



December 2020

**Squires, Johnson, Squires would like to wish everyone a Merry Christmas and Happy New Year!**

To assist you in closing out 2020 and starting the New Year, we have included a list of a few reminders for your consideration and some other important information. This is a general list. Please disregard any area that does not apply to you. Also, should you have any questions or need any assistance, one of our Certified QuickBooks ProAdvisors would be happy to help you.

The due date for filing Forms W-2 and W-3 with the Social Security Administration is February 1, 2021, whether filing electronically or using paper forms. **The IRS has brought back Form 1099-NEC for reporting nonemployee compensation. You must file 1099-NEC for contract laborers and nonemployee compensation by February 1, 2021.** You must file 1099-MISC by March 1, 2021 if by paper and March 31, 2021 if electronically. The 1099-MISC form will still be used to report royalties, rents, prizes and awards, payments to attorneys, medical and healthcare payments, and other income payments.

#### **1099 Preparation:**

1. Review your vendor list information and begin gathering any information or W-9 forms needed in order to issue 1099s by February 1, 2021. If we prepare your 1099s, please send W-9s to any new vendors requesting tax ID numbers as soon as possible and forward to our office. This will ensure we have the information needed to complete your 1099s by February 1<sup>st</sup>.
2. To assist with proper 1099 calculations, please review the "Other Names" list in QuickBooks. If you have used "Other Names", they need to be reclassified to "Vendor Names". "Other Names" do not appear on the "1099 Summary" or "1099 Detail" reports in QuickBooks and you cannot process a 1099 for them. In general, anyone to whom you write a check (other than payroll) should be a "Vendor" in QuickBooks. Go to "Lists" at the top, then "Other Names" to review this list. If using "Other Names", go to the bottom of the list under activities, and select "change other name types" to convert them to vendors. Checks for payment of bills should not be issued to "Customer Names". If that error has occurred, you need to create a "Vendor Name" and reclassify each transaction to the "Vendor Name".
3. If needed, merge vendor names together if you have two vendor names setup for the same vendor in error. Change the incorrect vendor name to be the correct name and QuickBooks will merge them together for you. Please make note of any contact information (addresses, phone numbers, etc.) contained within the **incorrect** vendor so that it can be added to the new vendor if not already there once the two are merged.
4. If you are using QuickBooks, use the following report to assist with the review process after you have completed steps 2 & 3 above. Go to Reports; Vendors & Payables; 1099 Detail; set dates for 1/1/20 to 12/31/20; 1099 options to "All Vendors" and "All Allowed Accounts" and expand the account and memo columns to assist with review. You need to determine if the vendor was not incorporated; if you paid \$600.00 or more to the vendor; and if payments were for services

provided (including parts and materials) or rent payments. An attorney should receive a 1099 even if they are incorporated, if paid \$600.00 or more.

5. QuickBooks' software update to handle the new 1099-NEC form will not be available until the 3<sup>rd</sup> week of December. Squyres, Johnson, Squyres will send out any new information if necessary.
6. 1099 -NEC forms are due to the recipient AND the IRS by February 1, 2021. All other Forms 1099 & 1096 should be filed by March 1, 2021, if you are filing on paper, or by March 31, 2021 if you file electronically.

### **General Year-End Items:**

1. Contact all loan holders and request a statement in writing verifying the loan balance as of 12/31/2020 and interest paid during the 2020 calendar year. Please provide copies of all documents to Squyres, Johnson, Squyres, for tax return preparation.
2. If you use company credit cards, remember that charges on the credit cards through 12/31/2020 are deductible for income tax purposes even if you have not paid the credit card balance in full as of 12/31/2020. Make sure those charges are keyed into QuickBooks using the "Credit Card Feature" and the balance in QuickBooks reconciles to the 12/31/2020 credit card balance. Please provide copies of the December 2020 and January 2021 credit card statements for our year-end work and tax return preparation for you.
3. If you maintain inventory, an inventory count should be completed on or near the year-end. Your final ending inventory balance should be adjusted accordingly.
4. Review your outstanding check list from the bank reconciliation report and cleanup items as needed. Remember, any old checks from a prior year or closed period must be voided using a journal entry in QuickBooks. **DO NOT USE the "void check" feature for non-payroll checks as this will change your bank reconciliation and balance forward.** Pay special attention to any **payroll checks** that did not clear the bank in 2020 before W-2s are issued. For QuickBooks users, please let us know if you need to void any pay checks as your 4<sup>th</sup> quarter 941 report will need to be adjusted. **You MUST use the "void check" feature for payroll checks or the payroll reports and W-2s will not be correct.** Make sure all bank accounts are reconciled before preparing W-2s or 1099s, or before you submit your QuickBooks to us to do these year-end procedures for you.
5. If your books are maintained on the accrual basis, review your accounts receivable and accounts payable open item reports and cleanup balances as needed. Again, entry errors from prior years need an invoice or credit memo issued in 2020 to correct – **do not use the "void" feature.**
6. The IRS has not announced the 2021 standard mileage rate yet but we will let you know as soon as it has been released. The rate for 2020 was 57.5 cents per mile.

