



# HEADLIGHTS

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## F&I COMPLIANCE

**T**he F&I department is a fundamental profit center in many dealerships. Generally, when a customer gets to the F&I department, he or she has decided to purchase a vehicle. The business manager walks the customer through various financing options and explains the benefits of purchasing an extended service plan or credit, life and disability insurance.

### F&I Policies

In recent years, the IRS and the judicial system have been taking a hard look at F&I practices, and in many cases they haven't liked what they've found, often ruling in favor of huge class-action lawsuits. To minimize the exposure in this area, it is important to have and maintain sound F&I policies in your dealership. The policy should set interest rates and gross margin caps on all F&I products sold. For dealerships that utilize doc fees, they should be consistent on all deals.

The policy should also address file retention procedures—mandating that any information gathered during processing the deal is kept for a minimum of 25 months in a secure

location and shredded after the 25-month period.

### Form Usage

As important as employing a sound F&I policy, the proper use of various notice, agreement and disclosure forms may be the vital link that proves your dealership treated the customer fairly. Disclosures to the customer should begin sooner than many dealers realize. For example, a customer enters the dealership interested in a test drive. In compliance

with the safeguards established by the dealer, the salesperson asks for the customer's driver's license to make a photocopy. When the license is returned, the customer should be presented with a privacy notice.

Many F&I departments sell menus. They can be a great way to detail the various insurance and warranty packages available.

*please turn the page* 



**Craig Nelson, CPA  
Virchow, Krause  
& Company, LLP**

## SPRING 2004

**GOOD NEWS  
FROM WASHINGTON**

**DEALERSHIP COMPUTER  
VENDORS**

**HOW TO TURN A RESTRICTIVE LAW  
INTO A MARKETING TOOL**

## DEALERSHIP COMPUTER VENDORS Carl Woodward, CPA Woodward & Associates, CPAs

All automotive dealers have to deal with computer vendors and the systems and programs they sell. In presentations, I regularly ask dealers what they think of their vendors, and you would not believe the negative comments. The volume and anger of dealer complaints about vendor nonperformance and false promises is staggering.

I hear from vendor sales representatives that the dealer can always change vendors. However, most dealers have tens of thousands of dollars invested in their employees' training to use their current system. Because of this, dealers are usually stuck with their current vendor for many years.

To minimize future problems, follow these steps:

- ✓ Require vendors to put into writing their representations about their system and criticisms of their competitors' systems.
- ✓ Put into writing that the vendor will not disable your system under any circumstance.
- ✓ Put in the agreement the amount of price increases during the term of the agreement and for as long as the dealership has the system.
- ✓ Put in the agreement the discount structure or

formula you will receive on future purchases.

- ✓ Do not allow your vendor to force you to sign a confidentiality agreement.
- ✓ Require a substantial reduction in your monthly support charges from the vendor if your system has the same repeating problems or if your system has been down for more than 24 hours (unless it was over a weekend).
- ✓ Do not sign any new or add-on agreements that extend your obligations beyond the initial expiration date of your initial purchase.
- ✓ Make the sales representative put in writing any representations made about the pricing and discounts as compared with other dealers.
- ✓ Make sure you have the right to assign your current agreements to the buyer if you sell the dealership during the terms of the agreement.

The measure of quality suppliers is one that does not try to take advantage of their customers and one that takes care of them by quickly resolving any problem (with the additional care of not allowing a problem to repeat itself). ☞

## HOW TO TURN A RESTRICTIVE LAW INTO A MARKETING TOOL

Jacob J. Cohen, CPA  
Walpert & Wolpoff, LLP

In order to conform to the Do-Not-Call rules in form and spirit, you should establish a system to ensure such compliance by the dealership staff. Without such a system, confusion would rule and it would be very difficult to simplify, as well as substantiate, compliance.

Proof of compliance could come in very handy if the dealership is audited by the Federal Trade Commission or some other enforcement agency. The following steps will not add to the dealership cost and will set the tone that compliance with the law is paramount in the dealer's mind.



