

**THE ACCOUNTING OFFICES OF
BRUTON, NISSEN & SCHELLBERG, PS
Ninth Floor, Bellingham Towers
119 N Commercial Street Suite 990
P.O. Box 669
Bellingham, WA, 98227-0669**

**Scott Nissen - scott.taxoffice@gmail.com
Kenneth Schellberg - ken.taxoffice@gmail.com
Caroline Chapleau - carol_taxprep@hotmail.com
Kathy Michaelson - kathy.taxoffice@gmail.com**

**Phone (360) 671-0700
Fax (360) 671-3573**

Website: www.bnstax.com

2018

Dear Client,

We want to provide you with the fullest service possible so that you have to worry as little as possible about the accounting aspect of your business. However, some things must either be done by you or at least are done more efficiently and at less cost by you. We have tried to make the following list as short as it can be. Read it through carefully, please. **This stuff is important**; if you don't do it right you face tax liabilities. Please note that recent changes will appear in **BOLD TYPE**.

1. The Washington State minimum wage rises to **\$11.50 per hour for 2018**. Employees working more than 40 hours per week (whether on wages, salaries or commissions) must be paid overtime at 1½ times their regular rate. There are slightly different rules for the federal and state governments. Washington employers must follow the rule (state or federal) that is more favorable to the employee. Federal information can be found at https://www.dol.gov/whd/overtime_pay.htm. State of Washington information can be found at www.lni.wa.gov/WorkplaceRights/Wages/Overtime.
2. EMPLOYEE FRINGE BENEFITS.
 - A. Auto use. Employees and 1% or more owners or corporate officers of a corporation should be taxed on the value of their company owned/leased auto use for personal or commuting purposes. Withholding should be taken from wages on a regular basis. We strongly urge the regular use of an auto mileage log for business vehicles. Detailed logs kept for a representative period of time may be sufficient to support business use percentages.

2. EMPLOYEE FRINGE BENEFITS.....continued

- B. Medical insurance. Medical insurance for employees must be provided through a group medical insurance plan (note that for the premium tax credit eligibility, plans must be purchased through the SHOP marketplace). **In 2018 the SHOP marketplace is available in Whatcom County. Here is a link for more information on what is new in SHOP for 2018** <https://www.healthcare.gov/small-businesses/provide-shop-coverage/whats-new-2018-shop/>. Other arrangements that were acceptable before the passage of the Affordable Care Act are no longer valid. Many employers now have given employees raises with the hope that employees will use the extra money to purchase their own individual health insurance policies. We do not recommend that the employer pay amounts for individual health insurance premiums, even if the amount of those payments is deducted from net wages, nor do we recommend that an employer require substantiation that employees provide proof of any medical insurance coverage.

In the case of an S corporation with only owner employees nothing is changed (premiums paid or reimbursed are shown as wages subject to income tax withholding (but not fica and medicare tax) and deducted as an adjustment in income on Form 1040.

If there are other employees the corporation must offer a group plan or violate the non-discrimination requirements. With the absence of employee coverage any premiums paid would either be part of shareholder distributions, or deducted from net wages, but in either treatment the premiums would not be deductible as an adjustment to income on page one of Form 1040.

- C. Other Fringe Benefits. Examples: discounts, gifts, cash bonuses, tickets to entertainment events, use of entertainment, recreation or amusement property (e.g. photographic, DVDs etc, personal use of computers).

The employer should report to the employee the value of such benefits received and include the benefit in gross wages subject to tax withholding.

- D. Non-discrimination. As a general rule fringe benefits must not favor owners or the highly compensated, over other employees who work more than part-time. While the laws have changed recently in this area, the trend is towards equality of benefits.

3. INFORMATION RETURNS.

If you pay \$600 or more a year of business interest or \$600 or more to any person, partnership, or limited liability company (LLC) (not corporations but see “Note” below) for services or rent you must file a Form 1099 in the following January for each. We highly recommend, for your protection, that you get a form W-9 filled out or at least get the address and social security number (or taxpayer identification number, usually a 91-XXXXXXX number) from each recipient before making payment. There is a \$100 penalty for each failure to provide the taxpayer ID number. In certain circumstances you may be liable for 28% backup withholding on payments made.

