THE VOS VOICE

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"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

*VOS CPAs, PLLC 30 Wall Street, NY, NY 10005 * 80 Orville Drive, Bohemia, NY 11716 * 41 Park of Commerce Way, Savannah, GA 31405*
www.voscpas.com

INSIDE THIS ISSUE

WHAT IS JOB COST REPORTING?

Custom jobs require ongoing supervision to achieve the best financial results. Whether you're a general contractor constructing a strip mall, a manufacturer building made-to-order parts or an architect drawing up blueprints, once a project is underway it's easy to focus on getting the job done, rather than on the resources that are being consumed.

That's why job cost reporting — the process of coding and allocating project expenses to track financial efficiency and profitability — is a mission-critical activity. Here are a few best practices to keep in mind.

Smart estimates

Proper job cost reporting begins with solid cost estimates. Start each job by arranging the estimates in the same cost categories that will be used to accumulate the actual job cost information. This will enable you to effectively manage contract activities. And you'll be better able to compare the actual job costs to estimated costs.

The proper format often depends on how many job-costing levels were used in the estimate. For instance, larger jobs may require phase, activity or even unit costing. For smaller jobs, totals for, say, materials, labor and subcontracts are sufficient. If you perform service-type work, your cost information needs may include just job totals by labor, materials and other direct costs.

Information needs

What kinds of cost information do you need during and after the job? These requirements depend on the time span of that job and the nature of the work.

Jobs that will be completed over several months lend themselves to more-detailed reporting. The size and scope of the particular job, as well as the software and people available to process and monitor job cost information, also affect the amount of detail you can include.

Progress reports

Cost reporting during the job is critical to controlling costs. Monitoring actual progress to date compared with planned progress to date determines where the job is at a particular time.

Keep in mind that you can't take corrective action until you know something is deviating from the plan. That's why executing continuous job cost reporting from the estimate to completion is so important. But jobs completed within a few days or weeks may not benefit from detailed cost reporting because time constraints make it difficult to identify problems early enough to take effective corrective action.

Also remember, as experienced as you might be, gut feelings regarding how costs are running compared with how they were estimated are usually insufficient. You must obtain facts about the cost activities from jobs-in-process reports. Even if your "intuition" turns out to be correct, it may come too late for you to head off a major problem.

Worth the effort

Proper job cost reporting takes persistence and, ideally, a good software system. The truth is that better numbers will lead to better results in the form of less costly, more profitable projects. Need help designing an effective job cost system? Our accounting professionals can help you select software and implement a costing system that's right for you.

"ALL YOU NEED IS THE PLAN, THE ROAD MAP, AND THE COURAGE TO PRESS ON TO YOUR DESTINATION"
~EARL NIGHTINGALE

FIXED VS. VARIABLE COSTS: HOW TO COMPUTE BREAKEVEN

Breakeven analysis can be useful when investing in new equipment, launching a new product or analyzing the effects of a cost reduction plan. The breakeven point is fairly easy to calculate using information from your company's income statement. Here are the details.

Analyzing your costs

Breakeven can be explained in a few different ways. It's the point at which total sales are equal to total expenses. More specifically, it's where net income is equal to zero and sales are equal to variable costs plus fixed costs.

To calculate your breakeven point, you need to understand a few terms:

Fixed expenses. These are the expenses that remain relatively unchanged with changes in your business volume. Examples: property taxes, salaries, insurance and depreciation.

Variable/semi-fixed expenses. Your sales volume determines the ebb and flow of these expenses. If you had no sales revenue, you'd have no variable expenses and your semifixed expenses would be lower. Examples: shipping costs, materials, supplies, advertising and training.

Applying the breakeven formula

The basic formula for calculating the breakeven point is:

Breakeven = fixed expenses / 1 – (variable expenses / sales).

Breakeven can be computed on various levels: It can be estimated for the company overall or by product line or division, as long as you have requisite sales and cost data broken down. For example, let's suppose Division A generates $12 million in revenue, has fixed costs of $1 million and variable costs of $10.8 million. Here's how those numbers fit into the breakeven formula:

Annual breakeven = $1 million / 1 – ($10.8 million / $12 million) = $10 million

Monthly breakeven = $10 million / 12 = $833,333

As long as expenses stay within budget, the breakeven point will be reliable. In the example, variable expenses must remain at 90% of revenue and fixed expenses must stay at $1 million. If either of these variables changes, the breakeven point will change.

