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6 steps to upgrading data security

Casualty losses: A lighter side to disasters

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What does the new tax law mean for dealerships?

Expanded breaks, new credits and lower rates are among the pluses

The legislation commonly known as the Tax Cuts and Jobs Act (TCJA) creates a new playing field on which dealerships can execute future tax strategies. Significantly, a flat corporate rate of 21% replaces the graduated corporate tax of 15% to 35%, beginning with the 2018 tax year.

Owners of dealerships structured as pass-throughs also will generally see tax cuts due to lower individual rates and the new pass-through deduction. And there's more to smile about — but there are some downsides, too.

ATTENTION: PASS-THROUGH DEALERSHIPS

Under previous law, net taxable income from pass-through entities, such as S corporations, partnerships and sole proprietors, simply flowed through to owners. It was then taxed at the owners' standard rates. In other words, no special treatment applied to pass-through income recognized by business owners.

But, for tax years beginning in 2018 through 2025, the TCJA establishes a new deduction based on a noncorporate owner's qualified business income (QBI). This new tax break is available to individuals, estates and trusts that own interests in pass-through business entities. The deduction generally equals 20% of QBI, subject to restrictions that can apply at higher income levels.

SECTION 179 GETS BETTER

Section 179 expensing allows eligible taxpayers to deduct the entire cost of qualifying new or used depreciable property and most software in Year 1, subject to various limitations.

Under pre-TCJA law, for tax year 2017, the maximum Sec. 179 depreciation deduction was $510,000. This maximum was phased out dollar for dollar to the extent the cost of eligible property placed in service during the tax year exceeded the phaseout threshold of $2.03 million.

Qualified real property improvement costs also were eligible for the Sec. 179 deduction. This real estate break applied to certain improvements to interiors of retail and leased nonresidential buildings (such as dealerships, in both cases).

The TCJA permanently enhances the Sec. 179 deduction. Under the new law, for qualifying property placed in service in tax years beginning in 2018, the maximum Sec. 179 deduction is increased to $1 million. And the phaseout threshold amount is bumped up to $2.5 million.

For later tax years, these amounts will be indexed for inflation. To determine eligibility for these higher limits, property is treated as acquired on the

MORE TCJA HIGHLIGHTS FOR BUSINESS OWNERS

Here are some other significant changes resulting from the Tax Cuts and Jobs Act:

Limits and disallowances. There are new limits on net operating loss deductions. And the law created a new rule that limits like-kind exchanges to real property that's *not* held primarily for sale.

Employee benefits. The law created a new tax credit for employer-paid family and medical leave — through 2019. There also are new limits on deductions for employee fringe benefits, such as entertainment and, in certain circumstances, meals and transportation. Additionally, look for new caps on excessive employee compensation.

Your tax advisor can help explain how these and other changes may affect your dealership.

date on which a written, binding contract for the acquisition is signed.

The TCJA also expands the definition of qualified real property eligible for the Sec. 179 deduction to include the following improvements to nonresidential real property: roofs, HVAC equipment, fire protection and alarm systems, and security systems.

FLOOR-PLAN INTEREST AND BONUS DEPRECIATION

Subject to some restrictions and exceptions, under pre-TCJA law interest paid or accrued by a business generally was fully deductible. Beginning with the 2018 tax year, the TCJA generally prohibits businesses from deducting interest expenses in excess of 30% of adjusted taxable income. Fortunately, floor-plan interest is excluded from the interest limitation, so it's still generally 100% deductible. But there is a tradeoff for dealerships.

The TCJA temporarily increases bonus depreciation for qualifying property, plant and equipment purchases to 100%. However, beginning with the 2018 tax year, bonus depreciation is *not* available to auto dealerships that have floor-plan financing, unless they have average annual gross receipts of $25 million or less for the three previous tax years.

Under pre-TCJA law, businesses (including dealerships) could claim a 50% first-year bonus depreciation deduction for the cost of qualified *new* assets placed in service in 2017. These included computer systems, purchased software, vehicles, machinery, equipment, office furniture and so forth. Also, bonus depreciation could be claimed for qualified improvement property under certain parameters.

For qualifying property placed in service in tax years beginning in 2018, the maximum Sec. 179 deduction is increased to $1 million.

Under the TCJA, for qualified property placed in service between September 28, 2017, and December 31, 2022 (or by December 31, 2023, for certain property with longer production periods), the first-year bonus depreciation percentage is increased to 100%. In addition, the 100% deduction is allowed for eligible new *and used* property.

Bonus depreciation is scheduled to be reduced in later years, eventually down to 20% in 2026. However, as stated above, if your dealership has floor plan financing, it isn't eligible for bonus depreciation after January 1, 2018, unless its average gross receipts are $25 million or less.

CHARTING A NEW COURSE

Formulating new tax strategies is serious business that depends on the particulars of your situation. Plan to sit down with your tax advisor to chart your dealership's course for the years ahead.

Is it time to review your sales compensation plan?

Do you have an inkling that your sales compensation plan might need improvement? Perhaps your sales manager has passed on some gripes from the sales force. Or maybe you've heard other dealership execs talking about their programs at an auto conference. Whatever inspires the notion, there's never a bad time to review your sales compensation plan.

