Carfax getting ducks in a row—again

Supporters of Carfax reportedly will seek to reintroduce legislation to make available any accident reports related to a vehicle offered for sale in Illinois, when the Illinois General Assembly returns to work in January.

Similar bills stalled last spring (Senate Bill 1839) and in 2003, but Carfax has hired four influential lobbyists and has contracted with a public relations firm to bolster its campaign.

Dealers are urged to appeal to their senators and representatives to oppose the legislation. The state board of elections can identify area legislators at www.elections.state.il.us/DistrictLocator/SelectSearchType.aspx?NavLink=1

If the Carfax effort succeeds, companies that sell vehicle history reports would add accident information to their electronic reports. Detractors of the measure cite several faults, notably that Carfax would not guarantee the accuracy of any accident information in its history reports.

In other words, Carfax would not be liable for an incorrect report, which would harm the values of used vehicles, including customer trade-ins.

The data would come from the Illinois Transportation Department. Inaccuracies related to those accident reports are common. The reports also do not indicate whether damage should affect a vehicle’s resale price.

Congress rising behind Right to Repair Act

Federal legislation that would require automakers to share with independent garages the same service information and tools capabilities now available only to franchised dealer networks added two more congressional sponsors in November.

That brings to 70 the number of House cosponsors of the Motor Vehicle Owners’ Right to Repair Act of 2005 (House Resolution 2048). However, the bill has not experienced any major action since days after it was introduced in May.

The National Automobile Dealers Association charges that the legislation seeks to create a new federal government bureaucracy at the Federal Trade Commission—which has no background or experience in automotive repair—to handle issues related to service information, tools and training for automotive repair facilities.

Further federal involvement in the automotive repair industry is opposed by the NADA and the Automotive Services Association, which represents independent garages.

While the legislation is premised on the theory that automobile manufacturers are not making these items readily accessible, automotive service providers agree that the flow of service information, tool and training information from automobile manufacturers to service providers and others has never been better under the voluntary and cooperative system now in place.

Every segment of the automotive industry now participates in the voluntary National Automotive Service Task Force, or NASTF, which operates without interference from government bureaucrats.

Of about 500 million non-warranty repairs last year, there were 48 inquiries to the NASTF about gaps in information, and all 48 were addressed. NADA officials said H.R. 2048 would supplant this private sector initiative with federal regulation to address isolated issues.

In doing so, the legislation opens the door to further federal regulation of the industry, additional litigation, and threats to the intellectual property and competitiveness of automobile manufacturers.

It is large aftermarket parts distributors, not independent garages, who reportedly favor this legislation on the premise that it will force disclosure of proprietary information, allowing for the cheap production of aftermarket parts overseas.

U.S. Rep Lynn Westmoreland (R-Georgia) is leading a stand against the federal takeover of the industry by circulating a letter to the House leadership.

The NADA has asked for dealers to contact their representatives to oppose the measure. For talking points, call the NADA Legislative Office at 800-563-1556.
Internet ad revenues in U.S. top $3 billion in year’s third quarter

Online advertising represents a mere fraction of the total U.S. ad market; it is a business with an estimated worth of $71 billion for the first half of 2005. But revenues for online advertising reached a record $3.1 billion from July through September this year, according to the Interactive Advertising Bureau.

That represents a rise of 34 percent from the same period in 2004. The IAB predicts that Internet ad revenues may exceed $12 billion for all of 2005. Last year, revenues ended the year at $9.6 billion.

“Clearly, advertisers are realizing the benefits of shifting more of their total advertising budgets to online,” said David Silverman, a partner at PricewaterhouseCoopers, the company that compiled the data used by the IAB.

The IAB did not offer a breakdown of contributing factors for the rise in ad revenues, but it is likely that ads capable of being searched by keywords played a factor in the growth.

State Farm used-car suit scrapped

The Illinois Supreme Court on Nov. 17 blocked a class-action lawsuit pushed by a Louisiana man who said he had been wronged by State Farm Insurance Co. in his 1999 purchase of a used car.

In dismissing the Madison County case, the court did not rule on the merits of Christopher Gridley’s claims against one of the nation’s largest insurers but said it should be heard in Louisiana, where the allegations originated.

But the decision’s true impact on consumers appears minimal. State Farm, based in Bloomington, entered into a $40 million settlement this year with 49 states, including Illinois, to pay 30,000 drivers nationally who unknowingly bought repaired and mistitled vehicles that State Farm had previously deemed total losses.

