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TAX PROVISIONS TO WATCH OUT FOR AS YEAR END APPROACHES

Most people do not think about tax planning until year end but effective tax planning is done throughout the year.

In the good-old-days, tax law would be reasonably consistent from year to year allowing businessmen and their tax advisors to plan with reasonable certainty.

Unfortunately, lawmakers like to play with tax law every year changing it to solve whatever budgetary and political inequities they perceive exist at the time.

More frequently in recent years, if lawmakers felt enough public pressure, the law was changed after year end and before taxpayers could plan ahead - further confounding tax strategies.

This has devolved into a comedy of which tax laws have expired this year, which tax laws will be extended and what are the new amounts for phase-outs, add-ins, exclusions, credits and limits.

Nothing is fixed anymore. It is all a moving target with a gazillion moving parts.

Thankfully, because of our specialized accounting practice, we only need to be concerned with the 2,000 or so pages of tax law that affect restaurant and bar owners. That is the good news.

As the law stands now, if not changed by Congress, the tax law changes that most affect restaurant and bar owners are as follows:

- 100 percent bonus depreciation for new restaurant furniture, fixtures and equipment acquired after September 8, 2011 and placed in service before 2012 was increased by the 2010 Tax Relief Act from 50 percent to 100 percent. For new furniture, fixtures and equipment placed in service in 2012, the bonus rate is scheduled to drop back down to 50 percent. No bonus depreciation is scheduled after 2012.
- For tax years beginning in 2010 or 2011 you could expense new and used restaurant furniture fixtures and equipment under code section 179 to a limit of \$500,000. For 2012 the limit is lowered to \$125,000 and after 2012 to \$25,000.

- For tax years 2010 and 2011 a special provision allowed restaurant owners to expense up to \$250,000 of building improvements. There is no provision for this in 2012 and unused amounts from 2010 and 2011 cannot be carried forward to 2012.
- The Work Opportunity Tax Credit for hiring certain disadvantaged workers will expire at the end of 2011.
- Special deductions for donations of food inventory will expire at the end of 2011.
- The reduction of the FICA tax will expire at the end of 2011.
- The Alternative Minimum Tax (AMT) exemption is scheduled to go down after 2011 which means the AMT will catch more people starting in 2012 unless changed.
- The state and local sales tax itemized deduction will expire at the end of 2011.

IRS AUDIT ACTIVITY HAS INCREASED

THE BURDEN OF PROOF IS ON YOU

After many years of minimal audit activity, the IRS warned us a couple years ago that they were going to concentrate more efforts on auditing small businesses.

We hear these kinds of warnings all the time but this time we can see that this was no empty warning as over the last 18 months, IRS audit activity in our office has increased substantially.

The area they focus on more than any other is; comparing deposits to the bank to sales reported on your sales tax return. They are finding in these audits that deposits to the bank are in excess of what was reported as sales. When the restaurant or bar owner cannot explain the difference, the IRS automatically calls it unreported income. You then

"The trade of governing has always been monopolized by the most ignorant and the most rascally individuals of mankind."
Thomas Paine

pay income tax, sales tax, social security tax, penalties and interest on the amount that cannot be explained. In addition, they can open up more years to audit if they think that you have under-reported in other years.

Remember, the burden of proof is on you. You cannot merely explain what happened – you must prove it.

We suggest all restaurant and bar owners do the following:

- Keep track of any monies that come into your business that are not sales, such as refunds, loans or money you put in. You should photocopy the deposit coupon and notate where the money came from.
- Keep all your daily sales reconciliation reports or POS reports for every day's activity. Do not throw them away. Do not erase them. If you do the IRS automatically suspects you of cheating.
- Keep the Z-out section of your register tapes for at least three years. Staple them to your daily sales reconciliation.
- Make sure you have a daily reconciliation worksheet or POS report that shows what happened to your money from the sales of the day to the deposit of the day. If you are unsure how to do this, call our office and we can develop a simple daily reconciliation worksheet for you.
- Make daily deposits if possible.
- If you don't already, send your bank statements to Kallas. We will check to make sure you are not getting into trouble with the IRS.

Contact Jim or Sheri at Kallas with any questions on how to improve your record keeping.

If you have any questions, call Jim or Sheri.

W-2 SPECIAL INSTRUCTIONS AND IMPORTANT YEAR END DEADLINES

YOU CAN HELP US BY FOLLOWING THE SCHEDULE BELOW

Year end is fast approaching. Starting in November, the Kallas staff works overtime preparing for the numerous deadlines in December, January, February, March and April. You can help us to help you by following the schedule below.

Dec 11: Deadline for any missing or incorrect employee W-2 information, year end bonuses, taxable fringe benefits, auto reimbursements, and health insurance premiums. If you drive a company auto, you must report personal vs. business usage to us.

Any changes to employee W-2 information after December 15 will require a \$50.00 fee.

