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...For all your main stream needs



The moment that a business idea pops into your head is just the beginning. From there on out it's a very long journey to achieving a successful outcome — one that requires lots of strategizing, planning ahead, and trial and error.

In this issue of **The Main Street Accountant**, I will share many important tips and resources to getting your new business venture off the ground. You'll learn how to write a top notch business plan, tips for entrepreneurial success, tactics for getting your business up and running, and much, much more.

Happy Reading!

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Avoiding Landlord Tax Trouble



If you are leasing a space for your small business, I have two questions for you:

1. Did you prepay your 2019 rent so that you have a big 2018 tax deduction?
2. How do you identify in your accounting records the monies you put on your IRS Form 1099-MISC for the business rent payments to your landlord?

A golden rule when it comes to your landlord is "do not cause your landlord tax trouble."

However, if you are simply looking at your checkbook or payment ledgers

to identify the amounts you are going to report on your 1099-MISC, you will create an incorrect 1099 for your landlord and cause them just that — tax trouble.

How?

Let's say you wrote a \$55,000 check to your landlord on December 31 and mailed it that day. They received the check on January 3. Here's how your Form 1099-MISC can create "tax trouble":

- Your Form 1099-MISC to the landlord shows rent paid of \$105,000 (\$50,000 paid during the year and then the \$55,000 prepayment on December 31).
- The landlord's 2018 federal income tax return shows \$50,000 in rent received (the remaining \$55,000 was received in 2019).
- IRS computers note the difference and start an inquiry.

An incorrect 1099 that overstates the landlord's income is a problem that can lead to a tax audit.

According to IRS Reg. Section 1.6041-1(f):

The amount to be reported as paid to a payee is the amount includible in the gross income of the payee . . .

NOTE: As you will see below, this amount does not necessarily equal the tax deduction claimed by the payor.

Reg. Section 1.6041-1(h) says:

For purposes of a return of information, an amount is deemed to have been paid when it is credited or set apart to a person without any substantial limitation or restriction as to the time or manner of payment or condition upon which payment is to be made, and is made available to him so that it may be drawn at any time, and its receipt brought within his own control and disposition.

The 1099-MISC is a "return of information."

The landlord did not have control of the money until he or she had possession of the check in 2019.

In the *Cheryl Mayfield Therapy Center* case, the court stated:

A "payment" is made for purposes

Continued on page 2

Landlord Tax Trouble

Continued from page 1

of section 6041 information returns when an amount is made available to a person “so that it may be drawn at any time, and its receipt brought within his own control and disposition.”



It can be surprising that the 1099 could contain a taxable amount to the payee that is different from the deduction amount of the payor.

For example, in the above case, the correct 1099-MISC amount is \$50,000. That’s the amount you will need to put on the 1099-MISC you send to the landlord for 2018 even though you are going to deduct \$105,000 as a cash-basis taxpayer.

Get Your Business Up And Running With These Tactics

Do you dream of starting your own business? It’s not easy, but you can succeed if you follow this advice from the Entrepreneur magazine website:

- **Keep your vision in sight.** Most great businesses start with an ambitious vision. Decide what you want to create in clear, concrete terms, and keep your focus on your vision as you move forward.

- **Be prepared to persevere.** Establishing your business will take time and effort — lots of both. Know that going in, and you’ll be ready to persist in the face of obstacles and self-doubt.

- **Plan, but adapt.** A good plan is essential, but don’t lock yourself into it so tightly that you can’t make changes along the way. Be flexible in how you achieve your goals, and you’ll move forward more smoothly.

- **Use your talents.** Take inventory of your skills so you can put them to good



If you’ve ever dreamed of starting your own business, you know that one of the first steps is creating a business plan. A plan can’t tell you the future, but it can help you shape it. Here are the basic elements every business plan should have:

- **Executive summary.** This is an overview; it should be the last thing you write, and the first thing anyone reading the plan sees. It’s a snapshot meant to capture the attention of prospective lenders and investors. Briefly cover the key elements of your plan — your idea, organizational structure, market analysis, marketing strategy, financing, and five-year projections. This summary should be your best, most influential writing.

- **Your idea.** This is where you explain why your product or service is valuable.

use. For whatever you don’t do well, delegate it or hire someone to do it for you.

