

## Memorandum

To: Clients, Associates & Friends of Pro@ctive CPA  
From: Mark L. Wyssbrod, Managing Member  
Date: May 14, 2013  
Re: May Update – A Time to Reflect

In this memorandum, you will receive information about the following:

- Spring time delivers new life and thunderstorms
- Tax refreshers
- Deadline reminders
- Financial ratio of the month

Please contact me should you have any questions. Turn that frown upside down!

### **Introduction: Spring Time Delivers New Life and Thunderstorms**

As the old saying goes “April showers bring May flowers!” Life begins to sprout and the world becomes a busy place once again. It is an exciting time and the optimism in the air can lift spirits. Speaking of lifted spirits, the consumer has had lifted spirits (confidence has risen) and spending is on the increase. Lenders have loosened the spigot, and money is flowing once again.

However, springtime also produces thunderstorms, and there are some dark clouds in sight. For instance, although the U-3 unemployment rate dropped (this is what you hear in the news) to 7.5%, the U-6, which measures underemployment, increased last month to 13.9%. Additionally, the number of hours worked in a week contracted, wages remain stagnant, and the latest manufacturing report came in weaker than expected. At least lenders are lending, which may remind you of a few years ago, and we know how that turned out.

Although I believe the economy will continue to recover for small business, it still seems pretty rough out there and growth might feel painful due to cash flow stresses! With a continued challenging economic environment combined with an increase tax compliant; businesses need to plan and execute efficiently.

Time to add a “spring” to your step,

Mark W.

## A Few Tax Refreshers

Every tax season we ask our clients a lot of questions. I wanted to share with you a few of those questions with you and offer a refresher as to why we ask you these questions.

- Charitable donations
  - Taxpayers donate on average ~2-3% of income
    - If you donate more than this you might be at a statistical outlier which the IRS computer programs might look for
  - “No goods or services”
    - In a recent tax court case (Durden vs. Comr. , TC 2012-140), the IRS won the case because the taxpayer didn’t have his \$25,000+ charitable donation accepted in writing. One letter stating “no goods or service” were received would have helped the taxpayer win the case.
  - Refresher of Charity Tax Rules
    - For donations under \$250 you need “reliable” proof of the donation
      - A cash receipt, credit card receipt, or cancelled check
    - For donations over \$250 you need “contemporaneous written acknowledgement” from the charity with:
      - Description of donated item
      - A statement to whether any goods or services were received
        - If goods and services were received, what is the fair market value (it must be stated)
      - You have until April 15<sup>th</sup> of the following year of the donation (i.e. April 15, 2013 for any 2012 donation) to receive the acknowledgement
    - ***If you are missing any of this information, you are not entitled to the deduction***
  - IRS Publication 526 <http://www.irs.gov/pub/irs-pdf/p526.pdf>
- Business Mileage
  - Log & Rules – See IRS publication 463, pages 25 and 26
    - “You should keep the proof you need in an account book, diary, log, statement of expense, trip sheets, or similar record”
    - [www.irs.gov/pub/irs-pdf/p463.pdf](http://www.irs.gov/pub/irs-pdf/p463.pdf)
  - *Mileage Log*: Be certain you have a mileage log to keep track of odometer readings, personal mileage, business mileage, charitable mileage, medical mileage, other mileage, date of travel and destinations at a minimum. A calendar to verify trips will be helpful in case of an audit.
    - Total mileage for the year is required

- Especially if a corporate owned vehicle as personal use of a corporate vehicle is needed to be added to the employees income
- Meals & Entertainment
  - Tests:
    - Directly-related test
      - Entertainment took place in a clear business setting, or
      - A necessary expense is one that is helpful and appropriate (to your business)
    - Associated test
      - Entertainment is associated with your trade or business, and
      - Entertainment is directly before or after a substantial business discussion
    - *You cannot deduct expenses that are lavish or extravagant under the circumstances*
  - 50% Limitation for Tax Purposes
    - Generally, a taxpayer can only deduct 50% of the business-related meals and entertainment and includes the following:
      - Meals while traveling away from home
      - Entertaining customers at your place of business, restaurant or other location
      - Attending a business convention or reception, meeting or business luncheon at a club
      - Taxes and tips
      - Cover charges
      - Rent paid for a dining room area or cocktail party
      - Amounts paid for parking at a sports arena
  - Exceptions to the rule include:
    - Meals & entertainment that are reimbursed or shown separated on an invoice
    - Advertising expenses (free food and drink to the general public)
    - Charitable sports event
  - IRS Publication 463 [www.irs.gov/publications/p463/ch02.html](http://www.irs.gov/publications/p463/ch02.html)
  - *Catering Expense*
    - Other meals and entertainment items that are fully deductible
      - Meal expense for a company picnic or holiday party
      - Office snacks

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Interact With Your Accountant

- Meals provided on the employer's premises to more than half of the employees for the convenience of the employer (i.e. you offer a meal to keep the employee working)
- New In 2013
  - Higher income taxes for \$400,000 for single taxpayers and \$450,000 for taxpayers married filing jointly
  - Medicare Surtaxes for \$200,000 for single taxpayers and \$250,000 for taxpayers filing married filing jointly

As one of our team members stated, "would you rather have us explain the rules to you or an IRS agent in an audit?" Nothing seems simple anymore, and the more you plan the easier it is to be compliant. Knowledge is power!

## **Deadline Reminder: Important Dates to Remember!**

- May 15 – Non-profit tax returns (or extensions) are due for annual year-ends
- June 17 – 2<sup>nd</sup> quarter estimated tax payments are due for individuals, composite taxpayers, trusts and corporations

## **Financial Ratio of the Month**

General and Administration Payroll to Sales =  $G\&A \text{ Payroll Expense} / \text{Sales}$

This metric shows G & A payroll expense for the company as a percentage of sales. It can be helpful to determine if staff count is being efficient (i.e. under or over staffed).

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