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Upcoming DealersEdge webinars

The Chicago Automobile Trade Association has established a partnership with DealersEdge to provide high-quality training and informational webinars that offer the content to CATA member dealers at a significantly discounted rate.

The rate for CATA members for the weekly presentations is $149, half what is charged to users who do not subscribe to DealersEdge. Webinars premiere on a near-weekly basis.

Even for dealers who hold an annual membership with DealersEdge, the new relationship with the CATA represents a savings because DealersEdge offers its Webinars to its own members for $198. Regular annual membership fees are $397, and normal webinar fees are $298 for non-DealersEdge members.

Once purchased, DealersEdge webinars and accompanying PDF files can be downloaded and viewed later—and repeatedly. No matter how many people watch at your location, each connection costs a CATA member just $149. A telephone connection is not needed; and the fee includes both PowerPoint slides and audio.

To register for any of the DealersEdge webinars, go to www.cata.info. On the tan bar across the top of the screen, click on Education/Careers and follow the drop-down menu to CATA-DealersEdge webinars.

Premiering Thursday, Dec. 11 at 12 p.m. CST

"Effective Pay Plan Formulas that Achieve Results" Speaker Jeff Sacks digs deeply into pay plan design, focusing not only on the transaction side of the business but also on customer retention goals.

He also addresses the critical need for dealerships to overcome inter department rivalry, and vertical thinking

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New study of loan records refutes CFPB position on auto lending

A new comprehensive study of more than 8.2 million loan records concludes that the method used by the Consumer Financial Protection Bureau to measure for discrimination in an auto lender's portfolio is "conceptually flawed in its application and subject to significant bias and estimation error."

The peer-review study by Charles River Associates calls into question the reliability of a testing methodology that the CFPB has used to level allegations of unintended discrimination against — and extract settlements from — auto lenders and to pressure auto lenders to change the way they compensate dealers for originating finance contracts.

The study, released Nov. 19, reviewed more than 8.2 million new- and used-vehicle finance contracts issued during 2012 and 2013, and measured differences in dealer reserve paid by minorities and non-minorities using the CFPB methodology. Dealer reserve represents the compensation that dealers receive from lenders for their role in the auto-financing process.

The study concluded that the CFPB's methodology frequently misidentifies the background of consumers and dramatically overestimates differences in dealer reserve paid by different groups of consumers.

The methodology also fails to account for numerous factors unrelated to the consumer's background that affect the amount consumers paid for dealer reserve.

The study further explains that the CFPB's examination of differences in dealer reserve at the portfolio level is meaningless because it completely fails to account for legitimate reasons for pricing differences at the retail level. These collective flaws result in a testing methodology that is inherently unreliable.

"This study shows that the

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Lending

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CFPB's attempt to upend the auto lending process is insufficiently informed and the victim of flawed assumptions and inadequate peer review," said Peter Welch, president of the National Automobile Dealers Association. "Allegations of potential discrimination are explosive and certainly should not be made without a reliable foundation in data."

Currently, 136 members of Congress from both parties — 86 Republicans and 50 Democrats — have cosponsored legislation in the U.S. House of Representatives to rescind the CFPB's 2013 guidance that serves as the centerpiece of the bureau's attempt to change the highly efficient and pro-competitive dealer-assisted financing model. The bill, House Resolution 5403, co-sponsored by Reps. Marlin Stutzman (R-Ind.) and Ed Perlmutter (D-Colo.), also would require transparency and public input prior to the issuance of future CFPB guidance in auto lending.

The legislation came after dozens of letters to the CFPB from Congressional Democrats and Republicans urged the disclosure of the CFPB's testing methodology, which is lacking in the bureau's guidance. The CFPB repeatedly failed to fully respond to the questions it was asked, leading to the Stutzman-Perlmutter legislation.

Dealers also have offered up an optional program that addresses fair credit risks. Based on a fair credit risk mitigation model developed by the U.S. Department of Justice in 2007 to resolve fair credit investigations of two dealers, the NADA in January 2014 released its comprehensive Fair Credit Compliance Policy & Program. When implemented, the NADA program documents those instances when dealers discount interest rates and ensures the discounts are for legitimate business reasons, such as meeting a competitive finance offer. Rather than require costly and inaccurate statistical testing, the program controls for risk on the front end of the transaction. Many dealers, including several large dealer groups, have implemented the program. The NADA has called on the CFPB to urge finance companies to incorporate the program into their compliance management system.

