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Tax & Business letter

WINTER 2017

Get Ready. Get Set.

Year-end filings are almost here

Before you know it, your business will need to file year-end W-2s, 1099s and other informational tax returns. Getting this wrong could cost you hundreds per missed form. Here are some tips to be ready to hit the ground running.

Review your employee records. Now is a good time to ensure you have updated records and addresses for all your employees. This is especially true for any employee who is recently married or moved during the year. Keeping track of terminated employees should be done throughout the year, but a quick review of these records now can save time when compared with waiting until their W-2s are returned as undeliverable.

Prepare for your health care form filing. Forms 1095 are required for all employees and their dependents that have health care insurance. If your health care provider covers this task, great. If not, spend a few minutes with your health care provider to ensure these reports are ready to be filed at the end of the year.

Create a full vendor list. Review all your supplier records and create a master list you can use to fill out and submit their Forms 1099. Remember to review all suppliers, including contractors, service providers (such as law firms) and any firms that owe you interest.

Request missing information now. If you are missing any vendor information, get it now. This may include a TIN or SSN for a contractor. Use Form W-9 for this purpose. Lack of information is not a valid excuse to avoid the fines for late filing.

Don't forget the rules. In recent years, the IRS has instituted fairly rigorous penalties for late filing of information tax returns. The penalties start at $50 per late return. The penalty is at least $530 per information return with no maximum penalty for intentional disregard of the filing or correct information requirements. So be sure you know who requires a form and the due date for filing the form. For most Forms 1099-MISC the due date is on or before Jan. 31, 2018.

Seek help … early. The risk of getting this wrong is highly punitive. Ask for help now to ensure your annual filings can be done on time and with minimal hassle. ♦

IRS TAX NOTES

Relief for Harvey, Irma and Maria hurricane victims

The IRS has postponed various tax deadlines for individuals and businesses in Florida, Georgia, Puerto Rico and the U.S. Virgin Islands, as well as in parts of Texas. They will have until Jan. 31, 2018, to file and pay the affected returns and taxes.

The new deadline applies to business filers whose extensions ran out Sept. 15 and quarterly estimated tax payments due Sept. 15 and Jan. 16, 2018. Quarterly payroll and excise tax returns due on Oct. 31, as well as calendar-year tax-exempt organizations whose 2016 extensions run out on Nov. 15, 2017, are also included.

Fake charities on the rise

The IRS reported an increase in charity scams with the onset of Hurricane Harvey and other recent natural disasters. If you're planning on donating, choose a charity that is well known. The IRS website has a list of exempt organizations you can use to find qualified charities.

Do you have an ITIN? Renew it now

Individual Taxpayer Identification Numbers (ITINs) that have not been used when filing a tax return at least once in the past three years will automatically expire on Dec. 31, 2017.

The *Protecting Americans from Tax Hikes (PATH) Act* creates a rolling expiration date for all issued ITINs. The key number to look for is in this position: 9xx-**XX**-xxxx. If your ITIN has the **middle digits of 70, 71, 72 or 80**, you'll need to renew it before the new year.

To renew, tell your employees to fill out Form W-7 with the required support documents. To learn more, visit the ITIN information page on the IRS website. ♦

When nature turns ugly, the tax code can help

The devastation caused by recent hurricanes Harvey, Irma and Maria has brought the topic of natural disasters top-of-mind for many business owners. If you're an unlucky victim, you may receive help from insurance and federal disaster aid, as well as delayed filing requirements from the IRS.

But the tax code itself also offers some relief. You may be able to take an itemized deduction for part of your loss. In tax terms, it's a "casualty loss," and it can also apply to events such as a car crash, a house fire or theft. Here are the basics:

Sudden event

The loss or damage must be due to an unexpected and sudden event. Losses due to slow deterioration over the years (e.g., rot, rust or insect damage) don't qualify.

Tax deduction

Your tax deduction won't equal your total loss. You'll need to subtract any insurance or other reimbursement. Then you must also deduct $100 for each loss and 10 percent of your adjusted gross income.

