



THE MAIN DISH

Fall 2015

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, gift & trust services; real estate appraisal and consulting; and valuation and litigation support services.

Your Restaurant Team:

*Brian Campbell, CPA, Partner
Bradley Dimond, CPA, Partner
Dan Mace, CPA, Sr. Manager
Jonathan Poppel, CPA,
Sr. Manager
Kelly Lynch, CPA, Manager*



Getting the Most Out of Daily Deal Sites

By Jonathan Poppel, CPA

As a consumer, I've enjoyed using Groupon. I am not a bargain shopper by any means but have found deals out there that let me try new restaurants or activities in the area or provide deals for places that I already frequent. Seeing the discounts that are offered through Groupon and other daily deal sites, such as LivingSocial, I know it's important to restaurants to develop an appropriate strategy before offering promotions through one of the daily deal sites. Most of this article will refer to Groupon, as it is the most commonly known and used daily deal site, but it can apply to any daily deal providers that are utilized.

Using daily deals can be great for a new restaurant trying to gain exposure or for a restaurant looking to bring in additional business during slower times of the year, especially in our hot Arizona summers. On the surface, daily deals can end up costing restaurants money if not designed properly. Groupon takes 50% of the money collected from sales of the daily deal, so it is important to understand your cost structure when developing a specific deal to promote. As this will be lost money, along with the amount of the deal that is given, it is important to price the deal appropriately. You want the customer to spend well more than the value of the deal so the promotional value will need to be established accordingly. Understanding the size of your average customer check will help with this. Also, it is very effective to parcel the deals out. For example, a restaurant may provide two vouchers to spend \$25 on each visit for \$30. Any amount spent over the \$25 promotional value will generate income to the restaurant at its normal margins. I also recommend visiting Groupon beforehand to see how others are pricing their promotions. Don't worry though...you won't go at it all alone. Groupon has a dedicated support team that assists businesses in designing its promotions. However, do your own homework so that you can negotiate an appropriate deal with Groupon to realize the best profit margins for your restaurant.

Once a daily deal is about to go into effect, you'll want to plan for appropriately staffing your restaurant at the beginning and expiration of the deal redemption period. Groupon redemption heats up quickly once a deal is offered and there is a surge in redemption towards the ending days of the redemption period. Planning to be staffed appropriately or have staffing available as needed during these surge redemption periods will help ensure that the customers' experience is a positive one. While on occasion, I have waited until the waning days of the redemption period to redeem an unused Groupon and am considerate of the extra time it may be for me to get seated or served, other customers may not feel the same way. If using Groupon for promoting your new restaurant or seeking new customers, you want the experience to be pleasurable and drive returning customers.

If you have a Facebook fan page or website, make sure this information is displayed prominently. Customers may sign up for your mailing list or like your page, which provides you additional ways to continue to advertise to the customer. It also provides other means for offering less expensive promotions to continue to drive customer traffic.

The use of Groupon and other daily deal sites has been growing at a tremendous pace and has helped many restaurants in reaching new customers and driving additional business. If you are looking at Groupon or another daily deal site for promotion of your restaurant and need help with the accounting, do not hesitate to reach out to one of Henry & Horne, LLP's restaurant professionals.

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



HENRY & HORNE, LLP
Certified Public Accountants



TAPPAS

The CEO of the National Restaurant Association outlined ways chefs can be successful including staying on top of trends, technology and health and nutrition. She also suggested mentoring the next generation of industry professionals, adding more jobs and doing community service.

~

A new study from the Center for Generational Kinetics and Smart Flour Foods has revealed the surprising face of the American pizza lover: a woman in her 30s who exercises twice a week. They also like to drink soft drinks with their pizza, not beer.

~

When it comes to ethnic food in America, Italian reigns supreme, according to a survey by the National Restaurant Association. Of those surveyed, 61% said they eat Italian food at least once a month. Mexican, Chinese, Regional American and Mediterranean cuisine rounded out the top five.



Tips Versus Service Charges: What a Restaurant Owner Needs to Know

By Kelly Lynch, CPA

In February, the IRS released a reminder for restaurant owners on how to report tips and service charges. The reminder specifically related to automatic gratuities and that these are classified as service charges and not tips. Tips are discretionary payments determined by a customer that employees receive from customers.

Tips can include cash directly from the customer. Tips are also included via electronic payment methods such as a credit card, debit card or gift card. Although not as common, tips could include any value of noncash tips such as tickets. Tips also include amounts received from other employees paid out through tip pools or tip splitting. To determine whether payments constitute tips or service factors depends on several factors. Generally, a tip is a payment made free from compulsion. The customer has the ability to determine the amount and is not subject to negotiation. The customer has the right to determine who receives the tip.

Service charges, on the other hand, generally restrict the ability of the customer to determine the amount of payment to provide. For example, in a fine dining restaurant, a large dining party may be subject to an automatic gratuity. The menu may indicate that parties of 6 or 8 or more will automatically be charged an 18% gratuity. When the dining party receives their bill, they would see the subtotal, tax and gratuity already figured. Generally, service charges are reported as non-tip wages paid to the employee. Some employers keep a portion of the service charges.

Now that tips and service charges are defined, the next question is how is each reported? Employees must report to their employer all cash tips received except for the tips from any month that total less than \$20. Cash tips include tips received from customers, charged tips distributed to the employee by their employer and tips received from other employees under any tip-sharing arrangement. All cash tips are includable in an employee's gross income and subject to federal income taxes.

Employers are required to retain employee tip reports, withhold employee income taxes and the employee share of Social Security and Medicare taxes based upon wages and tip income received, and then report this information to the IRS. In addition, employers are required to pay the employer share of Social Security and Medicare taxes based on the total wages paid to tipped employees as well as reported tip income.

Tips reported to the employer by the employee must be included in Box 1 (Wages, tips, other compensation), Box 5 (Medicare wages and tips) and Box 7 (Social Security tips) of the employee's Form W-2.

Employers who distribute service charges to employees should treat them the same as regular wages for tax withholding and filing requirements.

More information can be found in Publication 531, Reporting Tip Income; Publication 1244, Employee's Daily Record of Tips and Report to Employer; or Publication 15, Employer's Tax Guide.

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



HENRY & HORNE, LLP
Certified Public Accountants