YEAR-END TAX TIPS

Strategies for your restaurant business.

By Maria Benardis

It's nearly that time of the year—tax time. Most of us hardly look forward to it. According to a 2018 survey released by TaxSlayer, 52 percent of taxpayers agree that the filing process is stressful. When asked to name the most difficult part of the process, taxpayers cited their three most common concerns: a large volume of documents necessary to put together, difficulty understanding tax laws, and the stress of not knowing if the results are correct. In fact, nearly six in ten Americans (57 percent) are not confident in their understanding of the U.S. tax code.

Much of that sentiment boils down to feeling unprepared and ill-equipped to handle returns correctly. If you're anxious about tax preparation, you should know that there are certain things you can do to make the process less harrowing for yourself—and your accountant. And so, here are some year-end tax considerations to help you get prepared, maximize your deductions, and keep a tax audit at bay.

Know your tax deductions and claim them all

Despite the numerous expenses that come with the territory in the food industry, restaurant owners are eligible to take full advantage of a number of tax-saving deductions to help save money and stay compliant with the taxman. Generally, you can deduct the full amount of a business expense if it meets the criteria of ordinary and necessary and it is not a capital expense.

You cannot deduct personal, living, or family expenses. However, if you have an expense for something that is used partly for business and partly for personal purposes, divide the total cost between the business and personal parts. You can deduct the business part.

For example, if you borrow money and use 70% of it for business and the other 30% for a family vacation, you generally can deduct 70% of the interest as a business expense.

Deductions you can claim include the following:

Expensing asset purchases. If you purchase capital expenses such as equipment, make improvements, or purchase any other business assets, you can depreciate these and deduct some of the costs. These include a POS system, tables, chairs, barstools, cash registers, lighting fixtures, window displays, restaurant décor, printers, computer equipment, buildings, motor vehicles, machinery, motor vehicles, patents, and franchise rights.

You can either deduct the cost the year it was purchased or spread it out in smaller amounts over several years.

Smaller asset purchases such as kitchen appliances, pots, pans, microwaves, toasters, blenders, platters, soap, plates, bowls, cups, utensils, paper products, cloth napkins, table condiments, etc., are fully deductible. Unless the uniform capitalization rules apply, amounts spent for tools used in your business are deductible expenses if the tools have a life expectancy of less than a year.

Repairs and maintenance. Routine maintenance that keeps your restaurant in normal operating condition, but doesn't materially increase the value or substantially prolong the useful life of the property, is deductible in the year that it is incurred. This includes the costs of labor, supplies, and certain other items. The value of your own labor isn't deductible. Examples of repairs include reconditioning floors (but not replacement), repainting the interior and exterior walls, fixing plumbing leaks (but not replacement of fixtures), and repairing the dishwasher. Repairs you make to your business vehicle are also deductible.

Maintenance expenses for a property—i.e., cleaning service, structural repairs, heat, lights, power, telephone service, and water and sewerage—are also deductible.

Mileage deductions. Using your vehicle to deliver food or for catering events is eligible for mileage deductions, but you must choose whether to deduct either miles you drive for business or the actual expenses incurred. Be sure to determine which option saves you the most. If you use your car for both business and personal purposes, you must divide your expenses based on actual mileage. Beginning in 2019, the standard mileage rate for the cost of operating your car, van, pickup, or panel truck for each mile of business use is 58 cents per mile, up 3.5 cents from the rate for 2018.

Employee meals. Providing meals to employees at your restaurant's physical location can be deductible to the restaurant and not taxable to the employee. It can be included in the cost of food or recorded separately.

Charitable deductions. Business owners also qualify to deduct their charitable donations. The cost of the food you provide for charity is deductible but staff time or the full cost of services is not.

Bad Debts

A debt becomes worthless when there is no longer any chance the amount owed will be paid. This may occur on the date the debt is due or prior to that date.

