

WANADA Bulletin # 51-05

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## IMPORTANT NEW YEAR TAX AND REGULATORY UPDATES

### 2006 Tax Change Highlights

Yes...groan...it's that time of year. Amongst all the good tidings of the season it's also time for all businesses and good citizens to turn their attention to tax changes and regulatory mandates for the new year. Here are the highlights of rates on primary federal taxes that affect all businesses effective January 1, 2006.

- **Social Security taxable wage base limit (FICA) is \$94,200**, up from \$90,000 in 2005. **The maximum amount payable increases to \$5,840**, from \$5,580 in 2005. **The FICA tax rate**, a combination of Social Security (6.2%) and Medicare (1.45%) rates, remains at **7.65%**, and there continues to be no limit on the amount of wages subject to the Medicare portion of the tax.
- **Federal Unemployment Tax Act (FUTA) tax rate remains at 0.8%** of the first \$7,000 paid each employee as wages during the year.
- **Business mileage rate is 44.5 cents a mile** for all business miles driven, up from 40.5 cents a mile in 2005, and *down* from the 48.5 cents for the last months of 2005. The rate for medical and **moving deductions** increases to 18 cents a mile, up from 15 cents a mile in 2005, and *down* from 22 cents for the last months of 2005. The per mile driven in service of **charitable** organizations is 14 cents (Katrina-related charitable driving rates are 32 cents per mile).
- **Federal minimum wage is unchanged at \$5.15**; minimum cash wage (tipped employee):



### 2006 Annual Limits for Retirement Plans

- **401 (k) Pre-Tax Contribution Limit:** The maximum amount your employees can defer in 2006 is **\$15,000**, up from \$14,000 in 2005.
- **Annual Compensation Limit:** The maximum contribution limit that can be counted for all compliance testing and contribution allocation purposes is **\$220,000**, up from \$210,000 in 2005.
- **Highly Compensated Employee Limit:** The threshold limit for defining who is a highly compensated employee has been raised to **\$100,000** from \$95,000 in 2005.
- **Defined Contribution 415 Limit:** The maximum an employee can have contributed to all qualified plans in both employee or employer contribution and forfeiture allocations is **\$44,000**, up from \$42,000 last year.
- **Catch-Up Contributions:** The maximum additional contribution any employee who will be age 50 or older as of December 31, 2005 may contribute after reaching the 401(k) limit is **\$5,000**, up from \$4,000 last year).

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**IMPORTANT NEW YEAR TAX AND REGULATORY UPDATES****Cash Reporting Notices for '05 Transactions Due Jan. 31**

WANADA again reminds dealers that the IRS has been strictly enforcing the filing of Form 8300 cash reports on the new form "IRS Form 8300/Fin/CEN Form 8300," and continues to conduct audits on dealers for compliance with Form 8300 requirements. A failure to report cash transactions over \$10,000 could result in a minimum \$25,000 fine.

Under IRS regulations, dealers must notify each person identified for transactions of \$10,000 or more during 2005. The FinCEN Form 8300 general instructions and the IRS definition of "cash" are available on the IRS website at <http://www.irs.gov/publications/p1544/ar02.html>

**Such notices must be in writing, furnished to the purchaser no later than Jan. 31, 2006.**

The notification statement must include the name and address of the dealership, the total amount of cash reported to the IRS during 2005 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 2005 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. (Name of dealership) has 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 dealer's legal advisor.

**Records Review & Retention**

Another important New Year issue for dealerships is the review of old paperwork to determine what must be retained and what can be disposed of, as well as a careful review of local, state and federal guidelines prior to disposing of any paperwork.

Every dealership (or business) should have written guidelines in regard to record retention. The majority of citations issued to dealers for violating federal laws involve improper or nonexistent recordkeeping or reporting. Before disposing of any records, you should review federal, state, local and other paperwork retention requirements.

To assist in sorting through paperwork, NADA offers Management Guide L3, *A Dealer Guide to Federal Records Retention*, which outlines federal retention requirements for seven major categories of records. Keep in mind, this list is not all-inclusive — dealers should contact their CPA firms and/or attorneys to obtain their opinion in addressing state, local and other requirements.

NADA members can obtain a complete copy of *A Dealer Guide to Federal Records Retention and Reporting* by going to NADA's website at [nada.org](http://nada.org), or contact NADA Management Education at (703) 821-7227.



**FYI****Hybrid, Diesel Tax Credit Estimates Available Online**

Tax Credits promised for hybrid and diesel vehicles in the Energy Act have not been formalized by the IRS, but estimates are available online, reports *Car Buyers Notebook*. Estimates from the American Council for an Energy Efficient Economy predict the Toyota Prius will have the highest credit of \$3,140 available to buyers. Other hybrids approved for tax credits include the Ford Escape; Toyota Highlander; Honda Accord, Civic and Insight; and Lexus RX400h. More vehicles may qualify as the IRS reviews more hybrids.

