dunlapSLK
Certified Public Accountants & Business Advisors
1300 Horizon Drive, Suite 106, Chalfont, PA 18914
267.594.DSLK (3755) | www.dunlapslk.com

Inside this issue

Tax & Business letter

SPRING 2020

Getting a 20% business deduction has new hurdles

The 2018 tax year was a learning experience for everyone who had partnership, S corporation or sole proprietor income as they tried to understand the new qualified business income (QBI) deduction.

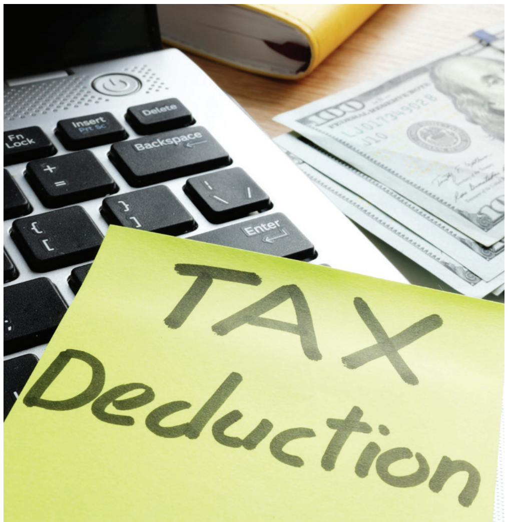
Now that we've made it through Year 1 of interpreting, calculating and implementing the QBI deduction, there are several updates to be aware of heading into the 2019 tax year.

Increase in phaseout threshold

If you have qualified business income that flows through to your 1040, the full 20% QBI deduction is available for married filing joint taxpayers who have taxable income of less than $321,400 (up from $315,000 in 2018), and for all other taxpayers who have taxable income of less than $160,700 (up from $157,500 in 2018).

If your qualified business income flows from a "specified service trade or business," the 20% deduction completely phases out for married filing joint taxpayers at $421,400 of taxable income and for all other taxpayers at $217,500.

If your qualified business income flows from a "qualified trade or business," you must apply the W-2 wages and qualified property limitation if your taxable income is more than the $321,400 threshold for married filing joint taxpayers, or more than $160,700 for all other taxpayers.



New forms are now required

The more significant update to the QBI deduction is new forms that must be attached to Form 1040 which are used to calculate the deduction.

- **Form 8995 – Qualified Business Income Deduction Simplified Computation**

If your taxable income is less than or equal to the thresholds mentioned above ($321,400 for married filing joint taxpayer and $160,700 for everyone else), then consider yourself fortunate. You get to use the one-page simplified version of the QBI deduction calculation.

- **Form 8995-A – Qualified Business Income Deduction**

If your taxable income is more than the above-mentioned thresholds, then you must file Form 8995-A along with any of the applicable four new additional schedules.

What you can do

Rest assured, that while navigating these new forms adds some complexity, the deduction should be more clear with one year of experience. Here are things you can do to help prepare your return:

1. **Get your business financials completed on time.** This will allow enough time to navigate this year's QBI requirements in a timely fashion.
2. **Keep good payroll and capital/fixed asset records.** If need be, this information is required to maximize your potential QBI deduction.
3. **Review any form K-1s ASAP.** Review these forms as soon as you receive them to ensure accurate QBI information is furnished in box 17. Specifically look for code V and make sure W-2 wage and capital figures are provided.

Walking through all the steps to calculate the Qualified Business Income deduction can be daunting. For any questions about the QBI deduction, please call. ♦

IRS TAX NOTES

IRS warns of new version of Social Security Number scam

The IRS is warning taxpayers about a new twist on scams relating to Social Security numbers, where scammers call taxpayers and claim to be able to suspend or cancel a person's Social Security number. The scammers may also mention overdue taxes, along with threatening to cancel the person's Social Security number. If a taxpayer receives this type of a call, the IRS says to just hang up.

