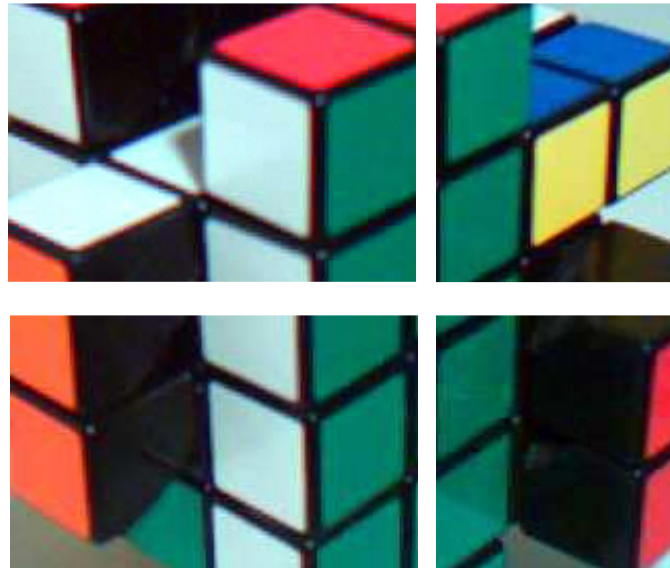


An
Industry
White
Paper

Aligning the Pieces

Aligning the Pieces of Tool Reimbursement Plans



Authored by: Steve Dockins, Chief Executive, Second Check, LLC



Aligning the Pieces of Tool Reimbursement Plans

It is recognized and accepted as an industry standard in certain trades, that under current payment plans, most employees are being compensated for the cost and use of their equipment as part of their total pay.

A Current Problem exists in certain industries where employers are paying for both services and employee expenses lumped together as wages and not realizing the potential benefits of more properly accounting for both values separately. Because typical business owners are just not equipped to develop an in-house business expenses (tool) reimbursement plan within the regulations of the tax laws, they have been forced to outsource their plan to a third party administrator in order to realize the benefits of this process. However, very few third party administrators are keeping current with the evolving industry and legal issues, thus causing concerns and possible assessments.

The Industry

The auto industry employs a variety of service technician employees and pays them based upon their experience, and education background, as well as the quality, value and variety of tools and equipment they provide. With the increase in sophistication of automobiles, the care and treatment of them continually demands a wider variety of specialized tools and knowledge, therefore mandating employees to continue to incur additional tool and business expenses.

There are approximately one million service technicians in the United States and virtually all of them are required to provide and maintain their own tools and equipment as a condition of employment. The typical service technician remains with an employer for about five years and does not recover the business expenses to which he or she is entitled.

On average a typical service technician has purchased and maintains \$24,000 of tools and equipment and continues to add new tools as they wear out and as technology changes in the making of automobiles. In addition to the cost of tools, there are related expenses incurred for insurance, lubricants and cleaning materials as well as repairs and replacement of parts. The average technician spends \$3,200 annually on maintaining an adequate supply of equipment to perform his or her services as an employee. These expenses are paid for with after tax dollars.



What is a Tool Reimbursement Plan..?

A tool reimbursement plan is a common term used to describe a specific "Employee Business Expense Reimbursement Plan." It is a cost control strategy that allows an employer to reimburse an employee for the incurred expenses of doing business as an employee, specifically in this case, for his/her tool expenses. If done correctly, the process can safely separate the value of employee



business expenses from employee time and service. This separation reduces those taxes and insurances that are related to payroll.

Employees in certain industries most often purchase and maintain their own "tools of the trade" which are used in conjunction with earning a living. Although, they are entitled to a "write off" for their employee business expenses on their tax returns, most either choose not to for various reasons or do not qualify under the 2% limitation rule of itemized deductions. Hence, a "Tool Reimbursement Plan" is a simple method of recovering those costs, that otherwise go un-recovered.

How Does it Work..?

Simply put, participating employees will be paid a reimbursement payment as part of their total pay, for certain costs and expenses that they incur while working. When done correctly, these payments are not considered income and will not be subject to payroll or withholding taxes, very similar to a mileage reimbursement program administered by many companies, including the IRS.

Most tool reimbursement administrators require that each participating employee execute simple plan enrollment and expense forms to substantiate all incurred costs that are placed into the plan. The administrator or software, will evaluate the expenses and assign a reimbursement rate of pay. The reimbursement rate of pay is usually hourly and paid against hours worked or flagged. On payday, the participants will receive two checks... one as wages for services (now reduced by the reimbursement rate) and a **"Second Check"** for the reimbursement of their expenses.



A tool reimbursement plan works because of a tax code called an "Accountable Plan." The Internal Revenue Code allows employers to reimburse their employees for their business expenses directly, as long as:

1. The expenses (tools, maintenance, and other costs) are incurred by the employee and are for the purpose of his/her job.
2. The employee must be able to prove (substantiate) that the expense was incurred.

What are the Obstacles..?

The biggest obstacle facing the industry is the inconsistency of plan applications. Too many administrators have built their business models based on old or incorrect methodologies and have not evolved to stay in compliance with changing interpretations and aggressive attitudes of the IRS. These companies now face loss of business and customer assessments. A big concern is that some third party administrators (TPA) refuse to warn customers or make expensive changes to systems and applications in order to maintain the slim profit margins they currently rely on. This negligence brings negative press and a bad reputation to the industry as a whole.

Third party administrators also have an inherent compliance problem due to fiduciary and money transaction issues not found in self administered software programs.