To demonstrate worthlessness, you must only show that you have taken reasonable steps to collect the debt but were unable to do so. It isn't necessary to go to court if you can show that a judgment from the court would be uncollectible. Bankruptcy of your debtor is generally good evidence of the worthlessness of at least a part of an unsecured and unpreferred debt.

If you claim a deduction for a bad debt on your income tax return and later recover all or part of it, you may have to include all or part of the recovery in gross income.

Explore Tax Credits

You may qualify for a tax break if you hire individuals from certain groups, such as veterans, the disabled, former felons, recipients of food stamps, persons referred by vocational rehabilitation services, and more for the Work Opportunity Tax Credit. The credit generally is limited to the amount of the business income tax liability or social security tax owed.

Other Deductions

Some other examples of tax deductions for the restaurant industry:

- Food costs
- Beverages
- Employee salaries, insurance, retirement accounts, sick leave, vacation pay, and bonuses for your cooks, servers, hosts, bartenders, dishwashers
- Awards. You can generally deduct amounts you pay to your employees as awards, whether paid in cash or property. If you give property to an employee as an employee achievement award, your deduction may be limited.
- Employee gifts, provided the value is de minimus and infrequent. The IRS has ruled previously that items with a value exceeding $100 could not be considered de minimus, even under unusual circumstances.
- Property rental costs
- Menus, office supplies, and other related items
- Fees for accounting, legal, merchant processing, and other professional service providers
- Property insurance, liability insurance, and other policies designed to protect your restaurant, employees, and customers
- Marketing and advertising expenses
- Interest on money you borrowed for business activities
- Various federal, state, local, and foreign taxes directly attributable to your business
- Training of staff and education expenses if they are part of a qualified educational assistance program

Make sure you are fully aware of city and state sales tax requirements.

Seems like a no-brainer, but maintaining solid files (both physical and electronic) is critical to managing your restaurant. Keeping them handy for bookkeeping and tax time will make it easier to track your purchases.

Tax time can feel overwhelming, but by keeping up-to-date on the basic rules and using a restaurant tax professional for the details, you can maximize your tax deductions to keep money in your pocket or put it back into your hard-earned business.

10 TRIGGERS FOR AN IRS AUDIT

1. The Computer Trigger The IRS's computer system is specifically designed to detect anomalies in tax returns.

2. Reporting Consecutive Losses The IRS isn't going to waste time on an audit unless agents are reasonably sure that the taxpayer owes additional taxes and there's a good chance that the IRS can collect that money. Reporting a business loss for too many consecutive years is also a red flag.

3. Overlooked Income Be careful to track all income and be sure to report it. Don't forget to record cash sales income and interest income.

4. Spending or Depositing a Lot of Cash Various types of businesses are required to notify the IRS whenever anyone engages in large cash transactions typically involving $10,000 or more. If you plunk down a lot of cash for any reason, you can expect the IRS to wonder where it came from.

5. Claiming a Lot of Itemized Deductions If they appear to be unaligned with industry standards or previous tax returns, then this may attract an audit.

6. Owning a Cash Business Businesses that do lots of cash transactions (such as restaurants and bars) are at higher risk of being audited. The IRS takes the position that it's particularly easy for the owners of cash businesses to put $100 into their pockets and forget about it at tax time.

7. Compliance Issues Uncovered During Another Audit Many audits are triggered by documentation found in completely unrelated cases. For example, from another agency during a payroll tax or sales tax audit.

8. Disgruntled-Employee Issues If you have consistent staffing issues, take them seriously. Disgruntled staff members frequently call the state employee tip hotline to report their employers for violations.

9. Failing to File on Time Filing your taxes on time is one of simplest ways to make sure your tax return stays off the IRS radar.

10. Misclassifying Workers Restaurants also often get in trouble with the IRS by misclassifying their workers. A business is required to withhold payroll taxes and issue W-2 forms to employees. Some businesses may be tempted to avoid this paperwork by misclassifying them as independent contractors.