

Thought Leadership Discussion

Reasonableness of Shareholder/Employee Compensation Analysis for C Corporations and S Corporations

John C. Ramirez and Connor J. Thurman

The reasonableness of private company shareholder/employee compensation is often a controversial issue in the context of federal income taxation. This is because what is considered reasonable compensation by the employer corporation taxpayer is often considered unreasonable by the Internal Revenue Service (“Service”). According to Internal Revenue Code Section 162, in order to be deductible for federal income tax purposes, executive compensation must be (1) “reasonable in amount” and (2) “based on services actually rendered.” The income-tax-related consequences associated with unreasonable shareholder/employee compensation can be significant (and include payroll taxes, late payments, and tax return filing penalties). For this reason, it is important that financial analysts understand the factors that the Service and the federal courts consider when analyzing the reasonableness of shareholder/employee compensation. This discussion focuses on the generally accepted factors and methods applied to analyze the reasonableness of private company shareholder/employee compensation.

INTRODUCTION

The reasonableness of private company shareholder/employee compensation is an important, and often controversial, income tax consideration. This statement is true for the private corporation structured as either a C corporation or an S corporation. This is because the shareholder/employees of such private corporations may be motivated to deviate from arm’s-length levels of compensation in order to minimize their income tax burden.

For this reason, the reasonableness of compensation paid to the shareholder/employees of such

private corporations is often one of the first issues that is scrutinized by the Service during the examination of either the shareholder/employee or the private employer corporation.

In addition, the income-tax-related consequences associated with a finding of unreasonable shareholder/employee compensation can be significant. These consequences can include payroll taxes, late payments, and return filing penalties.

For the S corporation shareholder/employee, the Service is typically concerned with an unreasonably low level of employee compensation. This is because S corporation earnings are not subject to the

self-employment tax, so officers/shareholders may receive minimal, small, or no wages/salary income to avoid employment taxes.

That is, earnings distributed to an S corporation shareholder/employee in excess of payments for services rendered to, or on behalf of, the companies are not subject to various employment taxes. Such employment taxes include Federal Insurance Contributions Act (“FICA”), Federal Unemployment Tax Act (“FUTA”), State Unemployment Tax Act (“SUTA”), Medicare insurance, and others (“employment taxes”).

For a C corporation, the Service is typically concerned with an unreasonably high (or excessive) level of employee compensation. In such cases, the Service often claims that the excess shareholder/employee compensation:

1. absorbs taxable income and
2. represents a disguised dividend to the shareholder/employee.

Due to the potential scrutiny regarding compensation levels, a shareholder/employee or employer corporation may engage a financial analyst (“analyst”) to perform a reasonable compensation analysis.

THE ROLE OF THE ANALYST

Analysts and other financial advisers often assess the reasonableness of private corporation shareholder/employee compensation for various reasons. These reasons may include income taxation, financial accounting, ownership transition, litigation, and corporate governance.

To ensure that reasonable compensation analyses can withstand the scrutiny of the Service or the federal courts, it is important that analysts fully understand what factors and methods should be considered when determining the reasonableness of shareholder/employee compensation.

This discussion focuses on the generally accepted factors and methods that should be considered in a reasonableness of shareholder/employee compensation analysis for a C corporation or an S corporation.

THE REASONABLE COMPENSATION OBJECTIVE

This discussion does not focus on the reasonableness of compensation paid to the owners of partnerships, sole proprietors, or limited liability compa-

nies (“LLCs”). This is because the compensation paid to owners of these types of entities may be characterized as distributions—which are not subject to employment taxes.

For purposes of this discussion, the objective of a reasonableness of compensation analysis is to estimate the amount of shareholder/employee compensation that is reasonable and, therefore, deductible as a business expense under Internal Revenue Code Section 162 (“Section 162”).

To achieve this objective, analysts and other financial advisers often look for guidance from both:

1. Securities and Exchange Commission (“SEC”) administrative rulings and
2. judicial precedent.

The following discussion considers some of the SEC administrative rulings and the judicial precedent that analysts may look to for procedural guidance when analyzing the reasonableness of shareholder/employee compensation.

REASONABLENESS OF SHAREHOLDER/EMPLOYEE COMPENSATION

For income tax purposes, the reasonableness of shareholder/employee compensation may be controversial. This is because, like other business expenses, salaries, wages, and other compensation should be directly connected with a trade or business in order to qualify for as an income tax deduction.

