Common accountant errors

By Jacob Ansel

ACCOUNTANTS ARE IN BUSINESS TO save their clients money, but sometimes an accountant can end up costing more in the end thanks to mistakes made. Here are a few key areas you may want to be aware of.

To err is human, but when an accountant's error ends up costing you more than it's saving, maybe it's time to find a new accountant. A few red flags to be aware of for end-of-year tax planning.

Failure to report non-taxable interest

Interest income from banks, credit unions, money market funds, bonds, and tax-exempt bonds must be reported on your taxes. Many taxpayers have substantial annual income from municipal bonds that are generally non-taxable; however, it still must be reported on tax returns. Failure to report the bond or non-taxable interest can have a negative impact as certain interest will be subject to tax under the alternative minimum tax. Always review all tax returns and make sure it shows total income earned whether non-taxable or taxable.

1099-MISC income

If you're self-employed or an independent contractor then instead of a W-2 you receive a 1099-MISC form for services performed above $600. The 1099-MISC form is more complicated than the W-2 and as such can result in more errors. Some accountants incorrectly issue 1099s to owners of an S Corp. instead of a W-2 for compensation and a K-1 to report earnings from the S Corp. Sometimes the 1099 issuer includes payment for items you don't consider income, such as reimbursement for expenses. Let's say you were paid $1,000 for services and were reimbursed $2,000 equipment. Your 1099 arrives saying you were paid $3,000, which isn't technically correct. Here you should report the entire $3,000 in income, but take all the deductions to which you're entitled.

Pension planning

Smart taxpayers should maximize pension and profit sharing plans working toward a secure retirement. There are two main types of pension plans: defined benefit plans and defined contribution plans. In a defined benefit plan, the employer guarantees the employee will receive a definite amount of benefit upon retirement, regardless of the performance of the investment pool. In a defined contribution plan, the employer makes predefined contributions, but the final amount of benefit received depends on the investment's performance. I recommended setting up a defined benefit plan and I would maximize the deduction every year.

Rental property in a C Corp.

Whether or not to hold business real estate in a regular C Corp. is one of the most common questions asked of accountants. And while every situation is different, there are significant federal tax reasons not to have the corporation hold the property. For business owners who hold real estate through their corporations, getting the real estate out can lead to a big tax bill. However, through careful tax planning, adverse tax consequences can be minimized. A common mistake is to advise a taxpayer to have all properties owned and placed in the C Corp. The problem here is that when the properties are sold there's a double tax to the owners of the Corp. and the Corp. itself. Many wealthy families acquire properties as part of their diversified portfolio and the common practice is to place the ownership of the properties into an LLC to limit legal liabilities and pay fewer taxes when the properties are sold.

Payroll services

For small businesses, processing payroll can be complicated and time-consuming thanks to complex, confusing, and demanding payroll laws. I recommend you hire a bonded and insured payroll reporting company to file and remit payroll tax returns for wages paid to employees. Outsourcing payroll can cost half of what it would to do in-house. Hiring an outside service also eliminates the need to hire a full-time payroll manager and you'll free up time to work on other aspects of your business. Payroll firms know they must do an accurate job if they want to keep your business, and you can also can count on them to stay up-to-date with new tax laws related to employee payroll. ❑

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