

AUTOFOCUS



WINTER
2017

Environmental sustainability
**How you can run a
“greener” dealership**

Checking the backgrounds of new hires

Attention partnerships: Change ahead
New IRS regulations will affect tax strategies

Words matter when selling vehicles

Automotive Dealership Group

Ernest Tyler, CPA
Kenneth Goodrow, CPA
James Godfrey, CPA
Virginia McGrody, CPA



TYLER, SIMMS & ST. SAUVEUR, P.C.
Certified Public Accountants & Business Consultants

Environmental sustainability

How you can run a “greener” dealership

Focus today is increasingly on the environmental impact of business activities across many different industries. This includes automobile dealerships, whose operations can leave a heavy carbon footprint.

As a result, many dealers are looking for ways to operate their business in a more Earth-friendly way. Dealerships may enjoy a host of benefits by operating “greener,” as well as gain a competitive advantage against competitors that aren’t practicing sustainability.

MANUFACTURER INITIATIVES

General Motors (GM) is demonstrating its recognition of the benefits of environmental stewardship by launching its Green Dealer Recognition program. This program encourages dealers to implement various green practices.

About 10% of GM’s dealer network, or more than 400 dealerships, are currently participating in the program. Nearly 40 dealerships have received GM’s Green Dealer certification, which recognizes superior sustainability performance. These dealerships

have taken a number of steps to operate in a more environmentally friendly way, such as:

- ▶ Using renewable energy sources such as wind, solar and landfill gas instead of carbon-based electricity,
- ▶ Implementing water conservation practices — for example, installing low-flow toilets and capturing runoff rainwater,
- ▶ Replacing roofs with white light-reflecting surfaces and installing skylights in roofs to provide natural interior lighting,
- ▶ Switching to light-emitting diode (LED) lighting both inside the dealership and in the parking lot,
- ▶ Making it easy for employees to recycle paper, soft drink cans and other recyclable items while at work, and
- ▶ Conducting community outreach efforts to help educate customers and others about the importance of environmental sustainability and what they can do to help.

In another manufacturer initiative, Ford Motor Company is expanding its “Go Green” Dealer Sustainability Program. This program encourages dealerships to implement energy efficiency improvements in the areas of lighting, HVAC, building envelope, water usage and renewable energy applications. Dealers that wish to participate in the program will undergo a Go Green assessment that identifies opportunities to increase utility efficiency, lower energy costs and reduce their carbon footprints.

BENEFITS TO CONSIDER

Here are a few of the benefits your dealership could realize by implementing sustainability practices:

Greater customer satisfaction and loyalty. Many buyers today are keenly aware of environmental

issues. Not only do they want to drive more fuel-efficient vehicles, but they want to buy vehicles from green dealerships. Thus, operating more sustainably can give you a competitive edge.

Boosted employee morale. Similarly, many employees today are environmentally aware and want to work for companies that practice sustainability. These employees will likely be proud of the steps your dealership takes to operate in a more environmentally friendly manner, which will increase their morale.

Improved reputation in the community. It's not just your customers and employees who value environmental stewardship: Society at large also puts a strong emphasis on sustainability. By going as green as possible, you'll likely boost your local reputation and possibly even generate positive PR for your dealership.

Reduced expenses. Implementing sustainability practices may reduce your dealership's energy costs, which could boost your bottom line. For example, switching to LED lighting could lower your overall energy costs by up to 75%, according to the U.S. Energy Department.

STEPS TO SUCCESS

The first step in becoming a greener dealership is to sit down with your managers and talk about things you can do to operate in a more environmentally sustainable way. Start with the ideas listed here, which have been successfully adopted by other dealerships.

Also ask your employees for their ideas about sustainable practices. After all, they work on the front lines of your business, so they may be able to see opportunities you can't. Consider hosting an employee lunch 'n learn where you open the floor for everyone to share their ideas. Then create a sustainability committee that's responsible for

A TAX BREAK FOR GOING GREEN

Your dealership may be able to reap tax benefits by going green. One of these tax breaks is the Business Energy Investment Tax Credit (ITC), which provides up to a 30% federal tax credit for the installation of commercial solar systems.

