HEADLIGHTS

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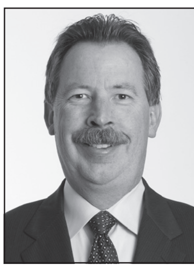
TAX SAVINGS OPPORTUNITIES FROM FIXED ASSET DEPRECIATION



Kevin Allison, CPA
Peterson Sullivan, LLP

Over the past several years, many dealers have spent substantial amounts of money upgrading their facilities, a trend that continues. With all that money being expended, it is even more important to consider your options to depreciate all of the dealership's fixed assets for tax purposes.

Cost-segregation analysis

A cost-segregation analysis can accelerate some of the depreciation deduction you can take for building or upgrading your facility. This analysis will identify costs that can be classified into shorter life categories, thereby allowing you to take more of the deduction in the earlier years of the facility's life. In most cases, a commercial building is depreciable over 39 years using the straight-line method. By identifying components of the building through a cost-segregation analysis, some of the cost can be depreciated over shorter lives such as five, seven or 15 years.

Election to expense (Section 179 deduction)

For 2013, the IRS regulations under code section 179 allow a taxpayer to expense (immediately deduct) up to $500,000 of assets (other than land and most buildings) put into use during the year, as long as the total cost of assets acquired during the year does not exceed $2 million. The amount that can be expensed begins to phase out as the costs of this property exceed $2 million. The cost of both new and used tangible business property can be expensed. The deduction available for 2014 is currently scheduled to go down to $25,000.

Bonus depreciation

Bonus depreciation continues to be available in 2013 for new tangible property with a class life of

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20 years or less. If the acquired property qualifies for bonus depreciation, 50% of the property cost may be deducted in the year you place it into service. The remaining 50% is depreciated over the class life of the asset. Unlike the section 179 deduction, bonus depreciation does not require taxable income. Used property does not qualify for bonus depreciation, nor would a commercial building (with a class life of 39 years). Bonus depreciation has not yet been extended to 2014.

Qualified retail improvement

This type of expenditure may be depreciated over 15 years. Qualified retail improvement property covers any improvement made to an interior portion of a nonresidential real property building if:

✔ that interior portion is open to the general public and is used in the retail trade or business of selling tangible personal property to the general public

✔ the improvement is placed in service more than three years after the date the building was first placed in service

This qualified retail improvement provision expired at the end of 2013.

Abandoned or discarded property

It is good policy to review your fixed asset schedule at least annually to identify those assets that have been discarded or abandoned. This can provide a deduction on your tax return and can lower the amount of any personal property tax you might owe.

Conclusion

These are just a few of the considerations to make before finalizing your tax return. For more information, please contact an AutoCPAGroup member. ✍

WHY PARTS PHYSICAL INVENTORIES ARE NECESSARY

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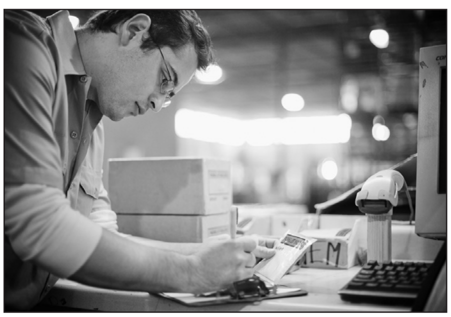


No matter what the size of your parts inventory, an annual physical inventory of parts should be taken. This allows you to verify the parts actually on hand and to make sure that your parts system is accurate. It also provides an opportunity to identify obsolete and returnable parts, and provides an oversight tool of your parts inventory account.

The income or expense caused by adjusting your parts account on the books to the actual physical parts will vary. Large adjustments generally give cause for concern, especially if the physical inventory amount is less than that reflected by your general ledger parts account. The search for a reason behind large differences may not always yield an exact answer. Is it a problem with the physical count or a problem in the parts account on your books, a cost pricing problem or a theft issue?

Determine whether you are adjusting your books for parts appreciation/depreciation during the year. If not, that could be part of the difference; however, in many years this adjustment may not be large.

