

## W-2 & 1099 time

It's time to prepare W-2's for employees and 1099's for outside service providers.

Remember that there are penalties for inaccurate information, so check your records for accurate (including spelling):

- Payee first and last names
- Addresses
- Social Security Numbers

If you are missing any information, give a W-9 form to the payee to complete. If in doubt, send a W-9. You can download a printable W-9 form at [www.irs.gov/pub/irs-pdf/fw9.pdf](http://www.irs.gov/pub/irs-pdf/fw9.pdf), or call our office and we will send one to you.

W-2's and 1099's need to be out to workers by Jan. 31, and also be filed with the government by Jan. 31. During the past year, we have seen penalties imposed for missing or inaccurate forms.

The 1099 forms are required for payments of \$600 or more to non-incorporated entities (including LLC's) for rent, interest paid or services rendered.

Income for independent contractors ("non-employee compensation") is reported on Form 1099-NEC, while rent, attorney payments and other types of income will be reported on Form 1099-MISC.

## Annual sales tax licenses

Most businesses received the bill for the \$20 Municipal Tax License fee with the ADOR annual license renewal in mid-December. That fee and the state license renewal are handled by ADOR and filed through your [aztaxes.gov](http://aztaxes.gov) account. The Bookkeepers will schedule renewal and payment if we do your sales tax reports.

The City of Tucson's \$50 annual business license fee is billed separately and must be paid to the city, not to the state along with state fee. You should have al-

ready received the city renewal form in the mail. If you need help with the form, please turn it in with your December work so we can fill it out and send it back.

It can be paid by mail, at a city cashier, or online at <https://tucsonaz.taxandrevenue.opengov.com>. This is a new address for Tucson online services, and existing license holders will need to register for a username and password.

## W-4 and A-4 forms

Every Arizona employer is required to make Arizona's A-4 withholding form as well as the federal W-4 form available to its Arizona employees by Jan. 31.

The form is available for download at <https://azdor.gov/forms/withholding-forms/arizona-withholding-percentage-election>, or call our office for a copy. Also, there is a Form A-4C for employees who make donations to tax credit organizations to request reduced withholding.

The 2025 A-4 has seven withholding rate options, the same as on the 2024 form, topping out at 3.5%. (Arizona has only one income tax rate -- 2.5% of taxable income.)

The box for zero withholding option and the line for additional Arizona withholding also appear.

If an employee doesn't fill out a new A-4 form, the employer will use a default rate of 2.0%. Withholding forms are not sent to the government but kept by the employer in their payroll records.

## Mileage for tax time

IRS' standard rate for business mileage was 67¢ for 2024. As you tally up your business mileage for the year, remember to keep your mileage records with your tax papers. IRS requires written records for mileage to be deducted.

At publication time, IRS had not yet announced the standard business mileage rate for 2025.



## 2025 mileage rate

IRS has raised the standard mileage rate for business driving to 70¢ per mile for 2025, up three cents from 67¢ in 2024.

The mileage rates for medical and military moves stayed the same at 21¢, and driving for charitable purposes is fixed at 14¢.

## Audit watch

With the first class of new IRS auditors now on the job, we are seeing more Schedule C audits. The trigger seems to be meal, travel and mileage expenses.

Since these are known "hot buttons" for IRS, be prepared with good records for your deductions.

Auditors look first for contemporaneous records such as logs and calendars, along with receipts. In other words, documentation recorded at the time of the expense, not reconstructed when the audit is announced.

Next is business purpose. Auditors look for comingling, paying personal expenses by the business. Ideally, each item should have a notation of the business reason.

Every tax return is scored by IRS for various areas that are subject to abuse, with highly scored returns flagged by the computer for a human auditor to review. With proper records, an audit can be resolved quickly and fairly painlessly.

## Miss a meeting?

The CEO of a Wyoming-based musical-instrument online storefront fired 90% of his staff — 99 out of 110 employees and freelancers — for missing a morning meeting Nov. 15.

The company is a "lean startup" where essentially all of the staff work remotely. All of those fired were unpaid remote part-time interns, students looking for work experience.

The remote workers were located worldwide, making an 8:30 am Wyoming meeting time the middle of the night for some.

