



## Current Developments in Retail Warranty Reimbursement



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Dealers have come a long way from the days when they accepted manufacturer-set warranty reimbursement rates at amounts well below their customer pay retail rates for parts and labor. As of July 1, 2025 (after legislation passed by Wyoming), all 50 states now mandate that OEMs pay retail warranty reimbursement to dealers. Many dealers, if not most, rely on state law to challenge manufacturers' set warranty parts markup and labor rates to obtain reimbursement based on true retail markup on warranty parts and true retail rate for warranty labor, both of which can lead to a significant increase in profit from fixed operations.

Recent developments can aid dealers in obtaining enhanced retail reimbursement. Some of the recent changes and trends:

**Removal of the 'reasonableness' standard:** Currently, 28 states have statutes that allow the OEM to apply a standard for reimbursement based on select language termed "reasonableness." Since state law overrides the dealer agreement, this has in practice allowed OEMs in those states to often approve parts markups and labor rate reimbursements only at below-retail rates. Some state's statutes – 22 – do not include the term "reasonableness," making it less likely that a manufacturer will challenge a dealer's request to be paid full retail, provided that the dealer complies with state law and manufacturer protocols. The trend in the 28 other "reasonableness" states, is for dealers,

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working with their consultants and state and local dealer associations, to lobby these states to remove this limiting language from their state statutes. Some states, such as New Jersey, effective April 1, 2026, have recently enacted legislation to drop the "reasonableness" provision. Dealers would be wise to work with their CPA-advisor and outside consultants on a state-by-state basis to monitor this for available opportunities.

**Using a state's "zero-cost parts provision" to apply retail parts reimbursement to ALL parts:**

A common practice among manufacturers is to provide parts, typically high-end items, to dealers at zero cost or on an exchange basis. While the dealer may initially view this as beneficial to the dealership, a closer look is warranted. Instead of reimbursing the dealer for the mandated parts markup on these items, the manufacturer pays a small handling fee, which typically ranges between \$25-\$450. Using a car radio as an example, one can calculate the lost profit on receiving a "zero-cost part" without the usual parts markup:

<b>Cost of part</b>	<b>\$ 995</b>
<b>Average mark-up</b>	<b>80%</b>
<b>Sale price</b>	<b>\$1,791</b>
<b>Gross profit</b>	<b>\$ 796</b>
<b>Est. handling fee reimbursement</b>	<b>\$ 250</b>
<b>Benefit using full retail markup</b>	<b>\$ 546</b>

Currently, 32 states mandate **both** warranty parts reimbursement at retail rate **and** have a specific zero-cost provision which requires a manufacturer to compensate for **all** parts at retail markup. Whether or not a specific state has a zero-cost provision, dealers can take the logical position that they are entitled to reimbursement at retail markup based on the cost of a part as listed in their manufacturer's price schedule.

For dealers in the 32 states, the decision whether or not to take advantage of this reimbursement mandate depends on many factors, such as which state they are in. They also need to consider how the claim is characterized by the manufacturer, which may have a negative impact on their warranty expense report and ultimately lead to an audit.

## How does the new AGI reduction for charitable contributions impact giving?

A major tax change is coming for anyone who donates to charity: Starting in 2026, the One Big Beautiful Bill Act (OBBA) will slightly limit how much of your annual charitable giving you can deduct on your tax return.

The good news: Your generosity will still make a difference — and it can still help reduce your taxes. But you'll want to understand how a new "floor" based on your adjusted gross income (AGI) could affect your deduction.

### What's changing?

Right now, if you itemize deductions, you can generally deduct all your charitable contributions (within certain AGI limits). Starting with **tax years after December 31, 2025**, that won't be the case.

Under the OBBBA, you'll only be able to deduct the portion of your charitable gifts that **exceeds 0.5% of your AGI**.

**Example:** If your AGI is \$200,000, the first \$1,000 of your charitable donations won't count toward your itemized deductions. Anything you give beyond that will remain deductible, up to the existing AGI limits for charitable contributions.

### How does the new 0.5% AGI "floor" work for charitable contributions?

Think of the 0.5% rule as a threshold you must clear before deductions kick in. A few quick facts:

- It applies to all charitable gifts, regardless of the type of donation or nonprofit recipient.
- The floor is calculated after applying the usual AGI-based limits (such as the 60% limit for cash gifts to public charities).
- If your giving exceeds the allowable deduction limit for the year, you can still carry forward the excess for up to five years — but the portion disallowed by this new 0.5% floor generally can't be carried forward unless you already have a carryover from the current year.

