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ADVISORS & ACCOUNTANTS

Controller's Guide to the 2021 Year-End Close

Provided by Grassi's Accounting Services Team

As many of you are preparing your New Year's resolutions, your Grassi advisors are preparing for the upcoming tax season. To make your year end as smooth as possible, Grassi's Accounting Services team is pleased to offer this helpful guide for the 2021 year-end close.

CASH ACCOUNTS

Fraud

One of the most important internal controls every company should have is over cash. Often overlooked as a menial task, a bank reconciliation is the first line of defense in protecting the health of your business. Additionally, it is an important tool in the detection of fraud.

While there is no way to prevent all fraud, preparing timely monthly bank reconciliations is necessary. Remember, when preparing bank reconciliations, every cancelled check must be reviewed. When bogus checks are written against your account, a refund of stolen assets is more likely when reported to the bank early. In fact, it is the account holder's responsibility to review the bank statements timely and notify the bank of errors. Please review your account agreement for specific policies established by your bank.

Thinking of leaving pre-signed blank checks in the office while you travel? Think again! Since your valid signature is on the check, funds are not considered misappropriated, and no refund will be issued. It is the account holder's responsibility to maintain the security and integrity of the account.

Deposits in Transit

While it is common to have deposits in transit, a deposit that never clears is a problem. It could signal any of the following:

- Funds have been deposited into a different account – this could result in duplicate entries and double recognition of revenue.
- Funds were never deposited – generally, this is the result of carelessness. If the customer payment is found, and funds are not stale-dated, they can be deposited with your financial institution.
- Funds have been stolen – contact your client for a copy of the cancelled check to determine if the funds were initially received. If funds have been stolen, a copy of the cancelled customer check will create an audit trail and help facilitate legal proceedings.

Review Outstanding Checks

If contacting the vendor is not feasible, the gold standard for addressing outstanding checks is to forward the funds to the state comptroller's office of unclaimed funds. Yes, like dormant bank accounts, uncleared checks are escheat property. Please refer to the following remittance instructions:

New York State

For payment by check, make check payable to Comptroller, State of New York, and mail to:

Office of the State Comptroller
Remittance Control, 2nd Floor
110 State Street
Albany, NY 12236

For electronic reporting and remittance, please click here: [Electronic Reporting | Office of the New York State Comptroller](#)

New Jersey

For payments by check, make check payable to “Treasurer, State of New Jersey” and mail to:

New Jersey Unclaimed Property Administration
PO Box 214
Trenton, NJ 08625-0214

For electronic remittance, please click here: [New Jersey Unclaimed Property - Official State Website \(nj.gov\)](#)

Massachusetts

Reporting for escheat property is only *available online*: [Reporting Unclaimed Property | Mass.gov](#)

Form 1099

Use Form 1099-NEC to report nonemployee compensation and file by January 31, 2022. Additionally, a [form W-9](#) must be obtained from each vendor to ensure legal name, address, and EIN are accurate. As a reminder, this reporting is done on the cash basis. To avoid overreporting, please be sure all bank reconciliations are completed.

Best Practices: Obtain a W-9 prior to issuing payment.

NOTE: 1099s substantiate your deductions so be sure to issue them.

Form 1099-MISC should be used for the following expense categories:

- At least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest
- At least \$600 in:
 - Rents
 - Prizes and awards
 - Other income payments
 - Medical and health care payments
 - Crop insurance proceeds
 - Cash payments for fish (or other aquatic life) you purchase from anyone engaged in the trade or business of catching fish
 - Generally, the cash paid from a notional principal contract to an individual, partnership, or estate
 - Payments to an attorney
 - Any fishing boat proceeds

FORM W-2 REPORTING AND REQUIREMENTS

FRINGE BENEFITS

Personal Use of Business Auto

The personal use of a business automobile is a taxable noncash fringe benefit and must be included in employee wages. See below for methods used to calculate. For additional details, please refer to [IRS Publication 15B](#).

General Valuation Rule

You must use the general valuation rule to determine the value of most fringe benefits. Under this rule, the value of a fringe benefit is its fair market value.

Fair market value (FMV). The FMV of a fringe benefit is the amount an employee would have to pay a third party in an arm's-length transaction to buy or lease the benefit. Determine this amount based on all the facts and circumstances. Neither the amount the employee considers to be the value of the fringe benefit nor the cost you incur to provide the benefit determines its FMV.

Employer-provided vehicles. In general, the FMV of an employer-provided vehicle is the amount the employee would have to pay a third party to lease the same or similar vehicle on the same or comparable terms in the geographic area where the employee uses the vehicle. A comparable lease term would be the amount of time the vehicle is available for the employee's use, such as a 1-year period. Don't determine the FMV by multiplying a cents-per-mile rate times the number of miles driven unless the employee can prove the vehicle could have been leased on a cents-per-mile basis.

