

Chart your course

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# Tax & Business letter

SUMMER  
2023



## Occupational fraud schemes every business should know

According to the Association of Certified Fraud Examiners, it often takes 12 to 18 months to discover that an employee has been stealing from your business. Here's a look at how this fraud occurs and what you can do.

### Types of occupational fraud

The starting point to preventing occupational fraud is to understand the common approaches to theft:

- **Ghost employees.** Typically, someone with access to your payroll creates a fake employee and assigns direct deposit information to a dummy account so they can secretly transfer the money into their own bank account.
- **Time thieves.** This fraud is often hidden if employees are not working overtime. Sometimes multiple employees will team up to clock each other in earlier than when they arrive or later than when they depart for the day.
- **Shape-shifting commissions.** In an attempt to bump up a commission payment or reach a quota, a sales contract is modified. Sometimes a booked sale is made larger than it is with a corresponding credit memo put in the system in a later period.

- **External swindlers.** This scam often starts with a fraudster impersonating a company executive asking an employee with access to payroll data to provide sensitive information. These imposters can make the correspondence look very real by using company logos, signatures and email addresses.

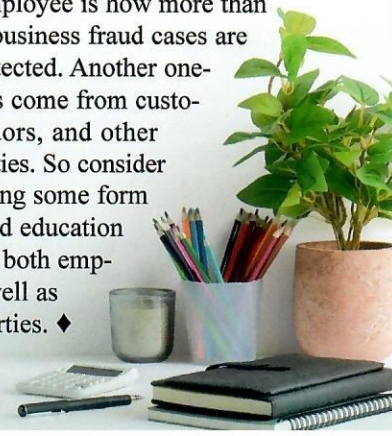
### What you can do to fight occupational fraud

Here are some tips to reduce your company's occupational fraud risk:

- **Look for signs.** Per the Occupational Fraud report, internal theft signals often include employees living beyond their means, employees with significant financial problems, and employees that are overly close to customers or vendors.
- **Create or enhance internal controls.** Review your company's internal controls. Separation of duties is key. Dual approvals of payroll, regular

shifting of duties, separate payroll bank accounts, limited bank access and management oversight are all basic controls that should be in place.

- **Review payroll records.** Designate someone outside of the payroll-processing department to periodically review the payroll records. Have this person review names, pay rates, and benefit accounts to verify that the total payroll is accurate and matches what was withdrawn from the business bank account.
- **Perform random internal audits.** During an internal audit is when you can really get into the details to look for potential fraud. Conduct an in-depth review of the entire payroll system or select a random sample of dates and employees. Keep the timing of the audit under wraps to prevent giving someone the chance to cover up their misdeeds.
- **Ask your employees for help.** A tip from an employee is how more than half of all business fraud cases are initially detected. Another one-third of tips come from customers, vendors, and other outside parties. So consider implementing some form of anti-fraud education that targets both employees as well as external parties. ♦





## IRSTAX NOTES

### IRS collection efforts resume normal operations

The IRS is resuming normal collection operations starting with the mailing of CP-14 balance due notices for the 2022 tax season. The IRS temporarily suspended mailing of automated collection notices and other compliance actions to provide relief during the COVID-19 pandemic, and to allow the IRS some time to work through a backlog of tax returns also caused by the pandemic.

Other notices that will be mailed by the IRS to taxpayers will pertain to unfiled tax returns, tax return delinquencies, intents to levy, and withholding compliance.

### Interest rates remain the same for the second quarter of 2023

Interest rates for the second quarter in 2023 will remain the same compared to last quarter. These rates include: 7% for overpayments (6% for corporations); 4.5% for the portion of a corporate overpayment over \$10,000; 7% for underpayments and 9% for large corporation underpayments. ♦

## Tax CALENDAR



### June 15

- Second installment of 2023 individual estimated tax is due.

### September 15

- Third installment of 2023 individual estimated tax is due.

# Watch out for BUSINESS TROLLS!



Even if you think you are doing everything by the books, your business can find itself in a legal quagmire. This is because it's usually more cost effective to settle a potential lawsuit than to litigate one. With this knowledge, unscrupulous firms use the threat of lawsuits as a business strategy and are often known by the term legal trolls. Here is what you need to know.

