

A photograph of a man and a woman, likely baristas, smiling in a cafe. The man is on the left, wearing a plaid shirt and a dark blue apron. The woman is on the right, wearing a brown cardigan and a dark blue apron. In the background, there is a menu board with the words "DRINKS AND" visible. The overall scene is bright and professional.

**PAYCHEX**<sup>®</sup>

Payroll • HR • Retirement • Insurance

BLUE GUIDE

## Preparing for 2018: A Guide for Employers

Learn how to take the guesswork out of some of your most important year end payroll and taxation obligations, and organize everything according to this simple, easy-to-follow, format.

# OVERVIEW

It's time to start planning to turn the New Year "your year" by completing important yearly tasks. However, it can be difficult for small businesses to stay abreast of all the deductions, deposits, and dates you may face.

**Good news: this guide takes the guesswork out of some of your most important payroll and taxation obligations, and organizes everything in a simple, easy-to-follow, format.**

## Table of Contents

### **PART 1: Physical Inventory**

- Reasonable Interval
- Inventory Basics
- What to Include
- What to Exclude
- Impact on Taxable Income

### **PART 2: Maximizing Tax Deductions**

- Tips for Employers
- Tips for Employees

### **PART 3: 2017 Payroll Tax Deposits & Due Dates**

- Federal Tax Deposit Rules
- Federal Tax Return Dates
- Federal Tax Deposit Due Dates
- End-of-Year Payroll Checklist

### **PART 4: Tax Tips for 2018**

- ACA Filing
- Qualified Small Employer Health
- Reimbursement Accounts (QSEHRA)
- Tax Reform
- Accelerated W-2 Form Filing
- 401(k) Tax Credit

Note: The following is provided for informational purposes only, and is not intended to be tax or legal advice. Consult your licensed attorney, accountant, or other tax professional to discuss your particular facts, circumstances, and how these opportunities might apply to your business.

# PART 1

## Physical Inventory

- ✓ Reasonable Interval
- ✓ Inventory Basics
- ✓ What to Include
- ✓ What to Exclude
- ✓ Impact on Taxable Income

Why bother performing a physical inventory? Chances are, if you're a small business owner, you're busy. And finding time at the end of the year to count everything in your inventory can be difficult. However, there are several reasons why it's important to take a physical inventory including IRS requirements and the possibility of reducing your tax liability.

For example, according to the IRS, you are required to take a physical inventory and, as a result of that physical count, you must adjust the book value of your inventory to actual. This must be done at reasonable intervals.

## What Is a Reasonable Interval?

**There are essentially three factors involved in taking a physical inventory:**

- 1. Count**—first you count all of the items in your inventory
- 2. Identification**—next you choose a method of identification which basically means how you match the inventory items to the cost. The following are identification methods allowed by the IRS:

***Specific Identification Method*** used when you can match the actual cost of each item individually. Typically works best for high dollar individual items such as automobiles, furniture, and equipment.

***FIFO or LIFO Methods*** used when you cannot easily match the cost to each item or the same type of items are mixed throughout your inventory. The FIFO method, meaning first-in first out, assumes the first items you buy or produce are the first items you sell so that what's currently in inventory would be matched to the costs most recently paid. LIFO, meaning last-in, first-out, assumes the opposite.

**3. Valuation**—finally you need to value the inventory and this is an area that can have the greatest impact on calculating your taxable income. The following methods are acceptable in putting a value on your inventory:

- Cost—the actual cost you paid for the items
- Lower of cost or market—the lower of the actual cost or the current market
- Retail—the retail or selling price of your items

## What should I exclude in inventory?

- Raw materials
- Work in process
- Finished product
- Supplies that will become a part of items for sale
- Merchandise for resale including:
  - Items in transit if title has passed to you
  - Items under contract or out on consignment
  - Items held for sale even if on display or located away from your place of business
- For C.O.D. sales items sold should remain in your inventory counts until payment is received.
- Containers should be included in inventory if title of the contents has not passed to the buyer.

## What should I include in inventory?

- Items you have sold and title has passed to the buyer
- Items you hold on consignment
- Items you have ordered, but have not yet taken title to

# How Does the Value of My Inventory Impact Taxable Income?

Cost of goods sold is a deduction from income and the higher the value on your cost of goods sold, the lower the taxable income. Cost of goods sold is a calculation that includes ending inventory as follows:

$$\begin{aligned} & \text{BEGINNING INVENTORY} \\ & + \text{PURCHASES} \\ & - \text{ENDING INVENTORY} \\ & = \text{EQUALS COST OF GOODS SOLD} \end{aligned}$$

If your ending inventory is overstated, your cost of goods sold will be understated and you will pay more in income taxes. It can be more likely that your inventory will be overstated rather than understated due to things such as damaged goods, goods discarded due to obsolescence, or goods donated. Taking a physical inventory on a regular basis will keep you IRS compliant, but there is also a good chance it will work to your advantage when paying income taxes.

