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Business Tax Newsletter

Update

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See our updated Website:
www.lascpa.com

Tax Due Date Changes for Partnership & Corporate Income Tax Returns

- Partnerships and Limited Liability Companies (LLCs) that are taxed as partnership (on Form 1065) are now due on March 15th instead of April 15th - the due date has been moved up by a month.
- Corporation income tax due date has been pushed back a month to April 15th for Form 1120.
- S Corporation returns (Form 1120S) due dates remain unchanged and are still due on March 15th.

Depreciation Rules:

- **Section 179** allows a business to speed up the depreciation deduction and take the full purchase price of an asset, subject to limitations, in the first year that the asset is placed in service. The Section 179 depreciation expense for assets placed in service during 2016 now has a maximum of \$500,000. **Tax Tip** - Place assets in service by 12/31/16 to take advantage of Section 179 if there is a taxable profit in the company.
- **Bonus Depreciation** - Property placed in service between now & 2017 can take an additional 50% of its costs as depreciation. In some cases this is a better choice than the Sec 179 deduction.
- **Personal Property Tax Returns** - All assets used in the operation of your business on January 1, 2017 must be reported to your local county for personal property tax reporting. **Tax Tip:** Review your depreciation schedules and tell us if assets should be removed because they are no longer being used or if they were disposed/junked to avoid being taxed on property you no longer have or use.

Capitalization Policy - The IRS issued final regulations allowing a de minimis safe harbor election which allows businesses to immediately expense up to \$2,500 of property as of January 1, 2017 that would otherwise have to be capitalized. This policy needs to be in effect as of the beginning of the year. We recommend all businesses adopt this policy and have included a copy of the policy on the last page of this newsletter for your use. Bear in mind that the assets still need to be listed on our personal property tax return, so you should provide us with information on assets purchased during the year.

1099-Misc Reporting - The IRS reporting rules have changed! Same rule: If you pay any individual \$600 or more for a business expense, then you are required to issue a 1099-misc to report the payments. Changes: Not only should the recipient copy be mailed by January 31, 2017 but it also must be mailed to the IRS by January 31, 2017 or there will be **late filing penalties (\$250 per form)**. The IRS is cracking down on non-compliance for filing 1099s and requires that you attest to the filings on your business income tax return. You should REQUIRE any individual to complete Form W-9 prior to paying them. To avoid preparer penalties, we will require you to sign a statement that you do not have the information to prepare the required 1099s if you do not submit 1099s or provide us with the information to prepare them.

Social Security Taxes - The maximum earnings that are subjected to social security tax for 2017 = \$127,200. An individual receiving social security between the ages of 62 and full retirement age may earn up to \$16,920 of wages before they start to lose their social security benefit.

Accountable Plan for Employee Expenses

Most employers cover their employee's business expenses by reimbursing them. The expenses can be a deduction for the company and non-taxable income to the employee if the reimbursements are made in accordance with a written accountable plan that requires employees to substantiate all expenses and return any advances in excess of the expenses incurred within 60 days. **If an accountable plan is not followed, the employer is responsible for adding the reimbursements to the employee's wages as compensation.** This also hurts the employer because the employer will have to match the Social Security and Medicare on the additional compensation. A generic written accountable plan can be obtained from our offices. This form can be used for any employee that you provide reimbursements to – without this proper documentation your company could be denied tax deductions which could be very expensive and detrimental to the livelihood of your business.

Automobiles - An automobile must be used more than 50% in the taxpayer's trade or business to be considered qualified business use and to be eligible for accelerated depreciation. If you purchased, sold or traded a vehicle during the year, you need to provide us with the documentation of the transaction so we can properly record it for tax purposes. Written documentation should be kept recording your business vehicle usage. Reimbursements for personal use of vehicles owned by employees or owners can be made under the standard mileage rate or actual cost method if you have an accountable plan (see above). Personal usage worksheets must be completed for all clients for whom we prepare payroll reports before W-2s are prepared.