Many software programs, such as Quickbooks, can generate most 1099 forms. If you need help setting up the 1099 features in Quickbooks, please call our office for assistance.

Note: The exemption for 1099 filings applying to corporations does not apply to corporations providing legal services.

Note: There is no \$600 threshold for Fishing 1099s. All fishing payments should be reported.

Note: Do not report payments made by credit card as they are reported to the IRS by the merchant service providers.

Filing deadlines for forms 1099 and W2:

January 31st:

Penalties: 30 days or fewer late \$50.00 penalty for each late form; 31 days or greater \$100.00 penalty for each late form. For filing after August 1st. \$250.00 each. We do not know how aggressive the Internal Revenue Service will be imposing these penalties. To avoid the penalties, you will need to have 1099-Misc forms and W-2s mailed to recipients and filed with the IRS by January 31st, 2018.

4. CASUAL LABOR/INDEPENDENT CONTRACTORS

There are rules about how much you, as an employer, have to pay if people you are treating as independent contractors turn out to be considered employees. (“Direct sellers,” usually individuals selling from their homes, and real estate salespeople are for sure independent contractors, so you’re safe there). If one of your independent contractors suddenly becomes considered an employee, then you have to pay back amounts for federal withholding and social security taxes.

4. CASUAL LABOR/INDEPENDENT CONTRACTORS.....continued

Essentially there is very little activity which properly can be treated as being non-employee labor. If you have work done that is not in your regular course of business, and the amounts of money involved is small (less than \$100 a year for social security tax purposes, less than \$50 a quarter in income tax withholding), that's about the maximum which is allowed. Additionally, the government agencies require the person have a business license and file statements of income and expenses with the IRS and have more than one source of income to be considered a legitimate subcontractor.

NOTE: The Department of Labor and Industries requires businesses in the construction industry to cover subcontractors as employees for industrial insurance purposes unless the subcontractor provides a certificate of coverage.

5. S CORPORATION WAGES FOR SHAREHOLDERS

This area is coming under more IRS scrutiny in recent years. Subchapter S corporations should be careful to pay officer/shareholders reasonable compensation in the form of wages subject to Social Security, Medicare and withholding taxes. Ideally these W-2s should include personal auto use of corporate vehicles. **Medical insurance for which the corporation has either paid the premiums or reimbursed the shareholder should be included in Box 1 wages (not subject to fica and medicare tax).**

6. SELF-EMPLOYED PERSONS

Self-employed persons who have low or no net profit may wish to use the optional method of computing Social Security tax to keep or establish eligibility for Social Security Disability payments. To be eligible a person needs credits (generally one's age less 22), twenty of which were earned in the ten years before disability. One credit is equivalent to **\$1320** of earnings and no more than four credits can be earned in any one year.

7. EMPLOYEE RECORDS

All employees must complete Forms W-4 and I-9 (available on our website www.bnstax.com under tax downloads - Tax Forms) as soon as they are hired. You must also notify the Department of Social and Health Services when you hire a new employee. The DSHS collects this information to help locate and collect child support payments from non-custodial parents. The completed W-4s with the bottom portion of W-4 including the name and address of employer and employer identification number should be faxed to DSHS at 1-800-782-0624. Each

employee claiming “exempt status” must provide a new W-4 every year (otherwise employers should withhold using single with zero exemptions).

7. EMPLOYEE RECORDS.....continued

Also you should retain employee time cards and/or work schedules. Ideally, records should indicate by day each employee’s actual beginning and ending hours of work. If the employee does different kinds of work, the time cards should note the jobs performed (this information is for the Department of Labor and Industries). Retain records of employees' first and last days of employment.

