



December 2008

Dear Business Client,

We are writing to remind you of some of the year end procedures that your company should consider now that we are in the final month of the calendar year. Perhaps not all of these issues will be directly relevant to your company for the current year but they should be reviewed to determine their usefulness to your company's needs.

The first issue to consider is whether or not your company is required to file IRS 1099 forms for vendors that you have paid in 2008. We are attaching the general requirements for 1099/1096 reporting. Please review this attachment to determine under what circumstances your company needs to file these reports. We also want to provide you with the IRS web site links to the instructions for the 1099 forms and the related W-9 form. Please go to our website at [www.WittenbergCPA.com](http://www.WittenbergCPA.com) and use the link tab to access the IRS website where you can choose forms from their home page.

Another consideration is to hold your company's annual meeting. If your company is incorporated (either C or S corporation) the officers and shareholders should hold annual meetings to determine matters that are essential to the management and operations of the company. Please refer to your company's articles of incorporation and bylaws or consult with your company's attorney to determine the annual meeting requirements of your company. Limited Liability Companies (LLC's) are not required to hold annual meetings however this practice is highly recommended to clarify company policies and changes in operational matters. We are attaching a list of potential topics to be considered for your company's annual meeting to provide you with some guidance on relevant issues.

We also want to bring to your attention some guidelines for record retention. The minimum required period for retaining financial records is 3 years, which is the look back period that the IRS and other tax authorities enforce. Our office recommends a 7 year archiving of relevant tax and accounting support information to make certain that any prior year issue can be resolved with the proper factual financial and employment data.

Make sure that you provide your resale certificate as required by the State of WA's Department of Revenue. The buyer (a.k.a. the retailer or contractor) must provide a properly completed resale certificate to the seller (a.k.a. the wholesaler or subcontractor) in order to substantiate the fact that the seller is not responsible to collect sales taxes from the buyer, or else the Department of Revenue deems the seller responsible for the uncollected sales taxes.

If you haven't already, remember to consider establishing an employee benefit type of plan, in which the employees, as well as the owners/officers of the company can all receive benefits. You may want to consider establishing a retirement type of plan, such as a SIMPLE IRA plan, which allows employees to defer a portion of their wages, along with a relatively modest company match, as a means to deferring taxable income of the employee as well as allowing a deductible, non-payroll taxable form of compensating your employees. This is one of many retirement plan options your company can consider adding and we can certainly discuss all of the options with you if you are interested.

Another possibility, especially if your medical insurance premiums have risen significantly, is to set up a health saving account (HSA) plan, which when combined with a lower cost major medical type of insurance plan, allows the employees of the company, as well as the company at the discretion of the ownership, to contribute toward a medical savings account, which can be either used by the employee during the year of contribution or else carried over indefinitely for future medical costs, or eventually as a retirement type of fund, similar to an IRA. We can discuss the details of this employee benefit options with you at your convenience.

New for the 2009 calendar year is the opt-out requirement for corporate officers of for-profit corporations to exempt themselves out of State of WA unemployment insurance coverage, effective January 1, 2009. In order to exempt corporate officers from coverage, a separate request for each officer must be submitted on an approved form - even if your company's officers were exempt under the old rules. The form can be accessed on Employment Security Department's website or under the Resources section of our website <[www.wittenbergcpa.com/resourcesgovtforms.html](http://www.wittenbergcpa.com/resourcesgovtforms.html)>. This is fundamentally different than under previous rules where corporate officers would opt-in for unemployment insurance. Please contact us if you need help in determining the best option for your corporate officer(s) or help in completing the required documents.

Another new policy in 2009, as required by federal law, is that in order to provide 3<sup>rd</sup> party users (e.g. bankers, insurance agents, etc) with a copy of your tax return, or with information from your tax return, is that we obtain written consent from you prior to the release of this information. Each time you ask us to send a copy of your tax return, or the content of your tax return, to a 3<sup>rd</sup> party, we must ask you to sign a written consent form, which we will provide you, in advance of the issuance of such information.

