



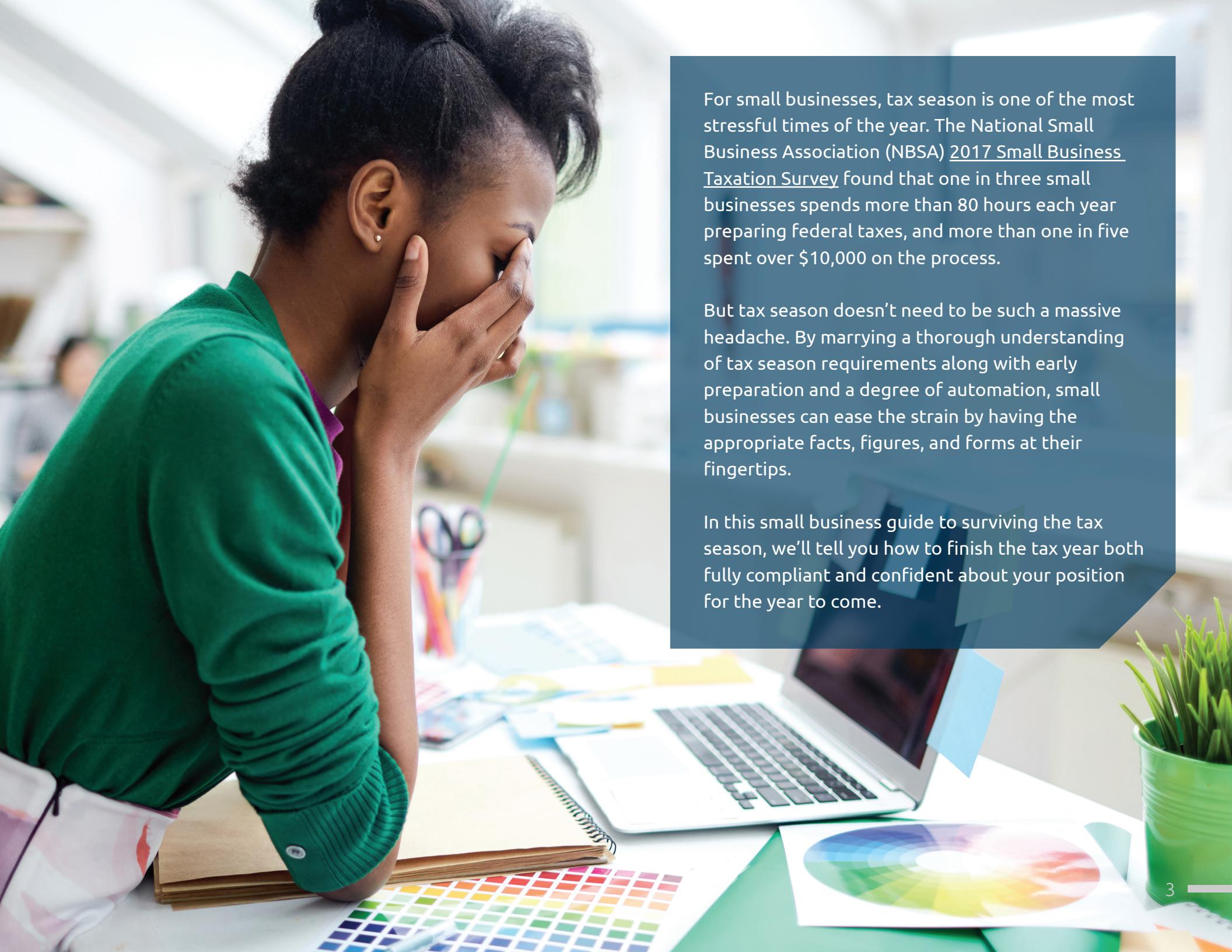
xavidxchange™
**TAX SEASON
SURVIVAL**

Best Practices for Tax Season



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For small businesses, tax season is one of the most stressful times of the year. The National Small Business Association (NBSA) [2017 Small Business Taxation Survey](#) found that one in three small businesses spends more than 80 hours each year preparing federal taxes, and more than one in five spent over \$10,000 on the process.

