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2023

Dear Client,

We want to provide you with the fullest service possible so that you have to worry as little as possible about the accounting aspect of your business. However, some things must either be done by you or at least are done more efficiently and at less cost by you. We have tried to make the following list as short as it can be. Read it through carefully, please. **This stuff is important**; if you don't do it right you face tax liabilities. Please note that recent changes will appear in **BOLD TYPE**.

1. The Washington State minimum wage rises to **\$15.74 * per hour for 2023..** Employees working more than 40 hours per week (whether on wages, salaries or commissions) must be paid overtime at 1½ times their regular rate. There are slightly different rules for the federal and state governments. Washington employers must follow the rule (state or federal) that is more favorable to the employee. Federal information can be found at https://www.dol.gov/whd/overtime_pay.htm. State of Washington information can be found at <https://lni.wa.gov/workers-rights/wages/overtime/index>.
*** Workers ages 14 and 15 can be paid 85% of the minimum wage.**
2. EMPLOYEE FRINGE BENEFITS.
 - A. Auto use. Employees and 1% or more owners or corporate officers of a corporation should be taxed on the value of their company owned/leased auto use for personal or commuting purposes. Withholding should be taken from wages on a regular basis. We strongly urge the regular use of an auto mileage log for business vehicles. Detailed logs kept for a representative period of time may be sufficient to support business use percentages. There are apps available now to track mileage that are easy to use and generate excellent substantiation for IRS audits. The IRS is in

2. EMPLOYEE FRINGE BENEFITS.....continued

the process of hiring 87,000 new employees. The chances of audit will increase, and audits of businesses usually look into substantiation of business auto use.

- B. Medical Benefits. Employers who have group plans may deduct the employee premiums they pay, and the employee does not receive income. Employers with fewer than fifty full-time equivalent employees may set up a Qualified Small Employer Health Reimbursement Account (QSEAHRA) to reimburse employees for medical expenses (again deductible to the employer and not income to the employee). Such plans can even be “Premium Only” plans so the employee can be reimbursed for a personal health insurance plan tax free.

In the case of an S corporation with only owner employees nothing is changed (premiums paid or reimbursed are shown as wages subject to income tax withholding (but not fica and medicare tax) and deducted as an adjustment in income on Form 1040.

If there are other employees the corporation must offer a group plan or violate the non-discrimination requirements. With the absence of employee coverage any premiums paid would either be part of shareholder distributions, or deducted from net wages, but in either treatment the premiums would not be deductible as an adjustment to income on page one of Form 1040.

- C. Other Fringe Benefits. Examples: discounts, gifts, cash bonuses, tickets to entertainment events, use of entertainment, recreation or amusement property (e.g., photographic, DVDs etc, personal use of computers).

The employer should report to the employee the value of such benefits received and include the benefit in gross wages subject to tax withholding.

- D. Non-discrimination. As a general rule fringe benefits must not favor owners or the highly compensated, over other employees who work more than part-time. While the laws have changed recently in this area, the trend is towards equality of benefits.

3. INFORMATION RETURNS.

Form W-2 is the most common recognizable tax information return. Forms W-2 to employees must be issued to employees by January 31, 2023. Forms W-2 and W-3 transmittals must be submitted to the Social Security Administration by the same date.

Form 1099 is another common information return. If you pay \$600 or more a year of business interest or \$600 or more to any person, partnership, or limited liability company (LLC) (not corporations but see “Note” below) for services or rent you must file a Form 1099 in the following January for each. We highly recommend, for your protection, that you get a form W-9 filled out or at least get the address and social security number (or taxpayer identification number, usually a 91-XXXXXXX number) from each recipient before making payment. There is a **\$50** penalty for each failure to provide the taxpayer ID number. In certain circumstances you may be liable for **24%** backup withholding on payments made.

Many software programs, such as QuickBooks, can generate most 1099 forms. If you need help setting up the 1099 features in QuickBooks, please call our office for assistance.

Note: The exemption for 1099 filings applying to corporations does not apply to corporations providing legal services.

Note: There is no \$600 threshold for Fishing 1099s. All fishing payments should be reported.

Note: Do not report payments made by credit card as they are reported to the IRS by the merchant service providers.

