

This Month:

- Outsourcing Payroll? Payroll Taxes are Still YOUR Responsibility!
 - Tax Cuts and Jobs Act Update

Outsourcing Payroll? Payroll Taxes are Still YOUR Responsibility!

Padgett has long encouraged clients to use reputable vendors, particularly when it comes to payroll. However, did you know that YOU are ultimately responsible for the payment of withheld taxes, even if you use a payroll service provider? Although outsourcing payroll to a third party can help ensure that filing deadlines and deposit requirements are met and greatly streamline business operations, it's your ultimate responsibility to pay these taxes, even if the failure to pay is entirely due to the payroll service provider's negligence or fraud.

Best Business Practices:

- 1) Don't change the address on file with the IRS to that of the payroll service provider. Changing the address may prevent your being informed a problem in time to do anything about it.
- 2) Ask the payroll service provider if they have a fiduciary bond. This could protect you in the event of default. Padgett Payroll offers this.
- 3) Ensure that your service provider is using the Electronic Federal Tax Payment System (EFTPS) as Padgett Payroll does. Payment history is tracked and can be viewed on-line, allowing you to easily confirm payments. A red flag should go up the first time a payroll service provider misses or makes a late payment. Once you have an EFTPS account, you'll also be able to make tax payments that your payroll service provider typically doesn't make for you (e.g., estimated tax payments).
- 4) If you're not using Padgett Payroll Service as your outsourced provider, ensure that your provider is listed as having passed the IRS Assurance Testing System (ATS) and/or Business Acceptance Testing (BATS) requirements.

Outsourcing your complete payroll needs can save you time, help you run your business better, and protect you from payroll tax penalties. We suggest you consider a payroll service, such as Padgett Payroll Services, that's designed specifically for small businesses like yours. For additional information, please contact our office for an appointment. We will be happy to discuss your options.

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Tax Cuts and Jobs Act Update

Changes to Qualified Tuition Plans:

Qualified tuition plans, commonly known as 529 plans, are a popular way to ease the financial burden of paying for college. Before the Tax Cuts and Jobs Act, earnings in a 529 plan could be withdrawn tax-free only when used for qualified higher education at colleges, universities, vocational schools or other post-secondary schools. With the passage of the Tax Cuts and Jobs Act, 529 plans can now be used to pay for tuition at an elementary or secondary public, private or religious school, up to \$10,000 per year. Another change came as a result of the 2015 Protecting Americans From Tax Hikes (PATH) Act, which addresses refunds of tuition or other qualified education expenses. If a student withdraws from a class, there is often a refund issued by the institution. As long as the beneficiary recontributes the refund to 529 plan within 60 days, the refund is non-taxable! To discuss these two changes or the overall benefits of 529 plans, give us a call.

Changes to the Meals & Entertainment Deduction:

The Tax Cuts and Jobs Act of 2017 has made many important business tax changes, but one significant change relates to the deductibility of meals and entertainment. Prior to 2018, a business engagement at a local sports venue involving the cost of admission, food, or beverage was eligible for a 50% deduction. With the passage of the Tax Cuts and Jobs Act, entertainment expenses are now **entirely** nondeductible, regardless of the nature of the meeting. The Tax Cuts and Jobs Act also limits the deductibility of business meals provided for the convenience of the employer to 50%, which had been 100% deductible by the employer. Given these changes, businesses should consider any internal adjustments they need to make for tracking and reporting these costs. If you need guidance on the proper treatment of meals and entertainment expenditures, don't hesitate to contact us for help!

Examples of Common Types of Meals & Entertainment Expenditures (Before & After the Act)

Type of Expense	2017 Treatment	2018 Treatment
Office Holiday Party or Picnic	100% deductible	100% deductible
Client Business Meals	50% deductible if taxpayer is present and not lavish or extravagant	50% deductible if business is conducted, taxpayer is present, and not lavish or extravagant
Transportation to/from Restaurant for Client Business Meal	100% deductible	100% deductible
Entertainment-related Meals	50% deductible	No deduction
Sporting Event Tickets	50% deductible for face value of ticket & skybox expenses to the extent of non-luxury seat ticket. 100% deductible for charitable sports events. Contributions for the right to purchase tickets to an educational institution's athletic events 80% deductible.	No deduction
Club Memberships	No deduction for club dues, but 50% deduction for expenses incurred at the club for business or pleasure.	No deduction
Meals Provided for the Convenience of the Employer	100% deductible if they are excludible from employees' gross income.	50% deductible (nondeductible after 2025)
Water, Coffee, and Snacks at the Office	100% deductible if they are excludible from employees' gross income.	50% deductible
Meals During Business Travel	50% deductible	50% deductible
Meals at a Seminar or Conference	50% deductible	50% deductible
Meals Included as Taxable Compensation to Employee or Independent Contractor	100% deductible	100% deductible

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PADGETT BUSINESS SERVICES® is dedicated to meeting the compliance, profit financial government reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter. **AMERICA'S FIRM FOR SMALL BUSINESS TAX NEEDS**