

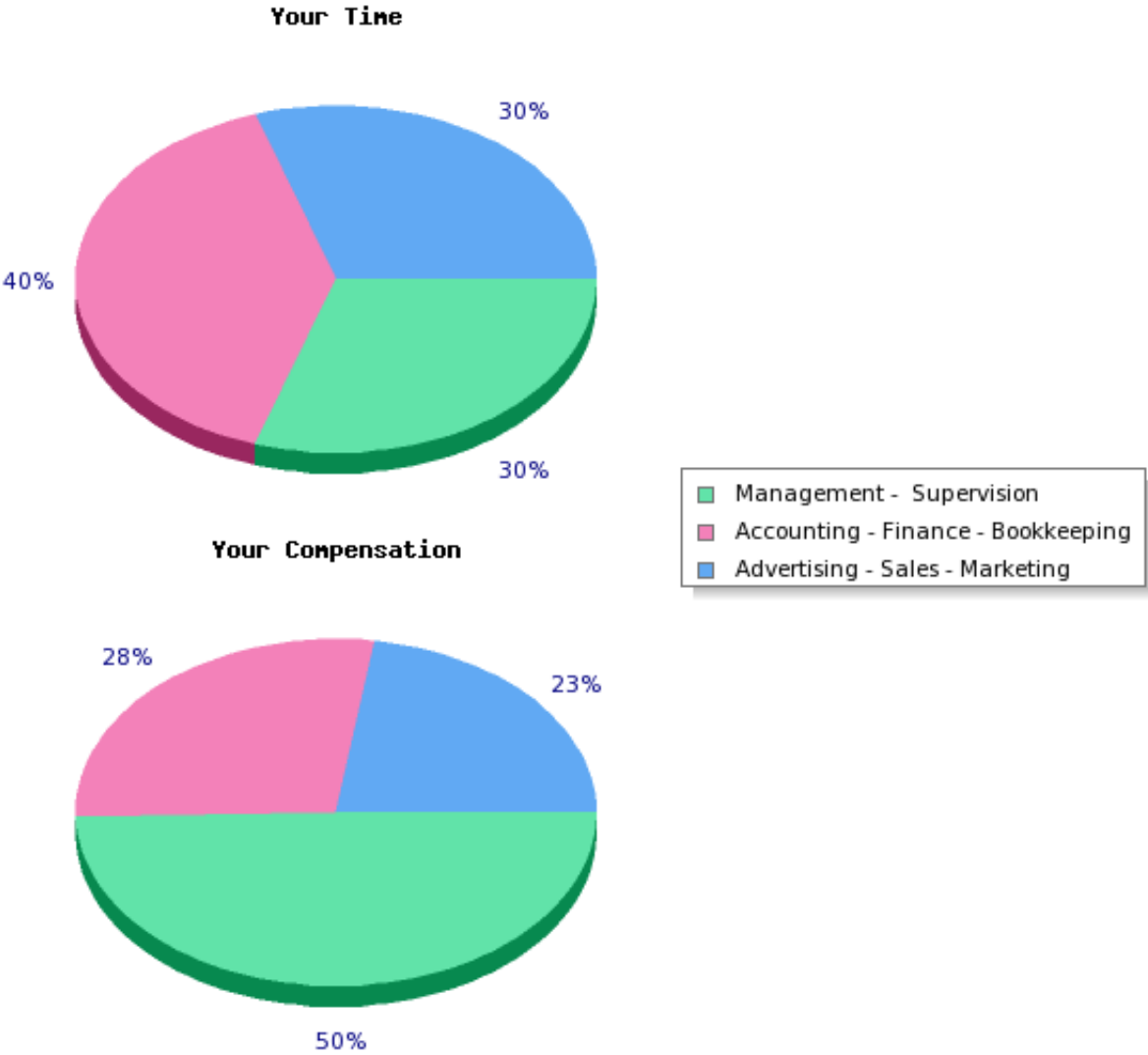


**2018 Report for Joe Trout of Guppy Fishing Charter**

**Your estimated annual Reasonable Compensation: \$57,169**

Thank you for entrusting Roland Davis of Davis Business Appraisers 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 **\$57,169** 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 **Virginia Beach city, VA**. Our analysis indicates the annual salary of \$57,169 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.*



**2018 Report for Joe Trout of Guppy Fishing Charter**

**Category: Advertising - Sales - Marketing**  
 30% of total hours - 624 hours per year - 22.62% of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wages
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**Sales Representatives**

	Below Avg.	100%	30%	624.0	\$ 20.72	\$ 12,929
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**Category: Accounting - Finance - Bookkeeping**  
 40% of total hours - 832 hours per year - 27.8% of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wages
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**Bookkeeper**

	Average	100%	40%	832.0	\$ 19.10	\$ 15,891
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**Category: Management - Supervision**  
 30% of total hours - 624 hours per year - 49.59% of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wages
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**Business Office Manager**

	Average	100%	30%	624.0	\$ 45.43	\$ 28,348
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## 2018 Report for Joe Trout of Guppy Fishing Charter

### Business Summary:

Calculated for: Joe Trout  
Company: Guppy Fishing Charter  
Interview completed: 2019-05-07 12:01:03  
Report calendar year: 2018  
Location: Virginia Beach city, VA  
Hours worked: 2080



## 2018 Report for Joe Trout of Guppy Fishing Charter

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

Davis Business Appraisers 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)



## 2018 Report for Joe Trout of Guppy Fishing Charter

### 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 Davis Business Appraisers may take into consideration before recommending a final reasonable compensation figure. The list below is not exhaustive and Davis Business Appraisers 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. Davis Business Appraisers 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



## 2018 Report for Joe Trout of Guppy Fishing Charter

### Appendix A - Descriptions of Tasks Selected

#### **Sales Representatives**

Sell goods 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.

#### **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.



## 2018 Report for Joe Trout of Guppy Fishing Charter

### Appendix B - Sample Language for Your Corporate Minutes

Davis Business Appraisers 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 Davis Business Appraisers, a copy of which is attached and, in reliance on such report, pay to the sum of \$57,169 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 Davis Business Appraisers as reasonable compensation for its employees.

Davis Business Appraisers 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.

**Davis Business Appraisers recommends that the S-corporation consult its attorney for legal advice regarding such matters.**