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Tax & Business letter
WINTER 2019

Protect your business with these cash-handling concepts

Cash theft ranks as one of the most common frauds perpetrated on small businesses, according to a 2018 report by the Association of Certified Fraud Examiners (ACFE). To ensure your business is protected from theft, develop and implement a strong cash-handling policy. Here are some ideas to help create a working policy to protect your cash:

■ **Keep duties separate.** If one employee receives cash, someone else should prepare or oversee preparation of the cash deposit. A third person may record transactions in the company books. Although such separation of duties can be hard to implement in a company with few employees, creative owners will find ways to prevent such transactions from being concentrated in the hands of a single person. For example, you might cross-train staff so that today's accounting clerk is tomorrow's cashier. Or a supervisor might periodically assume one of these functions.

■ **Document cash transactions.** Develop a cash count sheet that records the names of people removing money from the safe. Also document the date and time money is transferred for deposit. Include signature lines for both employees involved in the task. Have another employee routinely compare deposit slips and bank statements with cash count sheets. When cash is placed in the safe, record transactions with a similar detailed record.

■ **Store cash securely.** Lock cash registers when not in use. Minimize cash on hand by requiring employees to periodically transfer excess cash to point-of-sale (POS) safes. Because such a system allows for one-way access only, it helps prevent cash skimming. POS safes should be unlocked only when cash is transferred to the back office safe. Limit safe combinations to authorized employees and ensure that combinations are routinely changed.

■ **Conduct internal audits.** Employees should expect their cash-handling activities to be scrutinized. Inform staff that there will be surprise cash audits and detailed reviews of company books on a regular basis. If your company uses a currency counting machine, you might also print and review a sample of cash-count reports.

■ **Communicate policies.** Make sure your policy is clear and straightforward. Post it throughout the workplace. Discuss it with new hires. Share it in staff meetings.

■ **Hire wisely and train.** Conduct thorough background checks. Once staff members are on board, train them to implement your cash-handling policy until it becomes second nature. ♦

Thank You

Your trust and your business are appreciated, and your referrals are welcomed. Wishing you a happy, healthy and prosperous 2020.

IRS TAX NOTES

Self-employed: Tax withholding estimator enhancements

The IRS website now offers a Tax Withholding Estimator tool (*www.irs.gov/individuals/tax-withholding-estimator*) designed to help self-employed taxpayers determine the right amount of tax to be taken out of their pay. It will also let taxpayers know if they qualify for special tax benefits, including the self-employment health insurance deduction or the deduction for other qualified retirement plans.

Checking your withholding can help you avoid an unexpected tax bill or allow you to adjust your withholding to receive more in your paychecks throughout the year.

Beware of IRS impersonation scam

IRS imposters are sending fake "reminder" emails to taxpayers claiming to be about tax accounts, refunds and electronic returns. The emails contain malicious files that are labeled as "temporary password" or "one-time password" in order to trick people into clicking them and infecting their computers with malware that is used to steal passwords and other sensitive information.

Remember, the IRS won't initiate contact with you by email, text messages or on social media about personal or financial information. If you get unsolicited email from what appears to be the IRS, report it by sending it to *phishing@irs.gov*.

No change to fourth-quarter interest rates

The fourth-quarter interest rates are the same as third quarter. Overpayments are 5 percent for individuals and 4 percent for corporations. Corporate overpayments exceeding $10,000 have a 2.5-percent interest rate. The rate charged on underpayments is 5 percent. And large corporate underpayments are charged 7 percent. ♦

Employee or contractor: Know the difference!

Are some of your workers independent contractors instead of employees? Correctly classifying your workers will preserve the tax breaks that come with hiring independent contractors — and help you avoid major penalties.

Why it matters

Employers are required to withhold taxes for employees and pay the employer's share of payroll taxes on wages. These amounts are reported to the IRS, as well as state tax authorities. An employer may also be liable for fringe benefits, like health insurance and matching 401(k) contributions.

