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

May 2018 Vol.33 No.129 Editor: George Kallas, CPA

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TAX PLANNING DOUBLY IMPORTANT NOW

The new Tax Cut and Jobs Act will change tax planning drastically for 2018 and beyond.

Some taxpayers will pay more under the act. Taxpayers who previously benefited from high state and local tax deductions will now have that deduction limited. Those taxpayers with many personal exemptions will also lose as those exemptions are eliminated. And taxpayers with very high incomes end up, like always, under this act still paying the highest percentage of all taxes paid.

The vast majority of taxpayers, though, will see a simpler, lower tax structure.

Business people, especially receive many benefits out of this new law as detailed elsewhere in this newsletter.

One of the most powerful tax breaks for business people in this new law is the 20% Pass-through Deduction for rentals and businesses. The law creates a new deduction out of thin air. The 20% Pass-through Deduction literally reduces profits for many businesses by 20% thereby reducing taxes by 20%.

Not all income levels are eligible for the deduction and this is where tax planning comes into play

Whether you are eligible for the full 20% may depend on many factors including your itemized deductions, what your personal salary is, how much you invested into your business and how much do you spend for employee's payroll. All these factors and more will determine the amount of the deduction you can take.

As of now, IRS has not given tax professionals all the details on how the 20% Pass-through will work. They have promised us more information by the end of June 2018. When they do Kallas will have the tools needed to help you determine what moves you need to make to maximize your tax deduction.

You may be able to make moves before year end to increase your 20% deduction but sophisticated tax planning is needed.

If this is something you would like to stay on top of, contact our office in July and we can give you more details on how this new law will affect you.

NEWSLETTER GOING DIGITAL

The past 3 newsletters have been sent both digitally and paper. Kallas plans on going to an all-digital format for this newsletter in 2018.

Starting with the August issue this newsletter will be delivered to you via email unless you have specified wanting a paper copy.

The newsletter is also available at on-line at www.KallasCompany.com

If you are reading this and cannot access email or our website, call Dawn at Kallas

We may also be mailing you a response form to update your email address. Please send it back to us so you can receive all newsletters in the future.

10 SOLID REASONS YOUR ACCOUNTANT SHOULD PROCESS YOUR PAYROLL

WE ARE NOT SALESPEOPLE. We are not trying to sell you as much payroll products as we can. We do not work on commissions. Kallas wants a long-term relationship with you. We provide your tax planning and other services. We know your needs and wants. What works and doesn't work and we only provide the services that work for you.

BETTER TAX PLANNING. Your accountant should be able to make changes to your wages and other payroll items quickly and easily for tax planning purposes. And monitor those changes through to your financial statements. Outside payroll companies create an unnecessary impediment to this.

TAX EXPERTISE. Accountants and CPA's are here every day to answer payroll questions. We know the laws and can give you quick responses to your technical payroll questions. Generic payroll companies have no such capability.

RESTAURANT EXPERTISE. You can get answers quickly to restaurant related payroll questions. Over 40 years of providing payroll services to restaurant owners we have seen every situation and employee issue and can advise you competently on topics other payroll companies cannot hope to answer.

ONE CALL. You don't have to make numerous calls to your accountant and then to your payroll company while they point the finger at each other if an issue arises. With Kallas, it is one call to get an answer or a problem fixed.

BETTER COMMUNICATIONS. You talk to your bookkeeper many times a year about many things including payroll. With the generic payroll companies, you are talking to phone answerers or clerks.

BUNDLED PRICING. When payroll service is bundled together with accounting and tax work, you get a better discount.

COVER ALL THE BASES. Kallas offers all the services the national companies offer and more. From remote entry to On-Boarding to debit cards and POS tie-in, Kallas can offer the most sophisticated services and products as your needs grow. And you don't have to worry that some important payroll coverage is missed.

EVOLVED TO MEET YOUR NEEDS. Some restaurant owners are not tech savvy and prefer labor intensive payroll procedures such as calling in payroll or faxing worksheets or even submitting timecards. Most payroll companies will not accept payroll information submitted like that anymore. Kallas still accommodates the non-computer oriented restaurant owner.

UIA SERVICE INCLUDED. No other payroll service offers a UIA Monitoring and Follow-up Service as part of your payroll pricing. The generic payroll companies don't even warn you that you may be exposed to potentially thousands of dollars in unnecessary penalties and taxes if you don't monitor your UIA closely. They may offer the service at an add-on price or direct you to a separate UIA service company but then you are dealing with more layers of services that may not have the required expertise.

The Kallas UIA service includes:

- Work Comp audits handled expertly at our office.
- UIA audits handled expertly at our office.
- UIA yearly rate review and protest if necessary.
- MIWAM account monitoring for unusual items or UIA mistakes.
- Employee claim protests.
- Respond to UIA notices.
- Legal notices review and advice.
- Claims and hearing advice.
- Discontinuances and sale of business forms.
- Unlimited phone support.

