Bookkeeping Tips

Time & Money Savers
Stress Reducing Pointers

Margaret Hornacek

1st Quarter

2018

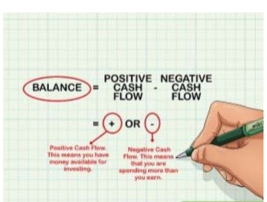
Contents

Set aside a time each week to review your books

Allocate a specific time each week to go over your books. The easiest way to do this is to physically schedule the time. It should be a time when you are not interrupted so making it a set time and a specific day is the best way to do that.

No matter what your business is, if you meet with clients/customers, design logos, provide home cleaning or repair services, or teach classes you schedule time for those jobs so you are able to talk with your clients and complete your job. Treat the bookkeeping review the same way. Set a reminder on your calendar.

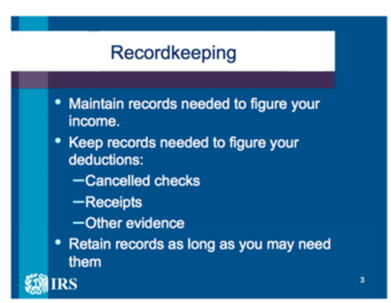
By reviewing your books (not just 'doing' the books) you will have good up-to-date information on how your business is doing and will have a great grasp on your businesses weekly/monthly expenses and the income generated. You can spot trends in your cash flow and plan accordingly. If specific weeks of the month or month(s) of the year or even a quarter of the year are especially good or if they generate less income, you will know this and that allows you to address it. Is it due to the nature of your business, the way you do invoicing, when you pay bills, when you purchase inventory, scheduled vacations, or some other pattern that is identifiable? If a there is a low income period identified, you can work to change it or you can plan around it financially. If there is a period of increased revenue, the same thing applies. Maybe during the increased revenue period you can use the extra cash flow to set aside money for necessary purchases, marketing endeavors, taxes, or set money aside for the 'rainy day'/unexpected needs.



If you have someone doing the books for you, it is still a good idea to regularly meet with them to review the books. Your bookkeeper can summarize your business finances for you on a weekly, monthly, quarterly, and annual basis and help you easily spots trends and understand your business finances.

The bottom line is that you need to stay on top of the finances of your business so you can make informed decisions and enjoy doing what you do!

Save time by staying on top of your books

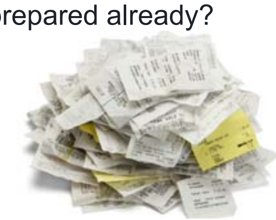


Whether it is you as a business owner or the person doing your bookkeeping, it may seem like it takes a lot of time to continually make sure the business income is categorized correctly, expenses are tracked and logged appropriately, and inventory is tracked accurately. It will make a huge difference over time if you make sure it is done right. Not only does this this help you make better business decisions (see Set aside a time each week to review your books), it saves a lot of time, energy, and **stress** at tax time.

A great goal is to have the books in a state that is ready for an audit. If your books are 'ready for an audit' and you do happen to be audited, the good news is that you are ready. No long hours of digging through receipts (if you have them still), searching for credit card statements, trying to remember who was at each business lunch or dinner and what was discussed, how many hours you spent in training, how long each employee worked for you and the hours they worked, etc. The list of things to remember and find the proof for is lengthy.

Since an audit is usually for a return or part of a return filed two (2) to three (3) years ago, ask yourself these questions:

- Are you prepared to answer for all the numbers on a return that was filed two or three years ago?
- Even if you have a CPA file your return, can all the numbers you provided to your CPA be backed up with the proper documentation now?
- Would it take a lot of time and energy to get the documentation ready if it is not prepared already?


or


or


?

If you are to be audited, it would likely NOT be for last year's return. Rather, it would most likely be for your return filed either two or even three years ago. Who remembers all their financial business decisions exactly from last month? Much less three years ago!

If the time is taken to properly document the finances of the business as they are taking place, you will be ready if you are audited and you will likely have more deductions and credits which will mean more tax savings! Be sure to save and backup the necessary paperwork.

So, taking the time to do things right will save you time and energy later and save money for the next income tax filing to boot!

Do you know what is likely to flag an audit by the IRS? See my next section on some of the top ***IRS Red Flags***. If you know the typical IRS audit triggers or not, keeping your books up to date and 'audit ready' will help tremendously in the future.

IRS Tax Audit Triggers

Have you ever been audited by the IRS? I have. I can tell you it was no fun at all. It was back in 2010 and my husband and I were audited for our Charitable Contributions claimed on our 2008 income taxes. The notice of audit came with a bill for over $10,000! The IRS ended up ruling in our favor because I could prove every dime we claimed for donations and no adjustment was made to our return. Shew! If I had not had the documentation to prove what we contributed, we would have owed them the money and there would have been nothing we could have done about it.

Good news! On average, very few people get audited by the IRS. Yay!!!

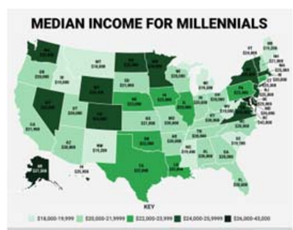
The risks of being audited if you make less than $200,000 are a little less than 1%. If you made more than $200,000, your risk almost triples to just less than 3%. If you were lucky enough to earn over $1 million, your chances of getting flagged for an audit jumped to over 6%. The bottom line is that the chance of being audited goes up the more money you make or if you claim no income at all. No matter what, if you were honest and have supporting documentation, there is no need to worry.

