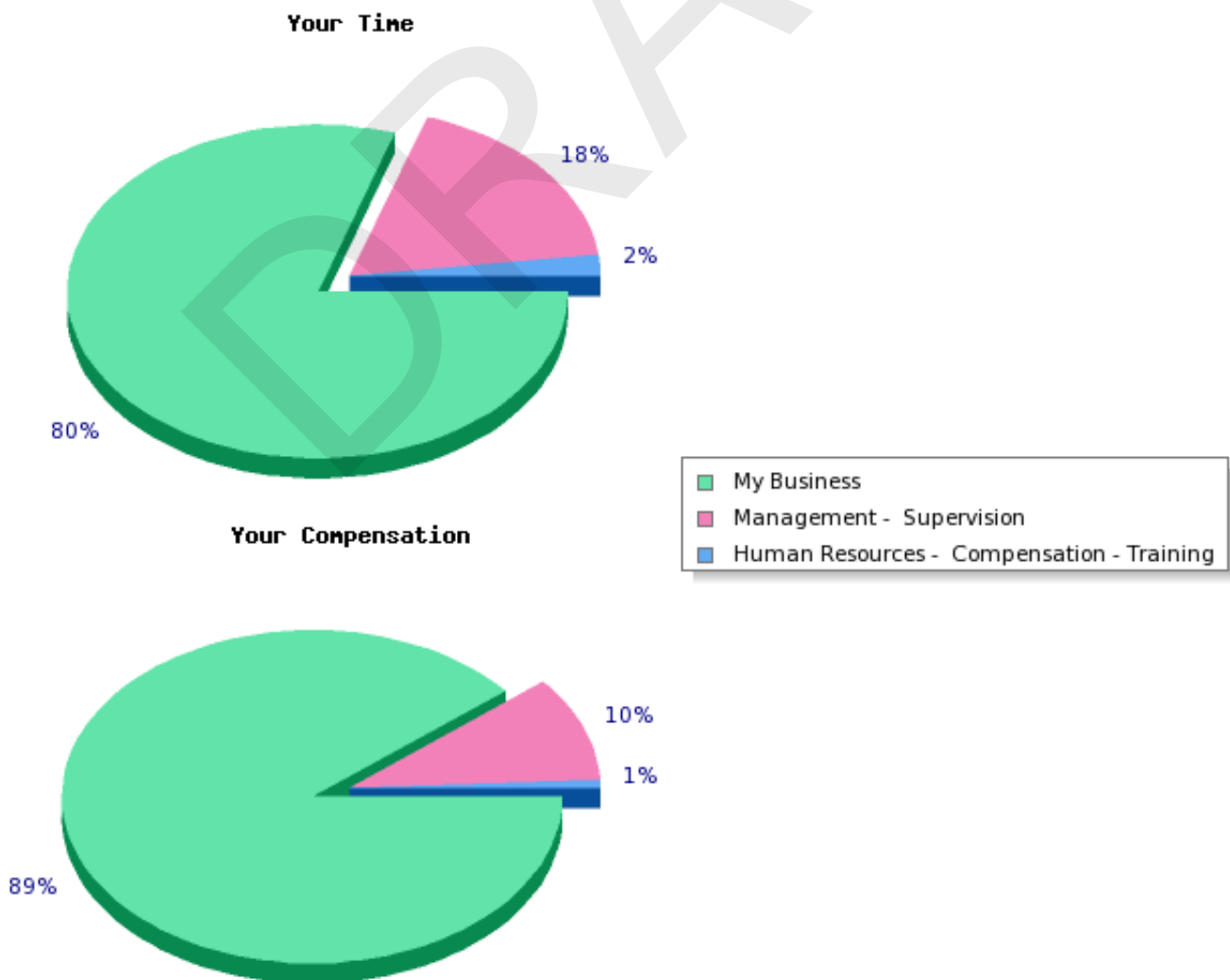


2019 Report for [REDACTED]

Your estimated annual Reasonable Compensation: \$193,762

Thank you for entrusting Jason Watson of Watson CPA Group 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 **\$193,762** 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 [REDACTED]. Our analysis indicates the annual salary of \$193,762 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.