According to Regulation 1.162-1, “Business expenses deductible from gross income include the ordinary and necessary expenditures directly connected with or pertaining to the taxpayer’s trade or business. . . . Among the items included in business expenses are management expenses.”

According to Section 162(a)(1), “there shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered.”

The difficulty in estimating reasonable compensation is that the amount that is considered reasonable to one party may be considered unreasonable to another party.

Mad Auto Wrecking, Inc.

The issue of determining what is a reasonable amount of shareholder/employee compensation



1. An ordinary and necessary expense
2. Reasonable in amount
3. Based on services actually rendered
4. Actually paid or incurred by the taxpayer corporation

In short, the provisions in the Treasury Regulations are intended to prevent the employer corporation from characterizing amounts that are actually dividends as salary (i.e., employee compensation). In addition, the determination of what is a reasonable amount of shareholder/employee compensation is made based on the specific facts and circumstances of each individual case.

was articulated in *Mad Auto Wrecking, Inc. v. Commissioner*, as follows:

Inherently there is a natural tension between: (1) shareholders/employees who feel that they are entitled to be paid from a corporation's profits, even to the exhaustion thereof, of an amount that reflects their skills and efforts, and (2) a provision in the tax law that conditions the deductibility of compensation on the concept of reasonableness. What is reasonable to the entrepreneur/employee often may not be to the tax collector. The term "reasonable", however, must reflect the intrinsic value of employees in the broadest and most comprehensive sense.¹

The form of shareholder/employee compensation does not affect its tax deductibility to the taxpayer corporation.²

What is important, however, is that the shareholder/employee compensation should reflect what would "ordinarily be paid for like services by like enterprise under like circumstances."³

Therefore, in order to qualify as an income tax deduction, shareholder/employee compensation should meet four requirements. These four requirements are discussed below.

Income Tax Deduction Requirements

Four requirements for a shareholder/employee compensation income tax deduction, as described in Regulation 1.162-7, are as follows:

And, according to Regulation 1.162-7, this determination is made based on consideration of the subject taxpayer facts that exist at the "date when the contract for services was made, not those existing at the date when the contract is questioned" by the Service.

INCOME TAX CONSIDERATIONS

For the S corporation, the Service is typically concerned with whether the shareholder/employee is paid an unreasonably low level of compensation.

This is because the S corporation "noncompensation" income distributions are not subject to compensation-related employment taxes, such as FICA, FUTA, SUTA, Medicare, and others.

Accordingly, the lower the amount of the shareholder/employee compensation, the lower the amount of employment taxes paid by both (1) the shareholder/employee and (2) the employer corporation.

For this reason, an S corporation shareholder/employee may often "pay" himself or herself by taking periodic S corporation income distributions instead of taking a reasonable salary.

In such cases, both the S corporation employer and the shareholder/employee avoid paying employment taxes when the shareholder takes noncompensation income distributions. This is because noncompensation S corporation income distributions do not qualify as wages, so they are not subject to employment taxes.

When an S corporation allocates an unreasonably small percent of its corporate earnings

as compensation, the Service may challenge the reasonableness of the shareholder/employee compensation.

For the private C corporation, the Service is typically concerned with whether the shareholder/employee is paid an excessive amount of compensation. This is because compensation payments are a tax-deductible expense for the C corporation.

Accordingly, the greater the amount of shareholder/employee compensation, the lower the amount of the C corporation taxable income.

Unreasonable, or excessive, amounts of shareholder/employee compensation, however, may be recharacterized by the Service as nondeductible dividend payments. That is, no income tax deduction is allowed to a C corporation for compensation paid to the shareholder/employee that exceeds a reasonable amount.

FACTORS SPECIFIC TO AN S CORPORATION

There are several factors specific to an S corporation that should be considered in the analysis of the reasonableness of shareholder/employee compensation. These S corporation factors include the following:

1. According to Regulation 31.3121(d)-1(b), the S corporation officers are generally considered to be employees of the taxpayer corporation when they provide more than minor (i.e., substantial) services to that corporation.
2. According to Regulation 1.162-7(a), as with a C corporation, the S corporation shareholder/employee compensation should be (a) reasonable in amount and (b) purely for services rendered.
3. According to Revenue Ruling 59-221, the S corporation shareholder income distributions are exempt from self-employment tax.
4. According to Revenue Ruling 74-44, the dividends paid to S corporation shareholders may be recharacterized as wages when such dividends are paid to shareholders in lieu of reasonable compensation for services performed for the S corporation.

