TIRET + COMPANY
CPAs

CLIENT HANDBOOK

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THE TIRET TEAM CONCEPT

Welcome to Tiret & Company CPAs. Tiret & Co. is structured to provide you with an entire team of people to service your accounting, tax, payroll, and financial needs. The team members are comprised of the following roles:

Partner: The firm partner will be your primary consultative relationship at the office. Your meetings will take place with the partner, and all tax and financial planning matters will work through the partner.

Staff Accountant: You will have a dedicated staff accountant that will prepare your monthly accounting. The accountant will occasionally have questions for you relative to completing the accounting. Any questions that you have related to the logistics of the accounting can be run through your staff accountant.

Payroll Department: Your payroll info (employees, rates, hours, vacation, etc) will be communicated to our payroll department, who will than take care of preparing your payroll and your payroll taxes.

Tax Preparer: While your tax return will always be reviewed by the partner in charge of your account, the return itself may be prepared by one of our highly qualified tax preparers. To facilitate the proper and timely completion of your return, the preparer will communicate with you to request needed documents or to resolve questions.

Admin Department: We have a top-notch admin department at Tiret & Co. CPAs that will assist you in numerous ways, including scheduling meetings and arranging for the transfer of documents and information between you and the firm, or the firm and a third party as necessary.

ACCOUNTING PROCEDURES

Generally, Tiret & Co. will take care of all actions necessary to complete your accounting. There are some action items required from the client side to enable us to do this.

DAILY:

Writing checks: As your write manual checks, they need to be entered into your check register in QBO (QuickBooks Online). This can be done from a computer, or from a smart phone with the QBO mobile app. Please note that you can also use QBO and your printer to actually print checks directly from the computer.

Making and Recording Deposits: At the close of each day you should review your posted collections for the day and the actual checks, cash, and credit card receipts relative to those posted collections. You should enter the deposit information into the Google Drive deposit spreadsheet that was created for you by Tiret & Co. Ideally you should make a deposit of the day's checks and cash at the close of each day. If you are unable to make a deposit one day and need to make two day's deposits in the same day, they should be deposited as two separate deposits. If you make your deposits via a scanner and don't have a branch at which you can deposit cash, you should write a personal check to the office for the amount of cash received, and keep the cash for yourself. This ensures a paper trail of all collections. These are important cash control steps to help defend against potential embezzlement.

MONTHLY:

Sending in Practice Reports: At the close of the month you will send to your assigned staff accountant a packet of your internal software reports that we will need in order to complete the accounting. This will include production, collections, and adjustments for the month, along with the accounts receivable aging as of the close of the last business day of the particular month. You will be provided with a checklist that will list in detail the particular reports needed each month from your particular internal software program. The reports can be emailed, posted to the portal, or if either of those two methods does not work for some reason, snail mailed to us.

Answering questions: As you will see on the deduction guideline page, there are some expenditures for which we will need some clarification from you. This will lead to your staff accountant emailing you each month questions that will need to be answered to finalize the accounting—mainly related to meals and entertainment expenses (split between staff and non-staff).

DEDUCTION GUIDELINES

The IRS defines a deductible business expenses as something that is "ordinary and necessary" for the sake of the business operations. There are however more stringent guidelines on some particular types of expenses.

1) **Insurance Expense:**
   There are particular rules determining the deductibility of insurance expenditures. As such, we will need to know from you what type of insurance a particular premium is for:

   a. Disability income (non-deductible)
   b. Disability overhead (deductible)
   c. Life insurance (non-deductible)
   d. Worker's comp (deductible)
   e. Malpractice (deductible)
   f. Officer Health insurance (generally deductible, but with some particular reporting guidelines)
   g. Staff Health insurance (deductible)
   h. Office Umbrella Insurance (deductible)
   i. Etc.

