AUTOFOCUS

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Going green

How to run a sustainable dealership

Businesses in many industries are adopting more environmentally friendly practices. This includes proactive auto dealerships that use more efficient renewable energy sources and reduce overall energy and water consumption.

Environmental stewardship offers numerous benefits. These include both hard-dollar savings and an improved image among customers who prefer buying from sustainable businesses. Your dealership also could realize tax benefits by implementing approved solar and geothermal energy systems.

GREEN DEALER PROGRAMS

Some auto manufacturers have introduced programs to encourage and reward dealerships that practice environmental sustainability. For example, Honda launched the Honda Environmental Leadership Program in 2011 to recognize dealerships that initiate sustainability improvement programs.

The Honda program focuses on reducing energy consumption and maximizing cost savings. It targets a 10% or greater reduction in dealership total energy use via energy reduction programs with payback periods of up to five years. The program recommends various low- or no-cost measures, including:

- Applying automatic controls to interior and exterior lighting systems,
- Setting efficient thermostat set points and setbacks,
- Landscaping planted areas with native or adaptive vegetation,
- Instituting programs to minimize materials entering the waste stream, and
- Using alternative water sources, such as municipally supplied reclaimed water, captured rainwater and recycled car wash water.

More than 150 Honda dealerships have received the Honda Environmental Leadership Award so far. Three Honda dealerships have even become "electric grid neutral" by producing as much or more energy from renewable energy sources as they consume from their local electric utilities. Since 2012, Honda Green Dealers have collectively reduced output of carbon dioxide by about 34,000 metric tons and saved $75 million in energy costs.

Dealers also can complete an energy audit. Often utility companies offer these audits free of charge.

In 2015, General Motors launched a program similar to Honda's initiative. To earn GM's Green Dealer certification, dealers must demonstrate a commitment to environmentally friendly business practices by implementing energy reduction, renewable energy, water conservation and other sustainability initiatives.

One recent recipient of the Green Dealer certification is in Youngstown, Ohio. The dealership is using energy-efficient exterior and interior lighting and motion detection lighting extensively, and they also have installed low-flow water fixtures and faucets to reduce water usage. In addition, they sponsor environmental activities to help educate the community and have a dedicated "green team" that is working on new ideas for eco-friendly improvements.

GM's goal is to use 100% renewable energy to generate electrical power at each one of its 350 operations around the world by the middle of this century. Sustainability initiatives have enabled GM to reduce carbon dioxide output by 388,000 metric tons and save $73 million in energy costs. More than 80 GM dealerships have received the Green Dealer certification since the program's inception.

MODEL DEALERSHIPS

If you want to "go green" but you're unsure how to start, ask your manufacturer's representative or members of your Dealer 20 group. The possibilities are endless. For example, a dealership in Colorado generates 40 kilowatts of solar power monthly via a rooftop solar array and canopy that's located over an electrical vehicle charging station. And one in Ohio has installed a white roof to reflect sunlight and reduce heat load. It's also installed low emissivity (Low-E) windows to reduce heat gain in the showroom.

Dealerships that have implemented sustainability programs like these cite many benefits of going green. For starters, these initiatives can increase operational efficiency and lower energy costs, resulting in higher profits. Dealerships may also gain a reputation in the community that they're environmentally responsible. This can provide a competitive edge against other dealerships that aren't practicing sustainability.

Higher employee morale is another potential benefit. Many people today want to work for employers that are actively practicing environmental sustainability. In addition, there are federal tax breaks for certain types of energy efficiency upgrades. (See "Saving green by going green" above.)

START NOW

Environmental awareness will likely grow even more in the future. So, it's time to think about ways your dealership can be more eco-friendly. Brainstorm with your management team about the kinds of green initiatives you can implement today.

SAVING GREEN BY GOING GREEN

The Business Energy Investment Tax Credit provides a financial incentive for dealerships to install commercial solar and geothermal energy systems. It provides a federal tax credit of up to 30% of the costs of qualifying systems that are installed before the end of 2019. The credit is for the total cost of the energy property and installation. However, it doesn't include the cost of land or any property that isn't integral to the energy property.

After this year, the credit for solar water heating, solar space heating and cooling, and solar process heat is scheduled to be reduced as follows:

- 26% in 2020,
- 22% in 2021, and
- 10% in 2022 and subsequent years.