Based on the above-listed regulatory guidance, the U.S. Tax Court and other federal courts typically consider several factors when determining if a payment made by an S corporation to a shareholder/employee is either a dividend or employee compensation.

DIVIDEND OR EMPLOYEE COMPENSATION?

The federal courts have found that S corporation dividends made to shareholders are actually disguised employee compensation subject to employment taxes when the following factors are present:⁴

1. The S corporation employee/shareholder performs substantial services to the taxpayer corporation but receives little or no employee compensation.
2. The S corporation employee/shareholder receives profit distributions in proportion to the amount of stock owned in the taxpayer corporation.
3. No other individuals work at the S corporation business.
4. The S corporation employee/shareholder owns most or all of the company stock.
5. Corporate distributions are characterized as shareholder loans, but there are no supporting shareholder loan documents.
6. The S corporation employee/shareholder worked elsewhere at a similar position but earned a much higher wage in that position.
7. The S corporation does not have a specific fixed formula for determining the amount of the employee/shareholder salary.
8. The S corporation employee/shareholder compensation rate is less than the compensation rate for a comparable position at a comparable company.
9. The S corporation employee/shareholder is compensated at a rate lower than other nonshareholders/employees who work in similar positions at the subject company.

If challenged by the Service, the taxpayer corporation bears the burden of proof to demonstrate that the amount of the shareholder/employee compensation is reasonable.⁵

Moreover, if some amount of the shareholder/employee compensation is determined to be excessive, then only that portion of the compensation that is determined to be reasonable will be deductible.⁶

Given the controversial aspects associated with the reasonableness of shareholder/employee compensation, it is important that the analyst understand and consider the factors and methods that the Service and the federal courts typically consider when testing the reasonableness of shareholder/employee compensation.

OTHER RELEVANT FACTORS

For many years, the Service and the federal courts have applied a multifactor analysis to test the reasonableness of private company shareholder/employee compensation. A multifactor analysis is an analytical method applied to solve a complex problem based on an analysis of the relevant factors that contribute to the complexity of the problem.

The generally accepted reasonableness of shareholder/employee compensation factors considered by many courts today were first articulated over 60 years ago in the *Mayson Manufacturing Company v. Commissioner* decision.⁷

More recently, in *Pulsar Components International, Inc. v. Commissioner*,⁸ the Tax Court expanded the *Mayson* factors to include the following factors that are generally considered to estimate the reasonableness of shareholder/employee compensation:

1. The employee's qualifications
2. The nature, extent, and scope of the employee's work
3. The size and complexities of the employer's business
4. A comparison of salaries paid with the employer's gross and net income
5. The prevailing general economic conditions
6. A comparison of salaries with distributions to officers and retained earnings
7. The prevailing rates of compensation for comparable positions in comparable concerns
8. The salary policy of the employer as to all employees
9. The amount of compensation paid to the particular employee in previous years
10. The employer's financial condition
11. Whether the employer and employee dealt at arm's length
12. Whether the employee guaranteed the employer's debt
13. Whether the employer offered a pension plan or profit-sharing plan to its employees
14. Whether the employee was reimbursed by the employer for business expenses that the employee paid personally

Historically, the reasonableness of shareholder/employee compensation factors presented in the *Pulsar* case include the factors typically considered by the federal court and the Service.⁹

The analyst typically considers the *Pulsar* factors as part of an analysis of the reasonableness of private company shareholder/employee compensation.

THE INDEPENDENT INVESTOR TEST TO ESTIMATE REASONABLE COMPENSATION

Several methods are available for performing a reasonableness of private company shareholder/employee compensation analysis. The analyst may consider (and may apply) the three generally accepted private company business valuation approaches in the application of the so-called independent investor test.

That is, the analyst may apply the market approach, the income approach, and/or the asset-based approach in the business valuation component of the independent investor test.¹⁰

Analysts, the Service, and the federal courts will typically rely on one or a combination/reconciliation of generally accepted business valuation approaches and methods in the application of the independent investor test. An application of one or more business valuation approaches and methods should be based on the context of a hypothetical independent investor.

Comparable Positions at Comparable Companies

The analyst may consider comparable positions at comparable companies. When applying this analysis, the analyst may perform a comparison of the taxpayer company's compensation for the subject employee to the appropriate level of compensation paid in the subject company's industry.

