



# HEDMAN PARTNERS

Certified Public Accountants

YOUR TRUSTED ADVISOR FOR 25 YEARS

## ANNUAL INFORMATION RETURNS NEWSLETTER

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### INSIDE THIS ISSUE:

Form W-2	1
Foreign Bank Account Reporting	2
Foreign Bank Account Reporting	2
Household Employee (Nanny Tax)	3
Form 1099 Filing Requirements and Miscellaneous Details	3
Hedman Partners' Information	5
2019 Tax Reference Guide	6

### FORM W-2

As a reminder, the IRS requires that all compensation to employees including Christmas bonuses, year-end bonuses, auto allowances, and the personal use of company owned vehicles be reported as wages on Form W-2, subject to both FICA and income tax withholding.

#### Personal Use of Company Owned Vehicle

If you have employees who use company owned vehicles, we recommend that a written policy regarding the personal use of the automobiles be implemented. This written policy should document the valuation method to be used and establish procedures for required records to be maintained by the employee and submitted to the employer. If you have any questions about how to calculate the value of the personal use of vehicles or would like some more information on company automobile policies, please contact us.

#### Expense Reimbursements

Reimbursements to employees of business expenses are considered taxable income and should be reported on Form W-2 unless the reimbursements were made under an "Accountable Plan." An Accountable Plan requires that 1) reimbursements, advances, or allowances are made only for business expenses incurred by the employee in connection with his performance of



services as an employee; 2) employees must be required to substantiate to the employer the expenses covered by the arrangement; and 3) employees must be required to return any excess reimbursements within a reasonable period of time. Thus, for example, a car allowance with no substantiation as to the amount of expenses incurred for business purposes would be fully taxable to the employee and

should be reported on Form W-2. Please contact us if you have any questions about Accountable Plans.

#### More than 2% Shareholder/Employee of an S Corporation

IRS Notice 2008-1 states that health insurance premiums paid on behalf of a "more than 2% shareholder" of an S Corporation must also be reported as taxable wages on Form W-2 (Similarly, partnership payments of health insurance premiums for a partner must be reported as guaranteed payments on the Schedule K-1). Relief is provided, however, as an S Corporation shareholder can deduct 100% of these premiums on his or her individual tax returns provided the amount was included in wages. These premiums are considered non-FICA wages, and as such are exempt from FICA taxes.

*Please contact us if you have any questions.*

FOREIGN BANK ACCOUNT REPORTING

“Taxpayers who do not disclose their foreign accounts, if required, risk severe penalties.”

United States persons may have an FBAR filing requirement if the following is true: the US person had a financial interest in or signature authority or other authority over any financial account in a foreign country and if the aggregate value of these accounts exceeds \$10,000 at any time during the calendar year. These disclosures are made on a special U.S. government form, FinCEN Report 114, Report of Foreign Bank and Financial Accounts (known as the “FBAR”) which must be filed separately from your income tax return and is due on or before April 15<sup>th</sup>, 2019 and can be extended until October 15. Electronic filing of FBARs is mandatory.

Taxpayers who do not disclose their foreign accounts, if required, risk severe penalties. Depending on the taxpayer’s facts and circumstances,

some of the penalties include, but are not limited to, penalties for failing to file certain returns, fraud penalties, and an accuracy-related penalty on underpayment of tax. Non-willful noncompliance penalties range up to \$12,459 per violation; if willful, up to the greater of \$124,588 or 50% of account balances. The IRS can also seek criminal sanctions against a taxpayer.



FOREIGN ASSET REPORTING

Certain United State citizens, resident aliens, domestic corporations, partnerships, and trusts may be required to file form 8938, Statement of Specified Foreign Financial Assets. You may have a filing requirement if you have financial accounts maintained by a foreign financial institution, stock, securities, notes, bonds, debentures, or interest in a foreign entity issued by someone who is not a US person. Certain thresholds must be met. For unmarried Individuals living in the US, total value greater than \$50,000 as of the last day of the year, or more than \$75,000 at any time during

the year, triggers a filing requirement. Likewise, married individuals living in the US meet the filing requirement if the value of assets is \$100,000 on the last day of the year, or more than \$150,000 at any time during the year. The respective amounts for individuals living outside the US are \$200,000 and \$300,000 if unmarried and \$400,000 and \$600,000 if married. For specified domestic entities the respective amounts are \$50,000 and \$75,000. Form 8938 is due and filed with your income tax return, subject to extension. You are not required to file form 8938 if you do not have an income tax return filing

requirement. Filing form 8938 does not relieve form FinCEN 114 requirements and vice-versa. Penalties for failure to file are \$10,000 for failure to disclose and an additional \$10,000 for each 30 days of non-filing after IRS notice of failure to disclose for a maximum penalty of \$60,000. Criminal penalties may also apply.



