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## ONE BIG BEAUTIFUL BILL ACT & HOW IT AFFECTS THE RESTAURANT INDUSTRY

The One Big Beautiful Bill Act (OBBBA) is **big** and it is **beautiful** if you think the largest tax cut in American history is a beautiful thing. Everything in this bill is in the taxpayer's favor.

From my perspective, even without the new goodies contained in the OBBBA, it was necessary to pass the OBBBA to retain the benefits from the 2017 Tax Cut and Jobs Act (TCJA). If we lost those benefits by not passing the OBBBA, it would have resulted in a huge tax increase for small businesses.

The OBBBA is seen as a pivotal piece of legislation that could reshape the American economic landscape, with potential long-term effects on taxation, social services, and immigration policy. This article speaks only to the effects on our restaurant clientele.

1. The OBBBA makes the TCJA's increased standard deductions used by every taxpayer permanent and adjusted for inflation.
2. The OBBBA temporarily (though 2029) increases the limit for state and local tax deductions if you itemize from \$10,000 to \$40,000. (Michigan taxpayers currently utilizing the Michigan Flow Through Entity Tax Agreement to avoid the \$10,000 limit are still locked into the agreement unless Michigan provides a means to opt out.)
3. The OBBBA increases the non-refundable child tax credit and makes permanent the refundable child tax credit
4. The OBBBA makes permanent the estate and lifetime gift tax exemption to \$15 million for single filers and \$30 million for joint filers and indexes the amounts to inflation. (This is a big one for passing on a business or businesses or real estate holdings to children or other heirs without having to sell assets to pay the taxes.)



5. QBI (Qualified Business Income Deduction). The QBI was set to expire but was made permanent under the OBBBA. The QBI was a brand-new concept that allowed a 20 percent deduction for small businesses. Even if you have multiple businesses you were allowed to pay taxes on only 80 percent of the profit. This is a huge benefit for small businesses in reducing their taxes.
6. Gambling losses starting in 2025 are limited to 90 percent of gambling winnings. This is a negative for the gambling community.
7. The OBBBA creates a new charitable contribution deduction for taxpayers who do not itemize. Up to \$1,000 for single filers and \$2,000 for joint filers.
8. The bill permanently extends the first-year bonus depreciation deduction to 100 percent for property placed in service on or after January 19, 2025.
9. The bill increases the maximum amount a taxpayer may expense under Sec 179 to \$2.5 million.
10. The employer credit for paid family and medical leave is now permanent.
11. The bill increases the Form 1099-K reporting threshold to \$20,000 and 200 transactions for third-party settlement organizations. This means that if you use Mastercard, Visa, Venmo, Cash App, Zelle, Square or other financial transfer services and you are under the threshold above, you should not receive a 1099-K.
12. The bill increases the information reporting threshold for 1099 payments (you make to contractors) to \$2,000 (from \$600) with the threshold indexed to inflation.
13. The OBBBA permanently increases the amount of the child and dependent care tax credit from 35% to 50% of qualifying expenses. The credit is reduced as your income increases.
14. No Tax on Tips. Although this is a huge break for your tipped employees, the marketing of this benefit was a little misleading. First, there will be no change to how you report tips as an employer. Then, instead of "No tax", there is a tips deduction of a maximum \$25,000 per year taken on the employee's personal return. The deduction phases out at gross income over \$150,000 for single and \$300,000 for joint filers. This new deduction is temporary only through 2028. For tipped

employees, a new \$25,000 deduction is still a huge deal.

15. No Tax on Overtime. Individuals who receive qualified overtime compensation may deduct the amount that exceeds their regular rate of pay for the same hours. In other words, the 1/2 portion of the overtime is eligible for a deduction on the individual's

personal return. The maximum deduction is \$12,500 for individuals and \$25,000 for joint filers. This provision is temporary



only through 2028. Employers will have to identify on the W-2 what earnings are eligible for this deduction. Kallas will do this automatically for clients utilizing our payroll services.

