

Reasonable Compensation Annual Review

A fact-based annual review for S corporation shareholder-employees.

Practitioner Resource | Version 1.0 | September 2026

Corporation	
Shareholder-employee	
Tax year	
Practitioner	
Review date	

Annual trigger review

- ☐ Shareholder duties changed materially.
- ☐ Hours / time commitment changed.
- ☐ Revenue or profitability changed materially.
- ☐ Employees or contractors now perform work previously done by the shareholder.
- ☐ New products, locations, or service lines changed the shareholder role.
- ☐ Retirement plan design or contribution goals changed.
- ☐ Financing / mortgage underwriting considerations are relevant.
- ☐ Prior compensation study is stale or based on different facts.

Role and time analysis

Function	Estimated % of Time	Hours / Week	Market Benchmark / Source	Notes
Executive / management				
Technical / production				
Sales / business development				
Client / relationship management				
Administrative / back office				
Other				

Business context

Gross receipts	
Ordinary business income before officer compensation	
Other employees / key staff	
Shareholder distributions	
Retirement plan / contribution objective	
Prior-year W-2 compensation	

Documentation and conclusion

- ☐ Comparable compensation data is preserved with source and date.
- ☐ Geographic and industry context is considered where relevant.
- ☐ The analysis distinguishes return on shareholder labor from return attributable to employees, systems, capital, goodwill, or other enterprise attributes.
- ☐ The selected compensation amount remains economically consistent with the S corporation strategy.
- ☐ Payroll implementation and year-end reconciliation are assigned and confirmed.

Compensation conclusion / range	
Final W-2 compensation	
Rationale / key assumptions	
Next annual review trigger	

Practitioner notes

Practitioner use only. This resource is designed to structure professional analysis and documentation; it does not replace verification of current law, professional judgment, legal counsel, valuation expertise, investment advice, or other specialist review when applicable.