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tax breaks. Bonus depreciation of ½ the cost of furniture, fixtures and equipment is totally eliminated. The quicker 19 year depreciation on restaurant buildings and improvements goes back to the longer 39.5 years and another expense deduction - section 179 depreciation falls from \$250,000 in 2009 to \$135,000 in 2010. In 2011, section 179 depreciation drops further to \$25,000.

On the personal tax front, we have one more year under current law. In 2011 the Bush tax cuts will expire and the White House has promised to let the top individual rate increase to 39.6% from 35%. The dividend rate will go to 39.6% from 15% and the capital gains rate to 20% from 15% and to 23.8% in 2013 under the health bill. It is my guess that before the end of 2010 Congress will be addressing tax law again.

Estate taxes which, under the Bush cuts goes to zero in 2010 will revert back to 2002 rates in 2011 unless Congress votes to make changes. In 2011, if no changes are made, an estate of over \$1 million would require an estate tax return and may be taxed.

As of this writing, unemployment is still high and best guesses are that it will remain high as employers are hesitant to hire. The good news is that it is easier to hire and retain good workers.

Unbelievable as it may sound, the current administration in Washington's proposed budget for 2010 is 40% borrowed from foreign sources. In other words, the federal government is spending money it does not have. On top of that the administration is creating new bureaucracies almost on a daily basis.

As a result of all the government borrowing, monies available for the private sector to borrow are drying up. Many of you are seeing this now as banks are not lending. It is hard to open a new restaurant when you can't get a loan. Growth will continue to be stifled until the government cuts back on its spending and borrowing.

We may be experiencing a small recovery in 2010 but more continued spending by government will keep it a shallow recovery and may even tip it back into a recession.

Politicians are floating the idea of a VAT tax which, in my opinion, would be taking the Michigan Business Tax - a complicated mish-mash that politicians love because it gives them free-reign to play with taxes anyway they want - and expanding it to the entire nation. A VAT is a hidden tax applied at every stage of production and therefore is buried into the cost of everything.

The Democrats in Washington are also pushing for Cap and Trade - a way to increase the cost of all energy in this country to make us feel better about the environment. In the opinion of many, Cap and Trade will not only push manufacturing and jobs overseas but will not even lower the world's temperature 1 degree.

Then you have food and gas prices going up.

Not a pretty picture going forward. Much of the anti-business provisions above can be eliminated or mitigated but it will take a change in the attitude of leadership at every level. If you have been sitting on the sidelines - get involved. Restaurant owners have a lot of pull in Lansing and in Washington. Join the Michigan Restaurant Association, the Chamber of Congress, the Michigan Licensed Beverage Association and any other pro-business groups and tell the politicians to slow down and let us do business for a while without their interference.

“The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the smallest possible amount of hissing.”

**Jean-Baptist Colbert,
17th century French minister
of finance**

RESTAURANT PROMOTION OF THE QUARTER

Each newsletter we feature a promotional idea for increasing sales and adding to your bottom line.

Bouncebacks - This promo idea attempts to “bounce” customers from peak times to off-peak times. This tactic can produce far more in revenues per dollar invested than traditional advertising.

All you do is have your server offer certificates for a complimentary dessert or appetiser to customers at peak times for redemption only at off-peak times. For instance, if you are busy at lunch but need to pick up dinner sales, offer certificates to lunch patrons that can only be redeemed during dinner hours.

Or, if you are trying a new breakfast concept to increase sales, offer certificates to lunch patrons to get them to come in for breakfast.

Or, if you have a good dinner crowd but want to promote lunches, offer a call-in - pick-up type of service as a reward to your good dinner customers.

Your current satisfied customers are not only an audience you have right there to promote to but are also more apt to come back again when the proper incentive is offered.

Test different offers and presentations and track response rates for each to hone in on what works best with your customers.

GOVERNMENT UNLEASHING LABOR AUDITORS

After many years of little to no activity, we have seen an uptick in federal labor audits.

It seems the U.S. Labor Board has increased auditors and auditor training to go after more employers. The auditors seem better trained and more thorough in their investigations.

