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THANK YOU

Thank you for your patience and understanding. After 25 years using our original custom written software for restaurant payroll, we were forced to go to a new software product.

Like many things having to do with computers today, even though the old software worked, the software language and operating system was so old we could not find technicians who would support it anymore.

The good news is the new software is fantastic. When fully rolled-out it has many features that will make your life easier plus save you time and money.

We started the transition to the new software in September 2016 and had to convert over 11,000 employee and employer records from the old system to the new system. Some of it we could do with software programs but much of it was done by hand and checked by eyeball.

Needless to say there were glitches especially the first week of January when we were getting used to the new system and correcting any issues that came up. I owe a great debt to the payroll specialists here at Kallas and all the staff in other departments. Everybody stepped up, worked many long hours, Saturday and Sunday and got all payrolls out.

We met at week end and tallied the type of errors that were occurring. And over the weekend corrected them and the second week processing was much better. By the third week, as I write this, we are operating almost on a par as before the transition.

On top of the major transition of software we still have to deal with a mid-week change in the minimum wage as well as year end W-2's, 940's, 941's, ACA forms, 8027 forms, UIA quarterlies and state and federal W-2 copies that have to go out by January 31.

2017 looks to be a very good year and we thank you again for your patience and understanding as we transition to new and state of the art software for you.

2016 TAX SEASON IS HERE

The 2016 tax season is upon us. And as usual, it means finding bills, accumulating paperwork, thinking about everything you did last year and trying to figure out ways to keep that darn tax bill to a minimum.

Our goal is to make sure you do not pay Uncle Sam any more than necessary.

As a business owner, there are ways of presenting information, making judgments and using tax laws to lower your tax bill. We have the experience to make use of all the techniques that are available and we work very hard to keep your taxes low.

And we never forget to use our experience and judgment to keep you out of dangerous areas of tax law.

This year, Nick Kallas, Karen Walega and I will be preparing personal taxes. Jim Humenik, Cathy Infantado and Anthony Gawel will be preparing business taxes.

...our goal is to keep your taxes low.

You can keep your tax preparation costs down

and help us to identify potential tax savings by answering the questions on the tax organizer as completely as possible. Along with the organizer, you should be submitting to us all **W-2's, 1099's, closing statements on purchases or sales of real estate,** mortgage interest statements and broker statements.

You can also help us by mailing your information early. Remember, we know you and your situation very well. Most questions can be answered over the phone and by mail.

We will be offering again this year the option of receiving your tax returns via a private, secure web portal. You simply log on, review the return or print a copy at your convenience.

Whether you prefer an on-line version or a physical copy, you will have an opportunity to review the return. If everything looks good, you will sign a one-page authorization and mail it back to us with payment of fees. We then E-file your return.

You can help us and also keep your tax preparation cost down by answering the questions on the tax organizer as completely as possible.

No more need to rush to the Post Office on April 15 and your refund will get to you about 4 weeks quicker.

Please remember, the more organized your data, the less we have to charge. We charge extra for appointments, adding bills or organizing information, follow-up phone calls, missing data,

tax advise or consultation, research, alternative calculations, re-running returns, adjusting estimated taxes or reviewing legal documents.

TAX TIPS AND REMINDERS

- If you have the U.S. equivalent of \$10,000 in a foreign band in any day of 2016 you must file FinCen form 114. Remember to tell your tax preparer.
- If you have the U.S. equivalent of \$50,000 in assets located in foreign countries on the last day of the year or more than \$75,000 at any time during 2016, you must file form 8938 Statement of Specified Foreign Financial Asset. Remember to tell your tax preparer.
- Before year end, talk to your investment advisor to see if you can take any losses against gains for the year.
- If your income is high this year and you expect it to be lower next year, prepay or delay state estimated taxes or property taxes to be able to take the deduction in the high tax year.
- **If you are over 50, consider making a "catch-up"** contribution to your IRA, Roth, 401k or SIMPLE IRA account.
- For 2016, you can give up to \$14,000 to as many individuals as you wish and pay no gift tax. Spouses can each gift \$14,000 to any one person.
- If you are eligible, for 2016 you can contribute up to \$2,000 to a Coverdell Education Savings Account on behalf of a child. Contributions grow tax free and qualified K-12 and higher education withdrawal are tax free. You have until April 15 to contribute.
- Anyone can contribute up to \$70,000 to a state sponsored 529 plan in 2016 without incurring gift taxes. The contributions are not deductible for federal purposes but are deductible on the Michigan return for Michigan sponsored plans. The money contributed grows tax free and when used for qualified educational expenses, the withdrawals are tax free.
- Pay attention to your profit and loss statements (P & L). The bottom line on the P & L is an approximation of what you will be taxed on at year end. This is the guide for how we tax plan for you so if anything changes or you have questions, give your Kallas accountant a call.

