



## Dealer group donates van to local food pantry

Antioch-based Raymond Auto Group covered \$20,000 towards a 2020 Chevrolet Express Cargo van to Open Arms Mission, a local food pantry which recently received a \$20,000 grant administered by the Lake County Board. The dealership jumped at the opportunity to cover the remaining \$20,000.

Open Arms Mission provides daily living necessities such as food and toiletries to individuals and families in need while encouraging self-sufficiency. The pantry has remained open during the COVID-19 pandemic to continue serving its community, making health and safety adjustments such as offering a drive-thru distribution to eliminate indoor face-to-face contact. Since last spring, Open Arms Mission has distributed more food — especially to families with children — in an effort to ease

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## Thieves turn to technology to steal from dealer lots

A nationwide crime trend shows car thieves are getting help from technology to steal vehicles in a matter of minutes. Police say it's all done by electronically copying vehicle key fobs.

At least three area Dodge dealers said new SRT models were stolen during recent crimes at their lots.

“I thought if you put your keys up and your doors were locked, other than busting your windows and hot wiring your car, I didn't think there was a way to steal your car,” one consumer victim told an NBC-TV affiliate in Charlotte, North Carolina.

## Less becoming more with dealership inventories

This year's automotive factory shutdowns left dealerships with fewer offerings on their lots. That's a good thing, many industry experts contend.

The benefits of leaner dealership lots have been an unexpected byproduct of the pandemic. The result has been a seller's market, with automakers able to hold the line on discounts, driving prices to record highs.

And because of the inventory crunch, manufacturers have been giving priority to their most popular models and feature combinations, which has reduced complexity and

lotte, North Carolina.

Police say thieves are able to send a signal from one key fob to another if they can get close enough, by creating an electronic copy of the original key fob to get access inside the vehicle.

Police suggest getting a steering wheel lock or a drive-way lock, which is similar to a tire boot. Another tool is a signal-blocking pouch that can keep a hacker from communicating with key fobs.

At dealerships, police said the thieves have had someone test drive a vehicle. When the key fob was used

to open the vehicle, the signal was copied. A best practice would be to never give the key fob to the test driver.

Instead, have a porter start the vehicle and bring it around to the front door or the service drive-thru. The porter then can hand the key to the dealer salesperson, who joins the customer for the test drive. That likely would thwart the copying attempt, as long as no one is near the car other than the porter when the doors are opened and the vehicle is started.

cut supply-chain costs, they say.

Meanwhile, dealers are saving money by holding less inventory, and cars are selling faster, at higher average prices. The typical new vehicle spent about 56 days on a dealer lot in October, down 27% from the same month last year, according to Edmunds.com.

“I don't think our dealers want to go back to historic inventory levels,” Fiat Chrysler Chief Executive Mike Manley told investors last month. “What I think we see now is

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By **MICHAEL SILVER**

CERTIFIED PUBLIC ACCOUNTANTS, CATA MEMBER

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

### Year-end planning

1. Owners who operate their businesses 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 (QBI). The deduction can be maximized through salary planning and entity aggregation.

2. The Section 179 expensing limit for 2020 is \$1,040,000 with a \$2,590,000 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 2020 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 2020.

4. If you plan to make any charitable contributions, consider making them in 2020 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 2020 and see that your personal income tax withholding is adequate.

6. Consider maximizing your retirement contributions, \$57,000 for defined contribution plans. This \$57,000 limit includes your employee elected deferrals (\$19,500 for 2020). 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 2020 meal and travel expenses. Travel expenses continue to be 100% deductible. Meals, including those provided to employees, are 50% 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.

### Keep the accounting records open at the end of December

1. Maximize LIFO deductions. Record all new vehicles that were built and invoiced in 2020 as vehicle purchases in 2020 by keeping the new vehicle purchase journal open the first few days of 2021.

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.**

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 2020 expenses in 2020.

7. If you did not pay your 2020 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 2020 (all paperwork and funding in 2020), then treat it as a 2021 vehicle sale.

9. All wages and commissions paid in 2021 for 2020 services should be accrued in 2020. Make sure the first payroll

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## In Memoriam

**Lee G. Drabek**, 78, principal of Gateway Chevrolet-Oldsmobile-Kia in Chicago from 1987 to 2008, died Nov. 18.

Mr. Drabek also served on the board of directors of the Chicago Automobile Trade Association from 1999 to 2008; and he was a president of the Chicagoland Chevrolet Dealers Advertising Association.