"Had the CFPB followed the process set forth in the legislation before it issued its guidance to indirect auto lenders, it could have avoided the flawed assumptions and lack of clarity that have come to characterize this guidance," said the NADA's Welch. "The way forward is for the government to promote broad industry adoption of the NADA's fair credit program, which would address fair credit risks where they matter: at the retail level."

Webinars

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mentality, by designing pay plans that link personnel from various departments together as a cohesive unit, and thus making them partners in the common goal of keeping your customers coming back.

Premiering Thursday, Dec. 18 at 12 p.m. CST

"All Dealership Manager: How to Coach Your Team to Success ... Easy to Follow Process for Record-Breaking Results" Being a successful manager is all about getting the very best out of every member of your team. Learn the magic of one-on-one coaching.

In the car business, being a manager is almost always equated with producing Gross or Net Profits. But that is just how you keep score. The managers who truly succeed have mastered the techniques necessary to connect with each person reporting to them and in the process guide them to the results that will show up on the financial statement.

Join Steve Nickelsen for a 60-minute presentation on the process of one-on-one management coaching. Learn how to standardize team member coaching sessions so that your reporting team members know what is expected of them and how they will achieve success.

Follow this process and watch both your team's and department's results reach new record-breaking results.

Member-discounted tickets to 2015 auto show on sale now

Tickets and vouchers that admit the holder to the 2015 Chicago Auto Show free or at a reduced price can be ordered by CATA members using the order form posted at www.CATA.info.

The passes promote goodwill with customers and even can help persuade a prospect to close a deal. Two kinds of passes are available, General Admission ticket and Weekday Discount voucher. The former, which costs CATA members $600 for 100 tickets, admits the holder to the auto show free, without a box-office wait.

The Weekday Discount voucher costs members $100 for 100 and admits the holder for $6 during the week.

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Review past editions dating to 1998 or search by subject at www.cata.info/publication/bulletins.

David E. Sloan — President, Publisher
Erik K. Higgins — Editor, Director of Dealer Affairs

CPA firm suggests 2014 year-end accounting checklist for dealers

By Michael Silver & Co.
Certified Public Accountants, CATA Member

Year-End Planning

1. Section 179 expensing limit for 2014 is $25,000. Consider placing eligible assets into service before the end of 2014 to take advantage of this current year expensing limit.

2. If you plan to make any charitable contributions, consider making them in 2014 to receive a tax 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 acknowledgment for each contribution of $250 or more.

3. Confirm you have made all required personal and corporate income tax deposits for 2014, 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 with your tax advisor if you think you may be affected by the Alternative Minimum Tax.

4. Consider maximizing your retirement contributions, $17,500 for a 401(k) plan ($23,000 if over age 50), and $52,000 to profit sharing plans (net of any 401(k) contributions).

5. If you or the dealership owns stock that has unrealized losses, consider discussing with your tax or investment professional the benefit of selling them by year-end to offset realized gains recognized earlier in the year.

6. Confirm you have substantiation for your 2014 meal and entertainment expenses. Travel expenses and the cost of a holiday party for employees or food ordered into the dealership for staff should not be included in this amount.

7. Accrued interest on loans from shareholders and other related parties, as well as rents, must be paid in order for the dealership to deduct these amounts in the current year.

Keep accounting records open at end of December

1. Record December finance chargebacks in December.

2. Maximize LIFO deductions. Record all new vehicles that were <u>built and invoiced</u> in 2014 as vehicles purchased in 2014 by keeping the new vehicle purchase journal open the first few days of 2015.

3. Keep your accounts payable journal open to record all 2014 expenses in 2014, including advertising, interest, utilities, telephone, gasoline, data processing, insurance, etc.

4. Adjust your property tax payable account to equal at least the total you actually paid in 2014.

5. If any vehicle deal is not a 100 percent completed deal in 2014 (all paperwork and funding in 2014), then treat it as a 2015 vehicle sale.

6. Make sure all miscellaneous inventories are adjusted to actual, including labor inventory, sublet, gas-oil-grease, body shop materials, etc.

7. Distributions paid to S corporation shareholders should be equalized in accordance to their ownership percentage before year-end.

8. You must include a reasonable estimate of your LIFO adjustment for the year on all versions of your December financial statements. **<u>There are no exceptions.</u>** If there is not a separate LIFO cost of sales account, charge the LIFO estimate to cost of sales in a cost account that has no other activity.

9. Compare your actual parts inventory to the accounting parts inventory and make adjustments where appropriate. Have your parts manager determine which parts should be considered worthless. Subject to your review, dispose of these parts by year-end.

