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Dealership
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Rex is a Principal of HBK CPAs & Consultants and directs the firm's [Dealership Solutions Group](#). He has worked extensively in the dealership industry since 1984 as a department manager, a general manager and an owner, as well as providing tax, accounting and operational consulting services exclusively to dealers as an independent CPA. This experience includes working closely with hundreds of dealers from coast-to-coast since 1987 on creative tax planning and financial statements issues. He provides clients with a wide range of transaction work services and consults for them in specialty areas such as operations, government regulatory compliance, valuations and M&A feasibility studies. Rex is active in many professional associations. He is the current Chairman of the BDO Dealership Industry Group, contributes articles and commentary to dealership industry publications, is frequently called upon to speak to industry associations and conferences, provides expert testimony, and is regularly quoted by industry and the general media.



SPECIAL EDITION

HBK Dealership Solutions Group
Third Thursday Webinar Series

The Coronavirus Crisis: Tax Impact of the CARES Act On Dealers and Their Dealerships

April 30th



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Jordan Baierl is a Manager with the [HBK Dealership Solutions Group](#), who specializes in tax, advisory and other consulting services for dealer clients across the country. Jordan works out of the firm's Pittsburgh, PA office. A graduate of Virginia Polytechnic Institute and State University (commonly known as Virginia Tech) where he received both a BS and Master's in Accounting.

Jordan has worked on a wide variety of client solutions with HBK, including but not limited to tax planning and preparation, financial statement preparation and review, store performance and control reviews, expense and margin benchmarking, buy/sell support and assistance with manufacturer dealer candidate applications. Jordan is passionate about the dealership industry and loves working together with people to solve complex problems.

Jordan successfully completed the National Automobile Dealers Association (NADA) Dealer Academy Training Program, a year-long, intensive program focusing on each dealership department, as well as leadership and financial success.



Ben DiGirolamo, CPA, JD

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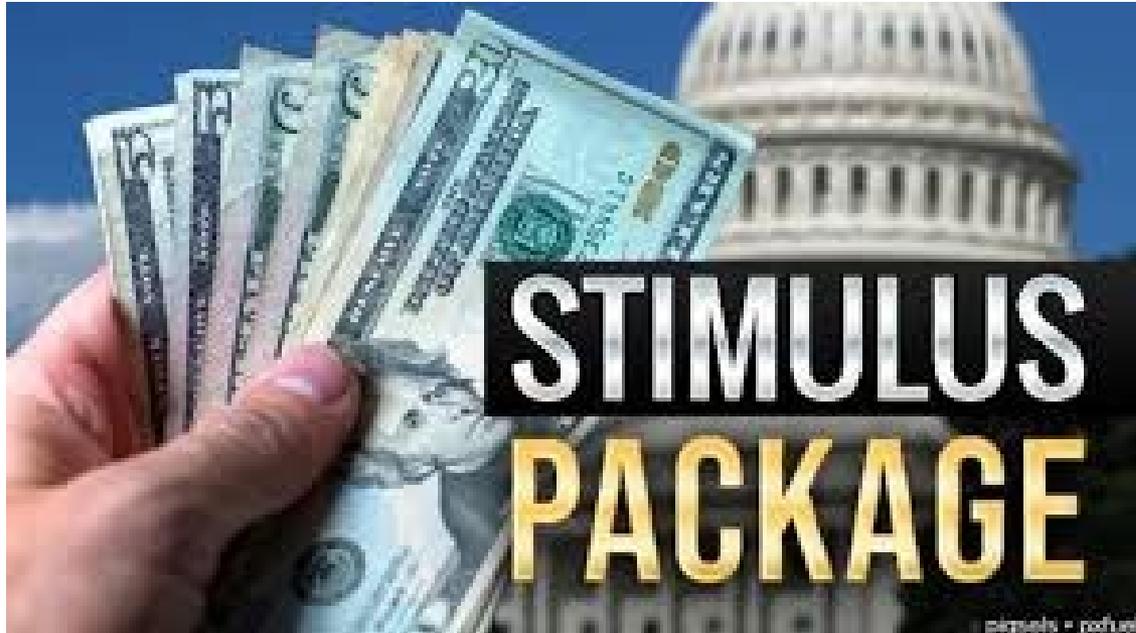
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Ben is a Principal in the Tax Advisory Group (TAG) of HBK and works in the Youngstown, OH office. He has been with the firm since 2009 and has focused extensively on entity tax issues, entity planning, and flow-through taxation. Additionally, he has experience with many of our real estate and manufacturing clients. As a member of TAG, Ben frequently teaches tax-related training courses both internally for the firm and externally for clients and the public. Ben provides research and expert counsel on complex tax issues for our clients. He also regularly appeared on the mid-day news broadcast of Youngstown, Ohio's NBC affiliate station in a segment called "Smart Money," which highlights personal financial planning tips.

