



2016 YEAR-END CORPORATION LETTER

This letter is designed to help you prepare your records to conform with IRS compliance requirements.

How organized is your paperwork?

For your corporation to be complete, you need a corporate record book, complete with corporate applications, corporate charter, bylaws, stock certificates and minutes of meetings. These items are all evidence that your business is a legitimate corporation.

Do you loan your corporation money?

You must be careful to document debt. Short term unwritten advances of less than \$10,000 are acceptable if you treat them as debt and expect them to be repaid within a reasonable time. Debt of over \$10,000 needs a promissory note, a fixed maturity date and a reasonable rate of interest that will create taxable income as it is repaid.

Did you pay a reasonable wage?

If you are an S Corporation officer, you need to pay yourself a reasonable salary if you are profitable. Failure to take a salary can result in IRS reallocation of your distributions as wages. This is one of the key issues in the recent IRS audit initiative. Was your wage reasonable? The free salary estimator at www.monster.salary.com might be of help.

Do you have an “accountable plan”?

Maintaining an accountable plan is an important part of corporate record keeping. This plan should be outlined and approved as a company policy/procedure in the company's corporate minutes.

Under an accountable plan, business expenses incurred by an employee are reported to the employer and reimbursed for only the amount actually spent. IRS publication 463 outlines the following three rules that an accountable plan must follow:

1. Expenses must have a business purpose.
2. The employee must adequately account for expenses within a reasonable period of time.
3. The employee must return any excess reimbursement within a reasonable amount of time.

The definition of “reasonable amount” of time depends on facts and circumstances, but reporting an expense within 60 days and reim-

bursing or returning the excess within 120 days of the occurrence of the expense seems to be acceptable. Reimbursed expenses that fail to meet the above criteria are treated as reimbursed under a non-accountable plan and must be included in taxable wages on the employee's W-2.

Does your company own a vehicle?

If a corporation owns a vehicle, it pays for all vehicle expenses. An employee of the corporation must maintain records of personal mileage driven in the company vehicle and report it to the corporation. These personal miles create imputed income on your W-2 at year end. If you incurred expenses for the company vehicle and paid them with personal funds, you must use the accountable plan to be reimbursed.

Do you own a vehicle you use for corporate business?

Your accountable plan may provide for reimbursement of actual miles driven for business at a rate of 54¢ for 2016.

Do you work out of your home?

The home office deduction does not relate as well to a corporate officer as it does to a sole proprietor. Since the corporation is not the owner of the home, deductions for mortgage interest and property taxes must be taken on the individual tax return level.

Two options exist:

1. Rent may be paid by the corporation to the employee shareholder. Under this option, the rent is reported on the employee's personal return and can only be offset by mortgage interest and property taxes, not operating expenses, such as utilities.
2. Alternatively, operating expenses based on the space percentage of business usage may be set up as a reimbursement option under the accountable plan. Reimbursements can then be paid for the employee's usage of this percentage of the home.

Are you the owner of an S Corp?

Your health insurance policy, whether owned by the company or yourself, must be paid or reimbursed by the company and included on your W-2 to be deductible.

For a shareholder to claim an above-the-line deduction, health insurance premiums must be paid by the S Corporation and must be reported as taxable compensation on the shareholder's W-2.

Keep in mind that the “reasonable salary” issue for S Corporations is still in the limelight. Congress will continue to revisit this issue as the loophole would save the government billions of dollars.



Is your business involved in domestic production?

If so, you may qualify for a 9% deduction. To qualify as a domestic producer, you must have income from one of the following: construction performed in the U.S., architecture or engineering involved with U.S. construction, manufacture of tangible personal property (not retail food and beverage establishments), software, sound recordings, films, electricity, natural gas, or potable water.

Do you have employees?

The law enables you to provide up to \$255 per month tax-free parking, \$255 in transit passes, or \$20 per month to cover bicycle commuting expenses to employees for 2016. If you are plan-

ning to give your employees a holiday gift, make sure it is de minimus and not in cash, otherwise it must be included in wages.

If you have 50 or more full-time equivalent (FTE) employees, contact a specialist to determine the health insurance requirements of the Affordable Care Act. The penalties can be severe, so be sure to seek help if you feel you may be affected.

If you purchased health insurance for your employees, you might qualify for a 2016 tax credit.

Beware of misclassifying employees as independent contractors. The IRS

has a form for misclassified employees to report you, and, in addition, they are actively pursuing businesses that do not comply with their rules.

It pays to be timely.

The IRS now charges a penalty of **\$195 per month per shareholder** for failing to file a timely S Corporation tax return.



Small Corporation Year-End Checklist

- Bank statements from all accounts
- Check ledger
- Detailed accounting records including general ledger, trial balance, balance sheet, income statement
- Credit card statements for all business accounts
- Loan papers and purchase details for new assets purchased
- Interest paid on all loans
- Statements of dividends or interest earned
- Payroll detail records and copies of forms 941, 940, 1099, and W-2 that you have filed
- Schedules of loans to and from officers
- Accountable plan/expense account statements
- Year-end inventory
- Accounts receivable listing
- Accounts payable listing of all outstanding bills owed on the last day of the year
- Details of any changes in stock ownership
- Copies of any correspondence with taxing authorities
- Details of corporate distributions to shareholders
- Mileage detail for all company-owned vehicles including make and year of vehicle and total miles driven
- New corporation/new client startup papers, corporate charters, S-election, Federal ID#, State ID #, last year's corporate return (new client)
- Details of the amount of corporate income derived from manufacture or construction
- Record meeting minutes (minimum of one meeting required)

