AUGUST 2019 | VOL. 2

JMCPA MONTHLY MESSENGER

The Official Newsletter of Josh Mauer CPA

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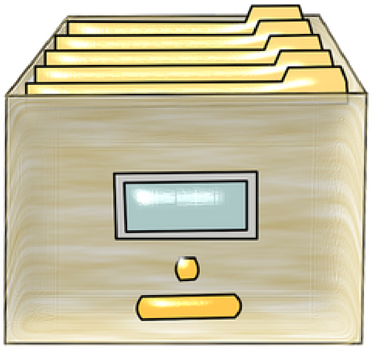
WE'RE TURNING 10!

Only five years after receiving his Master's Degree in Accounting, Josh went out on his own to form Josh Mauer CPA, LLC in August of 2009. Josh earned his Certified Public Accountant (CPA) certification in 2011 and eight years later, is on track to obtain his Enrolled Agent (EA) certification after completing the three-part exam - "just for fun" - sounds like a blast, right?

Want to know the coolest part about turning 10? It wouldn't be happening without **YOU**! Our business counts on your success, and we want to thank you from the bottom of our hearts, for entrusting us for your payroll, tax, and accounting needs. We are so grateful and so proud to work not just for you, but with you!

A REVIEW ON RECORDKEEPING REQUIREMENTS UNDER FLSA



Did you know that **all employers covered under the Fair Labor Standards Act must retain payroll records for all non-exempt employees for at least three years?** Additionally, records on which wage computations are based should be retained for at least two years (this may include time cards and piece work tickets, wage rate tables, work and time schedules, and records of additions to or deductions from wages).

The following list includes the essential records that employers must maintain, split into two sections - records that we maintain on your behalf and records that you must maintain.

Records We Maintain

- Employee's full name and social security number
- Address, including zip code (assuming all address updates are provided as they occur)
- Birthdate, if younger than 19 (assuming a completed Form I-9 or Employee Information Sheet is provided)
- Basis on which employee's wages are paid
- Regular hourly pay rate
- All additions to or deductions from the employee's wages
- Total wages paid each pay period
- Date of payment and the pay period covered by the payment

Records We Do Not Maintain

- Sex and occupation
- Time and day of week when employee's workweek begins (unless you process payroll on a weekly or bi-weekly schedule, in which we will assume midnight on Day 1 of your pay period)
- Hours worked each day
- Total hours worked each workweek (unless you process payroll on a weekly schedule)
- Total daily or weekly straight-time earnings (based on hours worked each day)
- Total overtime earnings for the workweek (unless you process payroll on a weekly schedule - otherwise, we only maintain overtime earnings per pay period)

START GATHERING W-9 FORMS!

Can you believe over half of 2019 has already passed us by?! For each contractor or vendor whom you have paid or expect to pay at least $600 in 2019, get prepared for year-end Form 1099 processing by reaching out to request a Form W-9. As a rule of thumb, we always recommend getting a completed Form W-9 from these businesses or individuals *before* you pay them. Common payments for which a Form 1099-MISC is not required include payments to corporations (including LLCs) that are treated as C or S corporations; payments to tax-exempt organizations; payments for merchandise, telephone, freight, storage, and similar items; and payments of rent to real estate agents or property managers. Click anywhere in this textbox for a complete listing.

ACCOUNTABLE PLANS

Accountable plans save lots on taxes so plan correctly to take advantage of them! Many types of expenses qualify... but don't let expense report blunders trigger unnecessary taxes, punishing you and your employees.

Estimated Tax Tip Savings

Imagine this: you (or one of your employees) submit $12,000 of expenses that the IRS deems wages, not expense reimbursements, causing $4,836 in extra taxes.

When employees spend money on behalf of your business, you probably reimburse them and deduct the expense. That's a perfectly acceptable practice if you're following the IRS expense reporting rules, which tax law calls the "accountable plan" rules. However, if you don't follow these practices - and many business owners do not - you're exposing yourself and your employees to thousands of dollars in additional, unnecessary taxes. Even worse, if you operate your business as an S or C corporation, you are an employee too, which means the IRS will whop you with this stick from both ends – as both a business owner and an employee!

Josh, you got us covered right?

Well, not exactly. We try. This is operational stuff. Most outsourced accountants are working after the fact. This has to be implemented as a company policy and then controlled. We can definitely help. Accountants, like everyone else, have fees for all that we do. Fortunately, this is not a significant cost driver, and like most of your tax planner/accounting fees, they usually pay for themselves. We have the templates and the process to help this get established. Just book an appointment with anyone in the office, and we can get it kicked off and identify costs that you may be missing for reducing your taxes. Most times, it's a one-time engagement to get your business on the right path. If you want continued support, we can handle that too.

