



# POTOMAC

## Tax & Valuation

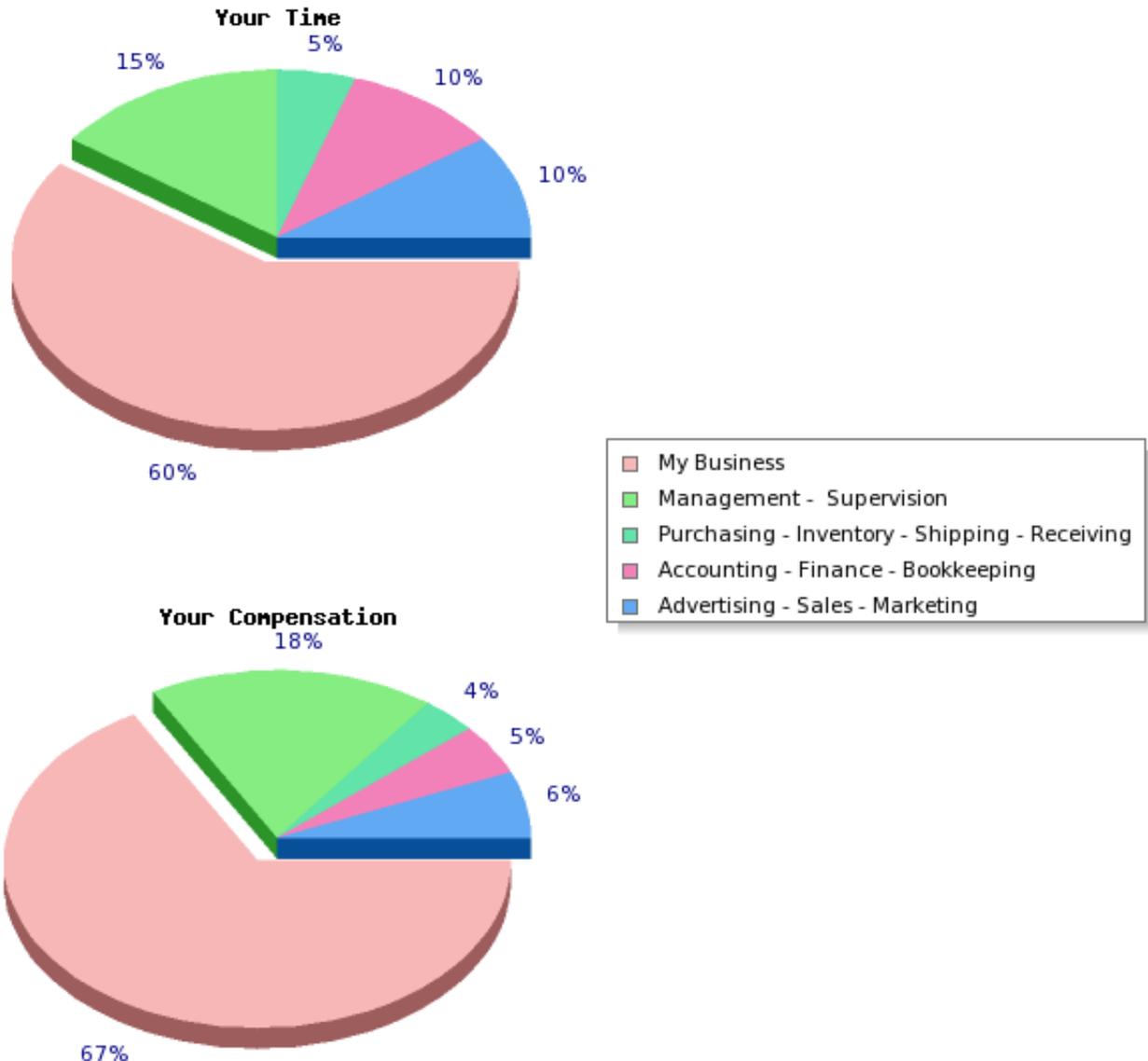
### Report for Scott Stone of Stone Concrete, Inc.

#### Your estimated annual Reasonable Compensation: \$68,788

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 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 **\$68,788** 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, IL**. Our analysis indicates the annual salary of \$68,788 would be a reasonable cost to hire employee(s) to perform the duties and responsibilities that you currently perform.

Potomac Tax and Valuation, PC recommends completing a reasonable compensation report annually.



*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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### Report for Scott Stone of Stone Concrete, Inc.

#### Advertising - Sales - Marketing

10% of  
your time

208 hours  
per year

6.4% of  
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Sales Representatives	Below Avg.	100%	10%	208.0	\$ 21.18	\$ 4,405

#### Accounting - Finance - Bookkeeping

10% of  
your time

208 hours  
per year

4.89% of  
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Bookkeeper	Below Avg.	100%	10%	208.0	\$ 16.16	\$ 3,361

#### Purchasing - Inventory - Shipping - Receiving

5% of  
your time

104 hours  
per year

3.57% of  
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Purchasing Clerk	Average	100%	5%	104.0	\$ 23.61	\$ 2,455

#### Management - Supervision

15% of  
your time

312 hours  
per year

18.29% of  
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Business Office Manager	Average	100%	15%	312.0	\$ 40.33	\$ 12,583

#### My Business

60% of  
your time

1,248 hours  
per year

66.85% of  
your comp.

Task	Proficiency	Category	Overall	Hours	Wage	Annual
Concrete Finisher	Above Avg.	50%	30%	624.0	\$ 45.21	\$ 28,211
Maintenance Mechanic	Above Avg.	50%	30%	624.0	\$ 28.48	\$ 17,772

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### Report for Scott Stone of Stone Concrete, Inc.

#### Business Summary:

Calculated for: Scott Stone

Company: Stone Concrete, Inc.

Interview completed: 20XX-04-11 22:49:14

Report calendar year: 20XX

Location: Cook County, IL

Hours worked: 2080



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### Report for Scott Stone of Stone Concrete, Inc.

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

Potomac Tax and Valuation, PC 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

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 their company, such as administration, accounting, marketing, purchasing etc. (also referred to as the Cost 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 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 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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### Report for Scott Stone of Stone Concrete, Inc.

#### Appendix A - Descriptions of Tasks Selected

##### **Sales Representatives**

Sell goods or services 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 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.



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### Report for Scott Stone of Stone Concrete, Inc.

#### Appendix B - 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

The undersigned, being all of the directors of (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 the sum of \$68,788 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.**