### Here come the trolls!

A number of companies are in business primarily to extract a fee from unsuspecting businesses that happen to unwittingly come across their path – just like trolls. Here are some of the more popular strategies being used today.

- ▶ **Patent and copyright trolls.** A number of companies are in the business of acquiring patents and copyrights. They monetize their purchases by catching others they deem are violating their use. This can include inventions or be as simple as a similar design or process! You either litigate or pay ongoing license fees to make them go away.
- ▶ **Consolidator trolls.** A person or a group will buy up a business category, change the licensing of product use, then go after those using a product or service that are not in compliance. A good example of this is the licensing of photos, video clips and audio files. As a small business owner, you could find yourself addressing a threat of a lawsuit because you are using an image to which you purchased the rights many years ago.
- ▶ **Website trolls.** One day you may receive a letter stating that your website violates the Americans with Disabilities Act. The letter may demand a large payment in order to settle the case.
- ▶ **ADA physical compliance trolls.** These firms will hire someone to walk into retail establishments and find violations. A ramp with an angle that is off a bit, or a railing too high

or too low, opens the door to legal action, often without the ability to correct the problem ahead of time.

### What you can do

Here are some ideas for dealing with these trolls:

- ▶ **Take action.** Do not ignore the complaint. Contact your insurance company and legal representative as soon as you are threatened. If you decide to pay even a small fee to make the problem go away, you may actually be opening yourself up for the troll to look for other ways to extract additional payments from you.
- ▶ **Get good insurance.** A good, small business insurance policy can help defend you if someone threatens you or your firm. When the litigator realizes you will not be out-of-pocket to defend yourself, they often will back off of their claim.
- ▶ **Get the help of an expert.** Review your legal threat with a law firm experienced with these legal sharks. They will often know the proper legal approach to send them on their way.
- ▶ **Tell others.** Let fellow vendors and even competitors know that the trolls are out there and what they are attacking when you are threatened. Share information with them on how you made the problem go away.
- ▶ **File complaints.** If the threat of a lawsuit is frivolous, there are state and federal authorities that should be made aware of the company's threatening practices. ♦

# The pros and cons of loyalty programs

*Are these programs right for your business?*

Repeat customers are vital to any company's long-term survival. According to some studies, acquiring a new customer is at least five times more expensive than retaining a current one.

One strategy that may help increase your business's customer retention is a customer loyalty program. But be sure to consider the following benefits and pitfalls of such a program if you're considering starting one, or even if you have one that's already up and running:

## Benefits

- ◆ **Incentives for repeat sales.** A loyalty program can create a sense of appreciation among customers, which can lead to renewed purchases. Whether they're earning points toward a free item or a discount for spending above a certain amount, customers keep coming back when they see a clear benefit.
- ◆ **Higher transaction amounts.** One study showed that most shoppers spend more when taking advantage of loyalty program benefits. Another found that loyalty programs increase overall business revenue from five to ten percent.
- ◆ **Create a known customer list.** A loyalty program can spotlight those who patronize your business. When a customer registers, data is recorded in company records. As members continue to frequent the business, additional information is collected.
- ◆ **Design a trial for new products or services.** A loyalty program payoff could be a free or discounted new product or service. This is a great way to get current customers to try something new. It also ensures the cost of the loyalty program is directly tied to increases in revenue.

## Pitfalls

- ◆ **Time-consuming to begin and maintain.** Depending on the complexity of your program, a third party may need to be hired to determine the best program for your business. Monitoring is crucial after initial setup. Award amounts need to be tracked and notification emails sent. Failure to maintain the program may frustrate and eventually alienate formerly satisfied customers.
- ◆ **Lower profits.** It's tough to justify giving a discount to someone who would buy it anyway at regular price. Giving away products and offering discounts, if not continually evaluated, have the potential to hurt your bottom line.
- ◆ **A never ending story.** Loyalty programs can be difficult to eliminate. And the longer the program is in place, the more it puts loyal customers at risk if you eventually discontinue it. ◆

“Whether they're earning points toward a free item or a discount for spending above a certain amount, customers keep coming back when they see a clear benefit.”

