THE MAIN DISH

Winter 2016

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Happy New Year from Your Friends in Washington

By Bradley Dimond, CPA

Our friends in Washington (yes, you read that correctly) have been particularly generous this holiday season. Both Congress and the Administration, as well as the Treasury and the IRS saw fit to bestow gifts to our hospitality industry readers. First off, we'll look at gifts from the Treasury and the IRS. Recent guidance includes a ruling in an effort to forestall litigation with industry members who must "refresh" concepts on a more regular basis than other industries. The IRS will not challenge operators who capitalize 25% of costs to refresh/remodel and thus, allow a 75% current deduction for such costs. See further down regarding a shorter "write off" period with respect to the 25% of these costs that are capitalized.

Next, after much lobbying from many industries, our friends in Washington have raised the "safe harbor" for expensing for companies not issuing audited financial statements. Under the "capitalization" regulations issued a few years ago, the Treasury had set the safe harbor for expensing (as opposed to capitalizing and depreciating the costs over several years) at $500 per item. This means that any items costing in excess of $500 needed to be put on the balance sheet and written off over a period of years. Recently, our friends in Washington raised the dollar amount for capitalizing items from $500 to $2,500 per item. This will greatly simplify record keeping. The only catch is that operators will need to report consistently with respect to both tax returns and any financial statements that are issued. Finally, you need to have a written capitalization policy in place.

Not to be left out, our friends in Congress recently passed "extenders" legislation which the President signed. The extenders, as they have come to be known as, are a package of taxpayer-favorable provisions which expire periodically and need to be brought back, often retroactively. This year, however, many of the extenders were made "permanent" (at least until the oft-discussed tax reform is taken up likely after the next election cycle). Some of the extenders that were not made permanent were extended for 4 years as opposed to the 1 or 2 years that have been norm. Of particular note for the industry:

- Leasehold Improvements depreciated over 15 years rather than 39 years (permanent).
- Increased expensing for businesses placing less than $2 million in service during the year. Such businesses may elect to expense up to $500,000 annually (permanent). This applies to both used and new property as well as for leasehold improvements without limitation, which had been a change from past.
- "Bonus Depreciation" allows operators to write-off up to half of the cost of new property off the top and take accelerated depreciation on the remaining cost (4 years).
- Reinstatement of the Work Opportunity Tax Credit, a tax credit with respect to wages paid to individuals in certain targeted areas which Congress deems to be "under employed" such as veterans (4 years). This credit is also enhanced for employers who hire "long term" unemployed persons.
- Reinstatement of the Research and Development Tax Credit – although, this generally only applies to those in the industry that do product development and sell wholesale in addition to retail (permanent).
- Extension of benefits for charitable donations of food inventory to qualifying organizations (permanent).

Please note that each of these provisions apply retroactively to the beginning of 2015. Finally, there are many other extender provisions as part of the legislation so don't forget to ask your friendly CPA which ones might apply to you.

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



Tappas

Mintel outlined four food trends for 2016:

1. Balance or Bust – Have it all options such as Olive Garden's unlimited pasta pass will be balanced by a sort of cooling off period.

2. The Big Brand Theory – Consumers are exchanging 'bigger is better' to support small businesses. For restaurants, this behavior can be seen in the proliferation of craft beer and spirits.

3. Eye Get It – The rise of images in marketing and communications. Domino's Pizza tapped into this by allowing customers to order a pizza with an emoji.

4. Pride and Persona – The number of equality-focused consumers is growing as shifts happen in the traditional definitions of gender, race and other demographics. A number of restaurants and food companies have showed their support for marriage equality. Shake Shack posted its logo in rainbow colors and Blaze Pizza posted a rainbow-colored image of its build-your-own pizza station.

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Developing a Restaurant Budget

By Jonathan Poppel, CPA

As we begin looking towards a prosperous 2016, now is a good time to develop a budget for the upcoming year, if you haven't already. While developing a comprehensive budget with sufficient consideration and input can be time consuming, the time spent will provide substantial benefits to operating your restaurant. Quite often, I see budgets that have been put together without much thought process. In essence, the budget just consists of throwing some numbers together. In these instances, the budget will have little value to your restaurant. In order to avoid this pitfall, listed below are some tips to use for developing a comprehensive and well thought-out budget.

One major consideration that should be made is to develop a budget that is in sufficient detail to evaluate your actual operating results. Take the revenue and expense accounts that are currently being used and establish budgeted amounts for those items. In developing your budgeted amounts, it may not be all that useful to develop an amount for the entire year, except for certain line items that don't have much variability from period to period. Therefore, I recommend breaking your budget down into each interim reporting period that you employ. This will allow you to evaluate your actual results on a period-to-period basis and provide a better avenue to consider seasonality of operations, which we see quite often here in Arizona.

A budget should be developed for each restaurant you operate, even if they roll up into one entity. Having a budget established for each location lets you evaluate the operating results of each, versus your budget, and react appropriately for each. Furthermore, this is a useful evaluation tool for the managers that are responsible for each restaurant. Also, consider having the managers for each location involved in the budget process. This will create their ownership in the budget and also provide useful information on what they see on a period-to-period basis. Furthermore, this will also be a good point to discuss marketing and other promotional activities that are planned to be run during the year, the related spending associated with these, and the expected corresponding revenue.

Some software programs allow you to input your budget into the system. This will make it easy to run reports to compare actuals versus budgeted amounts as part of your monthly financial reporting package. If the software doesn't allow for input of your budget, actual operating results for the period will need to be extracted and input into a separate file for comparison to budgeted figures. This file can be built up so that you can evaluate both monthly and year-to-date information. This information, coupled with review of same store activity period-to-period and year-to-year, will help identify any unusual trends and help evaluate what is going on with your restaurants. You can also present budgeted key ratios for your restaurant and compare these to actual.

Reviewing this financial information as a part of your monthly close process helps identify areas of strength and improvement. Also, comparison to budget can be a useful compensation tool for rewarding restaurant management, rather than just focusing on increasing top line revenues at the expense of other areas. Remember to share this information with restaurant managers regularly so that they can evaluate the results and provide feedback on what changes may be needed.

In summary, I always recommend spending time prior to the beginning of each year reviewing past operating results and developing a well-thought out budget that will be very useful in evaluating the operating results of your restaurant for the upcoming year. Should you have any further questions in developing a budget, please don't 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.