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## 7 Tax To-Dos for January



Gathering all the paperwork and reconciling accounts as you prepare to file your [taxes](#) is never fun, but it must be done. Breaking down this onerous job into manageable chunks can help minimize the pain. BusinessNewsDaily asked some tax experts to weigh in on what tasks need to be done by the end of January. Here is a to-do list.

### **Review and send employees their W-2 forms and send 1099 forms to contractors.**

This is one of the most common places where [small business](#) owners can go wrong when preparing for tax season, experts say. It is easy to miss sending the form to a contractor you did business with months ago and addresses can change. But mistakes can be costly.

"The penalty for failure to file correct Forms 1099 has been raised to \$100 per return," said Tim Gagnon, finance professor at [Northeastern University](#).

It is also crucial to make sure that employees and independent contractors are being categorized properly.

"If you are asking someone to act like any employee — like showing up to the office every day at a specific time for a specific number of hours — they may need to be classified as an employee and the IRS and states are taking a close look to ensure that employees aren't being treated as contractors," said Cathy Goldsticker, CPA and tax partner in [Brown Smith Wallace](#)'s tax services division.

### **File annual federal unemployment tax return 940**

All employers need to file form 940, the Employer's Annual Federal Unemployment (FUTA) Tax Return. While the money is due by Jan. 31, if you deposited all of the FUTA quarterly taxes when due, you have 10 additional calendar days to file the form. "This is really something you need to take care of in a timely manner," said Howard E. Hammer, CPA and principal at [Fiske & Co.](#)

He also cautioned small business owners to touch base with their payroll service providers or check their software if they prepare their payroll themselves, to ensure that all deductions are being taken properly and watch when Congress returns to check if they extend the payroll tax breaks.

### **Reconcile bank accounts and other financial statements.**

You know you should have been keeping tabs on your [financial](#) records all year, but making sure that all of your bank statements and other records are in order before you get your tax preparer involved will save you time, headaches and potential penalties for errors on your taxes.

"You need to make sure that you have accounted for all the payments you have made and received for the year," said Mildred Carter, a senior federal tax analyst for [CCH](#), a provider of tax, accounting and audit information, software and services. Some businesses may have delayed sending out invoices at the end of the year to maximize their tax deductions for 2011, so it is important that all income is accounted for properly and that you and your tax preparer are clear on when you have a right to account payments as income.

All receipts are income unless there is an exception. "Add up the bank deposits if you are cash basis, as most folks are, and that is your gross income," said Don Williamson, executive director, Kogod Tax Center; director, M.S. in taxation program and professor of taxation at [American University](#).

### **Track down any IRS notices you received for the prior year**

Find any communication from the IRS or other tax authorities and determine if you need to do something different so you don't repeat the same mistakes, Williamson said.

### **Look for your 1099-K forms**

Starting Jan. 1, 2011, new IRS regulations require all businesses that process payments — including payment networks such as Amazon, eBay and PayPal as well as banks and credit card processors — to report credit card, debit card and gift card payments, among others, made to merchants for goods and services for all sellers with total transactions exceeding \$20,000 or more than 200 transactions with the participating payee. You should be on the lookout for these forms — which are due to merchants by Jan. 31—and check them for accuracy.

"Considering how many small businesses sell their products online through services such as Amazon and eBay and the fact that this is a new form, there could be some confusion," said Kay Bell, contributing tax editor for [Bankrate.com](#).

### **Scrutinize inventory records**

You need to make sure your inventory is accurate, as you may be able to take deductions on your taxes.

"It really depends on the methods of accounting that you use, but you want to be sure you don't miss any potential deductions, and that starts with making sure your inventory records are in order," said Brad Graves, partner-in-charge of tax services with [Haskell and White](#).

### **Check your loan documents**

There is a lot of loan activity in a small business, as owners and partners sometimes move money into accounts to cover expenses. But business owners need to be sure they have accurate records of any loans they make to their business and have the proper documents filed, Graves said. "You don't want any red flags at the IRS."