An industry compensation comparison is the first procedure in a market-based reasonable compensation analysis. The analyst performs such a comparison to answer the question, "How much compensation would be paid for this same position, held by a non-owner in an arms-length employment relationship, at a similar company?"¹¹

The procedures applied to analyze this reasonableness of compensation factor typically include the following:

1. Financial ratio analysis
2. Industry salary survey analysis

These procedures are used to estimate a range of reasonable compensation for a subject shareholder/employee. The range is based on an analysis of the

compensation paid at “guideline” companies (or industries) to executive with similar duties, responsibilities, skills, and functions.

Financial Ratio Analysis

In a financial ratio analysis, the compensation of the shareholder/employee is compared to the taxpayer company sales, profit before interest and taxes, assets, and other financial measures. These subject company financial ratios are then compared to comparable company and/or industry financial ratios.

Many sources of executive compensation empirical data are available to develop comparable company financial ratios.

For example, in an SEC proxy statement analysis, the reasonableness of executive compensation is estimated based on a comparison of the subject shareholder/employee compensation to the levels of compensation paid to comparable executives of comparable publicly traded companies.

SEC proxy statement rules require the disclosure of public company executive and director compensation.

These SEC rules require publicly traded companies to disclose in their proxy statements, the total compensation of the company’s most highly paid executive officers.

These SEC proxy statement disclosures of executive compensation can be used to develop a market-based range of compensation (e.g., expressed as a ratio of revenue and/or earnings) for:

1. comparable publicly traded companies or
2. a particular industry.

As with any market-based ratio analysis, the analyst should have a thorough understanding of the subject company and the subject industry before using this procedure.

This is because macroeconomic trends and industry fluctuations can result in significant variability in market-based financial ratios.

In addition, the reliability of a financial ratio analysis can be affected by the following:

1. The comparability of the subject company to the selected publicly traded companies or industry
2. The quantity and quality of information disclosed in the selected data source

Properly applied, however, a financial ratio analysis can provide the analyst with relevant market-

based information with which to assess the reasonableness of shareholder/employee compensation.

Industry Salary Survey Analysis

In an industry salary survey analysis, the analyst analyzes the levels of actual compensation paid to comparable executives within the subject industry.

An important factor to consider in determining the reasonableness of shareholder/executive compensation is the prevailing rates of compensation paid for comparable executive positions in comparable companies.

Typically, to be considered “comparable,” companies generally operate in the same industry (or line of business) with similar clients, products, and suppliers. In addition, the companies are of a similar size, usually measured in terms of assets or sales.

The subject shareholder/employee position may be considered comparable to an industry survey executive position if the nature and scope of the duties performed in both positions are similar.

In many private corporations, however, the duties and responsibilities of the subject shareholder/employee may not easily be characterized into one position. For example, the subject shareholder/employee duties and responsibilities may encompass the positions of CEO, top salesman, and head of human resources.

To ensure the subject shareholder/employee position is comparable to the industry survey executive position, the analyst should develop an understanding of the actual duties and responsibilities of the individual shareholder/employee.

In order to properly apply the industry salary survey data, it is important to understand the following:

1. How the data are compiled
2. The timeliness of the data
3. The data comparability to the subject company and/or position

Sources of Compensation Data

Numerous sources of compensation data are widely available. These sources vary in price, with some being free to access and others being quite expensive.

Some compensation data sources:

1. only relate to specific industries,
2. only include executive-level information,
3. only provide salary information, or
4. only provide salary and benefits information.

For these reasons, it is typically beneficial to rely on more than one compensation data source in a reasonableness of shareholder/employee compensation analysis.

The selection of a compensation data source depends on many factors. Some of these factors may include the following:

- **Industry:** There are industry-specific compensation data sources available for certain industries, particularly in the healthcare sector. There may not be an industry-specific compensation report available for some industries.
- **Position:** There are more compensation data reports available for executive-level staff positions (e.g., chief executive officer or chief financial officer) than there are for lower-level staff positions.
- **Budget:** Some executive-level compensation data sources and industry-specific compensation data sources are very expensive.

In the industry compensation comparison analysis, the analyst may consider industry data sources including the following:

- General industry surveys by Standard Industrial Classification code and the North America Industry Classification System
- Salary surveys produced by trade organizations, trade journals, or industry analyst studies
- Proxy statements and/or annual reports for publicly traded companies (these are SEC-required filings that can be accessed through the SEC website or various other data aggregation tools)
- Private company compensation information sourced through databases such as the Risk Management Association

The discussion below presents specific examples of (1) fee-based general compensation databases, (2) free salary surveys, and (3) industry-specific sources.