A couple of things to remember:

- If you have been audited before it doesn't mean you will not be audited again.
- Just because there is something that sends up a red flag to the IRS, it doesn't mean they will audit you. A red flag may just mean that your return will be manually reviewed by an IRS employee to determine if it should be audited or not.

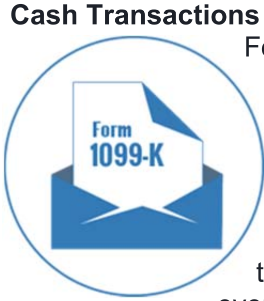
Here are <u>some things</u> that could trigger the IRS to more closely scrutinize your return.

<u>In no particular order and not all inclusive of the IRS red flags:</u>



- **Higher than average income:**
  The goal is always to make money, why else be in business, right? Just because the chances of being audited by the IRS go up when the income amount rises, it doesn't mean you should not try to make money. Let's face it; we all want to have more money than we currently have. Just make sure you are doing things right and keep the documentation that proves it.

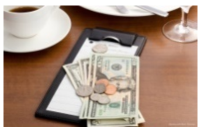
- **Cash Transactions (1099-K):**



Form 1099-K, Payment Card and Third Party Network Transactions, is an IRS information return used to report certain payment transactions to improve voluntary tax compliance. 1099-K forms are generated by companies from whom you receive payment card transactions (debit, credit or stored-value cards) and payments in settlement of third-party payment network transactions. There are minimums involved in the third-party settlements so you may not get a 1099-K from everyone.

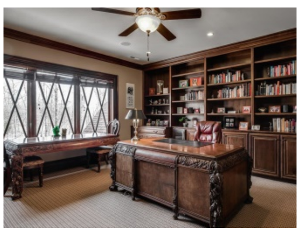
The 1099-K does not include any adjustments for credits, discount amounts, refunded amounts, fees, or cash equivalents. Be sure your business reports all income and review your gross receipts to make sure they are accurate. If you gave discounts, credits, refunds, etc.; be sure to keep all documentation of these so you can prove the actual amount of income you had from the credit/debit cards you accept.

- **How you make your money:**



Some businesses are naturally more cash intensive and therefore they will get more attention from the IRS. Taxis, hair salons, spas, restaurants, car washes, bars, convenience stores, musicians (working gigs), and any business where lots of tips or cash are involved will get additional scrutiny from the IRS due to the fact that it is easier to not report all the income. Be sure to keep accurate records of all your income and expenses and report it. If questioned by the IRS, you will be ready.

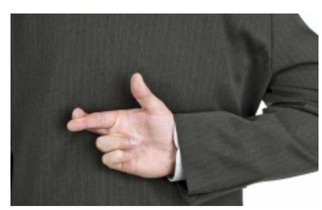
- **Home Office deductions:**



Working from home is a great perk if your business allows for it on either full-time or part-time basis. Whether you have a large formal space or a small corner set aside to do your work when you work from home, there are a couple of methods (Simplified Option and Regular Method) to calculate the home office deduction and there are specific criteria that must be met in order to claim this deduction.

Regular and Exclusive Use. These are key factors to rightfully claim a home office deduction. You must regularly use part of your home (owned or rented) exclusively to run your business and the space is the Principal place of your business. The best way to make sure of this is to have a specific room that is used solely for running your business. There are limits to how many square feet you can claim so be sure you meet all the criteria set out by the IRS. Refer to Publication 587, Business Use of Your Home for details.

- **Failing to report all income:**
This is a big one! Don't file your return knowing you have additional income that wasn't reported and just cross your fingers and hope the IRS doesn't catch it. The IRS actually gets copies of all 1099s, W-2s, you receive so be sure to claim all the income you make. The IRS computers match the income reported to them to the income you report making and will send out a big fat red flag when the numbers you report are less than what their computer generates for you. The IRS computers are very good at this one. If you receive a 1099 or W-2 with incorrect information on it have the person or company that issued it file a corrected one right away. See the section on "Double Check W-2s and 1099s" for more information.



- **Claiming an Alimony Deduction:**
  There are specific requirements that must be met to deduct alimony paid by cash or check and the income is taxable to the person receiving the alimony.

  Alimony does NOT include Child Support.

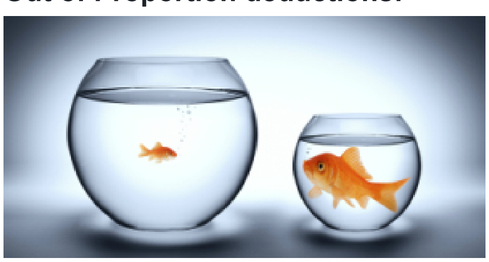
  The rules for deducting alimony are complicated and the IRS knows that many tax payers who claim an alimony deduction don't meet the requirements so they look closely at this. Also, a mismatch between what the payer of the alimony claims to pay and what the payee of the alimony claims receiving will almost certainly trigger the IRS to take a closer look at your return. If it is at all possible, make sure the person receiving the alimony is reporting the same number as you if you are claiming an alimony deduction. As with all deductions, if you meet the criteria then claim the deduction and keep all pertinent documentation.

