

December, 2009

To Our Business Clients:

We at Tonneson + Co believe that knowledge is your greatest asset. In that spirit, this letter provides you with basic guidelines for compliance with federal and state rules for taxation and reporting of wages, benefits and other payments you make in the course of your business. It contains 2009 and 2010 payroll tax, taxation of employee benefits, informational return filing requirements and related information. A copy of this letter can also be found on our web site, www.tonneson.com. In addition to our letter, you will find many other helpful tools on our website. We provide financial calculators that will allow you to make informed decisions, a tax calendar of important tax dates and links to the various state taxing authorities. Official federal and state forms, publications and other information can be obtained from the agencies' websites.

Please note that this letter is designed to provide an overview of only those tax rules that we believe to be of interest to our business clients. Tax rules are very complex and can be subject to interpretation. There are many special rules and exceptions that have not been addressed in this letter. In addition, the contents of this letter are subject to change as new tax laws and legislation pass. We will do our very best to keep you updated as changes arise.

tonneson+co

Certified Public Accountants & Consultants

401 Edgewater Place, Suite 300, Wakefield, MA 01880-6208 t. 781.245.9999 f. 781.245.8731 www.tonneson.com

The following tables highlight Retirement Plan and IRA Limits, Social Security and Self-Employment Tax Information and Automobile Limitations.

Table 1 – Retirement Plan and IRA Limits

Description	Code Section	2009	2010
Maximum benefit for defined benefit plan	415(b)(1)(A)	\$195,000	\$195,000
Maximum contribution for defined contribution plan	415(c)(1)(A)	\$49,000	\$49,000
Maximum contribution for IRAs	219(b)(5)(A)	\$5,000	\$5,000
Catch-up contributions for age 50 or older for IRAs	219(b)(5)(B)	\$1,000	\$1,000
Limitation on exclusion for elective deferrals	402(g)(1)	\$16,500	\$16,500
Elective deferral catch-up contributions for age 50 or older	414(v)(2)(B)(i)	\$5,500	\$5,500
Highly compensated employee limit	414(q)(1)(B)	\$110,000	\$110,000
Annual compensation limit	401(a)(17)	\$245,000	\$245,000
Grandfather rule for Government plans	401(a)(17)	\$360,000	\$360,000
Minimum compensation for SEPs	408(k)(2)(C)	\$550	\$550
Compensation limit for SEPs	408(k)(3)(C)	\$245,000	\$245,000
SIMPLE plan deferral limit	408(p)(2)(E)	\$11,500	\$11,500
Catch-up contributions for age 50 or older for SIMPLE plans	414(v)(2)(B)(ii)	\$2,500	\$2,500
Deferral limits for deferred compensation plans of state and local governments and tax exempt organizations	457(e)(15)	\$16,500	\$16,500

Table 2 – Social Security and Self-Employment Tax Information

Description	2009	2010
Social Security Component		
Maximum Earnings	\$106,800	\$106,800
OASDI Tax Rate	6.2%	6.2%
Self-employment Tax Rate	12.4%	12.4%
Medicare Component		
Maximum Earnings	Unlimited	Unlimited
Medicare Tax Rate	1.45%	1.45%
Self-employment Tax Rate	2.9%	2.9%
Self-Employed Health Insurance Deduction	100%	100%
Earnings Ceiling for Social Security		
Before Full Retirement Age (66 yrs for 2009 and 2010)	\$14,160	\$14,160
After Full Retirement Age (66 yrs for 2009 and 2010)	Unlimited	Unlimited

Table 3 – Automobile Limitations

Description	2009	2010
Automobile Standard Mileage Allowances		
Business	55¢	50¢
Charity - General	14¢	14¢
Medical/Moving	24¢	16.5¢
Luxury (Non-electric) Auto Depreciation Limits- Autos		
First Year	**\$2,960	*
Second Year	\$4,800	*
Third Year	\$2,850	*
Fourth Year and Thereafter	\$1,775	*
Luxury (Non-Electric) Auto Depreciation Limits - Trucks/Vans		
First Year	**\$3,060	*
Second Year	\$4,900	*
Third Year	\$2,950	*
Fourth Year and Thereafter	\$1,775	*

* - At the time of publication of this letter, the IRS has not updated the Standard Mileage Allowance Rates & The Luxury Auto Limits for 2010. Based on past experience we expect to have this information available by March of 2010.

