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“Cash for Clunkers” Should Help Stimulate Dealer Sales

Some good news and much needed relief appear to be on the way for auto dealers. On June 9, 2009, the US House of Representatives passed the Sutton Fleet Modernization bill, a.k.a the “cash for clunkers” act. The idea behind the legislation is to get older and less efficient vehicles off the road as well as stimulate automobile sales. This is done in the form of a US Government subsidy to the purchaser of a new car or truck. The bill is being endorsed by the National Automobile Dealers Association.

To get older vehicles off the road, the government will subsidize between \$3,500 and \$4,500 for the trade-in value of an older vehicle towards the purchase of a newer more efficient vehicle. The more efficient the new vehicle acquired, the larger the subsidy. Here are the details of how the legislation would work:

	Passenger Car	Light Duty truck / SUV	Large light-duty truck (6,000- 8,500 lbs.)	Work truck (8,500- 15,000 lbs.)
Maximum fuel economy of the trade in vehicle	18 mpg or less (EPA combined)	16 mpg or less (EPA combined)	14 mpg or less(EPA combined)	N/A
\$3,500 voucher	Mileage improvement of at least 4 mpg.	Mileage improvement of at least 2 mpg.	Mileage improvement of at least 1 mpg or trade-in of a work truck.	Trade-in must be at least pre-2002.
\$4,500 voucher	Mileage improvement of at least 10 mpg.	Mileage improvement of at least 5 mpg.	Mileage improvement of at least 2 mpg.	N/A

There is a slight hitch. The customer’s trade-in vehicle can not be resold (at least in whole). The engine, transmission and some other parts must be destroyed so they can not be reused. The idea is to eliminate inefficient, fuel-thirsty, polluting drive-trains. Dealers or salvage operators can resell certain parts. So customers will get no cash for their trade-in vehicle. This will effectively reduce the value of the subsidy for most people.

The vouchers will be electronically transferred from the government to the dealers, not the customers. Furthermore, the voucher can be counted as cash from the buyer, which should help buyers obtain financing on the vehicle.

The bill is estimated to generate 625,000 vehicle sales and cost the US Treasury some \$4 billion. It is now off to the Senate for action.

Downey & Company specializes in accounting, management and tax issues in the auto dealer industry. For more information, please email Paul McGovern at pmcgovern@downeycocpa.com.

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