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# DEALER INSIGHTS



Finance and insurance

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**Dealer Digest**

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# Internet presence, compliance summon management response

Two major issues that promise to affect dealership Finance and Insurance (F&I) departments in 2009 are Internet presence and regulatory compliance — areas that provide opportunities and present challenges.

## Developing a strong Internet presence

Although dealerships have devoted plenty of time to improving their Web sites in recent years, online F&I functions are commonly overlooked or underplayed. Integrating the F&I department into the sales process via the Internet is one way to help jumpstart sales and should be given the attention it warrants. Here are some points to keep in mind:

**F&I belongs upfront.** Most customers now research their automotive purchases online, learning everything they want to know about their target vehicle including its price, performance and environmental friendliness.



But can potential customers find out what kind of financing deals you're offering? And are they able to start making plans to finance the car before they buy it, putting the horse *before* the cart?

A loan application, or a link to it, should be one of the first items your potential customer sees on your site. Although sales generated from Internet leads are reported to be only one in 10 — or even lower — using your Web site effectively to arrange financing could help reassure customers who are fearful of rejection.

**The credit application may need a hook.** You should offer a compelling reason to visit that page, such as a loan payment calculator, access to auto reviews or some other feature that no one else

has. The goal is to get customers to fill out the application early in the decision-making process. An approved loan may be the love knot that ties the shopper to your store!

But putting a credit application online isn't enough — there must be a good reason for the customer to complete it on your site rather than on someone else's. Finance promotions should pop from the screen as they become available. Terms should be accurate and easy to understand.

One tactic is to compare your loan offerings to those of other lenders, such as area banks and credit unions. Also, consider offering an incentive to complete the form, such as \$500 off the purchase price.

**All employees need to be F&I-savvy.** Making F&I information available to Internet shoppers shouldn't be the end of the line. Are your Internet and Business Development Center managers well-versed in F&I? Will their staffs be able to talk intelligently to prospects about current rates and programs?

Train staff throughout your operation on finance and insurance, why they're important and how your dealership is competitive. This kind of integration can only add power to your sales initiatives.

## Staying on track with compliance

The stiffening of regulations to protect consumers from unfair F&I sales practices has, of course, added compliance responsibilities for your operation, which equates to time and money.

But the result may be an improved F&I department and a decreased likelihood that customers will stray to other lending sources. Measures you can use to keep your F&I department strong while reducing legal liabilities include:

**Up-to-date procedures.** The first step toward minimizing the possibility of future legal hassles is to review and update your compliance procedures

for processing sales and F&I paperwork. Make sure your methods are uniform and up-to-date.

If you haven't already done so, consider implementing menu selling and video presentations. These tools can help ensure that you remain in compliance by providing customers with all the information they legally need about F&I products and services. They won't eliminate all of your legal exposure, but they will go a long way toward standardizing the process and properly communicating with buyers.

**Well-trained, committed staff.** Employees who don't believe in what they do or what they sell tend to do just about anything to make a sale and turn a profit. But those who believe in the value of dealership F&I — and the validity of those products — will more likely put customers' needs first.

These workers know that quality often sells itself. Look for this attitude when hiring employees for this department as well as when evaluating the performance of those already working there. Employing the right people can lessen the possibility of legal issues arising in the future.

### Getting the word out

Rather than focusing on what it will take to integrate the F&I function with the rest of your online sales strategy, consider this an opportunity to get the word out about the attractive financing options at your dealership. Likewise, you need to spread the word about the importance of compliance to all employees. Without

## Efficiency is key for dealing with Internet shoppers

When dealing with customers who shop on the Internet, efficiency is one of the top factors to keep in mind: Taking less time to answer questions and secure financing gives you an edge in closing with a customer.

For starters, consider using an online credit rating or approval process to hasten the process. Help the customer avoid having to come into your dealership several times to line up the loan arrangements. He or she will appreciate this, and is likely to pass the word on to friends and family.