16. There is a new deduction for car loan interest starting in 2025 and ending in 2028. If you purchase a qualified vehicle after December 31, 2024 for personal use, you can deduct up to \$10,000 in interest paid on the car loan. This benefit phases out for individual taxpayers with gross income over \$100,000 and \$200,000 for joint filers. A qualified vehicle is one where the final assembly was in the U.S. The VIN must be included in the tax return.
17. There is a new deduction for seniors age 65 and older. It is effective for years 2025 ending 2028. The amount is \$6,000 for an individual taxpayer and \$12,000 for joint filers as long as both are 65 or older. This deduction phases out at gross income of \$75,000 for individual filers and \$150,000 for joint filers.

"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 needs in today's highly competitive food and beverage service industry.

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# MICHIGAN RULES FOR PAID SICK TIME

Business owners are still confused over how the Michigan Sick Time law affects them.

Here is the basic information you need to know. The law went into effect February 21, 2025.

All restaurants in Michigan will be subject to a mandatory “paid sick time” for employees with the accrual of hours starting February 21, 2025.

Restaurants with 10 or fewer employees are considered a **SMALL EMPLOYER**. If over the last two years if you had 10 or fewer employees on the payroll for any 20 non-consecutive workweeks then you are a small employer.

Small business must accrue 1 hour of sick time for every 30 hours worked to a maximum of 40 hours per year. Unused sick pay will be carried over to the next year.

Accrual of sick pay hours begin when you hire someone or February 21 for current employees.

Kallas recommends that you establish a “paid sick time” policy which is strict enough to avoid unnecessary abuse of sick pay. Kallas can provide you a suggested sick pay policy recommendation.

Large employers (11 employees or more) must accrue 1 hour of sick time for every 30 hours worked to a maximum of 72 hours per year. Unused sick pay will be carried over by the employee to the next year.

If you currently offer paid vacation, personal time off, or sick time, you can use those hours to comply with the 72 hour (40 hours for small employers) requirement and you need to do nothing more.



Rather than accruing 1 hour for every 30 hours worked you may “frontload” hours. (72 for large employers and 40 for small employers).

Many restaurateurs are favoring the “frontloading” option to comply with this new law as it requires less recordkeeping and has no carryover requirements.

Frontloading means you establish 72 hours of paid sick pay (40 for small employers) at the beginning of each

year that the employee can use during the year.

If you “frontload”, you do not have to accrue hours and there is no carryover of hours to the next year.

Part-time employees can be “frontloaded” a smaller amount than full time employees based on expected and prior hours worked. Kallas can do this calculation for you.

The reimbursement pay rate for “paid sick time” for tipped employees does not include tips.

Small employers only need to pay a maximum of 40 hours of sick pay per year. A small employer is defined as 10 or fewer employees. An employer is NOT a small business if it maintained more than 11 employees on its payroll during any 20 or more calendar workweeks in either the current or immediately preceding calendar year. If you are unsure, Kallas can do this calculation for you.

## COMPLYING WITH THE SICK PAY LAW:

**The “Accrual” Method** - Each business will have to keep track of hours worked. The employee earns 1 sick hour for each 30 hours worked to a maximum of 72 hours per year (40 for small businesses). Any unused hours can be carried forward. Employees cannot exceed 72 paid hours in a year (40 for small businesses). Kallas payroll service can manage earned sick hours to help ensure compliance. This is by request only.

**Frontloading** - Frontloading grants the employee the full 72 hours (40 hours for small employers) of sick pay per year regardless of actual hours worked. When an employee takes a sick day, you are required to pay them regardless of the hours they work but there is no carryforward of hours and no tracking requirements. This is a far simpler method of ensuring compliance.

If you currently offer paid time off, in not less than the amounts provided above, that can be used for personal or sick time, then you comply with the requirement and need to do nothing more.

## OTHER THINGS YOU NEED TO KNOW:

Kallas needs to know how you plan to proceed. Time is a factor since hours need to be tracked effective 2/21/25. We’re already on the clock.

If you would like Kallas to maintain the “Accrual” method of compliance, we charge a one-time \$199 set up fee and a \$15 per month maintenance fee.

The “Accrual” method of administering earned sick time will require a signed Sick Pay Determination Engagement Agreement with us. This is available upon request.