Fee-Based General Compensation Databases

The following list summarizes several fee-based, multi-industry compensation surveys. This list is not intended to be exhaustive.

- **Economic Research Institute (“ERI”):** ERI offers salary and other data for thousands of positions across thousands of locations. ERI allows the analyst to search for data based

a particular city or states and provides base salary, annual incentives, and total compensation.

- **Willis Towers Data Services:** Willis Towers Watson, a compensation and benefits consulting company, publishes several compensation surveys. Some of these surveys include the (1) *General Industry Compensation Policies and Practices Survey* and (2) *General Industry Long-Term Incentives Policies and Practices Survey*. Surveys are available on a regional basis and include salaries, short-term incentives, and more.
- **Compdata Surveys:** Compdata Surveys publishes several compensation surveys including (1) *BenchmarkPro*, (2) *Benefits USA*, and (3) *Executive Compensation*. These surveys include salary data, pay practices, health insurance data, and more. These data are provided on a regional basis.
- **Mercer:** Mercer publishes executive compensation surveys for the United States, Canada, and worldwide. Surveys can be provided on an industry-specific basis and include base salary, long-term and short-term incentives, and total compensation.
- **Culpepper:** Culpepper compensation surveys are available for the technology, life sciences, and health care sectors. Culpepper also provides a general industry compensation survey. The data include base salary, long-term and short-term incentives, total compensation, and equity compensation.
- **Aon Total Compensation Center:** Aon publishes compensation data for specific industries including energy, health care, and information technology. Aon also publishes executive compensation surveys and other benefits surveys.

Free Salary Survey Sources

The following list summarizes several free salary surveys. This list is not intended to be exhaustive.

- **Bureau of Labor Statistics (“BLS”):** The BLS, a division of the U.S. Department of Labor, provides a significant amount of information on pay and benefits. Salary information is available by occupation, region, state, and metropolitan statistical area. The BLS also produces reports on benefits and employer compensation costs.
- **CareerOneStop.org:** This website is sponsored by the U.S. Department of Labor and the data are sourced from the BLS.

Information is available for hundreds of occupations in the United States.

- **Salary.com:** This website contains several databases that provide salary information for thousands of occupations. The data are gathered from surveys of human resources personnel in the United States and are updated monthly. Some data is provided only on a subscription basis.

Industry-Specific Sources

The following list summarizes several industry-specific surveys. This list is not intended to be exhaustive.

- **Medical Group Management Association (“MGMA”):** MGMA publishes several health-care-related compensations surveys on an annual basis. MGMA surveys include data related to provider compensation, management compensation, physician placement starting salary, and academic practice compensation.
- **Institute of Management Accountants (“IMA”):** The IMA publishes an annual *Global Salary Survey*. The data contained therein are organized by various groupings including (1) academic degree, (2) location, (3) firm size, and (4) job title.
- **Zweig White:** This company produces many benchmarking reports for the engineering and architecture sector. This company publishes an annual *Salary Surveys of Architecture* report, among others.

THE INDEPENDENT INVESTOR TEST

The independent investor test is based on an analysis of the actual rate of return on owners’ equity of the private company compared with a market-derived required rate of return on owners’ equity.

According to the Service, “the rationale behind the Independent Investor Test is that investors pay employees to work to increase the value of the assets entrusted to their management.”¹²

According to the Service, in a typical application of the independent investor test (within an income approach reasonable compensation analysis), “a high rate of return indicates that the subject assets’ value increased and that the subject employee provided valuable services.”¹³

Therefore, if an investor earns a rate of return above what may be reasonably expected, then the subject employee’s compensation is presumed to be reasonable.

We note that the reasonable compensation presumption may not be true if the rate of return is attributable to an extraneous event rather than to the subject employee’s efforts.

This independent investor test analysis may be performed at various assumed levels of shareholder/employee compensation and usually considers all forms of compensation including dividends, stock appreciation, and corporate earnings.

The independent investor test is often considered by the U.S. Tax Court (and by other federal courts) to be a meaningful method of indirectly testing the reasonableness of shareholder/employee compensation.

In *Elliotts, Inc. v. Commissioner*,¹⁴ the Tax Court noted that the independent investor test considers whether an outside investor in the taxpayer corporation would have approved the subject executive compensation.

