

2016 Report for Scott Stone - Stone Concrete, Inc.

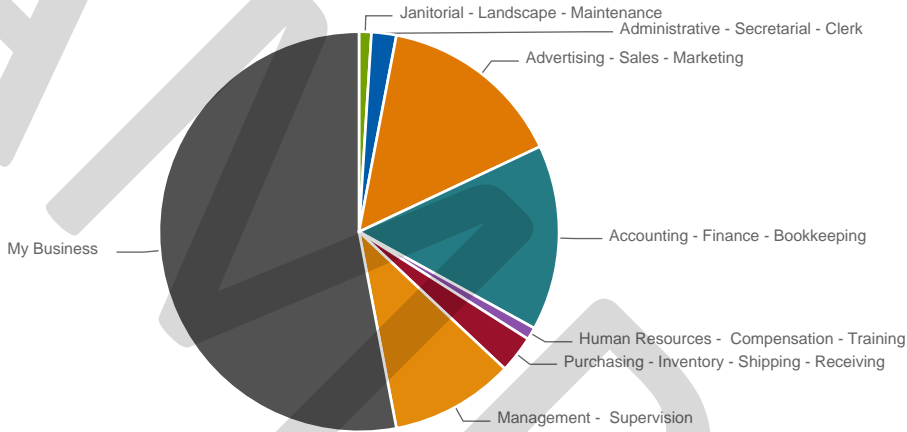
Your estimated annual base salary: \$78,950

Thank you for entrusting Sam Miller of Miller & Associates, 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".

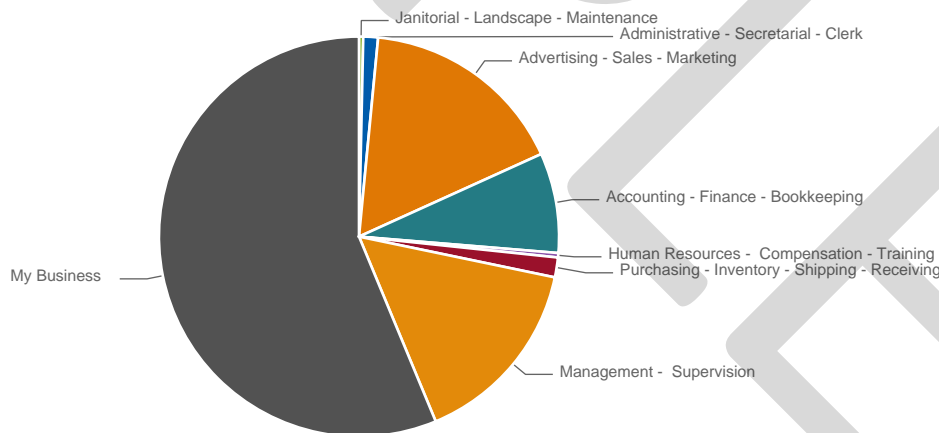
The calculated salary of **\$78,950** was determined to be reasonable compensation based on the type of work performed, the skill level of the work performed and the number of hours the work is performed annually. You told us that you work **2080** hours per year in **Cook County, IL**. Our analysis indicates the annual salary of \$78,950 would be a reasonable cost to hire employee(s) to perform the duties and responsibilities that you currently perform.

Miller & Associates, PC recommends completing a reasonable compensation report annually.

Your Time



Your Salary



*Annual Salary and Reasonable Compensation are used interchangeably in this report.
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 Reasonable Compensation Reports is powered by RCReports.com.*

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Janitorial - Landscape - Maintenance

1% of your time

21 hours/year

0.34% of comp.

| Task | Proficiency | Category | Overall | Hours | Wage | Annual |
|-------------------------|-------------|----------|---------|-------|----------|--------|
| Janitors and Custodians | Average | 100% | 1% | 20.8 | \$ 12.73 | \$ 265 |

Administrative - Secretarial - Clerk

2% of your time

42 hours/year

1.19% of comp.

| Task | Proficiency | Category | Overall | Hours | Wage | Annual |
|----------------------------------|-------------|----------|---------|-------|----------|--------|
| Customer Service Representatives | Above Avg. | 100% | 2% | 41.6 | \$ 22.51 | \$ 936 |

Advertising - Sales - Marketing

15% of your time

312 hours/year

16.7% of comp.

| Task | Proficiency | Category | Overall | Hours | Wage | Annual |
|-----------------------|-------------|----------|---------|-------|----------|-----------|
| Sales Representatives | Above Avg. | 100% | 15% | 312.0 | \$ 42.25 | \$ 13,182 |