A reminder that the IRS will never call a taxpayer to demand an immediate payment. The IRS will also never initiate contact with taxpayers using e-mail, text messages or social media.

First-quarter IRS interest rates remain the same

Interest rates for the first quarter in 2020 will remain the same compared to last quarter. These rates include: 5% for overpayments (4% for corporations); 2.5% for the portion of a corporate overpayment over $10,000; 5% for underpayments and 7% for large corporation underpayments.

Direct deposit is the quickest way to receive refunds

The IRS is reminding taxpayers that direct deposits are the quickest way to receive their tax refund. Taxpayers can also get refunds deposited into one, two or three different accounts.

Direct deposit also avoids refund checks getting lost, stolen or returned to the IRS as undeliverable. Direct deposits also save money for taxpayers – each paper refund issued costs $1 compared to 10 cents for each direct deposit.

Non-profit organizations now must e-file returns

The IRS is reminding tax exempt organizations that the Taxpayer First Act, enacted July 1, 2019, requires tax exempt organizations to e-file their organization's information returns and related forms. The new law affects tax exempt organizations for tax years beginning after July 1, 2019. ♦

The pros and cons of loyalty programs

Are these programs right for your business?

The size of your advertising budget, skill of your sales staff, accessibility of your store, ups and downs of the overall economy—these factors and myriad others determine business survivability. One thing's for certain: repeat customers are vital to any company's long-term survival.

Customer loyalty programs seek to capitalize on this business reality. Such programs aren't limited to giant corporations such as airlines, and international hotel chains. Small businesses can also take advantage of loyalty programs to retain customers.

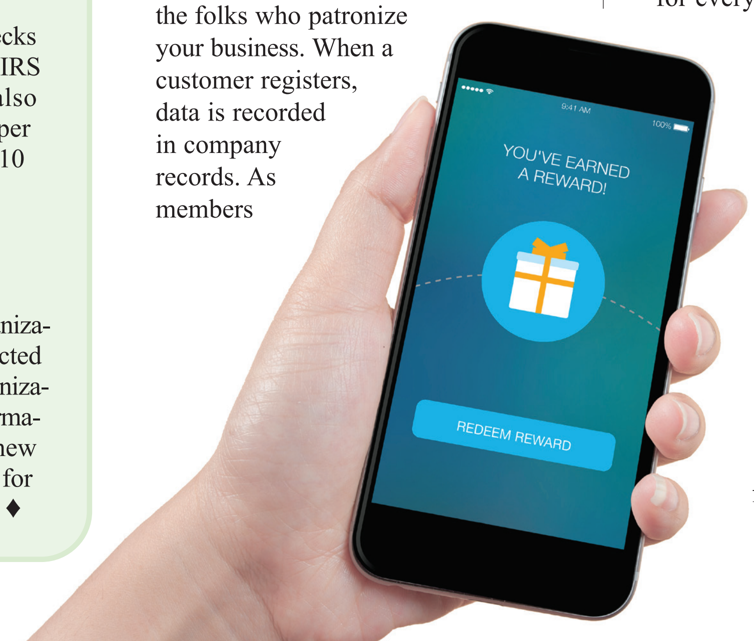
But be sure to consider the following benefits and pitfalls of loyalty programs.

Benefits

- **Incentives for repeat sales.** A loyalty program can create a sense of appreciation among customers, which can lead to renewed purchases. Whether they're earning points toward a free item or a discount for spending above a certain amount, customers keep coming back when they see a clear benefit.
- **Higher transaction amounts.** One study showed that most shoppers spend more when taking advantage of loyalty program benefits. Another found that loyalty programs increase overall business revenue from five to ten percent.
- **Create a known customer list.** A loyalty program can spotlight the folks who patronize your business. When a customer registers, data is recorded in company records. As members continue to frequent the business, additional information is collected.
- **Create trial for new products or services.** Often a loyalty program payoff can be a free or discounted new product or service. This is a great way to get current customers to try something new.

