

## 10 Big Tax and Accounting Issues for Small Businesses

By Ken Berry

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**NINE** **Payroll:** Handling payroll, including issuing proper forms and imposing withholding, can prove to be a real headache. To reduce the stress, a small business may utilize outside resources.

**TEN** **Recordkeeping:** As you can see from the above, good recordkeeping goes hand-in-hand with minimizing problems and maximizing the available tax benefits. It is essential at virtually every twist and turn.

Finally, a wealth of information on accounting and tax matters involving small businesses can be found at a multitude of online sites, including [www.irs.gov](http://www.irs.gov) and [www.aicpa.org](http://www.aicpa.org). Leave no stone unturned in your search to assist clients. ■



# Inside jobs

## How some employees steal lots of money, and how to stop it

**Samantha Mendoza** *Contributing writer*

The head of the CNY SPCA and two employees stole more than \$900,000 from the non-profit that's supported by donations big and small.

A Syracuse man who had worked for a Madison County farm equipment company for 30 years stole more than \$740,000 from the company, according to police.

A Lakeland man stole \$70,000 over five years from a Syracuse restaurant supply company, police said. He had worked there for 22 years.

How do trusted, often longtime employees get away with stealing so much money from small businesses and non-profits? Why does it happen again and again?

Sixty-four percent of small businesses have experienced some form of employee theft, according to a study from the University of Cincinnati.

Many times, this involves employees writing checks to themselves directly from the company, or two or more employees writing checks to each other and managing the company's bank statements.

We spoke with three Syracuse-based experts to learn why such thefts happen and what small businesses or non-profits can do.

Anna Sanchez is a certified public accountant and certified fraud examiner at Dermody, Burke & Brown. Diana Kanfer and John Dubiel are partners and certified fraud examiners at The Bonadio Group.

### **IF YOU THINK IT CAN'T HAPPEN TO YOU, THINK AGAIN**

Too often, small-business owners don't create safeguards to prevent employee theft because they don't think it's necessary.

Many consulting firms offer seminars and workshops on the topic but, according to Dubiel, "Nobody wants to pay for these services or create a preventative because they think that it will never happen to them."

Make a conscious effort to create a plan and establish internal controls now, rather than changing the way you manage your business after theft occurs, Dubiel said.

### **CREATE A HEALTHY SEPARATION OF DUTIES**

A key way to prevent employee theft is to separate employee duties so that no single employee has the power to both access funds and conceal how they've taken them.

Be sure to manage tasks so that one employee makes purchases and another employee manages the accounting records, the experts said.

"There can't be blind trust," Sanchez said.

She advises business owners who have a handful of employees to become involved in managing accounts themselves, rather than relying on employees to do so without oversight.

### **ESTABLISH A MONTHLY SCHEDULE TO BALANCE ACCOUNTS**

In many instances, employees steal small amounts at a time over several years. Those amounts eventually add up to thousands of dollars before the theft is discovered, they said.

This can be prevented if small business owners make it a point to routinely monitor all account balance sheets themselves to check for any discrepancies, they said.

"Small business owners should actively be involved in reviewing bank statements, looking for trends, and following up on even small discrepancies," Kanfer said.

The experts recommended setting a monthly date to review statements and records so the owners hold themselves accountable.

### **SET THE TONE FOR YOUR EMPLOYEES**

This is something that Sanchez calls "setting a tone at the top." Small business owners should model responsible behavior for employees and establish what is and is not acceptable behavior, Sanchez said.

Establish a fraud policy that employees all know and recognize, and discuss it within the organization, she explained. This will help employees monitor each other and be involved in investigating and reporting potential instances of fraud within the company, Sanchez said.

### **DON'T BE AFRAID TO QUESTION YOUR EMPLOYEES**

Verifying what your employees are doing doesn't mean that you don't trust them, Kanfer said. It is an owner's right and responsibility to ask questions if he or she thinks something isn't right, even if it is a small discrepancy, Dubiel said.

"Employees, if they're honest, should be willing to have you look at what they did," Kanfer said. "They should be proud of their work if they don't have anything to hide."

