

krd Client News

SPRING 2013

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KRD PROFILE:

Clingan Steel, Inc.



Steve Clingan
Founder & President
Clingan Steel

Clingan Steel founder and president Steve Clingan understood very early on that he would be continuing in his family's tradition of working in the steel industry. Originally hailing from the steel-centered town of Warren, Ohio, Clingan notes that for most people the only real opportunities were in the mills, and after completing college and time in the military, he went straight to work in the steel business.

After being relocated to Chicago in 1960, as a salesman, Clingan spent another 20-plus years as a mill representative, before deciding to put his expertise to work in the steel distribution business. In 1983 he purchased and worked to save a failing steel warehouse. After several years of ups and downs in the company's growth, he firmly established Clingan Steel and took steps to build it into a factor in the processing, edging, reducing, and sizing of steel.

Clingan Steel Niche

Clingan's knowledge of both steel manufacturing and steel markets has driven him to constantly improve output and efficiency while also keeping a sharp eye on the company's bottom-line. "Steel is not a growing market," he says. "It will always be most competitive, so we and our competitors are best served by focusing on niche products. We try to find ways to add value to our products, instead of just buying and selling." After Clingan Steel shifted its focus to edging and sizing in 1994, the company decided to invest in specialty close tolerance strip using techniques such as precision cutting and an oscillating slitting line. Having a broad inventory and handling small specialty orders is our key niche.

Green Technology Pioneer

In addition to forward-thinking and industry-specific practices, Clingan Steel has also been a pioneer for green technology and innovation. Among the initiatives that the company has invested in are a wood-burning furnace system that utilizes the skids that formerly had to be disposed of, a series of industrial fans that maintain a comfortable atmosphere in the warehouse, and energy-efficient lighting controlled by motion sensors to reduce waste even further.

Clingan has also stated a future goal to provide power to the warehouse through solar means by installing panels upon the roof. "The technology is moving fast, so we're looking to see what will be the most efficient. Although it would provide completely free electricity, initially it's very high cost. We would need government help to do it, but the incentives they offer are a moving target." Clingan's plan for the solar panels would also be contingent on the eventual need to renovate the warehouse roof—ideally, the company would invest in both a new roof and the solar technology simultaneously.

North American Steel Alliance Member

This commitment to greener practices has had some noteworthy influence on Clingan's industry peers. Clingan Steel is a member of the North American Steel Alliance—a highly successful buying co-op of over a hundred smaller and medium sized steel distributors who banded together to bolster their purchasing power and collectively improve their individual businesses. Clingan gave a presentation to the NASA on the economic advantages of green technology and saw "more than a handful" of his colleagues adopt his strategies.

KRD – Clingan Steel's Sounding Board

Kutchins Robbins & Diamond, through Partner Mitch Knopoff, works with Clingan Steel primarily as a business and financial advisor. "It's been a marriage made in heaven," says Clingan. "Mitch has been great, and KRD has advised and helped us on several profitable initiatives. We really value what they've been able to do on a daily basis and as a strategic sounding board. They are both big enough and small enough to serve our needs for the future."

As Clingan Steel continues to review and reinvent itself to keep pace with its industry, KRD looks forward to offering the company its full breadth of financial knowledge and guidance. ■



Kutchins, Robbins & Diamond, Ltd.

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IRS Red Flags for Income Tax Return Audits

There's no guaranteed way to avoid an IRS audit. Although the IRS randomly chooses thousands of returns every year, there are red flags as shown below that make your return more likely to be chosen for closer examination. While many deductions are legitimate, you need to be prepared to provide all supporting documentation in the event of an audit.

Income Level

Even though the IRS audits only slightly over 1% of all individual tax returns annually, the odds for higher earners is greater. In 2011 audit odds for those making \$200,000 or more had an audit rate of nearly 4%; slightly more than one in every 25 returns. For those reporting \$1 million or more had an audit rate of 12%; meaning, there's a one-in-eight chance your return will be audited. The audit rate drops significantly for filers making less than \$200,000; only 1.02% of such returns were audited during 2011.

Additionally, if there is a big change in your income from the previous year, it will likely trigger a red flag.

Charitable Deductions

Another red flag is taking charitable deductions that look disproportionately large compared to your income. In general, the IRS says you can deduct up to half your adjusted gross income. But the rules get complicated, and the bigger the deduction, the higher the audit odds. IRS computers know what the average charitable donation is for filers at a given income level. If you don't get an appraisal for donations of valuable property, or if you fail to file Form 8283 for donations over \$500, the chances of an audit increase. That doesn't mean you shouldn't take all the deductions you're entitled to; it just means you should be prepared to back them up with all the proper supporting documentation including receipts for cash and property contributions.

