



November 26, 2018

Dear Client:

It is time again to prepare for year-end payroll processing – specifically – the preparation of Forms W-2 and 1099. Forms W-2 and Forms 1099-MISC must be filed by January 31, 2019 with the Social Security Administration or IRS, respectively whether they are being e-filed or paper filed. Copies also must be provided to employees and payees by January 31. Extensions of time to file Form W-2 with the SSA are no longer automatic. You may request one 30-day extension to file Form W-2 by submitting a complete application on Form 8809, including a detailed explanation of why you need additional time and signed under penalties of perjury. The IRS will only grant the extension in extraordinary circumstances.

To assist you in the preparation of these forms, we offer the following information:

- Shareholders owning a 2% or more interest (directly or indirectly) in an S corporation must include life, health, accident and disability insurance premiums paid on their behalf in their compensation. Note that payments of insurance premiums made pursuant to a plan providing accident and health coverage treated as compensation by a 2% shareholder are exempt from employment taxes. Similar payments to partners or LLC members are to be reported as guaranteed payments.
- Guaranteed payments are payments of compensation paid to partners and LLC members without regard to the income of the partnership or LLC. Such payments should be reported on Schedule K-1 and not on Form W-2.
- Payments made to employees to reimburse health insurance premiums or other medical expenses (medical reimbursement arrangements) must be treated as compensation and included in the employees' Form W-2 subject to withholding taxes and employment taxes unless the plan is a permitted benefit under a qualified small employer health reimbursement arrangement (QSEHRA). QSEHRAs allow eligible employers to pay or reimburse medical care expenses of eligible employees after the employees provide proof of health care coverage. The maximum reimbursement for an eligible employee under a QSEHRA is \$5,050 (\$10,250 if it also provides reimbursements for family members). Please contact us if you have any questions regarding these plans.
- All employers that provide health care benefits to its employees must report certain information to their employees using either Form 1095-B or Form 1095-C by January 31. Large employers must use Form 1095-C. A large employer is an employer that employed on average at least 50 full-time employees on business days during the preceding calendar year. If you are a large employer utilizing a third-party payroll agent, be sure to contact your payroll agent to see if they will prepare Form 1095-C. Small employers who provide self-insured coverage must also use Form 1095-B; if you are such an employer and Lewis-Knopf, PC prepares your W-2s, contact your Lewis & Knopf, PC team member immediately. Note that all related businesses that are under common control or part of an affiliated group are treated as one employer for purposes of determining whether an employer is a large employer for these reporting purposes.

- **All accrued expenses (i.e., interest, rent, auto mileage for non-company owned vehicles, etc.)** payable to shareholders owning (directly or indirectly through attribution) more than 50% of the value of a C corporation must be paid before December 31, 2018 to be an allowable deduction for 2018. Also all accrued expenses payable to any shareholder in an S corporation or personal service corporation, partner, or LLC member must also be paid before December 31, 2018 to be an allowable deduction for 2018
- Employers and controlled groups of employers that filed more than 250 W-2s for 2017 will need to report the cost of employer provided health insurance on the 2018 Forms W-2.

In addition, we have enclosed some additional materials for your guidance including:

- A guide of common information returns required to be issued. Generally, information needed for filing Form 1099 is the recipient's name, address, and tax identification number.
- A checklist of common taxable compensation adjustments. The checklist is provided to assist you in identifying those adjustments that should be reported with regular payroll before the end of the year. If taxable compensation adjustments are reported without wage withholding, you as the employer may be liable for the employee portion of taxes.
- Instructions and worksheets that explain the three valuation methods available to calculate the taxable income portion of an employer-provided vehicle that should be included in compensation. The three methods available are the (1) Lease Valuation Rule, (2) Cents-Per-Mile Valuation Rule and, (3) Commuting Valuation Rule. Please select the valuation method(s) that pertain(s) to your business on an employee-by-employee basis.
- A comparison of requirements for various retirement plans types for 2018 (Appendix 1A)

The material discussed in this letter is meant to provide general information and should not be acted on without obtaining professional advice appropriately tailored to your individual needs. Any tax information contained in this letter is not intended or written to be used by you for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

Please take a moment to review these tips, guides, and checklists. If you have any questions regarding this information, please call your L & K team member contact at 810-238-4618 or toll free 877-244-1887.

