



Year: 20XX

Report: Tax Compliance for S Corp

Approach: Market (AKA Industry Comparison)

For: Scott Stone of Stone Concrete, Inc.

Your estimated annual Reasonable Compensation: \$195,869

Thank you for entrusting Paul Hamann 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 S Corporation based on the duties and responsibilities that you perform annually. Reasonable Compensation is defined as "The value that would ordinarily be paid for like services by like enterprises under like circumstances."

Your suggested salary range: **\$141,520 to \$224,179** with a suggested salary of **\$195,869** was determined to be Reasonable Compensation based on your role in the company, industry, size of the business, time devoted to the business, your experience and location. Any wage selected within the suggested range or expanded geographical area(s) is acceptable and within a 90% confidence interval.

Potomac Tax and Valuation, PC recommends completing a Reasonable Compensation report annually.

Salary Range



	Low	High	Suggested
Chicago-Naperville-Elgin, IL-IN	\$178,448	\$224,179	\$195,869
Illinois	\$174,726	\$219,503	\$191,784
National	\$141,520	\$177,787	\$155,336



POTOMAC

Tax & Valuation

Year: 20XX

Report: Tax Compliance for S Corp

Approach: Market (AKA Industry Comparison)

For: Scott Stone of Stone Concrete, Inc.

Business Summary:

Calculated for:	Scott Stone
Company:	Stone Concrete, Inc.
Interview Completed Date:	20XX-12-08 07:51
Report Calendar Year:	20XX
NAICS industry:	Specialty Trade Contractors
MSA Location:	Chicago-Naperville-Elgin, IL-IN
State:	Illinois
Occupation:	Chief Executives*
Number of Employees (FTE):	25-75
Adjusted Gross Profit:	1m-5m**
Business Performance vs. Peers:	Average
Owner Experience or Proficiency Level:	Average
Time Dedicated to the Business:	Full Time

* Chief Executives - Determine and formulate policies and provide overall direction of companies or private and public sector organizations within guidelines set up by a board of directors or similar governing body. Plan, direct, or coordinate operational activities at the highest level of management with the help of subordinate executives and staff managers.

** Adjusted Gross Profit is gross revenue less the direct cost of producing this income. The direct cost of producing income is all expenses that have a one to one relationship to producing income. This concept is like but not identical to grossprofit.



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 determines Reasonable Compensation based on your company's industry, size and performance and your role, experience and time devoted to the company, generating an annual salary that would be reasonable to "replace" yourself within your business.

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, Inc. database of wages

Reasonable Compensation figures include taxable **Medicare** wages and flexible spending accounts. Reasonable Compensation figures do not include non-taxable fringe benefits such as health insurance, vehicle or vehicle allowance, stock options, company loans and other items not reported on a W-2 as **Medicare** wages.

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

Methodology

This report uses the Market Approach to determine a Reasonable Compensation figure. The Market Approach compares the business owner's compensation to compensation within the industry. The market approach focuses as much as possible on the owner's business and the specific position being analyzed (often the CEO or General Manager who also owns the business). The question to be answered is: 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 Market Approach generally works best for medium and large businesses where the business owner provides only one duty: management of the business.

For more information on Methodologies:

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



Other considerations before deciding on a final Reasonable Compensation figure

that may need to be taken

- 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 information and help on the issue of Reasonable Compensation for S Corporation owners can be found at:

- [IRS: S Corporation Compensation and Medical Insurance Issues](#)
- [IRS: S Corporation Employees, Shareholders and Corporate Officers](#)
- [IRS Fact Sheet 2008-25: Wage Compensation for S Corporation Officers](#)

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](#)



Year: 20XX

Report: Tax Compliance for S Corp

Approach: Market (AKA Industry Comparison)

For: Scott Stone of Stone Concrete, Inc.

Sample Language for Your Corporate Minutes

Potomac Tax and Valuation, PC recommends incorporating the results of this report into the Corporate Minutes of your S Corporation.

Here is a sample document for that purpose:

CONSENT AND MINUTES OF MEETING OF DIRECTORS OF Stone Concrete, Inc.

The undersigned, being all of the directors of Stone Concrete, Inc. (the "Company"), waive any rights to notice, and consent to the following action, taken on

_____, 20____ :

RESOLVED, that the Company adopt the report of Potomac Tax and Valuation, PC, a copy of which is attached and, in reliance on such report, pay to Scott Stone the sum of \$195,869 per year as salary for the duties set forth in such report.

DISCLAIMER NOTICE!

This document is being provided merely as a sample of the type of language that the S Corporation may consider using in connection with minutes of the board of directors adopting the amounts determined by Potomac Tax and Valuation, PC as Reasonable Compensation for its employees.

Potomac Tax and Valuation, PC does not provide legal services, and does not represent that this sample will comply with state laws regarding the procedure for actions of the S Corporation's board of directors or the form or content of the minutes memorializing such actions.

Potomac Tax and Valuation, PC recommends that the S Corporation consult its attorney for legal advice regarding such matters.