



## The Rodman Report - November 11th, 2010



# Accruing Year-End Bonuses: Avoiding the Wrath of The IRS

by Thomas Astore - Tax Director



Informal discussions with an IRS representative and a recent IRS Chief Counsel ruling addressed the issue of accruing year-end bonuses to employees. The ruling provides that in some circumstances **an employer may not be able to deduct the year-end bonuses even though paid within the 2.5 months** of the succeeding year as is usually required.

Based on the ruling it is important for our clients and friends to understand that not only must they pay the employee bonus within 2.5 months, but they must also meet the *all events and economic performance tests* regarding these bonuses.

1. **All Events Test-** A taxpayer meets the all events test if the bonus liability is final and definite in amount, is fixed and absolute and must be unconditional by year-end.
2. **Economic Performance Test-** A taxpayer meets the economic performance rule as long as the bonus is fixed and is not dependent on the fact that employee must still be employed when the bonus is paid within the 2.5 month period (see below).

### Advice to our clients:

You can accrue and deduct year-end bonuses paid within 2.5 months of year end if you do the following:

1. Make sure the bonus amounts have been approved prior to year end by the Board or Management, preferably in writing. The Agent noted that many taxpayers are including a statement in their bonus plan that states that if no resolution is adopted, the bonus will be calculated and paid pursuant to the bonus calculation - essentially using a silent authorization. The Agent indicated that IRS is not fond of this method although it may work. It is better to have an express, written authorization.
2. Make sure that employee is still eligible for bonus even if he/she leaves within the 2.5 month period following year-end. It appears that the employee can leave and forfeit the bonus as long as his/her bonus amount goes back into the bonus pool and does not revert to the business.

**\*Note\*** - Bonuses for C Corporation shareholders owning greater than 50% of the stock or S Corporation shareholders owning more than 2% are treated on the cash basis. If this describes your situation and the business year end is December 31, bonuses to you must be paid by December 31.

Please feel free to call or email me at [thomas@rodmancpa.com](mailto:thomas@rodmancpa.com) if you should need further assistance.

## What Soup Can Teach You About Your Business

by Jessica Sweet, Founder  
Wishingwell Consulting

I was recently making some instant soup for lunch; on the can was a note about the manufacturer's partnership with a non-profit organization. I thought, "What a great company! And the soup's good too. I'm going to buy that again."

The truth is, these types of partnerships are everywhere. And it's not surprising, because they're good for business. Research clearly shows that Americans prefer to spend their money with businesses that support a cause they care about. For example, Cone, a leading strategy and communications agency based in Boston, reported in their 2010 Cause Evolution study that 80% of Americans are likely to switch brands to one that supports a cause if it is about equal in price and quality to what they usually purchase. In other words, a company's charitable giving can decide whether or not a consumer purchases their product.



This is huge, yet many companies make the mistake of seeing corporate philanthropy as peripheral to their business. The truth is, corporate philanthropy isn't about giving money away—it's about communicating what you stand for as a company, and allowing your customers to stand with you. It's an investment in the future of your business.

Ready to build a better future for your company and the community? Consider these four points as you create your plan.

**Choose your goals wisely.** Is your ultimate desire to increase sales? To motivate your employees? To improve your reputation in the community? Choosing the right goal can help you design a plan that will work best for you.

**Find a cause that is meaningful for you.** If you feel a personal connection to a non-profit's mission, not only will your program be more authentic, but your involvement just might take you beyond your business goals to something even more meaningful.

**Communicate clearly.** Whether you are coordinating with a non-profit, communicating your partnership with your employees, or sending a message to your customers, articulating what you are doing, why you're doing it, and how it will be achieved is key. Don't forget to share your success, as well!

**Think outside the box.** Consider options such as volunteer efforts, point-of-sale promotions, or other creative ways to engage your employees and customers in your efforts.

Put these points to work as you develop your giving plan, and you won't just grow your business. You'll improve your reputation and build an ongoing relationship with your customers and employees—all because they'll know that you care.

*Jessica Sweet is the founder of Wishingwell Consulting. She specializes in working with businesses and individuals to help them develop and execute philanthropy programs that achieve their goals. Jessica lives and works in Metro West Massachusetts. You can contact her at: [jessica@wishingwellconsulting.com](mailto:jessica@wishingwellconsulting.com) and see more about her practice at [www.wishingwellconsulting.com](http://www.wishingwellconsulting.com).*

## Business Getting Results Groups Looking To Grow

by Larry Rice, Director

Our Braintree-based **Business Getting Results (BGR)** groups are off the ground and running. I moderate 2 separate groups that meet once a month on Thursday. One group meets in the morning and one in the late afternoon on the same day. Both groups are looking to add members to strengthen those groups and provide a greater cross-section of business knowledge and experience to share.

BGR has its goal growing the profitability and value of the businesses participating. By meeting in small groups of 8 or less, members receive the dual benefit of individual attention to their specific challenges, while simultaneously having an outside Board of Advisors who provide ideas, feedback and best practices that they can take back to their businesses. Each meeting is unique, educational, challenging, but each aims to find solutions to business challenges common to all.

A third benefit is the modest fee for joining BGR. Its \$1,200 annually, with additional benefits when you sponsor someone who also joins BGR.

BGR is a program for business owners and key players in business who need a group of peers to learn from, bounce ideas off of and to help them strategize their business for growth. It can also be a great networking opportunity.

If you are interested, give me a call at 508.740.2255 or email me at [larry@rodmancpa.com](mailto:larry@rodmancpa.com) and we'll see if BGR is a good fit for you. The first BGR meeting you attend is **free** and without any obligation whatsoever. If you like what you see, join.

**Our next meetings are scheduled for Thursday December 2nd. The morning meeting runs from 7:30 a.m. - 9:30 a.m. and the afternoon meeting is 4:30 p.m. - 6:30 p.m. Both meet in our conference room at 25 Braintree Hill Office Park. I look forward to hearing from you if you are interested.**

follow us on  
**twitter**

To follow our QuickBooks Pro Advisors, go to:

[www.twitter.com/QuickBooks\\_CPA](http://www.twitter.com/QuickBooks_CPA)

For tax, accounting and business advice, go to:

[www.twitter.com/RodmanCPA](http://www.twitter.com/RodmanCPA)

Thank you for checking in on The Rodman Report. We'll see you next time.

Best regards,

*The Rodman Team*



[To forward The Rodman Report](#)

✉ **SafeUnsubscribe®**

This email was sent to info@rodmanpcpa.com by [info@rodmanpcpa.com](mailto:info@rodmanpcpa.com).

[Update Profile/Email Address](#) | Instant removal with [SafeUnsubscribe™](#) | [Privacy Policy](#).

Email Marketing by



Rodman & Rodman, PC | 3 Newton Executive Park | Suite 101 | Newton | MA | 02462-1433