8. RECORDS FOR THE WA STATE DEPARTMENT OF REVENUE.

When this department audits, you’ll need to have conveniently on hand:

- A. Reseller Permits. Beginning in 2010 Washington State Resale Certificates have been replaced with Reseller Permits issued by the Washington State Department of Revenue. Application information can be found at www.dor.wa.gov/resellerpermit/. These permits must be renewed every four years.
- B. Equipment. Keep a file of all the purchase documents for the equipment and items on your depreciation schedules. The Department will want you to prove that you paid the sales tax on all these items.
- C. Use Tax. The Department will want to review your records to see that you have been paying use (sales) tax on non-resale items you’ve purchased from out-of-state, and on items that you’ve used yourself. This is a frequently overlooked item. Magazine subscriptions are a prime example. It would be a good practice to at least annually make an effort to review your checkbook and list items to be included in the December Sales/Business & Occupation Tax Report. Recently the Department of Revenue has been specifically auditing for use tax due primarily as more businesses have been purchasing over the Internet and not paying Washington State sales taxes on the purchases.
- D. Out-of-State Sales. Some out-of-state sales may be exempt from business and occupation and/or sales tax. The rules can be technical; please call us for more information if you do business out-of-state.
- E. Prices Including Sales Tax. Price lists, menus, etc., must clearly state if prices include sales tax. Furthermore, bars and restaurants must have an additional sign posted to the same effect.

- F. The Department of Revenue has been increasing audits regarding unclaimed property held by Washington State businesses. Examples of unclaimed property are uncashed checks, customer credit balances, and outstanding gift certificates. Generally unclaimed property held over three years (reporting years end on June 30th) must be reported to the State annually by November 1st. Beginning in 2016 all reports are to be filed electronically.

9. TRAVEL AND ENTERTAINMENT RECORDS

- A. Auto Travel. Maintain a daily log of miles driven, destination, purpose of trip and name of customer.
- B. Lodging Expense. You must have or be able to get receipts (cancelled checks will not suffice).
- C. Meals. You must have a diary of cost, and receipts for meals over \$75. For entertainment your records must provide the name, title, business, and your business relationship to the person entertained. Business meals and entertainment deductions are limited to 50% of cost. Meals must be:
1) directly related to the conduct of business; 2) have a clear business purpose; 3) not be lavish or extravagant; and 4) be provided in the presence of the taxpayers or an employee.

10. CREDIT FOR SMALL EMPLOYER HEALTH INSURANCE PREMIUMS

(Please use link to excel worksheet www.bnstax.com then click on Tax Downloads and then Credit Worksheet) Note: the credit is only available for group policies purchased through the SHOP marketplace.

11. DE MINIMIS CAPITALIZATION POLICY

The IRS default for expenditures to be capitalized (depreciated) instead of deducted as an expense is \$200 (e.g. a printer costing \$195 is deducted as office supplies and one costing \$200 is depreciated over 5 years generally). Our assumption in preparing your taxes will be that you adopted in 2014, 2015 or 2016 the written policy (or a suitable written substitute) that is found following this letter using a \$500 threshold. The written policy must be adopted before the commencement of any year. You can copy and paste the sample de minimis capitalization policy following this letter onto your company letter head noting the appropriate year and then print and keep the policy with your business records.

12. FORM FILING DEADLINES

Form	2018 Filing Due Date (Tax Year 2017)
Form 1065 - Partnerships	March 15th
C Corporations	April 17th
Form 1065 Extension	September 17th
Form 1041 Extension	October 1st
Form 5500 series - Employee Benefit Plan Extension	November 15th
FinCEN 114 - FBAR (will be allowed to extend)	April 17th

13. MISCELLANEOUS

There are significant penalties for substantial understatement of tax liability on returns filed with the Internal Revenue Service. Business taxpayers should be careful especially with labeling personal expenses paid through business accounts so that they are not included in the year’s business expenses.

