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MICHIGAN CHAMBER OF COMMERCE DOES GOOD WORK

Recently, as some of you know, I had a difficult issue with the Michigan Unemployment Insurance Agency (the UIA). Many of our clients were unfairly assessed penalties and interest due to massive misapplication of payments.

I appealed to the UIA, wrote letters, made many phone calls, followed UIA procedures, asked for waivers and was denied time after time.

As a member of the Michigan Chamber of Commerce, I reached out to Wendy Block, their Director of Health & Human Resources, to intercede on my behalf.

Based on the Chamber's influence at the Capitol, she was able to obtain a wonderful resolution to the problem.

Over the last few years, the Michigan Chamber of Commerce has been instrumental in mobilizing business support to pass major changes to turn Michigan around, and quite candidly a lot of their legislative agenda passed in 2011 – 2016, ie: repeal of the Michigan Business Tax & 23% Surcharge, & significant **reform in both Unemployment & Worker's Compensation, and the phase out of the Personal Property Tax on Equipment** which will be a huge catalyst for business investment and jobs growth going forward.

I urge all our clients to support the Michigan Chamber of Commerce. They are easy to work with and truly do good work to help the restaurant industry. Without them, it would be very difficult to deal with all the government bureaucracies.

If you have any questions, please call Mark Kerrins, Senior Manager of Membership Development at 517-371-7682 to further discuss membership opportunities and address any questions you may have. More information can be found by visiting the Michigan Chamber website at www.michamber.com.

I am confident the proven benefits of Chamber membership will promote the growth and success of your company. Thank you for your consideration.

George Kallas, CPA

THANK YOU

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

MAJOR TAX BENEFITS STILL AVAILABLE

Although in another article in this newsletter, I talk about how Uncle Sam is plundering high income taxpayers, there are still some very beneficial tax advantages still open to restaurateurs in 2017.

- **If you “refresh” your building or leasehold, there are improved depreciation deductions.**
- If you buy a building that is used more than 50% as a restaurant, you can take a shorter depreciable life which saves you money.
- If you buy a restaurant or build from scratch, there are still enormous depreciation write-offs that are available that can return your investment quickly through tax savings.

For more information or if you are considering expanding, **building, buying or “refreshing” give Nick, Cathy or Jim a call** on how it could benefit you.

TAX ADVANTAGED SAVINGS FOR CHILDREN AND GRANDCHILDREN

If you are a parent or grandparent who is thinking ahead and want to save money for your minor children and grandchildren there are a few ways to save that come with some tax benefits

The easiest way to save money for a child or grandchild is to set up a simple bank account called an UGMA (Uniform Gifts to Minors Act) or a UTMA (Uniform Transfers to Minors Act) account. UGMA and UTMA plans put money into a savings or investment account, which can be used for any purpose including schooling, marriage or a home. Money put into UGMA or UTMA accounts legally belongs to the child even though a parent has custodial rights. The first \$1000 income is tax free. Earnings over \$1,000 and **under \$2,000 is taxed at the child's rate. Any earnings over \$2,000 in a year is taxed at the parent's rate. There is no limit to amounts you can put in an UGMA or UTMA but if you want to avoid filing gift tax returns, the limit in 2017 is \$14,000 per person. So a married couple could give \$28,000 to a grandchild without filing a gift tax return.**

Another popular way to save money for schooling is a Qualified Tuition Program (QTP) sometimes called a 529 plan or an Education Savings Account (ESA) 530 plan.

Michigan allows a deduction for contributions to a Michigan 529 or 530 plan but there is no federal deduction. A 529 grows tax-free and there is no tax on withdrawals as long as they are used for college or higher education.

Contributions to a 529 vary based on actuarial tables necessary to cover qualified undergraduate and graduate expenses in the future. Contributions to a 530 plan are limited to \$2,000 per year but cover undergraduate, graduate and K-12.

You may contribute to a 529 and a 530 plan in the same **year for the same individual. Contributor's to a 529 may change beneficiaries or reclaim funds if desired. A drawback to the 530 plan is that contributions may be limited as the contributor's income increases.**

Other rules and limitations apply so consult an investment

“If God had really intended for man to fly, he would make it easier to get to the airport.”
George Winters, Humorist

advisor whenever opening a 529 or 530 educational saving account.

Another option you may consider is to withdraw savings from an IRA to pay the qualified educational expenses for yourself, a spouse, child or grandchild. The 10% early withdrawal penalty is waived in the above circumstance.

A tax-free savings bond can also be purchased to pay for **children and grandchildren's educational expenses**. Income phase-outs and other limitations apply so again consult with an investment advisor to determine if a tax-free bond is the right choice.

WE NEED A BREAK

Last May, I wrote an article about how Obamacare (the Affordable Care Act) in addition to forcing everyone to buy health insurance under penalty of law and forcing insurance companies to provide mandatory benefits to all, also instituted a series of onerous and stealthy tax

Repealing Obamacare would be a huge step in reducing our tax load and making taxes simpler to understand

increases.

