

# 2018 Fall Mass Access Best Financial Practices



2018 Fall Mass Access Workshops

## Disclaimer

This material has been prepared for general information purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

© 2018 Wachslers CPA LLC



2018 Fall Mass Access Workshops

## Agenda – for both non-profits & individuals

- › Non-Profits
  - Entire Board's fiduciary duty / responsibility
  - Develop annual budget & monitor budget vs. actual
  - Segregation of duties
  - New financial reporting requirements
- › Both
  - Accounting Systems – KISS Method
  - Reconcile bank & credit card accounts – monthly
  - Employees (W2) vs. Independent Contractors (1099-MISC)
- › Individuals
  - Setup your company / protect against identity theft
  - Examples of some valid expenses
  - Sales tax
  - Impact of new tax law



2018 Fall Mass Access Workshops

## Non-Profits – **each Board Member fiduciary duty / responsibility**

- › Organization complies with **all** applicable laws and ethical standards
  - Both Federal and State employment laws
- › Fiduciary responsibility to Organization
  - Payroll taxes, 403b contributions, health insurance deductions, etc. are withheld and remitted on a timely basis
- › Whistleblower policy
  - Board member / independent 3<sup>rd</sup> party
- › **Duty of care / conflict of interest**
  - Decisions are made keeping non-profit's best interests in mind
  - **Recuse** oneself from any decisions / votes in which the selected officer has either a real or perceived **conflict of interest**



2018 Fall Mass Access Workshops

## Board Responsibility (cont.)

- › Should obtain Director's & officer's liability insurance
- › Severally liable for failure to pay federal / state taxes
- › Develop annual budget & monitor budget vs. actual
  - Helps keep track / plan expenses, especially major expenditures
  - Monitor actual expenses vs. budgeted expenses on regular basis (monthly, quarterly)
  - Understand why there are variances (both under & over)
  - Adjust budget as necessary
- › Maintain / create reserve fund
  - % of gross income
- › Use a **payroll service. Just do it**



2018 Fall Mass Access Workshops

## Segregation of duties – Cash / Money

- › Individual / bookkeeper **should not** sign checks
- › Individual, preferably **Treasurer**, receiving bank & credit card statements
  - **Should not** sign checks
  - **Should** reconcile bank & credit card statements
  - Alternative control – online accounting system **coupled** with automated bank & credit card feeds **monitored** by bookkeeper / accountant
- › **2 signatures** for checks over certain amount or **multi-user** approval for online payment transactions
- › Put checks in **locked** drawer
- › **Receipts** required for all payments / invoices
- › **Prohibit cash withdrawals** from all bank accounts
- › **Don't** use debit cards



2018 Fall Mass Access Workshops

## Segregation of duties - Payroll

- › Use **payroll service**. Just do it.
- › Require timesheets
  - Document time spent on major programs / overhead (may need for new financial reporting requirements)
  - **Must** keep track of accrued sick time (Massachusetts law – payroll company can do this)
- › Individual calling payroll **should not** have ability to **change pay rate** or **add new employees**
- › **Separate individual** (Treasurer) should have ability to change pay rate or add new employees
- › **Separate individual** (Treasurer) should reconcile payroll register
- › Separate bank account for payroll



2018 Fall Mass Access Workshops

## Segregation of duties – Travel Expenses

- › In general, reimburse only **pre-approved** expenses by Executive Director or senior employees
- › Airfare / Amtrak – economy class vs. business / first class
- › **Require receipts** for each expense
- › No excuse for no receipt – take a picture w/ your smart phone
- › Larger organizations may consider online cloud solution
- › Meals
  - Should document who employee met with.
  - If less than 1 hour commute, and employee ate by themselves IRS disallows meal
- › **Entertainment** – tickets to sporting events, plays, golf tournaments, etc. **No longer deductible expense under new Tax Law**. This is now deemed to be a personal expense.
- › Treasurer should review Executive Director travel expenses



2018 Fall Mass Access Workshops

## Credit Card Policies

- › Establish spending limits
- › Identify prohibited uses – cash advances, cash transfers, personal expenses, etc.
- › Preapproval process
- › Require receipts for each purchase (take picture w/ smart phone)
- › Individual, preferably **Treasurer**, receive credit card statements
- › Individual either reconcile credit card statements or automated bank feed
- › Each employee sign the credit card policy
- › Avoid debit cards



