



December 2022

## YEAR END PAYROLL NEWSLETTER

### GREETINGS CLIENTS AND FRIENDS,

Season's Greetings from the Insight Accounting Group team. As the tax year draws to a close and we take time to reflect, we want to say thank you to you for what you and your business contribute to our local and national economy. According to the US Small Business Association, businesses with less than 500 employees collectively create over 66% of new jobs, 48% of all US employees work from small businesses and small business represents 44% of the total US economic activity. At Insight, small businesses are the heart of what we do, and we thank you for your continued support and partnership.

The following letter includes payroll and other miscellaneous information that may be helpful in fulfilling your payroll and related reporting responsibilities. This document is not intended to be a complete guide to payroll, but we hope it will help you stay in touch with any payroll-related changes which may apply to your company. If you have any questions or need any additional assistance with specifics, do not hesitate to call for further clarification.

Wishing you a Happy Holiday and joyful New Year,

*Insight Accounting Group*

### IMPORTANT FOR 2022

#### ❖ Information Return Intake System (IRIS)

As a result of Section 2102 of the Taxpayer First Act, the IRS is launching an online portal that will allow taxpayers to electronically file both small and large volumes of 1099 Forms. This new portal known as Information Return Intake System (IRIS) will launch January 2023 for tax year 2022.

IRIS will allow you to:

- Submit small or large volumes of Forms 1099 series
- File electronically without software
- Choose an electronic filing option

### ❖ Employee Retention Credit

Employers may file Form 941-X up to three years after the original payroll taxes were due, which is typically on **April 15**. Thus, employers may claim the 2020 ERTC until April 15, 2024, and the 2021 ERTC until April 15, 2025.

To learn more about ERC please see our recent article <https://insightaccountinggroup.com/does-my-business-qualify-to-claim-the-employee-retention-credit-erc/>

## YEAR-END REPORTING

### ❖ Accelerated Employer W-2/1099-NEC Filing Deadline

The January 31, 2023 due date for filing employee copies of Form W-2 and recipient copies of Form 1099 remains unchanged.

**We must receive your completed information for Forms W-2 and Forms 1099-NEC by January 16, 2023, to ensure adequate time for processing. Any information received after January 16<sup>th</sup> cannot be guaranteed for completion by January 31, 2023. When possible, government copies will be filed electronically to ensure timely submission and acceptance.**

### ❖ Form 1099-NEC

Starting in 2021 the IRS released a new information reporting document Form 1099-NEC. Refer to page 11 in this document for more information regarding 1099 reporting.

[Link: Form 1099-NEC](#) or <https://www.irs.gov/pub/irs-pdf/f1099nec.pdf>

### ❖ The 2022 Form W-4, Employee's Withholding Certificate

No significant changes have been made to the 2022 form.

[Link: 2022 Form W-4](#) or <https://www.irs.gov/pub/irs-pdf/fw4.pdf>

Individuals are advised to use the tools available on the IRS website to help determine withholding.

[Link: Tax Withholding Estimator Tool](#) or <https://www.irs.gov/individuals/tax-withholding-estimator>

### ❖ Payroll bank reconciliation

Prior to processing year end information returns, bank reconciliations need to be performed for December 31, 2022, to help ensure that all reportable transactions are included. Standard practice is to reconcile monthly. Doing so will help mitigate errors and reduce the need for filing amended returns.

### ❖ Annual wage reconciliation

Both the IRS and Social Security Administration use the totals from Forms W-3 and the totals from the four quarterly Forms 941 to reconcile year-to-date wage and tax information. Form W-3 is a summary of the individual Form W-2s. The following amounts should be compared:

- Wages subject to federal income tax
- Federal income tax withheld
- Social Security wages, Social Security tips, and Medicare wages and tips
- Social Security taxes and Medicare taxes

If any of the W-2 amounts do not agree with the amounts reported on Forms 941/943, investigate, and identify the reason before filing the W-2 and fourth quarter Form 941. Be sure to correct any errors before filing.

