



## **IRS HOT TOPICS 2015**

What is capturing the focus of the IRS this year? Here are some areas to keep in mind:

### ***Accrued bonus and commission deductions:***

Accrual-basis taxpayers are allowed to deduct accrued bonuses (paid to nonrelated employees) when four conditions are met:

- The “all events” test has been passed.
- The liability amount is determinable with reasonable accuracy at the accrual date.
- Economic performance occurs by year end.
- Payment is made within 2 1/2 months of year end.

These guidelines are not new, but the IRS is now reviewing bonus plans more closely for compliance. If your Bonus Plan requires employees to be employed on the date the bonus is paid, it is generally not deductible at the yearend unless the accrual is to be reallocated to other employees. If you have such a Bonus Plan in place, let’s talk about revising them before yearend so that you can deduct the accrued bonuses.

### ***Related party loans***

Loans between family members or businesses and their shareholders are quite common. For loans over \$100,000 to be treated as bona fide debt, the IRS requires that a minimum amount of interest be charged on the loan. These minimum rate levels are called “applicable federal rates”, and are published

monthly by the IRS. Loans for less than \$100,000 are subject to fewer reporting requirements.

### ***Backup withholding***

Starting this year (2015), the IRS will enforce the 28% back-up withholding on payments to merchants that fail to give a valid tax ID to the reporting credit and debit card company in connection with their 1099-K filing obligation.

### ***S Corporation Compensation***

S Corp owners face increased scrutiny when wages are kept low (to avoid payroll taxes and Medicare surtaxes) while nonwage shareholder distributions are significant. Because of the IRS scrutiny of performance-based compensation packages (as well as the “reasonableness requirement”), deductible executive compensation packages have changed over time. S Corp owners should consider and prioritize the structuring and documentation of your compensation plans for shareholder employees in order to minimize scrutiny.

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