BECOMING COMPLIANT WITH TIP REPORTING

HOW TO REPORT TIPS PROPERLY

Many years ago, tip reporting was easy and owners typically would tell their accountants or payroll company to just report tips up to whatever the minimum wage was at the time and that was sufficient.

This was a good deal for the restaurant owner because the more tips reported the more taxes he pays and it was a good deal for the tipped employee because the fewer tips they reported, the fewer taxes they would pay also.

As years passed, though, the IRS figured out that the taxes on underreported tips was a big source of revenue and got better at tightening the screws to force more tip reporting.

First, there was the 8% Tip Reporting Law. If you were a large restaurant, you were required to file Form 8027 which reported credit card sales and credit card tips, cash sales and cash tips. From that report, if your tips were not at least 8% of total sales you could expect a very costly audit. Those audits scared many owners into reporting more tips.

Then there was Form K-1 which was a report generated by the credit card companies which went directly to the IRS. That form could be used to match sales and tips reported on credit cards to what you reported on your tax returns. The IRS uses that information to audit restaurants more aggressively.

When you get audited for tips and the IRS finds a shortfall, the restaurant owner is the one who pays taxes, penalties, and interest on the underreported tips – not the employee. And the IRS can go back three years.

In today's world with POS systems that maintain all tip information, the IRS is not accepting any excuses for not reporting properly.

We advise our clients to:

1. Post a statement that all tips received by a tipped employee (including bussers and bartenders) must be reported each pay period. That is the law.
2. Sometimes getting employees to report cash tips is difficult but each employee should report some cash tips before they get cashed out after their shift.
3. You should have a record of what they are reporting in cash either in the POS on a Cash Tips Reported Form each shift.
4. Do not report only sufficient tips to meet minimum wage. This could really cost you if you are audited.
5. Do not report a dollar amount per hour such as $6.00 or even $10.00. By you reporting a dollar amount you have taken the responsibility off the employee and put it squarely on yourself.
6. The positive side to tip reporting is that there is a generous tax credit that owners receive which is based on the amount of tips their employees report. The tip credit will reduce your income tax liability.
7. If you have any questions regarding tip reporting, call your representative at Kallas.

MAKING YOUR LIFE EASIER

Technology is revolutionizing the restaurant industry. National franchise operations, young entrepreneurs opening new restaurants and tech-savvy independents are using new technology to save time, streamline operations and control information.

One technology that is catching on fast is going paperless with payroll.

There are many benefits of going paperless. No more signing checks. No more UPS or Fed Ex deliveries that get delayed due to emergencies. No more having even to be in the restaurant. Information is stored in the cloud. You, your managers and the employee can access certain information that you give permission to access. That means they can see their pay stubs, reprint a lost W-2, change their address, request time off and be aware of notices, rules, and employee handbook materials without you or your managers wasting time responding to employee requests. In addition, no more paper employee files to store. All the employee paperwork is digital in the cloud and accessible 24/7.

It is easy to set up too. The employee's net pay goes right into his or her bank account and for employees with no bank account, they get a debit card and their pay gets transferred to the debit card. You receive payroll reports via email and have access to all payroll records 24/7.

The clients we have set up with this system are very happy and would never go back to the old way. If you are interested in learning more, contact Jordan.

THANK YOU FOR ALLOWING US TO PREPARE YOUR TAXES

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

We study the tax law year round and prepare ourselves to improve the service each year to give you the easiest and most comprehensive experience complying with your tax obligations.

As we prepare returns from January through April, we make notes as to ideas or issues that will help you with your taxes in future years. If we see something, we will call you after tax season to discuss. Also, any questions you have during the year regarding buying, selling, deductions, planning or other tax questions, please do not hesitate to call. That is what we are here for.

We are especially grateful for the many new clients you sent us this year. Whenever we get a referral from you, we give them special attention. And our expertise in small business matters and the restaurant industry gives you and your referrals excellent representation at modest prices.

We are always glad to hear from you. If you have any suggestions on how we can improve our tax service let us know.

TAX CREDITS FOR ILLEGALS ENGAGING IN IDENTITY THEFT

The IRS has admitted to knowingly granting refundable tax credits, which work as back door welfare payments, to illegal immigrants who steal Social Security numbers to obtain employment and file their taxes. During a meeting of the Senate Finance Committee, IRS Commissioner, John Koskinen, admitted to Sen. Dan Coats (R-IN) that illegal aliens were stealing Social Security numbers and using them to receive refundable tax credits through their annual returns

Senator Coats learned that "… the IRS continues to process tax returns with false W-2 information and issue refunds as if they if they were routine tax returns" (Washington Examiner). In addition, "… the IRS ignores notifications from the Social Security Administration that a name does not match a Social Security number…" using their own system to determine whether a number is valid (Washington Examiner).

What happens according to Koskinen is that these illegals use a stolen Social Security number to get a job, but then they file their tax return with their taxpayer identification number. Now, we have laws on the books in which illegal aliens are suppose to be placed in deportation proceedings, yet criminal aliens, having stolen Social Security numbers, are knowingly issued tax credits.

