Reasonable Compensation Analysis

PREPARED FOR

John M. Reynolds

COMPANY

Reynolds Digital Consulting, LLC

CALENDAR YEAR

2026

Analysis Date: January 15, 2026

Table of Contents

Note: Page numbers are automatically generated in the PDF output. This table of contents provides a comprehensive overview of all sections and appendices included in this analysis report.

Executive Summary

This report presents a comprehensive reasonable compensation analysis for S-Corporation shareholder-employee compensation determination, prepared in accordance with Internal Revenue Service (IRS) requirements and regulatory guidance. The analysis systematically evaluates compensation based on comparable market data, professional qualifications, company financial capacity, and industry standards to support defensible reasonable compensation documentation.

Recommended Annual Salary: $142,000

Methodology Note: This compensation benchmark is derived from BLS market data, weighted by the shareholder's role allocations, and adjusted for experience, hours, management scope, and company profile. It is an informational tool — the advisor and taxpayer are responsible for determining final reasonable compensation.

Band Anchor: Balanced Band - The recommendation is positioned within the market compensation band based on professional qualifications, experience, and role complexity.

Feasible Salary Cap: $168,000 - The recommendation is constrained by company financial capacity to ensure sustainable business operations.

> **Status:** Recommendation is within profit constraints, demonstrating alignment with company financial capacity.

Key Findings

- The analysis is based on official Bureau of Labor Statistics (BLS) wage data, mapped to Standard Occupational Classification (SOC) codes that correspond to the shareholder-employee's professional responsibilities.
- Compensation recommendation reflects comprehensive evaluation of professional qualifications, industry experience, and role complexity, positioned within recognized market compensation ranges.
- Documentation demonstrates compliance with IRS reasonable compensation requirements for S-Corporation shareholder-employees, as established in Revenue Ruling 74-44 and subsequent guidance.
- The analysis incorporates company financial capacity considerations to ensure compensation recommendations support sustainable business operations.

Methodology & Data Sources

Analysis Methodology

This reasonable compensation analysis employs validated statistical methodologies and authoritative data sources to determine appropriate compensation for S-Corporation shareholder-employees. The analysis systematically evaluates compensation using a multi-factor approach that aligns with IRS requirements and industry best practices for reasonable compensation documentation.

The methodology encompasses: (1) systematic mapping of professional responsibilities to official Bureau of Labor Statistics (BLS) Standard Occupational Classification (SOC) codes; (2) comprehensive evaluation of professional qualifications, education, certifications, and industry experience; (3) application of geographic and industry-specific wage adjustments; (4) consideration of company financial capacity and sustainability; and (5) validation against comparable market data to ensure defensibility.

All calculations are based on current market data and validated against authoritative sources to ensure accuracy and reliability. The analysis incorporates quality assurance measures including data validation, outlier detection, and consistency checks to maintain the integrity of the compensation determination.

Primary Data Sources

- **U.S. Bureau of Labor Statistics Occupational Employment and Wage Statistics (BLS OEWS):** Official federal wage data providing percentile distributions (25th, 50th, 75th percentiles) for occupations by geographic area and industry. This is the primary authoritative source for market wage benchmarks. All wage data is sourced from the most recent available BLS OEWS publication, with geographic and industry adjustments applied where applicable to ensure the analysis reflects the most specific and relevant market conditions.
- **Standard Occupational Classification (SOC) System:** Federal statistical standard used to classify workers into occupational categories, ensuring consistency with recognized occupational classifications used by federal agencies.
- **Company Financial Data:** Financial statements and operational data provided to assess company capacity for compensation, including gross receipts, net profit, and business sustainability metrics.
- **Professional Qualifications Data:** Education level, professional certifications, years of experience, and industry-specific credentials provided to evaluate market positioning and qualification premiums.

