

# SMALL BUSINESS ACCOUNTING SERVICES & MOORE

December 2009

## Common Form W-2 Year End Adjustments for Taxable Fringe Benefits

It is that time of year again to begin planning your year-end tax reporting for employees and subcontractors. We recommend you start identifying now the specific items that will affect your tax reporting to ensure you will have all the information necessary to prepare accurate and timely tax forms. We have prepared this help guide to include some of the more common areas you might need to address below. Of course, please contact us if we can be of any assistance.



### *Group Health Insurance To Owners*

Two percent, or greater, of owners of S Corporations for which the corporation pays the owner's (includes premiums paid to any member of the owner's family) health insurance premiums and/or Health Savings Account contributions, are required to include annual amounts paid as wages on their Form W-2, subject only to Federal withholding, if it is a group plan. Otherwise the health insurance premiums are also subject to social security and medicare tax. The shareholder should take a deduction on page 1 of their personal Form 1040 for 100% of the premium reported on Form W-2. Otherwise these amounts are not deductible by the corporation.

Most shareholders and partners are not permitted to participate in Section 125 Cafeteria Plans. We recommend you review the classification of owners in your Plan and the treatment of any payroll deductions for owners for proper payroll tax classification.

### *Group Life Insurance*

If the company pays premiums on employee group term life insurance policy values, an amount based on an IRS table for policy values in excess of \$50,000 is required to be added to wages on the employees Form W-2.

### *Personal Use of Company Vehicle By Owners & Employees*

If you have company owned vehicles, the company is required to obtain mileage information from owners and employees to identify total, personal and commuting mileage. A value should be computed for the personal usage for each employee and added to wages on their Form W-2. We can assist you with calculating these amounts.

### *Auto, Gas & Vehicle Allowances*

Payments to employees for personal auto, gas or vehicle allowances where employees are not required to account for business miles, should be included as taxable wages on their Form W-2.

### *Other Items*

You should review all other non-payroll payments to employees such as relocation expense reimbursements, company paid educational assistance and dependent care assistance over IRS guideline limits, bonuses, etc., to determine if any amounts are required to be added to wages on Form W-2.

### *Flexible Spending Plans*

Remind employees who participate in flexible spending plans of their deadline for spending unused funds in these accounts. These are "use it or lose it" plans. Check with your plan administrator for any grace period for requesting reimbursements.

### ***Employee Information***

Don't forget to verify the accuracy of your payroll information such as employee name, social security number, and mailing address to a current Form W-4 completed by the employee. Obtain a new updated Form W-4 if an employee has moved, needs to change their filing status or number of dependents. If you use a payroll service, request a list of all employee information for your review and provide them with any updated information. For former employees, we recommend you verify all information as well including obtaining a current forwarding address.

### ***Provide Year End W-2 Adjustments To your Payroll Service***

Payroll leasing and processing companies should be advised by you in a timely manner of year end adjustments to Form W-2 for any taxable fringe benefits such as group health insurance benefits paid on the owner's behalf, personal use of autos, life insurance premiums for policies in excess of \$50,000, and any other annual adjustment. Providing this information well in advance of the final payroll checks for the year will prevent the need for the expense and delay from payroll tax return revisions.

### ***Form 1099 Reporting For Payments To Non-Corporate Subcontractors For Services***

You are required to issue Form 1099 for non-corporate vendors to whom you have paid for services in excess of \$600 for the year. Form 1099 requires information including legal business name, address, and a social security or tax identification number. Form W-9 is designed for the Company to obtain this information from all vendors. The company should maintain a completed Form W-9 on file. This is a good time to print out your vendor data and request any missing information needed to prepare Form 1099 at year end.

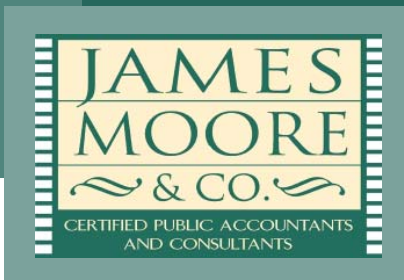
We hope you have found this information beneficial. As always, if you have questions, please do not hesitate to ask your responsible accountant.

As required by United States Treasury Regulations governing tax practice, you are hereby advised that any written tax advice contained herein was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

Again, thank you for allowing us to be of service.

Very truly yours,

*James Moore & Co., P.L.*



*Your Success Is Our Business*

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