## Restaurant failures reflect shifting trends

Red Lobster, THI Fridays, Rubio's Coastal Grill, Boston Market -- more than a dozen big restaurant chains filed for bankruptcy in 2024.

Industry buzz is that the hey-days of casual dining are over.

"Tastes change. And if a chain does not evolve with their customer base, then it's not uncommon for them to step aside," said Debtwire executive editor John Bringardner.

He noted that the pandemic caused restaurants to take on debt, making it hard for them to recover.

Also, he noted there's "particular trouble in the family restaurant or casual dining sector, and that's a function of changing eating habits among Americans."

He explained customers seem to be gravitating towards quick-service options that focus on fresh ingredients and fast turnover. As a result, restaurants may need to reevaluate their menus.

## First drive-through

MacDonalds' first drive-through was in Sierra Vista following World War II. The army prohibited Fort Huachuca soldiers in uniform from entering businesses, so the burger shop opened a window to hand orders to uniformed patrons in their cars.



## BOIR is on again

The Beneficial Ownership Information Report (BOIR) is now due by Mar. 21. A federal court lifted the injunction in February, allowing the Financial Crimes Enforcement Network (FinCEN) to again mandate filing for state-chartered businesses such as corporations and LLC's.

FinCEN said it will "assess its options to further modify deadlines, while prioritizing reporting for those entities that pose the most significant national security risks. FinCEN also intends to initiate a process this year to revise the BOI reporting rule to reduce the burden for lower-risk entities, including many U.S. small businesses."

The ownership information is being collected to combat money laundering and the use of shell companies for illegal and terrorist activities.

The 4-page form must be filed online at <https://boiefiling.fincen.gov/fileboir>. While we can't file the form for you, we will gladly answer questions about the process so you can complete the filing yourself.

## No more pennies

The U.S. Mint has been ordered to stop making pennies, which cost 3.7 cents to produce.

That may sound like a savings, but is likely to lead to needing to make more nickels. However, each nickel costs 13.8 cents, according to the Mint's latest annual report. The government loses more on a nickel than on a penny.

The pennies now in people's pockets and penny jars will be in circulation until

they wear out or become collectors' items.

The loss of pennies may also cause a small bookkeeping issue for retailers. A sale plus tax is rounded to the nearest penny, but cash customer may need to pay with a nickel.

For instance, a \$1 sale with 8.7% sales tax means a customer is charged \$1.09. No problem with a card payment, but a cash customer would need to give the retailer \$1.10.

If no pennies are available for change, the seller has overcollected for the sale. Maybe one cent doesn't sound like much but with thousands of transactions in a year, the cents add up.



## Donate more

Newman's Own foods has donated 100 percent of its profits to charity since actor

Paul Newman founded the company in 1982.

In honor of the actor's 100th birthday, the foundation that owns the company is encouraging other businesses to do the same. Newman's Own Foundation CEO Alex Amouyel pledged the foundation will provide guidance and advice to organizations that want to make that commitment.

Realizing that is big change for profit-oriented companies, the foundation invites businesses to start with smaller percentages of their profits donated to charities.

Outdoor clothing company Patagonia reorganized in 2022 to transfer its ownership to a trust and to donate its profits to a nonprofit advocacy organization.

Australian company Humanitix also donates 100% of their profits.

## BOIR no more!

The on-again, off-again turmoil of Beneficial Owner Information Reporting (BOIR) has finally been resolved, to the relief of many business owners.

The Financial Crimes Enforcement Network (FinCEN) announced on Mar. 21 that businesses formed in the U.S. and U.S. persons are no longer required to file. The "beneficial owner" reporting is only for foreign-originated companies and non-U.S. citizens.

FinCEN had signaled early in March that American-based companies were likely to be exempted from requirement, but left the Mar. 21 deadline for filing in place. The agency waited until the last day to issue its announcement and "interim final rule."

The Corporate Transparency Act established the beneficial owner reporting to deal with shell companies that launder money and fund criminal and terrorist activities.

As originally set up, BOIR imposed hefty penalties for not filing or inaccurate filing. FinCEN's announcement said it will not enforce any BOIR penalties against U.S. citizens, domestic reporting companies or their beneficial owners.