Filing deadlines for forms 1099 to the IRS February 28th by mail and March 31st if filed electronically, except 1099-NEC, which is submitted by January 31st

Penalties: 30 days or fewer late \$50.00 penalty for each late form with a \$194,500 maximum penalty for small business with gross receipts \$5 million or less; 31 days or greater \$110.00 penalty for each late form with a maximum of \$588,500 for small businesses. For filing after August 1st. \$290.00 penalty for each later form with a maximum penalty of \$1,177,500 for small businesses. Intentional neglect to file \$580 with no maximum.

4. CASUAL LABOR/INDEPENDENT CONTRACTORS

There are rules about how much you, as an employer, have to pay if people you are treating as independent contractors turn out to be considered employees. (“Direct sellers, usually individuals selling from their homes, and real estate salespeople are for sure independent contractors, so you’re safe there). If one of your independent contractors suddenly become considered an employee, then you must pay back amounts for federal withholding and social security taxes.

Essentially there is very little activity which properly can be treated as being non-employee labor. If you have work done that is not in your regular course of business, and the amounts of money involved is small (less than \$100 a year for social security tax purposes, less than \$50 a quarter in income tax withholding), that’s about the maximum which is allowed. Additionally, the government agencies require the person have a business license and file statements of income and expenses with the IRS and have more than one source of income to be considered a legitimate subcontractor.

NOTE: The Department of Labor and Industries requires businesses in the construction industry to cover subcontractors as employees for industrial insurance purposes unless the subcontractor provides a certificate of coverage.

5. S CORPORATION WAGES FOR SHAREHOLDERS

This area is coming under more IRS scrutiny in recent years. Subchapter S corporations should be careful to pay officer/shareholders reasonable compensation in the form of wages subject to Social Security, Medicare and withholding taxes. Ideally these W-2s should include personal auto use of corporate vehicles. Medical insurance for which the corporation has either paid the premiums or reimbursed the shareholder should be included in Box 1 wages (not subject to fica and medicare tax).

6. SELF-EMPLOYED PERSONS

Self-employed persons who have low or no net profit may wish to use the optional method of computing Social Security tax to keep or establish eligibility for Social Security Disability payments. To be eligible a person needs credits (generally one’s age less 22), twenty of which were earned in the ten years before disability. One credit is equivalent to **\$1640** of earnings and no more than four credits can be earned in any one year.

7. EMPLOYEE RECORDS

All employees must complete Forms W-4 and I-9 (available on our website www.bnstax.com under tax downloads - Tax Forms) as soon as they are hired. You must also notify the Department of Social and Health Services when you hire new employee. The DSHS collects this information to help locate and collect child support payments from non-custodial parents. The completed W-4s with the bottom portion of W-4 including the name and address of employer and employer identification number should be faxed to DSHS at 1-800-782-0624

You should also retain employee time cards and/or work schedules. Ideally, records should indicate by day each employee's actual beginning and ending hours of work. If the employee does different kinds of work, the time cards should note the jobs performed (this information is for the Department of Labor and Industries). Retain records of employees' first and last days of employment.

8. RECORDS FOR THE WA STATE DEPARTMENT OF REVENUE.

When this department audits, you'll need to have conveniently on hand:

- A. Reseller Permits are issued by the Washington State Department of Revenue. Application information can be found at www.dor.wa.gov/resellerpermit/. These permits must be renewed every four years.
- B. Equipment. Keep a file of all the purchase documents for the equipment and items on your depreciation schedules. The Department will want you to prove that you paid the sales tax on all these items.
- C. Use Tax. The Department will want to review your records to see that you have been paying use (sales) tax on non-resale items you've purchased from out-of-state, and on items that you've used yourself. This is a frequently overlooked item. Magazine subscriptions are a prime example. It would be a good practice to at least annually make an effort to review your checkbook and list items to be included in the December Sales/Business & Occupation Tax Report. Recently the Department of Revenue has been specifically auditing for use tax due primarily as more businesses have been purchasing over the Internet and not paying Washington State sales taxes on the purchases.
- D. Out-of-State Sales. Some out-of-state sales may be exempt from business and occupation and/or sales tax. The rules can be technical; please call us for more information if you do business out-of-state.