10. All wages and commissions paid in 2015 for 2014 services should be accrued in 2014. Make sure the first payroll in 2015 (even though some portion of the payroll was for 2014 services) is not included on your W-2s for 2014, but will instead be on the W-2s for 2015.

a. All accrued payroll for non-shareholders must be paid no later than 3/15/15 for it to be deductible in 2014.

b. 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 including related party interests) in order to take a 2014 tax deduction.

c. If you are an S corporation, wages to a shareholder cannot be accrued. You must pay them in 2014 and include the wages on the 2014 W-2.

11. Reconcile, where possible, all balance sheet accounts before closing the year.

Additional Year-End TO DOs

1. If you are not on LIFO for used vehicles, adjust all of your used vehicles to current wholesale market value at year-end. On an annual basis, used-vehicle LIFO should be discussed with your tax advisor. The IRS has developed an acceptable "alternative used vehicle LIFO" method similar to the new-vehicle method.

2. Consider establishing a formal capitalization policy, which would allow you to write-off, as a current expense, the cost of assets that in previous years would have been capitalized and depreciated. You need to take action by the end of year to adopt a formal capitalization policy. New regulations allow businesses to write off small asset purchases. The amount that can be written off is up to $5,000 per item or invoice if you have an audited financial statement and $500 per item if you do not.

3. Review all past due accounts receivables, including employee receivables. Write off those receivables that are not collectible.

4. Review prepaid assets and expense all items in this account that are not valid as prepaid at year-end.

5. All payroll tax and sales tax payable accounts must equal

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As drivers get fatter, so do crash dummies

On the heels of a bountiful holiday such as Thanksgiving, it probably is not a welcome reminder that Americans are getting fatter. But now comes news that also getting fatter are the crash test dummies used to test the cars Americans drive.

A Michigan company, Humanetics, has introduced a new obese dummy to reflect American's growing size. The 273 pound dummy — officially called an anthropomorphic test device — is 106 pounds heavier than the traditional model, reflecting public health trends.

According to the Centers for Disease Control and Prevention, 34.9 percent of American adults — an estimated 78.6 million people — are obese, and Humanetics President and CEO Chris O'Connor explained that the differences in how they fit in the seat, how their different centers of gravity could translate into car crash injuries, and how seat belts and air bags work on them are enough to warrant a new dummy body type.

"The average person has changed dramatically," O'Connor said. "It was important to put out a piece of test equipment that auto companies and safety suppliers can use to decide what the best way is to restrain an obese person, since so many obese people are driving. ... It's not just weight. It's the question of girth at the center area."

A University of California-Berkeley study, published in 2013, found that obese drivers are up to 78 percent more likely to die in car crashes.

Used since the 1980s, the traditional crash test dummy is often seen in car commercials to vividly show a vehicle's safety level, but perhaps is best known by the talking crash test dummies in the Ad Council ads, starring the dummies Vince and Larry which say, "You can learn a lot from a dummy."

The new obese model is also 5 inches taller than the more commonly used 5-foot-9 version. The cost is the same amount as the normal-weight dummy, about $500,000, and, according to O'Connor, can be reused for decades.

Humanetics, believed to be the only designer and manufacturer of crash test dummies in the U.S., was founded in 1952 to make what were then called mannequins to test airplane ejector seats, but added car crash test dummies

in the 1960s, O'Connor said. Today, the comany has 500 employees, supplies OEMs, Tier 1 safety suppliers, government agencies and medical researchers and has an estimated $125 million in annual sales.

Its dummy lineup also includes women and children of various ages. They're made of metal bones wrapped in vinyl with rubber in certain joints and then loaded with sensors, O'Connor explained.

"Safety continues to evolve. A five-star rating from five years ago is probably a three-star today, because the bar goes up," he said. "We need to have safety for all body types. We want everyone to be safe."

Amanda Levitt, founder of Fatbodypolitics.com, said: "Having the ability to test cars and use crash test dummies that reflect a wide variety of body types is positive. Fat people tend not have enough space between them and the steering wheel. They're more likely to have physical impact with the car in a car crash.

"In contrast, thin people don't have fat on their body to be protected from seat belts. All people are not the same size."

The UC-Berkeley study found that drivers with a body mass index of 30 to 34.9 were 21 percent more likely to die in a crash versus those with a BMI of 35 to 39.9, who were 51 percent more likely, and those with a BMI of 40 or above, who were 81 percent more likely.