## Whose recall?

Amazon has sued the Consumer Product Safety Commission (CPSC) over issuing recalls for products it sells.

In January, the CPSC ordered that Amazon was responsible to recall more than 400,000 recalled products it sold. It said Amazon had to notify buyers of recalled products and to issue full refunds because it was a "distributor."

"The [CPSC] may issue recall orders to the manufacturers, distributors, and retail-

ers of a product, but not to third-party logistics providers who store the product in their warehouses and transport it to customers," Amazon said in the lawsuit.

Amazon and CPSC have been arguing over recalls since 2021.

## Creating money

The influencer industry is estimated to be \$250 billion today, according to Goldman Sachs, and is predicted to grow to nearly \$500 billion by 2027.

Forbes reports nearly 50 million

"content creators" have more than 2.7 billion followers across YouTube, TikTok, and Instagram. Forbes Top Creators list says the top 50 creators earned almost \$720 million over the last 12 months.

"Creators are now harnessing their social influence to evolve from entertainers to entrepreneurs," Forbes said.

Last year's top influencer was Jimmy Donaldson, who earned \$85 million. His "Mr. Beast" YouTube channel has more than 320 million subscribers and nearly 9 billion views during the last year. His extreme stunts and contests have promoted consumer product lines ranging from clothing to candy bars.

Number 2 was Dhar Mann, who heads a team of more than 150 working in a 100,000 square foot studio in Los Angeles.

## Doing more with less?

After IRS laid off about 6,700 probationary employees in February, the service is looking to cut its remaining staff of 90,000 by up to 50 percent, with 20 percent being cut in May.

IRS staffing was nearly 115,000 in the early 1990's.



## Polyworking is in

Polyworking is the new term for your business vocabulary.

Some 52 percent of millennials, who constitute the largest portion of the American workforce, are working more than one job, according to a new study by Academized. Of those, 24 percent are juggling three income-earning roles, and a striking 33 percent are holding four or more.

A 2023 Paychex poll revealed similar patterns among Gen Z. Nearly half are working multiple jobs, with 47 percent handling three or more jobs.

Financial stability and lack of job security are leading forces, the research says.

Also, full-time opportunities have decreased significantly, as businesses explore staffing flexibility and savings on paid benefits.

For many younger workers, polyworking is the norm for building a career and simply surviving when positions seem unlikely to last longterm and even a fulltime job's pay scale may not be enough to make ends meet.

## Mega for you?

The Roth IRA has become a leading tool for retirement planners. The only catch is its contribution limit of \$7,000 (or \$8,000 for age 50 or older).

The top solution has been a Roth 401(k) through work, where up to \$23,500 (or \$31,000) may be set aside.

For those who want to turbocharge their taxfree retirement plans and have the means to do so, there is another technique, called the "mega backdoor Roth contribution."



This option relies on a lesser known contribution limit of \$70,000 for the combination of regular 401(k) contributions, after-tax (nondeductible) contributions and employer matches.

For older workers, that limit extends to \$77,500 for age 50-59 and \$81,250 for age 60-63.

The mega option especially is valuable for high earners who make more than the income limit for contributing to a Roth

IRA. That's \$165,000 for a single taxpayer or \$246,000 for married filing jointly.

There are two steps to the process: 1) Make after-tax contributions to your traditional 401(k). 2) Convert those contributions to either a Roth IRA or Roth 401(k). Enlist the help of a knowledgeable financial advisor to carry out the process.

## Nevada disses DST

Nevada's state legislature has passed a bill to end daylight savings time (DST) in the state, keeping it on Pacific standard time year round.

Since Arizona doesn't do DST, California and Nevada are on Arizona time for half of the year, while DST is in effect.

The bill still faces approval by the state's senate. It would take effect next January.

The American Academy of Sleep Medicine has called for the U.S. to eliminate daylight saving time completely, stating that standard time best supports health and safety, as it aligns with people's natural circadian rhythm.

Research shows that after the spring change to DST, workplace injuries, car crash deaths and heart attacks all increase.

## Clean records

A credit card statement or checkbook isn't considered as an adequate record for IRS. An auditor wants to see actual receipts for those entries in the statement.

Missing receipts are likely to have those deductions tossed out in an audit.