## Things that can cause your inventory to be inaccurate:

- Withdrawing inventory for personal use
- Withdrawing inventory for donations
- Sending the wrong quantity of an item to customers
- Discrepancies in quantity received and quantity ordered
- Damaged or obsolete inventory discarded
- Inventory used for demonstration purposes
- Inventory issued as free samples
- Erroneous adjustments based on inaccurate cycle counts



# PART 2

## Maximizing Tax Deductions

- ✓ Tips for Employers
- ✓ Tips for Employees

Employers and employees often seek to reduce their taxable incomes. Planning ahead may yield tax savings for both.

### Tips for Employers

**Maximizing tax deductions is key, especially for small businesses. Rein in your tax expenses with a number of strategies:**

- Ensure that you're taking every allowable deduction for which you are eligible. If you don't already use an experienced tax preparer—one who keeps abreast of the complex and fluid tax laws—it's likely a worthwhile business expense.
- Shelter revenue from profits in a qualified retirement plan that gives a tax deduction for your contributions, and defers taxes on earnings until you withdraw from the plan.
- Consider an accountable plan to save the company and employees taxes if you reimburse staff for using personal vehicles for company business. IRS Form 463 describes accountable plans and their use.
- Defer income to the following tax year and boost deductions in the current tax year by sending out bills a few days later in December. You'll get paid in January, putting the income in the next tax year. Take more deductions in December by paying bills due in January. **Note:** This is only under certain accounting methods. Consult with a tax professional.
- Ensure that your business is structured properly. Can you gain tax advantages with different business types? Your company's structure determines your tax bracket.
- If possible, increase your contribution to workers' health insurance premiums. Doing this in lieu of salary raises means that you and your employees may reduce FICA and Medicare taxes on bigger paychecks.
- Offer to match a percentage of employee contributions to the company 401(k) plan—the business' share is deductible. You'll save on taxes and your workers will certainly appreciate the benefit.

- If it fits your company, establish a Section 125 benefit plan allowing employees to pay medical and dental premiums with pretax dollars and set aside pretax funds for qualified medical and dependent-care costs. A Section 125 flexible spending account can save employees a percentage of the federal, state and local taxes they already pay out-of-pocket. Your company can save money per participant through decreased payroll and tax liabilities for social security, Medicare, and unemployment insurance.

**Note:** You may want to consult your company tax expert for more information.

## Tips for Employees

**Most employers want to help their employees as much as possible, and assistance with tax savings often ranks high on the list. At year-end, you may help workers reduce what they owe the IRS by:**

- Suggesting they maximize their 401(k) contributions, as these are pretax funds. Reducing reportable income means a smaller income tax bill.
- Postponing bonuses until January to keep workers' current year's taxable income lower.
- Reminding workers that charitable contributions may provide tax deductions, if they itemize—unless the alternative minimum tax applies.
- Reminding them to use flexible spending account funds during the active plan period. These funds let employees set aside pretax money to offset healthcare or childcare expenses. As an employer, you can opt for the IRS-permitted grace period, allowing workers to spend accounts up to March 15, 2017.

**No one likes to see the taxman walk away with hard-earned money. Whether you're a boss or a staffer, think smart as the year winds down and keep more cash in your pocket.**



# PART 3

## 2018 Payroll Tax Deposit Rules, Regulations, and Deadlines

- ✓ Federal Tax Deposit Rules
- ✓ Federal Tax Return Dates
- ✓ Federal Tax Deposit Due Dates
- ✓ End-of-Year Payroll Checklist

### Federal Tax Deposit Rules

#### Federal Tax Payments

Effective January 1, 2011, federal taxes must be paid via Electronic Federal Tax Payment System (EFTPS®) unless you owe \$2,500 or less with your quarterly Form 941. Details for enrolling in EFTPS are available at [eftps.gov](http://eftps.gov).

FICA Limits	2017	2018
Social Security (OASDI) Wage Base	\$127,200.00	\$128,400.00
Medicare Wage Base	No Limit	No Limit
OASDI Percentage	6.2%	6.2%
HI Percentage	1.45% (2.35% for individuals earning over \$200,000)	1.45% (2.35% for individuals earning over \$200,000)
Maximum OASDI Withholding	\$7,886.40	\$7,960.80
Maximum HI Withholding	No Limit	No Limit
Maximum FICA Withholding	No Limit	No Limit

For self-employed individuals, the 2018 social security wage base is \$128,400 with the social security tax rate remaining at 12.4%. There is no Medicare wage limit, and the Medicare tax rate remains at 2.9%(3.8% for those individuals earning over \$200,000). The tax applies to the net earnings from self-employment.

