Kallas Restaurant Accounting

INSIDERS REPORT

Everything the Bar and Restaurant Owner needs to know

Tax, Legislative & Management Information of Interest to Restaurant and Bar Owners

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OBSERVATIONS AFTER THE 2018 TAX SEASON

Another tax season is over and Kallas thanks you for another year of your trust and confidence in our service.

We spend literally hundreds of man-hours preparing before the season to know the laws, know the loopholes and make the process as easy as possible for you.

As we prepare your return each year, we jot down ideas to talk to you about possible ways to reduce your taxes in the future.

This year, tax law changed dramatically due to the new Tax and Jobs Act which became effective with the 2018 tax returns.

Here is what I observed after the first tax season under the new law based on a limited sample of our clients:

- Remember how withholding schedules were changed mid 2018 right after the law went into effect? Employees started receiving a bigger net pay. When you have less withholdings, then logically, you can assume that your refund will be less than normal (because now you are receiving more money every payday). Unfortunately, newspaper headline writers don't bother to research tax law or think logically, so the headlines read "Workers Claim Refunds are Lower." Of course, this is misleading because overall taxes for most wage earners were lower.
- The loss of several deductions as well as the dependent exemption was, in most cases, more than offset by larger child credits and the increased standard deduction.
- Tax preparation is now easier for many lower to middle income taxpayers due to the increased standard deduction.
- The biggest hit came to taxpayers who have large state income or property taxes that they used to deduct because those deductions are now limited to $10,000.
- I was shocked at the reduction of taxes for our business clients. The combination of the Tips Credit and the 20% Flow Through Business Deduction reduced more than a few tax liabilities to almost zero.

- Amazingly, many of our clients had more of a state tax liability than a federal tax liability in 2018.
- Be wary of state taxes. The penalties for underpaying are worse than federal.
- The state Homestead Credit which used to provide refunds to many taxpayers is severely limited. The state decided to look at the taxable value of your home to determine if you are really poor enough to receive the credit. If the taxable value of your primary residence exceeds $135,000 then you are ineligible for the credit. (what is the state doing with all this new-found money???)

- Although the news is good on the federal level, I think businesses in Michigan are in for a rough road the next four years. The Attorney General, the Governor and several members of the State Supreme Court are openly hostile to business. The new minimum wage increases, they think are not enough and they would like to throw out the onerous new Paid Medical Leave Act and replace it with something even more onerous to employers and generous to employees.
- Worst of all for restaurant owners and employees is the push by outside interest groups in Michigan to eliminate the tip credit used by virtually all restaurants to meet minimum wage. Please keep yourself aware of what is going on in Lansing as elimination of the tip credit would have a radical negative impact on how you run your business.

"I am for a government rigorously frugal and simple. Were we directed from Washington when to sow, when to reap, we should soon want bread."
- Thomas Jefferson

ANOTHER WARNING ABOUT OBAMACARE

Imagine receiving an IRS penalty for $10,000 or $50,000 or $150,000.

These are the penalties being issued to businesses for failing to comply with the Obamacare rules.

In the final days of 2018, the IRS started issuing notices to assess penalties against employers that failed to file Forms 1094-C and 1095-C or to furnish 1095-C to employees under IRC Section 6721 and 6722 for the 2015 and 2016 tax years.

These penalties are separate from the IRS penalties under IRC Section 4980H for failing to offer the required healthcare insurance.

The IRS is monitoring the number of W-2's filed by a business and using that information to create a list of potential ACA non-filers. If you are on that list you may receive IRS Letter 5699 which requests information as to why you have not filed the required forms. The wrong answer is going to get you a penalty in the ranges you see above.

Each year, Kallas has offered ACA filing services to employers who are required to file. By filing you are avoiding the worst of the penalties.

MAKE SALES TAX TIME LESS DEMANDING

Paying sales tax each month has always been a hassle. Restaurant owners have enough responsibilities running a restaurant. Being available at sales tax time to cut a check and mail it on time is just another burden.

Kallas Restaurant Accounting can take that burden off your back. For $15 per month and a $20 one-time set up fee, Kallas will electronically pull the money from your account and pay it over to the state. The service comes with a no penalty guarantee.

One penalty can cost you thousands of dollars and many owners are finding the convenience of not having to deal with the urgency of getting that payment off one more way to free up their time.

Call Sheri at 313-962-6000 and she can explain everything you need to know about how to make sales tax time less demanding.

AUDIT ISSUES TO BE CONCERNED ABOUT

No one has more experience in restaurant audits than Kallas. We have been representing restaurant and bar owners for 66 years in all manner of audits, from IRS to state to city to landlord to insurance company to franchisors and courts.

Some audits are routine and relatively painless. Other audits are worse than a root canal and proctology exam at the same time. It depends on the authority that is conducting the audit, the temperament of the auditor and of course, the completeness and organization of your records.

The worst and most costly audits are IRS.

