



Weekly Car Dealers Newsletter

July 26, 2010

This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources.

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BEFORE YOUR FIRST HST RETURN CONSIDER.....

Before July of 2010, dealers in BC and Ontario had to self assess an amount in respect of PST whenever they pulled a vehicle out of inventory for use by staff.

This would be for salesmen and managers and there were a number of rules based on actual or average value of the vehicles being used.

There is **no self assessment for PST after June 30, 2010.**

However, **many** if not all **dealerships will be "large vendors" for BC and Ontario HST** and **that means they will have to recapture ITCs in respect of four types of expense:** certain energy, telecommunications other than toll free numbers and internet access, meals and entertainment that is subject to the 50% add back rule for Income Tax and lastly **purchase cost of vehicles under 3,000 kgs (GVW) and parts for these vehicles acquired in the first year** (and also non diesel fuel for such vehicles in Ontario).

The recapture will not apply to vehicles acquired for resale, **but where a vehicle is pulled from inventory for the dealership staff to drive or to use as a customer loaner**, the dealership **will have to recapture the provincial part of the ITCs attributable to 2% of the vehicle cost for each month it is out of inventory**. This recapture will be reported on the GST/HST return for the period that includes the last day of the fiscal year. *Source: Barry Hull*

HONDA TO SELL PLUG-IN HYBRID, ELECTRIC CARS IN 2012

- * To sell plug-in hybrid, battery electric models in 2012
- * To launch small diesel car in Europe in 2012
- * To build new motorcycle factory in Indonesia in 2011
- * Plans new product for China's electric bicycle market

Honda Motor Co plans to launch a plug-in hybrid and battery electric model in 2012 as part of its strategy to push to the front of a race by global automakers to develop more fuel-efficient cars. Japan's No.2 automaker was one of the world's only car makers to offer gasoline-electric cars during the past decade but has begun looking like a laggard without a "strong" hybrid or concrete plans to mass-produce pure electric cars.

Global competitors from Volkswagen AG are preparing to launch strong hybrid models that are more fuel-efficient than Honda's "mild" hybrids such as the Insight, while also readying battery-run cars. At a news conference, Chief Executive Takanobu Ito, outlining the firm's medium-term strategy, said Honda was planning to sell a plug-in hybrid vehicle and a battery-powered electric model in Japan and the United States in 2012. Japanese rival Toyota) is planning to bring a plug-in hybrid to market in 2011 and recently formed an alliance with California start-up Tesla Motors to develop electric vehicles. "Considering Toyota is set to launch a plug-in hybrid next year, Honda's 2012 schedule sounds a bit far off. This underscores the gap in the level of technology at these automakers," said Kazutaka Oshima, president of Rakuten Investment Management. "That said, while Toyota has the lead, there really isn't anyone else who is as advanced as Toyota in this field and Honda appears to be close."

Honda in China

Asked about the walk-outs over the past two months at affiliated suppliers in China, the world's biggest auto market, Ito acknowledged that poor communication may have been at fault. "It's possible that the dialogue between workers and our local management in China was lacking," he said, vowing to do better to prevent further disruption. Executive Vice President Koichi Kondo said at the conference that Honda -- the single-biggest victim of China's recent labour disputes -- had lost production of less than 20,000 units from the strikes. He said Honda still planned to produce 632,200 vehicles in China this year by making up for the lost output.

Crawling back

Honda lost a few years in the green-car race after deciding in late 2008 to drop the development of clean diesel engines to power its bigger cars, opting instead to come up with a new, more powerful hybrid system that could be mounted on larger models. Ito did not give an update on the new hybrid system, but said Honda would introduce "multiple" hybrid models in Japan within about a year using the existing technology. Honda is looking to raise the ratio of hybrid vehicles to 10 percent or more of total production by 2015, from 5-6 percent now, Kondo said, rapidly boosting the percentage beyond 2015. Honda had so far only announced plans to sell a battery-run electric car in the United States simply to meet legal requirements in California, arguing their batteries were too expensive to be practical. Honda has been a strong proponent of hydrogen fuel-cell cars as the best zero-emission alternative to today's combustion engine cars, but their infrastructure hurdles are even bigger than for plug-in vehicles.

As part of its aim to reduce carbon dioxide emissions across all its products, Honda said it was also developing a new two-wheeler to compete in China's massive electric bicycle market, estimated at more than 20 million units a year. Among other steps to lower carbon dioxide emissions, Honda plans to launch a new small diesel model in Europe in 2012 as well as revamp its gasoline engine and transmission line-up to improve fuel efficiency of its fleet.

