

Are You Handling Tax Issues Correctly?

By Brandon W. Burrows, CPA, LSL CPA's

Automobile dealerships face many tricky compliance requirements that include unique income tax rules. There are rules and regulations that are often overlooked or ignored just to keep things simple. Here are a few that are often mis-handled or just missed.



amount added to their wages and included in their compensation on their W-2. The amount should be included in the information box on the W-2 because the owner is allowed a special deduction for it on their personal income tax return.

- Company Vehicles - Personal Use by Employees and Officers. Personal use of a company owned vehicle is a taxable benefit to officers and employees. Often this is either ignored or incorrectly calculated and reported. This benefit is valued based on tables published by the IRS using the fair market value of the vehicle when first used by the officer or employee. It is not based on the dealership cost but the fair value. The table provides an annual taxable value, which is prorated for partial years. This value is added to compensation on the W-2. Only in special situations should this amount be reported on a 1099, usually if the dealership is not a corporation and the user of the vehicle is an owner. Values of vehicles used by relatives of an employee are reported as a benefit to the employee. There are more detailed rules for taxation of demos that are not covered here. Consult your tax advisor for an explanation.
- Health Insurance of S Corp Owners. An individual who owns more than 2% of an S Corporation and has company paid health insurance must have that
- Meals and Entertainment. Strict rules must be followed for these business expenses in order for them to be deductible. The deduction for these expenses is limited to 50% of the expense incurred. But without proper documentation the amounts are completely non-deductible. Proper documentation includes a receipt or invoice. Also required is recording names of the individuals included, at least one of whom must be an employee or officer of the company, time and place, and business purpose. Business does not have to be discussed during the activity as long as it precedes or follows a business meeting. A receipt or invoice is important as the IRS has ruled that merely a credit card statement is insufficient.
- Factory Prizes and Awards. The manufacturers often provide incentives to dealership employees for meeting various sales goals. These are taxable compensation to the employee and must be added to wages and other compensation reported on their W-2.

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ADOMA Board Meeting

**Saturday,
October 1, 2011
At
Cerritos
SCCTT**

Interested in serving on a committee? Join us!

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Chapter Meeting Information for September

Inland Empire, Los Angeles & Orange County Chapter Meetings

GETTING READY FOR YEAR END What Business Managers Can Do In Advance

Speaker: Brandon Burrows, CPA and Shelly Jackley, CPA
Lance, Soll & Lunghard, LLP



*What can be done now and for the remainder of the year to get yourself prepared?
Deadlines hit quickly and January is a busy month, how can you get some of that time back?
What's the CPA going to want – and why?*

Brandon Burrows, CPA and Shelly Jackley, CPA, partners of LSL CPAs will discuss how best to get ready for your year end. Brandon has worked with automobile dealerships for over 30 years. He received his Bachelor of Arts degree from Cal State Fullerton in Mathematics. He is a licensed CPA in three states. Shelly has worked with automobile dealerships for 10 years. She received both a Bachelor of Arts in Business Administration and a Masters Degree in Business Administration from Cal State Fullerton.

Items to be discussed include:

- Planning for LIFO
- Parts Inventory
- Fixed assets
- Expenses to detail
- New agreements
- What will need to be available after closing

Bring not only questions but your personal tricks to preparing for year end.

****REGISTRATION INFORMATION NEXT PAGE**

Platinum Vendor Sponsor of the Month: DealerTrack (see ad pg. 5)

www.dealertrack.com

Meeting Registration Information

- **ORANGE COUNTY Date: Thursday, September 15th**

Time: Social 6:00 PM, Dinner 6:30 PM **Cost:** \$35.00 Members & Spouses, \$45.00 Guests

Location: *Black Angus Restaurant*, 1350 N. Tustin Ave., Santa Ana

Register by **Monday, September 12th** by phone, fax or our website at www.adoma.org. Reservations not honored will be billed for the full meal fee. **Make checks payable to ADOMA-OC:**

c/o Sherri Johnson, Allen Cadillac GMC
28332 Camino Capistrano, Laguna Niguel, CA 92677
Tel: 949/485-3700— Fax 949/364-0110
Email: sjohnson@allenaautos.com