** - The American Recovery and Reinvestment Act of 2009 extended the 50% bonus depreciation for assets purchased before January 1, 2010. Please see the depreciation section of this letter for more information regarding bonus depreciation. If bonus depreciation is taken, the auto depreciation limits are increased by \$8,000 for the first year only. These new limits are \$10,960 for autos and \$11,060 for trucks/ vans.

The luxury car limits are based on 100% business use. If business use is less than 100%, the limits must be reduced to reflect the actual business use percentage. No bonus depreciation is allowed for automobiles or other “listed property” used 50% or less for business. Also, the term “luxury” is not defined in the Internal Revenue Code and there is no rule expressed in terms of “luxury”. Thus, the depreciation limits as stated above apply to all business autos, with the following exceptions:

Sport utility vehicles with gross vehicle weight ratings (GVWRs) of more than 6,000 pounds do not constitute a passenger vehicle for purposes of being limited to the luxury automobile depreciation limits. We advise you to examine the manufacturer’s sticker or the sticker on the inside of the driver’s side car door for the vehicle’s exact GVWR. The maximum allowed Section 179 deduction on these vehicles is \$25,000. Amounts in excess of that limit can be depreciated over 5 years starting with the year the asset was placed in service.

The trucks and vans that are “not qualified” for personal use are not subject to annual depreciation limits. “Not qualified” for personal use means the vehicle is designed in such a way that it is not likely to be used for more than a de minimis amount for personal purposes.

PERSONAL USE OF COMPANY OWNED/LEASED VEHICLES

Whether your company supplies business autos to employees as “perks” or as necessary tools to help get their work done, their personal use of the auto has tax implications. An employee’s personal use of a company auto generally must be treated as a non-cash fringe benefit that is also subject to social security taxes. Fortunately, the tax rules give you some flexibility in valuing personal usage of a company car. You can choose from among four valuation methods:

- The general fair market value method, which is based on what a person would pay locally to lease a comparable auto for a period of time comparable to the period of time the employee has use of the car;
- The lease value method, which assigns an IRS-determined annual lease value to the auto depending on its value when first provided for the employee’s personal use;
- The mileage rate method, which values each personal-use mile at the standard business mileage rate designated by the IRS; or
- The \$1.50 per one-way commute method.

The first two methods can be used for any auto and any employee. The mileage-rate method can be used only if the car’s fair market value doesn’t exceed \$15,000 for 2009 and \$15,300 for 2010 (truck and van limits are \$15,200 for 2009 and \$16,000 for 2010), and is regularly used in your business, or is driven at least 10,000 miles during the year and used primarily by employees. The \$1.50 commute method applies only to autos owned or leased by the company, and used in your company’s business. This method may only be used for vehicles covered by a written policy allowing commuting and no other personal use. The commuting method does not apply if the employee is highly paid, a company officer, director, or a more than 1% company owner. Please refer to exhibit D for the commuting method calculator and further details.

Which of the first three methods results in the lowest personal use valuation and the lowest tax bill for employees? The answer will depend on factors such as the number of annual personal miles, value of the car, and the ratio of personal miles to total miles. For your convenience we have included worksheets in Exhibits A, B, C and D to assist you in calculating the personal use amounts. We can help you through the maze of these rules and also show you which of them will cause the least amount of paperwork. Please do not hesitate to call us for an evaluation.

ELECTRONIC FEDERAL TAX PAYMENT SYSTEM (EFTPS)

You must make electronic deposits of all depository taxes using the Electronic Federal Tax Payment System (EFTPS) in 2010 if either your total tax deposits in 2008 were more than \$200,000 or you were required to use the EFTPS in the past. Depository taxes include employment taxes, excise taxes and corporation income taxes.

Businesses may voluntarily choose to use EFTPS when not required under the threshold rules discussed above. The service is free of charge. However, penalties will apply to businesses that fail to use EFTPS when required. Please note that the separate late deposit penalty continues to apply regardless of the method used to make deposits.

EFTPS replaces using Form 8109, *Federal Tax Deposit Coupon* for tax deposits. Businesses that are affected should register for EFTPS online at www.eftps.gov. Within 15 days the IRS will mail the required confirmation materials and password at the address of record. For more information, please visit the previously mentioned website or call 1-800-555-4477.

