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Compliance Deficiencies Found in Dealerships

The following is a discussion of common deficiencies found in automobile dealerships' regulatory reporting systems.

Demos-Employees that drive demonstrator vehicles must be taxed on the personal use of the vehicle. We recommend that full-time sales people use the partial inclusion method. Under this method no records are maintained, other than a signed demonstrator agreement. Please feel free to contact our office for a copy of a sample demonstrator agreement. The salesperson is taxed on approximately 1/3 of the monthly lease value of a typical vehicle sold by the dealership. For all other employees, we recommend the full inclusion method. Under both methods, the dealership should use the "annual average look back method" and tables published by the IRS to determine the amount to include in the employee's W-2.

Cash Reporting-Any business must report to the IRS all transactions in cash of over \$10,000. The definition of what constitutes cash is not as obvious as one would assume. The IRS targets automobile dealers in this area. We recommend that each dealership adopt a program to educate employees. The N.A.D.A. has several educational materials to assist you with compliance.

Section 125/Cafeteria Plans-Most dealerships have insurance programs in which employees contribute to such plans on a pre-tax basis. You need to maintain a plan document and distribute the document to employees.

401K Deposits-The Department of Labor requires contributions be remitted as soon as they can reasonably be identified and segregated from the employer's general assets. Holding funds and sending them in once or twice a month is not acceptable.

1099's-Dealers are required to report payments to unincorporated businesses and law firms of \$600 or more on form 1099-Miscellaneous. You should maintain independent contractor agreements on file for individuals with income reported on form 1099. Generally, "runners" are considered employees.

We recommend that dealerships annually review their policies to ensure compliance with the above matters. In some cases, a dealership may have complied with the above regulations in the past but employee turnover has lead to non-compliance.

If you are interested in learning more about a CPA firm that has specialized its practice to service dealerships, please contact Paul McGovern at pmcgovern@downeycocpa.com or call 800-849-6022.

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