

ARE YOU READY? 10th ANNUAL CFO/ CEO FORUM

Auto Team America will hold their 10th annual CFO/CEO forum on Friday, January 30, 2004, preceding the start of the NADA convention in Las Vegas. The forum will be held from 2:00-5:00 p.m. at the Paris Hotel, with a cocktail reception immediately following sponsored by Comerica.

This year's theme is *Are You Ready?* The forum will focus on dealers' readiness for the ongoing relations with manufacturers, government and litigations. Speakers for this year's event include Jim Ziegler and Eric Chase, Esq. ATA is excited to have nationally renowned speakers this year to discuss current issues of the automotive retailing industry.

Jim Ziegler, President of Ziegler Supersystems in Duluth, Georgia, is a professional keynote speaker and seminar producer specializing in dealership networking, sales, and factory relations. He is the consummate executive management trainer and speaker. Not just a motivational speaker, Jim is a nationally recognized authority on entrepreneurial business, sales and marketing. His presentation always provides

a tremendous amount of current valuable information to the dealership community on the automotive industry.

Eric Chase, Esq. is a partner in the law firm of Bressler, Amery & Ross in Florham Park, New Jersey. A large part of his practice is devoted to the representation of automobile dealers nationwide. He writes and speaks frequently on matters of importance to the automotive retailing industry and is author of *Automobile Dealers & The Law: The Businessman's Desk Manual for Survival*. Eric's presentation will cover the top legal trends for automobile dealers in 2004. He'll also share his growing concerns with franchise relations and the escalation of consumer litigation.

In addition, **Marc Crumback** will be providing an update on the FTC Safeguards Rule. He is a partner at Beers & Cutler PLLC, an ATA member firm in Washington, DC. Marc will share the latest information concerning the FTC's audit activity. He will also provide an overview of the regulations and helpful guidance as dealerships are working hard to implement their own information security programs.

Attendees of the forum will include CFOs/CEOs of dealership groups, dealers and general managers, controllers and office managers, and related industry

associates involved in dealership business management. To request an invitation to attend, please contact your Auto Team America member.

NEW IRS RULING BENEFITS CUSTOMERS, DEALERS

The IRS has issued a new ruling that makes purchasing new assets very appealing to customers because it can significantly improve their cash flow through substantial tax savings. To benefit from this new law, customers must make their transaction after May 5, 2003, and before January 1, 2005. The resulting increase in sales volume should benefit dealers as well.

On May 23, 2003, Congress passed the *Jobs Growth Tax Reconciliation Act of 2003*. Part of this new law was designed to encourage customers to invest in equipment and vehicles used in commercial and agricultural applications. This includes trucks, pickups and SUVs over 6,000 pounds GVW used in a trade or business.

In a nutshell, the new ruling allows for customers to apply and benefit from three possible types of depreciation:

- **Expensing Provision and Triple Dipping Depreciation:** Section 179 allows the taxpayer to expense up to \$100,000 of the cost of tangible personal property placed in service in 2003. This is an increase from the old limit of



Some End of Year Help...

Another year-end is fast approaching. Contact your *Auto Team America* firm for a year-end preparation checklist to help make your year-end close as fast and efficiently as possible.

\$25,000. This deduction decreases dollar-for-dollar if the investment is more than \$400,000—an increase from the old \$200,000 limit.

• **Bonus Depreciation Allowance for Certain Property:** The additional first-year depreciation deduction, commonly known as “bonus depreciation”, is increased from 30 percent to 50 percent of the cost of qualifying property. Qualifying property is new property acquired after May 5, 2003, and before January 1, 2005. The depreciable cost of property is reduced by the bonus depreciation deduction.

• **Triple Dipping Depreciation (the third layer):** Regular depreciation becomes the triple dip. After you deduct Section 179 expense and the bonus depreciation, you are also allowed regular depreciation deductions.

Used equipment purchases do qualify for the increased expense election of up to \$100,000, but do not qualify for the 50% bonus.

The combination of these benefits can have a powerful, positive impact on the after-tax cash flows of customers. For example, a customer who purchased a new pickup in 2001 at a cost of \$38,000 who trades to a 2003 model and pays boot of \$14,500, may have an after-tax cost in 2003 of \$6,500.

