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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SPECIAL OFFER

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NEW TAX CUTS AND JOBS ACT OF 2017

HOW IT EFFECTS "PASS THROUGH" BUSINESSES

Under the new tax act, starting with the 2018 tax year, Pass-through businesses may be eligible for a 20% deduction for which they pay nothing. This is a very generous tax break for small businesses and almost every restaurant and bar will be included.

If you are operating as an S corporation, partnership, schedule C or schedule E rental then you are a "pass-through" business and eligible for this benefit. C Corporations are not eligible.

IF YOU QUALIFY FOR THE FULL BENEFIT, YOU ARE ONLY TAXED ON 80% OF YOUR BUSINESS PROFIT STARTING WITH THE 2018 TAX YEAR.

Stated another way, if you qualify for the full benefit, you are only taxed on 80% of your business profit starting with the 2018 tax year.

If you own more than 1 business you may be able to take the deduction on each business.

There are several limitations to the amount of the deduction depending on your taxable income and other factors such as W-2 wages paid by your business and furniture fixtures and building costs. Taxpayers fall within 1 of 2 brackets used to calculate the deduction. For single taxpayers, if your taxable income is less than $157,000 you get the full deduction. If it is more than $157,000, you may get the full deduction depending on other factors mentioned above. For married filing joint taxpayers, if your taxable income is less than $315,000 you get the full deduction. If more than $315,000, you may get the full deduction depending on the other factors mentioned above.

The calculations are very complex and require your tax preparer to pull information from multiple sources. Adjusting certain factors such as your W-2 income and/or guaranteed payments can generate a larger deduction.

TAX PLANNING BECOMES MORE COMPLICATED AND MORE IMPORTANT THAN EVER BEFORE.

Here is a simple example: You are single and earn a wage of $30,000 from your S corporation and have $80,000 in profits. That equals $110,000 in income. Due to the new 20% deduction, you can deduct $16,000 ($80,000 X 20%) from your income and are taxed on $94,000 instead of $110,000. If you are in the 32% tax bracket (Fed and State), that equals a dollar savings of $5,120 ($16,000 deduction times 32% tax bracket). Tax planning note: if you decreased your W-2 earnings and increased your profit, your deduction could be more.

Another example: You have the same income above but you are married and your wife has income from Ford Motor Company of $100,000. You would still get the $5,120 tax savings even though your income is now $210,000 (your $110,000 and her $100,000) because you are under the income threshold for married people which is $315,000.

Another example: You are married and your wife makes zero. You have a restaurant organized as a partnership. Your partnership makes $500,000 in profit of which you get half. Your $250,000 is eligible for the 20% deduction because you are under the income threshold of $315,000. So instead of being taxed on $250,000, you are taxed on $200,000 (20% deduction on $250,000 = $50,000). If you are in the 37% tax bracket (Fed and State), the tax dollars saved is $18,500.

You can see how powerful this deduction can be. This will generate huge tax savings when applied across the country and allow small businesses extra money to invest, expand and hire people.

RETIREMENT PLANS FOR RESTAURANT OWNERS

Owners, on occasion, ask me what retirement plan is best for restaurant owners.

Usually, I advise them that their hard-earned knowledge and experience in running a restaurant along with owning restaurant real estate is a pretty good retirement plan by itself. Return on investment for a successful restaurant can be a home run, and the tax benefits under current law definitely favor the small business owner.

You are your own boss and you control your destiny.

But if you want something to supplement your restaurant income or a hedge for your later years, especially if you can't or do not want to work, then you should consider a tax-advantaged retirement program. Unfortunately, when it comes to what we think of as a traditional retirement plan like a 401K or an employer-sponsored profit sharing plan where money is invested at a tax-advantaged rate, there are not many great options for restaurant owners. Either the plans that are available are too limited in how much you can contribute or they are too complicated, costly and restrictive to be practical.

> *YOU ARE YOUR OWN BOSS AND YOU CONTROL YOUR DESTINY. WHAT RETIREMENT PLAN IS BEST FOR YOU?*

Below, is a primer on retirement plans with my assessment as to the simplest to the most complicated for restaurant owners.