8. RECORDS FOR THE WA STATE.....continued

- E. Prices Including Sales Tax. Price lists, menus, etc., must clearly state if prices include sales tax. Furthermore, bars and restaurants must have an additional sign posted to the same effect.
- F. The Department of Revenue has been increasing audits regarding unclaimed property held by Washington State businesses. Examples of unclaimed property are uncashed checks, customer credit balances, and outstanding gift certificates. Generally unclaimed property held over three years (reporting years end on June 30th) must be reported to the State annually by October 31st. All reports are to be filed electronically. Click on link for a guide for reporting unclaimed property. <https://ucp.dor.wa.gov/app/submit-a-report> . 10% penalty and interest for failure to report and deliver property by the due date. 5% penalty for failure to report and deliver property electronically.

9. TRAVEL AND ENTERTAINMENT RECORDS

- A. Auto Travel. Maintain a daily log of miles driven, destination, purpose of trip and name of customer. There are some excellent apps available to make this chore easier. A web search of “apps for tracking business mileage” will help you find a good program.
- B. Lodging Expense. You must have or be able to get receipts (cancelled checks will not suffice).
- C. Meals. You must have a diary of cost, and receipts for meals over \$75. For entertainment your records must provide the name, title, business, and your business relationship to the person entertained. Business meals and entertainment deductions are limited to 50% of cost. Meals must be: 1) directly related to the conduct of business; 2) have a clear business purpose; 3) not be lavish or extravagant; and 4) be provided in the presence of the taxpayers or an employee. As part of COVID relief, for years 2021 and 2022 eligible restaurant meals are fully deductible (not limited to 50% as before). **2023 deduction goes back to 50%.**

10. DE MINIMIS CAPITALIZATION POLICY

The IRS default for expenditures to be capitalized (depreciated) instead of deducted as an expense is \$200 (e.g., a printer costing \$195 is deducted as office supplies and one costing \$200 is depreciated over 5 years generally). Our assumption in preparing your taxes will be that your business adopted a written policy (or a suitable written substitute) that is found following this letter using a \$500 threshold. The written policy must be adopted before the commencement of any year. You can copy and paste the sample de minimis capitalization policy following this letter onto your company letter head noting the appropriate year and then print and keep the policy with your business records.

11. FORM FILING DEADLINES

Form	2023 Filing Due Date (Tax Year 2022)
Form 1040 – Individual return	April 18th (October 16th with extension)
Form 1065 - Partnerships	March 15th (September 15th with extension)
C Corporations	April 18th (October 16th with extension)
S Corporations	March 15th (September 15th with extension)
Form 1041 Extension	April 18th (October 2nd with extension)
Form 5500 series - Employee Benefit Plan	October 16th (with extension)
FinCEN 114 - FBAR	October 16th (no extension needed)
Form 990	May 15th (November 15th with extension)

12. MISCELLANEOUS

There are significant penalties for substantial understatement of tax liability on returns filed with the Internal Revenue Service. Business taxpayers should be careful especially with labeling personal expenses paid through business accounts so that they are not included in the year's business expenses. It is wise to have a separate bank and credit card accounts for business and personal use. It is often important for corporations, partnerships, and LLCs to have accounts in the entity's name.

12. Miscellaneous.....continued

Personal Property Tax Reports are due to the County Auditor by April 30th annually (May 1st in 2023). Businesses are usually sent blank forms to list the equipment they own and lease and other items. The next year a tax is assessed on the depreciated value of these items. We will perform this service if you get us the form and information in a timely manner. Extensions are not granted for this annual listing deadline. Note : values may be listed at cost without the addition of sales or use tax.

The Washington Industrial Safety and Health Act (WISHA) requires all employers to adopt a written accident prevention program. Also, every Washington employer, no matter the number of employees, is required to have a safety and health committee plan. Also, you can obtain a list of required and recommended workplace posters at www.lni.wa.gov. Search under “publications by number” and scroll to publication F101-054-000. Employers are required to post a list of reportable workplace injuries.

When using a credit or debit card retain the actual charge slips. The Internal Revenue Service does not accept bank or credit card statements as proof expenses incurred. Similarly, we encourage clients to have copies of cleared checks be included with their bank statements.

13. Washington Paid Family & Medical Leave

The premium for 2023 is 0.8% of an employee’s gross wages. An employer can elect to pay all or some of their employees’ share of the premium on their behalf. If you are an employer with 50 or fewer employees you are *not* required to pay the employer portion of the premium. Please see the attached link for more information for employers <https://paidleave.wa.gov/employers>. Here is a link for an employer toolkit. <https://paidleave.wa.gov/app/uploads/2020/01/2020.Employer.Toolkit.V9.1.pdf>. Here is a link for employees. <https://paidleave.wa.gov/workers>.

