



## THIS MONTH:

- ◆ Form 1099-K Update
- ◆ Employee Verification - Form I-9 Requirements
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### Form 1099-K Update

The IRS has sent about 20,000 letters to small businesses based on Form 1099-K, *Payment Card and Third Party Network Transactions*, analysis and tax return matching. There are 3 types of notices:

1. A soft-touch inquiry that asks taxpayers to review their returns more closely;
2. A correspondence audit; and
3. An under-reporter notice and assessment, similar to the CP2000 automated under-reporter program used for individual income discrepancy adjustments.

Samples of notices are available at <http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/New-Notices-Related-to-Form-1099-K>.

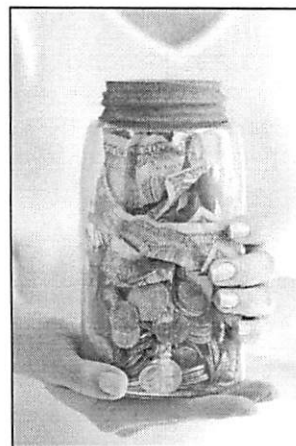
If you have received a notice or have questions regarding Form 1099-K, please contact your local Padgett office.

### Employee Verification - Form I-9 Requirements

Employers should be aware of the Immigration Reform and Control Act of 1986 (IRCA) and how it affects their hiring process. IRCA requires all employers to verify every employee's identity and their authorization to work in the U.S. Employers are required to have a properly completed Form I-9, *Employment Eligibility Verification*, on file for each employee within three business days of hire. The Form I-9 requirements are enforced by the Immigration and Customs Enforcement (ICE), which is a branch of the Department of Homeland Security (DHS), under the regulation of The U.S. Citizenship and Immigration Service (USCIS).

Employer audits performed by ICE tend to target clerical errors or incorrectly completed Form I-9. Penalties for an incorrectly prepared Form I-9 can range from \$110 to \$1,100 per violation. Civil penalties for hiring or continuing to employ a person who is known to be an unauthorized worker in the US range from a first offense minimum penalty of \$375 per employee to a maximum of \$16,000 per employee.

E-Verify is an internet based system which allows employers to instantly compare the new employee's Form I-9 with records from the Social Security Administration and the Department of Homeland Security. It is a voluntary system and is FREE to use.



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## Common Tax Mistakes

In the July Small Business Builder, we provided a list of some of the more common business management mistakes. This month, we give you a list of the common tax blunders. Knowing these rules can help avoid missing deductions or having them disallowed during an audit.

1. **Not saving receipts of less than \$75 for meals and entertainment.** Although the receipts are not required, records must show required information including persons (or number of persons) involved, amount, date and time, place (name and location), and business purpose, i.e. who, what, when, where, and why.
2. **Forgetting to track reimbursable (out of pocket) expenses.** Many small business owners routinely pay for business expenses from their own funds (cash or credit cards) when convenient. Records should be kept and submitted to the business for reimbursement regularly.
3. **Not keeping records (and limiting amounts) of business gifts.** Business gifts are limited to \$25 per recipient per year. A married couple and partners of a partnership are each considered one person. Employee gifts for length-of-service or safety achievement cannot exceed \$400 unless established under an established written plan that does not discriminate in favor of highly compensated employees, where the maximum is \$1,600. You should keep records to support who received business gifts.
4. **Including purchase of fixed assets as supplies.** Although Sec. 179 expense election is available for most purchase of fixed assets, that deduction is not allowable unless properly reported on the tax return. For tax years after 2013, the amendment of a Sec. 179 election will no longer be allowable after a return is filed.
5. **Failing to elect out of bonus (special 50%) depreciation.** Bonus depreciation is taken automatically unless the "election out" is made for each (or all) class(es) of qualifying property. The election out should be made on a timely filed return, but can be done on an amended return within six months of the original due date, provided all affected taxpayers are also amended. Once the election out of bonus depreciation is made, it cannot be changed without IRS permission.
6. **Failing to maintain or properly report automobile usage.** Vehicles owned by a partnership or corporation should deduct all related actual expenses and report the personal use of company vehicles as a taxable fringe benefit using one of three valuation methods. Business use of a personal vehicle may be reimbursed by the business or deducted as an employee business expense by the employee on form 2106 using one of several valuation methods.
7. **Erroneously classifying a hobby as a business.** Unless the activity is expected to produce profits on a regular basis, consult with your tax preparer BEFORE engaging in the activity.
8. **Treating employees improperly as independent contractors.** This has always been a hot issue with IRS and with the additional questions on tax returns concerning filing of Form 1099s, IRS is continuing to search for these businesses.
9. **Failing to respond to EVERY IRS notice.** The worst thing one can do is to allow the IRS to escalate their efforts when you fail to respond.
10. **Failure to file tax reports if you cannot pay.** Failure to file penalties are ten times higher than failure to pay penalties. Do not incur this extra expense when you are already unable to pay taxes when due.
11. **Using tax trusts funds (sales tax collected and payroll taxes withheld) for other business purposes.** When cash is tight, ALWAYS include these tax payments at the top of your list.
12. **Overpaying taxes (through withholding or estimated tax payments) during the year, creating an interest-free loan to the government.** Reduce your withholdings or estimated tax payments, but put the savings in your savings account.

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PADGETT BUSINESS SERVICES® is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.

**PENALTY NOTICE:** As required by U.S. Treasury regulations, you are advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.