



Reasonable Compensation Report

Scott Stone
of Stone Concrete, Inc.

TAX YEAR	REPORT DATE	PREPARED BY	APPROACH
2024	September 8, 2026 UTC	Ocean Tax Advisors	Cost

Source: Bureau of Labor Statistics OEWS May 2023 wage data, ECI-adjusted

Executive Summary

ESTIMATED ANNUAL REASONABLE COMPENSATION (COST APPROACH)

\$88,998.92

This report estimates the value of the work performed by the owner for the S corporation each year. It applies a methodology designed to determine the amount that would ordinarily be paid for like services by like enterprises under like circumstances (Treas. Reg. §1.162-7(b)(3)).

Entity Type	Corporation (S corporation)
Wage Area	Chicago-Naperville-Elgin, IL-IN-WI MSA
Hours Worked	2,080 per year (40 hrs/week)
Wage Data	BLS OEWS May 2023
ECI Adjustment	+2.57% (ECI index 160.700 at May 2023 to 164.833 at January 2024)
Engine Version	v1.2.1

SCOPE AND RELIANCE

Prepared under the direction of Ocean Tax Advisors using WageProof's methodology engine and Bureau of Labor Statistics data. It has not been reviewed for accuracy by WageProof. This report does not constitute tax, legal, or financial advice. Consult a qualified tax advisor before making compensation decisions. Actual reasonable compensation may vary based on individual circumstances. This report does not guarantee that the IRS will accept this figure, that you will prevail in an audit, or that you will avoid penalties, and it creates no professional-client relationship with WageProof.

All salary and reasonable compensation figures are expressed annually and in U.S. dollars.

Appendix B sets out the full methodology, and Appendix C the tables applying it to this report.

Cost Approach Detail

The hourly figures are BLS-published wages adjusted to the 2024 tax year with the Employment Cost Index (ECI). Appendix B describes the method and Appendix C shows how it was applied to this report.

Task	Wage area	BLS percentile	% hours	Hours	Hourly rate	Amount
Sales Representative	Chicago– Naperville–Elgin, IL– IN–WI OEWS May 2023	50th	10%	208	\$32.17	\$6,690.65
Bookkeeper	Chicago– Naperville–Elgin, IL– IN–WI OEWS May 2023	50th	10%	208	\$24.65	\$5,126.80
Purchasing Clerk	Chicago– Naperville–Elgin, IL– IN–WI OEWS May 2023	50th	5%	104	\$22.14	\$2,302.05
General & Operations Manager	Chicago– Naperville–Elgin, IL– IN–WI OEWS May 2023	50th	15%	312	\$52.74	\$16,455.68
Cement Masons and Concrete Finishers	Chicago– Naperville–Elgin, IL– IN–WI OEWS May 2023	90th	30%	624	\$53.84	\$33,596.21
Maintenance & Repair Worker	Chicago– Naperville–Elgin, IL– IN–WI OEWS May 2023	90th	30%	624	\$39.79	\$24,827.53
Total			100%	2,080		\$88,998.92

Circumstances That May Warrant Adjustment

The Reasonable Compensation Job Aid for IRS Valuation Professionals identifies specific situations that can move a reasonable figure up or down. Consider whether any of the following apply:

- Compensation paid to comparable non-owner employees
- Whether prior years were paid below market, including any deferred compensation for those years
- A personal guarantee of company debt
- The owner as a key person whose loss would materially reduce company value
- The company's financial condition and ability to pay
- The pattern of distributions relative to wages
- Whether the role's duties and pay are documented in a written compensation agreement

Courts and the IRS have applied multi-factor tests when evaluating whether compensation is reasonable. Leading authorities on reasonable compensation include:

1. Multi-factor approach: *Mayson Mfg. Co. v. Commissioner*, 178 F.2d 115 (6th Cir. 1949); nine-factor list per IRS Fact Sheet FS-2008-25
2. *LabelGraphics, Inc. v. Commissioner*, T.C. Memo 1998-343 — applying the Ninth Circuit's five-factor test from *Elliotts, Inc. v. Commissioner*, 716 F.2d 1241 (9th Cir. 1983)
3. *Brewer Quality Homes, Inc. v. Commissioner*, T.C. Memo 2003-200 — applying the Fifth Circuit's multi-factor test from *Owensby & Kritikos, Inc. v. Commissioner*, 819 F.2d 1315 (5th Cir. 1987)
4. *David E. Watson, P.C. v. United States*, 668 F.3d 1008 (8th Cir. 2012)

Appendix A — Sample Board Resolution

Recording this determination in the corporate minutes is a recommended best practice.

