

## BHPH CORNER

PRESENTED BY:

**KATZ, SAPPER & MILLER**  
Certified Public Accountants

### *2011 National Conference for Buy Here Pay Here*

Katz, Sapper & Miller recently had the opportunity to sponsor and present at the thirteenth annual National Conference for Buy Here Pay Here (NABD). We enjoyed the chance to see our clients and contacts in the industry from all over the country. The following is a brief summary of some of the highlights and topics discussed at this year's conference:

#### Operational Highlights

Dealers continue to face a shortage of used vehicles and increasing costs. In response to this challenge, many dealers have turned to alternative channels for acquiring inventory, such as eBay or other private party avenues.

- Charge off and delinquency rates continue to improve. This is attributable to an increased focus on the "blocking and tackling" of the BHPH business model; stronger underwriting and improved collection efforts. In addition, many dealers have adopted the mindset that - if it is more difficult to acquire the right kind of cars....I am going to devote available inventory to the highest quality customer possible.
- The use of GPS and starter interruption devices continues to be a hot topic as more products enter the marketplace and they continue to become more affordable. In general, the use of these products and opinions of their effectiveness varied. Dealers consider key variables such as their customer base demographics, geographic location and overall business model to determine if these products will help improve their bottom line.
- The topic of Lease Here Pay Here (LHPH) was not quite as hot this year, but dealers continue to evaluate it. While there are significant tax benefits to an LHPH model, there are many financial reporting, insurance and liability issues that need to be addressed.
- Given the popularity of social media, many dealers are exploring the use of Facebook or Twitter to promote their brand and connect with existing and potential customers.

#### Regulatory Issues

- The BHPH industry is facing a serious regulatory challenge with the passage of the Dodd-Frank Act and the creation of the Consumer Financial Protection Bureau. It appears likely that the BHPH industry will be targeted as part of the Bureau's efforts to protect consumers from predatory lending. While nobody knows for sure what this will mean, the possibilities include interest rate caps, limiting gross profit on sales, and other regulatory changes that could pose a serious threat to the BHPH industry.
- The consensus at the conference was that the BHPH industry needs to organize a coalition to educate the public and government to ensure the agency realizes that the BHPH industry is actually helping consumers by providing them with the transportation and opportunity to rebuild credit. Over-regulating the industry could actually have the adverse effect of harming consumers if not handled appropriately.

#### Tax Matters

- Related Finance Companies (RFC's) were the main topic of discussion at the tax and accounting panel. If structured and managed properly, the use of an RFC can provide both business and tax advantages. A dealership that sells its loans to an RFC at fair market value is allowed to deduct a loss in the year of sale. This allows the dealership to avoid paying tax in the year of sale on that portion of the contract they will likely not collect. Without the use of an RFC, bad debt deductions are not allowed until the year the loan is actually charged off. Accelerating the timing of this deduction helps limit tax liabilities and preserve cash flow.
- The IRS has established a specific audit guide which contains criteria used to determine the overall validity of an RFC as well as the determination of fair market value of loans transferred. Special care should be taken to ensure your RFC meets these criteria.



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- Dealers continue to explore opportunities to establish their own insurance companies or re-insurance companies to administer extended warranties, collateral protection insurance, or other F&I products. This structure can provide significant tax advantages as well as estate planning opportunities. The dealer can accumulate cash in this separate insurance entity and receive capital gain tax treatment on distributions. This also provides a means to transfer wealth out of the dealership and into another entity which can lead to estate and gift planning opportunities.

To further discuss any of the items above or learn more about how Katz, Sapper & Miller can help your dealership, please contact Jeff Taylor at 317-580-2014. ♦

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