Besides putting your application for credit online, make sure your staff attaches it each time it responds by e-mail to an inquiry. Many people who do their car buying research on the Internet take several weeks to do so. This gives your dealership a particular window of time to get them to choose you.

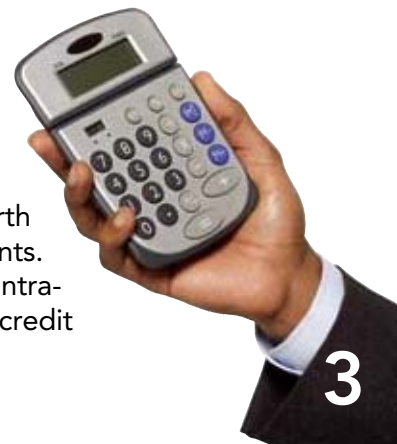
expending as much effort as you might think in these two areas, your hard work may very well land you a few sales and keep your business out of noncompliance trouble. ■

# Unrecorded liabilities affect your dealership's net worth

Do you know the net worth of your dealership? If you're planning to apply for a loan, hoping to impress an investor or gearing up for a sale, you'll need to find out. Even if you merely want to keep tabs on your business, you should make sure you're tallying your assets correctly — what you don't count could hurt you.

### Giving the wrong idea

When considering a dealership's value, a big mistake is to start by eyeing the net worth line on your financial statements. Why? Because liabilities or contra-assets (those with a negative credit



balance) may go unrecorded or misclassified during financial reporting. Taking this approach could compromise your calculations and give a potential lender, buyer or investor the wrong idea about your dealership's net worth. For example, a deposit for a new vehicle from a regular customer may be mistakenly credited to your accounts receivable for that customer and, as a result, the liability account for customers' deposits on the balance sheet would be understated. Another example would be the unwitting failure to record a potential liability for environmental cleanup costs required by the Clean Air Act and the Oil Pollution Act.



On the contrary, monitoring your financial statements for unrecorded liabilities can help lessen the chance of distorting your dealership's net worth. Here's how to do it:

**Look for uncollectible receivables.** Customer and factory receivables — namely those related to warranties and incentives — make up a significant portion of most dealerships' total receivables. Holding items on the books that are old and unlikely to be collected misrepresents your dealership's overall financial picture.

Review accounts receivable regularly to determine which accounts you probably won't collect. You should generally allow for any receivable more than 90 days old, and then adjust your allowance accordingly. In addition, beware of the potential impact of factory chargebacks for unearned warranty work or incentives.

**Don't forget used vehicle write-downs.** Given that the used vehicle department makes up, on average, a quarter of a dealership's profit, it's essential to properly value this inventory. Vehicles depreciate rapidly, so keep up-to-date with your stock by conducting write-downs monthly.

**Pay due respect to parts obsolescence.** The parts department holds additional opportunities for unaccrued costs. Every month, review your dealership's parts inventory and, for each item in stock, set a sales requirement for determining obsolescence.

For example, if two units of a particular part haven't sold within a month, consider that part obsolete, write it off and remove it from inventory. Doing so will help assure that your parts inventory is accurately valued.

**Figure in fixed assets.** For book purposes, you can record depreciation on fixed assets (such as furniture, fixtures, tools and equipment) in several ways. Net book value, for instance, may differ drastically from the actual fair market value. This difference could alter your business's net worth. Regularly compare the net book value of your fixed assets with their fair market value.

**Don't skip over finance and insurance (F&I) chargebacks.** The F&I department substantially contributes to your bottom line. Therefore, accurately portraying F&I income will help ensure that your dealership's net worth is properly stated.

Often unrecorded are contingent liabilities associated with future chargebacks received in relation to current F&I receivables. Under the *matching principle*, a standard accounting requirement, you need to record liabilities and expenses in the same period as their matching revenue streams.