#### ❖ **Special Accounting Rule**

An employer may elect to treat the value of taxable noncash fringe benefits provided in November and December, or any other shorter period during that time, as paid in the subsequent year. This applies only to the benefits provided during November and December, not to benefits that were provided earlier in the year but are treated as being paid during those months. The special accounting rule is limited to noncash fringe benefits (i.e., personal use of a company car, personal flights on a company airplane, discounts on property or services, etc.).

**Example:** The value of taxable noncash fringe benefits provided in November and December 2022, can be treated as provided in 2023, together with the value of benefits provided from January – October 2023.

When using the special accounting rule, employers are required to notify the affected employees of the period for which they used it. The notification must be made by the date the employer provides the Forms W-2 to employees. If the rule is used for a benefit, it must be used for all employees who receive the benefit. With the accelerated W-2 filing deadline, the special accounting rule becomes more valuable.

#### ❖ **Corrected Forms W-2 Not Required for De Minimis Errors**

The PATH Act provides a “safe-harbor” from penalties for failure to file a correct information return or payee statement if it includes a de minimis error. For withholding, the safe harbor for any single amount is \$25. For other errors, the threshold for any single amount is \$100. However, the recipient of the W-2 or 1099 may elect to have a corrected form furnished.

#### ❖ **Affordable Care Act (ACA) – Employer Shared Responsibility (ESR) Provisions**

**Although the individual mandate to have insurance or pay a fine has been repealed (unless you live in New Jersey or Massachusetts), the other provisions in the ACA remain in effect.**

If you employ over 100 full-time or full-time equivalent (average of 30 hours per week) employees, you are considered an “applicable large employer” or ALE and are subject to the Employer Shared Responsibility (ESR) provisions. Employers that sponsor a self-insured health plan are also subject to the same reporting requirements. These provisions were effective January 1, 2015, but if you still need assistance, we urge you to contact your insurance provider or benefits coordinator for additional guidance. Penalties for failure to file and/or furnish correct ACA information returns are \$280 per return.

#### ❖ **Cafeteria Plans and Flexible Benefit Plans for Business Owners**

The terms “cafeteria plans” and “flexible benefit plans” are used interchangeably to refer to a “menu” from which employees may select various benefit options.

The regulations provide that a cafeteria plan is a separate written plan that complies with the requirements of Internal Revenue Code Section 125. Participants must be permitted to choose among at least one permitted taxable benefit (e.g., salary reduction) and at least one qualified (nontaxable) benefit. Participants must be employees, but a spouse or dependents may receive benefits as well.

Sponsoring a Section 125 Plan not only comes with benefits but also documentation requirements. The process of setting up and maintaining a plan is very simple, but you should seek the assistance of a professional. Penalties for non-compliance can be stiff depending on the violation.

#### ❖ **W-2 Reporting of Cost of Employer-Provided Health Coverage**

Presently, an employer is not subject to the reporting requirement for any calendar year if the employer was required to file fewer than 50 Forms W-2 in the preceding calendar year. However, any employer may choose to report this information voluntarily.

The total cost of employer-sponsored health insurance should be reported on the Form W-2 in Box 12, using Code DD. The amount reported should include both the portion paid by the employer and the portion paid by the employee. If you have questions as to what should be included, please contact us for further details.

Self-employed individuals are not treated as employees for purposes of Section 125. Accordingly, sole proprietors, partners and 2% shareholders of an S Corporation and their respective spouses are not eligible employee participants of cafeteria plans.

#### ❖ **2022 Wage Bases**

Social Security (OASDI) wage base	\$ 147,000	(\$160,200 for 2023)
Federal unemployment wage base	\$ 7,000	
Indiana unemployment wage base	\$ 9,500	
Michigan unemployment wage base	\$ 9,500 or	\$9,000 for non-delinquent contributing employers

An additional .9% of Medicare tax must be withheld for individuals whose earnings exceed \$200,000. This makes the effective employee Medicare tax rate 2.35% on wages over \$200,000.

