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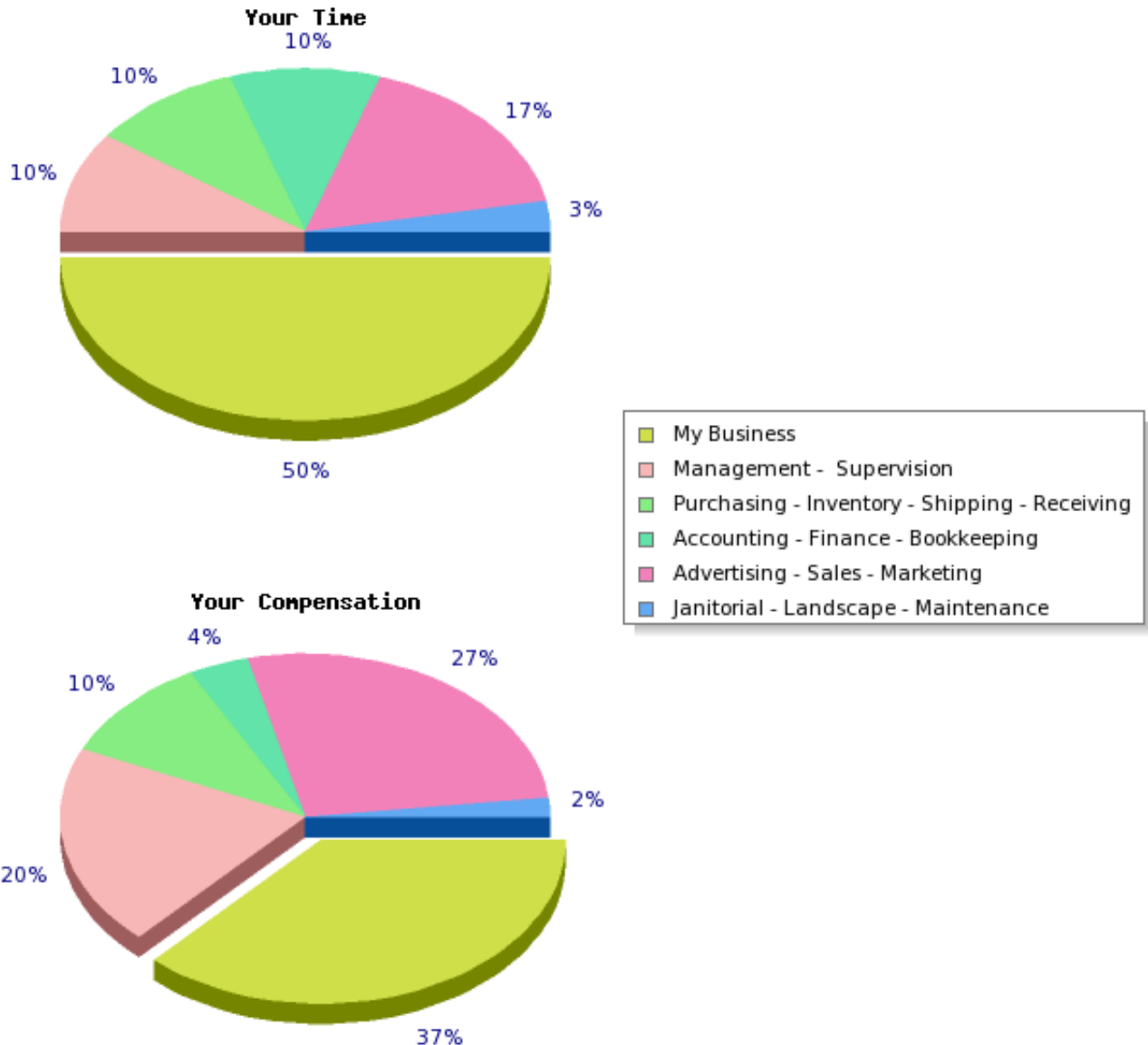
Tax & Valuation

Report for Joan Smith of Smith Auto Sales

Your estimated annual Reasonable Compensation: \$62,163

Thank you for entrusting Sam Miller of Potomac Tax and Valuation, PC with your Reasonable Compensation analysis. This report provides a reasonable estimate of the value of services rendered to your company based on the duties and responsibilities that you perform annually. Reasonable Compensation is defined as a question: "How much compensation would be paid for this same position, held by a non-owner in an arms-length employment relationship at a similar company?"

The calculated salary of **\$62,163** was determined to be Reasonable Compensation based on the type of work performed, the skill level of the work performed and the number of hours the work is performed annually. You told us that you work **2080** hours per year in **Denver County, CO**. Our analysis indicates the annual salary of \$62,163 would be a reasonable cost to hire employee(s) to perform the duties and responsibilities that you currently perform.



*Annual Salary and Reasonable Compensation are used interchangeably in this report.
All salary and reasonable compensation figures are expressed annually and in U.S. dollars.*



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Janitorial - Landscape - Maintenance

3% of
your time

62 hours
per year

1.93% of
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Maintenance and Repair Workers	Average	100%	3%	62.4	\$ 19.18	\$ 1,197

Advertising - Sales - Marketing

17% of
your time

354 hours
per year

26.87% of
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Market Research Analysts	Above Avg.	100%	17%	353.6	\$ 47.24	\$ 16,704

Accounting - Finance - Bookkeeping

10% of
your time

208 hours
per year

3.96% of
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Bookkeeper	Low	100%	10%	208.0	\$ 11.84	\$ 2,463

Purchasing - Inventory - Shipping - Receiving

10% of
your time

208 hours
per year

10.44% of
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Wholesale and Retail Buyers	Above Avg.	100%	10%	208.0	\$ 31.20	\$ 6,490

Management - Supervision

10% of
your time

208 hours
per year

19.93% of
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
General and Operations Managers	Average	100%	10%	208.0	\$ 59.56	\$ 12,388

My Business

50% of
your time

1,040 hours
per year

36.87% of
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Automotive Salesperson	High	100%	50%	1,040.0	\$ 22.04	\$ 22,922

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Business Summary:

Calculated for: Joan Smith

Company: Smith Auto Sales

Interview completed: 20XX-05-02 16:30:26

Report calendar year: 20XX

Location: Denver County, CO

Hours worked: 2080



Report for Joan Smith of Smith Auto Sales

How was my "Annual Salary" or "Reasonable Compensation" calculated?

