



**MICHAEL SILVER & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

5750 Old Orchard Rd., Ste. 200, Skokie, IL 60077

**Phone:** 847.982.0333 **Fax:** 847.982.0219

<http://www.msco.net/industries-auto.html>

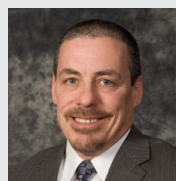
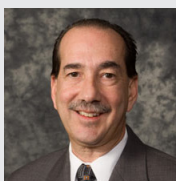
## 2014 Year-End Planning Checklist for Dealers



Michael Silver & Company CPAs understands that there are a wide range of issues that need to be addressed as you assemble your documents for year-end tax planning. We hope that our annual year-end dealer checklist will

be of help to you during this process. If you have any questions about the information detailed in the checklist, or if you need assistance completing your returns, please do not hesitate to contact us.

**Larry Isaacson, CPA**  
Tax Partner  
[LarryI@msco.net](mailto:LarryI@msco.net)  
847.213.2103



**Phil Kent, CPA**  
Audit Partner  
[PhilK@msco.net](mailto:PhilK@msco.net)  
847.213.2113

### Year-End Planning:

- ☒ **Sec. 179 expensing limit for 2014 is \$25,000.** Consider placing eligible assets into service before the end of 2014 to take advantage of this current year expensing limit.
- ☐ **If you plan to make any charitable contributions, consider making them in 2014** to receive a tax 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 of \$250 or more.
- ☐ **Confirm you have made all required personal and corporate income tax deposits** for 2014, 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 with your tax advisor if you think you may be affected by the Alternative Minimum Tax.
- ☐ **Consider maximizing your retirement contributions**, \$17,500 for a 401(k) plan (\$23,000 if over age 50), and \$52,000 to profit sharing plans (net of any 401(k) contributions).
- ☐ **If you or the dealership owns stock that has unrealized losses**, consider discussing with your tax or investment professional the benefit of selling them by year-end to offset realized gains recognized earlier in the year.
- ☐ **Confirm you have substantiation for your 2014 meal and entertainment expenses.** Travel expenses and the cost of a holiday party for employees or food ordered into the dealership for staff should not be included in this amount.
- ☐ **Accrued interest on loans** from shareholders and other related parties, as well as rents, must be paid in order for the dealership to deduct these amounts in the current year.



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### Keep the accounting records open at the end of December:

- ☐ **Record December finance chargebacks** in December.
- ☐ **Maximize LIFO deductions.** Record all new vehicles that were built and invoiced in 2014 as vehicle purchases in 2014 by keeping the new vehicle purchase journal open the first few days of 2015.
- ☐ **Keep your accounts payable journal open** to record all 2014 expenses in 2014, including advertising, interest, utilities, telephone, gasoline, data processing, insurance, etc.
- ☐ **Adjust your property tax payable account** to equal at least the total you actually paid in 2014.
- ☐ **If any vehicle deal is not a 100% completed deal** in 2014 (all paperwork and funding in 2014), then treat it as a 2015 vehicle sale.
- ☐ **Make sure all miscellaneous inventories are adjusted to actual**, including labor inventory, sublet, gas-oil-grease, body shop materials, etc.
- ☐ **Distributions paid to S corporation shareholders should be equalized** in accordance to their ownership percentage before year-end.
- ☐ **You must include a reasonable estimate of your LIFO adjustment** for the year on all versions of your December financial statements. **There are no exceptions.** If there is not a separate LIFO cost of sales account, charge the LIFO estimate to cost of sales in a cost account that has no other activity.
- ☐ **Compare your actual parts inventory to the accounting parts inventory** and make adjustments where appropriate. Have your parts manager determine which parts should be considered worthless. Subject to your review, dispose of these parts by year-end.

- ☐ **All wages and commissions paid in 2015 for 2014 services should be accrued in 2014.** Make sure the first payroll in 2015 (even though some portion of the payroll was for 2014 services) is **not** included on your W-2s for 2014, but will instead be on the W-2s for 2015.
  - a. All accrued payroll for non-shareholders must be paid no later than 3/15/15 for it to be deductible in 2014.
  - b. 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% including related party interests) in order to take a 2014 tax deduction.
  - c. If you are an S corporation, wages to a shareholder cannot be accrued. You must pay them in 2014 and include the wages on the 2014 W-2.
- ☐ **Reconcile, where possible, all balance sheet accounts** before closing the year.

