



# NOLAN | GIERE

CERTIFIED PUBLIC ACCOUNTANTS

# Quarterly Report

Fall 2018

## 5 Annual Tax Essentials

The more things change the more they stay the same. This is especially true when it comes to reviewing your tax situation. Mark your calendar to review these essential items each year to ensure you are not missing something that could cause tax trouble when you file your tax return:

### 1. Required minimum distributions:

If you are 70½ or older, you may need to take required minimum distributions (RMDs) from your retirement accounts. RMDs need to be completed by Dec. 31 every year after you turn the required age. Don't forget to make all RMDs because the fines are extremely hefty if you don't – 50 percent of the amount you should have withdrawn.

### 2. Your IRS PIN:

If you are a victim of IRS identity theft you will be mailed a one-time use personal identification number (PIN) as added security. You can expect to receive your PIN in the mail sometime in December. Save the PIN as it is required to file your Form 1040. If you would like to sign up for the PIN program, you can do so on the [IRS website](#). Note that once you are enrolled in the program, there is no opt out. A PIN will be required for all future filings with the IRS.

### 3. Retirement Contributions:

You may wish to make some last-minute contributions to qualified retirement accounts like an IRA. This can be \$5,500 for traditional or Roth IRAs plus an additional \$1,000 if you are 50 or older. Contributions to traditional IRAs need to happen by April 15, 2019 to be deducted on your 2018 tax return.

### 4. Harvest Gains and Losses:

Profits and losses on investments have their own tax rates from 0 percent to as high as 37 percent. Knowing this, make plans to conduct an annual tax review of investment moves you wish to make. This includes:

- Understanding investments held longer than one year have lower tax rates as long-term capital gains.
- Trying to net ordinary income tax investment sales with long-term investment losses.
- Making full use of the annual \$3,000 loss limit on investment sales.

Timing matters with investment sales and income taxes, so having a year-end strategy can help lower your tax bill.

### 5. Last-Minute Tax Moves:

While your last-minute tax move opportunities may be limited, here are a few ideas worth considering:

- Make donations to your favorite charities to maximize your itemized deductions.
- Consider contributions of up to \$100,000 from retirement accounts to qualified charities if you are older than 70½.
- Make tax efficient withdrawals from retirement accounts if you are over 59½.
- Delay receipt of income or accelerate expenses if you are a small business.
- Take advantage of the annual \$15,000 gift-giving limit.

Understanding your current situation and having a plan will make for a smooth tax filing process and maximize your tax savings.

As always, should you have any questions or concerns regarding your situation, please feel free to contact us.

# Perspective

## An Inside View

Dear Clients and Friends:

Autumn is once again upon us here in Ohio bringing shorter days, cooler temperatures and falling leaves. So far, this month I have spent the better part of three days raking and gathering the leaves in my yard for pickup by the city. An annual ritual that I view as the price to pay for the cool shade provided by the trees that my family and I enjoy during the warm summer months.



As I write this column, the country celebrates Veterans Day to honor our military Veterans for their service and sacrifice defending the freedoms that we all enjoy. This year of course also marks the 100<sup>th</sup> anniversary of Armistice Day; the day the guns fell silent on the 11<sup>th</sup> hour of the 11<sup>th</sup> day of the 11<sup>th</sup> month of 1918 bringing an end to World War I. As I worked in the yard the last few days I listened to several programs on National Public Radio about World War I, Armistice Day, and our Veterans in general. I came away with a deep sense of gratitude for the sacrifices made by our Veterans and their families. All gave some and some gave all. We must never forget.

With the end of the calendar year nearly upon us, tax planning season is here. For many of you we will be working on year-end tax planning in the coming weeks. This year will be different in many ways from prior years as we apply the changes brought about with the Tax Cuts and Jobs Act passed late last year. Some of the federal tax management and tax saving strategies that we have recommended in the past will continue to be appropriate while others have changed and still others may now be obsolete. We will work closely with our clients to help them understand these changes and to develop and implement strategies that are the most beneficial to their particular tax situation. If you have questions about the new tax law and your tax situation, just give us a call. We're here to help.