Dec 15: For single entry bookkeeping clients, a final year-end "Omitted Expense Report" will be mailed to you with your November Profit and Loss Statement. This allows you to provide us with any final bookkeeping information you may not have mailed to us during the year.

Please complete the form and mail it back to us before February 10.

Dec 30: you should receive your personal property tax statement from the city. Mail this statement to us immediately. This statement has information we need.

If we do not receive your Personal Property Tax Statement, your property taxes may go up.

Jan 4: For those of you who are required to file under the 8% tip law; have your final year end sales to us by today.

We cannot process your W-2's until your final tips report is complete.

Jan 10: W-2's will be mailed from our office starting today. Please inform us if you want your W-2's mailed in any special way.

Unless notified otherwise, all W-2's are mailed to your regular business address.

Jan 15: Your 4th quarter estimated tax payment is due. If you want us to prepare 1099 forms for independent contractors or other miscellaneous payments over \$600.00, we need the information by this date.

Feb 10: Your 2011 books are closed today.

Any bookkeeping materials sent after today will require a rerun charge.

RESTAURANT TRADE SHOW FUN AND EDUCATIONAL

It is not often that we can have fun, socialize and learn something. The annual Michigan Restaurant Trade show held every year at the Novi expo is one of those times.

In addition to the educational seminars, cooking demonstrations and booth exhibits, restaurant owners get a chance to talk to their suppliers, vendors and other service providers in a convivial atmosphere where a lot can get done.

We enjoy our two days there every year talking to old clients and meeting new friends. Hope to see you next year.



Maryann Caruso, George Kallas, and Cathy Infantado at the 2011 Michigan Restaurant Show

Calendar for December 2011, January & February 2012

December 11

- Deadline for any missing or incorrect employee W-2 information, year end bonuses, taxable fringe benefits, auto reimbursements, and health insurance premiums.

December 15

- *Corp*: Deposit the fourth installment of your estimated tax.
- *Corp*: Taxes due for September fiscal year.
- Estimated Taxes due for fiscal year ending April, June, September or December.
- *Payroll*: If you are a monthly depositor, your Federal coupon and taxes should be paid on-line.

December 20

- Michigan Sales, Use and MBT estimates due.

December 23 & 26

- Kallas closed for Christmas.

December 30

- Kallas closed for New Year's Eve.
- You should receive your personal property tax statement from the city. Mail this statement to Kallas immediately.

January 2

- Kallas closed for New Year's Day.

January 4

- For those of you who are required to file under the 8% tip law, have your final year end sales to us by today.

January 10

- W-2's will be mailed from our office starting today. Please inform us if you want your W-2's mailed in any special way.

January 15

- *Individuals*: Final installment of your 2011 estimated tax due.
- *Corp*: Taxes due for October fiscal year
- *Corp*: Estimated Taxes due for corporations with fiscal year ending January, May, July or October.
- *Payroll*: If you are a monthly depositor, your Federal coupon and taxes should be paid on-line. If you are a semi weekly depositor, your Federal coupon and taxes are due on Wednesday or Friday depending on what your payday is.

January 20

- Michigan Sales, Use and MBT estimates due.

January 25

- UIA form 1020 due for 4th Quarter.

January 31

- Furnish Forms 1098, 1099 and W-2G to recipients
- Furnish Form W-2 to employees who worked for you during 2010.
- Deposit any FUTA tax owed through December 2010.
- File Forms 940, 941, 943, 944 and/or 945 if you did not deposit all taxes when due.

February 2

- File Form 632 (L-4175), Personal Property Statement to city of business.

February 10

- Kallas Restaurant Accounting closes the books for all calendar clients. Any 2011 bookkeeping material submitted after this date requires a billable work order.

February 15

- Furnish Forms 1099-B, 1099-S and certain Forms 1099-MISC to recipients.
- *Corp*: Taxes due for November fiscal year
- *Corp*: Estimated Taxes due for corporations with fiscal year ending February, June, August or November.
- *Payroll*: If you are a monthly depositor, your Federal coupon and taxes should be paid on-line. If you are a semi weekly depositor, your Federal coupon and taxes are due on Wednesday or Friday depending on what your payday is.

February 20

- Michigan Sales, Use and MBT estimates due.

February 28

- File information returns, including Forms 1098, 1099 and W-2G.
- File Form W-3 with Copy A of all Forms W-2 issued for 2010.
- File Form 8027 Tip Reporting if you are a large food or beverage establishment.

Kallas
Restaurant
Accounting

INSIDERS REPORT

645 Griswold, Ste 1500, Detroit, MI 48226
(313) 962-6000 www.KallasCompany.com

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.

In January you will receive your tax organizer. 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 tax client you receive a gift certificate worth 50% of that new client's first tax return or monthly billing fee. In the years that we have had the gift certificate program, our clients have redeemed thousands of dollars worth of valuable tax services.



