AUTOFOCUS

Summer 2020

CARES Act tax provisions dealers should know about

California consumer privacy law could affect your dealership

How can KPIs help boost your bottom line?

Guard vehicle inventory against damage and theft

THANEY & ASSOCIATES
Certified Public Accountants

2024 W. Henrietta Road Bldg. 4B
Rochester, NY 14623
www.ThaneyCPA.com
E-mail: info@thaneycpa.com

CARES Act tax provisions dealers should know about

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law in late March, may seem like old news now. But it contains several tax provisions that can still help auto dealerships that have been adversely affected by the novel coronavirus (COVID-19) crisis.

Payroll tax credit and payment deferral

This is one of several provisions designed to encourage businesses to keep their workforces intact. The refundable credit against payroll tax is available to your dealership if your operations have been fully or partially suspended due to a COVID-19-related shutdown order. You also are eligible if your gross receipts are down more than 50% compared to the same quarter last year. And you can continue to qualify through the end of the first quarter in 2020 in which gross receipts exceed 80% of the comparable quarter in 2019.

The payroll tax credit is equal to 50% of up to $10,000 in the compensation that's paid to each eligible employee from March 13, 2020, through December 31, 2020. The compensation limit includes health care benefits. If your dealership had more than 100 employees on average during 2019, you're eligible for the credit only for wages of employees who've been furloughed or had their hours reduced. If your 2019 average was 100 or fewer employees, you're eligible for the credit regardless of these factors.

In addition, you can delay payment of your dealership's share (6.2%) of payroll taxes on wages paid from March 13, 2020, through December 31, 2020.

CARES Act fixes tax reform error

The Tax Cuts and Jobs Act (TCJA) that was signed into law in late 2017 contained a drafting error in which statutory language didn't define qualified improvement property (QIP) as 15-year property. Due to this error, QIP defaulted to a 39-year recovery period and therefore became ineligible for 100% bonus depreciation, which is one of the major business benefits of tax reform.

The CARES Act includes a technical correction that solves this problem, which is sometimes called the "retail glitch." Because of the correction, dealerships that made qualified improvements to their stores over the past two years can now claim an immediate tax refund for any bonus depreciation they were previously not allowed to claim due to the retail glitch. You also can claim 100% bonus depreciation on QIP going forward until the phaseout of this break begins in 2023. But keep in mind that, in some situations, 15-year depreciation might be more beneficial.

Instead, you can pay the tax over the next two years, with half of it due by December 31, 2021, and the remainder due by December 31, 2022.

Changes to NOL rules

The CARES Act loosens restrictions established by the Tax Cuts and Jobs Act (TCJA) on how net operating loss (NOL) can be used to offset taxable income and thus lower current income taxes. To recap, the TCJA limited the deduction for NOLs to 80% of annual taxable income while also eliminating NOL carrybacks and removing the time limit on NOL carryforwards.

Under the CARES Act, NOLs arising in 2018, 2019 and 2020 can now be carried back five years in most circumstances. Your dealership also can now use NOL carrybacks and carryforwards without regard to the 80% limitation for tax years starting before 2021 so that NOLs can fully offset income. You may need to file amended tax returns to obtain the full benefits of these changes.

Increase in business interest deduction limit

With a few exceptions (including one for dealer floor plan financing), the TCJA limited the deduction for business interest to 30% of a business's annual adjusted taxable income (ATI) for tax years starting after 2017. The CARES Act increases this to 50% of ATI for tax years beginning in 2019 and 2020. The result is a higher business interest deduction and lower tax liability for these years.

Also, you can elect to use your 2019 ATI instead of your 2020 ATI for the calculation if you choose. This could increase the amount of your current deduction. Note that for partnerships, this change applies beginning with the 2020 taxable year. However, partners can elect to have the change apply starting with the 2019 taxable year.

While you may already be taking advantage of the floor plan exception to the business interest deduction limit, you might still benefit from the CARES Act changes in relation to interest you're paying on other types of business loans. But also keep in mind that taxpayers (other than tax shelters) with average annual gross receipts of $25 million or less for the three previous tax years are exempt from the interest deduction limit.

Talk to your tax advisor

These are only a few of the provisions of the CARES Act that may affect your dealership, and additional rules apply. Consult with a tax professional for more details on how your business could possibly benefit from relief legislation.

California consumer privacy law could affect your dealership

On January 1, 2020, a new consumer privacy law took effect that could impact businesses across the nation, including auto dealerships. The title of the legislation — the California Consumer Privacy Act (CCPA) — is somewhat deceptive because businesses don't have to be in the Golden State to be affected.