#### ❖ **Indiana & County Income Tax Rates**

The Indiana state income tax rate remained at 3.23% for 2022 but drops to 3.15% for 2023 and 2024.

Employers must withhold Indiana state tax from employees' wages unless the employees live in a state that has a Reciprocal Agreement with Indiana. Indiana has established reciprocity agreements with Kentucky, Michigan, Ohio, Pennsylvania, and Wisconsin concerning the collection of income tax from nonresidents employed in Indiana. Employers are encouraged to withhold the appropriate taxes on behalf of the state where the employee resides but are not required to do so.

Important: Employers **must** withhold Indiana county tax from reciprocal state employees who work in Indiana as of January 1 of the year.

All Indiana counties have their own county tax rates. Indiana residents must pay county taxes based on where they live on January 1 of each year. A new WH-4 must be completed if their residency changes during the year so that their withholding can be changed on January 1 of the following year. Changes to employees' local tax rates should NOT be made mid-year.

[Indiana Local Income Tax Rates by County](https://www.in.gov/dor/files/dn01.pdf) or <https://www.in.gov/dor/files/dn01.pdf>

### **IMPORTANT REMINDERS**

- ❖ If the amount of the **health insurance premiums paid on behalf of a 2% or greater shareholder** is not reported as wages on the W-2, an “above the line” adjustment will not be allowed on the shareholder’s personal tax return. Please refer to the fringe benefit section of this letter for further details on how this should be reported.
- ❖ Any **adjustments that need to be made to an employee’s wages for taxable fringe benefits** should be entered prior to processing the last regular payroll of the year so that the applicable taxes can be withheld or adjusted accordingly. Failure to do so will result in the employer paying the taxes and the need to include this additional income to the employee. Please refer to the “gross-up calculation” later in this letter for details.
- ❖ The **retirement plan checkbox in Box 13 of Form W-2** should be checked if the employee was an active participant for any part of the year in a qualified retirement plan. Do not mark this box if the employee is eligible to contribute but elects not to contribute any money in the current tax year. Different rules are applied depending upon whether the retirement plan is a defined benefit or a defined contribution plan. If you have questions, please consult us for clarification. This is a common error on a W-2 and can affect the deductibility of an employee’s traditional IRA contributions.
- ❖ Early in December, **request that employees review their name, address, and Social Security numbers for accuracy**. A suggestion would be to prepare a short memo with this request and provide the current information you have for them in your payroll records. Request that they make any necessary changes, sign the memo, and return it to you. Remind employees to report any name changes due to marriage, divorce, etc. to the Social Security Administration (SSA) first. After they receive a new Social Security card and present it to you, then you can change your records to reflect their new name.

### **FRINGE BENEFITS**

What checks have you written to your employees? This is a good place to start when determining if there will need to be year-end adjustments made to their W-2’s. IRS regulations define gross income as “all income from whatever source derived, including (but not limited to) compensation for services, including fees, commissions, fringe benefits and similar items”. Regulations further explain that “gross income means all income from whatever source derived, unless excluded by law. Gross income includes income realized in any form, whether in money, property or services. There is no dollar limit on de minimis fringe benefits.

IRS Publication 15-B, Employer’s Tax Guide to Fringe Benefits, provides a more detailed discussion on the taxation of many fringe benefits. We will discuss the most common non-cash fringe benefits to be reported as income, i.e., personal use of company car, group-term life insurance, etc. Non-cash fringe benefits are generally subject to income tax, Social Security, Medicare, and unemployment tax rules.

**Attachment 1** is a condensed checklist of the most common taxable fringe benefits. We hope you will find this a useful tool and a reminder of those items which you may need to consider. If any items apply to your company, please refer to the more detailed explanations which follow.

