HEADLIGHTS

A PUBLICATION
OF THE AutoCPAGroup

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REVIEW EXPENSES FOR HIGHER PROFITS

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In recent years, automobile dealerships have been experiencing record sales and profits. Along with this growth come increases in expenses that everyone feels are justified to move sales and profitability to new and higher levels. New-unit sales are beginning to level off, and new- and used-vehicle gross profits may be under some pressure. Now is a good time to review expenses to continue to realize good profits at today's sales levels.

A number of expense categories come under what is commonly called "expense creep." The largest of these is usually personnel. When reviewing personnel, start with a complete list of employees, along with their job descriptions. This will help you determine if they are needed to operate the dealership efficiently. It could be that you have an extra person in your BDC department or lot people and porters who may not be needed but who have been a help as sales have grown. You must remember that along with the compensation employees are paid, the additional cost of payroll taxes, vacation pay and benefits, as well as workers' compensation and liability insurance, can add up very quickly.

Advertising is also a very large amount in a dealership's expense structure. A number of manufacturers offer volume bonuses that dealers sometimes go after to increase their profits. These may cause additional spending on advertising to achieve those sales numbers. Now is a good time to review your advertising spending and set a per-vehicle sale expense goal you are comfortable with. It is also important to review your e-commerce advertising spending, which continues to

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be a large part of the advertising budget. Review your lead sources to be sure you are getting a proper return on your money, cancel the nonproductive ones and, if needed, scale back on others.

Another expense category worth investigating is outside services. This is usually a catchall account for many items. Over time, this account can accumulate many items that, although nice additions, may no longer be needed and can be canceled to reduce expenses.

Other categories that require review are office and other supplies, training, and travel and entertainment. It is also time to review your costs with other vendors to see if all their services or products are still needed or if any other vendors can provide the same service or product for a lower cost.

One way to achieve these goals is to do a side-by-side expense comparison for the last three or four years. You will be amazed at the expense creep you will find; you can then go after those expenses to achieve your profit goals. Continued measurement of these numbers will help you grow your profits, even if sales level off. There is a wise old saying, "What gets measured gets done." Continued review of all expenses will help this process. Contact your **AutoCPAGroup** member if you require help getting started on this project. ✍

AFFORDABLE CARE ACT—IS YOUR DEALERSHIP READY?

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Many employers struggled through their first Affordable Care Act (ACA) reporting season in 2015. Some are still unsure whether the ACA requirements even apply to their dealership. Because the year-end reporting is complex and noncompliance penalties can multiply quickly, let's discuss some of the finer points.

If in 2015 you employed 50 or more full-time employees, including full-time equivalent employees, at your dealership(s), for 2016, you are classified as an applicable large employer (ALE) and must file all ACA-required forms with the IRS. You must also file if you were self-insured.

Form 1095-C needs to be provided to your employees by January 31, 2017. The forms are filed with the IRS by February 28, 2017, if filing paper forms, or March 31, 2017, if filing electronically. Nonfiling fines are $500 per required form.

Form 1095-C is prepared for certain employees, and form 1094-C transmits these to the IRS. Form 1095-C documents, by month, details about each employee's eligibility for health insurance on the job, whether you as their employer made an offer of insurance, and whether the offer made met ACA standards for quality and affordability.

Form 1095-C is a year's worth of monthly breakdowns for employees identified as eligible for an offer of health insurance during the tax year. "Eligibility"—ACA lingo for full-time status—hinges on hours of service to the employer, not just paid hours on the job. This tracking of hours of service must be done monthly. The minimum number of hours worked to qualify for medical coverage is an average of 30 hours per week for the measurement period. This measurement period is determined by the employer.

The other 1095-C reporting pertain to the offer made to employees: Did it meet ACA standards for coverage and affordability?

These reporting extras create a tracking and recordkeeping complexity that companies must be aware of and find a way to address immediately.

Keep in mind that according to the ACA employer mandate, the returns are mandatory even if the employer offers good coverage and when an employer opts to take the penalty for offering no coverage.

In addition to the nonfiling penalty of up to $500 per required form, there are two more ACA penalties relating to either not making coverage available to your employees and whether the coverage offered is noncompliant. Both of these can yield substantial penalties.

Is your dealership IRS-compliant with the ACA for the 2016 filing season? If you are not comfortable with your answer, please contact your **AutoCPAGroup** member or call John Slevin at *Integrity Data* (217-732-3737) or e-mail him at jslevin@integrity-data.com for more information on ACA software that will work with your payroll system. This software will autopopulate, print and, if needed, electronically file your year-end forms with the IRS *and* will help you with monthly tracking. ✍

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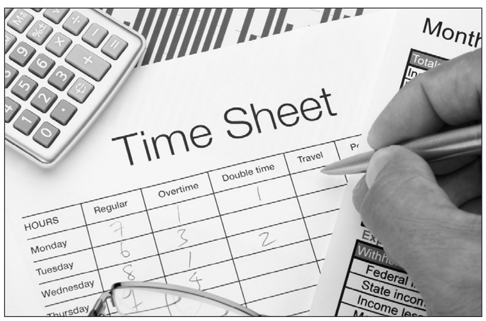

You've likely heard about the overtime pay changes under the Fair Labor Standards Act (FLSA). The Department of Labor's (DOL) final rule, issued May 18, 2016, requires all employers to become compliant by December 1, 2016. This may be delayed by six months, but you should prepare now for it. This quick turnaround is leaving employers in the hot seat. While plenty of information is available nationally, the guidance is generally not tailored to the automotive industry, nor does it shine a light on the often murky issue of state wage and hour rules and regulations.

Whether to pay employees overtime depends on their classification as "exempt" or "nonexempt." FLSA exemptions are like tax law—the default is to consider an item taxable, or in this case, an employee is considered nonexempt (i.e., eligible for overtime) unless that employee specifically qualifies under a federal exemption. The burden of proof is levied on the employer.

The most common exemptions from overtime requirements are one of the five "white collar" exemptions or a highly compensated exemption. Three tests must be passed to qualify for a white collar exemption: the salary basis test, the salary level test and the duties test. Out of the five "white collar" exemptions, three classifications are changing the salary level test. The executive, administrative and professional exemptions are increasing the salary level test, and the highly compensated employee compensation level is increasing.

Many employers think that employees paid a salary are exempt from overtime. An employee is not exempt from overtime simply by virtue of receiving a salary. The default should be that any employees who work more than 40 hours per week are entitled to overtime—unless they qualify for an exemption. However, that requires a close reading of the DOL's duties test. Bookkeepers are often misclassified either under the professional or administrative exemption. A CFO, controller or CPA satisfies this requirement, but not a bookkeeper. The takeaway? Don't rely on job titles to meet the duties test. Think substance over form.

Most current discussion involves the aforementioned exemptions because the recent rule changes affect white collar exemptions. However, four additional exemptions are available to dealerships: salesman, partsman, mechanic and commission paid. Due diligence is required to ensure that employees are correctly categorized within

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these four exemptions. Additionally, several tests must be passed.

This review would not be complete without looking at the competing and often conflicting state laws. An employer must follow both federal and state laws, but what happens when those laws conflict? Best practices include performing a self-audit of all employees who regularly work more than 40 hours per week. In addition, now is the time to review your employee handbook, state employment laws and other areas on which state DOL audits tend to focus. ✍