



PIASCİK & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS

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Mr. A. Smith  
ABC Smith Company

Dear Mr. Smith:

### **S Corporation 2006 Year-End Tax Planning**

As the end of the year approaches, it is a good time for you to engage in year-end tax planning. You know your tax picture from earlier in the year and you have a good idea of what it will be for the rest of the year. With that knowledge in hand, you are now in a position to take various actions that may save taxes for this year, next year, or both years.

Shareholder-employees of S Corporations have some unique compliance and planning issues to consider in addition to traditional end of year tax planning. We have compiled a checklist of actions that may be required or may help you to save taxes by acting before year-end. Many, if not all, of the items on this list apply to you as S Corporation shareholders. If you have questions or require assistance with any of these items, please contact us soon so that we can set a mutually convenient date to discuss these issues:

Please take time to review the following list of S Corporation possible year-end planning and compliance items:

- **Health Insurance Premiums Paid for 2% Shareholders.** If an S Corporation on behalf of 2% shareholders pays premiums for health insurance, the amounts are taxable for income tax purposes only and reported on Form W-2. S Corporations subject to this requirement that use a third party payroll processor need to get the required information to their processor prior to year end to ensure its proper inclusion.
- **Fringe Benefits.** Taxable cash or non-cash fringe benefits must be included on Form W-2. This rule applies to all employers, including S Corporations. In reporting items with partial exclusions, for example Group Life Insurance, S Corporation 2% shareholders must report the full benefit in their W-2. Clients using payroll services need to get this information to their provider before the last payroll run for the year to guarantee timely inclusion.



- **Company Automobiles.** Companies that provide employees with company cars must include the value of any personal use in the employee's income. This rule applies to shareholder/employees of S Corporations. Failure to do so will result in reduced tax deductions for the Company while not changing the requirement that the beneficial user of the car pay tax on the personal use of the auto. A proper W-2 inclusion before year-end is the most efficient way to maximize deductions and minimize compliance costs.
- **Shareholder Salary, Bonuses and Withholding.** Shareholders' in S Corporations are required to be paid reasonable compensation for their services to the Corporation or they run the risk the IRS will recharacterize S Corporation earnings as wage compensation. Salary levels, to minimize the risk of IRS adjustment, should be reviewed and documented annually. If the Corporation complies with this requirement by using a single annual salary payment, it needs to be paid before year-end. Year-end bonuses to shareholders must also be paid before year-end to be deductible in 2006 and any additional withholding amounts that a shareholder needs to avoid estimated tax penalties should be determined and deposited.
- **Shareholder Basis Limits on Loss Deductions.** S Corporation shareholders face limits on how much they may deduct when an S Corporation in which they own an interest incurs losses. Generally, the cumulative loss deduction allowed is limited to the Shareholder's basis in his/her stock plus loans from the shareholder to the Company. If the S Corporation is incurring a loss in the current year or did so in other years that were limited, basis amounts should be reviewed, and if beneficial, additional capital should be contributed to support current deductions.

These are just some of the steps that S Corporation owner/employees can take to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you. Please call Ryan Losi directly at (804) 228-4179 if you are interested in having us assist in your year-end tax planning.

Very truly yours,  
PIASCIK & ASSOCIATES, P.C.

Ryan L. Losi, CPA, REALTOR  
*Business Development Manager*