Gridley’s beef against State Farm involved his purchase of a used 1998 Volvo from a Louisiana auction house.

When Gridley became involved in a crash, he learned that his car had had a previous collision under its prior owner, had been declared a total loss by State Farm, had unrepaired damage from the earlier crash, and yet carried a clean title when he bought it, suggesting a crash-free history.

Gridley alleged that State Farm defrauded him by not obtaining a “salvage” title, as Louisiana state law required when vehicles are totaled, after settling a crash claim involving the vehicle’s prior owner.

Because the case originated in Louisiana, State Farm argued it should not be heard in Madison County, dubbed a “judicial hellhole” by business groups that have advocated caps on lawsuit awards. A judge there disagreed but was overruled by the state’s high court.

Gridley’s Belleville, Ill., lawyer, John Hoffman, said his client intends to refile his lawsuit in Louisiana but acknowledged the company’s settlement with the states has undercut efforts to draw in others with similar claims against the company.

Auto show materials are comin’!

During the first days of January, the CATA will ship to all association members in good standing packages that are laden with materials to help them in their day-to-day operations in 2006; and free tickets and other items for February’s Chicago Auto Show.

Are your annual CATA dues up-to-date?
2005 year-end Income tax/Accounting checklist for dealers

BY MICHAEL SILVER & CO. AND
WOODWARD & ASSOCIATES, CPAs

1. Keep the accounting records open at the end of December in order to:
   • Record December finance chargebacks.
   • Maximize LIFO deductions. Record all new vehicles that were built in 2005 as vehicles purchased in 2005 by keeping the new vehicle purchase journal open the first few days of 2006.
   • Keep your accounts payable journal open to record all 2005 expenses in 2005, including advertising, interest, utilities, telephone, gasoline, data processing, insurance, property taxes and the like.
   • Adjust your property tax payable account to equal the total actually paid in 2005.
   • Account for all missing documents.
   • If any vehicle deal is not 100 percent completed in 2005, then treat it as a 2006 vehicle sale.
   • Make sure all miscellaneous inventories are adjusted to actual including labor inventory, sublet, gas-oil-grease, body shop materials, etc.
   • Reconcile, when possible, all balance sheet accounts before closing the year.

2. Make sure that a reasonable estimate of your LIFO adjustment for the year is on all versions of your December financial statement. There are no exceptions. If there is not a separate LIFO cost of sales account, the best place to charge the LIFO estimate is to cost of sales in a cost account that has no other activity.

3. If you are not on LIFO for used vehicles, adjust all of your used vehicles to current wholesale market value at year-end. You may want to consider adopting USED VEHICLE LIFO. The IRS has developed an acceptable “alternative used vehicle LIFO” method similar to the new vehicle method. However, because used vehicle prices are currently declining, electing LIFO may not be beneficial at this time.

4. Compare your actual parts inventory to the accounting parts inventory and make any adjustments where appropriate. Have your parts manager determine which parts would be considered worthless. Subject to your review, dispose of these parts by year-end. Be sure that your parts manager advises the office manager of the cost of the parts that have been disposed and that the appropriate entry is made to remove the costs from the inventory. Have the parts manager give you a copy of the parts inventory summary that shows the dollar amount of parts in inventory at the end of the year along with an aging of the inventory.

5. If you have any building repair or maintenance items such as painting, etc. that needs to be done in the next few months, try to have these performed by the end of 2005.

6. Review current year fixed asset additions to determine if the costs should be capitalized or expensed. Generally, assets with a useful life beyond a year should be capitalized and depreciated.

7. Carefully review prepaid assets and expense all items in this account that are not valid assets.

8. Review all past due accounts receivables, including employee receivables. Write off those receivables that are not collectible. If any of these are from former employees, issue them a 1099 for the amount written off.

9. Review bank reconciliations for checks (including payroll checks over 60 days old) that are not expected to clear. These checks should be voided and reissued. Funds owed to payees who cannot be located may be considered unclaimed property, and you may be required to remit the funds to the state. Before reissuing a check to a vendor, be sure that it has not been paid with a subsequent billing. Be careful in voiding any checks written to the state as many of the state departments are behind in their processing.

10. Make sure all payroll tax and sales tax payable accounts equal the actual amount of the applicable taxes paid in 2006 for the 2005 fourth quarter and year-end filings. The payroll tax accrual can only include taxes owed on wages actually paid in 2005.

