

THE TAX CEO™

THE S-CORP OWNER'S SERIES

# The Compensation *Playbook*

What every S-Corp owner should know before reviewing their salary.  
A strategist's guide to paying yourself with clarity and confidence.

KEEP READING →

**01** THE PHILOSOPHY

# Why business owners choose *The Tax CEO*™

*“Most business owners don’t need more tax information. They need someone in their corner who helps them make the call.”*

I started The Tax CEO™ for one reason: I was tired of watching good owners overpay, not because they did anything wrong, but because no one truly understood how their business worked. Filing a return and having a strategy are two very different things.

So this isn't a firm that shows up once a year after the numbers are final. I'm a partner in the decisions that actually shape what you keep: your salary, your structure, your books. I build for the audit, so you can build your business.

*Lorra Brown* · Founder, The Tax CEO®

*Most owners already have the information. What they’re missing is someone to turn it into strategy, and put it properly in place. That’s the path this guide follows.*

**01****UNDERSTAND**

Know the factors the IRS actually weighs.

**02****ASSESS**

See where your salary stands today.

**03****STRATEGIZE**

Land on the right, defensible number.

**04****IMPLEMENT**

Document it, file it, and stand behind it.

**02** CLIENT VOICES

# What clients are saying

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*The level of detail, strategy, and professionalism exceeded our expectations.*

— JULIA VARGAS

“

Lorra identified opportunities our previous advisors never discussed and helped us make more informed financial decisions.

GLADYS GODLEY

“

Lorra has a unique ability to simplify complex tax and financial issues. We walked away with clarity and confidence.

MONICA HUFF

“

She identified issues we didn't know existed and provided practical recommendations we could immediately implement.

DR. JOHNSON

“

Lorra has a unique ability to explain complex financial matters in a way business owners can actually understand.

DR. VAUGHN

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## 03 WHO WE SERVE

# Industries we serve

Owner-led practices and growing companies that have outgrown a set-it-and-forget-it approach to compensation.

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◆ Medical Practices

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◆ Construction

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◆ Dentists

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◆ Real Estate

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◆ Nurse Practitioners

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◆ Consultants

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◆ Med Spas

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◆ Professional Service Firms

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◆ Home Healthcare

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◆ Multi-Location Businesses

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## 04 WHY IT MATTERS

# Compensation is a *business strategy* decision, *not simply a payroll one.*

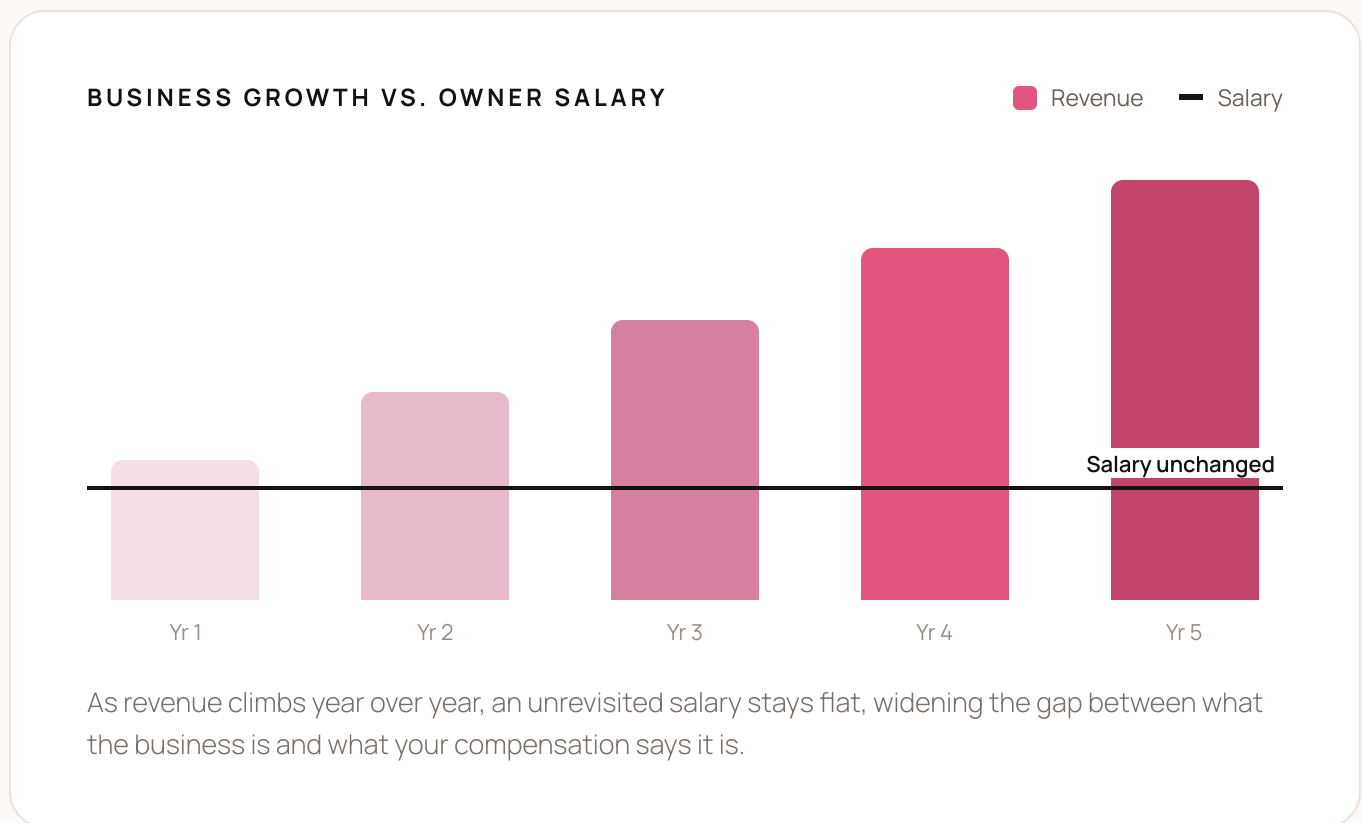
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The number you pay yourself touches taxes, retirement, lending, and risk. Treating it as strategy, not a line on a payroll run, is what separates owners who keep more from those who simply hope it's right.