❖ **Taxable Amount of Fringe Benefits**

The employer is required to withhold income taxes and pay Social Security, Medicare, and unemployment taxes on taxable fringe benefits. The employer has two options in determining how to withhold federal income taxes from fringe benefits. The value of the fringe benefits can be added to the employee's regular wages for a payroll period and calculate the taxes on the total, or the employer may withhold federal income tax on the value of the benefit at the supplemental rate of 22%. This rate applies to supplemental wages up to and including \$1 million. The mandatory flat tax rate is 37% for supplemental wages over \$1 million. To determine the amount to be withheld and when to deposit the taxes, you may elect to handle fringe benefits as paid by the pay period, monthly, quarterly, or annually.

❖ **Gross up Calculation**

An employer may choose to pay the applicable income and employment taxes on behalf of the employee on the taxable value of a fringe benefit. When an employer pays the taxes, this is referred to as the "gross-up" method and the taxes paid on behalf of the employee become wages as well. They are reported as federal, state, and local wages, as well as federal and state unemployment wages. To determine the employee's "gross-up", use the following formula:

Amount of Payment (divided by) / 100% - (employee tax due %\*) = Taxable income included in W-2 for payment

*\*Example of employee tax due %*

<i>Federal income tax rate</i>	<i>25.00%</i>
<i>Indiana &amp; Elkhart county income tax rate</i>	<i>5.23%</i>
<i>Employee portion of SS &amp; Medicare</i>	<i>7.65%</i>
<i>Total employee tax due</i>	<i>37.88%</i>

❖ **Officer or Owner Life Insurance**

Premiums for life insurance that does not name the company as the beneficiary should be taxed as wages to the officer or owner who is the beneficiary of the policy. This rule applies regardless of who owns the policy. It is the beneficiary designation that affects the taxability as a fringe benefit.

Example 1: An S Corporation purchases an insurance policy on a shareholder but names the shareholder's spouse as the beneficiary of the policy. Because the corporation is not the beneficiary, the premiums it pays on the shareholder's behalf should be included in the taxable wages of either the spouse, or if the spouse is not an employee, the shareholder's wages.

Example 2: Shareholder A in an S Corporation purchases life insurance on Shareholder B. The corporation pays the premiums on the policy, but Shareholder A is the sole beneficiary. The corporation should include the full amount of the premiums paid on Shareholder A's Form W-2.

❖ Group-term Life Insurance

Employer provided group-term life insurance coverage with a value of \$50,000 or less is a tax-free benefit to the employee if it is provided in a non-discriminatory fashion. The value of the coverage more than \$50,000, less any employee after-tax payroll deductions, is taxable income.

The employer is not required to withhold income taxes on the taxable portion of group-term life insurance, but the value is subject to federal and state income, Social Security and Medicare tax and must be reported on the employee's W-2 Boxes 1, 3, 5, 16 and 18. It is also reported in Box 12 with a Code of "C". Although the value is not taxable for federal (FUTA) and state (SUTA) unemployment purposes, it is reported as total wages and then included in the excludable wages.

Table 1 below may be used to determine the amount of the taxable benefit to be reported on the employee's W-2. The employee's age as of December 31<sup>st</sup> must first be determined.

<b>TABLE 1</b>	
Employee Age	Cost per \$1,000 Coverage/Month
Under 25	0.05
25 to 29	0.06
30 to 34	0.08
35 to 39	0.09
40 to 44	0.10
45 to 49	0.15
50 to 54	0.23
55 to 59	0.43
60 to 64	0.66
65 to 69	1.27
70 or over	2.06

Using the cost figures in the above table, the taxable amount is determined by the following formula:

$$\frac{C - \$50,000}{\$1,000} \times Y \times M = \text{Taxable amount (less any employee after-tax deductions)}$$

C = the dollar amount of the coverage provided

Y = the cost per \$1,000 of coverage from the above table

M = the number of months of coverage during the taxable year

**NOTE:** All group-term life insurance premiums paid by the employer for a **greater than 2% S Corp shareholder** are taxable as a fringe benefit, not just those more than \$50,000. Partners in a partnership must also include all group-term insurance premiums, paid by the partnership, in guaranteed payments.