Traditional IRA. The most basic and easy retirement plan is to set up a Traditional IRA. It's tax deductible up to $5,500 per year for the husband and $5,500 for the wife. ($6,500 if over 50 years old). No income limits apply. Distributions are taxable and must start at age 70 ½. You may invest more than $5,500 per year but there is no deduction for additional contributions although the earnings are tax-free. Most restaurant owners use the Traditional IRA as their retirement savings plan. This is an individual plan and no employees need to be included.

Roth IRA. Uses most of the rules and contributions as a Traditional IRA but unlike the Traditional IRA, contributions are not tax deductible. The benefit to the Roth is that when you retire, the distributions are not taxable. Also, contributions to a Roth may be limited if your income is too high. Fewer restaurant owners invest in Roth IRA because of the income limitations and the non-deductibility. This plan is best suited for young people at lower tax brackets who do not need the current deduction.

Sep IRA for Self-employed. Deductible contributions may be much higher (up to $55,000 for 2018 or 25% of compensation, whichever is less). This is a powerful retirement vehicle if you are self-employed with no employees. If you have employees, however, they must be included in the plan under certain age, earnings and years of service limitations. If you have a high turnover of young employees, this plan could work well for you because of the age and years of service limitation. You can also decide each year whether you want to contribute or not. The contributions come from you as the employer and are a deduction of the business. No IRS reporting requirements but employers must monitor eligibility and notify employees annually.

Simple IRA – Allowed for any business with less than 100 employees. Not well suited to restaurants due to the cost of the employer matching requirements and the paperwork associated with it.

Simple 401(k) plan. Although not requiring the extensive testing that a 401(k) plan requires, an employer still must fund the employee's retirement benefits.

401(k) plans. Except in very unusual cases, a 401(k) plan for an independent restaurant operation requires expensive annual IRS reporting, testing, and other compliance duties and should be avoided.

The above guidelines are general in nature. You should consult with a retirement specialist to learn more of the details of each plan and which plan will accomplish your goals.

ATTENTION TAXPAYER

Kallas Restaurant Accounting has recently contacted the State of Michigan to see why clients are receiving a constant barrage of letters regarding their sales tax filings each month. The State no longer manually records sales tax and state withholding payments. They have switched from a manual system to a computerized system.

The manual system was allowing you to mail your coupon and payment on the 19th or 20th with no late payment issues because a worker would input the date of payment based on the postmark date of the envelope on your check.

The new computerized system will not allow this "grace period" anymore. You will be considered late because the computer recognizes your payments on the process date, not when it was mailed.

You have only 2 options to avoid late penalties, interest, and letters each month:

1) Mail payments by the 15th of each month. However, there is still no guarantee the state will process on time.

2) Sign up for EFT payments with Kallas Company.

With EFT (Electronic Filing of State Tax and State Withholding), the funds are pulled from your account on the 18th of each month and submitted electronically to the State by Kallas on your behalf.

This assures your filings and payments will not be late each month provided you keep enough money in your bank account to pay your taxes, and you get the information to us in a reasonable time frame. It also gives us a submission ID, which proves the payment was submitted on time.

UIA STARTING TO RESPOND TO TAXPAYER COMPLAINTS

If you read this newsletter on a regular basis, you have probably read several articles I have written about how messed up the Michigan Unemployment Office (UIA) is.

There have been many complaints about the bugs in their website, the combative attitude of the bureaucracy, the severe and unfair penalties and their poor responsiveness to complaints.

Within the last 60 days, it seems that some attitudes have changed.

The good news is penalties are now being waived and refunds received. We are getting good responses to our persistence in fighting with the bureaucracy about how they have issued unwarranted penalties against our clients.

Our office is monitoring each Kallas client for unwarranted penalties and tracking penalty waivers and refunds to make sure they are issued and in the right amounts.

Thanks to all in regards to notices you may have received and your trust in Kallas.

WARNING - SALES TAX AUDITS INCREASING

In the last year, Kallas has seen an unusual spike in sales tax audits by the State of Michigan. Although no one knows for sure how they pick their victims, we think that the state is now matching the 1099K that the credit card processing companies are providing to the IRS. This is a new procedure for the State and unlike the IRS who will send a letter asking for an explanation if the amounts do not match, the State is just coming in and auditing.

