

# New Year Tax Issues

## Rate Changes, New Rules 2002

*Expressing the sentiments of many, Ronald Reagan once said, "The taxpayer – that's someone who works for the federal government but doesn't have to take the civil service examination." Nonetheless, it's that time of year when all good citizens and businesses must turn their attention to this dreaded necessity.*

*President Bush's tax-cut package approved by Congress last year was welcomed news to many, and the economic stimulus proposal being hotly debated on Capitol Hill holds the promise of more relief. But don't hold your breath. In the meantime, here is a treetop review of this year's new federal rates on primary taxes that affect all businesses.*



### Social Security Wage Base Increase

As a result of increased Social Security and Supplemental Security Income (SSI) benefits in 2002, the maximum amount of taxable and creditable annual earnings subject to social security and self-employment tax is increased to \$84,900 in 2002, from \$80,400 in 2001. The tax rate remains 6.2 percent for Social Security.

All wages and self-employment income are subject to the Medicare payroll tax, which remains at 1.45 percent for 2002. There is no wage base limit for Medicare tax.

Since 1975, Social Security and SSI benefits increase automatically each year based on the rise in the Consumer Price Index (CPI) from the third quarter of one year through the corresponding period of the next. This year's increase in the CPI-W was 3.4 percent.

### Federal Unemployment Tax Act (FUTA)

The Federal Unemployment Tax Act (FUTA) tax rate remains unchanged at 6.2%. The tax applies to the first \$7,000 paid each employee as wages during the year. The \$7,000 is the Federal wage base. State wage base may be different. Generally, you can take a credit against your FUTA tax for amounts you paid into state unemployment funds. This credit cannot be more than 5.4% of taxable wages. If employers are entitled to the maximum 5.4% credit, the FUTA tax rate after the credit is .8%.

### Deductible Standard Mileage Rates

The optional standard mileage rates, effective January 1, 2002, to use in computing the deductible costs of operating an automobile for

*(See Taxes, page 2)*

### 2001 Dealer Tax Snap Shot

- Social Security wage base, \$84,900
- Business Mileage rate, 36.5 cents
- Luxury Tax, 3% with a \$40,000 threshold.
- Cash Reporting (Form 8300) Deadline, January 31, 2002

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## Taxes *(continued from page 1)*

business, charitable, medical or moving expense purposes are as follows:

- 36.5 cents a mile for all business miles driven, up from 34.5 cents a mile in 2001.
- 14 cents a mile when giving services to a charitable organization, the same as 2001.
- 13 cents a mile for medical reasons, up from 12 cents a mile.
- 13 cents a mile when computing deductible moving expenses, up from 12 cents a mile.

The primary reason for the mileage rate increases is the rise in gasoline prices during the past year, according to the IRS. The standard mileage rates for business, medical and moving purposes are based on an annual study of the fixed and variable costs of operating an automobile. An independent contractor conducted the study on behalf of the IRS. The charitable mile-



age rate is provided by law.

### Luxury Tax Rate Drops, Threshold Rises

Effective January 1, 2002, the auto luxury tax rate decreased to 3 percent, down from 4 percent last year, and the tax threshold increased from \$38,000 to \$40,000. The tax on the sale of a new car is now three percent of the sales price over \$40,000, and, unless the law is amended, the luxury tax will end December 31, 2002.

The luxury tax is based on the negotiated selling price of a new vehicle, not MSRP. The tax is computed by adding all the consideration the customer gives for the new vehicle, including downpayment, amount financed (if any) and the actual cash value of any trade-in. Trucks, vans, and sport utility vehicles with a loaded gross vehicle weight over 6,000 pounds are exempt from the luxury tax.

## IRS Clarifies Tax Treatment Of Demos

Last November, the IRS issued Revenue Procedure 2001-56 offering alternatives to the current rules governing the tax treatment of demonstrator vehicles. Although the revenue procedure does not fully adopt the simplification measures advocated by NADA, it does offer optional methods for determining the value of demos by qualified salespersons and other employees in the dealership.

NADA and two dealer accounting firms petitioned the IRS to develop rules which are clear, simple to apply and recognize Congress' intent to provide qualifying salespersons with this fringe benefit. Among other things, the revenue procedure provides a much-needed definition of what constitutes "limited personal use" and also streamlines existing record keeping requirements.

NADA's summary of Revenue Procedure 2001-56 is enclosed with this *WANADA Bulletin*. A complete electronic copy of the 33-page IRS document is available on the Regulation page of NADA Online, [www.nada.org](http://www.nada.org). Dealers can use their NADA member number as the username and password to access the information.

### Estate Tax Phase-Out Brings Relief in 2002

Although the estate tax is not eliminated until 2010, the threshold amount beyond which the tax applies begins increasing this year. According to the IRS reports, the increase in the exemption to \$1 million beginning in January 1, 2002, will be sufficient to eliminate estate tax immediately for over 50 percent of those whose estate could now be subject to it.

Estate tax is eliminated beginning in 2010, but provisions of the new law call for repeal of all changes unless re-enacted before the end of 2010.