A receipt in itself isn't enough, either. You need to have a record of what you bought and why ... and that you actually paid for it.

That's why a credit card statement isn't adequate. It shows you bought something, but doesn't prove you actually paid for it later. The item could have been returned, the charge disputed or worst case - dismissed in bankruptcy.

Ideally, a receipt has an itemized list of what was bought and the prices. If the expense isn't obvious, add a note for the business purpose (particularly for meals with customers).

Many store receipts are printed on thermal paper which fades over time (like in a few hours in Arizona summer heat). Paper receipts can also get lost.

The solution is to make a digital copy. Your business may have a scanner (think that seldom used fax machine), or there are several apps for smartphones to photograph receipts.

Then, store and organize the receipts online. Many accounting softwares can sync the receipt data into your books.

## 850 for you?

FICO, the most widely used credit scoring system, has scores ranging from 300 to 850.

Is 850 achievable? FICO says yes, but only 1.7% of Americans have 850 scores.

However, 22.5% of consumers have FICO scores of 800 or higher, catego-

alized as "exceptional." Very good scores of 740 to 799 are held by 27.8% of people.

According to FICO, people with top-tier scores have:

- No missed payments on their credit reports
- Credit card balances under 5% of their credit limits
- Long-established accounts, with the oldest perhaps 30 years

Credit scores are important for more than just buying a house or a car, or getting a credit card. Increasingly, landlords look at credit scores to determine if potential renters are likely to pay their rent on time.

Employers, too, increasingly are checking credit scores to evaluate whether a potential hire is a conscientious and stable person.

Vendors may also look at credit scores for small business owners when deciding to open an account for a customer.

Many banks and credit card companies offer free credit scores (usually from just one credit bureau). Some credit bureaus will provide a free score, while other charge for it.

## Early Social Security

With rising "full retirement ages" and turbulent economic times, more Americans are filing for Social Security early.

News reports about the Social Security fund going broke within the next decade and needing to cut benefits prompts numerous people to "get in while I can and get what I can."

Also, for those nearing retirement, a job loss can trigger filing for Social Security sooner than planned. Since a laid-off older worker may have difficulty finding another job, the decision to file for benefits may be moved up.



## Happy workers

American workers are happier with their jobs than ever before, according to research by The Conference Board.

More than two-thirds of American workers say they are satisfied with their jobs, the highest level reported since the organization started tracking in 1987.

However, workers under 25 reported declining satisfaction. Only 57% of workers in that age group said they were satisfied with their jobs, while 72% of their counterparts who are 55 and older were.

The report concluded that economic factors were the basis for greater satisfaction. Low unemployment means workers have more choices to move to jobs that align with their desires and situations.

Since the pandemic, more workers have been in hybrid or remote jobs that let them be more comfortable with their employer's work culture.

Wages also have kept pace with inflation, allowing workers to feel more of a sense of financial well-being.

## Hello again

A growing trend is for workers to return to previous employers, according to payroll service ADP.

In March, so-called boomerang employees made up 35% of new hires, up from 31% a year before.

The situation can be a win-win by "hiring and onboarding someone who's already

familiar with the turf. They know the worker, the worker knows them," ADP said

While millions of workers quit their jobs in 2022 -- "The Great Resignation" -- the rate has fallen to 2% now, according to the Bureau of Labor Statistics.

Among the factors for boomerang hiring is the housing market, ADP noted.

"Higher interest rates, higher house prices, and the ability to work remotely, workers are just not as likely to move for a job. So if you're not willing to move, maybe going back to an employer that's in your local area is a stronger option."



## Household wealth drops, but...

The average American household's net worth declined this spring for the first time in almost two years, the Federal Reserve reported.

The \$1.6 trillion drop to \$169.3 trillion is attributed largely to the stock market plunge of almost 20% from February to April.

The roughly 60% of households that hold stocks are likely to recover a portion of their net worth in the second quarter, BMO Bank projects.

However, "Lower- and middle-income families have far less invested in the stock market compared to the ultra wealthy. These households aren't experiencing that wealth effect in the same way," BMO noted.

## Dealing with tips and overtime now

The One Big Beautiful Bill Act (OBBBA) passed in July eliminated income tax on tips and overtime for 2025-2028, as the news has widely reported.

