Profit DRIVERS

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PROFITABLE IDEAS FOR AUTOMOBILE DEALERS

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New Repair Regulations Give Dealers Options

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In late 2013, the IRS issued final regulations governing repairs and capitalization. These regulations are some of the most impactful changes in recent memory. The new regulations became effective on January 1, 2014 and afford taxpayers the opportunity to apply many of the provisions retroactively to the 2012 and 2013 tax years at their discretion.

While the overall goal was to simplify the regulations, they remain extremely complicated and difficult to navigate. Chances are that many of your business's activities will be affected in some way by these new changes. If you have not taken steps to ensure you are engaging the regulations correctly, now is the time. The professionals in our firm can assist you work through the regulations, implement the necessary accounting changes and make the necessary determinations to ensure you are minimizing your tax liability.

Capitalization, generally, is the process by which a business incorporates the costs of acquiring an asset into the asset's value. Since the 1800s, businesses have been prohibited from deducting the costs of things like acquiring a new building and making permanent improvements to property. After the original legislation was passed, the next 100-plus years have been spent determining what types of activities fall within the gamut of the regulations.

The new regulations are an attempt to create bright-line rules and move away from the traditional facts-and-circumstances tests that dominated prior regulations. The new regulations make changes in five key areas:

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New Repair Regulations

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1. Materials and supplies
2. Repairs and maintenance
3. Capital expenditures
4. Amounts paid for the acquisition of tangible property
5. Amounts paid for the improvements of tangible property

Finally, the IRS created several new safe harbors that were not included in the temporary regulations.

These regulations may have a significant impact on your dealership's real property and the way you account for improvements to such property. These regulations are complex, and this article is just a series of highlights of some provisions that may affect your business. To ensure you are taking full advantage of the new regulations, please be sure to contact one of our professionals today.

Combat Fraud with Proactive Steps

Recently, a dealership's office manager was charged with 29 felony counts for allegedly stealing $170,000 over two years. The office manager was a long-time employee who began working for the dealership in the mid-1990s.

She perpetuated her fraud by logging in car deals and increasing the value of used car deals. She then used the difference to make a fake pay-off and issued checks to institutions that held her personal debts, such as credit cards and auto loans.

Overall, though, concern for fraud appears to be relatively limited and receives little publicity because:

1. Most fraud goes undetected.
2. Statistics regarding fraud are only estimates.
3. When fraud is discovered, perpetrators are seldom pursued because of the turmoil generated by an investigation and prosecution.
4. Even though extensive fraud could bankrupt a business, employees witnessing fraudulent practices may not disclose them to management to avoid an unpleasant situation.
5. Purchasing a fidelity bond provides a false sense of security. It is difficult to satisfactorily prove fraud to an insurance company, and any attempt to do so disrupts the organization.

Many myths lead to or are associated with fraud, including:

- *Fraud is most often committed by those who do it habitually or who have done it before.* Evidence shows fraud is frequently committed by first-time offenders.
- *Long-term employees who are beneficiaries of your trust will not be fraudulent.* Frequently, because of a temporary need, a valued individual may resort to a temporary wrong that is repeated because it goes undetected.
- *The employer is a good judge of character and understands his/her employees.* Unfortunately, employers are fallible in their assessment of character traits.
- *Believing that checks made payable to institutions or individuals cannot be converted by third parties for personal use.*
- *Outside auditors can be relied on to discover fraud.* A certified audit will give little assurance that fraud does not exist. It is difficult for an external source to conduct more than a sampling of ongoing procedures and accounts.
- *Believing that insurance will completely cover losses.* When agents review claims, proof of the loss and the amount involved are required. It often is difficult to satisfy these requirements in fraud cases.

Generally, developing strong controls and maintaining tight watch over your accounts can help you to both prevent and catch fraud. The professionals in our office can assess your fraud risk and provide you with a comprehensive and personalized plan to mitigate that risk. Contact one of our professionals today for more information.

Managing Your Cash Flow

When it comes to managing cash flow, the key word is "enough." Not having enough cash to handle obligations can create major difficulties and may even lead to a dealership's demise. Being saturated in cash, however, may suggest poor management procedures and the possibility of excessive borrowing or missed investment opportunities. The secret is having enough cash on hand but not too much in play.

Riding the Cycle

A dealer's cash flow cycle starts with inventory. Few aspects of auto retailing are more difficult—or more important—than having the right amount of the correct inventory in stock. Although not as laden with hazards as acquiring inventory, receivables also can wreak havoc on cash flow projections. Two ways by which receivables can reduce cash are through parts sold to a local repair and body shop or credit and warranty claims incorrectly filed with the manufacturer. Conduct monthly or biweekly reviews of supporting schedules to ensure timely follow up and collection of these accounts.

Getting in Sync

Proper cash flow management requires synchronizing monies generated by sales and services with that which is needed to pay bills. Many dealers are surprised, however, that increased sales actually can create a significant cash shortfall due to the lag in holdback payments, trade-in vehicles, contracts in transit, fleet sales and other receivable balances. These items can consume finances needed to replace inventory. While you need to recognize expenses in accrual accounting when bills arrive, their effect on cash flow is delayed until payments clear the bank.

Managing the Steps

Cash flow management must be viewed as a multi-step process. First, analyze the cash-generating aspects of your business. Consider the amount of revenue and its expected arrival time. Compare these factors to anticipated payouts that will deplete cash reserves.

Remember, disbursements are easier to plot than receipts. Bills for insurance, utilities, advertising and taxes arrive like clockwork; and expenses, such as payroll, never take a vacation. Cash-laden customers willing to buy right away, on the other hand, rarely show up when needed. Consequently, dealers must maintain reserves to handle those months when revenues may fall short of expectations. Find out if your manufacturer offers a money market account that pays interest at, or close to, your floor plan interest rate. Dealers may use these accounts to build a three- to six-month reserve that allows them enough cash to ride out a downturn in sales until inventory and staffing levels can be adjusted appropriately.

Discounting

Cash flow management often can be bolstered by discounting. In this process, as cash flow projections are developed, the past performance of revenue-generating departments is reviewed. Percentages then are applied to their anticipated performances to take into account the likelihood of a cash flow slowdown. The key is to identify factors that affect your dealership. In turn, using them to discount your cash flow can result in a more realistic estimate and help ensure you are not caught short by an unexpected turn of events.

Prepare for the Worst

Comprehensive cash flow management will allow you to prepare for the worst while expecting the best. Keep in mind, however, that an accurate prediction will be more difficult during episodes of rapid change—whether they are good or bad.

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2014 Standard Mileage Rates for Business, Medical and Moving Announced

The Internal Revenue Service recently issued the 2014 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

As of January 1, 2014, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) is:

- 56 cents per mile for business miles driven
- 23.5 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

The mileage rates for service of charitable organizations and for medical or moving purposes are not alterable by the IRS. Instead, they must be changed by statute passed by Congress.

It is important to remember that a taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or after claiming a Section 179 deduction for that vehicle.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates. For more information, please contact one of our professionals today.

Profit Drivers has been created to serve your needs. We are available to answer any questions you have regarding your business or personal affairs. If there are topics you would like to see covered in ***Profit Drivers***, please let us know.