

# THE WANADA BULLETIN

NEWS AND INFORMATION FOR AND ABOUT FRANCHISED NEW CAR DEALERS IN THE WASHINGTON AREA

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## NADA, automakers blast EPA decision on fuel economy rules

The Environmental Protection Agency surprised the auto industry when it announced recently that it would keep the stringent fuel economy standards that were set in 2012, despite industry objections that consumers are not buying fuel-efficient cars. Reaction was swift and strong.

“Consumers deserve access to affordable new cars and trucks, but Washington’s midnight regulation will increase costs and force many working families into older, less safe and less efficient used cars,” said NADA President Peter Welch in a statement.

The Alliance of Automobile Manufacturers said, “This extraordinary and premature rush to judgment circumvents the serious analysis necessary to make sure the standards appropriately balance fuel efficiency, carbon reduction, affordability and employment.”

The Alliance called the action “premature” because EPA was not required to take final action on the standards until April 2018. It was permitted to do so any time before then. The rules call for the average fuel economy to rise from 34 mpg today to 54.5 mpg by 2025.

The Alliance also highlighted the role of consumer choice. “The evidence is abundantly clear that with low gas prices, consumers are not choosing the cars necessary to comply with increasingly unrealistic standards,” it said.

But EPA Administrator Gina McCarthy said, “It’s clear from the extensive technical record that this program will remain affordable and effective.” The agency said that its review of comments on the issue showed that “manufacturers can meet the standards at similar or even a lower cost than what was anticipated in the 2012 rulemaking.” The EPA believed that the standards could



Automakers and NADA object to the fuel economy standards because buyer preferences have leaned more toward SUVs and light trucks, like the Ford F-150.

even be strengthened for MY 2022 – 2025. But the agency decided to leave them as they are to enable long-term planning in the auto industry.

NADA and the automakers indicated that they expect to work with the Trump administration to adjust the rules. But reversing them would be hard, John Boesel of the industry lobbying group CALSTART told the *Detroit Free Press*. Another extensive technical review would have to be done, and it would have to come up with contradictory findings.

EPA will take comments on the fuel economy standards until December 30. They will likely be approved in final form before Trump takes office January 20, 2017.

## Washington Auto Show to feature 2<sup>nd</sup> ART of Motion cars event



Edward Joseph, a.k.a. “Ed the Artist,” at the 2016 Washington Auto Show. Photo by Bonnie Morét.

The Washington Auto Show has announced the second annual ART of Motion exhibit, an *avant garde* design experience that befits the culture and imagination of the Washington, DC, area as it hosts a tier one show on the global auto show circuit.

In cooperation with Automotive Rhythms, the trendsetting urban automotive media group, the cutting edge art car display will feature more than 8,000 square feet of experiential graphic backdrops consisting of motorcycles, autos, fashion and

murals. A notable group of artists will showcase their live talents in ART of Motion.

Nationally celebrated painter Edward Joseph, a.k.a. “Ed the Artist,” is an abstract visualizer who specializes in lines that use shapes, forms, colors and textures. Shawn Mitchell Perkins, a.k.a. “SP the Plug,” will bring his style of abstract, graffiti and realism to the exhibit using mostly oil and some acrylic paint. Jamaal Newman, a.k.a. “Jamaal Lamaaj,” will offer his famed realism style for his creative works, and Suite Nation will bring a cadre of creators to the Washington Convention Center during the Auto Show for this monumental showcase.

In addition to the painting of vehicles on site, fashion models posing as picturesque figurines from Kas Collection will align inventive fusion and entertainment to delight the senses. “ART of Motion promises to thrill auto enthusiasts and art lovers alike,” said Geoff Pohanka, chairman of the Washington Auto Show. “This partnership expands the Washington Auto Show footprint as a host of connective and innovative exhibits that put a new perspective on the auto industry.”

The ART of Motion feature will be located on the upper level of the three-level Walter E. Washington Convention Center during the Auto Show, which runs from January 27 to February 5. Designers will be painting vehicles and murals during the show for showgoers to experience. Expect to see a Chrysler Pacifica Hybrid, Jaguar XE, Kia Cadenza, Toyota Prius, Jaguar XE and vehicles from Mazda and Mini stylized by the artists.

“Undeniably an enticing attraction for an auto show, this spectacle will finally portray automobiles as we understand them: works of impressive beauty and innovative design,” said Kimatni Rawlins, president and CEO of Automotive Rhythms.

## November sales rise 3.6%, transaction prices up 1.7%

After three months of falling sales, new-vehicle sales rallied in November, climbing 3.6 percent to a seasonally adjusted annual rate (SAAR) of 17.8 million. It was the highest sales for the month since 2001.

Incentives were strong – though down slightly from a month ago, according to TrueCar – as were Black Friday promotions. There were two extra selling days from a year ago. The uncertainty of the election is over, and the economy remains solid.

“All economic indicators show significantly improved optimism about the U.S. economy including consumer and business sentiment, which continue to drive a very healthy U.S. auto industry,” said GM’s chief economist Mustafa Mohatarem. “We believe the U.S. auto industry is well positioned for sales to continue at or near record levels into 2017.”