Year	Exempt Amount	Maximum Rate
2002	\$1,000,000	50%
2003	\$1,000,000	49%
2004	\$1,500,000	48%
2005	\$1,500,000	47%
2006	\$2,000,000	46%
2007	\$2,000,000	45%
2008	\$2,000,000	45%
2009	\$3,500,000	45%
2010	Tax Repealed	0%

## Dealers Must File New Cash Reporting Form This Year

On October 26, 2001 the President signed into law the USA Patriot Act. This post-9/11 legislation is designed to strengthen law enforcement's ability to investigate and penalize money laundering and disrupt terrorist financial networks. The law shifts the requirement to report certain cash transactions from the Internal Revenue Code to the Bank Secrecy Act.

Two of the law's provisions affect automobile dealers: cash reporting and the establishment of anti-money laundering programs by financial institutions.

With respect to the first requirement, the Treasury Department published an Interim Rule on December 31, that requires a new form but, otherwise, does not change the current cash reporting rules.

### New Form Required Now!

Effective immediately, according to a NADA notice, dealers *must file* their IRS Form 8300 cash reports on a new form designated as "IRS Form 8300/FinCEN Form 8300," which is virtually identical to IRS Form 8300.

"The law requires in part that persons engaged in a trade or business who receive more than \$10,000 in cash in a single transaction (or two or more related transactions) file a report with the Financial Crimes Enforcement Network (FinCEN)," NADA said. FinCEN, which is part of the Department of the Treasury, has issued an Interim Rule stating that persons may satisfy both the existing requirement to file a cash report with the IRS and the new requirement to file a cash report with FinCEN by filing a single joint IRS/FinCEN cash reporting form with the IRS. Dealers do *not* have to separately file a copy of this form with FinCEN. The Interim Rule thus places no new reporting or record keeping requirements on dealers. Nor does it have any effect on the substantive cash reporting rules.

NADA said it will provide further guidance from the Treasury Department on other aspects of the new law as soon as any additional changes are announced.

The new IRS Form IRS 8300/FinCEN Form 8300 is available on the Web at <http://ftp.fedworld.gov/pub/irs-pdf/f8300.pdf>.

### Cash Reporting Notices for '01 Transactions Due Jan. 31



Under IRS regulations, dealers must notify each person identified in an IRS cash-reporting form (Form 8300) for transactions of \$10,000 or more during 2001. Such notices must be in writing, furnished to the purchaser no later than Jan. 31, 2002.

The notification statement must include the name and address of the dealership, the total amount of cash reported to the IRS during 2001 for that person, and a statement that the information was reported to the IRS. The statement should go to the person's last known address. Dealers are encouraged to review 2001 transactions carefully to be certain that all affected customers are notified in writing and to record a copy of the notice furnished to the customer.

To soften the surprise that some customers may get from receiving this notice, it is recommended that dealerships include a short letter along the following lines:

*Dear (customer name):*

*We are required by the Internal Revenue to report transactions involving more than \$10,000 in cash and "cash equivalent" under the provisions of 26 U.S.C 60501. We filed a Form 8300 with the IRS on (month, day, year) indicating that you provided us (\$ amount) in connection with the purchase of your (year, make, model). We wanted you to know that we have complied with this federal requirement. Again, thank you for your patronage.*

*Sincerely,  
(dealership name)*

The exact wording of the customer notification should be reviewed by the dealership's legal advisor.

## Dulles Motorcars Donates \$5,000 To Washington Family Relief Fund

*Dealership Teams With WTOP To Aid September 11th Victims*

Dulles Motorcars Jeep, Kia, and Subaru in Leesburg presented a \$5,000 check to the Washington Family Relief Fund on January 4, 2002, in conjunction with WTOP radio. The dealership donated the proceeds from one day's sales of both new and used vehicles. Fittingly, the day chosen was Veterans Day.

Jeff Collins, general manager of Dulles Motorcars, said the purpose of the fundraiser was two-fold. "First, our employees wanted to contribute to all of the people who suffered so tragically due to the September 11 attacks," he said. "Second, President Bush said it is important for people to go on with their lives, and we wanted to show everybody that we are still open for business."

Pictured left to right are: Hamid Saghafi, dealer principal, Dulles Motorcars; Kevin Saghafi, president; Jeff Collins, general manager; and WTOP's Man About Town, Bob Madigan.



## Winners of Auto Show Contest Get Key to New Hyundai Sonata

Passing the keys to the new Hyundai Sonata last Tuesday are (left to right) Lara Papi, ESPN Zone; Don Reilly, Fairfax Hyundai; Caroline, Michael (who insisted that his parents enter the contest) and Maurice Plumb of Annandale. To win, the Plumbs guessed the exact number of mini footballs placed in the Hyundai Sonata at The Washington Auto Show. The contest was sponsored by The Washington Area Hyundai Dealers, WTTG Fox 5 and ESPN Zone.

**See you There!**

## WANADA/MNCTDA Reception At NADA

***Sunday, January 27, 6-8 p.m.***



**PAT O'S ON THE RIVER** *(In the French Quarter)*

Invitations for this fabulous "don't miss" event are enclosed with this *WANADA Bulletin*.

For more information, contact Trish Frisbee at WANADA, (202) 237-7200.

## Thought for the Week...

*"Taxation WITH representation ain't so hot either."*

-Gerald Barzan

## Enclosures:

- WANADA/MNCTDA Reception Invitations
- List of WANADA Members attending NADA Convention
- IRS Revenue Procedure 2001-56 Summary