



2025 YEAR-END CORPORATION LETTER

This letter is designed to help you prepare your records to conform with IRS compliance requirements.

How organized is your paperwork?

For your corporation to be complete, you need a corporate record book, complete with corporate applications, corporate charter, bylaws, stock certificates and minutes of meetings. These items are all evidence that your business is a legitimate corporation.

Do you loan your corporation money?

You must be careful to document debt. Short term unwritten advances of less than \$10,000 are acceptable if you treat them as debt and expect them to be repaid within a reasonable time. Debt of over \$10,000 needs a promissory note, a fixed maturity date and a reasonable rate of interest that will create taxable income as it is repaid.

Did you pay a reasonable wage?

If you are an S Corporation officer, you need to pay yourself a reasonable salary if you are profitable. Failure to take a salary can result in IRS reallocation of your distributions as wages. This is one of the key issues in the recent IRS audit initiative.

Was your wage reasonable? Need help? The Bureau of Labor Statistics publishes average wages for approximately 830 different professions. Their website lets you search by your resident state: (<https://www.bls.gov/oes/current/oesrcst.htm>)

Do you have an "accountable plan"?

Maintaining an accountable plan is an important part of corporate record keeping. This plan should be outlined and approved as a company policy/procedure in the company's corporate minutes. Under an accountable plan, business expenses incurred by an employee are reported to the employer and reimbursed for only the amount actually spent. IRS publication 463 outlines the following three rules that an accountable plan must follow:

1. Expenses must have a business purpose.
2. The employee must adequately account for expenses within a reasonable period of time.
3. The employee must return any excess reimbursement

within a reasonable amount of time. The definition of "reasonable amount" of time depends on facts and circumstances, but reporting an expense within 60 days and reimbursing or returning the excess within 120 days of the occurrence of the expense seems to be acceptable. Reimbursed expenses that fail to meet the above criteria are treated as reimbursed under a non-accountable plan and must be included in taxable wages on the employee's W-2.

Does your company own a vehicle?

If a corporation owns a vehicle, it pays for all vehicle expenses. An employee of the corporation must maintain records of personal mileage driven in the company vehicle and report it to the corporation. These personal miles create imputed income on your W-2 at year end. If you incurred expenses for the company vehicle and paid them with personal funds, you must use the accountable plan to be reimbursed.

Do you own a vehicle you use for corporate business?

Your accountable plan may provide for reimbursement of actual miles driven for business at a rate of 70¢ for 2025.

Do you work out of your home?

The home office deduction does not relate as well to a corporate officer as it does to a sole proprietor. Since the corporation is not the owner of the home, deductions for mortgage interest and property taxes must be taken on the individual tax return level. **Two options exist:**

1. Rent may be paid by the corporation to the employee shareholder. Under this option, the rent is reported on the employee's personal return and offsetting deductions are not allowed.
2. Alternatively, operating expenses based on the space percentage of business usage may be set up as a reimbursement option under the accountable plan. Reimbursements can then be paid for the employee's usage of this percentage of the home.

Are you the owner of an S Corp?

Your health insurance policy, whether owned by the company or yourself, must be paid or reimbursed by the company and included on your W-2 to be deductible.

For a shareholder to claim an above-the-line deduction, health insurance premiums must be paid by the S Corporation and must be reported as taxable compensation on the shareholder's W-2.

Keep in mind that the "reasonable salary" issue for S Corporations is still in the limelight. Congress will continue to revisit this issue as the loophole would save the government billions of dollars.



FinCEN Removes Beneficial Ownership Information (BOI) Reporting for Entities Created in the USA

The Corporate Transparency Act originally required corporations and LLCs to report information about their owners to the Financial Crimes Enforcement Network (FinCEN). FinCEN subsequently removed the requirement in their 'interim final ruling' dated 3/21/25. *Note: Entities formed under the laws of a foreign country are still required to report BOI (such details are beyond the scope of this newsletter).*

1099-K Reporting Thresholds Increased

Fewer business owners will receive form 1099-k for tax year 2025. That's because Congress increased the reporting threshold to \$20,000 and 200+ transactions (up from \$2,500 with no transaction minimum). This change only pertains to Third Party Settlement Organizations (TPSOs). In contrast, credit cards are required to report transactions on 1099-K regardless of the amount.

You (the taxpayer) still have to report all taxable income, regardless of whether or not a 1099 was issued (same as before).

Bonus Depreciation & Section 179 Limits Increased

Congress brought back 100% bonus depreciation for property placed in service after 1/19/25. Prior to the new law, bonus depreciation was scheduled to be 40% (it still is 40% for property placed in service from 1/1/25 through 1/19/25). As a reminder, bonus depreciation (a.k.a. additional first year depreciation) allows businesses to write-off the cost of qualifying assets in the first year they are placed into service.