Geographic & Industry Adjustments

The analysis applies geographic adjustments based on the company's primary operating location (TX) to reflect local market wage conditions. Industry-specific adjustments are applied based on the Management Consulting industry classification to account for sector-specific compensation patterns.

Geographic and industry adjustments are systematically applied using BLS OEWS data at the most specific level available (state, metropolitan area, or national level) to ensure the analysis reflects the most accurate market conditions for the shareholder-employee's role and location.

Quality Assurance & Data Validation

The analysis incorporates comprehensive quality assurance measures to ensure data integrity and reliability. All wage data is validated against authoritative sources, with outlier detection and consistency checks performed to identify and address any anomalies. Data currency is verified to ensure the analysis reflects current market conditions.

Calculation methodologies are validated to ensure accuracy, and all adjustments (geographic, industry, experience, management) are applied consistently and documented to support audit defensibility. The analysis engine version SafeRatio Compliance Engine v7 incorporates validated algorithms and quality metrics to ensure reliable compensation determinations.

Analysis Limitations

This analysis is based on the data and information provided as of the analysis date. Market conditions, company financial performance, and professional responsibilities may change over time, requiring periodic review and updates to maintain accuracy. While this analysis provides comprehensive documentation to support reasonable compensation determinations, individual circumstances may require additional analysis by a qualified tax professional. This report should be reviewed and updated periodically, particularly when there are material changes in responsibilities, qualifications, company financial performance, or market conditions.

Scope Limitation, Reliance, and Shareholder Acknowledgment

This analysis is prepared by SafeRatio for the calendar year 2026 and is intended to support the reasonable compensation determination for the reporting date of January 14, 2026. SafeRatio's reliance and support of this analysis are strictly limited to this calendar year and the facts and representations provided during this period.

SafeRatio has relied in good faith on the accuracy and completeness of the information supplied by the shareholder, including but not limited to ownership structure, roles and responsibilities, time allocation, qualifications, and compensation-related representations. SafeRatio did not independently verify all underlying representations and assumes that no changes to shareholder information, ownership, duties, or compensation structure occurred during the calendar year unless explicitly disclosed in writing.

If any shareholder information, responsibilities, qualifications, compensation arrangements, or relevant business circumstances have changed during the year and were not communicated to SafeRatio, the responsibility to notify SafeRatio and to request a revised or updated analysis rests solely with the shareholder. SafeRatio has no obligation to independently monitor for changes or to re-run or update this analysis absent such notification. Accordingly, SafeRatio does not bear responsibility for the continued reasonableness, accuracy, or audit defensibility of this analysis under changed circumstances.

SafeRatio makes no representations or warranties regarding the applicability of this analysis beyond the stated calendar year or under circumstances where underlying assumptions are no longer accurate.

Role Allocation Analysis

Role	Allocation %	SOC Code	SOC Description	Annual Salary Band
Management-Consulting	55%	13-1111	Management Analysts	No data
Marketing-Management	30%	11-2021	N/A	No data
General-Operations	15%	11-1021	General and Operations Managers	No data

Experience & Credentials

Years in Role	12
Years in Industry	15
Education Level	Master's Degree
Professional Certifications	CPA, PMP

> **Experience Adjustment:** 12 years experience + Masters + CPA/PMP → Upper-mid band
> **Credential Uplift:** 8.5%
> **Hours Adjustment:** 100.0% of standard 40-hour week

Company Financial Profile

Gross Receipts	$1,850,000
Net Profit	$420,000
Effective Date	December 30, 2025
Industry	Management Consulting
Primary State	TX

Wage Benchmark Sources

SOC Code	Occupation	25th Percentile	50th Percentile	75th Percentile	Geography	Data Source
13-1111	Management Analysts	$72,800	$98,500	$138,200	STATE	BLS OEWS
11-2021	N/A	$72,800	$98,500	$138,200	STATE	BLS OEWS
11-1021	General and Operations Managers	$72,800	$98,500	$138,200	STATE	BLS OEWS

Methodology & Documentation

Regulatory Context

IRS Revenue Ruling 74-44 and subsequent guidance require that S-Corporation shareholder-employees receive reasonable compensation for services rendered to the corporation. This analysis documents a market-data-driven approach to benchmarking compensation against BLS wage data, mapped to SOC codes corresponding to the shareholder-employee's responsibilities.

