Commercial Card
Solutions

Spring 06

An Exclusive Publication for Commerce Bank Commercial Cardholders

Laws and Regulations

What the Sarbanes-Oxley Act Means to You

Signed in 2002, the Sarbanes-Oxley Act (SOX) aimed to restore investor confidence in corporate finance and has changed the business world. Although many companies are working diligently to comply, some are still unsure how the Act can and will affect their business model.

That's especially true for the purchasing card industry. The National Association of Purchasing Card Professionals indicates that unless companies have already experienced a direct effect from Sarbanes-Oxley, they may be in the dark about how it will change their business.

Primarily, SOX affects only publicly traded companies. But some business owners have chosen to comply even if they are not legally bound to do so.

SOX Defined

Initiated by Sen. Paul Sarbanes, D-Maryland, and Rep. Michael Oxley, R-Ohio, SOX is intended to close accounting loopholes and restore investor confidence tainted by scandals involving Enron, WorldCom and others. It has 11 main provisions, divided into sub-sections.

Many of the provisions are being phased in over time, but it's essential that all business owners know how and to what extent they are affected.

Sox and Purchasing Card Program Controls

SOX does not come with a step-by-step guide on what every organization needs to do in order to comply, so it's important to review the law with a professional and verse your company in the Act's language. Because controls are what SOX focuses on, purchasing card professionals can focus on the following section as a guideline when working on SOX compliance:

Section 404: Management Assessment of Internal Controls requires that all financial reports include an "Internal Control Report" clearly stating that management is responsible for an adequate internal control structure. Items that must be clearly defined include:

- Roles and responsibilities
- Purchasing card accounting process
- Purchasing card policies and procedures
- Training
- Process for changes to an account (closing, card limits, other restrictions, preventing fraud, lost/stolen cards)
- Transaction documentation (as well as preventing duplicate transactions)
- Approval processes

These are just a few of the points you should be aware of. Again, it's important for you to review the Act's requirements with a professional.

* Source: National Association of Purchasing Card Professionals, December 2005.

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.*

Your Commerce Bank purchasing card program can help your company streamline many processes.

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 use tax. 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 can only make purchases with their card 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 all 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.

Document Steps Thoroughly

No matter how your company decides to manage use tax issues, you should be able to present state tax auditors with clearly documented tax procedures and evidence that these procedures are followed regularly.

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

Deductions for Your 2006 Returns

Now is the time to prepare for next year. Here are some ways you may be able to reduce your 2006 taxes:

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 starts a qualified retirement plan in 2006, you may be able to claim a tax credit. Your business must have 100 employees or fewer to qualify.

Carryovers. Because certain write-offs are limited for the current year, you may be able to carry forward excess amounts from 2005 to claim in 2006. Common carryovers for businesses include net operating losses, capital losses, charitable contributions, at-risk losses and passive activity losses.

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

Always be sure to consult your tax advisor.

Are You Complying with 1099 Reporting Rules?

Many companies have difficulty complying with tax laws on 1099 reporting when paying vendors with a Purchasing Card. Because you generally don't prepare an invoice, the necessary data for issuing a Form 1099, such as the Taxpayer Identification Number (TIN), isn't available. It's important for you to know what is required to avoid penalties.

Basic Requirements

You must file a 1099-MISC for any unincorporated service provider with whom you spend more than $600 during the year. The total is based on all purchases, combining Purchasing Card payments with other forms. You need not file a 1099-MISC for corporations, tax-exempt organizations or government entities, or for payments made for the following purchases:

- Freight
- Merchandise
- Telephone services
- Storage

Various Tactics to Help You Comply

If you wish to help reduce the confusion associated with compliance in reporting Purchasing Card usage, consider one of these options for your company:

- **Excluding all 1099-MISC suppliers**
  Benefit: Reduces the risk of noncompliance
  Cost: Limits use and benefits of Purchasing Card
- **Flagging all 1099-MISC suppliers**
  Benefit: Allows in unincorporated suppliers who may be a good fit for your program
  Cost: Requires managing communication of 1099-MISC suppliers from cardholder to program administrator
- **Issuing a specific card for 1099-MISC suppliers**
  Benefit: Isolates 1099 expenses for easier tracking
  Cost: Requires managing communication of 1099-MISC suppliers from cardholder to program administrator
- **Reviewing supplier names with certain features**, e.g., "Service," "Co." or "Inc."
  Benefit: Broader acceptance of suppliers and benefits of Purchasing Card
  Cost: Cumbersome process, susceptible to human error

Seek Tax Advice

Be sure to involve your tax advisor for help in determining the best compliance strategy for your company. For more information about 1099 reporting, log on to *www.irs.gov*.

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.

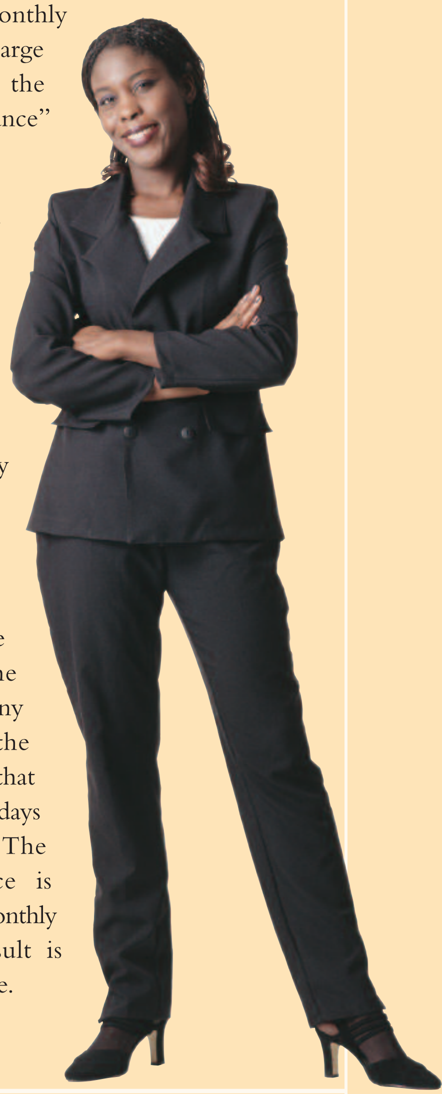
Did You Know...

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

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.



Commercial Card Client Care Center

We offer personalized service through our in-house customer service department
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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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