

Business Challenges

Since 2005 the IRS has been putting an increased focus on Reasonable Compensation figures for S-Corps and closely held businesses. Often, owners want to pay themselves an amount that minimizes their tax burden, yet they might be putting themselves into the crosshairs of the IRS by doing so. It's the job of CPAs, EAs, and tax advisors to ensure their clients are providing an accurate Reasonable Compensation figure to maintain compliance with IRS law.

Challenges:

- Compliance – When a business owner hires a tax professional to manage their finances, they are expecting to be protected entirely from IRS challenges.
- Extra Cost – Many owners might be hesitant to pay extra for a Reasonable Compensation figure as they don't see the value.
- Communication – Calculating an accurate Reasonable Compensation figure frequently requires additional communication, but clients are seeking to unload the challenge on to their tax professional.

Solutions Overview

RCReports provides tax preparers with a simple, cloud-based solution for calculating Reasonable Compensation. RCReports features an exclusive wage database with more than 12.9 million data points and a simple system to generate objective and accurate Reasonable Compensation reports supported by a proprietary methodology combining IRS criteria, court rulings, and geographic data. Included with your subscription you'll have access to case law, IRS rulings, whitepapers, and our exclusive digital client interview, making collecting client data as easy as pressing a few buttons.

Solution Benefits

COMPLIANCE

Our figures are supported by accurate wage data from a proprietary wage database and come with all the supporting data you need. We provide you with IRS criteria, court rulings, geographic data, and exclusive salary intelligence so you can assure your clients that the calculations are entirely independent and defensible in the event of an IRS inquiry.

ADDED VALUE

By providing your clients with Reasonable Compensation calculations, you're not increasing their cost, you're adding value to your services. They're gaining protection from the IRS and litigation while you're adding another revenue stream to your business. By utilizing RCReports, you're providing essential regulatory and compliance coverage through a high-value service.

EASY COMMUNICATION

Sometimes getting data from your clients can be like pulling teeth. If you wanted to do that, you'd have become a dentist! With our digital client interview, you can easily send them an email that will instruct them on how to provide the necessary data on their own time. You simply select the report type and approach, and RCReports does the rest.

Solution Features

RCReports provides an exclusive wage database with more than 12,917,500 wage data points, of which more than 60% are unique to RCReports. You have four different reports to choose from: S Corp and C Corp Tax Compliance, Normalizing Compensation for Valuation, and Planning as well as three approaches: Cost, Market, and Income. Additionally, you can present your client with a digital interview to help you gain an understanding of how they spend their time and what services they provide for their business. Even with all these tools at your command, a report can easily be generated in a matter of minutes!

Every Reasonable Compensation report is supported by the Resource Library, which contains tools and documents to help you get the most out of your subscription. It includes tools specific to tax advisors from the IRS as well as general information about Reasonable Compensation. From customizable letters to court ruling analyses to white papers, the Resource Library is worth the price alone.

Three Approaches

Not all businesses are equal, so it's appropriate that there are multiple ways to calculate Reasonable Compensation. There are three main approaches to determining Reasonable Compensation for owners of closely held businesses, and it's up to tax professionals to decide which one is most appropriate. Luckily, RCReports makes utilizing each of these methodologies quick and easy.



Cost Approach: This approach breaks down the owner's time and responsibilities (e.g., marketing, office administration) and uses this to determine their compensation. This approach is generally applied to small businesses where the owner provides multiple services for the business.



Market Approach: The market approach determines compensation by asking how much it would cost to replace them with a non-owner in an arms-length relationship at a similar company. This approach works best for medium and large businesses where the owner's primary responsibility is the management of the business.



Income Approach: This method looks at whether an investor would be satisfied with their return on investment based on the financial performance of the business in conjunction with the owner's compensation. As it is more complicated and relies on the Fair Market Value of the company, this approach is generally only suitable when comparison data is unavailable.

"When charging 5 and 6 figures for tax plans, you need substantial savings and substantiation for your recommendations. RCReports is the only resource I know of that substantiates Reasonable Compensation and creates the value to back up such an expensive plan. I highly recommend RCReports for initial plan design and for monthly maintenance of those plans."

- Dominique Molina, CPA CTC

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