Personal Property Tax Reports are due to the County Auditor by April 30th annually. Businesses are usually sent blank forms to list the equipment they own and lease and other items. The next year a tax is assessed on the depreciated value of these items. We will perform this service if you get us the form and information in a timely manner. Extensions are not granted for this annual listing deadline. Note : values may be listed at cost without the addition of sales or use tax.

The Washington Industrial Safety and Health Act (WISHA) requires all employers to adopt a written accident prevention program. Also, every Washington employer, no matter the number of employees, is required to have a safety and health committee plan. Also you can obtain a list of required and
13. Miscellaneous.....continued

recommended workplace posters at www.lni.wa.gov. Search under “publications by number” and scroll to publication F101-054-000. Employers are required to post a list of reportable workplace injuries.

When using a credit or debit card retain the actual charge slips. The Internal Revenue Service does not accept bank or credit card statements as proof expenses incurred. Similarly, we encourage clients to have copies of cleared checks be included with their bank statements.

We compiled this list to make you aware of items important to the government agencies, or items that the government often successfully attacks during audit. We would be happy to provide you with additional detail and particulars if you want to give us a call.

Sincerely,

Bruton, Nissen and Schellberg, P.S.

PRIVACY ACT NOTICE

(in compliance with the Gramm-Leach-Bliley Act)

We do not disclose any non-public information about our clients or former clients to anyone, except as instructed to do so by such clients. We maintain physical and procedural safeguards to guard your non-public personal information.

De Minimis Capitalization Policy

Effective for the tax year beginning January 1, 201____, we hereby establish the following accounting policy for both book and income tax purposes:

Expenditures (per item per invoice including sales tax, freight and installation) that result in an asset that will be used in business longer than twelve months that cost \$500 or less will be treated as an expense.

It is the intention of this policy to comply with the IRS Section 1.263(a)-1(f) de minimis safe harbor election.

**THE ACCOUNTING OFFICES OF
BRUTON, NISSEN & SCHELLBERG
119 N Commercial Street, Suite 990
P.O. Box 669
Bellingham, WA 98225**

**KENNETH SCHELLBERG
SCOTT NISSEN**

**PHONE: 360-671-0700
FAX: 360-671-3573
Website: www.bnstax.com
EIN: 91-1577936**

2018

**IMPORTANT – PLEASE COMPLETE AND RETURN TO US IF YOU WOULD LIKE
US TO PREPARE YOUR FORMS 1099**

Dear Client:

If you paid \$600 or more for rent, interest or personal services (attorneys, carpenters, electricians, etc. – does not include inventory), you must send a Form 1099 to the person who furnished such services. We will prepare these for you, or you can obtain blank forms from us. Note: Payments to attorneys of \$600 or more require 1099s no matter their form of business (i.e. issue 1099s to corporations, PLLCs, etc.). Also, all payments for fishing proceeds require 1099 filings, no matter the amount paid. Do not include payments you made by credit card as they are reported to the IRS by the credit card service providers.

Please list below such items (if amounts were paid to non-legal service corporations you do not need to list them). If you are not sure if the item qualifies, please list it. We must also have the correct name, address, and Social Security number or Federal Taxpayer Identification number for each person or company.

The IRS levies substantial penalties for failure to provide complete information.

Attached is a Form W-9. You may make copies of it to use for obtaining Social Security or Federal ID numbers from your recipients of payments. Note: Federal ID numbers are nine digits in the following form XX-XXXXXXX. In Washington, for older businesses, the first two digits were “91-.” Other numbers are also in use now. Some vendors try to give you their Washington State UBI numbers; such numbers are not acceptable in preparing forms 1099.

Your Company Name _____
Social Security or Federal ID# _____
Address _____ City, State _____
Phone _____ Zip _____

**COMPLETE FOR EACH INDIVIDUAL TO WHOM YOU PAID \$600 OR MORE DURING
THE YEAR.**

This form is continued on the back of this page. Attach additional sheets if needed. Please call us if you have questions or need other assistance.

To avoid penalties, the IRS requires that completed forms be mailed to recipients and the IRS by January 31st.

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____