



# 2009 Year End Tax Memo

An Annual Publication of

**Large & Gilbert, P.C.**

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Large & Gilbert, P.C., is a full service CPA firm specializing in Accounting, Tax, Consulting, Business Advisory, Wealth Accumulation, & Technology Services for the Construction Industry.

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The L&G Year End Tax Memo is distributed to our clients and friends. The content of this memo is in some cases generalized, and you are advised to consult with us before taking action.

The following is a general summary of some of the key items you need to know in order to handle your 2009 end-of-year tax filings, as well as ongoing matters for 2010.

Specific details about Federal tax reporting are contained in IRS Publication 15-Circular E, Employer's Tax Guide. A new edition of this publication is published in January each year.

## 2009 Payroll Tax Rates

For 2009, the FICA wage base (maximum amount of earnings subject to social security) was \$106,800. For Social Security, the tax rate remained at 6.2% each for employers and employees. For Medicare, the rate continued to be 1.45% each for employers and employees. The Medicare tax is computed on the employee's total wages with no wage base ceiling. The net federal unemployment tax remained at 0.8% (.008), while state unemployment rates vary with experience.

Copy A of 2009 paper Forms W-2 and W-3 should be mailed by March 1, 2010 if using regular U.S. mail to:

Social Security Administration  
Data Operations Center  
Wilkes-Barre, PA 18769-0001

If you wish to use certified mail, change the zip code to "18769-0002".

If you will use a private delivery service, send to:

Social Security Administration  
Data Operations Center  
ATTN: W-2 Process  
1150 East Mountain Drive  
Wilkes-Barre, PA 18702-7997

For questions about electronic filing, contact the Social Security Administration at 1-800-772-6270 or visit the SSA website at [www.ssa.gov/employer](http://www.ssa.gov/employer).

**KEEP THIS MEMO FOR REFERENCE TO FILING  
REQUIREMENTS AND RELATED QUESTIONS**

## **W-2 Items**

### **Life Insurance**

Include as income on an employee's W-2, "Table I" costs for group term life insurance in excess of \$50,000 and "Table 2001" costs applicable to split-dollar insurance life insurance arrangements (unless set up under the "loan regime").

### **Personal Use of Company-Owned Vehicle**

Remember to include the value of an employee's personal use of a company-owned vehicle as income in boxes 1, 3, and 5 on the employee's W-2 form. For non-owner employees, the value of the "commuting only" use of an employer-provided vehicle is \$1.50 per one-way commute, or \$3.00 per day. Employee-owners and highly paid officers must determine their actual personal use income. The amount is based on the fair market value of the car and may be determined by reference to the annual lease value table contained near the end of this publication.

### **Health Insurance**

S-Corporations should include the medical insurance on the owner/employee's W-2 and the employee would then claim the self-employed medical deduction on their personal tax returns. Medical insurance added to W-2's is not subject to payroll taxes.

The deduction on the individual's 1040 tax return for health insurance of self-employed, partners, and more-than-2% S-Corporation shareholders is at 100% for 2009.

### **2009 Payroll Tax Reconciliations**

When preparing year end payroll tax returns, certain items must agree or you will likely receive penalty notices. Below is a checklist of the items that should be reconciled:

- 941 Line 2: Total wages and tips on the four (4) quarterly 941 returns must add up to box 1: Wages, tips, other compensation on the W-3.
- 941 Line 3: Total income tax withheld on the four (4) quarterly 941 returns must add up to box 2: Federal income tax withheld on the W-3.
- 941 Line 5a: Taxable social security wages on the four (4) quarterly 941 returns must add up to box 3: Social Security wages on the W-3.
- 941 Line 5c: Taxable Medicare wages on the four (4) quarterly 941 returns must add up to box 5: Medicare wages and tips on the W-3.
- All boxes on the individual W-2s must total to the respective boxes on the W-3.
- W-2 Box 16: State wages, tips, etc. on the W-2s should also total to box 1: Wages, tips, other compensation on Form W-3.
- 940 Line 3: Total payments on the 940 FUTA return must agree with box 5: Medicare wages and tips on the W-3.