A sales tax audit is not a simple thing.

In a sales tax audit, the auditor will want to access your POS system. He or she will want to see your check registers, bank statements and other sources of taxable and non-taxable income. They will want to interview you and ask questions about your procedures from ringing up customers to depositing to the bank. They will also look at complimentary giveaways, customer discounts and employee discounts to see if you are reporting those properly. If you do events or sell to charities or government employees, which is non-taxable, you need to have a copy of their tax exemption certificate.

If you do not have a cloud-based POS system which keeps a record forever, they will want to see historical hand-written, print-outs or computer records of your sales and all adjustments to sales going back 4 years.

It is not unusual for computers to crash and records may be destroyed. That is why it is important to have a back-up written or printed record of your sales activity over the last 4 years. If your POS system has crashed without a back-up, you can expect a very invasive and expensive investigation of your records and how you run your business.

Giving Kallas electronic access to your POS every month is one way to make sure your procedures will withstand an audit.

If you have any doubts as to how you are reporting your sales and keeping records, call your bookkeeper at Kallas and we will perform an analysis of your procedures for you.

MICHIGAN RESTAURANT SHOW

EFFICIENT USE OF YOUR VALUABLE TIME

LEARN MORE IN ONE DAY THAN YOU WOULD EXPECT

STAY UP TO DATE ON NEW PRODUCTS AND SERVICES

FREE ADMISSION!
REGISTER ONLINE USING PROMO CODE
18BOOTH216

The Michigan Restaurant Trade Show will be held at the Suburban Collection also known as the Rock Financial Showcase in Novi on October 16 and 17. The trade show is a terrific way for owners to take a break from the day-to-day routine and see old friends, fellow owners, and their favorite vendors. It is also a

SAVE THE DATES
OCTOBER 16 AND 17

I always get some new ideas when I go to the show and it is a great way to keep up with new pricing, and state of the art products and services. You will see demonstrations of new food products, new ideas on marketing, and be able to talk at length to vendors and service providers.

The two days of the show are not only dedicated to providing restaurant owners with an opportunity to see vendors and their new offerings but also to attend valuable seminars and demonstrations and benefit from special show discount pricing.

Kallas Restaurant Accounting will be at Booth 216 this year. Please stop by. We would love to see and talk to you. And if you are a new Kallas Company client you can meet and talk to staff.

COME TALK TO US
FACE TO FACE
BOOTH 216

Make sure you mark October 16 and 17 on your calendar this year. A couple hours of your time will give you an enjoyable, educational and sometimes inspiring benefit for years to come.

JUST BECAUSE YOU DO NOT TAKE AN INTEREST IN POLITICS DOESN'T MEAN POLITICS WON'T TAKE AN INTEREST IN YOU.
PERICLES (430 B.C.)

FOREIGN REPORTING REQUIREMENTS FOR U.S. TAXPAYERS

DO YOU HAVE A FOREIGN BANK ACCOUNT OR INCOME PRODUCING PROPERTY?

In the past several years, the IRS has been vigorously pursuing taxpayers who fail to comply with foreign reporting requirements. The IRS has instituted banking treaties with almost all sovereign countries which require foreign banks to report amounts that are in the name of U.S. citizens. These reports are then matched to each person's U.S. tax return.

It is important taxpayers are reminded of the forms they are required to file. Below are the forms you could be liable for if you have a foreign bank account or own income producing property in another country.

FinCEN Form 114, Report of Foreign Bank and Financial Accounts for U.S. taxpayers with greater than $10,000 (at any point during the year) in a foreign bank account.

Form 8938, Statement of Specified Foreign Financial Asset, for U.S. taxpayers with more than $50,000 of foreign financial assets on the last day of the tax year or more than $75,000 at any time during the tax year.

If you transfer money or property to a foreign corporation or if you are an owner in a foreign partnership or corporation, additional reporting may be required.

Penalties are SEVERE. Penalties start at $10,000 for each negligent violation. If U.S. taxpayers commit a willful violation then the penalty can be up to $100,000 or 50% of the amount in the account.