Your dealership may receive a dollar-for-dollar tax credit for eligible solar energy systems on which construction is started before the end of 2023. Qualifying property includes equipment that uses solar energy to generate electricity, provide heating or cooling, or provide solar-process heat. Hybrid solar lighting systems also are eligible for the credit.

The amount of the ITC phases out gradually between now and 2023 — from 30% for solar systems installed before the end of 2019 down to 10% for systems installed in 2022.

Ask your CPA about this tax incentive and other tax-saving opportunities related to going green that may arise.



researching the ideas and coming back to management with a detailed plan for how the most feasible ideas can be implemented.

MORE IMPORTANT NOW

Environmental sustainability is more important than ever. So start thinking now about specific, financially feasible ways you can operate a greener dealership. ▴

Checking the backgrounds of new hires

An average of 178,000 employees per month were added to the payrolls of employers in the United States in 2016, according to an “Employment Situation Summary” released in December by the U.S. Bureau of Labor Statistics. And the pattern of a significant number of new hires per month is expected to continue into the New Year.

If your dealership plans to add employees in the foreseeable future, you’ll want to make sure you’re bringing in “good people” you can trust with sensitive customer information — and with your inventory. In this regard, one crucial step in the hiring process is the employee background check.

LAWS ON THE BOOKS

Background checks need to be performed without violating privacy rights and other laws, which vary from state to state and evolve frequently. So, you’ll want to consult an attorney before beginning your hiring quest.

The Fair Credit Reporting Act defines the standards for using credit checks in employment screenings.

The Fair Credit Reporting Act, for instance, defines the standards for using credit checks in employment screenings. Before requesting a credit (or “consumer”) report, an employer must: 1) disclose clearly and conspicuously to the employee or applicant (in a separate document that doesn’t refer to other subjects) that a report may be requested, and 2) obtain the applicant’s or employee’s written consent.

In many states, only law enforcement agencies, financial institutions, debt collectors, insurance companies and sureties can check credit reports. The Electronic Communications Privacy Act does,

however, permit credit history inquiries by other types of employers if they’re related to a “bona fide occupational requirement” of a particular position or group of employees. These limited exceptions exist for jobs that involve:

- ▶ Access to personal, financial or confidential information; trade secrets; or national or state security information,
- ▶ Unsupervised access to cash or certain assets valued at \$2,500 or more,
- ▶ Bonding or security required by state or federal law, and
- ▶ Signatory power over business assets of \$100 or more per transaction.

An exception also exists for managerial duties that involve setting the direction or control of the business.

OTHER RULES TO FOLLOW

The Driver’s Privacy Protection Act regulates how information from state motor vehicle department records can be released and shared. The departments generally will make the job candidate’s driving records available, usually for a small fee.



Most schools, colleges and universities, however, won't release records without the student's consent. Some schools will release records only to the student.

You also may need the candidate's consent before performing a criminal background check. In general, it's illegal to inquire about arrests — you can inquire only about convictions.

THE RIGHT PROVIDER

An employer may personally conduct a background check. Free general advice for doing so is available from the Small Business Administration and other organizations. But often the more convenient approach is to hire an outside agency such as a background check specialist, private investigator or credit agency.

Choose your background check provider carefully, however. There are many start-up companies in this field, and a less experienced or thorough firm might, for example, search for a criminal

history in only one or two states where an applicant has lived.

Most criminal records are available by county and then reported to the state. Thorough agencies typically check all of the counties in which someone has lived, worked or gone to school over the last 10 years.

Additionally, be wary of Web-based companies that offer "instant" checks. There isn't one national database that contains *all* federal and state convictions. Finding criminal records can be a fragmented task across multiple jurisdictions and courts. Moreover, many e-businesses offer low rates for public record searches, but the advertised rates may be deceiving. The more jurisdictions you want to search, the more you're likely to pay.

