YOUR REPUTATION SHOWS IN YOUR FINANCIAL STATEMENT

As you already know, your dealership's reputation ultimately shows up in your financial statement. In fact, it is in every department. But how do you find it?

Your reputation can either hurt or help your financial results. As we all know, a dealership stands out in most communities, especially rural areas. If you treat your customers badly or just don't care about them, your financial statements are eventually going to show you how badly you are doing. Your sales will decrease, your low customer satisfaction scores could possible hurt your incentive income and your service business will slowly but surely decrease also.

When I review a dealership financial statement, I look at various expenses and cost of sales accounts to try and get a "pulse" of the store. One such account I like to run a detail of is policy expense for parts and service. This account can be a good indicator of how well you are taking care of your customer's needs. If it is high, then you have some customer satisfaction concerns you need to address. It could be comebacks you had to eat because it wasn't fixed right the first time, your diagnosis was incorrect due to lack of training or you may have lacked the right equipment. You should be reviewing this account activity each month and finding out the reason why you had a charge off of gross profit. Each policy expense could be a potential unhappy customer who may not be back.

Another account I look at is unapplied time in cost of sales. If this is high, I try to pin down what makes up the amount. Is it because you are not charging out your technician's pay correctly for the actual rate of pay, which includes their normal incentive pay? Or could it be you are just not busy enough? I will normally look at your historical sales on prior year financial statements to see if your total sales are trending downward, or if just a certain type of sales is decreasing. I will look at the number of RO's for each period to see if they are decreasing also or if the dollars per RO are decreasing instead. If your service department is not busy, is it because you are struggling with getting customers fixed the first time and they stop coming back?

I will sometimes look at the detail for your cost of sales accounts for used vehicles for a few months. What I look for are entries from parts and service tickets charged after the sale of the vehicle. If I find more than a few, it indicates to me you may not be reconditioning the vehicles well enough and the customers are probably coming back complaining about something you have to fix to keep them happy. If you add up the entire year and then average it out over the number of retail vehicles you sold, you will get an average reconditioning cost you maybe should have incurred before you sold the vehicle. Normally when you have to fix the car after the fact, your sales people don't share in the cost and it doesn't reduce the gross you pay them on.

Another thing I look at is your finance chargebacks as it compares to your finance income. If it seems too high I will review a few months of activity to see how long it took the customer to charge you back. If there are quite a few recent ones where they cancelled various contracts with buyer's remorse, you may be pushing too hard and ruin the future relationship with the customer.

If you aren't paying some of your vendors timely, more than likely there are other vendors you deal with who also know this. This may make them reluctant to sell to you or they may want to charge you a higher price to make up for the delay. Word normally travels very quickly in the car business, and more times than not, more than 50% of what is said is nowhere near the actual truth. Since some of this can be harmful to your store and your reputation in the community, you need to protect yourself as much as possible.

TAX TIP

REGULATIONS & REGROUPING

The long anticipated final regulations aimed at clarifying the rules related to the Net Investment Income (NII) were issued Nov. 26, 2013.

Overall, the general framework of the NII tax remains unchanged but small business owners will be pleased to learn that the IRS did listen to their concerns when finalizing the regulations.

The Code lays down the general rule that passive activity includes any rental activity without regard to whether the taxpayer materially participates in the activity.

The "self-rented property rule" recharacterizes from passive to nonpassive a taxpayer's rents from renting property to a trade or business activity in which the taxpayer materially participates. The taxpayer's net rental income from the rental of property for use in a trade or business in which he materially participates is treated as not from a passive activity.

The final regulations clarify that rental income under Code Section 469 treated as nonpassive, will be deemed to be derived in the ordinary course of a trade or business and, therefore, exempt from NII tax purposes. Gain or loss from the property will also be treated as gain or loss from the disposition of property held in nonpassive trade or business.

Regrouping

The regulations also clarify, where a rental activity is properly grouped with a trade or business activity under Section 1.469-4(d)(1) and the grouped activity is not a passive activity, the gross rental income is deemed to be derived in the ordinary course of a trade or business. Furthermore, any gain or loss from the assets associated with that rental activity that are treated as nonpassive gain or loss will also be treated as gain or loss attributable to the disposition of property held in a nonpassive trade or business.

Regulations provide that if a taxpayer's original grouping was clearly inappropriate (or a material change in the facts and circumstances has occurred that makes the original grouping clearly inappropriate, the taxpayer must regroup the activities. The 2012 NII proposed reliance regulations provided taxpayers with the opportunity to regroup their activities in the first tax year beginning after December 31, 2012. The IRS retained the regrouping provision in the final regulations. Regrouping may occur only during the first tax year beginning after December 31, 2012 in which the taxpayer meets the applicable income threshold under Sec. 1411. The IRS explained that if a taxpayer does not have NII tax liability, there is no reason for regrouping.

Regrouping will permit a rental activity to be treated as part of the taxpayer's active trade or business where that rental activity results in net income (and thus will not be considered NII), where the rental activity results in a net loss the loss will be treated as nonpassive and deductible without being limited to passive income.

If you have any questions with respect to the above you should discuss your specific situation with you ATA representative.