

Chart your course

William J. Healey III, CPA
1445 North Sunrise Way, #201 • Palm Springs, CA 92262
(760) 320.2107 • FAX (760) 320.6428
bh@healeycpas.com • www.healeycpas.com

► **Inside this issue**

IRS Tax Notes **2**

Hiring temporary employees? Here's what to consider **2**

Line of credit: what you should know **3**

Cash Flow Corner **3**

Make meetings worth everyone's time **4**

Tax & Business letter

SUMMER
2019

7 common small business accounting mistakes

Keeping your company books in order can be tough. It's hard to find the time to give it the proper attention. When you finally do, understanding the complicated, ever-changing accounting rules can be a challenge. Consider these common accounting mistakes to ensure they do not happen to your business:

1. Mixing in personal expenses. Having non-business costs included in your financials will harm your business in three ways. First, your financial statements will not accurately portray your business performance. Second, personal expenses are a drag on your available cash. Third, the IRS is quick to deny legitimate business expenses as tax deductions if it perceives that personal expenses are comingled. Common sources of non-business expenses to watch for are credit card charges and expense reimbursements.

2. Not keeping your books current. Think bookkeeping is frustrating? Try waiting a month or two to enter your transactions. Falling behind has a compounding effect on the time needed to get back on track. Complex entries get even more complicated as your ability to quickly recall transaction details diminishes over time. All the while, your business continues to

run and set you back even more. Set a goal to have all transactions entered by the end of every week.

3. Entering capital assets as expenses. Because capital assets provide long-term value, they are entered on the balance sheet and depreciated over multiple years. Misclassifying a capital asset as an expense will torpedo your net income for that period. To avoid this, review large purchases and combine expense accounts likely to be hiding capital assets during your month-end review. Remember, while you depreciate these capital assets over many years on your books, special tax treatment allows certain capital assets to be fully deducted on your taxes.

4. Not performing monthly bank reconciliations. When you receive your monthly bank statements, ensure they are reconciled to your books within a week or two. Bank reconciliations almost always identify errors. Delaying bank reconciliations will add unneeded complexity and decrease your chances of correcting an error.

5. Mishandling of sales tax. Many businesses book sales tax they receive as revenue. This is not the proper treatment. Sales tax you receive should be entered as a liability until you remit it to the proper tax authority, ultimately avoiding your income statement altogether. Conversely, sales tax you pay on purchases should be booked as an expense.

6. Lacking proper documentation. Most business owners know that you

need to save invoices and receipts for sales and purchases, but what about documentation for adjustments and journal entries? Proving these are just as important. Contracts, time sheets and shipping documents are some examples of substantiation required to support your entries.

7. Devoting too much of your time. Most entrepreneurs start their business for reasons other than spending hours working on the books. Don't get bogged down worrying about the inner-workings of accounting rules and tax laws. Partnering with an expert to handle your bookkeeping needs can free you up to use your expertise where it's needed the most — running and growing your business.

Call today to discuss your business bookkeeping needs or to schedule an appointment. ♦





Phishing still a threat on “Dirty Dozen” list

The IRS warns taxpayers to remain vigilant when it comes to fake emails and other internet phishing scams used in an attempt to steal personal information. If you get an unsolicited email or social media message that appears to be from either the IRS or an organization closely linked to the IRS (like the Electronic Federal Tax Payment System), you should report it by sending it to phishing@irs.gov.

Protect your personal info

To safeguard against identity thieves who continue to steal large amounts of data, the IRS urges taxpayers to take the following steps to protect personal information:

- Use computer security software (including firewalls and malware protection).
- Use strong passwords.
- Be cautious of email attachments.
- Avoid oversharing personal information on social media sites.
- Keep old tax returns and records in a secure place.

Reminder: 2019 alimony rule change

Alimony is no longer a tax deduction for those paying it, nor income for those receiving it. This rule change does not impact divorce agreements reached before 2019. Now is the time to review any prenuptial agreements and exercise caution when changing an existing divorce arrangement.