Pitfalls

- **Time-consuming to begin and maintain.** Depending on the complexity of your program, a third party may need to be hired to determine the best program for your business. After it's set up, monitoring is crucial. Award amounts need to be tracked and notification emails sent. Failure to maintain the program may frustrate and eventually alienate formerly-satisfied customers.
- **Lower profits.** It is tough to justify giving a discount to someone who would buy it anyway. So giving away products and offering discounts, if not continually evaluated, have the potential to hurt your bottom line.
- **A never ending story.** If you are not careful, the loyalty program can be difficult to take away. And the longer the program is in place, the more it puts loyal customers at risk if you discontinue it. For example, the longstanding $5 foot long promotion at Subway to build retention created a revolt from franchisees that were losing money for every one they sold.



Is the loyalty member buying from you because it's convenient? Or is he or she actually loyal to your company and brand? A great program will be designed to know the difference. So if you are considering a program for your business you may wish to start it as a well defined test with an end date to the program. Then continue it or repeat it only if it makes financial sense. ♦

Cyber security starts with your employees

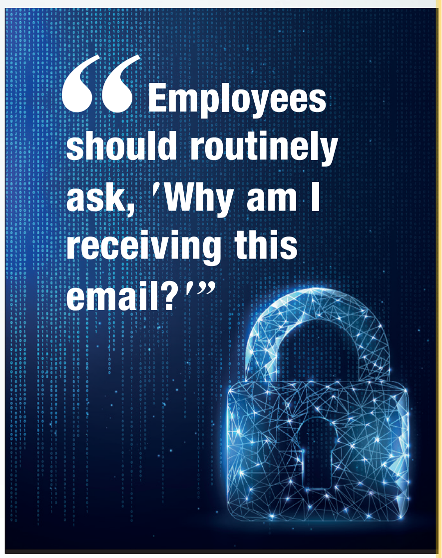
Action items to help protect your business

When identity thieves trick employees, businesses pay a steep price. Consider the case of the Oregon Department of Human Resources. In January 2019, the personal information of over 645,000 applicants was exposed to hackers. Why? Nine employees were conned into clicking on phishing emails.

The results can be catastrophic. Workers spend months cleaning up the mess. Customers and business partners lose confidence in your company's ability to manage data. A company's brand and reputation take a hit, creating a perfect storm for competitors to take full advantage of your problem.

Don't become a statistic. Train your employees to be vigilant about the following identity theft schemes.

- **Phishing emails.** Here's the scenario. An employee receives an email or text message purporting to come from company management or a trusted vendor. He or she is duped into opening the message and clicking on a malicious link.
  Action items. *Beat this problem by training employees to recognize phishing schemes. Look for subtle mistakes such as spelling errors and domain name anomalies. Teach employees to hover their cursor over links to ensure they are legitimate. Above all, employees should routinely ask, "Why am I receiving this email?" A simple verification may be all that's needed to stop a phishing attempt.*



- **Ransomware.** Ransomware is malicious software that infects a computer, locks it and then demands a ransom.
  Action items. *Train employees to confirm that senders are, in fact, trusted contacts. Teach them to avoid clicking on links from questionable sources. They should be particularly skeptical if an attachment asks them to enable macros, which is a common way ransomware is spread. Your best defense to ransomware is active, secure backups of all systems.*
- **Social media postings.** Cyber-crooks use social media to gather enough information to appear legitimate to company employees.
  Action items. *Train employees to protect both themselves (and your business) when sharing on social media. Create a policy that limits social media use during the work day and prohibits access to personal accounts using company computers or networks.*

Company security is now a complex but critical success factor for all small businesses. Take it seriously and constantly train your employees to be vigilant. ♦

CASH FLOW CORNER

Suppliers can be a better source of cash than a bank!

