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Are US car shoppers ripe for purchase ordering?

Marco Schnabl started in the automotive business 20 years ago selling vehicles at a car dealership in his native Germany.

He loves auto retailing, but one thing he didn't like much there: the European business model of dealerships stocking low inventory levels and consequently taking vehicle orders from customers who would wait weeks and months for the automaker to make and deliver the vehicle.

That's a marked contrast to the traditional U.S. way of selling cars: In-market consumers select a vehicle of choice from dealer lots (or web pages) teeming with inventory, and drive it away forthwith.

Schnabl, who went on to sell cars in the U.S., said: "I'm not a fan of the European system. It's too much of a wait for customers. And as a

See **Shoppers**, Page 5

Despite low dealership inventories, consumer sales satisfaction unchanged from 2020: J.D. Power

As supply chain disruptions and effects of the pandemic continue, new vehicles are hard to find on dealership lots coast to coast. Nevertheless, customer satisfaction with the vehicle purchase experience has held since last year, according to an annual J.D. Power study released this month.

The 2021 U.S. Sales Satisfaction Index Study found overall sales satisfaction remains at 789 points (on a 1,000-point scale). Satisfaction with dealerships where buyers purchased their vehicle increased two points to 841, while satisfaction with rejected dealers declined six points to 632.

The buyer satisfaction increase is buoyed by buyers receiving more money for their trade-ins than they expected at the time of new-vehicle purchase. Year over year, the percentage of buyers who got more than they expected for their trade-in increased nine percentage points in the mass market segment and eight percentage points in the premium segment. However, satisfaction among vehicle buyers significantly decreased year over year in the inventory-related factors for website (-14 points) and at the dealership facility (-16 points).

"Despite the lack of inventory, dealerships have overcome what might be thought of as a challenging sales environment for shop-

See **Satisfaction,** Page 5

FTC puts hundreds of businesses on notice about fake reviews and other misleading endorsements

The Federal Trade Commission is blanketing industries with a clear message that, if they use endorsements to deceive consumers, the FTC will hold them responsible with every tool at its disposal.

The rise of social media has blurred the line between authentic content and advertising, leading to an explosion in deceptive endorsements across the marketplace. Fake online reviews and other deceptive endorsements often tout products throughout the online world. Consequently, the FTC now is using its Penalty Offense Authority to remind advertisers of the law and deter them from breaking it. By sending a Notice of Penalty Offenses to more than 700 companies, the agency is placing them on notice they could incur significant civil penalties — up to $43,792 per violation — if they use endorsements in ways that run counter to prior FTC administrative cases.

"Fake reviews and other forms of deceptive endorsements cheat consumers and undercut honest businesses," said Samuel Levine, Direc-

See **FTC**, Page 4

2021 year-end

By MichaelSilver
Certified Public Accountants, CATA member

As another tax year comes to a close, it is time to consider your tax planning opportunities and year-end tasks.

Year-End Planning:

1. Owners who operate their businesses as sole proprietors or as a pass-through entity such as Partnerships and S Corporations are entitled to a deduction of up to 20% of their qualified business income. The deduction can be maximized through salary planning and entity aggregation.

2. The Section 179 expensing limit for 2021 is $1,050,000 with a $2,620,000 investment limit phase-out. This allows businesses to expense the cost of fixed assets such as equipment and furniture and fixtures. This expensing opportunity is also available for certain qualified improvements to property. Consider placing eligible assets into service before the end of 2021 to take advantage of this expensing limit.

3. 100% bonus depreciation also can be used to write off the cost of both used and new fixed assets that are placed in service before year end. This is not available if you will need to use the floor plan interest exception to fully deduct interest expense for 2021. For tax years ending on or after December 31, 2021, Illinois has decoupled from 100% federal bonus depreciation.

4. If you plan to make any charitable contributions, consider making them in 2021 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. With the increase in the standard deduction, consider bunching two years of contributions into one year in order to benefit from itemizing your deductions.

5. Confirm you have made all required personal and corporate income tax deposits for 2021 and see that your personal income tax withholding is adequate.

