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NEW SALARY RULES GO INTO EFFECT DECEMBER 1

IF YOU PAY MANAGERS OR KITCHEN HELP A SALARY, YOU WILL BE AFFECTED.

On May 18, 2016, President Obama and Secretary Perez announced the publication of the Department of Labor's final rule updating the overtime regulations.

This change will affect restaurants and bars substantially.

If you pay managers or kitchen help a salary, you will be affected.

The rules to NOT pay overtime are as follows:

- The employee must be compensated on a salary basis at a rate not less than \$913 per week. (\$47,476 per year)
- The employee's primary duty must be managing the enterprise or managing a subdivision or department of the enterprise.
- The employee must customarily and regularly direct the work of at least two or more other full-time employees or their equivalent; and
- The employee must have the authority to hire or fire employees they manage or at least make recommendations regarding hiring, firing, advancement, etc.

Bottom line: Any employees you have on salary – if you are not paying them at least \$913 per week will have to go to hourly starting December 1, 2016.

There is a way to pay them hourly including overtime and still come out with the same total gross pay as you did when they were salary. It requires a calculation so call your bookkeeper at Kallas and we can help you figure it out.

EXCITING THINGS HAPPENING AT KALLAS

Starting in July 2016 and over the next 12 months, Kallas Restaurant Accounting will be upgrading and/or replacing all its programming to the latest and greatest versions. The capabilities of some of the software we are instituting is far beyond the capabilities of most accounting firms and will translate into new services, capabilities, responsiveness and efficiencies to our clients.

This will be an over \$100,000 investment in the future and will benefit our clients tremendously. We will be replacing our client database which contains critical information about our clients, upgrading to a new and more internet based accounting software and a new payroll product that is state of the art and will allow clients direct access to much of their payroll information via the internet.

A conversion of this magnitude is no small feat and will take the entire 12 months to accomplish even with extra temporary staff we are hiring.

Once it is complete, our clients will benefit with increases in efficiencies for their bookkeeping processes, new state of the art web-based services, more personal attention and better analysis capabilities.

We will keep you informed as the conversion progresses. During the conversion process, there may be some glitches that affect you. We ask that if you see any issues, contact us so that we can address them to make sure nothing falls through the cracks. Thank you and if you have any questions, call George or Nick.

Information security is a new and expanding part of any business and at Kallas, we attend security conferences to know as much as we can on how to protect your information.

"If you think health care is expensive now, wait until you see what it costs when it is free"

—P.J. O'Rourke, political humorist (1993)

SECURITY UPGRADES

We hear constantly in the news of big companies getting hacked. American Express, Home Depot, Amazon and the Federal Government just to name a few heavy hitters.

Information security is a new and expanding part of any business and at Kallas, we attend security conferences to know as much as we can on how to protect your information.

The experts tell us that no information can be guaranteed totally secure but the way to stop hackers is to make it as hard as possible for them. Put as many barriers in their way as possible and stick to standard security practices. According to the experts, hackers go for the easiest targets and there is plenty of low hanging fruit out there. (A Secretary of State's unprotected server in someone's basement containing state secrets would be an easy target and probably worth millions to the wrong people.)

All the new software we are installing contains upgraded security features such as encryption technology as well as multiple password requirements and special firewall programs that catch any intrusions. Kallas has also contracted with a firm in Ann Arbor called Dynamic Edge which is a company that specializes in network administration and security. They have upgraded our office procedures and security programs and now monitor our systems 24-7.

IMPORTANT REMINDER

For clients that have Sheri or Jim as your bookkeeper, please make sure we are receiving your bank statements each month. You can mail them or give us visitor privileges at the bank and we can download the statement ourselves.

If we don't receive the bank statements, you could lose important deductions and put yourself in jeopardy if the state or IRS decided to audit you.

Call Jim or Sheri to set this up for you.

SELDOM USED TAX CREDIT GETS NEW LIFE

VERY GENEROUS TAX CREDIT FOR EMPLOYERS

The WOTC (Work Opportunity Tax Credit) is an extremely generous tax credit available to employers. It has been on the books since 1997 in various forms but it has been seldom used due to the difficulty of the rules and the paperwork involved. It was just too much of a hassle.

It is one of those laws that gets renewed every year at the last minute by lawmakers, was not renewed some years and has never had any support as a permanent option which is another reason it was seldom used.

But in December 2015, the President signed the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act) which retroactively reinstated the WOTC to January 1, 2015 and extended it through December 2019.