**Example:** With an AGI of \$100,000 and \$10,000 in charitable donations, the first \$500 won't be deductible. You'd still be able to deduct the remaining \$9,500, as long as you stay within your annual AGI percentage limit.

Current developments in the retail warranty reimbursement space favor dealers. Many dealers work with outside consultants, such as Armatus, to check their state statutes for potential favorable changes and guide them through the retail submission process which can ultimately increase their gross profit.

Consult with your **AutoCPAGroup** member to take advantage of current trends based on recent favorable changes in state statutes. ¶

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### What are some other key details?

-The 60% AGI limit for cash gifts to public charities is now permanent, but the 0.5% floor applies first.

-The change does not affect the above-the-line charitable deduction for taxpayers who don't itemize — which increases to \$1,000 for single filers and \$2,000 for joint filers starting in 2026.

-Corporations will also see a similar adjustment: a 1% floor based on taxable income.

### How can I make the most of my charitable giving under the new rules?

**-Consider timing and bunching:** Combining multiple years of gifts into one tax year could help you exceed both the standard deduction and the 0.5% floor.

**-Match giving to income:** Large charitable gifts can be especially beneficial in higher-income years.

**-Review your strategy now:** If you have charitable carryforwards or are planning significant donations, it's worth reviewing your plan with your tax advisor before these changes take effect.

**-Non-itemizers still benefit:** Even if you take the standard deduction, the expanded above-the-line charitable deduction can still reward your generosity. (This deduction excludes donor-advised fund (DAF) contributions).

### Bottom line

Beginning in 2026, only the portion of your charitable donations above 0.5% of your AGI will reduce your taxable income if you itemize. While that's a relatively small shift, it could influence when — and how — you make your charitable gifts.

If you would like to review your charitable giving strategy or discuss how this change may affect your 2026 return, please contact your **AutoCPAGroup** member so we can develop a strategy that aligns with your philanthropic and tax goals. ¶

## Designing a Performance Based Pay Plan

When designing a Performance Based Pay Plan, there are a number of considerations that should be taken to maximize the impact of the plan design. These include the following:

### **Simplicity in Design**

Keep the design as simple as possible. The more complex the design, the less likely the chance of its impact. Ask the individual(s) for whom the plan is designed about their understanding of the design. If they are unable to effectively communicate their understanding, its impact will, more than likely, be diminished significantly.

### **Specificity in Design**

Be specific in the design. Ambiguity leads to interpretation and interpretation leads to misunderstandings. Ambiguity is often associated with complexity in design of the plan. The greater the complexity, the greater the ambiguity. But ambiguity can also be generated even if there is simplicity in design. Simply put, leave no room for interpretation in the plan design and its specific variables.

### **Simplicity in Measurability**

Design the plan so that the specific plan variables can be easily measured. This is important to both the dealership and the plan benefactor. Effectiveness of the design measurability is maximized when the benefactor can easily and timely measure his or her performance.

### **Building Variables into the Plan**

When designing the plan, focus can be placed on any variable that the dealership management team deems important to success. Provided the plan is simplistic and specific in design, the variables deemed important to management are unlimited. I have seen sincere ingenuity and creativity in plan variables. Accordingly, do not be afraid to build any variable into the design if that variable can have a positive impact on the dealership.

### **Reward True Exceptional Performance**

When designing the plan, do so in a manner that rewards exceptional performance. Build variables in the plan that significantly reward performance that is considered exceptional, but keep in mind that these variables must be obtainable. If the dealership management consideration of exceptional performance is so far-fetched that the dealership team deems it to be unobtainable, it will have no impact. Build the plan so that average performance equates to average pay, and exceptional performance equates to an amount that reflects reward for that performance. If there is insignificant



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compensation difference in exceptional performance and average performance, where is there true incentive to be exceptional?

### **Dealership Parameters**

Rewarding exceptional performance will impact the dealership compensation measuring variables. It may have the impact of pushing compensation past the dealership guidelines. This can be expected, but build the plan so that performance rewards do not too significantly impact the dealership guidelines. If this occurs, the dealership management may want to re-evaluate what is considered average performance vs. exceptional performance.

The considerations above are important components in the design of performance-based pay plans, but there may be others that will be unique to a dealership management team. Accordingly, take time to design the plan in a manner that facilitates the unique environment of each dealership management team.

If you need assistance with any pay plan design, please contact a member of the **AutoCPAGroup** for assistance. ¶

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