The methodology considers comparable market data, professional qualifications, company financial capacity, and industry standards. The resulting benchmark is intended to support — not replace — the professional judgment of the advisor and taxpayer in determining final compensation.

What This Report Documents

This report documents: (1) the mapping of professional responsibilities to Standard Occupational Classification (SOC) codes; (2) wage data sourced from the Bureau of Labor Statistics; (3) adjustments for experience, hours, management scope, role complexity, and company profile; (4) company financial capacity assessment; and (5) the calculation methodology used to arrive at the compensation benchmark.

All data sources, calculations, and adjustment factors are disclosed within this report to provide a transparent and traceable record of how the benchmark was derived.

Limitations

This analysis is an informational benchmark based on publicly available BLS data and the inputs provided by the user. It does not constitute legal, tax, or financial advice, and SafeRatio makes no guarantees regarding IRS audit outcomes. The accuracy of the benchmark depends on the accuracy and completeness of the inputs provided.

The advisor and taxpayer are solely responsible for reviewing this benchmark, exercising professional judgment, and determining the final reasonable compensation. This report should be reviewed by a qualified tax professional and updated periodically to reflect changes in responsibilities, qualifications, company financial performance, or market conditions.

Regulatory References: IRS Revenue Ruling 74-44, Revenue Ruling 59-221, and subsequent IRS guidance regarding reasonable compensation for S-Corporation shareholder-employees. The

factors considered in this analysis are consistent with those outlined in *Elliotts, Inc. v. Commissioner* and related case law.

Risk Assessment & Mitigation

This section provides a comprehensive assessment of identified risk factors that may impact the reasonable compensation determination, along with mitigation strategies and compliance implications. Risk factors are evaluated based on their potential impact on audit defensibility and compliance with IRS requirements for reasonable compensation documentation.

1. High Distribution Ratio — MEDIUM RISK

Risk Description: Distributions ($180,000) are slightly above the recommended salary ($142,000). While this is not uncommon for profitable S-corps, the advisor should document the business rationale.

Details:

Distributions ($180,000) are slightly above the recommended salary ($142,000). While this is not uncommon for profitable S-corps, the advisor should document the business rationale.

Compliance Implications:

This risk factor should be considered in the reasonable compensation determination and audit defensibility. Consideration of this factor supports comprehensive documentation and audit readiness.

2. Management Without Reports — MEDIUM RISK

Risk Description: The shareholder reports having management responsibilities including hiring authority and budget oversight, which supports compensation in the upper range of the band.

Details:

The shareholder reports having management responsibilities including hiring authority and budget oversight, which supports compensation in the upper range of the band.

Compliance Implications:

This risk factor should be considered in the reasonable compensation determination and audit defensibility. Consideration of this factor supports comprehensive documentation and audit readiness.

Overall Risk Assessment

This analysis has identified 2 risk factors that have been documented above. All identified factors are informational and have been documented for the advisor's consideration. The advisor should review these items and exercise professional judgment in the final compensation determination.

Analysis Debrief

💼 Professional Role Analysis

This analysis systematically maps the shareholder-employee's professional responsibilities to official Bureau of Labor Statistics (BLS) Standard Occupational Classification (SOC) codes, in accordance with IRS requirements for reasonable compensation documentation. The shareholder-employee's role encompasses 3 distinct functional areas, representing 100% of professional duties. Each responsibility has been methodically matched to the most appropriate SOC code based on the nature of the work, required skills, education level, and industry standards. This methodology provides defensible documentation demonstrating that compensation is based on comparable market data for similar roles, as required by IRS Revenue Ruling 74-44 and subsequent guidance for S-Corporation shareholder-employees. The SOC code mapping ensures alignment with recognized occupational classifications used by federal agencies, enhancing the credibility and audit defensibility of the compensation determination.