Potomac Tax and Valuation, PC relies on data provided by Reasonable Compensation Reports, Inc., Bureau of Labor Statistics and U.S. Census data to calculate a concise, independent, unbiased, Reasonable Compensation figure.

This report blends and weights the duties and responsibilities you perform annually in eight common categories with the duties and responsibilities you perform specific to your business generating an annual salary that would be reasonable to "replace" you within your company.

Your annual salary or Reasonable Compensation represents an estimate of the amount it would cost to "replace" you, based on:

- Your answers to our interview
- Bureau of Labor Statistics data
- Census data
- Reasonable Compensation Reports data

Your Reasonable Compensation figure includes taxable Medicare wages & bonuses, healthcare and flexible spending accounts (FSA). It does not include non-taxable fringe benefits such as vehicle or vehicle allowance, stock options, company loans and other items not reported on a W-2 as taxable compensation.

Your actual replacement salary could vary considerably from our estimate, especially if the information you provided differs from your actual duties and responsibilities.

Methodology

This report uses the Cost Approach to determine a Reasonable Compensation figure. The Cost Approach takes into consideration all the tasks a business owner provides to the company, such as administration, accounting, marketing, purchasing etc. (also referred to as the Many Hats Approach).

The Cost Approach breaks down the time spent by the owner into the various tasks performed; wage levels are assigned for each task based on the owner's proficiency, and then added back together to obtain a hypothetical Replacement Cost for the owner.

The Cost approach is most accurate when used to determine Reasonable Compensation for owners of a closely-held business where the owner performs multiple job duties (wears many hats).

For more information on Methodologies:

- [Job Aid for IRS Valuation Professionals](#)
- Reasonable Compensation Reports Methodology Report (available upon request)



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Other considerations before deciding on a final Reasonable Compensation figure

For the majority of businesses owners (and key managers), the Reasonable Compensation figure calculated in this report should not require adjustments. However there are circumstances, rules and situations Potomac Tax and Valuation, PC may take into consideration before recommending a final reasonable compensation figure. The list below is not exhaustive and Potomac Tax and Valuation, PC may make adjustments for circumstances and situations not listed.

- Compensation of Non-Owner Employees
- Salary History
- Travel Requirements
- Personal Guarantee of Debt
- Key Relationships and/or Contracts
- Financial Condition of Company
- Distribution History

The courts have used a variety of factors to "stress test" Reasonable Compensation figures. Four well recognized lists of factors are below. Potomac Tax and Valuation, PC may stress test your Reasonable Compensation figure against some or all of the factors used by the courts and the IRS and recommend adjustments.

1. The IRS Nine Factors Considered by Tax Courts: [IRS Fact Sheet 2008-25](#)
2. The Tax Court's Five-Factor Test: [LabelGraphics, Inc. v. Commissioner, T.C. Memo 1998-343 \(Sept. 28, 1998\)](#)
3. The Tax Court's Ten-Factor Test: [Brewer Quality Homes, Inc. v. Commissioner, T.C. Memo 2003-200 \(July 10, 2003\)](#)
4. Summary of Court Factors used to "Stress Test" Reasonable Compensation Figures: [Summary](#)

Additional Resources:

- [Job Aid for IRS Valuation Professionals](#)
- [Reasonable Compensation: Application and Analysis](#) for Appraisal, Tax and Management Purposes. By Ronald L. Seigneur and Kevin R. Yeanoplos



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Appendix A - Descriptions of Tasks Selected

Maintenance and Repair Workers

Perform work involving the skills of two or more maintenance or craft occupations to keep machines, mechanical equipment, or the structure of an establishment in repair. Duties may involve pipe fitting; boiler making; insulating; welding; machining; carpentry; repairing electrical or mechanical equipment; installing, aligning, and balancing new equipment; and repairing buildings, floors, or stairs.

Market Research Analysts

Research market conditions in local, regional, or national areas, or gather information to determine potential sales of a product or service, or create a marketing campaign. May gather information on competitors, prices, sales, and methods of marketing and distribution.

Bookkeeper

Compute, classify, and record numerical data to keep financial records complete. Perform any combination of routine calculating, posting, and verifying duties to obtain primary financial data for use in maintaining accounting records. May also check the accuracy of figures, calculations, and postings pertaining to business transactions recorded by other workers.

Wholesale and Retail Buyers

Buy merchandise or commodities, other than farm products, for resale to consumers at the wholesale or retail level, including both durable and nondurable goods. Analyze past buying trends, sales records, price, and quality of merchandise to determine value and yield. Select, order, and authorize payment for merchandise according to contractual agreements. May conduct meetings with sales personnel and introduce new products. Includes assistant wholesale and retail buyers of nonfarm products.

General and Operations Managers

Plan, direct, or coordinate the operations of public or private sector organizations. Duties and responsibilities include formulating policies, managing daily operations, and planning the use of materials and human resources, but are too diverse and general in nature to be classified in any one functional area of management or administration, such as personnel, purchasing, or administrative services.

Automotive Salesperson

Sell merchandise, such as furniture, motor vehicles, appliances, or apparel to consumers.