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Insurance: Do you have adequate coverage?

Tax credit could prompt more paid family and medical leave

Hiring a CFO or controller

Lease accounting standard
Get ready! Deadlines are fast approaching

Paul A. Cerrone, CPA

C G & S

Cerrone, Graham & Shepherd, P.C.

Certified Public Accountants and Consultants

446 Main Street, 10th Floor, Worcester, MA 01608

T: 508.845.7600 or 508-754-8512 ► email: pcerrone@cgscpas.com ► web: www.cgscpas.com

Insurance: Do you have adequate coverage?

Before they can legally drive a vehicle, individuals must obtain a minimum level of automobile liability insurance. Similarly, dealerships are also legally required to carry certain types of insurance to operate in most states.

If you haven't reviewed your store's insurance policies recently, now might be a good time to do so. Your goal is twofold: to make sure you have the right coverages for the risks involved in operating your dealership *and* to keep your insurance premiums as low as possible.

SORTING THROUGH TYPES OF INSURANCE

There are three main types of insurance for automobile dealerships:

1. Garage liability insurance. This coverage forms the foundation of most dealerships' insurance programs. Combining premises, auto, and products and completed operations liability coverage, it provides protection for bodily injury and property damage claims caused by an accident that arises out of your garage operations. Dealerships are normally required by law to carry garage liability insurance.

As you review your garage liability policy, look for exclusions and limitations that can limit the amount of your coverage. For example, rental and leasing, racing and watercraft often aren't included in a standard policy. Some carriers will offer limited coverage for these events, but you might have to buy a separate policy to cover them.

It's important to review your policies carefully to determine what types of losses are — and more importantly, aren't — covered.

Garage liability insurance also typically excludes property damage to customer vehicles left with your dealership for repair, servicing or storage. You can purchase additional coverage, known as garagekeepers coverage, for protection against damage to customer vehicles left in your care, custody or control.

2. Physical damage insurance. Also sometimes called "dealer's open lot insurance," this coverage protects against loss to your vehicle inventory that's held for sale. Coverage may also extend to other land motor vehicles, such as golf carts and construction equipment. Dealerships are usually required by lenders and floor planners to carry physical damage insurance.

Most physical damage policies cover collision losses and at least one of the following: comprehensive coverage, fire and theft coverage, or coverage for "specified perils." Comprehensive covers all damage risks except those specifically excluded by name, while specified perils covers specific risks listed by name; and fire and theft covers these risks specifically.

It's important to review your physical damage policy carefully to determine what types of losses are — and more importantly, aren't — covered. Many insurance carriers have absorbed big losses in recent years due to severe weather events such as hurricanes, tornadoes and floods. As a result, some are excluding weather-related damage from physical damage coverage or offering coverage only for fire and theft.

3. Workers' compensation insurance. This coverage provides medical benefits and wage replacement for employees who are injured while performing their jobs. Specific requirements for carrying "workers' comp" coverage vary from state to state, but dealerships generally should consider this insurance to be a "must have."

Some dealers try to lower their workers' comp costs by classifying as many workers as possible as independent contractors, instead of full-time employees. However, be extremely careful here. The "employee or independent contractor" classification criteria can be open to interpretation. If your workers' comp carrier determines that one or more of your independent contractors are actually employees, you'll be billed additional premiums for them.

REDUCING INSURANCE COSTS

Here are a few proactive steps you can take to lower your dealership's insurance premiums:

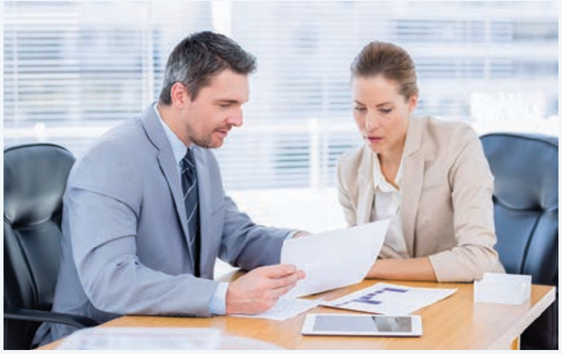
Don't furnish customers with loaner vehicles. While this is a common practice, it exposes dealerships to liability claims that can raise garage liability premiums. Instead, consider obtaining rental cars for customers who leave vehicles with you for service.