FEDERAL TAX DEPOSITS ON NON-PAYROLL ITEMS

Federal income tax withheld on non-payroll items must be deposited separately from taxes withheld on payroll. Non-payroll items affected include pension distributions, annuities, IRA's, other deferred income, backup withholding and other withholding reported on Form 1099. The withholding for non-payroll items is reported on Form 945, *Annual Return of Withheld Federal Income Tax*, and not on Form 941, *Employer's Quarterly Federal Tax Return*.

FEDERAL BACKUP WITHHOLDING

Payers must generally withhold Federal income taxes from payments of interest, dividends, rents, commissions, royalty payments and certain other non-wage payments for any payee who gives the payer an incorrect taxpayer identification number or social security number, or no number. Form W-9, *Request for Taxpayer Identification Number and Certification* can be used by a payer to request the number.

Backup withholding is also required when you have been notified by the IRS. The IRS will usually notify you on form CP 2100 or CP 2100A, commonly referred to as a “B” notice. The withholding rate is 28% and the payee will be indicated on the form.

YEAR END REPORTING TO THE INTERNAL REVENUE SERVICE

Employees vs. Independent Contractors - The tax form employers use to report compensation paid depends on whether the payee is an employee or an independent contractor. The determination of status rests on the degree of the control the party paying the compensation has over the person performing the work. As a general rule, **you have the right to control or direct only the result of the work done by an independent contractor, and not the means and method of accomplishing the result.** Under certain circumstances you can ask the IRS on Form SS-8, *Determination of Employee Work Status for Purposes of Federal Employment and Income Tax Withholding* to rule whether a worker is an independent contractor or an employee. Erroneously classifying an employee as an independent contractor can cause the employer to be liable for the employee's payroll taxes and subject the employer to significant penalties and interest. There can also be personal liability.

Reporting Compensation and Other Wage Payments Made in the Course of Business - Wages and benefits to employees are reported on Form W-2, *Wage and Tax Statement*. Form W-2 must be given to employees by February 1, 2010 and submitted to the Internal Revenue Service along with Form W-3, *Transmittal of Wage and Tax Statements* by March 1, 2010. If filed electronically (not magnetic media), the deadline is March 31, 2010. For information and online filing options, visit www.ssa.gov/employer or call 1-800-772-6270. Information on reporting of non-wage amounts such as personal use of a company owned vehicle and group term life insurance is discussed later on in this letter.

A business paying at least \$600 during the calendar year to an individual who is an independent contractor, partnership or trust for services or rents must report these payments to the Internal Revenue Service and to the recipient on a Form 1099. The filing of Form 1099-Misc, *Miscellaneous Income* is also required for payments of \$600 or more made by a trade or business in 2009 to attorneys and law firms, physicians, and members of other professions. For 2009 payments, you must give the recipient a copy of Form 1099 by January 31, 2010 and file the Internal Revenue Service copy along with Form 1096 by paper or magnetic media by February 28, 2010, (by March 31, 2010 if filing electronically).

ELECTRONIC/MAGNETIC FILING

Any person who is required to file 250 or more information returns for any calendar year must file such returns electronically; magnetic media is no longer an acceptable method of filing. This includes corporations, partnerships, employers, estates and trusts. The 250 or more requirement applies separately for each type of return.

The IRS can assess up to \$50 for each incorrect or incomplete return (maximum of \$250,000 per year). However, if a taxpayer intentionally disregards their electronic filing requirement the penalty is increased to \$100 per incorrect or incomplete return with no maximum.

PAYROLL WITHHOLDING REQUIREMENTS

Employers may report personal use of a company vehicle as fringe benefit income on a regular pay period, quarterly, semi-annually or any other reasonable basis so long as it is at least annually. Employers need not use the same period or method for all employees and may change their reporting period at any time. The Internal Revenue Service does not require a formal election.

It is appropriate to use reasonable estimates on the valuation of fringe benefits for withholding and deposits. However, the actual value must be determined by January 31, 2010 for all 2009 fringe benefits.