Basis adjustment

Your loss may also be limited by your adjusted basis in the property. That's generally what you paid for it, plus or minus any improvements or previous losses.

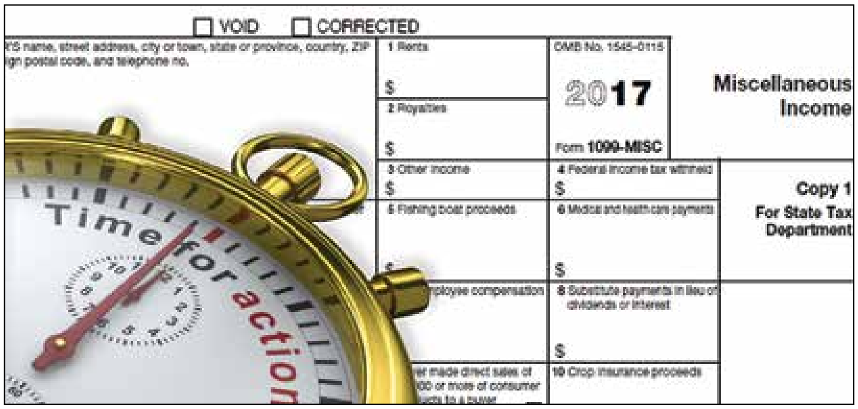
Disaster classification

In a widespread disaster, the area may be classified as a "federally declared disaster area." If that happens, you have two choices. You can claim your casualty loss against the current year's taxes, or you can amend the previous year's return and claim your loss against that year's taxes. It may result in a lower tax for that year that could produce a refund, but it may also change the amount of your deduction.

If you've suffered a casualty loss, please contact us. We'll help you claim the maximum possible tax benefit. ♦

Thank you

Thank you for giving us the opportunity to serve you this past year. Your trust and your business are appreciated and your referrals are welcome. We wish you a happy, healthy and prosperous 2018.



Here's the 411 on 1099s

One of the consequences of the IRS's recent attempts to crack down on refund fraud is that it expects business owners to get their Forms 1099 in by Jan. 31 – or face hefty fines. In the past, while most forms were filed by the end of January, you had until as late as March 31 to get the government its copies.

Unfortunately, the fines on the self-employed and small business owners for missing the Jan. 31 deadline can be steep. Forms W-2 and 1099 filed up to 30 days late are fined $50 each, $100 each for more than 30 days late and $260 each for those filed after Aug. 1 or not filed at all.

Here are some important points to remember:

► Form 1099-MISC is the most common

This type of Form 1099 is used to report payments of $600 or more to vendors who provide services to your business. Examples include payment for repairs, accounting services, consulting fees and legal advice. Normally, if the vendor is incorporated you do not need to send them a 1099-MISC. There is one important exception: all payments to attorneys must be reported, whether they are incorporated or not.

► Filing deadlines are strict

Timely filing of the Form 1099-MISC is critical. Under the new rules, most of these forms must be filed with both the vendor and the IRS by Jan. 31 – and that includes electronic filings.

► Don't forget the caveats

If you pay a vendor for parts and services, you must include the total of both of these on your form as long as the parts or materials were incidental. If materials were the predominate nature of the payment, they can be left out. Reporting is also required if you provide non-employees taxable fringe benefits or pay fees to your board of directors.

► You may need to file other 1099s

There are other types of Form 1099. A Form 1099-INT is used to report interest payments of $10 or more to an individual in the course of a trade or business. Form 1099-R is used by investment companies to report distributions from retirement accounts and annuities. And businesses that make loans are required to disclose canceled debt on Form 1099-C if the amount is $600 or more.

If these reporting rules leave you uncertain of your responsibilities, give our office a call. A little attention paid now might help prevent a painful penalty later. ♦

CASH FLOW CORNER

3 tips for managing your company's cash flow

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.