With governments and consumers increasingly seeking to lower fuel consumption, Honda said it would further step up its development of microcars, moving production of some 660cc minivehicles back to its main Suzuka factory in Japan in 2012, from unit Yachiyo Industry "Through minivehicle production at Suzuka, we aim to hone manufacturing technologies that will contribute to the reduction of vehicle weight and costs for all future models," Ito said. *Source: Reuters*

CHRYSLER FINANCIAL EXPLORING RESUMING LOANS TO CONSUMERS, RETAILERS

Chrysler Financial Co. may resume large-scale loans to consumers and dealers after losing its status as the main lender to its namesake dealers last year, said a person familiar with the company's plan. [Chrysler Financial](#) aims to start with loans to buyers with near-prime credit, said the person, who asked not to be identified because the plans are private. It is also looking to raise capital and considering a name change, the person said. The company has also asked dealers about financing their inventory, said retailers who have been contacted. The shift in strategy shows how the lender that President [Barack Obama](#) said wasn't viable a year ago is benefiting from the [rebound in used-car prices](#), which have soared from the lowest in more than 13 years in December 2008 to the highest on record in May. Now that its collateral is more valuable, it may be able to raise money and accelerate lending. "There's always a place for another lender," said [Maryann Keller](#), president of Maryann Keller & Associates in Stamford, Connecticut. "Chrysler Financial has to come up with a business plan that identifies who its dealer partners are and how the company will raise capital."

The company used to operate as a captive finance unit of Chrysler LLC, providing loans to dealers to buy inventory as well as financing sales and leases to consumers. When the automaker went bankrupt last year, Chrysler Financial was replaced by GMAC as the primary lender for Chrysler dealers. Since then it has mostly collected payments on outstanding loans. Chrysler Financial, which has a loan portfolio of \$26 billion, issued less than \$100 million in loans this year, said the person familiar with the company's plans.

Chrysler Financial has already contacted dealers to do market research and gauge interest, said Dan Frost, who co-owns five dealerships in Michigan. He said he was contacted by Chrysler Financial Chief Executive Officer [Tom Gilman](#) in May. A Chrysler Financial spokesman, [Kelly Mankin](#), declined to comment on specifics of the plan. "Chrysler Financial remains focused on successful collections from its legacy portfolio of auto loans and continues to evaluate new business opportunities, including but not limited to originating new receivables," he said in an e-mail.

Chrysler Financial wants to make retail auto loans, the person said. The company could do that to build relationships with dealers and eventually loan them money to buy inventory from carmakers, called floor-plan lending, said Frost, who was contacted in May by Gilman.

"I think he has \$1 billion in funds he can put on the street," said Frost. "The way to get to a dealer is to finance retail deals. Then we might come back for floor-plan." Chrysler Financial, based in Farmington Hills, Michigan, will focus on borrowers who are just above sub-prime credit ratings, said the person familiar with its plans. While those car buyers have spotty credit, many also have a good history of paying their car loans. *Source: Bloomberg.com*

FORD WILL OFFER HYBRID AT SAME PRICE AS GAS MODEL

For the first time, an American automaker plans to sell a hybrid car for the same, lower price as its gas-powered counterpart, removing at least one obstacle for drivers who want a greener ride. The hybrid MKZ, debuting this fall and running on both gas and electric power, will be a bargain after factoring in savings at the pump. It gets more than double the mileage of the traditional version in city driving. John Felice, Lincoln's marketing manager, said pricing strategy is an opportunity to get buyers interested in the Lincoln brand. Lincoln is also trying to make up for the sales it is losing by phasing out its Mercury brand, which includes two hybrids. *Source: The Associated Press*

FORD MAY EARN \$1.62 BILLION ON MULALLY'S HIGHER-PRICED MODELS

Ford Motor Co. may report adjusted second-quarter profit of \$1.62 billion tomorrow as Chief Executive Officer Alan Mulally's overhaul of the lineup lets the company charge more for new models. The second-largest U.S. automaker's redesigned 2010 Taurus is selling for \$6,300 more

than last year's model. "On the Taurus, we're finding that people like them pretty well loaded up so we're not ordering them stripped down anymore," said Jack Kain, a Ford dealer in Versailles, Kentucky. "People are pre-sold on Ford when they come in here and they're getting all the bells and whistles." Mulally, who came to Ford from Boeing Co. in late 2006, championed reviving the Taurus when he discovered Ford had discontinued the model. Once the top-selling car in America, Taurus sales plummeted after a mid-1990s revamp produced a version that Mulally likened to a football. He ordered a new design and sales have more than doubled. *Source: Bloomberg.com*

JD POWER SEES JULY US AUTO SALES UP FROM YEAR AGO

DETROIT - U.S. auto sales are expected to rise 4 percent in July from the month a year earlier that was boosted by the start of U.S. government "cash for clunkers" incentives, influential forecaster J.D. Power and Associates said on Thursday. J.D. Power forecast sales to rise by nearly 10 percent in July from the prior month in total sales and reach a 12.2 million vehicle annualized rate, up from 11 million units in June and 11.2 million units in July 2009. "While a return to a higher selling rate in July is a relief after the pronounced instability during the past few months, it's not yet time to be overly optimistic," J.D. Power executive director for global forecasting Jeff Schuster said. The forecaster now expects total sales of 11.7 million vehicles in 2010, down from a prior forecast for 11.8 million. U.S. sales totaled 10.4 million vehicles in 2009, the lowest level in 27 years. *Source: Reuters*