2018 Fall Mass Access Workshops

## New financial reporting requirements

- › Effective for fiscal years **starting after December 15, 2017**
- › Functional statement of expenses
- › Footnote disclosure describing functional expense **allocation of costs**
- › Footnote disclosure providing quantitative and qualitative information to explain how its **liquid assets are available to meet the nonprofit's cash needs for one year**, including how the nonprofit manages its liquidity risks (credit lines, cash reserves, etc.)
- › Classification of **net assets** as either **with donor restrictions** or **without donor restrictions**
- › Footnote disclosure of the nature, amounts & types of net asset restrictions
- › For all **board-designated funds**, their amounts and purposes must be disclosed
- › Evaluation of **revenue** from contracts vs donations
- › Investment income reported **net** of expenses
- › Reporting underwater amounts of **donor-restricted endowment funds**



2018 Fall Mass Access Workshops

## Accounting – KISS (Keep it Stupid & Simple)

- › Use **software** package to keep **track of all income & expenses**
- › Desktop
  - MS Excel
    - › Pro – easy to use; especially if you don't have a lot of transactions
    - › Con – very difficult to reconcile against your bank & credit card statements
    - › Con – doesn't keep track of customer invoices
  - QuickBooks
    - › Pro – very easy to reconcile against your bank & credit card statements
    - › Pro – very easy to use. If you're not sure of transaction, put it in "Ask My Accountant" expense acct
    - › Con – costs \$\$\$
    - › Con – no longer supported on Apple products



2018 Fall Mass Access Workshops

## Accounting – KISS (Keep it Stupid & Simple) (cont.)

- › Invoices
  - All accounting packages have ability to create invoices
  - Should be able to email invoice to your client
- › Accept payments
  - Online accounting packages should be able to accept **alternative forms of payment**
    - › ePay, direct ACH transactions, Square Four, ApplePay, etc.
    - › Most folks in their 20s or Gen Z / iGen don't know how to write a check
- › Online accounting systems
  - Xero
  - QuickBooks
  - FreshBooks
  - Lots of other apps out there
  - Monthly fee
  - Can import bank & credit card statements directly into online accounting package
  - **Try before you commit** – there are nuances for each package



2018 Fall Mass Access Workshops

## Accounting – KISS (Keep it Stupid & Simple) (cont.)

- › All accounting packages should have **class** tracking
- › Hire an accountant / bookkeeper
- › Receipts
  - **A line on your credit card is not a receipt.** Need to have the actual receipt (or copy of the receipt)
  - Scan / import / upload receipt into accounting package
  - Consider using your smartphone to take a photo of a receipt
  - Have a lot of receipts – consider an app
    - › Receipt Bank
    - › Shoeboxed
    - › AutoEntry
    - › Neat
    - › There are others



2018 Fall Mass Access Workshops

## Employee (W2) vs. Independent Contractor (1099-MISC)

- › **Independent contractor?**
  - **Massachusetts has 3 prong test.** Answer yes to any one question, then you should hire individual as employee (W2). Must demonstrate all 3 tests:
    1. Work is done without the direction and control of the employer; and
    2. Work is performed outside the usual course of the employer's business
    3. Work is done by someone who has their own independent business or trade doing that kind of work
  - Treble damages for employee misclassification



2018 Fall Mass Access Workshops

## Individuals – rest of slides

- › Slides from this point forward are targeted towards individuals who are independent contractors.



