THE MAIN DISH

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ABOUT US

Henry & Horne, LLP is one of the leading accounting firms in Arizona with offices in Tempe, Scottsdale and Casa Grande. We combine the knowledge and expertise of a premier consulting firm with the personal attention of a local CPA, meaning unmatched service to you. Our services include: daily, monthly and annual bookkeeping and accounting; audit, review and compilation of company financial statements; audits of 401(k) plans; tax planning and compliance; tip reporting and compliance; cost segregation studies; internal control reviews; estate, trust & gift services; and valuation and litigation support services.

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Compliance With New Tip-Credit Notice Rules

By Kelly Lynch, CPA

The Department of Labor (DOL) has issued new regulations under the Fair Labor Standards Act (FLSA) that affect tip-credit requirements for employers. The regulations were released on April 5th and took effect on May 5th. Failure to follow the new regulations could result in an employer losing the right to apply any tip income toward minimum wage obligations.

Under the previous regulations, employers were able to provide a simple notice to inform tipped employees that the employer was applying a tip credit towards the employer's minimum-wage obligations. This was a pretty straight-forward approach and was documented in writing and kept in the personnel files.

The new requirements are somewhat confusing and complex. The employer must provide the following information to a tipped employee before the employer may use the tip credit:

1) the amount of cash wage the employer is paying a tipped employee;
2) the additional amount claimed by the employer as a tip credit;
3) that the tip credit claimed by the employer cannot exceed the amount of tips actually received by the tipped employee;
4) that all tips received by the tipped employee are to be retained by the employee except for a valid tip pooling arrangement limited to employees who customarily and regularly receive tips; and
5) that the tip credit will not apply to any tipped employee unless the employee has been informed of these tip credit provisions.

These new requirements have caused quite a stir within various restaurant industry groups. In fact, on June 16th, the National Restaurant Association (NRA), Council of State Restaurant Associations and National Federation of Independent Business filed suit against the DOL over the new regulation. The NRA believes the DOL violated federal law in making substantive changes to federal regulations without benefit of a legally required notice-and-comment period for affected industries. This change affects the notice that restaurants provide to more than 2 million tipped employees in the restaurant industry.

Restaurants now face an unanticipated, increased and unnecessary regulatory burden in complying with the new tip-credit notice requirements. Failure to follow the new regulation could result in an employer losing the right to apply any tip income toward minimum wage obligations. As a result, employers could face some legal issues that could potentially bankrupt their business.

In the meantime, the recommendation is to immediately make efforts to comply in good faith with the new tip-credit notice requirements. Restaurant operators should continue to monitor the progress of the NRA's efforts to clarify and delay enforcement of these rules. If you have any questions regarding these new reporting requirements, do not hesitate to contact us.

If you have any questions Kelly can be reached at (480) 839-4900 or KellyL@hhcpa.com.



Tappas

According to the NRN, caramel is proving to be popular this fall.

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According to NPD Group, U.S. restaurant unit counts declined by 2 percent, or 9,450 restaurants, between April 1, 2010, and March 31, 2011, compared with the same time frame a year earlier.

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According to a survey by Barkley US, Smartphones are the mobile device of choice for Millennials, with close to 60 percent of those surveyed using an iPhone, Blackberry, Android or something similar, compared with just over 30 percent of those 35 and older.

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Incentive Programs

By Brian Campbell, CPA

You are in the process of opening a new restaurant and like every great restaurant owner you want to provide some incentives to your employees to help ensure the success of your new restaurant. You have asked several people in the industry about incentive programs and seem to get different answers from each person as to their ideas. You wonder…what is the right incentive program for your new restaurant? Well, I am here to help you understand some do's and do not's when it comes to incentive programs.

Incentive programs are used to increase profits, show employees appreciation for doing a great job, create a more fun workplace and help employees feel like they are part of the ownership team. Incentive programs can be divided into three categories…front of house, back of house and management.

Front of house incentive programs help motivate employees to sell. They add excitement which then can carry over to customers. Front of house incentive programs may include prizes for employees who sell the most of a certain menu item, have the biggest percentage of tips for a night or have the greatest percentage increase in average guest checks from week to week.

Back of house incentive programs also help motivate employees to provide a top notch product to customers. Some examples may include cooks receiving prizes for selling the most daily specials on a given day, all back of house employees receiving cash for working hard or employees receiving cash for not throwing away any silverware or plates in the garbage.

Management incentive programs should be realistic, simple and include all managers and maybe owners. Management incentive programs can be based on prime cost but may also include controllable costs. A prime cost goal can be established on a monthly or quarterly basis…any increase in savings in prime cost can be split between management and owners. The money earned on the reduction in prime costs should be tied to quality inspection reports and decreased as points on the inspection report decrease from a pre-determined maximum point amount. Front of house managers incentives may be more tied to sales (perhaps a percentage of sales over a monthly or quarterly goal) versus prime costs or controllable costs. At some point, if maximum efficiencies and profits are being established, the management incentive program may have to be tied to a percentage of salary or a percentage of net income along with maintaining a certain sales volume and prime/controllable costs.

As you can see, there are various aspects of an incentive program. Just keep in mind that incentive programs need to be simple, have achievable goals, require accurate and timely financial reporting and should be reviewed on a regular basis to ensure it is current with operating conditions of your restaurant. Do not hesitate to contact one of Henry & Horne's restaurant professionals to assist you in reviewing your current incentive program or to assist you in establishing a new incentive program.

If you have any questions Brian can be reached at (480) 839-4900 or BrianC@hhcpa.com.