Role Breakdown: Management-Consulting (55%), Marketing-Management (30%), General-Operations (15%)

🎓 Professional Qualifications & Experience

Your career story includes master's degree-level education with CPA, PMP credentials. This impressive background positions you above the median for similar roles, reflecting the value of your specialized knowledge and industry expertise.

Market positioning: 75th percentile (+25% above median)

Market Wage Benchmark Analysis

The salary recommendation of $142,000 positions the shareholder-employee at 144% of the median (P50) market rate in TX for the Management Consulting industry, with 20% remote work considerations, based on authoritative wage data from the U.S. Bureau of Labor Statistics Occupational Employment and Wage Statistics (BLS OEWS). This analysis utilizes the most specific data available—including state-level and industry-specific benchmarks when possible—to ensure the recommendation reflects the shareholder-employee's unique market position. The market comparison demonstrates compliance with IRS requirements for reasonable compensation documentation, as established in Revenue Ruling 74-44 and subsequent guidance, by showing that compensation is based on comparable market data for similar roles. This market positioning analysis supports audit defensibility by providing clear documentation of how the compensation recommendation aligns with authoritative market wage data, adjusted for relevant geographic and industry factors.

Market Compensation Range: $72,800 (25th percentile) - $138,200 (75th percentile) • Location-adjusted • Industry-adjusted

Your Work Schedule

This analysis systematically evaluates the shareholder-employee's work schedule, including a 45-hour workweek, to determine appropriate compensation adjustments. The analysis reflects consistent work patterns throughout the year, providing stable compensation expectations that align with standard market practices. These adjustments ensure that compensation appropriately reflects the shareholder-employee's time commitment and service provision, supporting IRS requirements for reasonable compensation documentation by demonstrating that compensation is based on actual services rendered and time investment.

Work Schedule Adjustments: Hours adjustment: 100% of standard workweek • Seasonal adjustment: No seasonal variation

📈 Your Company's Financial Health

Your B2B Services business model targeting Mid-market companies markets with 6 employees and $1M-$5M in revenue is in the growth stage, operating for 8 years Despite moderate competition, your Deep industry expertise in healthcare IT consulting with proprietary frameworks strengthen your market position. Your $420,000 net profit demonstrates strong financial capacity, supporting your salary recommendation within sustainable business parameters. This ensures your compensation aligns with your company's ability to pay while maintaining healthy business operations.

Recommended: $142,000, Feasible: $168,000 • Business: B2B Services • Stage: growth

🎞 Wage Calculation Methodology

This analysis employs validated statistical methodologies that systematically blend wage data from multiple authoritative sources, including the U.S. Bureau of Labor Statistics Occupational Employment and Wage Statistics (BLS OEWS), to determine appropriate compensation recommendations. The methodology dynamically selects between hourly and annual wage benchmarks based on work patterns and incorporates precision metrics and quality assurance measures to ensure enhanced accuracy and reliability. This comprehensive approach ensures that the salary recommendation reflects the most thorough and defensible market analysis available, supporting IRS requirements for reasonable compensation documentation. The calculation methodology is documented and traceable, providing clear justification for compensation determinations and supporting audit defensibility through systematic, validated analytical processes.

Methodology: *Enhanced precision through validated statistical methodologies, intelligent data blending from authoritative sources, and comprehensive quality assurance measures*

⊡ S-Corp Compliance

For S-Corporation owners, the Internal Revenue Service requires reasonable compensation that reflects the value of services provided to the corporation, as established in Revenue Ruling 74-44 and subsequent guidance. This analysis has adjusted the salary recommendation by NaN% to ensure compliance with reasonable compensation standards, considering distributions of $180,000. This adjustment supports compliance with IRS requirements for reasonable compensation documentation by ensuring that compensation appropriately reflects the value of services provided, while maintaining appropriate tax efficiency for S-Corporation structures. This documentation supports audit defensibility by providing clear justification for the compensation adjustment based on distributions and IRS reasonable compensation requirements.