Sincerely,

Lewis & Knopf, PC
Certified Public Accountants



Guide to Information Returns Required ⁽¹⁾

Form	Title	What to Report	Amounts to Report	Due Date to IRS	Due Date to Recipient
1098	Mortgage Interest Statement	Mortgage interest (including points) you received in the course of your trade or business from individuals and reimbursements of overpaid interest.	\$600 or more	February 28	(To Payer/ Borrower) January 31
1095-C 1095-B	Employer Provided Health Insurance	Information regarding insurance coverage offered or not offered to employees	All information	February 28*	January 31
1099-DIV	Dividends and Distributions	Distributions, such as dividends capital gain distributions, or nontaxable distributions, that were paid on stock, and liquidation distributions. S corporations should only use this form if distributions are made out of accumulated earnings and profits that arose in C corporation tax years.	\$10 or more, except \$600 or more for liquidations	February 28 *	January 31
1099-INT	Interest Income	Interest Income.	\$10 or more (\$600 or more in some cases)	February 28 *	January 31
1099-MISC	Miscellaneous Income (Also, use this form to report the occurrence of direct sales of \$5,000 or more of consumer goods for resale)	Rent or royalty payments; prizes and awards that are not for services, such as winnings on TV or radio shows.	\$600 or more, except \$10 or more for royalties	January 31	January 31
		Payments for services performed for a trade or business by people not treated as its employees. Examples: fees to subcontractors or directors, and golden parachute payments. Payments to a corporation need not be reported but payments to an individual, partnership, LLC, and estate should be reported.	\$600 or more		
		Gross proceeds and fees paid to attorneys (even if paid to a corporation).	All amounts		
1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	Distributions from retirement or profit-sharing plans, any IRA, insurance contracts, and IRA recharacterizations.	\$10 or more	February 28 *	January 31
1099-S	Proceeds From Real Estate Transactions	Gross proceeds from the sale or exchange of real estate.	Generally, \$600 or more	February 28 *	January 31

* The due date is April 2, if filed electronically.

(1) This guide is a partial list of information returns required– refer to the instructions for Forms 1099, 1098, 5498, and W-2G for a complete guide to information returns required.

Checklist of Common Taxable Payroll Adjustments

Item	Applicable?
Reimbursed medical expenses	
Flat rate auto allowances (not substantiated mileage or per diem).	
Business expense – unsubstantiated or in excess of government approved allowances.	
Group-term life insurance coverage over \$50,000 on an employee.	
Group-term life insurance coverage over \$2,000 on a dependent.	
Disability pay – taxable portion.	
Reimbursed employee moving expenses.	
Personal use of company vehicle. See attached worksheets to value this benefit.	
Cash achievement awards.	
Compensation bonuses.	
Commissions.	
Employer-paid dues and fees for employee’s membership in a country club, athletic club, or social club. If there is a business connection that is substantiated, then the business portion is not considered a taxable payroll adjustment.	
Dependent care assistance over \$5,000 (\$2,500 for employees married and filing separately).	
Reimbursed employee (not employer) employment agency fees.	
Tips reported to the employer by the employee.	
Life, health, accident, and disability insurance premiums paid for S corporation shareholder-employees with interest of more than 2%. Note that payments of insurance premiums made pursuant to a plan providing accident and health coverage treated as compensation by a 2% shareholder-employee are not subject to employment taxes but are subject to federal income tax withholding. Similar payments to partners or LLC members are reported as guaranteed payments.	
Meals or lodging furnished for the convenience of the employer, and qualified transportation fringe benefits paid for S corporation shareholder-employees with interests of greater than 2%. Similar payments to partners are reported as guaranteed payments.	
Personal use of business aircraft or of business-paid commercial aircraft.	
Cash Christmas bonus.	
Wages paid to an employee performing work outside normal duties (casual labor).	
Cash gifts to employees.	
Retirement inducements.	
Employees’ taxes paid by the employer.	
Pretax employee contributions to a Section 401 (k) or a SIMPLE retirement account (for employment tax purposes but not for federal income tax withholding purposes).	
Loans with below-market interest (for employment tax purposes but not for federal income tax withholdings purposes).	
Severance or dismissal pay.	
Season tickets to entertainment or sporting events for personal use.	
Uniform allowances for uniforms that are (a) not required as a condition of employment or (b) street wearable.	
Qualified educational assistance that is over \$5,250, unless such assistance qualifies as a job-related working condition fringe benefit.	
Employer-provided coverage under a long-term care insurance contract if provided through a cafeteria plan or is reimbursed under a flexible spending account.	
Check the pension box on Form W-2 if employee is covered by a employer sponsored retirement plan for the year.	

Accounting for the adjustments for fringe benefits. Once the items of employee fringe benefits have been identified, you must choose a method to account for them. The following are methods generally used to account for fringe benefits:

- Method 1: Gross up the fringe benefits to cover payroll taxes and add the grossed-up amount to the Form W-2
- Method 2: Treat the fringe benefit amount as gross pay and withhold the corresponding payroll taxes from the employee’s last paycheck.
- Method 3: Have the employee reimburse the company for the amount of the fringe benefit.