Vehicle Depreciation - Most passenger vehicles have limited depreciation for the first year they are placed into service **unless** they have a 6,000 lbs. loaded gross vehicle weight, which includes many heavy sport utility vehicles. What does this mean to the business owner who uses his or her vehicle more than 50% of the time for business? You can purchase one of these vehicles and use the Section 179 deduction maxed at \$25,000 or regular depreciation. Please note that there are some down sides to using the Sec 179 tax break.....1) The majority of the depreciation would be used up in the first year whereas it might be better tax wise to spread it out over the 5-year class life of the vehicle, 2) If the business use falls below 50% or the vehicle is disposed of, there will be a recapture of income for the amount of depreciation that was taken for years it is not in service. Please see my Web site at www.lascpa.com (go to the 'Information Center') for a detailed list of vehicles that qualify as having a gross vehicle weight of 6,000 lbs or more.

Mileage - The standard business mileage rate for 2016 is 54 cents per mile. All business owners with vehicles should record their odometer readings as of 12/31/16 and record business miles for the year. The IRS requires written records if either the standard mileage rate method or the actual expense method is used. If you have employees, see both 'Accountable Plan for Employee Expenses' and 'Automobiles' above. Personal vehicle usage of company vehicles by owners or employees must be included as compensation and reported on W-2s. Please contact us if you need help determining this prior to the issuance of your last payroll in December.

Meals - The deduction for meals and entertainment is 50% of the expense. Occasional meals provided to your employees may be 100% deductible - if the meals are on an occasional and infrequent basis (such as a holiday party), or are provided for the employer's convenience (for emergency work or during a particularly busy time when employees are required to stay on the job during mealtimes). An accountable plan should be in place to cover meal reimbursements paid to your employees. You should choose between an actual cost reimbursement or a per-diem rate based on federal guidelines. The IRS has strict substantiation rules for meals, entertainment & mileage – see my website or call the office for further details on these rules.

Employee Issues & Benefits

Additional .9% Medicare Tax - The employer will NOT be paying this tax. There is an additional tax of .9% for individual taxpayers with total wages in excess of \$250,000 for Married Filing Jointly and \$125,000 for Married Filing Separately and \$200,000 for all others. If the employer has an employee with wages in excess of \$200,000, the employer will withhold the additional .9% from the employee & submit it to the IRS but will NOT match it.

Independent Contractors - Let's get this one right....The IRS can reclassify payments to individuals that have had no payroll withholdings if they determine that the individual is an employee instead of an independent contractor. Individuals **are employees** if they are working under the company's control: working per the instructions of the company regarding where to work, how to work, and using the company's equipment. Independent contractors are paid by the job or on commission. If you are paying an individual as an independent contractor instead of an employee, be sure to have a written agreement that spells out the terms of the work along with the individual's address and social security number for reporting purposes. **Important** - All independent contractors should fill out IRS Form W-9 (Request for Taxpayers Identification Number & Certification) and submit it to you. If the subcontractor does not pay taxes on his or her earnings, the IRS can come back and **charge you up to 30% backup withholding taxes!!** Let us know if you need any blank Form W-9s or a generic copy of an Independent Contractor's agreement. The business owner is required to issue a 1099-Misc to any individual or attorney who is paid more than \$600 annually on a timely basis to the IRS or be subjected to penalties.

W-2s - If you mail a W-2 to an employee's last known address and it is returned, you are required to keep that W-2 on file for four years. **W-2s & 1099s:** There will be a \$250 penalty per form for each W-2 or 1099 that is not filed timely or prepared correctly. Be sure to file 1099-Misc by January 31, 2017 to any individual or attorney who is paid more than \$600 annually.

W-4s & I-9s - Employees should fill out new W-4s in January. Employee names and social security numbers must match their social security cards exactly. Employers will be penalized if numbers are incorrect or missing. The IRS has adopted a zero tolerance policy for incorrect filings of W-2s.

All new employees should have filled out an I-9, which verifies the employee's citizenship. The employer penalty for not having the I-9 form on file starts at \$110.00 per employee and can go as high as \$1,100 per employee. The I-9 form must be on file by the end of the third business day after the employment date and must be retained for the longer of 3 years or 12 months after termination. I-9s can be found at www.uscis.gov/files/form/i-9.pdf.

Workers Compensation - Virginia law requires every employer who employs three or more full-time or part-time employees to purchase and maintain workers' compensation insurance. Employers with fewer than three employees may voluntarily comply with the Act. If you are interested in further Virginia employer obligations, visit: www.vwc.state.va.us/employers_guide.htm

Health Care Credit - This is available for those employers that employ & pay for at least 50% of the health insurance premiums for each employee but now only if the insurance was obtained thru the SHOP Marketplace.

