



November 11, 2020

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, 2021 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,

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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, 2020 to be an allowable deduction for 2020. 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, 2020 to be an allowable deduction for 2020
- Employers and controlled groups of employers that filed more than 250 W-2s for 2020 will need to report the cost of employer provided health insurance on the 2020 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. Please note the form 1099 NEC will replace 1099 MISC to report non-employee compensation beginning in 2020.
- 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.

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	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
1099-NEC	Non-employee compensation	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 March 31, 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.

The **COMMUTING VALUATION** method is available only when commuting is the sole personal use and it is required for non-compensatory 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 6K 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 6L.
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 6N for the standard mileage rates for the last five years.
2. Cannot use if value of the vehicle (including cars, trucks and vans) exceeds \$50,400 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, or elected officer whose compensation equals or exceeds \$115,000; or worker whose compensation exceeds \$230,000.