FTD COMPLIANCE CARD — M1c S-Corp Reasonable Compensation Benchmarker

Fbaum Enterprises LLC d/b/a The Federal Tax Desk | Version 1.6 | Issued 2026-10-15 | Last verified 2026-08-04

HOW TO USE THIS CARD FOR §10.36 COMPLIANCE

OPR Alert 2026-19 (June 24, 2026) requires firms to vet third-party tools and document that vetting under Circular 230 §10.36. To satisfy this requirement using this card:

1. Print or save this PDF. Date your review in the space provided at the bottom of this card.
2. Add this card to your firm's AI tool inventory or WISP third-party provider list.
3. Before first use with any client matter, verify that the May 2025 BLS OEWS benchmark figures in Element 3 are still reasonably representative of bls.gov/oes current-year percentile data for the selected occupation and region — these figures are the ones most likely to drift from current market data over time.
4. Document that verification with the date and your initials.
5. Your completed card constitutes the §10.36 vetting documentation for this tool.

ELEMENT 1 — TOOL IDENTIFICATION

Tool name / version
M1c S-Corp Reasonable Compensation Benchmarker, version 1.6

FTD issue date
2026-10-15

Most recent update
2026-08-04

Last verified against source
2026-08-04

Governing authority
IRC §162(a)(1); Elliotts, 716 F.2d 1241 (9th Cir. 1983); Mayson, 178 F.2d 115 (6th Cir. 1949); Exacto Spring, 196 F.3d 833 (7th Cir. 1999); Rev. Rul. 74-44; BLS OEWS

Threshold source
BLS OEWS 10th/50th/90th percentile occupational wage figures — real metro-area, state-level, and national percentiles, cascading metro to state to national wherever BLS publishes no finer-grained figure (labeled at every step); not a live BLS data feed

OEWS data vintage
May 2025 release, published 2026-05-15 (delayed from its normal spring schedule by the Oct. 1 - Nov. 12, 2025 federal appropriations lapse); recheck due by 2027-05-15

Source URLs
bls.gov/oes (BLS OEWS); irs.gov/pub/irs-lbi (Reasonable Compensation Job Aid, not an official IRS position); law.justia.com case text for Elliotts, Mayson, and Exacto Spring

Note: CORRECTION (2026-07-13): The FTD Tool Inventory's own citation for this tool listed Rev. Proc. 87-56, which was confirmed WRONG by live web research — Rev. Proc. 87-56 sets forth MACRS class lives for depreciation under IRC §168 and has no relationship to reasonable compensation. It is not used anywhere in this tool. The Tool Inventory itself requires a Track A correction to reflect the governing authority listed in this card.

Note: FINDING (2026-07-13): the tool's original input specification and UI form list never defined a 'current salary paid' field, despite the audit-risk output and Plain-English Output Format both requiring a comparison of 'current salary' against distributions. This tool adds `currentSalaryPaid` as an explicit required input to close that gap, rather than silently deriving it from other fields (which would be wrong whenever profit is retained rather than distributed).

Note: CORRECTION (2026-08-01): PROFESSION_CATALOG's benchmark percentiles were hand-estimated "OEWS-style" figures, not an actual OEWS extraction, despite being rendered with a BLS OEWS SOC-code citation that read as though BLS had published them directly. Rebuilt from the actual May 2025 OEWS national cross-industry file; gaps between the old and corrected figures were non-uniform across professions (some within ~10%, several over 20%, one — physician — inverted, with the old catalog's "low" figure sitting above the real 10th percentile). See Table A below.

