

# BUSINESS TAX TIPS

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## **OHIO MINIMUM WAGE GOES UP**

Effective January 1, 2013 the minimum hourly wage in Ohio for non-tipped employees will be \$7.85. The minimum hourly wage for tipped employees will be \$3.93 plus tips. These minimum wage requirements are for employers with gross sales over \$288,000. If your gross sales are less than \$288,000 then you must pay employees at least the federal minimum hourly wage of \$7.25. The current Ohio minimum hourly wage is \$7.70.

## **BIG DEPRECIATION DEDUCTIONS SCHEDULED TO GO AWAY IN 2013**

For 2012 businesses have the benefit of being able to deduct up to \$139,000 of new or used equipment purchased as a Section 179 deduction. The limit for 2013 is \$25,000.

For 2012 businesses also have the benefit of being able to deduct 50% of new equipment and land improvements as a Bonus Depreciation deduction. This benefit goes away completely in 2013.

## **KEEP IN MIND YOUR EMPLOYEES' NET PAY WILL GO DOWN IN 2013**

Your employees' social security withholding was reduced two years ago from 6.2% to 4.2%. This reduction caused all employees to receive more in their net pay. This payroll tax reduction expires at December 31, 2012. Your employees' social security withholding will increase to 6.2% of your gross pay and consequently your net pay will be reduced. As the employer be sure to check your 941 deposits in January to make sure they are being calculated correctly.

## **STANDARD MILEAGE RATE INCREASES FOR 2013**

The standard mileage rate will increase from 2012's 55.5 cents to 56.5 cents in 2013.

## **HIRE YOUR MINOR CHILDREN**

If you are a sole proprietorship there are definite payroll tax advantages for hiring your minor children. However, it really works for all business entities. Hire your minor children in a valid employment situation, pay them a reasonable wage, require them to save a large chunk of the pay for college in a Roth IRA, thus teaching them a life lesson and helping to provide for their education. Keep in mind your business enjoys a full tax deduction for the monies you pay them.

## **NEW IRS RULES ON REPAIRS**

The IRS issued temporary rules on what expenditures qualify as repairs and can be deducted in the year of expense and what expenditures must be capitalized and depreciated over time. These new rules are complex and may cause many more items that under current rules can be deducted as a repair to be capitalized and depreciated over time. There are several areas in these regulations that are very problematic. The IRS has now delayed the effective date of these new rules to 2014. I will keep you informed as these new rules are modified by the IRS so that we can minimize any negative effect and take advantage of opportunities that may be presented.

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## **FEDERAL UNEMPLOYMENT (FUTA) TAXES IN OHIO INCREASED FOR 2013**

Ohio is among 18 states that have outstanding loans with the Federal Unemployment Trust Fund. As a result, employers in Ohio will pay a higher rate of FUTA in 2012. The normal FUTA rate is .6%, however for 2012 Ohio employers will pay 1.2%

## **MUNICIPAL INCOME TAXES COULD BECOME MORE CONSISTENT**

Ohio is one of only 10 states where municipalities assess an individual and business income tax, and the only state where each city is permitted to create their own definition of income and set their own rules. We wind up with a patchwork of different laws depending on where you do business, which makes life difficult for employers and business owners. Legislation has been introduced to the Ohio state House to eliminate this patchwork approach and help create a more efficient system that will save business and individual taxpayers' time and compliance costs.

## **SUMMARY OF BENEFITS AND COVERAGE (SBC) MUST BE MADE AVAILABLE TO EMPLOYEES**

As of September 2012, health insurance companies or employers must provide a SBC to all employees covered under a group health coverage plan. If you are an employer offering health insurance coverage, be sure to check with your health insurance provider that you are meeting this requirement.

## **REPORTING COST OF HEALTH INSURANCE ON FORMS W-2**

Health Care Reform requires employers to include the cost of health insurance on their forms W-2. However, for those employers issuing less than 250 forms W-2 this reporting requirement is optional for 2012 forms W-2. IRS has not addressed yet whether they will require all employers to include health insurance cost on their 2013 forms W-2.