Federal withholding on the value of the fringe benefit may be computed either with the regular wages for the elected pay period or, if treated as supplemental wages, withheld at a flat 25% for 2009 (35% if supplemental payments exceed \$1,000,000). An employer can elect not to withhold income taxes on the value of employees' personal use of company vehicles provided it tells its employees in writing by January 31st of the year for which it elects not to withhold. Either way, the FICA OASDI and Medicare taxes associated with the value must be withheld and matched by the employer.

The actual value of the fringe benefits must be determined in time to include the amount in the Form 941, *Employer's Quarterly Federal Tax Return* filed for the fourth quarter of the year and included in Box 1 and 5 (and, if under the 2009 FICA OASDI limit of \$106,800, included in Box 3) of the employee's Form W-2, *Wage and Tax Statement*. The total value of the fringe benefit must be reported and identified in Box 12 and can be further described in Box 14. To help make a timely determination an employer can elect to treat personal employee use of a company car during November and December as incurred in the following calendar year.

In order to shift the record-keeping burden from the employer to the employee, a special rule is available using the lease value rule. Instead of calculating the value of personal use of a vehicle, the employer can include 100% of the lease in the employee's wages. The employee may then calculate a business use deduction on Form 2106, *Employee Business Expenses*.

Employees using non-company owned vehicles for business purposes may also use Form 2106 to deduct the higher of (1) the mileage rate per mile multiplied by the total business mileage plus parking and tolls, or (2) actual expenses attributable to business use. Actual expenses include gasoline, oil, tires, repairs, insurance, depreciation, parking fees and tolls, and garage rent. An employee's unreimbursed expenses can be deducted only as an itemized deduction subject to the 2% of Adjusted Gross Income floor.

W-2 REPORTING OF BENEFITS FOR S – CORPORATION SHAREHOLDERS

There are special rules for certain fringe benefits received by S corporation shareholders who own more than 2% of the outstanding stock, and their family members. Amounts paid by the corporation for certain benefits, such as health, disability and accident insurance, all group term life insurance including the first \$50,000 of coverage and reimbursed medical expenses must be treated as compensation to the shareholder and be reported on Form W-2, *Wage and Tax Statement*. Please note that health insurance is not subject to social security and Medicare taxes. A more than 2% shareholder may be able to deduct 100% of the amount paid for medical insurance for the shareholder, spouse and dependents on their individual return.

ELECTRONIC EMPLOYEE COPIES OF FORM W-2

If your employees consent, you may be eligible to provide Form W-2 copies to them electronically. If electronic copies are provided, special disclosures must be made to employees. Employees must be provided the option to receive paper copies.

FORM W-2 REPORTING OF NON-STATUTORY STOCK OPTIONS

Employers must report as compensation the difference between the fair market value and the exercise price of all employer-provided non-statutory stock options exercised during the tax year. Amounts of employer-provided non-statutory stock options included in wages on W-2 must also be disclosed in Box 12, Code V and the employer must withhold Federal, FICA and Medicare taxes from this income.

GROUP TERM LIFE INSURANCE

The cost of group term life insurance in excess of \$50,000 of coverage provided to an employee is included as compensation and is subject to FICA and Medicare taxes. Exhibit E can be used to gather the information needed for the calculation. The cost is based on the employee’s age as of December 31st, and is determined by the following table:

Table 5 – Cost per \$1,000 of Protection for One Month

<u>Age</u> <u>Bracket</u>	<u>Cost</u>
Under 25	\$.05
25 to 2906
30 to 3408
35 to 3909
40 to 4410
45 to 4915
50 to 5423
55 to 5943
60 to 6466
65 to 69	1.27
70 and over	2.06

EXAMPLE: A Corporation pays the premiums on a \$70,000 group-term insurance policy on an employee. The employee is 50 years old. Excess coverage is \$20,000 (\$70,000 minus \$50,000). The monthly rate for \$1,000 of excess coverage for a 50 year old employee is 23¢. The 23¢ cost is multiplied by 20 (\$20,000 excess coverage divided by \$1,000) to give a \$4.60 monthly value on excess coverage. The annual value of the excess coverage will be \$4.60 multiplied by 12 months to yield \$55.20 in total income to be reported on the employee’s Form W-2.

