

INSIGHTful DISCUSSIONS

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ACCOUNTING FOR YOUR BUSINESS IN 2016



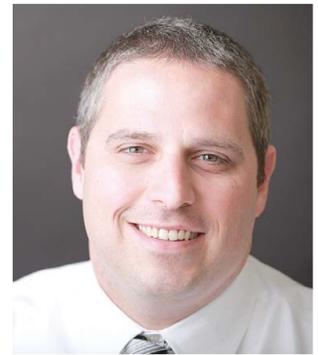
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For most people, January means tuning into the NFL playoffs, breaking New Year's resolutions and dialing up an accountant. Executives and business owners need help determining tax bills, untangling accounting missteps from the previous year and planning for the new year. Below and on the following pages, four financial professionals offer insights on recent developments and best practices that have stood the test of time.

What are the advantages and disadvantages of using a cloud-based accounting software like QuickBooks Online or Xero?

TERRY SANTORE: There are many advantages to cloud-based software. The most important being the capability to have your information at your fingertips, no matter where you are. Your accountant can now collaborate with you in real time. The information from multi sources such as credit cards and banking trans-

actions can be automatically downloaded daily so that your files are continuously updated. Because everyone is so mobile, we need software that can be accessed from many devices, like your phone, tablets, and laptop.

There are many Apps that are made to interface with this type of software that can give you great dashboards of Key Performance Indicators (KPIs), inventory control, direct contact with web merchant service accounts, etc. You always have the latest software, and its backed up simultaneously as you work. When we work with cloud-based software we can spend more time analyzing and less on data entry, which is a real plus.

You do need a good Internet connection and a computer that can run graphics well. If your Internet goes down, you might have to wait to update your file. Keep in mind online software is not for everyone. Large manufacturing companies or companies with many transactions might be better served on an Enterprise Solution software that can be hosted on the cloud. I believe the advantages well outweigh any disadvantages, therefore, we recommend this solution fairly often.

ADAM SHAY: Advantages are that you can access your accounting system from anywhere and everywhere.

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CAROLYNN ROSE-DELONG
Accounting Solutions, Inc.

"Unpaid payroll taxes is an unacceptable way to finance your business."



CHAD WOUTERS
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The auto download from bank accounts is a nice feature as well. It's easier to collaborate on your financials with your offsite accountant or CFO.

On the disadvantage side, they may not be as robust as some of the available desktop software. For some business types, that can be a deal breaker and they need to stick to a desktop product for the time being. However, the future of accounting (like everything) is in the cloud. I'd rather be an earlier adopter and also know that Intuit and Xero are throwing a lot of development money in to their cloud-based systems.

CAROLYNN ROSE-DELONG: This day in time, I find it hard to come up with disadvantages to cloud-based software. This is just the direction that everything seems to be heading. Disadvantages would be the obvious ones such as Internet connection issues or trying to login and work if the site is down for maintenance.

Advantages would be having the most up-to-date software all the time, having convenient access at any time, and being able to have multiple person access (i.e. accountant, office manager, etc). An example of an advantage is if I'm at a client's site, and they want to pay their invoice at that very moment. I can pull up my financial software right there on my iPhone and get the payment with no wait.

CHAD WOUTERS: A majority of our clients use QuickBooks online. The advantages of QuickBooks online are vast in our opinion, but a few major advantages include the following: QuickBooks online (1) allows us to access client updates automatically (2) if a client is having an issue we are able to walk him/her through the issue in real time; (3) it is easier for us to access the online version, since our clients give us our own password to directly access their informa-

tion thus eliminating the mechanics of back-ups (4) QuickBooks online can be automatically linked to bank and credit card accounts which reduces data entry for clients. A disadvantage of QuickBooks online is that it does not include inventory or point of sale applications. If you are considering changing your accounting software, contact your CPA.

What apps and other technology tools should businesses consider using to help with the financial management of their operations?

