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SPECIAL MESSAGE TO TAX CLIENTS FOR 2019

2019 IS THE START OF A WHOLE NEW BALL GAME

The new tax law (Tax Cut and Jobs Act - TCJA) passed in 2017 really takes effect with the 2018 tax returns and is a labyrinth of changes, additions, deletions and complications.

For most lower and middle income wage earners the law will lower their taxes as well as afford them more generous refunds. New deductions, limitations and credits, however, will require more preparation time.

For business owners, the law creates new very generous tax saving changes including a new Section 199A 20% deduction for pass-through businesses. But to maximize the benefits, business owners will need careful and extensive tax planning. Some of the changes are very complicated and involved. Compliance deadlines, audit exposure and penalties have also been ratcheted up increasing risks if you make a mistake.

The IRS estimates that each return will require an average of 20 minutes more to prepare than in prior years. For business returns the average is much higher.

Kallas has invested weeks of man-hours researching the new law and how it affects restaurant and bar owners. We have developed strategies to maximize your benefits. These strategies require professional judgements, possible changes to established procedures and programs and time to calculate alternative scenarios.

Areas where judgements and strategies may need to be addressed are:

- Reasonable salary determinations.
- Sec 199A tax deduction optimization.
- Bonus vs Sec 179 depreciation deductions.
- Aggregation of businesses.
- Re-evaluating estimated taxes.



Accountable plans.
 New available exemptions.
 Maximizing SALT deductions.
 And more . . .

Kallas will address these areas as we prepare your 2018 returns and will make recommendations for 2019. We assume you want the lowest possible tax so our tax research and recommendations will be done automatically and will be billed with tax preparation at rates based on time, complexity and value.

Jim Humenik, Cathy Infantado, Dan Wilson, and Anthony Gawel will be preparing your business taxes.

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.

YOU CAN HELP KEEP YOUR TAX PREPARATION COST DOWN BY ANSWERING THE QUESTIONS ON THE TAX ORGANIZER AS COMPLETELY AS POSSIBLE.

2018 TAX SEASON IS HERE

The 2018 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.



. . .OUR GOAL IS 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, Jacob Isaac and I will be preparing your personal taxes.

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.

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

CORRECTION ON HEALTH CARE ARTICLE

Last issue (November 2018) I stated incorrectly that health insurance premiums are reported in box 3 or 5 of the W-2.

The correct statement should be: Group premiums paid for employees, other than shareholders, are deductible by the business as fringe benefits, and are not taxable wages to the employee (not included in box 1 of W-2). For shareholders, group premiums are included in box 1 but not included in box 3 or 5 (meaning not subject to Social Security or Medicare tax)

WHAT YOU NEED TO KNOW ABOUT THE NEW MICHIGAN MEDICAL LEAVE ACT

The Michigan Legislature enacted a new law in December 2018 which requires certain employers to provide certain employees with PAID medical leave for personal or family health needs as well as leave related to domestic violence and sexual assault.

There was a lot of controversy around this new law because it was originally accepted as a ballot initiative for the 2018 election. The original initiative had far more extreme and unrealistic requirements for the employer. It was pushed by "workers" groups along with a new and onerous minimum wage ballot initiative which, if passed, would also have eliminated the tip credit. To avoid these anti-business and costly jobs killing initiatives, the Michigan legislature voted to pass the initiatives themselves thereby circumventing the public votes and allowing them to amend the initiatives to make them more business friendly.

As a consequence the final law is more business-friendly but still a new obligation and paperwork burden for employers.

What do you need to do and know as a restaurant owner?

First, the Act applies only to businesses with 50 or more employees. The Act does not define how you determine if you have 50 employees. The ACA (Obamacare) law defines how to calculate 50 employees. The new Michigan law does not. We expect LARA, the Michigan agency tasked with enforcing this Act will come up with some guidelines in the near future.

Second, the law is effective on March 29, 2019 at the same time as the new minimum wage increase.

Third, there are two penalties. \$100 for not posting the requirements in a common area for employees to see and \$1,000 for any instance of an employer that fails to provide the paid leave.



For those over 50 employees, the law requires that you monitor employees who work over 25 hours per week and accrue 1 paid medical leave hour for each 35 hours worked to a maximum of 40 hours per benefit year. You can talk to Kallas payroll about how to do this.

The law allows an employer latitude to make his or her own notice, procedure and documentation requirements as long as they are written in an employee manual that have been distributed at time of hiring.

There are definitions as to who is an employee and other rules which are beyond what we can describe in this short article.

KEY – RULE OF THUMB: if you are over 50 employees, you should sit down with a knowledgeable human resource expert on how to document or update your employee manual to address the issues presented by the new Medical Leave Act. If properly designed, your cost to comply could be reduced significantly.

MICHIGAN'S NEW MINIMUM WAGE STARTS MARCH 2019

Michigan will have a new minimum wage of \$9.45 an hour with tipped minimum wage increasing to \$3.59 an hour. This will be starting March 29, 2019.

That's an increase of 20 cents. The state's current minimum wage is \$9.25. For tipped employees, the increase is \$0.07.