THE MANUFACTURERS’ DEDUCTION

The Domestic Production Deduction allows certain taxpayers to claim a deduction for a percentage of qualifying manufacturing activities. This law defines manufacturing so broadly that many businesses that are not normally considered manufacturers are able to take advantage of the deduction. Manufacturing includes, but is not limited to, traditional manufacturing, construction, engineering, energy production, computer software, filmmaking and the processing of agricultural products. The deduction for years beginning in 2007, 2008, or 2009 is 6% of Qualified Production Activity Income (QPAI), and 9% in later years. To properly determine eligibility and QPAI, every business should be examined separately.

DEPRECIATION

The American Recovery and Reinvestment Act of 2009 extended the bonus depreciation and increased the section 179 deduction through the end of 2009. The Act provides for bonus (accelerated) depreciation by allowing a bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service after December 31, 2007, and, generally, before January 1st, 2010. (Certain transportation property and property with a long production period needs to be placed in service before January 1, 2011.) Qualified property includes tangible property depreciable under MACRS with a recovery period of 20 years or less, water utility property, off the shelf computer software and qualified leasehold improvement property.

The aggregate cost of §179 property that can be expensed is \$250,000 for 2009. This expense is reduced by the amount that the total cost of the property placed in service exceeds \$800,000. The 2010 amounts will be \$134,000 and \$530,000 respectively. Unless Congress takes action, effective for tax years 2011 and after, the amounts will be \$25,000 and \$200,000.

MA Treatment of the bonus depreciation and section 179 expense provision

Massachusetts adopts the increased Section 179 expensing provision provided at the federal level; however, the Commonwealth does not allow the 50% bonus depreciation deduction. Please consult your tax advisor to confirm treatment of these provisions by other states.

BUSINESS HIGHLIGHTS OF THE 2009 TAX ACTS:

In a direct response to the economic crisis, Congress passed The American Recovery and Reinvestment Act of 2009, an extensive act providing a number of business tax incentives. Below please find selected highlights which you may find helpful.

- *NOL Carryback:* The Act allowed eligible small businesses (ESBs) to elect up to a five year carryback of a net operating loss for 2008. The Worker, Homeownership, and Business Assistance Act of 2009 was recently enacted. It permits business to offset losses in 2008 or 2009 against income in any of the five prior years. No gross revenue limitation applies and large companies are included. The amount of NOL that can be carried back is limited to 50% of the taxpayer's taxable income for that preceding year.
- *Small Business Stock:* Increases to 75 percent the amount of gain excluded from an individual's income from the sale of qualified small business stock acquired after 2/17/09 and before 1/1/11 and held for more than 5 years.

- *Bonus Depreciation:* Extends 50% first-year bonus depreciation deduction to property placed in service during 2009. (2010 for long production property and certain transportation property)
- *Section 179 Expensing:* Increases the Code Section 179 deduction to \$250,000 for 2009. Phase out starts at \$800,000.
- *Discharge of Business Indebtedness (Section 1231):* The Act allows certain businesses that repurchase specific types of debt in 2009 and 2010 to pay taxes on cancellation of debt income over a five year period, starting with tax year 2014.
- *S-Corporation Built-in Gains Holding Period (Section 1251):* For tax years beginning in either 2009 or 2010, the new law eliminates the corporate level tax on the built-in gains of an S-Corporation that converted from C-corporation status at least seven tax years before the current tax year.
- *Energy Incentives:* The Act includes several provisions designed to extend energy credit eligibility dates, repeal investment limits and extend available credits. Please consult with your tax advisor for more detailed analysis.

PENALTIES

Please note that there are significant penalties for failure to properly report, file and pay all types of business and employment taxes. Some of the more common federal tax penalties:

- | | |
|--|---|
| • Failure to File Return –
Fraud | 15% of unpaid tax per month
(maximum 75%) |
| • Failure to File Return –
Reasonable cause | 5% of unpaid tax per month
(maximum 25%) |
| • Failure to Pay Tax | 0.5% per month
(maximum 25%) |
| • Substantial Understatement | 20% |
| • Failure to Make Timely Deposits | Ranges from 2% to 10% depending
on the length of time elapsed. |

There are also significant penalties for failure to file Form 5500 (*Annual Return/Report of Employee Benefit Plan*) for employee benefit plans and for failure to file information returns or failure to include correct information on an information return.

