

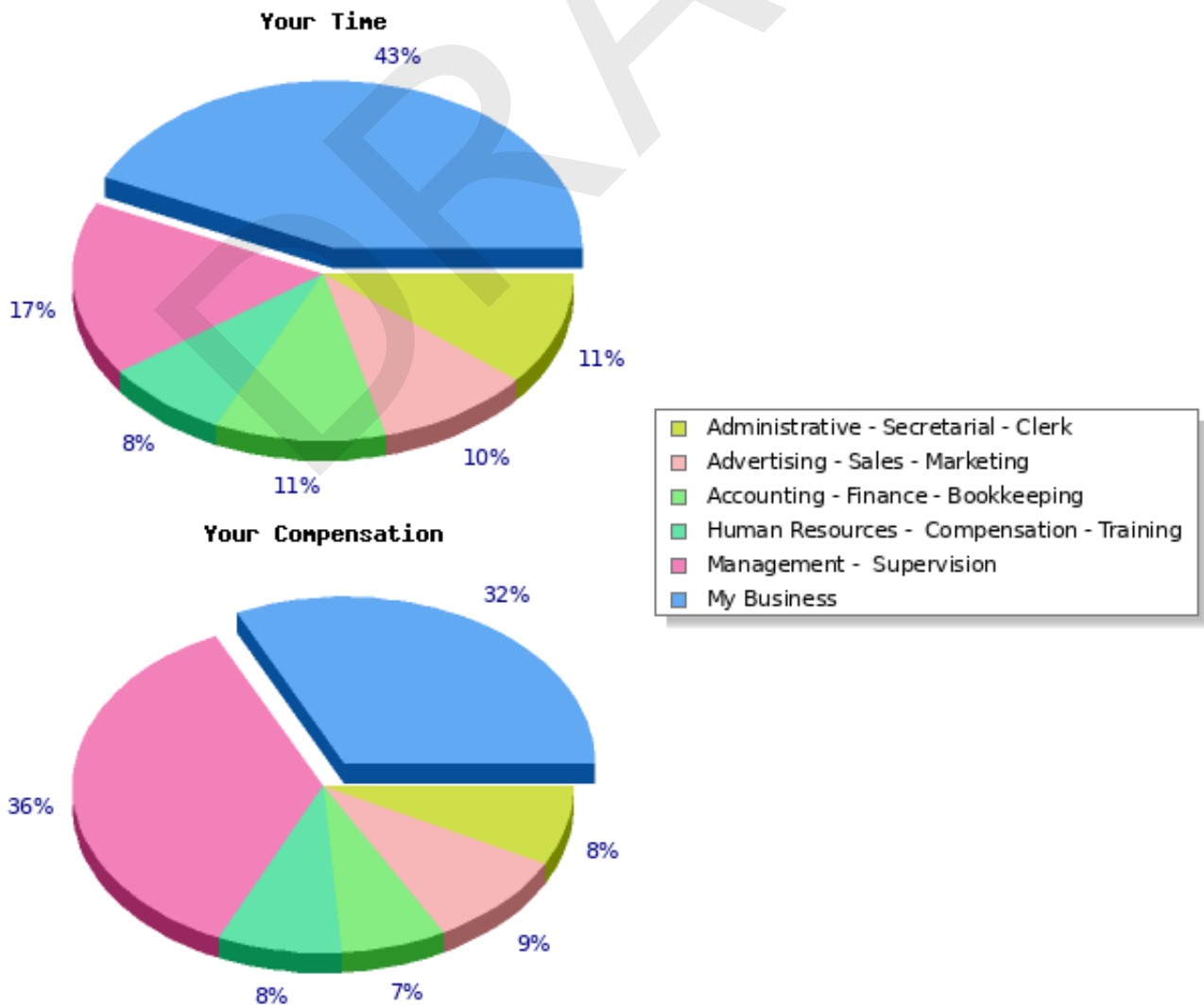
Ruben Garratt CPA, PLLC

2023 Report for John Doe of Sample Company, LLC

Your estimated annual Reasonable Compensation: \$50,550

Thank you for entrusting Ruben Garratt of Ruben Garratt CPA, PLLC with your Reasonable Compensation analysis. This report provides a reasonable estimate of the value of services rendered to your S Corporation based on your responsibilities and the duties 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 **\$50,550** 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 **Mecklenburg County, NC**. Our analysis indicates the annual salary of \$50,550 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.