Health Insurance for adult children - Health care insurance under a group plan must offer available coverage for an adult child until the child turns 26 years of age. Self employed individuals and more than 2% shareholders of an S Corporation may deduct health insurance premiums paid for a child under age 27 if the child does not have access to coverage elsewhere.

Penalty Imposed on Individuals Who Fail to Maintain Health Insurance Coverage - Effective January 1, 2014, individuals will be charged a penalty on their personal income tax return for each month they do not maintain health care coverage for themselves and their qualified dependents. The fee will be an amount equal to 1/12 of the greater of a flat dollar amount or a percentage of income. The flat fee is \$695 per month for each uninsured adult and \$347.50 for dependents under 18 years of age in 2016.

Retirement - Retirement fund contributions are an excellent way to defer or reduce taxes. SEP (Simplified Employee Pension) plans can be set up and funded until the extended due date of the return. Example: The tax return can be prepared with a retirement contribution deduction, but the taxpayer does not have to fund the contribution until the extended due date of the return. The 401K deferral amounts for both the 2016 & 2017 = **\$18,000** (under age 50). If 50 years or older by December 31st the maximum deferral is **\$24,000** per year for 2016 & 2017.

In order to take advantage of tax breaks associated with retirement funds, the fund must comply with IRS rules. Meeting with a financial advisor may be helpful so that your specific needs may be addressed. There are **severe** penalties if you have set up a retirement plan and it is not being funded, maintained, or deducted on your income tax return properly.

Employing Your Spouse & Children - If you are operating as a sole proprietorship, it may be beneficial to employ your spouse and/or children. You do not have to withhold social security and Medicare taxes if your child is under the age of 18. Both the spouse and the children are exempt from federal and state unemployment taxes. To the extent family members earn income; they can contribute to IRA accounts on their own behalf. Even better, a retirement plan can be set up to reduce the federal tax liability and self employment taxes of the sole proprietor and defer income of the employees (the spouse and children).

Even if you are incorporated, you may want to consider employing your children for minimal clean-up work so that they can earn at least \$5,500 per year to put into a Roth IRA. If they have no other earnings, there should be no federal or state tax liabilities; and when the money is withdrawn within the Roth account guidelines, it will be tax-free. Money that is earned in the Roth IRA will never be taxed under current tax laws if the guidelines are followed!!

Minimum Wage - The federal minimum wage is \$7.25 per hour as of 7/24/09.

Taxes & Licenses

Personal Property Taxes & Business Licenses - All businesses must file annual personal property tax returns. These are filed with each county where your business and assets are located and in each county where you perform work and maintain assets. The due date of these returns varies from jurisdiction to jurisdiction. Charges for personal property tax are based on the year of asset purchase and should match the assets that are depreciated on the business income tax returns but may not due to the new expense write offs allowed or items under \$2,500. All businesses should also be registered for a business license. In Prince William County there are no taxes due for the BPOL (Business & Professional Occupational License) tax until a business has gross revenues of more than \$300,000 annually. The BPOL form is due March 1st for both Fairfax County and Prince William County. Please be aware that as a business owner, **you are responsible for filing these annual forms**. Our office can help you handle these filings at your request but will **not** automatically file them on your behalf.

Estimated payments - Final 2016 estimated payments for corporations are due 12/15/16. If you need us to review your corporate estimates, we need your year-to-date accounting information by the first week of December. Final estimated payments for taxpayers who are self employed are due 1/15/17. Please contact our office before the end of the year if you have concerns regarding your estimated tax payments.

Sales Tax - This is a reminder to all businesses that the Virginia Department of Taxation requires that sales/use tax be paid on the sale, lease or rental of tangible personal property or the use or consumption of tangible personal property in Virginia. Therefore, if purchases are made for your businesses on the internet with no sales tax charge or any vendor does not charge VA sales tax, the business is required to file form ST7 monthly and pay the use tax. Please ask us if you need assistance in fulfilling your responsibility and compliance regarding sales tax

Other Business Income & Expenses

Financial Distress & COD - What is COD? Cancellation of Debt. Many businesses are still struggling and don't realize that they may have taxable income when unpaid debts are forgiven. Cancellation of debt or debt forgiveness creates a tax burden but there are exceptions for tax relief. The two main exceptions are bankruptcy and insolvency. Please contact us if you are going to walk away from a failing business so we can discuss your options and their potential tax consequences.

