

## BUSINESS OWNER'S UPDATE - Fall 1999

Estimated payments - Estimated payments for corporations are due 12/15/99. Estimated payments for taxpayers who are self employed are due 1/15/00. Please contact our offices before the end of the year if you have concerns regarding increasing or decreasing your estimated payments.

Vehicle Mileage Rate - The standard mileage rate for 1999 is split into separate time periods as follows:

.325/mile from 1/1/99 to 3/31/99 and .31/mile from 4/1/99 to 12/31/99. The rate goes back up to .325/mile on January 1, 2000. Remember to record your odometer reading on 12/31/99 for ending and beginning mileage documentation. Any personal use of a business owned vehicle should be reported to our offices by 12/31/99.

W-4s & I-9s - It's a good idea to have employees fill out new W-4s in January. Starting this year, employee names and social security numbers must match their social security cards exactly. There will be a penalty of \$50 for filing incorrect W-2s.

All employees should also have filled out an I-9 which verifies an employee's citizenship. The employer penalty for not having the I-9 form on file starts at \$100.00 per employee and can go as high as \$1,000 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.

Independent Contractors - If you are paying an individual as an independent contractor instead of an employee, be sure to have a written agreement that spells out all conditions along with the individual's address & social security number for reporting purposes. We advise having the independent contractor fill out IRS form W-9 (Request for Taxpayers Identification Number & Certification).

Minimum Wage - Minimum wage is currently at \$5.15 per hour.

Health Insurance - Health insurance for the self employed is 60% deductible for 1999 as an adjustment to the taxpayer's total income.

Personal Property Taxes & Business Licenses - Any business located in Prince William County must register with the county for personal property taxes and business licenses. Personal property taxes are filed annually and charges are based on the year of purchase of the assets. Even though it is necessary to register for a business license, there are no taxes due until the business grosses more than \$100,000 annually. Most counties have similar taxes - be sure to check with your local jurisdiction regarding these requirements.

Buying Equipment & Assets Before 12/31/99 - One of the best ways to reduce your profit before year-end is to buy assets. As long as the company is in a profit situation and has not placed more than \$219,000 in assets into service during 1999, the company may expense off the total amount of the purchased assets up to \$19,000.

Employing Your Spouse & Children - If you are operating a sole proprietorship, it can be beneficial to employ your spouse and 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. Since family members are earning income, they can contribute to IRA accounts on their own behalf. Even better, a retirement plan can be set up which would reduce the federal tax liability of the sole proprietor and defer income of the employees (the spouse and children). Having a spouse as an employee can also provide deductions for health insurance premiums and other medical expenses through a medical

reimbursement plan. Please contact our office for more information.

**Retirement Plans** - 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 within IRS compliance. Meeting with a financial advisor may be helpful so that your specific needs can 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.

**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 for the area.

**Meals** - The deduction for meals & entertainment remains at 50% for 1999. Occasional meals provided to your employees may be 100% deductible as long as they are on an occasional and infrequent basis, or when they 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). As discussed below in the travel section, a plan should be in place to cover meal reimbursements paid to your employees. You should choose between an actual cost reimbursement or a pre-diem rate based on federal guidelines.

**Travel 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 an accountable plan that requires employees to substantiate all expenses and return any advances in excess of the expenses incurred. 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 now has to match the social security and medicare on the additional compensation. If you are in need of a written accountable plan to be in compliance, please contact our office.

**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.

**Business Gifts** - The maximum deduction for a business gift is \$25.00. Any amount greater than \$25.00 for the purchase price of a gift is considered to be nondeductible.

**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. Using a portion of your home for personal and business use will not qualify. If you are unable to permanently segregate a room, you should at least use some sort of screen or dividers 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 necessary, locate your computer outside of your home office so it does not interfere with the exclusive use rules.

**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 results 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. Contact us to make sure your loans are properly documented to avoid this problem.

Corporate Minutes - Keeping complete and accurate minutes of your 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.

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If you need any forms to fulfill any of the requirements we have mentioned in this update newsletter, please contact our offices.