

**Barksdale Organization
LLC**

**REASONABLE
COMPENSATION
REPORT**

Prepared by Salary Sherpa
a SCorpEase Tool





EXECUTIVE SUMMARY

REASONABLE COMPENSATION ANALYSIS

Barksdale Organization LLC
Avon Barksdale, President & CEO
Analysis Date: 10/14/2025
Valid Through: 10/14/2026

RECOMMENDED COMPENSATION RANGE: \$149,451 - \$224,176

About This Analysis

This report provides a comprehensive, reasonable compensation analysis for your S-Corporation officer position using methodologies approved by the IRS and consistently upheld in Tax Court. Your recommended salary range is calculated using three distinct approaches: (1) the Cost Approach, which determines what it would cost to hire someone to perform all your various functions, (2) the Market Approach, which compares your role to similar positions in the current job market, and (3) the Income Approach, which ensures your compensation is reasonable given your company's financial performance. These three methods are weighted and combined to produce a defensible salary range that reflects your actual contributions to the business.

The analysis incorporates critical factors required by IRS Fact Sheet 2008-25, including your education, professional experience, time commitment, job responsibilities, and company financial condition. We've analyzed Bureau of Labor Statistics wage data for your geographic area and applied appropriate adjustments for your experience and any applicable education and licenses you indicated on the form. Your current compensation structure indicates a **High** audit risk. This report serves as documentation of your compensation decision and demonstrates the good-faith effort to establish reasonable compensation that the IRS expects from S-Corporation officers.





EXECUTIVE SUMMARY (continued)

Key Findings:

- Current compensation: \$65,000 = Below recommended range
- Cost to replace your services: \$149,043
- Market rate for comparable position: \$174,393
- Current distribution ratio: 2.85:1 = Concerning

Recommendation: Increase W-2 wages to \$186,814 to align with IRS expectations while optimizing your tax position.

Risk Level: High

Critical Note: This analysis expires in one year and must be updated annually to remain valid.





ANALYSIS RESULTS

1. COST APPROACH (What it costs to replace you)

Function	Hours/Year	Rate	Total
Management	728	\$62.11	\$45,216
Operations	520	\$55.77	\$29,000
Sales	312	\$77.37	\$24,139
Service	312	\$23.00	\$7,176
Admin	208	\$23.42	\$4,871
BASE	2,080		\$110,402

Adjustments:

- Experience (23 years): +15%
- Education (Bachelor's): +5%
- Market: +15%
- **TOTAL COST APPROACH: \$149,043**

2. MARKET APPROACH (What others make)

- Position: President & CEO
- BLS Code: 11-3051
- Base Salary (50th %): \$129,180
- Adjustments:
 - Experience (23 years): +15%
 - Education (Bachelor's): +5%
 - Market: +15%
- **TOTAL MARKET APPROACH: \$174,393**





ANALYSIS RESULTS (continued)

3. INCOME APPROACH (What business can afford)

- Revenue: \$2,000,000
- Net Income: \$650,000
- Annual Debt Service: \$150,000
- Max Supportable Comp: \$500,000
- **TOTAL INCOME APPROACH: \$400,000**

FINAL CALCULATION

Method	Amount	Weight	Result
Cost	\$149,043	40%	\$59,617
Market	\$174,393	50%	\$87,197
Income	\$400,000	10%	\$40,000
WEIGHTED AVERAGE			\$186,814

SAFE RANGE: \$149,451 to \$224,176





RISK FACTORS

Your Audit Risk Assessment

✔ = Protected | ⚠ = Moderate Risk | ✖ = High Risk

COMPENSATION LEVEL

- ✖ **Current vs. Recommended Range**
 - ◆ ✔ Already within recommended range (\$149,451 - \$224,176)
 - ◆ ⚠ Within 20% of the recommended range
 - ◆ ✖ More than 20% below or above the recommended range

DISTRIBUTION PRACTICES

- ⚠ **Distribution-to-Wage Ratio**
 - ◆ ✔ Under 1:1 (Conservative - wages exceed distributions)
 - ◆ ⚠ 1:1 to 3:1 (Moderate - requires strong documentation)
 - ◆ ✖ Over 3:1 (Aggressive - high audit risk)

PAYROLL COMPLIANCE

- ✔ **Payroll Frequency**
 - ◆ ✔ Regular monthly/bi-weekly payroll all year
 - ◆ ⚠ Quarterly payroll or irregular schedule
 - ◆ ✖ Annual lump sum or no consistent payroll

DOCUMENTATION

- ✖ **Compensation Documentation**
 - ◆ ✔ Corporate minutes + job description + this analysis
 - ◆ ⚠ Some documentation but incomplete
 - ◆ ✖ No formal documentation of compensation decision





RISK FACTORS (continued)

BUSINESS FACTORS

- **✓ Officer Participation**
 - ◆ **✓** Full-time active officer (40+ hrs/week)
 - ◆ **⚠** Part-time but substantial (20-40 hrs/week)
 - ◆ **✗** Minimal participation (<20 hrs/week)

- **✓ Profit Levels**
 - ◆ **✓** Business shows consistent profits supporting salary
 - ◆ **⚠** Marginal profits or break-even
 - ◆ **✗** Losses while taking large distributions

OVERALL RISK SCORE: **High Risk**

What This Means:

- **LOW RISK (Mostly ✓)**: Your compensation structure is well-positioned. Maintain current practices.
- **MODERATE RISK (Mix of ✓ and ⚠)**: Address the warning areas within 90 days.
- **HIGH RISK (Any ✗)**: Immediate action required. Fix red flags before year-end.