Reimbursements Versus Wages

Typically when you pay an employee, you pay him or her wages that are subject to employment taxes and income taxes.(1) These wages generally do not include monies to properly reimburse them for expenses incurred in the course of their employment. With proper reimbursement, you or your corporation deducts the expenses that the employee submits for reimbursement; and the reimbursement is tax-free to the employee. However, without a proper accountable plan, the IRS treats the reimbursements as wages for tax purposes.(2) Although you or your corporation, as the employer, can still deduct this amount as compensation, the wage classification triggers additional employment taxes for both the employer and the employee.

Corporation Owners Are Employees

If you operate your business as an S or C corporation, you are an employee of the corporation. That means you and the corporation have to follow the accountable plan rules when you incur expenses on behalf of the corporation.

ACCOUNTABLE PLANS CONT.

Example for the S Corporation Owner
You own an S corporation and take a trip out of town each month to visit suppliers and other business associates. Your transportation and lodging expenses cost you $1,000 each trip ($12,000 total for the year), and your S corporation reimburses you for these amounts.

Here is what happens when you violate the accountable plan rules:
1. The corporation treats the reimbursement as wages, which creates $1,836 of additional employment taxes ($12,000 x 15.3 percent).
2. The corporation deducts the payment as compensation.
3. You, as an employee, treat the expense as an itemized deduction, where one of three possible bad things happens, as mentioned above. Let’s say you do not itemize, so you lose 100 percent of your deduction. In the 25 percent tax bracket, this means you lose $3,000 of income tax savings ($12,000 x 25 percent).(3)
4. Overall, the cost of violating the accountable plan rules is $4,836 ($1,836 in payroll taxes plus $3,000 in income taxes).

Follow the Accountable Plan Rules
The accountable plan rules create a roadmap to getting your (and your corporations, if incorporated) expense reporting requirements in good order for tax purposes. Tax rules do not require you to create a written accountable plan. However, you or your corporation should put the plan in writing to make it clear and usable both for you and your employees (and should the IRS come knocking, your written plan puts you in the driver’s seat).

There are four major requirements:(4)
1. Business connection. The expense must be a deductible business expense that arises in the course of business.
2. Substantiation. Employees must submit to the employer all elements of proof that tax law requires for that particular expense.
3. No excess payment. The employee must return any excess advances or reimbursements within a reasonable time, or the IRS will tax that excess payment as wages.
4. Timeliness. Reimbursements and substantiation must be timely, as explained below.

Of course, once you establish the plan, you must also do what the plan says. The IRS may invalidate the plan if you show a pattern of disregarding the rules.(5)

Expense Reports - Put It All Together
One way to ensure that you and your employees comply with the accountable plan rules is to fill out an expense report after you incur an expense. The law simply requires employees to substantiate their expenses to the employer, not to fill out a formal expense report. However, the expense report is a handy way to ensure that you complete all the elements of proof that the law requires forgiven expenses.

ACCOUNTABLE PLANS CONT.

Be on Time

You and your employees must complete all stages of the reimbursement process in a timely fashion. The IRS likes your records to be as close in time to the actual expenses as possible - and this makes for better proof. What does timeliness mean, specifically? The IRS says that timeliness is determined by the "facts and circumstances" of each situation.

To help provide some certainty, the IRS has safe harbors that are always considered timely:(6)

- Advances made within 30 days of when an expense is paid or incurred
- Substantiation of expense made within 60 days after the expense is paid or incurred
- Returns of amounts in excess of substantiated expenses made within 120 days after an expense is paid or incurred
- Substantiation of expense or returns of excess amounts made within 120 days after the receipt of a periodic statement (if the periodic statement is made at least quarterly)

Takeaways

Make certain that you subject your employees to an expense reporting requirement. If you operate your business as a corporation, make sure that your corporation requires expense reporting by all employees, including you, the owner-employee. If you do this and follow the easy guidelines in the accountable plan rules, you can sleep at night knowing that you are not putting yourself or your employees in tax peril. Tax peril is bad because it makes employees furious. You can create those furious employees when you, because of your or your corporation's carelessness, made your employees pay more in taxes than they should have.

(1) See IRC Section 3306(b).
(2) IRC Sections 62(a)(2)(A); 62(c); Reg. Section 1.62-2(c)(4).
(3) For simplicity, this example ignores the $230 additional income tax deduction you receive by virtue of paying additional employment taxes ($6,000 x .153 x .25).
(4) Reg. Section 1.62-2.
(5) Reg. Section 1.62-2(k).
(6) Reg. Section 1.62-2(g).

UPCOMING EVENTS

Josh will be speaking about - you guessed it! - Accountable Plans on August 15th at the Johnson County Central Resource Center. Josh **highly** recommends your attendance of this discussion.

To RSVP for this event, join the **Overland Park Tax and Accounting Meetup Group** on Meetup.com, view our events page on Facebook.com, or reach out to any staff member to request an email invitation. We hope to see you there!

Rescheduled: Thursday, August 15 - 6:30pm