April 2018

THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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2018 Q2 TAX CALENDAR: KEY DEADLINES FOR BUSINESSES AND OTHER EMPLOYERS

Here are some of the key tax-related deadlines affecting businesses and other employers during the second quarter of 2018. Keep in mind that this list is not all-inclusive, so there may be additional deadlines that apply to you. Contact us to ensure you are meeting all applicable deadlines and to learn more about the filing requirements.

April 2

- Electronically file 2017 Form 1096, Form 1098, Form 1099 (except if an earlier deadline applies) and Form W-2G.

April 17

- If a calendar-year C corporation, file a 2017 income tax return (Form 1120) or file for an automatic six-month extension (Form 7004), and pay any tax due. If the return is not extended, this is also the last day to make 2017 contributions to pension and profit-sharing plans.
- If a calendar-year C corporation, pay the first installment of 2018 estimated income taxes.

April 30

- Report income tax withholding and FICA taxes for first quarter 2018 (Form 941), and pay any tax due. (See exception below under "May 10.")

May 10

- Report income tax withholding and FICA taxes for first quarter 2018 (Form 941), if you deposited on time and in full all of the associated taxes due.

June 15

- If a calendar-year C corporation, pay the second installment of 2018 estimated income taxes.

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"DETERMINATION IS THE KEY TO SUCCESS"
~MADDI JENKINS

FEELING LUCKY? HOW TO FIND A POT OF GOLD IN YOUR FINANCIALS

Every business experiences occasional cash shortages. When this happens, owners often assume they should go out and sell more. But this strategy can sometimes compound money troubles over the short run. Why? The answer lies in a concept known as the "cash gap." Understanding this concept can help your business generate extra cash to meet working capital needs. Here's how:

Focus on the balance sheet

The cash gap is a function of the timing difference between 1) when companies order materials and pay suppliers, and 2) when they receive payment from their customers.

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This difference can lead to cash shortages if the company doesn't have extra savings, doesn't qualify for additional bank financing or doesn't want to draw on a line of credit. It's also important to keep in mind that cash gaps funded by bank financing incur interest costs.

Boosting sales generally isn't the solution, because, when cash is tight, selling more will often widen the cash gap. That's because the company will need to front the incremental cost of sales while new orders are fulfilled, invoices are sent and customers remit payment. This concept explains why start-ups and high growth companies tend to experience cash shortages.

Finding hidden treasures

If the company finances its cash gap, shaving a day or two off the gap could save thousands of dollars in interest expense over the course of a year. Minimizing the cash gap requires you to focus on its underlying variables:

Inventory. There are numerous ways to minimize your investment in inventory. For instance, you might search the warehouse for slow-moving items and then, either return stale items for credit, trade them with another supplier or competitor, or sell the items for scrap.

You can also revise your company's purchasing policies. For example, some materials and parts suppliers may agree to discounted bill-and-ship or consignment arrangements in exchange for exclusive or long-term contracts.

Receivables. The faster a company can get money in the door, the smaller its cash gap will be. Your business can encourage faster payments from customers by sending out past-due reminder letters and following up with phone calls. Also, evaluate invoicing procedures to minimize the days in receivables. Poor communication among billing, sales and production staff can cause invoicing delays.

Payables. Think of trade payables as a form of interest-free financing. But, beware; there are limits to how far a company can extend its payables. Slow-paying businesses may forgo early-bird discounts or receive less favorable treatment from suppliers, such as slower delivery, higher rates or cash-on-delivery terms. Delayed payments can also harm a company's credit rating, as well as its reputation among its pool of eligible suppliers.

Put it to work for you

The cash gap can be a helpful management tool, because it pinpoints hidden treasures in your balance sheet. Put simply, companies with shorter cash gaps tend to experience fewer cash shortages and rely less on bank financing. Contact us for help measuring your cash gap and using it to manage working capital more efficiently.

Defer Tax With a Section 1031 Exchange, but New Limits Apply This Year

Normally when appreciated business assets such as real estate are sold, tax is owed on the appreciation. However, there's a way to defer this tax: a Section 1031 "like kind" exchange. However, the Tax Cuts and Jobs Act (TCJA) reduces the types of property eligible for this favorable tax treatment.

What is a like-kind exchange?

Section 1031 of the Internal Revenue Code allows you to defer gains on real or personal property used in a business or held for investment if, instead of selling it, you exchange it solely for property of a "like kind." Thus, the tax benefit of an exchange is that you defer tax and, thereby, have use of the tax savings until you sell the replacement property.

This technique is especially flexible for real estate, because virtually any type of real estate will be considered to be of a like kind, as long as it is business or investment property. For example, you can exchange a warehouse for an office building, or an apartment complex for a strip mall.

Deferred and reverse exchanges

Although a like-kind exchange may sound quick and easy, it is relatively rare for two owners to simply swap properties. You will likely have to execute a "deferred" exchange, in which you engage a qualified intermediary (QI) for assistance.

When you sell your property (the relinquished property), the net proceeds go directly to the QI, who then uses them to buy replacement property. To qualify for tax-deferred exchange treatment, you generally must identify replacement property within 45 days after you transfer the relinquished property and complete the purchase within 180 days after the initial transfer.

An alternate approach is a "reverse" exchange. Here, an exchange accommodation titleholder (EAT) acquires title to the replacement property before you sell the relinquished property. You can defer capital gains by identifying one or more properties to exchange within 45 days after the EAT

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receives the replacement property and, typically, completing the transaction within 180 days.

Changes under the TCJA

There had been some concern that tax reform would include the elimination of like-kind exchanges. The good news is that the TCJA still generally allows tax-deferred like-kind exchanges of business and investment real estate.