Establishing a dealership Do-Not-Call list, in addition to the national list, will tell the customer that the dealer cares for him or her and its compliance is not solely to conform to the law. Highlight this in your marketing to your advantage and to gain the trust of your potential buyers. Use the Do-Not-Call restriction to organize the use of the telephone, improving the productivity of your sales force and turning it into a positive lead-generation and powerful public relations program. Appoint someone, preferably a salesperson—not a manager—to be in charge of the dealership's Do-Not-Call policy. This will motivate the salesperson

## HOW TO TURN A RESTRICTIVE LAW INTO A MARKETING TOOL

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and preserve the manager's time for what he or she should be doing best (e.g., manage the sales and service process for a better result).

The restriction on telephone solicitation does not extend to marketing by mail. For best results, the salesperson should have on his or her desk a list of potential customers to contact by mail first thing when he or she comes to work in the morning.

If a prospective customer contacts the dealership by phone or Internet, you have a three-month window of opportunity to continue the contact. Keeping a telephone call log by salesperson will enhance the productivity of the sales force and be useful in proving compliance with the Do-Not-Call policy of the dealership. ↵

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Furthermore, they create a vital bridge between the initial agreed-upon price of the vehicle and the final deal. When creating the F&I menu, it is important to review the wording. In recent months, such phrases as “mandatory product disclosure,” “product waivers” and “preferred option” have sent up red flags that could expose the dealership to litigation.

### Sampling and Deal Review

Once the right policies and property forms are in place, it is important to select a sample of deals to ensure uniform compliance. It is recommended to select 20–40 deals over a 60-day period. Be sure to select deals from each F&I manager or closer. Sampling could be skewed toward deals with high

gross margins and/or deals containing many F&I products.

Customer signatures and standard forms should be present in all deals. Also, review the loan application for discrepancies in the amount of income reported versus the customer’s employment history. You may discover that “problem deals” are originating more frequently from certain closers in your dealership. Directing your attention to these individuals can head off a majority of your exposure in this area.

F&I sales are an important part of any dealership. This is a dynamic profit center that is forced to comply with a growing list of regulations and disclosures. ↵

## GOOD NEWS FROM WASHINGTON

**Diane Weinhold, CPA**  
**Weinhold & Associates**

In May of last year, President Bush signed one of the largest tax cuts in United States history—The Jobs & Growth Tax Relief Reconciliation Act of 2003. The act provides tax relief to both businesses



and individuals without increasing taxes.

One very significant item in this act is for businesses. Under previous law (Section 179 of the Internal Revenue Code), a business could write off up to \$25,000 of new equipment as long as it did not acquire more than \$200,000. Under the

new act, businesses can now write off up to \$100,000 of new equipment, and the phase-out threshold increases to \$400,000. This is a great opportunity for dealers to replace company vehicles, update computer systems, if needed, and replace old, worn out furniture and service equipment.

The 30% first year “bonus depreciation” allowance that was initiated as part of the 2002 tax law changes has been increased to 50% (for assets acquired and put into service after May 5, 2003).

This provision will run through 2004.

Another provision of the act concerns dividends. Before 2003, dividends were taxed at ordinary individual tax rates. Now dividends received by an individual shareholder from a domestic or qualified foreign corporation will be taxed at a maximum rate of 15%. For dealerships that have previous C corporation earnings, this presents an opportunity to pay out some of the earnings at a lower tax rate.

Maximum tax rates on net capital gains made on or after May 6, 2003 through December 31, 2008 fall from 20% to 15%. This does not include unrecaptured gains on real property. Those rates remain at 25%.

Individual tax rates have been reduced to 10%, 15%, 25%, 28%, 33% and 35%, respectively. They are effective January 1, 2003 through 2010.

For individuals with children at home, filing a joint return and an adjusted gross income of less than \$110,000, the Child Tax Credit increases from \$600 to \$1,000 for 2003 and 2004. If you are filing single, the adjusted gross income limitation is \$75,000.

Begin planning to take advantage of the provisions to lower your tax bill for 2003. Please consult with your tax advisor for further details of how the new provisions will affect you. ↵