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*If you would like Perkins & Co to assist you with your information returns for transactions occurring in 2013, please get in touch with us as soon as possible so that we can help you make sure you have all the necessary information gathered & submitted to us by January 15, 2014.*

## **Annual Information Returns & Other Compliance Reminders**

General Information Reporting Requirements and Deadlines	1
Form W-2 Reporting of Employer-Sponsored Health Coverage	2
2013 & 2014 Alert: Oregon Information Return Electronic Filing Requirement	3
2013 Alert: Additional 0.9% Medicare Tax	3
Additional W-2 Reporting for S Corporation Owner-Employees	4
New Hire Reporting for Oregon Employers	4
Information Return Penalties	4
Form 8300	5
Report of Foreign Bank and Financial Accounts (FBAR) – TD F 90-22.1	5
2014 Alert: Mandatory Withholding on Payments to Non-US Persons and Non-US Entities	6
Employer-Provided Vehicles	6
Contact Us	8
Appendix A: 2013 Employer’s Worksheet to Calculate Employee’s Taxable Income Resulting from Employer-Provided Vehicle	9
Appendix A: Annual Lease Value Table	10

## General Information Reporting Requirements and Deadlines

The time of year has again arrived when all businesses, whether small or large, must help the Internal Revenue Service (IRS) enforce our “voluntary” tax assessment system by filing numerous information returns. The IRS may impose substantial penalties if information returns are filed late or with incorrect information; see the penalty section below. And remember that the IRS added questions about 1099 filing compliance to all business tax returns, so we’ll be checking in with you about your compliance with these requirements.

To avoid these late filing penalties, 2012 information returns must be filed with the IRS &/or the Social Security Administration (SSA) by February 28, 2014 if paper filing or by March 31, 2014 if filing electronically. In some cases, it is possible to obtain an extension of time to file information returns with the IRS &/or SSA. **Regardless of how you file your government copies, information returns must be furnished to employees and other taxpayers by January 31, 2014.**

If you are engaged in a trade or business and you make certain payments to persons other than corporations, you may be required to file an information return. This is true for individuals, partnerships, associations, corporations or any other entity engaged in a trade or business. The following is a partial list of payments that require an information return. Minimum payment amounts requiring a return are listed where applicable. This list is intended only as a general reminder. You can obtain detailed instructions from the IRS or from us.

### Form 1099

- Interest (\$10)
- Dividends (\$10)
- Liquidation distributions (\$600)
- Payments to independent contractors (\$600)
- Director's fees (\$600)
- Prizes or awards (\$600)
- Exchanges of services or bartering transactions (all amounts)
- Commissions (\$600)
- Pension or annuity distributions (\$10)
- Rents (\$600)
- Professional fees to unincorporated:
  - Doctors (\$600)
  - Accountants (\$600)
  - Other professionals (\$600)
- Professional fees to attorneys (\$600)

### Form W-2

- Wages, tips, bonuses
- Vacation allowances
- Severance pay
- Non-qualified moving expenses
- Other compensation
- Personal use value of auto  
(See “Employer-Provided Vehicles” below)
- Cost of certain group term life insurance policies
- Fringe benefits to a more than 2% shareholder of an S-Corporation – see below

***Perkins & Co is incorporated – you don't need to send us a 1099***

Since 2011, the IRS has required you to exclude from Form 1099-MISC any payments you made by credit card, debit card, gift card, or PayPal. Any amounts you paid using these other methods of payment must be reported to the IRS, not by you, but by the issuing card company using Form 1099-K. You do not need to report these amounts on Form 1099-MISC. For more information about these rules, please visit: [www.irs.gov/form1099k](http://www.irs.gov/form1099k).

When completing information returns, taxpayer identification numbers (TIN) and names must be carefully listed. The IRS automatically matches identification numbers and names. If the name does not match the number exactly, the IRS will issue a notice to the payer. For payments made to sole proprietors, show the individual's name on the first line and the business name on the second line. For payments made to single-member LLCs that are disregarded entities, enter the LLC owner's name on the first line and the LLC's on the second line, and use the LLC owner's TIN if the LLC does not have its own TIN. Failure to include correct name and number can subject the payer to penalties (discussed in more detail below).