Valuing Personal Use of Employer-provided Business Auto

The use of an employer-provided vehicle by an employee for business is referred to as a working condition fringe benefit and is excluded from the employee's income. The balance of the value of the auto's use, to the extent not reimbursed by the employee, is considered personal use and, as such, is a taxable fringe benefit to the employee. The employee must include in income the fair market value (FMV) of the fringe benefit, reduced by:

1. the amount, if any, reimbursed by the employee to the employer, and
2. the portion attributed to use in the employer's business.

The regulations offer three "special valuation rules" to determine the FMV of the fringe benefit. The selection of a special valuation method is made by the employer, and the value of the fringe benefit that is taxable as compensation is subject to FICA and FUTA taxes and must be included in the employee's W-2.

Generally, the **AUTOMOBILE LEASE VALUATION** method is used because the **VEHICLE CENTS-PER-MILE VALUATION** method can be used only for autos when FMV does not exceed \$15,600 for a passenger automobile and \$17,600 for a truck or van. The **COMMUTING VALUATION** method is available only when commuting is the sole personal use and it is required for noncompensatory reasons (e.g., proximity to major customer or 24-hour on-call).

AUTOMOBILE LEASE VALUATION

1. Determine the auto's FMV when the auto is first made available to an employee for personal use. FMV is the amount that would be paid for the car in an arm's length purchase.
2. Establish the lease value by selecting the dollar range in the first column of the Annual Lease Value Table in which the automobile's FMV falls. (See Appendix 6M for the Annual Lease Value Table.) The annual lease value of the automobile is the corresponding amount in the second column.
3. The annual lease value, the prorated annual lease value, or the daily lease value, whichever is applicable, is prorated between business and personal use of the auto unless the employer elects to use the total value inclusion method. The allocation is done on a mileage basis. A worksheet that can be used to calculate compensation using the annual lease value method is at Appendix 6N.
4. FMV is redetermined at January 1 (or the beginning of special accounting period) of fifth full calendar tax year based on the FMV at that time.
5. FMV is redetermined if the vehicle is transferred to another employee.
6. If an employer provides fuel, the fuel must be valued separately and added to the value of the auto itself. Fuel provided in kind by the employer is valued either at FMV or at 5.5¢ per mile. The FMV of fuel, the cost of which is reimbursed by or charged to an employer, is generally the amount of the actual reimbursement or the amount charged, provided the purchase of the fuel is at arm's length.
7. Once adopted, the use of the automobile lease value method must continue for that car, except that the commuting valuation rule may be used for any period if the auto qualifies.

VEHICLE CENTS-PER-MILE VALUATION

1. Standard mileage rate times the number of personal miles is used to determine fringe benefit value of the personal use. See Appendix 6O for the standard mileage rates for the last five years.
2. Cannot use if value of car exceeds \$15,600 for a passenger automobile and \$17,600 for a truck or van when first made available to any employee.
3. The auto must be either (i) regularly used in employer's business, or (ii) driven at least 10,000 miles per year, primarily by employees.
4. The standard rate includes maintenance, insurance, and fuel provided by employer. The rate can be reduced by 5.5¢ per mile if employer does not provide fuel.
5. Once adopted, method must continue to be used as long as the vehicle qualifies, except the commuting valuation rule can be used for any period if the auto qualifies.

COMMUTING VALUATION

1. Value of each round-trip commute can be deemed to be \$3 per day per employee (or \$1.50 per one-way commute if certain conditions are met).
2. The vehicle must be owned or leased by the employer.
3. Commute in the vehicle must be required for bona fide noncompensatory reasons.
4. The employer must maintain and enforce a written policy against other personal use.
5. Auto must be provided to employee for use in business. For this purpose, the term employee does not include any director; 1% or more shareholder; board- or shareholder-appointed, confirmed, or elected officer of the worker whose compensation equals or exceeds \$110,000; or worker whose compensation exceeds \$220,000.

Appendix 6M

Annual Lease Value (ALV) Table for Employer-provided Autos

Automobile Fair Market Value	Annual Lease Value ^b
\$0 to 999	\$ 600
1,000 to 1,999	850
2,000 to 2,999	1,100
3,000 to 3,999	1,350
4,000 to 4,999	1,600
5,000 to 5,999	1,850
6,000 to 6,999	2,100
7,000 to 7,999	2,350
8,000 to 8,999	2,600
9,000 to 9,999	2,850
10,000 to 10,999	3,100
11,000 to 11,999	3,350
12,000 to 12,999	3,600
13,000 to 13,999	3,850
14,000 to 14,999	4,100
15,000 to 15,999	4,350
16,000 to 16,999	4,600
17,000 to 17,999	4,850
18,000 to 18,999	5,100
19,000 to 19,999	5,350
20,000 to 20,999	5,600
21,000 to 21,999	5,850

