



Sushil Kumar, CPA, MBA

March 2012

STRAIGHT TALK

ABOUT SMALL BUSINESS SUCCESS

The newsletter designed to keep you on course to build a successful small business



Welcome to the March 2012 issue of the "Straight Talk" newsletter. Tax season is now in full swing at our office; if you haven't yet sent in your tax information or scheduled a tax appointment, now is the time to do so, before the April rush.

Taxes are intimidating for most people. If you know someone who could benefit from our tax preparation services and advice to legally minimize their tax, we encourage you to pass along our contact information. As a valued client, we would be honored to provide the same high level of service you've come to expect from us to your friends, family, and neighbors.

In this month's newsletter we discuss record-keeping requirements to safeguard your business now, and in the future. We also take a look at how to address the sometimes awkward situation when an employee isn't performing to your expected standard.

There are also some great tips on incorporating movement into your everyday life to improve your health, and some humorous tidbits to keep you entertained.

Until next month,

Sushil Kumar, CPA

Record Retention - What A Business Owner Needs To Know.

Large corporations, small businesses, and individuals: we all need to keep records for tax purposes. And it's a necessity for businesses of all sizes to prepare these returns based on accurate financial statements which include an income and expense statement detailing the business' profit or loss for the reporting period, and a balance sheet showing a snapshot of the assets, liabilities, and equity in the business at a certain point in time.

Without good records, a business owner can't tell with any certainty how well (or how poorly) the business is performing nor how it has progressed from one year to the next; information that is crucial to understanding what is working, what needs improving, and which expenses can be eliminated.

In the event of an IRS or state tax audit, your verbal assurances or promises concerning business expenditures and revenues are simply not acceptable; sound financial records are a necessity.

What records should you keep?

There's no specific law requiring you to manage your record keeping in a particular manner. Each small business owner is free to adopt the system they are most comfortable with, provided it is sufficiently detailed and accurate.

If you own more than one business, you must keep a separate accounting record for each one, and the specific types of records you are required to maintain will be dictated by the nature of your business. However, they can be broadly separated into the following areas:



- **Sales** – Sale slips, paid bills, invoices, receipts, deposit slips, and canceled checks. All of these records will combine to back-up the numbers in your books and explain where the money in your bank account came from. You should organize these records in accordance with both business (if more than one) and by tax year. Of course, it's imperative that your records are stored safely and, in regards to electronic data, backed up regularly. Other documents such as cash register tapes, bank deposit slips, receipt books, and form 1099-MISC should also be kept.

- **Purchases** – This includes all the costs of raw materials to operate your business, replacement parts, etc. Canceled checks, credit card slips, and invoices are the ones that will be used as proof and could also help you to determine the value of your inventory

at the end of the year.

- **Expenses** – The costs (other than purchases) that your business incurred throughout the year in order to carry on operations. This proof of amounts paid and expenditure type, such as canceled checks, cash register tapes, account statements, credit card receipts, invoices, and petty cash slips, enables you to back up amounts in the income and expenses statement as well as explain where the withdrawals from your bank account have gone.

- **Assets** – Assets are the items of property (such as machinery and furniture) owned by, and used in, your business. This information will directly affect the amount that is claimed as depreciation each year, as well as any gain or loss upon disposal.

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Tell Workers Right Away When They Need To Improve

Telling employees that their work doesn't meet standards isn't enjoyable or easy, but letting them know how they're slipping up—and how to improve—is integral to building a strong workforce.



Here are tips on how to broach the subject:

- **Don't wait for an ideal time** to tell the employee. There is no best time to tell a worker about his or her professional shortcomings. There will always be a looming deadline or some issue or emergency that crops up. The professional

thing to do is address the subject right away. The longer you wait, the harder it will be, and the worse the problem may get.