Louie Poulos and Peter Poulos from Karl's Family Restaurant meet with George Kallas at the 2011 Michigan Restaurant Show

SOCIAL MEDIA DOES WORK

GUEST ARTICLE FROM SUE INGESOULIAN
OWNER OF CHESLEY'S BAR AND GRILLE

Social media is a great way to engage customers, promote your business and attract new faces to your establishment. The price is right (free) and only costs you a bit of time each day. Have you noticed that Fortune 500 companies have jumped on the Facebook bandwagon? There is a reason that the big boys are adapting to this form of marketing – it works!

We are Chesley's Bar and Grille in Lincoln Park, a cozy neighborhood bar. We have used social media over the last few years and those efforts have resulted in increased sales and new customers. Using our Facebook account to promote daily specials and special events, we really were not sure if we were making an impact.

We were surprised at the number

We have used social media over the last few years and those efforts have resulted in increased sales and new customers.

of times people come in for the specials because they saw it on Facebook. During special events we always take photographs and our friends are always eager to see themselves on our Facebook page. We recently had a contest on Facebook where we asked for name suggestions for a new menu item. The winner was treated to a free dinner and it was a great success. We took the winner's photo with the item and posted it on our page. (Ed's Wrapped Weenie was the winning suggestion!)

If you do not have a Facebook account, set one up today. As a business you need to create a page to share your products and services. You can post information about your business, hours, credit cards that are accepted, etc. Customers can post reviews, provide feedback and make suggestions. Your page can link to other sites that provide reviews such as Yelp.

Find us at [facebook.com/ChesleysBarAndGrille](https://www.facebook.com/ChesleysBarAndGrille) and tell us what you think! We are Chesley's Bar and Grille 3717 Fort Sr. Lincoln Park, MI 48146.

NEW REGULATION REQUIRES CREDIT CARD COMPANIES TO REPORT YOUR INCOME

At the end of 2011 you will be receiving a new form from your credit card processing company.

The form is a 1099-K and it is an information return which will be reporting all your credit card sales to you and to the IRS. The 1099-K reporting requirement is a new attempt by the IRS to force more accurate reporting by businesses that accept credit cards. Unfortunately, it is another paperwork burden which may create more problems that it resolves.

The new 1099-K creates numerous issues for restaurant and bar owners.

- If a mistake is made by the credit card company, is that going to cause the IRS to come after you?
- Will credit card companies increase their fees due to the added paperwork?.
- Will you or your accountant have to spend more time reconciling the 1099-K's to your reported sales?
- Will the proposed regulations allow the IRS to levy your credit card receipts without due process if you owe the IRS money?

The new law requires the credit card companies to report only gross receipts. Gross receipts does not take into account chargebacks, refunds, paid out tips, or transactions where the customer receives cash back.

If reporting the gross amount on the 1099-K's causes an overstatement of sales reported to the IRS then additional accounting procedures will have to be set up to explain the discrepancy. Proposed regulations have not given us guidance as to how to explain these differences and many questions still need to be answered about this new reporting requirement.

Stay tuned to updates in future newsletters and if you have any questions regarding your operation and the new record keeping associated with this law call our office.

OUR 2011 HOLIDAY SCHEDULE

Please post this schedule for reference.

Our office will be closed on:

- Thursday, November 24 and Friday, November 25 for Thanksgiving.
- Friday, December 23 and Monday, December 26 for Christmas.
- Friday, December 30 and Monday, January 2 for New Years.

Auto Payroll clients, we ask that you follow the schedule below:

| Normal call/fax day | Call or fax this day |
|---------------------|-----------------------------------|
| Nov 24 Thursday | Wednesday Nov 23 or Monday Nov 28 |
| Nov 25 Friday | Wednesday Nov 23 or Monday Nov 28 |
| Dec 23 Friday | Thursday Dec 22 or Tuesday Dec 27 |
| Dec 26 Monday | Thursday-Dec 22 or Tuesday Dec 27 |
| Dec 30 Friday | Thursday Dec 29 or Tuesday Jan 3 |
| Jan 2 Monday | Thursday-Dec29 or Tuesday Jan 3 |

Please remember our fax lines are available 24 hours.

FAX LINE 313-962-7113

Due to the quantities of payrolls processed and year end processing, we ask that you keep to your scheduled call-in day. Payrolls called in earlier than the call in day will not be processed until actual call in day.

We will be offering a COURIER SERVICE or Next Day UPS or PICKUP if you do not want to rely on the regular mail during the holidays. There will be an additional charge for this service.

You will be asked your mailing preference when calling in your payroll.

If you need to change your payday due to the holidays; please let us know when calling in your payroll.

"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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For information or subscription rates, contact:

Kallas Publishing, Inc
645 Griswold St., Ste 1500
Detroit, MI 48226
(313) 962-6000