



A cold winter, a colder spring for Dealers?

Fall is here and winter is fast approaching. We cast the pumpkins in the trash along with our Cash for Clunkers banners and are wondering what will happen in the near future. From a technical perspective we are probably at the bottom or just barely coming out of this economic abyss, but what does that mean?

November is always a special time for me. I get to hear from many friends that I haven't heard from all year, and we get to talk about what their taxes will be in March. In reality I try to talk to all my clients year round, but let's go with the stereo type. Think about the end of year conversation that you have all had and will have.

I'm sure you all know much of this, but maybe not.

1. Are your pack accounts reconciled? Yes, check, done no issues there.
2. Are all of your property accounts tied out and adjusted? Yes, check, you get a star!
3. Have you looked at your overall expense structure? Of course, what do you think I have been doing all year?
4. Have you determined a ballpark figure for your bonus this year? Yes, zero.
5. I know it is probably low, but what is your inventory looking like? Well it is down to about a third of what it was last year.
6. So you are ready to take about two thirds of your LIFO reserve into income? NO! John you're crazy. I have a loss, how can I possibly owe taxes!

No I'm not crazy, this is reality. The odds are if you have been on LIFO and are sitting on a significantly lower inventory, you will have a problem come March 15th.

How did this happen? This all started many years ago when you heard about an inventory method that you could elect and it would save you taxes. It is kind of correct in that it saved you taxes back in 1995, but what really happened is it deferred these taxes to future years like 2009. Now I know that a nice sterile definition is great and technically correct, but that has nothing to do with the current reality of what is happening right now in your dealership. Simply put, the cash is not there and paying a large tax bill just isn't fair or possible.

So what can you do? There are several ways to mitigate the absorption (paying) of the reserve. Increasing inventory and changing methods are two areas you need to look at. This has to be addressed sooner, not later. Right now you can do something about it. In January it will be too late and then I promise you will have a bad March regardless of your sales. So as you read this article, pull out your rolodex, ask your secretary, or pull out the phone book and call your accountant to talk about this now.

Spring is coming.