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*A tax, business, and financial planning newsletter for our clients and friends*

# A Monitoring System To Control Your Business And Save Time

One of the biggest problems that business owners face is how to handle the barrage of information that is fed to them on an almost non-stop basis. It is simply not possible to keep track of all the detailed information that's available and to use it to control operating results effectively.

One solution to this problem is delegating, but most business owners find that delegating doesn't really reduce their need to monitor key operating data. Often, delegating does not save time either, because delegated monitoring responsibilities still have to be reviewed.

The answer is to install an internal monitoring system that lets you compare a limited set of key current operating figures with your projections. This system has two major features. First, it focuses on where your business is now compared to where you wanted it to be. This keeps you from getting bogged down in time-consuming reviews of last month's or last year's figures.

The second feature of the system is that you are not constantly inundated with data. Critical information is supplied to you on a regular schedule. This limits your monitoring responsibilities to tracking only the data that you need to control your business now. Since most of the major indicators are usually reviewed weekly or monthly, the system ultimately saves a great deal of time.

Here are the seven major areas that most business owners should monitor:

1. **Sales.** Check total year-to-date sales against projected sales every day. Look at sales from major product or service categories once a week. At the end of each



CONTINUED ON PAGE 4

# CLIENT'S tax & financial UPDATE

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A Monitoring System To  
Control Your Business  
And Save Time

Tax Points

Seven Ways To  
Ask For What You  
Want And Get It

Like-Kind Exchanges

How The IRS Selects  
Returns To Be Audited

What To Do When  
The IRS Sends You  
A Cool Million

The Six Principles  
For Saving Taxes

When Commuting  
Is Deductible

## taxPOINTS

**Transfers of money to an IRA** from a pension plan. There is a 60 day time period to transfer money from a company pension plan to an IRA. If the transfer is not made within 60 days, the entire amount will be subject to income tax. **Added pitfall:** If you have not reached age 59 1/2, you will have to pay an additional 10% penalty.

**Tax savings. Defer compensation.** Plans can be designed to defer salary or compensation to a later date. Under these plans, business people may elect to defer a determined amount of their income to a later year. This deferred income is then taxed only in the year received. These plans should be in writing and the decision to defer compensation must be made prior to earning that income.

**Include your children on your payroll.** The kiddie tax applies only to investment income. Your child can earn \$6,300 in payroll and pay no income tax. **Added loophole:** Shelter an additional \$5,500 of payroll from tax by putting it into an IRA.

**Loophole: Income producing real estate.** Depending upon your tax situation you will get a deduction for your rental expenses, including interest and property taxes. If you have positive cash flow from the property, a portion of that income will be sheltered from tax by your depreciation deduction. **Benefits:** You receive tax sheltered income with the likelihood of capital gains should the property appreciate in value.

## Seven Ways To Ask For What You Want And Get It

- 1. Make sure you know what you want before you ask for it.** Think about what you really want before you put it into words. *Example:* "I need delivery as soon as possible" will fall far short to the results you'll get from "I need delivery by Wednesday at ten o'clock to satisfy an important customer. Could you please deliver by then?"
  - 2. Ask the proper person.** It won't do you any good to ask someone who can't give you what you want. *Example:* If you ask a service-writer at an automobile dealership to work on your car before other cars, you'll get nowhere. But if you ask the service manager he has the authority to help you.
  - 3. Think about how to ask.** After you've decided exactly what you want and whom you want it from, you should determine how to present your request. This means giving a clear reason for your request and explaining how the person you're asking can make a difference by helping you. *Example:* "I need a reservation
- tonight so I can make a breakfast meeting at the hotel in the morning. You can really help me to get an important customer."
- 4. Show respect.** Never be rude or overbearing. Remember that the key words to getting what you want are "please" and "thank you".
  - 5. Never demand and never beg.** When you demand something, you immediately antagonize the person that can help you. And when you beg, you're dealing from weakness rather than strength.
  - 6. Overcome false pride.** Many people don't ask for help because they feel they must be self-sufficient. But when you ask for what you want, you show that you have the strength to ask for help when you need it.
  - 7. Keep on asking.** You can be persistent without being annoying. A major reason for not getting what you want is the failure to ask for it again and again.

## Tax Tip

### Loophole: Like-kind exchanges.

No gain is recognized on the exchange of business or investment property (i.e., land, building or equipment) if the property received is of a like kind and is used in a business or for investment. The tax is not due until that time you sell the property received in the exchange.



## How The IRS Selects Returns To Be Audited

It's been said that only 12 key IRS employees know the exact detail about how the IRS picks the returns it will audit, but most accounting professionals agree that there are certain general features in a tax return that will trigger an audit.