From my years of experience in restaurant audits, I have developed the top 10 areas the IRS will concentrate their attention.

1. **Deposits as compared to sales**. This is a rich area for auditors because in many cases, the deposits that go into your bank account are more than what is reported as sales on your tax returns. This is a clear indication of under-reported sales. If your sales is not reconciled to deposits as part of your accounting procedures by us, then we encourage you to talk to your bookkeeper to set up that procedure.

2. **Bank account activity**. Are unexplained deposits coming into your business or personal accounts? Are there transfers being made out to unexplained sources? Do the amount of deposits match with income reported on your returns?

3. **Vendor and other payments used for personal expenses.** It is fairly easy for restaurant owners (and other business owners) to sometimes pay a personal expense and run it through the business to get the deduction. IRS will question and demand proof of large samples of your expenses looking for non-business items.

4. **Tip reporting**. This is a lucrative area for IRS. It is simple for them to examine your credit card charges and compare the tips reported there to tips reported on form 8027. If your employees are under-reporting tips, you are the one who pays the tax and the taxes could be huge.

5. **Hidden bank accounts**. This is another area that has expanded in recent years. You can be sure if there is a bank account that you have not reported and they find it – you are in big trouble.

6. **Auto mileage**. Because this is a deduction that is abused by many business people, more and more audits are demanding proof of business use of an automobile. The proof required is a logbook showing odometer readings on each business trip, description of purpose of the trip along with 3rd party odometer confirmation (oil change receipts with odometer mileage on the receipt).

7. **Gambling winnings and losses**. IRS has learned many taxpayers under-report their winnings and over-report their losses. The laws are strict on losses. They must be proven with receipts or casino records.

8. **Credit card purchases**. Many restaurant owners like to pay expenses using credit cards for convenience and because of the value of the points. Unfortunately, if that is your practice, you can be assured, IRS auditors will examine those purchases closely for personal items. And please be aware, the statements themselves showing the purchase is not sufficient proof. They will require actual bills

9. **Passive vs non-passive deductions and limitations.** This is a technical and complicated area of tax law that your accountant or tax advisor needs to monitor. If done improperly, can cost you tax dollars.

10. **Shareholder and partner basis issues**. This is another technical and complicated area of tax law that IRS will look at and is an area your tax advisor needs to monitor and explain. Basically, it requires your accountant to maintain records of the money you invest and the money you take out of the business.

ARE YOU LIABLE? HOW THE PAID MEDICAL LEAVE ACT AFFECTS YOU

In the February issue of the Kallas newsletter, I talked about the new Paid Medical Leave Act. At the time, not all rules had been clarified but since then, we have some new information to pass on to you.

Here are some of the basic rules:

- The law took effect March 29, 2019.
- The law applies to any employer with 50 or more employees regardless of full or part time status. Although this definition is still ambiguous, the best guess is that the state will refer to your quarterly Unemployment Form 1028 to determine if you have 50 employees.
- You also may be liable if you are part of a common control group of restaurants totaling 50 or more employees. As of this writing, there has been no definitive rules promulgated but experts believe the state will use the definition under the Federal Family Leave Act which counts all affiliated companies if there is common administration, shared employees, common or centralized purchasing, advertising, banking, accounting, employee rules and/or ownership decisions.

- If you have 50 or more employees, you are required to accrue 1 hour of paid medical leave for every 35 hours worked by any employee. Employees who work under 25 hours per week on average are excluded.
- The accrual of hours starts March 29, 2019 and an employee would be eligible for the maximum 40 hours of paid leave after 1400 hours of work.
- Employees who work less than 25 hours per week on average and managers who are exempt from the over-time provisions are not eligible for paid medical leave benefits.
- There is a list of what type of medical problems are eligible for paid medical leave. The list can be obtained from Kallas.
- Paid medical leave must also be paid for an employee to take care of family members in certain situations. The list of family members can be obtained from Kallas.
- The amount you have to reimburse the employee for paid medical leave does not include tips.
- There is a safe harbor that requires no recordkeeping if an employer provides at least 40 hours per year to an eligible employee.
- The act allows an employer to formulate his own rules on notice, procedures, and documentation requirements. This rule allows you a lot of flexibility if properly constructed. Contact Kallas for sample employer Paid Medical Leave Rules.
- The fine for non-compliance is $1,000 per incident (not defined as yet) and $100 for not posting the new law.

For more information, contact Julie at x103 to discuss your options and how to comply at the lowest cost possible.

CONGRADULATIONS! TO KALLAS CLIENTS

The James Beard Foundation has announced its 2019 awards semifinalists, recognizing culinary achievement across the country. This year's "long list" nominees included nine notable Michigan restaurants and chefs.

Included were four Kallas Restaurant Accounting clients:

James Rigato – *Mabel Grey*
Norberto Garita – *El Barzon*
Anthony Lombardo – *SheWolf Pastificio*
Kate Williams – *Lady of the House*

Good luck to them all and congratulations for being recognized for your excellent work in the industry.