Now that it is extended through 2019, it should be looked at more closely by employers as a means to reduce tax liabilities.

Employers generally can earn a dollar for dollar tax credit equal to 25% or 40% of a new employee's first year wages up to a maximum depending on which specific target group they belong. Credits may go up to \$9,600 per person.

The 10 target groups are:

1. Qualified IV-A recipient. An individual who is a member of a family receiving assistance under a state plan approved under part A of title IV of the Social Security Act.
2. Unemployed or otherwise qualified veteran. Special definitions apply.
3. Qualified ex-felon.
4. Empowerment Zone resident.
5. Disabled person rehabilitation referral.

6. Summer youth employee who has never worked and lives in an empowerment zone.
7. Recipient of food stamps under certain conditions.
8. An individual who is receiving supplemental security benefits.
9. Long-term family assistance recipient under certain conditions.
10. Qualified long-term unemployment recipient.

Each target group above has certain conditions that must be met.

Employers generally can earn a dollar for dollar tax credit equal to 25% or 40% of a new employee's first year wages up to a maximum depending on which specific target group they belong.

During the hiring process, the employer must determine if the applicant belongs to any of the target groups and then determine

within the target group if the person is eligible by completing IRS form 8850.

Both the applicant and the employer sign the form and submit it to the Michigan Unemployment Agency for certification on the day the job offer is made.

In addition to filing Form 8850, the employer must complete and send to the Michigan Unemployment Agency ETA Form 9061.

If the employee is certified by the state then the employee must work a minimum amount of hours to be eligible for the credit.

It is still a substantial amount of work for small employers to obtain the credit but many of the large franchise chains especially those located in the inner city have systematized the process and are getting the credits.

If this looks like something you can benefit from, contact George and we can look at setting up a procedure that works for you.

MICHIGAN UNEMPLOYMENT AGENCY MUCKS UP ELECTRONIC FILING

The Michigan Unemployment Agency (UIA) has gone digital. They have a website and are requiring that all tax returns and filings be done on-line. This saves them millions in labor and paperwork costs.

Unfortunately, their programs are messing things up.

Payroll service companies like Kallas Restaurant Accounting and others are following the rules and filing your quarterly tax returns based on UIA instructions electronically. The bad thing is the electronic payments are not registering properly on the UIA computers and taxpayers are receiving non-payment or late payment notices. Some for multiple quarters in 2015 and 2016.

Kallas is aware of the problem and is working with UIA to straighten out their records. Please bear with us while this is going on and, as always, if you receive any notices from any government agency, forward them to Kallas.

NO CAUSE FOR ALARM

Many restaurant owners are receiving notices from the HEALTH INSURANCE MARKETPLACE. These notices are addressed to the business and to attention "Benefits Manager".

This is a notice required by Obamacare. When an employee or former employee signs up for health insurance through the Health Insurance Marketplace, the employer is required to be notified.

The notice is meaningless – just something to keep the bureaucrats busy – for establishments with less than 50 employees. For establishments with 50 or more employees, the government is putting you on notice that if you are not covered by any of the Obamacare exemptions, then you may be liable for a penalty.

Every Kallas Restaurant Accounting client is covered by

an exemption so these notices will not affect you.

If you have a notice or you receive a notice, simply mail it to Kallas and we will file it in your Obamacare file.

MICHIGAN RESTAURANT SHOW -- EFFICIENT USE OF YOUR VALUABLE TIME

The Michigan Restaurant Trade Show will be held at the Suburban Collection also known as the Rock Financial Showcase in Novi on October 18 and 19. The trade show is a terrific way for owners to take a break from the day-to-day routine and see old friends, fellow owners and their favorite vendors. It is also a great way to re-new your creative spirits and get some

fresh ideas on how to improve your restaurant.

I always get some new ideas when I go to the show and it is a great way to keep up on new pricing, and state of the art

products and services. You will see demonstrations of new food products, new ideas on marketing, and be able to talk at length to vendors and service providers.

The two days of the show are not only dedicated to providing restaurant owners with an opportunity to see vendors and their new offerings but also to attend valuable seminars and demonstrations and benefit from special show discount pricing.

Kallas Restaurant Accounting maintains a booth at the show. Please stop by. We would love to see and talk to you. And if you are a new Kallas Company client you can meet and talk to staff.

Make sure you mark October 18 and 19 on your calendar this year. A couple hours of your time will give you an enjoyable, educational and sometimes inspiring benefit for years to come.

Call Kallas to get **free admission coupons** for the Michigan Restaurant Trade Show October 18th & 19th

DO YOU HAVE A FOREIGN BANK ACCOUNT?

REPORTING REQUIREMENTS FOR U.S. TAXPAYERS

In the past several years, the IRS has put an emphasis on going after foreign earnings. They have even given it a catchy name – FBAR –Foreign Bank Account Report.

The law was originally promoted by politicians as a way to catch all those millionaires and

All U.S. citizens are taxed on their world-wide income from any source.

others who are not paying their fair share of taxes by hiding their money overseas. But, like all well-intentioned but badly written laws, FBAR has the unintended consequences of sweeping the middle and upper middle class into the same onerous reporting requirements.

The basic thing to remember is that all U.S. citizens are taxed on their world-wide income from any source.

It is important taxpayers are reminded of the forms they are required to file. Below are the forms most of our clients would be liable for.

If you have the U.S. equivalent of \$10,000 in a foreign bank in any day of the year you must file FinCEN form 114.

If you have the U.S. equivalent of \$50,000 in assets located in foreign countries on the last day of the year or more than \$75,000 at any time during the year you must file Form 8938 Statement of Specified Foreign Financial Asset.

FinCEN form 114 is due June 30 of each year and Form 8938 is due with your personal tax return each year.

If you have overseas assets and are unsure about your filing requirements contact your tax preparer at Kallas Restaurant Accounting.

IRS MATCHING PROGRAM EXTENDED TO F-8027

WARNING TO RESTAURANTS WITH EXTENSIVE CARRYOUT SALES

The 8027 form is an annual return that must be filed by large tipping establishments. A large tipping establishment is defined as a restaurant or bar averaging 80 man-hours per day.

The information that is requested on F-8027 includes your total sales, sales from charge cards and tips charged on credit cards as well as some other information. The IRS uses this information to determine if your establishment is reporting enough tips. If not, an allocation for any shortfall in tip reporting is required to be made on tipped employees W-2's.

In the last few years, the IRS has been comparing the sales reported on F-8027 with the sales reported to them from the credit card companies. If they think that credit card sales is too much compared to total sales, they will send you a letter asking for you to explain why.

Kallas has been answering these IRS letters and many times the reason credit card sales is high compared to total sales is possibly credit card tips, sales tax, or carryout sales. All of which are charged by customers but do not represent tippable sales.

Be aware that if you do report substantial carryout sales, that the IRS may want records to substantiate the amounts you are reporting. If you cannot substantiate or prove your carryout sales, you may be opening yourself up to an audit.

"Insiders Report" is intended as an informational tool for Restaurant and Bar owners. "Insiders Report" is a quick source for new and changing tax laws, legislation and practical management strategies the restaurant and bar owner need in today's highly competitive food and beverage service industry.

"Insiders Report" is published quarterly by Kallas Publishing, Inc as a free service to Kallas Restaurant Accounting clients.

For information or subscription rates, contact:
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Calendar for September, October, November 2016

September 5

- Kallas closed for Labor Day.

September 15

- *Individuals:* Pay the third installment of your estimated tax.
- *Partnerships:* File Form 1065 if you timely requested a 5-month extension. Deposit payroll tax for Aug if the monthly deposit rule applies.
- *Corporations:* File Form 1120 or 1120S if you timely requested a 6-month extension.
- *Corporations:* Deposit third installment of your estimated tax.
- *Corporations:* Taxes due for June year end corporations.
- *Corporations:* Estimated Taxes due for corporations with fiscal year ending January, March, June or September.

September 20

- Michigan Sales, Use and MBT estimates due.

October 18 & 19

- MRA tradeshow at Rock Financial Showplace.

October 15

- *Individuals:* File Form 1040, 1040A, or 1040EZ if you timely requested a 6-month extension.
- *Corporations:* Taxes due for July year end corporations.
- *Corporations:* Estimated Taxes due for corporations with fiscal year ending February, April, July or October.

October 20

- Michigan Sales, Use and MBT estimates due.

October 25

- UIA form 1020 due for 3rd Quarter.

October 31

- File Form 941 for the third quarter.
- Deposit FUTA owed through Sep if more than \$500.

November 15

- *Corporations:* Taxes due for August year end corporations.
- *Corporations:* Estimated Taxes due for corporations with fiscal year ending March, May, August or November.

November 20

- Michigan Sales, Use and MBT estimates due.

November 24 & 25

- Kallas closed for Thanksgiving.

Kallas
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INSIDERS REPORT

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