Lawmakers and the designers of Obamacare know how to raise your taxes without raising tax rates. (Raising tax rates is too transparent and politically difficult.) They simply slip in language in a bill to make certain deductions phase out as your income increases or institute a surcharge on certain income as **your income increases. Sneaky, aren't they?**

The new administration is talking about revising the tax code and lowering taxes. That would be great but they need to repeal Obamacare first. That would be a huge step in reducing our tax load and making taxes simpler to understand.

Here are the taxes that would be eliminated if they repeal Obamacare:

REPEAL The Shared Responsibility Payment. If you did not have minimum health insurance coverage as defined by the ACA you pay a penalty tax. **The penalty in 2016 is the higher of \$695 per adult or 2 ½ % of income.**

REPEAL The new .9% surtax on wages and self-employment earnings over certain thresholds. The threshold for a single person is \$200,000 and for people filing joint \$250,000. There is an obligation for the employer to withhold on this additional amount OR

BE LIABLE FOR THE TAX in addition to normal withholding penalties if the employee does not pay the tax on their individual return.

REPEAL The new 3.8% Net Investment Income Tax on income from interest, dividends, annuities, royalties, rents and net gain on non-passive properties above a certain threshold.

REPEAL The tax on so-called **"Cadillac" insurance** plans which takes effect in 2018.

REPEAL The tax on medical devices manufacturers have to pay.

REPEAL The tax generated because self-employed business owners can no longer deduct their health insurance premiums before taxes.

REPEAL The tax generated from the itemized medical costs threshold going from 7.5% of income to 10% of income.

REPEAL The tax generated from the new penalty tax on charitable hospitals if they fail to meet **new "community health assessment needs", "financial assistance," and "billing and collection" rules establish by appointed bureaucrats.**

REPEAL The new tax on health insurance companies based on the annual premiums they charge customers and a cap on executive compensation for health insurance executives.

REPEAL And the biggy. The Employer Mandate for businesses with more than 50 full time equivalent employees. I have talked about this tax many times in this newsletter. The penalty (tax) is \$2000 per full time employee if the employer has not offered the employee health insurance. Employers have found ways to get around the penalty but the accounting and recordkeeping systems required to keep track of full time and part time employees and the procedures required to satisfy the requirement are costly.

Although not part of the Obamacare increases, lawmakers would do well to get rid of the Alternative Minimum Tax. This is a second tax which hits moderate to high income taxpayers if they have too many write-offs. Taxpayers pay the higher of their regular tax or AMT. The AMT was **originally written to "catch" millionaires with too many special tax benefits** but due to inflation over the years is hitting middle income taxpayers.

Calendar for June, July, August 2017

June 15

- Individuals outside the U.S.: File 2016 Form 1040.
- Individuals: Pay the second installment of estimated tax for 2017.
- Corporations: Deposit the second installment of your 2017 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.

32 YEARS PROVIDING NEWS AND INFO TO RESTAURANT OWNERS

This May 2017 issue of the "Insider's Report" is the 125th issue published by Kallas Company.

Every quarter for 32 years, without missing one, Kallas Company has brought current topical news, tax changes and management information to our restaurant clients by means of this newsletter.

Besides our clients, interested people who have requested to be on the mailing list include lawyers, restaurant brokers, government employees and restaurateurs throughout the country.

No other accounting firm has the knowhow or commitment to the restaurant industry to be able to produce such a helpful tool on a consistent basis for so long.

And thanks to you, our readers and clients who have expressed your appreciation for the work and effort that goes into keeping you well informed.

WHAT IS AN LLC?

In the last 5 years or so, there has been a movement away from structuring small businesses as S corporations and **more towards forming LLC's. S corporations still have** unique benefits and should be considered when you start **up a new business but LLC's offer their own unique** advantages.

An LLC (Limited Liability Company) is a hybrid business tax structure that blends elements of partnerships, corporations and individuals.

The owner of an LLC is called a "member". At the beginning of its business life, a member or members can decide to be treated for tax purposes as a partnership, an individual or as a corporation.

Unlike an individual or partnership, the LLC offers limited liability protections similar to a corporation. In a corporation, a shareholder is fully protected from creditors for corporate liabilities. In a partnership or individual there is no such protection. An LLC offers the same protection as a corporation.

KEY FEATURES OF AN LLC

- An LLC which is formed for a sole individual owner does not need to file a separate tax return.
- An LLC can be treated for tax purposes as a partnership, corporation or as an individual with its members enjoying certain limited liability protections under law.
- Forming an LLC is simpler and faster than a corporation.
- An Operating Agreement which is agreed to by members determines the rules of an LLC.
- An Operating Agreement may be verbal.
- Items of income, deductions, credits and distributions flow through to the members of an LLC in whatever proportions or percentages that are agreed to in the Operating Agreement.
- **LLC's do not issue stock and not required to hold** annual meetings or keep written minutes.
- **LLC's do not pay income taxes on profits as profits and** other deductions, credits and distributions pass through to the members who pay individual taxes.