- **Don’t reinvent the wheel.** Find out what others are doing in your industry, and copy their tactics and strategies. Don’t waste time developing something new when the real-world solution is right out there.

- **Take care of your health.** Burnout is a danger for entrepreneurs, especially when they’re just starting out. You’ll have to work long hours, but don’t push yourself beyond endurance. Take breaks and vacations so you can relax and recharge. Then get back to work with new energy.

- **Keep a sense of humor.** Times will sometimes be tough, but the ability to laugh at your mistakes and your luck (both good and bad) will keep you sane as you progress toward success.



Write A Winning Business Plan

Go into as much detail as possible regarding technical specifications, manufacturing steps, outside vendors, trademarks, patents, and any other information that will have a bearing on your business.

- **Organizational structure.** How will you be organized, and how will you operate? When you talk about your organizational structure, also talk about the skills of your employees and the expertise of your managers.

- **Market analysis and marketing strategy.** Do your homework before you write this section. Describe your customers’ needs and trends — taking care to emphasize what makes your product unique. Link your projections to actual demographic figures. Talk about the competition. Outline your pricing and promotion strategies.

- **Financial plan.** Once you thoroughly dissect the market, use the same approach to describe your financial plan. This section will often make or break your entire business plan — and is usually the key factor in whether or not an investor will support you. Describe your capital requirements, depreciable assets, projected income, and cash flow. Make sure you specify your break-even point.

- **Five-year projection.** This section will be somewhat speculative; it should provide some sense of your long-term expectations. For the first two years, include monthly projections of costs and profits; after that, you can convert to using quarterly projections.



“After a few false starts I have finally finished my business marketing plan.”

Are You In Need of a Qualified Tax Pro?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As a qualified tax professional, I not only know all the rules, but can also help you deal with the IRS and help you decide how far to push a dispute.



Do You Have A Tough Accounting / Tax Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I’m always looking to answer pressing questions you might have relating to small business.

If you have a question, tip or idea, please call me at (732)-902-2929 or email me at info@caballerocpas.com. Perhaps I’ll feature you in a future issue!

Facing the Kiddie Tax

If your family has previously had trouble with the kiddie tax, then unfortunately you will face some new troubles for tax years 2018 through 2025 thanks to the recent tax reform. To make things easier on yourself, you will certainly want to do some tax planning.



For 2018–2025, the Tax Cuts and Jobs Act changes the kiddie tax rules to tax a portion of an affected child or young adult's unearned income at the federal income tax rates paid by trusts and estates.

Trust tax rates can be as high as 37 percent or, for long-term capital gains and qualified dividends, as high as 20 percent.

Unearned income means income other than wages, salaries, professional fees, and other amounts received as compensation for personal services, such as capital gains, dividends, and interest.

Earned income from a job or self-employment is never subject to the kiddie tax.

Your dependent child or young adult faces no kiddie tax problems if he or she does not have unearned income in excess of the kiddie tax unearned income threshold, which is \$2,100 for 2018 and \$2,200 for 2019.

When your dependent child exceeds the threshold by only a minor amount, the kiddie tax hit is minimal and nothing to get too upset about.

But, if on the other hand your child is getting hit hard by the kiddie tax, you should consider the following as you plan for your taxes:

- employing your child so that he or she has earned income sufficient to eliminate the kiddie tax, or
- changing the investment mix from income generation to capital growth.

Successful Entrepreneurs Never Quit — And Always Listen.

Nineteenth-century publisher Cyrus H. K. Curtis had a passion for the newspaper business, but he didn't always have a lot of success with it. He published his first weekly paper at age 13 and built it up until he had 100 customers. Unfortunately, a fire wiped out his business, but his determination to succeed in the industry endured.

By 1870, he was a successful advertising salesman for a small Boston newspaper. He was so good at his job that the owner offered to sell the paper to him for \$250. Curtis turned the offer down, but the owner eventually gave it to him for nothing. Unfortunately, that publication failed, too.

Undaunted, Curtis founded a new one,

The Tribune & Farmer. One day his wife asked him who wrote the feature called "The Woman's Page."

"I did," said Curtis.

"It's utterly ridiculous!" exclaimed his wife.

Instead of arguing, Curtis challenged his wife to write the page herself. Mrs. Curtis accepted the offer, and soon her page became the most popular section of the paper.