11. Make sure you have records of your 2005 meal and entertainment expenses available. Travel expenses and the cost of the employee holiday party should not be included in this amount.

12. Form 8300 must be filed if you receive cash in excess of $10,000 from a customer. Cash includes certain cashier’s checks, money orders and traveler’s checks. Make sure you have properly filed the form for each transaction and notified the customer of the filing. Have your office staff show you the Form 8300’s filed for 2005.

13. Make sure IRS Form 1099-MISC is issued to all non-employees and businesses that are not incorporated that received $600 or more in 2005 for payment of services, awards, commissions or fees for services.
Year-end
CONTINUED FROM PAGE 3
When preparing the 1099, for those vendors from whom you purchased parts in conjunction with a service, you must report the total payment made to them on the 1099. Review all of the non-employees to see if they should really be considered employees for payroll tax purposes.

14. Make sure that all wages and commissions that are paid in 2006 for 2005 services have been accrued in 2005. Also, make sure the first payroll in 2006 is not included on your W-2s for 2005, but instead will be on the W-2s for 2006 (based on the date the payroll checks are handed out even though some portion of the payroll was for 2005 services). If you are an “S” Corporation, any shareholders owning more than 2 percent of the stock cannot have wages accrued for them. In order to take a deduction for those wages, you must pay them in 2005 so that they are included on the 2005 W-2.

15. If you are a “C” corporation, make sure you pay any salaries, commissions or bonuses to stockholders and related parties in December, if their ownership exceeds 50 percent, in order to take the deduction this year. Make sure they are reasonable in total. All accrued payroll for non-shareholders must be paid no later than March 15.

16. Make sure interest is paid on loans to or from shareholders or other parties that are on the dealership’s books by year-end. Also, be sure an IRS form 1099 is issued for this interest and any rents paid to individuals.

17. Review procedures for the use of demonstrators to insure you comply with the current IRS regulations.
   • All individuals who are provided a demo to drive should sign a written demonstrator policy agreement.
   • There are two IRS-approved methods that can be used for full-time salespeople. The first method provides them with tax-free use of the demo. This method is fairly complicated and restrictive. The second method, used by most dealers, is the partial exclusion method. Under this method, an amount is added to wages on a monthly basis. The IRS has provided daily income amounts based on the value of the vehicle. For a vehicle valued at $25,000, the daily inclusion is $6. Under this method, employees are not required to maintain logs.
   • For employees who are not a full-time salesperson and for any other individuals who drive a demo, the annual lease value method is used. The amount included in income is based on personal use mileage and the IRS annual lease table. The IRS requires that logs be maintained in order to verify business vs. personal use of the vehicle.
   • The amount included in income is to be added to each employee’s W-2. Nonemployee family member income amounts must also be included in the employee’s W-2. Shareholders not on the payroll who provide services to the company, and nonemployees must be issued a Form 1099 MISC for the income. Remember that amounts included in income should be reduced by any payroll deductions for personal use of company vehicles.

18. If you or the dealership own stocks that have unrealized losses, consider discussing with your tax or investment professional the benefit of selling them by the end of the year.

19. If you make gifts to relatives each year for estate tax purposes, make the payment by year’s end.

20. Make sure you have made all required personal and corporate income tax deposits for 2005 and see that your personal income tax withholding is adequate. You should consider paying all of your personal state income tax by the end of the year in order to take a federal income tax deduction for the state tax; however you should consult your tax advisor if you think you may be affected by the alternative minimum tax.

21. If you plan to make any charitable contributions, consider making them in 2005 to receive a current year deduction. Payments by credit card are deductible on the day they are made even if the payment to the credit card company occurs on a later date. The IRS requires written acknowledgement for each contribution over $250.

22. If the dealership has a section 125 plan (cafeteria plan), make sure 2006 election forms are completed by the employees before the first 2006 payroll. Remember, stockholders owning more than 2 percent in “S” corporations (LLCs, etc.) are not eligible to participate.

23. W-2s for “S” Corporation shareholders should include income for health insurance premiums paid by the corporation. This amount is not subject to federal FICA tax.

24. If your retirement plan allows changes throughout the year, maximize your deductible contributions—$14,000 for a 401(k) plan, $18,000 if over age 50 and $42,000 to profit sharing plans (net of any 401(k) contributions). If you have self-employment income, consider establishing a Keogh plan. You have until the due date of your return, including extensions, to fund the contribution.

25. Be sure to keep a backup of each month’s accounting records that are kept on electronic media as required by the IRS.