The Kallas Company's **insiders REPORT** Everything the Bar and Restaurant Owner needs to know.
Tax, Legislation & Management Information of Interest to Restaurant and Bar Owners

May 86 Vol. 1, No. 1 Editor: George Kallas, C.P.A.

To Kallas Company Clients
The Insiders Report is a new and important service from Kallas Company to you. As many of you know, I am highly involved in the restaurant industry. I sit on the executive board of the Michigan Restaurant Association and take on a daily basis, with owners, legislators, and other professionals on what is happening in the industry. In addition, as president of N.G. Kallas Company, I see what is happening with my clients in respect to Federal and State taxes, insurance availability, new anti-drinking legislation, labor board audits, trends in computers, attracting new customers, buying and selling and many other areas of concern.
Believe me, I empathize with today's restaurant or bar owner having to deal with running his or her business (which is hard enough) and in addition, having to keep up with today's information explosion and the rapidly changing tax and legal environment.
Today's Successful Operator has to keep up to stay competitive.
I believe the Insiders Report will become an indispensable tool for you to do this. Insiders Report will give you, in brief, only the tax legislative and management information you need to know. You will have quick and accurate

New Federal Tax Overhaul
As I write this, the new federal tax bill with 27% top tax bracket and 33% corp. tax bracket is hot news and has passed the House. It comes with a vote of 29 to 1.
From what I have seen and heard so far, the new tax structure (even though it hurts the business model deduction) is, overall, less complicated and more economically sound than what we are used to. This new tax structure should not hurt most restaurant and bar owners. It seems what you will lose in investment tax credit and business meal deductions you should gain in lower overall tax rates. This new tax law will hurt big corporations and very wealthy individuals the most.
One thing to remember is that after they pass the tax bill there is bound to be more upheaval when Reagan and our lawmakers finally try to deal with the budget deficit and deficit spending.

"Insiders" information pertaining to all aspects of restaurant and bar operations.
The people who know me, know that my advice and viewpoint is down-to-earth and practical. Insiders Report won't bore you over with technicalities or long-winded explanations. It will be brief, to the point and (hopefully) interesting.
Volume 1 Number 1 has several very important areas of concern and please read them carefully.
George Kallas, C.P.A.

"Insiders Report" is treated as an informational tool for Restaurant and Bar Owners. "Insiders Report" is one "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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The biggest drawback to an LLC vs a corporation is that all profits are subject to social security taxes. In a corporation, you can structure profits to avoid social security taxes.

Always consult with your tax advisor before starting a new business to determine which form of business is best for your situation.

"Politicians are the same all over. They promise to build a bridge even when there is no river." Nikita Khrushchev, Soviet Leader

MAY THROUGH NOVEMBER IS GOOD TIME TO MEET WITH YOUR ACCOUNTANT

REVIEW YOUR TAX AND MANAGEMENT EFFICIENCIES

Good restaurant operators, like all good businesspeople stay busy all year round. There is always something to do to make you more efficient, increase business and secure **you and your family's income and future.**

In addition to the normal management of day to day activities – the promotions, cleaning, replacing and upgrading, employee management and food and beverage cost control, many successful operators take time to sit down and talk to their accountants to discuss any tax and management moves that may save or make them money.

If this sounds like a good idea, give us a call and let's set up a time to talk.

This is especially true in today's high tax environment. Last May,

I wrote about the heavy new personal taxes imposed by Obamacare. Add this to the Obamacare health insurance employer mandate, the more sophisticated government computer matching programs, and the increased labor board regulations and it might be time to assess if there is any programs or tax loopholes you may be missing.

From May to November, Kallas Restaurant Accounting sets up tax planning meetings with its restaurant owners where we discuss your personal goals and how your restaurant business may meet these goals.

We know your financial situation and your resources better than anyone and we have the knowledge to be able to help you save money and better understand the potential of your restaurant business.

BEWARE BACK-UP WITHHOLDING TRAP

Have you ever received a form called an I-9? **I-9's are** sent to you usually by someone you do business with like a vendor, bank, or merchant credit card processing company asking for your federal identification number and other information such as your address and proper corporate or legal name.

It will also ask if you are subject to back-up withholding.

This is another innocuous looking form put out by the IRS which can be a trap if not dealt with properly.

When you open a bank account, merchant credit card account, make an investment or begin receiving payments reportable on Form 1099 such as interest, rent, dividends, miscellaneous income, cancellation of debt, or other payments, you will be asked to complete an I-9 form.

The payer, under rules promulgated by the IRS is obligated to hold back (withhold) 28% of the payment that is supposed to go to you if:

- **You don't give the payer your federal ID# in the required manner, or**
- The IRS notifies the payer that the federal ID# you gave is incorrect.

A restaurant owner tells me the horror story that when he failed to correct a federal ID# with American Express, **they withhold 28% of his customer's American Express credit card receipts.** Obviously this kind of mistake could be very costly in terms of cash flow as well as a bureaucratic nightmare to fix.

This is why it is important to open your mail in a timely **fashion and if you don't understand something,** immediately contact your Kallas bookkeeper.

"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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