Steering your dealership to higher profits

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The September statements we have seen produced excellent pre-tax profit results. September pre-tax profit margins were down slightly from August. May 2021 had the best pre-tax profit % of sales at 5.5%. This pre-tax profit margin has gone down slightly each month from the previous month since May.

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept
Pre-tax profit % Sales	2.4	2.8	4.9	4.5	5.5	5.4	5.3	4.7	4.5

September Monthly Profit Trends

	SEPTEMBER BETTER THAN AUGUST	SEPTEMBER WORSE THAN AUGUST	SEPTEMBER BEST MONTH - 2021	SEPTEMBER PROFIT 5% SALES MONTH
CHRYSLER	50%	50%	15%	45%
FORD	50%	50%	5%	45%
G.M.	50%	50%	5%	30%
IMPORTS	40%	60%	5%	65%
OVERALL	45%	55%	5%	50%

We've sent out a graph on the national new vehicle sales trends for the last several years (email us if you would like to receive this quarterly graph). The graph uses data from *Automotive News* and reflects the following: each quarter results are very close for 2017-2018-2019; 1st and 2nd quarter 2021 very close to 1st and 2nd quarter 2017-2018-2019; 4th quarter 2020 very close to 2017-2018-2019. We expect the 4th quarter of 2021 to be well below 2017-2018-2019-2020 quarters.

Expense Reductions

You might consider having someone at the dealership look into the following:
Review your cell phone bills for discounts and reduce features that are not being used. Often, having someone call your cell phone representative and ask for discounts or reductions of services where not needed will obtain reduced charges with no loss in service.

Review your I.T. invoices and contact your representative asking where you might have pricing reductions including unused services, features, etc. Many times you will obtain some price reductions.

"Success is not final; failure is not fatal: it is the courage to continue that counts."

- Winston Churchill

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LIFO Pickup

2021 is turning out to be a perfect storm for dealerships in terms of high profits and now significant new vehicle shortages which will likely cause large LIFO pickups. Many dealers are acting hastily and wanting to elect off of LIFO. In our opinion, this is very short sighted and will cost the dealership in the long run. This decision does not need to be made until the tax return is being filed. Because of that, we highly recommend consulting with advisors and do the math on the possible consequences of getting off LIFO and the possible future benefits of remaining on it. The remainder of this article on LIFO has some suggestions to assist in minimizing the negatives of LIFO.

Most dealers should remain on LIFO and there are things you can do to minimize these LIFO income tax consequences. One item to do is to hold off recording a new vehicle sale until all the paperwork is completed. You do not want to lose or violate the factory rules for incentives at the end of the year. Usually, year-end factory dealer incentives qualify if sold the first 2-3 work days of January. You need to read these factory programs and if the end of their program is the first 1-3 days or later in January, this can possibly allow you to enter these vehicle sales in the 2022 accounting year which will defer sales and new vehicle inventory reductions from 2021 to 2022. Your goal is to hold over until 2022 any vehicles that were "partially" sold in 2021 but where the new vehicle deal sale is not 100% "completed" in 2021. Just because the vehicle was delivered to the customer by midnight December 31, 2021 does not make it a 2021 deal. Some questions to ask about each deal:

Has the vehicle been delivered by midnight December 31, 2021?

Has the vehicle been paid for in full in 2021?

Have you received all the paperwork and it has been 100% completed in 2021?

Have you received in your possession the trade-in vehicle, if any?

Have you received in your possession the trade-in title?

If the sale is financed, do you have 100% approval with all requests satisfied and paid in 2021?

Other considerations to increase new vehicle inventory also include:

If you own more than one dealership and if one of the dealerships is not on new vehicle LIFO, you might have the LIFO dealership buy some new inventory from the non-LIFO store, pay for the vehicle in 2021 and move the vehicle to the dealership on LIFO in 2021.

Keep your accounting records open and book into 2021 accounting records any vehicles received in early 2022 that were invoiced with 2021 dates and/or arrived in early 2022 with 2021 build dates.

For some dealers that have been on LIFO for many years, it is possible one extra new vehicle purchased on 2021 accounting records with and invoice of $40,000 might reduce your income taxes by possibly $8,000. This why you should consider implementing the suggestions in this article.

Also, we have heard from some "advisors" to the auto industry about getting off of LIFO. For most dealers this is "bad" advice. **Stay on LIFO and maximize your 2021 end of year new vehicle inventory**.

Year End Income Tax Reductions Suggestions

You might consider performing the below suggestions by the end of 2021:

If your facility needs lot repairs that you plan to do in the next few months, why not make these repairs by the end of this year?

Consider painting the facility where it is needed.

Consider purchasing any needed equipment including lot lighting.

With respect to parts inventory, throw out any worthless parts inventory.

Review your fixed asset schedule for any items that are not fully depreciated that are gone or broken or have become worthless and write them off fully.

New and Used Inventory Physicals

It is becoming more common for our dealers to not perform their own new or used physical inventory or they are performing it incorrectly. The common response we hear is that their floorplan provider is doing the inventory. Keep in mind the floorplan provider is only checking their assets, they are not comparing to the dealership accounting schedules and they are not looking for vehicles that are not floored. Dealership vehicle physicals should ensure that all vehicles are accounted for and that the accounting department has properly relieved inventory when sold and that they have not stocked in “fake” vehicles to cover up theft or errors. If the dealership is only having their new or used car managers perform the physical, those individuals would be motivated to cut corners or not report missing vehicles. The accounting department should be involved with physicals throughout the year. In doing so, they should provide a lot attendant a list from their accounting schedules to make sure those vehicles really exist. A better idea, but more time-consuming way to perform the physical, would be to have the lot attendant write down all the VIN numbers on vehicles at lots / shops / etc., and then take that list and compare to their accounting schedules. The new and used managers should sign off on the completed physical to confirm the accounting department didn’t cut corners or list vehicles that are not really in inventory (i.e., office theft). By doing it this way, you ensure that the vehicles that were stocked into accounting inventory are actually there and that the accounting department doesn’t have any phantom vehicle stock (vehicles that don’t really exist or have been sold in the past and were never relieved from inventory).

Charging Stations and Solar Panels

With the move to more Electric Vehicles (EV), many dealerships are investing in charging stations and solar panels. We have seen where dealers are not putting the necessary thought into where they are putting these charging stations, finding the cheapest vendor to install them, or not considering the timing of the installation of either product from a tax perspective. Charging stations should likely be put into prominent locations at the dealership. Instead, many are “hiding” these stations to save money or because they don’t like the looks. As the industry moves to more electric vehicles, it could require those dealers to spend money to move those charging stations to areas where customers could use them. Vendors that are assisting you with these products should be knowledgeable in the tax credits (and related timing), the state and federal grants that exist, and best location for putting the charging stations. These products can help mitigate taxes (certain credits are starting to be phased out) and could be used as effective estate planning.

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