ELEMENT 2 — WHAT THIS TOOL DOES

The M1c S-Corp Reasonable Compensation Benchmarker produces a BLS-anchored market benchmark range for a given profession and region, assesses the confirmed multi-factor reasonableness test (Elliotts/Mayson) and the independent investor test (Exacto Spring) against the practitioner's inputs, flags audit risk from the classic low-salary/high-distribution recharacterization pattern (Rev. Rul. 74-44) and the excessive-compensation pattern under IRC §162(a)(1) (neither pattern can return a "Low" risk read when salary sits outside the benchmark range in that direction), and narrows the benchmark range into a recommended defensible salary range. A loss year (net profit before officer compensation at or below $0) is a valid input and unconditionally caps the recommended range at the bottom half of the benchmark, on independent-investor-test reasoning (Exacto Spring): a business with no profit cannot fund a market-level salary. Degenerate inputs (zero revenue, zero profit, and zero salary all at once; or zero hours worked) refuse with an explanation rather than producing a benchmark for a fact pattern with no business or compensation activity to evaluate.

Inputs

Profession, region, company revenue, net profit before officer compensation, current salary/W-2 wages paid, hours worked per week, years of experience, other employee count, duties checklist, current distributions taken. No taxpayer-identifying information.

Output

Benchmark range and source; audit-risk tier with reasoning; factor-by-factor analysis with citations; recommended defensible salary range; limitation disclosure; citation master list; a copy-paste-ready plain-text block.

What this tool IS

This tool produces a benchmark range and a factor-by-factor reasonableness read for practitioner use.

What this tool IS NOT

This tool does not produce tax advice, legal advice, or written advice subject to Circular 230 §10.37. It does not determine a guaranteed-correct reasonable compensation figure — reasonable compensation is an inherently factual, multi-factor determination that courts decide case-by-case, and no software tool can substitute for that judgment. Its benchmark percentiles are real BLS OEWS reference data (a fixed snapshot, not a live feed) — national or state-level, per the region selected. The practitioner retains full professional responsibility for all conclusions presented to clients.

ELEMENT 3 — ACCURACY AND VERIFICATION

Primary sources

IRC §162(a)(1) (reasonableness requirement for the compensation deduction); Elliotts, Inc. v. Commissioner, 716 F.2d 1241 (9th Cir. 1983) (five-factor test); Mayson Mfg. Co. v. Commissioner, 178 F.2d 115 (6th Cir. 1949) (nine-factor test); Exacto Spring Corp. v. Commissioner, 196 F.3d 833 (7th Cir. 1999) (independent investor test); Rev. Rul. 74-44 (distributions-in-lieu-of-compensation recharacterization); BLS OEWS, May 2025 national release (bls.gov/oes).

Placeholder citations

None of the legal authorities are placeholders. The BLS occupational wage figures embedded in this tool ARE real BLS OEWS data (the May 2025 release) — a fixed snapshot, not a live BLS data pull — bls.gov/oes has no public API this tool calls at runtime. Flagged prominently in the tool's own limitation disclosure and in this card.

Update trigger

This card and the tool are updated within 5 business days of a correction being discovered. The BLS benchmark figures are reviewed against current-year bls.gov/oes OEWS data by the recheck date recorded above (2027-05-15) at the latest, using scripts/refresh-oews-catalog.mjs.

How to verify the reasonable compensation benchmark

1. Navigate to bls.gov/oes and confirm current-year 10th/50th/90th percentile wage data for the selected occupation's SOC code and, where available, the selected metro/state area.
2. Confirm the Elliotts, Mayson, and Exacto Spring citations at law.justia.com or another primary-source case-law database.
3. Confirm Rev. Rul. 74-44 remains good law and has not been superseded.
4. Independently assess whether the recommended defensible salary range and factor analysis are supported by the client's actual facts — this tool's factor assessments are illustrative and rule-based, not a substitute for professional judgment or a formal valuation.

