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BRUNBERG
BLATT AND
COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

OF COUNSEL:

ARNOLD M. BLATT, CPA, CA
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November, 2011

Dear Client:

Re: Year-end W-2 and 1099 Reporting

The time for year-end reporting for wages and other types of payments is drawing near. A summary of wages and payments that are included or excluded as reportable income is accessible on our website at www.brunbergblatt.com or use the QR code below. Please review the W-2 and 1099 categories as the information summarizes the major reporting requirements for compensation related to W-2 and 1099-MISC issues. If one or more categories apply, if you have any special situations which are not outlined, or if you have any questions, we can assist you in the proper reporting of these items.

If Brunberg Blatt and Company prepares your quarterly payroll tax returns and W-2s and/or 1099s, please have the applicable information to prepare those forms to our office no later than **January 9, 2012** to allow us adequate time to complete them. If you use an outside service bureau or similar service to process your payroll, please contact them as soon as possible to determine their deadline for accepting such information (normally before 12/15/11).

Due to increased scrutiny from the IRS, owner/officers of S corporations should review their 2011 salary before year end. The IRS requires a "reasonable" salary be paid to shareholders. Although the IRS does not define "reasonable", we can provide you with guidance on determining your 2011 salary. Also due to recent IRS court cases, we recommend that owner/officers of S corporations be issued wages periodically throughout the year rather than a lump sum at year end.

Also pertaining to owner/officers of C and S corporations:

- *Personal use of company owned vehicles must be included as additional compensation on the W-2s of C and S corporation shareholders and employees.*
- *S corporation shareholders only: Company paid health and dental insurance premiums must be included as additional compensation on these shareholders' W-2s.*

As of January 1, 2011, the U. S. Department of the Treasury has eliminated paper Form 8109, which had allowed taxpayers to deposit federal taxes at the bank. Due to this change, taxpayers are **required** to deposit taxes electronically, using the Electronic Federal Tax Payment System (EFTPS). The web address to enroll to deposit federal taxes electronically is www.eftps.gov; click the "ENROLLMENT" button to begin. Failure to make payments using EFTPS online could result in a 10 percent failure-to-deposit penalty.

We have also enclosed a form for you to complete and return to us if you choose to have us assist you with your 1099 preparation. Please call if you have any questions. We look forward to assisting you.

Sincerely,



NOTE: The W-2 and 1099 are due to the payee on or before January 31, 2012 and must be filed with the government along with your W-3 or 1096 by February 29, 2012 (April 2, 2012, if filing electronically). A penalty may be assessed for filing late or if forms are filed with incorrect information.

FORM W-2

Included Items:

- Total wages, bonuses, prizes and awards paid to employees during the year.
- Value of group term life insurance coverage in excess of \$50,000 for employees.
- Personal use of employer's vehicle to the extent that the employer is not reimbursed by the employee for the value of the personal use. Please contact us if you need assistance with this calculation.
- Accident, health, and dental insurance premiums paid by S Corporations for greater than 2% shareholder-employees.
- Gifts of cash, gift certificates or similar items of readily convertible cash value.
- Employee contributions to Archer Medical Savings Accounts.
- Contributions for qualified long-term care services if the coverage is provided through a flexible spending or similar arrangement.
- Employee contributions to a Health Savings Account not made through a cafeteria plan.
- Certain payments of sick pay.
- Total tips reported by the employee to the employer (not allocated tips)
- Employee business expense reimbursements under a non-accountable plan.
- There are others such as moving allowance, education, etc... Please call if you have any questions.

Excluded Items:

- Employer contributions to pension and profit sharing plans.
- Life insurance premiums up to \$50,000 of group term life insurance.
- Accident, health, dental, and disability insurance premiums (except for greater than 2% shareholder-employees of S Corporations).
- Personal use of employer's vehicle to the extent that the employer is reimbursed by the employee for the value of the personal use.
- Employer payments for dependent care assistance (reported in box 10 on Form W-2).
- Meals furnished to an employee on the employer's business premises for the employer's convenience.
- Gifts of hams, turkeys, and other merchandise of nominal value distributed to all employees at Christmas or comparable holiday.
- Employee business expense reimbursements under an accountable plan.

FORM 1099-MISC

- \$600 or more of payments for services performed for your trade or business by people not treated as employees. Examples: fees to subcontractors or directors, and golden parachute payments.
- \$600 or more in rents or royalty payments, prizes and awards, other income payments, and medical health care payments in cash or property.
- \$600 or more to an attorney in connection with legal services, including payments to corporations.
- For each person to whom you have paid at least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest.
- Any fishing boat proceeds. In addition, use Form 1099-MISC to report direct sales of at least \$5,000 of consumer products to a buyer for resale.

- Each person from whom you have withheld any Federal income tax under the backup withholding rules regardless of the amount of the payment.
- Accrued wages and vacation pay due to a deceased employee and paid after the year of death.
- Amounts of forgone interest attributable to a below market loan.
- Crop insurance proceeds.

Excluded Items:

- Payments to a corporation, except for attorney fees.
- Payments for merchandise
- Payments of rent to real estate agents
- Wages paid to employees (reported on Form W-2)
- Business travel allowances paid to employees (reported on Form W-2)
- Scholarships
- Deceased employee's wages paid in the current taxable year (should be included on W-2)
- Cancelled debt (but see Form 1099-C if you are in the business of lending money and you forgave a debt during 2011)