

Chart your course

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Tax & Business letter

SUMMER
2018

Confused about the tax changes? You're not alone

There are a lot of questions whirling around the major changes to come out of the Tax Cuts and Jobs Act (TCJA). Plenty of those queries involve misconceptions on applying new rules and finding tax savings opportunities. While we await clarity from the IRS, take a look at some of the key questions business owners are asking:

► Are business meals still deductible?

It depends on the details. While taxpayers may still generally deduct 50 percent of meal expenses associated with operating their trade or business, under the TCJA, business entertainment expenses are no longer deductible.

The intent and location of business meals seem to be determining factors of whether or not the meals are deductible. Future clarification from the IRS will help taxpayers determine if business meals while entertaining clients are deductible. Please recall that substantial business discussion before, during or after a business client meal must occur for it to be deductible.

► What can business owners do about the elimination of unreimbursed employee business expenses?

If you're a business owner, you may consider helping your employees with these lost deductions by offsetting their unreimbursed employee business expenses with compensation adjustments. Or you could purchase tools, uniforms and items they require, making them business expenses rather than employee costs.

Another alternative is to create an accountable plan in which employees are required to submit receipts for expense reimbursement. Business owners reimburse employees for these amounts, which would then be removed from the employees' W-2 income and are deductible by the business.



► How may the repeal of the domestic production activities deduction (DPAD) change my business taxes?

A deduction of 9 percent of the lesser of qualified production activities income or taxable income has been repealed. This applies for tax years beginning after Dec. 31, 2017. For entities that have pass-through income, their taxable income will increase with the elimination of the DPAD. Fortunately, the introduction of the new qualified business income deduction should offset some of the impact of the lost DPAD tax benefit. A tax forecast may be required to determine how this change will impact your operation.

► How will I figure out quarterly estimated tax payments?

While the TCJA has not made any changes to the requirements for taxpayers filing estimated quarterly tax payments, your tax situation has likely been altered (for better or for worse) as a result of the new tax changes. To avoid the risk of underwithholding penalties, use last year's tax obligation as a basis for this year's estimated payments. Also, use the new 2018 IRS Form W-4 and related instructions to help revise your personal withholdings.

More questions? Give us a call and we can help you find answers to how the TCJA affects your business tax planning. ♦



Phishing tops IRS scam list

Email phishing schemes were ranked among the most concerning filing season scams this year. Part of the annual listing of the “Dirty Dozen” tax scams for 2018, the scams target both taxpayers and businesses by using fake IRS emails and websites to steal sensitive information.

Remember, the IRS does not initiate contact with taxpayers by email to request personal or financial information. This also includes text messages and social media. If you get an unsolicited email from what appears to be the IRS or an organization related to the IRS (like the Electronic Federal Tax Payment System), report it by sending it to phishing@irs.gov.

Deducting home equity loan interest still possible

According to the IRS, despite the Tax Cuts and Jobs Act (TCJA) restrictions on home mortgages, taxpayers can often still deduct interest on a home equity loan, home equity line of credit (HELOC) or second mortgage, no matter how the loan is labeled. The TCJA suspends the deduction for interest paid on home equity loans and lines of credit, unless they are used to buy, build or substantially improve the taxpayer’s home that secures the loan. So if you plan to use a home equity loan to fund your business, you should review how it may impact interest deductibility.

Second quarter sees increase in interest rates

Interest rates for the second quarter in 2018 have increased since the first quarter. The new rates are as follows: 5 percent for overpayments (4 percent for corporations), 2.5 percent for the portion of a corporate overpayment over \$10,000, 5 percent for underpayments and 7 percent for large corporation underpayments. ♦



Happy employees make businesses boom

Many people believe that living by the Golden Rule – treating others as you would like to be treated – pays dividends. It turns out this may be especially true for employees. Happy employees are 12 percent more productive in the workplace, according to research conducted by economists at the University of Warwick.

Why your business will benefit

Creating a contented workforce is simply a matter of maintaining and nurturing your employees as your most precious business asset. Employees who are treated well tend to be more invested in their work and be willing to put in extra hours when needed. This effort can help cement relationships with your customers as they’ll discover that your employees will do whatever it takes to get the job done.

Plus, when people like where they work they’re less inclined to leave, which in turn lowers new-hire training expenses and flattens learning curves.

How to keep ‘em happy

So how can a small business thrive by becoming (and staying) a place that makes its workers happy? Show employees you care about them.

There’s more than one way to do this, from offering tax-favored benefits to simply listening to what they have to say. Here are some of the best ways to show you care:

▶ Check in with your employees

When good ideas come from your rank and file, give them proper credit. And as you become aware of special situations affecting the personal lives of your employees, consider helping them beyond what is required.

▶ Create fair and consistent employment policies

Establish an employee handbook to work by, and apply its rules fairly. Create written job descriptions and communicate expectations clearly.

▶ Keep everyone in the loop

When your company is headed for big changes, keep everyone as informed as possible. An old business axiom, “Never create more change than you can communicate,” still holds true.

▶ Invest in employee training

A solid core of well-trained employees not only maximizes company effectiveness and profitability, it sends an unmistakable message that you want to invest in them.

