NOVEMBER/DECEMBER 2009

DEALER INSIGHTS

SBA lends a hand
Floor plan financing program provides working capital

Finding the bright side of tax filing time

4 ways to put the lid on health care costs

Dealer Digest

Delap LLP
Certified Public Accountants and Business Advisors
4500 SW Kruse Way, No. 200
Lake Oswego, OR 97035

SBA lends a hand

Floor plan financing program provides working capital

An expansion of a Small Business Administration (SBA) loan program makes it easier for creditworthy auto dealerships to borrow against inventory, bumping up cash flow, liquidity and access to working capital.

The SBA's dealer floor plan (DFP) financing pilot program is an expansion of its 7(a) guaranteed loan program. The pilot program began July 1 and runs through Sept. 30, 2010. The SBA will then determine whether to extend the pilot, terminate it or make it a permanent part of the SBA's lending programs.

DFP program FAQs

Here are some frequently asked questions about the workings of the DFP program:

Q: Whom will the program benefit?

A: The SBA estimates that more than 70,000 additional small businesses, including auto and RV dealerships, auto industry suppliers and others could be eligible to apply for an SBA 7(a) loan through the program. Loans are made through SBA-approved lenders to creditworthy dealerships that meet the lender's and SBA's requirements. While three years of successful business is a general measure of sound prior operation, dealers with less experience also may be given a chance to demonstrate their repayment ability.

Q: What are the loan terms?

A: DFP loans are available for a minimum of $500,000 up to the $2 million maximum allowable under the 7(a) program. Interest rates are negotiated between the lender and the borrower, up to the applicable maximum allowable SBA interest rate, and may be fixed or variable. Repayment terms may be arranged to suit the borrower, up to a maximum of five years.

Borrowers also benefit from the temporary elimination of fees on 7(a) loans made possible by the American Recovery and Reinvestment Act of 2009. In other words, as long as the elimination of borrower fees provided by an allotment of stimulus money endures, the floor plan loans will be exempt from borrower fees.

DFP loan guarantees are from 60% to 75%, depending on the type of collateral and the lender's advance rate against the wholesale price of the inventory. Lenders may advance up to 100%. The SBA provides guidance to lenders on collateral adequacy.

Q: What counts as inventory?

A: DFP loans are made only for inventory that can be titled, requiring licensing or registration by a state authority after the acquisition. New and used cars, SUVs, motorcycles and other types of titled vehicles, such as snowmobiles, are eligible.

Q: Who are the lenders?

A: You may apply to any financial institution participating in SBA's Preferred Lenders

Program that handles SBA 7(a) guaranteed loans. A list of participating lenders is available from SBA field offices or at sba.gov.

Q: How do I apply for a 7(a) guaranteed loan?

A: The process begins with filing an application with one of SBA's approved commercial lenders. Application submission instructions and a checklist can be found on the SBA Web site. The application process includes submitting the standardized, comprehensive financial statements used by motor vehicle dealers along with balance sheets, income and retained earnings statements, and subsidiary accounting reports generally used by the industry.

A discussion of your dealership's operations and a viable business plan that demonstrates an ability to repay the loan also must be included. Your financial advisor can help you compile the necessary financial information.

To prevent unnecessary delays, the agency says to be sure to fully complete all loan application documents as requested by the lender. SBA says it's committed to processing these loan applications expeditiously.

Industry pressure exerted

The SBA doesn't traditionally offer loans for floor plan financing, except in difficult economic times. In March, an auto dealer was among those who testified before the U.S. Senate Committee on Small Business and Entrepreneurship about the current plight of auto dealerships and the urgent need for floor plan financing.

During the current recession, the National Automobile Dealers Association (NADA) also met with the Obama administration several times to urge greater access to floor plan loans. "President Obama and the SBA have taken a significant step toward unlocking the frozen credit markets that are so critical to the success and continued operation of thousands of small, family-owned dealerships across the country," said NADA Chairman John McEleney soon after the SBA program was expanded.

NADA says it is continuing to work with lenders to encourage them to make 7(a) loans to dealers and with the Obama administration to allow proceeds from these loans to be used for floor plan financing.

Guaranteed loans as life jackets

In sum, auto dealerships looking for funds to finance floor plans generally haven't been able to take advantage of SBA 7(a) guaranteed loans, which are made annually to thousands of other U.S. small businesses. This pilot program is expected to provide the access to capital that many viable auto dealerships need as they transition through large industry changes.