6. Consider maximizing your retirement contributions, $58,000 for defined contribution plans. This $58,000 limit includes your employee elected deferrals ($19,500 for 2021). An additional $6,500 catch up deferral is allowed for age 50 or over.

7. If you or the dealership own 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.

8. Confirm you have substantiation for your 2021 meal and travel expenses. Travel expenses continue to be 100% deductible. Meals, including those provided to employees purchased from a restaurant are 100% deductible. Entertainment expenses are no longer deductible.

9. 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.

10. The new pass-through entity income tax election (Illinois and certain other states) will allow the owners an increase in their federal deduction for state taxes and bypass the $10,000 limitation.

Keep the Accounting Records Open at the End of December:

1. Maximize LIFO deductions. Record all new vehicles that were <u>built and invoiced</u> in 2021 as vehicle purchases in 2021 by keeping the new vehicle purchase journal open the first few days of 2022.

2. 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>**

3. 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 and disposed of by year end.

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

5. Record December finance chargebacks in December.

6. Keep your accounts payable journal open to record all 2021 expenses in 2021.

7. If you did not pay your 2021 real estate taxes by year end, adjust your property tax payable account to equal what you anticipate it will be.

8. If any vehicle deal is not a 100% completed deal in 2021 (all paperwork and funding in 2021), then treat it as a 2022 vehicle sale.

9. All wages and commissions paid in 2022 for 2021 services should be accrued in 2021. Make sure the first payroll in 2022 (even though some portion of the payroll was for 2021 services) is not included on your W-2s for 2021, but will instead be on the W-2s for 2022.

a. All accrued payroll for non-shareholders must be paid no later than March 15, 2022 to be deductible in 2021.

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% includ-

See Page 3

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

checklist for dealers

From Page 2

ing related party interests) in order to take a 2021 tax deduction.

c. If you are an S Corporation, wages to any shareholder cannot be accrued and deducted for tax purposes. You must pay them in 2021 and include the wages on the 2021 W-2.

10. Distributions paid to S Corporation shareholders should be equalized in accordance to their ownership percentage before year end.

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.

2. Businesses should consider the "de minimis safe harbor election" to expense the costs of lower value capital assets, materials, and supplies. Regulations allow businesses to write off small asset purchases. The safe harbor amount that can be written off is up to $5,000 per item or invoice if you have an audited financial statement and $2,500 if you do not. However, you can set a write-off policy at any level that is material to you.

3. Review all past due accounts receivables, including employee receivables. Write off those receivables that are uncollectible.

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 the actual amount of the applicable taxes paid in 2022 for the 2021 fourth quarter and year-end filings.

6. Compute the Dec. 31, 2021 accrued vacation wages payable and adjust the books accordingly. Accrued vacation wages paid Jan. 1, 2022 through March 15, 2022 are deductible in 2021 for tax purposes. No vacation accrual is allowed for any shareholders.

7. Review bank reconciliations for checks (including payroll checks over 60 days old) not expected to clear. These checks should be voided and reissued.

Year-End Tax Reporting:

1. IRS Form 1099-NEC must be issued to all individuals who are not employees and all unincorporated businesses who received $600 or more for payment for services, awards, commissions, fees or services. This includes payments of fees for services to all attorneys, whether incorporated or not. Form 1099-MISC must be issued for all rents, royalties and other income paid to non-corporate taxpayers, including shareholders. Forms 1099-INT and 1099-DIV must be used to report interest payments to shareholders and others and dividend payments to shareholders, respectively. 1099-NEC forms must be filed with the IRS by February 1, 2022 and sent to recipients by Jan. 31, 2022. 1099-MISC, 1099-INT and 1099-DIV forms must be filed with the IRS by March 1, 2022 if you file on paper or March 31, 2022 if you file electronically and must be sent to recipients by January 31, 2022.

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.

3. Under the Affordable Care Act, if you have 50 or more full-time or full-time equivalent employees, you are considered an Applicable Large Employer ("ALE"). ALEs are required to complete Form 1095-C, Employer-Provided Health Insurance Offer and Coverage for all full-time employees.

