

## Your estimated annual Reasonable Compensation: \$299,770

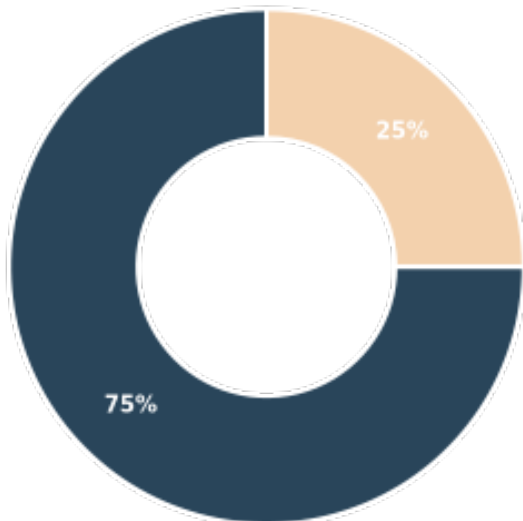
Thank you for entrusting Paul Admin of RCReports with your Reasonable Compensation analysis. This report provides a reasonable estimate of the value of services rendered to your S Corporation based on the duties and responsibilities that you perform annually. Reasonable Compensation is defined by the IRS as "The value that would ordinarily be paid for like services by like enterprises under like circumstances."

The calculated salary of **\$299,770** 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 **Des Moines County, Iowa**. Our analysis indicates the annual salary of **\$299,770** would be a reasonable cost to hire employee(s) to perform the duties and responsibilities that you currently perform.

RCReports recommends completing a Reasonable Compensation report annually.

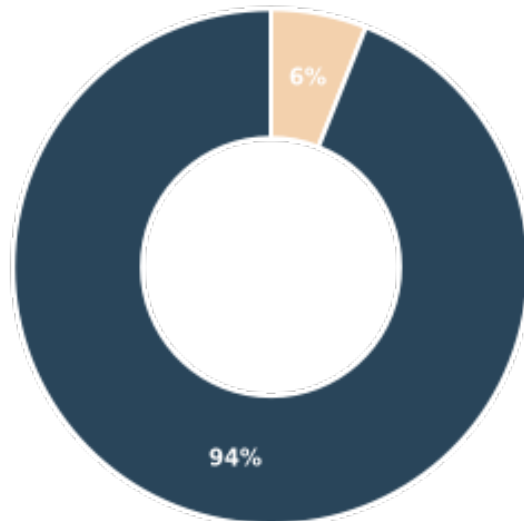
### Your Time

Management My Business



### Your Compensation

Management My Business





Year: 2022

Report: Tax Compliance for S Corp

Approach: Cost Approach

For: David E. Watson of Iowa Medical Associates

### Management

25% of total hours | 468 hours per year | 5.98 % of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wage
General and Operations Manager	Average	100%	25%	520.00	\$34.50	\$17,940

### My Business

75% of total hours | 1560 hours per year | 94.02 % of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wage
Family Physician	Above Average	100%	75%	1560.00	\$180.66	\$281,830



**Year:** 2022

**Report:** Tax Compliance for S Corp

**Approach:** Cost Approach

**For:** David E. Watson of Iowa Medical Associates

**Business Summary:**

Calculated For: David E. Watson

Company: Iowa Medical Associates

Report Year: 2022

Location: Des Moines County, Iowa

Hours Worked: 2080

Report Initiated: 2024-12-06 20:07

Interview Completed: 2024-12-06 01:12:34

Report Finalized: 2024-12-06 08:13

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

RCReports 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)

### **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 RCReports may take into consideration before recommending a final Reasonable Compensation figure. The list below is not exhaustive and RCReports 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. RCReports 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](#)



**Year:** 2022

**Report:** Tax Compliance for S Corp

**Approach:** Cost Approach

**For:** David E. Watson of Iowa Medical Associates

## **Appendix A - Descriptions of Tasks Selected**

### **General and Operations Manager**

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. May include moderate Travel.

---

### **Family Physician**

Diagnose, treat, and provide preventive care to individuals and families across the lifespan. May refer patients to specialists when needed for further diagnosis or treatment.

---

## Sample Language for Your Corporate Minutes

RCReports 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 Iowa Medical Associates**

The undersigned, being all of the directors of Iowa Medical Associates (the "Company"), waive any rights to notice, and consent to the following action, taken on

\_\_\_\_\_, 20\_\_ :

**RESOLVED**, that the Company adopt the report of RCReports, a copy of which is attached and, in reliance on such report, pay to David E. Watson the sum of \$299,770 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 RCReports as Reasonable Compensation for its employees.

RCReports 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.

**RCReports recommends that the S Corporation consult its attorney for legal advice regarding such matters.**