

2007 YEAR-END CHECKLIST FOR DEALERS

1. Keep the accounting records open at the end of December:
 - Record December finance chargebacks.
 - Maximize LIFO deductions. Record all new vehicles that were built in 2007 as vehicle purchases in 2007 by keeping the new vehicle purchase journal open the first few days of 2008.
 - Keep your accounts payable journal open to record all 2007 expenses in 2007 including advertising, interest, utilities, telephone, gasoline, data processing, insurance, property taxes, etc.
 - Adjust your property tax payable account to equal the total you actually paid in 2007.
 - Account for all missing documents.
 - If any vehicle deal is not a 100% **completed deal** in 2007, then treat it as a 2008 vehicle sale.
 - Make sure all miscellaneous inventories are adjusted to actual including labor inventory, sublet, gas-oil-grease, body shop materials, etc.
 - Reconcile, when possible, all balance sheet accounts before closing the year.
2. Make sure that a reasonable estimate of your LIFO adjustment for the year is on all versions of your December financial statement. There are no exceptions. If there is not a separate LIFO cost of sales account, the best place to charge the LIFO estimate is to cost of sales in a cost account that has no other activity.
3. If you are not on LIFO for used vehicles, adjust all of your used vehicles to current wholesale market value at year-end. You may want to consider adopting USED VEHICLE LIFO. The IRS has developed an acceptable "alternative used vehicle LIFO" method similar to the new vehicle method. However, based on current used vehicle prices as compared to 2006, electing used LIFO may not be beneficial at this time.
4. Compare your actual parts inventory to the accounting parts inventory and make any adjustments where appropriate. Have your parts manager determine which parts would be considered worthless. Subject to your review, dispose of these parts by year-end. Be sure that your parts manager advises the office manager of the cost of the parts that have been disposed and that the appropriate entry is made to remove the costs from the inventory. Have the parts manager give you a copy of their parts inventory summary that shows the dollar amount of parts in inventory at the end of the year along with an aging of the inventory.
5. If you have any building repair or maintenance items such as painting, etc. that needs to be done in the next few months, try to have these performed by the end of 2007.
6. Review current year fixed asset additions to determine if the costs should be capitalized or expensed. Generally, assets with a cost in excess of \$500 with a useful life beyond a year should be capitalized and depreciated.
7. Carefully review prepaid assets and expense all items in this account that are not valid assets.
8. Review all past due accounts receivables, including employee receivables. Write off those receivables that are not collectible. If any of these are from former employees, issue them a 1099 for the amount written off.
9. Review bank reconciliations for checks (including payroll checks over 60 days old) that are not expected to clear. These checks should be voided and reissued. Funds owed to payees who cannot be located may be considered unclaimed property and you may be required to remit the funds to the state. Before reissuing a check to a vendor, be sure that it has not been paid with a subsequent billing. Be careful in voiding any checks written to the state as some of the state departments are behind in their processing.
10. Make sure all payroll tax and sales tax payable accounts equal the actual amount of the applicable taxes paid in 2008 for the 2007 fourth quarter and year-end filings. The payroll tax accrual can only include taxes owed on wages actually paid in 2007.
11. Make sure you have records of your 2007 meal and entertainment expenses available. Travel expenses and the cost of a Holiday party for employees should not be included in this amount.
12. Be sure that you are in compliance with Internal Revenue Service rules and regulations regarding retaining a backup of each month's accounting records on electronic media. We suggest you keep a 60 months of electronic back up of your accounting data.
13. Form 8300 must be filed if you receive a total of cash in excess of \$10,000 from a customer. Cash includes certain cashier's checks, money orders and traveler's checks. Make sure you have properly filed the form for each transaction and notified the customer of the filing. Have your office staff show you the Form 8300's filed for 2007 so you know this function is being performed.

14. Make sure IRS Form 1099-MISC is issued to all non-employees and businesses that are not incorporated that received \$600 or more in 2007 for payment of services, awards, commissions or fees for services. When preparing the 1099, for those vendors from whom you purchased parts in conjunction with a service, you must report the total payment made to them on the 1099. Review all of the non-employees to see if they should really be considered employees for payroll tax purposes. Also, this form should be sent to corporations for payments for legal services.
15. Make sure that all wages and commissions that are paid in 2008 for 2007 services have been accrued in 2007. Also, make sure the first payroll in 2008 is **not** included on your W-2's for 2007, but will instead be on the W-2's for 2008 (based on the date the payroll checks are handed out even though some portion of the payroll was for 2007 services). If you are an "S" Corporation, any shareholder owning more than 2% of the stock cannot have wages accrued for them. In order to take a deduction for those wages, you must pay them in 2007 so that they are included on the 2007 W-2.
16. 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% in order to take the deduction this year. Make sure they are reasonable in total. All accrued payroll for non-shareholders must be paid no later than 3/15/08.
17. Make sure interest is paid on loans to or from shareholders or other related parties that are on the dealership's books by year-end. Also, be sure an IRS form 1099-INT is issued for this interest and any rents paid to individuals.
18. Review procedures for the use of demonstrators to insure you comply with the current IRS regulations.
 - All individuals who are provided a demo to drive should sign a written demonstrator policy agreement.
 - There are two IRS approved methods that can be used for full-time salespeople. The first method provides them with tax-free use of the demo. This method is fairly complicated and restrictive. The second 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 a vehicle valued at \$25,000, the daily inclusion is \$6.00. Under this method, employees are not required to maintain logs.
 - For employees who are not a full-time salesperson and any other individuals who drive a demo, 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 vs. personal use of the vehicle.
 - The amount included in income is to be added to each employee's W-2. Nonemployee family member income amounts must also be included in the employee's W-2. Shareholders, not on the payroll who provide services to the company, and any other nonemployees must be issued a Form 1099 MISC for the income. Remember amounts included in income should be reduced by any payroll deductions for personal use of company vehicles.
19. If you or the dealership own stocks that have unrealized losses, consider discussing with your tax or investment professional the benefit of selling them by the end of the year.
20. If you make gifts to relatives each year for estate tax purposes, make the payment by the end of the year.
21. Make sure you have made all required personal and corporate income tax deposits for 2007 and see that your personal income tax withholding is adequate. You should consider paying all of your personal state income tax by the end of the year in order to take a federal income tax deduction for the state tax; however you should consult your tax advisor if you think you may be affected by the alternative minimum tax.
22. If you plan to make any charitable contributions, consider making them in 2007 to receive a current year 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. The IRS requires written acknowledgment for each contribution.
23. If the dealership has a section 125 plan (cafeteria plan), make sure employees complete the 2008 election forms before the first 2008 payroll. Remember, stockholders owning more than 2% and their families in "S" corporations are not eligible to participate.
24. W-2's for "S" corporation shareholders should include income for health insurance premiums paid by the corporation. This amount is not subject to social security or Medicare tax.
25. If your retirement plan allows changes throughout the year, maximize your deductible contributions, \$15,500 for a 401(k) plan, and \$20,500 if over age 50. If you have self-employment income, consider establishing a Keogh plan. You have until the due date of your return, including extensions, to fund the contribution.
26. Consider adopting IRS "trade discounts" that deals with factory "interest credits" and "advertising credits". This procedure will assist in reducing dealership income taxes. This might be worthwhile if you have a large enough new vehicle inventory.

Written by: Woodward & Associates, Inc., CPA's Bloomington, IL