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September/October *2013*

***Automobile Expenses***

Let’s talk travel. While thoughts of warm beaches and exotic places are welcomed with open arms, as accountants, our thoughts are often forcibly contained to much less glamorous matters, like automobile expenses. While certainly not an exciting part of travel, auto expenses and deductions remain one “problem child” area that continues to be a concern from a substantiation standpoint.

Many taxpayers have heard reference to the “Cohan Rule,” which came about in 1930 and allows reasonable and credible estimates to be accepted by the IRS when actual documentation and substantiation is not available. This rule applies to business expenses; however, it is clearly stated that the Cohan Rule does not apply to listed property. Automobiles used for business purposes are considered listed property. To help insure that your auto deduction, including the business use standard mileage deduction, is adequately substantiated you will need to maintain a contemporaneous log in an account book, diary, electronic calendar or similar record. This log should include the following information:

1. Amount of the expense (in this case, number of miles)
2. Time and place of the travel
3. Legitimate business purpose of the travel

The courts have repeatedly refused to allow the Cohan rule to apply to travel expenses. In the event of an audit, the taxpayer must be able to produce the records listed above. Please be sure you are keeping an adequate log of business miles driven in your tax records.

***ACC Adds Email Reminders***

******The Arizona Corporation Commission recently added a feature to their website that allows businesses to receive email reminders when their annual corporate report is due. Emails will be sent at 90, 60, 30 and 15 days before the report is due, if it has not yet been filed. To sign up, go to [the](http://starpas.azcc.gov/scripts/cgiip.exe/WService%3Dwsbroker1/connect.p?app=names-report.p) Arizona Corporation Commission’s website at www.azcc.gov and click on the “Starpas Business Entity Search” link at the bottom of the page. Under the “General Information” header, click on the “Business Entity Search” link and type in part or all of your business name. Navigate to your company’s page and click on the “Subscribe to Annual Report Email Reminder” at the top of the page. Enter your email address and sit back – the ACC will let you know when the report is due.

***Meet the Team***

 Cynthia J. Haines, CPA, is the manager of HBL's accounting department and works primarily in the areas of financial accounting and reporting, payroll and sales tax. In addition, she is actively involved with the firm's quality control system. Cinde has worked in public accounting for 20 years and has been with HBL since 2007. She holds a Bachelor of Science in Business Administration from the University of Alaska Anchorage and is a member of the AICPA and Arizona Society of CPAs. Cinde spends her free-time running, hiking, and taking road trips with her husband on their Harley Davidson motorcycle.

***Sales Tax Update***

As reported in our last issue of the Insider, the City of Tucson has established an exemption from sales tax for commercial leases to related parties. The City will be requiring taxpayers who fall under the “Affiliated Party Lease” exemption to complete a “Claim of Exemption for Affiliated Party Leases” and provide supporting documentation (listed on the form) that shows they qualify to take the exemption. Once the City reviews the form, the taxpayer will receive an approval (or denial) letter. Upon receipt of the approval letter, the taxpayer may apply for a filing frequency change to become a quarterly or annual filer. Taxpayers need to file the returns under their normal frequency until approval for the filing frequency change is received. Lack of filing or late filing may result in penalties.

This form is not available on the City of Tucson website. The City of Tucson audit department is sending out the forms as they receive sales tax reports where the taxpayer is claiming the exemption. The City will be tracking these forms, and lack of compliance may result in an audit.

As of now, the Arizona Department of Revenue is not requiring taxpayers to submit substantiation for taking the deduction, which is effective September 13th, 2013, at the state level.

***Restaurant Gratuities***

For restaurants that charge automatic gratuities for large groups, the IRS has announced a change. Beginning in January 2014, those tips will be classified as service charges, which are treated as regular wages instead of tips. It is the non-voluntary nature of the automatic gratuity that has caused the IRS to change the tax treatment.

As service charges, automatic gratuities will need to be reported as part of a server’s wages and will be subject to payroll tax withholding and employer payroll taxes. The change in classification to a service charge also eliminates the tax credit for employer paid social security and Medicare on these tips.

The change will complicate payroll accounting for restaurants that charge automatic gratuities, because hourly pay rates could vary for workers from day to day depending on how many large parties are served and which servers are assisting those customers. Additionally, employees would likely need to wait for their paychecks to receive the tips from large parties.

As a result of increased paperwork and concerns from employees, many restaurants are considering a change in practice – either stop collecting automatic gratuities or replace the automatic gratuity with several options for “suggested” gratuities on the customer’s receipt.

***Community Corner***

Senior tax staff Tara King-Taylor is excited to be on the board of directors for Make Way for Books (MWFB). This early literacy non-profit provides a continuum of programs, educational opportunities, and resources for thousands of children, families, and early childhood educators. In the past fifteen years, the organization has served 150,000 young children. As the mother of a toddler, Tara recognizes the importance of early education. She’s been reading with her son since day one and sees firsthand how much joy he gets from books. She is passionate about MWFB’s vision that all children in southern Arizona will enter kindergarten with the skills to be successful in school and in life.

Far too many children do not have the tools they need to build a solid foundation for learning, according to Jenny Volpe, Executive Director at Make Way for Books. Teachers report that up to 60% of children in some Pima County schools enter kindergarten without the skills they need to learn to read. Currently, more than 40% of Pima County fourth graders are reading below grade level. MWFB seeks to change this by providing programs to ensure that children develop necessary early literacy skills. One key program uses volunteers to help young children fall in love with books and reading. Storytime Volunteers visit preschools each week, reading stories and using puppets to make books come alive.

If you would like to support Make Way for Books, make your contribution at www.[makewayforbooks.org](http://www.makewayforbooks.org). For more information about the organization or to become a volunteer, call 520-721-2334.

***AFFORDABLE CARE ACT***

***WHAT YOU NEED TO KNOW NOW***

Changes are coming your way via the Affordable Healthcare Act (ACA) when key parts of the law go into effect in 2013 and 2014. For additional guidance, we have added articles and links to the “Resources” page on our website to help you find the information that applies to your specific circumstances.

Beginning October 1, 2013, individuals will be able to enroll in the Health Insurance Marketplace to obtain health insurance coverage. **The ACA also requires employers to provide a notice to current employees by October 1, 2013 with information regarding their coverage options and to new employees within 14 days of their start date.**

Key provisions for 2014 include the following:

* New consumer protections include prohibiting discrimination based on pre-existing conditions, eliminating annual limits on coverage and ensuring coverage for individuals participating in clinical trials.
* Improving quality and lowering cost in the form of tax credits for individuals and small businesses and the establishment of the Health Insurance Marketplace.
* Increasing access to affordable care by increasing access to Medicaid and requiring individuals who can afford it to obtain basic healthcare coverage.

Please visit our website and click on the Resources page for additional information.