ONLY PART OF THE PICTURE

Conducting background checks is only part of the due diligence process in hiring new employees for your dealership. But it's a critical one that you've got to approach with the utmost care. ▀

Attention partnerships: Change ahead

New IRS regulations will affect tax strategies

Is your dealership structured as a partnership? If so, or if you're considering transferring property to a partnership, take note of new IRS regulations that took effect October 5, 2016.

SECTION 707 DISGUISED SALES

It's common for a partner to contribute appreciated property to a partnership and for a partnership to distribute cash or appreciated property to its partners. In general, no tax is owed on either the contribution or distribution. But, in certain instances, a contribution of appreciated property by a partner followed by (or sometimes preceded

by) a distribution of cash or property to that same partner will result in tax being owed.

These transactions are referred to as "disguised sales" and are addressed in Internal Revenue Code Section 707 and its regulations. They state that a taxable sale is presumed to have taken place if a partner makes a contribution, receives a cash distribution within two years, and one of several exceptions don't apply.

The prior regulations provided one exception for debt-financed distributions. If a partnership



borrowed money to finance a distribution to a partner after the partner contributed property, loan proceeds were considered part of a disguised sale only to the extent that the distribution exceeded the partner's allocable share of the partnership liability.

The IRS believes that some partnerships have used leveraged partnership transactions to take advantage of the debt-financed distribution exception. In these scenarios, contributing partners enter into guarantees or noncommercial payment obligations with the sole purpose of achieving an allocation of the partnership liability — thus avoiding a disguised sale.

RECOURSE AND NONRECOURSE LIABILITIES

For the purposes of disguised sales, the previous regulations had separate rules for a partnership's recourse and nonrecourse liabilities when determining a partner's share of a partnership liability. Keep in mind that a partner bears the "economic risk of loss" (EROL) if the partnership can't pay a recourse liability (one he or she guarantees) and that partners aren't individually liable for nonrecourse debt.

Previous guidance stated that a partner's share of a recourse liability consisted of the portion of the liability for which the partner bears the EROL. The new IRS regulations change the method of allocating partnership liability as it relates specifically to the disguised sale rules. All liabilities are now treated as nonrecourse liabilities (for purposes of

potential disregarded sale transactions), and are allocated according to the partner's share of profits.

Because liabilities are allocated based on a partner's share of profits for disguised sale purposes, a partner can't be allocated all of a loan's liability. As a result, contributing partners can't offset gains from the distribution of loan proceeds with 100% of a loan liability. This severely limits leveraged partnership transactions as a tax planning strategy for partners.

AN EXAMPLE

Consider a hypothetical dealership involving ABC Motors Inc., an S corporation that owns an unencumbered parcel of real estate (on which the dealership operates) that is worth \$2 million. The property is in need of a \$1 million renovation to satisfy its manufacturer's branding requirements.

The IRS believes that some partnerships have used leveraged partnership transactions to take advantage of the debt-financed distribution exception.

ABC Motors will contribute the \$2 million property to XYZ LLC, a multimember limited liability company (LLC) taxed as a partnership that will be jointly owned by ABC Motors and an unrelated third party investor who'll contribute the \$1 million in cash needed for the renovation. The profits, losses and membership units will be owned 50-50.

After the renovations are complete — and within 24 months of the contribution of dealership property — XYZ LLC places a \$1 million mortgage on the property. All of the borrowed funds are then distributed to ABC Motors to equalize the partner equity at \$1 million each.

Because the distribution of cash happens within the 24-month presumption period, and the funds are allocated in a percentage greater than ABC

Motors' share of profits, the distribution is considered sales proceeds for the portion in excess of ABC Motors' 50% profit interest. (\$500,000 is the excess.) In essence, ABC Motors converted its direct ownership of real estate into cash (to an extent greater than its ownership interest in the LLC-partnership). This will result in a taxable sale transaction with \$500,000 of deemed proceeds.

