

YEAR-END FORM W-2 and FORM 1099

IMPORTANT INFORMATION

December 15, 2016

It is time to consider 2017 tax planning, 2016 payroll, and 2016 1099 reporting. There have been a number of important changes this year. The following information is provided to you as a general summary. Please review the information and contact us with any questions you may have.

Executive Summary

New Overtime Rules

The Department of Labor has changed the rules for who qualifies as a salaried employee. In particular, individuals earning less than \$47,476 per year are no longer eligible to be treated as a salaried employee. These new rules take effect December 1, 2016. However, the new rules are under litigation and the court has issued an injunction blocking their implementation until that litigation is resolved. We will notify you of any progress in our newsletters.

Deduction of Small Equipment

New IRS rules allow businesses to immediately deduct the cost of assets up to \$2,500 per invoice item beginning in 2016. In order to take advantage of these rules, you must have a written policy in place to expense these costs before the items are purchased. See our website for a sample policy. This new policy could save you substantial taxes. If your company needs to maintain particular operating ratios, do not adopt a new policy until you make sure that it won't interfere with meeting those ratios.

Foreign Bank Accounts

The federal government requires special reporting of foreign bank accounts. If you have any foreign bank accounts or if you have signature authority on a foreign bank account for a business or other party, contact us so we can prepare that reporting.

Form W-2

- The IRS has accelerated the filing deadline for W-2s. They must now be given to the employee and filed with the IRS by January 31.
- If an employee uses a company vehicle for personal use (including commuting), that use must be reported on the W-2 form.
- Any fringe benefit provided to employees is taxable compensation to the employee and must be added to wages unless it is specifically excluded under the law.
- It is important to check the accuracy of the Forms W-2 before filing.
- There is an additional Medicare tax to the employee for wages over \$200,000. If you have any employees with over \$200,000 in wages, make sure that this new tax is included in the W-2.

Form 1099

- The IRS has accelerated the filing deadline for 1099s. They must be sent to recipients and filed with the IRS by January 31.
- 1099 forms are required for payments totaling \$600 per year if those payments are not reported on form W-2.
- You should get a W-9 Form from each vendor. Keep a copy of the completed form in your vendor file to document the social security number or TIN of the payee.

If you would like WhippleWood CPAs to prepare the Form 1099 for your business, please provide the required information to our office by January 19, 2017.

Please see below for additional detail. If you have any questions about Forms W-2, 1099, or other tax matters, feel free to call us. We would be happy to help you.

Additional Detail

2016 Form W-2

The following list contains items that are important to remember when filing Forms W-2 for 2016. Several items may require adjustments to Forms W-2 prior to year-end in order to accurately report fringe benefits. Your payroll company may send you a year-end package regarding certain adjustments; however, unless specifically instructed to, your payroll company may not include these adjustments for the appropriate items listed below. We can assist with any adjustments or questions you may have.

1. Federal and State Withholding

- a. It is important to ensure that withholding amounts are accurate to avoid the need to prepare corrected Forms W-2

2. Fringe Benefits

- a. Any fringe benefit provided to an employee is taxable and must be included in the employee's pay unless it is specifically excluded under the law. Taxable fringe benefits are reported in Box 1 of Form W-2 as wages, tips and other compensation, and if applicable, in Boxes 3 and 5 as Social Security and Medicare wages.

3. Personal Usage of Company-Owned Vehicle

- a. If you are operating your business as a corporation and are deducting a vehicle loan payment, lease payment or any vehicle expenses (i.e., gas, lube, wash, etc.), you need to adjust for any personal use of the vehicle by either of the following:
 - i. Report the personal usage in Box 1 of Form W-2. This option will subject the amount to Social Security taxes; or
 - ii. Write a personal check to the company to reimburse for personal usage. This option does not subject the reimbursement to Social Security taxes.
- b. If company vehicles are provided to employees for any business, the above adjustments must be made. The Social Security tax issue is the same as those listed above. Using the first method, the Social Security tax will be paid by the employee and matched by employer. Using the second method, Social Security tax does not need to be paid.

4. Health & Accident Insurance Premiums

- a. Health and accident premiums paid by and S-Corporation for a more than 2% shareholder-employee are deductible by the S-Corporation. The premiums must be included amount is subject to income tax but not Social Security tax. In 2016, this amount is deductible on your personal return.
- b. The Patient Protection and Affordable Care Act requires employers to report the aggregate reportable cost of applicable employer-sponsored coverage under an employer-sponsored group health plan on Form W-2.
 - i. An employer who was required to file fewer than 250 Forms W-2 for the tax year will be exempt from this reporting requirement.

- ii. The aggregate reportable cost generally includes both the portion of the cost paid by the employer and the portion paid by the employee, regardless of whether the employee paid through pretax or after-tax contributions.
 - 1. Contributions to Archer MSAs and HSAs are excluded.
 - 2. Contributions to a health FSA are also excluded, but to the extent the amount exceeds the employee's salary reduction contributions for the year, it is included in the aggregate reportable cost.