Known limitations — KNOWN FAILURE MODES

- The benchmark percentiles are real BLS OEWS data (May 2025 release) embedded in the tool, not a live BLS

data feed — they will drift out of date as BLS publishes new releases; verify current-year percentile data before relying on the range in a client matter.
- State-level figures are real BLS OEWS state percentiles (bls.gov/oes, May 2025 release), not an internal approximation — the two prior versions of this card described a flat, non-BLS regional multiplier; that mechanism has been removed and replaced with actual state-level BLS data.
- All 51 jurisdictions (50 states + DC) and 393 real BLS metro areas are selectable, searchable by name. Where BLS has suppressed a metro/state/occupation figure (sample size too small to publish) or never published one at all, the range falls back to the next tier down — metro to state, state to national — visibly labeled as a fallback at every step — never silently presented as that region's own data, never a zero.
- Some BLS-published cells reflect a thin underlying sample where two of the three published percentiles (10th/50th/90th) are numerically identical rather than a real spread. This is a real, non-suppressed BLS figure — distinct from a suppressed/unpublished cell — and is disclosed separately as such, both on screen and in the copy-paste output, whenever it occurs.
- The factor analysis and audit-risk flag are rule-based assessments derived from the inputs provided; they do not constitute a formal reasonable-compensation valuation or written advice subject to Circular 230 §10.37.
- This tool does not model multi-shareholder S-corps, related-party leasing arrangements, or non-cash compensation — it assumes a single shareholder-employee with a cash salary and cash distributions.
- The recommended range is a qualitative, authority-grounded read, not a computed precise figure: Elliotts (five factors) and Mayson (nine factors) are judgment-based tests in which no single factor is dispositive, and neither case (nor any other governing authority here) supplies a formula converting factor magnitude into a specific dollar number. Profitability is one input among several and moves the recommendation directionally (which half of the benchmark range), not on a continuous numeric scale.
- Hours worked per week and years of experience above a plausible maximum (80 hours/week; 50 years of experience) produce an on-screen warning but still compute on the value as entered — the warning is advisory, not a block.

ELEMENT 4 — DATA HANDLING

This tool does not receive or store tax return information. No §7216 consent is required for use of this tool.

Data retention: No inputs are logged. Amounts entered are processed entirely in your browser and are never transmitted to or stored by FTD. Anonymous, aggregate usage events (for example, that a calculation was run) are recorded with no input values and no personal data.

ELEMENT 5 — CIRCULAR 230 / SSTS 1.4 COMPLIANCE STATEMENT

This tool is designed for use by tax practitioners subject to Circular 230. Use of this tool does not satisfy the practitioner's obligation to exercise due diligence under Circular 230 §10.22 or to possess technological competence under Circular 230 §10.35. The practitioner must independently verify tool outputs before relying on them in client matters or submissions to the IRS. OPR Alert 2026-19 (June 24, 2026) confirms that practitioners may not delegate professional judgment to software tools.

ELEMENT 6 — TOOL CLASSIFICATION

TOOL CLASSIFICATION: This tool is a deterministic calculation and rule-based ranking engine, not a generative AI tool. Given the same profession, region, and financial/role inputs, it always returns the same benchmark range, factor analysis, audit-risk tier, and recommended range. It does not generate, infer, or predict outputs beyond applying its fixed rule set to the inputs provided. The practitioner retains full obligation to exercise appropriate judgment and verify outputs before relying on them in client matters.

ELEMENT 7 — UPDATE AND CORRECTION LOG

Table A — Version History

Date	Version	Change Description	Trigger
2026-10-15	v1.0	Initial release — BLS-anchored benchmark lookup, Elliotts/ Mayson/Exacto Spring factor analysis, Rev. Rul. 74-44 audit-risk flag, recommended defensible salary range	Initial build; build gate cleared 2026-07-13; deploy held pending the practitioner-interview validation window (Sep 1-3, 2026) and DEC V-01 pass (Oct 15, 2026)

2026-07-31	v1.1	Fixed the recommended salary range collapsing to a single-point pseudo-range (e.g. "$171,100 - $171,100") whenever a net-positive factor signal and the distributions-affordability cap converged on the same market-median value — now produces a real interval. Deduplicated Factor 2's BLS OEWS citation, which printed twice in the same block (once inline in the assessment, once again in the citation field). Added a reconciling statement explaining how the audit-risk read and the recommended range can diverge without conflicting.	SEVERE defect found in a real production output, discovered ahead of a planned newsletter feature
2026-08-01	v1.2	Rebuilt PROFESSION_CATALOG's benchmark percentiles from the actual May 2025 BLS OEWS national cross-industry file (previously hand-estimated "OEWS-style" figures rendered as though BLS-sourced). Added OEWS_DATA_VINTAGE/ OEWS_RELEASE_DATE/ OEWS_RECHECK_BY drift-guard constants and a currency test. Reworded the rendered "regional index Nx" text so the regional multiplier is plainly identified as this tool's own internal, non-BLS adjustment rather than BLS data, and rewrote the limitation disclosure to state the data vintage explicitly and separate the BLS-sourced percentiles from the internal regional layer.	SEVERE data-accuracy defect found ahead of a planned newsletter feature driving traffic to this tool