The CCPA is similar in this respect to a consumer privacy law that was passed in the European Union (EU) in 2018 called the General Data Protection Regulation (GDPR). U.S. businesses that have customers in the EU are subject to GDPR's consumer privacy provisions, even if those businesses don't have a *physical* presence in the EU.

Business location is irrelevant

According to the CCPA, any U.S. business that mishandles the personal information of a California customer could be held liable if the customer's information is compromised due to a data security breach. It doesn't matter where the business is located — all that matters is that the *customer* resides in California.

It's not uncommon for car buyers to purchase vehicles outside of the state in which they live. So, dealerships could be particularly vulnerable to the law and should pay especially close attention to protecting their customers' personal information.

The CCPA might be only the first of many state consumer privacy laws that applies to businesses nationwide. For example, New York, Texas and Washington have introduced similar legislation, and Nevada recently passed a law requiring businesses to give customers the right to opt out of the sale of their personal information. Similar legislation could be proposed for additional states.

Unfortunately, many U.S. businesses aren't aware of the CCPA and how it could potentially affect them, legally and financially. In a survey conducted last year by ESET, an IT security firm, nearly half (44%) of the respondents had never heard of the law. Even worse, only 12% of respondents said they knew whether the law applied to their business.

Consumer rights protected

The CCPA protects specific consumer rights related to the sharing of customers' personal information by businesses subject to its provisions. These include the right to:

- Be informed about what personal data will be collected before it's collected,
- Refuse the sale or request deletion of their personal data, and
- Be told the categories of third parties with whom their personal data is shared.

The law gives customers who live in California the right to sue any business subject to its provisions, if their personal information is compromised in a data breach. Businesses could be subject to significant financial penalties if they're found to have shirked their duty to implement and maintain reasonable security practices and procedures. Businesses subject to the law could be liable for damages of up to $750 per incident per customer, if damages occur as a result of a data breach.

There are exemptions

Keep in mind that businesses below a certain size threshold aren't subject to the CCPA. You only have to comply with the law if your dealership:

- Has gross revenue of $25 million a year or more,
- Possesses the personal information of more than 50,000 customers, or
- Derives at least half of its revenue from selling personal information.

Some data security experts recommend that, even if a business falls below the revenue threshold, it should still pay close attention to the law. For example, if a dealership's website captures the IP addresses of 137 visitors per day, it could be considered subject to the law. The reasoning is that it collects the personal information of more than 50,000 customers in one year: 137 x 365 = 50,005.

Several provisions encourage businesses to keep their workforces intact.

Prioritize data security

Data security might not be at the top of your priority list this summer, given the long shadow of the coronavirus (COVID-19) pandemic, but don't let it fall off your radar. Safeguarding your customers' personal information has become especially important today when major data security breaches are more common. The CCPA presents one more good reason to take a close look at your dealership's data security procedures and upgrade them if necessary.

How can KPIs help boost your bottom line?

Key performance indicators (KPIs) are concrete measurements of your dealership's financial performance that can be used to gauge progress toward goals. In the wake of the novel coronavirus (COVID-19) crisis, keeping accurate relevant metrics on aspects of your dealership's performance is more important than ever.

Customize your metrics

Using KPIs enables your dealership to engage in the practice of "dashboarding." In other words, you'll select a handful of KPIs that you'll continually measure and monitor against benchmarks at least monthly. They'll let you see, at a glance, how your store (or stores) is progressing.

Your dashboard should include KPIs for the overall dealership as well as those broken out for new and used vehicle sales, finance and insurance (F&I), parts and service. Some tried-and-true dealership KPIs and historical industry benchmarks include:

- Monthly gross profit per employee ($7,500–$9,500),
- Net advertising per retail unit sold ($220–$275),
- F&I gross per vehicle sold (more than $850),

- Total service labor sales per repair order (greater than $125),
- Parts department gross profit as a percentage of parts sales (more than 33%),
- New to used vehicle sales ratio (1:1),
- Days supply of new vehicle inventory (less than 60 days), and
- Return on assets (10%–15%).

Important: The benchmark ranges above are based on historical results from 2019. Extraordinary external events — such as the COVID-19 crisis or a natural disaster — may temporarily affect industry benchmarks and your dealership's performance.

Something to keep in mind: There are dozens of different KPIs, so no two dealerships' dashboards will look identical. Each dealer needs to determine which KPIs are the most important to him or her.

Get key players' opinions

So how do you decide which KPIs to focus on? Start by bringing together your managers and asking them to identify the most important success factors in their respective departments.