Ruben Garratt CPA, PLLC

2023 Report for John Doe of Sample Company, LLC

Category: My Business

43% of total hours - 894 hours per year - 32.08% of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wages
Landscaper						
	Above Avg.	100%	43%	894.4	\$ 18.13	\$ 16,215

Category: Management - Supervision

17% of total hours - 354 hours per year - 36.09% of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wages
Business Office Manager						
	Average	100%	17%	353.6	\$ 51.60	\$ 18,246

Category: Human Resources - Compensation - Training

8% of total hours - 166 hours per year - 7.99% of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wages
Human Resources Generalist						
	Below Avg.	100%	8%	166.4	\$ 24.27	\$ 4,039

Category: Accounting - Finance - Bookkeeping

11% of total hours - 229 hours per year - 6.83% of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wages
Collections Clerk						
	Below Avg.	100%	11%	228.8	\$ 15.08	\$ 3,450

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2023 Report for John Doe of Sample Company, LLC

Category: Advertising - Sales - Marketing

10% of total hours - 208 hours per year - 9.34% of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wages
Sales Representative						
	Below Avg.	100%	10%	208.0	\$ 22.71	\$ 4,724

Category: Administrative - Secretarial - Clerk

11% of total hours - 229 hours per year - 7.67% of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wages
Office Clerk						
	Below Avg.	58%	6.38%	132.7	\$ 14.60	\$ 1,937
Customer Service Representative						
	Below Avg.	20%	2.2%	45.8	\$ 15.50	\$ 710
Correspondence Clerk						
	Below Avg.	22%	2.42%	50.3	\$ 24.43	\$ 1,229

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2023 Report for John Doe of Sample Company, LLC

Business Summary:

Calculated for: John Doe
Company: Sample Company, LLC
Report calendar year: 2023
Location: Mecklenburg County, NC
Hours worked: 2080

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All salary and reasonable compensation figures are expressed annually and in U.S. dollars.*

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

Ruben Garratt CPA, PLLC relies on data provided by Reasonable Compensation Reports, 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 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 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 Ruben Garratt CPA, PLLC may take into consideration before recommending a final reasonable compensation figure. The list below is not exhaustive and Ruben Garratt CPA, PLLC 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. Ruben Garratt CPA, PLLC 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

Landscaper

Landscape or maintain grounds of property using hand or power tools or equipment. Workers typically perform a variety of tasks, which may include any combination of the following: sod laying, mowing, trimming, planting, watering, fertilizing, digging, raking, sprinkler installation, and installation of mortarless segmental concrete masonry wall units.

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.

Human Resources Generalist

Recruit, screen, interview, or place individuals within an organization.

Collections Clerk

Locate and notify customers of delinquent accounts by mail, telephone, or personal visit to solicit payment. Duties include receiving payment and posting amount to customer's account, preparing statements to credit department if customer fails to respond, initiating repossession proceedings or service disconnection, and keeping records of collection and status of accounts.

Sales Representative

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

Office Clerk

Perform duties too varied and diverse to be classified in any specific office clerical occupation, requiring knowledge of office systems and procedures. Clerical duties may be assigned in accordance with the office procedures of individual establishments and may include a combination of answering telephones, bookkeeping, typing or word processing, office machine operation, and filing.

Customer Service Representative

Interact with customers to provide basic or scripted information in response to routine inquiries about products and services. May handle and resolve general complaints.

Correspondence Clerk

Compose letters or electronic correspondence in reply to requests for merchandise, damage claims, credit and other information, delinquent accounts, incorrect billings, or unsatisfactory services. Duties may include gathering data to formulate reply and preparing correspondence.

Ruben Garratt CPA, PLLC

2023 Report for John Doe of Sample Company, LLC

Appendix B - Sample Language for Your Corporate Minutes

Ruben Garratt CPA, PLLC 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 Sample Company, LLC

The undersigned, being all of the directors of Sample Company, LLC (the "Company"), waive any rights to notice, and consent to the following action, taken on _____, 20____:

RESOLVED, that the Company adopt the report of Compensation.tools, a copy of which is attached and, in reliance on such report, pay to John Doe the sum of \$50,550 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 Ruben Garratt CPA, PLLC as reasonable compensation for its employees.

Ruben Garratt CPA, PLLC 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.

Ruben Garratt CPA, PLLC recommends that the S-corporation consult its attorney for legal advice regarding such matters.