With floor plan financing drying up over the last year, each of the loans through this program is likely to help keep open a viable dealership that would otherwise close. Your financial advisor can help you determine if you qualify for one of these loans and help you gather the necessary financial information to apply. ■

Finding the bright side of tax filing time

Three business tax breaks could put a skip back in your step during your 2009 tax return preparation. But some require action before year end. So you'll want to check with your tax advisor to see if you might be eligible for these breaks:

1. The NOL carryback. If you lost money this year, your tax return might result in a net operating loss (NOL) that could be "carried back" to generate a refund from previous years' returns. In an exceptionally trying year for auto dealerships, this strategy can help with your flow of cash.

How it works: Generally, you can carry back an NOL up to two years to create a current tax refund. Any loss not absorbed in the carryback period is then carried forward for up to 20 years.

Depending on the situation, waiving the carryback period and carrying the entire loss forward might benefit you. This could be the case if your marginal tax rate in the carryback years is unusually low, or if the alternative minimum tax in prior years makes the carryback less advantageous.

The due date of your tax return (plus any extensions) for the year of the NOL is your deadline for waiving the carryback period. A special rule for tax years beginning in 2008 also allowed the option of electing to carry back certain small business losses for up to five years.

2. Section 179 expensing. With sales down for many dealers, this might not be a good year for buying major equipment for your shop or showroom. But, if you're in a position to consider such a purchase, or you have a piece of equipment that can't wait any longer to be replaced, the Section 179 expensing election could be the way to go.

The American Recovery and Reinvestment Act of 2009 (ARRA) extends the maximum $250,000 first-year Sec. 179 expensing amount through 2009. ARRA also extends the $800,000 total asset acquisition limit — if acquisitions exceed the limit, the tax break is phased out dollar-for-dollar. So the break is fully phased out if acquisitions exceed $1,050,000.

How it works: The election can allow you to expense the cost of assets in the year you place them in service, rather than depreciating them over a number of years. You can't use the election to create a loss for the year. Nor can the deduction exceed the amount that brings your taxable income for the business to zero.

And, to take the deduction for 2009, you must place assets in service by year end. So, if you need items like new equipment, furniture or off-the-shelf computer software, make your shopping moves now.

3. 50% bonus depreciation. If you acquire qualified property and put it into service in 2009, and don't use the expensing election, you could be eligible for this special allowance equal to a significant 50% of the property's adjusted basis.

How it works: New tangible property with a recovery period of 20 years or less, computer software, water utility property and qualified leasehold improvement property all are eligible. Bonus depreciation isn't subject to any asset purchase or taxable income limits. So it can be particularly beneficial if you're ineligible for Sec. 179 expensing because your asset acquisitions for the year are too high, or your net income is too low.

If you *are* eligible for Sec. 179 expensing, you may want to take the bonus depreciation on asset purchases in excess of the $250,000 Sec. 179 limit. Make sure you keep in mind the $800,000 Sec. 179 phaseout threshold, however; if you exceed the limit, your Sec. 179 expensing break will be reduced. ■

4 ways to put the lid on health care costs

U.S. health care costs continued to spiral this year as Washington hotly debated national health care reform. And while possible reform will change the health care cost picture for employers and employees in a way that, as of this writing, remains unknown, your dealership can take certain steps to beat down costs in 2010.

Taking action

Here are four big steps you can take:

1. Change the terms. Although doing so is never popular with employees, raising health insurance deductibles, annual out-of-pocket maximums or co-pays is perhaps the quickest and easiest way to get a handle on expenses. You also might have workers contribute a greater percentage of their premiums.

Another tack is to reduce the level of health care benefits or offer benefits to fewer employees. You could, for example, lengthen the period of employment required before new hires qualify for full coverage. Doing so likely would reduce expenses and possibly eliminate the need to raise deductibles or contribution amounts.

Another possibility is to reduce any retiree health care benefits you might be providing. According to a 2009 survey by benefits consultants Hewitt Associates, 26% of employers surveyed plan to decrease retiree health care benefits in 2010.

2. Change the provider. A more time-consuming but less employee-abrasive strategy could be to maintain or even lower deductibles and contribution amounts by switching providers. The cost of comparable coverage can vary widely. And, while a positive long-term relationship with a provider is valuable, another company may be able to offer comparable benefits and service for less. If that's the case, you owe it to yourself and your employees to consider making a change.