- **Numbers that have been Rounded or Averaged:**
  You do actually need to have receipts, invoices, and documentation of your business expenses and income. Showing an average income of $X per month or creating a spreadsheet with your best guess of the expenses simply will not cut it. The same goes for rounding your numbers and then adding them up to make the math easier (just use a calculator or computer). The odds that your mortgage interest is an even dollar amount is very slim. Averaging or rounding numbers just doesn't fly well with the IRS.

- **Out of Proportion deductions:**

  If the total amount of your deductions are out of proportion to your income, this could trigger the IRS to take a closer look at your return or even do a full blown audit. Their software is set up to flag things that are out of proportion, among other things. If your numbers are correct then there is nothing at all to worry about and you should always claim all the deductions and/or credits you are entitled to. Just be ready to support them. If you don't claim all the deductions you are legally entitled to, you are just giving away money to the IRS!

- **Year after year business losses:**

  If you have a regular day job and a side business, and if your side business loses money, you can write off the loss on your personal tax return. While the IRS allows you to do this, there are limits to how long you can do that. The <u>general rule of thumb</u> is that you need to show a profit in at least three (3) of the prior five (5) years or the IRS will categorize your business as a hobby.

For some businesses such as horse training, breeding, or racing, the time may be extended to two (2) of the prior seven (7) years.

Even if the loss on the books is due to something like selling an asset for less than the carrying amount, a loss is a loss in the eyes of the IRS.

- **Filing a Schedule C:**
  You must file a Schedule C if your small business is run as a sole proprietorship or single-member LLC.

SCHEDULE C (Form 1040)
Department of the Treasury Internal Revenue Service (99)

Profit or Loss From Business
(Sole Proprietorship)
▶ Information about Schedule C and its separate instructions is at www.irs.gov/schedulec.
▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074
2016
Attachment Sequence No. 09

Name of proprietor | Social security number (SSN)

A Principal business or profession, including product or service (see instructions) | B Enter code from instructions ▶

C Business name. If no separate business name, leave blank. | D Employer ID number (EIN), (see instr.)

E Business address (including suite or room no.) ▶
City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on losses . ☐ Yes ☐ No

H If you started or acquired this business during 2016, check here . . . ▶ ☐

I Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions) . . . ☐ Yes ☐ No

J If "Yes," did you or will you file required Forms 1099? . . . ☐ Yes ☐ No

  While this is the way it is supposed to be filed, it allows more room for fudging when your business revenue or losses are claimed by filing a Schedule C. The IRS knows this and will take a little closer look. Once again, as long as everything is correctly claimed and filed there is nothing to be concerned about. Keep your documentation and keep doing the business you love.

  What you generally need for filing a Schedule C would be a Profit and Loss Statement (sometimes called an Income Statement), a Balance Sheet, Statement about assets (if any were purchased during the year), information on inventory if you have inventory, details on travel, vehicle expenses, meals and entertainment, home office business expenses, and any documentation on what it cost you to run your business. Remember, if you own more than one of these types of businesses, you'll need to file a Schedule C for each one.

- **Math Mistakes:**
  We all make mistakes from time to time in doing math. The IRS reports that it caught 2.3 million math errors on 1.7 million tax returns for the tax year 2013 according to BusinessInsider.com. Yes, you read that correctly. Those numbers mean there were multiple errors on many returns. This is understandable since the numbers in some sections carry over into other sections.

In this day and age, the math can be easily checked by doing things in a spreadsheet so the computer actually does the math for you or filing electronically will also help since the software does the math for you. If you are filling out the forms by hand make sure you double and triple check the math. Do the math pieces in a different order to try to eliminate making the same mistake each time. If possible, have someone else check the math as well.

If you have filed your return and find a big mistake, file an amended return ASAP. If the IRS catches the mistake (and it is just a math error) they will usually just correct it when processing your return. They will notify you of the correction and if you are owed a refund, they will send you the corrected amount. If you owe additional taxes, they will you know the amount due plus any interest accrued and/or penalties due since the due date of the return.

- **Claiming your vehicle as 100% business use:**

It is **very rare** that someone actually uses a vehicle 100% of the time for business and the IRS knows this. They will scrutinize any return claiming 100% business use of a vehicle.

When filing Form 4562 to claim depreciation on a vehicle, you must claim the percentage of time it is used for business. No matter what percentage of time you claim, be sure to have mileage logs, detailed calendar entries for all road trips, and all vehicle related receipts. It is very easy for an IRS agent to disallow your deduction in this area.

- **Excessive business deductions for entertainment/travel:**

This is an area that is always under IRS scrutiny. Not all expenses for business meals, travel, and entertainment are completely deductible – some are not deductible at all.

One thing is for sure, if it is out of proportion for your type of business then it will definitely sound the alarm bells for the IRS. You must keep detailed records that document the expense amount, place, people attending, BUSINESS PURPOSE, and nature of the discussion or meeting. Keep in mind that the IRS may decide to not allow a specific expense or may decide to disallow ALL of them.

Make sure you are following the guidelines and keep all the required documentation to claim business meal and entertainment or travel deductions. Write down who you are with for meals and what you discussed for the business on the receipt and keep it for tax filing time.

- **Not keeping Personal and Business expenses separate:**

I cannot stress the importance of keeping your business expenses separate from your personal expenses.