Survivors include a son, Lee "Buddy"; a daughter, Tracey; four grandchildren; and one great-granddaughter. His wife, Arlene, died earlier this year.

Memorials appreciated to the Alzheimer's Association.

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Review past editions dating to 1998 or search by subject at [www.cata.info/publication/bulletins](http://www.cata.info/publication/bulletins).

David E. Sloan  
Erik K. Higgins

President, Publisher  
Editor, Director of Dealer Affairs

## checklist for dealerships

in 2021 (even though some portion of the payroll was for 2020 services) is not included on your W-2s for 2020, but will instead be on the W-2s for 2021.

a. All accrued payroll for non-shareholders must be paid no later than March 15, 2021 for it to be deductible in 2020.

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% including related party interests) in order to take a 2020 tax deduction.

c. If you are an S Corporation, wages to a shareholder cannot be accrued and deducted for tax purposes. You must pay them in 2020 and include the wages on the 2020 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 2021 for the 2020 fourth quarter and year-end filings.

6. Compute the Dec. 31, 2020, accrued vacation wages payable and adjust the books accordingly. Accrued vacation wages paid Jan. 1-March 15, 2021, are deductible in 2020 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. New IRS Form 1099-NEC must be issued to all busi-

nesses that are not incorporated (including LLCs) and received \$600 or more during 2020 for payment of services, awards, commissions, or fees for services. This form must be issued for payments to an attorney even if they are incorporated. 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.

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. 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 financial institutions requiring a lien on the vehicle.

## Inventories

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somewhat closer to the new normal of inventory levels.”

With fewer prospective buyers visiting showrooms during the pandemic, dealers say they don't need as many cars on the lot for test drives. There were nearly 1 million fewer cars at all U.S. dealerships at the end of October, or 25% fewer compared to a year earlier, according to research firm Motor Intelligence.

But David Hult, CEO of Asbury Automotive Group, a publicly traded dealership chain based in Georgia, said dealer inventories surely will grow when factories catch up to demand.

“I can only assume that the supply will creep back up,” Hult said. “Brand loyalty isn't what it used to be, and when

someone else has a product that you don't, you could actually lose sales.”

For decades, American dealerships have kept endless rows of vehicles out-



side their stores in enough colors and variations for buyers to find what they want, when they want it. Smaller inventories would result in more customers preordering their cars weeks in advance, a practice common in Europe and elsewhere. The change would have implications for dealer-owned real estate and how carmakers run their factories.

## Year-end

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2. The Families First Coronavirus Response Act provides refundable tax credits that reimburse you, dollar-for-dollar, for the cost of providing paid sick and family leave to their employees for leave related to COVID-19 between April 1, 2020 and Dec. 31, 2020. These credits are received on Form 941 payroll tax returns.

3. If the dealership has a Section 125 plan (cafeteria plan), make sure eligible employees complete the 2021 election forms before the first 2021 payroll. Remember that stockholders owning more than 2% in S Corporations (LLCs, etc.) are not eligible to participate.

4. 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 \$7,200 for a family with a \$1,000 additional contribution for those who are age 55 and over.

5. 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.

## 2021 dollar thresholds in Regulations Z, M unchanged from 2020

Based on a nearly flat increase in the consumer price index for the 12 months that ended in May, the exemption thresholds for Regulations M and Z for exempt consumer credit and lease transactions will remain \$58,300 effective Jan. 1.

The thresholds are set pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) amendments to the Truth in Lending Act and the Consumer Leasing Act that require adjusting the thresholds annually based on the annual percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

If there is no annual percentage increase in the CPI-W, the Federal Reserve Board and the Bureau will not adjust this exemption threshold from the prior year.

However, in years following a year in which the exemption threshold is not adjusted, the threshold is calculated by applying the annual percentage change in CPI-W to the dollar amount that would have resulted, after rounding, if the decreases and any subsequent increases in the CPI-W had been taken into account. Transactions at or below the thresholds are subject to the protections of the regulations.

### 2021 DOC fee to be announced Dec. 10

The CATA will issue a special notice following an announcement by the Illinois attorney general's office, expected Dec. 10, on the maximum documentary service fee that can be charged in 2021.