But tax season doesn't need to be such a massive headache. By marrying a thorough understanding of tax season requirements along with early preparation and a degree of automation, small businesses can ease the strain by having the appropriate facts, figures, and forms at their fingertips.

In this small business guide to surviving the tax season, we'll tell you how to finish the tax year both fully compliant and confident about your position for the year to come.



TAX SEASON AND THE SMB

The process of filing information is far more complex for many small businesses than it is for individuals. Sole proprietors don't need to file a separate tax return at all for their business operations and neither do single-member limited liability companies (LLCs). But most other business structures do.

Partnerships must file a separate return, but then pass income and losses through to the individual partners. S corporations are also pass-through tax entities; they only need to file their taxes yearly, rather than quarterly.

The frequency of the process differs depending on your company structure. C corporations—the most common in the U.S.—pay tax twice: once at the corporate level and again upon payment of dividends to shareholders. They must also file their tax returns on a quarterly basis.

UNDERSTAND THE DEADLINES

Small businesses preparing to pay their taxes should ensure they have the year's tax deadlines close at hand. The IRS provides an [online tax calendar](#) that includes an option to drag these dates directly into your software calendar of choice.

PREPARE A PLAYBOOK

Footballers have a playbook that tells them exactly who does what at various stages of the game. Accounting departments benefit from the same practice.

Create a process planning document outlining all stakeholders in the quarterly and year-end tax filing and payment process, along with a timeline detailing their tasks and deliverables. This includes both internal and external parties, such as accounts payable (AP) staff, bookkeepers, and external accounting



consultants. Understand their relationships and who reports what information and when.

UNDERSTAND RELEVANT FUNCTIONS AND ROLES

A bookkeeper handles invoicing, expenses, and account reconciliations. He or she also typically administers the payroll and gathers the necessary information from service contractors to cover 1099 filings.

The accountant relies on the bookkeeper's work. He or she checks the quality and accuracy of the bookkeeper's output and uses it to prepare financial reports on a quarterly or sometimes a monthly basis. The accountant also processes quarterly tax payments to ensure that the company is in good standing with the IRS.

The tax accountant uses information provided by both the bookkeeper and the accountant. Expect this person to make any required tax adjustments before filing annual tax returns for the company and creating quarterly tax estimates for the next year's interim installments. Last, but not least, comes the process of advising the company's financial executives on how to reduce tax liability.

In some small businesses, a different person may fulfill each of these functions and might even include external service providers. In others, however, one person may take on

multiple roles. It is important to understand the scope of each person's job at the beginning to ensure a smooth and productive end-of-year tax compliance process.

