



Commercial Card

# Solutions

An Exclusive Publication for Commerce Bank Commercial Cardholders

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## For Your Commerce Bank Purchasing Card Program Understand Sales and Use Taxes

*Most states\* impose a sales tax on the sale of many goods and services that will be used in that state. Usually, the tax is collected by the seller and then turned over to the state. However, not all businesses are required to collect sales tax in all states. It depends on whether they have nexus (a physical presence or some other link to a tax jurisdiction) in that particular state.*

In cases where a sales tax is due but the seller doesn't collect it, the purchaser is required to self-assess a use tax and pay it to the state. The use tax may apply to your company when it makes a purchase from an out-of-state supplier that does not have nexus in your state.

### Managing Use Tax

Your Commerce Bank purchasing card program can help your company streamline many processes, but without a paper trail of requisition requests, purchase orders, shipping/receiving documents and invoices, some special attention to sales and use taxes may be necessary. A thorough knowledge of your Commerce Bank card program and a well-planned and documented process for managing and auditing use tax can satisfy tax requirements.

Most purchasing card programs use one of three basic approaches. To illustrate them, let's assume your company is in Missouri and that it makes purchases from 3,000 suppliers: 1,500 are in state and charge Missouri sales tax, 1,000 are out of state but charge Missouri sales tax and 500 are out of state and do not charge Missouri sales tax.

**The exclusion policy approach** restricts the use of purchasing cards to in-state suppliers since they

charge sales tax, so there is no use tax liability. *Pro:* It's simple. *Con:* Most businesses will find this approach too restrictive and difficult to enforce. *Example:* Cardholders may only make purchases from the 1,500 suppliers who are located in Missouri.

**The basic use tax approach** calculates the use tax on all transactions with out-of-state suppliers, regardless of whether they charge sales tax or whether the transactions are exempt. *Pro:* Also relatively simple. *Con:* Generally results in the overpayment of use tax. *Example:* Use tax is calculated on transactions with the 1,500 out-of-state suppliers. It is overpaid because it includes the 1,000 suppliers who charge sales tax.

**The refined use tax approach** excludes transactions with vendors who charge sales tax and transactions exempt from use tax, such as goods bought for resale. *Pro:* Accurate calculation of use tax. *Con:* Requires an investment of resources to identify purchases on which use tax is not due. *Example:* Use tax is calculated only on the 500 out-of-state suppliers who do not charge sales tax.

\*All but Alaska, Delaware, Montana, New Hampshire and Oregon.



*St. Louis Eye Clinic*

## Corporate Card Helps Accounting Department Keep Sight of Expenses

*They may be specialists in vision and eyecare, but St. Louis Eye Clinic relies on its Commerce Bank Corporate Card to help keep its purchasing and paperwork in focus.*



Looking out for your eyecare are Laura Metzging, technician, and Krishnarao V. Rednam, M.D., of the St. Louis Eye Clinic's Kirkwood office on Adams Avenue.

“The Corporate Card is a terrific way to pay for all our expenses – big and small,” attests Daniel Jacob, St. Louis Eye Clinic’s accountant. “It’s so much more practical than writing checks or dealing with petty cash.”

### **An Ongoing Partnership**

St. Louis Eye Clinic has been a customer of Commerce Bank since 1970. As the company grew over the years – they now employ 50 people in 10 locations in St. Louis and throughout St. Louis County – Commerce Bank has been there. In addition to the Corporate Card, the Clinic has used a number of other financial services from Commerce Bank, allowing them to expand with the help of equipment financing, build-out loans and lines of credit.

According to Jacob, the Clinic has enjoyed a very supportive relationship with the bank over the years. “We really like the personal relationships that have developed with Commerce Bank – especially with the Kirkwood branch personnel. The bank knows our business almost as well as we do!”

### **The Corporate Card for Everyday Convenience**

On a daily basis, Commerce Bank’s Corporate Card makes transactions easier for the Clinic. “It would be a hassle to issue checks for our office purchases. With the Corporate Card, there’s no waiting for a check to be generated and sent. Instead, we can order over the phone and our purchases will be processed and sent immediately.”

In addition, St. Louis Eye Clinic orders their medical products – including frames, contact lenses and solutions – using the Corporate Card. “It’s critical that our eyecare supply orders are filled immediately so we can meet the specific needs of our patients,” Jacob adds.

The Corporate Card is also a must for expenses incurred at training sessions. “We send employees out about twice a year for training,” Jacob says. “The Corporate Card covers their lodging, meals, tuition fees and any other travel-related expenses.”

The Commerce Bank Corporate Card monthly statement serves to keep the accounting department up-to-date for bookkeeping and tax purposes. “The statement breaks down who used the card, the date of use and for what purpose,” Jacob says. “It keeps us on track at a glance.” And that’s high praise from an eye clinic!