❖ **Shareholder Health Insurance for S Corporations**

Health, dental, vision, hospital, and accident (AD & D) and qualified long-term care (LTC) insurance premiums paid by an S Corporation on behalf of a 2% or greater shareholder, his or her spouse and dependents, must be reported as wages paid to the shareholder and subject to federal and state withholding taxes. The premium amount is deductible by the company as shareholder wages. If the shareholder meets the requirements for the self-employed health insurance deduction, and the amount has been properly reported as wages, these amounts are deductible on the shareholder’s personal federal return as an “above the line” deduction.

The total premiums should be reported on the shareholder employee’s Form W-2 in Boxes 1, 16 and 18. It should also be reported in Box 14 with a description and the amount paid. These amounts are not subject to Social Security, Medicare, FUTA or SUTA taxes.

**Note: 2% or greater shareholders in an S Corporation are ineligible to participate in their corporation’s cafeteria plan.** A cafeteria plan can be terminated upon IRS audit if a greater than 2% owner of an S Corporation participates.

❖ **Partner Health Insurance for Partnerships or Limited Liability Companies**

Health, dental, vision, hospital, and accident (AD & D) and qualified long-term care (LTC) insurance premiums paid by a partnership (or LLC) on behalf of any partner are to be treated as a guaranteed payment includible in the partner’s gross income. Guaranteed payments are reported on Schedule K-1 of the entity’s tax return.

If the partner meets the requirements for the self-employed health insurance deduction, these amounts are deductible on their personal federal return as an “above the line” deduction.

**Note:** Similar to 2% or greater shareholders, partners may not participate in their partnership’s cafeteria plan.

❖ **Health Savings Accounts (HSAs)**

An employer’s contribution to an employee’s Health Savings Account (HSA) is not subject to income tax withholding or payroll taxes if it is reasonable to believe at the time of the payment that the contribution will be excludable from the employee’s income. The amount of the employer contributions must be reported on the W-2 in Box 12 with a code of “W”.

**Unless the contributions are made under a Section 125 cafeteria plan,** employee contributions to an HSA are included as wages and are subject to income tax withholdings and all payroll taxes.

➤ **HSA contribution limits for 2022:**

Self-only:	\$3,650	(\$3,850 for 2023)
Family:	\$7,300	(\$7,750 for 2023)
Catch-Up	\$1,000	(Age 55 or older)

You generally have until the tax filing deadline to contribute to an HSA outside of your payroll contributions. For tax year 2022, you can make outside contributions up until April 18, 2023.



Like health insurance premiums, **employer HSA contributions for a greater than 2% shareholder of an S corporation should be added to wages**, excludable from Social Security and Medicare taxes. Partners in a partnership should include employer HSA contributions in guaranteed payments. The shareholder or partner can then deduct the HSA contribution on their federal income tax return as an “above the line” deduction. Greater than 2% shareholders and partners are not eligible to make pre-tax employee contributions to an HSA.

#### ❖ **Personal Use of Company Cars**

Any personal use of a company owned vehicle is taxable compensation and must be included in gross wages. Personal use includes commuting to and from work. The employer may elect not to withhold federal or state income tax on the personal use of the vehicle, but this amount must be included in federal and state wages and Social Security and Medicare taxes must be withheld.

The value of the personal auto use should be reported on the employee’s W-2 in Boxes 1, 3, 5, 16 and 18. It should also be reported in Box 14 with a description and the amount. The personal auto use is also subject to federal (FUTA) and state (SUTA) unemployment.

It is very important that both employers and employees, keep records to determine the business and personal use of a company provided vehicle throughout the year. Without proper documentation, the IRS can deny the employer’s expense entirely.

The link below provides an example of an employee representation form you can use to document employee use. Most importantly, the employee must substantiate business use. A log of each trip including the date, business purpose and mileage should be maintained.

