

422 Epic Drive  
Chambersburg, PA 17201  
717-263-8713 (Phone)  
717-263-9435 (Fax)

# GRAY ♦ PILGRIM

AND ASSOCIATES, LLC

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## Inside This Issue:

Additional Deductions	1
SS and Credit Review PPP Reminder	2
1099 Misc	3
Understanding Practice Cash Flow	4
Illustrations	5
Education Assistance	6
Education Assistance Program	7
Employee Spotlight	8



Your Practice can pay you rent for a home office



## Newsletter

Our G.P.A Newsletter is back and ready to provide essential financial insight. We hope that all of our clients are doing well during this unusual time and hope our world class service continues to benefit your practices.

### Still Time to Get Additional Deductions

Here are some of the benefits that may qualify you for additional deductions that will benefit your practice.

When thinking about advertising consider placing your children on your payroll for modeling services. It is a deductible expense for your business, and you can use the net paycheck to fund a 529 plan or an IRA for your child.

In addition to paying your child, you have the option to include your spouse on payroll as well. The net paycheck for your spouse can also be used to fund an IRA or you can defer the payments directly to a 401K, making it taxed deferred..

You may qualify to receive up to \$1,500 from your corporation for a home office, which is deductible!! If you have a home office used for storing confidential records, and completing business tasks that are private, you qualify. The rate is \$5 per square foot up to a maximum of 300 square feet.

Fund your pension plan before you get any closer to year end. It is easier to do in small segments, so there is still time to inject the funds to maximize your deduction.

Consider changing your pension fund over to our sister firm, Epic Wealth. We can most likely charge you lower fees than what you are currently paying.

Have you been reporting all your personal purchases of business items to the business to get reimbursed so that the business gets to deduct those items?

If you are taking a mileage deduction for your vehicle, have you been keeping a mileage record? If not, start and get a good sampling.

If you have a Health Savings Account (H.S.A.), have you maximized your contributions for this year? Single amount is \$3550 & family is \$7100.

Lastly, If you have an employer sponsored pension plan, look to see if you are contributing as much as you are allowed to by law. This saves you tax dollars now. If the employer has a matching program, know that this is really free money for you even if you cannot touch it now without penalty; *it adds up over time and takes away part of the burden of saving from your take home paycheck since it is taken out before you receive your check. You don't see it and don't think about it.* Good advice for owners and employees. Easy!

# Social Security Record Review...

...and credit rating review.

Because of rampant and elaborate schemes that are always out there to take away your money and identity, we want to remind you that now it almost needs to become a regular routine for you to check into not only your credit history, but also review credit score and Social Security history to verify that all appears to be unadulterated.

You can check your own credit history without it affecting your credit rating. There are many services available to monitor your credit, which we advise considering. Not only does it keep you aware to keep checking activity on your accounts, it can alert you to activity on your account.

Social Security also is an important element of your retirement strategy overall. Before too much time goes by, review your history to see that it properly reflects your working record. Once too much time has expired, it can become difficult to prove an error in your record simply because records don't exist anymore.

If you do find identity theft or theft of funds, you should alert the police to get a report filed; check to see if you have any insurance coverage for your losses. If you are a business; alert the bank or credit card company, credit bureaus and the Social Security Administration in some circumstances. There are three credit agencies and if you place a fraud alert with one, they will alert the remaining two agencies. The alert stays on for one year. Here are the agencies:

- Equifax – [Equifax.com/personal/credit-report-services](http://Equifax.com/personal/credit-report-services) 800-685-1111
- Experian – [Experian.com/help](http://Experian.com/help) 888-397-3742
- Transunion – [TransUnion.com/credit-help](http://TransUnion.com/credit-help) 888-909-8872

It is sad that we have to take on the responsibility of checking what should be safe information, but it is better to be checking regularly so you don't run the risk of losing funds and you minimize the risk.

*You can check your own history without it affecting your credit rating.*



*Having a spouse on payroll allows you to keep more money in the family*

## PPP Funds Reminder:

\*PPP will **not** be taxed if you applied it towards payroll or business expenses approved under SBA guidelines. As of now, you **cannot** use these expenses that are forgiven as deductions.