Minimize personal use of dealership vehicles. This includes not only your own personal use, but also use by your friends and family members and those of your employees. This can help reduce exposure to liability and vehicle damage claims and, thus, keep insurance premiums down.

UNDERSTANDING THE CO-INSURANCE PENALTY

To keep physical damage insurance costs down, dealerships sometimes insure their inventory at less than 100% loan to value. If you choose this strategy, be aware that a co-insurance penalty will apply if you file a claim.

This penalty will effectively reduce the amount of money you receive if you make an insurance claim due to a damaged or stolen vehicle. Depending on the amount of coverage you buy, your claim could be reduced by 50% or more.



Keep customers out of your work areas. You probably have signs telling customers to stay out of the service area for safety and insurance reasons, but are you enforcing this rule? Doing so will help prevent injuries to customers that can raise insurance costs.

Maintain a safe work environment. Work closely with your department managers to minimize the potential for accidents in the workplace. This will help lower your workers' compensation experience modification factors, which could lower workers' compensation premiums.

MEET WITH YOUR AGENT

Plan now to meet with your insurance agent to perform a comprehensive insurance review. Doing so will help ensure that your dealership will have adequate coverage when the time comes that you must file an insurance claim.

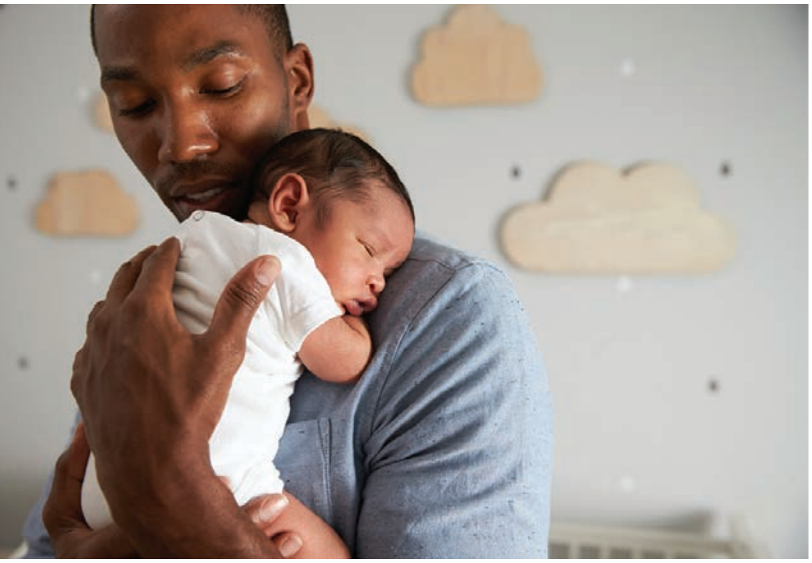
Tax credit could prompt more paid family and medical leave

With the national unemployment rate dropping to the lowest levels in more than a decade, many dealerships are looking for new ways to attract and retain talented employees. The Tax Cuts and Jobs Act (TCJA) may offer such an opportunity.

The TCJA introduces a new tax credit for businesses that voluntarily offer paid family and medical leave to their employees. This tax break could make it more affordable for you to provide this employee benefit to your workers. And that, in turn, could make it easier to hire and retain employees in a competitive hiring market.

WHAT'S IT ALL ABOUT?

The details of the employer credit for paid family and medical leave are spelled out in Section 45S of the Internal Revenue Code. To qualify for the credit, your dealership must voluntarily offer paid family and medical leave. And you must create a written policy stating that full-time employees receive these benefits for at least two weeks a year and part-time employees receive them for a prorated period.



You may be eligible to take the credit based on up to 12 weeks of paid leave. You may offer more than 12 weeks, of course, although there is no credit available for amounts paid beyond 12 weeks.

The employer credit for paid family and medical leave is equal to 12.5% of the wages paid for leave, if these payments are at least 50% of the employee's normal wages.