ROSE-DELONG: I highly recommend Square for a small business. I have used this convenient payment tool for many years and have found the rates comparable, considering no monthly fee or contract. For financial software, I always lean toward QuickBooks. The online version can be accessed from any smart device and the software is created with the small business owner in mind. I also have several clients that use TaxMileage or MileIQ. These apps help the small business owner keep up with the tedious task of business mileage throughout the year and then come tax time, a nice report can be printed for the tax preparer.

SHAY: There are various mileage tracking apps available. Unfortunately, the user still has to remember to hit start and end on the app which often means that mileage still isn't tracked appropriately. There are a couple of dashboard tools, such as Spotlight and Fathom, that can serve as a dashboard and aggregate data from financial systems, marketing

systems, etc and give entrepreneurs one place to monitor everything that is important to the health of the business.

WOUTERS: Every industry has specialized production related software, so the apps will vary. For example, a physician's practice will have scheduling, production and client record applications.

SANTORE: QuickBooks Online presently has over 1,000 apps available, so before choosing any, you need to do a bit of research. Having a trusted advisor that works with the best of these would be beneficial as they will be familiar with many, and have a network of trade associations in which to ask about specifics. Many of these must be mapped to your financial software, so you want someone who is knowledgeable in that area.

Every company should have a payroll administrator that is using online payroll software. This is an area that should be outsourced as early as possible to a professional who understands the payroll requirements and laws.

Having a good online backup of your files is important. Companies like Mozy Pro and Carbonite are good sources for this type of software. And of course, everyone should have security software blocking malware and keeping your information safe.

We use a lot of different software to help us in our virtual accounting profession. A strong password keeper, time tracker, web-based email, and data storage and transfer come to mind.

A high end phone with a good carrier can really help you stay in touch with clients and workflow. Most software can now be reached by mobile devices.

What are the most relevant federal and state tax changes

that businesses should be aware of for their 2015 taxes?

WOUTERS: The PATH Act was passed by both the House and Senate and signed into law. This expands the accelerated depreciation options including Section 179 deduction limit to \$500,000. Also, the 50 percent Bonus Depreciation will be extended through 2019. Businesses of all sizes will be able to depreciate 50 percent of the cost of qualified equipment acquired and put in service during 2015.

Other major changes include: the solar credit expired in NC this year and will expire for federal next year, the medical tax deduction was restored, and NC corporations can now electronically file tax returns.

SHAY: The recently passed tax extenders are important as they allow for more current year depreciation for equipment placed in service and extends provisions that expired in 2014. The nice thing they did this year is that they made many of the provisions extenders go beyond just a 2015 fix.

ROSE-DELONG: The most publicized change is the health insurance penalty. For 2015, the penalty is \$325 per person or 2 percent household income (whichever is higher). Pell Grants can now be allocated as living expenses. Doing so may increase the amount of education expense, such as tuition, that can be used to claim one of the education credits.

Starting in 2015, you can only make one single rollover from an IRA in a 12-month period. This is a bit tricky, because you can still make as many "trustee-to-trustee" transfers as you wish, moving your money directly from one provider to another.

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What factors does a business need to consider when bringing on a contractor instead of an employee?

SHAY: Business owners need to look at scope and control. Are they telling someone how to do the work and when to do it? If so, they most likely have an employee. Because of payroll taxes, an employee will cost you roughly 10 percent more than an independent contractor at the same rate.

If someone is given a deadline but not told when and how to do it and controls the billing for the work done then you most likely have an independent contractor. With independent contractors, I would consult with an attorney whether you need an independent contractor agreement.

SANTORE: There are many misconceptions about contract labor. There are three main areas that affect this; behavioral control, financial control and relationship of parties.

"They are only part-time", "It's okay because that's how they want to be paid", "I don't have the money right now to pay payroll tax", or "They work from home, so they aren't my employee" are only a few comments I have heard which do not legally determine this. State employment labor departments have gotten much stricter in the last few years, and one of the first things asked for in their audit are the 1099s given in the prior year.

