



2022 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.salaryestimator.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 reimbursing 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 58.5¢ (1/1 through 6/30) and 62.5¢ (7/1 through 12/31) for 2022.

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 offsetting deductions are not allowed.
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.



New rules for form 1099-K...delayed

The American Rescue Plan Act (ARPA) of 2021 changed the reporting threshold for 3rd party payment processors like Venmo, PayPal, CashApp, Square, etc. Under ARPA, the threshold for 2022 was reduced to \$600 (annual total, regardless of the number of business transactions). The IRS later announced that more time was needed to ensure that 1099-K forms would not be issued for personal transactions. Until further notice, the pre-ARPA reporting threshold of \$20,000 (and 200+ transactions) for "goods and services" will be the rule.

Qualified Business Income (QBI):

If your business is profitable you may qualify for a tax deduction. This deduction is based SOLELY on the amount of corporate profits that "pass-through" to the individual business owner's personal tax return. As such, it is not available to C-Corporations because they pay their own tax (no pass-through).

The QBI deduction is taken on the business owner's personal tax return, not on the corporation's return. The details of how it is computed are beyond the scope of this letter. However, the gist is simple... more pass-through income likely results in a bigger QBI deduction. However, S-Corp owners beware... do not reduce your wages to increase your pass-through income. You still must pay

yourself a reasonable wage.

Do you have employees?

The law enables you to provide employees up to \$280 per month in tax-free parking or mass transit passes for 2022.

If you are giving your employees a holiday gift, make sure it is de minimis and not paid in cash, otherwise it must be included in wages.

If you have 50 or more full-time equivalent (FTE) employees you are required to offer a health insurance plan that complies with the Affordable Care Act. If you purchased health insurance for your employees, you might qualify for a 2022 tax credit.

Small employers (less than 50 full-time equivalent employees) who do not offer a group health plan to any of their employees may alternatively offer a Health Reimbursement Arrangement. It is wise to work with a service provider that can help manage the rules and complexities of such plans (including but not limited to HIPAA).

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.

Employee Retention Credits (ERTC)?

The ERTC was a payroll tax credit for busi-

nesses that retained employees despite revenue reductions or governmental shutdowns preventing them from doing business during the pandemic.

The ERTC began on 3/13/20 and ran through 12/31/21. If you didn't get an ERTC you can amend quarterly payroll tax filings to claim one now (only if you qualify, of course).

Initially, businesses were not allowed to claim both the ERTC and a Paycheck Protection Program loan. However, Congress acted to allow both the ERTC and PPP if they had greater than 20% quarterly revenue reductions (vs. the prior year or prior quarter). The details regarding ERTC qualifiers are beyond the scope of this newsletter. Ask for help to see if you qualify (as mentioned above, payroll tax filings can be amended to claim an unclaimed ERTC).

Unfortunately, the ERTC reduces your business' allowable wage deductions (for the tax year that the credit was issued). As such, if you amend to claim an ERTC you must also amend the corresponding income tax return.

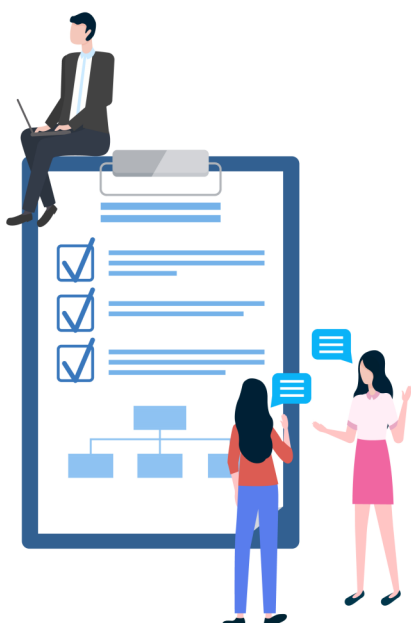
It pays to be timely.

The IRS now charges a penalty of \$200 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).



ACCOUNTABLE PLAN WORKSHEET

Ordinary and necessary business-related expenses as described in Company Policy and Procedures and as set forth by the Internal Revenue Service (Reg. 1.62-2).

Employee _____

Period Beginning _____
Period Ending _____

Date	Business Entertainment	Supplies	Travel -- Air, Hotel, Transport.	Travel Meals	Other	Business Miles Begin. Odometer _____	Home Office Utilities, Repairs, Rent, Insurance	Business Purpose / Explanation
Total From Side 2:								
						Total Miles _____ X .____ per mi.	Total House Exp. X (Bus. Sq. Ft. / Total Sq. Ft.)	
TOTAL EXPENSES							TOTAL BUSINESS EXPENSES _____	

Ending Odometer

Employee's Signature _____ Date Submitted _____ Date Reimbursed _____

