HEADLIGHTS

A PUBLICATION
OF THE AutoCPAGroup

WWW.AUTOCPA.COM
1-800-4AUTOCPA

A NEW YEAR: A FRESH START FOR YOUR DEALERSHIP

The new year is a time to reflect on improvements that can be made. Why not start off your dealership's new year on the right foot? Consider these suggestions to help you run a more efficient and effective dealership in the coming year:

✔ Review the IRS $10,000 cash reporting rules with your sales department and office staff. Notify all individuals who paid cash in excess of $10,000 during 2013 that you issued Form 8300 to the IRS. Mail those notifications no later than January 31.

✔ Make sure your office has issued 1099s to all individuals to whom the dealership paid $600 or more in 2013. Review applicable reporting rules for payments to attorneys and other entities.

✔ Prior to issuing payment, make sure your office obtains Social Security numbers (or completed W-9s) for all independent contractors performing services for the dealership. Review the employee status of individuals, such as drivers, who are regularly paid with nonpayroll checks but who really should be considered employees.

✔ Have all individuals driving demonstrator units sign demonstrator agreements. Review procedures for use of demonstrators to ensure that you comply with current IRS regulations.

Susan Harwood, CPA
Hulsey, Harwood & Sheridan, LLC

✔ Be sure you have placed in conspicuous spots all employment-related posters required by law.

✔ Review your employee-theft insurance to ensure that you have adequate coverage.

✔ Review the performance and pay plans of employees, and make changes where appropriate.

please turn the page ☞

SPECIAL NADA ISSUE: JANUARY 2014

MANAGING YOUR VEHICLE INVENTORY

DID MY MARGINAL TAX RATE GO FROM 35% TO 45%?

VISIT US AT **BOOTH #3001**
NADA convention & expo 2014
NEW ORLEANS | JANUARY 24-27

✔ Restrict approval of overtime to your general manager and yourself, and require that it be approved in advance.

✔ If your dealership offers retirement benefits, review employee hire dates and entry dates for eligibility.

✔ Determine whether it is time to increase your labor rates.

✔ Review applicable mileage statement rules with your sales department. Make sure customers sign and print their names on the mileage statements when required.

✔ Review the rules that require posting Buyers Guides on all used vehicles and demonstrators.

✔ Review for reasonableness all expense account allocations in your factory financial statement.

✔ If your dealership uses the last-in, first-out (LIFO) method for inventories, be sure to protect your LIFO reserve by having all versions of your December dealership financial statements include a LIFO estimate. If you fail to comply with this rule, the IRS can terminate your LIFO election. Also, the IRS requires that all LIFO records, including all factory invoices for vehicles on hand as of the end of each tax year, be kept indefinitely.

✔ Check the factory's recommended minimum or guide for working capital for your dealership, and update the amounts on your dealer financial statement.

Taking a few minutes to follow up on these suggestions will pay dividends over the coming year. Consult your AutoCPAGroup member for help as you begin this new-year assessment of your dealership. ✍

MANAGING YOUR VEHICLE INVENTORY

Barton Haag, CPA
Albin, Randall & Bennett, CPAs

Dealers often ask about inventory management and what is an appropriate day's supply of inventory. The answer often depends on the geographic location of the dealer and which manufacturers the dealer represents. For example, a dealer in a rural market may have a higher day's supply of new inventory than does a dealer in a metropolitan market, because they often take inventory when they can get it. Similarly, a General Motors (GM) dealer will generally have a higher day's supply of inventory than will a Toyota dealer, because of the numerous GM models and trim packages. Also, a dealer with a strong used-car market may choose to keep more inventory on hand to meet customer needs.

Rather than focusing on national averages or benchmarks, you should study your own inventory patterns and understand your specific goals and needs. Then develop an inventory management system according to those specific goals and needs. This will be especially important when interest rates rise from their historic lows.

In managing total inventory supply, you need to actively monitor the age of each unit of inventory and have a plan of action as each unit hits various milestones. For example, if your policy states you should not have any new inventory more than 120 days old, then you need to have a plan for what to do when a unit approaches and ultimately hits that milestone. Your policy may state that at 100 days old you will move that unit onto the showroom floor to give it more visibility, and at 115 days you start spiffing the unit to sell it.

To highlight units on your lot, you may want to create a more visible section, such as an inventory pad near the front entrance of your building. Most dealers treat used inventory the same way. Once inventory hits a milestone, the dealer should start mar-

keting it differently. However, most of our more successful used-vehicle dealers have a strict policy that once a unit hits a defined birthday, that unit is automatically wholesaled, no questions asked.

Successful dealers make their plan a part of their culture. While there may not be a need to discuss this with responsible employees on a daily basis, we believe that a review at least once a week specifically to address the status of both stocking levels and specific units is key to keeping vehicle inventories in line. It is also important to be consistent in your process while personally following up with responsible managers. An appropriately designed payment plan can help motivate adherence to your inventory management policies and make your plan a part of your culture. For example, there should be a component that either rewards or penalizes general managers for their inventory management practices.

