

Preparer Penalty Check List and Stress Test

The best way to prevent preparer penalties and protect your client from a Reasonable Compensation challenge is to use a check list to make sure you have adequately covered Reasonable Compensation with your S Corp clients and stress tested their Reasonable Compensation figure against some of the factors the courts use.

| CLIENT | NAME: | Yes | No |
|--------|--|-----|----|
| 1 | Send Issue Letter to Client (Educate your Client) | | |
| 2 | Did you run a Reasonable Compensation Report on the Client? | | |
| | OR | | |
| | Did the client provide Independent Research and Documentation to support their Reasonable Compensation Figure? | | |
| 3 | Does the clients Reasonable Compensation figure, on its face, appear to be reasonable based on the Clients: | | |
| 3a | Training and Experience | | |
| 3b | Duties and Responsibilities | | |
| 3c | Time and Effort Devoted to the Business | | |
| 3d | Location of the Business | | |
| 4 | Did the Client make as much or more than any non-shareholder-employees of the business, for performing essentially the same services? (Internal Consistency) | | |
| 5 | Did the Client pay themselves via W-2 (It's the Law) | | |

If you answered YES to all questions above you are in good shape. You have made a reasonable attempt to comply with IRS guidelines and court rulings and this check list creates a defensible position for you and your client should the IRS raise the issue.

Save a copy of this check list with your clients file.