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Dear Client:

Re: Year-end W-2 and 1099 Reporting

The time for year-end reporting for wages and other types of payments is drawing near. Please review the attached W-2 and 1099 categories as the information summarizes the major reporting requirements for compensation related to W-2 and 1099-MISC issues. If one or more categories apply, or if you have any questions or special situations which are not outlined, we can assist you in the proper reporting of these items. The following are some items to note for the 2020 year:

1. If Thoresen Diaby Helle Condon & Dodge, Inc. prepares your quarterly payroll tax returns and W-2s and/or 1099s, please have the applicable information to prepare those forms to our office no later than **January 8, 2021** to allow us adequate time to complete and mail the forms to you. If you use an outside service bureau or similar service to process your payroll, please contact them as soon as possible to determine their deadline for accepting such information (normally before 12/15/20).

2. **NEW for 2020:**

The Internal Revenue Service has initiated Form 1099-NEC.

In the past, payments of at least \$600 to attorneys, independent contractors, or directors, among others, were required to be reported on Form 1099-MISC. Other payments, such as rents, royalties, and prizes, were also reported on this same form, but in different boxes. **For the 2020 tax year, a new form, Form 1099-NEC, is required to be filed for all nonemployee compensation payments.** Other payments that are NOT nonemployee compensation payments will continue to be reported on Form 1099-MISC.

3. **Notice: Forms W-2 and 1099 filing calendar for 2020 –**

- a. 2020 paper and electronic filed Forms W-2 (with Form W-3 cover page) **must be filed with the Social Security Administration no later than February 1, 2021. Potential late filing penalty is \$50 per form W-2 if within 30 days of due date; \$100 per form W-2 more than 30 days after due date but before August 1; \$260 per form W-2 if filed after August 1. Employee copies of all W-2s are to be furnished to the recipients on or before February 1, 2021.**
- b. 2020 Forms 1099-NEC (with Form 1096 cover page) are **required to be filed with the IRS on or before February 1, 2021, using either paper or electronic filing procedures.** 2020 Forms 1099-MISC (with Form 1096 cover page) are required to be filed with the IRS by March 1, 2021, if you file on paper, or March 31, 2021 if you file electronically. **Both forms are required to be provided to recipients (payees) by February 1, 2021. (If you are reporting payments in box 8 or 10 of Form 1099-MISC, you have until February 16, 2021 to provide the form to recipients.) Potential late filing penalty is \$50 per form 1099 if within 30 days of due date; \$100 per form 1099 more than 30 days after due date but before August 1; \$260 per form 1099 if filed after August 1.**

- c. All other Forms 1099 including Interest, Dividend, etc.) must be filed with the IRS no later than March 1, 2021 (March 31, 2021 if filed electronically). Recipient copies of these additional Forms 1099 must be furnished by February 1, 2021. (Forms 1099-B, 1099-S must be furnished by February 16, 2021).
4. Due to continued increased scrutiny from the IRS, owner/officers of S corporations should review their 2020 salary before year end. The IRS requires a “**reasonable**” salary be paid to officers/shareholders. Although the IRS does not define “reasonable”, we can provide you with guidance on determining your 2020 salary. Also due to recent IRS court cases, we recommend that owner/officers of S corporations be issued wages periodically throughout the year rather than a lump sum at year end.

Also pertaining to owner/officers of C and S corporations:

- *Personal use of company owned vehicles must be included as additional compensation on the W-2s of C and S corporation shareholders and employees.*
 - *S corporation shareholders only: Company paid health and dental insurance premiums must be included as additional compensation on these shareholders’ W-2s.*
5. Employers are **required** to deposit taxes electronically anytime the payroll tax liability is \$2,500 or greater, using the Electronic Federal Tax Payment System (EFTPS). The web address to enroll to deposit federal taxes electronically is www.eftps.gov; click the “ENROLLMENT” button to begin. Failure to make payments using EFTPS online could result in a ten percent failure-to-deposit penalty.
 6. In 2020, the mandatory Social Security and Medicare tax on employees’ wages is 6.2% and 1.45%, respectively for a total deduction of 7.65%. Employers are required TO MATCH this withholding and can deduct this as a business expense. The maximum amount of earnings subject to the Social Security tax is \$137,700 per employee. **In 2021, the maximum earnings subject to the Social Security tax will be \$142,800. Medicare withholding has no wage base limit.**

Wages in excess of \$200,000 earned in 2020 will face an extra 0.9% Medicare tax, which will be withheld from employee’s wages only (employers are not responsible for this additional tax).