To make matters worse, Koskinen seems to think this is a good thing: "… they're paying taxes. It's in everybody's interest to have them pay the taxes they owe."

The problem with this premise, aside from being lawless, is that Koskinen doesn't seem to realize that illegal aliens don't earn enough income to register as net contributors. Like low-income Americans, they earn back more in tax credits than they pay in payroll taxes.

Under current law, there is a loophole in which illegal aliens can file a tax return with an Individual Taxpayer Identification Number (ITIN) instead of a Social Security number to be eligible for a refundable portion of the Child Tax Credit. This welfare benefit for illegals costs taxpayers $4.2 billion a year, according to the Treasury Inspector General. However, under existing law, only those who submit a valid Social Security number are eligible for the Earned Income Tax Credit (EITC). Therefore, many illegals who engage in identity theft are collecting both the Child Tax Credit and the EITC. And by encouraging illegal aliens to file with ITINs, the IRS is essentially giving a green light for illegals to violate federal law and obtain employment.

"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 needs in today's highly competitive food and beverage service industry.

"Insiders Report" is published quarterly by Kallas Publishing, Inc as a free service to Kallas Restaurant Accounting clients.

For information or subscription rates, contact:
Kallas Publishing, Inc
22600 Haggerty Road
Farmington Hills, MI 48335
(313) 962-6000

AVOID THE PITFALLS WHEN BUYING A RESTAURANT OR BAR

Before committing to purchasing a restaurant or bar it is advisable to take the proper steps to avoid unpleasant surprises later. A due diligence investigation should be performed which includes seeking professional advice on how to proceed. Even if you are an experienced buyer, the laws change and if you don't make the right moves, costly problems could emerge.

If you are interested in purchasing a restaurant or bar and you have your eye on a specific location, that is the time to start talking to your accountant and lawyer.

The attorney will draft a Preliminary Purchase Agreement with contingencies. Contingencies will allow you to renegotiate or back out of the contract altogether if your due diligence turns up serious problems.

The attorney will also search for liens and security interests which will need to be resolved for you to obtain clear title.

Part of your due diligence should include obtaining the professional opinion of a building inspector and an equipment expert who will check the age and condition of the equipment you are purchasing.

The experienced accountants at Kallas Restaurant Accounting should also be consulted. There are many tax considerations that have to be discussed and preliminary steps that should be taken prior to the final purchase. Here is a checklist:

How the business is purchased. Do you buy the stock of an existing company or create a new entity and buy certain assets? Each option has different tax consequences which should be discussed with your tax advisor. Buying the real estate also involves tax considerations.

What type of entity should be used and creating that entity. Each situation is different. Creating and deciding to operate as an LLC versus an S Corporation or a C Corporation involves many considerations with differing tax ramifications.

Allocation of the sale price. The IRS requires you and the seller to come to an agreement about the value of the assets you are purchasing. This is an important step with long-lasting tax consequences and should be made in consultation with your tax accountant.

Filing Registrations including federal ID #. This should be done by your accountant in the proper sequence and is the next step in the process. DO NOT ATTEMPT TO DO THIS YOURSELF. Many costly mistakes are made by new owners who file their own registrations.

Opening bank accounts and pre-opening expenses. A bank account in the name of your new entity should be opened. It is important to start documenting your expenses relating to the purchase in the proper way to pass IRS rules.

Unemployment considerations. An increasingly important step in any purchase of a restaurant or bar is to obtain the unemployment history of the location. In most cases, a purchaser inherits the rate of the seller. Some steps can be taken to mitigate or reduce problems in this area but you must know if a problem exists and that takes research and knowledge.

External and in-house accounting procedures. These procedures should be discussed in the context of the resources available and the results expected.

Management agreement in the case of liquor license transfers. If a liquor license is involved in the purchase, you will have to begin the process of transferring the license. For you to operate the business while the license is being transferred will require a management agreement. Management agreements involve considerable risk to both the seller and the buyer. Before entering into a management agreement these risks should be discussed.

Inventory all food, liquor , kitchen wares, furniture, fixtures and equipment. A preliminary inventory should be done prior to closing. Hardware, equipment and other items have a tendency to disappear between the Preliminary Purchase Agreement and the closing.

For referrals of experienced restaurant and bar attorneys go to KallasCompany.com, click the down arrow on Restaurant Pros and click on attorneys.

"Our income tax system has been destroyed by complexity – a complexity largely by well-meaning efforts to achieve theoretical purity, eliminate every real and imagined 'abuse' and address nontax policy objectives."

Fred Goldberg, former IRS Commissioner

Kallas Restaurant Accounting
INSIDERS REPORT
22600 Haggerty Road, Farmington Hills, MI 48335
(313) 962-6000 www.KallasCompany.com

Calendar for June, July, August 2018

June 15

- Individuals outside the U.S.: File 2017 Form 1040.
- Individuals: Pay the second installment of estimated tax for 2018.
- Corporations: Deposit the second installment of your 2018 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 2017.

August 10

- File Form 941 for the second quarter of 2017 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.