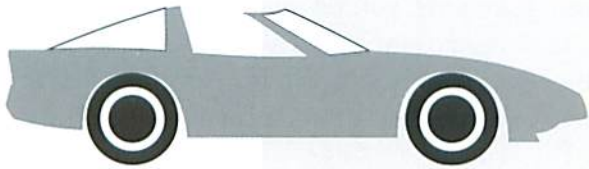




LATTIMORE, BLACK, MORGAN & CAIN, P.C.

5250 Virginia Way
4th Floor
Brentwood, Tennessee 37027
(615) 377-4600 • Fax: (615) 377-6688
www.lbmc.com • E-mail: dealer@lbmc.com



HEADLIGHTS

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WWW.AUTOCPA.COM
1-800-4AUTOCPA

SURVIVING ECONOMIC CHALLENGES

For auto dealers, whose inventory and sales depend heavily on the availability of credit, the recent credit crunch could be a serious impediment to success.

Survival requires pursuing a sound business strategy. Now is the time to assess your current financial condition and rethink your business plan, acknowledging the current economic challenges while creating a scenario for future success. Here are some steps you can take to help keep your business afloat and positioned for success in the future.

✓ Do not panic. Rash decisions made in response to sudden crises can come back to haunt you. Determine your current cash position and your expected short-term cash needs. Then decide how best to meet those needs while staying within your risk tolerance.

✓ Review your monthly gross profit. How much of a drop in gross profit can your dealership withstand and for how long? What are your cash-flow needs for the next several months? How sensitive is your analysis to the expected range of gross profits you may generate?

This becomes even more important as we approach the winter months.

✓ Analyze your expenses. Determine any costs that can be reduced to ease your cash flow. Talk with your associates and employees about the need to control spending and eliminate waste. Review how your dealership manages inventory. Are there opportunities to reduce your on-hand inventory? Focus on used vehicles and parts.

✓ Consider ways, such as shop charges or labor rates, to pass your increased costs on to your customers.

✓ Review your floor plan and other loans to make sure that you are in compliance with their terms. Talk to your lenders. Will they renew their commitments at similar amounts, rates and terms?



**John Hayes,
CPA
Maloney +
Novotny, L.L.C.**

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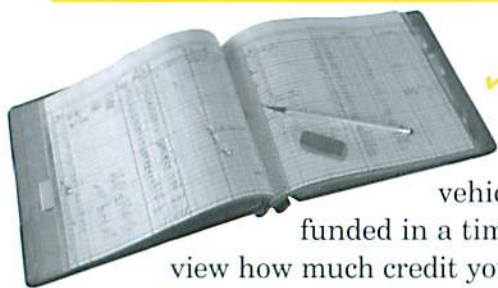
SPECIAL NADA ISSUE: JANUARY 2009

USED-VEHICLE TAX TRAP

**THE SAFEGUARDS RULE AND
HOW IT APPLIES TO YOUR DEALERSHIP**



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✓ Comb through your balance sheet. Make sure vehicle contracts are funded in a timely manner. Review how much credit you extend to your parts and service customers. Cut expenses as appropriate to reduce your reliance on credit.

✓ Monitor your accounts receivable. If an account exhibits a new pattern of slow payments, follow up immediately. Investigate your largest and riskiest clients; will an economic slowdown affect their ability to pay you? Keep your aging receivables current at all times.

✓ Carefully manage your accounts payable. You may be better off retaining cash that may be needed to keep vital inventory than taking advantage of early pay discounts. Keep aging payables—an important cash management tool—current at all times.

✓ Review your processes for sales to wholesalers. Do you ask for payment before you transfer the vehicle? Do you insist on payment before processing the title? Is the title work being done quickly to speed up your cash collection? Do you know the wholesalers you are using? Used-vehicle wholesaling is vulnerable to abuse, so take a look at your operation to check for bad habits or questionable decisions.

✓ Review new sources of financing. Look into borrowing against your life insurance. Investigate local and federal agencies such as the U.S. Small Business Administration; you may qualify for one of their financial programs.

✓ Be prepared to respond to any possible future declines in revenue. Create a plan that adjusts your business strategies and expectations to get your dealership through down times. By breaking down gross profit by department, you can identify where

you believe you have the most profit potential and how to maximize revenue. Should you spend more of your resources to market used vehicles or attract more service business to your dealership?

✓ Call on your good customers, especially those who use you for fleet business, wholesale parts, etc. These discussions can lead to new opportunities.

✓ Reexamine your dealership's approach to making each sale. Make sure you do everything you can to get each customer financed. Take a fresh look at the finance companies you use for customers with lower credit scores. Are there Internet ups falling through the cracks?

✓ Make sure your cash deposits are safe. In October, the FDIC raised its limit on insured bank deposits from \$100,000 to \$250,000 per depositor per bank. Identify any banks in which you have more than \$250,000 deposited; consider moving any excess to another bank.