### **Reporting of Non-Payroll Items**

Separate deposit and reporting is required for income tax withheld on non-payroll items such as profit sharing, 401(k) distributions and backup withholdings. Any of this type of tax withheld in 2009 is reported on Form 945. Although payroll and non-payroll tax liabilities must be reported and deposited separately, the rules on how and when to deposit are basically the same. Be sure to mark the "Form 945" box on the Federal Tax Deposit Coupon (Form 8109), to ensure payments are credited to the right account.

## **1099 Forms**

Form 1099-MISC must be furnished to every non-corporate service provider that you have paid \$600 or more in 2009. Limited Liability Companies (LLCs) are not typically taxed as corporations and should be issued a 1099 if they are paid \$600 or more during the year for services. Rent payments are reported on 1099-MISC in box 1.

A 1099-MISC is not required for payments to Large and Gilbert, P.C., a professional corporation, but 1099s are required for all payments to attorneys and providers of medical and health care services regardless of corporate classification.

Also remember to issue Form 1099-INT to shareholders for interest paid to them on loans to the company.

The address to mail your paper 2009 Forms 1099 and 1096 transmittal form is:

Internal Revenue Service Center  
Austin, TX 73301

If you are filing 250 or more Forms 1099, you are required to submit these information returns electronically. Internal Revenue Service Form 4419, Application for Filing Information Returns Electronically, can be obtained from the IRS website. The application must be filed at least 30 days prior to the due date of the information returns needing to be filed electronically.

### **Electronic Filing**

Please be advised that the Social Security Administration is no longer accepting Magnetic Media files of W2 forms. If you are filing 250 or more W2 wage statements, you must file the statements electronically.

For information on how to submit your Forms W2 electronically, visit the SSA website at [www.ssa.gov/employer](http://www.ssa.gov/employer).

## **Form I-9**

Remember to verify that each employee is legally eligible to work in the U.S. by completing the U. S. Citizenship and Immigration Services (formerly INS) Form I-9. Details are available at [www.uscis.gov](http://www.uscis.gov).

### **W-4/W-5**

By January, notify employees to revise their Form W-4 if allowances will change from the form currently on file. Also, inform employees claiming exemption from withholding or receiving advance payment of the earned income credit that their W-4 and/or W-5 must be renewed for the coming year.

### **Form W-9**

It is very important that you obtain signed W-9s from all service providers that will need to get 1099s.

The back-up withholding regulations require a 28% withholding from payments to vendors required to get 1099s if no identification number is provided by them. Don't get caught short by the IRS wanting their 28% if you have paid your vendor in full and back-up withholding was required.

### **State Withholding**

State income tax should generally be withheld for the state where the employee is working, however, when a Georgia resident is working in a state such as Florida that has no individual state income tax, Georgia taxes should be withheld.

### **State Unemployment**

State unemployment taxes should generally be paid to the state where employees live. Work assignments longer than six (6) months often shift the unemployment obligation to the state where the work is performed. The Georgia Department of Labor should be contacted for guidance in situations that are not clear.

## **Employee Versus Subcontractor Classification**

The IRS continues to take an aggressive stance in the classification of employees versus independent contractors. We can provide guidance on what constitutes an employer-employee relationship for workers that you are not certain of the classification. Issue 1099's to all unincorporated subcontractors paid \$600 or more during the year to show good faith in your determination of their status.

## **Sales and Use Tax for Contractors**

Contractors are deemed the end consumer and must pay sales and use tax on material at the time of purchase. A monthly or quarterly sales tax report should be filed whether or not any tax is due. If materials or new equipment are purchased out of state and no sales tax is paid at the time of purchase, then the amount of these purchases should be included on the sales tax report and use tax paid. Use tax should also be paid on used equipment purchases where no tax was paid to the seller at the time of purchase.