If your business is a corporation, it is considered a separate legal entity so you must keep the finances separate. If your business is a sole proprietorship, it is considered an unincorporated business with no legal distinction between it and you, its only owner. With a sole proprietorship, all profits, losses, and liabilities are tied to you personally, the owner. This is all the more reason to separate the finances in case of an IRS audit.

Keeping things separate will save you money in the long run. You will either have to spend time going through all the receipts and paperwork to back up the numbers to file your taxes or to prove the numbers on a return in the case of an

audit. You may even have to pay someone to do it for you. All of which will cost you time and/or money.

Even with general bookkeeping, it is easier and faster (and therefore cheaper) when everything is kept separate from the beginning.

The easiest way to separate the two is to have different bank accounts with different debit/credit cards for each one and use them accordingly. It doesn't do any good to have separate bank accounts and credit cards if you use the business card for personal expenses and vice versa.

- **Unusually high charitable deductions:**
  The IRS has a lot of statistical data from the millions of tax returns filed every year. They can accurately flag numbers that don't match your income or are just way above the typical amount for someone in your income range.

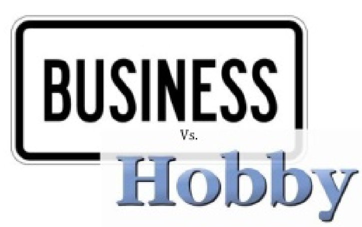
  If you have made the charitable contributions then claim every dime you donated. Just be sure you have the documentation to back up what you've given and file the proper forms (like Form 8283 for non-cash donations over $500). Make sure you have all the details of exactly what you donated for non-cash items, their condition, and price. Failing to file the proper forms makes you an even bigger target for the IRS.

  Keep in mind there will not be a dollar-for-dollar reduction in your taxes with the amount of donated money or non-cash item value. For more detail, check out the section on "Charitable Donations help reduce your taxes – some".

- **The Earned Income Tax Credit:**

  In 2016 the IRS said that returns that claim the Earned Income Tax Credit are twice as likely to be audited. If you can properly claim the EITC then by all means do. However, the rules are complex and lead to high error rates by taxpayers and even paid preparers.

- **Claiming a loss on a hobby:**
  Silly as it may seem, this happens. The difference between a business and a hobby is that a hobby is not pursued for profit and doesn't have an EIN. Writing off expenses for things like traveling to a dog show, card making or other handmade crafts, and losses involved in your personal toy/movie/book/you fill in the blank______ collection is not allowed.



  There is confusion on this because you are supposed to report any income you make from a hobby. If you intend to make money from your hobby, be very careful to run your activities in proper business manner and have any related receipts and documents on hand. To be eligible to deduct a loss, you must be running the activity as if it were a business and have a reasonable expectation of making a profit. You are at risk for an audit if you report multiple years of losses from your hobby on

Schedule C and your activity sounds/looks like a hobby and you have income from other sources.

- **Failure to Report a Foreign Bank Account:**

Needless to say, the IRS is extremely interested in people with money stocked away outside of the U.S. – especially when it is in countries that are notorious for being tax havens.

The IRS has voluntary compliance programs to encourage people with money hidden away in other countries to report their holdings and come clean in exchange for reduced penalties. They have used these programs to get information from the banks the people used. The IRS has been very successful in using these programs to get additional names of US citizens with money in these banks and have made billions of dollars in doing so.

Failure to report money in a foreign bank account can bring severe penalties. Be sure to find out what forms are required and file the proper forms (possibly FinCEN Form 114 or IRS Form 8938).

- **Claiming Large Gambling Losses or Failing to Claim Gambling Winnings:**

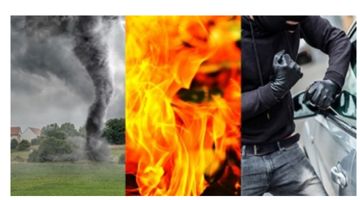
No matter how you are gambling, if you are a Recreational Gambler, you are supposed to report all winnings (income) on the front page of Form 1040.

If you are a professional gambler you show your winnings on Schedule C. Failure to report gambling winnings can easily draw the attention of the IRS since the casino or other businesses likely reported the amount to the IRS on Form W2G.

Claiming large gambling loses will raise a red flag to the IRS since you can deduct the amount you lose gambling only to the extent that you report gambling winnings. If you are a professional gambler then you can write off the cost of lodging, meals, and other gambling related expenses. As a professional gambler, the IRS will give some extra scrutiny to the return to make sure you really are gaming for a living and not just gaming recreationally and trying to make it look like you are a professional gambler.

- **Large Casualty Losses:**

This is a very complicated area when claiming casualty losses on your tax return. Casualty losses involves appraisals, insurance reimbursements, timing of the event, and can even be further complicated when the loss is due to a major event and the President has declared your area a Federal Disaster Area.



While the declaration of a Federal Disaster Area makes you eligible for federal assistance, it makes claiming the loss even more involved. Be sure to seek advice on how, what, and when to claim the loss if you find yourself in the situation to need to file a casualty loss claim.

There are other flags that can trigger the IRS to take a closer look at your return and decide whether or not to audit your full return or a specific deduction or credit. The main thing to remember is to have all the supporting documentations and fill out the necessary forms to claim all deductions and credits you are entitled to. If you are entitled to them, claim them, even if they will send a red flag to the IRS.