# It is the employer's responsibility to determine the correct frequency that they should be using to deposit federal taxes.

---

- 1. An employer is a **monthly depositor**** for 2018 if the aggregate amount of employment taxes reported for the period July 1, 2016 to June 30, 2017 is \$50,000 or less, unless a daily deposit is required as explained in Rule 3 on this page. Deposits are due on the 15th of the following month. If the 15th falls on a holiday or weekend, the due date is extended to the next banking day. *Note: New businesses deposit using the monthly deposit rule, unless a daily deposit is required under Rule 3.*
- 2. An employer is a **semi-weekly**** depositor for 2018 if the aggregate amount of employment taxes reported for the period July 1, 2016 to June 30, 2017 exceeds \$50,000. Deposits for payments made on Wednesday, Thursday, and/or Friday are due on or before the following Wednesday. Deposits for payments made on Saturday, Sunday, Monday, and/or Tuesday are due on or before the following Friday. In the event of a holiday, employers have three banking days from the end of the semi-weekly period to deposit.  
  
*Note: Semi-weekly depositors with an accumulated unpaid liability of \$100,000 or more during the deposit period must deposit within one banking day of the payroll check date, as stated in Rule 3. If the semi-weekly period includes the end of the first month of the quarter and the beginning of the second month, or the end of the second month and the beginning of the third month, only one deposit is required. If an employer has payroll for two different reporting quarters within the same semi-weekly period, two deposits must be made.*
- 3. Employers with an accumulated unpaid** liability of \$100,000 or more during the deposit period must deposit within one banking day of the payroll check date. When a monthly depositor is subject to this rule, that employer immediately becomes a semi-weekly depositor for the rest of 2018 and for 2019. Also, any monthly depositor who had a deposit of \$100,000 or more between January 1, 2017, and December 31, 2017, is considered a semi-weekly depositor for the rest of 2017 and for 2018.
- 4. Form 941 employers with accumulated** liability of less than \$2,500 for the entire quarter may deposit or remit the amount with a timely filed Form 941, *Employer's Quarterly Federal Tax Return*
- 5. Form 944 employers with accumulated** liability of less than \$2,500 for the entire year may deposit or remit the amount with a timely filed Form 944, *Employer's Annual Federal Tax Return*.

Form	Period	Due Date
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through December 2017	January 31
940, Annual Federal Unemployment Tax Return	For tax year 2017 with undeposited taxes of \$500 or less	January 31
941, Quarterly Federal Tax Return	For fourth quarter 2017 (10/1 - 12/31)	January 31
944, Annual Federal Tax Return	For tax year 2017 with undeposited taxes of \$2,500 or less	January 31
1096, Annual Summary and Transmittal of U.S. Information Returns with Forms 1099	For tax year 2017 <i>Note: The electronic filing due date is also January 31</i>	January 31
W-3, Transmittal of Income and Tax Statements with Forms W-2 (Copy A)	For tax year 2017 <i>Note: The electronic filing due date is also January 31</i>	January 31
941, Quarterly Federal Tax Return	For fourth quarter 2017 (10/1 - 12/31) if all taxes were deposited when due	February 12
944, Annual Federal Tax Return	For tax year 2017 if all taxes were deposited when due	February 12
940, Annual Federal Unemployment Tax Return	For tax year 2017 if all taxes were deposited when due	February 12
8027, Employer's Annual Information Return of Tip Income and Allocated Tips, and if required, Form 8027-T Transmittal	For tax year 2017 <i>Note: The electronic filing due date is March 31</i>	February 28
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through March 2018	April 30
941, Quarterly Federal Tax Return	For first quarter 2018 (1/1 - 3/31)	April 30
941, Quarterly Federal Tax Return	For first quarter 2018 (1/1 - 3/31) if all taxes were deposited when due	May 10
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through June 2018	July 31
941, Quarterly Federal Tax Return	For first quarter 2018 (1/1 - 3/31)	July 31
941, Quarterly Federal Tax Return	For first quarter 2018 (1/1 - 3/31) if all taxes were deposited when due	August 10
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through June 2018	January 31, 2019
941, Quarterly Federal Tax Return	For fourth quarter 2018 (10/1 - 12/31)	October 31
941, Quarterly Federal Tax Return	For third quarter 2018 (7/1 - 9/30) if all taxes were deposited when due	November 13
940, Deposit of Unemployment Taxes	For companies with an accumulated unpaid liability over \$500 through December 2017	January 31, 2019
940, Annual Federal Unemployment Tax Return	For tax year 2018 with undeposited taxes of \$500 or less	January 31, 2019
941, Quarterly Federal Tax Return	For fourth quarter 2018 (10/1 - 12/31)	January 31, 2019
944, Annual Federal Tax Return	For tax year 2018 (1/1 - 12/31)	January 31, 2019
941, Quarterly Federal Tax Return	For fourth quarter 2018 (10/1 - 12/31) if all taxes were deposited when due	February 11, 2019
940, Annual Federal Unemployment Tax Return	For tax year 2018 if all taxes were deposited when due	February 11, 2019



