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Dealer Digest

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ACCOUNTANTS & ADVISORS

Year end tax strategies can save your dealership money

The last two months of the year are an opportunity for dealerships to engage in year end tax planning. Making some timely tax moves now might enable you to save big money on your 2015 tax bill. Following are a few areas of your dealership to discuss with your CPA.

Inventory management

Compare the detail shown on your books to a physical listing for all of your dealership's inventory, including vehicles, labor, shop materials, motor oil and parts. You should then write off any discrepancies. If you have stale parts inventory that's nonreturnable, consider giving it away or scrapping it to receive a tax deduction.

Meanwhile, if you use the lower of cost or market method to value your used vehicles, consider writing down your used inventory to market value at the end of the year. This will enable you to take a deduction for the reduction in value of your inventory.

Lawmakers in Washington have talked for years about eliminating the use of last-in, first-out (LIFO) inventory accounting, but LIFO remains a beneficial inventory management strategy for dealerships. LIFO can reduce your taxable income and taxes for the year by counting the last vehicles that come onto your lot (or "last in") — which likely have a higher cost — as the vehicles that were sold first (or "first out"). This reduces your profit on the vehicles for tax purposes.

When using LIFO accounting, make sure that a reasonable estimated LIFO adjustment appears on the versions of your December financial statements prepared for external parties, such as your bank or the manufacturer. Keep invoices on all new vehicles in stock at year end as evidence of new vehicle acquisitions. This will simplify making LIFO computations and help you comply with IRS recordkeeping requirements. (Similar requirements apply to used vehicle LIFO computations.)

Expense accruals and prepaid expenses

If your dealership pays taxes on an accrual basis (like most dealerships do), properly record and recognize expenses that were incurred this year but won't be paid until 2016. This will enable you to deduct those expenses on your 2015 federal tax return. For most dealerships these include:

- ❑ Commissions, salaries and wages,
- ❑ Payroll taxes,
- ❑ Advertising,
- ❑ Interest,
- ❑ Utilities,
- ❑ Insurance,

A word about fixed asset depreciation and tax extenders

In recent years, businesses have been able to deduct up to $500,000 of the cost of tangible fixed assets during the year in which they were placed in service, as long as their asset purchases didn't exceed certain limits. However, on January 1, 2015, this Section 179 expensing limit dropped to just $25,000, while 50% bonus depreciation generally was eliminated.

Because these breaks have repeatedly expired only to be extended retroactively by Congress, many believe that they'll be extended again for the 2015 tax year — in fact, they might have been extended by the time you're reading this. Consult with your tax advisor for the latest developments. If these breaks are extended, you may want to act fast to acquire and place in service before year end assets eligible for the breaks.

- ❑ Property taxes, and
- ❑ Finance reserve chargebacks incurred.

Also review all prepaid expense accounts and write off any items that have been used up before the end of the year. If you prepay insurance for a period of time beginning in 2015, you can expense the entire amount this year rather than spreading it between 2015 and 2016 if a proper method election is made. This is treated as a tax expense and thus won't affect your internal financials.

New facilities, renovations and repairs

Remember that new IRS regulations are now in effect regarding the tax treatment of tangible property expenditures on things such as buildings, machinery, equipment and vehicles. You can expense and deduct certain costs in 2015 if they're devoted to incidental repairs and maintenance such as interior and exterior painting, parking lot repaving, cosmetic upgrades, and replacing and repairing restroom fixtures.

If you've constructed a new dealership facility this year or upgraded your existing facility to comply with factory image requirements, consider having a cost segregation study performed. This study will separate the costs of building components from the cost of components with shorter depreciable lives (for example, equipment and decorative fixtures), which accelerates your depreciation deductions.

Miscellaneous tax tips

Here are a few more year end tax tips to consider:

- ❑ Review your outstanding receivables (including vehicle, parts and service, factory and finance reserve) and write off any receivables you can establish as uncollectible.
- ❑ Pay interest on all shareholder loans to or from the company.
- ❑ Reconcile your floor plan schedule to a listing from the bank and expense the interest for December before year end even if it's due in January to accelerate your deduction.
- ❑ Update your corporate record book to record decisions and be better prepared for an audit.