In an effort to combat the rising problem of identity theft, the IRS has recommended that the recipient's taxpayer identification number be masked on all information returns (i.e. Forms 1099 and W-2) that are sent to the payee. In other words, only the last four digits of the TIN are visible. The full TIN would still appear on the government copy of the forms, however.

Returns must be filed electronically if at least 250 returns are required to be filed – other filers may file electronically if they wish. The 250 threshold is applied separately to each type of return form. If you have not previously filed 1099s electronically, you will need to submit an e-filing application to the IRS at least 30 days before the e-filing deadline. You can do this online at <http://fire.irs.gov>. The first day to e-file information returns regarding 2013 transactions is January 21, 2014. You can register to file W-2s electronically online at the Social Security Administration's website: [www.ssa.gov/bsa](http://www.ssa.gov/bsa).

### **Form W-2 Reporting of Employer-Sponsored Health Coverage**

The Affordable Care Act of 2010 (better known as "ObamaCare") included a provision requiring employers to report the cost of employer-provided health insurance and related benefits on Forms W-2 so that employees would have a basis for comparison shopping. This reporting continues to be optional for employers who were required to file fewer than 250 W-2s for the prior calendar year.

For employers who were required to file 250 or more W-2s in 2012, the following types of coverage must be included in box 12, with a code of DD, of each W-2 being furnished to employees after December 31, 2013:

- Major medical
- Health FSA value for the plan year in excess of the employee's cafeteria plan salary reductions for all qualified benefits
- Hospital indemnity or specified illness (insured or self-funded), paid through salary reduction (pre-tax) or by employer
- Domestic partner coverage included in gross income

In addition, if the employer charges a COBRA premium for the following types of coverage, they must also be included:

- Employee Assistance Plan (EAP) providing applicable employer-sponsored healthcare coverage
- On-site medical clinics providing applicable employer-sponsored healthcare coverage
- Wellness programs providing applicable employer-sponsored healthcare coverage

All other types of coverage are either optional to report or shouldn't be reported under any circumstances – please see [www.irs.gov/uac/Form-W-2-Reporting-of-Employer-Sponsored-Health-Coverage](http://www.irs.gov/uac/Form-W-2-Reporting-of-Employer-Sponsored-Health-Coverage) for full details.

### **2013 & 2014 Alert: Oregon Information Return Electronic Filing Requirement**

Oregon requires all employers to electronically submit copies of 2013 Forms W-2 to the Department of Revenue (DOR). Employers can either do this via the DOR website (<https://secure.dor.state.or.us/iWire>) or via third party payroll filer, such as ADP, Paychex, Intuit, etc. Your copy of the federal Form W-2(s) will have all of the information you need to complete the online filing. This filing must be completed by March 31, 2014.

Starting with 2013, Oregon businesses filing 10 or more of any one type of information return (1099-MISC, etc.) are required to submit them electronically to the DOR using the website noted above by March 31, 2014. Businesses filing less than 10 of most 2013 information forms other than the W-2 family of forms are not required to submit them to Oregon. **Starting with 2014, all Oregon businesses filing information returns will be required to file copies electronically with the state.** For more information on this requirement, please visit <http://www.oregon.gov/dor/BUS/Pages/iwire-income-wage-information-return-eservices.aspx>.

### **2013 Alert: Additional 0.9% Medicare Tax**

Wages and self-employment income over certain thresholds (\$250,000 for couples filing jointly, \$200,000 for single filers) are subject to an additional 0.9% Medicare Tax. Employers are required to withhold this tax for any employee expected to earn over \$200,000 in wages in a given year. In addition, taxpayers who will reach this threshold jointly but not earn over \$200,000 individually may want to consider adjusting their withholding with their employers via a Form W-4. The IRS finally issued regulations on how to calculate the tax owed under this provision on this November 26, 2013. Please see [www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax](http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax) for full details.