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Dealership Hot Topics



Tax Impact of the CARES Act - Overview

Business Tax Provisions

- Employment credits/benefits
- NOL Carryback Period Expanded
- Increase in 163(j) limitation
- Corporate AMT Credit Refundable
- Technical Correction to QIP
- Temporary Exception from Alcohol Excise Tax



Individual Tax Provisions

- Individual Stimulus Payments
- Retirement Plan Provisions
- Charitable Contributions
- Business Loss Limitation
- Student Loans



COVID-19 Legislation Payroll Credits/Benefits

- **Families First Corona Response Act (FFCRA)**
 - Paid Sick Leave
 - Either full or 2/3 pays for up to 80 hours
 - Limited to \$511/ day if full pay, \$200 if 2/3
 - Expanded FMLA
 - 2/3 pay for additional 10 weeks
 - Limited to \$200 per day
- **Coronavirus Aid, Relief, and Economic Security Act (CARES)**
 - Employee Retention Credit
 - 50% credit for qualified wages up to \$10,000 per employee
 - Employer Payroll Tax Deferral

Who is Eligible to Claim the Credit/Benefit?

- **FFCRA Credits:**
 - Any business paying employees under the sick leave or expanded FMLA coverage provided by the FFCRA. Generally, all employers with under 500 employees are covered by the FFCRA.
 - See the following Department of Labor FAQ for specific questions on eligibility and benefits: [DOL FFCRA FAQ](#)
- **Employee Retention Credit:**
 - Those that carry on a trade or business during calendar year 2020, including a tax-exempt organization, that either:
 - Fully or partially suspends operation during any calendar quarter in 2020 due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings (for commercial, social, religious, or other purposes) due to COVID-19; or
 - Experiences a significant decline in gross receipts during the calendar quarter.
- **Employer Payroll Tax Deferral:**
 - Every business not receiving loan forgiveness under Sections 1106 and 1109 of the CARES Act.

When Can an Employer Get the Credit/Benefit?

FFCRA

- Starting April 1, employers can claim the 100% tax credit against employment taxes for benefits.
- Employers will claim the credit when filing their quarterly Form 941.
- Employers may receive an advanced credit by taking it out of their otherwise required payroll deposits.
- If the total credit exceeds their payroll deposit, they can file new Form 7200 to claim a refund.
- Below is a link to the IRS FAQ on the FFCRA benefits and tax credits including examples regarding claiming the credit.

- [IRS FFCRA FAQ](#)

When Can an Employer Get the Credit/Benefit?

Employee Retention Credit

- The employee retention tax credit applies to wages paid after March 12, 2020 and before January 1, 2021.
- IRS published brief guidance, stating the 1st quarter credits earned for pay between March 13 and March 31 will be claimed on a second quarter Form 941.
- The credit will not be claimed on the first quarter payroll return.
- Employers may receive an advanced credit by taking it out of their otherwise required payroll deposits.
- If the total credit exceeds their payroll deposit, they can file new Form 7200 to claim a refund.
- Below is a link to the IRS FAQ on the employee retention credit which includes examples regarding claiming the credit.
 - [IRS Employee Retention Credit FAQ](#)



When Can an Employer Get the Credit/Benefit?

Employee Payroll Tax Deferral

- The deferral period starts March 27, 2020 and ends December 31, 2020.
- I believe this means deferral applies to all payroll deposits starting March 27th.

NOL Carryback Period Expanded

- Taxpayers may elect to carry-back NOLs 5 years
- 5-year elective carryback applies to taxable years beginning after 12/31/17 and before 1/1/2021
 - Generally 2018, 2019, and 2020 tax years
- Taxpayers may elect to forego the entire 5-year carryback with respect to a specific year's NOL
 - Irrevocable once made
- The 80% limitation on NOL deductions is suspended for losses generated in 2018, 2019, and 2020
- Special rules apply to NOL carrybacks to years where a taxpayer had GILTI income

Section 163(j) Amended

- For taxable years beginning in 2019 and 2020 taxpayers, except for partnerships, from 30% to 50% of ATI
 - Taxpayers may elect to use 30%
- For taxable years beginning in 2020, a taxpayer may elect to use its 2019 ATI for purposes of computing its 2020 §163(j) limitation
 - This should benefit taxpayers facing reduced 2020 earnings
- For partnerships, the increase to 50% of ATI applies only to years beginning in 2020
- However, if a partner is allocated excess business interest expense in 2019, they may deduct 50% of that excess business interest in 2020 with the remainder subject to the same limits
 - Example: Partner is allocated \$10,000 of excess business interest expense in 2019, the partner may deduct \$5,000 of that interest in 2020, and the remaining \$5,000 will be subject to the normal limits

Corporate AMT Credit Refundable

- Under the TCJA, the corporate AMT credit was refundable over a series of years with the remainder recoverable in 2021
- The refundable AMT tax credit will be completely refunded for taxable years beginning after 12/31/18
- Taxpayer may also elect to take the full credit for tax years beginning after after 12/31/17