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 agreement.

2. There are two IRS approved methods that can be used for full-time salespeople. The first 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 $40,000, the daily inclusion is $9.00. Under this method, employees are not required to maintain logs. The second method provides them with tax-free use of the demo. This method is fairly complicated and restrictive.

3. For employees who are not full-time salespeople 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.

5. You can obtain more information about the personal use of autos, including sample demonstrator agreements, by requesting our Dealer Demonstrator Guidelines.

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

See **Checklist**, Page 4

In Memoriam

Scott Muller, 63, a partner of the six-franchise Muller Auto Group in suburban Chicago and northwest Indiana, died Nov. 17.

Mr. Muller served on the CATA board of directors since 2019 and sat on the board's DriveChicago, Media Strategy, and Member Benefits committees.

Survivors include his children, Priscilla and Jared Muller; his father, Michael; and a brother, Mark.

Memorial contributions appreciated to the Wounded Warrior Project.

2022 DOC fee to be announced Dec. 10

The next edition of this newsletter will include notice of the maximum documentary service fee that can be charged in 2022.

The edition will go out Dec. 10, the same day the Illinois attorney general's office will announce the '22 max.

FTC

Continued from Page 1

tor of the FTC's Bureau of Consumer Protection. "Advertisers will pay a price if they engage in these deceptive practices."

The Notice of Penalty Offenses allows the agency to seek civil penalties against a company that engages in conduct that it knows has been found unlawful in a previous FTC administrative order, other than a consent order.

The Notice sent to the companies outlines a number of practices that the FTC determined to be unfair or deceptive in prior administrative cases. These include, but are not limited to: falsely claiming an endorsement by a third party; misrepresenting whether an endorser is an actual, current, or recent user; using an endorsement to make deceptive performance claims; failing to disclose an unexpected material connection with an endorser; and misrepresenting that the experience of endorsers represents consumers' typical or ordinary experience.

Companies receiving the notice represent an array of large companies, top advertisers, leading retailers, top consumer product companies, and major advertising agencies. A full list of the businesses receiving the Notice from the FTC is available on the FTC's website. A recipient's presence on this list does not in any way suggest that it has engaged in deceptive or unfair conduct.

In addition to the Notice, the FTC has created multiple resources for business to ensure that they are following the law when using endorsements to advertise their products and services, which can be found on the FTC's website.

The Commission voted 5-0 to authorize the Notice and its distribution.

Checklist

Continued from Page 3

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 2022 election forms before the first 2022 payroll. Remember that stockholders owning more than 2% in S Corporations (LLCs, etc.) are not eligible to participate.

3. If you offer a health care Flexible Spending Account (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 2021 is limited to $2,750. Stockholders owning more than 2% 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 (HSAs). Contribution limits for 2021 are $3,600 for an individual and $7,300 for a family with a $1,000 additional contribution for those who are age 55 and over.

4. Applications and instructions for PPP loan forgiveness are available at https://www.sba.gov/document/sba-form-paycheck-protection-program-loan-forgiveness-application. Businesses have up to 10 months after their chosen covered period (8 or 24 weeks) to apply for forgiveness.

Supporting charitable cause this holiday season? We want to know about it!

Dealers are critical members of their communities, and the CATA knows that many of you are contributing — whether monetarily or with volunteer hours — to local charitable causes this holiday season. The association wants to highlight those stories in an upcoming CATA Bulletin as well as in a press release that we'll share with local media outlets to help showcase all the goodwill that dealers do for their communities. The holiday season brings along a sentiment of giving, so now seems like a good time to share some of those wonderful stories.

To be included, please share as many details as possible (charity name, cause/mission, event date/time if applicable) with Jennifer Morand, the CATA's director of PR and social media, at jmorand@drivechicago.com before Dec. 1.

Satisfaction

Continued from Page 1

pers," said J.D. Power's Chris Sutton. "Right now, it's hard to see the light at the end of the supply chain tunnel, so dealerships need to continue to sell vehicles through their inbound pipeline and help customers with special orders. However, the silver lining for customers is that trade-in values remain high and that has had a positive effect on customer sales satisfaction."

