

*YEAR-END TAX REPORTING  
DECEMBER 31, 2019*

**MILEAGE RATE**

The IRS allowed standard business mileage rate for 2019 was 58 cents per mile. The 2020 rate was not available at the time this report was prepared.

**MINIMUM WAGE CHANGES**

Minimum wage will increase to \$10/hour for large employers and \$8.15/hour for small employers and youth wages on January 1, 2020. Large employers are defined as businesses with annual gross dollar volume of sales made or business done of \$500,000 or more. Minneapolis has passed an ordinance that will raise the minimum wage to \$15 over the next several years. This would affect any employee working at least 2 hours of work in a calendar week within the City of Minneapolis. The rate effective July 1, 2019 was \$11/hour for employers with less than 100 employees and \$12.25/hour for employers with more than 100 employees. The rate will increase again July 1, 2020.

**MINNESOTA WAGE THEFT LAW**

*Minnesota passed a wage theft law effective July 1, 2019 which includes new reporting requirements involved with new hires and when there are changes to just about anything for an employee (address, pay rate, deductions, benefits, etc). Documents need to be retained in the employee personnel files.*

The intent of the law is to make it criminal for employers to commit “wage theft” and carries with it new recordkeeping requirements. The following are some recommendations regarding the new requirements:

**The first one is the most important – this is the MN Dept. of Labor and Industry’s approved notice form for new hires.**

New hires: You must provide this to all new hires beginning July 1. The most straightforward approach is to make this an enclosure with the offer letter so that you know you have a freestanding, signed copy for every new hire. The offer letter should note the enclosure and ask the employee to sign it on or before their first day of work. You should then put the form in the employee’s personnel file.

Existing employees/updates after hire: Note that this form must be updated when anything on the form changes. Every time an employee has a change of address, a change in status from exempt to non-exempt, a revised salary or hourly rate, or changes in deductions or benefits, you’ll have to update the form. It is a best practice – but not required – to have the employee sign the updated form. Again, all updates should go in

the employee's personnel file. As your existing employees have changes in their terms of employment, you'll have to give them a form showing the new terms. At some point, you'll have to give every employee one of these forms. You do not need to provide existing employees this form until their compensation or other terms and conditions of their employment change.

A copy of the approved reporting form is included with this package along with a checklist of the information that must be provided on employees' paystubs.

### **2019 FORM W-2 INCLUSION OF AUTO USAGE**

If your business (corporate, partnership, LLC, or sole proprietorship) owns autos that are used by you or your employees less than 100% for business, or if you reimburse employees as an auto allowance for use of their personal vehicles more than the standard rate per mile, the law generally requires that the value of the personal usage or excess auto reimbursement be included in the employees' Form W-2 and that FICA taxes be paid on these amounts. Generally, for owners of sole proprietorships and partnerships (LLCs), vehicle deductions are reduced for personal usage vs. including the value in Form W-2.

### **S CORP OWNER HEALTH BENEFITS**

More than 2% S corporation shareholders need to make sure their company-paid health insurance premiums are included on their 2019 W-2s. Notice 2008-1 issued by the IRS states that if the health insurance premiums are not included on form W-2, the shareholder will not be able to deduct the health insurance premiums on their form 1040.

If you have such premiums, make sure to let your payroll service know the amount so they can add the premiums to the W-2s in their year-end processing. The addition is only added to Box 1 and Box 16 of the W-2 (it is not subject to FICA or Medicare taxes). Box 14 should say "S-Corp Health" and state the dollar amount of health premiums included in Boxes 1 and 16. If you are an S corporation shareholder and have been paying your own premiums, you must have the corporation reimburse you before December 31 and include that amount on your W-2.

### **FORM 1099 FILING REQUIREMENTS**

Every person engaged in a trade or business, including a partnership, LLC and non-profit organization, must file information returns for each calendar year for certain payments made during the year to unincorporated entities, including LLCs, LLPs, partnerships and payments made to attorneys even if they operate in corporate form. The business payments which occur most often that require reporting on Form 1099 are 1) \$10 or more of dividends or interest 2) \$600 or more of rents, royalties, payments to independent contractors, payments for commissions or director fees 3) distributions from retirement plans, employee benefits (not included on Form W-2) and legal fees (any amount). Payments made with a credit card or payment card, including third-party network transactions are reported under Form 1099-K by the payment settlement entity and are not subject to reporting on Form 1099-MISC. Form 1099 requires a telephone number of the issuer on the recipient's copy allowing that person to contact them if they have questions.

Please note that if the recipient marks box 3 on Form W-9 as *individual/sole proprietor or single-member LLC*, the name on the Form 1099 should match the taxpayer name as reported on their 1040, not the name of the business.

We advise that those involved in rental real estate also report nonemployee compensation for payments of \$600 or more to any qualifying individual or business entity.

If you're filing Form 1099-MISC and reporting amounts in Box 7: *Nonemployee Compensation*, then a copy must be filed with the Internal Revenue Service by January 31. However, if you don't have amounts in Box 7, the deadline remains February 28<sup>th</sup> for paper filings or March 31<sup>st</sup> for electronic filings.

