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print edition remains of this newsletter, which resumes electronic-only distribution in 2010. If you don't already receive it via e-mail, send address to editor@cata.info. All addresses held in confidence. Don't be left behind!

2010 DOC fee to be announced Dec. 16

The CATA will issue a special notice following an announcement by the Illinois attorney general's office, expected Dec. 16, on the maximum documentary service fee that can be charged in 2010.

Annual adjustments to the DOC fee are based on changes in the federal Consumer Price Index.

New CFPA bill means new worries for dealers

Dealers in October sidestepped a federal bill that would have subjected dealer-assisted financing to numerous new, and in some cases, duplicative regulations. An amendment to House Resolution 3126 exempted them from the reach of the proposed Consumer Financial Protection Agency.

But the House is debating the formation of the CFPA under another bill—H.R. 4173, introduced Dec. 2—in which all financial dealings between businesses and consumers throughout the country would be regulated, including those involving dealerships.

An amendment to H.R. 4173, offered by Rep. Mel Watt (D-N.C.), effectively would nullify the exemption dealers gained in H.R. 3126. The American International Automobile Dealers Association has sounded a call to action, for dealers to contact their representatives to oppose the Watt amendment.

Congress wants to establish the CFPA, a watchdog group, in light of the collapse last year of major banks. But the AIADA contends that the activities of dealers related to financing cars already are regulated by state and federal laws; and that dealers did not contribute to the 2008 financial collapse.

According to the Federal Trade Commission, only 1 percent of consumer complaints last year regarded the auto sector—and those complaints encompassed many areas other than auto financing.

Other AIADA talking points for dealers to tell their congressmen:

• Auto dealerships are not financial institutions. We did not cause the economic meltdown in 2008; therefore, dealers shouldn't be subjected to the consequences of Wall Street's actions.

• We don't need more regulators. Financial transactions that take place within dealerships already are monitored by the the FTC, the Federal Reserve, and state attorneys general.

• Exclude dealers from the CFPA. Congress should retain a FULL exemption for auto dealers in H.R. 4173.

Arbitration plan for rejected dealers advances in Congressional bill

Franchisees rejected this year by General Motors Co. and Chrysler Group would gain access to third-party arbitration under criteria broader than that planned by the automakers, under legislation that Congress could pass shortly.

Arbitrators under the automakers' plans were to apply the original criteria used by the companies in marking them for termination. But dealer groups said few dealerships would be restored under these criteria because they were circular and self-fulfilling.

House Majority Leader Steny Hoyer (D-Md.) and Assistant Senate Majority Leader Dick Durbin (D-Ill.)—each the No. 2 Democrat in his respective chamber of Congress—said Dec. 8 that House Resolution 3288 would require arbitrators to balance the economic interests of dealers, the companies and the public. The bill includes the revised version of the LaTo-

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2009 year-end

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

As 2009 comes to a close, CATA allied member Michael Silver & Co. suggests the following areas to be considered.

1. Keep the accounting records open at the end of December:

• Record December finance chargebacks.

• Maximize LIFO deductions. Record all new vehicles that were built in 2009 as vehicle purchases in 2009 by keeping the new vehicle purchase journal open the first few days of 2010.

• Keep your accounts payable journal open to record all 2009 expenses in 2009 including advertising, interest, utilities, telephone, gasoline, data processing, insurance, etc.

• Adjust your property tax payable account to equal at least the total you actually paid in 2009.

• If any vehicle deal is not a 100% **completed deal** in 2009, then treat it as a 2010 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. You must include a reasonable estimate of your LIFO adjustment for the year on all versions of your December financial statements. **There are no exceptions**. 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.

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

4. 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. Be sure that your parts manager advises the office manager of the cost of the disposed parts and that the appropriate entry is made to remove the costs from inventory. Your parts manager should provide you with a final parts inventory summary showing the dollar amount of parts in inventory at the end of the year along with an aging of that inventory.

5. If you have any building repair or maintenance items (such as painting, etc.) that needs to be done, try to have these performed by the end of 2009.

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 as prepaid at year end.

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 Form 1099-MISC 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 which would require you 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 when voiding any checks written to the state because some state departments are slow in processing.

10. All payroll tax and sales tax payable accounts must equal the actual amount of the applicable taxes paid in 2010 for the 2009 fourth quarter and year-end filings. The year-end payroll tax accrual can only include taxes owed on wages actually paid in 2009.

11. Confirm you have substantiation for your 2009 meal and entertainment expenses. Travel expenses and the cost of a Holiday party for employees or food ordered in to the dealership 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. Ask your office staff to provide you with copies of the forms filed for 2009 so you can confirm that this function is being performed.

13. IRS Form 1099-MISC must be issued to all non-employees and businesses that are not incorporated (including LLCs) and received $600 or more during 2009 for payment of services, awards, commissions, or fees for services. A

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Review past editions dating to 1998 or search by subject at http://cata.drivechicago.com.

Jerry H. Cizek III — **President, Publisher**
Erik K. Higgins — **Editor, Director of Dealer Affairs**

checklist for dealers

Form 1099-MISC must be issued for payments to attorneys 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. Review all of the non-employee activity and determine if they should really be considered employees for payroll tax purposes.

14. All wages and commissions paid in 2010 for 2009 services should be accrued in 2009. Also, make sure the first payroll in 2010 (even though some portion of the payroll was for 2009 services) is **not** included on your W-2s for 2009, but will instead be on the W-2s for 2010. If you are an S Corporation, wages cannot be accrued for shareholders and their family members. In order to take a 2009 deduction, you must pay them in 2009 and include the wages on the 2009 W-2.