MASSACHUSETTS:

- The Tax Fairness and Business Competitiveness Act of 2008 eliminated the differences between Massachusetts and Federal entity classification. As a result any tax free earnings and profits accumulated by an entity that was in existence and treated as a corporate trust on or after July 3rd, 2008 will be subject to tax. All such entities must file an accounting of those tax-free earnings and profits no later than January 31, 2010 or 90 days after the entity files its MA return.
- Massachusetts law provides distinct tax treatment of a corporation engaged in substantial manufacturing activities. A recent letter ruling allowed a company to retain its manufacturing classification despite the recent “check the box” legislation. Before the above mentioned Act of 2008, a subsidiary that elected to be treated as a separate corporate entity from the parent for federal purposes could still be regarded as one entity for state purposes. That permitted assets to “flow” from one of the entities to the other and be used in the manufacturing classification calculation. The letter ruling treats both companies as separate taxpayers, but allows the “flow” of assets from one entity to the other to continue.

Massachusetts Online

The Massachusetts Corporations Division has a web site that allows you to perform many different tasks through the ease of the Internet. You can organize many types of business entities on-line as well as pay your taxes. We recommend that all businesses file their annual reports on-line. To do so, visit <http://www.sec.state.ma.us/> , click "Corporations Division", then click "File Corporations Online".

In this letter, we have discussed information that may be applicable to the preparation and submission of your 2009 informational returns and to the computation of taxable employee benefits. We have also highlighted some of the changes as a result of the new 2009 tax legislation.

Please do not hesitate to contact us if you have any questions regarding this information or if we can be of additional service.

Very truly yours,

Tonneson + Co

Tonneson + Co

Enclosures:

EXHIBIT A

2009 Annual Lease Value Table

<i>Automobile fair market value</i>	<i>Annual Lease Value</i>
\$ 0 to 999	\$ 600
1,000 to 1,999	850
2,000 to 2,999	1,100
3,000 to 3,999	1,350
4,000 to 4,999	1,600
5,000 to 5,999	1,850
6,000 to 6,999	2,100
7,000 to 7,999	2,350
8,000 to 8,999	2,600
9,000 to 9,999	2,850
10,000 to 10,999	3,100
11,000 to 11,999	3,350
12,000 to 12,999	3,600
13,000 to 13,999	3,850
14,000 to 14,999	4,100
15,000 to 15,999	4,350
16,000 to 16,999	4,600
17,000 to 17,999	4,850
18,000 to 18,999	5,100
19,000 to 19,999	5,350
20,000 to 20,999	5,600
21,000 to 21,999	5,850
22,000 to 22,999	6,100
23,000 to 23,999	6,350
24,000 to 24,999	6,600
25,000 to 25,999	6,850
26,000 to 27,999	7,250
28,000 to 29,999	7,750
30,000 to 31,999	8,250
32,000 to 33,999	8,750
34,000 to 35,999	9,250
36,000 to 37,999	9,750
38,000 to 39,999	10,250
40,000 to 41,999	10,750
42,000 to 43,999	11,250
44,000 to 45,999	11,750
46,000 to 47,999	12,250
48,000 to 49,999	12,750
50,000 to 51,999	13,250
52,000 to 53,999	13,750
54,000 to 55,999	14,250
56,000 to 57,999	14,750
58,000 to 59,999	15,250

For vehicles having a fair market value in excess of \$59,999, the annual lease value is equal to: $(.25 \times \text{the fair market value of the car}) + \500 .

EXHIBIT B

2009 AUTOMOBILE USAGE REPORT

(To be Completed by All Employees using Company Owned or Leased Vehicle(s))

Employee Name _____

The personal use of company owned or leased vehicles is a taxable fringe benefit. The amount of the benefit must be computed each year in accordance with Internal Revenue Service Regulations. The value of the fringe benefit will be included as additional compensation on your 2009 Form W-2, *Wage and Tax Statement*.

To assist in complying with this law, the following information for 2009 usage must be documented. Your response should be returned as soon as possible.