KNOW WHAT'S OUT THERE

Many compensation models exist. For example, instead of paying salespeople on a straight-commission basis, some dealerships are moving toward a sales compensation model that combines a base salary with performance-based add-ons.

In such a scenario, you would pay your sales staff a relatively small base salary and then give them the opportunity to earn additional income via commissions, bonuses and sales performance incentive fund (SPIF) payouts. Many salespeople appreciate the financial security afforded by a steady salary while still having the chance to boost their earnings if they meet or exceed sales goals. Meanwhile, performance-based compensation add-ons help dealerships financially motivate sales staff to sell more vehicles at higher margins.

Some dealerships are moving toward a sales compensation model that combines a base salary with performance-based add-ons.

By doing a little research, you can find out how compensation plans in your general area are structured. And through sources such as the National Automobile Dealers Association, which publishes an annual study, you can find out what dealerships across the country are currently paying for particular sales positions.

CREATE AMPLE OPPORTUNITIES

When structuring your sales compensation plan, start with a total compensation target and work backward to create a plan that provides ample opportunities to hit targets.

For instance, suppose your target compensation per salesperson is $70,000 annually. You could pay 40% of this ($28,000) in salary and give salespeople the opportunity to earn the other 60% in commissions and bonuses, structured as: 1) a $200 commission per sale, payable monthly, and 2) a $1,500 quarterly bonus if monthly sales goals are met or exceeded.

If a salesperson's goal is to sell 15 vehicles per month, he or she would earn $70,000 per year if the goal is met every month ($28,000 plus $36,000 in commissions plus $6,000 in bonuses). The

salesperson could increase this income incrementally by exceeding the monthly sales goal. SPIF payouts for meeting sales goals for specific vehicles also can be offered to further boost salesperson compensation.

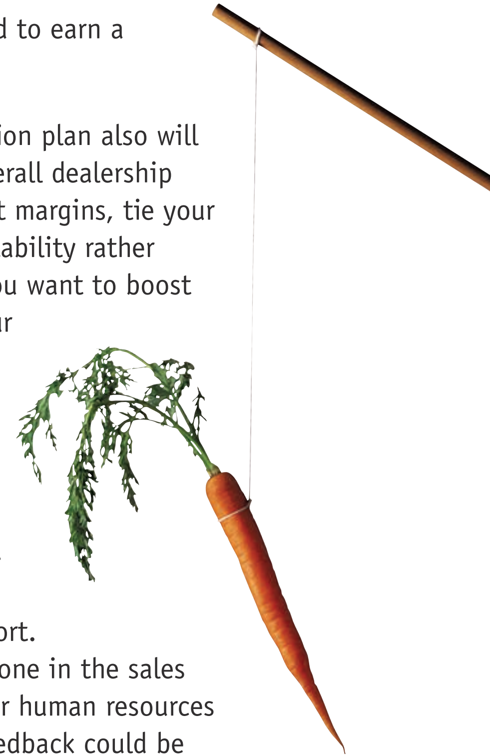
PAY FOR THE POSITION

Sometimes it can be tempting to create a sales compensation plan for a specific salesperson — especially if you're trying to lure a high-performer. But, generally, you should resist this temptation.

Instead, pay for the position, not the person. Write a detailed job description and define the criteria that must be met for any of your salespeople to earn commissions, bonuses and SPIF payouts.

A key element: Ensure that sales goals and incentives are realistic and achievable. For example, if your dealership's average salesperson sells a dozen vehicles per month, don't make 18 sales the minimum level required to earn a commission or bonus.

Any good sales compensation plan also will link sales incentives to overall dealership goals. If you want to boost margins, tie your incentives to vehicle profitability rather than just volume. But if you want to boost dealership revenue, tie your incentives to sales of higher-priced vehicles.



MAKE IT A TEAM EFFORT

Developing a new compensation plan for your sales force should be a team effort. Make sure to involve everyone in the sales department, as well as your human resources manager and CPA. Their feedback could be invaluable.

6 steps to upgrading data security

The massive data breach at Equifax in 2017 — in which personal information on an estimated 146 million Americans was exposed to hackers — should serve as a wake-up call to all businesses about the importance of data security. This includes dealerships, most of which possess a gold mine of customer information that data thieves would love to grab.

The vulnerability of dealerships to data theft became apparent in 2016 when personal data on more than 100 dealerships' customers was compromised because of poor data security practices at a dealership management system (DMS) vendor. As reported by business technology website ZDNet, these DMS systems were backing up unencrypted data to the vendor's central system, exposing customers' sensitive personal information to potential theft.

PROACTIVE MEASURES ARE KEY

Given the large volume of personal data usually collected from customers, it's critical that dealerships proactively secure the information they obtain and store. Typically, this data includes details such as names, addresses and dates of birth as well as Social Security, driver's license, bank account and credit card numbers.

