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Tax & Business letter

SPRING
2023

Small business retirement plans get boost from Congress

Starting a new plan has never been more affordable

Offering a retirement plan can be a powerful tool when you're competing to attract the best employees. And now, thanks to the recently passed SECURE Act 2.0, setting up a new retirement plan is more affordable than ever. Here are two of the provisions in the new bill and how you can take advantage:

Tax credit for startup costs

A tax credit equal to 100 percent of the administrative costs for establishing a workplace retirement plan is available for up to three years for eligible businesses with 50 or fewer employees. Businesses with 51 to 100 employees will still adhere to the original tax break rules, which caps the credit at 50% of administrative costs and with an annual cap of \$5,000.

Taking advantage: *This credit could cover all set-up and administrative costs*

during the first three years of a plan's existence, as average 401(k) set-up costs range from \$1,000 to \$2,000, while average annual administrative costs range from \$1,000 to \$3,000. To keep your annual administrative costs as low as possible, it may be worth shopping around for different plan providers as the fees can vary.

Tax credit for employer contributions

Eligible businesses with up to 100 employees may qualify for a tax credit based on its employee matching or profit-sharing contributions. This credit, which caps at \$1,000 per employee, phases down gradually over five (5) years and is subject to further reductions for employers with 51 to 100 employees.

Taking advantage: *Once this tax credit has expired after the plan's first five years of existence, employer contributions to 401(k), SEP and SIMPLE plans are still tax deductible up to certain limits. This means that the employer and employee can both continue to reap tax savings for the entire life of the retirement plan.*

And remember that employees can still contribute to their own individual IRA. So let your employees know that in addition to having either a 401(k), SEP or SIMPLE account through your company, they may also qualify to contribute to their own traditional IRA or Roth IRA.

It's never been easier or more affordable to start a retirement plan for your business. Please call if you have questions about a current retirement plan you offer or starting a new plan. ♦





IRSTAX NOTES

IRS proposes new program to improve tip reporting

The IRS announced a proposal to establish the Service Industry Tip Compliance Agreement (SITCA) program to create a non-mandatory process to assist service industry employers to track employee tips.

A recent report from the Treasury Inspector General for Tax Administration found that unreported tips totaled \$1.66 billion. The proposed program is designed to take advantage of advancements in point-of-sale, time and attendance systems, and electronic payment settlement methods to improve tip reporting compliance.

Interest rates increase for first quarter of 2023

Interest rates for the first quarter in 2023 will increase compared to last quarter. These rates include: 7% for overpayments (6% for corporations); 4.5% for the portion of a corporate overpayment over \$10,000; 7% for underpayments and 9% for large corporation underpayments. ♦

Tax CALENDAR



April 18

- 2022 individual income tax returns are due.
- 2022 calendar-year C corporation tax returns are due.
- First installment of 2023 individual estimated tax is due.

May 15

- 2022 calendar-year non-profit organization annual reporting returns are due.

June 15

- Second installment of 2023 individual estimated tax is due.

Choosing a payroll provider



One of the cornerstone activities of every business is the timely and accurate payment of payroll and its related tax and regulatory filings. Whether you do this in-house or use an outside service, it is a good idea to periodically assess how it's going and whether a change makes sense. Here are some thoughts.

- ▶ **Take a snapshot of the current situation.** Assess how well your current pay cycle is working. Create a list of the pain points. Also determine the level of knowledge the current person(s) have in the process. Payroll can be complicated, especially when adding in all the required deductions and various tax and payment deadlines. Try to be as objective as possible in your review.

- ▶ **Determine the time required.** Review how much time is spent in managing your payroll. Then convert it into cost. If you currently use an outside resource, you will already know the cost, but you should assess how much lead-time they require to get your payroll records and how much of a hassle their requirements are to your internal coordinator.

- ▶ **Integration assessment.** Determine how important it is to have payroll integrated into your accounting and benefits system. This will make reconciliation easier and will aid in the tracking of other key employee benefits like retirement plans and tracking paid time off. And don't forget the employee integration.

Decide if you wish employees to self-monitor their pay with online access or if you wish to stay on top of the requests being asked for by employees.

- ▶ **Service is important.** Most of the time, payroll runs like a clock, but when it doesn't it can be a real pain with possible penalties to boot! So knowing how problems are solved, and having a responsive person to handle those problems is key. If commissions are forgotten, or you are going to be a bit late in submitting payroll for the period, you do not want to be waiting hours or days to get an answer.
- ▶ **Compliance. Compliance. Compliance.** Assess the payroll provider's understanding of taxes and other compliance measures. This is important, as not sending in withholdings timely can create real problems. If a large payroll service has a generic call center, the person on the line will not usually be able to knowingly answer your questions. Having a sound accounting understanding and how it works is key.
- ▶ **Review alternatives.** Once you know your pain points and the cost of running your payroll, you are ready to assess potential alternatives. Create a matrix of measures before you discuss your payroll with alternative suppliers. Then stick to your matrix, and ensure you include a reputation review and transitional process timing in your assessment. It is often hard to get suppliers to provide costing in a comparable fashion with other suppliers, so stick with your instincts. ♦



Get 100% from part-time employees

Part-time employees can play a vital role in a small business. They can help you deal with variations in workload without needing to hire a full-time employee.