7. All businesses are required to be registered with the Minnesota Revenue E-Services System to electronically file Sales tax and Withholding tax returns and electronically pay all Minnesota tax types including Corporate, Franchise, Sales and Withholding taxes.
8. You must report the hiring or rehiring of any employee to the Minnesota Department of Human Services within 20 days of hiring the individual. Employers can report new hires online at <http://newhire-reporting.com/MN-Newhire/default.aspx>.

If you don’t have access to the internet, you may mail or fax a copy of the employee’s W-4 form to the Minnesota New Hire Reporting Center. (Be sure boxes 8 and 10 are completed with the employer’s information).

Minnesota New Hire Reporting Center
PO Box 64212
St. Paul, MN 55164-0212
Fax: 1-800-692-4473

9. At this time, there are no changes to the requirements in the Affordable Care Act (ACA) which mandate employers must offer employees (**AND DEPENDENTS**) an opportunity to enroll in minimum essential health care coverage under an employer-sponsored plan **for firms with 50 or more “full-time equivalent” (FTE) employees**. This employer-sponsored plan must meet the requirements of minimum value testing

(evaluates the comprehensiveness of the plan) and affordability testing (evaluates an employee's ability to pay for the plan) per ACA guidelines.

A. Internal Revenue Code defines **Minimum Essential Coverage** as one of the following:

- i. Coverage under an eligible employer-sponsored group health plan, including COBRA continuation coverage and retiree coverage.
- ii. Coverage under a health plan offered in the individual state Marketplace.
- iii. Coverage under the following government programs – Medicare Part A and Part C; Medicaid; Children's Health Insurance Program (CHIP); TRICARE and other military medical coverage;
- iv. Veterans Affairs (VA); Peace Corps volunteer coverage; and Department of Defense non-appropriated fund health benefits.
- v. Coverage under a grandfathered health plan (coverage in which the individual was enrolled on March 23, 2010).
- vi. Other health benefits coverage that the US Department of Health and Human Services (HHS) recognizes for this purpose.

B. Any employer with more than 50 FTEs in 2019 is an applicable large employer (ALE) for 2020 which will require the filing of additional 2019 IRS forms (1094 & 1095) to identify individuals who have minimum essential coverage and those who do not. An FTE calculator can be found at <https://www.healthcare.gov/shop-calculators-fte/> for your convenience.

C. **Self-insured employers with fewer than 50 full-time or FTE employees in the preceding calendar year must file an annual information return Form 1095-B for the enrollees. Self-insured employers that are applicable large employers (50 or more full-time and FTE employees) report health care coverage information on Form 1095-C.**

D. Small employers who pay for at least 50% of the health insurance premiums for employee coverage may be eligible for a tax credit as long as the insurance is purchased through the Small Business Health Options Program (SHOP) in the Marketplace.

E. **Beware! Employers who reimburse employees for their individual health insurance premiums (known as Employer Payment Arrangements) or pay the premiums on the employees' behalf may be subject to hefty penalties. Strict rules apply.**

Compliance with the ACA provisions can be complex so consult with Thoresen Diaby Helle Condon & Dodge, Inc. for guidance.

10. Employers with flex plans (FSAs): caution. The full amount an employee elects to have taken out of pay for the year must be available at the start of the year. The employer is liable for any amount needed that has not yet been paid in, and the employee need not pay it back. The IRS says the FSAs are equivalent to insurance. The 2020 salary reduction contribution limit is \$2,750. The 2021 limit is \$2,750.
11. Individuals with qualifying health insurance coverage can contribute to a tax deductible health savings account (HSA). The maximum contribution for 2020 for those with self-only coverage is \$3,550; for those with family coverage, the maximum contribution is \$7,100. The 2021 limit is: Individuals \$3,600 and Family \$7,200. An additional catch-up contribution of \$1,000 is allowed for individuals 55 years of age or older for both 2020 and 2021 years.

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Please visit our website at www.tdhcd.com or follow our electronic newsletter for updates. If you are not currently receiving our newsletter, please let us know and we will add you to our mailing list.

We have also enclosed a form for you to complete and return to us if you choose to have us assist you with your 1099 preparation. Please call if you have any questions. We look forward to assisting you.

Sincerely,

Thoresen Diaby Helle London & Dodge, Inc.

