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HEADLIGHTS

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WHAT TO LOOK FOR WHEN BUYING A DEALERSHIP

Many dealerships, flush with cash accumulated over the past few years, are actively looking to purchase other dealership franchises. Dealership groups, both large and small, are generally in a strong cash position, which leads to considerable purchase opportunities.

Kenneth J. Gordon, CPA
Weisberg, Molé, Krantz & Goldfarb, LLP

What are some key considerations when a buyer targets a dealership for purchase?

✔ **Goodwill**—Obvious factors affecting a dealership's intangible value are location, market size, competition and the type of franchises you already own, in addition to understanding the intrinsic value of the specific target franchise. Large discrepancies in valuation multiples exist among different types of franchises. For example, according to the third quarter 2023 Blue Sky report from Kerrigan Advisors, Toyota franchises show, on average, a valuation of 7× earnings, while a Volkswagen or Buick store values at 3× earnings. It is also important to understand the current dealership's reputation within its local market. Service absorption is another important component of a dealer's profitability, so pay particular attention to an analysis of a dealer's fixed operations and vehicles in service.

✔ **Quality of Management**—An often overlooked aspect of many deals is the importance of assessing a target dealership's existing workforce. If the buyer is a local dealer group, they are more likely to have existing management team personnel and/or employees they can transfer to the new dealership. However, if the buyer is an outside dealer group expanding into a new market, they are likely to be more reliant on the target dealership's current employee base, especially its management

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SAFEGUARDING YOUR DEALERSHIP FROM FRAUD
THE NEW EMPLOYEE RETENTION CREDIT VOLUNTARY DISCLOSURE PROGRAM

team. Most purchasers believe they can improve on what the prior dealer has done. If that's the case, one should look carefully at what the current management team is doing or not doing. Are they the cause of laggard performance, or are there other factors?

✔ **Appraisal of Assets**—Aside from goodwill, what other business assets are you acquiring? Take an inventory of and value all fixed assets, including shop equipment, office equipment, computer hardware, dealer management system (DMS) compatibility and current contracts. Obtain a parts inventory appraisal, along with a valuation of any used vehicles purchased.

✔ **Economic Outlook**—This is a more subjective consideration and depends on the buyer's time frame. Consideration of a franchise's electric vehicle (EV) strategy is important. In the short term, for example, a purchaser of a Ford dealership may devalue the target based on the manufacturer's overweighting of EVs (evidenced by Ford backing away from their initial EV program). A longer term analysis may lead to a more optimistic conclusion on the future of the EV market.

✔ **Earnings Capacity**—Normalize the target dealership's earnings by subtracting expenses you expect will not be transferred to your new company, such as paying for two owners' salaries when only one owner will be on the new payroll, or adding expenses due to amortizing the cost of required facility upgrades for the new dealership. Also, look for signs of underperformance and envision how you as a purchasing dealer can improve earnings. An underperforming dealer located in a high-traffic metropolitan market may present more of an upside than the same type of dealer in a lower-traffic market.

It is important to work with qualified professionals to help you formulate a realistic projection of earnings when targeting a dealership for purchase. Your AutoCPAGroup member is available to provide guidance. ✍

SAFEGUARDING YOUR DEALERSHIP FROM FRAUD

Phillip Onkka, CPA
Brady Martz and Assoc., P.C.

Where did the cash go is a question often asked by dealership owners, but when there is no clear answer and the data indicates cash has vanished due to fraud, it's a dealership owner's worst nightmare.

Reviewing the internal control structure of a dealership is typically one of the last operational areas to be addressed when the dealership begins to implement an improvement plan for the upcoming year, if it's even discussed at all. Evaluating where and how fraud would occur at the dealership is unpleasant to talk about, and it's easier to avoid the topic altogether. However, not performing an honest assessment of where the dealership has weak internal controls can leave the dealership susceptible to fraud and, in the worst cases, can lead to financial losses, legal implications and damage to the dealership's reputation.

We often hear the phrase from owners that fraud could never happen at their dealership. Typically, the dealership believes they are immune to fraud because they aren't big enough or they believe the controls they have in place will detect and stop the fraud before it gets started. According to the Association of Certified Fraud Examiners' (ACFE) most recent *Report to the Nations on Occupational Fraud*, organizations with fewer than 100 employees are actually more likely to experience fraud. The average fraud case causes a loss of $8,000 per month and occurs 12 months before it is detected by the organization.

