

Benefits of Year-Round Financial Planning

Don't rush into the same financial and tax planning mistakes next year. Here are six planning pitfalls to avoid.

By Brad Stanek, CFP®, Financial Advisor

Key Takeaways

- Too many dealerships try to crunch an entire year's worth of planning into the month of December. Proper planning should be a multi-year exercise.
- Take advantage of every opportunity you can - while still available. Your competitors certainly do.
- LIFO, ERTC and QBI should be familiar terms to you and your tax advisors.
- Make sure you're working with a trusted accounting professional who is familiar with the many specific provisions related to dealerships.

We've had a great run over the past few years and many of you have accumulated substantial wealth. However, we're seeing a litany of potential changes coming down the highway that could have a big impact on your financial future. Over my career, I've found it's not about how tough the challenges are; it's what you do about them that matters.

To paraphrase Jack Welch: *"Great leaders have the ability to see around the corners."*

TAX RATES EVENTUALLY WILL GO UP. WE JUST DON'T KNOW WHEN

As my colleague **Steven Blake, Principal of CBIZ Somerset CPAs**, observed on a webinar we did together, that tax rates will likely go up to help the government pay for its prolific pandemic relief program. Why not start your tax planning now so you don't get caught off-guard? The assumptions about higher rates can be adjusted in the tax projections you complete with your accountant. Tax planning should be a multi-year exercise, not a last-minute fire drill.

BIGGEST PLANNING MISTAKES AND LOST OPPORTUNITIES

1. Not Working with CPAs Well-Versed in the RV Industry. One thing that always surprises me is that many dealers, even very large ones, don't use accountants with many RV dealership clients. There are very narrow provisions related to various industries. Auto dealers have a very strong lobbying group in Washington, D.C. and many of the provisions they've garnered for members also apply to RV dealers. According to **Jane Saxon, Principal of CBIZ Somerset CPAs**, who recently joined my webinar, make sure you're working with a CPA who is familiar with the many specific provisions related to dealerships such as proper inclusion (or exclusion) of Section 263A related to capitalizing your inventory or specific parts of your inventory. As fellow webinar panelist **Jane** explained: "this does not typically apply to dealerships unless you have offsite storage, or someone who is specifically devoted full-time to the purchasing of inventory. We see many dealers exclude inventory as an area of expense."

2. Not Using the LIFO (Last In First Out) Method of Valuing Inventory. I have found that one-third of dealers I work with are not familiar with LIFO. According to Jane Saxon, that's a potentially large tax savings opportunity, since LIFO can be a very effective method for reducing taxable income during inflationary periods because it raises your cost of goods sold.

As Saxon explained, LIFO method assumes that the last unit to arrive in inventory or more recent is sold first, compared to FIFO (First In First Out) which assumes that the oldest unit of inventory is the sold "That creates a deduction in that year – i.e., a LIFO reserve – that represents the difference between the true cost of that inventory and the LIFO cost of that inventory. The increase in that reserve is what gives you a deduction that year," added Saxon.

3. Not Reviewing your Business Structure. We often see dealerships structured as flow-through entities not taking full advantage of the Qualified Business Income (QBI) deduction on their taxes. "Just remember that QBI applies to all the businesses you own, how each one is structured and how it interacts your other businesses to maximize the QBI deduction", advised Blake. He said there are certain limitations based on wages, etc. "You want to make sure you're putting the right money in the right business in the right place under the right people in order to maximize those limitations and get the full deduction," said Blake.

4. Not Taking Advantage of the Employee Retention Tax Credit. ERTC (aka ERC) was introduced as part of the pandemic relief program to encourage businesses to keep as many workers as possible on their payroll. Many dealers (and sometimes their CPAs) tell me they don't qualify for ERTC because they're still going off the old standards rather than the new standards. What many dealers overlooked is that they can still take advantage of the ERTC credit, even if they obtained a PPP loan. You just cannot apply the ERTC to the same wages you used for PPP forgiveness.

Saxon said there's a little-known provision of the ERTC credit that says if your business was impacted by supply chain interruption, either directly or indirectly, or by COVID protocol relating to how you served your customers, how you operated in your service department or how your employees were able (or not able) to interact with each other on-site, you can qualify for the ERTC credit. "It can be a substantial savings – over \$26,000 per employee over the 2020 – 2021 period refunded back to you," added Saxon. Blake said over 80% of the dealers they work with meet the ERTC requirements and it's not uncommon for the savings to amount to high six-figures or even low seven figures.

Saxon said it's very important for your CPA to work with firms that specialize in doing ERTC and other types of tax credit studies. "These aren't simple calculations you do based on revenue reduction or wages," said Saxon. "It's a true 'facts and circumstances' test that's unique to each dealership. You need to tie back your specific circumstance to a government mandate and how your business was impacted by that mandate." Very few accounting firms have that kind of expertise in-house.

According to Saxon, it's very important that you have the correct substantiation, that you are certain you are following the guidelines to qualify, and that you prepare the work and the substantiation behind the scenes to qualify for these credits. Trust taxes (i.e., sale tax, income tax withholding and employer tax) carry a higher liability than income taxes do. You need to get those right, said Saxon. As a further incentive, tax credit specialists usually work on contingency. That means you don't have to pay them for a study unless (and until) you receive a refund. There's no risk or out of pocket cost to explore credits such as ERTC.

5. Year-End Tax Planning Fire Drill. I still see many dealerships trying to crunch their entire yearly tax planning into December. That forces you to make quick decisions and limits you only to strategies that can be implemented in less than 30 days. As a result, lots of great tax savings opportunities get missed. For example, many dealers rush to buy equipment before year end so they can depreciate it. Maybe they need the equipment; maybe they don't. It's an inefficient use of capital when you do everything last minute.

Also, dealers often do their planning only one year at a time. If you're only planning one year at a time, you're not factoring in whether you'll be in a higher tax bracket or lower tax bracket. If you expect taxes to be higher next year, you might want to delay taking the tax deductions you originally planned for this year, into the following year or two. Having your CPA prepare multiple year projections is critical.

In my next article I'll cover:

- Ways to work more efficiently with your CFP and CPA when it comes to planning.
- Maximizing income, normalizing expenses, and minimizing taxes in the year of sale.
- Optimizing your after-tax "walk away" money post-sale.
- Leveraging risk protections strategies for your dealership, like captive insurance strategies.
- How the 2026 sunset provisions may impact your wealth plan

Conclusion

We have helped many of your RVDA peers with what we call the [Second Opinion Service](#). Take a moment to review it and let me know what you think.

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CRC 3907874 10/24