*\*Congress is potentially working for this to be forgiven and allow deductions, although this has not yet been approved.*

*\* If you received an EIDL grant and also received a PPP loan, the EIDL grant must now be repaid at the time of PPP loan forgiveness.*

# 1099s– Miscellaneous

## For Services, Rents and Mortgage Interest Received

IRS Form 1099-MISC, a tax document filed by businesses every year is the most common tax form filed. As a business owner, if you have paid someone \$600 or more in the calendar year of 2020, you may be required to issue a form to them by the end of January 2021. No one likes these forms. As a business owner, you don't like to issue them or track down information on them. On the other side, the recipients of the 1099's don't like receiving them either. So, it feels like it is a task that goes unrewarded. We get it! However, the penalties can be costly, so we just all have to bite the bullet and do what is needed to get them filed as quickly and correctly as possible. If you get the W-9 forms filled out throughout the year and send them to us, it will be largely painless for you in January. We will be able to get them prepared for you and all you have to do is mail them out.

### Details:

Before we get to a sample listing, you do not have to issue forms to a business if it is incorporated (unless the business is an attorney), so this eliminates some off your list.

Here is a list of typical vendors:

- *Janitorial services rendered*
- *Lawn maintenance and/or snow removal*
- *Independent Contractors (people who are not your employees) who provided services to you including parts, materials and labor. Could be casual labor for hygiene or office*
- *IT support*
- *Dental labs*
- *Accountants and Consultants*
- *Attorneys even if they are incorporated*
- *Maintenance or repair companies for equipment or your building*
- *Contractors*
- *Rent that you paid for your business space*
- *Mortgage Interest that you received on a mortgage that you are holding for someone*
- *This isn't a complete list, but one that helps you get the whole concept.*



You need to have your vendors fill out a W-9 form which asks them to enter their name, address and Employers Identification Number (EIN) or Social Security Number (SSN). The IRS matches these 1099 forms every year and will send you a notice if the name and identification number don't match, so please be careful to get the newest address, proper spelling of name and address and the correct identification number. In fact, it is best to have the W-9 forms filled out as soon as you ask them to provide services for you but before you pay them for the services. They are motivated to complete and return the form to you quickly. Send those W-9 forms to us and we can keep your 1099 file updated.

You will also be receiving 1099's for your practice. WE DO NOT NEED TO SEE THEM IF they are for medical and healthcare services unless they have any federal taxes withheld on them. Check the federal withholding box and if there is an amount in it, then forward that one to us to receive proper credit. Let us know if we can be of further assistance regarding the 1099 requirements.

## Understanding the True Cash Flow of your Practice

Looking at your net income on the profit and loss statement may show a very different numbers than your balance in your bank account. As a business owner understanding what the profit of your practice is for a certain time period may not be as simple as just looking at the profit and loss statement.



The Profit and loss are showing the owner of the business what the income is minus the expenses. The expenses are Salaries, facility cost clinical cost, insurance, doctors expenses and Associates expenses.

What is not on the Profit and Loss statements are owners withdraws, loan payments, large equipment, and leasehold improvements. These items don't affect the Profit and Loss. Items in these categories are paid by using fund generated by the practice but do not show up on the Profit and loss. Therefore using these funds, some of these expenditures reduce cash flow, but not taxable profit.

If you look at the enclosed Profit and Loss statement, you will see a profit of \$309,025.94. You will then subtract from the \$309,025.94 the loan payments, owners draw, and owners tax payments.

Using loan payments of \$5000.00 a month, Owners Distributions or (withdraws) 5000.00 a month and owners' taxes on the profit of \$309,025.94 would be \$9013.00 a month.

### **Illustration 1**

The profit from the Profit and Loss is \$309,025.94. Once you reduce the profit by the payments the true cash increase will be \$80,866.87. The loan payments, owners withdraw and tax payments affect the cash flow not the profit.

### **Illustration 2**

The profit is \$309,025.94, once you reduce it by the payments the true cash flow would be a negative \$109,133.13. The loan payments, owners withdraw and tax payments affected the cash flow not the profit and loss.