This correspondence is meant to be useful in reminding you of a few of the more relevant year end issues that your company should address. Please contact our office if you have questions about these matters or concerns about other year end procedures.

Best Regards,  
Wittenberg CPA, PS



## End of Year Payroll Considerations

We are writing as a year end reminder for you to update pertinent information on behalf of your employees that is either required by law or is relevant to your company's record keeping. Please refer to <http://www.wittenbergcpa.com/resourcesgovtforms.html> for relevant government forms including; W-4, INS Form I-9 and the DSHS New Hire Reporting information. Also, remember that the **minimum wage has been increased to \$8.55** per hour, effective January 1, 2009.

Please have each of your **current employees** complete a **2009** W-4 form, and provide a copy to our office as soon as possible. This allows your employees to assess and possibly change their withholding status and confirm their social security number, marital status and mailing address.

Each **new employee** must complete a 2009 form W-4 (lines #1-7) along with their signature, date of hire and date of birth. As the employer, you need to complete lines #8-10 and forward a copy of the W-4 to our office. You must complete and retain the Form I-9. Please let us know if we can assist you with the DSHS New Hire Reporting requirements.

We'd like to remind you that Washington State law (under RCW 50.12.070 and WAC 192-12-050) requires that the following information needs to be maintained by employers:

- Name (in full) and date of birth of the employee
- Social Security number
- Days and weeks when work was completed
- Dates and hours worked (specific time in and time out)
- Wages paid for each separate pay period
- Location where work was performed
- Date when engaged or re-hired to work
- Date when the individuals name was removed from the payroll
- Cause of separation from work due to discharge, quit, etc.

According to the State of Washington these employee records are to be kept for a period of at least four years, but our office recommends seven years. We also recommend that you maintain an employee policy and procedure manual and that you review the overall content of your employees' files annually for completeness.

Don't hesitate to let someone in our office know if we can assist you in completing the required forms or to help you understand the rules as they apply to your company.



## Summary of 1099 Reporting Requirements

Basically, you are required to prepare 1099s for any unincorporated business or individual that you have paid more than \$600.00 to for services (e.g. cleaning, repairing of your equipment or property, or accounting and consulting services) or for services combined with material use, such as is the case when paying a contractor or subcontractor.

Also, any amounts your business pays during the year (if over \$600.00) to a lawyer, law firm or to a medical or health care service provider, are reportable on a 1099, regardless of whether or not they are incorporated.

Finally, rental charges for all types of rent of more than \$600.00 paid to a non-incorporated business or individual during the year are also reportable on a 1099. You don't need to prepare a 1099 for rent paid to a real estate agent or corporation.

It is always best to get a W-9 from a potential 1099 vendor, prior to paying them, however in lieu of obtaining a W-9, if the vendor is not cooperating for whatever reason, you can contact the vendor and request their federal taxpayer ID number and legal name instead.

### 1099 Reporting Examples

Do any of the following circumstances relate to you or your company?

- Your business pays you for the rental of office or shop space.
- Your business has paid another unincorporated business over \$600.00 for any rental or lease charges.
- Your business has paid over \$600.00 to an individual, sole proprietor, or partnership for services (including parts and materials), like cleaning, repairing, remodeling, or constructing property owned by the business.
- Your business has paid over \$600.00 to an unincorporated individual or business for services such as consulting, general management, clerical, bookkeeping, and/or accounting. (Our firm is incorporated so you don't have worry about preparing a 1099 for services we have provided.)
- Your business has paid over \$600.00 to an individual, sole proprietorship, or partnership for subcontracted services (including parts and materials) that you invoiced your customers for.
- Your business has paid over \$600.00 to an attorney or law firm for legal services. (Even if the firm/attorney is incorporated.)
- Your business paid over \$600.00 to any individual or business, even if incorporated, for medical or healthcare services.

There are two filing deadlines pertinent to 1096/1099 reporting – the 1096, along with the IRS copy of the 1099, is to be postmarked to the IRS by 2/28/09 and the 1099, vendor copy, is to be postmarked to the vendor by 1/31/09. Please call our office if you have any questions regarding your specific circumstances. We can also provide you with a copy of the IRS publication regarding 1099 MISC reporting at your request.



