

# BottomLine

Just a quick chat from your accounting firm

FREDRICKZINK & Associates

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## Is Small Business Getting Taken for a Ride?

If "America Runs on Small Business," why does it seem like the rules and regulations for taxes, employment practices, reporting, etc. make it so hard to actually DO business?

Did you think we had an answer for that? We don't, sorry. We're a small business too, and even though we're in the business of helping you with those elements of "doing business," it's frustrating for us as well. This issue of our newsletter has a lot of information about expanded reporting requirements for 1099 services and now goods/products reporting (page 3) — oh joy! We've included information on forms for employers that are required by the Colorado Department of Labor and Employment (at right)...don't we all love filling out more forms? And there are warnings about paying attention to who you are hiring (page 2)...there are some people out there who lie, contrary to what we were all taught by our parents.

All this information, while necessary, seemed a bit exasperating to us, and we certainly don't want you to feel that way and associate that feeling with us! So we've decided to make the rest of our letter to you more uplifting (then you can read the stuff that makes small business owners want to hold their breath and turn purple).

### KEEP THE PASSION IN YOUR RELATIONSHIP

Tricked you. We are certainly NOT going to give you personal relationship advice. The relationship we are referring to is the one you have with your business...with the idea you had to start your business. Let's face it, most of our days are spent wading through "doing business." And it's easy to lose sight of WHY we are in the businesses we are in. Take our firm. We deal with all the un-fun elements of your business — taxes, reporting, accounting,

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## CAN YOUR EMPLOYEES LEGALLY WORK FOR YOU?

Did you know that since January 1, 2007, all Colorado employers must verify the legal work status for new employees? Failure to comply may result in fines of \$5,000 for the first offense and \$25,000 for subsequent offenses.

### WHAT YOU NEED TO DO

At a minimum you should be completing an "Affirmation of Legal Work Status" form for each new employee within 20 days of the hire date. The form is available online at <http://www.colorado.gov/cs/Satellite/CDLE-LaborLaws/CDLE/1248095356391> or on our website at [www.durangocpas.com/forms.htm](http://www.durangocpas.com/forms.htm).

Maintain a separate file of eligibility documentation. I-9 forms, Affirmation of Legal Work Status forms, and any verification documentation should be maintained separately from personnel files.

### RESOURCES

The Colorado Department of Labor and Employment suggests that employers use two free on-line databases to examine the legal work status of an employee:

- E-Verify (<https://e-verify.uscis.gov/enroll/StartPage.aspx?JS=YES>)
- SSNVS (<http://www.socialsecurity.gov/employer/ssnv.htm>)

### BE CAREFUL

You can get into trouble if you verify an applicant's legal work status before they are hired. You MUST hire the employee before you can verify their eligibility status. In other words, you can't use eligibility as a precondition to employment. This will lead to potential discrimination lawsuits.

You are not allowed to withhold wages pending verification of eligibility. You must pay all wages earned regardless of the outcome of the verification process.

Don't accept copies! Employees must provide original documentation unless they present a certified copy of a birth certificate.

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# WHO ARE YOU HIRING: Resumé Fraud?

Fraud in the workplace is becoming more and more common. How can you protect your business? Hiring quality employees can decrease potential fraud, waste, and abuse in the workplace. Look for these tell-tell signs of resume fraud the next time you are hiring:

## 1. Stretching Dates of Employment

The most common type of resume fraud is stretching the dates of past employment, or even making up jobs to cover gaps in employment. This type of fraud is easily detected with a routine call to all previous employers. Investigate any discrepancy — inconsistent dates can be a sign of extended unemployment to jail time.

## 2. Inflating Past Accomplishments and Skills

This type of fraud is more difficult to verify so potential applicants often overstate their accomplishments and skills. You can research accomplishments online and talk with former colleagues and managers to verify information. Use skill tests to determine proficiencies in areas that are relevant to the position.

## 3. Enhanced Job Titles and Responsibilities

You should expect applicants to tailor their resume to your job position, but there is a fine line between highlighting aspects of their history and lying about a former job title or responsibility. This information is easily verified by talking to former employers, colleagues, and superiors.

## 4. Education Fabrication

A study in 2001 revealed that 41% of applicants lied about their education in some form. Several high-profile cases have been reported lately such as Laura Callahan, who was hired as a Senior Director in the US Department of Homeland Security, and was forced to resign in 2004 when it was revealed that her degree was actually from an online diploma mill. You should research the school online, rather than relying on the information provided by an applicant.

## 5. Unexplained Gaps and Periods of Self Employment

Ask the potential applicant to explain any gaps in employment and attempt to verify the information. You should perform a criminal background check on all potential applicants, but especially if there are any unexplained gaps in employment.

## 6. Omitting Past Employment

This type of fraud is difficult to detect but can be dangerous. Why would someone wish to omit a previous position from their resume? Question character references regarding the applicants' employment history and perform an online search.

## 7. Fake Credentials

A survey in 2001 revealed that 23% of applicants falsified credentials or licenses on their resume. The majority of licensing bodies have a website or phone number you can call to verify the applicants' license. You should also check to see that the applicant is in good standing and if they have ever been subject to disciplinary actions.