[Link: Employee representation regarding personal use of company vehicle](#) or [https://drive.google.com/file/d/1irjJSiWdx2c9duZcjRkTN8QGD2WXvBEO/view?usp=share\\_link](https://drive.google.com/file/d/1irjJSiWdx2c9duZcjRkTN8QGD2WXvBEO/view?usp=share_link)

The link below provides a worksheet to assist you with the calculation of auto fringe benefits. There are several methods available to determine the value of employer-provided automobiles that are explained in more detail under the Vehicle Policy and Income Inclusion Guide linked below. The two most common utilized are:

- Lease value rule
- Cents-per-miles rule

[Link: Worksheet to calculate income from personal use of company vehicle](#) or [https://drive.google.com/file/d/1g9cxlDzk9vEwqg-x98sU6-mmHiXXYyaA/view?usp=share\\_link](https://drive.google.com/file/d/1g9cxlDzk9vEwqg-x98sU6-mmHiXXYyaA/view?usp=share_link)

**The business standard mileage rate for 2022 is bifurcated:**

- **January 1<sup>st</sup> - June 30<sup>th</sup> is \$0.585 per mile.**
- **July 1<sup>st</sup> – December 31<sup>st</sup> is \$0.625 per mile**

A comprehensive guide and fill-in worksheets are provided at the links below.

[Link: Vehicle Policy and Income Inclusion Guide](#) or [https://drive.google.com/file/d/1wAZwOoZdv4NeBY7gZOG2rirjbNagm-20/view?usp=share\\_link](https://drive.google.com/file/d/1wAZwOoZdv4NeBY7gZOG2rirjbNagm-20/view?usp=share_link)

### ❖ Car Allowances

The taxability of a car allowance depends on whether you have an accountable or a non-accountable plan. If an employee is required to provide proof of their business auto expenses, it is an accountable plan. The business use portion of the allowance should not be included in the employee's W-2 wages as they are simply being reimbursed for their business auto expenses. If the employee does not substantiate the full amount of the allowance received, the difference is taxable as personal use.

If employees are not required to substantiate their auto expenses, then it is a non-accountable plan, and the full amount of the allowance is taxable income to the employee.

### ❖ Loans to Employees

Loans made to employees by their employer at interest rates below the applicable federal interest rate are below-market, compensation-related loans. The amount representing the difference between the interest charged to the employee and the applicable federal interest rate must be included in the income of the employee on any day in which the combined amount of all outstanding loans between the employer and the employee is more than \$10,000. The taxable amount is not subject to federal income tax withholding but must be reported in Box 1 on the employee's Form W-2. The taxable amount is subject to Social Security, Medicare, and FUTA/SUTA taxes.

If the employer forgives the debt, or for any other reason the employee is not expected to repay the loan, the entire balance of the loan becomes income subject to federal income tax withholding, Social Security, Medicare, FUTA and SUTA taxes in the year the debt is forgiven.

### ❖ Club Memberships and Dues

In general, social, athletic, sporting, golf, country club, airline and hotel club memberships are taxable fringe benefits unless they have a specific business purpose. A business connection exists only if the employee can prove the club was used primarily to further the employer's business. Records should be maintained by the employer showing business use. (Note: business use may prevent the dues from being added to the employee's compensation but does not change the treatment of the dues as a non-deductible business expenses to the employer.)

Certain dues are deductible by the employer as a business expense and are not treated as taxable fringe to the employee. This includes business leagues, trade associations, chambers of commerce, boards of trade, real estate boards, professional organizations (such as bar and medical associations), and civic or public service organizations (Rotary, Kiwanis).

### ❖ Athletic Facility Dues

If the employer provides free or low-cost use of an employer-operated gym or other athletic club on the employer's premises, the value is not included in compensation. The gym must be used primarily by employees, their spouses, and the dependent children.

If the employer pays for a fitness program provided at an off-site resort, hotel or athletic club, the value of the program is included in compensation.

### ❖ Awards and Prizes

Prizes and awards given by an employer to an employee are generally taxable and included in the employee's wages and subject to withholding tax. Exceptions to this rule are de minimis items provided to employees and certain awards for safety and length-of-service. Please refer to the previous "Length of Service and Achievement Awards" paragraph for further clarification.