You may be able to save even more by pooling the purchase of health care coverage with other dealerships through associations or other organizations. Check out the options in your area — in some cases, the savings of doing so will more than justify joining the group offering coverage.

3. Graze the cafeteria. Maybe your problem isn't your provider but the very nature of your plan. The truth is, not every employee uses all of the features included in many comprehensive packages. You may be able to reduce costs and increase staff interest by offering a "cafeteria plan" that lets employees pick the benefits they find most useful.

These arrangements give workers a budget with which they then choose the most desirable options. If one employee wants more benefits, he or she can elect a higher payroll deduction.

Conversely, if another needs less coverage, he or she can opt for a lower deduction and bolster the actual cash amount of his or her paycheck. This might particularly benefit workers who are covered by their spouse's health care plan.

Such consumer-driven health care options — including high-deductible plans with a Health Savings Account — are becoming increasingly popular. In fact, 40% of employers surveyed by HR consulting firm Hewitt planned to increase the prevalence of consumer-driven health care plans next year.

4. Promote health and safety. Because previous claims are frequently reflected in future premiums, many employers are now making a concerted effort to improve the safety of their working environment and encouraging employees to lead healthier lifestyles. One-third of employers planned to start or expand a wellness program in 2010, according to the Hewitt survey.

Promoting health and safety is especially important in certain areas of your dealership. Service technicians and body shop workers, for example, are at a much higher risk of injury than sales staff or office employees. And more experienced techs who've been exposed to a wide range of hazardous materials throughout their careers are in particular danger.

Meeting the challenge

No matter which steps your dealership decides on, it's crucial to your economic health to take action now. In the second quarter 2009 *Business and Industry Economic Outlook Survey*, conducted by the American Institute of Certified Public Accountants and the University of North Carolina's Kenan-Flagler Business School, employee health care costs tied for third place as a top challenge to business, along with collecting receivables. They followed only customer demand and access to capital/cost of capital as the biggest demands facing U.S. companies.

At a time when auto dealerships are continuing to face unprecedented challenges, any ways to curtail costs could be a lifeline for your business. ■

DEALER DIGEST

Cash-for-clunkers lessons

You'd be wise to apply what you learned from the government's Car Allowance Rebate System (CARS) — the "cash-for clunkers" program — to retail efforts in 2010.

Some dealers, for example, developed an integrated advertising strategy — a consistent message using a variety of media (lot signage, search tools, banner ads, e-mail, direct mail, print, radio, TV) positioning their dealership as customers' best go-to choice for the program. As you turn the corner into next year, make sure your advertising message — no matter what you determine it to be — is both strong and consistent.

Also, some dealerships prepared staff to field questions about the program by having them compete for prizes in a mock game show that simulated customer queries. Why not use this or another teaching tool to make sure your staff can easily come up with answers to how your product line stacks up to your competitors', your brand's earlier models and the vehicle the customer is driving now?

Last, during cash-for-clunkers some lenders announced they wouldn't adjust their lending guidelines for these loan applicants. Smart dealers made sure they had backup lenders lined up. So any time you have subprime customers, have lending options available. ■

"Red flags" rule now waving

Although the law intended to help protect your customers against fraud resulting from identity theft has been on the books for six years, the FTC's compliance date and enforcement of the so-called "red flags" rule has been extended to Nov. 1, 2009. The extension gives affected businesses more time to develop and implement a written identity theft prevention program.

The red flags rule, issued by the FTC to carry out the Fair and Accurate Credit Transactions Act of 2003, applies to businesses that extend credit to their customers. Vehicle dealers are specifically named as "creditors" under the Act. Any occurrence of identity theft or resulting fraudulent activity at your business can expose you to an FTC investigation, which is expected to be complaint-driven.

The red flags rule requires you, as creditor, to have a documented compliance strategy in place and to identify all of the indicators that might tip you off to possible identity theft. It also requires you to implement appropriate controls that predict and detect identity theft, and react appropriately.

The FTC will initially assess retroactive penalties for violations, require additional compliance reporting from companies and obtain an injunctive compliance order. Further violations could result in a visit to federal district court and a fine of up to $16,000 for each identity theft occurrence. ■

This publication is distributed with the understanding that the author, publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters, and, accordingly, assume no liability whatsoever in connection with its use. ©2009 DLRnd09