## **401(k) Plans**

The ceiling for employee contributions for 2009 is \$16,500 per year, with an additional \$5,500 for employees age 50 and over.

The annual limit for 2010 will remain at \$16,500 and employees age 50 and over can still contribute an additional \$5,500 per year.

Remittance of employee contributions must be made at the same time as your 941 deposits. (i.e., if you are a monthly 941 depositor, your 401(k) contributions are due the 15<sup>th</sup> of the following month; if you are a semi-weekly depositor; your 401(k) contributions are due on the same date as your semi-weekly 941 tax payment.)

## **IRA Limits**

For 2009, the annual IRA limit is \$5,000 per person with an additional \$1,000 allowed for those age 50 and over.

The annual limit for 2010 remains \$5,000 per person. Also, the additional amount for those age 50 and over remains \$1,000.

## **Miscellaneous Forms**

Large & Gilbert, P.C. prepares only the Federal and state income tax returns for clients as part of a standard engagement. Other annual forms will be prepared for you ONLY if specifically requested in writing. Examples of forms that may be required are:

- All state contractors license reports
- State annual report/registrations
- Personal property tax returns
- Payroll tax returns
- Unemployment insurance returns
- Workers comp reports
- City/County business licenses
- Sales/use tax reports
- Luxury/fuel/or other excise tax returns

Most of these miscellaneous forms are sent by the reporting agency to you each year. Many clients choose to complete some or all of these forms on their own.

Send the blank form and instructions to us with a note asking that we prepare the form if you desire that we complete any of these for you.

## **Tables Attached**

IRS Auto Lease Value Table

IRS Table I - Group Term Life Insurance Value

IRS Table 2001 - Split Dollar Life Insurance Value

## REPORTING FOR THE YEAR 2010

### Changes to Your Accounting System

With the New Year come various changes that may or may not occur automatically in your accounting software. Please make sure you check and update, if necessary, the following:

- SUTA rates and limits
- Social Security limit
- Workers Compensation rates (should be updated on the change of your policy year, but this is a good time to make sure they are set up properly)
- State and Federal withholding tables (usually this will be an update from your accounting software company)
- Voluntary deduction setup (this is a good time to verify that pre-tax and after-tax deductions are set up accordingly)
- Employee setup from revised W-4 and/or W-5 forms
- 1099 vendor setup (this is a good time to verify that vendors that should receive 1099's are set up properly)

If you need any assistance checking your accounting software setup, please call Gary Fortier at our office.

### 2010 Payroll Tax Rates

For 2010, the FICA wage base (maximum amount of wages subject to social security) will be \$106,800. The Medicare tax is computed on the employee's total wages with no wage base ceiling. For Social Security, the tax rate remains 6.2% each for employers and employees. For Medicare, the rate continues to be 1.45% each for employers and employees. The net federal unemployment tax remains at 0.8% (.008).

### Change in Mileage Rate

The mileage rate for 2010 will be 50 cents per mile, a five cent per mile decrease from 2009.

### Depreciation Rates for 2009/2010

The Economic Stimulus Act of 2008 brought significant increases to up front write offs for qualified fixed asset purchases. The direct write off of \$250,000 of eligible purchases became available to Taxpayers for purchases beginning in tax year 2008. This increased direct write off has been extended to also cover eligible purchases made during tax year 2009. In addition, bonus depreciation rules were extended to include purchases of eligible assets made during calendar year 2009. The most notable eligibility requirement is that the property be new and not used.

For tax years beginning in 2010, the up-front write off of qualified fixed asset purchases significantly decreases to \$133,000, pending any new legislation or inflation adjustments. Also, bonus depreciation will no longer be available for purchases made after December 31, 2009.

### Deduction Relating to Income Attributable to US Production Activities (construction activities)

In 2005, the IRS had established a new deduction for U.S. Production Activities. Qualifying activities include construction activities, traditional manufacturing, and other activities involving production. We can assist you in figuring out what specific activities qualify for the deduction. For years beginning in 2007, the deduction is 6% of the lesser of qualified production activities income or taxable income. The deduction is limited to 50% of wages.