- An unusual sum of money claimed for a deduction, such as \$50,000 for business entertainment expenses.
- The relative size of two related deductions, such as \$6,000 in travel expenses for a taxpayer whose income is only \$15,000.
- The nature of a deduction relative to a taxpayer's occupation, such as a large deduction for business

entertainment expenses by a college professor.

- Reporting a deduction in a manner that improperly benefits a taxpayer, such as deducting a charitable contribution as a business advertising expense.
- Contradictions between deductible items, such as a deduction for mortgage interest but no deduction for real estate property taxes.

Although the exact variations from the norms that trigger an audit have never been public knowledge, the information is stored in the IRS computers and is developed from detailed audits of randomly selected tax returns every three years.

## The Six Principles For Saving Taxes

There are many tax planning strategies that can be used to reduce or defer income taxes, but most of them fall into one or more of the following categories:

1. Shifting deductions to a year when you'll be in a higher tax bracket.
2. Shifting income to a year when you'll be in a lower tax bracket.
3. Shifting income to family members or entities such as corporations that are in a lower tax bracket.

4. Investing in tax exempt securities.
5. Using qualified tax shelters to defer income taxes.
6. Structuring expenses so they will be deductible and still contribute to your living standard.

Professional tax advice about which strategies are best for your individual situation is the best way to keep your taxes as low as possible.

## Tax Tip

### What To Do When The IRS Sends You A Cool Million

We've all heard stories about taxpayers who received a check from the IRS for a large sum of money they didn't have coming to them. What would you do if tomorrow's mail included a government check for \$1,000,000?

Well, you could cash it and say a prayer, or you could send it back to Uncle Sam. Obviously, the wise thing to do is to return it.

But what should you do if you receive a check for a refund that is due you and the check is for more money than you deserve? The answer is to deposit it in your bank and send the IRS your check for the amount in excess of what was actually due you together with a written explanation. If you simply return the government check, it could be many months before you receive a check for the proper amount due you.



CONTINUED FROM PAGE 1

### *A Monitoring System To Control Your Business And Save Time (continued)*

month, check sales to your top ten customers.

- 2. Gross profit to net sales ratio.** It is essential to examine costs on a regular basis. A good way to see how your business is performing is to track gross profit ratios – the difference between selling prices and what it costs to produce your goods expressed as a percentage of their selling price. Once a week, check gross profit ratios for total sales, for selected major product categories, and for a few important individual products. It's not necessary to monitor cost details or look for problems unless gross profit ratios are worse than projected.
- 3. Cash flow.** It's vital to monitor cash flow. Even a profitable company can find itself in real trouble if it doesn't generate enough cash to pay its bills. Borrowing becomes difficult because banks don't like to extend a line of credit if a business doesn't have enough cash to run smoothly. Check your company's cash flow against projections every month.
- 4. Accounts receivable.** It's tempting to extend extra credit to build sales, or to assume that certain customers are good credit risks and will eventually pay. Set up a simple accounts receivable schedule for a careful review each month. Make sure that the total of current receivables increase in proportion to overdue receivables and that your average

days outstanding stay relatively constant.

- 5. Inventory.** Monitor inventory levels and inventory components monthly. Check these figures against estimates of how much inventory will be needed to support projected sales. Keep in mind factors such as how quickly inventory can be replenished and whether costs are going up or down.
- 6. Operating expenses.** These command a monthly review. Larger discretionary expense items such as advertising should be looked at carefully. One useful figure to keep track of is how much gross profit the business has to earn for every advertising dollar that is spent.
- 7. Net income.** Net income is always the most interesting and important figure to look at, but it only needs to be checked once a month since you will have a good idea of whether it is going to meet your projections from the other information you are monitoring.

If the seven major monitoring categories do not indicate any significant deviations from projections, there is no need to dig deeper. By limiting yourself to keeping daily, weekly, and monthly checks such as those recommended here, you'll not only be able to control your business effectively, but you'll also find you have more time to spend on developing strategies for future growth.

## When Commuting Is Deductible

A woman's employer repeatedly promised her work near her home, but in the meantime assigned her to various job locations that required her to drive more than 24,000 miles to and from them during the year. Some of the jobs required overnight stays and some were daily round-trips. She deducted her travel for all of them

**IRS objections:** The travel involving overnight stays was not deductible because those assignments were "indefinite" in duration, not temporary. And the daily round-trips to and from home were simply regular commuting, which isn't deductible.

**Tax Court:** Because of the employer's promises, all the distant jobs were properly treated as "temporary", since the woman reasonably believed them to be that. Thus, the travel on overnight trips was deductible.

And the daily round-trips were deductible too – because daily travel to a temporary job outside of one's home metropolitan area is deductible.

Therefore, all the driving was deductible.