For 2020 through 2030, further scheduled increases average about \$0.22 per hour per year, although final numbers have not been published to date.

Michigan is one of 20 states that will see an increase in the minimum wage in 2019. The federal minimum wage is \$7.25 an hour.

Just like the Medical Leave Act voted into law in December 2018, the Legislature circumvented the statewide ballot initiative and passed the initiative themselves thereby allowing them to amend the law later. The original ballot initiative eliminated the tip credit completely and increased the minimum wage to \$10 in 2019 and \$12 in 2022. Elimination of the tip credit would have been devastating to the restaurant/bar industry.

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.

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.

TAX PLANNING MORE IMPORTANT THAN EVER

SMALL BUSINESSES CAN REDUCE THEIR TAX BILLS SIGNIFICANTLY.

HUGE OPPORTUNITIES IF PLANNED PROPERLY

The new tax law which begins January 1, 2018 includes many opportunities and significant benefits for small businesses. The law fundamentally changes many of the tax planning ideas and techniques we have used for years and substitutes new ones in their place. Whatever you used to think your tax liability would be needs to be re-thought.

The law is complicated, though, with many factors that could alter your tax bill substantially.

To make the most of this opportunity, restaurant and bar owners will need to project their earnings at least one year in advance.

The new 20% deduction created under this law for small business is a

powerful tool for tax planning. But must be considered in the context of the new depreciation rules and earnings thresholds. In addition, there are limitations and criteria which could reduce or eliminate the benefits.

In this new world, computer simulations projecting your income at least one year in advance is the only way to plan properly. If done right can save you thousands.

The good news is Kallas Company is ahead of the curve. We will have the capabilities to provide these simulations for you. We will have more information for you in the next newsletter as well as how you should proceed.



ACA (OBAMACARE) UPDATES FOR 2018-2019 DUE DATES POSTPONED

On November 29, 2018 the IRS announced an ACA filing deadline extension. The due date for furnishing employees with Form 1095-C is extended from January 31, 2019 to March 4. In addition, the IRS extended Good Faith Transition Relief for 2018 returns. This relief allows a business that is required to file under ACA rules, potential waiver of penalties if that business made a good faith effort to file properly but made mistakes or misinterpreted the law.

**UPDATED
DUE DATES**

The Good Faith Waiver is only applicable if the business made a good faith effort. It does not apply to businesses that failed to file or ignored the law.

The filing deadline for filing 1094-C is postponed until April 1, 2019.

PENALTY LETTERS BEING ISSUED

The IRS has been issuing penalty letters to employers who were required to offer health insurance and did not. According to news in the tax industry, the penalties have been in the tens of thousands to hundreds of thousands of dollars.

NEW PRESIDENTIAL ORDERS OFFER MORE OPTIONS

The Trump administration issued new rules that expand the use of what is known as association health plans. They allow small businesses and self-employed individuals to buy health insurance collectively through associations. Under the previous ACA rules, buying health insurance collectively was severely restricted. In addition, a small business may now buy insurance that excludes coverage such as maternity and mental health that were previously required by Obamacare.

The second new rule allows the association plans to buy and sell insurance over state lines. Obamacare previously restricted that option. As a result of the new rule, states can compete with pricing and services thereby lowering health insurance costs.

*"The best things in life are free, but sooner or later the government will find a way to tax them."
Anonymous*

STARTING IN 2019 THE PENALTY FOR NOT HAVING HEALTH INSURANCE GOES TO ZERO

The Tax and Jobs Act of 2017 reduced the Individual Mandate (requiring everyone to have health insurance) to zero. This, in effect, repeals the Individual Mandate. See below. It does not go into effect until 2019 so the penalty for not having health insurance in 2018 is still \$695 per person or 2.5% of your income, whichever is greater.

A CASE CURRENTLY GOING THROUGH THE COURT SYSTEM MAY MAKE OBAMACARE ILLEGAL

A Texas judge ruled on December 14, 2018 that Obamacare is now unconstitutional. The issue arose when the Tax and Jobs Act of 2017 reduced the Individual Mandate penalty tax to zero. Judge O'Conner stated that "Congress stated many times unequivocally . . . that the individual mandate is 'essential' to the ACA." And because there is a non-severability clause in the law as it was written, that means the whole law is struck down. Of course, his ruling is being appealed to the Fifth Circuit Court and probably will go back to the Supreme Court after that. In the meantime, the law stays in effect.

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

CALL EARLY FOR YOUR TAX

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 2018 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.

Calendar for March, April, May 2019

March 15

- Corporations: File Form 1120 or Form 1120S for 2018 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 2018 Form 1040. For automatic 6-month extension, file Form 4868 and deposit estimated tax.
- Individuals: Pay the first installment of 2019 estimated tax.
- Partnerships: File 2018 Form 1065 and furnish a copy of Sch. K-1 to each partner.
- Corporations: Deposit the first installment of your estimated tax for 2019.
- 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 2019 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 27

- Kallas Restaurant Accounting closed for Memorial Day.