05 THE PROBLEM

# The set-it-and-forget-it problem

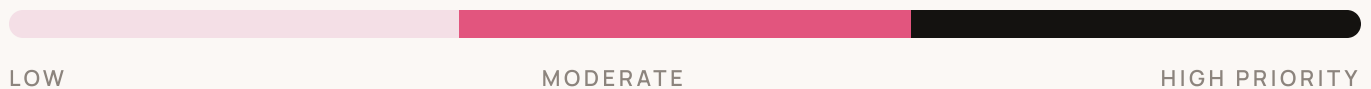
Many owners establish compensation once and never revisit it, even after significant business growth. The result is a salary that quietly drifts out of step with the business it's meant to reflect.



## 06 SELF-ASSESSMENT

# Your Compensation Confidence Score™

Where does your current salary stand today? Find the tier that sounds most like your business, then book a review to confirm it.

**01****LOW RISK**

Reviewed recently, documented, and aligned with your role today. Stay the course, and keep records current.

**02****MODERATE RISK**

Some growth or change since your last review. Still defensible, but worth a closer, documented look soon.

**03****HIGH PRIORITY**

Major changes and no recent review. This is the tier to address first. Start with a complimentary assessment.

**07** WARNING SIGNS

# 7 signs your compensation may need review

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- 01 Salary unchanged for years**  
The figure was set once and simply carried forward.

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- 02 Significant revenue growth**  
The business has scaled but your pay hasn't followed.

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- 03 A growing team**  
More employees changes your role, and your value.

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- 04 Additional locations**  
Expansion adds responsibility and complexity.

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- 05 Changing distributions**  
How you draw income has shifted over time.

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- 06 Changing responsibilities**  
What you actually do day to day looks different now.

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- 07 No recent review**  
It simply hasn't been looked at, by anyone, in too long.

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**08** ASK YOURSELF

# Questions every S-Corp owner should ask

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**01** When was my compensation last reviewed?

If you can't name the year, that's the answer.

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**02** Has the business changed since then?

Revenue, team, locations, your role: any shift matters.

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**03** Is my compensation documented?

A defensible number is one you can explain on paper.

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## 09 ON THE RECORD

# Documentation matters

*“Good decisions deserve good documentation.”*

A reasonable salary isn't only about the number. It's about being able to show how you arrived at it. A short, well-kept record turns a judgment call into a defensible position.



### The rationale

Why this figure, for this role, in this year.



### Comparable data

What similar roles and businesses support.



### The decision & date

When it was set and who approved it.



### The next review

A date to revisit, so it never drifts again.

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**10** THE STANDARD

# How the IRS defines *reasonable*

Here's what surprises most owners: there's no magic number, and no formula in the tax code. The IRS says so plainly: reasonable compensation is decided on the facts and circumstances of each case. But that's not a dead end. The IRS's own valuation guide lays out three approaches, and knowing them is how you build a number you can defend.

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## *Market*

### **What your job is worth to someone else**

What would a non-owner be paid to do your exact job at a similar company? The courts favor this approach above the others.