1. The number of business miles driven (your business miles do not include commuting to and from work). _____
2. The number of commuting miles driven. _____
3. The number of personal (other than commuting) miles driven. _____
4. The total number of personal miles (sum of lines 2 and 3). _____
5. The total number of miles you drove the company car during the year (sum of lines 1 and 4). _____
6. Did you have a second personally owned vehicle available for personal use?
Yes ___ No ___
7. Did you maintain written records to document your business and personal use? Yes ___ No ___
8. Do you wish to have federal and state income taxes withheld from your pay based on the taxable fringe benefit amount? Yes ___ No ___

(Signature)

(Date)

FOR COMPANY USE ONLY

Period Car Used by Employee During Year From: _____ To: _____

Type of Vehicle (Year/Make/Model) _____

Date Vehicle Purchased by the Company _____

Original Cost: _____

Gasoline Paid by Employer: ___ Yes ___ No



EXHIBIT C

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE
FOR CALENDAR YEAR 2009

Employee: _____

Description of Vehicle: _____

Date Vehicle First Made Available To Any Employee: _____

Date Vehicle First Made Available To This Employee: _____

Select One Method (Note Limitations On Methods II And III)

Usage Period: (*Check One*) 11/1/08 To 10/31/09 _____ Or Calendar 2009 _____

METHOD I – Annual Lease Value Method (For Autos Available 30 Days or More)

Step

- 1 Fair market value of vehicle (predetermined at the beginning of the first year and every 4th year thereafter). \$ _____
- 2 Annual lease value, per attached chart \$ _____
- 3 Enter number of days during the year that the vehicle was available x _____
(See Note 1)
- 4 Divide step 3 by number of days in tax year (365). Place result in the space provided _____
- 5 Prorated annual lease value (multiply Step 2 by Step 4) _____
- 6 Personal use % (personal/total miles, per statement from employee Exhibit B divide #4 by #5) x _____ %
- 7 Personal annual lease value (Step 5 x Step 6) \$ _____
- 8 If fuel is provided by employer: multiply personal miles by 5.5 (See Note 2) _____
- Personal use taxable income (Step 7 + Step 8) \$ _____

EXHIBIT C (continued)

AUTO LEASE FOOTNOTES

- (1) For autos available less than 30 days please multiply the number of days the auto is available by 4 and place that result in the space provided.

-or-

For autos available 30 days or more enter the days available in the space provided.

Please note that if by treating all periods as 30 days or more results in a lower valuation, then an election can be made to do so for **ALL** periods.

- (2) If fuel is provided “in kind”, the fair market value may be determined based on all facts and circumstances or, alternatively, 5.5 cents per mile if auto usage is within U.S., Canada and Mexico. Generally, where fuel is purchased and charged to the employer, the actual cost or reimbursement should be used. If employers with a fleet of 20 or more vehicles reimburse or allow employees to charge fuel cost, the fleet-average cents per mile may be used. If the fleet employer determines that actual cost or fleet average methods are unreasonable administrative burdens, the 5.5 cents per mile may be used.

EXHIBIT D

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

**EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE FOR
CALENDAR YEAR 2009**

METHOD II – STANDARD MILEAGE RATE METHOD

Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) be expected to be regularly used in the employer's business throughout the calendar year, (2) be driven at least 10,000 miles per year, and (3) have a fair market value of \$15,000 or less (\$15,200 or less for trucks or vans). Once this method is adopted for a particular vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles _____ x \$0.55 = \$ _____

Deduct:

If fuel is NOT provided by the
Employer enter personal miles _____ x \$0.055 = (_____)

Personal use taxable income \$ _____

METHOD III – SPECIAL COMMUTING METHOD

This method may only be used for vehicles covered by a written policy that allows commuting but no other personal use. DO NOT USE if employee is a 1% or more owner, an officer or board member with compensation equaling or exceeding \$95,000 for 2009, an individual with compensation equaling or exceeding \$195,000 for 2009, or who is a director.

Number of commuting round trips made _____

Value per round trip x _____ \$3.00

Personal use taxable income \$ _____

EXHIBIT E

GROUP TERM LIFE INSURANCE

(To be Completed by Employers)

Please complete the following for all employees with Group Term Life Insurance coverage in excess of \$50,000.

Employee Name			
Insurance Company			
Policy Number			
Amount of Coverage			
Policy Beneficiary			
Policy Premium			
Period Covered			
Employee's Age			

Completed By: _____

Name and Title

Date

NOTE: If Tonneson + Co prepares your W-2 forms, please return this form to us as soon as possible.