Keep the documentation for each year's return and be ready to prove what you claimed to the IRS – even years after the return is filed and taxes have been paid or a refund received. Just because the IRS sent you the refund you claimed, it doesn't mean they will not question it later and send a bill with an 'updated' return along with penalties and interest.

If you don't claim your rightful deductions and credits, you are giving your money away to the IRS when it should be staying in your bank account to use as you please. If you have questions, seek the advice of a professional CPA.

What to do With Uncashed Paychecks

What do you do when that final paycheck you issued last year to one of your employees or contractors was never cashed? It is not as simple as voiding the check in your register and forgetting about it.

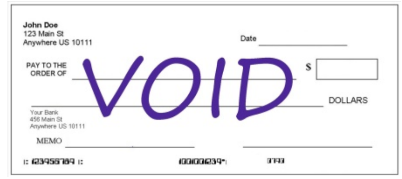
Let's say that you reach out to the payee and they say they want a new one. The best case scenario is that the person can find the uncashed check. If that happens and the original check is too old for the bank to cash, you can have them return the check to you and you can issue a new one.

If you issue a new one without getting the original one back, there is a risk that the payee may find the old one and either intentionally or unintentionally deposit it. The bank may honor it so you need to decide whether or not to put a 'stop payment' on the original one. Remember this costs money and with most banks it only last for 6 months so you may need to put multiple stop payments on the original check.

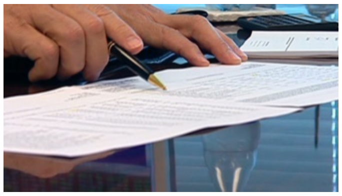
What if you have tried several times to reach the person the check was issued to but can't reach them. You have sent several letters to the address you have and emails as well offering to void the original check and reissue it that have gone unanswered as well.

You decide the paycheck will never be cashed because banks will refuse it as out of date (they aren't required to cash a check that's 6 months old, but it is their call) or you think the person likely lost the check and has forgotten about it at this point.

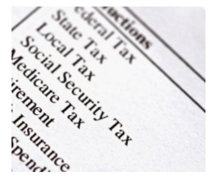
What should you do? Can you just keep the money? Should you hold it for a period of time? Does it get accounted for in the bookkeeping and then you have the funds available to the company?



Well, you cannot just void the check and return the funds to your general account. Why? Because uncashed paychecks are an open liability until cashed—no matter how long they go uncashed. And if the employee is a W-2 employee, you still have to pay and submit all necessary taxes.



Uncashed checks actually carry property rights. After a period of time specified by your state's laws, an unclaimed check becomes unclaimed property protected by state law.



To ensure compliance, take the following steps:

- void the check and move the funds into an escrow account that is subject to strict internal controls;
- pay all of the applicable federal, state, and local employment taxes—FICA, FITW, SITW, etc.;
- regularly review all transactions in and out of the escrow account;
- earnestly try to find and keep any available data identifying the payee; and
- try contacting the payee at regular intervals (e.g., every quarter but no less than every five months) until you are required to turn the check over to the state.

Failure to comply with state unclaimed property laws can result in an audit, interest and penalties. No one wants an audit, much less have to pay penalties and interest!

<u>Most</u> states are not concerned about unclaimed property if your company has a continuing relationship with the former employee or payee—the "owner" of the property—or if the last known address in your records is the owner's current address.

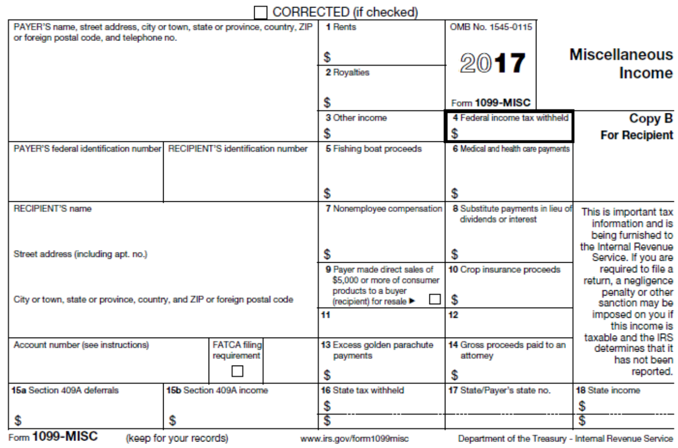
<u>All</u> states require holders of unclaimed property to <u>attempt to contact</u> the owner before reporting the property as unclaimed in a method you can track, like Certified Letter, Return Receipt Requested, or sending an email (that you keep a copy of).

According to BizFilings:
For Colorado bookkeeping, wages or salaries are considered abandoned after a period of one year.

If you have questions about what to do with an uncashed paycheck and cannot reach the payee, talk to your bookkeeper or CPA.

Double Check W-2s and 1099s

Be sure to check all the data and numbers on all W-2s and/or 1099s that you receive. This information is also sent to the IRS. The IRS has software that will compare what the companies send to them and what you report to them. If it doesn't match they will take a closer look at your return.


☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

1 Rents $ | 2 Royalties $ | 3 Other income $ | OMB No. 1545-0115 | 2017 | Form 1099-MISC | Miscellaneous Income

4 Federal income tax withheld $ | Copy B For Recipient

PAYER'S federal identification number | RECIPIENT'S identification number | 5 Fishing boat proceeds $ | 6 Medical and health care payments $

RECIPIENT'S name | 7 Nonemployee compensation $ | 8 Substitute payments in lieu of dividends or interest $

Street address (including apt. no.) | 9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ▶ ☐ | 10 Crop insurance proceeds $

City or town, state or province, country, and ZIP or foreign postal code | 11 | 12

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Account number (see instructions) | FATCA filing requirement ☐ | 13 Excess golden parachute payments $ | 14 Gross proceeds paid to an attorney $

15a Section 409A deferrals $ | 15b Section 409A income $ | 16 State tax withheld $ $ | 17 State/Payer's state no. | 18 State income $ $

Form 1099-MISC (keep for your records) www.irs.gov/form1099misc Department of the Treasury - Internal Revenue Service

If you do catch an error on a 1099 or a W-2 be sure to contact the company or person that issued the form and have them file a corrected one and send the updated one to the IRS. If you catch the error early enough, they may not have filed it with the IRS yet.

Be sure to check everything on the forms including Social Security/Identification numbers, date of birth, Federal Income Tax Withheld, Social Security and Medicare tax withheld and wages, State Income Tax, etc. Make sure it is all correct and do not ever just assume it is correct.

For errors on your 1099:

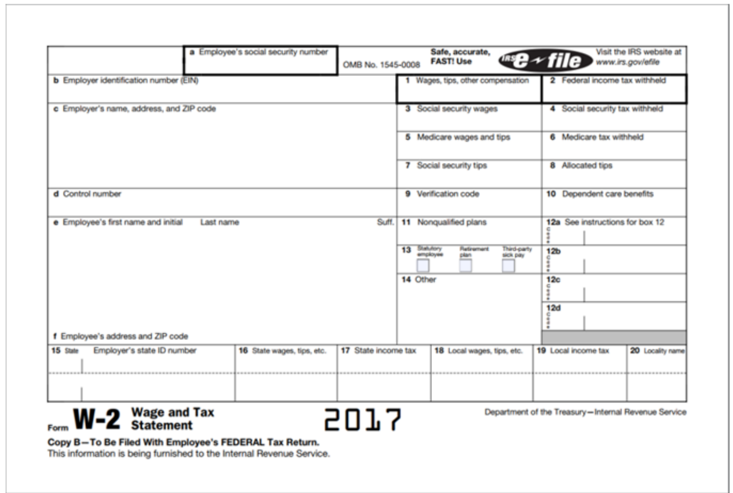
Issuers have until the end of February and for electronic filings they have until March 31st. If the issuer refuses to issue a corrected one, you may have to dispute it. In that case, attach all documentation supporting your stance with your tax return along with an explanation.

If you catch the mistake before you file your tax return and can't get a new form before the deadline to file taxes, be sure to let the IRS know there is a new one on the way or that you have disputed it, and use the correct numbers on your tax return (include documentation for your assertion and a written explanation).

If you have already filed your return, you still let the IRS know and you will need to file an amended return.

For errors on your W-2:
First and foremost, be sure there is really an error. It could be that the end of the year fell in the middle of a pay period (it normally does) and the numbers on your last pay stub for the end of the year will not exactly match the W-2. The numbers should be pretty close though. There are steps you need to take if there really is an error and the IRS will help you. As mentioned in the section on 1099 errors, make sure all

the information is correct. Look at it carefully, even if you have worked for the same employer for years.



a Employee's social security number | OMB No. 1545-0008 | Safe, accurate, FAST! Use IRS e-file | Visit the IRS website at www.irs.gov/efile

b Employer identification number (EIN)
1 Wages, tips, other compensation
2 Federal income tax withheld
c Employer's name, address, and ZIP code
3 Social security wages
4 Social security tax withheld
5 Medicare wages and tips
6 Medicare tax withheld
7 Social security tips
8 Allocated tips
d Control number
9 Verification code
10 Dependent care benefits
e Employee's first name and initial | Last name | Suff.
11 Nonqualified plans
12a See instructions for box 12
13 Statutory employee | Retirement plan | Third-party sick pay
12b
14 Other
12c
12d
f Employee's address and ZIP code
15 State | Employer's state ID number | 16 State wages, tips, etc. | 17 State income tax | 18 Local wages, tips, etc. | 19 Local income tax | 20 Locality name

Form W-2 Wage and Tax Statement 2017
Department of the Treasury—Internal Revenue Service
Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

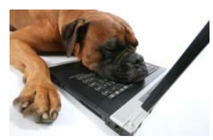
If you are sure the W-2 is wrong, the first thing to do would be to contact the employer and let them know there is a problem with your W-2 that you need corrected. If the employer can't or won't correct it, you can contact the IRS and file a complaint. The IRS will investigate the matter directly with the employer. The IRS web-site has information on how to report an incorrect W-2.

Obviously, the IRS pays attention to those who are trying to intentionally trick the system and they also really pay attention to who is trying to do the right thing. They will try to help you if you are trying to do the right thing.

Review your daily records and reconcile bank accounts monthly.

Did you know that it's a good idea to review your daily records and reconcile bank accounts monthly?

I know…it's boring!!



However, you do need to double check all your bank accounts and daily records at least once a month to make sure everything is correct. Also, reconcile your bank statements monthly to make sure all deposits and withdrawals are correct so any discrepancies can be addressed immediately. Why you ask? There is actually a time limit to correct a bank error. Believe it or not, banks do occasionally make an error and if they don't find it and correct it themselves, they can limit the amount of time you have to do it.

