



Cole Gavlas, PC

Tax and Business Advisory Services

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November 1, 2020

Dear Client:

Another tax season is rapidly approaching, and it's time to begin preparing! The following is a list of several items that may need to be addressed during the process of preparing payroll and business tax returns.

- **Personal use of a company vehicle:** If you or your employees drive a company vehicle for personal use, this personal use is a taxable fringe benefit, and you, as the employer, are responsible for withholding taxes on this benefit. In order to calculate the personal use amount, we have included the form "Auto Expense Questionnaire," which should be completed by each employee who uses a company vehicle. The calculation may be based on the 12-month period ending October 31, November 30, or December 31. Once the calculation is completed, the amounts should be included in the employees taxable compensation. If you need help with the calculation or the payroll process, please contact our office.
- **Non-cash gifts:** Nominal *non-cash* gifts given are excluded from taxable wages (i.e., a turkey). If a gift is *cash, gift card* or a *gift certificate*, the cost must be included in the employee's W-2. The formulas shown above may also be used for non-cash gifts with the value of the gift equal to the net bonus amount.

Prizes and awards, other than certain types of fellowship grants and scholarships, are included in gross income. An exception is employee achievement awards of tangible personal property if the cost to the employer does not exceed the amount allowable as a deduction by the employer. The deduction by the employer is limited to an annual total per employee of \$400 for awards of a non-qualified plan and \$1,600 for awards of a qualified plan. The achievement award cannot represent disguised compensation. For the definitions of achievement awards, qualified plans, and non-qualified plans, please contact us.

Other employer-provided fringe benefits may be taxable to your employees. If these benefits are taxable, they must be included on the employees' W-2s. The gross amount on the benefit included on the W-2 and the resulting FICA, federal, and state withholding amounts are figured using the same formula shown for a cash bonus, with the value of the benefit equal to the net bonus. If assistance is needed to determine the taxability of a specific fringe benefit, please call us.

- **Employee information:** Information relating to new employees (including address and social security number), as well as any changes in employee information, should be updated and incorporated into the in-house payroll system, provided to the payroll service, or to us if we prepare your payroll returns, whichever is applicable, *prior to preparing W-2s*, so that the W-2s are accurate. W-2s are due to employees by January 31, 2021, and the filing copy must be sent to the Social Security Administration and State of Michigan by January 31, 2021.
- **Life insurance premiums:** If you provide life insurance for your employees, the cost of group-term life insurance in excess of a \$50,000 face value per employee must be included in the W-2 of said employee. This calculation is based on the cost in the Uniform Premium Table in the IRS Regulations. Please contact us if you need assistance with this calculation.

- **Health, disability, and life insurance premiums** paid in calendar year 2020 on behalf of *greater than 2% shareholders of S corporations* need to be included in the W-2s of those shareholders. The shareholders' paychecks should be "grossed up" by the amount of the premiums, similar to that of personal use of a company vehicle, as discussed on page 1 of this letter.
- **Form 1099: Under penalties of perjury, the Internal Revenue Service has made it mandatory for you to report on your tax return if you were or were not required to file Form 1099 and if the required forms were filed. It is also your responsibility to inform and acknowledge the tax preparer that you filed the Form 1099(s) with the Internal Revenue Service.** Failure to file a correct information return due to intentional disregard of the filing or correct information requirements is subject to significant penalties.

Payments to individuals or unincorporated businesses (i.e., sole proprietors, LLCs, etc.) for services and rents that exceed \$600 per payee per year must be reported on Form 1099-MISC. Additionally, payments to attorneys must be reported regardless of whether or not they are incorporated or whether the amount exceeds \$600 for the year. Interest payments exceeding \$10 per payee must also be reported on Form 1099-INT. *If we prepare your 1099's, please send us a list that includes the name, address, federal ID number or social security number, and total amount for each payee by December 31, 2020.* The 1099 forms are due to the recipients by January 31, 2021, and the filing copy is due to the IRS by January 31, 2021. The State of Michigan requires a copy of all 1099-MISCs being submitted to the IRS also be sent to the state. Copies of the 1099-MISCs should be attached to the annual sales, use and withholding tax return.

- **Form W-9:** You should use Form W-9 "Request for Taxpayer Identification Number and Certification" (copy enclosed) to request and document the federal ID number or social security number required for the previously mentioned Form 1099 reporting. We suggest that these completed forms be retained and updated annually to ensure accuracy of information reported to the IRS.
  - **Personal property tax & depreciation:** If you own or lease personal property used in your business, you are required to file a personal property statement with your local assessor's office by February 20, 2021. In order to prepare depreciation calculations as well as the personal property statement, you will need the following: a detailed list of fixed asset acquisitions, including date purchased, description of item, and cost; and a detailed list of any fixed assets that were sold or scrapped, including description of item, date disposed, and sales proceeds if any. If we prepare your personal property statement, please forward this information to us along with the pre-printed personal property statement received from the taxing authority.
  - **Use tax:** If you buy something online at an out-of-state retailer or even abroad and don't pay sales tax, and you then use that purchase in Michigan, you owe use taxes to the State of Michigan. In addition, if the sales tax you paid is lower than Michigan's 6% rate, you owe Michigan the difference. Use tax is reported and paid either monthly, quarterly, or annually, typically with sales and payroll taxes. In order to calculate the tax due, you should prepare a list of purchases made from out-of-state vendors on which no sales tax was paid or less than 6% was paid. The annual return is due to the state by February 28, 2021.
  - **Form 940: Employer's Annual Federal Unemployment (FUTA) Tax Return,** is due to the IRS by January 31, 2021. The fourth quarter FUTA tax deposit is also due on January 31.
  - **Employee flex accounts:** If your business has a flexible spending account plan for employees, provide them with a statement showing the amount remaining in their account, as well as the deadline to submit receipts for reimbursement for expenses incurred during 2020 or, if allowed by the plan, expenses incurred by the extended date in 2021.
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This concludes what we consider to be the noteworthy highlights for 2020 payroll and business tax returns. If you have any questions or concerns, please contact us at (269) 329-6600.

Remember, your highest compliment to our firm is to refer us to another client. We thank you for letting us serve you, and we hope that you have a happy holiday season.

Sincerely,

*Cole Gavlas, PC*

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Enclosures

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