Reasonable Compensation Analysis

Elias Turner | Pine & Harbor Custom Carpentry, Inc. | Tax year 2026

SAMPLE REPORT - FICTITIOUS BUSINESS AND SHAREHOLDER

Shareholder-employee
Elias Turner

Business name
Pine & Harbor Custom Carpentry, Inc.

Tax year
2026

Report date
July 22, 2026

Business activity location
ZIP 04101, Cumberland County

Geographic wage area
Portland-South Portland, ME

Estimated Annual Reasonable Compensation

$45,934

Weighted hourly rate
$25.24/hr

Total annual business hours	Monthly equivalent	Biweekly equivalent	Duties included
1,820	$3,828	$1,767	4

Conclusion

Based on the duties, time allocations, total business hours, skill levels, geographic wage data, and other information provided for this analysis, the estimated reasonable annual compensation for Elias Turner for the year ending December 31, 2026 is $45,934.

This amount represents a weighted estimate of the market compensation associated with the different services performed by the shareholder-employee. The estimate was calculated by assigning an hourly wage to each selected duty, multiplying that wage by the annual hours attributed to the duty, and combining the resulting amounts.

Elias Turner was estimated to devote approximately 1,820 hours to the business during the year. The resulting weighted average compensation rate was approximately $25.24 per hour.

Business Context

Pine & Harbor Custom Carpentry, Inc. is a fictitious Maine S corporation serving residential clients in greater Portland. The company specializes in custom built-ins, finish carpentry, and small renovation projects, generates approximately $425,000 in annual gross revenue, and employs one carpenter and one part-time office coordinator. Elias Turner owns 100% of the corporation and has six years of trade experience. He works 35 hours per week throughout the year. His time is allocated 15% to management, 25% to field carpentry, 20% to marketing, and 40% to basic customer service. This sample uses the 25th-percentile hourly wage for each occupation and assumes the stated facts are complete; an actual engagement would verify the duties, time, experience, and business context.

Duties and Compensation Calculation

Detailed weighted-wage calculation

Task or Role	SOC	Skill	Time	Hours	Wage	Comp.
Provide basic customer service by answering homeowner calls and Customer Service Representatives	43-4051	Below Average	40%	728	$18.54/hr	**$13,497**
Lay out, build, and install custom cabinetry, built-ins, doors, and Carpenters	47-2031	Below Average	25%	455	$28.45/hr	**$12,945**
Maintain the company website and social profiles, photograph Market Research Analysts and Marketing	13-1161	Below Average	20%	364	$26.55/hr	**$9,664**
Plan job schedules, prepare estimates, coordinate employees General and Operations Managers	11-1021	Below Average	15%	273	$36.00/hr	**$9,828**
Total			**100%**	**1,820**		**$45,934**

Weighted average hourly wage: $25.24

Geographic wage area: Portland-South Portland, ME

Wage-data year: 2025 | Source: U.S. Bureau of Labor Statistics, Occupational Employment and Wage Statistics

Selected Duty Descriptions

Provide basic customer service by answering homeowner calls and emails, scheduling estimates, sharing routine project updates, recording change requests, and arranging warranty follow-up: Provide basic customer service by answering homeowner calls and emails, scheduling estimates, sharing routine project updates, recording change requests, and arranging warranty follow-up

Lay out, build, and install custom cabinetry, built-ins, doors, and interior trim, including on-site measurement and finish-detail work: Lay out, build, and install custom cabinetry, built-ins, doors, and interior trim, including on-site measurement and finish-detail work

Maintain the company website and social profiles, photograph completed projects, develop referral relationships, follow up on leads, and review marketing performance: Maintain the company website and social profiles, photograph completed projects, develop referral relationships, follow up on leads, and review marketing performance

Plan job schedules, prepare estimates, coordinate employees and subcontractors, purchase materials, monitor budgets and safety, and make pricing, hiring, and quality-control decisions: Plan job schedules, prepare estimates, coordinate employees and subcontractors, purchase materials, monitor budgets and safety, and make pricing, hiring, and quality-control decisions

Time and Compensation Visualizations

Portland-South Portland, ME | BLS OEWS 2025

Allocation of Business Time

Provide basic customer service	**40% | 728 hrs**
Lay out, build, and install cu	**25% | 455 hrs**
Maintain the company website a	**20% | 364 hrs**
Plan job schedules, prepare es	**15% | 273 hrs**