Now the question for businesses is, how to implement it.

The provisions are retroactive to the beginning of 2025, so your business may already have withheld taxes for employees for six months. Next year, withholding tables will reflect the new deduction.

Recordkeeping will need to change little, since tips and

overtime are already tracked separately from regular pay. Tips are listed separately on W-2 forms, and now overtime will be as well. Both will be reported on 941 payroll forms separately, too.

These temporary provisions are deductions on personal tax returns with income limitations, so they will create minimal new burden for employers.

IRS defines a tip as a voluntary payment by a customer at their discretion. Service charges and mandatory gratuities added to a bill are not tips and will not be eligible for the deduction.

IRS will publish a list of qualifying occupations within three months (by October). The law also authorizes IRS to prevent abuse, such as where companies classify wages as overtime for workers' benefit.



## More OBBBA highlights

The new law made several changes for small business owners to take note of. Here are some highlights.

**Form 1099:** Beginning in 2026, 1099-MISC and 1099-NEC forms will need to be issued for payments totaling \$2,000. Plus, the limit will be indexed for inflation

annually. The \$600 threshold will still be in effect for 2025.

**QBI deduction:** The 20% Qualified Business Income (QBI) deduction has been made permanent, and the income restrictions have been raised. Additionally, a new minimum QBI deduction of \$400 was created.

**Bonus depreciation:** Full expensing for purchasing qualified business property has been made permanent. For 2025, taxpayers may choose a reduced bonus rate if they want to preserve depreciation for future years. Section 179 expensing limits were increased as well.

**Business meals:** Meals that are provided at employer-operated facilities or are included in employment compensation will be deductible starting next year.

**PFML credit:** Employers can now claim the Paid Family and Medical Leave credit based on insurance premiums paid, regardless of whether employees actually take leave. Alternatively, companies may continue to take the credit as a percentage of wages paid during leaves.

**Child care:** The credit for employer-provided child care increases from 25% this year to 40% next year.

## Safe Harbor 401(k) deadline

Employers who want to set up a "Safe Harbor 401(k)" plan have until Oct. 1 to do so for 2025.

A Safe Harbor 401(k) is a simplified retirement savings plan particularly designed for small businesses. It allows employers to avoid complex IRS compliance tests by making mandatory contributions to employees' accounts, which are fully vested immediately.

If you would like more information, please contact your tax advisor.

## Warehouse wonders

Despite the volatility of tariffs this year, businesses have found their ordering costs have been more stable than projected.

While inflation has affected all products and materials, prices haven't shown the full effects of major tariffs. That's because warehouses operated by "third-party logistics" companies have responded preemptively to tariff announcements, says SC Codeworks, a warehouse management systems provider.

Orders and shipments have bounced around month by month. SC Codeworks reported that in March, the number of orders was down 20% but the number of units shipped internationally was up by more than 32%. Fewer but bigger orders.

Importers filled warehouses in anticipation of tariffs, then cut back on ordering until there was a pause in tariffs announced. At that point, they ordered again.

Small resellers and producers may find the warehouse tactics allow them to hold on in a turbulent economy.



## Cardboard counts

Economists have come up with another indicator for projecting the business environment: cardboard box sales.

Sales of packaging for nearly everything, from cereal to TV's, has declined to its lowest level since 2015, according to the trade group Fibre Box Association.

Consumer spending making up about 70% of the U.S. economy. Drops in box sales to manufacturers and retailers (think Amazon boxes on your porch) may warn of softening consumer demand.

## EV4U?

If your business needs another truck this year, an electric pickup, van or heavier truck might be on your radar.

Or maybe not, the phasing out of electric vehicle (EV) tax credits aside. Ford, General Motors, Ram and Honda have all scaled back their electric truck plans this year due to soft demand.

The pluses of electric trucks are lower operating and maintenance costs -- fewer moving parts -- as well as environmental impact. But for many buyers, those benefits are offset by higher purchase costs, weight, limited range and availability of charging.

The most common uses of electric trucks now is in local delivery and construction, according to industry statistics. Ford holds the title for most electric trucks sold, with more than 13,000 F-150 Lightnings sold so far this year. Ford also markets the e-Transit delivery van, racking up more than 5,000 sales this year.

