

Choosing an Accounting Method

Cash Method vs. Accrual Method

Every business is required to have an accounting method to report income and expenses. The two most commonly used methods are cash and accrual. You select the method when you file your first tax return.

Once you choose your accounting method, you must follow it consistently. Generally, you may not change your method of accounting unless you obtain permission from the IRS.

Cash Method

Due to its simplicity, the cash method is a popular choice for small businesses. To determine gross income, add up the cash, checks, and fair market value of property and services you receive during the year. If you receive a check on December 28th but decide not to negotiate it until the following year, you must still count the check as income in the current year.

Business expenses are usually deducted in the year they are paid. For example, you order office supplies in October 2007 and they arrive in December. You send a check to pay for them in January 2008. Under the cash method, you should claim that business expense deduction on your 2008 tax return because that is the year you paid for the supplies.

Accrual Method

With the accrual method, income is reported in the year in which all events that fix the right to receive it have occurred, and the amount can be determined with reasonable accuracy, even if income was received in a different year. For example, the accrual method calls for income to be reported when a service is performed. It doesn't matter that the customer doesn't pay until the following year. Similarly, you deduct business expenses in the year the liability arises, regardless of when they are actually paid. Using the office supply example, under the accrual method, you may deduct the business expenses for supplies on your 2007 tax return, the year you ordered the supplies and they were delivered, even though you sent a check to pay for them in January 2008. You may deduct the expenses in 2007 because that is when you became liable for the expense.

No More "Free" advice

Beginning January 1st, the IRS has skyrocket preparer penalties from \$250 to \$1,000. Plus it has pulled in tax advisors and tax pros giving advice even though they don't sign the return. Tax pros will be giving the IRS a lot more information – filing disclosures on how the tax payer has taken a certain position on the return. Preparers are between a rock and hard place....trying not to be heavily fined while attempting to save their clients money by avoiding unnecessary tax. The down side is that some clients will decide to take their business to less-diligent preparers and disclose nothing.....this will not encourage compliance.

The service is taking away the "float" on checks mailed with the tax returns. They will convert checks into direct debits so it gets the money right away – so make sure the funds are in your account.

Motivational Quote

"Champions are made from something deep inside - a desire, a dream, and a vision."

Muhammad Ali, (1942-)
American Boxing Champions

Tax Calendar for February

Feb 15 – Monthly Payroll Taxes Due

Feb 21 – Monthly Sales Tax Due

Feb 29 – Form W-3 and Copy A Due

Employees, Employees, Employees

Nowhere are good records more important than when it comes to your employee payroll records, not only for your own benefit, but also for the benefit of your employees. Here are some of the records you will need to keep.

Form W-4, Employee's Withholding Allowance Certificate

Ask all new employees to fill out this form, sign it, and return it to you. The Form W-4 shows their filing status and how many withholding allowances they claim. Have them double check their social security number by verifying it with their social security card. If a new employee fails to return the Form W-4, withhold income tax as if he or she is single with no withholding allowances.

Withholding. Keep track of withheld federal income tax, social security and Medicare taxes, state and local taxes, and the net amount paid to each employee (including earned income credit advance payments) during the year.

Form W-2, Wage and Tax Statement

This is the annual statement you give to employees showing their earnings and withholdings for the year. Generally, you must give it to them by January 31 of the following year. Copy A of Form W-2 is due to Social Security on the last day of February, although electronic filers have until the last day of March.

Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return

Generally, you must figure federal unemployment tax on the first \$7,000 of each employee's earnings. Normally, you must file your FUTA tax return (Forms 940 or 940-EZ) annually by January 31 of the following year. However, if more than \$500, deposits must be made quarterly. If you file electronically, keep a copy of the tax record. If you mail in Form 940 or 940-EZ, keep a copy.

Form 941, Employer's Quarterly Federal Tax Return

This is your quarterly report of wages

paid, tip income received by the employee, income tax withheld, social security and Medicare taxes and tips, and advanced earned income credit paid to the employee. Make a copy for your records.

Outsourcing Payroll Duties can be a Sound Business Practice – Know Your Tax Responsibilities as an Employer

Many employers outsource payroll and related tax duties to third party payroll service providers. This helps employers meet filing deadlines and deposit requirements and streamline business operations. Some of the services provided include administering payroll and employment taxes on behalf of the employer. The service provider also reports, collects, and deposits employment taxes with state and federal authorities.

Employers who outsource some or all of their payroll responsibilities should note that they are ultimately responsible for the deposit and payment of federal tax liabilities. Even though the third-party is making the deposits, the employer is the responsible party. If the third-party fails to make the federal tax payments, the IRS may assess penalties and interest on the employer's account. The employer is liable for all taxes, penalties, and interest due and may also be held personally liable for certain unpaid federal taxes.

Form 1099-MISC, Miscellaneous Income

Use this form to report certain payments you make in your business. For example:

- Payments of \$10 or more for royalties, interest, or dividends;
- Payments of \$600 or more for rents, prizes, and awards for services rendered; and
- Payments of \$600 or more to workers who were not your employees.

Keep your employment tax information organized and in a safe place. Not only will you be able to take full advantage of all your deductions for payroll taxes,

you'll also be able to avoid costly penalties and interest for late payments or errors on returns.

Tips for Optimizing QuickBooks Performance

Whether you're installing a new version of QuickBooks or want to get a fresh start on the new year, boost your performance with these tips:

Make sure your hardware meets or exceeds minimum requirements

Always use QuickBooks in Recommended Mode and optimize network performance.

Improve performance in multi-user mode, be sure to install QuickBooks on the same computer where the company file is located.

An anti-virus utility running a real-time scanning engine can cause QuickBooks to operate at a slower speed.

Configure firewalls so they will not interfere with QuickBooks.

Run anti-spyware software and defragment your hard drive regularly.

Reminders and memorized transactions can increase QuickBooks start-up time.

Uninstall previous versions of QuickBooks and periodically clean up your company file.