

# **Jerry N Little Jr CPA PC**

2019 Tax Information  
For Business Clients

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To my business clients:

Put it on your calendars now. A lot of you forget. If you own at least 2% of an S Corp, and the company paid your health insurance, you are required to report the premiums paid as a fringe benefit on your W2. You have to notify your payroll processor in December. Do not wait until January! Most will charge extra in January.

W2s and 1099s are now required to be filed with the government by Jan 31. In prior years the due date was Feb 28. This is being implemented so the IRS can more quickly identify fraudulent income tax return filings.

Do not wait until next January to get info for 1099s. It is always best practice to get W9s from vendors before paying them. There are penalties for failure to follow rules for issuing 1099s. Be safe and get W9s up front during the year. Don't delay.

The new tax law is called The Tax Cuts and Jobs Act. It was passed in December of 2017, but mainly took effect in 2018. These are the most drastic changes in our tax laws in decades!

Good news! If you have a business that is generating profits, your taxes are likely to be lower for the 2018 tax year. The biggest and best change for many businesses will be a 20% reduction of the pass-through income from S Corps and partnerships and Schedule C profits. The term is Qualified Business Income (QBI) deduction. As usual, there are limits and exceptions, and the latest regulations were just released by the IRS a few weeks ago. It can get very, very complicated for higher income taxpayers, but can also be very simple for small, single business owners with taxable incomes below \$150,000.

Always send us copies of any letters you get from IRS or any Ga Agency. Do not pay any penalties unless you know that they are valid, or until we can review the notice(s).

Jerry Little

## **Independent Contractors and Forms 1099**

Do not pay an individual, a partnership, an LLC, or an attorney, \$600 or more in any calendar year without having them complete a Form W-9 first. If you intentionally fail to issue 1099s, the penalty is \$540 per return or 10% of the amount that should be reported, whichever is more. There are other penalties for filing late, for failing to do backup withholding, etc. 1099s are due to the IRS by January 31.

## **Employees, Workers Comp Insurance and E-Verify**

If you are paying an individual to do work, you must decide up-front if you are required to treat them as an independent contractor, or as an employee. If a person meets the definition of an employee, per the IRS rules, you are required to withhold taxes, file payroll tax returns, W2s, etc. The more control over the person you have, the more likely that person is to meet the definition of an employee. There are serious penalties for noncompliance.

If you employ three or more employees in Georgia, you are required to have workers compensation insurance.

If you employ ten or more employees in Georgia, you are required to use the online federal **E-Verify Program**.

## **Verification of Citizenship and Ga New Hire Reporting Program**

In addition to having new employees complete Forms W-4 and G-4, each new employee is also required to complete Form I-9 and you are required to look at their proof of eligibility to work. Georgia employers are required to report all new hires to the Georgia New Hire Reporting Program, primarily to see if they owe child support.

## **Annual Registration Georgia Secretary of State**

Corporations and LLCs doing business in the state of Georgia are required to register with the secretary of state annually. The due date is April 1 and the annual fee is \$50. File and pay online.

## **Georgia Net Worth Tax**

Corporations in the state of Georgia pay a net worth tax with their corporate income tax return. The tax is based on the net worth of the company. The minimum tax has been eliminated for smaller businesses. If applicable, it is due March 15, and should be paid on GTC website as Corporate Tax, even if you file an extension. You can look on prior year Ga corp tax return to see if you paid a net worth tax.

## **Health Insurance and ObamaCare**

Most provisions of the **Affordable Care Act** are still the law for now. The individual mandate to purchase health insurance was still in effect for 2018. As of now, 2019, that penalty is eliminated.

## **Equipment and Vehicle Purchases**

Equipment, furniture, vehicles, leasehold improvements and buildings all get special treatment under the tax code. They are normally depreciated over a period of several years; however, for the past few years an election can be filed to deduct the entire cost or a huge part of it in the year purchased. You should have information readily available for all such purchases including description, invoices, receipts and dates placed in service. Very small purchases, less than \$500, are not subject to depreciation rules.

## **Personal Property Tax Returns**

Businesses are required to file a property tax return in their county, reporting costs of equipment, inventory and supplies on hand as of January 1. You will pay a tax on its value (ad-valorem tax), just like you pay tax on real estate every year. These tax returns are due April 1 in most counties.

## **Inventories**

If your business is involved in buying and selling products, you are required to count the inventory on hand, as of December 31, or at a time very near to Dec 31. This cost value is reported on your income tax return and on the personal property tax return.

## **Compensation to Owners/Shareholders/Members**

Corporations, and LLCs filing as corporations, are required to pay "reasonable compensation" to the owners. What is reasonable compensation? Many companies pay low salaries to avoid the 15.3% FICA taxes on wages. The IRS can take the position that the W2 wages are too low, which would mean more tax. This is a risk that many owners take. It is a judgment call and ultimately, you, the owner has to decide the appropriate amount of compensation paid and understand the risks.

## **Ga Dept of Labor Employer Tax Rate Notice**

Georgia employers are required to pay unemployment taxes to the Ga Dept of Labor. Every year the state updates your tax rate. You can login to your account at Dept of Labor. They stopped mailing notices. The tax rate can go up or down, based on experience and filing history, and unemployment claims paid. The new rate goes into effect Jan 1 of every year.

### **Company-Owned Automobile - Taxable Fringe Benefits**

If an employee drives a company-owned automobile, the company is required to report an amount representing the personal use of the company auto as a taxable fringe benefit on your W2. You need to report this amount to your payroll processor as early as possible at the end of the year.