Comparison of Time Allocation and Compensation Contribution

Provide basic customer service by answering

Time	**40%**
Compensation	**29.4%**

Lay out, build, and install custom cabinetry

Time	**25%**
Compensation	**28.2%**

Maintain the company website and social prof

Time	**20%**
Compensation	**21%**

Plan job schedules, prepare estimates, coord

Time	**15%**
Compensation	**21.4%**

Contribution of Each Duty to Estimated Compensation

Provide basic customer service	**$13,497 (728 hrs at $18.54/hr)**
Lay out, build, and install cu	**$12,945 (455 hrs at $28.45/hr)**
Plan job schedules, prepare es	**$9,828 (273 hrs at $36.00/hr)**
Maintain the company website a	**$9,664 (364 hrs at $26.55/hr)**

Total estimated reasonable compensation: $45,934

Compensation Methodology

The analysis used a task-based, weighted-wage methodology. Each material service performed by the shareholder-employee was associated with an occupational category and market wage. The shareholder's total annual business hours were allocated among those duties based on the percentage of time devoted to each activity.

Each duty was matched to a Standard Occupational Classification (SOC) code. An SOC code is the federal occupation code used by the Bureau of Labor Statistics to organize wage data for a defined type of work. In an audit, the IRS can use those codes to evaluate whether the selected occupations reasonably match the services the shareholder-employee actually performed and whether the related wage data were drawn from an appropriate labor market category.

For each duty, the allocated annual hours were multiplied by the selected hourly wage. The compensation attributable to all duties was then combined to determine the estimated annual reasonable compensation. This analysis is based on IRS reasonable-compensation guidance and applies that guidance by linking the shareholder-employee's actual duties to market wage data and time devoted to those duties.

IRS Guidance Regarding S Corporation Shareholder-Employees

Corporate officers who perform more than minor services for a corporation are generally treated as employees for federal employment-tax purposes. The IRS states that an S corporation must pay reasonable compensation to a shareholder-employee for services provided before making non-wage distributions to that shareholder-employee.

The IRS explains that the analysis should consider what the shareholder-employee actually does for the corporation and the source of the corporation's gross receipts. Relevant factors may include training and experience, duties and responsibilities, time and effort devoted to the business, payments to non-shareholder employees, comparable compensation, compensation agreements, and compensation formulas.

Assumptions and Limitations

This analysis is based on information provided by the shareholder, management, or the company's advisers. The conclusion depends on the completeness and accuracy of that information, including reported duties, time allocations, annual hours, skill levels, wage selections, business operations, and amounts paid or distributed to the shareholder.

This report is provided for compensation-planning and documentation purposes. It is not a legal opinion, audit opinion, valuation opinion, guarantee of tax treatment, or assurance that the Internal Revenue Service or another authority will agree with the conclusion.

IRS References

- Internal Revenue Service, S Corporation Compensation and Medical Insurance Issues.
- Internal Revenue Service, S Corporation Employees, Shareholders and Corporate Officers.
- Internal Revenue Service Fact Sheet FS-2008-25, Wage Compensation for S Corporation Officers.
- Internal Revenue Service, Paying Yourself.
- Instructions for Form 1120-S for the applicable filing year.

Corporate Action Ratifying Officer Compensation

Board minutes template

Pine & Harbor Custom Carpentry, Inc.

Meeting of the Board of Directors

Date: ____________________

A meeting of the Board of Directors of Pine & Harbor Custom Carpentry, Inc. was held on ____________________ at ____________________.

The Board reviewed the reasonable-compensation analysis prepared for Elias Turner for the year ending December 31, 2026. The Board considered the services performed by the shareholder-employee, including duties, responsibilities, experience, time devoted to the corporation, selected market wage data, and business circumstances.

Resolution

RESOLVED, that the Board of Directors approves and ratifies annual officer compensation for Elias Turner in the amount of $45,934 for the year ending December 31, 2026, subject to applicable payroll withholding, employment-tax reporting, and adjustments authorized by the corporation's tax advisers.

FURTHER RESOLVED, that the officers of the corporation are authorized and directed to process the approved compensation through the corporation's payroll system and to take the actions reasonably necessary to implement this resolution.

FURTHER RESOLVED, that management should review the shareholder-employee's compensation when duties, working hours, business operations, financial circumstances, or relevant market wage information materially change.

Director or Authorized Officer: ____

Printed Name: ____

Title: ____

Date: ____

Additional Director, if applicable: ____

Printed Name: ____

Date: ____

Board-Minutes Disclaimer

This document is a general corporate-record template and is not legal advice. Corporate governance requirements, voting procedures, meeting requirements, written-consent rules, and required signatures vary based on applicable state law, governing documents, and specific circumstances. The corporation should consult a qualified attorney regarding the appropriate form and adoption of corporate resolutions and minutes.