

# The Kallas Company's **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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## TAX STRATEGIES FOR 2009 YEAR END

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2009 and 2010 promise to be big years for changes in tax law and consequent tax planning.

The Bush tax cuts are set to expire in 2010 and the Democratically controlled Congress is desperately looking for ways to pay for the deficits already run up and the ambitious new programs it wants to start.

They are looking everywhere for new taxes - not anymore limited by tax theory, economic theory or simplicity - but only by where they can get the most money with the least amount of taxpayer backlash. And take my word for it - taxing the rich will not be enough.

Many tax breaks for 2009 will be sunseting in 2009 or 2010 and there has been very little guidance on what provisions will be extended. This certainly makes tax planning more difficult.

### Provisions that are scheduled to end in 2009 but may be extended:

- The \$3.5 million estate tax exclusion.
- The Alternative Minimum Tax patch that prevents the tax from hitting middle income taxpayers.
- The first time \$8,000 credit for new home buyers.

### Provisions that are scheduled to end in 2009 likely not to be extended:

- Up to \$2,400 of unemployment compensation is currently excluded from income. This provision may not be extended.
- The sales tax deduction for new autos may not be extended.

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- The 50% first year bonus depreciation for purchase of furniture, fixtures and equipment may not be extended.
- The \$250,000 expensing provision for purchase of new and used equipment drops to \$125,000 starting in 2010.
- The shorter depreciation life for leasehold and restaurant improvements of 15 years goes back to 39 years in 2010.
- The enhanced deduction at market price for donations of food to charities will expire.

Several of the above tax provisions have been very good for restaurant owners. Especially those who have had the good fortune to be in a position to expand, build or buy new restaurant buildings or equipment. Unfortunately, the economy has been so restrictive that many owners have not been in the position to take advantage of those generous tax breaks that are set to expire. Kallas is looking carefully at all our clients activity this year to take advantage of tax breaks wherever possible.

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## UNEMPLOYMENT INSURANCE COSTS SET TO RISE

### MORE BAD NEWS FOR MICHIGAN BUSINESSES

**M**ichigan employers are facing nearing \$63 million in new unemployment insurance taxes in 2010 -- taxes that will begin in January and escalate annually over the next four years to repay money the state has borrowed from the federal government.

The projected additional cost to repay the loans is expected to be \$21 per employee for 2010, up to \$42 per employee in 2011, up to \$63 per employee in 2012 and up to \$84 per employee in 2013. Amounts will increase annually until the debt is repaid in full. Full repayment is not expected until 2019.

An additional tax to repay interest is currently in abeyance but is scheduled to resume in 2011.

Adding another tax burden onto Michigan businesses that have a good employment record with no lay-offs seems unfair. With businesses that are struggling, another tax may cause even more lay-offs. And when you add the cost of the extension of benefits to already laid off workers, you have a prescription for a downward economic spiral.

The Economic Alliance for Michigan, a statewide business and labor coalition, wants Michigan's congressional delegation and governor "to pursue as much relief as possible from the additional federal UI penalty taxes on businesses, as well as pursue additional UI benefits," said alliance President Larry Horwitz. Chris Priest, deputy director of Gov. Granholm's Washington office, said the governor's office is engaged.

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## SELL MORE WINE

**A** Cornell University wine research study has identified four key strategies that coincide with higher wine sales in restaurants. 30 different attributes of wine lists in 270 restaurants were tested.

The research found that the following wine tactics were associated with higher wine sales:

1. Including the wine list on the food menu.
2. Listing prices without a dollar sign.
3. Listing wines from certain wineries known for their quality.
4. Including a "reserves" section for finer wines.

A fifth tactic, however, was connected with lower wine sales, namely, using a wine style such as sweet, bold or dry as part of the descriptive category.

# NOT ALL LOSSES ARE CREATED EQUAL

**T**he recession has caused many restaurant and bar businesses to show losses for 2009. This certainly is a consequence of diminished economic activity and negative growth.

A loss is not a good thing except when it comes to paying your taxes. Losses can offset other income and lower your tax bill.

It is important to remember, however, that not all losses are treated the same for tax purposes.