But there is also some bad news: For 2018 and beyond, the TCJA eliminates tax-deferred like-kind exchange treatment for exchanges of personal property. However, prior-law rules that allow like-kind exchanges of personal property still apply if one leg of an exchange was completed by December 31, 2017, but one leg remained open on that date. Keep in mind that exchanged personal property must be of the same asset or product class.

Complex rules

The rules for like-kind exchanges are complex, so these arrangements present some risks. If, say, you exchange the wrong kind of property or acquire cash or other non-like-kind property in a deal, you may still end up incurring a sizable tax hit. If you are exploring a like-kind exchange, contact us. We can help you ensure you are in compliance with the rules.

SIZE OF CHARITABLE DEDUCTIONS DEPENDS ON MANY FACTORS

Whether you're claiming charitable deductions on your 2017 return or planning your donations for 2018, be sure you know how much you're allowed to deduct. Your deduction depends on more than just the actual amount you donate.

Type of Gift
One of the biggest factors affecting your deduction is what you give:

Cash. You may deduct 100% gifts made by check, credit card or payroll deduction.

Ordinary-income property. For stocks and bonds held one year or less, inventory, and property subject to depreciation recapture, you generally may deduct only the lesser of fair market value or your tax basis.

Long-term capital gains property. You may deduct the current fair market value of appreciated stocks and bonds held for more than one year.

Tangible personal property. Your deduction depends on the situation:

- If the property isn't related to the charity's tax-exempt function (such as a painting donated for a charity auction), your deduction is limited to your basis.
- If the property is related to the charity's tax-exempt function (such as a painting donated to a museum for its collection), you can deduct the fair market value.

Vehicle. Unless the vehicle is being used by the charity, you generally may deduct only the amount the charity receives when it sells the vehicle.

Use of property. Examples include use of a vacation home and a loan of artwork. Generally, you receive no deduction because it isn't considered a completed gift.

Services. You may deduct only your out-of-pocket expenses, not the fair market value of your services. You can deduct 14 cents per charitable mile driven.

Other Factors
First, you'll benefit from the charitable deduction only if you itemize deductions rather than claim the standard deduction. Also, your annual charitable donation deductions may be reduced if they exceed certain income-based limits.

In addition, your deduction generally must be reduced by the value of any benefit received from the charity. Finally, various substantiation requirements apply, and the charity must be eligible to receive tax-deductible contributions.

2018 Planning
While December's Tax Cuts and Jobs Act (TCJA) preserves the charitable deduction, it temporarily makes itemizing less attractive for many taxpayers, reducing the tax benefits of charitable giving for them.

Itemizing saves tax only if itemized deductions exceed the standard deduction. For 2018 through 2025, the TCJA nearly doubles the standard deduction ? plus, it limits or eliminates some common itemized deductions. As a result, you may no longer have enough itemized deductions to exceed the

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standard deduction, in which case your charitable donations won't save you tax.

You might be able to preserve your charitable deduction by "bunching" donations into alternating years, so that you'll exceed the standard deduction and can claim a charitable deduction (and other itemized deductions) every other year.

Let us know if you have questions about how much you can deduct on your 2017 return or what your charitable giving strategy should be going forward, in light of the TCJA.

> *"ACTION IS THE FOUNDATIONAL KEY TO ALL SUCCESS"*
> *~PABLO PICASSO*

~ *I R S Corner*

TAX DOCUMENT RETENTION GUIDELINES FOR SMALL BUSINESSES

You may have breathed a sigh of relief after filing your 2017 income tax return (or requesting an extension). But if your office is strewn with reams of paper consisting of years' worth of tax returns, receipts, canceled checks and other financial records (or your computer desktop is filled with a multitude of digital tax-related files), you probably want to get rid of what you can. Follow these retention guidelines as you clean up.

General rules
Retain records that support items shown on your tax return at least until the statute of limitations runs out — generally three years from the due date of the return or the date you filed, whichever is later. That means you can now potentially throw out records for the 2014 tax year if you filed the return for that year by the regular filing deadline. But some records should be kept longer.

For example, there's no statute of limitations if you fail to file a tax return or file a fraudulent one. So you'll generally want to keep copies of your returns themselves permanently, so you can show that you did file a legitimate return.

Also bear in mind that, if you understate your adjusted gross income by more than 25%, the statute of limitations period is six years.

Some specifics for businesses
Records substantiating costs and deductions associated with business property are necessary to determine the basis and any gain or loss when the property is sold. According to IRS guidelines, you should keep these for as long as you own the property, plus seven years.

The IRS recommends keeping employee records for three years after an employee has been terminated. In addition, you should maintain records that support employee earnings for at least four years. (This timeframe generally will cover varying state and federal requirements.) Also keep employment tax records for four years from the date the tax was due or the date it was paid, whichever is longer.

For travel and transportation expenses supported by mileage logs and other receipts, keep supporting documents for the three-year statute of limitations period.

Regulations for sales tax returns vary by state. Check the rules for the states where you file sales tax returns. Retention periods typically range from three to six years.

When in doubt, don't throw it out
It's easy to accumulate a mountain of paperwork (physical or digital) from years of filing tax returns. If you're unsure whether you should retain a document, a good rule of thumb is to hold on to it for at least six years or, for property-related records, at least seven years after you dispose of the property. But, again, you should keep tax returns themselves permanently, and other rules or guidelines might apply in certain situations. Please contact us with any questions.

> *"SUCCESS IS DOING ORDINARY THINGS, EXTRAORDINARILY WELL"*
> *~JIM ROHN*