Weight and charging hold back the adoption of heavy duty electric trucks, such as the Tesla and Nikoli semis. Tucson-based Nikoli filed for bankruptcy in February.

## Tips update

The IRS recently released draft versions of the 2026 Form W-2 and Form W-4, along with Treasury's preliminary list of tipped occupations, as provided for in the One Big Beautiful Bill Act (OBBBA). The law established above-the-line deductions for qualified tips and overtime premiums for 2025 through 2028.

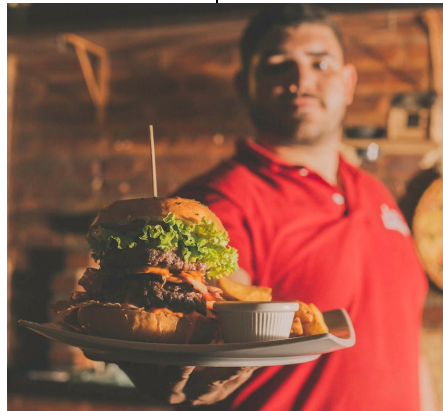
The IRS confirmed that the 2025 Form W-2 will not change, even though the new deductions apply for 2025. That means employers will not have to report W-2 codes this year for qualified tips and overtime.

However, "we don't know what type of reporting of tips and overtime will be required for 2025," pointed out PayrollOrg, an association for payroll professionals.

The draft 2026 Form W-2 introduces new Box 12 codes for reporting qualified tips and overtime wages and splits Box 14 into two parts, with Box 14b reserved for a Treasury-issued tipped-occupation code. The draft W-4 adds new lines to the Deductions Worksheet for tips, overtime, and car-loan interest, and includes a new checkbox for employees claiming exempt status.

The IRS has not finalized how the 2025 tips and overtime information must be reported with the W-2.

The Treasury Department's list of tipped occupations includes traditional roles like servers and bartenders, but also less conventional positions such as dishwashers, bakers, digital content creators, and even home electricians and plumbers. The list of codes is available at <https://home.treasury.gov/system/files/136/Tipped-Occupations-Detailed-8-27-2025.pdf>.



The list will be finalized through formal rulemaking, and employers will need to make sure that only tips from designated occupations are reported.

## Helping your workers

Employers have already been receiving questions from confused employees about why their tips and overtime are still having taxes withheld. While details of the law are still being worked out, here's what you can explain to your workers.

The law provides for a deduction on the worker's tax return for tips and overtime, not an upfront exemption from tax.

There will be several parts to the deduction. First, the tips must be earned in a position on the Treasury Department's list. Treasury has intentionally made that list broad.

Next, the law caps the deduction at \$25,000 of

tips. Some high-earning workers may exceed that limit, and some may have W-2's from multiple employers that have to be added together for the deduction.

Also, there are high income phase-outs for taking the deduction. As a result, employers cannot determine to what extent a person's tips will be deductible and must continue to withhold taxes on their entire pay.

This situation is likely to result in increased refunds Apr 15 for tipped employees. The draft W-4 will take care of that overwithholding for 2026.

Overtime is also likely to cause confusion at tax time. Only the 50% premium required by the Fair Labor Standards Act is deductible, not the full time-and-a-half pay.

## How reasonable?

Getting "reasonable compensation" for S-corporation shareholders wrong is easy to do and can be costly.

A distinguishing feature of S-corporations compared to sole proprietorships and partnerships is the capability to "bifurcate" the business's net income taxed to the owner.

A sole proprietor or active partner is taxed on all of the business's net profit, for both income and self-employment (Social Security and Medicare) taxes.

Meanwhile, an S-corp can allocate payments to an owner (shareholder) as either salary or distributions ("dividends"). Salary

is subject to payroll taxes (Social Security and Medicare) and unemployment (FUTA) tax while distributions are not.

Since 2017, another factor comes into play: the Qualified Business Income Deduction (QBID). Distributions from S-corps are eligible for the 20%

QBI tax deduction while salaries are not.

As a result, S-corp owners often pay themselves minimal (or no) salary to avoid payroll taxes and paperwork and take distributions instead. But that can bite, hard.