**Operating Losses** - Losses you experience in the operation of your business - called operating losses - are fully deductible on your personal income taxes except in the following circumstances:

1. You are operating as a C corporation. In a C corporation, a loss must be used by the C Corporation and cannot be used by stockholders on their personal returns.

2. You operate as an S Corporation and you have no basis left. The IRS allows only losses on your personal return to the extent you have "basis". Basis is the amount of money you have invested in your business less prior losses and money you took out. If you have taken losses on your prior year returns or have pulled all your invested money out, you may have no basis left.

**Passive Losses** - Passive losses are losses from rental and other passive activities. As your income goes higher, the IRS limits your passive losses to the extent you have passive income. For high income taxpayers with rental losses, this provision can hurt. Proper tax planning can mitigate this negative outcome and passive losses can be carried forward but this certainly is small consolation for a taxpayer who has put a lot of money into a rental property and has to pay taxes as if the loss did not exist.

**Capital Losses** - Stock losses are considered capital losses for tax purposes. Those who have experienced large stock market losses are dismayed to find that they can only deduct a maximum \$3,000 per year. Unused losses can be carried forward and stock market gains can be 'netted' against losses but if you owned one stock and sold it at a \$30,000 loss, it would

take 10 years to fully deduct your loss. Some business assets are considered capital and are treated the same way for tax purposes.

**1244 Stock Losses** - The IRS has carved out an exception from the capital loss rules for small business stock - which includes almost all restaurants operating as corporations - calling it section 1244 stock losses. A 1244 stock loss results from the sale of your small business stock at a loss. The IRS allows a maximum \$100,000 current year loss. Any amounts over \$100,000 are considered capital losses as explained above. Selling the stock of your business versus the assets of your business requires tax planning prior to any agreements being signed so be sure to consult with your tax professional before making a commitment on the sale of your business.

**Gambling Losses** - Code Section 165(d) of the IRS code limits gambling losses to the extent of gambling winnings. In other words, you must declare gambling winnings but you can only offset winnings with provable gambling losses. Losses in excess of winnings are not deductible for the casual gambler. Professional gamblers are allowed gambling losses regardless of winnings but if you are a professional gambler you can expect to be audited on a regular basis.

**Hobby Losses** - Some activities where you experience losses may be considered by the IRS to be a hobby. Hobby losses are treated the same way as gambling winnings - deductions allowed only to the extent of income. An activity has to be treated as a money making venture to be a legitimate business according to the IRS. You must keep proper books and records. You must conduct the business to make a profit and there must be some realistic chance of making a profit. The IRS attacks many so-called home-based businesses as hobby's and not as realistic businesses especially when the taxpayer is trying to deduct large business losses.

**Sale of Business** - Section 1231 property is business property and real estate where depreciation has been taken. Sec 1231 losses are treated the same as business losses and are ordinary losses that can be used to offset other ordinary income. Proper tax planning is required on the sale of business assets and real estate to take full advantage of sec 1231 losses.

# W-2 SPECIAL INSTRUCTIONS AND YEAR DEADLINES

## YOU CAN HELP US BY FOLLOWING THE SCHEDULE BELOW

**Y**ear end is fast approaching. Starting in November, the Kallas Company 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, and auto reimbursements. 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 \$25.00 fee.*

In December, 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.*

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 today.

**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 2009 books are closed today.

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

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## URGENT! DON'T GET HIT WITH PENALTIES

**I**t is bad enough paying all the taxes a business has to deal with but to add unnecessary penalties makes it even harder to swallow.

That is why we ask that you send us any notices you get from the government as soon as you receive them. Many are important and we have to take action immediately to avoid problems.

Important! In December or January, you will receive your Michigan Unemployment Agency "rate determination" for 2010.

If your rate increases and we are not aware of it, it will not be "discovered" until you get a penalty notice usually in the 3rd quarter. By then, you will have been penalized for underpayment for the two previous quarters. So, in addition to a higher tax bill you have to pay penalties and interest on top of it all.

Please make it a habit to go through your mail daily and send Kallas any notices you receive from the government.