Second-quarter interest rates stay the same

Interest rates for the second quarter in 2019 have stayed the same since the first quarter. The rates are as follows: 6 percent for overpayments (5 percent for corporations), 3.5 percent for the portion of a corporate overpayment over \$10,000, 6 percent for underpayments and 8 percent for large corporation underpayments. ♦



Hiring temporary employees? Here’s what to consider

Are you considering hiring temporary staff? Accepting an employee on a temporary basis is not only helpful in a pinch, it also allows you to evaluate that person’s skills, performance, personality and general fit with your company before making an offer of employment.

If you decide to work with a recruiting/employment agency, it will often test an employee’s skills, perform background checks and verify employment history. In addition, the agency typically handles payroll expenses, withholding taxes, unemployment insurance and workers’ compensation.

In most cases, you won’t provide a benefits package for temporary staff, so these employees may cost less over the short term. However, be aware that agencies often charge commissions in addition to hourly rates and may charge a separate fee if the temporary worker is hired permanently.

If you’re considering hiring one or more temporary employees for your business, here are a few helpful suggestions:

- **Know what your business needs.** Start by determining what kind of tasks must get done and what specific job skills someone will need to effectively complete those tasks. Push yourself to define your business needs.
- **Prepare detailed job descriptions.** Your temporary worker should know precisely what’s expected of them. Document the scope of their responsibilities, payment terms and confidentiality agreements. The more definitive the details of the role, the more prepared the temporary hire will be when they begin.

- **Vet your employment agency.** If possible, find an employment/recruiting agency that understands your business and specializes in the kinds of staff you need. Discuss your goals and nail down all pertinent contract provisions including benefits (if any) to be paid, as well as who will make final hiring decisions, and how contracts will be terminated.
 - **Understand your temporary workers’ rights.** While there are several rules you need to follow to avoid misclassifying contractors, temporary workers fall under many of the same laws as full-time employees. These include statutes against discrimination and harassment. So take care to provide a safe and respectful work environment for your temporary workers and develop a plan to have your current staff make them feel welcome.
 - **Plan early, if possible.** It may be hard to predict when you’ll need temporary help in situations like a medical emergency or leave of absence. However, if your company has a busy season that requires extra hands every year, make hiring temporary workers part of your annual plan. Let agencies you’re working with know that you’ll be looking for workers during a certain period of time so they can start recruiting candidates.
 - **Consider repeat temporary staff.** Welcome back temporary workers who do a great job. This can ease the learning curve and cut down on training time because they will already be familiar with your business and its needs.
- Having a helpful temporary employment strategy can really help your business. ♦

Line of credit: what you should know

A bank line of credit is similar in function to a credit card. It provides a reliable source of cash for potential short-term business needs. If you're considering a bank line of credit, here's what you should know:

■ How it works

With a line of credit, you make draws against your credit line from time to time as you need cash. You pay interest only on the amount of the outstanding loan balance. You are expected to make payments and occasionally bring your outstanding balance to zero.

Example: Assume you have a \$100,000 line of credit. You are not obligated to draw any of it at any given time, and you will pay no interest until you actually make a draw (much like a credit card).

Now assume that you must build up your inventory for the holiday shopping season and need \$30,000 to do so. After your inventory purchase, you still have \$70,000 of your credit line available; you are only paying interest on the \$30,000 you used. You may have several occasions during the year to borrow on your line of credit. Since your line of credit is intended for short-term cash needs, your banker expects your balance to be paid down as your cash flow improves.

■ Use your credit wisely

Do not use a line of credit for capital purchases. If you need to expand your building or buy new equipment, arrange a term loan for that specific acquisition. This allows your creditor to use the new equipment to secure the loan and it keeps your line of credit free for short-term needs.

While a line of credit may have a low interest rate, most don't have a fixed rate. The rate can change depending on the market at the time that you borrow, plus how much you borrow. You may end up paying a much higher interest rate if you already used your line of credit and need to borrow more money to cover another shortage.