Even if the bank makes an error in your favor, they will most likely find it eventually and can collect the money.

Checking your balances regularly can help you avoid overdraft fees and charges if a mistake has been made. If you make it a habit to check your balances regularly a make sure the balances are correct then you have time to transfer money or make a deposit, if possible, when the balance is low to help assure you avoid overdraft charges and/or fees for below minimum balance requirements.

Charitable Donations help reduce your taxes – some.

First, you must itemize in order to even be able to take a charitable donation on your return. Secondly, it is not a dollar for dollar exchange.

Some people think that making charitable donations will help reduce their tax bill significantly. This is not necessarily true. It will most likely reduce your tax bill but not as much as you might think.

If you want a tax benefit for charitable donations, make sure you choose a qualified charity. These are actual 501(c)(3) organizations and can be found using the IRS Nonprofit Charities Database. It has a tool called "The Exempt Organizations Select Check Tool". Usually contributions to a 501c3 organization are the only ones that are tax deductible. Just because an organization is exempt from paying taxes, it doesn't mean your gift to them will qualify as a charitable donation on your taxes.

It would be wise to do some research on the Nonprofit you are considering donating to in order to make sure you agree with their mission as well as their methods of doing business.

For businesses, if you are a sole proprietor or LLC, your business taxes are filed on your personal return. In order to get a tax benefit from a charitable contribution by the business, you have to itemize your deductions on Schedule A. If you donate $5,000 to a qualified nonprofit and you qualify for the deduction, you would claim the entire $5,000 on your return.

If your business is a partnership, business income and expenses are passed to the individuals on Schedule K-1 based on the percentage of ownership. Let's say the business donates $5,000 to a qualified nonprofit. If you own 75% of the business and your partner owns the other 25%, you deduct $3,750 and your partner deducts the remaining $1,250 providing you both qualify for the deduction.

C corporations are like sole proprietorships since they are stand-alone entities. In a C corporation, the donation does originate from the company.

Be sure to look at the guidelines for any charitable giving you are considering. There are actually limits on how much you can claim as a deduction. Be sure to check that out if you are donating a large percentage of your taxable income.

Remember that charitable giving is not a dollar for dollar reduction in your taxes. Donations work the same way as a standard deduction. Unless the amount of your charitable donation will put your adjusted gross income into a smaller tax bracket, the savings will not be too significant. Your charitable donation works along with any other deductions (mortgage interest, qualified tuition, etc). A rough estimate would be that your tax savings is approximately 25 cents for each dollar donated.

Your motivations for charitable giving should be that you want to support the 501c3 organization with the possible tax savings as an added bonus and not just to get a tax deduction.

There are different types of charitable donations.

- Money – Cash, check, or credit card donation. If you actually receive goods or services in exchange for your donation, the value of the goods or service will be subtracted from the dollar amount you give. Only the dollar amount you gave that exceeds the value of what you received is tax deductible.
- Non-cash items – such as clothing, large or small appliances, furniture, and vehicles. If the total value is over $500 you will need to include IRS form 8283 "Noncash Charitable Contributions" with your tax return. Remember that the burden of proof is on you. If you donate junk that you don't want and can't use anymore, you will not be happy if the IRS audits you. Take a picture of the items you donate so you can prove the quality and accuracy of your donation claim.

- Volunteering – well, actually it would be any expenses you incur while doing the volunteer work and not the time that you spend volunteering. If you purchase flyers to advertise a charity event and you are not reimbursed for them, you can deduct the cost of the flyers. The miles you drive to get to and from a location to volunteer your time with are deductible at the given rate/mile for that tax year.

If you do donate a vehicle, know that the IRS has become increasingly more alert about vehicle donations. Some people claim the 'fair market value' of a used vehicle and that is not what they can sell for. If the charity keeps the car for its own use or works on it to make it in a condition that is worth the fair market value, you will need to claim a lesser value. If the charity sells the car, you can claim the amount they sold it for – NOT what you think its worth.

For those of you who are numbers people, here is an example of how the charitable donations deduction works (as with all deductions in the same category). WARNING: Math content follows…

Let's say that your taxable income after all other deductions and credits is $40,000 for 2017. This would put you in the 25% tax bracket and make your tax due for the year $5,738.75.
If you make a qualified charitable donation of $2,000, your taxable income would then be $38,000 and you would still be in the 25% tax bracket and you would owe only $5,238.75 in taxes ($500 less). It doesn't make a huge difference but it does reduce your tax liability by 9.54%.

If you make a donation of $2,500, your taxable income would be $37,500 and would put you in the 15% tax bracket. This will reduce the amount you owe to $5,218.75 which is an 11.25% reduction.

If you make a donation of $5,000, your taxable income would be $35,000 and would put you in the 15% tax bracket. This will reduce the amount you owe to $4,783.75 which is a 20.9% reduction in the tax liability.

As you can see, the more you donate, the less you will owe in taxes; however, the donation is not a dollar for dollar reduction even when the donation puts you in a lower income tax bracket. See Appendix A for calculation details.

Do you know the reason many small businesses fail?

Cash Flow – Cash Flow – Cash Flow.