The following is an example that can be adapted:

SAMPLE TEMPLATE

ACTION BY UNANIMOUS WRITTEN CONSENT OF THE BOARD OF DIRECTORS OF Stone Concrete, Inc. IN LIEU OF A MEETING

The undersigned, constituting all directors of Stone Concrete, Inc. (the “Company”), take the following action by written consent in lieu of a meeting, effective

_____, 20___ :

RESOLVED, that the Company sets Scott Stone’s annual compensation at \$88,999 per year for services to the Company, as supported by the attached reasonable-compensation analysis.

DISCLAIMER NOTICE

This template is offered only as an example of language a corporation’s board might use when recording the compensation figure. It is general information, not legal advice.

WageProof is not a law firm and cannot guarantee this template meets the governance requirements of your state. Have a qualified attorney review it before the board adopts it.

Appendix B — Full Methodology

This appendix describes the methodology used to determine the reasonable compensation figure in this report.

Appendix C carries the tables that describe how this methodology was applied to this particular set of circumstances.

B.1 The standard, and the approach applied

26 U.S.C. §162(a)(1) allows a deduction for “a reasonable allowance for salaries or other compensation for personal services actually rendered,” [1] and Treas. Reg. §1.162-7(b)(3) states the standard as the amount that would ordinarily be paid for like services by like enterprises under like circumstances. [2]

The Reasonable Compensation Job Aid for IRS Valuation Professionals, a non-binding IRS reference guide, recognizes three approaches to arriving at the amount: cost, market and income. [3] This report applies the Cost Approach.

The Cost Approach divides the owner’s work into tasks and prices each task on its own. For each task the report takes the published wage for one occupation, at the experience level recorded, in the labor market where the work is performed, and multiplies it by the hours devoted to the task. The sum across the tasks is the cost of replacing the owner’s services with employees hired to perform each one.

B.2 Data sources

Every wage figure in this report comes from a published Bureau of Labor Statistics table, and any adjustment to the tax year from a published BLS index. Three sources:

1. **Occupational Employment and Wage Statistics (OEWS).** This was the wage source used. A probability sample of about 1.1 million establishments, combined from six semiannual panels over three years and published annually with a May reference date. [6] One OEWS row is one SOC code (the Bureau’s Standard Occupational Classification for an occupation) in one wage area, in one release, reporting the hourly and annual wage at five percentiles.
2. **OEWS area definitions.** This was the map from a county to a wage area. For each survey year BLS assigns every U.S. county to a wage area, a metropolitan area or a named nonmetropolitan area, and each release is read under its own assignment. [7]

3. **Employment Cost Index (ECI).** This is the index used to carry a wage from the survey date to the tax year when the tax year is later than the survey (see B.7). The ECI is a Bureau of Labor Statistics index that “measures the change in the hourly labor cost to employers over time.” [8]

Table C.2 shows the release and the wage area this report read.

The legend under Table C.4 defines every BLS symbol that table carries.

B.3 Inputs

This report is based on the following inputs:

- the tax year the compensation is being set for;
- the county where the work is performed;
- the annual hours the owner works; and
- the tasks the owner performs, and for each task:
 - the share of the annual hours devoted to it; and
 - the experience level, from Entry-Level to Expert.

A Cost report carries between 2 and 20 tasks; each share is a whole percentage, the shares total exactly 100, and annual hours are between 520 and 2,080 — 2,080 being 52 weeks of 40 hours. A report is produced only where the inputs fall inside those bounds and the published data the method requires exists.

Table C.1 lists the inputs that were used for this report.

B.4 Mapping the inputs onto the data

The inputs are then mapped onto the data in four steps.

1. **Tax year to BLS release.** Where OEWS has published a release for the report’s tax year, that release is used; otherwise the most recent release is used and adjusted forward (B.7).
2. **Experience level to percentile.** The experience level recorded for a task selects the percentile the wage is read at.
3. **County to wage area.** The county is matched to the wage area BLS assigned to it for the release being used and for the previous release.