THE FULL ACCOUNTING CYCLE FOR RESTAURANTS

WHAT NEEDS TO BE ACCOUNTED FOR IN YOUR RESTAURANT

BE AWARE OF WHAT IS REQUIRED

Restaurant owners rarely know how much accounting is required to run their restaurant. Naturally, they just assume that the accountant "just handles it."

But does the accountant really handle it?

Many restaurant owners come to us with the full accounting functions being split between an in-house person, an outside payroll company, the owner and an outside CPA or accounting firm.

Splitting the various accounting functions can lead to very bad consequences – missed tax deadlines, non-payment of taxes, undetected theft, and major problems as a result of unclear differentiation of duties. When a bad error occurs, each party points the finger at the other party and many times they are justified because there are holes in the process.

Kallas has built its practice around efficient performance of the full accounting cycle just for restaurants.

This helps us to know precisely what you need and helps you simplify your life and make sure all areas of need are covered.

"When the people find they can vote themselves money, that will herald the end of the republic."
- Benjamin Franklin

In the next few issues of the newsletter, I will publish our copyrighted Accounting Cycle Worksheet which identifies what needs to be accounted for in your restaurant. Each restaurant is different so some items may not be applicable to you.

The Worksheet is divided into five cycles: the Sales Cycle, the Purchasing Cycle, the Accounts Payable/ Disbursements Cycle, the Payroll Cycle and the Financial Statements/Tax Cycle.

IN THIS ISSUE WE START WITH ***THE SALES CYCLE***

You should know who is responsible for each of these functions to avoid inevitable problems later.

WHO PERFORMS EACH OF THESE FUNCTIONS?

Maintaining POS System	
Credit Card Reconciliations	
Drawer Cash Reconciliation	
Accounting for Paid-Outs	
Maintaining Tip Pay-Out Records	
Posting to Financial Statements	
Generating POS Reports	
Reconciling Bank Account	
Calculate & Pay Sales Tax	
Sales Tax Audits	
Accounting for Delivery Services	
Accounting for Gift Cards	
Accounting for Cash Advances	
Accounting for Outside Catering	

PLEASE HELP US TO HELP YOU

PERSONAL TAX EXTENSIONS GOOD UNTIL OCTOBER 15, 2019

A LOT OF BAD THINGS CAN HAPPEN IF YOU WAIT UNTIL LAST MINUTE

According to the IRS, filing an extension beyond the filing deadline of April 15 is a privilege.

Sometimes you cannot help but extend filing if circumstances prevent you from getting all your tax information together in time.

But don't fall into the trap of making it a habit to file in October. We discourage waiting until October to file your taxes.

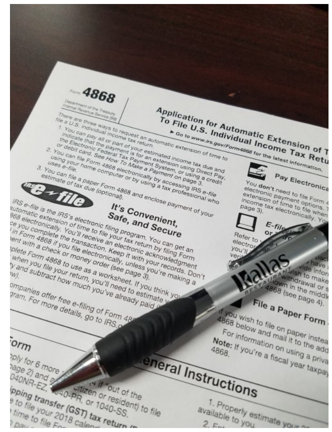
Many things can go wrong when waiting until October to file your taxes:

The tax is due on April 15 regardless of whether you have an extension or not.

If you miscalculated your estimated taxes or do not withhold enough and you owe, there will be penalties and interest going back to April 15 and possibly going back to the first quarter of the tax year.

Waiting until the last minute in October to file can cause errors due to rushing.

Waiting until the last minute to submit business information can cause errors due to rushing.



Trying to fix a bad tax move or a mistake made in the prior year may be impossible by October.

Your chances of audit may be higher if you wait until after October 15 to file.

There is no extension after October 15 and technically you are breaking the law if you have not filed by then. The IRS can use several unpleasant techniques to force filing after that date including paying a visit to you at home or work or assessing you a tax based on whatever sketchy information they have.

Your preparer and tax staff may be unavailable or something else unexpected could cause you not to be able to make the final deadline.

Calendar for June, July, August 2019

June 15

- Individuals outside the U.S.: File 2018 Form 1040.
- Individuals: Pay the second installment of estimated tax for 2019.
- Corporations: Deposit the second installment of your 2019 estimated tax.
- Corporations: Taxes due for March year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending March, June, October or December.

June 20

- Michigan Sales, Use and MBT estimates due.

July 4

- Kallas Restaurant Accounting closed for Independence Day.

July 15

- Corporations: Taxes due for April year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending January, April, July or November.

July 20

- Michigan Sales, Use and MBT estimates due.

July 25

- UIA form 1020 due for 2nd quarter.

July 31

- Deposit FUTA owed through June if more than $500.
- File Form 941 for the second quarter of 2019.

August 10

- File Form 941 for the second quarter of 2019 if you timely deposited all required payments.

August 15

- Corporations: Taxes due for May year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending February, May, August or December.

August 20

- Michigan Sales, Use and MBT estimates due.