# The Best Resources for Understanding Medicare

Also: We answer a reader's question about doing a Roth IRA conversion



*I'm considering making changes in my Medicare coverage during the open-enrollment period. Can you recommend any resources that can help with my choices?*

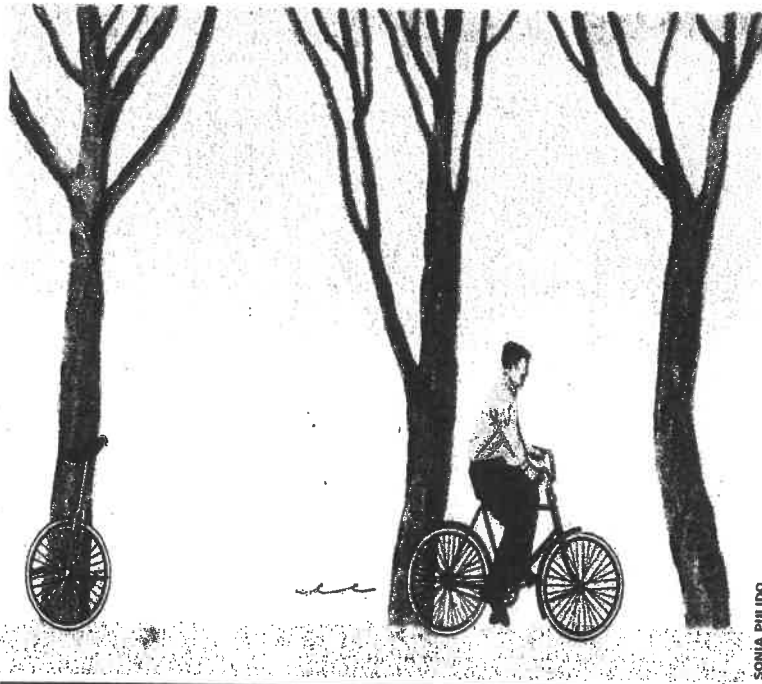
The fact that you're even considering this is to be applauded.

Each year, from Oct. 15 through Dec. 7, Medicare beneficiaries can change their coverage without penalty. Doing so, given that insurers are forever tweaking their plans and offerings, could help lower your premiums and/or give you access to better care. Most people, though, stand pat. For instance, research by the Kaiser Family Foundation, a nonprofit that specializes in health-policy analysis, shows that, on average, only about 10% of enrollees in Medicare Advantage programs voluntarily switch plans each year.

To start...if you need a refresher on the primary pieces of the puzzle—traditional Medicare, Medicare Advantage, “Medigap” policies and prescription-drug coverage—Medicare itself publishes an excellent guide, “Medicare & You.” (Go to [medicare.gov](http://medicare.gov) and search for the title.) If you are already enrolled in Medicare Advantage or a Medicare Part D prescription-drug plan, it is critical that you read and understand your “Annual Notice of Changes” and “Evidence of Coverage,” which should have arrived in your (real) mailbox by now. These documents explain how your existing coverage will change in 2018 and how much you'll pay for that coverage.

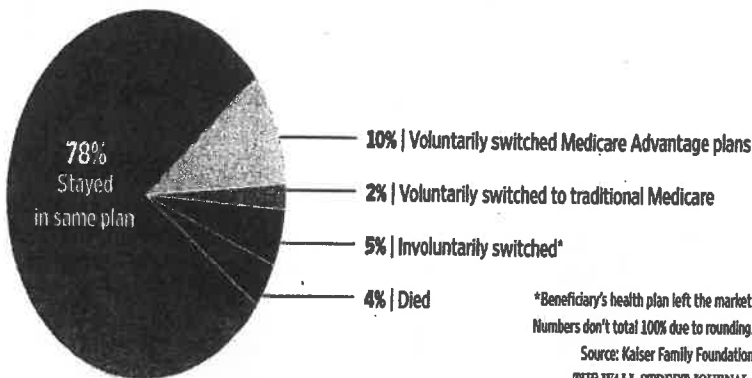
Next, go the Medicare Plan Finder, a terrific service on the Medicare website. Enter some basic information—your Medicare number and prescription drugs (name and dosage)—and this tool will produce a list of possible health-care plans in your area, the costs involved, drug coverage and customer-satisfaction ratings.

