



Markovitz Dugan & Associates
Certified Public Accountants & Business Consultants

November 2016

Dear Client:

As we approach the end of the year, it is necessary to plan ahead for certain tax requirements and their impact. Calculations need to be performed to compute the additional compensation (for W-2 purposes) resulting from the **personal use of a company automobile**, for **life insurance premiums paid by the employer when the employer is not the beneficiary** and for **employer provided health insurance for the owners of S corporations**. Also, the IRS continues to emphasize the need for S corporation shareholder-employees to take reasonable compensation in the form of wages.

- A. The **value of the use of an automobile** is calculated as if the employee leased a similar automobile for the amount of his/her personal use. Personal use also includes commuting, but not travel once arriving at the principal place of business. Please note that this calculation applies whether the company leased or purchased the vehicle. Remember, if you are a **5% or more owner** of the company, **you must assess your personal use** of company-owned vehicles. We require the information on the following page for each automobile leased or owned by the company and used personally by an employee.
- B. The **life insurance premiums paid** by the company (*when the Company is not the beneficiary*) represents the value received by the employee, and therefore, are compensation. Please complete the attached page for each employee who has a policy provided by the company. **This does not include group term life insurance provided to employees.** If you provide group term life insurance, please let us know and we can discuss it further.
- C. **S corporation owner/employees** (greater than 2% ownership) are **required** to include their **company sponsored and paid health insurance** on their W-2 as taxable "Box 1" income. While the premium payments are included in taxable income, they **are not to be included** in taxable wages for Medicare, FICA, state and local (PA) tax purposes. The owner/employee can then deduct this amount "above the line" on their 1040. This is the **only allowable method** to deduct your health insurance premiums for S Corporation owners. Otherwise, the premiums will be subjected to the limitations as an itemized deduction and in most instances not be deducted. Please be sure to notify your payroll service of this or adjust your internal payroll reporting.
- D. **S corporations** with little or no officer/owner compensation, who are actively engaged in the business, are open to IRS scrutiny. **Actively engaged owners must take reasonable compensation for their services.** Without adequate compensation to owners the IRS will have a very strong position to make adjustments and assess substantial penalties. Please contact us should you need to address this issue or to discuss its application further for your business.

We certainly realize that it can be time consuming to gather this information. However, it is necessary to comply with these provisions. Your cooperation is greatly appreciated.

Please gather this information so that we can calculate the applicable compensation adjustments for you to provide to your payroll preparer. You can fax your response to **Anthony Jordan at 412.571.1635** or email your response to AnthonyJ@mda-cpa.com. Please allow enough time for us to prepare these payroll adjustments in conjunction with your payroll processing schedule so that it can be properly included in the 2016 payroll.

Best regards,

Markovitz Dugan & Associates

Members of American and Pennsylvania Institutes of Certified Public Accountants
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ADDITIONAL COMPENSATION CALCULATIONS

Please email, fax, or mail this form to

Markovitz Dugan & Associates, 1001 East Entry Drive, Pittsburgh, PA 15216
Attention: Anthony Jordan - Email:AnthonyJ@mda-cpa.com - Fax: 412.571.1635

Company Name: _____ Contact Name: _____

Description of Automobile:

Year _____ Make _____ Model _____ Total Mileage _____

Employer _____

Employee _____

The following questions must be answered by the user

1. Total miles driven during the year _____ miles
2. Personal use miles (including commuting miles) _____ miles
3. Is the vehicle available for personal use in off duty hours? _____
4. Do written records exist to justify the business deduction? _____
5. What was the fair market value of the automobile when it was purchased or when the lease began? \$ _____
6. When was the automobile purchased, or when did the lease begin? ____/____/____

In addition, we will need the following information on *each* life insurance policy, **not including group term life, whose premiums are paid by the company or the employee is reimbursed by the company. This only applies if the Company is not the beneficiary of the policy.**

Employer _____

Name of Insured _____

Policy Owner _____

Beneficiary(ies) named on policy _____

Death benefit amount \$ _____

Premiums paid during the year *by Company* \$ _____ (net of employee participation)

Premiums paid(not reimbursed) during the year *by Employee* \$ _____

Is the insured a stockholder? _____

Please be reminded that if you provide group-term life insurance for your employees, and the coverage is in excess of \$50,000, it is subject to a calculation to determine additional compensation. If you need assistance, please contact our office. Different rules apply to S-Corporation shareholders.

If applicable , we will need the amount of company-paid or sponsored health insurance for all S corporation owner(s) and employees with greater than 2% ownership.

Premiums paid during the year \$ _____