## **Additional W-2 Reporting for S Corporation Owner-Employees**

Fringe benefits paid on behalf of more than two percent shareholders of S-Corporations are deductible as wages and must be reported on the shareholder-employee's W-2. Amounts paid by an S-Corporation for accident and health insurance covering a more than two percent shareholder-employee are wages for income tax withholding purposes, but excluded as wages subject to Social Security and Medicare taxes. For the exclusion to apply, payments must be made under a plan or system for employees and their dependents generally or for a class of employees and their dependents. Greater than 2% shareholder-employees are also not permitted tax-privileged status for many kinds of fringe benefits that are otherwise not taxable to employees. Please search <http://www.irs.gov/pub/irs-pdf/p15b.pdf> for "shareholder" for full details.

## **New Hire Reporting for Oregon Employers**

All employers are required to report all new hires (or rehires who have been gone more than 45 days) to the Oregon Department of Justice. The report can be made by remitting an Oregon New Hire Reporting Form no later than 20 days after the date of hire or rehire. You can obtain additional information about this reporting requirement, as well as the required reporting form, by visiting the Oregon Department of Justice, Child Support Program website: [www.oregonchildsupport.gov/employers/reporting.shtml](http://www.oregonchildsupport.gov/employers/reporting.shtml). This link also provides information on optional electronic reporting to meet this requirement.

## **Information Return Penalties**

Penalties of up to \$100 per return will now be imposed for information returns as described above under the following scenarios:

- 1) Failure to file an information return by the due date (including failure to file electronically if required).
- 2) Failure to include all the information required to be shown on a return, or the inclusion of incorrect information on a return.

The IRS will reduce the penalty if the failure is corrected shortly after the due date. The \$100 per-return penalty will be reduced to \$30 if corrected by March 31 or to \$60 if corrected by August 1 of the same year. The maximum penalties imposed on any one filer are divided into categories depending on when or if a corrected return was filed, and the size of the business (see table below). You are a "small business" for these purposes if your average annual gross receipts for the prior three years were \$5 million or less. While the penalties may seem small on a per return basis, they add up quickly and are generally very difficult to waive. These penalties are cumulative, subject to the maximum penalty in each category as shown on the following table:

<b>Maximum Penalty by Category</b>	<b>General Penalty Maximum</b>	<b>Small Business Penalty Maximum</b>
Returns corrected by March 31	\$250,000	\$75,000
Returns corrected by August 1	\$500,000	\$200,000
Returns <b>not</b> corrected by August 1	\$1,500,000	\$500,000

It is your responsibility to prepare or engage someone to prepare all required information returns. The penalties, as you can see, are onerous. Take care to carefully analyze all payments made during the year so that the proper forms can be prepared.

### **Form 8300**

Form 8300 must be filed within 15 days after a business receives more than \$10,000 in "cash" in a single transaction or a series of related transactions. "Cash" includes money orders, traveler's checks, cashier's checks and foreign currency as well as U.S. coin and paper currency.

### **Report of Foreign Bank and Financial Accounts (FBAR) – TD F 90-22.1**

If you have access to a foreign financial account or accounts (this includes bank accounts, brokerage accounts, retirement accounts, prepaid debit/credit cards purchased outside the US) and their aggregate value was \$10,000 USD or more at any point during a calendar year, you must file an FBAR for that account for that year. "Access" to an account means you owned it, owned part of it, were a trustee or custodian for it, or had signature authority over the account (even if multiple signatures were required to remove funds). It doesn't matter whether the account earned any income: the filing requirements are the same either way.

FBARs must be **received** by the IRS by **June 30** following the year in which the account's value was \$10,000 USD or more. For example, if you have an account in 2013 whose value is \$10,000 USD or greater at some point during 2013, your FBAR for that account must be received by the IRS by June 30, 2014. **As of July 1, 2013, electronic filing of FBARs is mandatory.**

There is a minimum penalty of \$10,000 per account per year you were required to file an FBAR. If the IRS determines you knew you had a filing requirement and disregarded that filing requirement (a "willful violation"), they can assess a maximum penalty of the greater of \$100,000 per account or 50% of the value of the account at the due date of the unfiled FBAR and may pursue criminal charges. Criminal conviction can result in up to 5 years in prison and an additional fine of \$250,000 per violation. If you didn't report income related to your foreign financial account, you may be subject to additional penalties on the unpaid income tax of 20-40% of the tax due, and an additional penalty of 75% of the unpaid income tax if the failure to report the income was willful.