22,000 to 22,999	6,100
23,000 to 23,999	6,350
24,000 to 24,999	6,600
25,000 to 25,999	6,850
26,000 to 27,999	7,250
28,000 to 29,999	7,750
30,000 to 31,999	8,250
32,000 to 33,999	8,750
34,000 to 35,999	9,250
36,000 to 37,999	9,750
38,000 to 39,999	10,250
40,000 to 41,999	10,750
42,000 to 43,999	11,250
44,000 to 45,999	11,750
46,000 to 47,999	12,250
48,000 to 49,999	12,750
50,000 to 51,999	13,250
52,000 to 53,999	13,750
54,000 to 55,999	14,250
56,000 to 57,999	14,750
58,000 to 59,999	15,250 ^c

Notes: ^a Table may be found in [Reg. 1.61-21\(d\)\(2\)\(iii\)](#) .

^b Plus FMV of gas provided by the employer (see paragraph 603.3).

^c For autos having a FMV in excess of \$59,999, the ALV is equal to $(.25 \times \text{the FMV of the automobile}) + \500 .

APPENDIX 6N

Fringe Benefit Compensation Value for Employer-provided Auto

Instructions: This worksheet can be used to calculate the amount to be included in an employee's income due to personal use of an employer-provided automobile. See sections 603 and 604.

Covered Period: _____ to _____

Company: _____

Employee: _____

Auto Description: _____ Date Acquired: _____

Annual Lease Value Method

- | | |
|---|--------------------------------|
| 1. FMV (e.g., per NADA book) as of auto acquisition date or as of January 1 (or the beginning of a special accounting period; see section 505) following the end of a deemed four-year lease term | \$ _____ |
| 2. IRS annual lease value factor for line 1 (see Appendix 6M) | \$ _____ |
| 3. Prorate to cover period less than 12 months (if applicable) | × _____ % |
| 4. Annual lease value for 20__ (line 2 × line 3) | \$ _____ |
| 5. Personal-use percentage: | |
| a. ___/___/___ to ___/___/___ personal miles ^a | _____ |
| b. ___/___/___ to ___/___/___ total miles ^a | _____ |
| (1) Ratio (5a ÷ 5b) | × _____ % |
| 6. Annual personal-use value (line 4 × line 5) | \$ _____ |
| 7. Plus: Additional amount for company-provided gas used personally: | |
| a. Total personal miles per above | _____ |
| b. Less mileage when gas paid for personally | (_____) |
| c. Total personal miles on company-provided gas | _____ |
| | × <u>5.5¢/mi.</u> ^b |
| d. Additional value for company-provided gas | \$ _____ |
| 8. Total additional compensation for 20__ (line 6 + line 7d) | \$ _____ |

Cents-per-mile Method [available *only if* FMV of vehicle is less than the inflation-adjusted annual limit for passenger automobiles and trucks or vans when first made available to any employee (see paragraph 608.4)]

- | | |
|---|-----------|
| 1. Personal mileage (___/___/___ to ___/___/___) ^a
_____ × 54.5 cents per mile for 2018 | \$ _____ |
| 2. Less employee provided fuel:
_____ miles at 5.5 cents per mile ^c | (_____) |
| 3. Standard mileage rate method additional compensation
for 20___ (line 1 – line 2) | \$ _____ |

Notes:

- ^a Taxpayers who do *not* adopt the special accounting period must measure mileage for the calendar year (i.e., January–December). IRS Ann. 85-113 allows employers to adopt any 12-month period that ends between October 31 and December 31. See section 505 for further discussion.
- ^b FMV can be used instead of 5.5 cents per mile. The 5.5 cents per mile can only be used if the fuel is provided in kind. See paragraph 603.3 for information on how to value fuel when the cost is reimbursed by or charged to an employer.
- ^c If any personal miles are driven outside the U.S., Canada, or Mexico and the fuel is provided by the employer in kind, or is reimbursed by or charged to the employer, the FMV of the fuel should be additional compensation. See paragraph 604.12 for additional information.

Appendix 60

Business Standard Mileage Rate & FMV Ceiling-Vehicle Center-per-mile Valuation Rule

Tax Year	Standard Mileage Rate	FMV of Passenger Automobile May Not Exceed	FMV of Truck or Van May Not Exceed
2018	\$.545	\$15,600	\$17,600
2017	\$.535	\$15,900	\$17,800
2016	\$.54	\$15,900	\$17,700
2015	\$.575	\$16,000	\$17,500
2014	\$.56	\$16,000	\$17,300

Notes:^a For this purpose, trucks and vans are passenger automobiles built on a truck chassis, including minivans and SUVs that are built on a truck chassis.