WE DON'T JUST PREPARE YOUR TAX RETURNS

Throughout the year we pick up new clients - many from other accountants. We always review the prior work to see if there is anything that was missed or can be done to better your situation.

One of the recurring things we notice is that many accountants and tax preparers simply throw the numbers **together and don't think about how they affect you.**

We work at a higher level than that. We do a full assessment every time we prepare a return for you.

We look at many items – not only to lower your taxes but to keep you out of the RED FLAG danger zone. For instance:

- We look at the audit potential of your return as to individual items and as a whole.
- We take into account your nature and personality as to how aggressive you want us to be.
- We review your financials before the returns are prepared to look for any unexpected numbers or ratios that may be a red flag.
- We review your tax basis and other technical issues to make sure that your losses do not get limited.
- We recommend moves you can make to take advantage of expenses or losses you would not be able to take ordinarily.
- We organize your return and your businesses to take advantage of all the credits, deductions and losses we can.
- We make recommendations or perform tax planning services when we see opportunities to make changes that will lower your taxes.

We look at many items – not only to lower your taxes but to keep you out of the RED FLAG danger zone.

As a business owner, there are many ways to organize or structure your affairs to get the best tax advantage without taking big chances with the IRS. This is where our experience and dedication really pay off for you.

CALL EARLY FOR YOUR TAX APPOINTMENTS

Taxes consume the biggest portion of most people's current earnings and future retirement income.

Our job at Kallas Company is to help you maximize tax savings and help you create future wealth. For the greatest savings over time you need to plan ahead. Call us before you sell stocks, sell your business, buy a business or make any substantive changes to your financial situation.

By now you should have received your 2016 tax organizer. If you have not received your tax organizer, call our office for another one. The tax organizer helps you organize your tax information and allows us to receive your information in such a way as to help us find tax savings for you. If you need help completing it or would like an appointment, call Dawn at 313-962-6000. Tax interviews prior to March 15 are \$90 per hour. After March 15 they are \$120 per hour.

Thank you again for your continued patronage. Remember, if you send us a new business or tax client you receive a gift certificate worth \$100 towards any accounting or tax services. In the years that we have had the gift certificate program, our clients have redeemed thousands of dollars worth of valuable tax services.

ACA UPDATE

As I write this, the new president has just been sworn in and promises to repeal and replace the Affordable Care Act otherwise known as Obamacare.

My opinion from 2009, before the law was signed, was that it was horribly designed, unworkable and would not accomplish its stated goals. It was just a monstrous piece of bureaucracy which put severe strain on small business.

How legislators dismantle it is still not known. For the restaurant businesses that had to comply with its insurance requirements, we do not know at this point, if it will be wound down or stopped cold as of January 1, 2017. We do not know if IRS intends to enforce the rules as they were in 2015 and **2016 or they will just give everybody a "pass".**

Kallas has made the calculations and sent out the necessary forms for 2016 to keep our clients in compliance. But as to what is going to happen in 2017, at this point we do not know.

We, of course, will follow the news and keep up updated and in compliance.

Calendar for March, April, May 2017

March 15

- Corporations: File Form 1120 or Form 1120S for 2016 calendar year and pay any tax due. For automatic 6-month extension, file Form 7004 and deposit estimated tax.
- Corporations: Furnish a copy of Sch. K-1 to each shareholder.
- Corporations: Estimated Taxes due for corporations with fiscal year ending March, July, September or December.
- Corporations: File Form 2553 to elect to be treated as an S Corporation.
- Payroll: If you are a monthly depositor, your Federal coupon and taxes should be paid on-line.

March 20

- Michigan Sales, Use tax due.

March 31

- Payroll: Electronically file Forms W-2, W-2G, 1098, 1099, and 8027.