Because part-timers typically look for jobs that require fewer hours, you can often find a person with above-average skills for the position. Part-timers can turn into a liability, however, if you don't provide them with the knowledge and guidance they need to be motivated and perform their jobs well.

Here are some suggestions for setting up your part-time workers for success:

► Know why you're hiring part-time help

Decide exactly what you want the person to do, what hours you want the person to work and whom he or she will report to at work. The position may have well-defined duties, or it may involve filling in wherever needed. Decide on the pay level and the benefits you'll offer.



► Communicate clearly

Explain the person's duties and how they fit into the team. Confirm with your employee the work schedules and benefits they can expect. Discuss expectations of the role, and what they can expect from their manager. The more flexibility you can offer, the easier it will be to recruit somebody and the happier the new employee will be.



► Tell your full-time staff

Explain why you're hiring a part-time person. Make it clear what that person will and won't be expected to do. Designate who will manage and assign work to the part-timer.



► Remember to provide feedback

Let your part-time employee know how he or she is doing. Offer praise when the individual is doing a good job. And provide tips on improving performance when you see opportunities.



► Offer a retirement plan

Consider offering a retirement plan to help recruit and retain qualified part-time (and full-time!) employees. Starting in 2025, part-time workers can participate in employer-sponsored retirement plans after completing two years of service with at least 500 hours worked. This means you can start recruiting part-time employees now with the promise of being able to participate in your company's plan when they complete their two years of service. ♦



CASHFLOW CORNER

Control your seasonal cash flow issues

Large swings in revenue throughout the year brought on by holiday shopping, weather and other annual events can make it exceptionally difficult for seasonal businesses to plan and sustain a positive cash flow.

The following tips can help seasonal businesses cope with downturns and effectively manage cash flow throughout the year:

- **When times are good, get a line of credit.** The best time to set up a line of credit is when you don't need it. Not only will you have the extra time it may take to secure a loan from a bank, you'll also gain peace of mind knowing that it'll be there when you need it.
- **Leverage your supplier relationships.** The goodwill you build up with your suppliers will likely make them more inclined to help you out with alternative terms that keep cash in your pocket during low sales periods. For instance, your suppliers may agree to hold a portion of your inventory and accept payments upon release, instead of requiring upfront payment for the entire lot. Long-term suppliers will help as they know your business and that you will not be ordering from a competitor. You benefit by aligning your supplier payments closer to when you will be selling the product.
- **Create a labor strategy that optimizes your cash flow.** Consider giving your employees time off during slow seasons and incentivizing them by offering higher pay during peak seasons. You may also minimize your need to hire extra staff or pay overtime during peak season if you're able to shift some of that work into the downtime months when your employees are light on tasks.
- **Partner with your customers.** Your customers can help you maintain a steady cash flow throughout the year if you give them the right opportunities to do so. Incentivize them to make purchases during your slow season by offering worthwhile discounts that expire before the peak season. ♦

Leasing commercial property: What you need to know

Decisions about location and leasing commercial space can be significant factors in determining a business's long-term profitability.

That's because the cost of leasing space is often one of the biggest numbers on the profit-and-loss statement. Consider the following as you look for a space that fits your bottom line:

■ **Give yourself time.** At least six months before you plan to move in, begin the selection process. Scout out locations and narrow your choices. Waiting until you're desperate for space may leave you with fewer options. Starting early may also provide opportunities to observe walk-by or drive-by traffic, the location's visibility, and the habits of neighboring tenants. It may also provide more time to develop a better understanding of the level of lease payments your business can afford to pay.

■ **Compare properties.** In addition to identifying a property that's located near your client base, comparison shopping can give you a better understanding of the value of the property you're considering, as well as provide negotiating leverage. Develop a matrix of the must-have elements of your location. Then place each location you are considering into the matrix. It will give you a nice comparative visual to help make the right decision.

■ **Negotiate terms!** Use your location comparison matrix to begin negotiations with the landlord. Ideas include getting free rent while you build out your space, a longer term lease with no or low escalation of rent, and getting the landlord to cover more of the maintenance costs.

■ **Read the lease — then read it again.** Once you've found your space and have the framework for a deal, you will receive your lease. Review the lease.

Pay special attention to the length (term) of the lease, renewal options and scheduled rent increases. Scrutinize clauses describing your responsibility for utilities, maintenance and upkeep of common areas and systems. Make sure the lease agreement matches your understanding of the negotiated terms. The agreement must spell out your options for subleasing and delineate default provisions. Termination options, security deposits, allowances for leasehold improvements — all should be specified in the contract.

■ **Work with professionals.**

It makes sense to hire a real estate attorney and other professionals to help find the right space and review the lease terms before signing. An experienced broker may also provide assistance when negotiating lease terms. Careful evaluation and bargaining at the front end may save dollars and potential headaches. ♦

NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us. ©2023

We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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