This is what a labor board auditor will look at.

- Are you paying overtime pay to anyone working over 40 hours per week? Auditors will question employees and trying to circumvent the law by paying salaries does not work.

- Are you paying minimum wage? There have been complaints by tipped employees that they are not making enough tips to cover minimum wage. If they are not making enough tips then you must make up the difference in wages.

- Are tips being reported properly? Do you encourage tipped employees to report all tips? Do you have a system for them to do so?

- If you are a large employer, are you filing form 8027 Tip Reporting each year?

- Are you following the rules for minor age 14 through 18?

- Do you have all your I-9 forms completed and signed?

Some violations can be costly, especially overtime infractions. Auditors can go back 3 years and can expand the audit to include other locations.

The best policy regarding overtime is to keep it to a minimum but if someone works over 40 hours in a week - pay the proper overtime rate. Remember, anyone can file an anonymous complaint - a competitor, an employee or a customer.

THANK YOU FOR ANOTHER GREAT TAX SEASON

Tax season is grueling. I compare it to the hockey playoffs where every year we end up in the finals. You have to play hard everyday, give it your best, take the hits and have the fortitude to keep moving forward.

We treat every tax return as if it was us paying the tax and if there is any chance of knocking that tax bill down, we work into the night if we have to to make it work.

If you have any questions during the year, please do not hesitate to call us. And please read this newsletter each quarter to stay informed of the many tax changes coming up.

HEALTH CARE TIMELINE

“We have to pass the bill so that you can find out what is in it.” Speaker of the House Nancy Pelosi.

“I love these members, they get up and say, ‘Read the bill’. What good is reading the bill if it’s a thousand pages and you don’t have two days and two lawyers to find out what it means after you read the bill?” House Judiciary Chairman John Conyers.



The new health care bill signed into law by President Obama in March of 2010 will be the largest increase of government bureaucracy ever attempted.

It will affect every man, woman and child in the U.S. And it will create the biggest, most intrusive paperwork, rules, regulations, taxes, penalties, credits, incentives, dis-incentives, agencies, committees and entitlements this country has ever seen. Think, bigger than social security, medicare, medicaid, the Post Office, the Department of Education, NASA, and the IRS combined.

The law is 2,300+ pages and that is just the outline. The real details (where the devil resides) have yet to be worked out. The problems, mistakes, unintended consequences and paperwork burdens will be fleshed out over time.

The law will be phased in over 8 years. As the details (and the burdens) emerge, there will much fighting and protest, court battles, fixes, amendments and changes. The biggest areas of concern for restaurants are highlighted below with comments. The remaining law highlights are listed below by year.

In 2010, if you own a restaurant with less than 50 employees and you pay at least 50 percent of your employees health insurance, then you may be eligible for a tax credit based on a sliding scale formula. The formula takes into account what the employee earns and other factors. The credit is not available for owners or family members. The maximum credit is 35 percent of the eligible employee’s health care premiums, increasing to 50 percent by 2014. There are very few restaurants with

less than 50 employees that pay the health insurance for non-family employees so this provision will have little practical effect.

In 2011, a plan to provide a vehicle for small businesses to offer tax-free benefits will be created. Still waiting for more information on this provision as to how it will help small businesses.

In 2014, restaurants with 50 or more employees (including multiple restaurants with common ownership) must offer coverage to employees or pay a \$2,000 penalty per employee after their first 30 days of work. Restaurants with no employees receiving a government tax credit are exempted. With many low income employees, I do not see any restaurants being exempted. Employers who offer coverage but whose employees receive tax credits will pay \$3,000 for each worker receiving a tax credit. This provision has caused the most controversy because of the huge potential cost to small businesses.

In 2014, health insurance exchanges will open in each state to individuals and small employers to offer low cost alternative coverage.

As the law stands now, restaurants with less than 50 employees will not have to offer any coverage. But even so, there still will be burdensome reporting requirements.