However you choose to proceed, Kallas recommends that

you establish a “paid sick time” policy which is strict enough to avoid unnecessary abuse of paid time off. Kallas can provide you with our suggested sick pay policy letter. Samples of “paid sick time” policies and posters can also be obtained at: [www.michamber.com/content\\_resources/paid-leave-minimum-wage-toolkit-download/](http://www.michamber.com/content_resources/paid-leave-minimum-wage-toolkit-download/) for free.

Part-time employees can be “frontloaded” a smaller amount than full time employees based on expected and prior hours worked. However, that could require a written agreement up front indicating how many hours the employee is expected to work for the year at the time of hire. If the employee works more hours than provided in the written agreement, the employer must provide the employee with the additional earned sick time. This could require the “Accrual” method of tracking time.

The reimbursement pay rate for “paid sick time” for employees does not include overtime pay, holiday pay, bonuses, commissions, tips, or gratuities.

## OBBBA PRESENTS NEW TAX PLANNING OPPORTUNITIES

You might be able to save thousands with some smart tax planning.

Restaurant ownership, due to its entrepreneurial nature, offers some unique tax planning opportunities, and the new One Big Beautiful Bill Act just opened up a few more.



How you compensate yourself, how you pay rent, and how you are organized for tax purposes can save you thousands of dollars if done properly and legally.

The OBBBA was signed July 4, 2025 so some of these new opportunities can be used for your 2025 taxes. While the bill is signed, there are some guidance and guidelines still required by the federal agencies.

If you are interested in tax planning for 2025 and future years give Heather a call at 313-962-6000 to be put on our tax planning follow-up list.

## PAPERLESS PAYROLL SAVES TIME & MONEY

More and more tech-savvy restaurant owners are moving to paperless payroll. It sounds strange and dangerous but it actually is more secure, easier, faster and efficient than paper checks.

Restaurant owners who go paperless are happier. The employees are happier. Managers are happier.

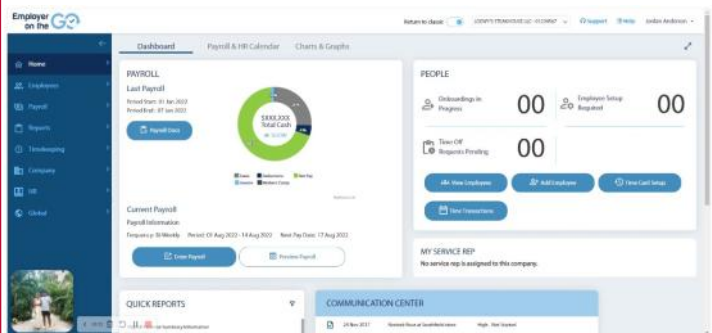
Young employees these days are very familiar with automatic deposits and debit cards which is how they are paid. Employees can access their own portal which allows them to print their own W-2's and earnings history any time they want. And if they move or change dependents, they can do it themselves through the portal. No more bugging you or your manager.

Advantages to going paperless:

1. No more postage fee.
2. No more delayed delivery due to snow, emergencies, computer delays, out of town, etc.
3. No more having to be on premises to hand out checks.
4. You can be sick or out of town and payroll is done and employees are paid on time.
5. Greater confidentiality. Managers cannot mistakenly see someone else's check.
6. No more loose checks sitting on your desk which can be lost or stolen.
7. No more employee claiming they lost their check and need you to get them another.

Kallas has an instruction form for your employees explaining how to go on the portal and how they will benefit from going paperless.

Kallas offers paperless payroll FREE to our clients. Just call Jordan at 313-962-6000 to get it set up.



Employer on the GO - NEXT Experience

## RETIREMENT PLANS FOR RESTAURANT OWNERS.

In my opinion, the best retirement plan for restaurant owners is their business and the real estate the business sits on.

There are many tax benefits of owning a restaurant. You can sell it at an opportune time, you can pass it on to heirs and, if you own the real estate, it will at least hold value, if not appreciate over the years.

But putting all that aside, some restaurant owners prefer to also have a tax-advantaged retirement fund as an additional savings.



Certain tax-advantaged retirement accounts must include your employees. In all my years at all my clients, I have yet to see an employee SEP IRA, a SIMPLE IRA, a defined benefit, or defined contribution profit sharing plan that included employees work well. The employees don't value it or can't contribute. There are administrative costs, top-heavy limits, and procedures that become onerous and costly over time.