Still, few options can top a discussion or face-to-face meeting with a knowledgeable guide, which is where the Medicare Rights Center and the State Health Insurance Assistance Programs, or SHIPs, come in. The former, a nonprofit group ([medicarerights.org](http://medicarerights.org)), offers a national helpline (800-333-4114) where staff members answer questions about Medicare, including enrollment issues, at no charge. The latter ([shiptacenter.org](http://shiptacenter.org)), also free, operate in all 50 states and counsel Medicare beneficiaries, their families and/or caregivers



## Time to Switch?

During Medicare's annual open-enrollment period, about 10% of enrollees in Medicare Advantage plans, on average, voluntarily switched plans each year between 2007 and 2014:



about health benefits. Simply invaluable.

No, none of this is easy. It takes time and effort—and no small amount of courage. (Walking away from coverage you might have had for several years can be unnerving.) But again, at the very least, spend some time with your Annual Notice of Changes and Evidence of Coverage and ask yourself: Will my current insurance continue to meet my needs, and fit my budget, in the coming year?

*My question is about Roth IRA conversions. I am not working regularly and just started collecting Social Security at age 70. In early 2017, I bought an electric vehicle. (Simply had*

gives me the chance to talk about Roth conversions and how they can benefit new retirees. And second, this idea of using a conversion to take advantage of a tax credit is pretty clever—and just might work.

Many people early in retirement—roughly, the period after leaving the workforce and before required distributions from retirement accounts kick in—find themselves in a low tax bracket. (Or lower than they think.) After all, a new retiree's income is likely to drop, at least somewhat. And the sources of that income are likely to change. For instance, long-term capital gains and qualified dividends are taxed at a lower rate than a paycheck from work.

All this presents an opportunity: a partial Roth conversion. Each year, move a portion of your traditional IRA into a Roth IRA—just enough to fill your tax bracket and not a dollar more. (Otherwise, you're pushed into a higher tax bracket.) A conversion, of course, is taxable and will show up (as the question above indicates) as income on your tax return. But the upside is considerable: Your money, once inside the Roth, will grow tax-free.

In short, don't waste the available room in a low (or lower) tax bracket if you happen to be in one.

No, such maneuvers aren't for everyone. A Roth conversion always works best when you pay the tax with funds from outside the IRA itself. If all (or almost all) of your money is in tax-deferred accounts, this plan might not work. But it is certainly worth exploring. Michael Kitces, director of wealth management at Pinnacle Advisory Group in Columbia, Md., clearly explains the mechanics and benefits in an article on his blog. Go to [kitces.com](http://kitces.com) and search for: Tax-Efficient Spending Strategies from Retirement Portfolios.

Now, getting back to the electric vehicle and tax credit. “I would think [the Roth conversion] would work,” says Jeffrey A. Porter, a certified public accountant with Porter & Associates in Huntington, W.Va. The credit, he explains, “is used to offset the tax on Form 1040, line 47, which is the total tax liability. If the tax liability exceeds \$7,500 and there are no other personal credits, they could use the electric-vehicle credit.”

One caveat, Mr. Porter notes: If you do, in fact, delay your first RMD until the first three months of 2018, you will need to take two withdrawals (with two tax bites) in 2018: the required withdrawal for tax year 2017 and the required withdrawal for tax year 2018. The latter must be taken by Dec. 31, 2018.

Other than that, “by converting enough of the IRA to a Roth to use the credit, they are basically getting that amount out of the IRA tax-free,” he says. That's “pretty good planning.”

*to have it.) I am eligible for a \$7,500 federal tax credit for the purchase. My problem is that I don't think I'll have enough income to take advantage of it. What's more, I would like to postpone my first required minimum distributions from some individual retirement accounts until April 2018.*

*So, if I go ahead and postpone the RMDs, could I transfer enough IRA money to my Roth in 2017 such that the new total income would generate a federal tax liability of \$7,500, against which I could apply the electric-vehicle EV credit? That way, I could use the credit and still defer the RMDs.*

I like this question for two reasons. First, it

*Mr. Ruffenach is a former reporter and editor for The Wall Street Journal. His column examines financial issues for those thinking about, planning and living their retirement. Send questions and comments to [askencore@wsj.com](mailto:askencore@wsj.com).*

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