15. If you are a C corporation, make sure to pay any salaries, commissions or bonuses to stockholders and related parties in December (if their ownership exceeds 50%) in order to take a 2009 deduction. Make sure they are reasonable in total. For it to be deductible in 2009, all accrued payroll for non-shareholders must be paid no later than March 15, 2010.

16. Accrued interest should be paid before year end on loans from shareholders and other related parties in order for the interest to be deductible in the current year. IRS Form 1099-INT must be issued for the paid interest. Also, Form 1099-MISC must be issued for all rents paid to non-corporate taxpayers during the year.

17. Review procedures for the use of demonstrators to ensure 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 example, 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 full-time salespeople, 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. Non-employee 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 any other non-employees, must be issued a Form 1099 MISC for the income.

• Remember, 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, discuss 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, the payments must be made by year end.

20. Confirm that you have made all required personal and corporate income tax deposits for 2009 and see that your personal income tax withholding is adequate. You should consider paying all of your personal state income tax by end of 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 2009 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 acknowledgment for each contribution.

22. If the dealership has a section 125 plan (cafeteria plan), make sure eligible employees complete the 2010 election forms before the first 2010 payroll. Remember, stockholders owning more than 2% in S corporations (LLC's, etc) are not eligible to participate.

23. W-2s for S Corporation shareholders must include in wages premiums paid by the corporation for health insurance. This amount is not subject to social security or Medicare tax.

24. If your retirement plan allows changes throughout the year, maximize your deductible contributions—$16,500 for a 401(k) plan and $22,000 if over age 50, and $49,000 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 you are in compliance with IRS rules and regulations regarding a backup of each month's accounting records on electronic media. We suggest you keep 60 months of electronic backup of your accounting data.

26. Consider adopting IRS "TRADE Discounts" that deals with factory "interest credits" and "advertising credits". This procedure will assist in reducing dealership income taxes. This might be worthwhile if you have a large enough new-vehicle inventory.

Use tax deduction available on new cars until Dec. 31 as a selling tool

The "cash for clunkers" program grabbed the headlines earlier this year. But another government program in effect till Dec. 31 can put money in the pockets of new-car buyers.

The American Recovery and Reinvestment Act, in effect since February, gives consumers incentive to buy a new vehicle now. Many car buyers can deduct state and local taxes paid on the purchase of a new passenger vehicle from their federal income tax.

Deductions are allowed for:

- the first $49,500 of a vehicle's purchase price;
- vehicles that weigh less than 8,500 pounds; and
- taxpayers whose modified gross income is under $125,000 for individuals or $250,000 for jointly files returns.

The tax deduction can be claimed on a new vehicle of any model year—when the original use commences with the taxpayer.

Arbitration

CONTINUED FROM PAGE 1

urette amendment to assist rejected GM and Chrysler dealers.

Under the bill, dealers who appeal their termination and win in arbitration would receive a letter of reinstatement from GM or Chrysler within seven business days of the arbitrator's decision, the joint statement said.

The bill was to be attached to a financial services spending measure and considered this month by a conference committee of congressional leaders.

The legislation contains no compensation for rejected dealerships, and it falls far short of a bill pushed last summer by dealer groups to reverse closures of 789 Chrysler stores and the planned termination of 1,350 GM dealerships by October 2010. That bill passed the House but stalled in the Senate.

Reminder: Illinois title, registration fees going up in 2010

Vehicle title and registration fees increase in Illinois Jan. 1, 2010. Registrations that expire in January 2010 or later are affected by the increase.

Registration fees for passenger vehicles, ceremonial vehicles and flat-weight vehicles up to 8,000 pounds (B class) all increase from $79 to $99. Recreational vehicles are exempt from the fee increase, except for recreational vehicles that display specialty plates, which are subject to the new $99 fee plus any applicable specialty plate fees.

The Certificate of Title fee increases from $65 to $95; Transfer of Registration, from $15 to $25; and Duplicate/Corrected Certificate of Title, from $65 to $95.

Renewal fee extensions are based on the current expiration date. If the current expiration is December 2009 or earlier, the extension fee is $6.50 a month. If the current expiration is January 2010 or later, the extension fee is $8 a month.

Title transactions are based on the date the Secretary of State's office receives the correctly completed application (stamped date on the application). The office must receive the correctly completed application before Jan. 1 or the new title fee applies.

Some possible scenarios for registration renewal and title transactions:

Applications received prior to Jan. 1

1. Applicant purchases a vehicle on Dec. 15 and the Secretary of State's office receives the title and registration paperwork on or before Dec. 31.

Registration Fee:	$79
Title Fee:	$65
Total Due:	$144

2. Applicant purchases a vehicle on Dec.15 and the Secretary of State's office receives the title and transfer paperwork on or before Dec. 31.

Transfer Fee:	$15
Title Fee:	$65
Total Due:	$80

Applications received after Jan. 1

1. Applicant purchases a vehicle on Dec. 15 and the Secretary of State's office receives the title and registration paperwork on or after Jan. 1.

Registration Fee:	$79
Title Fee:	$95
Total Due:	$174

2. Applicant purchases a vehicle Jan. 1 or later.

Registration Fee:	$99
Title Fee:	$95
Total Due:	$194

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