Taking constant steps to help make and keep your employees happy might be challenging, but it’s worth the extra work. It just takes a little application of the Golden Rule. ♦

The 5-star review trap

Read this before using star ratings for your business

When a five-star consumer ratings system for products and services was adopted by major online businesses including Amazon, Yelp and Trip Advisor, the practice soon became widely used. But other businesses such as Netflix ditched star ratings after discovering some downsides. Here are some things to consider before you adopt a star ratings system in your own online business:

★ Troublemakers love it

Unfortunately, most satisfied users will not bother to rate your product or service, while dissatisfied customers tend to be highly motivated. That gives the complainers too much power. It's especially risky if your product or service is new. A few low ratings from a disgruntled group can kill a fledgling offering before it even gets off the ground.

★ Competitors love it

Even great ratings can work against you. Products rated with five stars make it easy for your competitors to know what to copy and what to avoid. For example, if an Amazon reseller's product gets consistent five-star ratings, Amazon sometimes starts selling it directly, often to the chagrin of the reseller who instantly finds their sales being taken over by the online retailing giant.

★ Fixed issues are forgotten

If dissatisfied customers identify a problem with a product or service through negative one-star reviews, even if you fix the problem the damage will be done. Future sales are likely to suffer because of poor historic ratings, despite the fact that you made improvements. And if you erase the old ratings, it may look like you are being dishonest by tampering with the ratings system.

★ Solid sellers look unpopular

If you introduce star ratings, you may have hundreds of thousands of satisfied customers who don't bother to review the product or service. This can give the perception that no one buys it or it's no good – and perception can soon become reality.

Just because the five-star rating system does not work well in many cases, positive customer feedback is still a great marketing tool. Consider using other formats to collect and showcase sincere customer feedback to demonstrate the good-will supporting your business. ♦



5 mistakes that can fold your business

The No. 1 cause of business failure is poor cash flow management. Cash Flow Corner gives you tips to help you master this business fundamental.

Here are some typical cash flow mistakes to avoid:

Failure to anticipate fluctuations. Many businesses are seasonal and have periods of high cash flow followed by lean months with little to no cash coming in. Knowing how to smooth out your cash flow so that profits from good times hold you through the bad is a business management skill that takes practice. Do this by creating a 12-month rolling forecast. Also establish a line of credit with a lender to serve as a safety net.

Letting your receivables slide. New business owners can be so eager for customers that they aren't strict about being paid on time. Receivables that are months overdue won't help you when it comes time to pay your own bills. Send invoices promptly and let customers know that late fees will be charged on overdue bills. If payments still don't arrive, don't hesitate to send out collection letters.

Financing obsolete equipment. Your business needs will continually evolve along with your market, so you should continually assess where your capital is deployed. If you are financing equipment that is no longer as useful, consider selling it to add to your cash balance and free up that capital for investment elsewhere.

Getting drained by useless recurring charges. The longer you're in business the longer the list of software, services and tools that you'll try out to help you run it. Many of these come with recurring automatic charges that pile up and together weigh on your cash flow. Reassess every few months what you're paying for and whether it's actually providing value.

Focusing too much on the other measures. It's nice to look at your business net worth and see it growing from month to month, but that provides only a false sense of assurance if your underlying cash flow is weak. Your business property may be appreciating and your accounts receivable growing. But if money isn't actually coming in the door, those paper values won't stop your business from closing.

If you have any tax or accounting-related questions about your business, don't hesitate to call. ♦

What parents should know about summer jobs

Is your child looking for a job this summer? If so, both of you may have questions about taxes. Here are three common concerns:

- **Is a tax return required?** The answer depends on several factors, including the total amount of income received. For instance, if wages are the only source of income, your child can generally earn up to \$12,000 before a federal tax return is necessary.

However, unless your child can claim an exemption from withholding, he or she may file a tax return even when wages earned are lower than the filing requirement. That's because filing is the only way to take advantage of a qualified credit, or to claim a refund of excess withholdings. In addition, self-employment income, tips, interest, dividends and stock sales can require filing a tax return.

- **Can my child open an IRA?** Anyone

under age 70½ who has earned income can contribute to a traditional IRA. There's no age restriction for Roth accounts, though the amount of the contribution phases out at higher income levels (starting at \$120,000 for single individuals in 2018).

If your child will receive a federal income tax refund, you could choose to have it deposited directly into an IRA. As an alternative, you can provide the funds for an IRA and let your child keep his or her earnings. The maximum standard IRA contribution for 2018 is \$5,500.

- **Are there any tax breaks if my child works for me?** Yes. You may deduct his or her salary from your business income when you pay a reasonable wage for work your child performs in your business. If your business is a sole proprietorship or a partnership that you and your spouse operate, and your child is under age 18,

you don't have to pay Social Security, Medicare or federal unemployment taxes. You must, however, follow the W-2 income reporting requirements for your child as you would with your other employees.

If you have other questions about the tax implications of a summer job, give us a call. ♦



June 15

Second installment of 2018 individual estimated tax is due.

July 31

Due date for filing 2017 retirement or employee benefit calendar-year plan returns (5500 series).

September 17

- Third installment of 2018 individual estimated tax is due.
- Deadline for filing 2017 calendar-year corporation tax returns with extensions of the initial filing deadline.
- Deadline for filing 2017 partnership returns with extensions of the initial filing deadline.

NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us. ©MC

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