Accounting - Finance - Bookkeeping

15% of your time

312 hours/year

8.08% of comp.

| Task | Proficiency | Category | Overall | Hours | Wage | Annual |
|-------------------------|-------------|----------|---------|-------|----------|----------|
| Bookkeeper | Average | 50% | 7.5% | 156.0 | \$ 19.27 | \$ 3,006 |
| Payroll and Time Clerks | Average | 50% | 7.5% | 156.0 | \$ 21.61 | \$ 3,371 |

Human Resources - Compensation - Training

1% of your time

21 hours/year

0.36% of comp.

| Task | Proficiency | Category | Overall | Hours | Wage | Annual |
|-----------------------|-------------|----------|---------|-------|----------|--------|
| Human Resources Clerk | Low | 100% | 1% | 20.8 | \$ 13.83 | \$ 288 |

Purchasing - Inventory - Shipping - Receiving

3% of your time

62 hours/year

1.6% of comp.

| Task | Proficiency | Category | Overall | Hours | Wage | Annual |
|------------------|-------------|----------|---------|-------|----------|----------|
| Purchasing Clerk | Average | 100% | 3% | 62.4 | \$ 20.24 | \$ 1,263 |

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Management - Supervision **10% of your time** **208 hours/year** **15.47% of comp.**

| Task | Proficiency | Category | Overall | Hours | Wage | Annual |
|---------------------------------|-------------|----------|---------|-------|----------|----------|
| General and Operations Managers | Above Avg. | 50% | 5% | 104.0 | \$ 69.33 | \$ 7,210 |
| Business Office Manager | Above Avg. | 50% | 5% | 104.0 | \$ 48.09 | \$ 5,001 |

My Business **53% of your time** **1,102 hours/year** **56.27% of comp.**

| Task | Proficiency | Category | Overall | Hours | Wage | Annual |
|--------------------------------|-------------|----------|---------|-------|----------|-----------|
| Concrete Finisher | High | 42% | 22.26% | 463.0 | \$ 46.57 | \$ 21,562 |
| Maintenance Workers, Machinery | High | 58% | 30.74% | 639.4 | \$ 35.76 | \$ 22,865 |

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Business Summary:

Calculated for: Scott Stone
Company: Stone Concrete, Inc.
Interview completed: 2016-03-31 19:13:25
Report calendar year: 2016
Location: Cook County, IL
Hours worked: 2080
Education level: High School Diploma
Entity type: S Corporation
Shareholders: 1
Employees: 6-10
Annual revenue: \$250k to \$500k
Business assets: \$100k to \$250k
NAICS industry: 238110 - Poured Concrete Foundation and Structure Contractors

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

Miller & Associates, PC relies on data provided by RCReports, Inc., Bureau of Labor Statistics and U.S. Census data to calculate a concise, unbiased, justifiable 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
- RCReports, Inc. database of wages

Your actual replacement salary could vary considerably from our estimate, particularly if the information you provided differs from your actual duties and responsibilities.

Methodology

This report uses the Replacement Cost Approach to determine a Reasonable Compensation figure. The Replacement 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 Replacement 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 Replacement Cost approach is most accurate when used to determine Reasonable Compensation for owners and key management of a Small Businesses. A business is generally considered Small if it has:

- Under \$10 million in Assets (IRS)
- Under \$7.5 million in Revenue (SBA)
- Under 250 Employees (SBA)

For more information on Methodologies:

- [Job Aid for IRS Valuation Professionals](#)
- RCReports, Inc. 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 Miller & Associates, PC may take into consideration before recommending a final reasonable compensation figure. The list below is not exhaustive and Miller & Associates, PC may make adjustments for circumstances and situations not listed.

- Compensation of Non-Owner Employees
- Past Salary History
- Industry Formulas
- Travel Requirements
- Personal Guarantee of Debt
- Key Relationships and/or Contracts
- Financial Condition of your Company
- Distribution History

The courts have used a variety of factors to "Stress Test" Reasonable Compensation figures. Three well recognized lists of factors are below. Miller & Associates, 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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Sample Language for Your Corporate Minutes

Miller & Associates, 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 Stone Concrete, Inc.

The undersigned, being all of the directors of Stone Concrete, Inc. (the "Company"),
waive any rights to notice, and consent to the following action, taken on
_____, 20____:

RESOLVED, that the Company adopt the report of RCRReports, a copy of which is
attached and, in reliance on such report, pay to Scott Stone the sum of \$78,950 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 Miller & Associates, PC as reasonable compensation for its employees.

Miller & Associates, 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.

Miller & Associates, PC recommends that the S-corporation consult its attorney for legal advice regarding such matters.