Cents-Per-Mile Rule

Under this rule, you determine the value of a vehicle you provide to an employee for personal use by multiplying the standard mileage rate by the total miles the employee drives the vehicle for personal purposes. Personal use is any use of the vehicle other than use in your trade or business. This amount must be included in the employee's wages or reimbursed by the employee. For 2021, the standard mileage rate is 56 cents per mile. You can use the cents-per-mile rule if either of the following requirements is met:

- You reasonably expect the vehicle to be regularly used in your trade or business throughout the calendar year (or for a shorter period during which you own or lease it), or
- the vehicle meets the mileage test.

Commuting Rule

Under this rule, you determine the value of a vehicle you provide to an employee for commuting use by multiplying each one-way commute (that is, from home to work or from work to home) by \$1.50. If more than one employee commutes in the vehicle, this value applies to each employee. This amount must be included in the employee's wages or reimbursed by the employee.

Health Insurance

Health insurance paid for a 2% S-corporation shareholder should be included on the W-2 as box 1 taxable income.

Payroll Deductions

Mandatory deductions are FICA, Medicare, federal and state withholding, if applicable. Both FICA and Medicare are set at 6.2% and 1.45%, respectively. Federal and state withholdings are based on the employee instructions set forth in form W-4. Employers are required to abide by those instructions. If taxes are overwithheld, they must be refunded to the employee. Under no circumstances can overwithheld taxes be applied to a different category of taxes. For example, if you discover FICA was incorrectly withheld at 7%, the overwithholding cannot be applied to federal withholding. It's a red flag that could result in an audit.

If an employee wishes to change withholding, they must submit a new form W-4.

FICA Wage Base

The Social Security wage base for 2021 increased to \$142,800. While there is no limit to the Medicare wage base, the additional Medicare tax rate for wages more than \$200,000 remains at 2.35%. For 2022, the FICA wage base increases to \$147,000.

American Rescue Plan Act of 2021

The IRS will update the 2021 Forms W-2 instructions for Box 10, Dependent care benefits, by removing the \$5,000 limit from the "Instructions for Employees" section. This section will also be updated to state that any amount above the employer's plan limit is also included in Box 1 of Form W-2.

In addition, the specific instructions for the 2021 Form W-2 Box 10, Dependent care benefits, will be updated to remove the \$5,000 limit and to remind employers of the increased exclusion amount (\$10,500 or \$5,250 for separate filers).

Employers are permitted to increase the maximum amount of dependent care assistance benefits that can be excluded from an employee's income from \$5,000 to \$10,500 (\$5,250 for married filing separately). However, the employer must timely amend its plan for the increase to take effect.

Employment Tax Deferrals

The CARES Act allows employers to defer payment of federal employment taxes until 2021 and 2022. The initial installment, which is 50% of total deferred taxes, is due by January 3, 2022. The IRS has been issuing notices by quarter. Compare your notices to the deferred amounts on the respective quarters to ensure accuracy. Each deferral should be paid separately for compliance. Failure to timely make the first installment will result in interest and penalties on the total deferred obligation. There is no penalty for paying deferred taxes in full by January 3, 2022.

PPP Loan Forgiveness

Borrowers can apply for loan forgiveness anytime between the date when all the proceeds have been properly used and the loan maturity date. If you need additional assistance, please contact your bank, lender or the [SBA](#). **Remember, loan forgiveness is not automatic.**

COMMONLY OVERLOOKED AREAS

Year-End Accruals

If your business is on the accrual basis, remember to include year-end wages paid in the upcoming year. Any expenses incurred during 2021 should also be accrued if they remain unpaid as of December 31, 2021.

If your business files on the cash basis, you can still take advantage of year end accruals! Specifically, any purchases made on credit cards, employer-incurred payroll taxes (i.e. FICA, FUTA, and SUTA) due for the quarter ending December 31, 2021, as well as pension contributions, can be accrued at year end.

Fixed Assets

End of year is an excellent time to review fixed assets for obsolete and donated assets. If you donated fixed assets, remember to keep the donation letter with your year-end workpapers.

Use Tax

If goods are purchased out of state and no sales tax was charged, those purchases could be subject to use tax. Please review your purchase invoices to determine if use tax must be reported and paid.

Insurance

Year end is a good time to review health insurance policies to ensure premiums for terminated employees are no longer being paid. If your business covers several vehicles, this is also a good time to ensure surrendered vehicles are no longer covered.

Server Backups

With many employees still working remotely, it's prudent to make sure that your accounting software and electronic records are backed up regularly. Additionally, periodically check that the backups are complete and accurate. Waiting until an emergency is ill-advised.

FOR MORE INFORMATION:

If you have any questions or require assistance with your year-end close process, Grassi's [Accounting Services](#) team is here to help. Please contact your Grassi advisor or a member of our Accounting Services team for more information.



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