4. **Task to occupation.** Each task is mapped to a BLS occupation code (SOC). The tasks offered in the task list each carry the SOC code BLS publishes wages under, and picking a task carries that code onto the report; where the list has no task for the work, the occupation search reads BLS’s own occupation titles and the code of the occupation picked is the task’s code. Only an occupation for which BLS published an hourly wage in that release can be picked.

BLS does not map experience to percentiles. This report maps experience level to a percentile as its stated method:

- Entry-Level (under 1 year) to the 10th percentile;
- Developing (1–3 years) to the 25th;
- Competent (3–7 years) to the median (50th);
- Experienced (7–15 years) to the 75th; and
- Expert (15+ years) to the 90th.

Table C.2 lists the release and wage area used for this report.

Table C.3 lists the BLS occupation each task was mapped to.

B.5 Finding the published wage

Once the data is mapped, one published data row is identified for each task: the mapped occupation, in the county’s wage area, on the release being used. The mapped percentile is read from that row. Where there is no such row, the search widens in this fallback order and stops at the first row BLS published:

Step	Release read	Area read	Occupation read
1	The report’s release	The county’s BLS wage area	The occupation selected
2	The prior release	The area BLS assigned the county in that release	The occupation selected
3	The report’s release	The state (or territory) table	The occupation selected
4	The report’s release	The county’s BLS wage area	The occupation’s broad group
5	The report’s release	The state (or territory) table	The occupation’s broad group
6	The report’s release	The national table	The occupation selected
7	The report’s release	The national table	The occupation’s broad group

An occupation's broad group is the wider BLS code that contains it, the SOC code ending in 0 (41-4010 contains 41-4012). Any step after the first is recorded as a substitution.

Table C.4 shows the cell sought and what BLS published there.

Table C.5 shows each substitution, with the row used and the step that produced it.

Table C.6 shows the row used for each task after those substitutions.

B.6 Figures BLS published as a cap

In some cases BLS records a # in the data, which means the wage has been capped at a figure BLS names for that release: a wage “equal to or greater than \$115.00 per hour or \$239,200 per year” on the May 2022 release and later, and “equal to or greater than \$100.00 per hour or \$208,000 per year” on the May 2021 release and earlier. [5] That figure is the cap, and the wage is at least that much.

Where the percentile selected is capped, the report uses the highest wage BLS published below that percentile on the same row, where that wage is above the cap. Where no published figure on the row exceeds the cap, the cap itself is used as the figure.

Table C.7 shows the cells BLS published as a cap and the figure used for each.

B.7 Adjustment to the tax year

Once a published wage has been found for each task, it is adjusted from the survey date to the tax year using the Employment Cost Index. This report reads one series from the ECI: wages and salaries, private industry workers, index level (series CIU20200000000000I). [9]

BLS publishes that series once a quarter. Each reading is the index level for the pay period that includes the 12th of March, June, September or December. The adjustment is the ratio between two of those readings: the index level at the date the wage is carried forward to, divided by the index level at the date the wage was surveyed. This is the method BLS sets out for aging survey wage data. [10]

An OEWS release carries a May reference date, and this report sets compensation for a tax year, which begins on January 1. Each of those two dates falls between two quarterly readings, so each is placed between the readings on either side of it, one month at a time. May is two of the three months from the March reading to the June reading, so the index at May is the March reading plus two thirds of the step from March to June. January is one of the three months from the December reading to the March reading, so the index at January is the December reading plus one third of the step from December to March.

APPENDIX B — FULL METHODOLOGY

The table below lists the index readings this report used, and the latest reading published.

ECI reading	Index level
March 2023	159.500
June 2023	161.300
December 2023	164.100
March 2024	166.300
June 2026	179.304

index at May of the survey year = March reading + $2 \div 3 \times (\text{June reading} - \text{March reading})$

index at January of the tax year = December reading + $1 \div 3 \times (\text{March reading} - \text{December reading})$

adjustment factor = index at January of the tax year $\div$ index at May of the survey year

adjusted wage = published wage $\times$ adjustment factor

On this report that gives an index of 160.700 at May 2023 and 164.833 at January 2024, an adjustment factor of 1.025721, and an increase of 2.57% applied to every wage read from the May 2023 release.