Be sure to consult with your tax advisor for more details on how these and other year end tax strategies may apply to your dealership. ■

4 digital marketing tips

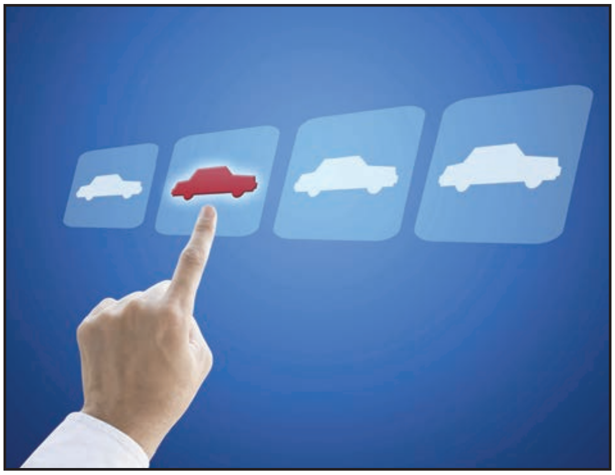
In a recent interview with *WardsAuto*, National Automobile Dealers Association (NADA) Chief Economist Steven Szakaly said that "car shopping has shifted to the online world." In particular, he noted that car buyers now spend an average of 14 hours shopping online, up from just five hours a decade ago, according to a study by NADA and global consultants McKinsey & Company that was released in April 2015.

Your dealership can generate more leads, boost sales and improve profit margins by taking full advantage of the sales and marketing opportunities offered by digital technologies and the Internet. Here are four tips to keep in mind as you work on devising or enhancing your online and digital marketing strategy:

1. Add quality content to your website. The most effective dealership websites today include much more than advertisements for vehicles. They feature nonsales content and resources designed to help visitors in their search for a vehicle while also positioning the dealership as a trusted authority.

Dealerships can post and tweet hot new models on the lot, vehicle maintenance tips, car shopping tips and so on.

Articles, whitepapers and e-books containing tips on auto buying and maintenance are a few examples of these kinds of content. Updating your site with fresh content also can help improve your website's search engine optimization (SEO) rankings.



And don't forget videos: They're a great way to showcase new vehicle inventory and share valuable information, and they aren't limited to just 15 or 30 seconds like a TV spot. It's important to find the "sweet spot" for video length — not too short but not too long. Experts say that online marketing videos should generally range from 15 seconds to three minutes in length.

If you're going to use marketing videos on your website, it's important that they look professional. Anybody can shoot videos nowadays using a smartphone, but posting amateurish-looking videos could do more harm than good to your brand. If you don't have professional video production capabilities, it might be wise to hire a professional videographer.

2. Leverage social media. If you're not using social media tools already, focus on a couple of popular social media platforms — perhaps Facebook and Twitter — and actively post comments and content on them. You can create posts and tweets in advance and then schedule them for release over time.

Dealerships can post and tweet about any number of different things: new vehicle sales and promotions, hot new models on the lot, vehicle maintenance tips, car shopping tips, etc.

3. Interact frequently. This applies to all of your online channels, including your website, social media platforms, email and online review sites. For example, be sure to respond promptly to any queries you receive on your site or via email, and be quick to reply to questions and comments posted on your social media pages.

For many dealerships, it makes sense to assign this responsibility to a particular employee — preferably one who is Internet- and social media-savvy. If online interaction isn't one person's specific responsibility, it probably won't happen consistently.

4. Tie all of your online marketing tools together. It's easy to end up with a hodgepodge of different online marketing tools that are operating independently of one another. Instead, your online marketing initiatives should be integrated together with each other. For example, do you publish an e-newsletter? Then include signup forms for it on your website and social media pages, and put social sharing and social following buttons in the e-newsletter. ■

Succession planning

Who'll be the next in line?

Retirement can sneak up on you. One day you're spending hours at the helm of your dealership, making a bevy of leadership decisions. The next day you're eyeing golfing engagements, volunteer opportunities and part-time consulting gigs.

Are you taking the right steps now to prepare for the transition to a new leader? If not, your business could be left in a proverbial lurch.

The early bird wins

The best advice is to start planning for the transition early. Many consider five years before retirement an ideal time to draw up an outline of who might succeed you and how it all will take place. If you've already chosen a successor, getting a jump start on your plan will allow ample time to train him or her.

If you haven't chosen a successor, you'll first need to think about whether your successor will be family or nonfamily. Do you have a son or daughter poised to take the reins, or will you hand them over to a key manager — or look to the outside? Maybe you have a business partner who's interested, and able, to take on the responsibilities of leadership alone.

