

HEADLIGHTS



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TAX LAW NEVER STAYS THE SAME *Changes for 2015 and beyond*

At the end of 2015 Congress passed a new tax law with more than 50 tax extenders and over 80 tax provisions, equaling \$622 billion in tax breaks.

These provisions made permanent or temporarily extended certain tax laws in the Protecting Americans from Tax Hikes (PATH) Act of 2015. Most of the business tax law changes were not new but extended or made permanent laws that were already in place.

Here are some highlights of what the new legislation means for businesses.

Small-business expenses: The amount a business can expense under Section 179 increases in the first year to \$500,000 (with a phaseout limit of \$2 million) for purchases of machinery or equipment.

Credits for new hires: Employers that hire new employees may qualify for the Work Opportunity Tax Credit (WOTC) through 2019.

Good news for retailers and restaurants: Remodeling and other improvements to stores and/or restaurants can be depreciated over 15 years instead of 39 years, and with a 15-year life, the expenditures are eligible for bonus depreciation.

Bonus depreciation is extended: A separate provision allowing 50% of new equipment acquisitions to be written off is being extended through 2017. It then decreases to 40% in 2018 and 30% in 2019.

Benefits for S corporations:

The legislation permanently extends the rule reducing to five years (from 10 years) the period for which an S corporation must hold its assets follow-

please turn the page 



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SPECIAL NADA ISSUE: MARCH 2016

**NEW-VEHICLE INVENTORY
DAYS IN STOCK**

**SERVICE AND PARTS
DEPARTMENTS—INSPECT
WHAT YOU EXPECT**

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ing conversion from a C corporation to avoid the tax on built-in gains on the disposition of assets.

There were also changes to the tax law for individuals and families. Many of these changes were existing tax laws that were either made permanent or extended for two years as noted below.

Permanent tax breaks for individuals and families:

The American Opportunity Tax Credit:

Qualifying college students can receive a tax credit of up to \$2,500 per year for the first four years of college. To receive the full credit, single filers must have an adjusted gross income of \$80,000 or less; \$160,000 for married couples filing jointly.

Child Tax Credit: Qualifying parents may deduct up to \$1,000 per child 16 years old and younger.

Retiree charitable contributions: Individuals 70½ and older can make tax-free contributions

from individual retirement accounts, capped at \$100,000 per taxpayer each year.

Technology for students: The cost of computer equipment, software and even Internet access can now be paid from money in 529 educational savings plans.

Extensions for two years for individuals and families:

✓ Depending on income, students can deduct up to \$4,000 in tuition expenses. This means it is subtracted from the taxpayer's gross income.

✓ The premium for mortgage insurance is tax deductible, subject to income limitations.

✓ The 30% residential tax credit for solar improvements continues through 2019 and phases out by 2022.

Contact an **AutoCPAGroup** member to discuss any of these tax law changes. 📧

NEW-VEHICLE INVENTORY DAYS IN STOCK

Past guidelines for new-vehicle inventory units in stock typically ranged from a 60 to 90 days supply. After the recession ended in the summer of 2009, many dealers wanted more new units in stock. Most of this concern was about having a balanced inventory, not the total inventory. A dealer should keep in stock from two times the best new-unit sales month in the past 12 months or three times the worst new-unit sales month in the past 12 months.

Dealers' new-unit sales increased in 2015, and days supply has been increasing. Some dealers are running out of room to park new vehicles,



which may indicate that days supply is increasing. The *Automotive News* typically reports a lower days supply than our

measurements of more than 200 new-vehicle dealers. *Automotive News* reported days supply ranged from a low of 55 to a high of 69 between June 2015 and November 2015.

Dealers' new-vehicle inventory won't typically have fleet units in it as fleet sales turn into a sale almost immediately upon being received by the dealer. In reviewing the *Automotive News* data, fleet sales may cause a decrease in the *Automotive News* days supply computations.

Depending on the month, between 13% and 20% of total new units sold in a month during the six months ending November 30, 2015, were fleet units. By adjusting *Automotive News* days supply computation to remove fleet units from total new-vehicle sales you get a range of 63 days to a high of 86 days supply.

Dealers need to constantly manage the number and model of new units stocked, set a goal of days supply and review this at least monthly. Having

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too many new units in stock can mean that holding costs—including floor plan, insurance and commissions paid to reduce inventory—increase and possible gross on the vehicle decreases. Dealers should recognize that the “retail” days

supply of new inventory reported by *Automotive News* and manufacturers could be low due to fleet sales being included in their computations. Set your own days supply level that works best for you, and monitor it every month. *✍*

SERVICE AND PARTS DEPARTMENTS—INSPECT WHAT YOU EXPECT

There are many solid service and parts department policies and procedures that dealerships regularly implement with significantly positive impact on both operational and asset protection variables. While these policies and procedures can produce the desired results, too often they are not effectively managed or inspected to ensure management expectations are met. To be effective, employee adherence to these processes and procedures must be periodically inspected. Below are some important process considerations that can have a positive impact on departmental profit and protect assets.

The first and most significant service department process to develop and test is the cashiering and repair order closing process. An essential internal control consideration is the clear segregation of the repair order closing function and the cash receipting function. The repair order closing function should have controls in place that allow an adviser to close only his or her repair orders and also require all repair orders to be closed before being sent to the cashier. There should be a process for authorizing policy adjustments, coupons and other discounts. This information can be tracked and used in reviewing service department metrics. In addition, adjustments should be brought to the attention of the customer either by the service adviser or in the cashiering process.

The open repair order and parts invoice report should be managed and reviewed weekly, at a minimum. The service and parts managers should have clear and reasonable explanations for each

open item on their respective reports. This sounds like an obvious process, but dealers commonly overlook it until it is discovered during year-end work. This should be a part of every weekly manager's meeting.

Essentially all DMS systems have exception-reporting capabilities. These exception reports can be tailored to fit the specific needs of each dealership and provide valuable information that can be useful to department management. A gross exception report should be run daily for each service and parts sale category. This report should identify the repair orders or parts invoices that fail to reach a predetermined margin. Policy adherence, discounts and other adjustments should be measured daily, and preferably grouped by adviser.

Reports on these items should be reviewed by the general manager, service manager and parts manager to determine reasonable cause and make corrections, if applicable. As with the exception reports, the detail of these accounts should be part of the daily overnight job stack.

Factors such as hours per repair order, technician efficiency and technician effectiveness should be measured at both the adviser and technician level on a regular and continual basis. Review of these

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please turn the page 

SERVICE AND PARTS DEPARTMENTS— INSPECT WHAT YOU EXPECT

(continued from page 3)

factors offers the department manager a clear tool for performance measurement and improvement potential.

Once processes are put in place, have a well-defined inspection protocol to ensure that the individuals involved in the process are:

- ✓ Adhering to the process.
- ✓ Adequately responding to the information provided as part of the process.

Contact an **AutoCPAGroup** member to discuss this further. ↗

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