



Cilliers, CPA PLLC

Year End Business Tax Guide 2011



How to use this guide

Dear Client:

As the year draws to a close, we want to help you prepare for year-end payroll, tax, and other informational return filing requirements. The following information highlights some areas you should consider in order to assist you in planning for year-end.

The information in this document is very important to help ensure you are prepared for the upcoming filing deadlines. Please look over it carefully. If you have questions, please call as soon as possible so we can help you with any questions you might have.

If we prepare your W-2's and/or Forms 1099, or you need assistance in calculating the amounts for fringe benefit inclusion, please return the appropriate forms as soon as possible. If you use an outside payroll service, they will advise you of their cut-off dates for receiving this information for year-end processing.

One of the important documents in this attachment is the Business Tax Organizer. Please review this and completely fill this out prior to submitting your data. We will not be able to begin preparing your year-end tax return without this document.

Cilkeis CPA



Year-End Moves for Business Owners

- Businesses should consider making expenditures that qualify for the business property expensing option. For tax years beginning in 2011, the expensing limit is \$500,000 and the investment ceiling limit is \$2,000,000. And a limited amount of expensing may be claimed for qualified real property. However, unless Congress changes the rules, for tax years beginning in 2012, the dollar limit will drop to \$139,000, the beginning-of-phaseout amount will drop to \$560,000, and expensing won't be available for qualified real property. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. This opens up significant year-end planning opportunities.

- Businesses also should consider making expenditures that qualify for 100% bonus first year depreciation if bought and placed in service this year. This 100% first-year writeoff generally won't be available next year unless Congress acts to extend it. Thus, enterprises planning to purchase new depreciable property this year or the next should try to accelerate their buying plans, if doing so makes sound business sense.

- Nail down a work opportunity tax credit (WOTC) by hiring qualifying workers (such as certain veterans) before the end of 2011. Under current law, the WOTC won't be available for workers hired after this year.

- Make qualified research expenses before the end of 2011 to claim a research credit, which won't be available for post-2011 expenditures unless Congress extends the credit.

- If you are self-employed and haven't done so yet, set up a self-employed retirement plan.

- Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2012, and disposing of a passive activity to allow you to deduct suspended losses.

- If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year.

Closing the Books for Year-End

The year-end closing is a critical part of your annual accounting process. If you are handling your own bookkeeping, here are some things that can do to help ensure your books are accurate.

1. **Perform a bank reconciliation of all your bank accounts.** A bank reconciliation is a process that matches the deposits, checks and other debits you have recorded in your general ledger to what has cleared the bank. This process should be performed monthly as it will identify errors in your accounting records and possibly errors the bank has made.
2. **Reconcile your credit cards to your general ledger.** Same process as #1 above except it has to do with your credit cards. This will also ensure you are recording interest expense and haven't missed any deductions charged to your credit card.
3. **Update your inventory balance.** If you are in a business that maintains an inventory of raw materials, work in process, finished products, or goods held for re-sale, be sure to take a physical inventory at year-end, value the inventory at cost (not retail value), and update your general ledger to reflect the amount of inventory you actually have on-hand. You must also keep this list for your records in the event the IRS audits your books.
4. **Record all of your expenses.** If you maintain your books on a cash basis (you record an expense when you actually pay for it) this is nothing more than recording all your checks you wrote by the end of the year. A bank reconciliation (#1 above) will help ensure all expenses are captured in your accounting system. If you are an accrual basis taxpayer, be sure you record all amounts you owe your vendors as of the end of the year. This will ensure you are getting credit for all the expenses you are able to deduct. You should also set up a reliable system for recording your out-of-pocket expenses.
5. **Review your outstanding accounts receivable and accounts payable.** Be sure to periodically review the outstanding amounts to make sure items aren't duplicated or otherwise misstated.
6. **Review your fixed asset listing from the prior year.** Are there assets you may have sold? Are there assets you no longer have?
7. **Reconcile all loan balances to year-end loan statements.** Not only does this ensure all interest expense is properly accounted for, you could also discover loans that remain on the books but no longer exist because of forgiveness or oversight. Also, make sure all loans are actually recorded on the books.
8. **Set a Closing Date (QuickBooks Users) –** Before you send us your QuickBooks data, set a closing date as of the end of the year. This will help prevent making changes to your data after we get it to prepare your tax return. By deleting or adding transactions or otherwise modifying the data in a prior year (including the one you are just closing) you can create extra work for which you may incur additional fees.