Report All Income

Income that's been reported to the IRS by someone else – like investment and self-employment income – and not reported by you will send up a red flag when the IRS computer recognizes a mismatch. You can't assume that even if you didn't get a copy of an income-reporting form, one wasn't filed with the IRS. If your W-2, 1099, or other tax form hasn't shown up, call the company that's supposed to provide it.

Self-Employment

According to *The Wall Street Journal*, the self-employed are 10 times more likely to be audited if they file a Schedule C rather than a corporate return. Self-employed workers utilize Schedule C for tax deductions. IRS agents know from experience that self-employed workers sometimes claim excessive deductions. History shows that most under-reporting of income and overstating of deductions are done by self-employed individuals. And the IRS looks at both higher-grossing sole proprietorships and smaller ones. Be well prepared to defend all deductions and credits.



Put Business Before Pleasure

You can and should deduct expenses related to a business, but expenses related to hobbies aren't deductible. The difference between a hobby and a business is that a business makes money. The IRS states, "an activity is presumed for profit if it makes a profit in at least three of the last five tax years." As a starter, ask yourself these two questions:

1. Does the time and effort put into the activity indicate an intention to make a profit?
2. Do you depend on income from the activity? For more details visit www.irs.gov/uac/Is-Your-Hobby-a-For-Profit-Endeavor

Home Office Deduction

If you qualify, you can deduct a percentage of your rent, real estate taxes, utilities, phone bills, insurance and other costs that are properly allocated to the home office. However, the IRS is drawn to returns that claim a home office. In order to take this write-off, you must use the space exclusively and regularly as your principal place of business. "Exclusive use" means that a specific area of the home is used only for trade or business, not a guest bedroom, a playroom or your family recreation room.

Business Use of a Vehicle:

Because very few people use a car exclusively for business, claiming 100% business use of an automobile is a huge red flag. And no matter what percentage you're deducting, keep detailed mileage logs and precise calendar entries for all usage including distance to your destination(s) per trip, name of person and company name as well as the reason for the business.

Be Careful With the Earned Income Credit

Filers claiming the earned income tax credit – available to low- to moderate-income working individuals and families – can also set off a red flag. More than 27 million people claimed the credit last year. Because the credit is refundable – meaning the government will send you a check even if you paid no taxes – it's often abused.

Pick the Right Professional

If the IRS suspects a tax preparer is routinely fudging numbers, it can audit all the preparer's clients. Additionally, the more mistakes, the more your return sticks out.

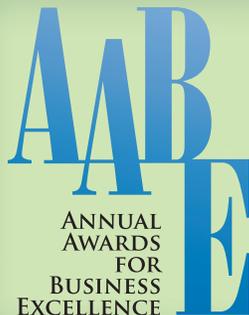
Be Careful With State Returns

Federal and state governments communicate, so if you get audited by one, expect to hear from the other. That's a good reason to take just as much care in preparing a state return as the federal one. ■

IRS CONSUMER ALERT!

Please note that the IRS does not initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.

- If you get an unsolicited email that appears to be from the IRS, please report it by sending it to phishing@irs.gov.
- If you find a suspicious website that claims to be the IRS, please send the site's URL by email to phishing@irs.gov, using the subject line: [suspicious website](#).



KRD is proud to be recognized for an Annual Awards for Business Excellence (AABE) for a mid-sized company as presented by the Daily Herald.

Thinking Ahead – Net Investment Income Tax

A new Net Investment Income Tax goes into effect starting in 2013. The 3.8% Net Investment Income Tax applies to individuals, estates and trusts that have certain investment income above certain threshold amounts. In general, investment income includes, but is not limited to: interest, dividends, capital gains, rental and royalty income, non-qualified annuities, income from businesses involved in trading of financial instruments or commodities.



Threshold:

Filing Status: Married Filing Jointly

Threshold Amount: \$250,000

Filing Status: Single

Threshold Amount: \$200,000

Two Examples of Calculating Net Investment Income Tax

*How do **Married Filing Jointly** taxpayers with income less than the statutory threshold calculate the Net Investment Income Tax?*

Taxpayers, married filing jointly, have wages of \$180,000 and \$15,000 of dividends and capital gains. Taxpayers' modified adjusted gross income is \$195,000, which is less than the \$250,000 statutory threshold. Taxpayers are not subject to the Net Investment Income Tax.

