

MD, DC Join Lawsuit Against EPA on Auto Emissions

Action Aimed at Forcing Administration to Regulate Greenhouse Gas Emissions

Maryland and the District of Columbia were among 16 states, three cities and 11 environmental groups that sued the EPA last week in an effort to force the Bush Administration to regulate greenhouse gas emissions from vehicles. The plaintiffs said the agency is ignoring a year-old Supreme Court ruling that the federal government has legal authority under the Clean Air Act to control carbon dioxide emissions from vehicles. They asked the U.S. Court of Appeals for the District of Columbia to compel the EPA to act within 60 days.

The Supreme Court rejected the EPA's claim that carbon dioxide was not a pollutant and said that the federal agency must regulate it under the 30-year-old Clean Air Act. The court held that the EPA must decide whether such pollution is endangering public health, and if it is, the agency must issue

regulations to control it.

The case, Massachusetts v. EPA, was joined by a dozen states, but not Maryland, which at the time was led by Republican Gov. Robert L. Ehrlich Jr., who was reluctant to sue the Bush Administration. However, Gov. Martin O'Malley, a democrat, has no such reluctance and joined the petition with Arizona, California, Connecticut,

Delaware, Illinois, Iowa, Maine, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Oregon, Rhode Island, Vermont, Washington, New York City, Baltimore City and the District of Columbia.

Following the Supreme Court ruling, Congress passed and President Bush signed a new energy law that raises fuel

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Meanwhile, Automakers Fight Calif. Fuel Rules State by State

Automakers are taking their battle against even tougher fuel efficiency requirements from the Nation's Capital to state capitals around the country, the Detroit News reports. The Alliance of Automobile Manufacturers is trying to convince states not to adopt California's emissions rules, which are stricter than federal regulations and would force automakers to build cars that average 43.7 mpg and light trucks that average 27 mpg.

Automakers contend that allowing states to impose their own standards would lead to an unwieldy patchwork of emissions regulations, requiring state-by-state compliance. They told the News such an approach could force them to stop selling some vehicles in some states.

Since the beginning of the year, Dave McCurdy, CEO of the Alliance of Automobile Manufacturers, and a former Democratic congressman from Oklahoma, said he has met with the governors of Utah, Wyoming, Minnesota, New Hampshire and Montana, as well as numerous state legislators – with some success. Minnesota, Colorado and Montana were moving toward adopting California-style

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INDUSTRY TRENDS

Lenders Ease the Throttle on Car Loans

Even Buyers With Good Credit Face Some Tougher Terms

The credit crunch, having knocked around the American home, is now rolling into the garage, The Wall Street Journal reports. Even as the Federal Reserve slashes interest rates, it's getting tough for many consumers to find attractive terms on auto loans.

Many lenders are making fewer loans and instituting stricter standards on loans they do approve, often requiring higher credit scores, making smaller loans and demanding bigger down payments. And some consumers may not be able to get a car loan at all.

Through March 20 of this year, about 90% of auto-loan applications from prime borrowers were approved, down from 92.5% for the same period last year, according to CNW Research, which tracks consumer spending. Among subprime applications, 57% have been approved this year, down from 68% early last year. Loan applications for all types of borrowers are also being sent to a greater number of financial institutions before being approved, according to CNW.

GMAC Financial Services tightened lending standards three times last year, and firms like AmeriCredit Corp. and Sovereign Bancorp Inc. have raised the minimum credit score required for borrowers to avoid an automatic rejection of their car-loan application.

Wall Street Journal reports that some lenders are applying especially tough standards for borrowers in states hard-hit by the housing crisis, such as California and Nevada. In the past, people with good credit have financed a car purchase by tapping their home equity, but that source of cash is also drying up as home values

drop. In addition, a growing number of consumers find themselves "upside down" on their current auto loans, meaning they owe more on the loan than the vehicle is worth. Among people who traded in a vehicle in February, 27% were upside down, up from 24% in October.

Auto Loans Getting Longer

Confirming what dealers are well aware of, the Power Information Network (PIN) recently reported that the retail auto business is continuing to embrace longer

loans. PIN, an affiliate of J.D. Power and Associates, said six-year loans placed by the dealership now account for four of every 10 new-vehicle loans, almost double the mix five years ago. The mix of seven-year loans has more than doubled since 2005, and they now account for more than one of every 25 new-vehicle loans.

Non-captives are driving the longer loans, but the captives are heading in the same direction. "Among the non-captives in 2008 to-date, the total of five-, six- and seven-year loans has accounted for 87 percent of all new-vehicle loans," according to the report.

FEDERALISM TESTED

EPA Lawsuit

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economy standards 40 percent by 2020. Since then, the EPA's greenhouse gas rule-making came to a halt, administration critics say. EPA says it needs a lengthy period to collect public input before it proposes regulations.

On Dec. 17, the EPA blocked the implementation of state laws in California, Massachusetts, Maryland and other states to limit greenhouse gases from cars, saying climate change was a federal issue. California, of course, is pressing EPA for certification to regulate CO₂ under California Low Emission Vehicle rules.

Automakers

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rules on greenhouse gas emissions from vehicles, but now appear to be pulling back, according to Automotive News.

McCurdy says advocates of state-by-state rules contribute to the mistaken notion that vehicles are the biggest part of the greenhouse gas problem, and state policymakers are "stunned" to learn that cars and trucks account for 20 percent or less of the nation's greenhouse gases.

"We've anted up. The wedding band is there, the car keys are there, the house mortgage," McCurdy said, noting the billions automakers are spending to meet the new standards. "We're all in."

INCOME TAX UPDATE

IRS Issues Guidance on Dealership Cost Segregation Studies

NADA is advising dealers that the IRS has issued new technical guidance to its field examiners on dealership cost segregation studies, which many dealerships use to determine the appropriate depreciation period for different components of its facility.