GATHER NEW INFORMATION

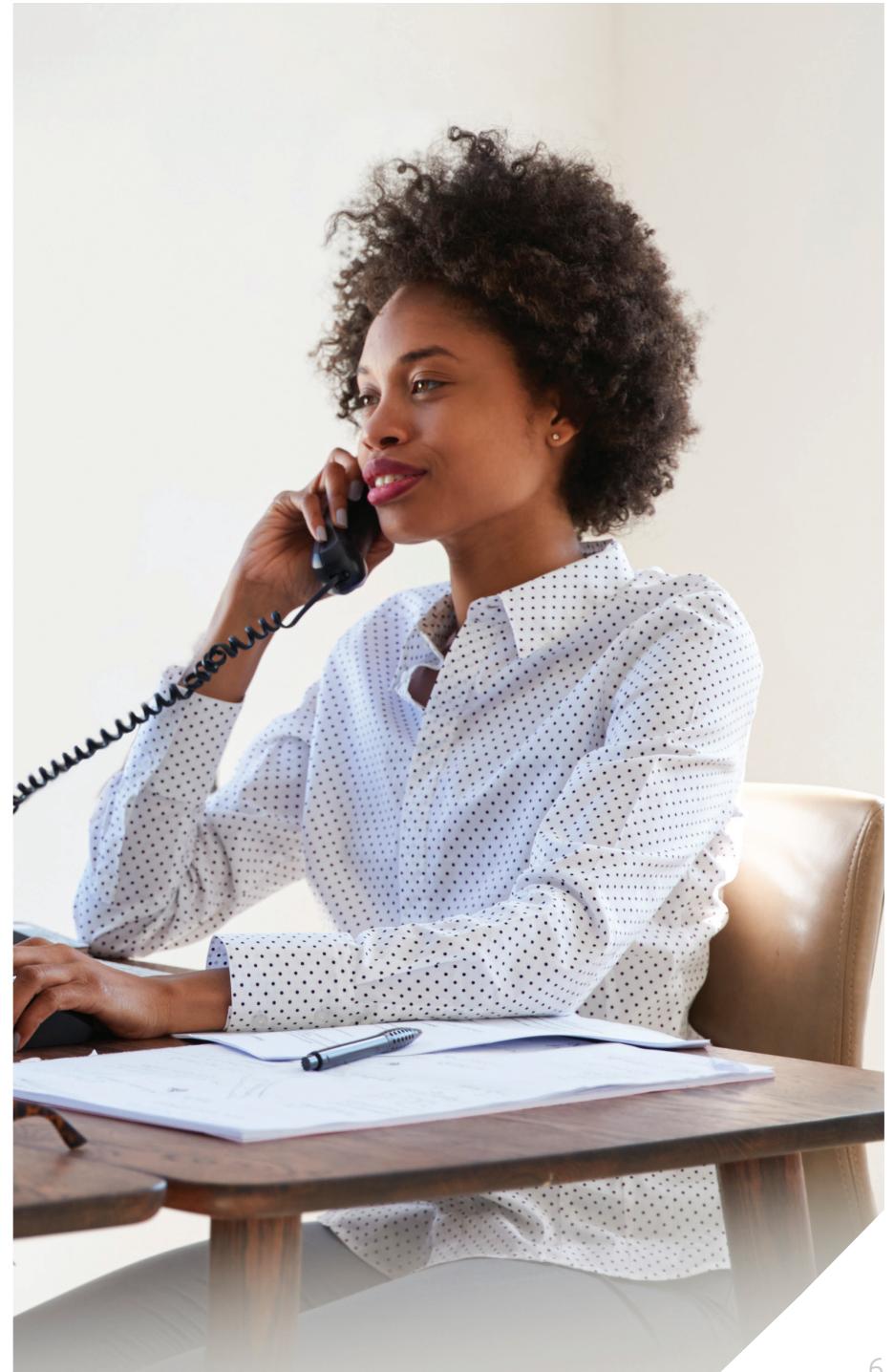
Tax reform is a risk for small businesses that are unprepared. Specific changes to tax law—even those that benefit the business financially—will be a hindrance if a company must adjust its tax filings at the last minute or even restate them after the fact.

Avoid this by getting ahead of the game. Research changes to tax procedures, not just at the end of the year but each quarter. This is particularly important given recent tax reforms passed by Congress, which include the biggest tax shakeup of the last 30 years. Businesses should understand in advance what this means for them: The rules, which introduce a single corporate tax rate, have different ramifications depending on company structure.

Lack of consistency and changing regulations, along with uncertainty and retroactive tax legislating, surfaced as top burdens for almost one in ten businesses preparing taxes, according to the NSBA survey. This means business owners and their accounting staff must not underestimate the straightforward step of gathering timely information.

PREPARE THE REST OF THE BUSINESS

After gathering the necessary research, facilitate communication between bookkeepers, accountants, and department heads. Make sure that all necessary financial





information is available to the appropriate stakeholders. Automating key systems, such as AP and payroll, can help with this.

Warn all stakeholders of the deadlines well in advance and make it clear that failure to meet them will lead you to apply for an extension. And remember this: Early and frequent communication is key. Ensure that the tax accountant and the rest of the business begin talking to each other two months before the year's end and maintain communication for the remainder of the year. This will help the tax accountant to identify discrepancies in the company's accounts that need to be addressed and pinpoint any areas where the company can save money.

ANALYZE THE FIGURES FOR OPTIMIZATION OPPORTUNITIES

One advantage of preparing your tax returns early is that you can spot areas to optimize your finances for the year. Depending on your company's financial strategy and its tax structure, you can offset tax overheads by making charitable contributions. Alternatively, some companies can increase dividends to shareholders, or pay employee bonuses (in the latter case, prepare to deal with an increase in payroll taxes).