2019 Report for [REDACTED]

Category: Human Resources - Compensation - Training

2% of total hours - 42 hours per year - 0.73% of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wages |
|--|-------------|---------------|------------------|----------------|-------------|--------------|
| Employee Training and Development | | | | | | |
| | Average | 50% | 1% | 20.8 | \$ 36.52 | \$ 760 |
| Human Resources Specialists | | | | | | |
| | Average | 50% | 1% | 20.8 | \$ 31.08 | \$ 646 |

Category: Management - Supervision

18% of total hours - 374 hours per year - 10.24% of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wages |
|--------------------------------|-------------|---------------|------------------|----------------|-------------|--------------|
| Business Office Manager | | | | | | |
| | Average | 100% | 18% | 374.4 | \$ 52.97 | \$ 19,832 |

Category: My Business

80% of total hours - 1,664 hours per year - 89.04% of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wages |
|-------------------------------------|-------------|---------------|------------------|----------------|-------------|--------------|
| Doctor of Podiatric Medicine | | | | | | |
| | Above Avg. | 100% | 80% | 1,664.0 | \$ 103.68 | \$ 172,524 |

2019 Report for [REDACTED]

Business Summary:

Calculated for: [REDACTED]

Company: [REDACTED]

Interview completed: October 8, 2019

Report calendar year: 2019

Location: [REDACTED]

Hours worked: 2080

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2019 Report for

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

Watson CPA Group 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)

2019 Report for [REDACTED]

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 Watson CPA Group may take into consideration before recommending a final reasonable compensation figure. The list below is not exhaustive and Watson CPA Group 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. Watson CPA Group 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

2019 Report for

Appendix A - Descriptions of Tasks Selected

Employee Training and Development

Design and conduct training and development programs to improve individual and organizational performance. May analyze training needs.

Human Resources Specialists

Perform activities in the human resource area. Includes employment specialists who screen, recruit, interview, and place workers.

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.

Doctor of Podiatric Medicine

Diagnose and treat diseases and deformities of the human foot.

2019 Report for

Appendix B - Sample Language for Your Corporate Minutes

Watson CPA Group 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 Watson CPA Group, a copy of which is attached and, in reliance on such report, pay to the sum of \$193,762 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 Watson CPA Group as reasonable compensation for its employees.

Watson CPA Group 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.

