CHICAGO AUTOMOBILE TRADE ASSOCIATION
AUTO SHOW

CATA Bulletin

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Important!

Illinois ad regulations

Recent amendments to the Illinois Rules on Motor Vehicle Advertising are not reflected in the current, 2003-2004 edition of the CATA annual report and directory.

The CATA will mail the revised regulations to members shortly.

For the up-to-date regulations, consult the Web site of the Better Business Bureau at www.chicago.bbb.org/cataad.html

Industries seek funding for fuel-cell cars

Nearly a year after President Bush touted fuel-cell cars as a top environmental priority, the auto and oil industries are starting to shop around Washington for taxpayer help in bankrolling the billions of dollars they say will be necessary to get the futuristic vehicles out of the lab and onto the road.

In a meeting last week with Senate members and staff, a General Motors official estimated it would cost up to $15 billion to build enough hydrogen fueling stations to start making fuel-cell vehicles a viable option for consumers. A Royal Dutch/Shell Group official put the figure at around $19 billion.

The discussion of how much money it would take to start making the fuel-cell vision a reality came on the eve of the Bush administration's hosting of a conference where government officials from around the world discussed how to coordinate their hydrogen efforts.

GM's and Shell's estimates overwhelm the $2 billion Bush proposed spending on the project over five years.

U.S. energy bill keeps tax break for SUVs

A provision allowing small-business owners to deduct up to $100,000 from their taxable income for buying a luxury SUV survived congressional debate last week on a broad energy bill.

Language eliminating the SUV loophole was inserted into the Senate's version of the bill, to balance $23.4 billion in tax breaks for oil, natural gas, coal and other energy sources.

But House negotiators reinstated the provision.

The deduction of up to $100,000 from taxable income dramatically cuts the price of SUVs for small business owners.

The loophole was part of the $350 billion Bush tax cut enacted in May and applied to the purchase of a vehicle for business use weighing 6,000 pounds or more. Previously, the deduction limit was $25,000.

China moves toward fuel economy standards —tougher than those in the United States

The Chinese government is preparing to impose minimum fuel economy standards on new cars for the first time, and the rules, beginning in 2005, will be significantly more stringent than those in the United States, according to the Chinese experts drafting them.

The new standards are intended both to save energy and to force automakers to introduce the latest hybrid engines and other technology in China, in hopes of easing the nation's swiftly rising dependence on oil imports from volatile countries in the Middle East.

They are the latest and most ambitious in a series of steps to regulate China's rapidly growing auto industry, after moves earlier this year to require that air bags be provided for both front-seat occupants in most new vehicles and that new family vehicles sold in major cities meet air pollution standards nearly as strict as those in Western Europe and the United States.

The new standards are based on a vehicle's weight—lighter vehicles must go the farthest on a gallon—and on the type of transmission, with manual-shift cars required to go farther than those with automatic transmissions.

In a major departure from American practice, all new SUVs and minivans in China must meet the same standards as automatic-shift cars of the same weight. The new rules do not cover pickups or commercial trucks.

Some popular vehicles now built in China by Western automakers do not measure up to the pending standards and may have to be modified.

Greet year's end with . . .

BY STEPHEN P. BEDELL, CPA
CROWE CHIZEK AND CO. LLC

As 2003 comes to a close, now is the time to start preparing for year-end. Here are some areas to consider.

Electing LIFO. Consider electing the LIFO method of valuing inventories. During inflationary periods, dealers who elect LIFO realize significant tax savings.

Currently on Used-Vehicle LIFO. Consider switching to the Used-Vehicle Alternative LIFO method that has been approved by the IRS. It follows many of the same principles we have applied for years and, better yet, it provides an insurance policy upon an IRS audit.

Parts LIFO. The IRS will now accept a dealer's use of replacement cost for parts. They have agreed to accept the industry practice of valuing parts inventory based on replacement cost as stated in a year-end price list. It is important to maintain the year-end price tape for substantiation purposes.

LIFO Estimate. If you use the LIFO method of inventory valuation or are considering it for 2003, your 12th month factory statement or any year-end statement must include an estimate of your current year's LIFO adjustment. This requirement is known as LIFO conformity.

Used Car Write Downs. If you do not utilize the LIFO method for your used-vehicle inventory, consider making an adjustment to the lower of cost or market before year-end and take an additional tax deduction on your 2003 return.

Disposal of Obsolete Parts. Consider disposing obsolete parts. If parts cannot be returned or no credit is available, they should be donated or scrapped. If donated or scrapped, a deduction is available equal to the inventoried cost of the parts.