Owners that qualify for this deduction should look at their compensation policies and consider increasing owner salaries to ensure their deduction is not scaled back. Some partnerships and sole-proprietors that do not have employees will be unable to take this deduction.

The deduction is scheduled to increase to 9% in 2010.

### **Real and Personal Property Tax**

Forms are due to the county tax assessor by March 1, April 1, or May 1 depending on the county for both Real and Personal Property tax returns. Typically, Taxpayers do not file real property tax returns, but in an economy of declining values, it may be beneficial to consider filing a real property tax return with your county. Filing a real property tax return gives you additional options for disputing the county's valuation if you disagree with their assessment.

In addition, certain Taxpayer's may want to consider having appraisals done on both their real and personal property to make sure the county's valuation is in line with the current fair market value of the property being taxed. If you have any questions regarding Real or Personal Property Taxes, please contact Nathan Worthey at our office.

### **Annual Registration - Georgia**

Annual Registrations are due to the Secretary of State by April 1 of each year. There is now a \$25 fee for Annual Registrations not filed by April 1.

### **Expense Reimbursements**

The tax treatment for reimbursing employees for expenses encountered on the job depends on whether reimbursements are made under what is referred to as an accountable plan. If the employer meets the requirements for an accountable plan, the expense reimbursements are fully deductible on their books (an exception would be the 50% meals and entertainment rule), and the

employee would owe zero tax on the reimbursement. However, if the reimbursements are made under a non-accountable plan, the reimbursement would still be deductible by the employee, but the payments become additional compensation to the employee. Both the employer and employee would owe payroll taxes and the employee would be subject to income tax withholding on these payments.

Generally, three conditions must be satisfied for an employer's reimbursement plan to be considered as made under an accountable plan:

1. The expenses must have a business connection (as opposed to being an expense that is personal in nature). Also, the reimbursement payment must be made separately from other payments or clearly identified if included with other payments, such as payroll checks.
2. The reimbursed expenses or expense allowance must be appropriately documented and substantiated. Turning in mileage logs is an acceptable method for auto expense reimbursement. Other acceptable items include turning in receipts for actual expenses incurred or being reimbursed for daily and overnight travel based on the IRS established per diem rates.
3. Any reimbursement in excess of substantiated expenses must be returned to the employer in a timely manner.

Where Companies sometimes go wrong is by establishing expense allowances, such as for automobiles and tools, without requiring substantiation or employee return of allowance amounts in excess of actual expenses.

As always, please feel free to call us with any questions you may have.

**IRS Auto Lease Value Table** to get value of personal use of  
Company vehicle to go on W-2 for employees

Automobile fair market value (1)	Annual lease value (2)	Automobile fair market value (1)	Annual lease value (2)
\$0 to 999.....	\$600	22,000 to 22,999.....	6,100
1,000 to 1,999.....	850	23,000 to 23,999.....	6,350
2,000 to 2,999.....	1,100	24,000 to 24,999.....	6,600
3,000 to 3,999.....	1,350	25,000 to 25,999.....	6,850
4,000 to 4,999.....	1,600	26,000 to 27,999.....	7,250
5,000 to 5,999.....	1,850	28,000 to 29,999.....	7,750
6,000 to 6,999.....	2,100	30,000 to 31,999.....	8,250
7,000 to 7,999.....	2,350	32,000 to 33,999.....	8,750
8,000 to 8,999.....	2,600	34,000 to 35,999.....	9,250
9,000 to 9,999.....	2,850	36,000 to 37,999.....	9,750
10,000 to 10,999.....	3,100	38,000 to 39,999.....	10,250
11,000 to 11,999.....	3,350	40,000 to 41,999.....	10,750
12,000 to 12,999.....	3,600	42,000 to 43,999.....	11,250
13,000 to 13,999.....	3,850	44,000 to 45,999.....	11,750
14,000 to 14,999.....	4,100	46,000 to 47,999.....	12,250
15,000 to 15,999.....	4,350	48,000 to 49,999.....	12,750
16,000 to 16,999.....	4,600	50,000 to 51,999.....	13,250
17,000 to 17,999.....	4,850	52,000 to 53,999.....	13,750
18,000 to 18,999.....	5,100	54,000 to 55,999.....	14,250
19,000 to 19,999.....	5,350	56,000 to 57,999.....	14,750
20,000 to 20,999.....	5,600	58,000 to 58,999.....	15,250
21,000 to 21,999.....	5,850		

