HEADLIGHTS

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THE RIGHT DECISION— INDEPENDENT CONTRACTOR OR EMPLOYEE?

The Government Accountability Office reports that it loses billions of dollars annually due to employees misclassified as independent contractors (ICs). From the IRS perspective, this is a payroll tax issue as well as an employee benefit issue. An IC reclassified as an employee will certainly cost the employer money for payroll taxes and possibly for benefits not provided to the IC. Below are the three areas the IRS looks at when determining whether to classify a worker as an IC or employee. Within each area are specific criteria they consider.

Gerry Green, CPA
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Behavioral control

ICs do it their way. ICs are not furnished with and are not required to follow any instructions provided by the company, nor are they supervised by company personnel. Furthermore, ICs do not receive any training from the company about how to perform the contracted work, and the company does not dictate their hours. ICs are responsible to the company only for the end result of their work, not how it was completed.

Employees, on the other hand, are told by the company what to do, and when and how to do it, and are required to follow company policies and procedures.

Financial control

ICs are financially independent of the company for which they are providing services. ICs should be able to perform the assigned job using their own tools, facilities and human

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resources. The IC's investment in his or her trade or business then creates the risk that completion of the project will result in a profit or loss. While ICs are usually paid by the job or the percentage of the job they have completed, some may be paid on an hourly basis, as is an employee.

True employees, however, are financially reliant on the company, from reimbursement of business expenses to monthly salaries—although in some occupations, employees purchase their own tools. More important, employees cannot realize a profit or suffer a loss when employed by a company.

The relationship

An employer–IC relationship most likely exists when four conditions are present: (1) both parties sign a written contract or agreement; (2) the work is temporary, i.e., the worker does not provide services with the expectation that the relationship will continue indefinitely; (3) the IC's services are available to the general public; and (4) the company does not provide health or other employee benefits.

A traditional employee relationship typically involves at-will employment on a full-time basis specifically for the company. Also, if a worker provides a service that is a key aspect of the business, it is likely that the business has a right to control his or her work; therefore, an employee relationship likely exists.

Conclusion

As with all tax and legal matters, an employee or IC relationship may become blurred by special circumstances. To ensure compliance with employment and tax laws, consult your AutoCPAGroup member and legal counsel for guidance. ✍

KEEP YOUR PLANS UP TO DATE

Barton Haag, CPA
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When was the last time you prepared a forecast for your dealership? If it has been a while, you're not likely to be thinking strategically about how to make more money. You might already be successful, but could you be more successful?

Designing an effective forecast requires accurate financial information. If you don't keep good records to begin with, it will be difficult to measure the past and forecast the future. One of the best ways to ensure good data is to set up descriptive and meaningful accounts. If you are a multidealer group, it is beneficial to design a standardized chart of accounts across all franchises. Creating standardized accounts will help ensure consistency of your information, especially if you don't operate in a centralized environment.

The planning phase is a great time to review front- and back-end processes, your reporting systems and other aspects of your business. You and your team should ask questions while developing your forecast and your business plan. For example, you will likely want to evaluate the following:

✔ **Processes for generating leads**—Is your team receiving effective training for making calls? Are you mining your customer database? Is it time for a BDC?

✔ **The sales contribution per department**—How do your new- and used-vehicle sales teams hand customers off to service? Are service advisers doing a proper walkaround?

✔ **Processes for managing frozen capital**—Do you have new and used inventory days' supply goals? Do your inventory managers effectively buy and sell at the auction?

✔ **Operational reporting**—Is your doc distributed to the appropriate members of your team, and does it include appropriate information? Do you meet with your team to review each month's results?

As you pull together your short-term plans, it is also a good time to think more about your long-term strategy. For example:

✔ Should you expand your facility to meet either front- or back-end demand with a plan to increase profitability?

✔ Do you have a succession plan in place? When was the last time it was reviewed and updated?

✔ How are you attracting and retaining top talent? Are your pay plans keeping your top team members motivated?

Once you have a strategy in place, it's time to put numbers to it. For existing lines of business, we generally recommend that you start by budgeting expenses to the volume you are currently generating—not to the volume you hope to achieve. In other words, assume you aren't going to generate any more gross than you are today, and set your expense structure to that gross. If your strategy includes significant changes in your operation or if you are aware of a significant event that is going to transform your business, you could use those elements to forecast gross and expenses.

Forecasting is a great way to think strategically about your business, measure your success and hold your employees accountable. Contact your **AutoCPAGroup** member today for assistance. ✍

WHAT ABOUT THOSE EFTs?

John Dobson, CPA
Thom-Dobson-Womack, Inc.

We live in a world where creditors beg us to let them into our bank accounts electronically. We refer to the payment transactions as "EFTs," or electronic funds transfers. These may or may not save time in the dealership, but they do save the creditors time. We no longer have canceled checks to look at when our bank statement comes, but instead we see a line item on our statement with some identifiers and, ideally, the name of the payee (if not, ask the bank to add the payee name to the description on each EFT).

So what's the big deal? We all have set policies making it standard operating procedure for the office manager to bring us the payment for bills to be signed each month. We see invoices and statements with the appropriate department manager's approval initials, and we see a paper check filled out and ready for our signature. The EFT alters this long-standing procedure by taking away the check and, in some cases, the statements and invoices. So what do we do now?

First, establish a company policy about the handling of EFTs. That policy, like all other internal control policies, must be logically written and verifiable. Once approved by the owner(s), the policy should be added to the dealership's policy and procedures manual. It must then be reviewed by all appropriate managers and employees to ensure immediate understanding and implementation. All policies and procedures should be verified continuously by employees at the general manager level. Those policies that involve cash and inventory must undergo special and more frequent verification.

When an electronic bill comes to the dealership, it should be copied and given to the appropriate manager for approval before payment is authorized and made. To allow for verification and authorization, provide enough time between the time a bill or invoice is received and the time it is paid by check, credit card or EFT. Some of the dealership management system providers have added enhancements to their accounting programs to manage electronic transactions. Make sure your office is using one.

We would be remiss if we failed to point out that millions of dollars flow through every dealership's bank account, making it very susceptible to dis-

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honesty. Can you imagine an accounts payable clerk getting into a personal financial problem and instructing his or her finance company to begin debiting a new bank account (yours) each month for his or her car payment? Without proper control policies and verifications, this could continue for months before discovery occurs.

It may be time to review your company policies and procedures to make certain that the required verifications are being made in writing and on a timely basis. Talk with an **AutoCPAGroup** member to assist you with EFT procedures. ✍

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. © 2015 Headlights

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