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COVID-19 Economic Relief – Tax Aspects for Dealerships

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Today's presenter



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The information provided herein is educational in nature and is based on authorities that are subject to change. You should contact your tax adviser regarding application of the information provided to your specific facts and circumstances.

Tax Filing and Payment Due Dates

Tax Filing and Payment Due Dates (Federal)

- Most income and gift tax returns and payments due April 15, 2020 now due July 15, 2020
 - Applies to all types of taxpayers with a 2019 year end
- If unable to file by July 15th, would need to file an extension at that time
- Payment postponement also includes tax on self-employment income
- 2020 estimated tax payments due April 15, 2020 postponed
 - First Quarter Estimate due July 15, 2020
 - Second Quarter Estimate due June 15, 2020

Tax Filing and Payment Due Dates (Ohio)

- Ohio Tax Commissioner extended income tax filing to follow Federal
- The new deadline of July 15, 2020 covers 2019 tax returns and 1st and 2nd quarter 2020 estimates for:
 - Ohio individual income tax
 - School district income tax
 - Pass-Through entity tax
 - Municipal net profit tax filed through Ohio's centralized filing system
- Municipalities all appear to be following suit with the extension

Tax Filing and Payment Due Dates (States)

- Each State is different on their conformity or nonconformity to the federal due date
 - Some States are waiving penalties and interest while others are not
 - Some States extended only individual returns
 - Need to check for each state you file returns in to confirm due date and any relief on the payment due date

Families First Coronavirus Response Act

Families First Act

- Provides two new refundable payroll credits to small / midsize employers
 - Paid sick leave and paid family leave credits
- Qualification – Employer with fewer than 500 employees
 - If a group of related entities use FMLA “integrated employer test” to determine
 - Based on facts and circumstances
 - Department of Labor / legal determination
 - Small Business Protection – Employers with 50 or fewer employees could qualify for exemption
- April 1st start date for tax credits
 - Act runs through December 31, 2020

Paid Sick Leave Credit

- 10 days covered under sick leave / 2 weeks up to 80 hours
- 2 opportunities for tax credits
 - Up to \$511/day full pay if employee is sick (\$5,110 in aggregate)
 - Quarantined or experiencing COVID-19 symptoms
 - 2/3 pay up to \$200/day if the employee is taking care of someone else due to qualifying reason (\$2,000 in aggregate)

Paid Family Leave Credit

- 10 weeks covered to take care of a dependent
 - Child (18 or younger) that is home due to school / child care closures resulting from COVID-19
- 2/3 pay up to \$200/day (\$10,000 in aggregate)

Tax Credits - Mechanics

- Covered employers qualify for dollar for dollar reimbursement for qualifying wages paid
- Refundable Credit
- 3 Options:
 - Reducing your payroll tax deposit by the amount of credit earned
 - “Quickie Refund” - IRS form yet to be released (expected payment in 2 weeks)
 - Quarterly Payroll Tax Return True-up (Form 941)

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

Paycheck Protection Program

- Small Business Administration (SBA) Paycheck Protection Program
- Loan program for retaining employee and pay levels
 - Provide loans between Feb 15, 2020 and June 30, 2020
- Employers must maintain certain employment and employee wage levels to get the most benefit
- If taking advantage of Paycheck Protection Program then ineligible to take advantage of the Employee Retention Credit

Paycheck Protection Program

- Eligible Businesses with 500 or fewer employees
 - This 500 employee test is NOT the same test as in the FFCRA
- A group of related entities is typically subject to the “affiliation” rules
- Affiliation rules are waived for a business operating as a franchise with an assigned Franchise Identifier Code (SBA listing)
 - With a qualifying code, the 500 employee measurement is at the franchise/location level
 - OEMs may be on the list already or currently applying for codes

Paycheck Protection Program

- Loan is tied to payroll costs and is capped at \$10 million
 - Based on 2.5 times the average monthly payroll for the previous 12 months
 - Excludes employee wages over \$100,000 prorated
- Loan (or a portion) may be forgiven if used during the period (2/15 – 6/30) for specified expenses:
 - Payroll Expenses (with limitations for employees over \$100,000)
 - Interest payment on mortgages (real or personal property) incurred prior to 2/15
 - Payment of rent/lease prior to 2/15
 - Utilities on any services that began before 2/15

Paycheck Protection Program

- Certain amounts of the loan may qualify for forgiveness
 - Dependent upon certain employee retention and maintaining wages levels during the 8 weeks following the loan origination
- Any loan forgiveness is nontaxable for federal income tax purposes
- Portion of loan not forgiven converts to a term loan of up to 10 years with an interest rate not to exceed 4%