There are substantial penalties for failure to file information returns. The Internal Revenue Service has also been increasing their audits in regard to informational reporting compliance.

We have attached a worksheet (fillable) you may complete if you would like us to prepare your Forms 1099. We are also available to assist you in accumulating the information which is needed for completion of the forms. Please call us if we can be of assistance to you.

### **AFFORDABLE HEALTH CARE ACT**

Employers with 50 or more full-time equivalent employees (large employers) are required to provide Form 1095-C, Employer-Provided Health Insurance Offer and Coverage Insurance, to all full-time employees by January 31, 2020. Full-time employees, for purposes of this reporting, include any employee that meets the full-time standard for 1 or more months of the year. Form 1094-C, Transmittal of Employer-Provided Health Insurance Offer and Coverage Information is due February 28, 2020 (March 31, 2020 if filing electronically).

Under the Affordable Care Act, large employers can no longer reimburse employees for individual health insurance premiums. Reimbursements for individual policies are taxable compensation to the employees – subject to Social Security, Medicare, federal & state income taxes. Companies can be subject to \$100/day penalty per employee, or up to \$36,500/year per employee.

Small employers may qualify to reimburse employees for individual premiums under the 21<sup>st</sup> Century Cures Act. The employer cannot offer a group health plan to any of its employees and cannot take any salary reduction from the employee. The employee must provide proof of coverage. There are limits to how much can be reimbursed and employee notice requirements must be met.

### **MINNESOTA UNEMPLOYMENT OWNER COVERAGE ELECTION**

Minnesota Unemployment requires individuals who own 25% or more of a corporation or LLC to make an election to be covered if they so desire. This election applies to ALL owners/officers as a class and is effective for a minimum of two years. To terminate an election, an employer must notify the MN UI program by December 1<sup>st</sup> for coverage to be terminated the following January 1<sup>st</sup>. For new employee-owners, this must be done before the initial wage report is filed or you will default to electing out of MN coverage for owners. Proprietors and partners have no such requirement.

You should discuss with your accountant the option to be covered or not covered by Minnesota Unemployment Insurance. Since each situation is unique, the right decision requires consideration of a number of factors.

## **2019(2020) WAGES AND WITHHOLDING TAXES**

Below is a table reflecting the W-2 wage levels and the applicable Social Security and Medicare tax rates for 2019 and 2020:

	<u>2019</u>	<u>2020</u>
Social Security wage limit	\$132,900	\$137,700
Social Security rate	6.2%	6.2%
Medicare rate for all wages	1.45%	1.45%
Medicare surcharge for wages >\$200,000	.9%	.9%
Employer matches 6.2% and 1.45% but NOT .9% surcharge		

## **401(k)s, SEPs AND SIMPLE IRAs**

Amounts withheld from employees' wages for 401(k), SARSEP or Simple IRA contributions must be deposited as soon as reasonably possible after withholding. We recommend making these deposits within a few days from date withheld.

Maximum elective deferrals for 401(k)s and SARSEPs in 2019 is \$19,000 (\$19,500 in 2020) plus \$6,000 catch-up contribution (\$6,500 in 2020) if age 50 or over. Simple IRAs are limited to \$13,000 in 2019 (\$13,500 in 2020) plus \$3,000 catch-up. IRAs are limited to \$6,000 in 2019 (no change in 2020) plus \$1,000 catch-up.

## **W-2 FILING REQUIREMENTS**

The IRS and Social Security Administration require electronic filing of W-2s if you have more than 250 forms. For Minnesota, the threshold is 10 forms. Both agencies allow manual input for 20 or fewer forms or a formatted file for a larger number of forms.

Information on employer paid health insurance premiums is optional to be reported on W-2s for employers that file fewer than 250 W-2s and will remain optional in the future unless the IRS publishes guidance giving at least 6 months advance notice of any change. Reporting the health care premiums is required for those that file 250 or more W-2s.

## **2020 PAYROLL WITHHOLDING DEPOSITS**

In most cases, the due dates of tax deposits remain the same for 2020. Employers will be required to deposit all of their federal tax liabilities by electronic means. If you have not registered for electronic filing (EFTPS) it is critical that you do so as soon as possible. If you have less than \$2,500 tax liability for a quarter, you may pay that amount with your Form 941, but only if you are classified as a monthly depositor. Liabilities between \$2,500 and \$100,000 must be deposited on either a monthly or eighth monthly schedule. Accumulated federal tax liabilities over \$100,000 must be deposited by the next business day. Electronic filing is required for all Minnesota withholding. Due dates for depositing Minnesota withholding taxes follow federal rules. If your total withholding tax is less than \$1,500 for the previous quarter, you can pay the total amount when you file the quarterly Form MW-1. Electronic payment is required for all Minnesota taxes if your withholding taxes for the period July 1, 2017 through June 30, 2018 exceeded \$10,000 or you were required to deposit any other Minnesota taxes electronically.