For autos with a FMV in excess of \$59,999, the annual lease value equals: (.25 x auto FMV) + \$500.17

**IRS Table "I"** to get value of group term life insurance in excess of \$50,000  
to go on W-2 for employee group term life insurance benefit.

**Cost per \$1,000 of Protection per Month**

Age	Cost
Under 25	\$ .05
25 through 29	\$ .06
30 through 34	\$ .08
35 through 39	\$ .09
40 through 44	\$ .10
45 through 49	\$ .15
50 through 54	\$ .23
55 through 59	\$ .43
60 through 64	\$ .66
65 through 69	\$1.27
70 and older	\$2.06

**IRS Table 2001**, to get value of split dollar life insurance to go on W-2 for executive split dollar life insurance benefit.

**TABLE 2001  
INTERIM TABLE OF ONE-YEAR TERM PREMIUMS  
FOR \$1,000 OF LIFE INSURANCE PROTECTION**

Attained Age	Section 79 Extended and Interpolated Annual Rates	Attained Age	Section 79 Extended and Interpolated Annual Rates	Attained Age	Section 79 Extended and Interpolated Annual Rates
0	\$0.70	35	\$ 0.99	70	\$ 20.62
1	\$0.41	36	\$ 1.01	71	\$ 22.72
2	\$0.27	37	\$ 1.04	72	\$ 25.07
3	\$0.19	38	\$ 1.06	73	\$ 27.57
4	\$0.13	39	\$ 1.07	74	\$ 30.18
5	\$0.13	40	\$ 1.10	75	\$ 33.05
6	\$0.14	41	\$ 1.13	76	\$ 36.33
7	\$0.15	42	\$ 1.20	77	\$ 40.17
8	\$0.16	43	\$ 1.29	78	\$ 44.33
9	\$0.16	44	\$ 1.40	79	\$ 49.23
10	\$0.16	45	\$ 1.53	80	\$ 54.56
11	\$0.19	46	\$ 1.67	81	\$ 60.51
12	\$0.24	47	\$ 1.83	82	\$ 66.74
13	\$0.28	48	\$ 1.98	83	\$ 73.07
14	\$0.33	49	\$ 2.13	84	\$ 80.35
15	\$0.38	50	\$ 2.30	85	\$ 88.76
16	\$0.52	51	\$ 2.52	86	\$ 99.16
17	\$0.57	52	\$ 2.81	87	\$110.40
18	\$0.59	53	\$ 3.20	88	\$121.85
19	\$0.61	54	\$ 3.65	89	\$133.40
20	\$0.62	55	\$ 4.15	90	\$144.30
21	\$0.62	56	\$ 4.68	91	\$155.80
22	\$0.64	57	\$ 5.20	92	\$168.75
23	\$0.66	58	\$ 5.66	93	\$186.44
24	\$0.68	59	\$ 6.06	94	\$206.70
25	\$0.71	60	\$ 6.51	95	\$228.35
26	\$0.73	61	\$ 7.11	96	\$250.01
27	\$0.76	62	\$ 7.96	97	\$265.09
28	\$0.80	63	\$ 9.08	98	\$270.11
29	\$0.83	64	\$10.41	99	\$281.05
30	\$0.87	65	\$11.90		
31	\$0.90	66	\$13.51		
32	\$0.93	67	\$15.20		
33	\$0.96	68	\$16.92		
34	\$0.98	69	\$18.70		