Congress also increased the section 179 expense limit (from \$1.22 million up to \$2.5 million). Additionally, the phase-out thresh-

old was increased from \$3.05 million to \$4 million of assets placed into service (above this amount, the 179 expense limit is reduced dollar for dollar). Similar to bonus depreciation, section 179 allows businesses to write-off the cost of qualifying assets in the first year they are placed into service.

Research & Experimental (R&E) Expense Deductions

Congress dramatically changed the rules for deducting domestic (not foreign) R&E expenses. Now you can write-off R&E expenses in the year incurred (previously, you would have had to amortize such expenses over 5 years). This rule change affects both small and large business. That's because the old rule required the 5 year treatment regardless of business size.

Qualified Business Income (QBI)

If your business is profitable you may qualify for a tax deduction. This deduction is based on the amount of corporate profits that "pass-through" to the business owner's personal tax return. As such, it is not available to C-Corporations because they pay their own tax (no pass-through).

The QBI deduction is taken on the business owner's personal tax return, not on the corporation's return. The details of how it is computed are beyond the scope of this letter. However, the gist is simple... more pass-through income likely results in a bigger QBI deduction. However, S-Corp owners beware... do not reduce the wage you pay yourself to increase your pass-through income. You still must pay yourself a reasonable wage (see page 1 for more about reasonable compensation for S-Corps).

Do You Have Employees?

If you paid overtime you must report that

separately, so employees that qualify for the new overtime wage deduction can apply the correct amount on their taxes. However, the W2 for tax year 2025 will not have a dedicated code (box 12) for qualified overtime pay. Final IRS regulations (forthcoming) will specify how employers should report 2025 overtime wages.

Employers will also have to report qualified tips on their employee's W2 (if applicable). Similar to overtime pay reporting (see above), final IRS regulations (forthcoming) will specify how employers should report 2025 tip income.

The law enables you to provide employees up to \$325 per month in tax-free parking or mass transit passes for 2025.

If you are giving your employees a holiday gift, be sure it is de minimis and not paid in cash, otherwise it must be included in wages.

If you have 50 or more full-time equivalent (FTE) employees you are required to offer a health insurance plan that complies with the Affordable Care Act. If you purchased health insurance for your employees, you might qualify for a tax credit.

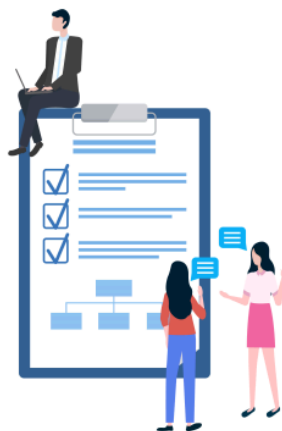
Small employers (less than 50 full-time equivalent employees) may offer a Health Reimbursement Arrangement. It is wise to work with an HRA service provider to manage the rules and complexities of such plans.

Beware of misclassifying employees as independent contractors. The IRS has a form for misclassified employees to report you, and, in addition, they are actively pursuing businesses that do not comply with their rules.

It pays to be timely

The IRS charges a penalty of \$245 per month per shareholder for failing to file a timely S Corporation tax return.

Small Corporation Year-End Checklist



- ☐ Bank statements from all accounts
- ☐ Check ledger
- ☐ Detailed accounting records including general ledger, trial balance, balance sheet, income statement
- ☐ Credit card statements for all business accounts
- ☐ Forms 1099-k you received from credit card and internet payers. These need to be listed separately.
- ☐ Loan papers and purchase details for new assets purchased
- ☐ Interest paid on all loans
- ☐ Statements of dividends or interest earned
- ☐ Payroll detail records and copies of forms 941, 940, 1099, and W-2 that you have filed
- ☐ Schedules of loans to and from officers
- ☐ Accountable plan/expense account statements
- ☐ Year-end inventory
- ☐ Accounts receivable listing
- ☐ Accounts payable listing of all outstanding bills owed on the last day of the year
- ☐ Details of any changes in stock ownership
- ☐ Copies of any correspondence with taxing authorities
- ☐ Details of corporate distributions to shareholders
- ☐ Mileage detail for all company-owned vehicles including make and year of vehicle and total miles driven
- ☐ New corporation/new client startup papers, corporate charters, S-election, Federal ID#, State ID #, last year's corporate return (new client)**2 years**
- ☐ Record meeting minutes (minimum of one meeting required).

