POWER STEERING

Steering your dealership to higher profits

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August 2020 was another exceptional profit month for most new vehicle dealers compared with past years and considering the Virus issue this year. As you can see from the enclosed profit survey, pre-tax net profits were very good and pre-tax net profit as a percentage of sales were very good. The August average was 4.3% of sales, median was 4.4% of sales, 54% of dealers sold more new in August than July, used retail sales were increased in August compared with July. The 2019 average dealer net profit as a percentage of sales as reported by the NADA was 2.3% of sales. The below group of dealers in the survey were averaging monthly sales of $4 million or $48 million annualized with 2019 average annual sales of $62 million.

Monthly Profit Trends

	AUGUST BETTER THAN JULY	AUGUST WORSE THAN JULY	NET PROFIT + 3% SALES	LOSS MONTH AUGUST	LOSS Y-T-D
CHRYSLER	45%	55%	75%	0%	5%
FORD	60%	40%	70%	10%	10%
G.M.	60%	40%	60%	0%	15%
IMPORTS	30%	70%	60%	10%	20%
OVERALL	50%	50%	65%	5%	10%

Unclaimed Property

When was the last time you and your office staff has looked to see if your business is owed any unclaimed property? Generally, your state has an unclaimed property website to see if money is owed to you. This process is relatively painless. Occasionally, you should also inspect your accounting records to look for unclaimed property you may need to issue to the state. These are typically old checks.

"There are two types of people who will tell you that you cannot make a difference in this world: those who are afraid to try and those who are afraid you will succeed."
-- Ray Goforth

Inside

Income Tax Planning

Since almost all dealerships obtained SBA PPP funds earlier this year, the question is when and the amount of taxes these funds might create. Dealers were led to believe this transaction was tax free, however, the IRS wrote that the loan proceeds are tax free, but dealers will lose the deductibility for the expenses that are part of these SBA PPP funds. In other words, the SBA PPP funds are really taxable. We understand many trade associations are trying to get Congress to pass a law to make this overall transaction tax free. Only time will tell but do not count on it.

As most of you know, most new vehicle dealers are on the LIFO method of tax accounting for new vehicle inventory. With the Virus issue, many dealers have much reduced new vehicle inventory compared to their new vehicle inventory as of 12/31/2019. If dealers new vehicle inventory as of 12/31/2020 is much less than 12/31/2019, these dealers could have positive, increased taxable income, from LIFO. Dealers need to be aware of this. We understand there are those that are trying to have Congress and/or IRS give all industries with LIFO and much reduced inventory as of 12/31/2020 a way around this problem.

Dealership Valuations - EBITDA

Some valuators and some others in the industry use the term EBITDA in regards to dealership profits and dealership valuations. EBITDA generally means Earnings Before Interest Taxes Depreciation Amortization. We are not a believer in using this term. EBITDA is earnings adding back: Interest; Taxes; Depreciation; and Amortization. If not properly used, this term can and will yield a misleading adjusted earnings amount.

Interest: Should you add back all interest, just non-floor plan interest or floor plan interest reduced by interest credits?

Taxes: This generally means and should mean income taxes only.

Depreciation: If the dealer has a depreciation amount much higher than straight line depreciation on equipment, the excess depreciation should be added back.

Amortization: Generally means amortization or “depreciation” of leasehold improvements and “depreciation” of blue sky-goodwill. The amortization on leaseholds should be economically viable and reasonable. We would add back amortization of 100% of the blue sky-goodwill.

Based on the above issues we would not use EBITDA in valuing dealerships.

Information Technology (I.T.) Data

As we have written in the past and believe most dealers ignore this subject, however, many dealers are not aware who has access to their I.T. data along with how their data is being used against them. Might we suggest you have your I.T. person and/or your I.T. vendor let you know who has access to your confidential data. Next month we will give you some thoughts about how to get this access under control.

2020 Tax Thoughts

With roughly 3 months to go in the year, it is probably not too early to start thinking about your 2020 tax situation. Depending on the results of the upcoming election, the tax rates could rise starting in 2021; thus, the timing of certain tax elections could have a material impact. Here are some common items that we notice CPA’s are not doing or could improve upon: 1. When was the last time they looked at your unicap calculation? 2. Are you on LIFO and if yes are you on the best LIFO (combined pools, trade discounts)? 3. Have you built, purchased, or remodeled a building in the last 10 years, and if so have you done a cost segregation study on the building to speed up the depreciation? 4. Are you having someone inspect your accounting records on an annual basis to help ensure the books are accurate and there are no missing tax deductions? 5. Have you done as much gifting as possible to your children/family in case the lifetime exemption decreases?

Factory Relations

We have had more than one factory call or write its dealers about not meeting the factory working capital guideline, capital (Equity), or debt to equity (capital) ratio. In some cases the factory was correct in the working capital issue. On the working capital issue, make sure you have someone check your factory website to confirm what the factory working capital guideline is and make sure that is the amount reflected on your page 1 monthly financial statement. Since many of the factory representatives are uninformed, do not assume if they call you they are correct. Sometimes they do not know to add back the LIFO reserve to the capital account or debt to equity ratio. Sometimes the dealership has funds owed to its owners, but not reflected in long term notes and/or shown as owed to owners. Sometimes the funds owed to owners are subordinated debt that should be added back to the equity and debt to equity ratios. Some factory employees do not understand this term or concept, subordinated. If you have any doubt, feel free to email us, at no charge, the most recent page 1 of your monthly financial statement and we will give you our comments that might assist you in your factory discussions. Do NOT ignore your factory on this. They will use it against you sometime.

Internal Revenue Service (IRS) Cash Reporting

As you know, if the dealership receives more than $10,000 in cash and cash equivalents in one transaction, they are to send the IRS Form 8300 within 15 days as a general rule. We might suggest you have your accounting office show you the Forms 8300 for 2020 transactions to make sure they are attempting to follow the IRS reporting standards. Every once in a while we ask for the current year 8300’s from a dealership and find none have been sent to the IRS. Smaller dealerships might not have any 8300’s but most dealerships will have at least a handful.

Families First Coronavirus Response Act - Payroll Credits

We have been fielding several questions a week from dealers regarding employees who have: 1. gotten COVID, 2. been required to quarantine, or 3. to care for those that have COVID/required to quarantine. Generally, businesses are required to pay up to 80 hours of sick time to these individuals, but the government will give dollar-for-dollar reimbursement for paid sick leave and family leave wages. These savings can be applied for on quarterly tax Form 941, use part 1 and part 2 (taken from step 1 and step 2 of worksheet 1) of the new 941. Part 3 of the 941 is related to employee retention and has no benefit if the business received a PPP loan. We are recommending that businesses’ review their payroll information and amend their second or third quarter 941 if they did not apply for these credits.

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