- **LOS ANGELES Date: Wednesday, September 21st**

Time: Social 6:00 PM, Dinner 6:30 PM **Cost:** \$35.00 Members & Spouses, \$45.00 Guests

Location: *Stevens Steak & Seafood House*, 5332 Stevens Place, City of Commerce

Register by **Monday, September 19th** by phone, fax or our website at www.adoma.org. Reservations not honored will be billed for the full meal fee. **Make checks payable to ADOMA-LA:**

c/o Cherie Harris, Ford of Montebello
2747 Via Campo, Montebello, CA 90640
Tel: 323/838-6920 fax: 323/838-6912
Email: cheriedharris@yahoo.com

- **INLAND EMPIRE Date: Tuesday, September 27th**

*****Reminder— Back to Sizzler!*****

Time: Social 6:00 PM, Dinner 6:30 PM **Cost:** \$35.00 Members & Spouses, \$45.00 Guests

Location: *Sizzler (Banquet Room) 6631 Clay, Riverside (Van Buren & Clay)*

Register by **Monday, September 26th** by phone, email or our website at www.adoma.org. Reservations not honored will be billed for the full meal fee. **Make checks payable to ADOMA-IE:**

c/o Jane Knight, Lexus of Riverside
3150 Adams St., Riverside, CA 92504
tel. 951/354-4150
Email: jane@lexusriverside.com

PHOTO—August Dinner Meeting in Inland Empire



*Sam Celly
Celly Services, Inc.*

*"Managing Work
Comp Claims"*

Education Article continued...


Are You Handling Tax Issues Correctly? continued...

- Getting the information to include in the employee's W-2 in a timely manner can be difficult. The manufacturers are supposed to advise you of the values assigned to these prizes and awards but getting this information before W-2's are prepared may be challenging. You may have to be proactive with factory representatives to get the value of these perks and with your sales managers to find out who benefited from them.
- Hire Credits. In 2010 hiring tax credits became available to stimulate the economy. The rules are not too complex to follow and can result in thousands of dollars of savings to dealerships. Any employee hired between February 3 and December 31, 2010 could very well be eligible and provide payroll tax savings for 2010. Even


though 2010 is over, payroll tax returns can be amended to take the credit. This becomes important for 2011 as additional credits are available for those hires that are retained for a year. Obtaining the credits will require completing certain forms, including signed declarations from the hired employees, but may certainly be worth the effort.

This is just a sampling of a few income tax items that may be mishandled by automobile dealerships. Consult your tax advisor for more details of how you can handle these correctly.

IRS CIRCULAR 230 DISCLOSURE: We are required to inform you that any advice relating to U.S. taxation contained in this communication (including any attachments or enclosures) is not intended to be used nor may it be used for the purpose of (1) avoiding tax related penalties under the Internal Revenue Code, or (2) promoting, marketing or recommending to another party any tax-related matter addressed herein.

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50-State Vehicle Registration

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We welcome any questions you may have and look forward to working with you.

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September 2011
Educational Meetings
for Controllers, Business
& Office Managers
in the Southern California Area.

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**UPCOMING CHAPTER
EDUCATIONAL MEETINGS**

**"GETTING READY FOR
YEAR END"**

ADOMA Orange County
Thursday, September 15th

ADOMA Los Angeles
Wednesday, September 21st

ADOMA Inland Empire
Tuesday, September 27th

*See pages 2 & 3 for details!
Visit www.adoma.org often for updated
program information.*

**Vendor Service page
on the Web**

www.adoma.org/memps.htm
 Lists all service provider members.
 ADOMA does not endorse products or services provided.

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The platinum program is designed to meet the needs of our vendors looking for expanded marketing opportunities. Benefits include (limited to 24 firms annually): 1 annual membership, 1 full-page newsletter ad, 1 full-page ad highlighted on the Vendor Sponsor of the Month page on the ADOMA website, as well as a wealth of other benefits.

Visit our website at www.adoma.org or contact the office today for an application—714-832-5741.