Shannon & Associates LLP
Certified Public Accountants
Management Consultants

COMMITTED TO YOUR SUCCESS

Client Advisor

Winter 2021

SHAREHOLDERS OF S-CORPORATIONS, AS WE MOVE INTO DECEMBER, THERE ARE TWO THINGS YOU NEED TO DO

SELF-EMPLOYMENT HEALTH INSURANCE DEDUCTION

Shareholders who own more than 2% of the shares in the S-corporation are required to report health insurance premiums paid on their behalf by the business on their W-2. This is a valuable deduction and must be reported correctly to take advantage of it. Attribution rules apply so premiums paid on behalf of family members who are not shareholders must be reported on their W-2 as well. You cannot take the health insurance deduction on the corporate return without it coming through the shareholders' W-2.

For 2020, the insurance policy that provides your insurance can either be in the name of the S-corporation or in the name of the shareholder. The premiums can be paid by the shareholder or the corporation. However, where the policy is in the shareholder's name (you individually), the corporation must reimburse you before year-end (12/31) if you personally paid the premiums.

CAUTION: Health insurance reimbursement plans where the employer reimburses the employee's cost of health insurance do not comply with the ACA rules. There are limited exceptions for group health plans with fewer than two current employees.

Premium amounts are a "deemed wage" and are reported in Box 1 of your Form W-2. This "deemed wage" from payment of health insurance premiums is not subject to FICA or FUTA taxes.

In summary, the corporation deducts the health insurance premium paid on your behalf as an expense, you report this as income on your W-2, and you

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SHAREHOLDERS OF S-CORPORATIONS

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deduct the same amount on page 1 of your Form 1040 as self-employed health insurance premium. The IRS can deny your Form 1040, Page 1 self-employment health insurance deduction if you do not report the premiums as part of Box 1 wages on Form W-2.

PERSONAL USE OF COMPANY OWNED AUTOS

The value of using a company auto for personal purposes is a fringe benefit that is taxable to the employee and to the shareholder. This benefit is treated as compensation and is subject to payroll taxes including FICA and FUTA tax.

There are several different methods to compute the value of personal use of company autos. If you would like any assistance with this calculation, please contact our office. Once the amount is determined, it is added to the gross wages of the individual receiving the benefit.

REPORTING

If you use a payroll service to prepare your payroll and W-2s, you will need to notify them of the shareholder insurance amount and auto fringe benefit amount before the final payroll processing in December. Often, the final payroll processing date is mid-December so now is a good time to gather this information.

Fringe benefits like the shareholder health insurance and personal use of company autos are considered wages and are included in the Form 941 and 940 wages as well as added to W-2s.

These issues are complex. Please contact us for assistance in calculations or if you have any questions.

ETHICS HOTLINE

ARE YOU INTERESTED?

Shannon & Associates is proud to be able to offer Red Flag Reporting to its clients. Red Flag Reporting is an ethics hotline which is aimed at the prevention and detection of fraud and employee protection incidents. Red Flag Reporting is recognized by the Journal of Accountancy and Accounting Today.

Companies who implement a hotline:

- See increase rate of detection of fraud and HR claims
- Limit losses in employee related claims
- Assist in prevention of fraud
- Set a strong "tone at the top"
- Find it the most cost effective internal control

Red Flag Reporting
Protecting Organizations and Their People

Contact Jessica Kinney at 253-852-8500 for more information

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LEASE ACCOUNTING PLANNING GUIDE

REDUCING THE COMPLEXITY OF ASC 842 COMPLIANCE

Way back in 2016 the Financial Accounting Standards Board (FASB) issued Accounting Standards Updates 2016-02, Topic 842, Leases, which replaces the lease accounting standard ASC 840. Fast forward almost 6 years, and the effective date for private companies is finally here. For non-public entities the new standard is effective for annual periods beginning after December 15, 2021, which for calendar year companies is January 1, 2022.

The purpose of ASC 842 is to increase disclosure and visibility into the leasing obligations of both public and private organizations. Previously most leases were not included on the balance sheet, and future obligations under operating leases were primarily only required to be disclosed in the footnotes to the financial statements. The new ASC 842 lease accounting standard generally requires lessees to report right-of-use assets and lease liabilities for almost all leases. The changes primarily impact lessee accounting, while lessor accounting remained substantially unchanged.

These changes are intended to make it easier for investors, vendors, government agencies, and business stakeholders to (1) see a company's exposure to risk and true financial position, and (2) make comparisons between organizations. In addition, ASC 842 closely aligns with the new international lease accounting standard IFRS 16, especially in the way a lease is defined. This makes financial reporting more consistent for organizations with both U.S. and international lease assets.