"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.

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* * SPECIAL OFFER * *

Limited Time Only

HOW MUCH TIME DO YOU SPEND WITH EMPLOYEE PAPERWORK?

THERE IS A WAY TO REDUCE YOUR BURDEN

Owners frequently complain to me about how much time they or their managers spend on employee paperwork issues.

Issues like address changes, change of dependents, wrong addresses, old checks not being picked up, the post office being late with payroll delivery, not being there to sign checks, employee requests for earnings records, the wrong people seeing confidential payroll information, and a million other things can pop up and consume your time.

You can avoid all of the above. And concentrate on more productive things.

The technology is here and it works very well.

Many restaurants are moving to the internet to manage their entire payroll process. It is easy, it works, it's paperless and you can control things in a more efficient way.

No checks to hand out, no waiting for payroll deliveries, no postage costs, manage and access your payroll 24/7 from anywhere, and significantly reduce or eliminate your payroll hassles.

It's one of those things that you will say, "I wish I had done this years ago."

To help you to move to the 21st century, Kallas is making the following offer:

If you sign up in the months of August and September, Kallas will set you up with the following services for FREE. *If you take all the services, it is a savings of $.80 per check plus postage!*

- Employee self-service via the internet.
- Direct deposit
- Paycards

Call Jordan at 313-962-6000 to get started.

THIS IS THE TIME OF YEAR TO CHECK YOUR TAX SITUATION

DO YOU NEED TO START PAYING OR INCREASING YOUR ESTIMATES?

HOW WILL THE NEW 20% DEDUCTION EFFECT YOU?

Restaurant and other business owners have to pay attention to their tax situation more than other taxpayers. Your income can vary from year to year and the profits and losses from your business can cause your taxes to fluctuate.

In addition, as a business owner, you have some control and latitude as to how to treat certain forms of income and how to expense certain items such as depreciation.

Most owners who have to pay taxes on their profits need to do so through quarterly estimated taxes. Quarterly estimated taxes are a requirement for all taxpayers whose payroll withholding is insufficient to cover their tax liabilities.

If you do not set up proper estimated taxes, you may have an unpleasant surprise tax bill at year end along with penalties for not paying enough.

To resolve this situation, the IRS allows a taxpayer to set up "safe" estimates which are basically 110% of your prior year tax.

Part of our monthly bookkeeping procedures during the year is to keep an eye on your profitability to see if there are major fluctuations. But this is not an exact science and there are many factors that could enter into how you end up at year-end.

The best defense against an unexpected tax bill is for you – the business owner – who knows best whether you are having an unexpectedly good year to call our office and have us take a look to see if it is advisable to increase your estimates or create estimates for you.

Items that could cause a too low estimated tax include:

- High profits in the current year.
- Open or close a business in the current year.
- Sale of a business or sale of stocks in the stock market.
- Loss carryovers end.
- Not paying the full amount of estimates.
- Other unanticipated items.

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Calendar for September, October, November 2018

September 3

- Kallas closed for Labor Day.

September 15

- Individuals: Pay the third installment of your estimated tax.
- Partnerships: File Form 1065 if you timely requested a 5-month extension. Deposit payroll tax for Aug if the monthly deposit rule applies.
- Corporations: File Form 1120 or 1120S if you timely requested a 6-month extension.
- Corporations: Deposit third installment of your estimated tax.
- Corporations: Taxes due for June year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending January, March, June or September.

September 20

- Michigan Sales, Use and MBT estimates due.

October 15

- Individuals: File Form 1040, 1040A, or 1040EZ if you timely requested a 6-month extension.
- Corporations: Taxes due for July year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending February, April, July or October.

October 16 & 17

- MRA tradeshow at Rock Financial Showplace.

October 20

- Michigan Sales, Use and MBT estimates due.

October 25

- UIA form 1020 due for 3rd Quarter.

October 31

- File Form 941 for the third quarter.
- Deposit FUTA owed through Sep if more than $500.

November 15

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

November 20

- Michigan Sales, Use and MBT estimates due.

November 23 & 24

- Kallas closed for Thanksgiving.