2026-08-02	v1.3	Fixed a form defect where a value rejected by native browser validation (e.g. a negative net profit under the field's old min="0" constraint) silently blocked the submit handler from ever running, leaving the previous run's result on screen unlabeled as stale; validation now runs in JS with field-level error messages and any failed submission clears the prior result. Removed the min="0" constraint on net profit before officer compensation so a loss year is enterable; a loss year (net profit <= $0) now unconditionally caps the recommended range at the bottom half of the benchmark (Exacto Spring independent-investor-test reasoning), and Factor 3/5 prose names the loss explicitly. Fixed the excessive-compensation audit-risk flag, which previously could return "Low" for any salary when zero distributions were taken, regardless of how far above the benchmark high end the salary sat; a salary above the benchmark high end can no longer return "Low." Added refusal (with explanation) for all-zero input (zero revenue, zero profit, zero salary) and for zero hours worked, both fact patterns this tool previously benchmarked as if they were real business/compensation activity. Reframed the recommended-range and reconciliation text to state explicitly that the output is a qualitative, authority-grounded read, not a computed precise figure. Added plausibility warnings (not hard limits) for hours/week and years of experience above a defensible maximum, and for the companion /roi Practitioner Profit Calculator's hourly rate, hours per client, client count, and weekly research hours.	SEVERE defects found ahead of a paid Deep Dive newsletter feature driving subscribers to this tool

2026-08-02	v1.4	Added an explicit National (unadjusted) jurisdiction option (multiplier exactly 1.0), now the default selection, so a practitioner who never touches the region dropdown gets an unadjusted national figure labeled as such rather than a silently region-adjusted figure for a jurisdiction (California) they never chose. Added a coverage disclosure beneath the jurisdiction selector stating plainly that regional adjustment is available only for the jurisdictions listed and directing practitioners in an unlisted jurisdiction to National (unadjusted) — no neighboring-region substitution, no "Other" option mapping to an arbitrary multiplier. Added a limitation line on region-adjusted output (on screen and in the copy-paste engagement-letter text) stating that the regional index applies uniformly across all twelve professions even though actual regional wage variation differs by occupation; this line is gated to appear only when a real, listed jurisdiction's multiplier was actually applied, never on National or unrecognized-region output.	Jurisdiction coverage and flat-multiplier disclosure gap identified 2026-08-01 and left open until this update; ahead of a paid Deep Dive newsletter feature driving subscribers directly to this tool
2026-08-04	v1.5	Replaced the flat, non-BLS regional wage-index multiplier with real BLS OEWS state-level 10th/50th/90th percentiles, acquired and parsed from BLS's May 2025 state release (oesm25st.zip) via an extended scripts/refresh-oews-catalog.mjs and a new lib/oews-region-lookup.js lookup layer. All 51 jurisdictions (50 states + DC) are now selectable, not 21. A state/occupation figure BLS suppressed or never published falls back to the national figure, visibly labeled as a fallback (not silently substituted, not a zero) via a new on-screen and copy-paste disclosure line. The prior flat-multiplier limitation line is removed — it described a real limitation of the old mechanism (a single scalar applied uniformly across all twelve professions) that does not exist once real, per-profession state percentiles are used.	Replacing the internal 21-jurisdiction approximation with real, citable BLS state data, per this tool's product thesis that every figure must be defensible in an examination with a citation