Other law provisions:

In 2010

- Young adults will be able to stay on their parents’ insurance until age 26.
- Seniors will get a \$250 rebate to fill the current doughnut hole of missing coverage.
- Insurers will be barred from imposing exclusions on children with pre-existing conditions.
- Insurers will not be able to rescind policies to avoid paying medical bills.
- Lifetime limits on benefits will be prohibited.
- New plans must provide coverage for preventative services without co-pays. Pre-existing plans must comply by 2018.

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- Appeals process required for all new insurance plans.
- 10 per cent tax imposed on tanning salon services after July 1

In 2011

- Medicare will provide free annual wellness visits. New insurance plans will be required to cover preventative services with no co-pay.
- A 50 percent discount will be provided on brand-name drugs for Prescription Drug Plan or Medicare Advantage enrollees.
- Additional tax for health savings account withdrawals before age 65 for nonqualified medical expenses will increase from 10 percent to 20 percent. Additional tax for Archer medical savings account withdrawals not used for qualified medical expenses will increase from 15 to 20 percent.
- The Medicare payroll tax will increase from 1.45 percent to 2.35 percent for individuals earning more than \$200,000 and married earning \$250,000.

In 2013

- Health plans must implement uniform standards for electronic exchange of health information.
- Contributions to flexible savings accounts will be limited to \$2,500 per year indexed to inflation.
- The income threshold for deductible medical costs will increase from 7.5 percent of AGI to 10 percent.
- The hospital insurance tax will increase .9 percent for those earning \$200,000 (\$250,000 for married) and will include investment income.
- A 2.9 percent excise tax on the first sale of medical devices will be established.

In 2014

- Citizens will be required to have acceptable coverage or pay a penalty of \$95 in 2014, \$325 in 2015, \$695 (or up to 2.5 percent of income) in 2016.
- Insurers will no longer be able to refuse to sell or renew policies because of an individual's health status or pre-existing conditions.
- Health plans will be prohibited from imposing annual limits on coverage.
- Credits will be available through exchanges for

those whose income is above Medicaid eligibility and below 400 percent of poverty level who are not able to get other coverage.

- Medicaid will expand to cover more people not just the elderly. Eligibility will increase to 133 percent of poverty for all non-elderly individuals.
- An annual health insurance provider fee will be imposed across the health insurance sector.

In 2018

- An excise tax will be imposed on high-cost, employer-provided health plans beyond \$2,292 for family coverage and \$850 per month for single.



Glen Willson opened Willson's Pub N Grill in early 2009 on Union Lake Road in Commerce Twp. Glen was President of a \$150 million company doing business in four countries before deciding to retire from the corporate world and take a shot at being a Pub owner. Glen has adapted many of the management techniques he learned as a corporate executive to the bar-restaurant business.

To contact George Kallas, CPA or Kallas Company, call 313-962-6000

“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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Calendar for June, July & August 2010

June 15

- Corp. Income tax return for March year-end corporations due.
- Estimated tax for February, June, September and December year-end corporations due.
- Estimated tax for individual's Federal and state due.
- Federal income tax withheld and FICA taxes for May payroll in excess of \$500 but less than \$3000 should be deposited.

June 20

- Michigan Sales, Use & MBT estimates due.

July 1

- Federal liquor stamp due.

July 17

- Corporations income tax for April year-end corporations due.
- Estimated tax for January, March, July, and October year-end corporations due.
- Federal income tax withheld and FICA taxes for June payroll in excess of \$500 but less than \$3000 should be deposited.

July 20

- Michigan Sales, Use and MBT estimates due.

July 25

- UIA tax due with return.

July 31

- FUTA deposit due if tax amounts previously deposited exceeds \$100.
- Form 941 due if 941 taxes have not been previously deposited.

August 10

- Form 941 due if all taxes were previously deposited.

August 15

- Corporation Income tax return for May year-end corporations due.
- Estimated tax for February, April, August and November year-end corporations due.
- Federal Income tax withheld and FICA taxes for July payroll in excess of \$500 but less than \$3000 should be deposited.

August 21

- Michigan Sales, Use & MBT estimates due.

The Kallas Company's **insiders**
REPORT
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