Employee Retention Credit

- Refundable and advanceable payroll tax credit against the employer 6.2% Social Security tax
- Credit generally equal to 50% of qualified wages paid from 3/13/2020 - 12/31/2020
- Eligible employers: operations were fully or partially shut down due to COVID-19 government shutdown order or gross receipts declined by more than 50% compared to the same quarter in the prior year

Employee Retention Credit

- Credit is based on qualified wages paid to nonworking employees for employer with more than 100 full-time employees
- Credit is based on qualified wages paid to working and nonworking employees for employer with less than 100 full-time employees
- Qualified Wages Capped at \$10,000 per employee (includes employee health benefits)
- Does not include wages required to be paid under the Families First Coronavirus Response Act
- Credit not permitted if taxpayer received the SBA loan

Employer Payroll Tax Deposit Deferral

- Businesses can defer deposit due date for employer 6.2% Social Security tax due March 27, 2020 – December 31, 2020
 - Reduced by any other payroll credit
- ½ of the amount deferred is due December 31, 2021
- Remaining balance us due December 31, 2022
- No deferral available for the employer 1.45% Medicare
- Self-employed individuals may defer 50% of the 12.4% self-employment tax, but not the 2.9% Medicare portion
- Deposit deferral is not permitted if loan forgiven on an SBA loan under the Payroll Protection Program

Business Interest Expense Limitation

- Under TCJA, interest expense deductions capped at 30% of adjusted taxable income (ATI)
- Carve out for floorplan interest expense
- CARES Act increases the limitation to 50% of ATI for 2019 and 2020
- Available for corporations and individuals starting in 2019
- For 2020 an election can be made to use 2019 ATI in the computation for 2020 allowable interest expense limitation
- Partnerships get the 50% limitation for 2020 (not 2019)
- 50% of a partner's 2019 share of disallowed excess business interest expense passed through by a partnership will be treated as business interest that is not subject to any section 163(j) limitation paid or accrued by the partner in 2020

Qualified Improvement Property

- Technical correction with CARES Act to correct prior drafting error to make Qualified Improvement Property (QIP) 15 year depreciable property and eligible for bonus depreciation
- Available for property placed in service starting January 1, 2018
- Qualified Improvement Property (QIP) generally includes interior improvements to a commercial building after the building is placed in service
 - Interior Improvements generally consist of things such as drywall partitions, ceilings, ceramic flooring, interior doors and windows, interior lighting, plumbing, fire sprinklers, interior portions of HVAC (not rooftop unit)
 - Does not qualify if building footprint was expanded

Net Operating Loss Carrybacks (NOLs)

- NOL carrybacks which were previously eliminated in the 2017 tax reform have been restored
- Available for corporations and individuals
- 5 year carryback on losses incurred in 2018, 2019, and 2020
- 2 year carryback on losses incurred fiscal years beginning 2017 and ending in 2018
- 80% limitation temporarily removed on NOLs from 2018 through 2020

Refundable Alternative Minimum Tax (AMT) Credits

- Tax Reform of 2017 eliminated Alternative Minimum Tax (AMT)
- Any credits from prior year minimum tax were to be refunded over 4 years (2018-2021)
- CARES Act accelerates refund
 - Remaining balance refundable with 2019 return
 - Option to elect to claim entire refund in 2018

Charitable Contributions

- Expanded charitable contribution deductions
- Nonitemizers can take a deduction for up to \$300 of cash contributions in 2020
- In 2020 the 50% limitation on cash contributions by an individual will not apply
 - Does not apply to contributions to private foundations or donor advised funds
- Corporate charitable contributions limitation of taxable income for 2020 increased from 10% to 25%

Individual Income Tax

- Section 461(I) – an individual's business losses will no longer be capped at \$500,000 until the 2021 tax year
- Eligible individuals will receive check for \$1,200 (\$2,400 MFJ) plus \$500 for each qualifying child (under age 17 at end of 2019)
 - Rebate phases out by 5% of adjusted gross income (AGI) exceeding \$150,000 MFJ, \$112,500 HOH, and \$75,000 all other with full phase-out at \$198,000, \$136,500, and \$99,000 respectively
 - IRS directed to provide funds as soon as possible but no later than December 31, 2020
 - If Form 1040 has not been filed for 2019, will use 2018 return

Questions?





Thank You

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