

13th Annual CEO/CFO Forum

EMBRACING INNOVATION: THE EVOLUTION OF THE AUTO INDUSTRY

Auto Team America will hold its 13th annual CEO/CFO forum on Friday, February 2, 2007, preceding the start of the NADA convention in Las Vegas, Nevada. The forum will be held from 2:00-5:00 p.m. at the Paris Las Vegas. Immediately following the event there will be a cocktail reception hosted by Comerica Bank exclusively for attendees of the forum.

Our annual forum has become a showcase for innovative ideas and dynamic management

techniques. This year we are pleased to present a forum featuring **Michael Bruynesteyn**, **Mike Schwartz**, and **John Reed**. Their insights will help you develop your dealership's game plan for success by illustrating how innovation is reshaping the industry, highlighting automotive trends, and demonstrating how dealers are using technology to maintain a competitive edge.

Michael Bruynesteyn is an investor at Lehman Brothers in New York, with an active

interest in the auto industry. Prior to joining Lehman, Michael spent eight years following the automakers and suppliers as a sell-side analyst for the Prudential Equity Group, where he was recognized for timely stock calls and proprietary research by Fortune magazine (first three-time "All-Star Analyst"), Institutional Investor magazine (named to its "All American Research Team"), Bloomberg Magazine and the Wall Street

(See *Forum* on page 2)

HOW DOES THE ALTERNATIVE MINIMUM TAX AFFECT YOU?

In 1969, Congress noticed that many high-income taxpayers claiming numerous deductions paid much less in tax than lower-income people who had fewer deductions. In order to compensate for the discrepancy, and to level the playing field for all taxpayers, Congress designed the Alternative Minimum Tax (AMT), which

was originally an add-on minimum tax of ten percent.

How does the Alternative Minimum Tax Work?

After a taxpayer's regular tax is calculated, the taxpayer calculates their AMT liability. First, the taxpayer adds back various deductions or *tax preference items* to taxable income under the regular income tax. The


deductions and *tax preference items* may be the result of either timing differences (also known as deferral items) or permanent adjustments. This new sum is the basis for AMT. Next, a basic exemption amount based on filing status is subtracted from the new AMT base (however the AMT exemption is phased out as the AMT income increases). Then, a two-tier tax structure of 26% and 28% is assessed against the AMT base. If the AMT calculated is greater than the regular tax, the taxpayer is responsible for paying the higher amount. Finally, if applicable, an AMT credit is calculated as an item to carry forward as possibly offset regular income tax liabilities in future years.

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- *Pick up the special NADA edition of the newsletter filled with Tax Tips.*

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Journal. Michael built his foundation in the auto industry at General Motors, with assignments in Pricing, Fleet Sales, Capital Planning, Overseas Finance and Investor Relations.

In 1994, **Mike Schwartz** purchased a struggling dealership, Harley-Davidson of Wilmington, with only five employees. Within four years, Mike's Famous Harley-Davidson outgrew its facility and the world's first Harley-Davidson dealership including a museum and restaurant - all under one roof - was born. Today Mike's Famous has a 40,000 square foot complex in New Castle, DE, the World's largest selling dealership of new Harleys® anywhere. Mike's newest locations include the "built-from-the-ground-up" Smyrna, DE

(Alternative continued from page 1)

Of particular concern would be certain specific add backs such as personal exemptions, state and local income taxes, property taxes, interest expense on certain home equity loans and miscellaneous itemized deductions, such as employee business expenses and investment advisory fees. To the extent the AMT applies, these items are effectively made non-deductible.

Why is the AMT a growing problem?

As well as the effect on inflation, the rate reductions enacted for the regular tax in 2001 and 2003 created a tax structure whereby the AMT no longer operates as originally intended. AMT rates are now too close to the regular tax rates for the AMT to fulfill its originally intended purpose. The effect is to make some or all of state income taxes and local property taxes non-deductible for a wide range of taxpayers. For taxpayers subject to a state income tax,

dealership and New England's Groton, CT complex.

John Reed is director of Microsoft's Automotive Retail Solutions, Automotive and Industrial Equipment (AIE) industry vertical. Reed is responsible for developing Microsoft's automotive retail vertical strategy, solutions portfolio, cross-region communications, and sales, partnering and go to-market initiatives with OEMs, retailers and suppliers worldwide.

Attendees of the forum will include CEOs/CFOs of dealership groups, dealers and general managers, controllers and office managers, and related industry associates involved in dealership business management. To request an invitation to attend, please contact your local Auto Team America member firm.

those within an adjusted range of approximately \$175,000 to \$475,000 will likely be subject to the AMT.

The upper limit increases for taxpayers whose income includes significant qualified dividends and long-term capital gains. Additionally, this income range is relevant with the current AMT exemption of \$62,550. With a lower exemption scheduled to again apply in 2007, the income range where the AMT applies increases, especially at the lower level, thereby greatly increases the number of taxpayers affected. Each year, a serious budgetary problem is confronted when Congress attempts to reduce the reach of the AMT to adjust the AMT to coincide with its original purpose.

What to do to minimize AMT

A portion or even all of a taxpayer's AMT liability may reduce taxes paid in future years. A credit called the *minimum tax credit* is available for AMT paid on temporary differences and deferral items as mentioned above. Examples

TAX TIP

NEW RECORDKEEPING REQUIREMENTS FOR CASH CONTRIBUTIONS

Charitable contributions made in tax years beginning after August 17, 2006 must have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution. A bank record includes canceled checks, bank or credit union statements and credit card statements. Bank or credit union statements should show the name of the charity and the date and amount paid. Credit card statements should show the name of the charity and the transaction posting date.

Most individuals report on the calendar year so this change won't affect most individuals until 2007. For 2006, under the law that applies for tax years beginning before Aug. 18, 2006, calendar year individuals may back up their donations of money with personal bank registers, diaries or notes made around the time of the donation.

Donations of money under the changed rules include those made in cash or by check, electronic funds transfer, credit card, and payroll deduction. For payroll deductions, the taxpayer should retain a pay stub, Form W-2 wage statement or other document furnished by the employer showing the total amount withheld for charity, along with the pledge card showing the name of the charity.

The new law does not change the requirement that a taxpayer get a written acknowledgement from a charity for each deductible donation (either money or property) of \$250 or more. However, the IRS says that one statement containing all of the required information may meet the requirements of both provisions.

For more information, please contact your local ATA representative.

of more common deferral items include certain depreciation expense deductions, exercise of incentive stock options and certain losses allowed from passive activities. Examples of more common permanently disallowed deductions are certain home mortgage interest, taxes paid, certain medical and miscellaneous deductions and interest income from private activity bonds. The tax generated from the temporary (deferral) items is tracked and recorded on form 8801 - Credit for Prior Year Minimum Tax.

By carefully timing payments of certain items that result in deductions, as with careful planning, a taxpayer may avoid permanently losing a deduction due to AMT rules. For example, a taxpayer may choose to forgo making a state estimated tax payment in

December of a tax year and to postpone it to the next tax year because if the taxpayer is subject to AMT in the first tax year, the deduction for the tax deduction will be lost forever.

In addition, TIPRA extends a provision through 2006 that allows taxpayers to use non-refundable personal credits to offset AMT liability. Non-refundable personal credits include the dependent care credit, the credit for the elderly and disabled, the Hope credit and the Lifetime Learning credit for certain college expenses. Other credits allowed against AMT liability, which are permanent provisions of the tax code, include the child tax credit and the adoption tax credit.

Please contact your local ATA representative for more AMT information.