Review the variance report from the parts system, which reflects differences between the quantity on the books right before the count and the actual count from the physical inventory. Look for large count differences and differences in items with large unit costs. Double-check the physical count, and make any necessary adjustments to the physical total if a correction is needed.

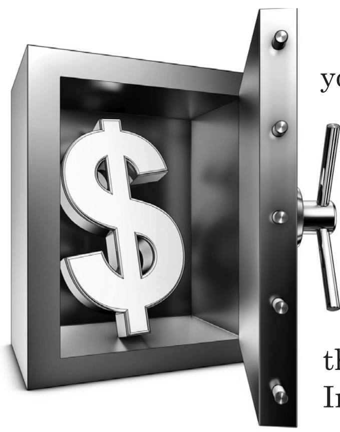
Make sure all in-transit parts purchases and returns are accurately accounted for in the reconciliation. Do the same with work in process. Are all work-in-process invoices listed on this report, or are there some that should not be on this report?

Who should direct the parts physical itself? Reputable parts inventory companies will bring in their own people to take and run the whole physical or just bring people in to supervise the physical conducted by your personnel. Using an outside company provides a level of internal control and independence that you cannot get from using your own employees. However, there is extra cost in doing this. Using only your own employees requires some extra care and scrutiny during the physical. We recommend that some of your accounting personnel participate in the physical and review the reconciliation if prepared by an outside company.

Parts inventories are a cash investment for the dealership. An annual parts physical inventory helps to assure that what your books say you have matches what is on the parts shelves. Contact an AutoCPAGroup member to discuss this further. ✍

PROTECT YOUR DEALERSHIP CASH

Dawn Lopez, CPA
Dwight Darby & Co.



According to the 2013 American Financial Professional Payments Fraud and Control Survey, 61% of organizations experienced attempted or actual payments fraud, 27% of those affected said that fraud incidents increased and 29% of those affected reported corporate credit cards were targeted, with a typical loss of $20,300 due to payments fraud.

While fraud can never be completely eliminated, you can take steps to deter it. Checks are the most common payment form used by those who commit fraud. When you issue a check, you reveal much of your vital information (logo, series, routing/accounting number). You must provide this same information with a wire transfer, which allows vendors direct access to your account.

Here are some simple steps to prevent fraud:

✔ Open a wire funding account. This account would only allow deposits, which you could then immediately transfer to your main operating account, reducing exposure in an account with a high cash balance.

✔ Reconcile your account daily.

✔ Open a separate payroll account, funded with enough money to cover the checks.

✔ Use Positive Pay, a Web-based tool that can help you combat check fraud and forgery by matching the checks presented for payment at your bank against check issue details provided by your company.

✔ Watch for employees whose attitude about the company or their position has turned negative. Also, watch those whose standard of living seems to improve.

✔ Never log in to your bank account through a link; always type the known Internet address directly into the browser.

✔ Have your bank statement sent directly to you (some people even have it mailed to their home addresses).

✔ Review vendor lists for names that are not familiar to you and ask the controller about these.

✔ Program all computers so that they “lock” after an established time of nonuse.

✔ Segregate duties. (1) Have cashiers count the money before and after their shifts. Two people should perform the cash deposit count and sign off. (2) Segregate employees who set up vendors, post invoices, prepare invoice payments, and sign and mail payments. (3) Have different people approve a sale, post it and then subsequently apply the cash payment.

✔ Make employees take vacations of at least one week per year.

✔ Don’t assume that, because you receive a review or audit from your CPA firm, all deficiencies will be reported to you. That is beyond the

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PROTECT YOUR DEALERSHIP CASH

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scope of these services. Your CPA can perform a separate controls testing service.

✔ Have the management team of each department meet at least semiannually to discuss risk areas, how to implement controls and how to evaluate adherence.

This is by no means an all-inclusive list, but it is definitely a good start. Contact your **AutoCPAGroup** member to discuss these steps and the possibility of performing an internal control test of your dealership. ✍