Good Accounting Practices You Should Follow For Your Business

These are a couple of general good business practices to follow pertaining specifically to maintaining good accounting records:

1. **Do not run personal expenses through your business.** There are good legal reasons why most lawyers will recommend a corporation or partnership to not use their business accounts for personal expenses. If you don't know these reasons, you should consult your attorney. From the accounting side, this practice makes your bookkeeping more difficult and less accurate. In addition, if you get audited and the IRS sees significant personal expenses, it makes your books look more suspect to erroneous deductions and may result in increased IRS audit scrutiny and disallowed deductions.
2. **Maintain a separate checking and credit card accounts for your business.** We always recommend that you setup a separate accounts for your business. .
3. **Use a program to track your finances such as QuickBooks.** You must keep your accounting records so that you can produce a detailed listing of individual transactions that make up a balance on your income statement. If the IRS or any governmental agency audits your books, this is the first thing they will request.
4. **Keep all your receipts for every transaction.** You need to properly document every deduction you take. Part of this documentation is a receipt for every deduction you take. Note that cancelled checks, credit card receipts or credit card statements alone will NOT suffice. In an IRS audit, you must provide proof of payment (cancelled check or amount on credit card statement), what specifically was purchased (this is the part that shows on the actual receipt – not the cancelled check or credit card statement), and the business reason for the purchase.



Please keep in mind the idea of "ordinary and necessary." This phrase is important; we see many deductions disallowed on audit when the IRS deems the expense not to be ordinary and necessary. An expense is *ordinary* if it's customary or usual in the taxpayer's business. A *necessary* expense is one that's appropriate and helpful in developing and maintaining the taxpayer's business. It need not be essential or indispensable.

On the income side of your income statement, if you deposit any money into the business that is NOT income (such as a loan) you should keep documentation of the transaction such as a copy of the check and a loan agreement between the business and the lender. This will help show the IRS the deposit was not income. Under audit the IRS assumes all deposits are income unless you can prove otherwise.

Payroll Issues

There are several issues that must be addressed for year-end payroll reporting. Among the most common are health insurance premiums paid to S-corp shareholders or their families, personal use of company provided automobiles, and company-provided life insurance. Whether you process your own payroll, use an outside processor or we process your payroll, you must report these fringe benefits properly.

[Health Insurance Premiums Paid to 2% Shareholders](#)

The IRS requires health insurance premiums paid by subchapter S corporations for employees owning 2% of the corporation and/or their family members, to be treated as additional wages to the employee. These wages are subject to federal income tax withholding, but exempt from FICA, Medicare and FUTA.



[Reasonable Compensation for S-Corporation Shareholders](#)

The IRS is increasingly auditing tax returns of S-corporations where the owners have taken less than a reasonable salary. If you are an owner of a profitable S-corporation and have not taken salary or have taken a very low salary that could be deemed as not reasonable, you are at risk of an IRS audit in which they will recharacterize distributions as salary.

[Personal Use of Auto](#)

When providing an employee (including shareholder/employees in corporations) the use of a company-provided vehicle, a value representing the personal portion of usage of the vehicle must be included in the employee's W-2 income.

The value computed must be included in the employee's W-2 as wages and is taxable for federal income tax, FICA, Medicare and FUTA. Although FICA and Medicare withholding is required, federal withholding is not required if notice was provided to the employee of the Company's decision not to withhold by January 31st.

To provide us with the data needed to calculate the valuation, please complete one copy of the

your company in which personal use or commuting miles were driven.

Please note, the usage period covered in the form is January 1, 2011 to December 31, 2011. If more than one employee was assigned the same vehicle during that usage period, please complete a separate form for each employee who drove the vehicle.

When completing item 6, be sure to show the entire period the employee was assigned the vehicle, e.g., February 15, 2011 to present, or November 1, 2011 to June 10, 2011. For items 7 through 13, enter the actual miles driven, e.g. 15,604 not 15,600.

If we process your payroll, we will include this amount as W-2 income before the end of the year. If you use a third-party to process your payroll, you should provide these amounts to your payroll provider within their timetable to be included in this year's W-2s.

We will contact you as soon as we have completed the computations to discuss the inclusion amount, if any, to be added to wages. In order to gather this information as efficiently as possible, we ask that all pertinent items be completed fully prior to returning the form to our office. If you have any questions while completing the forms, please contact our office.