## Monitoring your financial statements for unrecorded liabilities can help lessen the chance of distorting your dealership's net worth.

Thus, you should record chargebacks in the same period that you record their related F&I income and receivables. Examine your dealership's F&I receivable accounts monthly to adequately estimate the potential liabilities related to future chargebacks.

### Ensuring accuracy

Keeping these points in mind may, indeed, lower your dealership's net worth. But with this accuracy comes the peace of mind that your net-worth calculations have been properly done — and your dealership's value is accurately portrayed. ■

# Get a new lease on LIFO

## Recent IRS pooling method fosters tax advantage

If you didn't get a chance to use the last-in, first-out (LIFO) *vehicle-pool* method when accounting for your inventory last year, you might want to make the switch for your dealership's 2008 tax returns. Many dealers and their accountants rushed last year to change to this alternative accounting method, approved by the IRS in March 2008. But you may be considering it for the first time right now.

IRS Revenue Procedure 2008-23 (Rev. Proc. 2008-23) reversed the agency's course on accounting for dealerships' inventories by providing an alternative dollar-value LIFO method. The new method allows a single pool for both cars and light-duty trucks (SUVs, vans, minivans and other similar "crossover" vehicles), creating the potential for tax savings.

### Now and forever

If you switch to the vehicle-pool method (also referred to as the "single-pool" method), you must continue to use it in subsequent years. And while low gross revenue for your business this year may negate the need for a new tax break, using a single pool could provide significant tax savings in better years.

The IRS's about-face also should make tax-time easier because it eliminates the confusion over which LIFO pool to assign various makes and models of light-duty trucks and crossovers.

### Options at last

Under Rev. Proc. 2008-23, a dealer is permitted to either:

- ❑ Place new cars and new light-duty trucks (those under 7 tons, sometimes referred to as "class 1," "class 2" and "class 3" trucks) in a new vehicle pool for all new vehicles, or
- ❑ For each separate trade or business transaction, place all new autos (regardless of manufacturer), including those used as demos, in one dollar-value LIFO pool, and place all new light-duty trucks, including those used as demos, in another separate dollar-value LIFO pool.

If you choose to set up separate pools, you must assign crossover vehicles to either the new-car pool or the new-truck pool. And that's probably how you've been handling accounting for inventory for as long as you can remember.

### Good news for all

The new vehicle-pool method, however, may help prevent you from liquidating LIFO layers if the shift to selling more crossover vehicles and trucks reverses itself because of high fuel prices and dealerships return to selling more cars.

One LIFO pool, as opposed to two or more LIFO pools, will always yield a better LIFO benefit in the long run. That's because periodic swings in inventory are less likely to create a decrease that



could erode significant LIFO benefit trapped in the earlier layers.

## The vehicle-pooling method can potentially increase your LIFO benefit — especially when you have measurable swings in car and truck inventories.

For dealerships, where changing model popularity and manufacturer mandates often dictate inventory mix and total inventory value, significant inventory

swings are very likely. This makes them the perfect candidate to consolidate into fewer pools.

The vehicle-pooling method also can potentially increase your LIFO benefit — especially when you have measurable swings in car and truck inventories due to cyclical and model demand. Plus, if your dealership and your CPA still spend time segregating cars, trucks and crossovers into two pools, you will no longer have to go through this time-consuming process (or buy software that does it for you).

### Until the fat lady sings

In addition to Rev. Proc. 2008-23, other IRS rulings may still apply when accounting for your dealership's inventory. See your tax advisor to wade through the fine print. ■

## 5 ways to fire up your sales staff

Generating a positive environment for your sales staff is more important now than ever, even though it might be a hard match to light these days. To better understand your sales force and how to motivate them, consider this advice:

**1. Make sure you have the right sales manager.** First and foremost, make sure you have a top-notch sales manager who can set the right goals; clearly explain your dealership's sales policies, procedures and requirements; and be Johnny-on-the-spot when it comes to running it all smoothly.