This is a major reason small businesses fail. According to a U.S. Bank study, 82% of businesses that fail do so because of cash flow problems**.**

Obviously, if your expenses/bills are greater than your income, there is a definite cash flow problem. Cash flow is not only just about how much money you make verses how much your bills are. It's mainly about the timing of money in and money out as well.

Consider when you get the money in and when you need to send it out. If you make $2,000 in a month and had $1,500 in bills you should be OK, right? Not necessarily. If you got $500 in per week for a total of $2,000 and all your bills were due in the first 2 weeks of the month, if you don't have any reserves you probably couldn't pay your bills on time. That is not a good situation. Of course, if you had the extra money in the bank you would be OK.

Seasonal businesses such like landscaping companies, snow removal businesses, farming, construction companies, pool maintenance companies, tree trimming companies, etc can easily run into cash flow problems. If the bulk of your incoming money is primarily at a specific time of the year or even a specific time of the month, managing your cash flow is essential.

Having a budget is important for any business, especially if you have a seasonal type of business. For any type of business, you should always do your best to never ever allow your expenses to be greater than your income.

Plan what you are going to spend money on and how much – don't deviate unless, of course, you are over spending your income. If you sit down and plan how much you are going to spend on what and WHEN you will spend it, you have a much better chance of staying ahead financially.

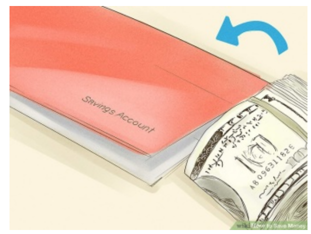
<u>Review your budget and spending regularly</u>. Knowing what you are going to spend your money on and when is great. Reviewing it to make sure that is what happened is also a necessity. If you make a great plan and it doesn't get executed then the plan will never work.

From time to time you will need to evaluate what was good, what worked and what was not so good or flat out didn't work. Update your budget as your company grows and re-evaluate your business spending model. As your company grows, changes will be needed. Some changes are difficult but are necessary to continue to grow or sometimes to establish growth.

Plan as best you can for major expenses.

While there can be expenses that just pop up from time to time that can't be anticipated, there are many that you can plan for.

Let's face it, everyone struggles with saving money. There are so many things we need for our businesses and just when things are going smoothly, boom, something breaks, taxes are due, or software needs to be purchased or updated, or whatever.



By setting aside money for upcoming expenses like inventory, new small equipment, office supplies, repairs and maintenance, and taxes, you can avoid a lot of stress by having the finances in place a head of time. If you haven't developed the habit of saving some cash for the proverbial "rainy day", it is easy to start. Begin by putting a small amount into a savings account on a regular basis. You pick the time, frequency, and amount based on what you can afford. It could be $50 a month at first if need be and then move to $35 or $40 every two weeks or just increase the monthly amount. You may need to study your cash flow to determine when and how much will work.

The point is to start with something that is doable and increase from there.

You can work with your bookkeeper to review your expenses and set up a plan to be prepared.

Be careful not to under or over categorize the chart of accounts.

Yes, like with everything, there is a balance! Don't worry, there is no rule to how many categories are enough or how many are too much. Everything shouldn't be lumped together in a general "work expenses" category and every little thing doesn't need its own specific category either. As you can imagine, the categories needed for a bookkeeping business will be different from those of a landscaping company, cleaning service, HVAC business, construction company, or property management business. There is no one all defining list that would fit every business perfectly.

I have seen books that are so over categorized that it becomes difficult to see what a company's expenses really are. Of course, each company is different and will need to customize income and expense categories based on the business.

I have also seen books that are so under categorized it is impossible to really know what they spent money on without looking at all their receipts. It was also not possible to tell what the income was really for – and that's not a good thing. You don't want a deposit for returning items to be counted as sales and then have to pay taxes on the returned items.

Both scenarios of over and under categorizing are not good but it is better to have a few too many categories than not enough.

Use your common sense when it comes to categorizing income and expenses. In general, the IRS doesn't need to know that a company spent $100 on cyan ink, $120 on yellow ink, $150 on magenta ink, and $210 on black ink. The total amount of $580 that was spent throughout the year to purchase ink can be entered as a general Office Expense when the purchase(s) happen. The receipts, of course, have the details. If there was an audit, the IRS would just want to see proof of the total expense, not how much for each color ink.

Appendix A:

Tax brackets for 2017 for filing Single:

Tax Rate	Income Range	Tax Owed
10%	$0 - $9,325	10% of taxable income
15%	$9,325 - $37,950	$932.50 + 15% of excess over $9,325
25%	$37,950 - $91,900	$5,226.25 + 25% of excess over $37,950
28%	$91,900 - $191,650	$18,713.75 + 28% of excess over $91,900
33%	$191,650 - $416,700	$46,643.75 + 33% of excess over $191,650
35%	$416,700 - $418,400	$120,910.25 + 35% of excess over $416,700
39.60%	$418,400+	$121,505.25 + 39.60% of excess over $418,400

Tax due calculations based on Taxable Income Examples:

Adjusted Taxable Income	Tax Bracket	Calculation of tax due
$40,000	25%	$5,226.50 + 25% ($40,000-$37,950) = $5,738.75
$38,000	25%	$5,226.50 + 25% ($38,000-$37,950) = $5,238.75
$37,500	15%	$932.50 + 15% ($37,500-$9,325) = $5,158.75
$35,000	15%	$932.50 + 15% ($35,000-$9,325) = $4,783.75