We can assist you in filing your FBARs; however, if you believe you may have failed to file a required FBAR for a prior year, we recommend that you contact an attorney with experience in this area as soon as possible. Starting in January 2012, the IRS began an open-ended voluntary disclosure program. Due to the open-ended nature of the program, the terms are subject to change. Currently, the program does not

abate penalties as much as the 2011 and 2009 voluntary disclosure programs; however, it does offer relief from potential criminal charges and modestly reduces monetary penalties.

For more information about FBARs, please contact us (see info below) or visit <http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Report-of-Foreign-Bank-and-Financial-Accounts-FBAR>.

### **2014 Alert: Mandatory Withholding on Payments to Non-US Persons and Non-US Entities**

In conjunction with the increased media attention on US taxpayers with foreign accounts resulting from the Foreign Account Tax Compliance Act (FATCA), we'd like to remind you that you may be required to withhold tax on most kinds of payments to non-US persons and non-US entities. Please be especially attentive to these requirements when working with remote contractors. In general, you are required to obtain one of the family of W-8 forms from foreign persons, withhold at 30% and remit the withholding to the IRS on a timeline similar to payroll tax withholding. The year-end reporting form for foreign withholding is Form 1042-S for most types of payments. Please review IRS Publication 515 (<http://www.irs.gov/pub/irs-pdf/p515.pdf>).

### **Employer-Provided Vehicles**

The personal use value of an employer-provided vehicle, whether owned or leased, must be included in the employee's compensation.

Three methods are available to value the personal use of a company-owned vehicle: **(1)** the lease valuation method, **(2)** the cents-per-mile method and **(3)** the commuting valuation method. Different valuation methods may be used for different vehicles, but once a method has been selected for a particular vehicle, it should be used consistently until that vehicle is no longer in service. These methods are briefly described below.

The personal use value under the **lease valuation method** is determined by multiplying the vehicle's annual lease value (obtained from an IRS valuation table) by the percentage of personal use. The value includes maintenance and insurance on the vehicle, whether provided by the employer or not. However, the value does not include employer-purchased fuel, which can be separately valued at 5.5 cents a mile for each personal mile driven.

The **cents-per-mile method** uses the standard IRS mileage rate to value personal use miles. The standard mileage rates are as follows:

January 1, 2013 to	December 31, 2014	56.0 cents
January 1, 2013 to	December 31, 2013	56.5 cents
July 1, 2011 to	December 31, 2012	55.5 cents

This method cannot be used unless the employee can prove the vehicle could have been leased on a cents-per-mile basis, and it cannot be used if the fair market value of the vehicle when first placed in service exceeds the following amounts:

2013 Auto	\$16,000	2013 Truck	\$17,000
2012 Auto	\$15,900	2012 Truck	\$16,700

In addition, the vehicle should be regularly used in the employer's business or driven at least 10,000 miles per year and used primarily by employees. If the employer does not provide fuel, 5.5 cents a mile can be subtracted from the standard mileage rate.

The **commuting valuation method** can be used for employees who are required to commute in employer-provided vehicles. The compensation inclusion is a flat \$1.50 (\$3.00 per round trip) for each employee. In order to use this method, however, strict requirements must be satisfied, including: the vehicle can only be used for commuting and the employee using the vehicle cannot be a control employee (i.e., a 1% or more owner, an officer paid at least \$100,000, an employee paid at least \$205,000 or a director).

For most practical purposes, the lease valuation method is the only method available to value personal use. Please see Appendix A for a valuation table and worksheet for your own calculations. In using the valuation table, once a vehicle's initial value is determined, it must remain unchanged for four years. After that, it can be revalued for another four-year period or as long as the vehicle is still in service. The purchase price of the vehicle is generally the best indication of its initial value.

Since the personal use value of a company vehicle is included in an employee's income, it is subject to withholding taxes (including FICA and Medicare). An employer has the flexibility to include the benefit in an employee's compensation and withhold over any payroll period, e.g. monthly, quarterly or even annually. An employer can even choose not to withhold income taxes, but must still withhold social security and unemployment taxes, if applicable.

