

2009 YEAR END CHECKLIST FOR AUTOMOBILE DEALERS

Please take a few minutes to review the following checklist and consult a member of **Boyer & Ritter's Dealership Services Group** with any questions you may have.

- 1. Shareholder Related Expenses** - Salaries and other payments such as interest on loans owed to any shareholders of an S corporation, or to shareholders of a C corporation owning more than 50 percent of the company's stock, must be paid by year-end to be deductible in 2009. This includes expenses owed to individuals related to the shareholder.

2. Inventories

LIFO

- i. *Consider Combining LIFO Pools*

Beginning in 2008, dealers can take advantage of a new Revenue Procedure

Revenue Procedure 2008-23 permits the combining of car and truck pools used in dollar value LIFO inventory calculations into one vehicle pool for new and one vehicle pool for used vehicles. Combining the pools will prevent LIFO reserve liquidations based on year-end inventory mix between cars and trucks, eliminate tax uncertainty for crossover vehicles and insure that the most taxpayer advantageous layer is always recaptured, if an inventory shrinkage occurs

- ii. *Record 2009 LIFO Estimate*

Make sure that a reasonable estimate of the LIFO adjustment for the year is included on all versions of the December financial statement. *There are no exceptions.* The best place to charge the LIFO estimate is to cost of sales in a cost account that has no other activity.

Inventory not on LIFO

- i. *Used Vehicles* - If not on LIFO, adjust all used vehicles down to the current wholesale market value as of the end of the year, taking into consideration the mileage and condition. Remember to retain the used vehicle guide.

Inventory not on LIFO (continued)

- ii. *Parts* - Compare the actual parts inventory to the accounting parts inventory and make appropriate adjustments. Have your parts manager determine which parts are worthless. Subject to your review, donate or scrap these parts before year end if they cannot be returned for credit. Have the parts manager give you a copy of his parts inventory summary, showing the dollar amount of parts in inventory at year end along with the aging of the inventory.
- iii. *Miscellaneous Inventories* - Adjust all to actual, including labor inventory, sublet, gas-oil-grease, body shop materials, etc.

3. Try to keep the accounting records open at the end of December.

- a. Maximize LIFO deductions by recording all new vehicles that were built and received in 2009, as vehicle purchases in 2009, by keeping the new vehicle purchase journal open the first few days of 2010.
- b. Record all 2009 expenses in 2009, by keeping your accounts payable journal open, to include advertising, interest, utilities, telephone, gasoline, data processing, insurance, property taxes, etc.
- c. Account for all missing documents.
- d. If any vehicle deal is not completed in 2009, then treat it as a 2010 vehicle sale.
- e. Where possible, reconcile all balance sheet accounts, before closing the year end.

4. Demonstrators - The IRS Revenue Procedure 2001-56 provides guidance for taxation of the personal use of a demonstrator vehicle provided by dealers to their employees. The Revenue Procedure gives the following methods to determine the amount taxable to the employees:

- a. **Simplified Full Exclusion Method** - Provides complete exclusion from taxation for the use of a demonstrator vehicle for qualified salespersons.
- b. **Simplified Out/In Method** - Provides simplified record keeping requirements for the Full Simplified Exclusion Method for qualified salespersons.
- c. **Partial Exclusion Method** - This method allows or partial taxation of an auto demonstrator vehicle with limited record keeping requirements for qualified salespersons.

- d. **Simplified Full Inclusion Method** - This method allows the dealership to use the Annual Lease Value Tables issued by the IRS, to determine the taxable value of the demonstrator based on the average selling price of the dealership's vehicles for the prior year or the value of the vehicle actually used by the employee. The value of the vehicle provided cannot be reduced for business use.

5. Fixed Assets

- a. **Review your fixed asset purchases** - Expense all items where appropriate. If a large amount of small tools were purchased, which collectively was a large cost, but individually was a small cost, consider expensing these purchases rather than capitalizing them.
- b. **Bonus depreciation** - The American Recovery and Reinvestment Act of 2009 provides for bonus depreciation equal to 50% of the adjusted basis of qualified property. In order for property to qualify, it generally must be new property with a MACRS life of twenty (20) years or less and acquired and placed in service in the 2009 calendar year.

Certain property with a MACRS life of ten (10) to twenty (20) years that was purchased via a binding contract in 2009 and placed in service no later than 2010 may also qualify.