Aligning the Pieces

A new application has now been introduced into the market that does not rely on old business models and gives new life to the industry. In April, 2006, **Second Check, LLC** introduced a software application that allows the business owner to self-administer its own plan. It contains built-in safety



Aligning the Pieces

protocols and uses government rating factors in its evaluation processes and has established its methodology around the most current and up-to-date compliance issues and guidance of the IRS.

What makes Second Check's legal foundation different is found in three simple rules required by the IRS that many TPAs do not abide by:

1. The expenses must be incurred in the current tax year
2. The expenses must be incurred while the employee is employed with the current employer
3. Each expense must be substantiated with receipts or proof of purchase documents

Until now, companies with qualifying employees had to outsource the administration of their plan to a third party administrator.

Second Check's plan and methodology has been awarded a federal tax opinion letter from one of the largest and most prestigious institutional law firms in America, which it freely submits to all customers. Business owners can now easily point, click and process their own reimbursements, safely and easily, and retain complete control over their financial strategies.

What are the Benefits..?

Utilizing the right tool reimbursement program creates not only higher profit margins to the business owner, but also goodwill to the employees, as they are enabled to recover the costs of their investments without restrictions on income and other deductions. Where standard deductions require certain income levels and deductions to qualify, reimbursements are much more accessible and can be paid regardless of income.

All of the amounts properly paid as reimbursements are non-taxable and not considered income, and that means **no payroll taxes for either the employee or the employer.**

The following charts illustrate the financial benefits that a business owner and 1 employee will realize while participating in a tool reimbursement plan. Employee withholding taxes are calculated at federal 21% and state 5%. The employer will save matching FICA and Medicare expenses and other related payroll driven premiums.

Business Owner		
	Before	Using a
	Reimb. Plan	Reimb. Plan
Payroll	41,600.00	33,800.00
Reimbursements		7,800.00
Fed. Withholding		
State Withholding		
FICA/Med	3,182.40	2,585.70
Work Cmp	2,080.00	1,690.00
Total Costs	46,862.40	45,875.70
Savings		\$ 986.70

Employee		
	Before	Using a
	Reimb. Plan	Reimb. Plan
Payroll	41,600.00	33,800.00
Reimbursements		7,800.00
Fed. Withholding	8,736.00	7,098.00
State Withholding	2,080.00	1,690.00
FICA/Med	3,182.40	2,585.70
Total Take Home	27,601.60	30,226.30
Savings		\$ 2,624.70

(These illustrations are estimates only and may vary substantially depending on the circumstances of each business.)

The additional reimbursement check the employee receives is non taxable and there is no requirement for reporting it on a tax return.

The business owner likewise is not required to report the payment on its payroll reports or issue a form 1099.



Aligning the Pieces

How Does a Business Owner Take Advantage of This Benefit..?

Until now, business owners with qualifying employees had to outsource the administration of their plan to a third party administrator (TPA) to capitalize on the advantages of a tool reimbursement program.

Second Check's software application makes it easy and affordable for any business to safely administer their own tool reimbursement plan right from their desktop for a fraction of the cost, with no turn around time and no delivery charges. The user friendly software was designed with the small business owner in mind and includes built-in help content for every step of the way. A **Do-It-Yourself** software application takes the anxiety away from relying on the uncertain stability of a TPA to get the job done right and on time, and puts the control directly into the business owner's hands. The built-in safety features instill complete confidence and gives the owner and their employees the comfort of knowing their reimbursements are being administered properly.

Summary

Although tool reimbursement plans have been in the market for almost two decades, with so many different approaches to the same issue, the pieces just never seemed to fit together. Now with the recent guidance from the IRS and the extensive review of one of the world's leading law firms, Second Check is leading the way in properly "Aligning the Pieces." Its software application is a simple do-it-yourself product that allows customers to take control over their own business affairs and not have to rely on an outside "business partner" that could disrupt its finances or employee confidence.

The business retains the controls and financial management aspects that accompany a Do-it-Yourself software application.

Businesses all over the country are embracing this alternative with new found enthusiasm. A software program with all of the necessary protocols built-in offers the business owner the tools to take control of their own accounting and financial strategies.

Second Check is one of the best tools business owners can use to improve their bottom line, their employee relations and provide a more enriched environment for their customers.

*Steve Dockins is Chief Executive of Second Check, LLC
sdockins@secondcheckonline.com
www.secondcheckonline.com*





Aligning the Pieces

About the Author

As Founder and Chief Executive of Second Check, LLC, Mr. Dockins is responsible for the vision, direction and operations of the company. He is in charge of developing and acquiring strategic partners as well as guiding product refinements and offerings.

Steve has over 25 years of experience in business development and management as an entrepreneur. He has engineered and managed several tax sensitive investment projects throughout his years and was a candidate for the prestigious Ernst & Young "Entrepreneur of the Year" award in 1997. With his experiences in tax & legal strategies and product development, he acquired the knowledge and business acumen that afforded him prominent offerings of executive appointments throughout his career.

Steve founded the tool reimbursement industry in 1988 and is acknowledged and respected by his peers as the expert & leading knowledge resource of this industry.



About Second Check

Second Check, LLC is a company that develops and distributes a specific software application to trades and businesses where employers can or do offer employee business expense reimbursements. Our objective is to accelerate and simplify the distribution and support systems of the industry and capture those companies who otherwise would not be inclined to participate.

With a multitude of talent and experience in business development and operations, we have committed our team efforts in creating products that provide our customers with the greatest possible opportunity for success.

Contact Information

Company Headquarters:

24402 Borrego Court
Laguna Niguel, CA 92677
(949) 500-4491

Service Center

Sales & Product Information:

2200 East River Road
Suite 120
Tucson, AZ 85718
(888) 780-7555



Second Check is the World's Leading Provider of "Do-it-Yourself" software for the Employee Tool Reimbursement Industry