✓ Make sure you maintain sufficient insurance coverage. Investigate the financial strength of your underwriters. But do not surrender a policy—the fresh underwriting necessary for securing new insurance can affect your coverage.

✓ Keep your employees informed. They may fear that this crisis will affect their job security, insurance and retirement plans. Speculation and gossip can run rampant. Better to address your employees' concerns directly.

Remember that good business habits are formed in bad times, just as bad habits crop up in good times. Look for those bad habits that may have crept into your dealership in recent years. Eliminate them and make your business more profitable and less reliant on credit. Do not hesitate to contact a trusted business adviser for advice. Talk to your AutoCPAGroup member for guidance as you navigate this market. ↵

Richard Heider, CPA
Heider, Tanner & Dirks, Inc.

USED-VEHICLE TAX TRAP

Many dealers, at their tax year-end, write down the value of their used-vehicle inventory. The accounting method used to justify this writedown is called the lower of cost or market method. This provides a reduction in taxable income that can re-

duce income taxes to be paid for that year. A recent income tax case provides instruction on how to document this writedown.

The dealership had a list of the used vehicles at year end by stock number and compared the cost on the

books with what they considered to be the fair-market value at that time. The difference between these amounts was a writedown and, consequently, an additional expense in excess of \$300,000.

But the Tax Court disallowed the entire writedown. Where did the dealership go wrong? The dealership used the wholesale *Kelly Blue Book* value for an “average condition” vehicle, which is a good first step. However, it did not take into account each vehicle’s condition, mileage and equipment options. In addition, the records used to make the determi-

nation of value for some of the vehicles did not include the make, model and model year.

When making writedowns of used-vehicle inventories for income tax purposes, remember to do so on a vehicle-by-vehicle basis. Use an established used-vehicle guide to come up with the value, taking into account each vehicle’s make, model, model year, mileage, options and condition. Retain all of this information in your records in the event the IRS challenges your writedowns. ◀

THE SAFEGUARDS RULE AND HOW IT APPLIES TO YOUR DEALERSHIP

Karla Hammer, MBA, CHSI
Brady Martz & Associates, P.C.

The Safeguards Rule has been in effect since May 23, 2003, but it has been estimated that a large number of dealerships still have not put the required safeguards into place. The objectives of the Safeguards Rule are to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security and integrity of customer information, and protect against unauthorized access to or use of customer information that could result in substantial harm or inconvenience to a customer.

The Safeguards Rule stipulates that dealers have in writing the steps they have taken to mitigate previously assessed risks that exist regarding information that could be accessed by unauthorized individuals and to protect confidential customer information. The Safeguards Rule applies to all dealers, regardless of size. It also directs dealers to draft and implement a written information security program to protect confidential information.

This written Information Security Plan must include the following:

- ✓ The identification of an employee or team of employees to coordinate the overall program and implement safeguards.
- ✓ A completed risk assessment, which is pertinent to each relevant area of the dealership’s operation and assesses the current safeguards for controlling each identified risk. The risk assessment should be

reviewed annually and updated when risk mitigation is applied.

- ✓ Recognition of the safeguard program implementation and subsequent documentation of how



the program is monitored and tested annually.

- ✓ What due diligence was conducted on vendors and other service providers to implement the appropriate safeguards to protect confidential information.
- ✓ How your safeguard program is evaluated and amended as a result of any changes in partnerships, vendors or service providers.

It is imperative that employees are trained to handle information securely so they are cognizant of its importance. Employees who do not understand the associated security risks are a security threat to your dealership. This issue needs to be addressed in an annual security training and/or refresher course.

Why is it important to implement these practices? Fines can reach \$11,000 per violation per day. The

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THE SAFEGUARDS RULE AND HOW IT APPLIES TO YOUR DEALERSHIP

(continued from page 3)

Federal Trade Commission has imposed fines on companies for such infractions as failing to monitor the network for vulnerabilities, failing to detect unauthorized access, failing to secure wireless access points, failing to encrypt information being sent, and failing to implement reasonable and appropriate measures.

We can help you keep your information security needs in compliance with the Safeguards Rule. If you have any questions, or need assistance implementing protective measures or training your employees, call your AutoCPA Group member. ↵

For assistance, please call 1-800-4AUTOCPA or see our website at www.autocpa.com. Headlights is prepared by the AutoCPA Group for the clients of its members. We are required by IRS Circular 230 to inform you that the advice contained herein (including all attachments) is not intended or written to be used for the purpose of avoiding any penalties that may be imposed under Federal tax law and cannot be used by you or any other taxpayer for the purpose of avoiding such penalties. © 2009 Headlights

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LATTIMORE, BLACK, MORGAN & CAIN, P.C.

5250 Virginia Way
4th Floor
Brentwood, Tennessee 37027

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