*Please make it a habit to go through your mail daily and send Kallas any notices you receive . . . Many notices are important and we have to take action on your behalf immediately to avoid penalties.*

# OUR 2009 HOLIDAY SCHEDULE

**P**lease keep this schedule for reference.  
Our office will be closed on:

\* Thursday, November 26 and Friday, November 27 for Thanksgiving.

\* Thursday, December 24

\* Friday, December 25 for Christmas.

\* Thursday, December 31

\* Friday, January 1 for New Years.

Please remember our fax lines are available 24 hours.  
FAX LINE 313-962-7113.

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

For the week of **November 23 - November 27**: If your normal call-in is Thursday or Friday, you **MUST** call in Wednesday by Noon.

For the week of **December 21 - December 25**: If your normal call-in is Thursday or Friday, you **MUST** call in Wednesday by Noon.

For week of **December 28 - January 1**: If your normal call-in is Thursday or Friday, you **MUST** call in Wednesday by Noon.

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 these services.

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

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

**“What this country needs are more unemployed politicians.”**

- Edward Langley, Artist

## 100 IDEAS TO CONTROL FOOD & BEVERAGE COSTS

#81 -90

81. Establish and clearly define credit card and check cashing procedures.
82. Require employees to provide guests with a receipt.
83. Check your bank’s policy on liability for night deposits and automatic teller deposits.
84. Do not “z” out registers but keep a running total.
85. Do not allow cash handling employees to reconcile their own cash with sales records.
86. Use standardized recipes and make kitchen staff adhere to them.
87. Create a recipe book preferably with photos of each menu item.
88. Calculate an amount for waste for each menu item.
89. Develop procedures for eliminating waste.
90. Monitor and review customer returns.

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 December 2009, January & February 2010

## December 15

- Corporation tax return for September year-end corporations due.
- Estimated tax for March, June, August and December year-end corporations due.
- If you are a monthly tax depositor, your Federal coupon and taxes should be deposited at your bank. If you are a semiweekly tax depositor, your Federal coupon and taxes are due on Wednesdays or Fridays depending on what day your pay day is.
- Single entry clients receive 2009 Omitted Expense Reports. Fill in 2009 expenses not previously reported and mail to Kallas.

## December 20

- Michigan Sales, Use & MBT estimates due.

## December 31

- By now you have received your 2010 Personal Property Tax Statement for the city your business is located. Mail it to Kallas immediately to reduce your personal property taxes.
- If you operate as a corporation, by now you have received your Corporation Annual Report, Mail it to Kallas immediately.

## January 15

- Corporation tax return for October year-end corporations due.
- Estimated tax for January, April, July and September year-end corporation due.

- Estimated tax for individual Federal and State due.
- If you are a monthly tax depositor, your Federal coupon and taxes should be deposited at your bank. If you are a semiweekly tax depositor, your Federal coupon and taxes are due on Wednesdays or Fridays depending on what day your pay day is.
- Kallas Restaurant Accounting tax clients receive 2009 Personal Income Tax Questionnaire with prior year figures and space for this year's amounts. Complete and mail.

## January 20

- Michigan Sales, Use & MBT estimates due.

## January 25

- UIA tax due with return.

## January 31

- W-2 Forms due to employees.
- 1099 Forms due to contractors.
- Form 941 and 940 due if there is balance due.

## February 1

- Personal Property tax statement due for most cities.

## February 9

- Form 941 due if all taxes were previously deposited.

## February 10

- Kallas Restaurant Accounting closes the books for all calendar year clients. Any 2009 bookkeeping material submitted after this date require a billable work order.

## February 15

- Corporation tax return for May, August and October year-end corporations due.
- Estimated tax for February, May, August and October year-end corporation due.
- If you are a monthly tax depositor, your Federal coupon and taxes should be deposited at your bank. If you are a semiweekly tax depositor, your Federal coupon and taxes are due on Wednesdays or Fridays depending on what day your pay day is.

## February 20

- Personal Property tax statement due for Detroit.
- Michigan Sales, Use & MBT estimates due.

## February 28

- Form 8027 Tip Recording due for all large establishments where tipping is customary.
- Federal and State form W-3 reconciliation of W-2's and sales paid tax due.
- Form 1096 Summary of 1099's due.

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**REPORT**

1500 Penobscot Building • Detroit, Michigan 48226