The study also found that satisfaction with the variety of dealership inventory significantly decreased 0.55 points (on a 10-point scale) among mass market shoppers and 0.42 points among premium shoppers during a three-month period from March through May 2021.

Among key findings of the 2021 study:

• **If you build new vehicles, buyers will come**: Manufacturers struggling most with inventory shortages are losing shoppers to competitors. The percentage of shoppers rejecting a brand due to inventory shortages is most prevalent among domestic truck brands. One in four shoppers, on average, rejected one vehicle brand or another because dealerships didn't have the exact vehicle they wanted.

"The good news for dealers is that 78% of rejecters who reject a dealership due to inventory shortages indicate they will consider the dealership for future vehicle purchases. In other words, they're not blaming the retailer for an inability to find their new vehicle," Sutton said.

• **Buyers of new battery-electric vehicles less satisfied with sales experience**: There is a large disparity in satisfaction among buyers of battery-electric vehicles and of internal combustion engine vehicles. The overall buyer satisfaction index is 54 points lower for BEVs (790) than for traditional gasoline-powered vehicles (844). A cause for this is dealership personnel vehicle knowledge/expertise, with more than a full point difference in sales satisfaction between BEV buyers (7.59 on a 10-point scale) and gasoline buyers (8.72).

"BEV buyers are a unique challenge for dealers," Sutton said. "As manufacturers ready new model launches, now is the time to ramp up training and knowledge of BEVs and related services—such as charging and aftersales requirements—as buyers will undoubtedly have more questions about them."

• **Remote buyers more satisfied with digital retailing**: Among those buyers who are willing and able to purchase their vehicle without having to physically visit their selling dealer, the study found that satisfaction is much higher in both the premium and mass market segments than among those buyers who go to the dealership. "The 'Amazon effect' of seeing, buying and having a product delivered to your doorstep has made its way into vehicle-buying and it is here to stay," Sutton said.

Now in its 36th year, J.D. Power's sales satisfaction study measures satisfaction with the sales experience among new-vehicle buyers and rejecters (those who shop one dealership and purchase elsewhere).

Shoppers

Continued from Page 1

salesman, you had to wait a long time for your commission check."

That said, he thinks the current nationwide circumstances of scant dealership inventory because a microchip shortage forced automakers to cut production necessitate implementing at least a stopgap build-to-order system in the U.S.

"Consumers have heard the inventory shortage is a real problem, so mindsets have shifted enough to do preorders," said Schnabl, co-founder and CEO of automotiveMastermind, a provider of predictive analytics and marketing automation software for dealerships.

His company has expanded its data-driven product offerings to help dealers handle inventory challenges, engage with shoppers and retain customers.

"Dealers should figure out what is possible, and work with customers to set expectations," he said in explaining how an order-and-wait system could catch on in the U.S., if only temporarily. "This is the best time to do it."

He recommends inventory-strapped dealers tell customers, "'I want you to have a great experience, so let's order a car now.' The promise of, say, a $500 loyalty discount, would reward customers for their patience."

If a purchase order requires months-long waits, dealers should communicate regularly with customers to let them know the store hasn't forgotten them, Schnabl said.

Could an ordering system like that permanently take root in the U.S., switching away from dealers stocking acres of inventory? Schnabl doubts it. "It's unrealistic to think that two or three years from now, the U.S. would have a European-like system."

For one thing, automakers want inventories that are higher than they are now. Most manufacturers are publicly owned companies facing stockholder pressure to sell lots of cars and carve out a healthy market share, he said. "There's also the capacity issue" of keeping auto factories humming, not idle or even operating below full capacity. Some major auto plants have shut down completely for lack of enough semiconductor microchips.

But operating at full or near-full capacity doesn't mean pushing excess numbers of vehicles on the market. That push-rather-than-pull strategy has been tried before, usually in desperation, with costly consequences, especially to residual values.