## Suggested Annual Meeting Topics for Corporations and LLCs

1. The following are general items included in the minutes:
  - a) Was proper notice of the meeting issued in accordance with the bylaws and/or state statute?
  - b) Quorum present or waiver of quorum?
  - c) Acceptance of prior meeting's minutes?
  - d) Election of officers or determination of managing members?
  - e) Officers' review of company results for the year?
  - f) Ratification of significant officer actions for the prior year?
2. Do the minutes specifically reflect the following:
  - a) Approval and accrual of officers' bonuses or members' guaranteed payments for the year (plus ratification of any bonuses previously paid during the year)?
  - b) Establishment of fringe benefit plans for employees and owners (such as a retirement, health, or group life insurance plan)?
  - c) Determination of retirement plan contribution?
  - d) Reasons for accumulations of earnings?
  - e) Listing of officer salaries or member's guaranteed partner payments for next year (along with justification if they are likely to be challenged as excessive)?
  - f) Approval of loans to employees (and terms of such loans)?
  - g) Approval of loans to/from shareholders or members (and terms of such loans)?
  - h) Review of the lease agreements and other legal contracts with outside parties.
  - i) Board of Directors approval by the end of the tax year of charitable contributions to be paid within 2 \_ months after tax year-end.
  - j) Personal use of employer-provided autos to shareholders is part of the shareholder's compensation?
  - k) Reasons why a shareholder/employee received inadequate compensation during the year and intention to pay make-up compensation in future?
3. Does the corporation's or company's valuation for purposes of a buy/sell agreement or estate valuation need to be updated? If so, are the results included in the minutes?
4. Are the following capital structure transactions covered in the minutes:
  - a) Approval of any new stock issued?
  - b) Approval of any stock redeemed or retired to treasury?
  - c) Approval of any stock or stock options issued as compensation? (Consider whether to recommend that the stock recipient make a Section 83(b) election.)
  - d) Approval of any sale, liquidation, or reorganization?
  - e) Approval of any Section 351 asset transfers?
  - f) How dividend payment amounts were set or reasons for not paying dividends?
5. Was S corporation status or other IRS elections considered?



## Employment Security Rule Change for 2009

The Employment Security Department has a new rule effective January 1, 2009 regarding the Corporate Officer wage exemption from state unemployment taxes.

The old rule automatically assumed that corporate officers were exempt unless they requested to be covered under state unemployment insurance. The new rule is that corporate officers are not exempt and must pay unemployment taxes on their gross wages, unless they complete and fax or mail in a Corporation Officer Exemption Form by January 15<sup>th</sup>.

These are a few considerations in choosing whether to be exempt or not, so please contact us if you have questions about your individual situation, and consider the following:

- In 2009 you will have to report and pay taxes on the first \$35,700 of your gross wages, so that can be a somewhat small cost if your rate is low, or quite a large one, if you have a high unemployment tax rate. You should receive your 2009 rate notice soon, if you haven't already.
- If you don't report wages and pay state unemployment tax on Corporate Officers your Federal Unemployment Tax rate could possibly increase to 6.2% of the first \$7,000.00 of wages, depending on your other payroll activity. Alternatively, if your state unemployment tax rate is low you could save money by paying state unemployment taxes.
- Your unemployment rate is subject to change based on the state's reserve fund balance and your own claim history. It can increase significantly if you have a large claim against your history, especially if you have a small payroll.
- You would generally not be able to receive unemployment benefits unless your business dissolves and you are no longer a company officer. Basically, your status as the owner of a business makes it harder for you to file for unemployment benefits.
- Once you file to for an exempt a corporate officer status, you cannot reinstate unemployment coverage until 2014, unless the officer no longer qualifies to be exempt.

To summarize, remember that if you have been reporting as an exempt corporate officer, and you would like to continue as such, you must complete the Employment Security's opt out form as noted above, whereas if you have been reporting and paying unemployment tax on your officer wages, and you like to continue to do so, you don't need to take any action.