Companies can also invest in fixed assets before the end of the year where it makes sense. If taking this route, be prepared to keep fixed asset schedules up to date and deal with depreciation, or take advantage of safe harbor provisions to directly expense up to \$2,500 in capital investments.

PREPARE TAX PROJECTIONS FOR THE COMING YEAR

Optimizing your tax stance by carefully thinking through your finances isn't just something you can do for the upcoming tax season: It's also something that you prepare when thinking ahead to next year.

There's no doubt about it. Final tax preparation is often a slog. Nevertheless, companies can't quit after the final stretch. Part of the year-end tax preparation process involves using that data to prepare next year's tax projections.

Using data from this year's filed tax return, consider how to reduce liability in the next year on operating profits or use projected operating losses to your advantage.

GENERAL BOOKKEEPING TIPS AND TRICKS

Competent accounting relies on solid bookkeeping. By carefully managing bookkeeping processes throughout the year, companies can create a robust platform for preparing and filing their end-of-year taxes.

THROUGHOUT THE YEAR

Tracking important metrics throughout the year will give the accounting team an up-to-date picture of how the business is performing on an ongoing basis. These metrics include working capital, the company's debt to equity ratio, and its budget variance.

Record and reconcile all transactions regularly—on a daily or weekly basis. Don't leave it until the last minute. This helps to avoid inappropriate expenditure categorization and missed deadlines. Be sure to make quarterly tax filings and payments on time to avoid penalties and to lessen the burden at the end of the fourth quarter. This will also aid in lowering your audit risk.

Ensure that fixed asset schedules track all activity throughout the year. Unrecorded asset disposals during the year make it more difficult to calculate accurate accumulated depreciation amounts at the year's end.

If you use separate software to manage aging accounts in AP, be sure that this matches your general AP. The same holds true for accounts receivable.



END OF YEAR

A couple of handy bookkeeping hints for the end of the year will help to ensure that the critical tax preparation process goes smoothly.

First, create a quality assurance process for your internal preparation. This includes ensuring that statements match trial balances and evaluating the accuracy of adjusted trial balances. Second, enter any adjusting journal entries immediately to ensure that your records always reflect the latest information.



MAINTAINING VENDORS AND W-9S

Everyone that the company pays, whether an internal employee or an external contractor, should submit the correct forms at the outset of the relationship. Classify whether a payee is an employee (and therefore needing a W4 and W2), or a vendor, which puts them in W-9 territory. The IRS guidelines for this distinction are [here](#).

Employees will, of course, be paid via payroll. Others will flow through the AP department, and the supporting paperwork the AP team needs will depend on what a vendor offers. For those vendors providing your business with a service of some kind and not just a product, you will need a W-9 on file.

The W-9 is the first thing a company should request from a supplier. Without that form, the relationship should not even begin. This is because the W-9 is your bible when it comes to preparing your AP data for the tax year.

As the document that defines a contractor's tax status (individual or business), the W-9 will be a critical reference when organizing your 1099s. If a supplier is an S Corp, a C Corp, or classified as a 501(c)(3), then they fall outside the 1099 remit. Legal services are not exempt, contrary to popular belief. Ensure that you gather tax identification numbers for contractors as part of your W-9 request. Explain to them during the hiring process that failing to provide this information will cause you to withhold federal income tax at a 28% rate—and be sure to do so when paying and reconciling invoices.

ORGANIZING 1099S

Freelance contractors are growing in number. An online [study](#) of 6,000 adults by the independent research firm Edelman Intelligence revealed that 57.3 million people freelanced between 2016 and 2017. The freelance workforce grew three times faster than the overall U.S. workforce since 2014. Managing these workers properly will save headaches at the end of the tax year.

Any contractor earning over \$600 from your business during the tax year will require a 1099 form, so AP staff must identify those contractors as a subset of the overall vendor base.

It's important to get a vendor summary to support this process. Ideally, your automated AP system will have a vendor summary function that you can rely on to speed up this step.

Accuracy is key during 1099 administration. Any contractor who has a surplus on his or her 1099-MISC will end up paying more tax, so when calculating the amount paid to each contractor, ensure that you do not include reimbursed expenses in the figure.