To qualify for the benefits, employees must have been employed by your dealership for at least one year. And they must have been paid 60% or less of the highly compensated employee (HCE) dollar amount in the prior year. For 2017, the HCE amount was $120,000. Thus, for an employee to qualify he or she must not have been paid more than $72,000 last year.

A wide range of activities or events qualify as family and medical leave, including:

- An employee's serious health condition that renders the employee unable to perform his or her regular job duties,
- An employee's pregnancy and parental or bonding leave after a child is born,
- A serious health condition suffered by an employee's family member for whom the employee is providing care, and
- A serious health condition or injury suffered by a family member who is in the armed forces and for whom the employee is providing care.

Only wages paid in relation to your written policy about paid family and medical leave are eligible for the tax credit. Vacation and sick leave pay, as well as other forms of paid time off, doesn't qualify.

HOW MUCH IS THE CREDIT?

The employer credit for paid family and medical leave is equal to 12.5% of the wages paid for leave, if these payments constitute at least 50% of the employee's normal wages. The credit amount increases to a maximum of 25% of the wages paid for leave, if these payments exceed 50% of the employee's normal wages.

Specifically, the credit is increased by 0.25 percentage points for each percentage point by which the amount of wages paid for leave exceeds 50% of normal wages (up to the 25% limit).

So how much could your dealership save by taking advantage of this tax credit? Suppose you grant a total of 50 weeks of paid family and medical leave to 10 qualifying employees this year and pay each of these employees 50% of their normal wages. If these employees earn an average of $800 a week, your tax credit would equal $12,500.

SUNSET IN SIGHT

The employer credit for paid family and medical leave is scheduled to sunset at the end of 2019. Thus, it's available only for wages paid in tax years beginning after December 31, 2017, and before January 1, 2020.

Talk to your tax advisor if you have questions about how your dealership might qualify for this tax credit and to learn additional details.

Hiring a CFO or controller

Do you sometimes feel a bit overwhelmed by the financial side of your business? Sure, your dealership's basic accounting needs are being met (hopefully). But when it comes to the bigger financial picture, you see shortcomings.

Perhaps you think it's time to add a financial executive — a CFO or controller — to your staff. But can your dealership afford one, and exactly what might that person bring to the game?

SIZE UP YOUR SITUATION

Dealerships usually need to reach a minimum size before it's financially feasible to hire a financial executive. Generally, two thresholds exist: 1) If your business has revenues of around $75 million, or you operate multiple smaller stores, you may be ready to hire a controller, and 2) if you have revenues of around $300 million and run multiple locations, it may be time to hire a CFO.

If you're already at one of these thresholds, or soon will be, hiring a financial executive can have significant benefits. Perhaps the most important is the ability of this kind of professional to bring a higher level of analytical and strategic skills to your store's financial management. Those skills go far beyond basic number crunching.

CONSIDER THE BROAD ROLE

The strategic direction that a CFO or controller can bring to the game includes looking beyond day-to-day financial management to more holistic, big-picture planning of financial and operational goals. This individual will take a seat at the executive table and serve as the owner's go-to person for all matters of dealership finances and operations.

A CFO or controller can go beyond merely compiling financial data to providing an *interpretation* of the data that shows how financial decisions will impact all areas of your dealership. And that individual can plan capital acquisition strategies so your business has access to financing as needed to meet working capital and operating expenses.

In addition, a CFO or controller will serve as the primary liaison between your dealership and its bank to ensure your financial statements meet the bank's requirement to help negotiate any loans. Analyzing possible merger, acquisition and other expansion opportunities also falls within a CFO's or controller's purview.

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DEFINE THE RESPONSIBILITIES

A CFO or controller typically has a set of core responsibilities that link to the financial oversight of your operation. That includes making sure there are adequate internal controls to help safeguard the dealership from internal fraud and embezzlement.

This individual also should be able to implement improved cash management practices that will boost your dealership's cash flow and improve budgeting and cash forecasting. He or she should perform ratio analysis and compare the dealership's financial performance to benchmarks established by similar-size dealerships in the same geographic area. And a controller or CFO should analyze the tax and cash flow implications of different capital acquisition strategies — for example, leasing vs. buying equipment and real estate.

If you have multiple franchise locations, a CFO or controller can analyze the different operations from a financial perspective, and look for ways that your business can benefit from economies of scale.

