



FAST BREAK FINANCIALS

ACCOUNTING MVPs

Year: 2025

Report: Tax Compliance for S Corp

Approach: Cost Approach

For: Phil Dunphy of Phil Dunphy Real Estate

Your estimated annual Reasonable Compensation: \$86,982

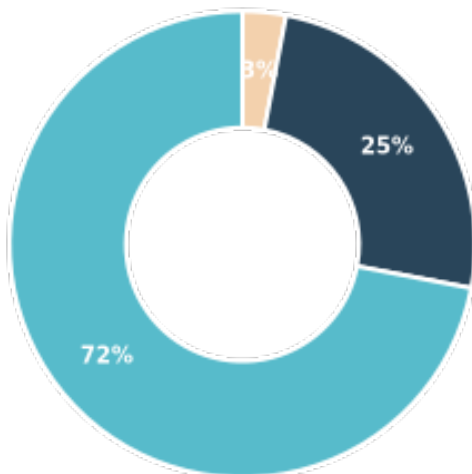
Thank you for entrusting Austin Anderson of Fast Break Financials with your Reasonable Compensation analysis. This report provides a reasonable estimate of the value of services rendered to your S Corporation based on the duties and responsibilities that you perform annually. Reasonable Compensation is defined by the IRS as "The value that would ordinarily be paid for like services by like enterprises under like circumstances."

The calculated salary of **\$86,982** was determined to be Reasonable Compensation based on the type of work performed, the skill level of the work performed and the number of hours the work is performed annually. You told us that you work **2080** hours per year in **Graham County, Arizona**. Our analysis indicates the annual salary of **\$86,982** would be a reasonable cost to hire employee(s) to perform the duties and responsibilities that you currently perform.

Fast Break Financials recommends completing a Reasonable Compensation report annually.

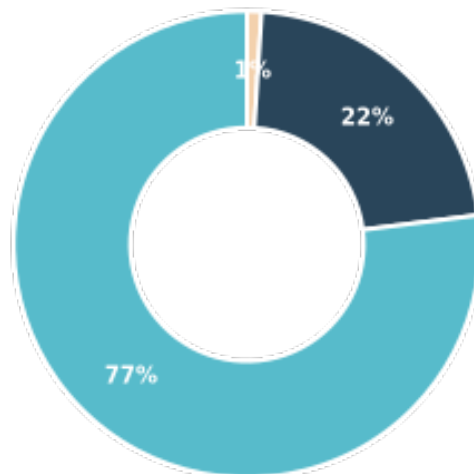
Your Time

Maintenance Management
My Business



Your Compensation

Maintenance Management
My Business





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Maintenance

3% of total hours | 62.40 hours per year | 1.13 % of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wage
Janitor or Custodian	Below Average	100%	3%	62.40	\$15.69	\$979

Management

25% of total hours | 520.00 hours per year | 21.70 % of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wage
General and Operations Manager Average		100%	25%	520.00	\$36.30	\$18,876

My Business

72% of total hours | 1497.60 hours per year | 77.17 % of total compensation

Task	Proficiency	% of Category	% of Total Hours	Hours per Year	Hourly Wage	Annual Wage
Real Estate Agent	Above Average	58%	42%	873.60	\$42.14	\$36,814
Real Estate Broker	Above Average	41%	30%	624.00	\$48.58	\$30,314



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Business Summary:

Calculated For: Phil Dunphy

Company: Phil Dunphy Real Estate

Report Year: 2025

Location: Graham County, Arizona

Hours Worked: 2080

Report Initiated: 2025-01-15

Interview Completed: 2025-01-15

Report Finalized: 2025-01-15



How was my "Annual Salary" or "Reasonable Compensation" calculated?

Fast Break Financials relies on data provided by Reasonable Compensation Reports, Inc., Bureau of Labor Statistics and U.S. Census data to calculate a concise, independent, unbiased, Reasonable Compensation figure.

The Bureau of Labor Statistics defines "year-round, full-time" employment as 2,080 hours per year (40 hours per week). The BLS definition is adhered to by the Court and IRS Expert in [McAlary v. IRS](#). If you selected 40+ hours per week your Reasonable Compensation figure will reflect a reasonable salary for someone working year-round, full-time, even if you work more than 40 hours per week.

This report blends and weights the duties and responsibilities you perform annually in eight common categories with the duties and responsibilities you perform specific to your business generating an annual salary that would be reasonable to "replace" yourself within your company.

Your annual salary or Reasonable Compensation represents an estimate of the amount it would cost to "replace" you, based on:

- Your answers to our interview
- Bureau of Labor Statistics data
- Census data
- Reasonable Compensation Reports, Inc. database of wages

Reasonable Compensation figures include taxable **Medicare** wages and flexible spending accounts. Reasonable Compensation figures do not include non-taxable fringe benefits such as health insurance, vehicle or vehicle allowance, stock options, company loans and other items not reported on a W-2 as **Medicare** wages.