Cost segregation or building studies segregate facility components into different asset classes, which can result in some facility costs being depreciated over shorter periods (e.g., 5 or 7 years) rather than the traditional 39 years used for buildings and improvements. In September 2007, the IRS Acting Director sent a letter to NADA requesting comments on a draft chapter on auto dealership cost segregation studies that the IRS intended to add to its broader Cost Segregation Audit Technique Guide (ATG). In November 2007, NADA provided the IRS with comprehensive comments on the draft that were prepared on NADA's behalf by the Auto CPA Group. After considering NADA's comments, the IRS finalized the new chapter and incorporated it into the IRS Cost Segregation ATG.

The new chapter on auto dealership cost segregation studies is available at: www.irs.gov/businesses/article/0,,id=180233,00.html.

The entire IRS Cost Segregation ATG is available at: www.irs.gov/businesses/article/0,,id=134180,00.html.

The new guidance and a Motor Vehicle Technical Advisor Automotive Alert explaining it are available at www.nada.org/regulations under "Recent Federal Agency Publications."

Please note that none of these documents serve as an official pronouncement of law.

This is one of several recent federal tax developments impacting franchised dealers (others include the new LIFO safe harbor Vehicle Pool Method, the IRS's heightened focus on whether various tool plans meet Internal Revenue Code requirements, and developments in the IRS's approach to the uniform capitalization (UNICAP) requirements). All of these topics will be addressed by the **IRS Motor Vehicle Technical Advisor at an NADA webinar scheduled for Thursday May 8th from 1 – 3 p.m. EST**. To register, visit: http://eseries.nada.org/source/Meetings/cMeetingPreFunctionDetail.cfm?section=unknown&product_major=SEM08SW11&functionstartdisplayrow=1.

The foregoing is offered for informational purposes only and is not intended as legal advice. Consult your tax practitioner for specific guidance on your compliance obligations under the IRS Code.

WANADA-Sponsored Tech Team Scores Highest in ASE Testing at NY Auto Show in NYC

Although they didn't walk away with top honors, the WANADA student tech team of Douglas Dunn and Michael Strausser of Hayfield High School in Fairfax County, did themselves proud at the National Automotive Technology Competition at the New York International Auto Show.

The Competition, which engaged dealer association sponsored student teams from across the U.S., consisted of eight different work stations divided in two sections of the ballroom. Each team had 13 minutes to complete each station with a 20-minute break between sections. During the contest students were not allowed to have any contact with their instructors or talk with anyone other than Competition officials.

Thanks in no small part to their dedicated instructor, Greg Payne, the young men were the only team assigned Chevrolets that got their car started. What's more, they were awarded a plaque in recognition of their outstanding, first-place performance on the ASE testing portion of the Competition.

WANADA offers kudos to Doug, Mike and Greg for a job well done.



From left, instructor Greg Payne, Douglas Dunn, and Michael Strausser

SIGN UP TODAY!

WANADA & MADA Present
NADA's Lifeline to Profit\$ Workshops
May 7 & 8, BWI Marriott

This highly acclaimed NADA workshop is being offered by WANADA and MADA as a tool to help your dealership's profitability. In this intensive, hands-on, two-day workshop, dealers will go through every aspect of the dealership operation, taking a candid look at the store to develop a detailed action plan to implement within the company to achieve the dealership's full profit potential.

An NADA 20 Group program, this seminar is providing industry-leading trainers to conduct the workshop. Each has retail experience and will offer critical insight to help the company.

"The whole concept is how a dealer organization can be more efficient and increase profitability without increasing sales, which is very timely in today's sales environment," said Geoff Pohanka, NADA director for Metropolitan Washington.

"I've heard glowing reports from dealers and managers who have attended these fantastic workshops, and I would strongly encourage WANADA member dealers to attend. I can assure anyone that this is an invaluable seminar experience," said Pohanka.

Sign up today using the registration form enclosed. For more information on the Lifeline program, go to <http://www.nada.org/ProductsServices/Lifeline/>, or call Kristina Henry at WANADA, (202) 237-7200.

U.S. Auto Sales to Recover in 2009, Forecaster Says

With all the "gloom and doom" reports making economic headlines these days, here's a ray of light at the end of the tunnel: The forecasting firm CSM Worldwide of Northville, Michigan said U.S. auto sales will begin "a slow but steady recovery" next year as the economy mends, rising to 17.7 million by 2014, Bloomberg News reported. Sales of cars and light trucks totaled 16.1 million in 2007, the lowest level in a decade, which automakers and analysts expect to further decline in 2008. CSM's projection was part of a report prepared for auto executives.

Interest-rate cuts by the Federal Reserve and economic stimulus from U.S. tax rebates "will lay the groundwork for recovery" in the second half of the year, according to CSM.

In 2007, for the First Time, Americans Drove Less

As gasoline prices broke records in 2007, Americans cut back on their driving for the first time in more than 20 years, according to the U.S. Federal Highway Administration. Total travel fell 0.4 percent to 3.00 trillion miles from 3.01 trillion miles in 2006. Reuters reports that in December 2007, when U.S. retail gasoline averaged \$3.02 a gallon, travel fell 3.9 percent to 236.6 billion miles from 246.3 billion miles in 2006. With prices still climbing, other data shows Americans are responding by changing their gas-guzzling habits. Not only are they driving less, but they are buying more fuel-efficient vehicles and utilizing more public transportation. Daily ridership on U.S. subways and public buses is at the highest level in more than 50 years.

Thought for the Week...

Income tax returns are the most imaginative fiction being written today.

-- Herman Wouk

Enclosures:

- NADA *Lifeline To Profits* Registration and Information Sheet