The index levels are used as BLS published them and the ratio is carried at full precision through the calculation; only the printed figures are rounded. The worksheet in the BLS article rounds the ratio to three decimals before applying it; this report applies the ratio at full precision, so a wage recomputed by hand from the three-decimal figures shown here can differ slightly from this report's own figure.

Where January of the tax year falls after the most recent published ECI reading, the part of the span beyond that reading is estimated: the index is carried on from the last published reading by the percentage change over the twelve months ending at it, counted at one twelfth of that percentage for each month of the remaining span.

index beyond the last published reading = last reading $\times (1 + \text{months beyond} \div 12 \times \text{twelve-month percentage change})$

Where the tax year is the survey year or earlier, the published wage is used as it is. The readings applied are the ones for the release each figure came from, so a report drawing on two releases states two adjustments and names which figures each covers.

The ECI is a national measure of wage growth for private-industry workers. BLS publishes it for broad occupational groups and a few large metropolitan areas, but not for an individual occupation or most wage areas, so the adjustment applies the economy-wide movement to every figure; B.9 discusses that limit.

Table C.8 shows, for each figure used, the release it came from, the wage as BLS published it and the adjusted wage, and states the index readings applied to each release.

B.8 Final wage calculation

The adjusted wages are then multiplied by each task's hours, and the products summed, to produce the compensation figure.

- A task's hours are the annual hours multiplied by the share of hours recorded for it.
- A task's compensation is the adjusted hourly wage, before rounding, multiplied by those hours, rounded half-up to the cent.
- The report total is the sum of these, rounded half-up to the cent.

Hourly rates are printed rounded to the cent and each amount is computed from the rate before rounding, so a printed rate multiplied by the hours may differ slightly from the printed amount. The printed amounts add to the printed total exactly.

Table C.9 shows the multiplication for each task and foots to the report total.

The Cost Approach Detail table in the body of this report shows the figure for each task.

B.9 Limitations

The figure B.8 produces carries a number of limitations, including:

1. **The inputs.** The duties, the hours, the county and the tax year are used as they were recorded for this report. This report does not verify them, and it is not an audit of the business or its records. The company's revenue, profitability and financial capacity are not inputs to this method: a figure it supports still has to be sustainable against what the business earns, and a figure above what the business can pay is one to review with a tax professional before it is acted on.
2. **The data.** OEWS figures are survey estimates with sampling error, published for an occupation in a wage area rather than for any individual employer. As BLS publishes occupational wages by industry only at the national level, no industry or entity-size adjustment is applied to the BLS figures.
3. **Capped figures.** Where BLS published a cap, the figure used is a floor rather than a measurement: BLS does not publish how far above the cap the wage lies.

4. **ECI adjustment.** The ECI is a national measure of wage growth for private–industry workers, not a measure for an individual occupation or most wage areas. Where January of the tax year falls after the most recent published ECI reading, the part of the span beyond that reading is estimated: the index is carried on from the last published reading by the percentage change over the twelve months ending at it, counted at one twelfth of that percentage for each month of the remaining span.

The figure is an estimate of reasonable compensation for the tax year shown, on the facts recorded. It does not carry to another year, another entity, or another set of facts. It is not tax or legal advice, and it does not guarantee any particular outcome in an examination.

Appendix C — Supporting Tables

Appendix C carries the tables that show how the methodology in Appendix B was applied to this report, in the order the method runs:

- C.1 Inputs — the figures recorded for this report.
- C.2 Mapping to BLS data: tax year and county — the release and the wage area.
- C.3 Mapping to BLS data: tasks — the BLS occupation each task was mapped to.
- C.4 Initial BLS data lookup — the cell sought and what BLS published there.
- C.5 Substitutions for missing data — each substitution and the step that produced it.
- C.6 BLS data after substitutions — the row used after those substitutions.
- C.7 Substitutions for capped data — the cells published as a cap and the figure used.
- C.8 Final wage table with substitutions — the published wage and the adjusted wage.
- C.9 Final compensation calculation — the hours multiplied by the adjusted wages and summed.

C.1 Inputs

The inputs recorded for this report.