The income statement and balance sheet alone don't provide a complete picture of the company's financial viability. For example, your company's net worth may be climbing year after year, while cash balances are being depleted. Or, your business property is appreciating in value and your accounts receivable are increasing. While both of these trends contribute to a positive net worth, neither bolsters the money available to pay your bills.

To generate cash, assets must be sold and receivables collected. Both take time. Meanwhile, cash must be available to cover ongoing expenses such as rent, payroll and utility bills. Consider these three tips for better management of your company's cash flow:

- **Analyze cash every month.** This doesn't have to be a complicated procedure. Simply prepare a schedule that shows the cash balance at the beginning of the month and add cash you receive (from sales, collections on receivables, asset dispositions, etc.). Then subtract cash you spend and calculate the ending cash balance. If your cash balance is decreasing month to month, you have negative cash flow. If it's climbing, your cash flow is positive.

- **Anticipate cash flow needs.** Perhaps your sales generally decline in the summer months. Build up excess cash in the good months in expectation of covering payroll costs and fixed expenses during the low-sale, summer months. Track your cash flow by month for a few years; then use that analysis to help you develop a more accurate forecast. To smooth out cash flow, you might consider establishing a line of credit that can be paid back as cash becomes available.

- **Establish good credit policies.** Set limits for extending credit. Ask new customers for business references. Send out invoices the same day goods are shipped and charge late fees for clients who don't pay their balance on time. When payments don't arrive, send out collection letters promptly. Manage cash well, and your business stands a much better chance of surviving the challenges of today's economy. ♦

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Serving clients for more than twenty years, The Mangold Group has the experts with credentials and expertise to assist individuals and growing businesses in complex accounting and tax matters. We serve a variety of clients, with specializations in aviation, oil and gas, architecture, engineering, construction, and technology. Among our services are the following:

- Tax planning, projection, and preparation
- Business valuations
- Litigation consulting
- Financial statements and analysis
- Management Advisory Services
- Accounting Software Consulting and custom QuickBooks add-ons.
- Outsource CFO Services

Know what's next for your business

Succession planning is very important for a family owned business. Before you sit down with your tax and legal advisors to draw up a succession plan, you should think through these three vital questions:

- **Who do you want to succeed you?** The question of who will succeed you in the business can be the toughest of all, largely because there are so many emotions involved. Most owners want to pass the business on to the family. But are your children willing to take on the business?

  Resolving issues may take a lot of honest, open discussion with family members. If there is not an obvious family successor, other alternatives include promoting an existing employee to head the business while you retain ownership or selling the business to an outsider.

- **When do you want the transition to take place?** When you make the transition depends on a number of factors, such as your age, health, retirement goals and the readiness of a successor.

  Consider whether you want to maintain some involvement with the business or make a clean break. Remember though, you should always have a contingency succession plan in case of sudden death or disability.

- **How do you want to structure the handoff?** How you structure the transition depends partly on the answers to the earlier questions and partly on financial considerations. Think through issues such as whether you need retirement income from the business or whether you primarily want to minimize estate taxes. Knowing your goals for the transition will make it much easier to tailor a succession plan that fits your specific situation.

We can help you with tax considerations as you begin to create your business succession plan. Give us a call today with your questions. ♦

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.*

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

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Tax CALENDAR WINTER 2017

January 16

- Due date for the fourth installment of 2017 individual estimated tax.

January 31

- Due date for employers to provide W-2 statements to employees and also file Forms W-2 with the Social Security Administration.
- Due date for payers to provide most Forms 1099-MISC with non-employee compensation in box 7 to the IRS and to recipients.
- Due date for providers to send Forms 1095 to recipients and the IRS.
- Employers must file 2017 federal unemployment tax returns and pay any tax due.

February 28

- Payers must file most other Forms 1099 (except certain Forms 1099-MISC due Jan. 31) with the IRS.**

March 1

- Farmers and fishermen who did not make 2017 estimated tax payments must file 2017 tax returns and pay taxes in full to avoid a penalty.

**April 2 if filing electronically