THE TAX FILE

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Business Records

Small business owners need accurate and complete records of their business activities. Keeping good records is an important part of running a successful business.

Having good records for your business will help you in many ways, including monitoring the progress of your business. Records can show whether your business is improving, which items are selling, and help identify needed changes to make your business more successful. In addition, your records can help you to prepare financial reports, and prepare your business tax returns.

Business owners can choose any recordkeeping system that fits their business. Choose one that clearly shows income and expenses. Except in a few cases, tax law does not require specific types of records.

A good recordkeeping system will include a summary of all your business transactions. Your record-keeping system can be on paper, or it can be stored on a computer.

There are many inexpensive (and some free) small business accounting programs available on the market today. Some are cloud-based, and some are desktop-based. Many will link directly to your business bank and credit card accounts to help simplify your recordkeeping. Some include "dashboards" that can help you track specific information that's important to your business success.

In addition to summary information, your recordkeeping system should include supporting documents. Purchases, sales, payroll and other transactions you have in your business each generate supporting documents. These include invoices sent to customers, paid bills, receipts, deposit slips, and bank and credit card records.

Supporting documents for income are documents showing the amounts and sources of your gross receipts. These may include bank deposit slips, cash register tapes or reports, receipt books, customer invoices, and merchant credit card sales slips.

For costs you incur in your business, other than inventory, supporting documents should show the amount paid and that the amount was for a business expense. Examples include cancelled checks, debit card statements, credit card sales receipts and statements, and paid bills. Special rules apply to inventories.

Special recordkeeping requirements apply to business gifts, travel, transportation, and business meals expenses. In addition, if your business has employees, there are specific employment tax records you must keep. For more information on records required for these types of expenses please contact our offices.

If your business acquires assets, such as machinery and furniture used in the business, you need records to verify certain information. This includes when and how you acquire the assets, the purchase price, and costs of any improvements to the assets. In addition, you'll need records indicating any deductions taken for depreciation or related deductions taken, on an asset by asset basis, while your business owned and used the assets.

Last, when you dispose of an asset, you'll need documentation on when and how you disposed of it, any expenses incurred in the selling process, and the selling price.

Your records and supporting documentation should support the amounts shown as income and deducted as expenses on your business tax returns.

If you are audited by the IRS or by a state agency, your business records will be scrutinized by the auditor, and form the basis for any recommended adjustments in your tax liability. Under the law, business owners have the burden of proof in proving that claimed business expense deductions are legitimate.

How long a document should be kept depends on several factors. In general, IRS recommends that you keep general business records for three years from the date a tax return is filed or is due (whichever is later).

Payroll records for your employees are required to be kept for at least four years. Contact us for details on the types of payroll records you are required to maintain.

Keep records relating to assets for at least three years from the year you dispose of the business asset in a taxable disposition.

Good records will allow you to identify trends in your business income and expenses. They can also serve as a foundation for business budgeting and business planning.

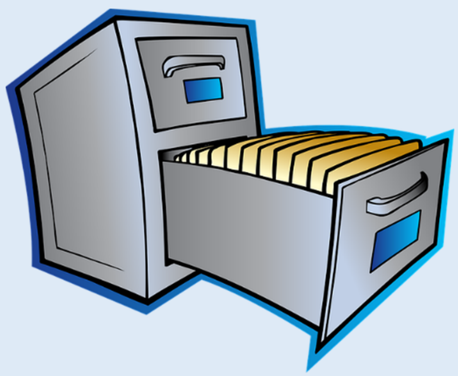
For more information on your business records, small business software options, records to keep, or business planning, please contact our offices.

Employee Fringe Benefits Changes

The Tax Cuts and Jobs Act includes several tax law changes that affect fringe benefits provided by small businesses to their employees. One change is to fringe benefit deductions, which can affect both a business's bottom line and its employees' deductions.

Moving Expenses

Employers must now include moving expense reimbursements paid to employees in the employees' wages. The new tax law suspends the former exclusion for qualified moving expense reimbursements, except for active duty members of the U.S.



Armed Forces. Active duty military personnel are still allowed to exclude moving expenses from their income.

Achievement Awards

Special rules allow an employee to exclude achievement awards from wages if the awards are tangible personal property. An employer may deduct awards that are tangible personal property, subject to certain deduction limits.

An employee achievement award is an item of tangible personal property given to an employee in recognition of either length of service or safety achievement and presented as part of a meaningful presentation.

Tangible personal property does not include cash, cash equivalents, gift cards, gift certificates, vacations, meals, tickets to sporting or theatre events, stock, bonds, and other items.

Transportation Fringe Benefits

The new law disallows deductions for expenses associated with qualified transportation fringe benefits or expenses incurred in providing transportation for commuting, except as necessary for employee safety.

Bicycle Commuting Expenses

Under the new tax law, employers can deduct qualified bicycle commuting reimbursements as a business expense from 2018 through 2025. The new law suspends the exclusion of qualified bicycle commuting reimbursements from an employee's income for these years. This means that employers who reimburse these expenses must now including these reimbursements in the employee's wages.

Tax Tidbits

IRS launched a new initiative as part of its efforts to ensure compliance and fairness in tax administration. The service announced in February that it will step up efforts to visit high-income taxpayers who in prior years have failed to timely file one or more of their tax returns.

IRS officers across the country will be making face-to-face visits with high-income taxpayers who failed to file tax returns in 2018 and earlier years.

IRS considers high-income taxpayers to be those who generally received income in excess of $100,000 during a tax year. These high-income non-filers have typically already received numerous letters from IRS over an extended period.

For More Info

The articles in this newsletter are intended to present general tax information. Accounting rules and tax laws are complex. Not all ideas presented may be appropriate for your specific circumstances.

For additional information, call Kagan & Associates, Ltd. at 847-392-3300 or e-mail us at Info@KaganLtd.com.