Light trucks and SUVs, with sales up 8.5 percent in November, continue to outpace cars, which saw sales drop 3.1 percent. Trucks made up 59 percent of new vehicles sold. Even Washington area residents, who have traditionally favored cars, are increasingly buying utilities and light trucks, as shown by the latest WANADA Area Report, covered in the [November 21 Bulletin](#).

Analysts are debating whether year-end sales will top last year’s. December is traditionally a strong sales month, but this year it will have one fewer selling day than a year ago. If 2016 beats last year’s total, it would mark the first seven-year sales increase in 100 years.

Average transaction prices rose 1.7 percent, which Kelley Blue Book attributes to the increase in sales of more expensive light trucks. “However, the subcompact utility segment, which is the fastest-growing segment in the industry this year, is showing signs of slowing, with prices falling by 1 percent, thanks to higher discounts used to sell down excess inventory,” said KBB analyst Tim Fleming.

## Record number of buyers *upside down* on trade-in

A record number of car buyers are “underwater” on their trade-in, as they take longer loans to lower their monthly payments but come back to the new-car market before they have equity in their old car. An estimated 32 percent of all trade-ins toward the purchase of a new car through September were upside down, by an average of \$4,832, according to Edmunds.com.

“With today’s strong economic conditions at their back, these shoppers are willing to absorb a significant financial hit to get into a newer vehicle, said Edmunds.com Senior Analyst Ian Drury. Edmunds recommends leasing as an alternative, and leasing is at a record high of 33 percent.

Used-car buyers also are dealing with negative equity. A record 25 percent of trade-ins toward a used car purchase in the third quarter were underwater, by an average of \$3,635.



The 2017 Toyota Corolla iM was November’s best-selling passenger car and 5<sup>th</sup>-best-selling vehicle.

## Tesla wins right to open second Virginia store in Richmond



The latest in the battle: The VA DMV said Tesla could open a store in Richmond.

Virginia Department of Motor Vehicles Commissioner Richard Holcomb has granted Tesla the right to open a second store in Virginia. The new store would be in addition to the gallery in Tysons, where staff are not allowed to discuss prices or offer test drives. The Virginia Automobile Dealers Association will likely appeal the decision.

As in most states, Virginia law prohibits direct manufacturer sales to customers, but with exceptions. One exception is when

no dealer is available to sell a particular brand of cars “in a manner consistent with the public interest.”

That is the point Holcomb picked up on. “After careful review of the entire record, I find that there is no dealer independent of Tesla in the community or trade area of Richmond, Va., to own and operate a Tesla franchise in a manner consistent with the public interest,” he wrote in his decision.

Eleven dealers sent letters to Tesla saying they were interested in selling its cars, but the company dismissed them as form letters orchestrated by VADA. Five dealers testified at hearings earlier this year expressing their interest, but Holcomb said they had not created business plans or shown they could service the cars, according to the *Washington Post*.

VADA called the decision politically motivated, reported *Automotive News*. VADA president Don Hall said earlier that Tesla had violated the terms of its agreement by letting staff at its Tysons gallery discuss prices and offer test drives. The company said it plans to start construction on its Richmond store soon.

## Year-end accounting checklist for dealers

WANADA Kindred-line member, Councilor, Buchanan & Mitchell, PC, has created a useful year-end accounting checklist for dealers. Here are a few of the highlights:

1. Accounting records:
  - Record December finance chargebacks.
  - Keep the *accounts payable* journal open to record all 2017 expenses in 2016, including advertising, interest, utilities, telephone, gasoline, data processing, insurance, etc.
  - If any vehicle deal is not 100% completed (all paperwork and funding in 2016), treat it as a 2017 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. A reasonable estimate must be included of any LIFO adjustment for the year on all versions of the December financial statements. There are no exceptions!

3. Compare actual parts inventory to the accounting parts inventory and make adjustments where appropriate.
4. If there are any building repair or maintenance items that need to be done, such as painting or lot repairs, try to have them performed by the end of 2016.
5. Review current year fixed asset additions to determine if the costs should be capitalized or expensed as repairs.
6. Review all past due *accounts receivable*, including employee receivables. Write off those that are not collectible. If any are from former employees, issue them a Form 1099-C for the amount written off.
7. Review bank reconciliations for checks (including payroll checks more than 60 days old) that are not expected to clear. These checks should be voided and reissued.
8. All payroll tax and sales tax payable accounts must equal the actual amount of the applicable taxes paid in 2017 for the 2016 fourth quarter and year-end filings.
9. Review procedures for the use of demonstrators to ensure compliance with the current IRS regulations.
10. If there are any charitable contributions, consider making them in 2016 to receive a current year deduction. The IRS requires written acknowledgment for each contribution of \$250 or more.

For the complete checklist, contact Kathy Teich at [kt@wanada.org](mailto:kt@wanada.org) or 202-237-7200.

### Staying Ahead...

In the end, it's not the years in your life that count. It's the life in your years.

--Abraham Lincoln