The credit for hybrid solar lighting, fuel cells and small wind turbines is reduced to 26% in 2020 and 22% in 2021 and 2022. It will be fully phased out in 2023, unless it's extended by Congress.

4 common reasons dealerships fail

Dealership owners have a responsibility to plan for worst-case scenarios. So, what are some common pitfalls that could cause the demise of your dealership? Here are four common reasons behind dealership failure and some steps you can take to avoid them.

1. INSUFFICIENT CASH FLOW

Dealerships occasionally experience cash flow lulls during the normal course of operations. Minimizing the financial impact of these cash shortfalls requires planning by owners and financial managers.

Start by reviewing your balance sheet for any excess cash that's invested in unproductive resources. For example, dealerships sometimes stock more parts inventory than is needed to meet customer demand. This extra days' supply of inventory results in "frozen capital" that can hinder cash flow.

Consider offering a wider variety of brands as you plan your used vehicle inventory mix.

Failure to collect accounts receivable in a timely manner can also crimp your cash flow. This goes for both vehicle receivables and parts and service receivables. For example, slow movement of paperwork through your dealership from the date of vehicle delivery through accounting and F&I can hinder cash flow, as can sending incomplete financing applications to lenders. On the parts and service side, be sure to promptly issue invoices and strictly enforce your credit policies by extending credit to only preapproved customers.

2. POOR INVENTORY MANAGEMENT

Managing used vehicle inventory is critical for auto dealerships. Your goal should be to increase the number of annual turns of used vehicles in order to boost overall revenue. To manage your inventory more effectively, consider offering a wider variety of brands as you plan your used vehicle inventory mix. At many dealerships, between 60% and 80% of the used vehicle inventory consists of dealership-branded vehicles. Instead of stocking such a high percentage of these vehicles, consider stocking the hottest selling vehicle brands in your market area.

On the new vehicle side, it's usually smart to sell vehicles that have been sitting on your lot for a while before those that recently arrived. Also, be careful to stock vehicles that you believe will move fast. Also, strive to carry a good mix of inventory to offer customers a wide variety of choices.

3. FRAUD AND EMBEZZLEMENT

Dealerships can be especially vulnerable to fraud due to the large amounts of cash that are kept on the premises and their relatively small accounting departments. A strong internal control system is a proactive way to guard your dealership against fraud and embezzlement.

For example, financial and accounting tasks, such as making deposits and reconciling transactions, should be segregated among two or more different employees. This will help prevent an employee from stealing funds and manipulating the books to cover his or her tracks. Other effective controls that can deter fraud include requiring the accounting department to post all transactions on a daily basis, performing random inventory counts in the parts department, requiring an owner or financial executive to personally endorse all checks instead of using a check stamp, and having the owner review the bank reconciliation monthly.

4. ECONOMIC OR INDUSTRY DOWNTURN

The overall economy and automobile industry have been strong the past several years. However, this shouldn't lull you into a sense of complacency — a downturn could happen at any time. Do you have a contingency plan?

To minimize the financial impact of a slowdown in vehicle sales, focus on the fixed operations side of your business. The gross margin on vehicle sales is generally lower than the margins on ancillary offerings, such as parts and service and F&I. Building sales and customer loyalty in these high margin departments can help you hedge against a possible sales slowdown.

For example, offer buyers an incentive to return to your dealership the first time they need vehicle service — this might include a coupon for a free oil change. And make sure their experience in your service department is a pleasant one so they'll want to return.

When it comes to F&I, concentrate on selling the most profitable F&I products that are in the highest demand among customers. Also consider using a digital F&I menu to present options to customers instead of an old-fashioned paper menu.

BE PROACTIVE

Discuss these and other steps you can take to foster success with your managers and executive team. Also talk to your CPA about ways you can proactively guard against business failure.

Keeping on top of regulatory compliance

Complying with federal rules and regulations is a responsibility of any business. Some of the key regulations that specifically affect auto dealerships are aimed at protecting consumers.

SAFEGUARDS AGAINST ID THEFT

With the recent proliferation of identity theft, it's become imperative that your dealership protect all "personally identifiable information" you possess about your customers. The Gramm-Leach-Bliley (GLB) Act is intended to protect your customers' personal financial data.

Dealers should be mindful of the following provisions of the GLB Act:

The Financial Privacy rule. This sets standards for privacy notices, opt-out notices, and the use and disclosure of nonpublic personal information.