Note: even though owner-employee small corporations do not have to have Washington State Unemployment coverage, they are not exempt from the Washington Paid Family & Medical leave program administered by the Employment Security Department.

We compiled this list to make you aware of items important to the government agencies, or items that the government often successfully attacks during audit. We would be happy to provide you with additional detail and particulars if you want to give us a call.

Sincerely,
BNS Accounting Services PS

PRIVACY ACT NOTICE

(in compliance with the Gramm-Leach-Bliley Act)

We do not disclose any non-public information about our clients or former clients to anyone, except as instructed to do so by such clients. We maintain physical and procedural safeguards to guard your non-public personal information.

De Minimis Capitalization Policy

Effective for the tax year beginning January 1, 202____, we hereby establish the following accounting policy for both book and income tax purposes:

Expenditures (per item per invoice including sales tax, freight and installation) that result in an asset that will be used in business longer than twelve months that cost \$2500 or less will be treated as an expense.

It is the intention of this policy to comply with the IRS Section 1.263(a)-1(f) de minimis safe harbor election.

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**IMPORTANT – PLEASE COMPLETE AND RETURN TO US IF YOU WOULD LIKE
US TO PREPARE YOUR FORMS 1099**

Dear Client:

If you paid \$600 or more for rent, interest or personal services (attorneys, carpenters, electricians, etc. – does not include inventory), you must send a Form 1099 to the person who furnished such services. We will prepare these for you, or you can obtain blank forms from us. Note: Payments to attorneys of \$600 or more require 1099s no matter their form of business (i.e., issue 1099s to corporations, PLLCs, etc.). Also, all payments for fishing proceeds require 1099 filings, no matter the amount paid. Do not include payments you made by credit card as they are reported to the IRS by the credit card service providers.

Please list below such items (if amounts were paid to non-legal service corporations you do not need to list them). If you are not sure if the item qualifies, please list it. We must also have the correct name, address, and Social Security number or Federal Taxpayer Identification number for each person or company.

The IRS levies substantial penalties for failure to provide complete information.

Attached is a Form W-9. You may make copies of it to use for obtaining Social Security or Federal ID numbers from your recipients of payments. Note: Federal ID numbers are nine digits in the following form XX-XXXXXXX. In Washington, for older businesses, the first two digits were “91-.” Other numbers are also in use now. Some vendors try to give you their Washington State UBI numbers; such numbers are not acceptable in preparing forms 1099.

Your Company Name _____
Social Security or Federal ID# _____
Address _____ City, State _____
Phone _____ Zip _____

COMPLETE FOR EACH INDIVIDUAL TO WHOM YOU PAID \$600 OR MORE DURING THE YEAR.

This form is continued on the back of this page. Attach additional sheets if needed. Please call us if you have questions or need other assistance.

To avoid penalties, the IRS requires that completed forms be mailed to recipients and the IRS by January 31st. (for Form 1099-Misc; February 15th)

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

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City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

Name _____ ID# _____
Address _____
City, State _____ Zip _____
Description of Payment (circle) interest rents services fishing
Amount \$ _____ other _____

2022 Information Reporting

Organizations that make wage payments to employees—and certain payments to nonemployees—are required to report these transactions to the IRS by filing information returns. Copies of these returns also must be provided to the payment’s recipient. While Form W-2 is one of the most recognizable tax information returns, there are numerous transactions a taxpayer can participate in that also require filing a tax information return. IRS reporting rules vary based on the type and dollar amount of payment made. See the table below for a summary of filing requirements for the most common nonwage information returns.

m	Common Form Reported Information	Additional Information Reported Detail	Reporting Threshold	Due Date – Electronic Filers	Due Date – Paper Filers
2	Box 1: Wages, Tips, Other Compensation Box 3: Social Security Wages Box 5: Medicare Wages and Tips Box 7: Social Security Tips Box 8: Allocated Tips Box 15-20: State and Local Income Tax Information		Reporting required unless there is no withheld income tax, Social Security tax, or Medicare tax, or the employee was paid less than \$600	To IRS: January 31 To Recipient: January 31 *Required for businesses filing more than 250 W-2s	To IRS: January 31 To Recipient: January 31
19-3C	Box 1: Rents Box 2: Royalties Box 3: Other Income Box 4: Federal Income Tax	1099-MISC is used when payments are made in the course of regular trade or business	\$10 or more in royalties or broker payments \$600 or more of other payments \$5,000 or more of direct sales of consumer products to a buyer for resale	To IRS: March 31 To Recipient: January 31	To IRS: February 28 To Recipient: January 31