In this issue of the *Quarterly Report*, we've included articles on some things the IRS looks for when auditing small businesses, some concepts that can help your business survive and prosper, as well as an article on tax fraud and negligence and what separates the two. Let us know if you have any questions or need more information on these topics.

As we head into the holiday season, we'd like to thank each of you for the blessing of our relationship and send to you and yours our wishes for peace, hope, and joy!

Sincerely,

Tom

## The IRS Loves Your Business ... and That is NOT Good

The IRS continues to focus their audit activities in key small business areas. The wise business owner is well advised to be able to defend the following five areas to keep the IRS at a comfortable distance:

- **Business or hobby?** Be ready to provide proof your business is truly a business and not a hobby. Those who fail in the eyes of the IRS can have their expense deductions severely limited, while still required to report the income. Make sure you can answer and provide documentation for these four questions:
  - a. What is your profit motive?
  - b. Are you an active participant in the business?
  - c. Are you conducting the activity in a business-like manner?
  - d. What expertise do you have in the service or products your business provides?
- **Reasonable shareholder salary.** S corporations are in the unique situation where some compensation is excluded from payroll taxes. Many businesses take this too far. The IRS is looking closely at businesses who avoid paying a reasonable salary in order to lower their Social Security and Medicare bills. When determining salaries for shareholders, consider their experience, duties, responsibilities and time devoted to the business. Once you have a picture of their ongoing contributions to the business, research comparable positions and salary ranges to pinpoint a fair salary. Save your findings and calculations as backup to provide in the event of an audit.
- **Contractors or employees?** Make sure consultants and other suppliers are not employees in disguise. The IRS looks at how much control you have over the work being done – the more control you exert the higher likelihood you may have an employee versus a contractor. Penalties can be very steep if the IRS decides your consultant is really your employee. If in doubt, ask for a review.
- **Expenses for meals and entertainment.** The IRS is now disallowing any entertainment deductions, even if there is business conducted before or after the event. That means business meal documentation is now more important than ever and should include receipts, who attended the meal, and the business purpose of the meal. Bringing food in for business lunches rather than going out is a safe way to show business intent. If you have an event with both entertainment and food included, get two receipts - one for the entertainment and one for the food.
- **File your Forms W-2 and Forms 1099.** Don't forget to file all required 1099s and W-2s. Most of them are due on or before Jan. 31. The IRS is penalty crazy in this area with up to \$270 per missing or incorrect form.

Knowing what the IRS is looking for helps you prepare should it turn its focus to your business.

# Business Solutions

## Six Ideas to Help Your Business Survive AND Thrive

If you are like millions of taxpayers trying to make a living running a small business, you know it is tough out there. Here are six ideas to help your business survive and thrive.

**1. Understand your cash flow.** One of the biggest causes of business failure is lack of positive cash flow. At the end of the day, you need enough cash to pay your vendors and your employees. If you run a seasonal business you understand this challenge. The high season sales harvest needs to be ample enough to support you during the slow non-seasonal periods.

*Recommendation: Create a 12-month rolling forecast of revenue and expenses to help understand your cash needs each month.*

**2. Know your pressure points.** When looking at your business, there are a few categories that drive your business success. Do you know the top four drivers of your financial success or failure? By focusing on the key financial drivers of your business, success will be easier to accomplish.

*Recommendation: Look at last year's tax return and identify the key financial drivers of your business. Do the same thing with your day-to-day operations and staffing.*

**3. Prioritize your inventory.** If your business sells physical product, you need a good inventory management system. This system does not have to be complex, it just needs to help you keep control of your inventory. Cash turned into inventory that becomes stuck as inventory can create a cash flow problem.