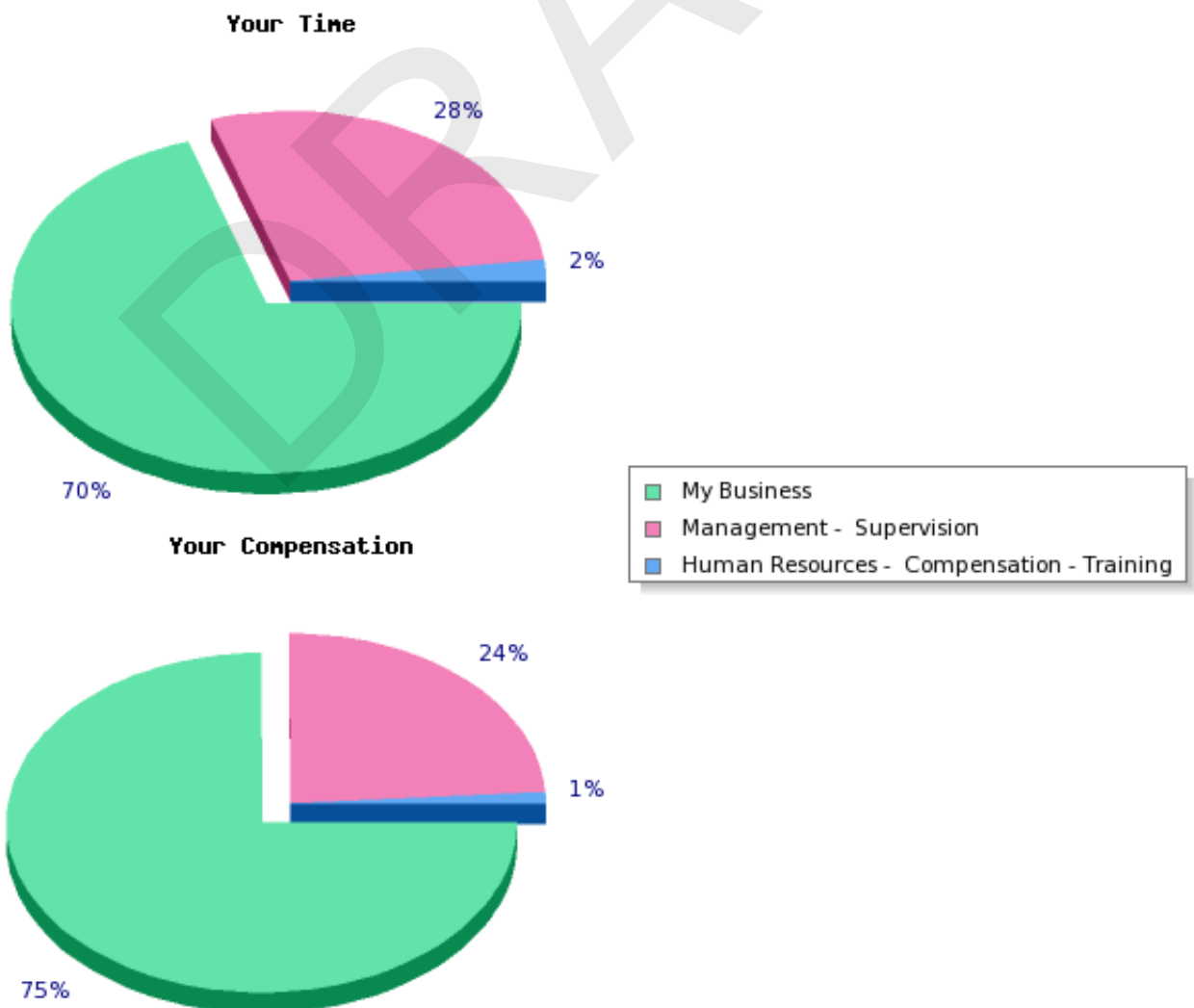
Watson CPA Group recommends that the S-corporation consult its attorney for legal advice regarding such matters.

2019 Report for [REDACTED]

Your estimated annual Reasonable Compensation: \$112,728

Thank you for entrusting Jason Watson of Watson CPA Group 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 **\$112,728** 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 **1820** hours per year in [REDACTED]. Our analysis indicates the annual salary of \$112,728 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.

2019 Report for [REDACTED]

Category: Human Resources - Compensation - Training

2% of total hours - 36 hours per year - 1.09% of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wages |
|--|-------------|---------------|------------------|----------------|-------------|--------------|
| Employee Training and Development | | | | | | |
| | Average | 50% | 1% | 18.2 | \$ 36.52 | \$ 665 |
| Human Resources Specialists | | | | | | |
| | Average | 50% | 1% | 18.2 | \$ 31.08 | \$ 566 |

Category: Management - Supervision

28% of total hours - 510 hours per year - 23.95% of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wages |
|--------------------------------|-------------|---------------|------------------|----------------|-------------|--------------|
| Business Office Manager | | | | | | |
| | Average | 100% | 28% | 509.6 | \$ 52.97 | \$ 26,994 |

Category: My Business

70% of total hours - 1,274 hours per year - 74.96% of total compensation

| Task | Proficiency | % of Category | % of Total Hours | Hours per Year | Hourly Wage | Annual Wages |
|-------------------------------------|-------------|---------------|------------------|----------------|-------------|--------------|
| Doctor of Podiatric Medicine | | | | | | |
| | Average | 100% | 70% | 1,274.0 | \$ 66.33 | \$ 84,504 |

2019 Report for [REDACTED]

Business Summary:

Calculated for: [REDACTED]

Company: [REDACTED]

Interview completed: 2019-10-08 10:02:21

Report calendar year: 2019

Location: [REDACTED]

Hours worked: 1820

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2019 Report for

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

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Methodology

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