S-Corp adjustment: NaN% • IRS compliance optimized

🕐 Your Compensation Structure

Your compensation includes both salary and distributions, creating a 0.8:1 salary-to-distribution ratio with $180,000 in distributions. This balanced approach optimizes tax efficiency while ensuring reasonable compensation for your services.

Distribution amount: $180,000

👥 Internal Pay Equity

Your salary is 1.5x your highest-paid employee's salary ($95,000), which demonstrates appropriate leadership compensation. This ratio supports IRS reasonable compensation standards by showing you're paid appropriately relative to your team.

Your salary: 1.5x employee salary • Team size: 6 • Highest employee: $95,000

Recommendations with Detailed Rationale

$142,000

Recommended Annual Salary

⛉ IRS Audit Ready

Current Salary	Gap	Band Position
$95,000	+$47,000	Upper Range

Market Compensation Band

$52,400	$98,500	$138,200	$165,840

Recommended: $142,000 · Balanced Band

Primary Recommendation

Recommended Annual Salary: $142,000

This recommendation is based on comprehensive evaluation of market wage data from the Bureau of Labor Statistics, professional qualifications, role complexity, company financial capacity, and industry standards. The analysis positions the shareholder-employee within the recognized market compensation range, adjusted for qualifications, experience, geographic location, and industry factors, providing defensible documentation for IRS reasonable compensation requirements.

Detailed Rationale

- **Market Data Validation:** The recommendation is based on authoritative wage data from the U.S. Bureau of Labor Statistics, mapped to Standard Occupational Classification (SOC) codes that correspond to the shareholder-employee's professional responsibilities, ensuring alignment with recognized occupational classifications and market benchmarks.
- **Professional Qualifications:** The analysis evaluates professional qualifications, education, certifications, and industry experience to determine appropriate market positioning, applying validated adjustment factors that reflect the enhanced market value associated with professional credentials and specialized expertise.
- **Company Financial Capacity:** The recommendation considers company financial capacity and sustainability, ensuring that compensation aligns with business profitability and supports sustainable operations while maintaining appropriate compensation levels for services rendered.
- **Compliance Documentation:** This recommendation provides comprehensive documentation to support IRS reasonable compensation requirements, including systematic evaluation methodology, authoritative data sources, and clear justification for compensation determinations.

Implementation Guidance

This compensation recommendation should be implemented in accordance with applicable employment agreements, corporate governance requirements, and tax regulations. The compensation should be paid as W-2 wages through the company's payroll system, with appropriate tax withholding and reporting in compliance with federal and state requirements.

Documentation supporting this recommendation, including this analysis report, should be retained for audit purposes and updated periodically to reflect changes in responsibilities, qualifications, company financial performance, or market conditions. This analysis should be reviewed by a qualified tax professional to ensure alignment with specific circumstances and regulatory requirements.

Ongoing Monitoring & Review

This reasonable compensation analysis should be reviewed and updated periodically to ensure continued accuracy and compliance. Key triggers for review include: material changes in professional responsibilities or role complexity, significant changes in professional qualifications or certifications, material changes in company financial performance or business model, significant changes in market conditions or industry standards, and the passage of time (recommended annual review).

Regular review and updates support ongoing compliance with IRS reasonable compensation requirements and ensure that compensation continues to reflect current market conditions, professional qualifications, and company financial capacity. This proactive approach enhances audit defensibility and supports sustainable compensation practices.