Business Gifts - The maximum deduction for a business gift is \$25.00 per gift. Any amount greater than \$25.00 for the purchase of a gift is considered to be nondeductible. Note: This IRS limit has remained the same for more than **52** years!

Home Office - To qualify for a home office deduction, you must exclusively use a portion of your home to carry on a trade or business. If you are unable to permanently segregate a room, you should at least use some sort of screen or divider to establish exclusive use of one section. Also bear in mind that to obtain a home office deduction under the exclusive use rules, you must use your home office computer 100% of the time for business. Even using it occasionally for personal purposes can cause your home office to be non-deductible. If you have only one computer at home this is considerably harder to meet. The IRS now allows for a safe harbor deduction instead of using actual expenses: \$5 per square foot with a maximum deduction of \$1,500.

Record Retention - In general, the IRS can only go back to audit your company for the previous 3 years unless they suspect tax fraud so it is advisable to keep all business documents for a minimum of 3 years. There are exceptions to this rule: for the purchase of assets, you will need to hold the purchase invoices or receipts for the entire ownership of the asset and 3 years beyond the sale of the asset. Purchase documents are required not only for an income tax audit but also for a personal property tax audit (conducted by your local government). Payroll records should be kept for seven years to include payroll earnings reports and quarterly payroll reconciliation reports to the IRS and your state government.

Corporate Issues

Reasonable Salary - Owners and officers of corporations are considered to be employees per the IRS Code and they should not attempt to avoid paying employment taxes by taking distributions, loans, or paying personal expenses out of the corporation instead of taking a salary. They are required to take reasonable salaries based on their training, experience, duties, time, effort, dividend history, manner of payment to other key employees, and comparable services paid by other businesses to perform the same work. Distributions should never be taken in place of wages.

Leases - If a corporation rents or leases property owned by the shareholder, the lease should be in writing and the rent charged must be at fair market value.

Shareholder Loans - 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 - especially in the case of loans that remain on the books year after year. This could result in the loan being included in the recipient's income. This can be avoided by having a more formal loan agreement or promissory note in place. S Corporation shareholder loans must be put in writing with set repayment dates in order to justify basis in the company - documenting these loans ultimately could allow for the deduction of losses on the shareholder's personal income tax return. If the loan is used as a basis to deduct losses, future loan repayments may result in taxable income. Each loan should have a separate agreement. Contact us to make sure your loans are properly documented to avoid this problem. This should be reviewed every year.



Corporate Minutes - Keeping complete and accurate minutes of your shareholder's 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.

Electronic Filing - We are required by Virginia tax law to electronically file business returns. It will be necessary for the taxpayer to review and approve his or her tax return before we transmit the data electronically to the IRS and the state. We **must** receive a signed Form 8879 (The IRS e-filing form) and payment for the tax preparation services from the taxpayer before we submit the electronic tax data.



Privacy Statement

Federal law requires that once a year I inform you of our Privacy Policy. As you know, we collect certain personal information about you in order to prepare your tax returns. The information is either provided by you or obtained by our office with your permission. No personal information will ever be disclosed about you to anyone outside our firm except that which is already public by law or necessary to complete your work.

Should you become an inactive customer, we will continue to adhere to the policy regulations as written here. The information you give us about your personal or business records is reserved only for our employees who need to know in order to service your account. Procedural, physical, and electronic safeguards will be maintained in compliance with federal standards regarding your personal information. We are committed to retaining your confidence and want to assure you that any information you give us remains safe and confidential.

Capitalization Policy Statement

Management considers certain fixed assets to be tangible assets purchased for use in the business operations of _____ from which an economic benefit will be derived over more than one year. Fixed assets are items such as buildings, leasehold improvements, equipment, office furniture, fixtures, computers, and other related technology equipment.

Starting January 1, 2017 the cost will be capitalized unless it has a value of \$2,500 or less, which includes transactional and other costs related to the acquisition or purchase. The cost will be expensed in the period the asset is acquired.

Property with an estimated useful life of 12 months or less, and with a value of \$2,500 or less, will be expensed. The cost will be expensed in the period the asset is acquired. The above accounting procedures will be reviewed periodically in order to make any adjustments necessary.

Name

Title

Date