It's all about qualifications

When evaluating a successor candidate's qualifications, look for a well-rounded

business education and senior management experience. Your candidate — even if he or she is a family member — should be able to present a strong work track record.

Specifically, this person's abilities should match up with the complexity of your dealership's operations. If, for instance, your kid sister has great marketing and sales skills, but isn't the least interested in general business or finance, choosing her could be a bad fit.

If you're looking internally, size up your strongest players in senior management. Ideally, the "leader-to-be" will have hands-on work experience in each functional area of your dealership.

Beyond judging a candidate's skills, assess his or her personal characteristics, such as having an open mind that can keep pace with industry changes and consumer demands. Other desirable qualities include being able to share and delegate responsibilities while accepting responsibility for decisions and actions. Also seek someone who'll be a good listener for employees and other managers at your store.

In the event you don't have a qualified family or internal candidate, you'll need to look externally. An executive search firm can help you locate and screen qualified candidates. Your trade association or Dealer 20 group also may be able to assist.

Training should be wide-ranging

During the training process, you'll want to develop your successor's know-how in a full range of dealer responsibilities across departments, including accounting and finance, sales and marketing, office administration and operations, human resources, and parts and service. Your replacement also should become conversant in manufacturer communications, customer relations and information technology. In the case of a family member, put extra effort into staying objective as you train him or her to run the show.

Last, remember to define *your* role in the transition. Your options are vast, from passing on daily management responsibilities while retaining overall control to handing over not only all control but, ultimately, ownership. These decisions are multifaceted and depend on many strategic, economic and personal factors.

Ideally, the "leader-to-be" will have hands-on work experience in each functional area of your dealership.

During training, put your pride aside. Your successor will likely replace some of the ways you did business with methods and procedures he or she believes will work better or be more up to date. Don't let an injured ego let you lose sight of your importance as a valued advisor.

Involve the village

The succession process isn't executed by two people alone. You'll want the support of the entire dealership as well as external individuals who're important to your business's health and stability. You might start with your attorney and financial advisor, but eventually you'll want to involve everyone who'll be affected by your succession decisions — including family members and employees. ■

DEALER DIGEST

New rules could swell dealerships’ overtime costs

The Department of Labor (DOL) has proposed changes in labor rules that would raise the level of pay at which certain types of employees are considered to be exempt from receiving overtime pay. If they become effective, the changes could result in more dealership employees becoming eligible to receive overtime pay.

Currently, employees who primarily perform executive, administrative or professional duties (as defined in DOL regulations) and make more than $23,660 a year are exempt from the requirement that they receive overtime pay for working more than 40 hours per week. The proposal would more than double the exemption threshold to $50,440 a year.

The threshold for receiving overtime pay hasn’t been raised since 2004, failing to keep pace with inflation. If the threshold is raised — and this could happen before year end — experts say that as many as 5 million more employees nationwide could become eligible to receive overtime compensation. ■

Dealership profitability lags behind many other retailers

According to data released by the National Automobile Dealers Association (NADA), the average gross profit margin for U.S. auto dealerships is 13.1%, while the average net profit margin is 2.2%. This net margin is at least a full percentage point lower than that of many other retailers, NADA notes.

The trade association attributes dealerships’ relatively low net margins to fierce competition among dealerships and a large and always-growing choice of car models. These factors make auto dealerships what NADA calls “a perpetual low-margin business.”

But the low-margin factor doesn’t seem to deter entrepreneurs from opening new dealerships. There were 16,396 new car dealerships in the U.S. at the end of 2014. That figure represented an increase of more than 200 dealerships from a year earlier. These dealerships employ more than 1.1 million people, earning an average annual salary of $55,000. ■

Bill would revoke CFPB auto lending guidance

Two years ago, the Consumer Financial Protection Bureau (CFPB) issued a guidance bulletin on auto lending that has been strongly opposed by most dealership groups. The guidance would require auto lenders to impose controls on dealer interest-rate markups or eliminate the dealer’s discretion to mark up loans, instead requiring dealers to use another reward mechanism.

Now, the U.S. House Financial Services Committee has passed a bipartisan bill (H.R. 1737) that would revoke the CFPB’s auto lending guidance bulletin. In addition, the bill also would require the CFPB to give notice and have a public consultation before issuing guidance, as well as making a full study of the costs and impacts of any guidance on consumers and businesses, including dealerships. ■

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