Here are six steps you can take to help protect your customers from data theft:

1. Understand the source of threats. More than 90% of data hacks originate from phishing attacks, according to technology website wired.com. These are email scams in which data thieves try to trick employees into clicking on links or opening

attachments that can give the thieves access to servers containing sensitive customer information.

Almost everyone has received a phishing email, and many of them are obviously not from a legitimate source. But some are harder to spot than others, so employees should be constantly reminded not to click on links or open attachments in any message that looks even remotely suspicious.

> *If employees don't need to view sensitive customer data to perform their jobs, don't allow them to see it.*

2. Establish and enforce strict password protocols. Without specific guidance, some employees may not realize the importance of setting strong passwords, or know how to do so. Provide detailed instructions to employees about how they should go about it.

Among the most common password protocols are including special characters, upper and lower case letters, numerals, and a minimum number of total characters in passwords. Also, be sure to terminate former employees' passwords as soon as they leave your dealership.

3. Restrict employee access to customer data. Set your DMS permissions so that employees can access only the information they actually need. If they don't need to view sensitive customer data to perform their jobs, don't allow them to see it.

4. Review and revamp your data-sharing processes. Encrypt all information shared electronically with manufacturers, vendors and suppliers so malicious parties can't intercept and read it while in transit. Specifically, many experts recommend using 256-bit encryption, which provides a higher level of data security.

Some dealerships are taking matters a step further by transferring shared data onto an isolated server that's not connected to the store's DMS. Only the data fields needed by third parties for specific purposes are transferred onto the computer, which prevents outsiders from accessing areas of the DMS that contain sensitive customer information.

5. Use the cloud. Many dealerships assume that customer data is more secure when it's stored on servers located on the dealership premises. In reality, information stored on local servers tends to be *more* vulnerable to hacking than data stored in the cloud. That's because cloud technology providers possess high levels of expertise and devote substantial resources to protecting sensitive information.

6. Review your vendors' data security procedures. Following this step could have prevented problems for the dealerships in the DMS vendor example cited above. Before choosing any new technology vendor, ask detailed questions about their data security procedures. For example, do they use encryption when transferring data electronically? If so, what level of encryption is employed?

RISKS SHOULD BE MINIMIZED

Being victimized by data thieves could lead to regulatory fines and severely damage your dealership's reputation. Don't risk it — take proactive steps like these to protect customer information.

Casualty losses: A lighter side to disasters

The past year has seen more than its fair share of natural disasters. These ranged from multiple hurricanes scarring the Gulf Coast to tornado outbreaks in the Midwest to ravaging wildfires on the West Coast.

There may be a silver lining, though, if your dealership was impacted by these or other natural disasters. In qualifying instances, you might be able to deduct a casualty loss on your federal income tax return.

WHAT'S A CASUALTY LOSS?

The IRS defines a casualty loss as a loss resulting from the damage, destruction or loss of property because of an identifiable event that's sudden, unexpected or unusual. A wide range of causes can lead to deductible casualty losses, including storms, floods, earthquakes, fires, terrorist attacks, vandalism and theft.

Normal wear and tear on your property — or "progressive deterioration," in IRS parlance — isn't deductible as a casualty loss. Examples of progressive deterioration include the continued weakening of a building from normal wind and weather conditions, termite damage, and most property losses caused by drought.

You must be able to demonstrate the casualty and support the amount of the deduction to deduct a casualty loss. Doing so includes detailing the specific type and date of the disaster, proving you owned the property on that date and showing how the loss was directly attributable to the incident.

HOW DO YOU CALCULATE A LOSS?

Calculating the amount of your casualty loss deduction is a three-step process:

1. Figure out your adjusted basis in the property before the casualty.
2. Determine the decrease in the property's fair market value (FMV) because of the casualty.

3. Subtract any reimbursements you have received or expect to receive (including insurance) from the lesser of these two.

If your property is completely destroyed, the decrease in FMV isn't considered. Instead, your deduction will be equal to your adjusted basis minus any salvage value in the property and any insurance and reimbursements you've received or expect to receive.

WHAT ABOUT HURRICANE VICTIMS?

Legislation passed last fall provides a special tax break for businesses located in the core disaster areas impacted by Hurricanes Harvey, Irma and Maria. If your dealership qualifies, you may receive a tax credit of 40% of wages, or a total of $6,000 per employee.

Additionally, the 10% penalty that usually applies to early withdrawals from IRAs and 401(k) accounts has been waived for individuals in these areas who make qualified hurricane distributions from these accounts.

GETTING HELP

Certain breaks are available to victims of other disasters. Ask your CPA for more details and for help claiming casualty losses.

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Proven expertise in helping dealerships build success

In automotive accounting, as in other specialized practice areas, experience matters. That's why dealerships throughout Massachusetts turn to Paul A. Cerrone, CPA for their tax, accounting and auditing needs.

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- Gift and estate planning
- Representation before tax authorities

Paul A. Cerrone, CPA, MST, CVA, managing partner, is an ADP Certified CPA with more than 30 years of experience in serving automotive dealers. He specializes in helping clients minimize taxes, maximize profits and achieve their business and personal financial goals. Paul can be reached at 508-845-7600 or pcerrone@cgscpas.com.

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