INCREASE SECURITY TO PROTECT AGAINST FRAUD

Part of any good tax preparation process involves protecting sensitive information and ensuring it is not used inappropriately by internal employees or by third parties. Forms such as W-9s and 1099s are a treasure trove of information for cybercriminals who could use them for identity theft.

Here are some key threats facing companies trying to protect this information and some measures they can take to mitigate the risks.

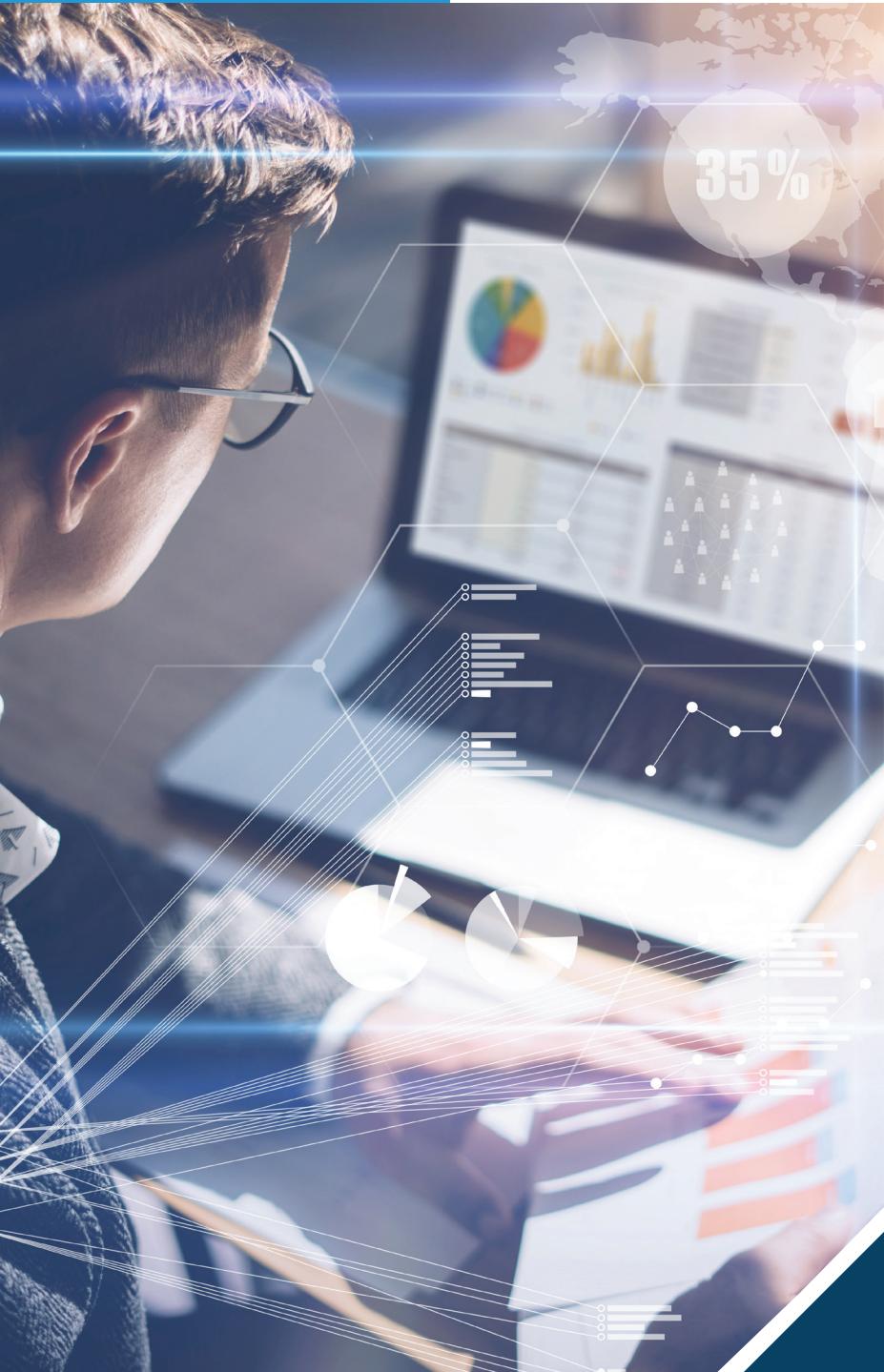
THREAT: MALWARE

Common attacks against companies include gaining access to employees' computers by infecting them with malicious software (malware). The malware gives criminals access to the employees' system accounts, including their email, and the contents of their hard drives.