It is important to understand what you pay from the profits. The loan payments, owners draw and the owner's taxes have to be paid. You have to understand what you actually have to take out in owners withdraws.

**In illustration 1** the doctor would be taking out reasonable distributions. The increase to the cash in the company of \$80,866.87, allows for emergency equipment purchases, change in work schedules do to weather, and many other on foreseen circumstances.

**In illustration 2** the doctor would be taking out more money than cash available. When the company is in this situation there is not emergency funds. Usually in this situation the doctor has taken out more loans to pay taxes, equipment and other items. The problem becomes more compound overtime.

Finally, understand the Cash Flow of your company. Make sure you understand that the profit does not mean that is what can be spent.

	<u>Jan - Dec 18</u>	
<b>Ordinary Income/Expense</b>		
<b>Income</b>		
4010 · Business Charges Total	2,385,695.00	
4020 · Business Charges	-2,385,695.00	
4400 · INCOME FROM SERVICES	<u>2,348,272.29</u>	
<b>Total Income</b>	<u>2,348,272.29</u>	
<b>Clinical Cost</b>		
6100 · Clinical Cost	<u>101,007.52</u>	
<b>Total Clinical Cost</b>	<u>101,007.52</u>	
<b>Gross Profit</b>	2,247,264.77	
<b>Expense</b>	<u>1,224,516.32</u>	
<b>Net Ordinary Income</b>	1,022,748.45	
<b>Other Income/Expense</b>		
<b>Other Income</b>	260.73	
<b>Other Expense</b>		
9300 · DOCTOR'S EXPENSES	318,163.59	
9400 · ASSOCIATE EXPENSES		
9451 · Associate Dentist - Compensate	<u>361,079.17</u>	
<b>Total 9400 · ASSOCIATE EXPENSES</b>	361,079.17	
9401 · ASSOCIATE EXPENSE	<u>34,740.48</u>	
<b>Total Other Expense</b>	<u>713,983.24</u>	
<b>Net Other Income</b>	<u>-713,722.51</u>	
<b>Net Income</b>	<u><b>309,025.94</b></u>	
<u><b>Illustration 1</b></u>		
Profit	309,025.94	
Loan payments	60,000.00	12 Months
Owners distributions	60,000.00	
Owners taxes	108,159.07	
<b>Total increase in cash</b>	<b>80,866.87</b>	
<u><b>Illustration 2</b></u>		
Profit	309,025.94	
Loan payments	60,000.00	12 Months
Owners distributions	250,000.00	
Owners taxes	108,159.07	
<b>Total increase in cash</b>	<b>-109,133.13</b>	
<u><b>This short fall would cause a shortfall for taxes</b></u>		

# Education Assistance

The Education Assistance exclusion applies to any educational assistance an employer provides to employees under a qualified program. The exclusion applies to both undergraduate and graduate-level courses. The educational assistance is defined as amounts you pay or incur for your employee's educational expenses.

These expenses generally include:

- The cost of books,
- Equipment fees,
- Supplies,
- Tuition.

However, these expenses **do not** include the cost of:

- Course or other education involving sports
- Games
- Hobbies -unless the education:
  - \*Has a reasonable relationship to your business or
  - \*Is required as part of the degree program



Education expenses **do not** include the cost of tools or supplies (other than textbooks) your employee can keep at the end of the course. Nor do they include the cost of lodging meals or transportation.

\*Your Employee must be able to provide substantiation to you that the educational assistance provided was used for qualifying education expenses.

## **Exclusion from Wages:**

\*You can exclude up to \$5,250 of educational assistance you provided to an employee under an educational assistance program from the employee's wages each year.

## **Assistance over \$5,250:**

If you do not have an educational assistance plan or you provide an employee with assistance exceeding \$5,250, you must include the value of these benefits as wages, unless the benefits are working condition benefits.

*\*Working condition benefits may be excluded from wages.*

Property or a service provided is a working condition benefit to the extent that if the employee paid for it. The amount paid would have been allowable as a business or depreciation expense.



# Education Assistance Program

An educational assistance program is separate written plan that provides educational assistance only to your employees. The program qualifies only if all the following test are met.