### ❖ Holiday Gifts and Cash Bonuses

The value of a turkey, ham or other item of similar nominal value distributed by an employer at Christmas is not taxable. However, any payment of cash or cash equivalent to an employee as a Christmas bonus is subject to tax. Payments of cash include anything with a readily ascertainable value, i.e., gift cards or certificates.

### ❖ Length-of-Service and Achievement Awards Clarification

Under previous Internal Revenue Code, length-of-service and achievement awards could be excluded from wages if the award was in the form of tangible property such as a watch or TV. However, in practice many intangible awards were excluded from wages. The exclusion was up to \$400 per employee if there was not a qualified plan and \$1600 under a qualified plan.

Length-of-service awards must not be presented to employees for less than five years of service and the employee may not receive another length-of-service award (other than one of very small value) during the same year or have received an award in any of the prior four years.

Under the TCJA, the Internal Revenue Code is amended to clarify that qualified achievement awards do not include cash, cash equivalents, gift cards, gift coupons, gift certificates, vacations, meals, lodging, event tickets, stocks, bonds, other securities, and other similar items.

### ❖ Bicycle Commuting Benefits

Bicycle commuting benefits received by employees on and after January 1, 2018, and through December 31, 2025, are included in wages subject to all payroll taxes.

### ❖ Moving Expenses Suspended

Moving expenses incurred after January 1, 2018 are includable in wages unless the employee is a member of the U.S. Armed Forces. This will remain in effect for 2018-2025.

## U.S. INFORMATION RETURNS - FORM 1099

Please complete the enclosed U.S. Information Returns worksheet (**Attachment 2**) or download and complete an online Excel template (Download link listed below) if you would like us to prepare your 1099 forms. You may also send this information to us electronically at [wwatson@insightaccountinggroup.com](mailto:wwatson@insightaccountinggroup.com) or by fax at (574) 287-4286.

All cash payments of \$600 or more for services rendered during the year by an individual or unincorporated business must be reported on either a Form 1099-MISC or Form 1099-NEC. In addition, any payments of \$600 or

more to a legal firm must be reported whether the entity is incorporated or not. Payments made via credit cards are not subject to reporting of Form 1099-NEC or 1099-MISC.

- Services performed by someone who is not your employee (including parts and materials) (Box 1);
- Cash payments for fish (or other aquatic life) you purchase from anyone engaged in the trade or business of catching fish (Box 1); or
- Payments to an attorney (Box 1).

A Form 1099-NEC must also be filed for each person from whom any federal income tax has been withheld (report in Box 4) under the backup withholding rules regardless of the amount of the payment.

Rent payments to an individual are also reported on Form 1099-MISC. Interest payments of \$10 or more are reported on Form 1099-INT.

You should have a completed Form W-9 on file for all independent contractors. The IRS is also issuing notices and may assess fines when the names on the Form 1099's do not match the taxpayer identification numbers. A common error would be a sole proprietor using their social security number as their tax identification number and using their company name. If using a social security number, the correct way to report would be to list their individual name first and then dba/their Company name. The penalty for missing or incorrect information is generally \$50 per form, provided that the corrected information is submitted within 30 days after the due date up to a maximum of \$571,000. If any failure to provide a correct payee statement is due to intentional disregard of the requirements to furnish a correct payee statement, the penalty is at least \$570 per payee with no maximum penalty. Per form and maximum penalties are greater for returns submitted after 30 days.

The *Filing Information Returns Electronically* (FIRE) production system will allow corporations, partnerships, employers, estates, and trusts to electronically file Form 1042-S, 1097, 1098, 1099, 3921, 3922, 5498, 8027, 8955-SSA and W2-G. Any filer that files 250 or more information returns must file electronically, however the IRS encourages filers with less than 250 information returns to file electronically as well.