Conversely, an employer doesn't have to withhold or pay taxes on behalf of independent contractors. These workers take care of taxes, insurance and other benefits on their own. This is why the IRS pays special attention to how workers are classified.

Control is key

Generally, the issue boils down to control. If an employer maintains behavioral and financial control over a worker, he or she should be treated as an employee. Independent contractors, on the other hand, have a high level of autonomy and independence over the work being performed.

Avoid misclassification

The stakes are high. If the IRS discovers a misclassification, it will assess back taxes for the tax years in question, plus interest and penalties. For an intentional error, criminal sanctions may be imposed.

Here's what you can do to avoid the IRS challenging an independent contractor classification:

- **Understand the tax rules.** If you exercise a great deal of control over workers, they are likely to be considered employees.
- **Be specific.** Spell out the services to be performed by independent contractors, their responsibilities and the expectations in a written contract.
- **Keep work schedules flexible.** Avoid setting a regular work schedule for independent contractors. Allow them the ability to set their own hours.
- **Maintain separate payment practices.** Compensate independent contractors on a per-job basis. If possible, avoid paying a regular amount each payroll period.
- **Review work arrangements periodically.** Request invoices from independent contractors before payments are made.
- **Be careful with benefits.** Don't cover independent contractors under a health insurance plan or provide other fringe benefits that are typically given to employees.

An employer that has experienced misclassification issues may qualify for tax penalty relief if it can establish it has a reasonable basis for treating workers as independent contractors. Back taxes and penalties may be waived if the employer has been consistent in its treatment. ♦

Is crowdfunding for you?

If you're interested in crowdfunding for your business, there are a few things you should know.

How it works

Crowdfunding is the practice of pooling small investments from a large group of people to fund an activity. It can replace a bank, friends or private investment companies to start a company, fund the development of a new product, or create a new service.

There are many online crowdfunding platforms, including Kickstarter, Indiegogo and GoFundMe. Each site requires that you set up a profile, establish a funding goal, and publish your financing request. People can then donate to your cause or purchase shares in your business.

Investors and contributors may expect some form of reward for helping out companies through crowdfunding. For those donating to a non-profit organization, the reward might be as simple as a hand-written thank-you note or a tax deduction (if applicable). Others might gain early access to a discounted product. Some might invest with the expectation that their share values will increase over time (known as equity-based crowdfunding). Others might purchase debt-based shares with a fixed interest rate (crowdlending).

What to consider before crowdfunding

Whether you're considering an investment or trying to raise funds for a new product, ask yourself the following questions:

- **Are you comfortable broadcasting your plans?** Be aware that competitors will have access to your idea and business profile. One of the initial developers of a digital watch, Pebble, used crowdfunding to fund their product only to see their business idea overtaken by others (including Apple).
- **Are you prepared to create an appealing campaign?** Review crowdfunding sites and see what appears to be working. Be prepared to create an appealing campaign that will stand out on the crowdfunder's site.
- **Will this platform reach my target investors or users?** Different crowdfunding platforms focus on specific funding pools. Find out which one would be the best for your business.
- **What's the fee structure?** Understand the models and the costs associated with the platform's fundraising practices.
- **How much money do you plan on raising?** Most crowd-funding requests are small. That makes the individual risk for any one donation or investment small as well.
- **How much time will be allotted to reach my funding goal?** Companies levy fees to process investments or pledges. You may be hit with increased charges if targets aren't met.

Crowdfunding is worth consideration as an alternative to traditional financing. But before you sign up, study the details. ♦

CASH FLOW CORNER

Monitor inventory to keep cash flowing

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.

Skillful inventory management is often one of the biggest factors in maintaining positive cash flow. Consider these techniques for controlling your company's inventory to improve your cash position:

Track inventory turnover. The inventory turnover ratio measures the number of times inventory is sold and replaced in a given time period (annually, quarterly or monthly). It's calculated by dividing cost of goods sold by average inventory.

