HEADLIGHTS

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PROFESSIONALS IN F&I EQUAL HAPPY CUSTOMERS AND PROFIT

Successful dealers appreciate the value their finance and insurance (F&I) departments add to their businesses. Not only is the F&I department one of the most profitable departments in the dealership but it is one of the most important for delivering an excellent customer experience. And creating happy customers means long-term and profitable relationships. So what makes a successful F&I professional?

Bart Haag, CPA
Albin, Randall & Bennett, CPAs

✔ F&I professionals understand their importance to the profitability of the dealership. They are ethical, trustworthy, have exceptional work habits and are team players.

✔ F&I professionals understand government regulations and help lead the dealership's compliance efforts. This is no small task in today's world, thanks to the Red Flags Rule, Office of Foreign Assets Control, Gramm-Leach-Bliley, Risk-based Pricing, Do Not Call, etc.

✔ F&I professionals respect their customers' most valuable asset: time. That means they work hard to innovate dealership processes so the customer doesn't spend more time than necessary buying a car. For example, they sell from generic menus rather than from time-consuming customized menus.

✔ F&I professionals understand that the selling process starts long before the customer gets to the F&I department. They participate in sales meetings to help the sales department understand the products they sell and their selling processes.

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✔ F&I professionals also understand that in order for the dealership to convert their sales efforts to cash, their paperwork must be spotless. They work closely with the accounting office to ensure that omissions or mistakes are quickly corrected.

✔ F&I professionals go out of their way to develop relationships with representatives of various lenders with whom the dealership does business. They also work hard to understand the various programs offered by lenders. They leverage these relationships for the benefit of the dealership's customers by helping them obtain financing—the first step to a profitable department.

Developing top F&I talent is very beneficial for the dealer. The best F&I departments sell products to a majority of their customers. They have a product mix of 40% finance reserve and 60% other F&I products. The average dealer has the exact opposite product mix. That becomes important as regulations tighten for finance products.

Assume that a dealer selling 1,000 new and used retail units per year increases the dealership's gross F&I income from $650 per retail unit to $1,000 per retail unit. Also assume that they go from a 60%/40% product mix to a 40%/60% mix. The improvement will enhance the customers' experience by protecting their investments, while the dealer's annual income will increase, in this case by $350,000.

Dealers with their own reinsurance companies will benefit even more by selling their own products.

Contact one of our AutoCPAGroup members today to assess your F&I department and its professionals. It can be one of the most profitable moves you make this year. ✍

MANAGING DEALER INCENTIVES

Kenneth Gordon, CPA
Weisberg, Molé, Krantz & Goldfarb, LLP

Manufacturers' dealer incentives, an often overlooked part of dealership front-end operations, can play a crucial role in facilitating new-vehicle sales department gross profit and consistent cash flow.

Domestic and foreign dealerships are recipients of dealer incentive payments from manufacturers. In contrast to customer incentives, which belong solely to the customer, dealer incentives belong to the dealership and reduce the dealership's cost of sales. The dealer has complete discretion as to how to apply this incentive money (known as "dealer cash").

Proper management of incentive claims can affect both front-end gross and cash flow. Failure to properly submit incentive claims results in delays in receiving money that has already been factored into the commissionable gross of the deals. The grace period to submit complete and accurate claims varies by manufacturer. During this period, the dealer can correct, complete and resubmit incentive claims. These can be accomplished internally, or a dealership can contract with an outside company, usually on a contingency-fee basis, to uncover any unclaimed incentive monies.

The accounting department should ensure recovery of incentives by using all available information, including realistic estimates of entitlement to stair-step money and properly scheduling the incentives receivable.

The sales manager should actively monitor incentive programs and communicate this information to the salespeople. Incentives can be used as tools to "work the deal" and gain a competitive advantage over dealerships that may not be aware of all the details of their respective programs.

Dealer cash received from the manufacturer helps negate the shrinking gap between invoice price and suggested retail price. It is important that the dealer implements proper incentive management procedures to ensure the receipt of all credits available to the dealership. Contact your local **AutoCPAGroup** member for assistance in setting up such procedures that ensure you receive all the dealer incentive payments for which you are eligible. ✍

TAX MINIMIZATION STRATEGIES FOR YEAR-END

Scott Lewis, CPA
Rosenfield and Co., PLLC

As we enter the early part of 2015, our thoughts drift to the phenomenon known as tax return time. Here are some actions that can be taken to help minimize the tax burden on your dealership(s) for 2014.

✔ **Accounts receivable:** Review all your trade and factory receivables, including warranties and incentives. If you know that some of these amounts will not be collectible, consider writing them off. Coordinate with your tax professional to leave them on the books at the end of the year and expense them for tax purposes only, instead of booking the expense on the thirteenth statement. That way, you can write them off on your books in 2015 and affect pay plans for the responsible personnel.

✔ **Inventories:** If you are on new-vehicle LIFO (last in, first out), coordinate with your tax professional to ensure that you are taking advantage of all trade discounts, such as interest assistance and advertising co-op monies. All in-transit units should be recorded in the LIFO calculations to increase the LIFO deduction, especially in times of rising prices. If you aren't on used-vehicle LIFO, do a used-vehicle valuation at the end of the year, and take the write-down as a tax adjustment. Used-vehicle prices generally decline close to year-end, and if you have any "water" in your inventory mix, you should take the tax deduction now. If you have excess or obsolete parts, make sure they are physically segregated, removed from your main counter pads and written off your books to take the tax deduction.

✔ **Fixed assets and repair expenses:** Take advantage of the new IRS repair regulations that generally went into effect on January 1, 2014. There are new *de minimis* rules for expensing tangible property (e.g., computers and furniture) as well as materials and supplies. There are also new rules for disposing of real property and the recording of repairs and maintenance, which can be coordinated with any facility upgrades and renovations currently occurring. It is extremely important to discuss and coordinate this area with your tax adviser, because almost all businesses will be required to file Change in Accounting Method tax forms with the IRS for the 2014 tax year.

✔ **Interest income:** Ensure that all cash management accounts and other floor plan interest offset credits are properly recorded as expense reductions—not interest income—if applicable. Investment income such as interest is subject to the recently passed net investment income tax of 3.8%, which is an additional tax on top of the regular income tax. Generally, if the floor plan offset account is owned by the dealership, the interest earned on that account is not subject to the 3.8% tax.

✔ **Uniform capitalization (Unicap 263A):** This tax law requires retailers and producers to capitalize certain direct and indirect costs related to inventory. New IRS revenue procedures issued in

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TAX MINIMIZATION STRATEGIES FOR YEAR-END

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2010 that simplify the methodology usually result in deferring some costs to the subsequent year and minimizing this amount in most cases. The new procedures also allow a portion of internal repair order profits on new and used vehicles still in stock at year-end to be excluded from taxable income. Make sure that you discuss this with your tax adviser and that all applicable federal elections of these methods have been adopted.

These are some of the ways 2014 taxable income from your dealership can be reduced. As always, please consult your AutoCPAGroup tax adviser on these or any other issues. ✍

Managing Editor
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Associate Editors
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Aaron Winiarz, *Aaron Winiarz, CPA, Macungie, PA*