	Withheld				
	Box 7: \$5,000 or More of Direct Sales of Consumer Products to Recipient for Resale				
	Box 9: Crop Insurance Proceeds				
	Box 10: Gross Proceeds Paid to an Attorney				
19-C	Box 1: Nonemployee Compensation Box 2: \$5,000 or More of Direct Sales of Consumer Products to Recipient for Resale	Includes fees, commissions, prizes and awards, oil and gas payments for working interest to a nonemployee	\$600 or more in payments	To IRS and Recipient: January 31	To IRS and Recipient: February 28
19-	Box 1a: Gross Payment Card and Third-Party Network Transactions Box 1b: Card Not Present Transactions	Reports payments made by credit card, payment card, or third-party network transactions for the sale of goods and services	Individual transactions of \$600 or more	To IRS: February 28 To Recipient: January 31	To IRS: February 28 To Recipient: January 31
19-	Box 1: Interest Income Box 3: Interest on U.S. Savings Bonds and Treasury Obligations Box 6: Foreign Tax Paid Box 11: Bond Premium		\$10 or more in interest payments	To IRS: March 31 To Recipient: January 31	To IRS: March 31 To Recipient: February 28
19-7	Box 1a: Total Ordinary Dividends Box 1b: Qualified Dividends Box 2a: Total Capital Gains Distributions Box 5: Section 199A Dividends		\$10 or more in dividends payments	To IRS: March 31 To Recipient: January 31	To IRS: February 28 To Recipient: January 31

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used to request a 30-day extension to file Forms W-2, 1099, and other information returns. While the initial extension for forms other than Forms W-2 and 1099-MISC is automatic, Form 8809 also should be used to request a nonautomatic extension for Forms W-2 and 1099-NEC. An additional 30-day extension can be requested for all information returns except Forms W-2 and 1099-NEC. To be eligible for approval of a 30-day extension for Forms W-2 or 1099-NEC or an additional 30-day extension for all other forms, a filer must meet specific criteria, *e.g.*, natural disasters, death or serious illness, the entity's first year of business, a third-party payee statement

wasn't received in a timely manner, etc. The extension doesn't extend the due date for furnishing statements to the recipients.

Information Reporting Reminders

Penalties for filing incorrect information returns or failing to furnish the correct statements to recipients can range from \$50 to \$280 per individual return. If improper filing is due to intentional disregard, the penalty increases to at least \$570 per return. If you have an information reporting filing requirement, consider these best practices to help provide accurate and timely information to recipients and the IRS:

- Review the organization's accounts payable procedures to maintain proper documentation for vendors.
- Require all new vendors to complete Form W-9, *Request for Taxpayer Identification Number and Certification*, prior to remitting payment.
- Review the current-year vendor listing for incomplete information and request a completed Form W-9, if necessary.
- Familiarize yourself with payroll processor deadlines and provide a year-end adjustment in advance of the final payroll to avoid potential fees for unnecessary amendments of tax and wage reporting forms.
- Review the organization's general ledger and vendor listing to evaluate the overall filing requirement for each category of reported information. Pay particular attention to vendors with "LLC"—limited liability company—in their name. For tax purposes, such vendors may be treated as partnerships, disregarded entities, or corporations. In general, payments to a corporation (including an LLC that's treated as a C or S corporation) don't have to be reported on Form 1099-MISC.
- Verify the classification of the organization's workers to assess whether the appropriate information return is filed, *i.e.*, Form W-2 versus Form 1099-NEC.
- Under the *Emergency Paid Sick Leave Act* and the *Emergency Family and Medical Leave Expansion Act*, employers are required to report the amount of qualified sick leave wages and qualified family leave wages paid to employees in box 14 of the 2021 Form W-2 or on a separate statement.
- Electronic filing is mandatory for organizations required to file 250 or more information returns of the same type during calendar-year 2022 unless the IRS has granted a waiver. The IRS, however, encourages all filers to submit these returns electronically, even if they're below the 250-return threshold. The IRS has proposed regulations that would decrease the mandatory electronic filing threshold to 10 returns for calendar years after 2022.