



THE MAIN DISH

Fall 2013

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; real estate appraisal and consulting; and valuation and litigation support services.

Your Restaurant Team:

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Arizona Restaurant Industry Update By Brian Campbell, CPA

The other day while reading my Arizona Restaurant Association Daily News email update, I noticed the first three topics dealt with new restaurants opening in the Phoenix metropolitan area. These topics discussed thirteen different restaurants that plan on opening over the next several months. I was somewhat surprised to see this much activity after reading the National Restaurants Association's Restaurant Performance Index (RPI) for July 2013. The RPI declined for the second straight month as a result of softer sales and dampened outlook for the economy by restaurant operators. The positive side of the RPI is that it has remained constant over 100 for the fifth consecutive month which signifies that key restaurant indicators are in a period of expansion.

As we all know, restaurants are a major part of the economy in Arizona. Their sales provide a large amount of tax revenue, jobs and careers for thousands. According to my friends at the Arizona Restaurant Association, restaurants in Arizona are projected to generate \$10.5 billion in sales in 2013, resulting in jobs for over 260,000 Arizonans (roughly 10% of the employment for the state). Every \$1 spent in Arizona restaurants will generate an additional \$.90 in sales for the state's economy. Job growth for Arizona restaurants over the next 10 years is expected to be well over 15%. With these types of statistics, it is not surprising after all, that so many restaurants are looking to open in the Phoenix area.

If you are considering opening a restaurant in this fine state of ours, I have a few things that you might want to consider before jumping in feet first.

- Owning a restaurant is a tough job. You will be working nights, weekends and holidays.
- Develop a business plan. A business plan is important when obtaining financing of some sort for your restaurant. The business plan also provides you a roadmap and timetable for achieving your goals.
- Understand your financing options. Starting a restaurant will cost a lot of money and knowing how you are going to obtain financing or equity investors is important.
- Know your competition and what competitive advantages you will have over your competition.
- Location, location, location...no need to say more about this!
- Create a unique menu that gives an identity to your restaurant. Set yourself apart from the competition by offering unique and superior offerings. You should also cost out your menu to ensure profitability from the beginning.
- Hire employees with a great personality that put the customer first. Employees are a big part of your restaurants atmosphere. Having employees that are professional with a great personality will bring customers back. Your employees need to know your story and share your passion so they can pass this on to your customers.

The Arizona restaurant industry is a great community of entrepreneurs. We have great resources in our state to help you in your current restaurant or to assist you in opening a new restaurant. Henry & Horne works with many professionals in the restaurant industry and we would be happy to assist you or introduce you to someone that can help you, so do not hesitate to contact one of our restaurant professionals.

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



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TAPPAS

According to a TripAdvisor survey, 52% said they dine out 10 or more times during a typical one-week vacation.

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According to the same TripAdvisor survey, 77% said they read online reviews to find popular restaurants in the area where they are vacationing.

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According to Technomic U.S., 95% of American consumers eat a hamburger at least once a month.



Are You Subject to the Net Investment Income Tax?

By Kelly Lynch, CPA

It seems like 2013 is flying by and now we head into the fall waiting for the temperatures to drop and football season to kick off, which should be of benefit to many of you. The news of the summer so far has been the delay of the implementation of the employer mandate of the health care law, known as Obamacare. For the restaurant industry, Obamacare has been a concern for quite a while. Even though Obamacare focuses on health care coverage, there were other pieces of that tax law, which are being imposed in 2013. One aspect of the law is the new 3.8% tax on net investment income. There may be some tax planning opportunities to take into consideration before year end to minimize the impact of the 3.8% tax.

So what is the net investment income tax and who is subject to it? The net investment income tax is in addition to regular income tax. The tax imposed is 3.8% on an individual's net investment income if their income exceeds a certain threshold amount. Net investment income includes interest, dividends, rents, royalties, and income derived from passive activities. Generally, restaurant owners derive income from rental activity on real property they own and Schedule K-1 income from the actual restaurant activity.

To determine whether or not your Schedule K-1 income from the restaurant falls into the net investment income category, you have to look at the level of activity you have in that restaurant. There are tests established by the IRS that determines whether you are active or passive in an activity. If you satisfy one of those tests, then you are considered to materially participate in that activity. The main test is whether you participated in the activity for more than 500 hours.

Many restaurant owners have multiple operations going and therefore, it may be difficult to determine material participation since the owner is covering the different locations. Sometimes the owner may be focused on the newest location. Another way to pass the material participation test is if the activities are "significant participation activities." An owner can be active with respect to multiple activities even if they do not spend 500 hours. For example, if the owner has 5 entities for which they spend 150 hours each, they can be lumped together. Since the 750 hours in total is more than 500, then they could be active with respect to each. However, under this test, the owner would have to spend a minimum of 100 hours at each entity. Before year end, it would be important to identify the passive activities and determine if you can qualify as active.

There is also an option for the restaurant owner to regroup activities. In 2013, taxpayers can revise their current grouping elections to reduce the potential tax burden from the 3.8% tax. Grouping allows a taxpayer to treat multiple activities as one trade or business. So say you have a restaurant entity and also a rental activity that owns the building. That rental income generated would be subject to the new 3.8% tax. However, regrouping that activity with the restaurant entity would form a single activity in which the owner materially participates and would not be generating net investment income.

There are additional strategies for restaurant owners who have multiple operating entities. The key is to start reviewing the options available as the 2013 year end approaches so there are no surprises by the impact of this new law. Do not hesitate to contact us with questions or for more information.

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



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