Some of the areas you need to consider are: 1) How permanent has this person been in a position? Contract labor usually has a signed contract for a length of time, and pre-defined tasks to accomplish. It is not open-ended. 2) How economically dependent are they on the cash you are giving them? Does a significant amount of their income come from one source? 3) Do you control how they do their job and how they accomplish it? If you ask them to work particular hours, supply their workload, or give them tools to do it, they are probably employees. 4) Do you provide training so they can do the job the way you want?

If you have paid someone for several years as an independent contractor, they may be able to apply for unemployment

insurance and win if they can show why they believe they were an employee. This will initiate back taxes, penalties and interest.

For more information, the IRS has a publication "Independent Contractor or Employee" on their website www.irs.gov.

ROSE-DELONG: The determination of worker status depends on several factors, including the extent to which the person receiving the services has the right to direct and control the service provider on what is to be done and how it is to be done. An employer generally has the right to control how an employee performs a service. In contrast, independent contractors determine for themselves how the work is to be performed. These factors fall into three main categories:

1) Behavior control: Factors that may show whether an owner has a right to direct and control how the worker does the task for which the worker is hired.

2) Financial control: Factors that may show whether the owner has a right to control the business aspects of the worker's job.

3) Relationship to each other: Factors that may show the type of relationship between parties such as a contract.

These factors are used in connection with IRS audits concerning worker status.

WOUTERS: This is a complex issue that is receiving much more scrutiny from the IRS because of health care reform and need to raise revenue, as well as from other agencies such as the Department of Labor, workmen's comp insurers, and unemployment agencies.

The short answer is that if the business has control over the individual's schedule or work in general they're probably an employee. We suggest you contact your CPA and discuss the factors that will need to be considered in a particular fact case.

Why do so many companies end up with accounting and financial problems because of payroll? What should they do to avoid those issues?

ROSE-DELONG: Many business owners take on the tedious task of running payroll themselves. This can end up badly if one payroll tax or report is submitted even one day late. Agencies add penalties and interest.

Having a professional run your payroll can cost the same annually as one late penalty with interest. Typically an accounting firm, such as mine, will give you a payroll quote fairly easily based on your company's employee number and frequency.

SHAY: Payroll is really easy to mess up — probably the most common area we see people mess up. Once there is a mess, it often takes a long time to resolve. There are a lot of moving parts and things change frequently. We recommend engaging a company or service to manage their payroll process.

"I recommend that entrepreneurs get in a rhythm and flow of reviewing financials during the same day and time each week and a specific time for a monthly review."



ADAM SHAY
Adam Shay CPA, PLLC

WOUTERS: Businesses fail to remit or pay taxes at the same time they pay employees. As far as the government is concerned, taxes are due on the day you pay your employees, and they are doing you a favor by giving you some time to pay the taxes and file the forms. Unpaid payroll taxes is an unacceptable way to finance your business. If unpaid, the penalties and bad reputation with the IRS can destroy a business.

Pay your payroll taxes as soon after payday as possible. We recommend using a payroll service provider who will automatically deduct the taxes from the employer's account when the employee(s) are paid. Talk to your CPA for a short list of options.

SANTORE: Unless you have a strong background in payroll administration, this is one area that seems very confusing to most small companies. There

are many laws pertaining to payroll that they don't know of. What type of entity you have may not allow payroll checks for partners and the requirements to generate a percentage of payroll vs. distributions in other entities needs to be addressed? Bi-weekly payroll schedules are hard to understand and maintain.

Unfortunately, some companies have put payroll tax payments at the back of the accounts payable list, and that has led to garnishments, penalties, and audits. This is not the area to disregard due dates.