2) **Meals and entertainment expenses:**
   Any meals and entertainment that are related to feeding and/or entertaining your staff are 100% deductible. Any meals and entertainment that are not staff related (i.e. dinner with a referral source or some other business contact) are only 50% deductible. As such, we will need from you, and we will ask you for guidance each month as to the split of meals and entertainment costs between:

   a. Staff meals and entertainment
   b. Non-staff meals and entertainment

   Please note that in order to support the deductibility of meals and entertainment expenses, it is a good idea to both keep receipts related to meals and entertainment, and to jot down the business reason and business associate with whom the meal took place.

3) **Equipment:**
   Please take care to note if a purchase is for equipment, and when equipment is purchased please include the invoice with the accounting work packet. Alternatively, you could also email a copy of the invoice to your assigned staff accountant when the purchase is made. Equipment for these purposes is anything with a cost over $500.00 that represents an asset that will remain in the office for an extended period of time. Note that we treat hand-pieces as supplies, not equipment. Examples of equipment would be something like an x-ray machine, an inter-oral

camera, an office desk, a waiting room TV, etc. The cost of equipment is deducted through depreciation deductions, not directly through the expense of paying for the item. Depending on the tax laws in place for a particular year, the equipment will be deducted all in the year of purchase, or over a period of years (ranging from as little as 3 to as many as 39, depending on the type of equipment).

4) **Automobile Expenses:**
Commuting miles represent non-deductible automobile expenses. All other miles related to business represent deductible mileage. This includes trips to the bank, to the post office, to the store for business purchases, trips to continuing education meetings, etc. Your commute for IRS purposes is defined as the trip from home in the morning to your first place of business for the day and your trip from your last place of business for the day to your home at the close of the day. So if you first drive from home to the post-office for work related activities, and then from the post office to your office, the trip to the post-office would be considered your commute. The trip from the post-office to your office would be considered deductible business miles. Likewise, if you leave your office at the end of the day and drive to the bank to deposit that day's collections, and then head home from the bank. The trip to the bank would be business miles, and the trip from the bank to your home would be commute. Business auto expenses can be taken in the form of a percentage of actual auto expenses. So, if you drive 10,000 miles in the year and 6,000 are business miles, then 60% of all expenses related to the business automobile would be deductible. Alternatively, the deduction can be based on a calculation of the IRS applicable auto expense rate for a particular year multiplied by the total business miles driven for the year. When preparing the tax return, we can generally choose whichever method will give the better deduction. **Whichever deduction method is ultimately chosen, you should pay for all expenses related to your business use car through the business. This includes, gas, repairs, car wash, registration, etc.**

5) **Travel Expenses:**
Travel expenses that are ordinary and necessary business expenses are deductible. The most common reason for business travel is for continuing education and conventions. While you may bring your family along on your travels, note that only the expenses that would have been incurred without the presence of your family are deductible. This includes your airfare, but not your family's. It could include all lodging expenses, if the presence of your family does not cause you to book a larger room than you would have booked for yourself. It includes business related meals and entertainment for you, but no meals and entertainment expenses for your family. Also note that if you extend your trip beyond the timeframe of the business purpose, the expenses related to the additional days are not deductible.

Some examples of deductible business travel expenses are as follows:

1. Travel by airplane, train, bus or car between your home and your business destination. (If you are provided with a ticket or you are riding free as a result of a frequent traveler or similar program, your cost is zero.)
2. Using your car while at your business destination. You can deduct actual expenses or the standard mileage rate, as well as business-related tolls and parking fees. If you rent a car, you can deduct only the business-use portion for the expenses.
3. Fares for taxis or other types of transportation between the airport or train station and your hotel, the hotel and the work location, and from one customer to another, or from one place of business to another.
4. Meals and lodging (still subject to the potential 50% limitation).
5. Tips you pay for services related to any of these expenses.
6. Dry cleaning and laundry.
7. Business calls while on your business trip (This includes business communications by fax machine or other communication devices).
8. Other similar ordinary and necessary expenses related to your business travel (These expenses might include transportation to and from a business meal, public stenographer's fees, computer rental fees, and operating and maintaining a house trailer).
9. Shipping of baggage, and sample or display material between your regular and temporary work locations.

