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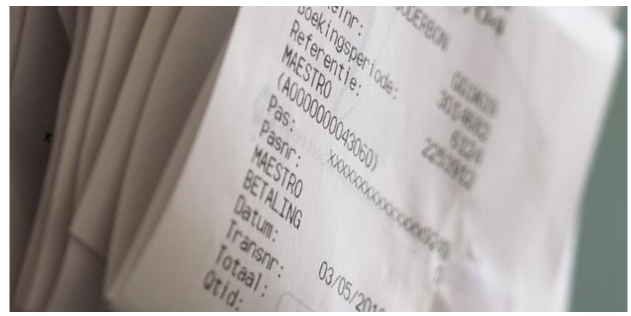
CKR Financial Services monthly journal

HELPING OUR CLIENTS GAIN THE ADVANTAGE OVER THE COMPETITION

You think you're doing your due diligence by keeping your statements and receipts and then the IRS says-

Receipts Are NO Longer Enough!



Documentation and notation are critical when trying to substantiate business expenses, even when there are NO history of personal expenses running through the business books. Statements and receipts alone are not enough to substantiate deductions to the IRS. **Our suggestion for best practice**: write everything on the receipt for future reference, not just your memory. Make sure your receipts show the date, the amount, where the meeting took place, who was in attendance, and what business purpose was covered during the meeting. The IRS is disallowing expenses lacking this vital information. The IRS likes to see **contemporaneous** logs or information – not something that has been recreated from memory or statements.

In recent court cases (Near v Commissioner, Armstrong v Commissioner, Ward v Commissioner), receipts were not enough to substantiate a deduction. The judge was looking for proof of business purpose, which the defendants had not prepared. Judgement was upheld for the IRS with substantial monetary repercussions.

The law also has enhanced substantiation requirements under 274 for some expenses. These include travel, meals, and entertainment. To deduct these expenses, a taxpayer must "substantiate…by adequate records or by sufficent evidence" the amount, time and place, and business purposes of the expenditures. Sec. 274(d). Section 274's requirements deprive us of any power to estimate deductions…and further requires that a taxpayer show: the amount of each separate expenditure, time of travel (including dates of departure and return), destinations of travel, and business purpose of the travel. This almost always means a taxpayer has to keep an account book, diary, log, statement of expense, or other similar documentary evidence with contemporaneous entries as he/she makes each expenditure.

Here are highlights from recent cases:

To substantiate the expenses of this trip, the firm points us to its 2011 bank statements. These statements do show a Delta charge for $429.40, a cash withdrawal of $140.00, three restaurant charges totaling $177.48, and a Priceline.com charge of $306.28. What these statements don't show is any way to tell what the business purpose of each expense was-or if there was a business purpose at all. Nor can we tell the dates of travel from these bank statements. That's not nearly enough to satisfy the stringent requirements of section 274. (Ward v Commissioner)

Expenses for clothing are deductible if the clothing is of a type specifically required as a condition of employment, is not adaptable to general use as ordinary clothing, and is not worn as ordinary clothing. Yeomans v Commissioner, Wasik v Comm, Beckey v Comm. The record confirms that petitioner was required to dress in a professional manner as a condition of her employment but that her employer did not reimburse employees for clothing expenses. Peitioner testified that she would not have purchased her work clothes for use in every day life. Nevertheless, a review of petitioner's business records reveals that all of the reported expenses are for clothing adaptable to general use as ordinary clothing. Therefore, the amounts reported for clothing were expended for personal purposes and as such are not deductible. (Armstrong v Comm'r)

CELEBRATING THE SMALL WINS

Did you sign a new client? Did you meet your deadlines this month? Celebrate! You don't have to wait before getting the big fish to rejoice. Acknowledging the small victories makes you feel good, sparks synergetic energy, is a motivator, builds confidence, and creates a pattern for success. You recognize the small win and it builds momentum and space to capture the Big Win! We acknowledge our joys by gathering the staff in the conference room and making it a real team affair. Give yourself permission to celebrate!

Unraveling the Cash Flow Report. (Pt 1)

Today, I want to help simplify the Cash Flow Report but it's simply too much to cover in one read, so we will conclude this topic next month!

"Diligence is the mother of good luck."
Benjamin Franklin

"The greater danger for most of us lies not in setting our aim too high and falling short; but in setting our aim too low, and achieving our mark."
-Michelangelo

We have previously discussed the Profit and Loss Statement and the Balance Sheet. This month, I want to talk about the Cash Flow Statement. Bookkeepers gather the data from your statements, receipts and other records and compile them into such reports that quickly give you and others insight into the health of your business.

So what is this Cash Flow Statement about? Simply put, the Cash Flow Statement is a financial statement that summarizes the amount of CASH AND CASH EQUIVALENTS entering and leaving a company during a specified time period. Like the P&L, this deals with a time period as opposed to the Balance Sheet which is a snapshot in time.

The statement of Cash Flows acts as a bridge between the P&L and the Balance Sheet by showing how money moved in and out of the business.

WHY is this important to you? If you are seeking investors, the CFS helps them identify how your company's operations are running, where money is coming from, and how money is being spent. It helps investors determine whether a company is on a solid financial footing. On the other side, if you are seeking credit, lenders use the CFS to determine how much cash is available (referred to as liquidity) for the company to fund its operating expenses and pay its debts.

Again, I know you didn't join your profession in order to become an underground bookkeeper, but let's quickly discuss the structure of the Cash Flow Statement so YOU will know what you are looking at and what information it holds for you.

It's important to note that the Cash Flow Statement is broken into Three, sometimes Four parts:

1-Cash from OPERATING activities

2-Cash from INVESTING activities

3-Cash from FINANCING activities

4-A fourth category, DISCLOSURE OF NONCASH ACTIVITIES or SUPPLEMENTAL INFORMATION, may be used to disclose the amount of interest and income taxes paid or to report the significant exchanges not involving cash – for example, the exchange of company stock for bonds would be reported here.

For now, let's just focus on the first Three since they will always appear on the Cash Flow Statement.

1-Cash from Operating Activities. What do you think this would include? Like the title suggests, these items are from the operational aspect of the business such as:

a. Receipts from sales of goods or services,
b. Inventory
c. Supplies
d. Interest Payments
e. Wages Payable
f. Rent Payments

…Continued Next Month

"Where's My Tax Refund?" *Log in to https://www.irs.gov/refunds and click the blue button "Check My Refund Status". You will need: 1- Your SSN, 2-Filing Status, 3-Exact Refund Amount. Refunds are generally issued within 21 days of when you electronically filed your return or 42 days of when you filed a paper return. CKR Financial Services does not have an "in" with the IRS for information on your refund. This is your best bet to find out where your money is!*

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