It is best to outsource payroll as soon as possible to a company or your accountant that does payroll on a regular basis. Companies like ADP, Paychex and Gusto along with Intuit Online Payroll in various forms comes to mind. We do payroll for our clients because we have years of experience and save them time, money and penalties. This keeps everything in house without the problems companies can create by not following the laws.

State and Federal government agencies are sharing information and looking to charge fees when anything is not correctly processed. The beginning of the year is a great time to start payroll with the payroll administrator of your choice.

How does health care reform impact accounting and financial decisions for companies?

WOUTERS: Most business provisions affect employers with 50 or more employees. Again, select a payroll service provider to help with the complex related issues.

One provision that affects all companies is that reimbursing employees for individual policy coverage directly is no longer permitted. For employees using the marketplace to provide insurance, your income tax return impacts the exchange cost.

ROSE-DELONG: While the majority of employers won't pay any additional

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taxes under the ACA, there is an increase to the current Medicare part A tax for businesses making over \$200,000. There is also a requirement for employers with 50 full-time equivalent employees or more to offer health insurance to full-time workers or pay a penalty starting in 2015/2016.

SHAY: The biggest way is that the cost of health insurance is going up. Either the employer or employees are getting squeezed, or most likely both are. Employers can no longer provide reimbursement of health insurance expenses, except for more than 2 percent shareholders of S corporations.

There's potentially a \$100 fine per employee per day if you reimburse health insurance for non-shareholder employees the way that people used to. There aren't a lot of companies that are of the size to be directly impacted by the Affordable Care Act requirements to provide insurance for employees.

What are the most common mistakes businesses make with their financial planning and record keeping?

SHAY: Entrepreneurs start off wrong or stumble upon a problem in their financial recordkeeping and don't get it resolved early on. What was once a small problem becomes a bigger, more expensive problem to fix. A lot of entrepreneurs also don't take advantage of the planning flexibility that a business provides them. Tax planning is a much more valuable proposition for business owners vs individuals. They should be more proactive vs letting things happen to them.

WOUTERS: Talk to your CPA before a major transaction. CPAs can help with exit strategies, asset allocation in sales, structuring of payments, and tax implications.

Keep your recordkeeping system simple and consistently prepared and up to date. For taxpayers, not keeping appropriate logs can also become an issue

when there is a lack of documentation of mileage, documentation of time spent on rental properties, etc.

"Don't let your company just 'happen' because you're too busy to develop it properly. Rely on your team partners to help structure new growth."

TERRY SANTORE

Quicksilver Accounting & Consulting



ROSE-DELONG: The number one most common mistake is not keeping up with bookkeeping during the year! Can you remember who you ate with at McAlisters on January 5, 2015? No way — but had you entered that into your software back in January, you would have remembered if that was a business deduction or not.

Make sure this is done on a quarterly basis at least. How can a business reasonably forecast the remainder of the year if the first half isn't completed? Many accounting firms such as mine can take a look at your financials mid-year and make some decisions on how the second half should go. Planning, planning, planning.

How often should non-financial business executives review the books and what are the most important things for them to look at?

SANTORE: Depending on the size and activity, the minimum they should be looking is quarterly. I'm a big proponent of the annual budget and believe every company, small to large should have one. An Actual vs. Budget report shows if you are on track in both income and expenses.

Most companies should be looking at their financial reports each month. I particularly like to run a Trailing Profit

and Loss that shows the information for the last 12 months. I can spot Trends there, see if a particular expense account is running too high, or if income is too low. Some people are visual, and prefer to see their information in graphs. If you have partners, these reports are helpful if some of the partners are not in the daily running of the company. An Accounts Receivable report is important to stay on top of slow payers so that your cash flow is constant. There are many special reports that can pinpoint areas important to your particular industry.

My advice is not to just look at the bottom line. Look at each area as if it were a separate report and make sure the numbers are good and look for places you could still improve. Plan for growth, and put your marketing dollars in place, normally 10 percent of your gross sales in the first year, then measure the return on this. Dashboards are now available that tie to your financial software and provide Key Performance Indicators.