For more information related to the new tax law, contact your local Auto Team America firm.

NEW YEAR'S RESOLUTIONS TO INCREASE PROFITABILITY

As we inch toward the New Year, you can look now for ways to increase profitability in 2004. With that in mind, here are a few proposed New Year's resolutions you can make to protect your investment in your dealerships.

Inventory. One of the most noticeable characteristics we have seen in dealerships with the highest profits is their *Days Supply of Inventory*. A good target for new vehicles should be less than 45 days. For used vehicles, 45 days is a good starting point, but really efficient dealers have managed to get this number closer to 30. The benefits from this include reduced floor plan costs, reduced commissions related to spiffs on older vehicles, and the ability to reinvest your cash many more times during the year as inventory turnover increases.

Cash Management. Idle cash is a source for additional profits. A quick way to see if you are taking full advantage of your cash position is to review a recent bank statement. What is your average daily balance? How much does it fluctuate during the month? If you find that you routinely have more than \$100,000 in your cash account, you may be able to invest that money elsewhere. You can set up an overnight sweep account. However, the best place to put your money is probably a floor plan offset account. This allows you to earn interest at your floor plan rate. Dealers, who effectively manage their cash, will increase their profits and reduce their floor plan expense.

Expense Control. While there are many expenses in a dealership, you can simplify this process by just focusing on the larger ones first, and then progressing to the smaller ones

later. I suggest you look at the 10 largest operating expenses for the past year. How much are they? Why are they so much? And most importantly, when is the last time we bid these items out to other vendors? Creating a competitive environment will reduce these expenses. Additionally, you should establish a budget for these key accounts at the beginning of each month.

Open Repair Orders. The issue here is how timely are your repair orders posted? How often are vehicles sold without all of the costs for those vehicles reported to the sales folks? Once the car is gone, it's too late and those profits are lost forever. Additionally, commissions may be overstated. Ensuring that your RO's are closed timely will increase your profitability. One quick way to review the status of your open RO's is to have your computer generate a report weekly, or even daily, of repair orders open in excess of 5 days. Your service managers should review this report several times during the course of the month to identify any stragglers and close out all open repair orders timely.

Warranty Receivables. Collecting warranty claims timely, and in their full amount, is a characteristic of a successful dealership. How many warranty claims do you have over 30 days at this point? A report should already be created in your computer that allows you to review, each week, the status of your open warranty claims. Any claims not collected within 30 days should be investigated. You can also review the warranty reject report provided by the manufacturer. It's very important that prompt action be taken to correct the problems and identify which part of the process is causing those problems so that they can be corrected in the future. The warranty claims administrator should be having regular meetings with the service department to ensure that all claims are properly

documented and paid promptly. Now is the time to begin planning your strategy for the next year. Hopefully these resolutions will lead you in the right direction towards increasing your profits and cash flow in 2004.

Contact your local ATA firm for assistance in preparing your strategies for the upcoming year.



Tax Tip

Customers Purchasing Hybrids Take Advantage of Tax Deductions

The original purchaser of a qualifying hybrid gas electric car may deduct \$2,000 on their tax return for the year the vehicle is first used.

Under current law, the clean-burning fuel deduction will be reduced incrementally until it expires beginning in 2007. Purchasers of IRS-certified cars will be able to claim a deduction of \$2,000 if the vehicle is placed in service on or before Dec. 31, 2003. The \$2,000 maximum deduction will be reduced by 25 percent for vehicles placed into service in 2004, by 50 percent in 2005 and by 75 percent in 2006. No deduction will be allowed for vehicles placed in service after Dec. 31, 2006.

Individuals take this benefit as an adjustment to income on their Form 1040. They do not have to itemize deductions on their tax returns to claim it. To claim the deduction, write “clean fuel” on Line 33 of the 2003 Form 1040. Also, see the Instructions for Form 1040.

The IRS previously certified the Toyota Prius for model years 2001, 2002 and 2003; the Honda Insight for model years 2000, 2001 and 2002; and the Honda Civic Hybrid for model year 2003.

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