Researchers also concluded that obese women had a greater chance of dying in car crashes than obese men.

2015 documentary fee maximum announcement expected Dec. 17

The maximum documentary service fee that may be charged in Illinois in 2015 is expected to be announced by the state's attorney general's office Dec. 17. The CATA will issue special notice following any announcement.

The increase is tied to the federal Consumer Price Index for the 12-month period ending Nov. 30.

Later this month, the CATA will mail to dealers two copies of a poster regarding the DOC fee that they can post in their dealerships.

Year-end

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the actual amount of the applicable taxes paid in 2015 for the 2014 fourth quarter and year-end filings. The year-end payroll tax accrual can only include taxes owed on wages actually paid in 2014.

6. Compute the Dec. 31, 2014, accrued vacation wages payable and adjust the books accordingly. Vacation wages paid Jan. 1-March 15, 2015, are deductible for tax purposes. No vacation accrual is allowed for any shareholders.

7. 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, which would require you to remit the funds to the appropriate state agency. Before reissuing a check to a vendor, be sure that it has not been paid with a subsequent billing.

Year-End Tax Reporting

1. IRS Form 1099-MISC must be issued to all businesses that are not incorporated (including LLCs) and received $600 or more during 2014 for payment of services, awards, commissions, or fees for services. A Form 1099-MISC must be issued for payments to an attorney even if they are incorporated. 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. Also, Form 1099-MISC must be issued for all rents paid to non-corporate taxpayers, including shareholders, and Form 1099-INT must be issued for interest paid to shareholders and any other individuals.

2. W-2s for S corporation shareholders must include in wages health insurance premiums paid by the corporation. This amount is not subject to Social Security or Medicare tax. If the dealership pays the insurance premiums on behalf of the shareholders' children who are employees of the dealership, the children's W-2 must include the insurance premiums.

3. Determine if you are receiving services from individuals who should be considered employees. The IRS provides a voluntary program that will allow you to convert these individuals prospectively from independent contractors to employees with partial relief from penalties and interest including protection from prior year audits of the converted class of workers. Consult your tax advisor for details.

Review procedures for the use of demonstrators to ensure you comply with the current IRS regulations

1. All individuals who are provided a demo to drive should sign a written demonstrator policy agreement.

2. There are two IRS approved methods that can be used for full-time salespersons. 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 example, for a vehicle valued at $25,000, the daily inclusion is $6. Under this method, employees are not required to maintain logs.

3. For employees who are not full-time salespersons and any other individuals who drive demos, 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 versus personal use of the vehicle.

4. The amount included in income is to be added to each employee's W-2. Non-employee family member income amounts must also be included in the employee's W-2. This income is subject to social security and Medicare tax. Shareholders not on the payroll and any other non-employees must be issued a Form 1099-MISC for the income.

Other

1. Form 8300 must be filed if you receive cash in excess of $10,000 from a customer. This includes cashier checks, money orders and traveler's checks except those issued by financial institutions requiring a lien on the vehicle.

2. If the dealership has a section 125 plan (cafeteria plan), make sure eligible employees complete the 2015 election forms before the first 2015 payroll. Remember that stockholders owning more than 2 percent in S corporations (LLCs, etc.) are not eligible to participate.

3. If you offer a health care Flexible Spending Arrangement (FSA) as part of your cafeteria plan, in order for it to be a qualified benefit under a cafeteria plan, the maximum salary reduction contribution to the health care FSA for 2014 is limited to $2,500 ($2,550 for 2015). Stockholders owning more than 2 percent in an S corporation or an LLC are not eligible to participate. If your company offers a qualified high deductible health insurance plan, you and employees might be able to contribute to individual Health Savings Accounts (HSA). Contribution limits for 2014 are $3,300 for an individual and $6,550 for a family with a $1,000 additional contribution for those who are age 55 and over.

4. You will continue to receive Form 1099-Ks for sales (paid to your dealership) by credit or debit cards and online payments. The credit card companies are required to send you a Form 1099-K with the gross sales data. There is no requirement that you reconcile these statements with your books, but the IRS did begin issuing matching notices during 2013. At a minimum you should maintain these forms in your records should the IRS question the sales reporting of these in the future.

5. Effective Jan. 1, 2015, employers with greater than 100 full-time employees will be subject to the pay or play penalty provisions of the Affordable Care Act. This provision has been pushed to 2016 for certain employers who have 50 to 100 employees.

6. If you make gifts to individuals each year for estate tax purposes, the payments must be made by year-end.