Annual adjustments to the DOC fee are based on changes in the federal consumer price index.

## COVID-19 increases dealer anxiety about manufacturer demands

The COVID-19 pandemic puts new weight behind two longstanding complaints dealers have with OEMs, said Rhett Ricart, 2020 chairman of the National Automobile Dealers Association. Automaker demands for expensive, lookalike facilities, which Ricart calls “mausoleums,” are the first dealer complaint. The second is retroactive “stair-step” dealer incentives tied to hitting volume targets.

“Mausoleum mandates do nothing to help the dealers and the customers they serve,” Ricart said this month during a webinar hosted by the Detroit-based Automotive Press Association. “If the OEMs think they’re so darned important, they ought to help the dealers with it.”

Ricart ties both complaints to the current social-distancing environment imposed by the coronavirus. The NADA has complained for many years about OEM facility requirements — especially, the demand for uniform, corporate appearances.

Several OEMs put facil-

ity upgrades on hold during business shutdowns earlier this year. But the NADA is on guard in case some OEMs dust off those plans since sales have bounced back.

Such demands “didn’t do a damn thing to increase customer satisfaction before the pandemic,” Ricart said. In his view, they make even less sense during the pandemic, when many customers want to avoid the dealership completely.

There always will be some customers who want to come to the dealership to get questions answered, and to see, hear, feel and smell the cars and trucks for themselves, Ricart said.

However, he said the pandemic has sped up the evolution of the dealership showroom to “more of a delivery center,” where customers do most of the shopping and buying online and only come to the dealership to take possession — unless they opt for home delivery.

Under the circumstances, building a big showcase is out

of touch with the new reality, Ricart said.

When a dealer builds a new building, “We’ve got to keep it for 30, 40 years from now,” he said. “I think if you look around in 30 years, any building you have now is not going to look like a building you need, period.”

Compared with OEM facility demands, tying COVID-19 to the NADA’s longstanding objection to stair-step incentives is a bit more of a stretch.

The NADA’s basic argument remains the same, Ricart said: Retroactive, stair-step incentives distort the market, create customer distrust and hurt the brand image for both the dealership and the OEM.

Ricart didn’t name any OEMs. Jared Allen, a spokesman for the NADA, said separately that Ricart was speaking in general terms about the entire industry.

What happens is, to earn the maximum dealer incentive per unit, say, for a whole month’s target volume for a

certain vehicle, the dealership has to hit the target or else lose the per-unit bonus for the entire number, including the vehicles that are already sold. That’s the retroactive part. Dealerships that might miss the target are likely to drop prices at the end of the month.

“You come in one week and it’s one price, then you come in next week and it’s not the same price,” Ricart said. “Nobody would like that on a big purchase, whether it’s a washer-dryer, or a hot tub, or anything.”

The tie-in with COVID-19 is that during the pandemic, more customers are switching to digital shopping, at advertised prices, Ricart said.

“For the last eight months ... digitization has made pricing so easy to understand,” he said. “If you advertise a price online, that’s pretty much your best price.”

That is, unless a stair-step incentive complicates pricing. “If we regress in this area, it is our customers that will suffer,” Ricart said.

## Van

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food insecurities during the pandemic.

“Raymond Auto Group has served Antioch and surrounding towns for 60 years, and is committed to being there when our community needs a little help,” said Mark Scarpelli, president of the group. “This case is no exception.”

The dealer group has partnered with Open Arms Mission for the last decade on various projects to help those in need right within the Antioch com-

munity.

“Our philosophy,” said Open Arms Mission Executive Director Marytherese Ambacher, “has always been neighbor helping neighbor, and we feel blessed that Raymond Auto Group stepped up to help us meet the needs of community members who are food insecure.

“The van will be used to pick up reclaimed food and donations from local grocery stores and deliver food to homebound neighbors.”

Local new-car dealers are perfectly positioned to come to the aid of their

communities. The Chicago Automobile Trade Association, the area’s new-car dealer association, has been a longtime supporter of local nonprofit organizations. Since the inception of its Chicagoland Dealers Care program in 2008, the CATA has donated more than \$100,000 to local charitable organizations supported by its dealer members.

For more information on Raymond Auto Group and the CATA, visit RaymondDeals.com and CATA.info, respectively. For more about Open Arms Mission, see OpenArmsMission.org.