Solution: Use anti-malware tools and keep them up to date. Ensure that all operating system and application software gets regular security patches to reduce your attack surface.

THREAT: PHISHING/SOCIAL ENGINEERING

Even if their computers are not infected with malware, employees can fall victim to social engineering attacks in which criminals use psychology to trick them out of their system passwords. These often come in the form of spear phishing emails asking employees to reset their passwords on a company system. The system in question is a fake, produced by the criminal. Alternatively, an attacker might telephone an unwitting employee and trick them into divulging their login credentials.



Solution: Use email scanning tools to filter out phishing messages before they reach employees. Train staff to avoid social engineering techniques by being suspicious and double-checking the source of requests. They should not open attachments or follow links from unknown sources without verifying the source.

Use phishing test services, which deliberately send benign phishing emails to employees to see who responds, identifying soft spots in the workforce for further training.

THREAT: INFORMATION LOSS

One of the biggest threats to data security is the leak of mismanaged information outside the enterprise. This can happen digitally when employees accidentally email information, make it available on a public-facing area, or take it off-site in digital form. Physical documents can also go missing and end up in dumpsters for attackers to pilfer.

Solution:

- Use data leak prevention software to stop employees from accidentally mailing sensitive information outside the enterprise.
- Create and disseminate clear policies around information handling.
- Maintain a clear-desk policy for employees, including requirements to properly file documents and shred unused ones.
- Digitize information and automate payment processes to coordinate and centralize the flow of sensitive data.

AP AND PAYMENT AUTOMATION

Automation is one of the best ways to solve the challenges listed in this eBook. By standardizing processes and codifying them in digital form, AP departments can streamline working practices, ensuring that the company executes tasks consistently and in the correct order.

Automation enables AP teams to put checkpoints in place so that they are sure of hitting certain requirements before moving on to the next stage of a process. One example is in W-9 administration.

By organizing W-9 requests automatically and digitally using an AP and payment automation system, AP staff will reduce the back and forth associated with chasing new vendors. If they don't file the appropriate documents, then the automated onboarding process is not complete, and the AP system cannot process payment transactions for that vendor.

AP and payment automation also leads to better reporting. By digitizing all transactions and making them part of a structured workflow, companies can automatically collect data to reduce comprehensive reports each quarter and at the year's end.





TAX SEASON Q&A WITH AVIDXCHANGE CUSTOMERS

What are the responsibilities and stresses that come along with tax season that make it difficult?

"When tax time rolls around, everyone starts to freak out. The deadline seems far away at first, but then it is seemingly fast approaching. The stress of making sure everything is performed correctly before it is submitted is stressful enough, and then wondering if you're getting back all that you're supposed to just adds to that. The stress just continues to build."

- Brittany R.

"The hardest part is issues and problems that arise. Timelines are crucial and meeting those timelines are the main stresses. It's rolling with the punches and staying calm. Dealing with these stresses will make your life easier. Staying focused and having a timeline of when things need to be done." **- Valerie V.**

"As a commercial real estate firm, we encounter several challenges around tax time. We issue 1099s to all vendors and third-party contractors who are designated on their W-9 document to receive a 1099. We also handle the payment of property taxes for several clients. The fact that many of these activities coincide with normal year-end close activities can prove stressful." **- Suzanne C.**

What is your biggest pain point around tax season?

