

Dear S-corporation Shareholder and/or Owner-Operator:

Best wishes for a Prosperous New Year!

You will not receive a yearly business letter in the mail. Here is a list of items needed to prepare your 1120S tax return:

- Reconciled Profit and Loss and Balance Sheet. These are financial reports generated from your accounting software and should be printed and provided to us. (If we are providing you accounting services in addition to tax preparation, we will have these needed reports).
- We must have copies of the W3 with all W2s, 940, 1096 with all 1099s.
- Receipts of new depreciable assets acquired in the year, along with any financing documents and yearend loan statements (if applicable).
- Summary/Bill of Sale for any assets sold in the year, including trade-ins.
- Signed and dated Entity Tax Preparation Agreement for 2023
- We will not prepare the corporate return while you are “waiting”. We need all the financials at least two weeks prior to wrap-up/review appointment. No exceptions. If you need assistance in getting the S-corporate financial reports prepared, we are available to assist with accounting services prior to tax preparation.
- Upload all your data via our new SMARTVAULT secure exchange portal. (or drop it off at the office during business hours). For your security, do not send information in an “open email” with PDF, etc attachment, we will not open it.
- **The S-corporate tax return is due March 15th**. We must have all information in our office no later than Feb 26th for a timely filed 1120S, otherwise a six-month extension will be filed.
- ******See the “NEW” notice below******

Here are some additional items to pay attention to -

1) Health/dental/vision Insurance premiums:

- a. If the corporation is paying for the health insurance premiums of a shareholder who owns more than 2% of the business shares, the total premium cost for the year must be added to gross wages of that employee-shareholder. The premiums can be paid by the corporation but must be added to the W2 box 1 income, box 14, and state wage box on the W2. Those wages are NOT subject to FICA taxes and do not get included in Box 3 or 5.
- b. There are very specific nondiscrimination rules, if you have other employees.

2) Shareholder Distributions:

- a. The shareholder of an s-corporation is permitted to receive (in proportion to ownership) distributions from profit during the year. Usually annually or semiannually.
- b. If the Shareholder is using corporate funds to supplement W2 wage or paying for “random” personal expenses; the corporate identity is at risk and the IRS could treat the business as a sole proprietorship, including imposing self-employment taxes on profit. Co-mingling business and personal transactions may be cause for audit.
- c. There are occasions when Excess Distributions occur, which we can discuss if necessary. Excess distributions will be taxable to the shareholder(s) on their personal 1040.

3) Reasonable Compensation:

- a. Shareholder-Employees are required to receive “reasonable W2 compensation” for the work they perform.
- b. “Reasonable” is somewhat subjective, but the IRS will impose payment for services in relationship to the work performed, the activity of the business, what others are being paid, as well as income comparison through the state unemployment department. If the reasonable rule is not properly applied, the IRS will determine what should be wages based on other money issued to the employee-shareholder, including the distributions.

4) Pass-Through Entity tax:

- a. Utah state now allows the business to pay the expected state income tax on behalf of the K1 shareholder. This is an election, and done on a yearly basis, and is in force only if the tax payment is made BEFORE Dec 31. ([Tap.Utah.gov/SALT report](http://Tap.Utah.gov/SALT)). (See the email we sent in December regarding this issue).

5) Administrative Details:

- a. Each year, the entity must have a corporate meeting where all shareholders are present and business issues are discussed, decisions are made, and MINUTES ARE RECORDED. There should be at least one yearly-meeting where the Board of Directors, Shareholders and Management meet, discuss, record events, employees, failures and successes, cash flow concerns, economic issues, risk and rewards, agreements and disagreements, and of course a continuation outline. The minutes are a document created by someone present at that meeting, and usually all in attendance will sign and date to being present. These minutes will be called for in an IRS audit to prove the business is operating as a corporation.
- b. Confirm with your incorporated state and that the yearly corporate registration is current.
- c. Mileage Log:
 - i. It doesn't matter if a vehicle is "100% business use", a mileage log is still required. The purpose of the mileage: Who, What, Where must be documented, and ACTUAL RECEIPTS FOR FUEL must be kept along with periodic odometer readings. A charge on a credit card or debit card does not constitute an actual receipt – according to the IRS. *(yes, I know that is dumb)*.
- d. Anytime the corporation lends money to shareholders, employees, or others, there must be a promissory note in place showing the borrower, the amount borrowed, interest rate charged and terms of repayment.
 - i. Promissory notes are especially required when funds are issued to shareholders that are not wages, distributions, or return of capital.
 - ii. In contrast, if someone lends money to the corporation, the same is expected.
- e. If during the year, there are sales, payroll, or assets in another state other than Utah, the business may be subject to Nexus state income tax rules and/or Nexus sales tax rules.

6) 1099 Filings:

- a. The S-corp is required to file a 1099-Misc if it pays rent to individual property owners (including the s-corp owners if the shareholder(s) own the property the business rents under "self-rental" rules).
- b. A 1099-NEC is required to be sent to all subcontractors if the amount paid to the individual or single member LLC exceeds \$600 for the year.
- c. All 1099s must be issued to recipients by Jan 31.

7) ERC payments:

- a. Be sure you obtain ALL worksheets, resource documents, amended payroll reports, etc. from the ERC provider.
- b. If an ERC was received in 2023 for the years 2020 or 2021, amended returns are required to be filed for those years. It is NOT simply "ERC Income" for 2023. (ERC is basically a refund on payroll expenses. When you receive a reimbursement on expenses, taxable profit increase, and the shareholder owes taxes on the ERC money received by the business).

8) Charitable donations:

- a. The business is allowed to provide charitable donations to qualified nonprofit organizations. A receipt must be in the BUSINESS name, not the shareholders' names. That receipt must be in the records and received prior to the tax return being submitted.
- b. If the payment is advertising or marketing, treat it appropriately on the Profit and Loss.
- c. Go-Fund me donations are not a qualified charitable donation. They are a non-deductible gift, and no tax benefit is received by the business or shareholder for that kind of generosity.

We hope this information is helpful as you operate your business. Our goal is to help you be successful, so please reach out if you have any questions.

Best Regards, Neala

****NEW!!!! UNDER THE NEW CORPORATE TRANSPARENCY ACT, ALL SMALL BUSINESSES ARE REQUIRED TO FILE A BENEFICIAL OWNERSHIP INTEREST REPORT. This is an online only report filed on FinCen's website. We strongly urge you to submit this report and the required documents on your own, to avoid our \$250+ preparation fees. The website for this report is <https://www.fincen.gov/boi> This filing is not part of, nor included with, tax preparation. This is not an IRS tax form or filing - it is a Financial Crimes Enforcement legal declaration of ownership, and is now required in efforts to track illegal activity.****