**2. Reward success properly.** Make sure your most productive, successful salespeople are fairly compensated. Your staff will appreciate it, and it's a top motivational tool. Also, distribute commissions in a timely manner. There is nothing more destructive to morale than to reduce your rock stars to begging for their paychecks.

**3. Use contests wisely.** Sales contests work, but setting up goals that only experienced salespeople with many repeat customers can reach may disenfranchise eager, but less experienced, staff members. Develop contests in which anyone who puts in the extra effort to achieve reasonable goals can succeed.

**4. Know your salespeople's personal goals.** Learning what your sellers want in life helps you and your sales manager better develop each team member's career path. For example, some salespeople have management aspirations from the get-go, while others don't. Understand what direction a salesperson wants to head in before offering guidance.

**5. Fix your mistakes quickly.** Who hasn't hired a promising salesperson only to discover that he or she is a huckster or a source of negativity? Although you should always make an honest and well-documented effort to help poor performers improve, sometimes the best solution is to show them the door. Of course, before you let anyone go, obtain legal advice to avoid running afoul of any employment laws.



# DEALER DIGEST

## S corporation red flags attract bullish IRS auditors

Come tax time, remember this: The IRS is continuing to keep an eye open for S corporations that aren't paying their shareholder-employees reasonable compensation. Low compensation is a bone of contention for the IRS because S corporations that make distributions of profits in lieu of salaries to shareholder-employees enjoy ample savings on employment taxes.



When IRS auditors feel that shareholder compensation is unreasonably low, they recharacterize some or all of the distributions of profits as wages. The result isn't pretty: Affected businesses can receive a bill for unpaid employment taxes, plus penalties and interest.

To prevent such a result, conduct your own analysis, establishing and documenting reasonable salaries for each position at your dealership. In determining what's reasonable, look at a variety of factors, including each employee's role and duties, your business's financial condition, and compensation surveys showing salaries paid by comparable dealerships for similar services.

Some S corporations use a formula to allocate shareholder payment — for example, 60% salary and 40% distributions of profit. Although this approach is less likely to garner the IRS's attention than paying no salary at all, it's still risky. If you're audited and you can't support your allocation based on each employee's actual role in the company, the agency might still recharacterize some of the distributions as salary. Consult your tax advisor for help, if needed. ■

## Are high fuel costs good for service fees?

Creative service department managers and marketers should see the glass as half full when it comes to high fuel costs. During these times of record-setting

gas prices, make sure that your service department is encouraging maintenance-type services that save customers money at the pump.

Tune-ups, checking and replacing air filters regularly, and keeping tires aligned and at the recommended air pressure level all can improve gas mileage, so remind customers of these facts. You might even use a tips sheet from the Michigan Department of Labor and Economic Growth as a stocking stuffer this holiday season. You can find "20 Tips for Increasing Fuel Economy" at [www.michigan.gov](http://www.michigan.gov). (Click on "Save Money.") ■



## "Wrapping" benefits can be advantageous

If your dealership provides employee benefits, such as health, dental and vision coverage, you could save money by incorporating these plans into one comprehensive plan.

It works like this: When an employer provides several "welfare" benefits, the Department of Labor considers each benefit its own separate plan. These individual plans require separate Form 5500 filings. But, to reduce the number of Forms 5500 you need to file, you may "wrap" your various benefits and policies into a single plan by completing a WRAP document.

Watch out, however: Using a WRAP document may transform several small welfare plans that are otherwise exempt from filing Form 5500 into a single large plan that must file a Form 5500. Generally, a WRAP plan that has 100 or more participants at the beginning of the plan year must file Form 5500 — even if each underlying welfare plan has fewer than 100 participants and is unfunded or fully insured.

If your company has several benefit plans, contact your plan administrator to find out whether a WRAP plan is right for you. ■