Advertising Costs. If they are included in the price of the vehicle, you may be entitled to take an advanced deduction. *(**Word of caution** – Any changes made in your method of accounting will require Form 3115 to be filed.)*

Interest Assistance. If you receive floor plan assistance from a manufacturer, you can defer the income by reducing the cost of the vehicles in inventory. Income will be recognized when the vehicles are sold. *(**Word of caution** – Any changes made in your method of accounting will require Form 3115 to be filed.)*

Unicap (263A). Dealerships meeting specific criteria in the areas of offsite storage, parts wholesale and inventory purchasing may be able to eliminate or greatly reduce the Unicap (263A) reported on their tax return. *(**Word of caution** – Any changes made in your method of accounting will require Form 3115 to be filed.)*

Uncollectible Receivables. Dealerships should review their receivables prior to year-end and write off those deemed uncollectible.

Expensing Assets. There is a Section 179 election that allows taxpayers to expense, rather than depreciate, up to $100,000 of the cost of personal property *(new or used)* purchased and placed in service during the 2003 tax year.

Computer Software. Some off-the-shelf computer software now qualifies as a Section 179 expense, which may allow for the entire cost to be written off in the current year.

30% Bonus Depreciation. Taxpayers are entitled to take an additional first-year depreciation deduction equal to 30 percent of the adjusted basis of qualified property. Qualified property includes newly purchased tangible personal property and leasehold improvements with recovery periods of 20 years or less. *(The purchase of used property does not qualify.)*

50% Bonus Depreciation. An alternate to the 30 percent depreciation bonus. Taxpayers are entitled to take an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of qualified property acquired ***subsequent*** to **May 5, 2003**. Qualified property includes newly purchased tangible personal property and leasehold improvement s with recovery periods of 20 years or less. *(The purchase of used property does not qualify.)*

Business Automobiles. Need a replacement? Faster write-offs for heavy sports utility vehicles (SUVs). An SUV

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Listings of items for sale are subject to the approval of the CATA. Candidates for employment must submit a full résumé to the Editor.

Review past editions or search by topic at www.cata.info/

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

year-end tax planning

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with a gross (loaded) vehicle weight greater than 6,000 pounds is not subject to the annual depreciation and expensing caps for passenger automobiles. With the increase in Section 179 expense, you may be eligible to write off the entire cost in the current year.

Cost Segregation Study. A study should be considered for any buildings and related properties that are constructed or purchased and placed into service in 2003. Coupled with the 30 percent and 50 percent depreciation bonuses, a study can provide a ***significant*** deferral of tax dollars through the acceleration of depreciation expense.

Building Maintenance. Maintenance to your buildings such as painting, sealing floors and roof repairs should be completed before year-end in order to take the deduction.

Meals and Entertainment. While businesses are generally limited to a 50 percent deduction for these types of expenses, the cost of company picnics and the annual office party during the holiday season can be completely written off. Saturday lunches may be 100 percent deductible.

Travel Expenses. Since travel is still deductible in full, we recommend maintaining a separate account for travel expenses.

Shareholder Related Expenses. Dealerships should pay expenses owed to any shareholder of an S Corporation or to shareholders who own more than 50 percent of a C Corporation before the end of the dealership's tax year in order to deduct the expenses.

Shareholder Tax Basis in S Corporation Stock. Basis in S Corporation stock and debt is important because this limits the amount of corporate loss that may be deducted by shareholders. Contributions of capital or loans to the corporation may be necessary in a loss year in order to deduct those losses at the shareholder level.

Bonuses. If you anticipate paying bonuses based on year-end results, they must be paid out within 2 ½ months after year-end in order to take the deduction on your 2003 tax return.

Annual Gift Exclusion. The federal tax law allows an individual to give up to $11,000 tax-free each year ($22,000 if gift splitting with a spouse) to as many other individuals (e.g. children, grandchildren or any other person) as the individual chooses in 2003.

Unlimited Gift Exclusion. In addition to the annual exclusion, there is an unlimited exclusion for tuition and medical bills if paid directly to a qualified educational organization and/or a provider of health care.

Net Operating Losses. Losses that arise in 2003, both corporate and personal, can be carried back five years instead of the standard two years.

Acceleration of Income Tax Rate Cuts. Under the new law, the rate reductions scheduled to take effect in 2006 are now effective for 2003 and beyond. The top four tax rates for 2003 are 35 percent, 33 percent, 28 percent, and 25 perc ent.

Capital Gains. The maximum capital gain rate decreases 5 percent, from 20 percent to 15 percent. *(The maximum rate for lower-income taxpayers is 5 percent.)* These new rates are effective for sales and exchanges (and payments received on installment sales) ***subsequent*** to **May 5, 2003**. The lower rates apply only to the sale of assets held for more than one year.

Dividends. Qualifying dividends will be taxed at a maximum rate of 15 percent. *(Lower-income taxpayers may be subject to a 5 percent rate.)* Unlike the new capital gains rate, the effective date is retroactive to **Jan. 1, 2003**. Before 2003, dividends received by an individual were taxed at ordinary income tax rates, which for some taxpayers were as high at 38.6 percent.