RISK FACTORS (continued)

SPECIFIC ACTION ITEMS FOR YOUR SITUATION:

- Increase W-2 wages closer to \$186,814 to reduce compensation level risk
- Adjust distributions to lower distribution-to-wage ratio near recommended levels
- Formalize and maintain comprehensive compensation documentation
- Continue bi-weekly payroll compliance and monitor profit vs salary alignment
- Reasonable compensation includes W-2 wages plus any amounts paid to your health insurance, bonuses, or retirement contributions.

Remember: The IRS doesn't audit "reasonable" - they audit red flags. Each **X** above is a flag. Each **!** is a yellow flag. Stack up too many flags and you're asking for attention you don't want.

IRS COMPLIANCE CHECK

Required Factors Considered:

- Training and Experience: Bachelor's degree, no professional licenses, 23 years industry experience, 23 years as owner.
- Duties and Responsibilities: President & CEO duties: executive/management (35%), operations (25%), sales/business development (15%), service delivery (15%), administration (10%).
- Time and Effort: 40 hours per week
- Comparable Salaries: See analysis above
- Business Financials: Sufficient profits to pay \$500,000 salary





IMPORTANT NOTICES

PROFESSIONAL GUIDANCE TOOL

This report provides a data-driven starting point for determining reasonable compensation based on IRS-approved methodologies and current market data. It represents a significant improvement over having no documentation, which is the situation most S-Corporation owners find themselves in.

LIMITATIONS TO CONSIDER

While comprehensive, this analysis cannot account for every unique aspect of your business situation, including:

- Industry-specific factors unique to your market
- Seasonal fluctuations in your business
- Special skills or relationships you bring
- Local competitive factors
- Future business changes or economic conditions

YOUR RESPONSIBILITY

Use this report as a well-researched guideline to inform your compensation decision. You know your business best and should set your salary at a level you're comfortable defending. Consider:

- Your actual day-to-day contributions
- The true value you bring to the business
- What you could reasonably earn elsewhere
- Your comfort level if questioned by the IRS

ADJUSTING COMPENSATION STRATEGICALLY

There are legitimate reasons you may choose to adjust your reasonable compensation above or below the baseline number suggested in this report. Common considerations include:

- Increasing salary to maximize retirement contributions tied to W-2 wages.
- Decreasing salary (while still within reasonable ranges) to increase pass-through business income, potentially lowering overall tax burden.

Your decision should balance both compliance with IRS reasonable compensation standards and your personal financial planning goals.





IMPORTANT NOTICES (continued)

IRS AUDIT PERSPECTIVE

If the IRS examines your compensation, they'll want to understand:

1. **Your actual duties** - What you really do day-to-day
2. **Your decision process** - How you arrived at your salary amount
3. **Your documentation** - Proof supporting your decision

This report provides crucial third-party documentation that demonstrates good-faith effort to establish reasonable compensation. However, you'll still need to articulate your specific role and justify why your chosen salary is sensible for your situation.

BEST PRACTICE

Having this analysis puts you ahead of 90% of S-Corp owners who have no documentation. Combined with your personal knowledge of your business and a clear explanation of your reasoning, you'll be well-positioned to support your compensation decision if ever questioned.

ANNUAL UPDATES REQUIRED

This analysis expires on 10/14/2026. Business conditions, market rates, and your role evolve - your compensation analysis should too.

Based on:

- Form data provided 10/14/2025
- BLS wage data 05/2024
- IRS Rev. Rul. 74-44 & Fact Sheet 2008-25





NEXT STEPS

1. ADJUST YOUR PAYROLL (if needed) If you're paying yourself \$50K when this report says \$125K-\$145K, you may be flagged by the IRS. Log in to your payroll system right now and update your salary because every month you wait increases your audit risk.

2. THIS WEEK - MAKE IT OFFICIAL Document your compensation decision in "corporate" minutes. Documentation is essential. Have a "board meeting" (even if it's just you), vote on your salary, and sign the minutes. This isn't optional - the IRS expects formal documentation. No minutes = no defense.

3. NEXT 30 DAYS - CLEAN UP YOUR BOOKS

- Ensure you're running regular payroll (at least monthly)
- Avoid taking random distributions in lieu of salary
- Set up proper quarterly tax deposits (if needed)
- Get your W-2 wages and distributions in the proper ratio

4. NEXT 90 DAYS - BUILD YOUR DEFENSE FILE Create a simple time log showing what you actually do. This will also help inform next year's report. Track your work for 2-3 months:

- Monday: 3 hrs operations, 2 hrs sales calls, 3 hrs service delivery
- Tuesday: 4 hrs client work, 2 hrs admin, 2 hrs business development
- (You get the idea - it doesn't need to be perfect, just reasonable)

5. ONGOING - STAY COMPLIANT

- Pay yourself consistently via payroll (not sporadic distributions)
- Keep your distribution-to-wage ratio reasonable (under 3:1 is less risky)
- When you take distributions, we recommend quarterly or annually, avoid weekly distributions
- Document major business changes that affect your role

6. IN 11 MONTHS - UPDATE THIS ANALYSIS Set a calendar reminder for 09/14/2026. Reasonable compensation isn't "set it and forget it" - it changes as your business grows, your role evolves, and market rates shift. An outdated analysis is almost as bad as no analysis.





RECOMMENDED NEXT STEPS (continued)

THE BOTTOM LINE: Most S-Corp owners are sitting ducks without proper documentation. You now have a professional analysis backing your compensation decision. Take these steps seriously, and you'll be better prepared than 95% of S-Corps if the IRS comes knocking.

Don't let perfect be the enemy of good - implement these recommendations now, even imperfectly, rather than waiting for the "right time." The IRS doesn't care about your intentions, only your actions.

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