

S-CORP REASONABLE COMPENSATION

Year: 20XX

Report: Tax Compliance for S Corp

Approach: Cost Approach

For: Scott Stone of Stone Concrete, Inc.

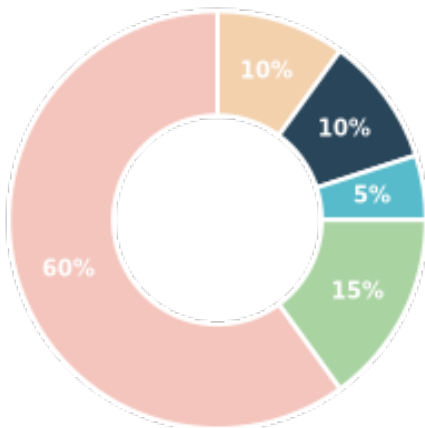
Your estimated annual Reasonable Compensation: \$78,336

Thank you for entrusting Abbie Deaver of Legendary Accounting 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 by the IRS as "The value that would ordinarily be paid for like services by like enterprises under like circumstances."

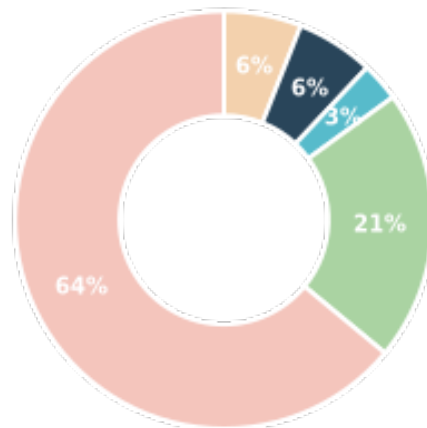
The calculated salary of **\$78,336** was determined to be Reasonable Compensation based on the type of work performed, the skill level of the work performed and the number of hours the work is performed annually. You told us that you work **2080** hours per year in **Cook County, Illinois**. Our analysis indicates the annual salary of **\$78,336** would be a reasonable cost to hire employee(s) to perform the duties and responsibilities that you currently perform.

Legendary Accounting recommends completing a Reasonable Compensation report annually.

Your Time



Your Compensation



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Marketing

10% of total hours | 208 hours per year | 6.36 % of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wage |
|----------------------|---------------|---------------|------------------|----------------|-------------|-------------|
| Sales Representative | Below Average | 100% | 10% | 208.00 | \$23.96 | \$4,984 |

Finance

10% of total hours | 156 hours per year | 5.68 % of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wage |
|------------|---------------|---------------|------------------|----------------|-------------|-------------|
| Bookkeeper | Below Average | 100% | 10% | 208.00 | \$21.39 | \$4,449 |

Inventory

5% of total hours | 104 hours per year | 2.90 % of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wage |
|------------------|-------------|---------------|------------------|----------------|-------------|-------------|
| Purchasing Clerk | Average | 100% | 5% | 104.00 | \$21.82 | \$2,269 |

Management

15% of total hours | 312 hours per year | 20.63 % of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wage |
|-------------------------|-------------|---------------|------------------|----------------|-------------|-------------|
| Business Office Manager | Average | 100% | 15% | 312.00 | \$51.79 | \$16,158 |

My Business

60% of total hours | 1248 hours per year | 64.43 % of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wage |
|-------------------|---------------|---------------|------------------|----------------|-------------|-------------|
| Concrete Finisher | Above Average | 50% | 30% | 624.00 | \$49.05 | \$30,607 |

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| | | | | | | |
|----------------------|---------------|-----|-----|--------|---------|----------|
| Maintenance Mechanic | Above Average | 50% | 30% | 624.00 | \$31.84 | \$19,868 |
|----------------------|---------------|-----|-----|--------|---------|----------|

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Business Summary:

Calculated For: Scott Stone

Company: Stone Concrete, Inc. Report

Year: 20XX

Location: Cook County, Illinois

Hours Worked: 2080

Report Completed: 20XX-07-26 00:00

Interview Completed: 20XX-06-26

14:44

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

Legendary Accounting 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.

The Bureau of Labor Statistics defines "year-round, full-time" employment as 2,080 hours per year (40 hours per week). The BLS definition is adhered to by the Court and IRS Expert in [McAlary v. IRS](#). If you selected 40+ hours per week your Reasonable Compensation figure will reflect a reasonable salary for someone working year-round, full-time, even if you work more than 40 hours per week.

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" yourself 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, 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 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 their 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, Inc. Methodology Report (available upon request)

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Other considerations before deciding on a final Reasonable Compensation figure

For the majority of shareholder-employees, the Reasonable Compensation figure calculated in this report should not require adjustments. However there are circumstances, rules and situations Legendary Accounting may take into consideration before recommending a final Reasonable Compensation figure. The list below is not exhaustive and Legendary Accounting 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. Legendary Accounting 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](#)

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Appendix A - Descriptions of Tasks Selected

Sales Representative

Sell goods for wholesalers or manufacturers to businesses or groups of individuals. Work requires substantial knowledge of items sold.

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.

Purchasing Clerk

Compile information and records to draw up purchase orders for procurement of materials and services.

Business Office Manager

Plan, direct, or coordinate one or more administrative services of an organization, such as records and information management, mail distribution, facilities planning and maintenance, custodial operations, and other office support services.

Concrete Finisher

Smooth and finish surfaces of poured concrete, such as floors, walks, sidewalks, roads, or curbs using a variety of hand and power tools. Align forms for sidewalks, curbs, or gutters; patch voids; and use saws to cut expansion joints.

Maintenance Mechanic

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

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Sample Language for Your Corporate Minutes

Legendary Accounting 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 Legendary Accounting, a copy of which is attached and, in reliance on such report, pay to Scott Stone the sum of \$78,336 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 Legendary Accounting as Reasonable Compensation for its employees.

Legendary Accounting 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.

Legendary Accounting recommends that the S Corporation consult its attorney for legal advice regarding such matters.