Technical Correction to QIP

- What is **Qualified Improvement Property (QIP)**?
 - Internal, non-structural improvements to property, made after the building is placed in service
- QIP now has a 15-year life and is eligible for bonus depreciation
- Fix is in place retroactive to 2018
- What to do for 2018 returns, or 2019 if filed?
 - Amend
 - File a method change (Form 3115)

Temporary Exception to Alcohol Excise Tax

- Federal excise tax on liquor products at \$13.50 per proof gallon, or \$2.70 for small distilleries
- A proof gallon is a gallon of 100 proof (or 50% alcohol) content liquor
- Distilleries and breweries alike in response to the COVID-19 pandemic are now shifting their production process from making distilled spirits for consumption, to creating hand sanitizer
- The Center for Disease Control and Prevention states that hand sanitizer must contain at least 60% alcohol content to be effective against COVID-19
- Distilled spirits used after December 31, 2019 but before January 1, 2021 will not be subject to the federal excise tax if the spirits are used or contained in hand sanitizer produced and distributed under the regulations provided by the Food and Drug Administration (“FDA”) due to COVID-19



Individual Stimulus Payments

- **Amount:** \$1,200/adult (\$2,400/married couples) with an additional \$500/child
- **Who is eligible:** Full amount available for single filers who make \$75,000 or less (\$150,000 or less for married filing jointly). Phases out for single filers who make more than \$99,000 (\$198,000 for married filing jointly) – phase out amount increases for each dependent child under age 17.
- **How payments made:** direct deposits will be made for all taxpayers who have previously provided bank information; IRS will provide more information on how to provide bank information for direct deposit if they do not want a check
- **How it will be calculated:** IRS will first look to 2019 tax returns, if filed. Then 2018 returns, if filed. Then will look to Social Security statements.
 - For clients who have not yet filed 2019, we should assess whether the 2018 or 2019 returns will provide a larger payment (if any)
 - The CARES Act does not have any provision requiring an individual to pay back excess credit amounts with their 2020 return, or to include the excess in income
 - If someone does not qualify based on 2018 or 2019, but 2020's income is down, then they will need to wait until they file their 2020 return to claim the credit

Retirement Plan Provisions

- **Increase to Loan Limitations.** Qualified Individuals are able to take out a loan up to \$100,000 or 100% of the balance of the retirement plan (this is an increase from \$50,000 or 50% of the balance for ordinary loans)
- **2020 RMD Waived.** The 2020 required minimum distribution has been waived for the following plans:
 - Individual retirement plans (including inherited IRAs)
 - Defined contribution plans under IRC §§ 403(a) and 403(b); and
 - Defined contribution plans under IRC § 457(b) (provided the employer of the § 457(b) plan is a state or an agency, instrumentality, or subdivision of a state)
- **Note:** For inherited IRAs that must be distributed over a 5-year period, 2020 does not factor into that 5-year period

Charitable Contributions

- **AGI Limit Increase.** Increase of individual AGI limitations to 100% of AGI for cash contributions made during calendar year 2020
 - Must be made to an IRC § 501(c)(3) organization, with the exception of:
 - Supporting organizations under § 509(a)(3); and
 - Donor advised funds
 - Individuals will need to elect to have this provision apply
 - Contributions exceeding 100% of AGI will be carried forward for up to 5 years
- **Above-the-Line Deduction.** New \$300 above-the-line deduction for individuals that do not itemize
 - Contributions must be cash and cannot be made to supporting organizations or donor advised funds
 - NOTE: This is a permanent provision, effective for tax years beginning after December 31, 2019

Charitable Contributions

- **Corporate Limit Increase.** Increase of corporate charitable contribution limitation to 25% of taxable income
 - Excess contributions carried forward for up to five years
 - Contributions must be cash and made during calendar year 2020 to an IRC § 501(c)(3) organization that is not a supporting organization, or a donor advised fund

Business Loss Limitation

- **Background.** The Tax Cuts and Jobs Act of 2017 (TCJA) added a limitation on business losses, requiring business losses in excess of \$250,000 for single filers and \$500,000 for married filers to be carried forward as part of a net operating loss
- **CARES Act Changes.**
 - Eliminated the limitation for farm losses for tax years beginning after December 31, 2017 and before January 1, 2026
 - Eliminated the limitation for all other business losses of noncorporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2021
- **Planning Opportunity.** The elimination of this business loss limitation allows taxpayers to amend their 2018 (and 2019, if filed) income tax returns if their business losses were limited



Student Loans

- **Employer Payments of Student Loans.** Employers may now make payments on employee student loans, up to \$5,250, and the payment will be excluded from the employee's income if the payment is made before January 1, 2021
 - Expanded IRC § 127, which allows employers to pay for qualified education expenses of employees
- **Suspension of Student Loan Payments.** All Federal student loan payments are suspended until September 30, 2020
 - No interest will accrue during this time
 - Suspended months still count as paid months for purposes of loan forgiveness programs and loan rehabilitation programs
 - Does not apply to private student loans, Perkins loans, or Federal Family Education Loans



Let us answer YOUR dealer specific questions

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