# PART 4

## Tax Tips for 2018

- 
- ✓ To learn more, or to get help with these and other regulations, talk with a Paychex representative at **855-973-2413**.

Our world-class compliance organization has compiled their top five tax tips for 2018 to help you stay on top of changing regulations.

### 1. ACA Filing

For tax year 2017, businesses who are defined as an applicable large employer (ALE) under the Employer Shared Responsibility Provision (ESR) of the Affordable Care Act (ACA) must provide a detailed reporting of healthcare coverage. Employers should ensure they do their due diligence ensuring the information reported on Forms 1094-C/1095-C is timely and accurate.

### 2. Qualified Small Employer Health Reimbursement Accounts (QSEHRA)

QSEHRAs were established in December, 2016 through the 21st Century Cures Act. These arrangements provide an option for small employers that are NOT ALEs as defined in IRC section 4980H ESR provision and do not provide group health coverage, a method to reimburse employees for the cost of individual insurance, and/or qualified medical expenses, on a pre-tax basis.

### 3. Tax Reform

Tax reform legislation could look drastically different as it makes its long trek through Congress and there is no certainty that it will come to fruition. Nonetheless, you'll have to make reasonable assessments of what they anticipate based off the best information they have on tax reform and the potential impacts to your business.

A principal tenet in the Republican tax reform has been rate reductions, particularly for businesses. Accelerating deductions where businesses are able would allow these deductions to be taken at current rates, which in general, would be higher than subsequent years if tax reform legislation passed; as well, some business deductions are on the chopping block in the current iteration of the legislation.

Similarly, deferring business income, where feasible under accounting methods, would allow the income tax at a future rate which as stated earlier is anticipated to be lower if tax reform legislation is enacted.

## 4. Accelerated W-2 Form Filing

The deadline for employers to file is January 31, 2018. The Social Security Administration indicated that the number of late W-2s filed in 2017 almost doubled compared to a year ago. The number of corrections filed on Form W-2C increased over 30 percent from last year. Employers should ensure all W-2s are submitted timely to avoid late or non-filing penalties assessed by the Internal Revenue Service.

## 5. 401(k) Tax Credit

The Credit for Small Employer Pension Plan Startup Costs, which provides a tax credit for eligible employers who start a 401(k) plan, continues to be available for this tax year. The credit is available to employers with no more than 100 employees who received at least \$5,000 in compensation for the tax year. The credit, up to \$500 per year for the first credit year and each of the following 2 tax years, is allowed to offset the costs of establishing an eligible plan as well as educating employees about the plan.

# ABOUT PAYCHEX

Paychex, Inc. (NASDAQ: PAYX) is a leading provider of integrated human capital management solutions for payroll, HR, retirement, and insurance services. By combining its innovative software-as-a-service technology and mobility platform with dedicated, personal service, Paychex empowers small- and medium-sized business owners to focus on the growth and management of their business. Backed by 45 years of industry expertise, Paychex serves approximately 605,000 payroll clients as of May 31, 2017, across more than 100 locations and pays one out of every 12 American private sector employees. Learn more about Paychex by visiting [www.paychex.com](http://www.paychex.com), and stay connected on Twitter and LinkedIn.

**For over 13 years, the preferred payroll and retirement services provider for CPA.com™, an AICPA company.**



- Financially stable with no long-term debt.
- Approximately 600,000 payroll clients, touching 1 in 12 U.S. private-sector workers every two weeks.
- Moved \$690 billion on behalf of clients in 236 million ACH transactions in FY 2015.
- Largest provider of outsourced HR services in the U.S., serving more than 850,000 worksite employees.
- 700,000 retirement services participants in 70,000 401(k) plans (1 of every 10 in the U.S.), with \$23.5 billion in plan assets serviced.
- Named nine times to the Ethisphere® Institute's list of the World's Most Ethical Companies.
- Named one of the World's Most Admired Companies by *Fortune* magazine.

855-973-2413

[payx.me/2018](http://payx.me/2018)



**PAYCHEX**®

Payroll • HR • Retirement • Insurance