Supporting Documentation Appendices

Appendix A: Standard Occupational Classification (SOC) Code Mappings

This appendix provides detailed documentation of the Standard Occupational Classification (SOC) code mappings used in this analysis. SOC codes are federal statistical standards used to classify workers into occupational categories, ensuring consistency with recognized occupational classifications used by federal agencies, including the Bureau of Labor Statistics.

Professional Responsibility	SOC Code	Official Occupation Title	Allocation Percentage
Management-Consulting	13-1111	Management Analysts	55%
Marketing-Management	11-2021	N/A	30%
General-Operations	11-1021	General and Operations Managers	15%

Appendix B: Complete Wage Source Data

This appendix provides complete wage source data from the U.S. Bureau of Labor Statistics Occupational Employment and Wage Statistics (BLS OEWS) used in this analysis. All wage data is sourced from the most recent available BLS OEWS publication, with geographic and industry adjustments applied where applicable.

SOC Code	Occupation	25th Percentile	50th Percentile	75th Percentile	Geography	Data Source
13-1111	Management Analysts	$72,800	$98,500	$138,200	STATE	BLS OEWS
11-2021	N/A	$72,800	$98,500	$138,200	STATE	BLS OEWS

SOC Code	Occupation	25th Percentile	50th Percentile	75th Percentile	Geography	Data Source
11-1021	General and Operations Managers	$72,800	$98,500	$138,200	STATE	BLS OEWS

Source: U.S. Bureau of Labor Statistics, Occupational Employment and Wage Statistics (OEWS) program. Data reflects the most recent available publication as of the analysis date.

Appendix C: Financial Analysis Details

This appendix provides detailed financial analysis information used to assess company financial capacity and determine feasible compensation levels. Financial data is based on company-provided information as of the analysis date.

Gross Receipts	$1,850,000
Net Profit	$420,000
Effective Date	December 30, 2025
Industry	Management Consulting
Primary State	TX
Business Model	B2B Services
Revenue Range	$1M-$5M
Growth Stage	growth
Recommended Salary	**$142,000**
Feasible Salary Cap	**$168,000**

Appendix D: Methodology Technical Details

This appendix provides technical details regarding the analysis methodology, calculation processes, and quality assurance measures applied in this reasonable compensation analysis.

Analysis Engine Version	SafeRatio Compliance Engine v7
Analysis Date	January 14, 2026
Run Date	January 15, 2026
Band Anchor	Balanced Band
Hours Adjustment	100.0% of standard workweek
Seasonal Adjustment	100.0%
Geographic Level	STATE

Appendix E: Regulatory References

This appendix provides references to relevant IRS guidance, regulations, and industry standards that inform this reasonable compensation analysis.

- **IRS Revenue Ruling 74-44:** Establishes that S-Corporation shareholder-employees must receive reasonable compensation for services rendered to the corporation.
- **IRS Revenue Ruling 59-221:** Provides guidance on reasonable compensation determinations and factors to consider.
- **Internal Revenue Code Section 1366(e):** Addresses reasonable compensation requirements for S-Corporations.
- **U.S. Bureau of Labor Statistics (BLS):** Occupational Employment and Wage Statistics (OEWS) program provides authoritative wage data used in this analysis.
- **Standard Occupational Classification (SOC) System:** Federal statistical standard (OMB Standard Occupational Classification Manual) used to classify workers into occupational categories.
- **Court Cases:** Judicial precedent includes cases such as *Watson v. Commissioner*, *David E. Watson, P.C. v. United States*, and other relevant case law addressing reasonable compensation for S-Corporation shareholder-employees.

Note: This analysis is designed to align with established IRS guidance and regulatory requirements. Taxpayers should consult with qualified tax professionals to ensure compliance with current regulations and specific circumstances.

SafeRatio Reasonable Compensation Analysis
This analysis was generated by SafeRatio's reasonable compensation engine SafeRatio Compliance Engine v7.
All wage data sourced from the U.S. Bureau of Labor Statistics Occupational Employment and Wage Statistics (OEWS). To learn more visit www.saferatio.com