

S-Corp Checklist

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I would have to say S-Corporations are my favorite entity. Why? Because the entity has many options and advantages. Some of the advantages are that they have a liability protection, if the business operates legitimately, as well as no double taxation with distributions and losses typically reduce other personal income. Here is a checklist that every S-corp owner needs to review and understand:

General:

- Must have a **Board of Directors** and Officers. This can be 1 person. The Officers are involved in the daily activity of running the business and **MUST** be on payroll.
- The corporation **MUST** have **annual minutes**.
- Shareholders are required to **track their basis** each year. If you don't know what this is, check with Admin Books.

Officer Payroll and Contractor Payments:

- Payroll for the officers MUST be reasonable**. If line 7 of the tax return is small or zero, the IRS will dig further.
- Separate out **Officer Wages** from employee wages on your financial statements.
- Make sure you get tax identification numbers on all **independent contractors**. Have each contractor fill out a W-9, sign an agreement, invoice you and they **MUST** have a business license. Don't forget the 1099 due every January for the previous year worked.



Insurance:

- If the business pays for **health insurance premiums** for the owners, the amount **MUST** be included in box 1 of the W-2. Make sure the payroll and insurance amount is reflected in the Officer Gross Wages line of your financial statements.
- If you pay **health insurance** for your employees, there is a nice **credit** you can take on your business return if you qualify. You must have less than 25 employees, making an average of \$50,000 or less per year.
- Life insurance** IS NOT a deduction for the business when a shareholder owns more than 2% of the company.

Bank and Credit Card Accounts:

- Have **SEPARATE** bank and credit card accounts for business transactions and personal transactions; **DO NOT CO-MINGLE** personal and business expenses.

- If there are **deposits in the bank account that did not come from customers/clients**, make sure these loans are posted on the balance sheet and NOT in your income total.
- Reconcile** all bank and credit card accounts through the end of the year so there are no un-cleared transactions in the register. If there are, your income or expenses can be overstated, meaning they are wrong!

Business Expenses:

- If the owners use their home exclusively and regularly for business, they can deduct expenses for a **home office**. Add up what is paid in rent, utilities, HOA and insurance. No deduction is taken for mortgage interest or property taxes – these are taken on the personal return.
- Auto deductions** are based upon the percentage used for business. It is best to track your actual costs (gas, repairs, insurance) with the miles driven.
- Charitable contributions** are deducted at the personal level, not at the corporate level.
- Review the **travel expenses**. Make sure you separate out any personal travel. Count every travel day that you worked more than 4 hours. Save any books/handouts from conferences.
- All **meals** are 50% deductible, even those meals that were eaten on a business trip.
- You cannot claim a “**bad debt**” expense if you did not file a tax return showing it as income originally.
- When you pull a Profit and Loss statement in QuickBooks, what amount shows on the “**Net Ordinary Income**” line? If it is a large profit, you need to strategize. Modify the report to compare with last year’s numbers to get an idea of what the current year will be.



Assets and Liabilities:

- Know when to **depreciate assets** over a period of years (3, 5, 7) or when to take the deduction all in one year. For 2013, the total amount that can be taken is \$159,000. The assets must be new, not used.
- If the **shareholder loans** the company money, there must be a signed note showing this agreement. If the note is over \$10,000, interest must be paid and a 1099-INT document needs to be issued.

If you need bookkeeping assistance Admin Books can review and **clean up your QuickBooks file** so it's ready for the tax return!