Self-Employed Health Insurance. The amount of health insurance premiums paid by a partner or greater than 2 percent S-Corporation shareholder are now 100 percent deductible, up from 70 percent in 2002.

Child Tax Credit. For each qualifying child under the age of 17 at the close of the year, the maximum credit claimed is $1,000 per child. *(The credit is phased out for upper-income taxpayers.)* A $400 increase compared to the prior year.

Alternative Minimum Tax (AMT) Relief. The accelerated tax benefits may push more taxpayers into AMT. To help alleviate some of the tax burden, Congress increased the AMT exemptions to $40,250 and $58,000 for single and married filing joint taxpayers, respectively.

For more information on tax planning for your dealership, contact Ted Cesarz of Crowe Chizek at 630-574-1627 or at tcesarz@crowechizek.com

This article is published with the understanding that the author is not rendering legal, accounting or other professional advice or opinions on specific facts or matters and, accordingly, assumes no liability whatsoever in connection with its use.

NADA offers salesperson training, certification

"Automotive Sales Today: Winning the Race" has been developed by the NADA on two CD-ROMs, for self-paced, interactive training in knowledgeable, ethical, customer-focused new-vehicle sales.

The program can be completed without loss of floor time and income; it even can be completed at home. Students quiz themselves on each module, then are directed to the Internet for state law information.

The NADA curriculum includes:

Module 1: Automotive Sales Success
- Customer Loyalty
- Business Calculator
- Customer Focus

Module 2: Customer-focused Selling: Key Practices for Success
- Listening and Talking to Your Customers
- Resolving Customer Concerns
- Working with Internet-savvy Customers

Module 3: Customer-focused Selling: Ethical Sales Techniques
- Value of Ethical Sales Behavior
- Professional Code of Conduct
- Standards of Ethical Sales Behavior
- Making Ethical Sales Decisions

Module 4: Customer-focused Selling: Knowledge is Power
- Knowing Your Product
- Providing a Quality Vehicle Delivery
- Following Up After a Sale

Module 5: Legal Selling: Contracts, Warranties and Credit
- Sales Contracts
- Warranties
- Consumer Credit Protection Act

Module 6: Legal Selling: Rules and Regulations
- Federal Trade Commission Act
- FTC Used-Car Rule
- Federal Odometer Law
- IRS Cash Reporting Rule

Module 7 is the State Law Test and **Module 8** is the optional Certification Exam. Certified salespeople gain membership in the prestigious Society of Automotive Sales Professionals. Certification is an individual achievement and a credit to the dealership.

For more information about the NADA Salesperson Certification Program, call 800-252-6232, ext. 7412, or write to salescert@nada.org

Consider 'adopting' school for auto show

Dealerships can plant a benevolent seed with students by sponsoring a school group's visit to the 2004 Chicago Auto Show. The measure can be a community relations plum and establish customer loyalty with young consumers.

Under the Adopt-A-School Program, a dealership can purchase tickets at $5 each for students in a group. There is no minimum or maximum potential group size. See the flyer in this newsletter.

High schoolers at or near driving age are logical students for a dealership to pair itself with. There are hundreds and hundreds of high schools in the Chicago area, probably more than one within each dealer's relevant market area.

Bill Stasek, proprietor of Bill Stasek Chevrolet in Wheeling, last year sponsored more than 100 students each from nearby Buffalo Grove High School, John Hersey High School in Arlington Heights, and Vanguard School in Wheeling. Accompanying chaperones are admitted at no charge.

"The schools look forward to the auto show so much, and they wouldn't be able to go without this program," Stasek said. "They really appreciate it, so it creates a lot of goodwill with the schools."

In the program, dealers contact a school's principal or assistant principal to arrange the weekday field trip. Stasek met the groups at McCormick Place and even popped for lucnhes for everyone.

Dealers interested in "adopting" a school should contact the CATA's Donna Young for more details, at 630-424-6045.

Marketplace

Finance Assistant/Biller Dealership experience as finance manager. Skilled with ADP, Reynolds & Reynolds, Microsoft Word and Excel. Professional, loyal. Samantha Galloway, 630-788-8498.

Service Manager Responsible for staff of 33, skilled in all aspects of financial statements, general ledgers, warranty policies and procedures. Maintain high CSI, profitability. ADP. Leonard Cegielski, 708-579-9258.

2004 DOC fee

The maximum documentary service fee for 2004 will be announced about Dec. 12. The fee is tied to the Con-sumer Price Index for a 12-month period ending Nov. 30 and is calculated by the U.S. Labor Department. All CATA members will be alerted about the new fee.