TAX YEAR, COUNTY, AND HOURS WORKED

Input	As entered
Tax year	2024
County	Cook County, Illinois (FIPS 17031)
Hours worked	2,080 hours a year

TASKS

T#	Task, as entered	% hours	Hours	Experience level
T1	Sales Representative	10%	208	Competent (3–7 years)
T2	Bookkeeper	10%	208	Competent (3–7 years)
T3	Purchasing Clerk	5%	104	Competent (3–7 years)
T4	General & Operations Manager	15%	312	Competent (3–7 years)
T5	Cement Masons and Concrete Finishers	30%	624	Expert (15+ years)
T6	Maintenance & Repair Worker	30%	624	Expert (15+ years)
Total		100%	2,080	

C.2 Mapping to BLS data: tax year and county

Each entry in C.1 is matched to the BLS release and wage area the report reads.

TAX YEAR TO BLS RELEASE

Tax year	Release read	Why this release
2024	OEWS May 2023	BLS has published no 2024 survey. The most recent release is read and adjusted forward to the tax year.

COUNTY TO BLS WAGE AREA

County, as entered	Release	Wage area read
Cook County, Illinois (FIPS 17031)	May 2023	Chicago–Naperville–Elgin, IL–IN–WI (16980), a Metropolitan Statistical Area

One release was read, so one assignment applies.

C.3 Mapping to BLS data: tasks

Each task in C.1 is matched to the BLS occupation the report prices it at.

TASK TO BLS OCCUPATION

T#	Task, as entered	SOC	BLS occupation
T1	Sales Representative	41-4012	Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products
T2	Bookkeeper	43-3031	Bookkeeping, Accounting, and Auditing Clerks
T3	Purchasing Clerk	43-3061	Procurement Clerks
T4	General & Operations Manager	11-1021	General and Operations Managers
T5	Cement Masons and Concrete Finishers	47-2051	Cement Masons and Concrete Finishers
T6	Maintenance & Repair Worker	49-9071	Maintenance and Repair Workers, General

C.4 Initial BLS data lookup

This table shows what BLS published for each SOC code in Table C.3 in the OEWS May 2023 release, the release read for the 2024 tax year (Table C.2).

T#	SOC	Wage area	Release	PctI†	10th	25th	50th	75th	90th
T1	41-4012	Chicago-Naperville-Elgin, IL-IN-WI	May 2023	50th	\$18.88	\$23.70	\$31.36	\$46.11	\$62.04
T2	43-3031	Chicago-Naperville-Elgin, IL-IN-WI	May 2023	50th	\$17.37	\$21.16	\$24.03	\$28.96	\$33.91
T3	43-3061	Chicago-Naperville-Elgin, IL-IN-WI	May 2023	50th	\$16.57	\$18.55	\$21.58	\$26.18	\$30.83
T4	11-1021	Chicago-Naperville-Elgin, IL-IN-WI	May 2023	50th	\$23.51	\$34.49	\$51.42	\$81.67	#
T5	47-2051	Chicago-Naperville-Elgin, IL-IN-WI	May 2023	90th	\$19.00	\$23.87	\$37.00	\$48.52	\$52.49
T6	49-9071	Chicago-Naperville-Elgin, IL-IN-WI	May 2023	90th	\$16.83	\$20.21	\$24.81	\$31.50	\$38.79

† The percentile is the percentile sought under the methodology in Appendix B, section 4.

BLS SYMBOLS

indicates a wage equal to or greater than \$115.00 per hour or \$239,200 per year

Quoted from the Field Descriptions sheet of all_data_M_2023.xlsx in

bls.gov/oes/special-requests/oesm23all.zip, the file this report's wage data is loaded from. A cell carrying # is described in this report as a cap. The shaded cell is the percentile the experience level selects.

C.5 Substitutions for missing data

No substitutions for missing data were needed.

C.6 BLS data after substitutions

No substitutions were made; the data in C.4 was used as published.

C.7 Substitutions for capped data

None of the figures this report used were capped by BLS.

C.8 Final wage table with substitutions

This table shows the BLS hourly wages the report priced from, as published and as adjusted to the tax year under the method in Appendix B, section 7.