PAYROLL PROCESSING PROCEDURES

Items needed for payroll set up:

- Federal Tax ID# (EIN) (We can acquire this number for you if need be)
- State Tax ID# (EDD) (We can acquire this number for you if need be)
- Voided check for business account
- 4 digit pin number for EFTPS (this number is mailed to you shortly after you receive your Federal EIN)
- W4 for all employees (link below)
  http://www.irs.gov/pub/irs-pdf/fw4.pdf
- I9 for all employees (link below)
  http://www.uscis.gov/sites/default/files/files/form/i-9.pdf
- Pay rates
- Any other pay/deduction information (vacation, sick, medical, 401k, etc)
- Voided checks for direct deposit
- Payroll Frequency – Every other week (bi-weekly) or twice per month (semi-monthly)?
- Payroll periods
- Pay dates

Submitting payroll:

Payroll hours are due no later than 1 pm ***two business days*** before your pay date if your employees are on direct deposit (one business day for regular checks). Weekends and bank holidays do NOT count as business days.

On the day that you are due to submit payroll, you should run reports for the pay period and calculate overtime if your time keeping software does not already do it for you. Hours should be totaled and reported as separate categories if you wish for them to be broken down on the check stub (regular hours, OT hours, vacation, sick, holiday).

Receiving payroll:

The payroll package will be delivered to your office (or other location if specified) via courier. Upon receipt, you should review the check stubs or reports to make sure everything is accurate. The check stubs should then be given to the employees on pay day for their records. *It is also recommended that you make copies and retain them for your records.*

Alternatively, you can elect to receive your payroll records electronically through our client portal. In this case, each employee will have their own dedicated portal log-in where they will access their paystubs.

Payroll Tax Liabilites:

The payroll taxes that you are responsible for paying will be calculated and submitted electronically by our office on your behalf. Each payroll you will receive a cover letter that details the total net payroll, total Federal taxes due and total State taxes due.

INSURANCE COVERAGE GUIDELINES

There are certain risks that come along with the role of business owner. It is important that you have the proper insurance policies in place to deal with those risks.

Required Policies in CA

Malpractice: Malpractice insurance protects you against liability related to your professional work on patients. Malpractice insurance premiums are deductible.

Worker's Compensation: If you have employees, then you are required to carry worker's compensation insurance. Worker's comp insurance covers potential lost wages of your employees due to injuries incurred while on the job. As an owner, worker's comp insurance helps mitigate your risks associated with employees that are hurt on the job. Worker's comp insurance premiums are tax deductible.

Recommended Policies

General Business Liability Insurance: Protects against a wide variety of business risks – including but not limited to risks associated with someone getting hurt on your business property, and damages caused to your business property by you and/or an employee. General Business Liability Insurance premiums are deductible.

Employment Practices Liability Insurance: Employment practices liability insurance protects potential suits brought forth by staff members, such as wrongful termination, discrimination, and sexual harassment. Employment practices liability premiums are deductible.

Disability Income Insurance: Disability income insurance covers a business owner's lost income should he or she become disabled. The nature of dentistry is such that injuries that may be relatively minor in the grand scheme of life can be debilitating to the ability to practice dentistry. Most dentists carry high balances of student loan debt, and do not have the same earning power outside the profession of dentistry. Therefore, it is important to carry insurance to prevent a potential disability from leading to severe financial hardship. Disability income insurance premiums are not deductible. On the flip side, if claims are ever paid on the policy, the claims are not taxable.

Other Potential Policies

Business Umbrella policy: An umbrella policy covers liabilities that are in excess of the coverage provided by your other professional policies. Depending on your policies and your risks, it may make sense to have an umbrella policy. Umbrella policy premiums are deductible.