## 8. Reasons for Leaving a Previous Job

As a prospective employer you should always determine whether or not an applicant is eligible for rehire. An alarm should sound if the applicant is not eligible, and further inquiry is required.

## 9. Fraudulent References

The most common reference fraud involves the applicant submitting partial or incorrect information related to the reference so the prospective employer has difficulty making contact. It is also common for an applicant to write their own reference letter. You should always verify a reference letter over the phone to determine if the reference wrote the letter and ask any follow-up questions. You should also attempt to verify any phone numbers provided by the applicant.

## 10. Misrepresenting Military Record

It can take up to twelve weeks to verify a military record! Make any job offers contingent upon the verification of any military records.

# 1099 Reporting Requirements Expanding — Begins 2012

## A quick fix to your accounting systems can make it easier

Beginning in 2012, 1099 reporting requirements will be expanded to include payments by businesses and corporations for goods and services. Under current law, businesses must report payments of \$600 or more for services only, and many payments from corporations are exempt. With the expanded rules virtually all payments totaling \$600 or more in a single calendar year will need to be reported to the IRS at the end of each calendar year. On the bright side, payments made by credit or debit card will likely not have to be reported because these payments are already reported by the payment processors. There are some exceptions to the new reporting requirements (payments to tax-exempt organizations), but it may be easier to keep track of all payments throughout the year, and report them to the IRS regardless.

### Be prepared

Go through your accounts payable files now to identify any vendors you do not have a W-9 for and request one. Use IRS e-Services TIN Matching to verify 1099 payee information against IRS records. Check your software system to see if payments can be sorted and summarized by vendor. If you are not currently using this feature, register for a training session to find out how to implement it.

If you use QuickBooks you must turn the 1099 feature on. You must be in single-user mode in order to turn on the feature. Be sure all other users are out of QuickBooks, then go to File and click Switch to Single-User Mode. Once you are in single-user mode, go to Edit and click on Preferences. In the Preferences window, click Tax: 1099 from the list on the left. Then click the Company Preferences tab and select Yes in the "Do you file 1099 MISC forms?" option. Before you close the window check the threshold amounts for each 1099 category.

Now you must set-up your vendors as "1099 Vendors". In the Vendor Center find the vendor(s) you need to modify, right-click on the vendor and select Edit Vendor. Verify you have the correct and complete address information for the vendor then click the Additional Info tab. Verify the tax ID number and click Vendor eligible for 1099.

You can easily verify which vendors you have set up as a "1099 vendor" by going to Reports | Vendors & Payables | Vendor Phone List. In the Modify Report window click on the Display tab and select Eligible for 1099 then click OK. Review the report for vendors marked "No" in the eligible for 1099 column.

## TAX-EXEMPT ORGANIZATIONS CHECK YOUR STATUS

Some organizations may be at risk

The IRS has released a list of organizations at-risk of losing their tax-exempt status. Go to: <http://www.irs.gov/charities/article/0,,id=225889,00.html?portlet=7> to see if your organization is at-risk.

All tax-exempt organizations must file a reporting return by October 15th or they will lose their tax-exempt status.

If you are eligible to file Form 990-N, simply go to the IRS website ([www.irs.gov](http://www.irs.gov)) and electronically file your information return.

If your organization is eligible to file Form 990-EZ, you can electronically file at [www.irs.gov](http://www.irs.gov) and pay a non-compliance fee.

Call us today if your organization is required to file Form 990 and missed the filing deadline.

If an organization loses its tax exemption it will have to re-apply for tax-exempt status with the IRS and any income received between the revocation date and the renewed exemption date may be taxable.



## Small Business Health Insurance Credit

The IRS has released a draft form (Form 8941) for businesses to use when figuring and claiming the new small business health insurance credit. The form will lead taxpayers through the steps of determining the number of full-time equivalent employees, annual average wages, and eligible premiums paid in order to determine the amount of the credit.

The credit is available to businesses with 25 or fewer employees and annual average wages of less than \$50,000 who pay at least 50% of health insurance premiums for their employees.

In 2011, the credit is 35% of employer contributions for small businesses and 25% for tax exempt organizations.

Small businesses claiming the credit will include the credit as part of the general business credit on their tax returns.

Eligible tax exempt organizations can claim the credit against payroll taxes. The IRS will revise Form 990-T to accommodate the credit.

## SMALL BUSINESS *Continued from cover story*

auditing...all things that aren't most people's favorite part of the work day. But we, the people with CPA after our names, embrace these things. It IS our work day. Why? Because our passion is in helping you keep focused on *your* WHY.

So here's what we'd like to leave you with...take a second to remember WHY you are in business. The real reasons. Not just to make money. We know there's more behind the "why" than that. Write the top three reasons down. And then...when it seems like being a small business has too many BIG reasons to lose the passion, read the list.

And if that doesn't make you smile, here's something funny an airline pilot said to the passengers: "We hope you enjoyed giving us the business, as much as we enjoyed taking you for a ride."

Small business comes with some pain, but for a lot of us, it's the ride of our lives.



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**There's no business like \_\_\_\_\_ business.**

- a. big
- b. small
- c. mid-sized
- d. your