T#	BLS occupation	Wage area	Release	BLS percentile	As published	Hourly rate*
T1	Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products (41-4012)	Chicago–Naperville–Elgin, IL–IN–WI	May 2023	50th	\$31.36	\$32.17
T2	Bookkeeping, Accounting, and Auditing Clerks (43-3031)	Chicago–Naperville–Elgin, IL–IN–WI	May 2023	50th	\$24.03	\$24.65
T3	Procurement Clerks (43-3061)	Chicago–Naperville–Elgin, IL–IN–WI	May 2023	50th	\$21.58	\$22.14
T4	General and Operations Managers (11-1021)	Chicago–Naperville–Elgin, IL–IN–WI	May 2023	50th	\$51.42	\$52.74
T5	Cement Masons and Concrete Finishers (47-2051)	Chicago–Naperville–Elgin, IL–IN–WI	May 2023	90th	\$52.49	\$53.84
T6	Maintenance and Repair Workers, General (49-9071)	Chicago–Naperville–Elgin, IL–IN–WI	May 2023	90th	\$38.79	\$39.79

Hourly rates are printed rounded to the cent and each amount is computed from the rate before rounding, so a printed rate multiplied by the hours may differ slightly from the printed amount. The printed amounts add to the printed total exactly.

* The adjustments applied under the method in Appendix B, section 7: May 2023 wages carried forward from an ECI index of 160.700 at May 2023 to 164.833 at January 2024, a factor of 1.025721.

C.9 Final compensation calculation

This table multiplies the hours in Table C.1 by the adjusted wages in Table C.8 and sums the results to the total reasonable compensation figure.

T#	Task	Hourly rate	Hours	Amount
T1	Sales Representative	\$32.17	208	\$6,690.65
T2	Bookkeeper	\$24.65	208	\$5,126.80
T3	Purchasing Clerk	\$22.14	104	\$2,302.05
T4	General & Operations Manager	\$52.74	312	\$16,455.68
T5	Cement Masons and Concrete Finishers	\$53.84	624	\$33,596.21
T6	Maintenance & Repair Worker	\$39.79	624	\$24,827.53
Total reasonable compensation			2,080	\$88,998.92

Hourly rates are printed rounded to the cent and each amount is computed from the rate before rounding, so a printed rate multiplied by the hours may differ slightly from the printed amount. The printed amounts add to the printed total exactly.

References

- [1] 26 U.S.C. §162(a)(1). Office of the Law Revision Counsel, U.S. House of Representatives, uscode.house.gov.
- [2] Treas. Reg. §1.162-7, 26 C.F.R. §1.162-7. U.S. Government Publishing Office, govinfo.gov.
- [3] Reasonable Compensation Job Aid for IRS Valuation Professionals. Internal Revenue Service, irs.gov/pub/irs-lbi/Reasonable%20Compensation%20Job%20Aid%20for%20IRS%20Valuation%20Professionals.pdf.
- [4] IRS Fact Sheet FS-2008-25: Wage Compensation for S Corporation Officers. Internal Revenue Service, irs.gov/pub/irs-news/fs-08-25.pdf.
- [5] Occupational Employment and Wage Statistics: Frequently Asked Questions. Bureau of Labor Statistics, bls.gov/oes/oes_ques.htm.
- [6] Handbook of Methods: Occupational Employment and Wage Statistics. Bureau of Labor Statistics, bls.gov/opub/hom/oews (Data Sources; Design).
- [7] OEWS Metropolitan and Nonmetropolitan Area Definitions. Bureau of Labor Statistics, bls.gov/oes/2023/may/msa_def.htm.
- [8] Employment Cost Index. Bureau of Labor Statistics, bls.gov/eci.
- [9] Series CIU2020000000000I: Employment Cost Index, wages and salaries, private industry workers, index level. Bureau of Labor Statistics, data.bls.gov (series CIU20200000000000I).
- [10] Shelly, Wayne M. "Aging Wage Survey Data Using the Employment Cost Index." Bureau of Labor Statistics, Compensation and Working Conditions, 2008. bls.gov/opub/mlr/cwc/aging-wage-survey-data-using-the-employment-cost-index.pdf.
- [11] Occupational Employment and Wage Statistics, May 2023 estimates (all_data_M_2023.xlsx). Bureau of Labor Statistics, bls.gov/oes/special-requests/oesm23all.zip.