April 15

- Payroll: If you are a monthly depositor, your Federal coupon and taxes should be paid on-line.

- Individuals: File 2016 Form 1040, 1040A, or 1040EZ. For automatic 6-month extension, file Form 4868 and deposit estimated tax.
- Individuals: Pay the first installment of 2017 estimated tax.
- Partnerships: File 2015 Form 1065 and furnish a copy of Sch. K-1 to each partner.
- Corporations: Deposit the first installment of your estimated tax for 2017.
- Corporations: Taxes due for January year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending January, April, August or October.

April 20

- Michigan Sales, Use tax due.

April 25

- UIA form 1020 due for 1st Quarter.

April 30

- Employers: File Form 941 for the first quarter.

- Deposit FUTA tax owed through March if more than \$500.

- Liquor License renewal forms and fees due.

May 10

- File Form 941 for the first quarter of 2017 if you timely deposited all required payments.

May 15

- Corporations: Taxes due for February year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending February, May, September or November.
- Payroll: If you are a monthly depositor, your Federal coupon and taxes should be paid on-line.

May 20

- Michigan Sales, Use tax due.

May 29

- Kallas Restaurant Accounting closed for Memorial Day.

RESTAURANTS GET SPECIAL TAX DEDUCTION

The PATH act signed into law in December 2015 allows an enhanced deduction for food inventory.

If a restaurant donates wholesome food to a 501 c(3) charitable organization, the value of the donation is not the retail price to the customer or the cost to you. The value of the donation by law can now be the lesser of two times the cost or half of the mark-up plus the cost.

Example 1: Menu item price is \$10.00. Cost is \$3.00. Mark-up is \$7.00 (\$10 – \$3). Half of mark-up is \$3.50 (mark-up divided by 2). Your deduction is the lesser of $2 \times \$3.00 = \6.00 or $\$3.50 + \$3.00 = \$6.50$.

Example 2. You donate vegetables which are not a menu item but cost \$4.00. Your deduction would be $2 \times \$4.00 = \8.00 .

APPARENTLY THE “LIVING WAGE” IDEA IS NOT WORKING OUT SO WELL

According to the “Eater” website, Moo Cluck Moo, a Dearborn Heights based hamburger chain has closed its Canton location. The burger chain became a popular source for national media outlets as an example of a restaurant providing employees with a **standard \$15 “living wage”**. **The company has not commented on how much a factor labor cost was in their decision to close.**

RedAlertPolitics.com reports that Lanesplitter Pizza in Emeryville California which is outside of San Francisco, decided to create a **“living wage pizza”**. **The pizza ending up with a retail price of \$30 and people haven’t been too keen on paying for it.** Lanesplitter has seen a 25% drop in sales. The owner was quoted as saying, **“I’m terrified of going out of business after 18 years.”**

Reported in The Oregonian, Restaurants Unlimited, Inc, a Seattle-based restaurant group with more than a dozen Oregon locations, removed a one percent living wage surcharge it had instituted less than two weeks earlier. Jim Eschweiler, CEO said in a press release. **“After further consideration we have decided to discontinue this policy.”**

Townhall reports that Washington D.C. which established by law its own **“living wage”**, **has lost 1,400 jobs in the first half of 2016.** This loss—the steepest drop since the 2001 recession

follows a significant minimum wage hike. Since mandating a base wage of \$10.50 in July 2015 and another increase to 11.50 in July 2016, D.C. has seen employment in the restaurant industry trend downward, for a 3 percent job loss in 2016.

NEW LAW HELPS TRANSFERS OF LIQUOR LICENSES

A new Michigan law gives new businesses the option of **purchasing a “conditional” or temporary liquor license to allow** the sale of alcohol while the state performs its investigation of the owners.

Previously, a new owner purchasing a restaurant or bar had to wait until an investigation was completed before the license could be transferred. Sometimes this process could take six months.

The conditional license can be granted in 20 days after submitting some basic documentation and can continue for up to a year while the investigation is being completed.

Senate Bill 981 which has yet to be passed into law would allow a conditional license for non-same location. This means a bistro license or new issue license could obtain a conditional license before getting final approval.

