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HEADLIGHTS

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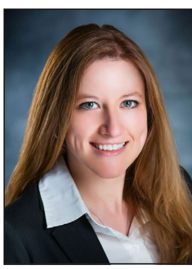
PARTS INVENTORY MANAGEMENT BEST PRACTICES

The parts department affects every other department in the dealership. By adhering to industry "best practices" regarding the management of parts inventory, you can greatly improve your inventory performance and increase your return on investment. Below are a few best practices we have observed in profitable, well-run parts departments:



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✔ **Accuracy of parts inventory:** While it may seem obvious, it is worth pointing out that inventory accuracy is crucial for proper management. Physical inventories and reconciliations must be performed regularly to maintain accuracy.

Annual physical inventory: Use an outside parts inventory company, one that knows your dealership management system (DMS). The physical inventory can be performed any time during the year, but a reconciliation to the general ledger must be performed immediately after the completion of the physical inventory. The parts manager and office manager must work together to determine the cause of any significant variances.

Monthly inventory reconciliations: While a physical inventory only needs to be performed annually, the reconciliation of the inventory value per the parts pad to the inventory value per the general ledger should be performed monthly. If performed properly, the reconciliation identifies causes for variances on a timely basis and results in curtailing losses due to procedural errors and/or mismanagement of the inventory.

Daily or weekly bin counts: The bin counts should be performed by the parts department staff. The parts manager should assign rotating

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responsibilities for different areas to each person. Count sheets should be returned to the parts manager who then investigates and verifies any adjustments, including the cause of any significant variances. Bin checks improve the accuracy of the parts system inventory and are a critical component to minimize stock-outs and loss.

✔ **Equip the parts manager**: Just as your technicians need consistent training and essential tools, your parts manager needs proper training and resources.

Training: Most dealers diligently provide training to Finance and Insurance (F&I) and sales departments but lag in training their parts managers. If your parts manager has not obtained a Parts Management Certificate through NADA Academy, consider requiring them to complete the course.

Make certain your parts manager knows the manufacturer's return policy and understands the DMS reports so he/she can maximize returns and minimize purchases of nonstock parts. Your parts manager should understand key performance indicators, such as true turnover and fill rate, and how to review their phase-in and phase-out criteria and adjust them as needed.

Resources: Technologies have opened new avenues for both buying and selling parts. Consider enrolling in a program that provides access to a virtual network of manufacturer dealers if you have not done so already. A virtual network gives you a larger pool of buyers for selling parts and another resource for buying a particular part. You may also consider working with a parts broker to move obsolete parts rather than spending valuable employee time listing them on eBay. Of course, you must establish controls over the parts listed with a broker just the same as if you allowed your parts manager to sell parts on eBay.

Parts inventories are a cash investment for the dealership. Discuss and implement these best practices with your parts manager to maximize your return on investment in the parts inventory. Contact your AutoCPAGroup member to discuss these best practices. ✍

NEW CLEAN VEHICLE CREDITS— INFLATION REDUCTION ACT

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The Inflation Reduction Act of 2022 brought us the New Clean Vehicle Credit, which shows some significant changes from prior electric vehicle (EV)-related legislation. The IRS published guidance on this credit on April 17, 2023.

How much is the credit?

The combined maximum total credit is $7500, consisting of two parts:

1. Critical minerals: A $3750 credit applies to a qualified vehicle that satisfies a domestic test for critical minerals in the battery. A set percentage of the minerals must be sourced from the United States, and that percentage increases every year.

2. Battery components: If the vehicle satisfies a domestic content test for battery components, a $3750 credit applies.

In addition to these rules, some transition rules apply for vehicles placed in service or taken possession of before April 17, 2023. Under these transition rules, the credit amount is calculated as it was for vehicles placed in service before 2023.

Who qualifies for a credit?

Taxpayers with a modified adjusted gross income (MAGI) of less than

✔ $300,000 for married couples filing jointly

✔ $225,000 for heads of household

✔ $150,000 for other taxpayers

This MAGI limitation applies to individuals as well as owners of flow-through entities claiming the credit, such as partnerships and S corporations.

Which vehicles qualify for a credit?