Let's say you're a retail business that has $5 million in cost of goods sold. At the beginning of the year, your inventory balance is $600,000; at year-end, it's $400,000. That means your average inventory is $500,000 (the sum divided by two). To get the annual inventory turnover ratio, you divide the cost of goods sold by this average. So in this example, the turnover ratio would be 10 ($5 million divided by $500,000). On average, you're selling and replacing inventory 10 times each year.

Compare historical ratios and industry averages to get a clear picture on the state of your inventory management. Low or deteriorating turnover ratios may indicate that your business is carrying excess inventories. Research to find out why.

Scrutinize aging inventory. An aged stock or inventory aging report lists items grouped by the length of time they're being held in inventory. Like an accounts receivable aging report, an inventory aging report enables you to quantify the cost of specific slow-moving inventory items. A way to calculate this is to take the number of units on hand and then determine how many months of sales it will take to sell out of the item.

If certain items aren't selling, they may be obsolete or beyond their shelf life. You may need to write down values in the company records, provide discounted sales, or write off specific items by removing them from inventory.

Consider just-in-time (JIT) inventory management. JIT is designed to increase efficiency, reduce costs and minimize waste. Companies order goods only as needed. Depending on your business, JIT might be used to lower inventory holding costs, reduce problems with order fulfilment, and improve cash flow.

Given the risk of being out of stock, JIT can work for your business if your products can be manufactured or supplied quickly, and your company's order fulfillment system is efficient.

By skillfully managing inventory, your firm can continue to generate positive cash flow, satisfy customer demand, and invest in new opportunities. ♦

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Fix these common customer service mistakes

If your company provides stellar service and outstanding products, your loyal customers can grow exponentially through social media, online reviews and more traditional outlets. On the other hand, when customers complain, your company's reputation can be damaged.

Fortunately, your team can build solid customer relationships by fixing these common customer service mistakes:

- **Mistake #1: Ignoring customers.** When busy, it's easy to develop checkout lines, or calling queues. This frustrates all customers, both those with concerns and those that simply want to order. The net result is everyone is unhappy!

  Fix: *For call volume, consider creating a simple auto response recording to quickly get customers to the right area. For online ordering, make it easy for online customers to get to someone that can solve their problem. For retail, show all customers that you care. Never give the impression that they've intruded upon your valuable time. Make eye contact. Smile. Invite their feedback. And constantly monitor employees looking for opportunities to develop improved communication.*

- **Mistake #2: Minimizing legitimate complaints.** Sure, there are a lot of complaints out there that may not be resolvable, or even based on fact. But sometimes customers have mistaken notions about your products or services.

  Fix: *Resist the temptation to ignore feedback. With every complaint, ask whether concerns might highlight an opportunity to improve. When complaints seem to arise from several sources and focus on a particular issue, pay attention. If a product doesn't work as advertised, consider discussing the issue with suppliers.*

- **Mistake #3: Defensiveness.** Customers need to feel that the company is trying to address their concerns. Even if your employees feel personally attacked, they should never lash out.

  Fix: *Train workers to remain calm. It is best to listen, repeat the complaint back to the customer, and then ask confirmation that you understand their issue. Next, ask a clarifying question. This will help deescalate any tension. Most people respond better when the situation is handled calmly and respectfully.* ♦

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

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Tax CALENDAR

WINTER 2019

Jan. 15, 2020

- Due date for the fourth installment of 2019 individual estimated tax.

Jan. 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 to recipients and report Forms 1099-MISC with non-employee compensation in Box 7 to the IRS.
- Due date for providers to send Forms 1095 to recipients.
- Employers must file 2019 federal unemployment tax returns and pay any tax due.
- Due date to file 2019 fourth quarter Form 941 for Social Security, Medicare and withheld income tax.

Feb. 28

- Payers must file most Forms 1099s (except certain Forms 1099-MISC due Jan. 31) with the IRS.*
- Due date to file Forms 1095 with the IRS.*

March 2

- Farmers and fishermen who did not make 2019 estimated tax payments must file 2019 tax returns and pay taxes in full to avoid a penalty. ♦

*March 31 if filing electronically