Real-world applications

Many companies use breakeven point to set revenue goals and prepare budgets. In addition, breakeven analysis can tell you the amount of incremental sales you need to recoup an investment, such as buying a new machine or hiring a new salesperson. Alternatively, breakeven can help gauge the effects of cost reduction plans. Contact us if you have questions or need help working through the calculations.

SEC. 179 EXPENSING PROVIDES SMALL BUSINESSES TAX SAVINGS ON 2017 RETURNS — AND MORE SAVINGS IN THE FUTURE

If you purchased qualifying property by December 31, 2017, you may be able to take advantage of Section 179 expensing on your 2017 tax return. You'll also want to keep this tax break in mind in your property purchase planning, because the Tax Cuts and Jobs Act (TCJA), signed into law this past December, significantly enhances it beginning in 2018.

2017 Sec. 179 benefits

Sec. 179 expensing allows eligible taxpayers to deduct the entire cost of qualifying new or used depreciable property and most software in Year 1, subject to various limitations. For tax years that began in 2017, the maximum Sec. 179 deduction is $510,000. The maximum deduction is phased out dollar for dollar to the extent the cost of eligible property placed in service during the tax year exceeds the phaseout threshold of $2.03 million.

Qualified real property improvement costs are also eligible for Sec. 179 expensing. This real estate break applies to:

- Certain improvements to interiors of leased nonresidential buildings
- Certain restaurant buildings or improvements to such buildings

Please see *Sec. 179 Expensing Provides Small Business Tax Savings on 2017 Returns – and More Savings in the Future* on page 3

Sec. 179 Expensing Provides Small Business Tax Savings on 2017 Returns – and More Savings in the Future **from page 2**

- Certain improvements to the interiors of retail buildings

Deductions claimed for qualified real property costs count against the overall maximum for Sec. 179 expensing.

Permanent enhancements

The TCJA permanently enhances Sec. 179 expensing. Under the new law, for qualifying property placed in service in tax years beginning in 2018, the maximum Sec. 179 deduction is increased to $1 million, and the phaseout threshold is increased to $2.5 million. For later tax years, these amounts will be indexed for inflation. For purposes of determining eligibility for these higher limits, property is treated as acquired on the date on which a written binding contract for the acquisition is signed.

The new law also expands the definition of eligible property to include certain depreciable tangible personal property used predominantly to furnish lodging. The definition of qualified real property eligible for Sec. 179 expensing is also expanded to include the following improvements to nonresidential real property: roofs, HVAC equipment, fire protection and alarm systems, and security systems.

Save now and save later

Many rules apply, so please contact us to learn if you qualify for this break on your 2017 return. We'd also be happy to discuss your future purchasing plans so you can reap the maximum benefits from enhanced Sec. 179 expensing and other tax law changes under the TCJA.

WHAT'S YOUR MILEAGE DEDUCTION

Individuals can deduct some vehicle-related expenses in certain circumstances. Rather than keeping track of the actual costs, you can use a standard mileage rate to compute your deductions.

For 2017, you might be able to deduct miles driven for business, medical, moving and charitable purposes. For 2018, there are significant changes to some of these deductions under the Tax Cuts and Jobs Act (TCJA).

Mileage rates vary; the rates vary depending on the purpose and the year:

Business: *53.5 cents (2017), 54.5 cents (2018)*

Medical: *17 cents (2017), 18 cents (2018)*

Moving: *17 cents (2017), 18 cents (2018)*

Charitable: *14 cents (2017 and 2018)*

The business standard mileage rate is considerably higher than the medical, moving and charitable rates because the business rate contains a depreciation component. No depreciation is allowed for the medical, moving or charitable use of a vehicle. The charitable rate is lower than the medical and moving rate because it isn't adjusted for inflation.

In addition to deductions based on the standard mileage rate, you may deduct related parking fees and tolls.