Final assembly must be in North America, and the vehicle must be powered by an electric motor with a battery capacity of 7 kilowatt hours or more. A complete list of qualified vehicles is available on https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after.

Price limitation: The MSRP must be less than

✔ $80,000 for a van, SUV or truck

✔ $55,000 all other vehicles

These IRS classifications of car or SUVs related to EV credits may not align with the marketing of vehicles. For instance, the Ford Mustang Mach-E falls under the van, SUV or truck category, and has an MSRP limit of $80,000. Go to https://fueleconomy.gov/feg/tax2023.shtml for a complete list of qualifying vehicles and the MSRP limits.

Dealer reporting requirements: A report must be given to the buyer at the time of sale and the IRS by January 15th of the following year with the following information:

✔ Seller/dealer name and taxpayer ID number

✔ Buyer's name and taxpayer ID number

✔ Maximum credit allowable under IRC 30D for new vehicles or IRC 25E for previously owned vehicles

✔ Vehicle identification number (VIN), unless the vehicle is not assigned one

✔ Battery capacity

✔ Date of sale

✔ Sale price

✔ For new vehicles, verification that the buyer is the original user

Each report must include a declaration of accuracy signed by a representative of your business with binding authority. The declaration must read: "Under penalties of perjury, I declare that I have examined this report submitted to the IRS pursuant to Revenue Procedure 2022-42 by [insert name of Seller], and to the best of my knowledge and belief, I certify that this report is true, correct, and complete."

With the increased EV availability, dealers need to be aware of the myriad requirements in selling EVs to customers. To better understand these requirements, as well as proper reporting, contact your AutoCPAGroup member. ✍

KNOW THE FACTS ON REPORTING CASH PAYMENTS OVER $10,000

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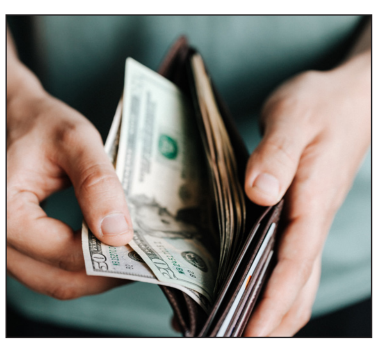
The IRS requires retailers of consumer durables to report transactions where $10,000 or more in cash is received as payment, in a single transaction or in related transactions, on Form 8300, a joint form issued by the IRS and the Financial Crimes Enforcement Network (FinCEN). The government uses this form to track individuals who evade taxes and those who profit from criminal activities.



Penalties assessed for failure to file Form 8300 can be substantial, especially if the failure is deemed to be an intentional disregard of the requirement to file.

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More than just currency can trigger a reportable transaction, and often employees do not realize a reportable transaction has occurred. Commonly overlooked transactions are those involving cashier's checks or money orders of less than $10,000 which, when combined with cash paid, exceed the reporting threshold.

What qualifies as a reportable transaction?

Any transaction or series of related transactions of $10,000 or more in any combinations of the following forms:

- ✔ Currency or coin
- ✔ Cashier's check
- ✔ Money order
- ✔ Traveler's check
- ✔ Bank draft

Checks drawn on the buyer's personal or business account are not included in this requirement. Cashier's checks, money orders and bank drafts are not included if they are conveying proceeds of a bank loan.

When more than one cash payment is received for a single transaction or for related transactions, the multiple payments must be reported any time a total amount exceeding $10,000 is received within any 12-month period.

Cash reporting audits are common and increase every year. It is of utmost importance that dealerships continuously review their cash reporting process to ensure adequacy and adherence on an ongoing basis. Documenting form of payment as a required part of your routine paperwork is a great way to be sure you don't risk fines and penalties for violation of reporting requirements.

Each year, it is important to give your employees a refresher on the requirements. Also, be sure throughout the year that new employees are informed of these rules. All employees handling cash in your dealership should be thoroughly trained and sign an acknowledgement of such training. They must understand the reporting requirements and be able to identify reportable transactions. No employee should instruct buyers or potential buyers how to avoid cash reporting requirements. Such coaching can subject both the dealership and the employee to substantial fines.

Make sure your employees know the cash reporting requirements and can identify reportable transactions in your dealership. Contact your **AutoCPAGroup** member for further assistance and guidance with this important issue. ✍