



# THE CPA TUNEUP®

Summer 2012

## ABOUT US

*Henry & Horne, LLP is one of the leading accounting firms in Arizona with offices in Tempe, Scottsdale and Casa Grande.*

*We combine the knowledge and expertise of a premier consulting firm with the personal attention of a local CPA, meaning unmatched service to you. Our services include: daily, monthly and annual bookkeeping and accounting; audit, review and compilation of company financial statements; audits of 401(k) plans; tax planning and compliance; CPA Tuneup®; cost segregation studies; internal control reviews; estate, trust & gift services; and valuation and litigation support services.*

### **Your Automotive Team:**

*Brian Campbell, CPA  
Wendell Peters, CPA  
Henry Santostefano, CPA  
Kane Lavin, CPA  
Edward Hooper, CPA  
Joe Goodmiller*



## **Automotive Industry Update Through June 2012**

**By Brian Campbell, CPA**

2012 has started out on a good note with total vehicle sales (cars and trucks) for the month of January up 11% over January 2011. This positive trend continued through March with double digit increases in the 13% to 16% range over the same months of the prior year. However, in April sales began to level off, only up 2% over April 2011. Whether it was due to an early spring with a warm winter, which resulted in February and March sales being up or gas prices topping \$4 a gallon, there were some worries heading into May as to whether sales would start to slow for the remainder of the year. By the end of May, industry experts were forecasting that sales would not reach the 14 million mark as previously forecasted in late 2011 and into the early part of 2012.

However, just as forecasters feared the worst, strong sales during the months of May and June helped to get projections back on the 14+ million mark for 2012. This is thought to be a result of falling gas prices and new models being introduced to the market by the auto makers. In actuality, based on numbers through June 2012, industry experts are projecting 14.1 million units to be sold in the US in 2012. May and June sales were up 26% and 22%, respectively, over the same months in 2011. For the year through June, total vehicle sales were at 7.2 million units, which is 15% more than last year.

Toyota and Honda continue to rebound from the prior year's earthquake with increases in combined sales of 44%. Chrysler also continues to have a strong showing in 2012 with unit sales up 75%.

What does this all mean? Despite the economic and political environments of today, it appears that new products by manufacturers, lower fuel prices, availability of credit and slight economic growth in the US will continue to make 2012 a good year for auto manufacturers and dealerships. The average age of a vehicle on the road is around 11 years old and Kelley Blue Book reports that the average new-car shopper has owned their vehicle for 8 or more years with over 85,000 miles. As vehicles become older and repair costs rise, consumers will be faced with the decision of buying a new vehicle versus paying for repair costs. If sales end north of the 14 million mark for 2012, it will be the best year since 2007.

The only potential black clouds for US auto makers and dealerships seem to be the upcoming elections and the European market. While the US market appears to be heading for a positive year, the European market does not appear to be heading in the same direction. The European market is expected to have its fifth year of year over year declines. Experts are estimating that the European market may not see growth for the next three to four years. How or will the European economic environment affect the US market is anyone's guess. US auto makers are currently dealing with this dilemma, with the US market approaching the 16 million mark for units sold potentially faster than expected and China forecasting 30 million units to be sold by the year 2020, the US auto makers European operations are faced with the decision of cutting costs and closing plants in Europe and placing more focus on the US and China markets.

The above is just a small snapshot of the state of the economy for the automotive industry. For more information on how other departments within the automotive industry are performing in 2012, please do not hesitate to contact one of our dealership professionals.

**If you have any questions Brian can be reached at (480) 839-4900 or [BrianC@hhcpa.com](mailto:BrianC@hhcpa.com).**



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## extra parts

*According to Edmunds, automakers will offer consumers the ability to check social media statuses in your car and buy apps to deliver content and features to your car continuing this trend into 2013.*

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*According to experts, expect to see more car models offer automatic driving, collision avoidance capabilities, and parking assistance as technology advances over the next year.*

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*According to the market research company NPD, The current consumer mindset is to maintain and repair and keep it working for a long time. Value in terms of quality and long-lasting is what's key to today's consumers.*



## Sales of Motor Vehicles to Nonresidents

By Edward Hooper, CPA

Several years ago I decided to purchase a new car from one of our auto dealer clients. Generally, this would not be a big issue except I live in Arizona and the dealership was located in New Mexico. Long story short, I flew out to Albuquerque, paid for the car and drove it home. What surprised me at the time was that I didn't pay any sales tax when I purchased the car, but instead paid it when I registered my car in Arizona. Perhaps, you as a dealer have had a similar transaction occur in your dealership. It would seem that the major tax issue in selling to a nonresident customer is the transaction privilege tax reporting requirements.

Every state has different rules so it's important to know what the rules are in your state. Since the majority of our practice resides in Arizona I'm going to limit the discussion to this state.

Arizona Revised Statutes § 42-5061 imposes transaction privilege tax on the business of selling tangible personal property at retail. The tax base for the retail classification is the gross proceeds of sales or gross income derived from the business. Income derived from sales of tangible personal property is subject to the transaction privilege tax under the retail classification unless a statutory deduction from the tax base applies. There are four deductions under the retail classification that may apply to sales of motor vehicles to nonresidents of Arizona. Each of these exemptions relies upon the purchaser qualifying as a nonresident. The four exemptions are for:

- Income derived from sales to nonresidents of Arizona for use outside this state or if the dealership delivers the motor vehicle out of Arizona.
- Income derived from the sale of a motor vehicle to a nonresident of Arizona if the purchaser's state of residence does not allow a corresponding use tax exemption to the tax imposed and if the nonresident has secured a special ninety day nonresident registration permit.
- Income derived from sales of motor vehicles at auction to nonresidents of this state for use outside of Arizona if the vehicles are shipped or delivered out of this state, regardless of where title to the motor vehicle passes or its free on board point.
- Sales of motor vehicles to nonresidents from certain states, a deduction from the tax base is allowed so that the amount of state transaction privilege tax that applies to the sale is the same as the state excise tax that would apply in the purchaser's state.

Qualification for all of these exemptions and documentation requirements are thoroughly discussed in Arizona Transaction Privilege Tax Procedure TPP 08-1. When dealing with sales to nonresidents it's important to know the rules so you can determine the amount of tax to collect, report and remit. Please do not hesitate to contact one of our dealership or firm professionals if you have any questions or need assistance.

If you have any questions Edward can be reached at (480) 839-4900 or [EdwardH@hhcpa.com](mailto:EdwardH@hhcpa.com).



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