THE MAIN DISH

Summer 2009

10 Ways To Survive The Summer Heat

By Brian Campbell, CPA

The summer of 2009 will be a challenge for all restaurants in the Phoenix area. As a result of the current recession, families are swapping their out-of-state summer vacation plans for some wallet friendly local flavor. This can mean increased competition for existing restaurants to attract customers. It is a valuable time for all restaurant owners to examine their current operations. We have compiled 10 ways for restaurant owners to survive the summer heat and prepare for the year ahead.

1. Analyze current gross profit percentages against competitors and industry trends to determine where current inefficiencies exist.

2. Review current vendor relationships and obtain competitive quotes from competitors.

3. Review leasing arrangements and market rates for leases to potentially renegotiate leases with lessors.

4. Review current financing relationships to determine if more favorable terms can be obtained.

5. Determine if menu re-engineering is necessary to take advantage of items that may result in a larger gross profit based off placement in menus.

6. Analyze current marketing methods and determine if social-networking sites such as Twitter, Facebook, MySpace and LinkedIn can be used as potential word-of-mouth marketing tools.

7. Develop value menu items, such as, appetizer, salad, main course and dinner for a single dollar amount.

8. Implement energy savings ideas, such as, more efficient types of lighting, window tinting to cut down on heat and air conditioning costs, programmable thermostats to adjust room temperature during the night and/or times when there is not a full restaurant.

9. Owners and family members may have to become more involved in restaurant operations to cut down in labor costs.

10. Ensure superior customer service to leave a lasting impression on customers for re-peat business. This includes owners becoming more involved in restaurant operations and mingling with customers to establish camaraderie.

Taking these small steps will not only help your business make it through the sweltering summer, it can also attract a host of new local patrons who will stick around for years to come.

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

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 business valuations, forensic services and litigation support.

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Tappas

According to the IRS criminal cases in the restaurant industry typically involve tax evasion, money laundering and employment tax fraud.

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According to the NRA on a typical day in America in 2009, more than 130 million individuals will be foodservice patrons.

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According to the Frozen Food Digest the restaurant industry employment will reach 13.3 million by 2012.

Tax Advantages for Restaurants

By Kelly Lynch, CPA

During economic slowdowns, restaurant traffic is usually slower since dining out can be more expensive than eating at home. Because of low margins, even a small drop in revenue can affect profitability. It comes as no surprise then that restaurant owners are constantly reviewing their financial statements looking for ways to reduce expenses.

One area often overlooked is taxes as the Internal Revenue Code can be difficult to navigate when it comes to finding savings. The following list is just a few areas that restaurant owners can review to make sure they are getting full benefit of the potential tax savings that are out there.

• **Depreciation –** Most new assets placed in service during 2009 will qualify for the 50% bonus depreciation. Typically, most restaurant equipment can be depreciated over 5 years. Also, many of the assets that typically are depreciated over 7 years may be written off over 5 years due to the fact that it is a retail establishment. Finally, the 15-year write off for qualified leasehold improvements and qualified restaurant property was extended through the end of 2009. Generally, qualified restaurant property is any improvement to a building.

• **Costs of expanding an existing business –** Costs incurred in expanding an existing business are generally deductible under the normal tax rules and are not subject to capitalization and amortization under the start-up rules. So if restaurant owners decide to expand, the typical costs in getting the new locations up and running, such as travel, recruitment, training, and operating supplies, are currently deductible.

• **Smallwares –** In addition to the costs of expanding an existing business, restaurant owners are able to get a current deduction for smallwares in the year of purchase. Smallwares include glassware, flatware, dishes, pots and pans, table top items, bar supplies, food preparation utensils, and small appliances.

• **FICA Tax Credits –** Generally, these credits could be used to offset tax liability of the restaurant owner, but was typically limited due to the AMT rules. As a result, there would be unused credit carryovers from year to year. The 2007 Small Business Act allows FICA tip credits to offset 100% of AMT liability.

• **Gift Cards –** The IRS has increased its scrutiny of gift card programs as the use of gift cards has risen in popularity. Typically, gift card revenue must be reported as taxable income in the year of receipt, unless the taxpayer falls within one of two deferral exceptions. There are various requirements and nuances to review to determine if the taxpayer falls into one of the two deferral exceptions, but well worth the time to review.

• **Domestic Production Activities Deduction –** Certain restaurants may qualify for the domestic production activities deduction if they are categorized as manufacturing and wholesaling food/beverage establishments. The deduction is generally equal to 6% of the qualified income generated from domestic production activities in 2009, but is scheduled to be 9% in 2010 (subject to limitations and legislative changes).

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