### Additional Year-End TO DOs:

- ☐ **If you are not on LIFO for used vehicles**, adjust all of your used vehicles to current wholesale market value at year-end. On an annual basis, used vehicle LIFO should be discussed with your tax advisor. The IRS has developed an acceptable "alternative used vehicle LIFO" method similar to the new vehicle method.
- ☐ **Consider establishing a formal capitalization policy**, which would allow you to write-off, as a current expense, the cost of assets that in previous years would have been capitalized and depreciated. You need to take action by the end of year to adopt a formal capitalization policy. New regulations allow businesses to write off small asset purchases. The amount that can be written off is up to \$5,000 per item or invoice if you have an audited financial statement and \$500 per item if you do not.



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- ☐ **Review all past due accounts receivables**, including employee receivables. Write off those receivables that are not collectible.
- ☐ **Review prepaid assets and expense** all items in this account that are not valid as prepaid at year-end.
- ☐ **All payroll tax and sales tax payable accounts must equal the actual amount of the applicable taxes paid** in 2015 for the 2014 fourth quarter and year-end filings. The year-end payroll tax accrual can only include taxes owed on wages actually paid in 2014.
- ☐ **Compute the December 31, 2014 accrued vacation wages payable** and adjust the books accordingly. Vacation wages paid January 1, 2015 through March 15, 2015 are deductible for tax purposes. No vacation accrual is allowed for any shareholders.
- ☐ **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, which would require you to remit the funds to the appropriate state agency. Before reissuing a check to a vendor, be sure that it has not been paid with a subsequent billing.
- ☐ **W-2s for S corporation shareholders must include in wages health insurance premiums paid by the corporation.** This amount is not subject to social security or Medicare tax. If the dealership pays the insurance premiums on behalf of the shareholders' children who are employees of the dealership, the children's W-2 must include the insurance premiums.
- ☐ **Determine if you are receiving services from individuals who should be considered employees.** The IRS provides a voluntary program that will allow you to convert these individuals prospectively from independent contractors to employees with partial relief from penalties and interest including protection from prior year audits of the converted class of workers. Consult your tax advisor for details.

### Review procedures for the use of demonstrators to ensure you comply with the current IRS regulations:

### Year-End Tax Reporting:

- ☐ **IRS Form 1099-MISC must be issued to all businesses that are not incorporated** (including LLC's) and received \$600 or more during 2014 for payment of services, awards, commissions, or fees for services. A Form 1099-MISC must be issued for payments to an attorney even if they are incorporated. 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. Also, Form 1099-MISC must be issued for all rents paid to non-corporate taxpayers, including shareholders, and Form 1099-INT must be issued for interest paid to shareholders and any other individuals.
- ☐ **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 salespersons.** 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 example, 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 full-time salespersons** and any other individuals who drive demos, 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 versus personal use of the vehicle.



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- ☐ **The amount included in income is to be added to each employee's W-2.** Non-employee family member income amounts must also be included in the employee's W-2. This income is subject to social security and Medicare tax. Shareholders not on the payroll and any other non-employees must be issued a Form 1099-MISC for the income.

### Other:

- ☐ **Form 8300 must be filed if you receive cash in excess of \$10,000 from a customer.** This includes cashier checks, money orders and traveler's checks except those issued by financial institutions requiring a lien on the vehicle.
- ☐ **If the dealership has a section 125 plan** (cafeteria plan), make sure eligible employees complete the 2015 election forms before the first 2015 payroll. Remember that stockholders owning more than 2% in S corporations (LLC's, etc.) are not eligible to participate.
- ☐ **If you offer a health care Flexible Spending Arrangement (FSA) as part of your cafeteria plan,** in order for it to be a qualified benefit under a cafeteria plan, the maximum salary reduction contribution to the health care FSA for 2014 is limited to \$2,500 (\$2,550 for 2015). Stockholders owning more than 2% in an S corporation or an LLC are not eligible to participate. If your company offers a qualified high deductible health insurance plan, you and employees might be able to contribute to individual Health Savings Accounts (HSA). Contribution limits for 2014 are \$3,300 for an individual and \$6,550 for a family with a \$1,000 additional contribution for those who are age 55 and over.

- ☐ **You will continue to receive Form 1099-Ks for sales** (paid to your dealership) by credit or debit cards and online payments. The credit card companies are required to send you a Form 1099-K with the gross sales data. There is no requirement that you reconcile these statements with your books, but the IRS did begin issuing matching notices during 2013. At a minimum you should maintain these forms in your records should the IRS question the sales reporting of these in the future.
- ☐ **Effective January 1, 2015, employers with greater than 100 full-time employees will be subject to the pay or play penalty provisions of the Affordable Care Act.** This provision has been pushed to 2016 for certain employers who have between 50-100 employees.
- ☐ **If you make gifts to individuals each year for estate tax purposes,** the payments must be made by year-end.

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