- **Craft your message.** Although you need to tell workers right away, don't just blurt it out. Take a bit of time to prepare your message and ease into the subject.
- **Brace for the reaction.** Keep in mind that while you've known about the problem, the employee is probably hearing about it for the first time. Be prepared to handle the other person's reaction, and acknowledge any negative feelings the person may be experiencing.
- **Offer ways to improve performance.** Assure employees that the problem isn't the end of the world—or their job. Rather, it's an opportunity to improve their work, so offer options on how to solve the problem or ask for feedback on the best way to get on the right track.

Record Retention *cont. from pg. 1*

Records should show the date and method of purchase, the amount paid for the item (plus details of any additional related expenses or improvements), deductions taken for depreciation, how the assets are used in the business, when and how you disposed of them (including loss by way of theft or destruction), the selling price, and expenses related to the sale.

- **Payroll** – The act of employing workers involves many different payments and costs that must be met—which are mandated by law. It's vital to maintain meticulous records of such payments, insurance, healthcare, reimbursements to employees, etc.

How long should you keep your records?

The official requirement is only two or three years, however, you must keep in mind that there are many different circumstances where this rule does not apply. You're not going to know if one of these exceptions will end up applying to you ahead of time, so it's prudent to hold on to reliable evidence for longer than the official timeframe.

- Although the IRS is permitted to reexamine your taxes going three years back (measured from the time you filed the income tax return) – if they discover or strongly suspect something is incorrect, they are then entitled to go back six years and ask for you to provide proof of all monetary items.
- If you file a claim for a loss from securities or bad debt, the IRS has the right to request you to show proof, going back seven years.
- If you accidentally or mistakenly understate income by an amount which is more than 25% of the gross income shown on your return, you'll need to provide proof for six years back from the time you either filed or paid, whichever is later.
- However, if you file a fraudulent return (or failed to file a return at all), there is no limit to the number of years you may be asked to go back!

Due to the multitude of differing rules and timeframes, I recommend you keep your supporting records for at least seven years, and tax returns for an unlimited time period. And for assets that you end up holding onto for many years—such as real estate—these records will need to be retained for quite some time. At any time during the ownership period (and for a number of years afterwards) you may need to provide records proving the date of the purchase and the amount you paid to acquire it – no matter how long ago it was.

I wholeheartedly agree that holding on to piles and piles of business records from years gone seems tedious and unnecessary but, without them, in the event of an audit or dispute you'll be tremendously inconvenienced and potentially penalized. On the plus side, these days it is quite simple to scan and store these records digitally. As an added safety feature, make sure you back-up all that digital information, on more than one computer, preferably stored in different locations. If the data happens to be lost from one electronic source, it can then be retrieved from the back-up.



Business Question/Tip:

Q: I purchased a rental property last year. Which closing costs can I deduct?

A: The only deductible closing costs are those for interest and deductible real estate taxes.

Other settlement fees and closing costs for buying the property become additions to your basis in the property and part of your depreciation deduction, including:

- Abstract fees
- Charges for installing utility services
- Legal fees
- Recording fees
- Surveys
- Transfer taxes
- Title insurance
- Any amounts the seller owes that you agree to pay (such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions).

Life Lessons

It often takes years of trial and error to learn some of life's most important lessons. But here we give you a head start by telling you a few of the more important ones:

1. The most powerful force in the universe is gossip.
2. The one thing that unites all human beings, regardless of age, gender, religion, economic status, or ethnic background, is that, deep down inside, we all believe that we are above-average drivers.
3. People who want to share their religious views with you almost never want you to share yours with them.
4. The main accomplishment of almost all organized protests is to annoy people who are not in them.
5. No matter what happens, somebody will find a way to take it too seriously.
6. When trouble arises and things look bad, there is always one individual who perceives a solution and is willing to take command. Very often, that individual is crazy.
7. There is a very fine line between "hobby" and "mental illness."



CLIENT OF THE MONTH

Congratulations to Mr. Frank Miano, owner of IPCS Corp. as March's Client of the Month.

Mr. Miano has been a client of our firm for 4 years. The contracting firm provides high quality upscale interior remodeling, professional architectural, design services and new construction. The projects include custom furniture fabrication and installation, paint projects and general cosmetic upgrades, plumbing and electrical projects, and complete gut renovations.