For instance, in new and used vehicle sales, components of success might be keeping enough of the right kinds of vehicles in stock and monitoring the aging of your inventory. You might also want to track how well you're retaining your sales staff, getting a good return on your advertising dollars, reaching a certain market share or improving customer satisfaction scores.

When it comes to F&I, success factors might include educating customers about the benefits of your products and maximizing the percentage of vehicle sales in which these products are sold. Meanwhile, in parts and service, keys to success might be improved absorption, reduced parts aging and increased dollars per repair order.

Once you and your managers have identified the critical success factors for each area of your dealership, and your dealership in general, it'll be easier to choose the KPIs that can best help you gauge your progress.

Find a meaningful basis of comparison

KPIs have limited value if they're viewed in isolation. Suppose, for example, that your service technicians have an average effective labor rate of $67 per hour. Is this good or bad? You have no way of knowing unless you compare it to benchmarks — either prior performance periods (such as the same month last year) or industry standards.

There are dozens of different KPIs, so no two dealerships' dashboards will look identical.

For more targeted benchmarks, you can obtain current industry benchmarks from the National Automobile Dealers Association, an automotive Dealer 20 group, or state or local dealer associations. Also check with your CPA — he or she may be able to provide numbers you can use for benchmarking purposes.

Back to speed

Thanks to stay-at-home orders and lackluster consumer demand, your dealership likely took a major "hit" during the COVID-19 pandemic. This summer, as nonessential business operations begin to recover, it's critical to get a grip on performance. Contact your CPA to create a set of KPIs that's right for your dealership.

Guard vehicle inventory against damage and theft

Most dealerships keep millions of dollars of vehicle inventory on their outdoor lots. However, cars and trucks are susceptible to many kinds of damage, such as storm damage, sun fading, scratches and dings during test drives and vandalism, as well as possible theft.

One of the best ways to reduce your exposure to vehicle damage and loss is to devise a property risk management strategy. Here are four approaches to consider when drafting your plan.

1. Keep your property well lit. Lighting is one of the best deterrents against vehicle theft. Install motion-sensor-powered lights at all access points to your property and showroom. And consider installing thermal-imaging cameras in hard-to-light areas, such as any dark alleys or wooded areas around the property.

2. Park vehicles strategically. Reduce incidences of door dings and other paint and body damage by designating spaces for customer and employee parking that are far away from vehicle inventory. Also create large aisles in your lot so it's easy for drivers to maneuver around inventory. Additionally, place dumpsters far away from inventory to minimize the potential for damage when dumpsters are emptied.

3. Control your perimeter. The goal is to make it as hard as possible for thieves to simply drive vehicles off your lot. Create barriers around your perimeter to restrict egress and ingress points at night. You can use gates or landscaping (such as large bushes or trees) or simply block entry and exit points with parked vehicles.

4. Use video surveillance. This can help catch thieves and identify customers and employees who may have caused vehicle damage. Consider using around-the-clock monitoring of your surveillance system by trained professionals for the highest level of dealership security.

Discuss these and other risk management strategies with your managers today. Then decide which ones can offer the highest return on investment — you want the greatest protection for your vehicles without breaking the bank.

Let us help YOU…

No one ever said that operating a dealership was easy. With the support of accountants and advisors like ours who specialize in making life better for manufacturing companies, it can be both successful and enjoyable.

For more than 25, years, Thaney & Associates has been helping dealerships and their owners achieve their financial goals with less worry and greater ease. We take pride in our ability to quickly understand your situation and supply high quality, personal services that will best serve your needs. And our many long-term clients are proof of our commitment to quality, integrity and effectiveness.

What sets us apart from other firms is our compelling desire to get to know you and your dealership, so we can proactively provide solutions to the challenges you face. We offer a broad range of accounting -related services designed to meet our clients' personal and business needs.

OUR CAPABILITIES INCLUDE:

- Accounting and auditing
- Income and estate taxes
- Assurance services
- Financial and tax planning
- Estate planning
- Payroll and sales tax returns
- Outsourced bookkeeping
- Implementation of computerized accounting systems
- New venture planning and incorporation
- Mergers and acquisitions
- Business development
- Management consulting
- Litigation support
- Other business services

Our partners would welcome the opportunity to discuss your needs and show how we can help meet them. Please call us today at 585-427-2410 and let us know how we can be of service.

Edward F Thaney, CPA, CVA, Partner

Scott T Gerken, CPA, Partner

Ashley Minch, CPA

Kevin Dinehart

THANEY & ASSOCIATES
Certified Public Accountants

2024 W. Henrietta Road Bldg. 4B
Rochester, NY 14623
www.ThaneyCPA.com
E-mail: info@thaneycpa.com