Recognizing a hot commodity, Curtis expanded the feature, and ultimately fashioned the publication around it, giving the paper a new name: Ladies' Home Journal.



Follow This Route To Entrepreneurial Success

Maybe you've always dreamed of starting your own business. There's no reason you can't, but you've got to know what it takes to succeed. From the Investopedia website comes this advice for would-be entrepreneurs:



much risk you're facing can help you plan strategies to minimize it — and help you learn how much risk you're willing and able to tolerate.

- **Get organized.** A simple to-do list will help you manage your time and resources effectively. Don't just respond to crises; have a plan for what you want to accomplish daily, weekly, monthly, and further out.
- **Keep records.** You can't remember everything. Keep detailed records so you know what you've spent, what you've spent it on, where your revenues are coming from, and what your significant challenges are.
- **Study your competition.** Find out everything you can about other organizations in your industry. Knowing where they've succeeded and failed can help you seize opportunities and avoid mistakes.
- **Analyze the risks.** Understanding how

• **Be creative.** Look for fresh ways to solve problems

instead of continuing to do what you and everyone else has always done, the same way it's always been done.

• **Keep your focus.** You'll be distracted by problems, people, and opportunities. Don't let them draw you away from your central goal.

• **Prepare for sacrifice.** The challenges of entrepreneurship means you'll have to make sacrifices — time, money, comfort, and so forth. Decide up front how much you're willing to sacrifice so you'll be ready to make the right decisions.

• **Provide top-notch service.** The key to any successful business is satisfying your customers. Commit to doing everything you can to meet their needs, and they'll come back for more.

Quotes:

"A leader isn't someone who forces others to make him stronger; a leader is someone willing to give his strength to others that they may have the strength to stand on their own." — **Beth Revis**

"Success is no accident. It is hard work, perseverance, learning, studying, sacrifice, and, most of all, love of what you are doing or learning to do." — **Pele**

"Effective leaders allow great people to do the work they were born to do." — **Warren Bennis**



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See What's Inside...

- Avoiding Landlord Tax Trouble
- Write A Winning Business Plan
- Get Your Business Up And Running With These Tactics
- Facing the Kiddie Tax
- Successful Entrepreneurs Never Quit —
And Always Listen.
- Follow This Route To Entrepreneurial Success
- Customer Service
- Target Innovation With The Right Focus Creativity

Customer Service

A sales manager overheard a clerk tell a customer, *“Hmm. We haven’t had any for quite some time. We probably won’t get any until the end of the month.”*



The customer thanked the clerk and was headed to the exit when the manager rushed to him and said: *“Come back next week. We should be restocked by then. If not, we might be able to make a special order for you.”*

The customer made a puzzled face and left. The clerk dropped his head in embarrassment.

The manager approached the clerk. *“How many times have I told you not to let anyone walk out of this door without having a reason to come back? Even if it is something we no longer sell, give them a reason to come back. Now what was this customer asking about?”*

The clerk looked at his boss. *“Rain.”*

Target Innovation With The Right Focus

Successful entrepreneurs know they have to innovate to survive, but they also know that chasing ideas blindly won’t lead anywhere worthwhile.



From Rowan Gibson’s book *“The Four Lenses of Innovation”* (Wiley) come these approaches to innovation that leaders throughout history have used to break new ground:

- **Challenge conventional thought.** Artists, scientists, and business people have triumphed by turning “common sense” on its head. Look at what everyone believes and explore a different path, the way organizations like Netflix, Apple, and Southwest Airlines have shaken up their industries by trying something different.
- **Analyze trends.** A great idea that doesn’t address a compelling need won’t get off the ground. Find out what customers are looking for now so you can take a new approach to fulfilling their desires, the way Airbnb and Uber have.
- **Identify useful resources.** You won’t get very far without assistance. Network and enlist the help of creative people to explore and adapt ideas and bring them to life, just as people like Walt Disney and Steve Jobs did when working toward their ambitious goals. Dedicated allies can help you locate what you need to move forward.
- **Understand your users.** Don’t innovate for the sake of doing something different. Focus on solving problems for people. Find out what frustrates them in your industry. They may not even be aware of what they’re looking for, so ask questions that target their underlying desires and work with them on developing solutions that no one else is offering.