

## How to Handle Year-End Bonuses

Rewarding employees at the end of the year can brighten up their holidays and set the stage for your company to enjoy a good start to 2019. Some forethought and careful communications can avoid problems.

A key first step is to check your company's financial condition. Year-end bonuses can boost morale, but you shouldn't pay out more than your company can afford. On the other hand, if your business is doing well, some holiday generosity might help it do even better.

### Spread the Word

Once you have a budget for bonuses in mind, tell your employees what to expect. Let them know as soon as possible so they can plan accordingly.

Long-time employees probably will expect the type and size of bonus they have received in the past. If that's not going to be the case, explain the reason for the shortfall. Consider replacing any lack of cash with extra time off, if that's practical.

Among possible methods of calculating bonuses, giving a flat amount to all full-time workers might be the simplest approach. Another tactic is to give everyone a percentage of their salary; the percentage might escalate for people with management responsibility or special tasks. Performance-based bonuses, which can be sizable, may motivate key employees and could help to retain valued workers.

### Tax Treatment

Cash bonuses are compensation for employees, so employment taxes apply. For income tax withholding, employers have some options about how to handle supplemental pay such as bonuses. Our office can help you choose the right method and properly comply with all the rules. If you use an outside payroll provider, that company should be notified in advance of your plans.

At many companies, cash bonuses might be a few hundred dollars per employee. Some firms, though, pay much larger bonuses as part of some workers' compensation package. For ample bonuses, it may be advantageous to deduct them for 2018, but defer payment as late as March 15, 2019.

## Client Bulletin

To qualify for this deduct-now-pay-later opportunity, your company must be on the accrual, rather than the cash, basis of accounting. You must spell out the recipients and the amounts involved, perhaps in corporate minutes, by year-end 2018. S corporation shareholders and over-50% C corporation shareholders don't qualify for this tax benefit.

At some companies, a pool of money for bonuses can be deducted at year-end without an employee-by-employee allocation, yet payments can be delayed until mid-March. Several rules apply, such as maintaining the amount declared at year-end. Again, our office can guide your firm through the complexities.