## Avoid Unnecessary Backup Withholding Payments Respond to “B” Notices Promptly



*If it hasn't already happened, your purchasing department may someday receive an IRS “B” Notice from a supplier due to an incorrect name or taxpayer identification number (TIN). A TIN is generally a Social Security number (SSN) or an employer identification number (EIN). It's important that you understand and follow compliance procedures to avoid paying backup withholding unnecessarily.*

### What's a “B” Notice?

A “B” Notice is a backup withholding notice. It's sent by a supplier who receives notification from the IRS that the name or TIN on file doesn't match the name or TIN on Form 1099 that was provided by the supplier. The supplier will first check to ensure it's not a simple clerical error. However, if the names and TINs match, the supplier will send you a First “B” Notice and Form W-9. You must return the W-9 with the correct information

within 30 days from the date of notice, and no additional action is required. If you do not respond within 30 days, the supplier is required to withhold a percentage (31% for 2003) from future payments. If the supplier is notified a second time in a three-year period of an incorrect TIN, a Second “B” Notice will be sent with directions to contact the IRS directly.

### Watch Your Numbers

To help ensure you avoid “B” Notices, be careful to fill out your W-9 form accurately. According to the IRS, a TIN is considered “missing” if it has more or fewer than nine numbers or if it has an alpha character as one of the numbers (for example, 123-45-678 or 123-45-678P). It is “incorrect” if it is in the proper format (for example, 123-45-6789 for an SSN or 12-3456789 for an EIN) but the name/TIN combination does not match or can't be found on IRS or Social Security Administration files.

For more information, contact your tax advisor or log on to [www.irs.gov](http://www.irs.gov).

## Deductions for Your 2002 Returns

Be sure to consider these deductions when preparing your business's taxes for filing:

### Travel and entertainment costs.

You can take a 50% deduction for the cost of business meals taken when entertaining clients, traveling away from home for business or attending a business convention or luncheon. You should have on record the amount of the expense, the date the expense was incurred and the business purpose. Except for lodging expenses,

receipts are required only if the amount is \$75 or more.

### Employee meal expense deductions.

Certain meals may qualify for 100% deduction; for example, when employees must stay on the business's premises to be available for emergency calls over mealtime.

### Charitable deductions.

You generally can deduct the full amount of donations. However, if your business donated more than \$250 at one time, an acknowledgment

from the charity is required. If you donated property, an appraisal should be included.

### Credit for plan start-up costs.

If your business started a qualified retirement plan in 2002, you can claim a tax credit of 50% of costs, up to a top credit of \$500 per year for the first three years. Your business must have 100 employees or fewer to qualify.

### Equipment expense deduction.

Equipment purchased in 2002 is deductible up to \$24,000. You

can generally take depreciation on equipment purchases in excess of the limit.

**Carryovers.** Because certain write-offs are limited for the current year, you may be able to carry forward excess amounts from 2001 to claim in 2002.

Consult your tax advisor for deductibility of any of these expenses for your particular business and purposes.



## Q & A

### Q. How does a customer dispute a charge?

A. The customer may call us to initiate the dispute; however, we also require a written statement of dispute in most cases. We are generally able to provide a dispute form to fill out. Occasionally, we may require additional information not requested at the onset of the dispute to assist us in our investigation. We must receive notification within 60 days of the date the customer receives his/her statement.

While an item is in dispute, the customer is not responsible for payment of that amount. If the item is found in the customer's favor, a credit will be given on the statement in which the dispute was settled. If the dispute is found in favor of the merchant, the item will be placed back on the account and the customer may be subject to finance charges accrued on that amount.

### Q. How do you calculate the finance charge?

A. We calculate the monthly periodic rate finance charge on your account using the "Average Daily Balance" method.

To get the Average Daily Balance we take the beginning balance of your account each day, add new purchases, cash advances, fees, and finance charges, and then subtract any payments or credits. This gives us the daily balance. Then we total all daily balances (days during which you have a balance owing on the account, disregarding any credit balance) for the billing cycle and divide that total by the number of days in the billing cycle. The Average Daily Balance is then multiplied by the monthly periodic rate. This result is called the finance charge.



## Did You Know...

*...the reporting tools offered with your Commerce Bank commercial card program could save you countless hours gathering information for your tax return?*

## Commercial Card Client Care Center

We offer personalized service through our in-house customer service department Monday through Friday, 8 a.m. to 5 p.m. (CST).  
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***Commercial.cards@commercebank.com***

Write to us at:  
**Commerce Bank  
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P.O. Box 13607  
Kansas City, MO 64199-3607**

We're here to assist you with all your commercial card needs. For faster service, please have your account number ready when you call the Commercial Card Client Care Center.

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