Having an effective inventory management system not only helps you save interest costs and wholesale losses but also helps you remain sales effective. Contact your AutoCPAGroup member for more information. ✍

DID MY MARGINAL TAX RATE GO FROM 35% TO 45%?

John Hayes, CPA
Maloney + Novotny, LLC

For certain common types of income, the answer to this question is yes!

Most taxpayers are aware of the 2013 reinstatement of the top income tax bracket to the 39.6% rate that was in effect before the 2001 tax cuts. You may have also heard that itemized deductions will once again be reduced for high income earners, which effectively increases the top marginal rate to 41% for affected taxpayers. Add to that the new 3.8% net investment income (NII) tax (or Medicare tax), and you are paying roughly 45% of certain income to Uncle Sam this year.

The NII tax generally applies to investment income for individual taxpayers with adjusted gross income (AGI) over $250,000 (married filing jointly) or $200,000 (filing single). It also applies to trusts and other taxpayers. Investment income includes interest, dividends, annuities, royalties, rents, capital gains and income from “passive activities.” The passive activity category will likely have the greatest impact on many dealers.

Tax advisers have been accustomed to applying the passive activity rules. Passive losses could only be offset against passive income. While this continues to be the case, the determination of whether income is passive or not now takes on the added importance of the effect of the NII tax on such passive income.

Several criteria determine whether a source of income is considered nonpassive income, thereby avoiding the NII tax. The most important of these is the requirement that you spend at least 500 hours actively participating in the business operations. Note that certain qualifying businesses can be grouped together for purposes of applying this 500-hour rule. Also note that rental real estate activities are considered, by definition, to be passive.

The law creates a one-time option in 2013 and 2014, so you can elect to change how you group activities for the purpose of this rule. These new groupings will generally be binding for all future years. Carefully consider the current and future effects of grouping decisions on both the NII tax and passive loss rules.

Another twist arises concerning self-employment (SE) tax, which can apply to certain nonpassive income. Ensure that any tax planning considers the effects on both the NII tax and the SE tax.

Finally, despite the recent issuance of regulations governing the NII tax, there is still considerable uncertainty as to how to apply some aspects of the

please turn the page ☞

DID MY MARGINAL TAX RATE GO FROM 35% TO 45%?

(continued from page 3)

new tax. This is especially true for "self-rental" property, in which a commercial property and its primary tenant are under common control.

As controversy continues to swirl around implementation issues of the Affordable Care Act and last minute changes to delay certain provisions, one thing is certain not to change: The NII tax, which helps fund the Affordable Care Act, is here to stay. Contact an **AutoCPAGroup** member concerning these issues before you file your 2013 income tax returns. ✍

For assistance, please call 1-800-4AUTOCPA or see our Web site at www.autocpa.com. Headlights is prepared by the **AutoCPAGroup** for the clients of its members. We are required by IRS Circular 230 to inform you that the advice contained herein (including all attachments) is not intended or written to be used for the purpose of avoiding any penalties that may be imposed under Federal tax law and cannot be used by you or any other taxpayer for the purpose of avoiding such penalties. © 2014 Headlights

Managing Editor
Anna M. Cooley, *WPI Communications, Inc., Springfield, NJ*

Associate Editors
Richard Heider, *Heider, Tanner & Dirks, Inc., Denver, CO*
Aaron Winiarz, *Aaron Winiarz, CPA, Macungie, PA*

Advisory Board of CPAs

Kevin Allison
Peterson Sullivan LLP
Seattle, WA

Jerry Bressler
Bressler & Company, PSC
Covington, KY

Stephen deBlois
Welch LLP, Ottawa, ON

John Dobson
Thom-Dobson-Womack, Inc.
Oklahoma City, OK

Thomas P. Goekeler
Sartain Fischbein & Co., CPAs
Tulsa, OK

Ken Gordon
Weisberg, Molé, Krantz & Goldfarb, LLP
Woodbury, NY

Gerry Green
Green & Miller, P.C., Corinth, TX

Barton Haag
Albin, Randall & Bennett, CPAs
Portland, ME

Susan Harwood
Hulsey, Harwood & Sheridan, LLC
Monroe, LA

John Hayes
Maloney + Novotny, Cleveland, OH

Jeffrey Jensen
Jensen & Associates, P.C.
Salt Lake City, UT

Donald Kretschmar
Donald Kretschmar, CPA, PLLC
Tempe, AZ

Dawn Lopez
Dwight Darby & Co., Tampa, FL

Daniel R. McCall
DZH Phillips LLP
San Francisco, CA

Jim Meade
Lattimore Black Morgan & Cain, PC
Brentwood, TN

Mark Miller
Brady Martz, Grand Forks, ND

Greg Porter
Porter & Company, P.C.
Greensboro, NC

Lonnie Rogers
Tetrick & Bartlett, PLLC
Clarksburg, WV

Ken Rosenfield
Rosenfield & Co., PLLC, Orlando, FL

Jim Tanner
Heider, Tanner & Dirks, Inc., Denver, CO

Dan Thompson
Boyer & Ritter, LLC, Harrisburg, PA

Carl Woodward
Woodward & Associates, Inc.
Bloomington, IL

Wayne Zimmerman
Pomares & Co., LLP, Sacramento, CA