



# DONOVAN SULLIVAN & RYAN

A Holiday Newsletter for  
our Clients and Friends

December 2011

Happy Holidays From The Staff at Donovan, Sullivan & Ryan



FROM THE  
PARTNERS  
PEN.....

Dear Clients and Friends,

As 2011 winds down, we are preparing for another tax season (my 36th). Planning and training are the keys for a successful tax season for us.

I have been very busy meeting with clients in order to do year end tax planning. If you have concerns about your 2011 tax liability, please contact me to discuss your withholding requirements to avoid any tax penalties.

As has become our practice, we will not be mailing out Holiday cards. Instead, we will use those funds to make a charitable contribution to the Hearts For Hope Foundation to benefit Cystic Fibrosis in memory of my niece and nephews, Lisa, Daniel and Mark Palermo, who all lost their battles with Cystic Fibrosis. Daniel lost his battle in August 2007, Lisa lost hers in October 2008 and, sadly, Mark passed away on December 8th.

Wishing you and yours peace, health and happiness during the holidays and throughout the New Year!

Sincerely,

Mike Ryan



Pictured L to R: Barbara Martin, Mike Ryan, Joyce Foley, Bonnie Tyrrell, Anne Kraus, Gerry Sullivan, John Marino & Rick Donovan. Missing from photo: Sue O'Brien.

## Summary of 2011 1099-MISC Filing Requirements

The rules for issuing a 1099-MISC have remained unchanged for 2011. If you are engaged in a trade or business, you should issue a Form 1099-MISC to qualified recipients to whom you paid more than \$600 during 2011 by January 31, 2012. A qualified recipient is defined as any non-corporate entity. This means any individual, sole proprietorship, partnership or limited liability company (LLC).



Please note that filers of Form 1040 Schedule C, E or F as well as filers of Forms 1120S and 1065 will now be required to answer the following questions on the tax return concerning their information return filing requirements:

- **Did you make payments in 2011 that would require you to file Form(s) 1099?**
- **If "yes", did you or will you file all required Forms 1099**

Penalties for failing to file Forms 1099 have risen to \$100 per payee statement not filed or if intentional disregard of the 1099 rules, the penalty is \$250 per form. This can quickly add up to a large amount. Properly issuing 1099s to qualified recipients is helpful should your business get audited by the IRS. Failure to issue Forms 1099 can result in the IRS disallowing the expense claimed on your tax return.

Please contact our office if you have any questions about whether or not you need to file 1099's. We can prepare them for you in our office.

## COMING SOON TO YOUR MAILBOX!

All of our individual clients will receive a 2011 tax organizer in the mail within the next month. This organizer summarizes your 2010 tax information, and it provides space for you to enter your 2011 data.

As you receive your 2011 tax documents, please collect them and keep them with this organizer.

Our engagement letter will also be included with the tax organizer. Please sign this and return it to us along with your organizer and tax information.



**"More than accountants....business advisors"**

## ARE YOU PREPARED FOR AN IRS AUDIT?

Remember, we don't make the "rules", we just try to keep you informed of the requirements. Auto, travel, meals, entertainment and business promotion rules have always been onerous. Based on a recent tax seminar attended by our staff, we are concerned about an increase in IRS audits and enforcement in these areas. Why the increase? Because it is an easy way for the government to generate much needed additional tax revenues.

Any expenses related to auto use, travel, meals, entertainment and business gifts require stringent documentation in order to get any amount of deduction for these items.

The IRS rules disallow a deduction for these expenses unless adequate records are maintained to substantiate the:

- Expense amount
- Time and place the expense was incurred
- Business purpose of the expense
- Gifts from businesses are limited to \$25. Documentation should include a description of the item given and the business relationship you maintain with the person receiving the gift
- For entertainment purposes, your relationship to the person(s) entertained

To satisfy the "adequate records" requirement, the taxpayer must maintain an account book, a diary, a log, a statement of expense, a trip sheet, or a similar record. Also, the adequate records must be recorded at or near the time of the business use. Estimates for mileage, such as approximations derived from Mapquest, are not allowed.

When you sign our Individual Tax Engagement Letter each year, you are agreeing that you understand that the taxing authorities, by regulation, require you to retain information substantiating all items reported on your returns. If the IRS audits your individual return questioning your business mileage, you will be responsible to provide them with a log book that was prepared at or near the time of the travel. Any discrepancies or failure to provide the proper backup could warrant the IRS to disallow ALL of the expenses in question.

The same rules apply for all travel and entertainment expenses deducted on your return pertaining to business. If the IRS audits you, regarding these expenses, documentary evidence such as a paid bill or a written receipt would be required to substantiate these expenses. Also, to satisfy the adequate records requirement, for each expense you will need to provide the amount, time and place and the business purpose of the expense and your relationship to the person(s) entertained. For expenses pertaining to lodging while traveling away from home, regardless of the amount, a hotel bill showing the components of the hotel charge is required. A credit card statement is not sufficient documentary evidence to provide to the IRS.

In order to help you meet these requirements, we have available a 2011 Mileage and Expense Log. If you would like one contact Barbara Martin ([bmartin@dsrca.com](mailto:bmartin@dsrca.com)) at our office.

**REMEMBER TO ADJUST YOUR YEAR-END PAYROLL FOR S-CORP SHAREHOLDER HEALTH INSURANCE AND PERSONAL AUTO USE. ALSO BE SURE TO MAXIMIZE YOUR 401-K OR SIMPLE PLAN CONTRIBUTIONS FOR 2011.**



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→ Don't FORGET!