2026-08-04	v1.6	Added BLS metro-area (MSA) OEWS percentiles as a third, finer-grained benchmark tier above the state layer — 393 real metropolitan statistical areas, acquired and parsed from BLS's May 2025 metro release (oesm25ma.zip). A metro figure BLS suppressed or never published falls to the real state figure before falling further to the national figure, cascading tier by tier; every tier is visibly labeled and never presented as a finer tier's own data. Added a distinct disclosure for a real, non-suppressed benchmark drawn from a thin underlying sample, where two of the three published percentiles are numerically identical rather than a real spread — a separate condition from a suppressed/unpublished figure, shown on screen and in the copy-paste output whenever it occurs. Converted the region field from a flat dropdown to a searchable field, filtered by typing a state or metro area name, since National plus 51 states plus 393 metro areas is too many options for a plain dropdown to browse. The metro data layer is loaded only when this tool is opened, not bundled into every page of the platform.	Extending regional benchmark coverage below the state level, per this tool's product thesis that every figure must be defensible and as granular as BLS itself publishes

Table B — Correction Log (OPS-002)

Date	Error Class	Description	Authority	Affected TCs
2026-07-13	Tool Inventory citation corrected (pre-build verification)	The FTD Tool Inventory listed Rev. Proc. 87-56 as this tool's primary authority. Confirmed by live web research that Rev. Proc. 87-56 governs MACRS depreciation class lives under IRC §168 and has no relationship to reasonable compensation. Not used anywhere in this tool.	IRC §162(a)(1); Elliotts, 716 F.2d 1241; Mayson, 178 F.2d 115; Exacto Spring, 196 F.3d 833; Rev. Rul. 74-44	N/A — pre-build correction, Tool Inventory itself still needs a Track A update
2026-07-13	Input-specification gap closed (pre-build finding)	The original ReasonableCompInput interface and UI form spec never defined a 'current salary paid' field despite the audit-risk logic and output format requiring one. Added `currentSalaryPaid` as an explicit required input rather than silently deriving it.	N/A — architectural gap, not a legal-citation error	N/A — pre-build finding, no shipped code affected

2026-08-01	Benchmark data accuracy corrected	PROFESSION_CATALOG's 12 benchmark entries were hand-estimated approximations, not an actual OEWS extraction, despite the tool's rendered output citing a specific BLS OEWS SOC code and percentile for each. Rebuilt all 12 entries from the published May 2025 OEWS national cross-industry file (scripts/refresh-oews-catalog.mjs); gaps between old and corrected figures ranged from single digits to over 30% and were not uniform across professions.	BLS Occupational Employment and Wage Statistics (OEWS), May 2025 national release	N/A — benchmark data correction, no legal citation affected
2026-08-02	Excessive-compensation audit-risk flag corrected	A salary far above the benchmark high end (e.g. $9,999,999 against a benchmark high in the low hundred-thousands) returned "Low" audit risk whenever zero distributions were taken — the zero-distributions branch returned "Low" unconditionally, before the excessive-compensation check ever ran. Reordered so the excessive-compensation direction is checked first and unconditionally; a salary above the benchmark high end can no longer return "Low" regardless of distributions.	IRC §162(a)(1) (deductible compensation is capped at a reasonable amount)	N/A — calculation-logic correction, no legal citation affected

2026-08-02	Profitability-invariant recommendation corrected	The recommended range collapsed to one of only three possible buckets (full/lower-half/ upper-half of the benchmark) driven by a sign-only sum of five qualitative signals; confirmed empirically that net profit values 33x apart (e.g. $150K vs. $5M) and an entire loss range ($0 to -$200K) each returned one identical recommended range. Added an unconditional bottom-half override for any loss year (net profit <= $0), grounded in the independent investor test (Exacto Spring): a business with no profit cannot fund a market-level salary. Deliberately did NOT replace the qualitative bucket system with a continuously-scaled formula — no invented weighting has authority behind it under Elliotts/Mayson's multi-factor tests. Reframed the recommended-range and reconciliation text to state this qualitative, non-formula design explicitly.	Exacto Spring Corp. v. Commissioner, 196 F.3d 833 (7th Cir. 1999) — independent investor test; Elliotts, 716 F.2d 1241; Mayson, 178 F.2d 115	N/A — calculation-logic correction, no legal citation affected
2026-08-02	Degenerate-input refusal added	All-zero input (zero revenue, zero net profit, zero current salary) returned a full benchmark and a "Low" audit risk as if it were a real, evaluable business; zero hours worked returned a full recommendation as if 0 hours were simply the bottom of a part-time range. Both now refuse with an explanation: there is no business/ compensation activity to benchmark in the first case, and IRC §162(a)(1) permits a compensation deduction only for services actually rendered in the second.	IRC §162(a)(1)	N/A — input-validation correction, no legal citation affected

