

ANNUAL NEWSLETTER

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Alison & Lisa would like to thank all of our loyal clients and bring some valuable information to you regarding the success of your businesses. We have put together this newsletter as a means of distributing important advice that will help to keep our clients out of "hot water" with any and all government agencies.

ADVICE #1 (W-4s)

Have each employee fill out a new W-4 before year-end for any address or withholding corrections. We are enclosing a copy of the W-4 for your use. Every employee is required to furnish his/her employer with a wage withholding certificate indicating marital status and the number of withholding allowances. IRS Regulations require employers to submit to the IRS a copy of any Form W-4 in which an employee claims more than 10 exemptions. Submission is also required if the W-4 claims exemption from withholding and the employee usually earns more than \$200 a week.

ADVICE #2 (I-9s)

A law was adopted requiring employers to verify their employee's citizenship by having the employee fill out an I-9 form. For employees hired on or after June 1, 1987, the I-9 form must be on file by the end of the third business day after the employment date. We are enclosing a copy of the I-9 for your use. PLEASE HAVE EACH EMPLOYEE FILL ONE OUT! The **penalty** for not having the I-9 form on file starts at **\$100.00** per employee and can go up to **\$1,000** per employee. You must retain the I-9 form for the longer of 3 years or 12 months after termination. The "Handbook for Employers" with the complete I-9 instructions can be obtained

from:

***US. Department of Justice
Immigration & Naturalization
Service***

425 I Street, NW

Washington, DC 20536

ADVICE #3 (Verifying Social Security #s)

If you are uncertain about the validity of an employee's social security number, you can call the Social Security Administration at (800) 772-1213 to

verify the employee's social security number (3 per call is the limit).

ADVICE #4 (Independent Contractors)

If you are paying an individual as an independent contractor and not an employee, be sure to have an independent contract agreement with the work, tax, and insurance conditions spelled out along with the individual's address and social security number. Please contact us if you are in need of independent contractor agreements.

ADVICE #5 (Labor Dept/OSHA Requirements)

The law has changed for minimum wages: On October 1, 1996 it was increased to **\$4.75** per hour, and will increase again on September 1, 1997 to **\$5.15** per hour. Any employee working more than 40 hours in one work week must be paid overtime.

Please make sure you are within compliance of the law.

As an employer, you are required to post specific information in your workplace, as mandated by the United States Department of Labor. If you fail to post this required information, you may

face fines up to **\$7,500.00**. The required posters for both the federal and state laws include the following:

*Occupational Safety & Health Act (Virginia Department of Labor & Industry)

*Unemployment Compensation (Virginia Unemployment Commission)

*Worker's Compensation (Workers'

These posters can be obtained either by calling each agency or there are several companies that publish them for a minimal cost. One of those companies is G.Neil Companies. A poster covering OSHA, EEO, F&MLA, EPPA, and wage provisions cost approximately \$9.00. To order call 800-999-9111.

ADVICE #6 (Length of Time to Keep Records)

All business related records which include back up data to support both income and expenses (financial statements, checks, cash receipts, credit card statements, deposit slips, and bank statements), and payroll records should be kept for a period of 7 years. Backup documentation for expenditures of assets should be kept until the disposal of the assets. This documentation is necessary for personal property taxes, audits, depreciation schedules, and the sale of assets to determine gains and losses.

How long does the IRS have to audit you? In general, up to 3 years after the return has been filed. Please be aware they have the authority to go back as many years as they want if the IRS suspects fraud.

ADVICE #7 (Corporate Minutes) Keeping complete and accurate minutes of your directors' and shareholders' meetings may seem like a bothersome task. But, the time spent now can save your corporation a great deal of money later on. Please take a few minutes to update your corporate books before year-end.

ADVICE #8 (Avoiding Tax on Shareholders Loan)

Closely-held corporations are regularly subjected to IRS scrutiny because of loans made to stockholders. The IRS often takes the position that the loans are really disguised dividends.

This results in the loan being included in the recipient's income, where it is taxed without an offsetting deduction for the corporation. Usually, some care on the part of the taxpayer can prevent the IRS from asserting that the loan was a dividend. To achieve this:

- * The loan should be authorized in the corporate minutes.

Compensation Commission)

*Equal Employment Opportunity (Equal Employment Opportunity Commission)

*Fair Labor Standards Act (US Dept of Labor)

*Family & Medical Leave Act (US Dept of Labor)

*Employee Polygraph Protection Act (US Dept of Labor)

- * The withdrawal should be recorded on the corporate books as a "loan receivable".
- * A note or debt instrument evidencing the indebtedness should be used.
- * The loan should have a due date and a specific payment schedule.
- * Interest on the loan should be stated.
- * The loan should be repaid rather than extended when it comes due.
- * A limit should be placed on the total amount the stockholder may borrow.
- * If possible, the loan should be secured by collateral.
- * Shareholder loans should bear no relationship to the ownership interest of the stockholder.

ADVICE #9 (Insurance)

Health insurance and medical reimbursement plans may or may not be a deduction for a business. Several major components are necessary for health insurance plans to be within compliance for the IRS, Dept of Labor, and ERISA (Employee Retirement Income Security Act of 1974). Those components include a plan document, an adoption agreement, summary plan description, and annual documentation. Please be sure your plan documents are up-to-date.

ADVICE #10 (Retirement Funds)

Just a reminder that retirement funds are an excellent way to defer/reduce taxes. In order to take advantage of the tax breaks associated with retirement funds, it is necessary to have the fund set up properly and within IRS compliance. We advise meeting with a financial counselor so that your specific needs can be met. Please contact us for a referral if you are interested in retirement funds.

ADVICE #11 (Business Meals)

A general rule is that business meals are 50% deductible. They may be 100% deductible if paid by a corporation for out-of-town travel reimbursement of employees. They are also 100% deductible if they are for annual holiday parties or picnics. For each business meal/entertainment function, you must have a

receipt along with the date, individuals in attendance, and topics discussed.

ADVICE #12 (Vehicle Expenses)

The rules covering vehicle expenses (owning & leasing) can be very complicated. This is an area we can't bring to cover in this newsletter but would like to advise that anyone driving a vehicle for business keep a log tracking the dates, where you are driving, and the miles involved. Be sure to record the odometer reading on December 31st for ending/beginning documentation.