

THE Mangold Group Messenger

Issue 4

Autumn 2007



Well, this year sure zoomed by in a hurry. Here it is, time to shop for presents. While you are at it, take a little time to give yourself a gift. By all means, go and buy yourself that new iPod your heart desires. But more importantly, do a little year end planning so you get to keep more of that money you worked so hard to earn this year.

Exactly when you pay your bills, pay into your retirement account, donate to a living trust, or sell your stock can make a big difference in whether you get a refund or a tax assessment in April.

No, year end tax planning won't put a shiny box under the tree in December but can determine whether you are working overtime next summer or taking a Caribbean cruise.

I hope you had a wonderful year and are ready for an even better one in 2008. As always, we are here to help you achieve both your personal and business goals.

Thomas Mangold, CPA

Three Steps for Penalty-Free Payroll

Payroll is one of any business's largest expenses and one of the many great things about living in Texas is there is no personal income tax. So, while companies in Manhattan have to remit both city and state withholding we don't have to worry about that.

Unfortunately, there are still plenty of other payroll issues that we do have to worry about. Here are three steps to follow to ensure accurate payroll handling.

Calculating What to Pay

The first step is accurately determining what to pay. A couple points to keep in mind:

- The federal minimum wage increased this year and is going up again next August.
- Keep track of break time and pay when employees work through their scheduled breaks, whether by their choice or yours.
- Correctly account for any overtime worked, especially when the employee is receiving a pay differential for working the night shift, weekend or holiday.

Calculating What to Withhold

There is a widening array of mandatory and voluntary deductions that can be taken out of paychecks. Mandatory deductions include:

- Federal income tax (Sliding scale)
- Social Security (6.2% up to the annual maximum - \$97,500 for 2007)
- Medicare tax withholding (1.45%; no maximum)

You may also be required to withhold money to pay for child support, back taxes or a court judgment against a particular employee.

Voluntary deductions may include:

- Disability or health insurance premiums
- Medical savings account or child care account
- Union dues
- Life insurance premiums
- Retirement plan contributions (401k's, IRAs)
- Employee stock purchase plans
- Meals, uniforms or other job-related expenses

Make sure you know which deductions come off the top before calculating the taxable income.

(Continued on page 2)

Meet Gary Annis

When it comes to facing the IRS, it is always good to have experience on your side. That is why we are pleased to announce that Gary Annis, CPA has joined our firm as the Tax Manager.

"I've been doing income taxes since 1969 and have handled all types and sizes of business," he says.

Gary received his accounting degree from Aurora University in Illinois. Following a stint as a First Lieutenant in the Army's Finance Corps, he entered public accounting.

In addition to owning his own accounting practice for 25 years; he also worked as a Business Development Specialist for the Small Business Development Center at Paris Junior College; taught computer accounting; monitored the Summer Youth Employment Program in nine Northeast Texas counties;



and designed a database system used by the Travis County Auditor's Office.

In September, Gary decided to bring his broad expertise to our offices. He has worked in computerized accounting systems since the late sixties

and liked the automated systems used by The Mangold Group. Another selling point was the atmosphere.

"The atmosphere here is very friendly and relaxed which makes it very conducive to doing a good job," he says.

As Tax Manager, his job is to see that clients pay just the right amount of taxes.

"I always feel that people should pay taxes, but not more than they absolutely have to," he says.

When the IRS does try to collect more than a client rightly owes, he is there to defend them. He gives the example of when an overly aggressive auditor targeted one of his clients.

"We went to court, the judge decided we were right and the IRS was wrong, and he awarded her \$229,000 plus attorney's fees," he says.

Gary and his wife, Cynthia, have four children and four grandchildren. When not at the office, he says you might find him "anywhere there is water and fish."

Penalty-Free Payroll

(Continued from page 1)

Filing

The third step is to file paperwork with the appropriate agency and deposit the withheld funds.

Federal Income Taxes – Report withholdings for income tax and Social Security (FICA) each quarter by filing form 941 with the IRS. Non-employee compensation in excess of \$600 gets reported once a year on Form 1096. Deposit funds with the US Treasury on a monthly or semi-weekly basis.

FICA – Send annual summary of wages paid and taxes withheld to the SSA using Form W-3.

Federal Unemployment Insurance (FUTA) – Send quarterly deposits using Form 8109 if the amount due exceeds \$500, and file Form 940 annually.

State Unemployment Insurance – File Form C-3 with the Texas Workforce Commission by the last day of the first month after the end of the quarter.

Other – Medical, retirement, insurance and other funds would be remitted to the service provider. Child support withholding goes to the Child Support Enforcement Division of the Office of the Attorney General in Austin.

Penalties

Federal and state agencies have two basic requirements for payroll: accuracy and timeliness. The employees must receive the correct amount on payday, and the government must receive its money and paperwork on the specified date.

Failure to follow the rules results in both fines and jail time. In December 2005, for example, a Houston business owner was sentenced to 37 months in federal prison, three years supervised release and a fine for evading employment taxes. Even if you don't go to jail, the federal Trust Fund Recovery Penalty specifies a 100% penalty for willfully failing to withhold payroll taxes and submit them to the IRS. If the business goes bankrupt, the IRS can still hold the principals personally responsible.