To utilize the FIRE system, Form 4419, *Application for Filing Information Returns Electronically (FIRE)* must be submitted to the IRS at least 45 days prior to the due dates of your information returns. Filers will receive a Transmitter Control Code (TCC) that will be used to submit the returns. Form 4419, *Application for Filing Information Returns Electronically (FIRE)* can be accessed via <https://www.irs.gov/pub/irs-pdf/f4419.pdf>. The FIRE system can be accessed via <https://fire.irs.gov/>.

[Link: Form 1099 Excel Template Download or https://drive.google.com/open?id=1SBuDr8b8Fec3VfH2OT0kt\\_E3OIzo8tPa](https://drive.google.com/open?id=1SBuDr8b8Fec3VfH2OT0kt_E3OIzo8tPa)

If you prefer, we can also email you a copy of the Excel template or post the file to your portal.

**FRINGE BENEFIT CHECKLIST**

**2% Shareholders, Partners and Self-employed specific:**

- \_\_\_\_\_ Health, dental, vision, hospital and accident premiums paid or reimbursed by company
- \_\_\_\_\_ Qualified Long-term care insurance premiums paid or reimbursed by company
- \_\_\_\_\_ Life insurance premiums paid by the company if the beneficiary is not the company (including group term premiums paid by the company)
- \_\_\_\_\_ Disability insurance premiums paid by the company if the beneficiary is not the company
- \_\_\_\_\_ Employer HSA contributions

**All Employees:**

- \_\_\_\_\_ Employer provided group-term life insurance premiums with value over \$50,000
- \_\_\_\_\_ Employer HSA contributions  
                    Is it FICA Taxable? Yes \_\_\_\_\_ No \_\_\_\_\_
- \_\_\_\_\_ Personal use of company vehicles
- \_\_\_\_\_ Car allowances - non-accountable plan
- \_\_\_\_\_ Employee loans with below applicable federal interest rate
- \_\_\_\_\_ Club memberships and dues
- \_\_\_\_\_ Athletic facility dues
- \_\_\_\_\_ Moving expenses
- \_\_\_\_\_ Awards or prizes
- \_\_\_\_\_ Holiday gifts
- \_\_\_\_\_ Cash bonuses

In general, the amount you must include in the employee’s gross income is the amount by which the fair market value (**FMV**) of the benefits exceeds the amount the employee paid after taxes (**EPA**) for the benefit, less any amount the law excludes (**AEL**).

**IFBA = FMV – (EPA + AEL)**

**IFBA = Includable fringe benefit amount**

**FMV = Fair market value**

**EPA = Employee paid amount**

**AEL = Amount excluded by law**

**Attachment 1**

**1099 INFORMATION RETURNS**

NAME \_\_\_\_\_

FEDERAL ID# \_\_\_\_\_

	<u>RECIPIENT'S NAME</u>	<u>ID/SS NUMBER</u>	<u>RECIPIENT'S ADDRESS</u>	<u>TYPE OF INCOME</u>	<u>DOLLAR AMOUNT</u>
1.	_____	_____	_____ _____	_____	_____
2.	_____	_____	_____ _____	_____	_____
3.	_____	_____	_____ _____	_____	_____
4.	_____	_____	_____ _____	_____	_____
5.	_____	_____	_____ _____	_____	_____
6.	_____	_____	_____ _____	_____	_____

**We must receive your completed information for Forms 1099-MISC by January 16, 2023 to ensure adequate time from processing. Any information received after January 16<sup>th</sup> cannot be guaranteed for completion by January 31, 2023. When possible, government copies will be filed electronically to ensure timely submission and acceptance.**

**Attachment 2**

[Link: Form 1099 Excel Template Download](https://drive.google.com/open?id=1SBuDr8b8Fec3VfH2OT0kt_E3OIzo8tPa) or [https://drive.google.com/open?id=1SBuDr8b8Fec3VfH2OT0kt\\_E3OIzo8tPa](https://drive.google.com/open?id=1SBuDr8b8Fec3VfH2OT0kt_E3OIzo8tPa)