ROSE-DELONG: I think this is something to be customized to each business. No two businesses are exactly the same, and no two businesses should be analyzed and reviewed the same.

My generic answer would be quarterly. The typical reports to be looked at would be an income statement and balance sheet.

SHAY: It really depends upon the stability and lifecycle of the business. I believe that all business owners should establish Key Performance Indicators (KPIs) that give them an ongoing pulse of the business. If those things are in place, financial reviews can be less frequent.

However, I still recommend that entrepreneurs get in a rhythm and flow of reviewing financials during the same day and time each week and a specific time for a monthly review. The more frequent the review, the greater the chance of identifying potential problems early on.

WOUTERS: Every day the books should be reviewed to check for errors, cash balance, sales, receipts, and credit card transactions.

When someone is setting up a new business, what should they do to ensure their financial records are correctly structured from the beginning?

SHAY: Entrepreneurs often want to cut costs initially because they have a limited supply of capital and have needs that they view as more pressing than their accounting and financial systems. They should take the time (and seek assistance when necessary) to properly set up their accounting system, chart of accounts, etc. If they are meeting with investors, having financials in order shows that they're a seasoned veteran and well organized.

WOUTERS: Always work with your CPA first when setting up a business. They will help with selection of business entity, accounting set-up, and basic operational needs. Your lawyer and other advisors will appreciate that you have an experienced CPA who can help them do a better job for you.

SANTORE: In past years, financial software companies promoted the idea that customers could do their books on their own including starting a Chart of Accounts. What they found was that if you didn't have accounting background, you didn't know where to put things correctly and in the end it caused a lot of pain at tax time.

These software companies are now promoting the idea of working with your accountant professionals as a team partner. So my recommendation is to get professional help with setting up your software for your type of entity in the very beginning and then get a few lessons on how to properly enter information. Creating a very specific Chart of Accounts for your particular industry is a great tool later on when you need the proper information to make decisions.

Keeping personal and business items separate is one of the areas that small businesses seem to have a hard time with as well. Recording personal items and the use of personal credit cards is usually not entered correctly or reconciled properly.

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At present, you can reach an advisor directly through your software simply by clicking the 'find an advisor' button. These advisors are trained on software implementation, connecting of various banks and credit cards, entering loans, etc. The best outcome is to find an advisor that not only knows the software well, but also has accounting background.

Reconciling your accounts is very important, and most companies don't realize that credit cards and loans need to be reconciled just like your bank account. When you have been in business a year or two, outsource your accounting as soon as possible. Every business coach will tell you it is most important to spend time creating sales and developing the company, not the day to day accounting tasks that someone else can do better.

ROSE-DELONG: With any new business, use the free consultation that many accounting firms such as mine offer! You can gain some great advice and make a new ally in this new business venture all without costing you a penny. There is no standard way to ensure records are correctly structured because every type of business has different kinds of records. The only standard would be to save EVERY receipt.

What accounting and financial planning issues should business owners and executives focus on during the beginning of the year?

ROSE-DELONG: Budgeting! Reviewing the previous year and analyzing how you want the upcoming year to go. Planning for a gain or loss? Again, this is where a professional accountant can come in handy. If you want to keep your business operating in the black, you'll need to account for both fixed and unplanned costs, and then create — and stick to — a solid budget.

WOUTERS: Get the previous year behind you as quickly as possible. File payroll reports and property tax listings in January, income taxes in March.

Hopefully your annual budget had been approved prior to the start of 2016.

SANTORE: Entering a budget into the financial software is my number one priority. Because this affects every line item, it makes you take stock of each area of your business. Plan for increases in sales, and how you will create this new income. What expenses will that generate? How does that effect payroll? What benefits can you extend? Will you be attending any conferences? Does your staff need training?

My timeline is to start on October 1, review in November, finalize in December and enter the budget into the financial software by January 1.

