



Memorandum

To: Clients, Associates & Friends of Pro@ctive CPA
Form: Mark L. Wyssbrod, Managing Member
Date: November 15, 2012
Re: S-corporation Year-end Checklist

The election is over, the Holiday Season is about to begin and the year will soon come to an end. During this time of year we want to share a checklist of some of the important items for S-corporation to consider. The following items need to be considered before December 31st for your S-corporation in order to have the tax deductions you deserve and to reduce your audit risk:

- Is your officer compensation to distributions reasonable?
 - Zero wages (i.e. no W-2) can lead to a compensation audit and the Internal Revenue Service (IRS) forcing you to adjust your owners compensation
 - i.e. The IRS sets your wage, not you (numerous court cases give them this authority)
 - Officer compensation needs to be “reasonable”
 - Officer wages should be the same or greater than distributions
 - i.e. 50% in compensation and 50% in distributions
 - Officer wages should equal the same salary a third-party employer would have to pay an employee to retain their service
- Shareholder Loans
 - All shareholder loans need to be documented with a note showing interest rate, terms, security\collateral (if any) and repayment plan
- Shareholder Distributions
 - Be certain all distributions to owners are documented with Board Meeting Minutes
- **Employee benefits need to be reported on Officer’s W-2s**
 - Health insurance and long-term care insurance needs to be reported as officer compensation and shown as a part of taxable wages and in the information box on the Officer’s W-2 (Box 1 and Box 14)
 - **Without reporting the health insurance on the W-2 the IRS will disallow health insurance deductions for S-corporation owners (IRS Notice 2008-1)**
- Review structure of employee benefit rules
 - The Health Care Act has changed the discrimination rules and testing
 - We recommend hiring an employee plan expert (not health insurance agent) to review and update your employee benefit plans



- *Prepare written documentation for employee benefit plans*
- **Set up or change retirement plan type by December 31st**
- The business should have a written expense reimbursement plan (an accountable plan) and all expenses paid from personal accounts should be reimbursed within 60 days of the expense
- Hold annual corporate meeting and update minutes
- Review (or create) business plan and strategy

These are just a few items we believe are important to our clients. There are a few more and even these have more rules and detail to them. We recommend a year-end tax planning meeting before December 15th to ensure you understand the rules before the end of the year as well as have a minimal amount of time to implement any actions. Please call me at (770) 664-8583 should you have any questions, comments or to set up a meeting.

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.