

RCReports helps business valuation expert defend reasonable compensation in litigation



Customer Profile

Stephen Kirkland is a compensation consultant who helps employers address one of the toughest issues they face – compensating their employees. For over 25 years, Stephen has helped countless closely-held businesses and tax-exempt organizations meet the challenges of determining reasonable and fair market value pay levels for executives and other key employees. Stephen can be reached through ReasonableCompensation.expert.

Background

A medium-sized West Coast business was experiencing some turbulence among their shareholders. While the company had thrived under the previous generation, as their children took over the family business, issues began to emerge. Two separate shareholders were in need of a valuation for two very different reasons. One of the major stockholders worked for the company but was going through a divorce. As is standard practice, the value of his shares was required to determine how to divide his assets. While this is a common trigger for a business valuation, it was complicated by a second shareholder, who did not work for the company, wanting to sell her shares back at the same time.

This shareholder had moved away from the rest of the family and hadn't been involved in the business for years. She had never trusted her siblings and cousins to run the business and, when she heard of the divorce, she wanted to sell her shares of stock back to the company. She also believed that her family members were being over-compensated and were taking advantage of the family business. She hired an attorney and a business valuation expert, and seemed determined to take the issue to court.

Challenges

The major obstacle presented in the valuation was justifying the compensation figures for shareholder-officers. The distant family member was adamant that all of her relatives were being overpaid and was prepared to challenge any compensation figure that didn't fit her narrative. Given the likelihood that this case would end up in a court, it was vital that their reasonable compensation figures were supported by well-documented and objective data.

Two of the officers presented a common valuation challenge. One of them was a dedicated and hard-working member of the business. He was vital to their ongoing success and was a recognized expert in his field. Another officer was not focused on his job and was routinely distracted by his side business. Though they held similar titles and had both been working for the company for many years, realistically they weren't providing the same value to the business.

Solutions

To help determine the value of the business, a compensation expert was brought in to provide another perspective. Stephen Kirkland utilized RCReports to establish reasonable compensation figures for all of the officers of the business. He selected RCReports as he had previously used it successfully to defend reasonable compensation in court cases and thought it would withstand the scrutiny of a challenge.

Stephen Kirkland sent all of the officers RCReports' digital interview questionnaire to get an understanding of their job duties and performance. By coupling this data with interviews and an examination of the company's performance, he was able to determine accurate reasonable compensation figures. The officer who was vital to the company's success was provided with a compensation figure at the higher end of the range for his position, while the distracted officer's compensation was at the low end of the range.

Outcome

All of the parties involved wanted to know where the compensation comparability data came from and how it had been attained. Thanks to RCReports, Stephen Kirkland was able to provide documentation and supporting evidence to satisfy all parties. Though the case did go to mediation, thanks to the objective and accurate data supplied by RCReports, the matter was settled without further issue. Once the members of the company saw how disruptive and expensive these disputes were, they took Mr. Kirkland's advice to have their compensation amounts reviewed periodically to avoid future problems.

About RCReports Reasonable Compensation Solutions

RCReports provides instant and accurate insights into Reasonable Compensation for closely held businesses to ensure your clients remain compliant, minimize risk and realize maximum payroll tax savings. With in-built industry, legal, IRS criteria and salary data intelligence, tax advisors, valuers and forensic accountants gain access to credible and independent Reasonable Compensation calculations with guaranteed cover in the event of an IRS audit or litigation. Access reports for planning, compliance or normalization within minutes through an intuitive, cloud-based platform, removing all guesswork and providing full documentation and transparency around your clients' compensation