Owner health insurance: If you are not covered for health insurance through a spouse, then you will definitely want to acquire your own health insurance. While it is not deductible as a business expenses per se, as a business owner you are allowed to deduct your health insurance premiums on your tax return.

Staff Health insurance: Different offices provide varying levels of staff health insurance, ranging from zero coverage, to full coverage for all staff. Paying employee health insurance is an added cost, but it can help improve staff moral and loyalty, and serve to attract better talent when looking for new hires. While there is no requirement to cover staff health insurance, if you are going to cover any staff there are certain non-discrimination rules you must abide by. Any staff coverage should be discussed with both your Tiret & Co. advisor and with your health insurance broker. Covering staff insurance can also potentially decrease your own health premiums through group plan rates. Premiums for staff health insurance are deductible.

Disability Overhead Insurance: Disability overhead insurance covers the overhead of your office in the case of a short term disability. Depending on your situation, this policy may or may not make sense for you. It should be discussed with both your Tiret & Co. advisor and with your insurance broker. Disability overhead insurance premiums are deductible.

Life Insurance: Covers the risks associated with an early death. Any bank will require a life insurance policy as part of a practice purchase loan. Depending on your financial and family situation, it may make sense to have additional life insurance coverage. There are two types of life insurance policies. Term insurance is a policy that last for a certain number of years and then expires. It carries no vesting investment feature. Whole life insurance lasts until death, whenever it may be. Premiums are far more expensive than term insurance premiums, though there is a vesting investment that is part of the policy. Discuss which type of policy and how much coverage is recommended with your Tiret & Co. advisor. Life insurance premiums are not deductible.

Tiret & Co. CPAs does not sell any insurance products. We have positioned ourselves this way so that we can provide independent advice when it comes to which insurance products you should have in place. We do have a strong network of trusted brokers that we have met over the course of our many years in business to whom we can refer you for your various insurance needs.

INTERNAL CONTROL PROCEDURES

1) Print and review Daysheet Report and Deposit Report at the end of every workday.

2) Make bank deposits daily (including cash receipts), making sure that deposit ties to daysheet receipts. If your bank arrangement does not allow for cash deposits, you should keep the cash yourself and issue a personal check to the company for the amount of cash so that a deposit into the business account can be made for that cash.

3) Complete daily deposit spreadsheet, making sure daily deposit amount ties to the posted collections for that day.

4) Stamp checks received as "For Deposit Only."

5) Do not allow any fee adjustments without owner authorization.

6) Review fee adjustments occasionally (as often as daily, if you like) to confirm that no unauthorized adjustments have been entered.

7) Review bank statement, check register and cleared checks to confirm that no unauthorized checks or bank debits are clearing the bank.

8) Review Monthly merchant credit card deposit summary to confirm that there are no unauthorized chargebacks.

INDEPENDENT CONTRACTOR OR EMPLOYEE?

As a business owner you will employ the use of both employees and independent contractors. There are stiff IRS penalties for erroneously classifying someone who is your employee as an independent contractor, so it is important to make the correct classification. There are no hard and fast rules to define one from the other, but there are some guidelines to be applied to the facts and circumstances of each case. From the IRS website, here are some of the guiding factors that are looked at:

Common Law Rules

Facts that provide evidence of the degree of control and independence fall into three categories:

1. Behavioral: Does the company control or have the right to control what the worker does and how the worker does his or her job?
2. Financial: Are the business aspects of the worker's job controlled by the payer? (these include things like how worker is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)
3. Type of Relationship: Are there written contracts or employee type benefits (i.e. pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?

Businesses must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent contractor. There is no "magic" or set number of factors that "makes" the worker an employee or an independent contractor, and no one factor stands alone in making this determination. Also, factors which are relevant in one situation may not be relevant in another.

The keys are to look at the entire relationship, consider the degree or extent of the right to direct and control, and finally, to document each of the factors used in coming up with the determination.

