



Michael A. Gordon, CPA, LLC (an S corporation)
“Not Your Basic Bean Counter”
290 S. 4th Street, Coos Bay, Oregon 97420 541-269-1272

Date

Mr. James Birthday
938 ABC Street
Coos Bay, OR 97420

Re: Reasonable wages for shareholders

Dear James,

I wanted to put in writing an issue that we have discussed. I know you are aware of. It deals with the whole issue of “reasonable compensation”.

In brief, wages from your corporation are subject to social security taxes while distributions are not. Because of this, the IRS scrutinizes this very closely. The main issue is that the IRS wants to make sure that the shareholder(s) take a “reasonable wage”. If, upon audit, the IRS is satisfied that the shareholder took a “reasonable wage”, then any distributions taken, regardless of size, are okay and will not be reclassified as wages.

Most tax practitioners feel that the issue almost goes away once wages reach the “FICA cap”, but there are no guarantees when dealing with the IRS!

The purpose of this letter is simply to make sure that you are still comfortable that the corporation is paying you a “reasonable wage”. It is always a good idea to revisit this issue as the IRS is continually looking at it.

My intention is not to alarm you. I am confident, based on your representations, that the corporation is, in fact, paying you a reasonable wage. I just want to make sure you still feel that way. You do not need to do anything about this letter. However, I would be happy to discuss this issue at any time with you. Just give me a call.

Call me anytime.

Sincerely,