## **EMPLOYERS REQUIRED TO OFFER HEALTH INSURANCE IN 2014**

Health Care Reform requires "large employers" to offer health care insurance in 2014. A "large employer" is defined as any employer employing 50 or more "full-time equivalent employees". A "full-time equivalent employee" is an employee who works on average 30 hours per week or at least 130 hours a month. There will be several ways to determine the 30 hour average weekly requirement. We will look for more guidance to be issued in 2013.

## **BEWARE OF TOOL AND EQUIPMENT RENTAL OR REIMBURSEMENT PLANS**

There are companies out there selling these plans to businesses such as auto body or repair shops. The plans selling point is this is a way you can pay employees and not consider it payroll, thus avoiding payroll taxes and giving your employees tax-free income while you as the employer get a full tax deduction. These plans sound too good to be true and they are. These plans are not "accountable" as required by IRS, so these payments would be considered payroll to your employees.

## **BEWARE OF SECTION 419 WELFARE BENEFIT PLANS**

There are companies out there selling these plans to businesses such as doctors and other high income businesses. These plans are sold on the basis that the business owner can contribute to this plan as much as they want, deduct the contributions and then be able to take the money out later with no penalty. The IRS is successfully shutting down these plans.

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## **EVEN CPA'S GET CAUGHT IN THE SCORPORATION COMPENSATION TRAP**

I am always harping on my S corporation clients that they must pay themselves a reasonable compensation and distributions should not be greater than compensation unless compensation is at Social Security maximum. The Watson tax case this year shows that even CPA's can't get it right sometimes. Watson, an Iowa CPA, paid himself a \$24,000 salary and took \$175,000 in distributions. The IRS re classed the \$175,000 as compensation and assessed the appropriate penalties.

## **WHEN ARE MEALS 100% DEDUCTIBLE?**

Meals are 100% deductible when provided for the employer's convenience. For example when I buy meals for my employees and have it brought in to the office to enable them to take a shorter lunch then those meals are 100% deductible. Also a summer picnic, employee appreciation dinner or holiday party are also examples of 100% deductible meals.

## **PENALTIES PAID UNDER HEALTH CARE REFORM ARE NOT DEDUCTIBLE**

If you are a "large employer" and you do not provide health insurance to employees in 2014 then you will be subject to a \$2,000 penalty per employee. While this penalty amount is likely to be less than the insurance premium, it is important to keep in mind the health insurance premiums an employer pays are deductible while the penalty would not be deductible.

## **S CORPORATIONS CAN USE TRUST TO TRANSFER OWNERSHIP TO CHILDREN**

An effective planning tool for S Corporations is to set up Qualified Subchapter S Trusts (QSST) for children and transfer S corporation stock to the trust. Parents can be the trustee and retain control of the trust. The income on those shares transferred will be taxed at the children's tax rates.

## **IF YOU ARE REQUIRED TO ISSUE FORMS 1099 THEN YOU MUST ISSUE**

The IRS introduced two new simple questions on all business tax returns in 2011. The questions were:

- 1) Did you make any payments that would require you to file Forms 1099?
- 2) If "yes", did you or will you file the required Forms 1099?

If you have not been issuing Forms 1099 and you are required then you must start. We are here to help you with this requirement.

## **HEALTH REIMBURSEMENT ARRANGEMENTS (HRA'S) PROVIDE OPPORTUNITIES TO EMPLOYERS**

Employers adopting HRA's are able to reimburse their employees up to a certain employer determined dollar amount for their qualified out of pocket medical expenses. Employers are allowed a 100% business deduction for these reimbursements. This is one area of opportunity for businesses that was left untouched by Health Care Reform. I am not an expert on these arrangements, but they are allowed and look very advantageous for employers and employees alike. A good website to get more information is <https://www.tasconline.com/resources/health-reimbursement-plan/>.

You should also ask your health insurance provider to see if they may offer these arrangements.