*How does a **Single** taxpayer with income greater than the statutory threshold calculate the Net Investment Income Tax?*

Taxpayer, a single filer, has \$180,000 of wages. Taxpayer also received \$90,000 from a passive partnership interest, which is considered Net Investment Income. Taxpayer's modified adjusted gross income is \$270,000.

Taxpayer's modified adjusted gross income exceeds the threshold of \$200,000 for single taxpayers by \$70,000. Taxpayer's Net Investment Income is \$90,000.

The Net Investment Income Tax is based on the lesser of \$70,000 (the amount that Taxpayer's modified adjusted gross income exceeds the \$200,000 threshold) or \$90,000 (Taxpayer's Net Investment Income). Taxpayer owes NIIT of \$2,660 (\$70,000 x 3.8%).

For more details on this subject see:

www.irs.gov/uac/Newsroom/Net-Investment-Income-Tax-FAQs

Reporting Employer Provided Health Coverage on Form W-2



The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee's Form W-2, Wage and Tax Statement, in Box 12, using Code DD. Many employers are eligible for transition relief for tax-year 2012 and beyond, until the IRS issues final guidance for this reporting requirement.

The amount reported does not affect tax liability, as the value of the employer excludable contribution to health coverage continues to be excludable from an employee's income, and it is not taxable. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be more informed consumers. ■

International Corner

GGI joins EGIAN

GGI is proud to have been accepted as a full member of the **European Group of International Accounting Networks and Associations (EGIAN)**, a non-profit organization which is the representative group for 24 of the largest International Accounting Networks and Associations outside the Big 4.

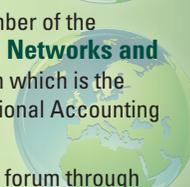
EGIAN's mission is to provide the members with a forum through which to collaborate and facilitate an exchange of ideas and information about key worldwide professional developments affecting the accounting and auditing professions in Europe.

The European Commission (DG Internal Market) and FEE (The Fédération des Experts Comptables Européens) have recognized EGIAN as the body that represents mid-tier International Accounting Associations and Networks within the European Union.

www.egian.eu



GENEVA GROUP INTERNATIONAL
Independent Member



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Calendar of events

Online Lenders Alliance (OLA)

Spring Summit

April 24 to April 26, 2013

www.onlinelendersalliance.org

Goal One

(formerly *Urban Students Empowered*)

Annual Gala

Tuesday, April 30, 2013

www.onegoalgraduation.org

Geneva Group International (GGI)

North American Developing Leaders Conference

May 2 to May 4, 2013

www.ggi.com

Geneva Group International (GGI)

North American Regional Conference

May 9 to May 12, 2013

www.ggi.com

Association of Accounting Administrators AAA

National Practice Management Conference

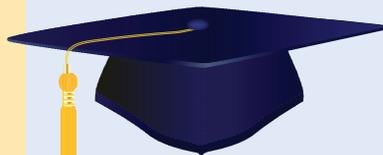
June 18 to 20, 2013

www.cpaadmin.org

Scan this QR code
with your SmartPhone
to learn more about KRD!



Parents and Students:



Check Out College Tax Benefits for 2012 and Years Ahead

The IRS reminds parents and students that now is a good time to see if they qualify for either of two college education tax credits or any of several other education-related tax benefits. In general, the American opportunity tax credit, lifetime learning credit, and tuition and fees deduction are available to taxpayers who pay qualifying expenses for an eligible student. Eligible students include the primary taxpayer, the taxpayer's spouse or a dependent of the taxpayer.

Though a taxpayer often qualifies for more than one of these benefits, he or she can only claim one of them for a particular student in a particular year. The benefits are available to all taxpayers — both those who itemize their deductions on Schedule A as well as those who claim a standard deduction. The credits are claimed on Form 8863 and the tuition and fees deduction is claimed on Form 8917. ■

KRD Welcomes...

Jose Cadiena, CPA, Senior Accountant. Jose joins the KRD team in our auditing department. He specializes in planning, and executing audits, reviews and compilations in various industries. Jose brings over seven years of public accounting experience in assurance, tax and financial reporting services.

Brittany Brill, Intern. Brittany earned her BS degree in Accounting and MS degree in Leadership Masters of Accounting Science from Northern Illinois University. Brittany is utilizing her knowledge in our tax and accounting department; and continues working toward her CPA certification.

We Can Help

*We welcome the opportunity to discuss
how KRD can help in your tax and
financial planning, please call us at 847-240-1040*

