



# POTOMAC

## Tax & Valuation

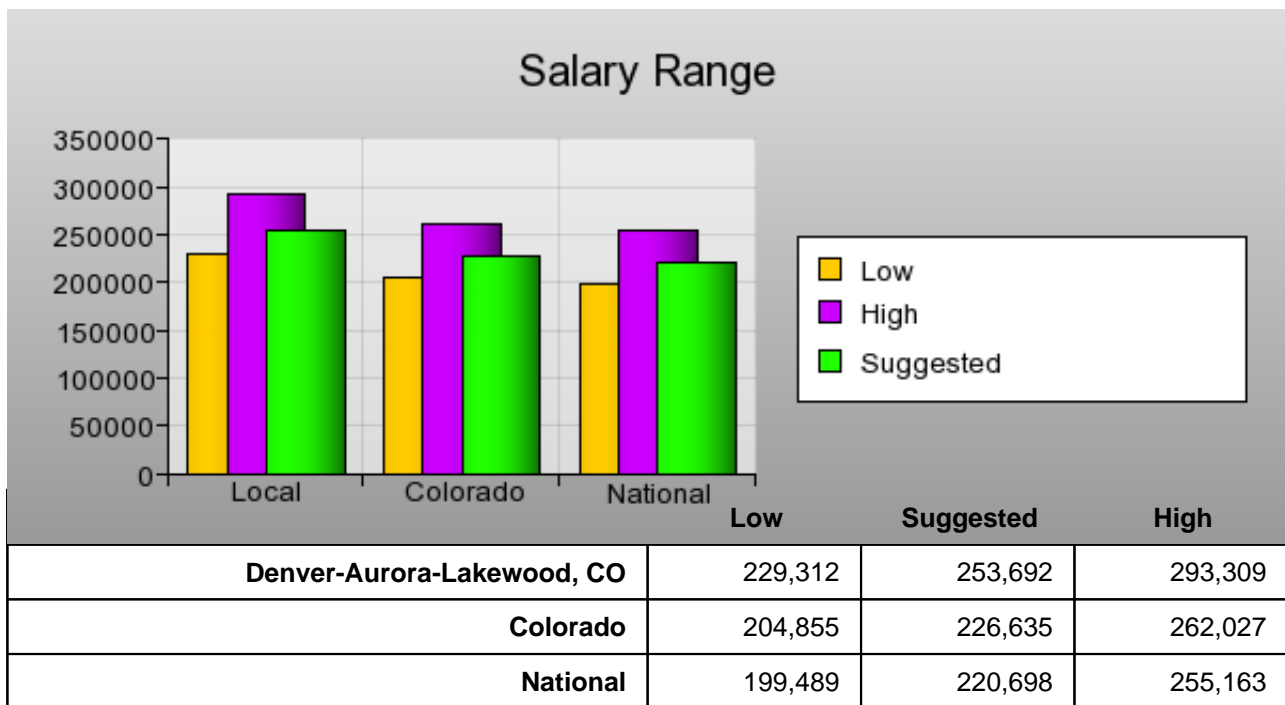
### Report for Nancy Gardner of Mile High Estate Planning

## Your estimated annual Reasonable Compensation: \$253,692

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 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".

Your suggested salary range: \$199,489 to \$293,309 with a suggested salary of \$253,692 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.





# POTOMAC

## Tax & Valuation

### Report for Nancy Gardner of Mile High Estate Planning

#### Business Summary:

Calculated for: Nancy Gardner

Company: Mile High Estate Planning (Case Study)

Interview completed: 20XX-04-09 12:35:57

Report calendar year: 20XX

NAICS industry: 541000 - Professional, Scientific, and  
Technical Services

MSA Location: Denver-Aurora-Lakewood, CO

State: Colorado

Occupation: General and Operations Managers\*

Number of Employees (FTE): 25-75

Adjusted Gross Profit: 5m-10m\*\*

Business Performance vs. Peers: Very Good

Owner Experience and/or Proficiency Level: High

Time Dedicated to the Business: Over time (45-65 hr/week)

\* 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.

\*\* 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.



### Report for Nancy Gardner of Mile High Estate Planning

## 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 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, 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

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



# POTOMAC

## Tax & Valuation

### Report for Nancy Gardner of Mile High Estate Planning

## 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 Array 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.**