Your actual replacement salary could vary considerably from our estimate, especially if the information you provided differs from your actual duties and responsibilities.

Methodology

This report uses the Cost Approach to determine a Reasonable Compensation figure. The Cost Approach takes into consideration all the tasks a business owner provides to their company, such as administration, accounting, marketing, purchasing etc. (also referred to as the Many Hats Approach).

The Cost Approach breaks down the time spent by the owner into the various tasks performed; wage levels are assigned for each task based on the owner's proficiency, and then added back together to obtain a hypothetical Replacement Cost for the owner.

The Cost approach is most accurate when used to determine Reasonable Compensation for owners of a closely-held business where the owner performs multiple job duties (wears many hats).

For more information on Methodologies:

- [Job Aid for IRS Valuation Professionals](#)
- Reasonable Compensation Reports, Inc. Methodology Report (available upon request)

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Other considerations before deciding on a final Reasonable Compensation figure

For the majority of shareholder-employees, the Reasonable Compensation figure calculated in this report should not require adjustments. However there are circumstances, rules and situations Fast Break Financials may take into consideration before recommending a final Reasonable Compensation figure. The list below is not exhaustive and Fast Break Financials may make adjustments for circumstances and situations not listed:

- Compensation of Non-Owner Employees
- Salary History
- Travel Requirements
- Personal Guarantee of Debt
- Key Relationships and/or Contracts
- Financial Condition of Company
- Distribution History

The courts have used a variety of factors to "Stress Test" Reasonable Compensation figures. Four well recognized lists of factors are below. Fast Break Financials may stress test your Reasonable Compensation figure against some or all of the factors used by the courts and the IRS and recommend adjustments.

1. The IRS Nine Factors Considered by Tax Courts: [IRS Fact Sheet 2008-25](#)
2. The Tax Court's Five-Factor Test: [LabelGraphics, Inc. v. Commissioner, T.C. Memo 1998-343 \(Sept. 28, 1998\)](#)
3. The Tax Court's Ten-Factor Test: [Brewer Quality Homes, Inc. v. Commissioner, T.C. Memo 2003-200 \(July 10, 2003\)](#)
4. Summary of Court Factors used to "Stress Test" Reasonable Compensation Figures: [Summary](#)

Additional information and help on the issue of Reasonable Compensation for S Corporation owners can be found at:

- [IRS: S Corporation Compensation and Medical Insurance Issues](#)
- [IRS: S Corporation Employees, Shareholders and Corporate Officers](#)
- [IRS Fact Sheet 2008-25: Wage Compensation for S Corporation Officers](#)

Additional Resources:

- [Job Aid for IRS Valuation Professionals](#)
- [Reasonable Compensation: Application and Analysis for Appraisal, Tax and Management Purposes. By Ronald L. Seigneur and Kevin R. Yeanoplos](#)



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Appendix A - Descriptions of Tasks Selected

Janitor or Custodian

Keep buildings in clean and orderly condition. Perform heavy cleaning duties such as cleaning floors, shampooing rugs, washing walls and glass, and removing rubbish. Duties may include tending furnace and boiler, performing routine maintenance activities, notifying management of need for repairs, and cleaning snow or debris from sidewalk.

General and Operations Manager

Plan, direct, or coordinate the operations of public or private sector organizations. Duties and responsibilities include formulating policies, managing daily operations, and planning the use of materials and human resources, but are too diverse and general in nature to be classified in any one functional area of management or administration, such as personnel, purchasing, or administrative services. May include moderate Travel.

Real Estate Agent

Rent, buy, or sell property for clients. Perform duties such as study property listings, interview prospective clients, accompany clients to property site, discuss conditions of sale, and draw up real estate contracts. Includes agents who represent buyer.

Real Estate Broker

Operate real estate office, or work for commercial real estate firm, overseeing real estate transactions. Other duties usually include selling real estate or renting properties and arranging loans.



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Sample Language for Your Corporate Minutes

Fast Break Financials recommends incorporating the results of this report into the Corporate Minutes of your S Corporation.

Here is a sample document for that purpose:

CONSENT AND MINUTES OF MEETING OF DIRECTORS OF Phil Dunphy Real Estate

The undersigned, being all of the directors of Phil Dunphy Real Estate (the "Company"), waive any rights to notice, and consent to the following action, taken on

_____, 20____ :

RESOLVED, that the Company adopt the report of Fast Break Financials, a copy of which is attached and, in reliance on such report, pay to Phil Dunphy the sum of \$86,982 per year as salary for the duties set forth in such report.

DISCLAIMER NOTICE!

This document is being provided merely as a sample of the type of language that the S Corporation may consider using in connection with minutes of the board of directors adopting the amounts determined by Fast Break Financials as Reasonable Compensation for its employees.

Fast Break Financials does not provide legal services, and does not represent that this sample will comply with state laws regarding the procedure for actions of the S Corporation's board of directors or the form or content of the minutes memorializing such actions.

Fast Break Financials recommends that the S Corporation consult its attorney for legal advice regarding such matters.