### **Health Insurance for Owners - Fringe Benefit Reporting**

If you are at least a 2% owner of an S corporation, or an LLC filing tax returns as an S Corp, and you pay your own health insurance, you can get a special tax deduction, but you must follow the rules.

The company should pay the owner's health insurance premiums directly, or the company should reimburse the owner. Businesses filing corporate income tax returns are required to report the cost of the health insurance premiums as a fringe benefit on the W2. Partnerships are not supposed to issue W2s to partners so they have different rules for health insurance reporting. Ask us if you are unsure.

### **Auto and Other Expense Reimbursements**

**There is a huge change in the new tax law for 2018!** Employees will no longer be able to deduct business mileage, employee business expenses or home office expenses. This is going to be a major issue for some employees, especially those using their vehicles for business. It would be better to reduce salaries and start reimbursing these employees than to leave as is. Please let me know if this is an issue and we can discuss further.

Business owners should reimburse themselves for any expenses paid on behalf of the business, including the business use of their personal automobile(s). The owner/employee should prepare expense reports and the company should write checks to reimburse those expenses. In most cases, it is better to reimburse mileage at the Standard Mileage Rate, rather than calculate actual auto expenses. The standard rate for 2018 is 54.5 cents per mile. It increases to 58.0 cents per mile in 2019.

### **QuickBooks Accounting Software**

Many of my clients use QuickBooks accounting software, and it suits very small businesses very well. However, one of its biggest advantages is also its biggest disadvantage. QuickBooks can be easily manipulated. Transactions can be easily entered – and changed. When more than one person uses QuickBooks, there will always be the possibility that one person can alter transactions previously recorded. There are countless examples of bookkeeping fraud in small businesses, many times by long-term and/or trusted employees. The owner/manager(s) have to be aware of the limitations, be vigilant, and set up appropriate safeguards.

## **Independent Contractors and Forms 1099**

When you hire an individual to work for you, you will either pay them as an employee, or you will treat them as an independent contractor and report their income to the government by filing Forms 1099-MISC.

I want to inform you, or refresh your memory, regarding rules for paying vendors who render services.

BEFORE you pay any person or company \$600, or more, in a calendar year, you are required to obtain a properly completed Form W-9. This rule also applies to LLCs and partnerships. The only way to know if you are required to issue 1099s is to have the vendor complete a Form W-9, especially LLCs. The Form W-9 is simply a request for that person's name, address, entity type, and federal identification number. Be especially careful with small, single-member LLCs. Unless they file corporate income tax returns, you must give them a 1099 in their personal Social Security number.

You are also required to issue 1099s for rent paid. Have your landlord complete a W-9, unless you are absolutely sure the landlord is a corporation.

You are not required to report amounts paid by credit card, prepayment card, debit card, certain third-party network transactions, or Paypal. This is because those payments get reported by the payment processors on Form 1099-K.

You are generally not required to issue 1099s to corporations; however, one big exception is attorneys. You are required to issue 1099s to all attorneys, even if they are corporations.

If a person or company claims to be an LLC or a corporation, you need to make checks payable to whatever the name is on the W-9. For example, if the person says they are incorporated, and the corporate name is Joe Smith Plumbing, LLC, do not write the check to Joe Smith. You must spell out the full corporate name; otherwise, you are required issue a form 1099 to Joe Smith, using his social security number.

You are not required to issue 1099s for the purchase of products, materials, supplies, etc. However, if you are paying for a combination of materials and labor, you do need the W-9, and you are required to issue 1099s for the entire amounts. For example, if you pay an auto mechanic for parts and labor, you are required to issue a 1099 for the entire amount, including amounts for the parts. The IRS uses this as an example in their instructions.

Forms 1099 are required to be delivered or mailed to the recipients and filed with the IRS by January 31.

Forms W-9 can be printed directly from the IRS website at [www.irs.gov](http://www.irs.gov).

## **Home Office Expenses**

2017 was the last year that employees were able to deduct home office expenses on personal income tax returns. The best way for business owners to deduct home office expenses when you file corporate income tax return is to have the company reimburse the employee/owner for home office expenses.

In order to qualify for home office expense reimbursement, you must have an area that is used regularly and exclusively for your business. It is important that you realize the IRS MEANS EXCLUSIVELY. You cannot have ANY personal use of this office space.

## **DUE DATES**

For most of us, local business licenses (Occupational Tax Renewals) are due very early in the year. Consult your local government. Suwanee's due date is Feb 15.

Jan 31: W2s and 1099s are due to recipients and filed with the government.

March 15: Corp income tax returns due. Georgia has a net worth tax that is due with the corporate income tax return. It is based on the net worth reported on your tax returns, but is a minimum \$10.00.

April 1: Annual Registration is due and payable to the Secretary of State. All corporations and LLCs doing business in Georgia are required to register every year.

March 1 or April 1: Personal property tax returns (ad valorem tax) are due to your county every year. Your county tax office normally sends preprinted forms to businesses who have filed in prior years, with due date and filing requirements. If you are new in business, you need to file an initial return to get in the system.

April 15 personal tax returns, Forms 1040 and Ga 500.

April 30, July 31, October 31 and January 31: Quarterly payroll tax returns are due the end of month following each calendar quarter.

December 31: There are various rules for fringe benefits and health insurance benefits, to be reported on your W2, as discussed above. Your payroll processor needs to be notified. Many times they send you information and due dates to submit to them. Be aware that you need to get this information in your payroll system, whatever system you may use, before they start processing year-end W2s and related payroll taxes.