OPTIONS ARE AVAILABLE

Hiring a full-time CFO or controller represents a major commitment in both money and time. This executive likely will command a six-figure salary and an attractive benefits package, so first make sure your dealership has the financial resources to commit to this level of compensation.

Too expensive? Your dealership might want to consider bringing in an outsourced CFO. You can discuss with your CPA — and your existing financial staff — whether that option would work at your store.

Lease accounting standard

Get ready! Deadlines are fast approaching

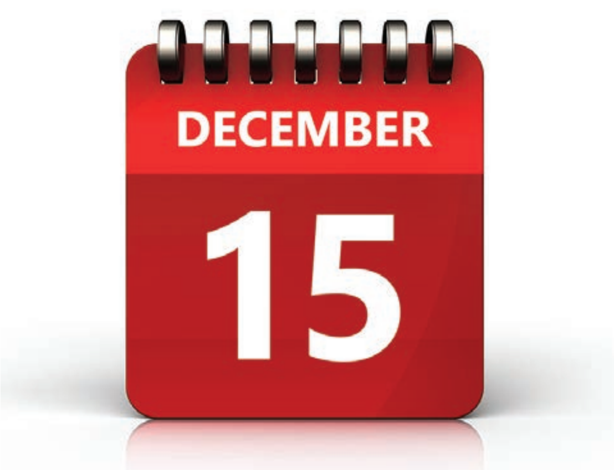
Don't look now, but a deadline for adopting the new lease accounting standard that was issued two years ago is right around the corner.

If your dealership is publicly held, you must adopt the standard by December 15, 2018, if your fiscal year begins after this date. If your dealership is nonpublic, you have an extra year to adopt the new standard — until December 15, 2019, if your fiscal year begins after this date. Early adoption is permitted for both public and private dealerships.

WHAT THE STANDARD REQUIRES

Referred to as Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842) Section A—Leases: Amendments to the FASB Accounting Standards Codification*, the new standard will change the accounting treatment of leases under U.S. Generally Accepted Accounting Principles. If your dealership leases equipment, vehicles, real estate or other assets for more than a year, the new standard will require you to report these lease obligations as fixed assets on your balance sheet along with related lease liability.

Under the FASB's new standard, both capital and operating leases will have to be recognized on the balance sheet. Specifically, you'll be required to report a right-to-use asset and corresponding liability for your obligation to make payments on leases longer than one year. This includes long-term leases for real estate used by your dealership.



Historically, operating leases could be listed as a financial statement footnote and thus kept off the balance sheet. This structure usually benefits dealerships because keeping leases off-balance sheet generally improves financial ratios, thus making it easier to qualify for financing.

IMPACT ON DEBT COVENANTS

The new lease accounting standard's biggest impact for most dealerships will likely be on their relationships with lenders. Including long-term lease obligations on the balance sheet, where they'll also be classified as debt, could have a major impact on key financial ratios. This, in turn, could have a negative effect on debt covenants.

Thus, it's critical to talk with your banker well in advance of the date when you plan to adopt the new standard. You should let your banker know that adopting the new standard could result in changes to your financial ratios that could adversely affect your debt covenants. This way, you'll have time to discuss potential remedies in advance.

OTHER POSSIBLE EFFECTS

Changes in financial ratios also could affect your ability to obtain financing in the future, or possibly make financing more expensive. In addition, you might incur training costs as you get your accounting department up to speed on all the nuances of applying the new guidance.

Contact your tax advisor if you have more questions about how the new lease accounting standard could affect your dealership.

PAUL A. CERRONE, CPA

Cerrone, Graham & Shepherd, P.C.

Certified Public Accountants and Consultants

446 Main Street, 10th Floor
Worcester, MA 01608

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.

Our more than 30 years of experience in the automotive industry enable us to excel in helping our clients advance their success. Our team is ready to assist you with these and other highly professional services tailored to your specific needs:

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- Budgets, forecasts and projections
- Business valuations and consulting
- Succession planning and ownership transition
- 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.

We would welcome the opportunity to put our expertise to work for you, your family and your company.

Please call us at 508-845-7600 and let us know how we can help drive your success to the next level.