Some of the key things to know about the new standard include the following:

Lease Accounting

Under ASC 842, financing and operating leases would create a right-of-use asset and a lease liability, initially measured as the present value of the lease payments, with other related adjustments. The right-of-use asset is also adjusted for any lease payments made to the lessor at or before the commencement date, minus any lease incentives received, and any initial indirect costs.

Transition Requirements

ASC 842 now has two transition methods. The first applies ASC 842 on a modified retrospective basis to all periods presented, commonly called the comparative method. The other method is known as the effective date method, which applies ASC 842 on a cumulative catch-up basis as of the effective date. We expect that most private companies will use the effective date method of adopting this standard as it does not require making adjustments to prior periods.

Entities have the option at transition of electing certain practical expedients including:

- Three practical expedients that must be elected as a package allow entities to not have to reassess the following:
  a. If any expired or existing contracts are or contain leases

  b. The lease classification for any expired or existing leases

  c. Initial direct costs for any existing leases
- An entity may use hindsight in determining lease term and in assessing impairment of right-of-use assets.
- There is also a practical expedient available for the treatment of land easements that were not previously accounted for as leases under legacy leasing guidance.

Short-Term Leases

The new lease standard generally allows entities to make a policy election not to recognize leases on the balance sheet if the lease term is 12 months or less.

Lease vs. Non-lease Components

The new lease standard requires companies to separate the lease and non-lease components in the contract and account for them separately. For example, if a lease included fees for common area maintenance, the contract costs would need to be allocated between the lease and the maintenance costs. Lessees are allowed an accounting policy election to either separate the lease and non-lease components or account for the lease and non-lease components together as a single component.

Next Steps

The ASC 842 lease accounting standard represents a significant shift in accounting processes and could have far-reaching effects on your business. Companies that have a considerable number of leases face a substantial implementation effort, encompassing technical accounting design and policy development, lease data management and abstraction, technology design and implementation, tax impacts and new ongoing processes, workflow, and controls.

As with any change of this magnitude, planning and preparation are paramount for success. However, many organizations are underestimating the level of effort, complexity, resource requirements and timeline for adoption. Now is the time to prepare for this fundamental change.

We recommend management begin to understand the accounting requirements of the new standard, understand the leases the company holds and contemplate the implications for new agreements, assess the capabilities of existing technology for capturing lease data, and develop a plan to implement the new standard.

Our team of experts at Shannon & Associates are here to help your Company learn more about how to approach ASC 842 requirements and develop a successful timeline and path to compliance.

Chris Baxter, CPA Senior Manager

PAID FAMILY MEDICAL LEAVE AND LONG TERM CARE TAX

Effective January 1st, 2022, the paid leave premium will increase from .4% to .6%. Rate is increasing due to higher usage and reduced payrolls during the pandemic.

The rate is still split between employer and employee. The employer and employee rates are changing from 36.67% and 63.33% to 26.78% and 73.22%, respectively.

- Employer's tax rate: .6% X 26.78% = .16068% or .0016068
- Employee's withholding rate .6% X 73.22% = .43932% or .0043932

Employers with less than 50 employees are not required to pay the employer portion.

Wages are subject to paid leave up to the Social Security cap of $147,000 in 2022.

WA CARES FUND

Back in July, we told you about a new Long-Term Care Tax that was passed by the state legislature and slated to begin in January of 2022. In the Washington Cares Act (WA Cares), all employers must withhold WA Cares premiums from all employees.

The mandatory payroll tax has hit a lot of opposition along the way but was officially put on ice on Friday, December 17, with Governor Inslee's announcement that the January 2022 start date will be delayed until later in the year.

WE ARE SO THANKFUL FOR OUR CLIENTS DURING THIS SEASON OF GIVING

IN HONOR OF OUR FRIENDS AND CLIENTS DURING THIS SEASON OF GIVING, SHANNON & ASSOCIATES HAS MADE A DONATION TO SHANNON & FRIENDS FOUNDATION!

Shannon & Friends Foundation was formed in 2018 by the employees of Shannon & Associates. For a child in need, a new pair of shoes can bring joy and build self-esteem and confidence! Together with your help, we have provided over 1,000 pairs of shoes and 200 coats to local kids in need.

This year more than ever, we have so much more work to do to see that every child with a need receives a new pair of shoes!

Our entire team wishes you a healthy and prosperious new year!

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