

10 tax tips for the hospitality industry

Hospitality companies face complex tax issues that can strain resources and drain profits. Grant Thornton LLP's tax professionals offer 10 tips to help you manage your tax burden.

1. Extend bonus depreciation. Bonus depreciation is available for qualified property placed in service in 2008 or 2009. It allows taxpayers to expense half the cost of eligible property, while depreciating the remaining half using normal rules. For five-year equipment, this will result in a first-year deduction of 60 percent of the asset's cost. Qualified leasehold improvement property also qualifies for bonus depreciation as long as the property was placed in service before Jan. 1, 2010. Note that qualified restaurant property is specifically excluded from the bonus depreciation rules.



2. Consider repairs and maintenance opportunities.

Taxpayers often capitalize costs to repair, refresh and maintain store locations. Under Section 162, taxpayers may deduct certain costs incurred to repair and maintain locations, rather than capitalizing and recovering costs through depreciation. An accounting method change to deduct repair and maintenance costs can accelerate expenses and improve cash flow.

3. Determine whether your company has unclaimed property.

Many states are looking to unclaimed/abandoned property as a potential source of revenue, so it is important for companies to be in compliance with state reporting requirements. Unclaimed/abandoned property is tangible or intangible property that has not been claimed by the owner, e.g., uncashed vendor, payroll or dividend checks; unredeemed gift cards and store credits; or accounts receivable credit memos. Your tax adviser can help you manage and track your unclaimed property, prepare unclaimed property reports, and identify and report any past liabilities to avoid losing unclaimed property to the state.

4. Review deferred compensation plans. Make certain that any arrangement calling for compensation earned in one year and paid in a later year has been modified to comply with Section 409A of the Internal Revenue Code. Section 409A rules have a far-reaching impact and may even cover annual bonuses, equity and severance arrangements, and employment contracts. It's not just about making sure your plan document complies with Section 409A. You still must operate consistently with both 409A and your plan document. A new penalty and correction program can help you minimize the effect of unintentional errors, but many organizations are moving away from deferred compensation altogether. Consider the redesign or implementation of annual or long-term incentive plans customized to post-recession strategic planning and new executive compensation programs that provide the appropriate balance between risk and reward.

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5. Review your state filing requirements. Many states are changing their corporate tax laws. In 2009, West Virginia, Wisconsin and Massachusetts moved to unitary combined group reporting, followed by the District of Columbia in 2010. Several states have moved from an apportionment formula based on property, payroll and sales factors to a formula that gives more weight to sales. By 2011, Utah, Wisconsin and California are scheduled to move to market-based sourcing of service revenue. Colorado is scheduled to move from market-based sourcing to a proportionate cost-of-performance approach. These shifts in methodology may have a significant impact on your state tax liability.

6. Check out your meals and entertainment expenses. The 50 percent limit on deductions for business-related meals and entertainment (M&E) expenses is often seen as a normal cost of business; however, there are many exceptions to this limit. An M&E study can find these exceptions and increase your deduction. It can also serve as a confirmation of the veracity of your expense reporting system.

7. Consider donating food instead of throwing it out. Companies can give back to the community by donating food that will not be used in restaurants. Even if the food does not meet your high standards, it may be within the federal food-safety guidelines. Your company is allowed a tax deduction for 50 percent of the gross margin on donated food.

8. Review your intercompany charges. Many states and foreign jurisdictions are reviewing intercompany transactions for royalties or management charges. States are becoming more aggressive with revenue raisers. Some states are specifically looking at royalty charges being added back, which could have an effect on your stand-alone returns. Having the proper supporting documentation is essential to identifying exceptions to these addbacks.

9. Determine if your company can lower its property taxes. A property tax review could help ensure that all real and intangible property is excluded from the personal property tax base. In addition, there may be opportunities to lower the property tax valuations on your real property. The review might not only generate savings in the first year, but in the future as well.

10. Review your accounting methods. Restaurants, hotels and other hospitality-based companies need to be sure they use the most appropriate and advantageous accounting methods. An accounting methods review may uncover a variety of opportunities to accelerate deductions and defer revenue recognition. It may also identify potential risk areas before the IRS does. By filing a voluntary accounting methods change, a taxpayer may secure “audit protection” and avoid penalties and interest in the case of erroneous accounting methods.

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