### **Payroll Items:**

1. If you are processing your own payroll in QuickBooks, or any other package, make sure you update the software before the first payroll in January 2021 is processed to reflect your new TWC rate for 2021. You should have received a letter from TWC stating your new rate for 2021. If you have not received this letter, you should call the TWC office in Tyler at 903-581-8153 and ask for your new tax rate. Also please provide a copy of this letter to us so we can keep in your file. If your system is not updated with this new rate, all of your reports for TWC filing will be incorrect within your software. To change your TWC rate in QuickBooks, go to "Lists – Payroll Item List – TX Unemployment item" and choose to edit that item. Click Next until you get to the

“Company Tax Rates for 2021” screen. Change all four boxes to the new rate. Pay close attention to the location of the decimal. Make sure you run the update payroll tax tables feature in QuickBooks, or any other software to make sure you have the new tax table for 2021 loaded before your first payroll in 2021.

2. The deadline for issuing W-2 forms to the recipient AND the IRS is February 1, 2020.
3. The IRS has been sending out notices regarding your tax deposit requirements for 2021 outlining which rule you must follow – monthly or semi-weekly. If you have not received this notice, either call the IRS office or you can calculate it yourself. There is a table describing how to determine your proper method for payment (Look Back Period) in the circular E or Publication 15 booklet. Remember, penalties are stiff for late deposits and it is your responsibility to make sure you are following the correct rule.
4. The 401(k) elective deferral limit for 2021 is \$19,500 with a maximum catch-up of \$6,500 for those over 50 by year end. The Simple IRA deferral limit is \$13,500 for 2021 with a maximum catch-up of \$3,000.
5. A new W-4 only needs to be completed if the employee wishes to change their withholdings for 2021. We recommend you give every employee a copy of the W-4 form and let them decide if they need to give you a new one for 2021. Remember, the IRS changed the form in 2020 so make sure you are using the correct form.
6. A Form I-9 should be completed for all new employees when hired. A new edition was released October 21, 2019.
7. If you have a more than 2% shareholder, their employer provided health insurance should be included on the W-2 in Box 1, but does not need to be reported in Boxes 3 or 5.

### **Property Taxes:**

1. The property tax rendition forms are due to the local county tax office by April 15, 2021. A penalty of 10% of the amount of annual taxes imposed is assessed if the rendition form is filed late.
2. Many of you use the depreciation listing maintained by Squyres, Johnson, Squyres for tax return preparation as a base report to remit with the property tax rendition form. Please take time to review the listing for sold or disposed of items that need to be removed from that list. If you need a copy of your list, please contact our office and we can assist with getting a copy to you.

### **QuickBooks Items:**

1. A good protective item to maintain the integrity of your prior year's data is to go into the preferences area and close your books as of 12/31/2020. This will prevent you from accidentally posting a 2021 transaction to the wrong year. To close the books for the year, you must be logged in as an Administrator. Then click Edit>Preferences>Accounting and select the General Preferences tab. Click the button at the bottom labeled “Set Date/Password”. Type 12/31/20 in the “Closing Date” field. You will need to assign a password to the closing date. Be sure to write your password in a safe place as you will not use it often. **MAKE SURE YOU HAVE A GOOD BACKUP OF YOUR QUICKBOOKS FILE SAVED OFFSITE AND LET QUICKBOOKS VERIFY THE INTEGRITY OF THE BACKUP TO FIX ANY DATA ERRORS.** Memory sticks are great for this.
2. After your year-end procedures are complete, you may want to evaluate the size of your Quickbooks data file and determine if a “Condense Data” procedure needs to be done to reduce the file size and cleanup your customer and vendor lists. This process will speed up the processing time needed in your QuickBooks file when processing reports, running statements, etc. You can contact us regarding this process and let us assist you if needed with the procedure. For very large files, this procedure may take a full day to run and will need to be

done over a weekend.

As always, we are here to assist you at any time with any questions you may have.

**Erin Pugh, Certified QuickBooks ProAdvisor**

**Kara Jennings, CPA, Certified QuickBooks ProAdvisor**

**Laura Williams, CPA, Certified QuickBooks ProAdvisor**