The Safeguards rule. A written security plan is required to protect the confidentiality and integrity of customer and employee data. This includes Social Security numbers and information from bank and credit card accounts.

The Disposal rule. You must properly dispose of information contained in consumer reports and records to guard against unauthorized use of or access to the data.

Additionally, the Red Flags provision requires you to draft a written identity theft protection program. It should be designed to detect, prevent and mitigate identity theft.

REGS Z AND M

Providing credit to finance the purchase of vehicles is one of the primary services offered by dealerships.

Perhaps the most important law governing consumer credit is the Truth in Lending Act, which is implemented by Regulation Z.

Reg Z is intended to help customers make comparisons between lenders' credit terms and rates. It requires you to present certain disclosures to your customers clearly in writing, in a format they can keep for future reference. These disclosures include the amount financed, the finance charge, the annual percentage rate and the payment total.

Regulation M implements the consumer leasing provisions of the Truth in Lending Act. It's intended to ensure that lessees receive meaningful disclosures enabling them to compare lease terms between lessors and with credit transactions. Reg M also aims to limit the amount of balloon payments in consumer leases.

PROTECTIONS AGAINST MISLEADING ADVERTISEMENTS

Most dealerships rely heavily on advertising to help drive customer traffic and boost sales. Dealership advertising is governed by the federal truth in advertising laws, a collection of advertising rules administered and enforced by the Federal Trade Commission. There are three primary rules in this law.

First, advertisements must be truthful and nondeceptive. They must tell the whole truth, not a half-truth or slighted version of the truth intended to make a vehicle look more appealing. You must possess evidence to back up any express or implied claims made in your advertisements.

Second, advertising can't be unfair. An "unfair" ad is defined as one that substantially injures consumers, violates established public policy, or is unethical or unscrupulous.

Finally, dealerships are subject to fuel economy advertising rules for sales of new vehicles. According to these rules, if your ad lists fuel economies for both city and highway driving, they must be labeled "estimated city mpg" and "estimated highway mpg." In addition, fuel economy estimates must match the exact make and model of the advertised vehicle.

COMPLIANCE TRAINING

Consider hiring an outside firm to perform employee compliance training to help you comply with these and other consumer protection rules. In fact, compliance training is required for some federal regulations, including the Safeguards rule and the Red Flags provision. Contact your dealer's association or Dealer 20 Group to learn more about compliance training options in your area.

Are you meeting your sales and use tax obligations?

The consequences of failing to comply with sales and use tax requirements can be severe. In some states, dealership owners can be held personally liable for unpaid sales and use taxes — even if they've delegated this responsibility to one of their employees.

DETERMINING SALES TAX NEXUS

For starters, it's critical to determine which states will require a dealer to collect sales tax when vehicles are sold to out-of-state buyers. In general, if your dealership has a physical presence in a state, you have nexus there and must collect tax on vehicles sold to resident buyers.

You may also have nexus and, therefore, a requirement to collect and remit tax in states where new economic nexus standards based on gross sales are exceeded.

> *Once a dealership has nexus in a state, it may face many sales-and-use-tax-related questions.*

Once a dealership has nexus in a state, it may face many sales-and-use-tax-related questions, such as:

- Are options and accessories installed by the dealership taxable on the vehicle sale or as a separate sale made through the service department?
- Should sales tax be charged on service contracts, restocking fees and document preparation fees?
- Are supply charges in the parts and service department subject to sales tax?
- Are freight costs incurred to obtain parts and passed along to customers subject to sales tax as a sale of tangible personal property?
- Should sales tax be charged on factory warranties sold along with vehicles?
- Do trade allowances reduce the purchase price subject to sales tax?

The answers to these questions can vary from one state to the next. So, consult with your tax professional about the local sales and use tax rules that apply to your situation.

CONDUCTING A COMPLIANCE CHECKUP

Sales and use tax can be a complex topic, particularly if you sell to customers across state lines, use social media or advertise on the Internet. However, it's important to get it right — otherwise, you could be hit with an unexpected tax bill, as well as penalties and interest. Contact your tax advisor to conduct a nexus checkup to ensure you're complying with the relevant guidance.

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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.

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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- Cash management and LIFO accounting
- Internal controls and accounting systems
- 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.