### HOUSEHOLD EMPLOYEE (NANNY TAX)

Taxpayers who hire people to perform domestic services may be responsible for paying certain employment taxes for their workers. Generally, you have a household employee if you provide the tools and supplies and control not only what work is done, but how the work is done. If, during any calendar year, a taxpayer pays a household employee (e.g., babysitter, house cleaner, cook or driver) \$2,100 or more in cash, the taxpayer must withhold and pay social security and Medicare taxes (FICA) on the entire wages, not just the excess. However, if the nanny is under age 18 and child care is not his/her principle occupation (such as a student who is a part-time baby sitter), a taxpayer does not have to withhold FICA taxes. Further, the taxpayer must

pay federal unemployment tax (FUTA) if cash wages paid to household employees totaled more than \$1,000 in any calendar quarter of the current or previous year. The .9% additional Medicare tax also applies for wages in excess of \$200,000, without regard to filing status. Cash wages do not include value of food, lodging, clothing, transit passes or other noncash items given to a household employee.

If the employer is to withhold income taxes, the worker must provide a completed Form W-4, *Employee's Withholding Allowance Certificate*. The W-4 will show whether the employee is married or single, the number of exemptions he or she is claiming, and any additional amounts of tax to be withheld. The amount to be withheld is provided in IRS Circular

E, "Employer's Tax Guide." A Form W-2 must be filed for each employee who is paid FICA wages and each employee who has income taxes withheld from his or her wages. Withheld income tax is reported and paid using Form 1040, Schedule H, which is due on April 15th. In addition, separate California payroll returns must be filed.



### FORM 1099 FILING REQUIREMENTS AND MISCELLANEOUS DETAILS

Any person engaged in a trade or business generally must file an information return with respect to certain payments aggregating \$600 or more to the same taxpayer in the calendar year. This information is reported on the Form 1099 series to satisfy Federal requirements. Please note that the IRS shares Form 1099 information with the State of California. Therefore if you file with the IRS, you do not file a copy of the same forms with the Franchise Tax Board. You may use a truncated SSN, ITIN, or ATIN on payee copies for form series 1098, 1099 and 5498. This includes substitute and composite substitute statements furnished to payee in paper or electronic form. For example xxx-xx-xxxx would appear on the payee statement as \*\*\*-\*\*-xxxx.

#### Payments to be Reported

Payments for various types of **non-employee** compensation must be reported on Form 1099. This requirement generally includes payments for personal services, as well as rental, interest, and dividend payments. Payments of any nature to banks or corporations (except to corporations organized for medical, health care or legal services) need NOT be reported. Following is a list of **some** of the common types of payments, which must be reported:

- Payments for services of \$600 or more, including cost of materials incidental to the services provided;
- Commissions, prizes and awards, and other income of \$600 or more, to non-employees;

- Rents of \$600 or more;
- Royalties of \$10 or more;
- Interest totaling \$10 or more paid or credited to any person's account;
- Corporate dividends of \$10 or more;
- Patronage dividends, rebates, or refunds totaling \$10 or more;
- Payments for medical or health care services of \$600 to each physician or supplier of medical services;
- Gross proceeds of \$600 or more paid for legal services;
- Barter exchange transactions.

FORM 1099 FAQ'S AND MISCELLANEOUS DETAILS (CONTINUED)

**Payments Not Requiring Information Returns**

The following list details some common examples of payments, which need NOT be accompanied by the filing of 1099's:

- Payments of any type made to a bank, corporation, or LLC treated as a C or S corporation (other than for medical, health care, broker and barter transactions, merchant card and third-party networks, withheld federal income tax or foreign tax, or attorney fees);
- Payments made by credit card;
- Any otherwise reportable payments of less than \$600 in the aggregate;
- Payments of bills for merchandise;
- Wages and other employee compensation or employee business expense reimbursements reported on form W-2;
- Payments made by those not engaged in a trade or business;
- Rent payments to real estate agents or property managers;
- Payments by a partnership to a partner where they are reflected on Schedule K-1 of the partnership tax return.