"My biggest pain is the waiting game. Waiting to get your W-2s comes first. Then you have to wait once you file to get your

return. You would never know that I am an extremely patient person if you've only met me during tax season." – **Brittany R.**

"The biggest pain point is handling 1099s and all the extra issues that arise. When it comes to 1099s, having everyone follow the same guidelines and not wait until the last minute has been my biggest problem. Waiting until the last minute which no doubt causes huge delays." – **Valerie V.**

"The biggest pain point this year is the W-9 form. To ensure only entities who require a W-9 receive one, we've had to contact numerous vendors to clarify the type of entity they are under the IRS code. If the W-9 is incorrect in any way (entity type is not listed, or entity name doesn't match the name in our accounting system, we require that they submit a revised W-9 for our records." – **Suzanne C.**

"The biggest pain point is to verify if you will receive a refund or have to pay. Once that is figured out then you decide when to file. Start early and then make your final decision as to when you will file your taxes." – **Brian M.**

Do you have any best practices for tax season?

"I have learned a few very simple tricks that have helped me handle the stress of tax season. Make sure you have all your documents together before you sit down to do your taxes. I gather all the necessary documents for my husband and I and get them in order before I even open my laptop. I then just go step by step and fill out the information that is being asked.



Taking it one step at a time makes it less traumatic. Also, do not wait until the last minute! Give yourself some time, so you aren't frantic at the last minute. That helps cut down on excess stress." – **Brittany R.**

"The best practices are staying on top of your records throughout the year. Collecting 1099s and TIN matching on the IRS website. These are huge! Every quarter I run a report to check vendors and make sure everything is correct. Waiting to the last minute of ordering supplies and reviewing items



that could have been reviewed months ago is not good. It causes problems in the end.” – **Valerie V.**

“Pre-planning is key - we do a comprehensive audit of vendor information in December in preparation for tax season. We notify vendors each year of our requirement that they submit a revised W-9 to our company as a way to ensure that their information remains current within our system. W-9 forms that are more than a year old are not considered valid. We also test versions of 1099s to check all accounts for accuracy. This test run involves several staff members who cross-check results, including verifying we have a current W-9 on file, the information on the W-9 matches what’s in their vendor account, and the test run resembles what was distributed last year.”

– **Suzanne C.**

“Tax season is all about being prepared. Keep a folder for all tax documents, either by paper or on your computer. As your documentation comes in at different times, you just have to be organized and filling out the forms should be straightforward.” – **Brian M.**

How have AvidXchange's products and services helped with your experience during tax season?

“The products and services that we use with AvidXchange make it easy to focus on what we need to accomplish for tax season because our AvidXchange services are so easy

to use. It eases our minds knowing we won’t have to worry about if things are going to work because we never have any issues with our products. And that is such a HUGE help knowing that we don’t have to worry.” – **Brittany R.**

“Auditors are here and are requesting paperwork. No more going through the files. No more paper cuts. No more un-stapling and re-stapling. No more lost files. No more paper copies. Avid is so easy to use when collecting information for the auditors. Everything is there, everything is approved and no more hassle.” – **Valerie V.**

“AvidXchange works with our Yardi Accounting System to seamlessly integrate invoice and payment information between systems. AvidXchange’s reporting feature allows us an additional cross-reference resource when vetting total payment amounts to vendors during a given year. Avid is the primary processing point for all invoices, making the flow of information easier. AvidXchange’s workflows ensure all invoices are accurately approved and captured, allowing managers to view payments as they relate to tax implications. This helps all parties provide accurate and timely services to our clients.”

– **Suzanne C.**

PUTTING YOUR BEST FOOT FORWARD

Armed with these resources, companies can prepare themselves for a smooth, productive, year-end information-gathering and filing process. Tax season may have been a headache in the past, but with a little forethought and some help from the right software, it need not be so daunting in the future.

This guide was created by AvidXchange. AvidXchange revolutionizes the way organizations pay their bills. Serving more than 5,700 clients throughout North America and 400,000 vendors nationwide, AvidXchange is the leading provider of cloud-based, purchase-to-pay solutions for Enterprise and Midmarket organizations, spanning multiple industries including Real Estate, Financial Services, Energy, Non-Profit, and Construction.

Interested in automating your payables and creating efficiencies for your AP team? You can read all there is to know about a car, but you're going to at least take it around the block before you sign on the dotted line. AvidXchange's automation specialists would be happy to schedule a customized demo for you. Call us at (888) 918.2843, email our sales team directly at sales@avidXchange.com, or [click here](#) to schedule a demo today.