An example of the application of the independent investor test is presented in *Exacto Spring Corporation v. Commissioner*. The judicial decision in the *Exacto Spring Corporation* case is summarized as follows:

A corporation can be conceptualized as a contract in which the owner of assets hires a person to manage them. The owner pays the manager a salary and in exchange the manager works to increase the value of the assets that have been entrusted to his management; that increase can be expressed as a rate of return to the owner’s investment. The higher the rate of return (adjusted for risk) that a manager can generate, the greater the salary he can command. If the rate of return is extremely high, it will be difficult to prove that the manager is being overpaid, for it will be implausible that if he quit if his salary was cut, and he was replaced by a lower-paid manager, the owner would be better off; it would be killing the goose that lays the golden egg.¹⁵

“[I]f an investor earns a rate of return above what may be reasonably expected, then the subject employee’s compensation is presumed to be reasonable.”

Independent Investor Test Summary

In other words, the maximum salary that an independent investor would be willing to pay to an executive is a function of:

1. the expected return an investor would demand for his investment in the private corporation and
2. the actual return on investment after all expenses, including officer compensation, have been paid.

Independent Investor Test Example

The independent investor test can be demonstrated in the following simplified illustrative example.

Let's assume that a private company has a value of \$10 million. If an independent equity investor in the company requires a 10 percent return on equity, then the private company would need to generate net income of \$1 million to satisfy the investor.

If paying the executive a particular salary causes the company net income to fall below the investor's expected rate of return, then it is unlikely that the independent investor would agree to pay the executive that amount of salary.

SUMMARY AND CONCLUSION

Private company shareholder/employee reasonable compensation is an important income tax consideration. This is because what is considered a reasonable level of compensation by the individual or corporate taxpayer may often be considered unreasonable by the Service.

This is particularly true for the shareholder/employee of a C corporation or an S corporation. This is because the shareholder/employee of such a private corporation is often motivated to deviate from an arm's-length level of compensation in order to minimize their income taxes.

Over the years, the Service and the federal courts have developed generally accepted factors and methods used to analyze private company shareholder/employee reasonableness of compensation. These generally accepted factors and methods were developed based on statutory authority, administrative rulings, and judicial precedent.

To ensure that reasonable compensation analyses can withstand the scrutiny of the Service and the federal courts, the analyst (and the taxpayer) should fully understand the generally accepted factors and methods that are considered when determining the shareholder/employee reasonableness of compensation.

The analyst's understanding of these issues is especially important when performing a reasonable-

ness of shareholder/employee compensation analysis for a C corporation or an S corporation.

Notes:

1. Mad Auto Wrecking, Inc. v. Commissioner, T.C. Memo 1995-153.
2. Treasury Regulation 1.162-7(b)(2).
3. Treasury Regulation 1.162-7(b)(3).
4. Robert F. Reilly, "Reasonableness of Shareholder/Employee Compensation in Closely Held Business Valuation," *American Journal of Family Law* (Fall 2005).
5. Long Island Drug Co., Inc. v. Commissioner, 111 F.2d 593 (2d Cir. 1940).
6. Treasury Regulation 1.162-8.
7. See for example: Pulsar Components International, Inc. v. Commissioner, T. C. Memo 1996-129; Elliotts, Inc. v. Commissioner, 48 TCM 1245, T.C. Memo 1984-516; Mad Auto Wrecking, Inc. v. Commissioner, T.C. Memo 1995-153; Exacto Spring Corporation v. Commissioner, 196 F.3d 833, 838 (7th Cir. 1999).
8. Pulsar Components International, Inc. v. Commissioner, T. C. Memo 1996-129.
9. Internal Revenue Service, "Reasonable Compensation Job Aid for IRS Valuation Professionals" (October 29, 2014): 9-10.
10. Internal Revenue Service, "Reasonable Compensation Job Aid for IRS Valuation Professionals."
11. Ibid.
12. Ibid.
13. Mayson Manufacturing Co. v. Commissioner, 178 F.2d 115 (6th Cir. 1949).
14. Elliotts, Inc. v. Commissioner, 48 TCM 1245 (1984).
15. Exacto Spring Corporation v. Commissioner, 196 F.3d 833, 838 (7th Cir. 1999).



John Ramirez is a managing director in our Portland, Oregon, office. John can be reached at (503) 243-7506 or at jramirez@willamette.com.



Connor Thurman is a senior associate in our Portland, Oregon, office. Connor can be reached at (503) 243-7514 or at cjthurman@willamette.com.