end that decides the profit.

Eight chapters, one worked agency, and every figure checkable on the free tools.

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Contents

One agency runs through every chapter: Kestrel Works Ltd, six fee-earners on £42,000, two non-billable heads, £120,000 of overheads, a £700 rack day the timesheets discount to £610. Every tool on zazentax.com uses the same agency, so the chapters and the calculators agree with each other.

1 One agency, one year

Agency money has a shape: revenue made of hours, margins that leak through helpfulness, and a profit figure that depends on judgement calls about half-finished work.

Kestrel Works runs six fee-earners and two non-billable heads. Each fee-earner costs £63,623 once employer NIC, pension and the £15,000 overhead share land, which is £55.61 per billable hour at the 65 per cent utilisation target. The rack day is £700; the invoices realise £610.

Every chapter takes one of the places agency money is made or lost, with the worked numbers throughout and the tool named that runs the same arithmetic on yours.

> THE THEME OF THE WHOLE BOOK
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> Agencies rarely die of bad work; they leak to death through good work priced casually, scoped loosely and recognised optimistically. Every leak in this book has a number and a tool.

2 The rate card, built from cost

A rate card built from the market is a rumour; one built from cost is a policy. The £42,000 fee-earner makes the difference concrete.

Loaded for employer NIC and pension, plus the overhead share, the £42,000 salary is £63,623 of full cost: £55.61 per billable hour, £74.15 at a 25 per cent margin, £593 a day. The classic three-times-salary health test needs an £881 day at this utilisation; the £700 rack reaches 2.38 times.

The Rate Card Builder runs the build for every seniority tier; the Agency Rate and Cost Multiple Calculator holds the single-earner version. The cheapest way to move every number in this chapter is utilisation, which is the next chapter.

3 The two leaks

Two different diseases drain agencies, and they need different medicine, so they are measured apart.

Leak one is unbilled capacity: Kestrel targets 65 per cent utilisation and runs 58, seven points that are 739 hours a year across the floor, £56,364 at the realised rate. No invoice was discounted; the hours never existed.

Leak two is recovery: the £700 card realising £610 is 87 per cent, and across the billed hours the writedowns cost £68,904 more. Together the leaks pass £125,268, which outweighs any new-business win of the season. The Utilisation and Recovery Calculator prices both; the Capacity and Utilisation Planner finds them per person.

4 Projects, and where margins go

The worked project was quoted at £24,000 with a 51.7 per cent planned margin. It landed at 36, and the missing £3,770 was decided one helpful hour at a time.

The mechanics: 200 budgeted hours became 265, a 32.5 per cent overburn at the honest £58 blended cost rate. Overburn caught weekly is a change order; caught at the end it is a thinner margin and a mystery. The Project Profitability Calculator runs one job, the Project P and L Tracker runs the book.

The fix lives in the statement of work: counted deliverables, written assumptions, included rounds of amends and a five-minute change order. The Scoping and Statement of Work Checklist is that fix, one page long.

5 The WIP cut

A project agency's profit is a judgement about half-finished work. The WIP cut is where the judgement becomes honest or expensive.

Each month end: percentage complete per project, from the project lead against the plan, never from hours burned, because hours measure cost, not progress. Fee times complete, less billed, is the WIP: positive is accrued income earned but unbilled, negative is deferred income billed ahead of the work.

The worked cut: one job 60 per cent done and 40 billed accrues £4,800; another 50 done and 70 billed defers £3,600. Ten optimistic points across a portfolio invents profit next year must quietly repay, with corporation tax already gone. The WIP and Revenue Recognition Workbook holds the cut.

6 The bench

Freelancers are how agencies flex, and the paperwork decides whether the bench stays flexible or becomes a payroll problem with interest.

The tests are the familiar ones: genuinely in business, a real right of substitution, briefed for outcomes rather than managed by the hour. A small-company client leaves the status call with the contractor; growing past the small thresholds moves the determination to you, which is worth knowing the year before it happens.

The money hygiene matters as much: engagement letters per project, IP assigned on payment so the client chain holds, professional indemnity certificates on file, and the bench paid on time because the best freelancers book elsewhere first. The Using Freelancers and Contractors Checklist walks the file.

7 New business has a cost of sales

The pitch habit is the least measured spend in most agencies. Kestrel measures it: £3,880 per pitch, £15,520 per win.

Sixty team hours at the £58 loaded rate plus £400 of hard costs prices the pitch; a one-in-four win rate means every win carries three funerals. Held against a £30,000 first-year fee that is half the revenue gone before the work starts; against a £150,000 retainer it is fine. Same pitch, different verdict.

The levers in order: qualify harder, pitch smaller, and decline free beauty parades unless the prize carries the arithmetic. The Pitch Cost and Win Rate Calculator prices the habit; the New Business Pipeline Tracker is the ledger that talks you out of the wrong ones.

8 The year end that decides the profit

An agency year end is mostly cut-off: WIP, accruals, bonuses and bad debts, each a judgement with a tax bill attached.

The sequence: the WIP cut on honest percentages, freelancer accruals for work done but uninvoiced, doubtful debts chased in month eleven rather than provided in month thirteen, and bonuses minuted before the year end, paid within nine months, so they deduct in the year they reward.

Then the decisions on actuals: the two leaks sized for the year, the card repriced, next year's hires held against the pipeline. The Agency Year-End Checklist runs the order, and February becomes assembly instead of archaeology.

Where to go next

Start with the Utilisation and Recovery Calculator on last quarter's real numbers: the two leaks it prices usually fund every other decision in this book. Then rebuild the rate card from cost, and let the card defend itself.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures, the same conventions and the same worked agency as the chapters here.

Zazen Tax

Accountants for agencies and studios. If you would rather someone ran the numbers with you, that is what we are for.

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