There are a couple of things to note about the field of dentistry in particular. Hygienists, in accordance with case law, must always be classified as employees. As for associate dentists, it is more of a facts and circumstances analysis of each situation. If the associate does his or her own billing and or scheduling, that is supportive of their classification as an independent contractor. Also, if he or she works at multiple offices it is supportive of an independent contractor relationship. Conversely, if you have strong control over the associate's hours, scheduling, and billing, and that associate only works at your office, the IRS would classify that person as an employee. With associates, one way to work around the vagaries of the independent contractor vs employee issue is to require your associates to incorporate. Once incorporated, there is no risk factor to you classifying the relationship as their corporation contracting for you.

As noted above, this is generally a facts and circumstances situation. If you are unsure of the proper classification of a work relationship in your office don't hesitate to seek guidance from the partner that you are working with at Tiret & Co. CPAs.

EMPLOYEE HANDBOOK

Being an employer in the state of California can be a minefield of HR laws, and potential employment disputes and lawsuits. Within this environment, it is very important to have an up to date employee handbook. This handbook is useful for two main reasons. One, it provides your employees with clear guidance on the rules and regulations of their work environment. And two, it can serve as a layer of liability protection in the case of any disputes that should arise with your staff. Tiret and Co. will not create your employee handbook for you, but we do have several referral sources that can help you create your employee handbook.

RECORD RETENTION

Tax Records:
The IRS can audit a return up to 3 years from the later of the date it is filed, or the due date of the return (including extensions). The CA audit period is 4 years. We recommend keeping tax records for **five years** to be sure to cover your bases on potential audits.

Additional notes on record retention:
-If income is understated on your return by 25% or more, then the IRS statute of limitations is expanded from 3 years to 6 years.

-If no return is filed, or a fraudulent or false return is filed, then there is no statute of limitations on that year.

-As long as you have capital loss carryforwards, the statute of limitations relative to that capital loss carries forward until 3 years from the time the capital loss is used on the return. For this reason, we recommend keeping capital transaction records indefinitely, as long as you have a capital loss carryover.

-While we recommend that you save tax returns and tax documents for at least 5 years, also note that your returns and workpapers will be saved in our paperless storage system indefinitely.

Accounting Documents & Receipts:
If audited, it is within the IRS rights to ask for a bill, invoice, and/or receipt to support a deducted transaction. We recommend keeping all invoices and bills related to accounting and tax records for 5 years. These documents need not be held in paper form though. If you want to scan the documents or take pictures of them, those digital records will be sufficient for IRS audit purposes.

Some additional notes on receipts:
For many transactions, simply seeing the line item description of the expense on the check, bank statement, or credit card statement is sufficient to support the transaction. For expenses at merchants which could either be business and/or personal in nature, such as grocery stores, drug-stores, and general stores (such as Target or Costco), an auditor may want to see an actual receipt of the transaction to see the individual items of the purchase and judge each of them as to their business purpose. Unfortunately, these receipts general fade to illegibility within a matter of months. As such, a saved receipt loses some value for audit purposes. To combat this, we recommend either having receipts emailed to you if possible or taking pictures of receipts. If you like, you can take an extra step and attach those pictures to their related transaction in QuickBooks Online. Without these receipts, upon audit the IRS could attempt to disallow all or a portion of the expenses.

Additional Notes on Meals and Entertainment Expenses:

The IRS would very much like to see contemporaneous notes on business meals and entertainment expenses indicating who the business associate was and how the expense was business related. In our experience, this can be difficult to recreate years after the fact. As such, we recommend keeping notes on business related meals and entertainment expenses. There are two main ways we recommend doing so. The first way, would be to go into your QuickBooks Online account and write those notes into the memo section of the relative transaction. The second way would be to add notes to the list of meals and entertainment that are sent to you each month from your dedicated staff accountant when you indicate which of the meals are staff related and which are non-staff related.