**Filing Due Dates**

Forms 1099-MISC must be issued to recipients on or before **January 31, 2019**, while Form 1096 and the duplicate 1099's must be transmitted to the IRS on or before **February 28, 2019 if transmitting by mail or by March 31,**

**2019 if transmitting electronically. However, the IRS copies must be transmitted before January 31, 2019 if there are any payments for nonemployee compensation reported in box 7.** If you are filing more than 250 information returns, you are required to file electronically. A 30 day extension can be requested by filing form 8809.

**Backup Withholding**

Payments subject to 1099 reporting requirements may be subject to backup withholding if a TIN (taxpayer identification number) can't be obtained by the payer, from the payee. In general, payments including interest (including tax-exempt interest), dividends, rents, royalties, commissions, nonemployee compensation, and certain other payments may require backup withholding of 24% if the payee fails to furnish his or her TIN to the payer. The IRS may also notify you requiring backup withholding because the payee furnished an incorrect TIN. The payer may become liable to the IRS for any uncollected amount if not withheld from the payee as required. For a list of payees exempt from backup withholding see instructions to form W-9. If backup holding is required you will need to file form 945, an annual form due in before the end of January.

**Form W-9**

Form W-9 is completed by the payee and provided to the requester. The information provided on form W-9 is necessary to file information returns such as the 1099-MISC form discussed above. Throughout the year it is good business practice to request a completed W-9 before transacting

with a new vendor (payee). Doing so will assist year-end 1099 reporting compliance and help avoid penalties.

Foreign payees will need to provide the appropriate completed W-8 form. If the payee refuses to provide the requested information, the payee is subject to Federal penalties. Any taxpayer who refuse to furnish their TIN are subject to "backup withholding," as noted above.

**Information Return Penalties (Forms 1099)**

Significant penalties can apply for failure to file these information returns. Federal law provides for up to a \$270 assessment for each failure to provide a correct information return to a recipient, and another \$270 for failing to file a correct information return with the IRS. In certain instances, other penalties may apply. The maximum penalty is \$3,282,500 per year (\$1,094,000 for small businesses). If you are required to file electronically, but fail to do so, you may be subject to a penalty of \$270 per return filed in excess of the 250 total information returns requirement for electronic filing. Additionally, failure to file a Form 1099 could result in disallowance of the deduction for a claimed payment during an audit.



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Hedman Partners is an advisor to middle market businesses, their owners, and other high net worth individuals. We have assembled a team of CPAs and other trusted advisors to serve the unique needs of our clients. Our strong commitment to intimate client relationships, exceptional service, and our business and technical expertise enables us to successfully guide our clients to secure their future in both their business and personal life.

Our areas of concentration include businesses in a variety of industries including *Manufacturing, Distribution, Aerospace & Defense, Real Estate, Construction, Beauty, Software, Service, Entertainment, Transportation, Food & Beverage, Medical Device, Financial Services & Employee Benefit Plans.*

With a genuine interest in each of our clients' unique goals and dreams, we apply our experience in accounting, finance and consulting to help them plan for and achieve their financial objectives. We enjoy going beyond the traditional role of being an accountant to being our clients' most trusted advisor. Serving clients throughout Southern California, we offer a full range of services through our firm and its affiliates, Hedman M&A Advisors and Raleigh Hedman Financial Services.



27441 Tourney Road, Suite 200  
Valencia, California 91355  
Main: (661) 287-6333  
Fax: (661) 287-6336  
[www.hedmanpartners.com](http://www.hedmanpartners.com)