THE TAKEAWAY

Although the regulations are complex, the take-away for dealerships structured as partnerships is relatively simple: More property transactions between partners and the partnership will likely be classified as disguised sales under the new requirements. Consult your CPA about how these new regulations could affect your dealership. ▀

Words matter when selling vehicles

When talking to customers about vehicles they're considering buying, salespeople can boost the chances of making a sale by using certain words to describe vehicles — as well as *not* using other words.

This is one of the findings of research conducted by CDK Global, which provides IT and digital marketing solutions to the automotive industry. The study sought to identify the words and phrases that are most effective in converting automobile shoppers into buyers.

“PASSING” INSTEAD OF “TORQUE”

In short, the less technical lingo salespeople use with customers, the better. One good example cited by the study is the preference of the word “passing” with customers instead of the words “torque” or “horsepower.”

Sure, an automobile engineer or gearhead will know what torque and horsepower mean, and the average person might have a vague idea. But what customers really want to know is whether or not the vehicle has enough power to easily pass another car on a two-lane road. Mazda has it right with “Zoom-Zoom.”

Other high-converting words identified by the research are “climate,” “comfort,” “blindspot” and “quiet.” Conversely, words salespeople should try to avoid include “tire,” “test drive,” “features” and “amazing.”



According to the study, these low-converting words simply aren't very helpful when it comes to enabling most car buyers to understand the benefits a particular vehicle might offer. It's better for salespeople to use clear, descriptive words that are easy for the average customer to comprehend.

INCORPORATE IN YOUR TRAINING

You should keep these research findings in mind as you design training programs and materials for your salespeople — because the words they use (and don't use) could be the difference between making a sale and watching a befuddled customer walk out the door. ▀

Your success is our business

At Tyler, Simms & St. Sauveur we recognize that the challenges of owning and operating an automobile dealership are unique and ever changing. That's not only because your enterprise is essentially several different businesses rolled into one, each with its own special features. It's also because your business has evolved to where you need a CPA as well versed in estate and succession planning, tax strategies, and benefits administration as in dealership accounting, valuation, systems reviews and related areas.

Consequently, you need more than simply a CPA to prepare your taxes. You need an adviser who has invested time and effort into learning your industry and is trained in the dealership environment. At Tyler, Simms & St. Sauveur, we understand the challenges you face. Our professional staff includes former dealership CFOs and Controllers, so we know the demands placed on your people and how to lessen their burden. Most important, we realize that you now need more services than ever before, and we excel at delivering them.

To help you achieve your dealership's full potential — and make your job easier — we will meet with you quarterly to analyze your numbers and point out how you compare to your peers and where you may have opportunities to improve. We will not tell you how to run your dealership.

But, drawing on our extensive experience, we will show what others have done to enhance their success and suggest ways you can do the same.

In addition to traditional audit, review, compilation and tax services, we can help you with:

- ▶ Operational audits
- ▶ Employee benefits consulting
- ▶ Estate and succession planning
- ▶ Management evaluations
- ▶ Business valuation
- ▶ Due diligence purchase systems reviews
- ▶ LIFO calculations and compliance
- ▶ Internal controls review
- ▶ Budgeting and forecasting
- ▶ Business consulting, and much more

Our expertise has enabled us to be instrumental in designing and presenting a series of accounting courses for the New Hampshire Automobile Dealers Association, and we have been featured speakers at NADA 20 groups. Also, we are members of Auto Team America, a national group of accounting firms specializing in dealership accounting that we meet with several times a year to discuss current and emerging industry issues.

Call us today at 603-653-0044 or visit www.tss-cpa.com to learn how Tyler, Simms & St. Sauveur is uniquely positioned to help you increase your success.



TYLER, SIMMS & ST. SAUVEUR, P.C.

Certified Public Accountants & Business Consultants

19 Morgan Drive
Lebanon, NH 03766
(603)653-0044
(603)653-0209