

THE SMALLBIZ BUILDER

Planning For Your Dreams



October 2017

PADGETT BUSINESS SERVICES®

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This Month:

- 4th Quarter 2017 Due Dates
- Padgett Proposes Idea to the IRS to Further Combat Identify Theft
- Are You Paying Yourself Correctly as a Shareholder of an S Corporation?

4th Quarter 2017 Due Dates

October 1:

- ◇ *Businesses*: Deadline for establishing a new SIMPLE retirement plan for 2017

October 16:

- ◇ *Individuals*: 2016 return due (Form 1040) if on extension
- ◇ *Calendar-year C corporations*: 2016 return due (Form 1120) if on extension

October 31:

- ◇ *Employers*: File Form 941 for 3rd quarter 2017

During November:

- ◇ *Employers*: Request Form W-4s from employees whose withholding allowances will be different in 2018

December 15:

- ◇ *Calendar-year C Corporations*: 4th installment of 2017 estimated tax due

Padgett Proposes Idea to the IRS to Further Combat Identify Theft

As technology advances and the world becomes more digital, your risk for identity theft greatly increases. What if there was a way to put a lock on your accounts, making it harder for cybercriminals to access your information, reducing your chances of becoming a target for fraud? This is an idea that Roger Harris, President & C.O.O. of Padgett Business Services, and several others have proposed to the IRS as a way to further combat tax-related ID theft.

[Cont...]

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Although the IRS has been successful in fighting identity theft tax fraud, the service is still reporting approximately \$1B a year in lost revenues. Harris believes rapid refunds and refundable credits are part of the problem. He feels the solution is a "Refund Lock", which would give taxpayers the choice to "lock" themselves out of receiving a potential refund. This would remove those taxpayers, who have little or no interest in receiving a rapid refund, as desirable targets for fraud.

The IRS is in the early stages of implementing a plan to create online accounts, permitting taxpayers to obtain information and interact with the service. Harris envisions these accounts would include an application that allows taxpayers to permanently apply any refund toward the following year's estimated tax payment, until they expressly unlock their account allowing for refunds to be paid.

Harris suggests the IRS initially begin "Refund Lock" as a pilot program to those balance-due taxpayers. As the program proves its viability, market it to all taxpayers. If you have any feedback, comments, or suggestions to pass along regarding this proposal, please contact us.

Are You Paying Yourself Correctly as a Shareholder of an S Corporation?



If you operate your business as an S corporation and pay yourself on a 1099-MISC, then you're possibly in violation of tax law, which can subject you to substantial tax liabilities and penalties.

The law requires you to pay yourself a salary for the work you do for the corporation. Your salary should be reasonable based upon your position, hours worked, and duties performed. It should also be equivalent to executives or employees in similar businesses. The salary shouldn't be in the form of distributions or 1099 payments. The payments should be run through payroll to ensure the proper income tax, social security and unemployment taxes are deducted

as they are for a non-shareholder employee or a worker in another company. The business can deduct the wages and taxes from income as operating expenses.

You may be tempted to pay yourself as a 1099 recipient, as life seems so much simpler this way — no payroll taxes to deal with, no payroll tax returns to file, and no payroll services fees to pay. However, having your S corporation pay you this way could cost you thousands of dollars in taxes, interest, and penalties! Because this is a violation of tax law, the IRS can reclassify your 1099 payments as W-2 wages and collect the back payroll taxes and interest on the payroll taxes. Penalties for failure to file a Form 941 each quarter, failure to deposit the tax withholdings each quarter and failure to issue a Form W-2 can also be assessed.

There's no requirement that an S corporation pay out all of its profits to the shareholder as wages. You may be able to apportion the payments between wages and distributions. Distributions are deemed to be a return on the shareholder's investment. They're included in a shareholder's taxable income but aren't subject to payroll taxes and aren't considered self-employment income subject to self-employment tax. Determining this apportionment can be tricky, so contact us for assistance.

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PADGETT BUSINESS SERVICES® is dedicated to meeting the compliance, profit & financial government reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.



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