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## *Cost*

### **What your role costs, job by job**

Break your work into the real jobs you do (manager, bookkeeper, salesperson) and price each at market. The pieces add up to your salary.

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## *Income*

### **What an investor would accept**

The independent-investor test: would an outside investor be satisfied with their return after paying you? Used when the company's value is known.

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*In the IRS's own words, there are no specific guidelines in the Code. The courts decide on the facts of each case, so the owner with documentation decides first.*

## 11 IN PRACTICE

# Building a defensible salary

The cost approach is the clearest way to see how a defensible number gets built. You list the real jobs you do, the hours each takes, and what each pays in the market. Here's how it looked for one S-corp owner with **\$3.5M in revenue and 19 employees**:

ROLE YOU ACTUALLY FILL	HOURS	WAGE	AMOUNT
General manager	624	\$58.32	<b>\$36,392</b>
Sales representative	624	\$30.96	<b>\$19,149</b>
Order clerk	416	\$18.56	<b>\$7,340</b>
Wholesale buyer	166	\$27.59	<b>\$4,575</b>
Collections clerk	146	\$15.32	<b>\$2,237</b>
Driver & chauffeur	104	\$12.75	<b>\$1,326</b>
<b>REASONABLE SALARY</b>	<b>2,080</b>		<b>\$71,019</b>

*Why it matters: you pay roughly 15.3% in payroll tax on salary, but not on distributions. A salary that's defensible and no higher than it needs to be is how you keep more, legally.*

Going too low can cost you too: an unreasonably small salary can jeopardize your 20% qualified business income deduction. The goal is the right number, not the lowest.

Illustrative example based on published IRS-referenced methodology, for educational purposes only. Your number depends on your specific facts and circumstances.

## 12 THE RECORD

# What the courts have decided

This isn't theory. The most-cited S-corp salary case shows exactly how it plays out, and how it ends well when the number can be defended.

## DAVID E. WATSON, P.C. V. UNITED STATES

Watson's S corporation paid him a \$24,000 salary and \$222,000 in distributions. The IRS audited, threw out the \$24,000, and asserted \$199,000 as reasonable. Watson took it to court, and the court set his salary at \$91,000, leaving \$155,000 in distributions.

\$24K

SALARY HE CLAIMED



\$91K

SALARY THE COURT SET

He still saved meaningfully on payroll taxes, because the number could be defended.

### TWO THINGS MAKE A SALARY HOLD UP

- 1 Name your salary in your corporate minutes.
- 2 Keep documentation that proves it's reasonable.

*Do both, and you decide your number, not the IRS.*

Source: Watson v. United States, 668 F.3d 1008 (8th Cir. 2012). Case summary provided for educational purposes only and is not legal advice: outcomes depend on the specific facts of each case.

## 13 YOUR CHECKLIST

# Compensation Review Checklist™

Bring this to your assessment, or use it on your own as a starting point.

Growth since your last review: revenue, profit, and headcount

Your current responsibilities and role in the business

Financial performance and what the business can support

Entity structure and how salary relates to distributions

Comparable market data for your role and industry

Documentation on file, and a date set for the next review

14 YOUR WORKSHEET

# Build your own number

Use the cost approach from page 11. List every role you actually fill, estimate the hours each takes per year, and the market wage for that work. Add the amounts, and that's the start of a salary you can defend.

ROLE YOU ACTUALLY FILL	HOURS/YR	MARKET WAGE	AMOUNT
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
YOUR REASONABLE SALARY			total → _____

◆ Tip: free wage data is available at the U.S. Bureau of Labor Statistics ([bls.gov/oes](https://bls.gov/oes)). Bring this completed page to your assessment. It's the fastest way to start.

**15** THE PROCESS

# What happens during a compensation review

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**01** **Review of growth**

We look at how revenue, profit, and the business have changed since your salary was last set.

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**02** **Responsibilities**

We map what you actually do today against what your compensation reflects.

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**03** **Financial performance**

We consider what the business can reasonably support, now and ahead.

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**04** **Structure**

We examine how salary and distributions work together within your entity.

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**05** **Documentation**

You leave with a clear, written rationale you can stand behind.

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READY TO SEE WHERE YOU STAND?

# Your salary, *reviewed* with intention.

Schedule your Complimentary Compensation Assessment™, a focused conversation about where your compensation stands and what, if anything, deserves a second look.

- ◆ A clear read on your current tier
- ◆ The questions worth bringing to your advisor
- ◆ A documented next step, no pressure



THE TAX CEO™

SCHEDULE YOUR ASSESSMENT™

Let's find out where  
you *actually* stand.



SCAN TO BOOK

Complimentary & no pressure

OR BOOK ONLINE AT

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