2017 and 2018 limits

The rules surrounding the various mileage deductions are complex. Some are subject to floors and some require you to meet specific tests in order to qualify.

For example, if you're an employee, only business mileage not reimbursed by your employer is deductible. It's a miscellaneous itemized deduction subject to a 2% of adjusted gross income (AGI) floor. For 2017, this means mileage is deductible only to the extent that your total miscellaneous itemized deductions for the year exceed 2% of your AGI. For 2018, it means that you can't deduct the mileage, because the TCJA suspends miscellaneous itemized deductions subject to the 2% floor for 2018 through 2025.

If you're self-employed, business mileage can be deducted against self-employment income. Therefore, it's not subject to the 2% floor and is still deductible for 2018 through 2025, as long as it otherwise qualifies.

Miles driven for health-care-related purposes are deductible as part of the medical expense deduction. And an AGI floor applies. Under the TCJA, for 2017 and 2018, medical expenses are deductible to the extent they exceed 7.5% of your adjusted gross income. For 2019, the floor will return to 10%, unless Congress extends the 7.5% floor.

And while miles driven related to moving can be deductible on your 2017 return, the move must be work-related and meet other tests. For 2018 through 2025, under the TCJA, moving expenses are deductible only for certain military families.

Please see *What's Your Mileage Deduction* on page 4

What's Your Mileage Deduction **from page 3**

Substantiation and more

There are also substantiation requirements, which include tracking miles driven. And, in some cases, you might be better off deducting actual expenses rather than using the mileage rates.

We can help ensure you deduct all the mileage you're entitled to on your 2017 tax return but don't risk back taxes and penalties later for deducting more than allowed. Contact us for assistance and to learn how your mileage deduction for 2018 might be affected by the TCJA.

"THE SECRET TO GETTING AHEAD IS GETTING STARTED"
~MARK TWAIN

~ *I R S Corner*

Internal Revenue Service
United States Department of the Treasury

IRS TAX TIP 2018-29, FEBRUARY 26, 2018
THE RIGHT TO PAY NO MORE THAN THE CORRECT AMOUNT OF TAX – TAXPAYER BILL OF RIGHTS #3

Taxpayers have the right to pay no more than the correct amount of tax they owe. This is one of ten basic rights known collectively as the *Taxpayer Bill of Rights*. This tip is the third in a series outlining these rights.

Taxpayers have the right to pay only the amount of tax legally due. This includes interest and penalties. Additionally, taxpayers can expect to have the IRS apply all tax payments properly.

Here are some things taxpayers should know about the right to pay no more than the correct amount:

Taxpayers who overpaid their taxes can file for a refund.

Taxpayers must file a claim for a credit or refund by the later of these two dates:

- Three years from the date they filed their original return
- Two years from the date they paid the tax

Taxpayers who receive a letter from the IRS should review the information in it. The taxpayers who believe the information is incorrect should contact the office listed in the letter. The letter also provides a date by which the taxpayer should respond.

The IRS may automatically correct math errors on a return. Taxpayers who disagree with the adjustment must request that the IRS reverse the change. The taxpayer has 60 days to make this request from the time the IRS made the change, or otherwise the taxpayer will lose the right to dispute the adjustment in United States Tax Court before paying the tax.

Taxpayers may request that the IRS remove any interest from their account caused by unreasonable IRS errors or delays. For example, this could happen if the IRS delays issuing a late notice because an IRS employee was out of the office, and interest accrues during that time.

If a taxpayer believes they do not owe all or part of their bill, they can submit an offer in compromise. This offer asks the IRS to accept less than the full amount owed. To do this, taxpayers use Form 656-L, Offer in Compromise.

Some taxpayers enter a payment plan to pay their taxes. This plan is an installment agreement. The IRS must send these taxpayers an annual statement that provides how much the taxpayer:

- Owes at the beginning of the year.
- Paid during the year.
- Still owes at the end of the year.

More Information:

Publication 556, Examination of Returns, Appeal Rights, and Claims for Refund
Publication 1, Your Rights as a Taxpayer

"THE ROAD TO SUCCESS IS NOT A PATH YOU FIND, BUT A TRAIL YOU BLAZE"
~ROBERT BRAULT