2018 Fall Mass Access Workshops

## Setup your company / protect against identity theft

- › **New Federal EIN**
  - Don't need to give your social security number to clients
  - Decide upon entity type **before** get new EIN (see below)
  - Apply online at [www.irs.gov](http://www.irs.gov)
- › **Separate** bank / credit card statements **from personal** expenses
  - Easier to keep track of your income and expenses
- › **W2** – treated as **employee**
- › **1099 – Independent Contractor**
  - Schedule C
  - May deduct business expenses
  - Might pay quarterly **estimated taxes** (both Federal and State)



2018 Fall Mass Access Workshops



## Company Structure

- › Sole proprietorship / LLC / S-Corp considerations
  - Types
    - › sole proprietorship (Schedule C)
    - › single member LLC (Schedule C)
    - › 100% owner of S-corp (IRS Form 1120S and Schedule K-1 flows through to Schedule E on your personal return)
  - LLC / S-Corp Pros / Cons
    - › Strong argument against W2 wages
    - › Need to pay filing fee of \$450 (S-Corp) or \$500 (LLC) to Mass. Secretary of State
    - › **S-Corp** need to **pay yourself reasonable wages**; otherwise may be subject to IRS audit



2018 Fall Mass Access Workshops

## Mileage & work logs

- › Mileage log
  - Need to keep track of **beginning and ending mileage**
  - **Purpose** of trip
  - **W2 wages – no mileage deduction allowed**
  - Use an app on your smartphone
- › Work log
  - Client / work that you did
  - If your client is out-of-state or you work in another state, keep track of the work state
  - Need this especially if you have W2 wages – need to prove the work done as Independent Contractor



2018 Fall Mass Access Workshops

## Example of some valid expenses – Independent Contractors

- › Advertising
- › Home office
- › Equipment
- › Supplies
- › Telephone / Internet
  
- › From 2018, itemized deductions go away (Form 2106, Schedule A). **No itemized deductions for W2 wages.**



2018 Fall Mass Access Workshops

## Sales Tax

- › How do you deliver your product?
  - Physical disk – possible sales tax in Massachusetts?
  - Internet delivery – no sales tax (as of 1/27/18)
  - 830 CMR 64H 1.1 (2) (a):
    - › A service transaction is not subject to the sales tax where:
      1. The real object of the transaction is the service itself and no transfer of tangible personal property occurs **OR**
      2. The real object of the transaction is the **service itself** and an inconsequential transfer of tangible property occurs **and** the service enterprise does not separately state the purchase price of the property on the bill to the customer.
- › Clients in **other states**? Recent US Supreme Court decision on *Wayfair*
  - May need to remit sales tax to other states
  - Current **brightline** is sales > \$500K **or** 200+ transactions



2018 Fall Mass Access Workshops

## Pay Income Taxes to Another State

### › Clients in other states?

- If you work a **significant amount of time in another state**, you may have to pay income taxes to that other state
- If your **client lives in another state**, you may have to pay income taxes to the state that your client lives in (even if you did all work in Massachusetts)
- New York believes this should be triggered on your first client engagement
- Congress was discussing a bill – work one month or more
- Conservative approach – 10% of income in another state.
- Don't forget to deduct your out-of-state expenses



2018 Fall Mass Access Workshops

## Impact of New Tax Law, **Effective 1/1/18**

- › No more Form 2106 (Schedule A)
  - Itemized deductions for W2 employees are gone
- › **No more entertainment expense – can't deduct**
  - The golf game
  - Taking your client to the Red Sox, Pats, Celtics, Bruins, Hamilton, etc.
- › Business meals expense – still 50%
  - Need to document who you ate with & what you discussed
  - **No deduction of meals for yourself** if you're within 50 miles of your home office
- › Can carry forward losses indefinitely. Can no longer go backwards with loss.
- › Can only claim up to 80% of loss against other income in current year. (Prior years could claim up to 100%)



2018 Fall Mass Access Workshops

## Impact of New Tax Law, **Effective 1/1/18** (cont.)

### > **Section 199A**

- Qualified business income <\$315,000 (MFJ) OR <\$157,500 (S)
  - > **May be eligible for 20% deduction** of qualified business income
  - > Qualified Business Income – net amount of qualified items of income, gain, deductions and loss with respect to any qualified trade or business
  - > Qualified Business Income does not include reasonable compensation / guaranteed payments made to the tax payer
  
- Don't think that there is a deduction if above income limits exceeded because production, directing, camera operator, etc. is a service. Waiting for clarification



2018 Fall Mass Access Workshops

## Questions???

Irene Wachsler, CPA

[www.milliecpa.com](http://www.milliecpa.com)

[irene@milliecpa.com](mailto:irene@milliecpa.com)

781-883-3174



2018 Fall Mass Access Workshops