*Recommendation: Develop an inventory system with periodic counts (cycle counting) to help identify when you need to take action to liquidate old inventory or research any discrepancies.*

**4. Know your customers.** Who are your current customers? Are there enough of them? Where can you get more of them? How loyal are they? Are they happy? A few large customers can drive a business or create tremendous risk should they go to a competitor.

*Recommendation: Know who your target audience is and then cater your business toward them and what they are looking for in your offerings.*

**5. Learn your point of difference.** Once you know who your customer is (your target audience), understand why they buy your product or service. What makes you different from others selling a similar item?

*Recommendation: If you don't know what makes your business better than others, ask your key customers. They will tell you. Then take advantage of this information to generate new customers.*

**6. Create a great support team.** Successful small business owners know they cannot do it all themselves. Do you have a good group of support professionals helping you? You will need accounting, tax, legal, insurance, and employment help along with your traditional suppliers.

*Recommendation: Conduct an annual review of your resources, be prepared to review your suppliers and make improvements where necessary.*

While libraries are filled with small business advisory books, sometimes focusing on a few basic ideas can help improve your business' outlook. Please call us if you wish to discuss your situation.

## Fraud? Negligence? Know the Difference!

Each year the IRS opens thousands of investigations looking for possible tax fraud. In 2017 alone, the Criminal Investigation (CI) arm of the IRS identified \$2.5 billion in potential tax fraud with a 91.5 percent conviction rate. While the IRS takes tax fraud seriously, they also understand that mistakes happen. Here is what you need to know.

### Tax Fraud or Negligence?

**Fraud.** The IRS defines tax fraud as intentional wrongdoing, on the part of the taxpayer, with the specific purpose of evading a tax known to be owing. To be considered fraud, taxes must be owed and there must be deceitful intent. If convicted of tax fraud, penalties can be hundreds of thousands of dollars and may include prison time.

**Negligence.** On the other hand, tax negligence is an unintentional mistake. Common mistakes are wrong names or Social Security numbers, math miscalculations and errors in figuring credits or deductions. Most of these mistakes happen when individuals calculate taxes on their own. While a mistake is not usually considered fraudulent, it can create additional penalties and interest if the mistake results in more taxes owed.

### Areas to be extra cautious

The majority of returns with false information will be considered a mistake, not fraud, due to a lack of nefarious intent. Even still, it's good to know when to be extra cautious to avoid unneeded scrutiny of your tax return. Here are some common areas the IRS is on the lookout for fraud:

- **Underreporting income.** Income that doesn't get reported is usually from some form of non-wage income like a side job or contractor arrangement. Make sure you have documentation of all payments received by you. Be very suspicious if you are paid in cash. All income, regardless of the source, needs to be reported.
- **Including personal expenses as business deductions.** Intentionally padding business deductions with non-deductible personal expenses can be deemed tax fraud. If you have a business, ensure that you have a separate bank account for your business transactions to avoid extra questions. For all deductions, keep your receipts in an organized fashion to prove the expense if necessary.
- **Concealing information during an audit.** Going through an audit can be an unnerving event. Don't add to the pain by intentionally hiding information from an auditor and unknowingly creating a fraudulent situation. If you are selected for an audit, the first thing to do is get help!

The tax code is complex and the IRS understands this. Missing information from taxpayers is often considered an accident unless there is reason to believe it is intentional. If you have a situation you are concerned about, don't hesitate to call the office. We are here to help!

## Firm Highlights

### Welcome New Team Members!



We would like to welcome 3 new employees to the Nolan Giere team. If you see them at the office, make sure to introduce yourself!

**Annie Petitt: Firm Administrator**  
**Shawn LeConey, CPA: Staff Accountant**  
**Spencer Whitcraft: Staff Accountant**

Wishing you a joyous Holiday Season and  
best wishes for the New Year!



  
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206 W. Main Street Troy, OH 45373  
Phone 937-339-3118 [www.nolangiere.com](http://www.nolangiere.com)