[Group Term Life Insurance](#)

The value of company-provided group term life insurance in excess of \$50,000 must be included in the employee's income and is subject only to FICA and Medicare withholding. For 2% shareholders, the entire amount of premiums paid must be included as income on the shareholder's W-2, subject to federal income tax withholding, but exempt from FICA, Medicare and FUTA. Please contact the office if this applies to you and we prepare your W-2 forms.



Independent Contractors—How to Classify Workers

To determine whether a worker is an independent contractor or an employee, IRS examines the relationship between the worker and the business, and considers all evidence of control and independence. The facts that provide this evidence fall into the following three categories:

(1) *Behavioral control* covers facts that show whether the business has a right to direct and control how the work is done through instructions, training, or other means. Employees are generally given instructions on when and where to work, what tools to use, where to purchase supplies, what order to follow, etc.

(2) *Financial control* covers facts that show whether the business has a right to control the financial and business aspects of the worker's job. This includes the extent to which the worker has unreimbursed business expenses; the extent of his investment in the facilities being used; the extent to which he makes his services available to the relevant market; how he is paid; and the extent to which he can realize a profit or incur a loss.

(3) *Type of relationship* includes written contracts describing the relationship the parties intended to create; the extent to which the worker is available to perform services for other, similar businesses; whether the business provides the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay; the permanency of the relationship; and the extent to which services performed by the worker are a key aspect of the company's regular business.

Travel and Entertainment Expenses

The IRS has certain requirements for the substantiation of travel and entertainment expenses. In connection with the preparation of the tax return you must be able to produce under audit the information and documentation necessary to substantiate travel, entertainment, transportation and business gift expenses that are deducted in your tax return. **This documentation includes, but is not limited to, mileage logs, detailed receipts, and/or canceled checks.**

Refer to [Internal Revenue Service Publication 463](#) for details on how to substantiate these types of expenses.

Reporting Payments Made To Vendors

All businesses make payments to vendors. But are you required to report these payments to the IRS? It depends on who you are making payments to and the amount being paid during the year.

Various types of Forms 1099 must be provided to certain type of payees by January 31, and to the IRS by February 28. Here's a rundown of some of the more common payments that may require an information return.

1. Payments of \$600 or more to contractors or other services providers (other than corporations) must be reported to the recipient and to the IRS on Form 1099-MISC.
2. Payments to attorneys for business-related services must be reported to the attorney and to the IRS. These payments must be reported on Form 1099-MISC regardless of the amount and regardless of whether the attorney is incorporated or not.
3. Rents totaling more than \$600 paid to an individual landlord partnership or estate (but not rents paid to a corporation) must be reported on Form 1099-MISC. (However rents paid to a real estate agent are generally not required to be reported.)

These forms must be mailed to the recipient by January 31 and to the IRS by February 28.

If we are preparing Forms 1099 for you we have attached a 1099 Worksheet in order to assist with the gathering of information necessary to file these returns. **Please provide us this information as soon as possible after December 31 but no later than January 15, 2012** so that we may timely provide the returns to you to be filed.



Bear in mind that the penalties for failure to comply with these information-reporting requirements can be stiff. For example you can be hit with a penalty as high as \$50 for each return that is filed incorrectly or is not filed on time.

Deadlines



December, 10 2012	Fringe Benefits & W-2 Planning Questionnaire re- turned to us if we handle your payroll filings
January 16,2012	Completed 1099 worksheets to our office to meet your 1/31/12 filing deadline
January 17, 2012	Last day to make estimated tax payments for 2011 (individuals and c-corporations with 12/31 year-end).
January 31, 2012	Give your employees their copies of Form W-2 for 2011 and 1099's to recipients of certain payments you made in 2012.
March 1, 2012	Corporate information and completed organizer to us in order to meet 3/15/2012 filing deadline (an auto- matic 6 month extension is available from the IRS)
March 15, 2012	IRS deadline for corporate income tax returns (with 12/31 year-end) to be filed or extended.
April 1, 2012	Our deadline for individuals and sole proprietors to submit business and personal information to us in or- der to meet 4/17/12 filing deadline.
April 17, 2012	Deadline for personal and partnership income tax re- turns to be filed or extended.
September 17, 2012	Final IRS deadline for corporations and partnerships to file a federal income tax return. Note: Penalties for failing to file an S-corporation or partnership tax return have been increased to \$195 per shareholder, per month the return is filed late, up to a maximum of 12 months.
October 15, 2011	Final IRS deadline for individuals to file a personal income tax return. Failure to file penalties exist for returns filed after this date, in addition to late pay- ment penalties and