2026-08-02	Stale-result form defect corrected	The net profit, hours-worked, years-of-experience, and other-employee-count fields all carried an HTML min attribute; entering a value that failed that constraint (e.g. a negative net profit) caused the browser's native form validation to silently block the submit event before the page's own handler ever ran — no error appeared, and the previous run's result stayed on screen, unlabeled as stale and describing input values the field no longer showed. Validation now runs entirely in the page's own JS (native browser validation disabled via the form's noValidate attribute), with a field-level, named error message on failure, and the prior result is always cleared before a new submission is validated.	N/A — UI/form-handling correction, no legal citation affected	N/A — form-handling correction, no legal citation affected

2026-08-02	Jurisdiction coverage and flat-multiplier disclosure gap corrected	Only 21 of 51 jurisdictions had a regional wage-index multiplier on file, with no selectable path to the unadjusted national figure and no on-screen disclosure of the gap; separately, the single regional multiplier per jurisdiction was applied uniformly across all twelve professions despite actual regional wage variation differing by occupation. Added an explicit National (unadjusted) option (default selection, multiplier exactly 1.0), a coverage disclosure beneath the jurisdiction selector, and a limitation line on region-adjusted output stating the flat-multiplier-across-professions limitation. Per-profession/per-jurisdiction OEWS figures across all 51 jurisdictions were NOT built as part of this correction — that data-acquisition task requires live BLS source verification and is tracked separately; this correction is disclosure, not expanded coverage.	IRC §162(a)(1); BLS Occupational Employment and Wage Statistics (OEWS)	N/A — coverage/ disclosure correction, no legal citation affected
2026-08-04	Internal regional-multiplier approximation replaced with real BLS state data	The prior fix (2026-08-02) disclosed the flat-multiplier limitation but did not remove it — the underlying figures for 21 jurisdictions were still an internal, non-BLS approximation, and the other 30 states had no state-level figure at all. Acquired and parsed BLS's actual May 2025 state OEWS release, independently vintage-checked against the already-installed national release; built a state-to-national fallback lookup covering all 51 jurisdictions with explicit, non-fabricated handling of BLS-suppressed and never-published cells. The flat multiplier and its limitation disclosure are removed entirely, not merely re-disclosed.	BLS Occupational Employment and Wage Statistics (OEWS), May 2025 state release	N/A — benchmark data correction, no legal citation affected

2026-08-04	Thin-sample benchmark disclosure added	A real, non-suppressed BLS benchmark cell can publish two of its three percentiles as numerically identical when the underlying sample is thin (confirmed against the raw May 2025 BLS release: this occurs at both the state and metro level for several profession/area combinations). This previously rendered as an ordinary range with no indication the underlying sample was thin rather than well-populated. Added a distinct on-screen and copy-paste disclosure whenever this occurs, separate from the existing suppressed/unpublished-figure disclosure.	BLS Occupational Employment and Wage Statistics (OEWS), May 2025 release	N/A — disclosure correction, no legal citation affected

FIRM ADOPTION RECORD

Tool reviewed and adopted by (practitioner name and credentials):	
Firm name:	
Date of initial review:	
BLS benchmark figures verified against bls.gov/oes current-year OEWS data on:	
Initials:	

[ ] This card has been added to firm's §10.36 AI tool inventory.