The office is located in College Point, NY. To learn more, visit www.ipcsny.com.

To schedule an appointment please contact Frank at fmiano@ipcsny.com or call (347) 438-1437.



WHEN PRICE IS NO OBJECT, HERE'S WHAT TO BUY



If you're lucky enough to have a lot of spare money lying around and you're looking for things to spend it on, pick a few items from this list (from the Powerwall and Business Insider websites) of the most expensive stuff you could ever want to buy:

- **TV.** Watch your favorite shows on the PrestigeHD Supreme Rose TV, made from sixty-one pounds of 18-karat rose gold inset with seventy-two 1-carat diamonds. Price: \$2.25 million.
- **Pizza.** Fly to London, get a table at the Gordon Ramsey's Maze restaurant, and order a thin-crust pizza. Toppings: onion puree, white truffle paste, Fontina cheese, and other delectables (hold the anchovies). Price: \$178.
- **Jeans.** Neiman Marcus stores offer Escada couture **Swarovski Crystal jeans** for \$10,000 a pair.
- **Wristwatch.** Need to know what time it is? The Hublot Tourbillon Solo Bang, with its platinum case, black ceramic bezel, and carbon dial with signature black rubber strap, can be yours for about \$122,000.

Do You Have A Tough Accounting / Tax Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business. If you have a question, tip or idea, please call me at (718) 261-2090 or email me at Sushil@bestcpasolutions.com. Perhaps I'll feature you in a future issue!



"It's my tax shelter!"

Quotes of the Month

You don't get to choose how you're going to die. Or when. You can only decide how you're going to live. Now.
—Joan Baez

You can tell whether a man is clever by his answers. You can tell whether a man is wise by his questions.

—Naguib Mahfouz

Balance, peace and joy are the fruit of a successful life. It starts with recognizing your talents and finding ways to serve others by using them.

—Thomas Kinkade

Behind every argument is someone's ignorance.

—Louis D. Brandeis

We all admire the wisdom of people who come to us for advice.

—Jack Herbert

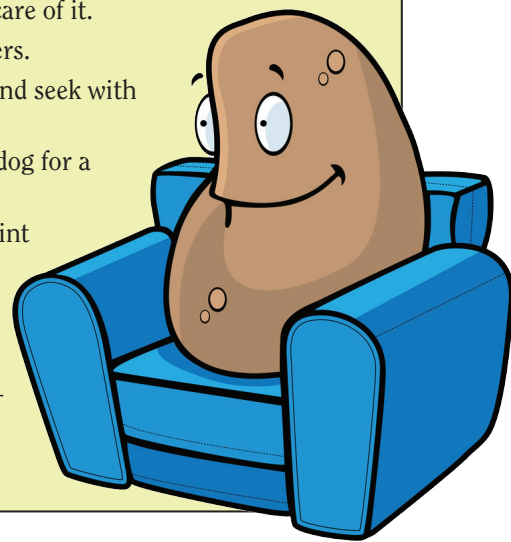
You Can Get Moving Without Going To The Gym

If you want to get in shape, make it your business to move around more. This doesn't mean you have to do a "real workout," it just means that you need to make a conscious effort to make "action-enhancing" decisions. Here are a few suggestions for getting on the move:

- Take the stairs, not the elevator or escalator.
- After lunch, take a walk with a friend instead of sitting around the lunch table gabbing.
- Mow your lawn; stop waiting for someone else to take care of it.
- Plant flowers.
- Play hide and seek with your kids.
- Take your dog for a walk.

The main point here is to

move around more than your norm. If you're living a sedentary life, now's the time to break the pattern. Once you do, you'll feel your energy start to increase—and you'll be glad you did.



Are You In Need of a Qualified Tax Pro?



If you are not my client and would like to explore whether we might be a good fit, please contact me. As a qualified tax professional, I not only know all the rules, but can also help you deal with the IRS and help you decide how far to push a dispute.

Trinity Tax & Financial Solutions, Inc.

Close **P**ersonal **A**ttention to increasing your profits.

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