Another stated reason for why fraud wouldn't happen at the dealership is that long-term employees can be fully trusted. The ACFE's report found that employees employed for >10 years are actually 3× more likely to commit fraud, more likely to collude with other employees and take longer to catch.

If these sound like some reasons why you believe you are protected from fraud, it's likely an indication that the dealership could benefit from investing time and effort into re-examining and strengthening their internal control structure. A proactive approach is a preventative measure that can save the dealership from larger issues in the long run.

Some examples of basic controls that increase the segregation of duties at the dealership without adding excessive time and effort include:

✔ Require that reconciliations are performed by an employee independent of the department being reconciled.

✔ Reconcile the bank and floor plan statements monthly and have a second employee review the reconciliation.

✔ The owner or general manager has access to the bank and line of credit statements and regularly reviews the completed bank reconciliation.

✔ Assign collection responsibility of accounts receivable to an employee independent of the sales process.

✔ Review the vendor listing for unauthorized vendors and require new vendors to be approved by the general manager.

✔ An employee independent of the payroll process compares the number of employees to the number of checks/direct deposits issued each payroll run.

An AutoCPAGroup member can assist with your review of your internal control structure and recommend controls that can be enhanced or implemented to better prevent your dealership from suffering fraud. ✍

THE NEW EMPLOYEE RETENTION CREDIT VOLUNTARY DISCLOSURE PROGRAM

Megan Condon, CPA
BDO USA, LLP

The Employee Retention Tax Credit (ERTC) has become a four-letter word in the eyes of the IRS. While this program is a legitimate tax credit made available under the CARES Act passed in March 2020, many promoters have aggressively targeted businesses, encouraging them to apply for significant credits they may not actually be entitled to under the program's provisions. The IRS and other various organizations have warned employers to be mindful when engaging these third parties, many of them commission-based in calculating this credit. The ERTC goal was to help cover employee compensation expenses when business operations were either fully or partially suspended due to government orders related to COVID-19 pandemic or they experienced a significant decrease in gross receipts for periods covered.

News of these promoters' abusive positions has hit the IRS's radar, resulting in an increased level of skepticism and scrutiny as to the validity of taxpayers' claims. On September 14, 2023, the IRS announced a moratorium on processing any new ERTC claims to allow additional safeguards to protect the program integrity. As of the date of this article, that moratorium is still in place.

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On December 21, 2023, the IRS unveiled the Employee Retention Credit Voluntary Disclosure Program (ERC-VDP) to provide a way for employers to self-identify and correct any errors or omissions related to the ERTC without penalties or enforcement actions by voluntarily repaying the credits at a discounted rate. It's important for employers to understand the specific eligibility criteria and requirements of the ERC-VDP to participate and benefit from the program.

Employers are eligible to apply for the ERC-VDP for each tax period by meeting all of the following requirements:

1. Your ERTC claimed on an employment tax return has been processed and paid as a refund you have cashed or deposited, or paid as a credit applied to the tax period or another tax period.

2. You think you are entitled to $0 ERTC.

3. You are not under employment tax examination by the IRS.

4. You are not under criminal investigation by the IRS.

5. The IRS has not reversed or indicated an intent to reverse your ERTC to $0, say, through a letter or notice from the IRS disallowing your ERTC.

Eligible employers who choose to participate in this program will be required to complete the ERC-VDP application, Form 15434, and submit the application no later than March 22, 2024. They will also be required to pay back the entire ERTC received minus 20% via the Electronic Federal Tax Payment System (EFTPS). Participants will not be subject to an employment tax audit for ERTC matters resolved within the terms of this program. Additionally, a taxpayer will not have to repay any interest paid with the original ERTC refund. Interest and penalties will not apply to your ERC-VDP liability if full payment is received by the time you submit your signed ERC-VDP closing agreement. Installment agreements will be approved by the IRS on a case-by-case basis.

If a taxpayer has determined they did not qualify for the ERTC and has not yet received a payment, or has received a payment but hasn't cashed or deposited it, they can still withdraw their claim. The steps to withdrawing a claim differ depending on whether you have received a payment or been notified your claim is under audit.

Your AutoCPAGroup member can help determine whether you did qualify for your submitted ERTC claims. If you have concerns about the validity of your claims, the good news is that you now have options to right the wrong. ✍

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