You can always set up an individual IRA or a Roth IRA as long as you have earned income and you or your spouse are not covered by an employer retirement plan. The maximum contribution is \$6,000 (\$7,000 if over 50) and both spouses can contribute.

You can establish a self-employed SEP IRA and contribute 20% of your self-employment income up to a maximum of \$61,000 per year. The paperwork and yearly maintenance for this type of plan is minimal.

Kallas reminds all who read this that you should have expert professional advice before establishing any retirement plan. Discussion of your goals and options is critical.

## WHAT'S GOING ON WITH THE IRS?

Trying to get anything done these days with the IRS is very, very difficult.

Losing tax records, interminable delays, identity theft, outdated computer systems, and constant changes in tax law have made the IRS a dysfunctional agency.

Trying to get through by phone is nearly impossible, even for tax professionals, and the lower-level phone employees are poorly trained.

To be fair, tax law and procedures have become so complicated that only a sophisticated AI program will be able to answer questions and solve problems.

As of August 2025, President Trump has replaced the tax commissioner less than two months after his confirmation and has installed an acting commissioner.

In May 2025, the White House released a "skinny budget" that outlined \$2.5 billion in annual cuts to the IRS with a focus on staffing reductions and IT modernization.

According to the Treasury Inspector General for Tax Administration, the IRS workforce has experienced a 25 percent reduction as of May 2025

Treasury Secretary's special adviser said IRS modernization is "currently 30 years behind schedule and it's already \$15 billion over budget." The IRS is running on old infrastructure that includes old mainframes running COBOL and Assembly.



The best advice we can give our taxpayer clients is to file on time (no later than the extension date of October 15) and to e-file. You will get your refunds faster. E-filing

cuts out the human element, and your tax return is electronically dropped into the master database, so fewer errors are likely.

If you have an unusual problem that needs human attention, such as not receiving a refund, identity theft, notices, or other issues that require professional help, please be patient. The professionals at Kallas can resolve some issues fairly quickly but some issues such as identity theft, ERTC refunds are taking up to 582 days to resolve.

## HOW LONG SHOULD YOU KEEP RECORDS

There is no hard and fast rule or law on what records you should keep or how long you should keep them.

The general rule is that you should keep all records that would be required to prove the amounts on your tax returns. Normally, the IRS can only go back three years but some records such as majors purchases, business assets and depreciable items should be retained indefinitely. **Remember, the burden of proof is on the taxpayer.**



If this seems like a lot of record keeping, you can make it much simpler. The government will accept digitized copies! If you need help getting your records digitized, we have vendors who can help.

### *SUGGESTED RECORDS AND RETENTION TIMES*

Unclaimed payroll checks	1 yr (then submit to state)
Daily Z-out register tapes	current yr + 3 yrs
POS computer records	current yr + 3 yrs
Banks statements	current yr + 3 yrs
Employee time records	current yr + 3 yrs
Vendor invoices	current yr + 3 yrs
Tip records	current yr + 3 yrs
Credit card statements	current yr + 3 yrs
Credit card receipts	current yr + 3 yrs
1099 records	current yr + 3 yrs
Cancelled checks or check registers	current yr + 3 yrs
Payroll quarterly tax returns	current yr + 3 yrs
Employee files	3 years (after term date)
Major purchases	Permanently
Legal documents	Permanently
Corporate records	Permanently
Bank loan records	Permanently
Stockholder loans	Permanently
Insurance awards	Permanently
Equipment and construction records	Permanently
Business Tax returns	Permanently
Individual Tax Return	Permanently

## Calendar for September, October, November 2025

### September 1

- 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

- All Businesses: Michigan Sales, Use and MBT estimates due.

### 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

- All Businesses: Michigan Sales, Use and MBT estimates due.

### October 25

- Payroll: UIA form 1020 due for 3rd Quarter.

### October 31

- Payroll: File Form 941 for the third quarter.
- Payroll: 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

- All Businesses: Michigan Sales, Use and MBT estimates due.

### November 27 & 28

- Kallas closed for Thanksgiving.