■ Qualifying for a line of credit

If your business has at least two years of making a profit, you may qualify for a line of credit. Start by checking with your current bank. Your banker would like to keep your business, and if your financial statements support it, you will most likely be offered the line of credit. Depending on the size of the line of credit, be prepared to put up your business and personal assets as collateral. The bank may even request a co-signer on the note.

Most banks are willing to make loans to businesses that have uneven income cycles, but you may want to shop around for the best loan terms. Some banks may already have several customers in your industry and do not want more (a potential bank examiner's concern). Accordingly, their terms may be less favorable than some other bank or credit union.

Call today if you would like assistance in preparing a request for a line of credit. ♦



4 ways to control seasonality problems

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.

Large swings in revenue throughout the year brought on by holiday shopping, weather and other annual events can make it exceptionally difficult for seasonal businesses to plan and sustain a positive cash flow.

The following tips can help seasonal businesses cope with downturns and effectively manage cash flow throughout the year:

- **When times are good, get a line of credit.** The best time to set up a line of credit is when you don't need it. Not only will you have the extra time it may take to secure a loan from a bank, you'll also gain peace of mind knowing that it'll be there when you need it.
- **Leverage your supplier relationships.** The goodwill you build up with your suppliers will likely make them more inclined to help you out with alternative terms that keep cash in your pocket during low sales periods. For instance, your suppliers may agree to hold a portion of your inventory and accept payments upon release, instead of requiring upfront payment for the entire lot. Long-term suppliers will help as they know your business and that you will not be ordering from a competitor. You benefit by aligning your supplier payments closer to when you will be selling the product.
- **Create a labor strategy that optimizes your cash flow.** Consider giving your employees time off during low seasons and incentivizing them by offering higher pay during peak seasons. You may also minimize your need to hire extra staff or pay overtime during peak season if you're able to shift some of that work into the downtime months when your employees are light on tasks.
- **Partner with your customers.** Your customers can help you maintain a steady cash flow throughout the year if you give them the right opportunities to do so. Incentivize them to make purchases during your low season by offering worthwhile discounts that expire before the peak season.

Call for a review of your company's cash flow management plan. ♦

Make meetings worth everyone's time

For most companies, business meetings are a fact of life. Although meetings are generally meant to be useful and necessary, too many of them simply waste time. Some may even harm morale. Luckily, you can change that.

Here are a few ideas for making business meetings truly worth the time:

▶ **Use other forms of communication whenever possible.** Most meetings are held to disseminate information. The participants are informed or reminded about policies, given progress reports about ongoing activities, or told of upcoming events. However, unless you're soliciting input or anticipating confusion about the subject matter, consider substituting emails or other memoranda to communicate routine information. That way, you'll be providing written guidelines while saving everyone's time.

▶ **Skip unneeded meetings.** Don't hold a meeting solely because it's part of the usual schedule (e.g., the weekly staff meeting). Once again, if the topic of the week can be conveyed in a memo, or there's nothing important to discuss, simply cancel. If you do hold a meeting but exhaust your topic early, adjourn rather than trying to fill the allotted time.

▶ **Prepare your meeting participants.** If your meeting objective is to generate ideas or consensus, you can kickstart the creative process by distributing an agenda with guidelines a few days beforehand. Letting the participants mull over the topics in advance can maximize productivity and minimize orientation time. Encourage a diversity of opinions and positions, but be prepared to tactfully deflect digression or showboating.

▶ **Summarize the meeting results.** At the end of any meeting, briefly sum up the proceedings, clarify actions to be taken,

and identify who is responsible for assigned tasks. An important goal is to make your participants feel they are a vital part of company processes.

Once you begin integrating these ideas into your business's meeting culture, you'll likely find that meetings will become more efficient and effective — and employees will be thankful. ♦



June 17

• Second installment of 2019 individual estimated tax is due.

July 31

• Due date for filing 2018 returns for calendar-year employee retirement or benefit plans (5500 series).

September 16

• Third installment of 2019 individual estimated tax is due.

• Deadline for filing 2018 calendar-year S-corporation tax returns with extensions of the initial filing deadline.

• Deadline for filing 2018 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

We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

HEALEY & ASSOCIATES CPAs • (760) 320.2107