- The program benefits employees who qualify under rules set up by you that do not favor highly compensated employees.
  - \*To determine whether your program meets this test, do not consider employees excluded from your program who are covered by a collective bargaining agreement if there is evidence that education assistance was a subject of good-faith bargaining.
- The program does not provide more than 5% of its benefits during the year for shareholders or owners (or their spouses/dependents).
  - \*A shareholder or owner is someone who owns (on any day of the year) more than 5% of the stock or of the capital/profits interest of your business.
- The program does not allow employees to choose to receive cash or other benefits that must include in gross income instead of education assistance.
- You give reasonable notice of the program to eligible employees.      \*Your program can cover former employees if their employment is the reason for coverage.

For this exclusion, a highly compensated employee for 2020 is an employee who meets either of the following tests:

1. The employee was a 5% owner at any time during the year or the preceding year
2. The employee received more than \$125,00 in pay for the preceding year.

\*You can choose to ignore test (2) if the employee was also in the top 20% of employees when ranked by pay for the preceding year.

For this exclusion treat the following individuals as employees.

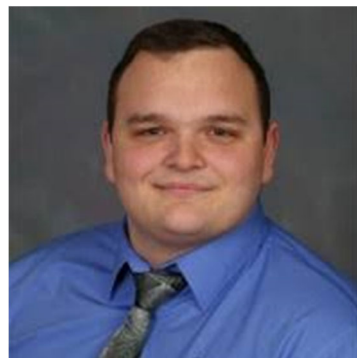
- A current employee
- A former employee:
  - Retired
  - Left on disability
  - Was laid off
- A leased employee:
  - Has provided services to you on a substantially full-time bases for at least a year if the services are performed under your primary direction or control.
- Yourself:
  - If you are a sole proprietor
- A partner:
  - Who performs services for a partnership



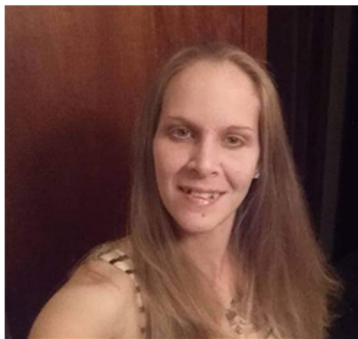
## New Employee Spotlight

This month we would like to share two of our most recent hires here at Gray-Pilgrim. Both employees have been a great addition to the G.P.A team and have settled into our office atmosphere with great ease. Please help us in welcoming Randy Harne, and Kristal Stratton to our team.

Randy Harne, an Accountant, has been employed with G.P.A. since January of 2020. He studied at Purdue University with a Bachelor's in Finance. He is a massive Philadelphia Eagles fan who enjoys the outdoors and playing World of Warcraft with his friends on the weekends. Three words to best describe Randy would be: patriot, passionate, and honest. During his time here at G.P.A., Randy has expressed that G.P.A. influences his accountability and responsibilities and wants to Expand accounting knowledge and become a more well rounded business professional. Randy shares "Having the ability to work with individuals who have such high levels of knowledge in my career field is one of my favorite parts of working here. To have satisfaction and happiness in your career defines success. Finally remember to be kind to people".



Kristal Stratton, also an Accountant, has been employed with G.P.A since July. Kristal is a single mom of three beautiful girls ages 12, 14, and 17. She has two dogs named Bailey and Ace. During her free time, she enjoys spending time with her family and boyfriend Jared going floating and watching movies. Kristal is currently enrolled at The University of Phoenix pursuing a degree in Accounting. She is both outgoing and hardworking. Kristal shares that her most enjoyable part of working here at G.P.A. is being able to learn new things daily as well as the staff. During her short time here at G.P.A, Kristal believes that she is more focused and indulges in self-discipline, sharing "It makes me be an adult". She expresses her deep desire to continue to learn and expand her knowledge and skillset to grow both professional and personally. She states "Success is an accomplishment no matter how big or small it may be. Achieving any goal that you set for yourself and continuing to do so even after you reach that goal; continuously achieving goal after goal". Finally, "Never give up on your dreams no matter how many setbacks you go through".



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