Anyone who works for a corporation, either S or C, is considered an employee. In turn, they are to be paid wages for their services under federal labor law.

IRS computers routinely flag S-corp tax returns (Form 1120-S) where there is no officer compensation listed. Courts have consistently ruled that all or part of the payments made to shareholders are salary and so the IRS assesses payroll taxes plus penalties.

There is an exception if the business reports a loss AND the shareholder took no money out of the business.

This also points out the importance of documenting shareholder loans properly. Payments that were intended to repay a shareholder loan to the company will be

treated as distributions (and possibly reclassified as salary) unless there is clear documentation and recordkeeping for the loans.

Audits typically reclassify all distributions as employee compensation, as numerous court cases have shown. In a profitable company, that approach is likely to overstate what the officer's labor was worth, but it is up to the taxpayer to prove otherwise.

The IRS requires that a shareholder who provides services to an S-corp receive "reasonable compensation." But how much is reasonable?

IRS guidelines use two standards: fair market value and replacement cost.

Fair market value is how much would someone with the same duties be paid in other companies. Replacement cost is how much would the company need to pay to hire someone else to do that work at the S-corp.

From a legal standpoint, there is a difference between

taking no salary and all distributions, and taking too low of a salary. However, the resulting reclassification may be similar.

An often quoted ruling is the Watson case. The S-corp owner paid himself a salary of \$24,000 and took \$203,000 in distributions. The court said his compensation was "unreasonably low" given his role and expertise and that a realistic salary would have been \$90,000.

In addition to audit risk, minimizing salary has another cost: reducing contributions to future Social Security benefits and retirement plans.

An aspect of reasonable compensation that S-corp owners may overlook is health insurance. Health insurance premiums paid or reimbursed for shareholders are considered wages and included on the W-2. When minimizing salary, those insurance premiums boost the pay level and may help make the compensation reasonable.



## Merry Christmas!

Our offices will be closed from 2 pm Wednesday, Dec. 24, through Jan. 4 for the holidays. We will open again on Monday, Jan. 5.

The staff of J&J Business Service wish you and your family a most joyful holiday and a bright new year.

## Minimum wage rises

Arizona's minimum wage will increase 85¢ to \$15.15 per hour for 2026. The minimum wage is adjusted annually to the cost-of-living index.

The City of Tucson's minimum wage will rise to \$15.45. The city minimum also indexes based on inflation and is effective if that is more than the state minimum.

For any employee who regularly receives tips or gratuities, an employer may pay wages up to \$3.00 per hour less than the minimum wage, as long as the employee receives at least the minimum wage for all hours worked each pay period, when tips are added to wages paid.

For more information, visit the state's minimum wage website at <https://www.azica.gov/labor-minimum-wage-main-page>. The Tucson minimum wage webpage is <https://www.tucsonaz.gov/Departments/Business-Services-Department/Tucson-Minimum-Wage-Act>.

The 2026 state and city wage posters, required to be displayed by employers, are available to download on those webpages.

## 401(k) catch in 2026

The IRS announced that 2026 401(k) contribution limit will be \$24,500, a \$1,000 increase from 2025. Catch-up contributions for age 50 and older will be \$8,000 more.

For employees aged 60, 61, 62 and 63, an even higher catch-up contribution limit of \$11,250 is instead of \$8,000.

However, starting in 2026, age 50+ workers face an income test. If your income from your current employer was over \$145,000 in the previous year, your catch-up contributions may only be made to a Roth 401(k) plan.



## W-2's and 1099's

It's not too early to start gathering W-2 and 1099 information.

Early in January, our office will mail 1099 request forms. The

1099 forms are required for payments of \$600 or more to non-incorporated entities (including LLC's) for rent, interest paid or services rendered.

If you are missing any payee information, give a W-9 form to the payee to complete. You can download a W-9 form at <https://www.irs.gov/pub/irs-pdf/fw9.pdf> or call our office and we will send one to you.

Since January also is time to prepare year-end payroll forms, please review your payroll journal to make sure you have accurate (and current) names, addresses and Social Security numbers for all of your workers.

Just a reminder that there are penalties for not filing on time as well as inaccurate information. We have seen several employers hit with penalties this year. W-2's and 1099's forms need to be out to workers by Jan. 31.