

# Software Program Opens the Door for Tool Reimbursements

*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.*



Steve Dockins  
CEO Second Check, LLC

**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 properly administer and process a tool reimbursement plan within the regulations of the tax laws, they are forced to outsource their plan to a third party administrator.

## What is a Tool Reimbursement Plan..?

A tool reimbursement plan is cost control strategy that allows an employer to make payments to an employee for the cost of his business (tool) expenses. The process separates the value of employee business expenses from employee time and service, thus reduces those taxes and insurances that are related to payroll. Making this process accountable is the job of professional administrators or consultants.

The most commonly known reimbursements are those for mileage, where an employee turns in his mileage log to his employer and receives a reimbursement payment.

Similarly, 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 "write off employee expenses" on their tax returns, most people do not. Hence, a "Tool Reimbursement Plan" is a simple method of recovering those costs, that otherwise go un-recovered.

### Employers Benefits

- Increase bottom line profits
- Affordable, safe and proven
- Less turn-over
- Increased employee moral

### Employees Benefits

- Easy method of recovering cost of investment
- More take-home pay
- No expensive accounting cost

## 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. These payments are not considered income and will not be subject to payroll or withholding taxes.

Each participating employee executes a simple plan enrollment form and provides proof of purchase documents to substantiate all incurred expenses placed into the plan. The Second Check software uses built-in government factors to evaluate and determine the reimbursement basis and a reasonable rate of payment.

As the participating employee incurs more expenses they submit proof of purchase documents and the expense is added to their Bank.

The participating employees will receive 2 checks... one as wages for services and a "**Second Check**" for the reimbursement costs of their tools and equipment.

Once every pay period, the employer or designated administrator will simply process their employees' reimbursement payments along with their payroll.

This two-check system results in increased profitability for both business and employee.

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.

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

Until now, companies 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. Third party administrators typically process and deliver the reimbursements from information faxed or sent by the employer. A good TPA will monitor the employee expense accounts and operate a full customer service facility. They charge an average of 10% percentage of the reimbursements for those services. It takes 2 days to process and turn-around the reimbursements for distribution to the employees.

“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 deliver charges,” says Steve Dockins. “The software was designed with the small business owner in mind, was developed to be user friendly and includes built-in help content for every step of the way. And, unlimited customer support comes with every purchase. A **Do-It-Yourself** software application obviously takes the anxiety away from relying on a TPA to get the job done right and on time and puts the controls directly into the customer’s hands. And the built-in safety features ensure complete confidence and the comfort of knowing their reimbursements are being administered properly.”

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## What are the Benefits..?

Utilizing a tool reimbursement system 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. There is no waiting period so the business and its employees can start saving immediately.

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 chart illustrates the financial benefits employees will realize while participating in a tool reimbursement plan. The employer will save matching FICA and Medicare expenses and other related payroll driven premiums.

	<b>Before Reimb. Plan</b>	<b>With Reimb. Plan</b>	<b>Employee Savings</b>
Payroll (annual)	156,000.00 *	117,000.00	
Reimbursement Pmts	-	39,000.00	
Fed Tax Withholding	32,760.00	21,060.00	11,700.00
State Tax Withholding	7,800.00	5,850.00	1,950.00
FICA/Medicare	11,934.00	8,950.50	2,983.50
Total Deductions	52,494.00 **	35,860.50	16,633.50
<b>Net Take Home</b>	<b>103,506.00</b>	<b>120,139.50</b>	<b>16,633.50</b>

Statistics: (yours may vary)

\* 5 employees earning \$600.00 per week with an annual payroll of \$156,000

\*\* \$52,494 in payroll deductions (federal taxes calculated @ 21% and state taxes @ 5%)

Under a reimbursement plan, payroll and withholdings are reduced and employees realize a savings of **\$16,633.50**. (This is additional take-home pay that is not required to be reported as income)

## Summary

Although tool reimbursement plans have been in the market for over a decade, most customers would like to see an alternative to the typical third party administrator or service bureau model. They would prefer, in many cases, to have the option of administering the plan themselves with the necessary controls in place to ensure the plan is operating within compliance to the law. A software program with all of the necessary controls built-in offers the consumer that option and gives them the tools to take control of their own accounting and financial strategies. The industry has embraced tool reimbursement plans, as it realizes the many benefits they have to offer. It 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.

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