## **2020 MINNESOTA UNEMPLOYMENT**

The wage base for 2020 is \$35,000 for each Minnesota employee subject to Minnesota Unemployment Tax. The rate varies from a base of .1% to as high as 8.9% for high experience rating industries. Also, newly hired or rehired employee information must be reported by the

employer to the Minnesota Unemployment Tax division. Form W-4 or other information forms must be faxed or mailed to “Minnesota New Hire Reporting Center” within 15 days of a new employee starting work. The information must include name, address and Social Security number. The fax number is (800) 692-4473. The address is Minnesota New Hire Reporting Center, P.O. Box 64212, St. Paul, Minnesota, 55164. For detailed information call (800) 672-4473.

### **INCLUSION OF MANDATORY SERVICE CHARGES AS WAGES**

Beginning January 1, 2014, restaurants and other businesses who charge customers mandatory gratuities or service charges must include that amount in the receiving employees’ wages. This is a significant change from the prior requirement that these “tips” were reported to the employer by the employee and reported separately on the W-2.

### **TAX LAW CHANGES RELATING TO EMPLOYEES**

A flat federal rate of 22% can be used for supplemental wages paid separately from regular wages in most situations. Additional information is available in IRS Notice 1036. Access the full notice at: <https://www.irs.gov/pub/irs-pdf/n1036.pdf>

Minnesota withholding on supplemental wages is 6.25% (no change from prior year).

Moving expense reimbursements for moves between January 1, 2018 and December 31, 2025 must be included in income and are subject to income tax withholding, FICA and Medicare.

## **Sales & Use Tax Updates**

### **\*\*\*\*\*MARKETPLACE FAIRNESS ACT\*\*\*\*\***

**Over 30 states now have marketplace fairness standards. Marketplace facilitators (such as Amazon & Etsy) are required to collect and remit sales tax on behalf of their third-party sellers. Marketplace facilitators only collect sales tax on the sales through their website. The total volume of sales are usually used for thresholds, meaning businesses may still need to register and collect on other sales to the state. Sellers may be responsible to remit sales tax for the state(s) where they are located. Most states still require businesses to register even if they have no other sales to the state and need to file zero returns or register for non-reporting status. Over 10 states have reporting requirements for sellers.**

### **\*\*\*\*\*Wayfair Supreme Court Case\*\*\*\*\***

In June 2018, the U.S. Supreme Court ruled on the South Dakota v. Wayfair case. The ruling removed the long standing ruling that companies must have some level of physical presence before states could compel them to collect sales tax for sales in their respective states. It allowed for states to set economic nexus thresholds that could be used in determining when companies are required to register and collect sales tax.

Since then, over 30 states have adopted similar standards. The threshold in South Dakota was \$100,000 in sales or 200 individual sales transactions in a year. Some of the states have used this standard, but many have set other levels. There is no uniformity on what is included in revenue (for example, some states exempt sales for resale and/or exempt sales). It is important that

companies review their level of sales activities in all states and determine if they are now liable to collect sales tax in additional states.

If your out-of-state sales qualify for an exemption, it is important that you have completed exemption certificates on file.

Companies with a physical presence (employees, inventory, property, or rent) continue to have nexus and are required to collect sales tax on taxable sales.

### **Local Tax Changes**

Minnesota requires registration and collection of all local sales tax if you are registered to collect state sales tax. This change became effective October 1, 2018 for monthly and quarterly filers, January 1, 2019 for annual filers.

Transit Sales & Use tax effective January 1, 2019

- Dodge County .5%
- Goodhue County .5%
- Sherburne County .5%

Transit Sales & Use tax effective April 1, 2019 in the following counties:

- Redwood County .5%
- Waseca County .5%

Transit Sales & Use Tax effective July 1, 2019

- Isanti County .5%
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Transit Sales & Use Tax effective October 1, 2019

- Benton County .5%

Sales tax changes effective October 1, 2019

- Avon .5% sales & use tax
- Blue Earth .5% sales & use tax
- Cambridge .5% sales & use tax
- Detroit Lakes .5% sales & use tax
- Duluth Rate increase to 1.5%
- Elk River .5% sales & use tax
- Excelsior .5% sales & use tax
- International Falls 1% sales & use tax
- Minneapolis Lodging tax increase to 3%
- Rogers .25% sales & use tax
- St Paul Lodging tax increase to 7%
- Two Harbors Rate increase to 1%
- Wilmar .5% sales & use tax

Minnesota Sales Tax Fact Sheet 164 provides additional information. Access this Fact Sheet at:  
<https://www.revenue.state.mn.us/sites/default/files/2019-10/FS164.pdf>

**1099 Information  
Tax Year 2019**

**Payer Information:**

Company Name:

Company Address:

Company Phone:

ID Number:

**Vendor Information**

**1099 vendors that meet threshold      Rent                  Misc                  Interest                  Dividend/Qualified Dividend**

Name:      Boyum Barenscheer

Address:    3050 Metro Dr., #200  
                 Minneapolis, MN 55425

ID Number  41-6192096

Name:

Address:

ID Number:

Name:

Address:

ID Number:

Name:

Address:

ID Number:

Name:

Address:

ID Number:

Name:

Address:

ID Number: