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TAKE ADVANTAGE OF ERTC – ITS FREE MONEY

The ERTC (Employee Retention Tax Credit) is available to virtually all restaurants in Michigan.

It is a powerful tax credit that equals 50 percent of your employee's pay up to a maximum of \$5,000 per employee for 2020 and \$14,000 per employee in 2021.

As of now, the period's that are open are 1st, 2nd, 3rd and 4th quarters of 2020 and 1st and 2nd quarters of 2021.

The amount of the credit will be a refund check issued directly to your business.

The calculations and recordkeeping required for this credit are complex and labor intensive but the amount of money available to you is major.

As of the publication of this newsletter, Kallas is at the beginning of this process and has calculated 33 ERTC credits totaling \$2,420,300 in credits. That is an average of \$73,300 per restaurant.

This is just for 2020. Credits for 2021 have not been calculated yet so that will add to this total for each restaurant.

As we explain in another article in this newsletter, you have to pay taxes on the credit so the credit is reduced by the income tax at your individual tax bracket

As an example, if you are in a 30 percent tax bracket and your credit is \$73,300, the net after tax benefit is \$51,310 (70 percent of \$73,300). Still a nice chunk of money.

If you have already signed up with Kallas for the ERTC credit, please be patient. We are in the middle of the process and PPP forgiveness must be obtained before the ERTC credit is calculated.

If you have not signed up yet, please contact Michelle at 313-962-6000 and she will send you the necessary paperwork to sign.

Also, if you know any restaurateurs who are not aware of this credit, please refer them to Kallas. The major payroll companies do not have the accounting and tax resources to obtain this credit for you. The full process requires a tax accountant.



IT CONTINUES TO BE AN EXTRAORDINARY YEAR

Based on our observations at the tax and accounting level, we have to say the restaurant and bar owners we know are creative, tough and adaptable. Who could have anticipated the constantly changing environment you have had to survive since March 2020.

Having to adapt to monthly pronouncements from state authorities on if you can open and how you can open. Potential loss of your license if you make a mistake. Will customers come back?. Can you get employees to work? What risks are you subject to?

You are the people who keep things going no matter what. And I know you are just not thinking about yourselves. You also think about the welfare of your employees and customers.

The one good thing that has happened is the government has been throwing huge amounts of money into the pot to keep the industry from collapsing.

This is where your accountant is vital to lessening your workload and providing the expertise to navigate the new financial quagmire and keep the money flowing.

YOUR PERSONAL TAXES FOR 2020 AND 2021

The IRS and State of Michigan both saw the need to extend the normal April 15 filing date to May 17, 2021 for your 2020 tax returns.

In addition, Kallas has filed preventative extensions for both your business(es) and personal tax returns to September 15 and October 15 respectively.

The PPP money you received originally was taxable. Then in December 2020, Congress and President Trump signed a new law making the PPP money non-taxable. This made a huge change on your taxes for 2020. And complicated your accounting.

More complications: The IRS also made your PPP forgivable. But the money may have been received by you in 2020 and then forgiven in 2021. And what happens if not all of it was forgiven?

These were issues we were struggling with as your accountants. And the software companies that write the tax programs were really behind the 8-ball.

The ERTC credit also complicates your taxes. The ERTC is big money to you. See other article in this newsletter. But it really complicates your taxes. The amount of the credit is added back into your income (very similar to how the tips credit is handled). So, if you think you may a loss for 2020, (and your P & L is showing a loss) the ERTC may push you into having a profit for 2020. The ERTC is still well worth it. By adding the ERTC back into income, the most taxes you would pay (if you are in the top tax bracket- more than \$500,000 income) would

be about 43% on the ERTC money. So you still pocket 57% of the ERTC money. Of course, lower bracket taxpayers would pay less.

All the above also complicates how we calculate your estimated taxes. To avoid penalties, we had to provide you with a first quarter estimate based on 2019 instead of 2020, so it may be off. The estimates will eventually even out once we 2020 is finished. But, because we don't know how 2021 will proceed, the 2020 estimates may be off. If you receive your 2020 return and you think the estimates are too high or too low, give us a call and we can adjust them.

We have had to extend all business tax returns due to ERTC and that will delay your personal taxes if you operate as an S corporation, partnership or Single Member LLC.

Our goal is still to have the majority of work done and to you by May 17. And we thank you for your patience and understanding.

1099 PENALTIES CAN BE SEVERE

It is easy to forget about the filing of 1099's. More information about the rules for restaurant and bar owners will be in a future edition of the Kallas Insider's Report but, since it is tax season, I thought I would show you how the penalties can add up.

Late filing penalties:

\$50 per 1099, if filed within 30 dates of due date. Maximum penalty \$197,500.

\$110 per 1099, if filed more than 30 days but by August 1. Maximum penalty \$585,000.

\$280 per 1099, if filed after August 1. Maximum penalty \$1,130,500.

Penalties for not filing correct information returns (Code Section 6721) may apply if you:

- Don't file a correct information return by the due date and a reasonable cause is not shown;
- File on paper when you were required to file electronically;
- Don't report a Taxpayer Identification Number (TIN);
- Report an incorrect TIN; or
- Don't file paper forms that are machine readable.

Penalties for not providing correct payee statements (Code Section 6722) may apply if:

- You don't provide a correct payee statement by the applicable date and a reasonable cause isn't shown;
- All required information isn't shown on the statement; or
- Incorrect information is included on the statement.

RECAP OF GOVERNMENT PROGRAMS FOR RESTAURANTS

SOME DEADLINES COMING UP. ACT FAST!

Let's do a recap of all the government programs available to you.

Please note that there are many details not discussed below. These are the general guidelines.

First PPP

Eligibility: Any small business employing not more than 500 employees per location.

How it must be used: You must use the funds at least 60 percent for payroll and 40 percent for non-payroll costs such as rent (to a third party), costs to mitigate covid, utilities, purchases of supplies and food.

Potential amount: Generally, 2.5 times your pre-Covid average monthly payroll including tips.

Deadline for applying: Extended to May 31. You should do this now!

How to apply: Call Eric at Independence Business Consulting at 248-924-2410.

Note: You must spend the first PPP money before you can receive the second PPP.

Second PPP

Eligibility: Must have used or will use the first PPP. Experienced a 25% or greater drop in sales in 2020 relative to 2019

How it must be used: You must use the funds at least 60 percent for payroll and 40 percent for non-payroll costs such as rent (to a third party), costs to mitigate covid, utilities, purchases of supplies and food.

Potential amount: Generally, 3.5 times your pre-Covid average monthly payroll including tips.

Deadline for applying: Extended to May 31. You should do this now!

How to apply: Call Eric at Independence Business Consulting at 248-924-2410.

EIDL loans

Eligibility: 300 or fewer employees.

How it must be used: Pay for working capital and operating

expenses.

Potential amount: Maximum \$500,000

Deadline for applying: No deadline.

How to apply: Call Eric at Independence Business Consulting at 248-924-2410.

Note: An EIDL is a loan – not a grant. Current terms are: 3.75 percent fixed with 30 year payback.

Michigan Grants

These are all used up and no longer available.

PPP forgiveness

Eligibility: If you received a PPP loan, you must apply for forgiveness otherwise it is taxable.

Deadline for applying: Approximately 16 months after obtaining the PPP funds.

How to apply: Contact Michele at Kallas for the required paperwork.

Note: the amount of PPP forgiveness should be confirmed before ERTC is calculated.

ERTC (Employee Retention Tax Credit)

Eligibility: Virtually all restaurants and bars in Michigan are eligible. See article in this newsletter for details.

Potential amount: Unlimited, based on 2020 and 2021 payroll that was not paid with PPP funds.

Deadline for applying: Any time within 3 years.

How to apply: Contact Michelle at Kallas for the required paperwork.

Note: ERTC will affect your personal and business returns which, if filed, will have to be amended.

RRF (Restaurant Revitalization Fund)

Eligibility: Federal program with 28.6 Billion allocated. Virtually all restaurants and bars in Michigan are eligible.

Potential amount: Maximum \$5 million per location. Based on the difference between your 2019 sales and your 2020 sales reduced by any PPP money received.

Deadline for Applying: Applications start May 1 and this program runs until funds run out.

How to apply: You can do this one yourself or contact Kallas or IBC to do the work for you.

CALENDAR FOR JUNE, JULY, AUGUST 2021

June 15

- Individuals outside the U.S.: File 2020 Form 1040.
- Individuals: Pay the second installment of estimated tax for 2021.
- Corporations: Deposit the second installment of your 2021 estimated tax.
- Corporations: Taxes due for March year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending March, June, October or December.

June 20

- Michigan Sales, Use and MBT estimates due.

July 2

- Kallas Restaurant Accounting closed for Independence Day.

July 15

- Corporations: Taxes due for April year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending January, April, July or November.

July 20

- Michigan Sales, Use and MBT estimates due.

July 25

- UIA form 1020 due for 2nd quarter.

July 31

- Deposit FUTA owed through June if more than \$500.
- File Form 941 for the second quarter of 2021.

August 10

- File Form 941 for the second quarter of 2021 if you timely deposited all required payments.

August 15

- Corporations: Taxes due for May year end corporations.
- Corporations: Estimated Taxes due for corporations with fiscal year ending February, May, August or December.

August 20

- Michigan Sales, Use and MBT estimates due.

PPP FORGIVENESS STATUS AS OF MAY 1

Many recipients of PPP funds are anxious to get the forgiveness process started. But there are many considerations you should take into account before you submit your forgiveness application some of which point to delaying.



- You have 24 weeks to spend the PPP money.
- The IRS considers it forgiven in 2020 even if it is forgiven in 2021.
- The forms have changed and more guidance is expected.
- The SBA has still not revised its Questions and Answers publication to account for the new rules issued in December.
- Some lenders are not ready to receive and review applications for forgiveness.
- You may need more time to strengthen your documentation.
- If you are denied forgiveness on the first PPP loan because you did not use the funds properly you may be denied on the second PPP draw.
- To obtain the maximum ERTC loan, you want to spend the full 40 percent of second round of PPP money on non-payroll expenses. You may need the full 24 weeks to do this.
- If Kallas is preparing your forgiveness, we are adjusting the numbers to maximize your ERTC credit and this takes time and effort.
- If you know a restaurateur who is having problems applying for PPP monies, PPP forgiveness or ERTC credits, have them call Kallas.

OTHER SOURCES OF FUNDS

Banks are now promoting new SBA Express, 7A and 504 loan programs for small businesses. These loans can be used as Lines-of-Credit, or for business purchase, expansion, real estate, inventory, debt refinance and debt refinance.

In some cases, 100 percent financing on owner occupied real estate. These loans have excellent terms and easier requirements than in the past and the first 6 months payments (up to \$9,000) can be deferred or waived.

Contact our partner firm Independence Business Consulting at 248-924-2410 for more information. Tell them Kallas sent you.

SINGLE MEMBER LLC'S AND SOLE PROPRIETORS CAN DEFER THEIR SOCIAL SECURITY TAX LIABILITY

If you operate as a SMLLC (single member LLC) or as a sole proprietor each year you pay social security taxes on your profits. Many times the social security tax liability is more than the income tax. The social security tax is approximately 12 percent of your profit.

For 2020 tax returns, under new Covid rules, you can defer ½ of the social security tax and pay half of the deferred amount by December 31, 2021 and the remainder on or before December 31, 2022.

75 YEARS IN BUSINESS

MAKING ACCOUNTING FUN

Kallas Restaurant Accounting celebrates it's 75th year in business in 2021.

Wow! That is a long time. And still going strong to serve your needs.

Nicholas Kallas founded the company in 1946. George took over in 1984 and Nicolas Kallas continues today. For 75 years, restaurant owners have had a trusted tax advisor they can talk to personally and locally. No distant corporate ownership, voice machines or layers of bureaucracy to get you an answer to a tax or accounting question.



After 75 years, Kallas is still the only accounting firm in Michigan specializing 100 percent in closely held and family-owned restaurants and bars. The benefit to you of that specialization is huge and strikingly apparent now with the ERTC credit. No major payroll company that we are aware of can handle the entire process for you and most accounting firms do not have enough qualifying businesses to invest in the time and research necessary. Kallas dove in from day one and found the loophole in the law that made virtually all restaurants eligible.

One thing I can say after 75 years, is that everyone at Kallas appreciates you. We know you as family.

I know after decades of running this business, that we could not do it without the fantastic and loyal employees we have at Kallas.

Many of you know them and talk to them all the time. Please go to the Kallas Company website for a complete listing of our employees. Click on "About Us".

Our undying gratitude for many years of service, loyalty and production to: Jim 29 years, Sheri 29 years, Cathy 21 years, Arnold 21 years, Daniel 15 years, Dawn 15 years, Jordan and Tony 8 years, and Lakia, Sue, Ravyn, Chat, Jason, Kim, Jacob, Andrea, Julie, Carrie, Michelle and Brian.

This is the best team of professionals I have ever been lucky enough to work with.

SAVE TIME AND MONEY WITH PAYROLL ADMINISTRATION

To succeed in the restaurant industry, operators need to spend their time in the most efficient way possible.

It does little good to spend time on administrative tasks when your most profitable time can be spent bringing in business or tightening down costs or even taking a break from work once and a while.

Many owner-operators or their staff waste time with tasks that can be delegated or automated.

Think about this:

- How much time does it take to hand out checks every pay period?
- Do payroll checks sit in your office? What security do you have in place to protect confidentiality.
- What happens when an employee comes to you and says they lost their check?
- What do you do with payroll checks that never got picked up?
- What happens when you are expecting payroll checks to be delivered and a snow storm happens or a holiday falls on payday or the delivery truck broke down?
- How much are delivery costs running you?
- What happens when an employee is applying for a loan and needs a pay history from you?

All the above involves you or your staff in wasted time and effort.

You can avoid all the problems associated with the above if you do as most all larger businesses have done and that is going "paperless" with your payroll.

It is really simple.

The employee's net pay is automatically deposited into the employee bank account on payday. You receive an email with the payroll journal prior to payday so you can review it. For employee's with no bank account, they receive a debit card with their net pay deposited into it each pay period.

The employee can view or print his or her payroll history via a website they have secure access to.

Guess what? You just saved yourself a ton of wasted administrative time. Note: the savings are so significant that many businesses require the employees to be paid electronically upon hiring – no one gets a check.

And Kallas Payroll is offering this service to you for a limited time at no cost. FREE.

Now is a good time to start this as you re-open and re-hire employees.

Contact Jordan at 313-962-6000 for more information and to start saving money.

WHAT HAPPENS TO YOUR RESTAURANT OR BAR IF YOU PASS AWAY UNEXPECTEDLY?

Without a succession plan, under common law, your restaurant or bar would go to your wife and, if no wife, then your children.

Many times, a restaurant or bar dropped in the lap of your wife or children is an unfair burden to them especially if they are ill equipped to handle the responsibility.

That is why a plan for succession is a good idea.

Succession planning for restaurant owners is merely a plan rendered to legal documents, indicating what happens to the restaurant upon your retirement or death.

Succession planning for closely held restaurants can be as simple as a family gift or as complicated as multiple buy-sell agreements backed by life insurance.

Setting up a Trust and a Will gives legal guidance as to what you want to happen to your assets including your business at time of death.

For a sole owner restaurateur who wants to retire, there are usually only two choices. Sell to a non-

relative or gift or sell the business to a close relative usually a child. Both a sale and a gift have tax consequences so you should consult with your tax accountant before you finalize any plans.

For partnerships of two to four persons with partners who want to stay in the business, a value must be placed on the retiring person's interest and the continuing partners purchase the retiring persons interest usually but not always at pre-negotiated terms.

For partners who want to continue after the death of a partner, it is advisable to have a buy-sell life insurance policy paid for by the business so that the remaining partners can use the proceeds to buy out the interest of the deceased partners estate.

For larger restaurant enterprises with multiple owners or locations, a succession plan should be charted out by a tax attorney or a combination of an attorney and CPA.

Any pre-planned exit strategy also known as a succession plan should be designed or at least reviewed by your CPA and/or tax attorney because of the legal considerations as well as the estate, and income tax consequences.