ANN ARBOR BAR OWNER FEATURED ON TV SHOW “BAR RESCUE” SENT TO PRISON

Here’s an ugly story from “Eater” – a web-based restaurant news magazine.

A bar owner recently featured in an episode of Spike TV’s Bar Rescue has been sentenced to prison for sales tax evasion. Brian Michael Flore, who operates The Arena Bar in downtown Ann Arbor, received a two to five year prison sentence and \$1.5 million in restitution fines. Flore pocketed more than \$700,000 in unreported sales tax over 10 years, according to a release by **the state attorney general’s office.**

The Arena Bar was featured in the renovation show Bar Rescue in November 2015 and received a full renovation and re-vamp guided by host Jon Taffer.

MINIMUM WAGE UPDATE

On January 1, 2017, the minimum wage increased in Michigan. Kallas Auto Payroll already made the necessary changes for 2017. Below shows the increases due to come up over the next few years.

| Becomes Effective | Minimum Wage | Tipped Minimum | Training Wage (under age 20) |
|-------------------------------------------------------------------|---------------|----------------|------------------------------|
| January 2017 | \$ 8.90 | \$ 3.38 | \$ 4.25 |
| January 2018 | \$ 9.25 | \$ 3.51 | \$ 4.25 |
| January 2019 | <i>Note 1</i> | <i>Note 2</i> | \$ 4.25 |
| <i>Note 1: Increases will be tied to the Consumer Price Index</i> | | | |
| <i>Note 2: Tipped wage will be 38% of Minimum Wage</i> | | | |

MICHIGAN UNEMPLOYMENT OFFICE IN TURMOIL

Readers of this newsletter know that I have written several articles over the last 2 years about how messed up the Michigan Unemployment Insurance Agency is.

Now it is hitting the news. There have been several articles in **Crain's and other news sources about the troubles at the UIA.** Most notably, there is a class action lawsuit filed to get refunds of thousands of dollars of incorrect computer billings to people who are already unemployed.

A review of unemployment fraud cases made public in December found an error rate of 93 percent in cases in which determinations were made by the computer system between October 213 and early August 2015.

House Minority Leader Sam Singh of East Lansing said that the **situation is a "complete mess"**.

I personally have talked to the Michigan Chamber of Commerce, several legislators including (through an intermediary) Ruth Johnson who heads the Department of State which controls the UIA. So far, no one wants to get involved. It is a hot potato. They have gone through four or five directors in the last 5 years and a business expert who was assigned to straighten things out at the UIA quit - saying it was too difficult to change the culture.

I continue personally to try to get something done by legislation or a lawsuit if necessary.

The problems at the UIA that adversely affect small businesses are due to computer miscalculations, misguided statutes and department procedures and rules.

There needs to be some substantial and basic reforms as the UIA has gone from a fair taxing authority performing a function to a bully hurting small business.

WARNING FOR S CORPORATIONS AND LLC'S

- A new penalty for late filed S Corporations and partnership **LLC's was created starting with the 2009 tax year and continues to present.**
- I use this newsletter to remind taxpayers about this penalty because the penalty is severe. \$195 per shareholder or partner per month up to a maximum 12 months. So, as an example, if you have a two person LLC or S corporation and you file 2 months late the penalty would be \$780. If you filed 12 months late, the penalty would be \$4,680.
- If an extension is filed by the original due date (March 15 for S Corp and April 15 for partnership) then the partnership LLC is due October 15 of each year and an S Corporation is due September 15 of each year.
- Filing a request for a federal ID # is the trigger for the requirement to file a year end return. So even an inactive S Corporations or partnership LLC must file. As long as you have a federal identification number (FID#) then you must file a return even if you do not engage in any business.
- The penalties may be waived under certain circumstances. But the rules are sometimes difficult and require expert correspondence with the IRS.
- The best thing to do is know whenever you create a partnership or S Corporation by filing for a federal ID #, you must file a year end return even if you do not open or have any business during the year.
- Also, be aware that if you formed and applied for a federal ID# for a new business, Kallas must have the information prior to March 15 of the following year to file a timely extension for you otherwise you risk a penalty.

"Insiders Report" is intended as an informational tool for Restaurant and Bar owners. "Insiders Report" is a quick source for new and changing tax laws, legislation and practical management strategies the restaurant and bar owner need in today's highly competitive food and beverage service industry.

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