The employer has the option to report taxable fringe benefits by either of the following rules:

- 1) The general rule: value the benefit for a full calendar year (January 1 - December 31).

**OR**

- 2) The special accounting period rule: Treat the value of benefits provided during the last two months of the calendar year as paid during the following calendar year. Each year, the employer includes in income the value of benefits provided during the last two months of the prior year, and the first ten months of the current year.

The employer should notify each employee using a company-provided vehicle as to the substantiation requirements, policies, valuation and withholding methods adopted. The written notice should be provided by January 31 of the valuation year or 30 days after the employer supplies the car to the employee. The notice may be mailed to affected employees, provided in their paychecks or posted where they will most likely read it. If the employer fails to meet the notice requirements, then the special valuation methods will



not be available that year. The employer need not give second or repeated notices if the valuation method has not changed and notice has previously been provided.

For purposes of substantiating business use of a company-owned vehicle, an employer may rely on adequate records maintained by the employee or an employee's own statement if supported by other sufficient proof. Alternatively, an employer may rely on an employee's statement that contains sufficient information to allow the employer to determine the business use of the vehicle.

## Contact Us

For any questions or additional clarification, please contact your tax advisor or one of the following Perkins & Co tax management members:

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**Appendix A: 2013 Employer’s Worksheet to Calculate Employee’s Taxable Income Resulting from Employer-Provided Vehicle**

Employee’s Name: \_\_\_\_\_

**Lease Valuation Method**

Fair market value of vehicle at date first available for personal use (Value must be determined at the beginning of every fifth year )		\$	_____
Annual lease value – see table		(A)	_____
Personal use %			
Total miles	_____		
Business miles	( _____ )		
Personal miles	=====		
Personal/total miles		(B)	_____%
* Personal value of annual lease	(A) x (B) =	(C)	_____
If employer pays for fuel, multiply the number of personal miles driven by 5.5 cents-per-mile		(D)	_____
Total employee taxable income	(C)+(D) =	\$	_____

\* *If used less than entire year, multiply this amount by fraction which is number of days available divided by total days for the year. If vehicle not continuously available to employee for at least 30 days, a daily rate (4 times the regular rate) is applied unless employer elects to treat periods of availability in 30 day increments during the year.*

### Appendix A: Annual Lease Value Table

Automobile Fair Market Value	Annual Lease Value	Automobile Fair Market Value	Annual Lease Value
\$ 0 – 999	\$600	\$22,000 - 22,999	\$6,100
1,000 – 1,999	850	23,000 – 23,999	6,350
2,000 – 2,999	1,100	24,000 – 24,999	6,600
3,000 – 3,999	1,350	25,900 – 25,999	6,850
4,000 – 4,999	1,600	26,000 – 27,999	7,250
5,000 – 5,999	1,850	23,000 – 29,999	7,750
6,000 – 6,999	2,100	30,000 – 31,999	8,250
7,000 – 7,999	2,350	32,000 – 33,999	8,750
8,000 – 8,999	2,600	34,000 – 35,999	9,250
9,000 – 9,999	2,850	36,000 – 37,999	9,750
10,000 – 10,999	3,100	38,000 – 39,999	10,250
11,000 – 11,999	3,350	40,000 – 41,999	10,750
12,000 – 12,999	3,600	42,000 – 43,999	11,250
13,000 – 13,999	3,850	44,000 – 45,999	11,750
14,000 – 14,999	4,100	46,000 – 47,999	12,250
15,000 – 15,999	4,350	48,000 – 49,999	12,750
16,000 – 16,999	4,600	50,000 – 51,999	13,250
17,000 – 17,999	4,850	52,000 – 53,999	13,750
18,000 – 18,999	5,100	54,000 – 55,999	14,250
19,000 – 19,999	5,350	56,000 – 57,999	14,750
20,000 – 20,999	5,600	58,000 – 59,999	15,250
21,000 – 21,999	5,850		

For vehicles having a fair market value in excess of \$59,999, the Annual Lease Value is equal to:  $(.25 \times \text{automobile fair market value}) + \$500$ .