

9th ANNUAL CFO/ CEO FORUM TO FOCUS ON FRAUD PREVENTION

Auto Team America will hold their 9th annual CFO/CEO forum on Friday, January 31, 2003, preceding the start of the NADA convention in San Francisco. The conference will be held from 3:00-5:30 p.m. at the Palace Hotel, with a cocktail reception immediately following sponsored by Comerica.

A panel of nationally recognized speakers has been selected to discuss fraud and the many ways you can prevent and mitigate its effect on your dealership. The panel of speakers includes:

- **Rob Bekken**, Esquire – Partner with Fisher and Phillips (employment law specialist and fraud expert)
- **Randy Beatty**, PHD – Dean of Leventhal School of Accounting, University of Southern California
- **Len Lyons**, JD, CFE – Director of Fraud and Special Investigations at Moss Adams LLP
- **Sandi Jerome**, CPA, Editor – Digital Dealer Magazine, and National Computer Consultant

Joe Moran – Sr. Vice President, National Dealer Services for Comerica Bank

Why focus on FRAUD?

Undetected fraud is common and may have painful consequences. There has been a significant increase in reports of fraud involved in dealerships throughout the United States. As a result, dealers are urged to focus on fraud prevention.

The CFO/CEO conference will feature experts on fraud investigation and prevention. The topics discussed will include common scams and fraud tricks, problem employees, employment screening practices, working with private investigators, prosecuting the perpetrators, and fraud prevention. In addition, Bob Zwiers, MST, will be presenting a Tax Update. He is the National Automobile Tax Executive for Crowe, Chizek and Company LLP and a former IRS Motor Vehicle Industry Specialist.

Attendees of the forum will include CFOs/CEOs of dealership groups, dealers and general managers, controllers and office managers, and related industries involved in dealership business management. To request an invitation to attend, please call your Auto Team America member firm.

eCOPS

eCOPS – ATA'S NEW CONSULTING TOOL

eCOPS—Electronic Control of Operating Procedures and Systems—is Auto Team America's newest consulting technology tool now available to dealers nationally. After dialing into your dealership's computer system, eCOPS scans thousands of transactions for unusual items, operational problems and messy accounting records. Unusual transactions, poor operating practices and areas for potential fraud will be identified.

Designed to do its work virtually undetected by your staff, eCOPS gives you results in a matter of days and can be run anytime with or without the knowledge of dealership personnel. Potential trouble spots can be detected before they become a problem.

eCOPS will identify voided documents, negative gross profit transactions, missing cash reports, unusual journal entries and unusual cash payments. The program is designed to help management analyze problems, opportunities and strengths in their store and to mitigate

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internal control weaknesses.

A quick and effective spot-check of the dealership transactions can be completed at anytime. There are 31 separate reports that can be generated at your request. Since the evaluation can be accomplished without on-site visits from our staff, eCOPS provides a powerful cost effective tool.

Auto Team America will showcase eCOPS at the 9th annual CFO/CEO forum on Friday, January 31, 2003 in San Francisco. For more information, contact your ATA member firm.

FOUR TAX STRATEGIES FOR 2002

Auto Dealers constantly struggle with maximizing profit and minimizing taxes. With continuous changes and complex tax laws, it is becoming more difficult to keep up with the latest tax deferral opportunities. You may want to consider the following four concepts to reduce 2002 taxable income:

Cost segregation is the allocation of commercial building construction or additions to proper depreciation lives for tax purposes. Buildings are typically depreciated over 39 years. Many components of a building can be depreciated over a shorter period. This allows a quicker and higher write-off for tax purposes, thus reducing taxes.

The savings to a dealer include accelerated depreciation deductions. On a \$1 million improvement to the dealership facility, the present value of the tax deductions



is typically \$75,000 to \$100,000.

The IRS has established strict rules and procedures to be eligible for shorter depreciation life. A cost segregation report needs to be prepared to support the allocation of cost for tax depreciation purposes in the year of construction. Cost segregation studies can also be made on pre-owned facilities as well as on facilities placed in service in prior tax years.

LIFO inventory valuation allows for a deduction that represents the increase in inflation in your inventory. This deduction is not recognized again as income until total inventory is liquidated upon sale of the dealership.

A typical LIFO deduction for new vehicle inventory of \$2 million at an inflation rate of 2 percent would be \$40,000. The benefit is compounded on an annual basis.

The costs of electing and maintaining LIFO include preparation of the initial election form, annual LIFO calculations and posting the LIFO deduction to your factory statement in December of each year.

Interest credits received from the factory are typically recognized as income as soon as they are received. Interest credit payments are

the same no matter how long a dealer holds a vehicle in inventory. These interest credits may represent payments for vehicles still in inventory at year-end. In essence, the dealer has overstated its taxable income for the year. You can elect to defer the interest credits related to the vehicles remaining in inventory.

For example, if your dealership averaged interest credits of \$300 per vehicle and the dealership had 500 vehicles in ending inventory, the potential reduction of taxable income would be \$150,000 for the year. The typical cost of implementing this idea includes preparation of the IRS Form 3115, the initial calculation of the deferral and annual calculations at the end of each tax year.

Advertising for new vehicles in the media may be paid by an auto dealer, the manufacturer, or an area advertising association. The manufacturers may establish a minimum assessment—e.g. 1% of the MSRP—that may be included in the base price of the vehicle or shown as a separate charge on the invoice. Because these advertising assessments are made on the vehicle invoice, many dealers include the assessments as a part of the inventory cost of the vehicle. The assessments are then deducted when the vehicle is sold. However, since the assessments are for advertising and not part of the cost of the vehicle, they may be treated as an expense. This applies to local and regional advertising only.

Dealers who have been treating these assessments as inventory cost may file a Form 3115 to obtain consent from the Commissioner to

change the method of accounting to expense the assessments.

Each year, many auto dealers miss out on allowable deductions and end up paying too much in taxes. **Stop by and visit us at Booth 1144 at the NADA Convention in San Francisco.** With some basic information about your dealership, we will calculate how much you can save by implementing these four concepts.



Tax Tip

Tax Planning in 2003 for 2002?

Yes, there are tax benefits for 2002 that dealers can apply for in 2003. The IRS allows dealers to change selective accounting methods until the due date, including extensions, for the 2002 tax return. You do this by filing a Form 3115.

Here are the areas where dealerships may save \$20,000 or more in taxes for 2002:

- Manufacturer interest assistance
- Uniform Capitalization (263A)
- Uniform Capitalization (263A) including qualifying payments to manufacturers for local and regional advertising
- Depreciation of dealership facilities (cost segregation study required)

All of these areas have one thing in common with the IRS. The IRS automatically approves these changes that benefit dealerships and there is no user fee for filing the Form 3115. Also, the adjustment for changing to a more favorable method is allowed as a deduction entirely in 2002. Dealerships can only profit by taking advantage of these benefits.