## 2019 TAX REFERENCE GUIDE

2018/2019 TAX DATA SCHEDULE				FEDERAL TAX RATE SCHEDULE					
				<b>2019 Taxable Income</b>		<b>2018 Taxable Income</b>			
				<b>Is</b>	<b>But Not</b>			<b>Is</b>	<b>But Not</b>
				<b>Over</b>	<b>Over</b>	<b>Tax Rate</b>	<b>Over</b>	<b>Over</b>	<b>Tax Rate</b>
<b>Standard Deductions</b>				<b>Single</b>					
Single	\$	12,200	\$ 12,000	\$ -	\$ 9,700	10%	\$ -	\$ 9,525	10%
Married Filing Jointly, Surviving Spouse		24,400	24,000	9,700	39,475	12%	9,525	38,700	12%
Married Filing Separately		12,200	12,000	39,475	84,200	22%	38,700	82,500	22%
Head of Household		18,350	18,000	84,200	160,725	24%	82,500	157,500	24%
Taxpayer Claimed as a Dependent		1,050	1,050	160,725	204,100	32%	157,500	200,000	32%
<b>California SDI</b>				<b>Head of Household</b>					
Annual Wage Limit	\$	118,371	\$ 114,967	\$ -	\$ 13,850	10%	\$ -	\$ 13,600	10%
Rate		1.00%	1.00%	13,850	52,850	12%	13,600	51,800	12%
Tax		1,183.71	1,149.67	52,850	84,200	22%	51,800	82,500	22%
				84,200	160,700	24%	82,500	157,500	24%
				160,700	204,100	32%	157,500	200,000	32%
				204,100	510,300	35%	200,000	500,000	35%
				510,300	and more	37%	500,000	and more	37%
<b>RETIREMENT PLAN LIMITATIONS</b>				<b>Married Filing Jointly or Qualifying widow(er)</b>					
				\$ -	\$ 19,400	10%	\$ -	\$ 19,050	10%
Maximum 401(k) or 403(b) Deferral	\$	19,000	\$ 18,500	19,400	78,950	12%	19,050	77,400	12%
Maximum Defined Contribution Plan Contribution		56,000	55,000	78,950	168,400	22%	77,400	165,000	22%
Maximum Annual Benefit for Defined Benefit Plans		225,000	220,000	168,400	321,450	24%	165,000	315,000	24%
Annual Compensation Limit for Computing Plan Benefits		280,000	275,000	321,450	408,200	32%	315,000	400,000	32%
Annual Compensation Limit for the Definition of Highly Compensated Employee IRC Section 414(q)		125,000	120,000	408,200	612,350	35%	400,000	600,000	35%
Compensation Minimum for SEP Plan		600	600	612,350	and more	37%	600,000	and more	37%
Maximum Contribution for SIMPLE Plan		13,000	12,500	<b>Married Filing Separately</b>					
Catch-up Contribution for 401(k) or 403(b) for taxpayers age 50 and older		6,000	6,000	\$ -	9,700	10%	\$ -	9,525	10%
Catch-up Contribution for SIMPLE for taxpayers age 50 and older		3,000	3,000	9,700	39,475	12%	9,525	38,700	12%
<b>Key-Employee for Top Heavy Purposes:</b>				39,475	84,200	22%	38,700	82,500	22%
Officers earning over	\$	175,000	\$ 175,000	84,200	160,725	24%	82,500	157,500	24%
A 5-percent Owner or 1-percent Owner Earning Over		150,000	150,000	160,725	204,100	32%	157,500	200,000	32%
				204,100	306,175	35%	200,000	300,000	35%
				306,175	and more	37%	300,000	and more	37%
<b>TRADITIONAL AND ROTH IRAS</b>				<b>SOCIAL SECURITY AND MEDICARE TAXES</b>					
				<b>Social Security Tax</b>		<b>2019</b>		<b>2018</b>	
Contribution Limit	\$	6,000	6,000	Maximum wage base		\$132,900	\$128,400		
Catch-up Contribution age 50 and older		1,000	1,000	Social Security Rate-employee		6.2%	6.2%		
<b>IRA Deduction Phase-out for Active Participants</b>				Social Security Rate-self-employed		12.4%	12.4%		
Single		\$64,000-\$74,000		<b>Medicare Tax</b>		Maximum wage base		Unlimited	Unlimited
Married Filing Jointly		\$103,000-\$123,000		Medicare Rate-employee		1.45%	1.45%		
Married Filing Separately		\$0-\$10,000		Medicare Rate-self-employed		2.9%	2.9%		
<b>Roth IRA Contribution Phase-out</b>				<b>Additional Medicare Tax</b>		Wages in excess of \$200,000 for Single filers and \$250,000 for Married filers.		0.9%	0.9%
Single		\$122,000-\$137,000		<b>IMPORTANT PHONE NUMBERS</b>					
Married Filing Jointly		\$193,000-\$203,000		Internal Revenue Service		(800) 829-3676			
Married Filing Separately		\$0-\$10,000		<a href="http://www.irs.gov/formspubs/index.html">www.irs.gov/formspubs/index.html</a>					
<b>ESTATES AND GIFTS</b>				Franchise Tax Board		(800) 338-0505			
				<a href="http://www.ftb.ca.gov/forms/index.html">www.ftb.ca.gov/forms/index.html</a>					
Basic Exclusion of Decedents	\$	11,400,000	\$ 11,200,000	Employment Development Department		(888) 745-3886			
Annual Gift Exclusion		15,000	15,000	<a href="http://www.edd.ca.gov/Forms/">www.edd.ca.gov/Forms/</a>					