Enclosures

SUMMARY OF WAGES AND PAYMENTS INCLUDED (EXCLUDED) AS REPORTABLE INCOME

NOTE: The W-2s, 1099-MISC and 1099-NEC are due to the recipient **AND THE GOVERNMENT AGENCY (with Forms W-3 or 1096) no later than February 1, 2021.** A penalty may be assessed for filing late or if forms are filed with incorrect information. Other Forms 1099 (i.e. INTEREST, DIVIDEND) are due to the payee not later than February 1 and must be filed no later than March 1 (March 31 if filed electronically) to the Internal Revenue Service.

FORM W-2

Included Items:

- Total wages, bonuses, prizes and awards paid to employees during the year.
- Value of group term life insurance coverage in excess of \$50,000 for employees.
- Personal use of employer's vehicle to the extent that the employer is not reimbursed by the employee for the value of the personal use. Please contact us if you need assistance with this calculation.
- Accident, health, and dental insurance premiums paid by S Corporations for greater than 2% shareholder-employees.
- Gifts of cash, gift certificates or similar items of readily convertible cash value.
- Employee contributions to Archer Medical Savings Accounts.
- Contributions for qualified long-term care services if the coverage is provided through a flexible spending or similar arrangement.
- Employee contributions to a Health Savings Account not made through a cafeteria plan.
- Certain payments of sick pay.
- Total tips reported by the employee to the employer (not allocated tips)
- Employee business expense reimbursements under a non-accountable plan.
- There are others such as moving allowance, education, etc... Please call if you have any questions.

Excluded Items:

- Employer contributions to pension and profit sharing plans.
- Life insurance premiums up to \$50,000 of group term life insurance.
- Accident, health, dental, and disability insurance premiums that are part of a group plan (except for greater than 2% shareholder-employees of S Corporations). Employees should receive Forms 1095-B and/or 1095-C.
- Personal use of employer's vehicle to the extent that the employer is reimbursed by the employee for the value of the personal use.
- Employer payments for dependent care assistance (reported in box 10 on Form W-2).
- Meals furnished to an employee on the employer's business premises for the employer's convenience.
- Gifts of hams, turkeys, and other merchandise of nominal value distributed to all employees at Christmas or comparable holiday.
- Employee business expense reimbursements under an accountable plan.

FORM 1099-MISC and/or (NEW for 2020) Form 1099-NEC

All payments to individuals, partnerships, LLCs taxed as partnerships and single-member LLCs receive 1099s per the following guidelines:

Form 1099-NEC –

- \$600 or more of payments for services performed for your trade or business by people not treated as employees. Examples: fees to subcontractors or directors.
- \$600 or more to an attorney in connection with legal services, including payments to corporations (for services provided.)
- Any amount of backup withholding of any Federal income tax under the backup withholding rules for any person or entity which did NOT provide a TIN# (box 4).

Form 1099-MISC –

Redesigned Form 1099-MISC - Changes in the reporting of income and the form's box numbers are listed below.

- \$600 or more in rents (box 1).
- \$10 or more in royalty payments (box 2).
- \$600 or more in prizes and awards, other income payments, accrued wages and vacation pay due to deceased employee and paid after the year of death, and cash paid from a notional principal contract to an individual, partnership, or estate (box 3).
- Each person from whom you have withheld any Federal income tax under the backup withholding rules regardless of the amount of the payment AND any income tax withheld from payments to members of Indian tribes from net revenues of gaming activities (box 4).
- Any fishing boat proceeds (box 5).
- \$600 or more in medical health care payments in cash or property (box 6).
- Payer made direct sales of \$5,000 or more (checkbox) (box 7).
- \$10 or more in substitute payments in lieu of dividends or interest (box 8).
- Crop insurance proceeds are reported (box 9).
- \$600 or more in gross proceeds to an attorney are reported (box 10). (for legal settlements)
- \$600 or more in Section 409A deferrals are reported (box 12).
- Any amount of excess golden parachute payments (box 13).
- Any amount of nonqualified deferred compensation income is reported (box 14). ALSO REPORTED IN BOX 1 OF FORM 1099-NEC.
- Boxes 15, 16, and 17 report state taxes withheld, state identification number, and amount of income earned in the state, respectively

Excluded Items:

- Payments to a corporation, except for attorney fees.
- Payments for merchandise
- Payments of rent to real estate agents
- Wages paid to employees (reported on Form W-2)
- Business travel allowances paid to employees (reported on Form W-2)
- Scholarships
- Deceased employee's wages paid in the current taxable year (should be included on W-2)
- Cancelled debt (but see Form 1099-C if you are in the business of lending money and you forgave a debt during 2019)