It's a good time to look at the financial team you have assembled and add to it if necessary. Are you getting large enough to have a business coach? Can you outsource your accounting? What kind of tax planning might you need? Virtual collaboration makes this very easy to coordinate.

Plan your marketing budget and strategy as well. Most good marketing plans will have an annual contract that starts in January and might have several different media areas that it will use.

The New Year brings a fresh perspective. Use it to get organized, add software that creates efficiencies and plan for the future. Don't let your company just 'happen' because you're too busy to develop it properly. Rely on your team partners to help structure new growth.

SHAY: For 2016, setting goals for the coming year and set up incremental times to measure progress toward those goals.

For 2015, getting their accounting records in order and ready for tax preparation and getting started on that sooner rather than later. This allows them to plan by knowing if any taxes are owed or if a refund is due. They can still wait as long as they want to file, but removing that uncertainty is valuable.

What long-term issues are most important to talk about with your accountant?

SHAY: Where you want to be in one, three and five years from now? A good CPA firm should be able to help guide

you in directions that increase the chances of achieving those goals.

SANTORE: Every company needs good cash flow to grow and become a strong company in its field. This area eludes most small to mid-size companies. A good accountant can help you analyze your figures and suggest ways to improve. There are many companies that offer accounts receivable funding now. Some are much better than others, and your accountant can help choose one, if needed.

What trends are coming to light? If your particular industry will be changing, discuss that with your accountant so you can plan for it. Also, if there are any major plans like selling the business, adding or buying out a partner, etc. you might want to discuss the pro's and con's earlier.

If you are going to apply for an SBA loan, or something similar, let your accountant know and work with them to make sure your Profit & Loss and Balance Sheet are clean and correct beforehand.

In the fall, every company should be doing some tax planning. A good CPA will contact you, but if not, set up an appointment and provide them with your financial reports so they can advise you.

ROSE-DELONG: I typically get the growth questions. "Where will my business be in five years on the current trend?" or "How do I get my business to X in five years?" This is all easy to work out given previous year information and talking with a business owner. If a business owner is looking to sell in a couple years, then he is going to want to make financial choices different than someone looking to retire from their business.

WOUTERS: Always talk to your accountant about the big financial events in your life. Retirement and retirement plans, education expenses, divorce, exit strategies for business owners, large investments, and property acquisitions. Talk to your accountant before transactions occur.

What questions should you ask when looking for an accountant and/

or bookkeeping service?

WOUTERS: The CPA relationship is based on trust. How experienced is the CPA, especially with similar clients? How long has the CPA been in business? What kind of technology, such as portals, does the CPA use to protect the confidentiality of your information? If your identity has been stolen as a result of well publicized security breaches, is the CPA experienced in providing assistance?

SANTORE: The most important thing is can they be trusted. Preferably someone you know has referred them. Ask about their references and testimonials. Do some research first. Check their website and places like LinkedIn. Speak with them about confidentiality and be certain you are comfortable with their answers.

Do they have a good accounting education, are they well-spoken and are they knowledgeable in your specific industry? Are they certified on the software you are going to use? How long have they been in business? Are they fully qualified? For tax planning and returns, are they a CPA?

Do they have a large range of experience to pull from, like corporate background, small business owner, and entrepreneurship? You are looking for someone who understands the bigger picture. Are they keeping current with new technology and do they have sufficient structure in place for you to feel comfortable working with them? If you have a larger company, do they have a group practice that will give you a team to rely on.

ROSE-DELONG: Make sure to ask for references. See if they work with or have worked with businesses relevant to yours. Find out if they are open all year long and have convenient hours. You may run into things throughout the year that you need. Ask what their history with government agencies may be. Ask to see credentials. What makes that firm the right firm?

SHAY: What types of clients do you typically work with? Do you have clients in my specific industry? How aggressive or conservative are you with tax positions? What's your value add and value proposition?