Employee salaries, utility bills, taxes, payments to suppliers—these and myriad other transactions cause cash to flow out of your company. Too often, suppliers help manage your cash only when you cannot pay them. Why not use them to help manage it? Here are some ideas to help slow down cash outflow with your suppliers.

Treat them as partners. It's crucial to maintain positive relationships with companies that supply your raw materials, provide ancillary services, and otherwise keep revenues flowing. First identify your key suppliers, then meet with them periodically to know how they are doing and create a relationship based on trust.

Extend terms. Some invoices are due on receipt; others, a few days later. Negotiate the longest payback terms possible and ask for early-payment discounts. A two percent discount might not seem significant, but on bulk orders savings can accumulate. Depending on your industry, you might set up a vendor payment schedule that better reflects your accounts receivable history.

Simplify. Set up automatic payments from your company bank account. You won't have to remember when a bill is due and the money will stay in your account as long as possible. Electronic fund transfers doesn't eliminate the need to monitor cash flow or scrutinize payment terms, but they can reduce some of the headaches associated with paying bills on time.

Prioritize. Develop a priority payment list. Although everyone needs to be paid eventually, some vendors are more crucial to your success. They're the ones you rely on to keep shelves stocked and customers coming back. Pay them first.

Release management. The principal here is to pay for inventory when you have a sale and not before. This helps match the cash outflow of the supplier payment with selling the product. One way to do this is to implement just in time (JIT) delivery, where you place the order with the supplier and they then deliver or ship it.

If managed correctly, your key suppliers can be an essential key to your business' success. ♦

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3 factors in finding the best employees

Turnover expense — an often overlooked cost of doing business — can be as high as 33% of an employee's annual salary, according to a recent Work Institute report. One way to reduce this cost is to focus on preventing turnover right from the start by finding the candidates best suited for your business. If you haven't already, consider the following key factors as you hone your hiring process:

1. Know what qualities to look for in an employee. Before you publish a job announcement or talk to potential candidates, consider the type of employee that would fit best with your company. This may involve clarifying the types of qualities that fit your firm's culture, as well as skills that are specific to the position being filled.

For example, if the business prides itself on quick turnarounds, candidates who have proven they've consistently hit short deadlines are ideal. The same goes with interpersonal skills like communication styles.

2. Search in the right places. Once you're clear about the type of employee you're hoping to hire, focus on discovering the best candidates in the appropriate places and drawing them to your company. Depending on who you're looking for, this might involve placing advertisements in local print media, networking with local colleges and technical schools, or asking for recommendations from your current employees. In general, the more specific the skills you hope to find, the wider the net you'll need to cast.

3. Ask meaningful interview questions. Potential candidates are often counseled to conduct mock interviews. Wise employers will hone their interviewing skills, too. This means asking focused questions and listening with a purpose. A good interviewer will attempt to identify "red flags" that may indicate potential problems. For example, the candidate may provide vague or rambling answers to simple questions. This may indicate normal interview anxiety, or he or she may be hiding important facts from you — information that could directly affect your hiring decision.

Finding quality employees is not an exact science. But thoughtful preparation and careful interviewing can pay dividends for years to come. ♦

NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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 SPRING 2020

March 2
- Farmers and fishermen who did not make 2019 estimated tax payments must file 2019 tax returns and pay taxes in full.

March 2
- Due date for employers and health care providers to provide Forms 1095-B and 1095-C to individuals.

March 16
- 2019 calendar-year S corporation income tax returns are due.
- 2019 partnership returns are due.
- Deadline for calendar-year corporations to elect S corporation status for 2020.

April 15
- Individual income tax returns for 2019 are due.
- 2019 calendar-year C corporation income tax returns are due.
- 2019 annual gift tax returns are due.
- Deadline for making 2019 IRA and HSA contributions.
- First installment of 2020 individual estimated tax is due.

May 15
- 2019 calendar-year non-profit organization annual reporting returns are due. ♦