

Sample Reasonable Compensation Engagement Letter

[DATE]

Mr. and Ms Business Owner
1525 Entrepreneur Drive
Success, USA

RE: Reasonable compensation

Thank you for choosing _____ to assist you ascertaining reasonable compensation for the owners of _____. This letter confirms the terms of our engagement with you and outlines the nature and extent of the services we will provide.

We will prepare your reasonable compensation report for the year _____. We will depend on you to provide the information we need to prepare a complete and accurate report. We may ask you to clarify some items but will not audit or otherwise verify the data you submit. A questionnaire is enclosed to help you collect the data required for your report. The questionnaire will help you avoid overlooking important information. By using it, you will contribute to efficient preparation of your report and help minimize the cost of our services.

We will perform an interview only as needed to prepare your reasonable compensation report. Our work will not include procedures to find defalcations or other irregularities. Accordingly, our engagement should not be relied upon to disclose errors, fraud, or other illegal acts, though it may be necessary for you to clarify some of the information you submit. We will, of course, inform you of any material errors, fraud, or other illegal acts we discover.

Our fee will be \$ _____. Invoices are due and payable upon presentation. To the extent permitted by state law, an interest charge may be added to all accounts not paid within (30) days.

We will return your original records to you at the end of the engagement. You should securely store these records, along with all supporting documents, time reports, etc., as these items may later be needed to prove accuracy and completeness of the report. We will retain copies of your records and our work papers for your engagement for seven years, after which these documents will be destroyed.

Our engagement to prepare your _____ reasonable compensation report will conclude with the delivery of the completed reasonable compensation report to you. This report should be attached to your annual minutes.

To affirm that this letter correctly summarizes your understanding of the arrangements for this work, please sign the enclosed copy of this letter in the space indicated and return it to us.

We appreciate your confidence in us. Please call if you have any questions.

Sincerely,

Accepted By:

_____ Title

_____ Date

Sample engagement letter paragraph [insert into existing engagement letter]

Businesses like yours are frequently targeted in IRS audits to determine whether the compensation paid to the owner is “reasonable.”

We strongly recommend that you allow us to run a “reasonable compensation” report to support the compensation you are currently receiving.

- The fee for this analysis is \$_____.
- OR
- Our estimated fee for completing a reasonable compensation report for you range between _____ and _____. Although *we cannot guarantee the fee will be within the range described above*, we will do everything reasonably possible to minimize the fee without jeopardizing the quality of the report.

Please contact us if you would like to further discuss reasonable compensation.