IRS spokesman James Dupree says the tax credits for hybrids are calculated along two criteria, "a fuel economy amount that varies with the rated fuel economy of the vehicle compared to a comparable 2002 model year standard; and a conservation credit based on the estimated lifetime fuel savings of a qualifying vehicle compared to a comparable 2002 model year vehicle."

According to *Car Buyers Notebook*, The Energy Act provides tax credits for 60,000 qualifying vehicles from each automaker. To see the report from ACEE, go to <http://www.acee.org/transportation/taxcredits06.pdf>. More information is also available at the Department of Energy's Web site at [www.fueleconomy.gov/feg/tax\\_hybrid.shtml](http://www.fueleconomy.gov/feg/tax_hybrid.shtml).

**EPA Seeking to Ease Oil-storage Burden on Dealers**

The Environmental Protection Agency is proposing to reduce the burden on dealerships storing oil (fuels, used or new oils, ATF, etc.) in aboveground tanks and drums. For the last two years NADA has spearheaded a push to exempt small facilities from having to develop a Spill, Prevention, Control, and Countermeasure (SPCC) Plan and have it certified by a professional engineer (PE).

EPA's existing rules cover all dealerships with an aboveground oil storage capacity above 1,320 gallons. The new proposal would still require dealerships with between 1,320 and 10,000 gallons of aboveground oil storage to have an SPCC Plan, but would allow them to self-certify, eliminating the costly expense of hiring a PE.

EPA also has proposed to extend its SPCC compliance deadlines. Currently, regulated facilities need to amend their plans by February 17, 2006, and implement those changes by August 18, 2006. Under the proposal, covered dealerships would have until October 31, 2007, to both amend and comply with their SPCC plans.

Lastly, EPA has issued an inspector guidance document addressing several SPCC compliance issues faced by dealerships, including when secondary containment is necessary, oil water separators, and how to put together a model plan.

NADA suggests that dealerships with more than 1,320 gallons of aboveground oil storage consider holding off on amending their SPCC plans until EPA has finalized its regulatory relief proposal. Questions on this matter can be directed to NADA Regulatory Affairs at (703) 821-7040 or [regulatoryaffairs@nada.org](mailto:regulatoryaffairs@nada.org).

**Penalties for Van Violations Change Under Amended Law**

The National Traffic and Motor Vehicle Safety Act now prohibits schools and school systems from buying or leasing new 15-passenger vans to transport students unless the vans comply with the standards for school buses or multifunction school activity buses. Prior to the law, only a dealership's sales of these vehicles were regulated; now both parties to the transaction are regulated. The new law also modifies the civil penalty for violations of these provisions. A single violation now carries a civil penalty of up to \$10,000; the maximum civil penalty for a series of related violations is \$15 million. For further information on restrictions governing the sale or lease of large vans or small school buses, go to [www.nada.org/regulations](http://www.nada.org/regulations) [nada.org](http://www.nada.org) (requires member log-in).

**FOOTNOTES:****2006 NADA Convention: Deadline for Online Pre-Registration Extended**

The online pre-registration deadline for the 2006 NADA Convention & Exposition, in Orlando, February 11-14, has been extended until January 6. Hotel rooms are still available and can be booked by either registering online at [www.nada.org/convention](http://www.nada.org/convention), or by calling (800)974-9833.

A full lineup of speakers and workshops are planned for this leading industry event, including Tom Purves, chairman and CEO of BMW U.S. Holding Corporation, who will deliver the keynote address at the General Session on Saturday, February 11. Joining Purves in the convention speaker lineup is Gen. Colin Powell (ret.), former secretary of state, who will speak at the General Session on Monday, February 13. Frank Abagnale, an FBI instructor and best-selling author who has emerged as one of the world's most respected business consultants, will lead the inspirational session on Sunday, February 12.

**First day of Winter, today, Dec. 21!**

The shortest day of the year was officially ushered in this afternoon at 1:35 p.m. EST. Earth Science geeks know that the Winter Solstice occurs in the third week of December each year when the sun is furthest away from the Northern Hemisphere with its rays trained on the Tropic of Capricorn

*Happy Holidays*

*The WANADA Staff wishes all association members and Bulletin readers the warmth, joy and peace of the season!*

*Archie Avedisan, William Belew, Wil Desjardins, Irish Frisbee, Jim Heiser, Ellen Hicks, Martha Kowalski, Tom Mann, Barbara Martin, Gerry Murphy, Jackie Murphy, John O'Donnell, Katy Orme, Debbie Perlmutter, Kim Rahl, Roberta Reardon, Joyce Roberts & Charley Spiridopoulos.*

*NOTE: WANADA will be closed at 1:00 pm, on Friday Dec. 24 and all day on Monday, Dec. 26.*

**Thought for the Season...**

*People, look east:  
The time is near, of the crowning of the year!  
Make your house fair as you are able:  
Trim the hearth and set the table.  
People look east and sing today:  
Love, the guest, is on the way.*

—Besancon, a medieval French carol  
Set to lyrics by Eleanor Farjeon, 1928