Avoiding penalties first requires an understanding of all the federal, state and local rules covering payroll. Then, one should maintain a calendar of all due dates, and follow up to ensure that they are met. Backup personnel must be assigned to monitor the task so no deadlines are missed. The IRS doesn't care that your employee was sick the day the taxes were due, the penalties still apply.

If you don't want to devote the time to keeping up on all the changing regulations, a better choice is to outsource the payroll. This is particularly beneficial to small businesses without dedicated payroll staff.

In addition to being cheaper and simpler, outsourced payroll is generally more accurate. Last September, when Empagio Human Resources Outsourcing surveyed 209 finance and HR executives, 72% reported that outsourcing payroll reduced the amount paid in tax penalties. More importantly, it frees business owners from the time and irritation of dealing with the government agencies, and lets them concentrate on growing their businesses.

Featured Client - Ken Gray

Many people dream of owning their own business rather than being an employee. Done right, it can be both profitable and personally rewarding.

Three years ago Ken Gray and a friend purchased OnsiteView, a company that sets up and manages web cams on construction sites so contractors, architects and owners can monitor progress and schedule work at the right time. In



those three years they quadrupled the business and then sold it for a nice profit.

"My intention was to work for myself a while, have fun, make some money, build the company and then sell it," he says. "Everything worked just as planned, if not better."

But that dream could easily have turned into a nightmare. One of their first calls came from the Texas Comptroller. He didn't want to let a little thing like a sales tax audit distract him from booming the company, however, so he let The Mangold Group run with it.

"I didn't have to spend more than an hour on the audit," says Gray. "That was key. It started me off on the right foot."

Like the previous owners, Gray continued to use The Mangold Group for all of his accounting needs. He always had remote access to QuickBooks so he could work on his finances at any time, without having to

maintain the software. He says that he liked the flexible services plan that allowed him to do just what he needed at any given time.

"If I just wanted to make an invoice then and there, I could," he says. "Or I could just send them the spreadsheet and go home rather than spending the rest of the night working in QuickBooks."

The new owners of OnsiteView are following Gray's lead in using The Mangold Group so they can concentrate on their core business processes rather than worrying about keeping the books straight.

Now that he has sold his first company, he is working on his ranch while exploring other business opportunities. He plans to outsource the accounting at his next company as well, and advises that other business owners do the same.

"I really attribute the success of our company to having that outside expert help at a reasonable price," he says. "We were able to focus on growing our business with full comfort that Mangold was managing the books and paying all the proper taxes. I never had to worry about that."

Ask Thomas



taxes are a cost of doing business, and put your attention on growing a profitable company, rather than trying to cut corners.

The IRS has hired people specifically to audit the payroll taxes for S-Corps. Owners of this type of entity sometimes take distributions that are disproportionate for the income of the business. The owners then end up paying the IRS large amounts in payroll tax penalties.

Question: I am an S-Corporation owner. Why should I pay payroll taxes, when some of my friends with S-Corporations say they do not.

Answer: There are different strategies you can take to paying taxes. One is to try hiding things from the IRS and hope you can bluff your way through if you get audited. The other is to just recognize that

Submit Questions to:
Ask Thomas
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Austin, TX 78746
newsletter@mangoldcpa.com

Win a \$50 Gift Certificate

It's as easy as 1, 2, 3:

1. Fill in your name on the card below.
2. Cut it out or make copies of it.
3. Give the cards out to your friends, family and colleagues.

Every card that is redeemed at our office will be entered into a drawing for a \$50 gift certificate usable at your choice of hundreds of retailers.

The drawing will be held on December 18th, and the winner announced in our next newsletter.

THE **Mangold Group**

Certified Public Accountants, PC

FIRST CONSULTATION FREE

(Up to 30 minutes)

512-327-0909

Given by: _____

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OOPS — THERE'S A TYPO!

We have hidden a typo
in our newsletter.

Be the first to find it
and email us at
newsletter@mangoldcpa.com.

You will WIN Four Free Movie Tickets

(Congratulations to last issue's
winner, Dan Stack!)



Franchise Tax Update

Last year the legislature enacted major changes to the state franchise tax and this year the area continued to evolve. In June two new laws—House Bills 1207 and 3928 were passed. The new franchise tax structure extends the franchise tax to about 200,000 business entities that were not previously paying franchise taxes. In September, the state Comptroller announced a new set of regulations to implement these rules. The changes apply to franchise tax reports due on or after January 1, 2008.

Briefly, entities with incomes in excess of \$10 million will pay based on their margin—their total revenue minus costs calculated in one of three ways. Companies with less than \$10 million in revenue can use one of those three methods of calculation, or can opt for an E-Z Filing option. Certain discounts apply, and businesses owing less than \$1000 don't have to pay the tax, but still must file a return. Remember, returns must be filed on time to protect net operating loss carryover credits.

Contact our office to determine which filing strategy works best for your type of business.



More Profits More Free Time

Are you spending
too much time
on accounting?

Call today to
schedule a meeting to
see how outsourcing
your accounting can
help you grow your
business.

512-327-0909



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Year End Reminders

1. Be sure to send us any employee name or address changes so they receive accurate W-2's on time.
2. Send us W-9s for any new vendors in 2007.