## CASHFLOW CORNER

### The power of cash flow forecasts

All owners understand the #1 rule of business – don't run out of cash! But this is often easier said than done. One method of getting a better handle on your business's money is by creating a cash flow forecast.

#### Cash flow forecast defined

A cash flow forecast shows an estimate of the cash coming in and going out of your business over a certain period of time. The time frame covered by the report can be whatever makes sense for your business (i.e. weekly, monthly, bi-monthly, quarterly, or annually).

#### Benefits of a cash flow forecast

- **Identify cash bottlenecks.** Maybe you have a group of customers that habitually pay late, or your inventory is not turning quickly, so it is not changing back into cash quickly enough. A cash flow forecast can help you identify bottlenecks like these that prevent cash from flowing back into your business.
- **Budget for tax payments.** Large payments typically loom for every business, such as an annual insurance bill or making quarterly estimated tax payments. Other businesses know they have large inventory purchase requirements leading into the holidays. A cash flow forecast can help you set aside enough money to pay your monthly, quarterly, and annual obligations.
- **Prepare for low revenue months.** For businesses who are seasonal or don't earn their revenue evenly throughout the year, a cash flow forecast can help ensure that you've got enough money to pay the bills during cash flow negative months.
- **Requested by many outside parties.** Bankers, shareholders, investors, and other outside parties may request a cash flow forecast in addition to a balance sheet, income statement, and statement of cash flows. A cash flow forecast can be a big help in determining when to ask for a line of credit, which should often be done when it doesn't look like you need it!
- **Project appraisal and business planning.** A cash flow forecast lets you calculate multiple business scenarios, then assess whether a particular project would be worth pursuing. Consider running at least three scenarios – a best case, a worst case, and one case in the middle. ◆

## HEALEY & ASSOCIATES

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## Great cost cutting ideas

**C**utting expenses is one way to help increase your bottom line and ensure your business has enough cash to pay your bills. Here are some ideas:

**Identify opportunities.** Review your financials and identify the five largest expense items as a percent of net sales. This could be discounting, cost of goods sold, payroll, or other expenses. The point is to focus on areas that can make a material impact to your bottom line.

**Review debt.** Review your balance sheet and look at your debt. This includes your payables, lines of credit, and other debt. Remember that in an increasing interest rate environment, being able to have vendors extend terms or provide discounts can be a great money saver. Consider asking your banker about refinancing other debt, such as installment loans or revolving lines of credit, to a lower interest rate. With this tough rate environment, banks are looking for well run businesses that are proactively managing their risks.

**Cost of goods sold.** With costs being impacted by inflation and supply chain problems, this is an area of focus for many businesses. You can optimize this area for potential cost savings by understanding the competitive landscape and knowing the proper balance between volume and price.

### Look for cost cutting opportunities within specific expenses

- **Telephones.** Many companies are relying on the same hardware and service they bought 40 years ago, which can be expensive to use and maintain. Consider transitioning to a Voice over Internet Protocol service that can easily integrate with mobile phones and other electronic devices.
- **Internet service.** Similar to your telephone service, it's easy to sign up for internet service and forget about it. If it's been more than a year since you've spoken to your internet service provider, get on the phone and ask

about different options. Maybe you're spending for more bandwidth than you need or unnecessary add-ons like a turbo boost.

- **Data storage.** While the cost of storing data in the cloud is now more affordable than ever, many businesses overestimate the amount of storage capacity they actually need. Consider doing an annual audit of your storage needs and asking your provider about different capacity levels if you find you have ample, unused storage space.
- **Software as a service.** These services are popping up like weeds, with each one charging a monthly fee that goes on forever. Consider reviewing your cash disbursements, identifying any recurring charges, then reviewing each one for its relevancy. Many of these services charge per user, so see if it's feasible to trim the number of people using the service. The savings can add up quickly! ♦

*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.*

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