5. "Third-Party Sick Pay Recap" Now Filed With IRS on Form 8922

- a. Effective January 2015, the Social Security Administration (SSA) will no longer process the "Third-Party Sick Pay Recap," which is required in order to reconcile Form W-2 to Form 941 when insurance companies and plan administrators share employment tax responsibilities with their client employers for disability payments.
- b. Under the new procedures, applicable insurance companies, administrators and employers will be required to file **Form 8922, Third-Party Sick Pay Recap**, with the IRS by February 28th (or March 31st if filed electronically).

6. SSA Will Now Return Certain Invalid Forms W-2

- a. The SSA announced that beginning with tax year 2015, it will reject for correction Forms W-2 that are filed with the following errors:
 - i. Medicare wages and tips are less than the sum of Social Security wages and Social Security tips.
 - ii. Social Security tax is greater than zero, but Social Security wages and Social Security tips are equal to zero.
 - iii. Medicare tax is greater than zero, but Medicare wages and tips are equal to zero.
 - iv. There are also several errors for which the SSA will now reject Forms W-2 for household employees.
 - v. Employers should keep in mind that there can be penalties of up to \$100 per rejected Form W-2. The same penalties also apply to the employee statements.

7. Limit on Health Flexible Spending Arrangement

- a. For 2016 contributions to a health flexible spending arrangement are limited to \$2,600 not including any amounts carried over from the prior year.

8. Additional Medicare Tax

- a. Medicare wages in excess of \$200,000 are now subject to a 0.9% additional Medicare tax. Wages up to \$200,000 are still taxed at 1.45% for both the employee and employer. Wages over \$200,000 are taxed to the employee at 2.35%. This additional tax applies only to the employee and not the employer.

9. W-2 Input

- a. With the accelerated due date of the W-2s, it is very important to get the payroll information updated in your payroll system. To avoid needing to pay your payroll processor for amended returns, you must make sure these inputs are handled by the payroll processor's deadline. Following is a list of some items that you should review to make sure they are properly input:
 - i. S Corporation owner payroll updates.
 - ii. Fringe benefits including those listed above.
 - iii. Bonuses and gift cards or gift certificates.
 - iv. 3rd party sick pay.
 - v. Manual payroll checks.
 - vi. Group term life insurance.
 - vii. Checks that need to be voided.

2016 Form 1099

Forms 1099 are required for business payments made to an **individual, LLC, attorney or unincorporated business** under the following situations:

- **1099-MISC:** Payments of \$600 or more made to an **attorney(s)** in 2016 (Note: The exemption from issuing Forms 1099-MISC reporting payments to corporations does not apply to payments for legal services);
- **1099-MISC:** Payments of \$600 or more for **services** (including parts and materials used to perform the service) in 2016;
- **1099-MISC:** Payments of \$600 or more for **rents** in 2016. This includes payments made for rental of machinery;
- **1099-MISC:** Payments of \$600 or more for **medical and health care payments** in 2016 (Note: The exemption from issuing Form 1099-MISC to a corporation does not apply to payments made for medical or health care services provided by corporations, including professional corporations. However, payments made to tax-exempt hospitals are not required to be reported);
- **1099-MISC:** Payments of \$600 or more for **nonemployee compensation**, including fees, commissions, prizes, awards for services performed as a nonemployee and other forms of compensation for services performed for your trade or business by an individual who is not your employee;
- **1099-MISC:** Payments and other remuneration made to directors, including payments made after retirement; and
- **1099-INT:** Payments of \$10 or more for **interest** in 2016.

The Following Information Is Needed to Prepare Forms 1099:

1. Full name of company and/or individual. If reporting to an individual, both the first and last name is needed;
2. Tax identification number (Federal EIN, or SSN). If reporting to an LLC with a social security number, use the formal XXX-XX-XXX;
3. Address for each recipient; and
4. Total amount paid to each recipient.

Please note, you should request and retain a Form W-9 for each Form 1099 recipient. Form W-9 provides the information needed to accurately complete the Form 1099. When you receive a W-9 Form make sure that it says "(Rev. December 2014)" in the top left hand corner underneath the form name. Otherwise, you may have additional withholding responsibilities.

If you would like WhippleWood CPAs to prepare the Form 1099's for your business, please provide the required information to our office by January 19, 2017. Please note that the Form 1099 must be postmarked to the recipients and the IRS no later than January 31, 2017.

1099 B Notices

You may receive correspondence from the IRS notifying you that some TINs reported on your 1099s do not match up with the name shown on the 1099 according to the IRS records. If you receive this correspondence you must send a "B Notice" to the payee and provide a copy of that B Notice to the IRS. The IRS will assess a penalty of \$50 per item if the notices are not sent. This penalty applies even if you have no future payments to that recipient. Contact us if you have any questions on these notices.