- c. **Section 179 Expense** - You may deduct (rather than depreciate) the cost of certain assets placed in service in 2009 up to a maximum limit of \$250,000. Note that this election phases out once the qualified fixed asset additions for the year exceed \$800,000. The phase out is dollar for dollar, so this opportunity is eliminated once fixed asset additions equal \$1,050,000.
- d. **SUV Deduction** - The expense deduction is capped at \$25,000 for SUV's with loaded weights in excess of 6,000 pounds. The remaining cost is eligible for depreciation over a five-year period.
- e. **Like Kind Exchange** - If you will be disposing of property and acquiring new property, consider a like kind exchange to defer the gain.
- f. **Cost Segregation Study** - If you have recently acquired a building or completed new construction, consider a cost segregation study to take advantage of shorter tax lives for certain costs.

6. **Prepare 1099's** - Prepare a 1099-MISC, which is required, for all non-employees who received over \$600 in 2009. Other payments that require a 1099-MISC include rent, and prizes and awards given to contest winners. A 1099-INT must be prepared when interest is paid to individuals, including owners.
7. **Cafeteria Plans (Section 125 Plan)** - If the dealership has a Section 125 Plan, verify that all participants are eligible. S corporation stockholders who own two percent (2%) or more of stock are not eligible to participate. Partners in a partnership and LLC owners, regardless of ownership percentage, are also ineligible.
8. **S Corporation Insurance Premiums** - Health, disability and life insurance premiums paid by an S-corporation on behalf of a shareholder, owning more than 2 percent of the corporation's stock, are taxable fringe benefits. The amount paid on behalf of the shareholder must be included on the shareholder's W-2 as wages. Health and disability insurance are not subject to Social Security or Medicare tax. Health, disability and life insurance are not subject to Pennsylvania and local income taxes.
9. **Group Term Life Insurance** - Employer provided group term life insurance with a value of \$50,000 or less is a tax-free benefit if not discriminatory. The value in excess of \$50,000 is federal taxable income and must be reported on Form W-2. The taxable cost may be determined using the IRS Uniform Premium Table.
10. **S Corporation Loan Basis** - If an S Corporation shareholder has lent money to the Corporation, not evidenced by a separate written document (open account debt), recent regulations limit the amount of "open account debt" that can be used as basis to recognize current year tax losses. The regulations may also impact the taxability of the repayment of the "open account debt." The "open account debt" should be reviewed for compliance with the new regulations.
11. **Additional Considerations**
 - a. **Bad Debts** - Review all past due accounts receivable, and write off those for which all collection efforts have failed and are deemed uncollectible.
 - b. **Prepaid Expenses** - Carefully review prepaid assets and expense all items in this account that do not provide a benefit in 2010.
 - c. **Accrued Wages and Commissions** - Verify that all wages and commissions, which were paid in 2009 for 2009 services, have been accrued in 2009.
 - d. **Accrued Payroll and Sales Taxes** - Make sure the payroll tax and sales tax payable accounts equal the actual amount of all taxes paid in 2009 with the 2009 fourth quarter and year-end tax returns.

- e. **Repairs and maintenance** - If building repairs or maintenance items such as painting may be conducted in early 2010, try to have them completed by the end of 2009.
- f. **Meals and Entertainment** - Have a schedule of meals and entertainment expenses for the year. Exclude travel expenses and the employee holiday party, as these expenses are 100% deductible.
- g. **Charitable Contributions** - Consider making any charitable contributions planned for early 2010 in 2009 to take the deduction now. If the dealership is an S corporation, there are additional benefits for contributing appreciated property in 2009 and 2010.
- h. **Unrealized Losses** - If the dealer or the dealership own investments that have unrealized losses, consider the tax benefit of selling them in 2009.
- i. **Cash Reporting** - Before January 31, 2010 notify all customers who had an IRS form 8300 filed for them in 2009.
- j. **Income Tax Deposits** - Make all required personal and corporation income tax deposits for 2009, and verify that your personal income tax withholding is adequate.
- k. **Nonqualified Deferred Compensation Plans** - If the dealership has nonqualified deferred compensation plans, review the plans for compliance with the recent tax law changes.
- l. **Employer Owned Life Insurance** - If the dealership has employer owned life insurance issued after August 17, 2008, the policy should be reviewed for compliance with the recent tax law changes.

Disclaimer

Information contained in this article is intended solely to provide general guidance on matters of interest for the personal use of the reader, who accepts full responsibility for its use. The application and impact of laws can vary widely based on the specific facts involved. Given the changing nature of laws, rules and regulations, and the inherent hazards of electronic communication, there may be delays, omissions or inaccuracies in information contained in this article. Accordingly, the information is provided with the understanding that the authors and publishers are not herein engaged in rendering legal, accounting, tax, or other professional advice or services. As such, it should not be used as a substitute for consultation with professional accounting, tax, legal or other competent advisers. *Before making any decision or taking any action, you should consult a professional adviser regarding your specific fact pattern.*