

HEADLIGHTS



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TAX INCENTIVES FOR AUTO DEALERS

When it comes to income taxes, auto dealers look for ways to reduce or mitigate their income tax liabilities. Here are a few concepts auto dealers could use to help reduce their income tax obligations.

Section 179D

In December 2019, Congress passed a budget agreement that included a number of “tax extenders,” including one that could be useful to dealers with real estate holdings. The Energy Efficient Commercial Buildings Deduction as outlined under IRC Section 179D was originally introduced to encourage more energy-efficient building. Taxpayers who construct buildings or make improvements that meet or exceed ASHRAE 2001 standards are allowed a tax deduction equal to \$1.80 per square foot of their building/improvements placed into service.

The deduction is allocated as follows: \$0.60 is allowed for HVAC systems that achieve 15% savings; \$0.60 is allowed for lighting systems that achieve 25% savings; and \$0.60 is allowed for build-

ing envelope systems that achieve 10% savings. Dealers building or making substantial improvements to real estate should consider incorporating energy-efficient components in their projects to harvest additional tax benefits.

The 179D deduction that previously sunset on 12/31/2017, is now available through 12/31/2020.

Thus, a dealer with a building project in 2018 and 2019 can go back to prior years and apply the 179D concept to obtain tax benefits. To qualify for 179D benefits, an independent, third-party firm must review the project and certify that each of the components meets or exceeds the required standards.

Cost Segregation Studies

A cost segregation study has powerful tax benefits. This is a formal process performed by engineers

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Matthew Pore,
CPA
Albin, Randall
& Bennett, CPAs

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MINIMIZING FINANCIAL RISKS

**6 TIPS TO AVOID PROBLEMS
WITH YOUR AUTO DEALERSHIP
401(K) RETIREMENT PLAN**

to identify and segregate building costs or a real estate purchase price that would otherwise be depreciated over 27½ or 39 years, respectively. Individual components of the project/real estate are identified and classified based on use, purpose, service and/or physical characteristics.

This process allows the engineer to determine which components are personal property, defined by IRC Section 1245, and which are real property, defined by IRC Section 1250. Electing bonus depreciation is a powerful tax benefit that can accelerate depreciation of the IRC Section 1245 components.

Currently, 100% bonus depreciation available for assets placed into service through 2022 decreases to 80% in 2023, 60% in 2024, 40% in 2025 and 20% in 2026. There has never been a better time to utilize cost segregation studies, along with bonus depreciation, to minimize income taxes. Dealers purchasing or building real estate should consider the benefits of a cost segregation study.

Research and Development Credits

One area of the tax code not generally applied to auto dealers is IRC Section 41, Credit of Increasing Research Activities, otherwise known as the Research and Development Tax Credit. Dealers are developing and utilizing software to remain competitive and engage in e-commerce. Companies using software are entitled to R&D

tax credits for the development and customization of software platforms and applications.

An engineer will need to study and review various aspects of the software and applications to determine which costs will qualify for the R&D credit. Software engineers will review the sophistication of the system design, database architecture, security administration protocols, front- and back-end communications, programming, and source code algorithm development components that may qualify for the tax credit.

Qualifying internal-use software features include data entry, secure document management, inventory management, back-office functions, marketing automation, reporting system, mobile integration and analytics. Client-facing software features include secure login, bill payment, e-signature capability, interactive customer service, instant quotes, social media integration, built-in forms, view/edit profile options and document duplication, which may also qualify. Dealers investing in software internally and for engaging in e-commerce should consider the tax benefits of an R&D study.

Tax incentive issues are complex, and the opportunities for tax savings are significant. Dealers should work with their **AutoCPAGroup** member to determine what is best for them. ↗

MINIMIZING FINANCIAL RISKS



Often, when engaging new dealer clients, a review of their accounting records reveals items that expose them to financial risk. The most common

culprit is a lack of communication between the accounting department, department managers and ownership, along with a lack of accountability.

**Tasha R. Sinclair, CPA/ABV
Tetrick & Bartlett, PLLC**

Accounting claims to have made managers aware of the issues and believe it is the department managers' responsibility to resolve them. Department managers claim they had no idea, or that it is accounting's responsibility to collect outstanding receivables or that accounting has made an error. If this sounds familiar, now may be a good time to review some of your policies and procedures.

How can dealers turn things around? One way is to enforce weekly (in some cases, daily) managers' meetings with a set agenda. Each department has its own "hot topics" that are discussed in the meetings. Here are some hot topics by department:

Sales/Finance and Insurance:

- ✓ Contracts in transit aged over 10 days.
- ✓ Any uncollected down payments.
- ✓ Vehicle notes receivables past due.

Service:

- ✓ Customer receivables aged over 30 days.
- ✓ Warranty claims aged over 30 days.
- ✓ Accounts receivables extended outside established guidelines.

Parts:

- ✓ Open parts tickets in excess of 7 days.

- ✓ Customer payments for special-order parts.
- ✓ Inventory with no sales of 12 or more months.

Accounting:

- ✓ Monthly reconciliation of all bank accounts, finance reserves and floorplan accounts.
- ✓ Reports to department managers regarding past due amounts, missing documents and other items.
- ✓ Monthly reconciliation of parts inventory as shown in the document management system to the general ledger.

By addressing topics that create financial risk for the dealership, management and ownership on a regular basis, you will be able to evaluate problems and effect changes to minimize these risks. Contact your **AutoCPAGroup** member to discuss this matter in further detail. ✉

6 TIPS TO AVOID PROBLEMS WITH YOUR AUTO DEALERSHIP 401(K) RETIREMENT PLAN

**Mariya Cawley and
Kimbarley A. Williams
Boyer & Ritter, LLC**

From the sales floor to service, auto dealers have a wide range of employee types and compensation structures that present unique issues when it comes to managing 401(k) retirement plans. Employees might be in sales, marketing, human resource, administration or "fixed operations." Employees are paid based on commission, a flat rate, an hourly rate, a salary or a combination of these pay types, and may also receive bonus pay throughout the year. This can lead to mistakes and the potential for costly penalties from the U.S. Department of Labor and the IRS.



Six Ways to Prevent Costly Pitfalls

1. Review eligible employees: In December 2019, Congress passed the SECURE (Setting Every Community Up for Retirement Enhance-

ment) act, which expanded the definition of eligible employees. Under the Act, part-time employees are eligible to participate in saving for retirement. Starting in 2021, the new law allows eligibility for employees who have worked at least 500 hours per year for at least three consecutive years. Employers may impose an age limit, typically 21. Review your payroll system for part-time employees to ensure that it has the ability to track hours worked.

2. Consider a small-plan checkup: Historically, plans below the 120-employee mark are not required to have an annual audit. However, even if your plan falls below the threshold for an annual audit, consider a small-plan checkup as preventive maintenance to protect against expen-

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sive penalties. An employee benefit plan specialist can review your plan to see whether you are making the correct deferrals for your employees, whether you have an accurate count of employees who are participating or should be participating in your plan, whether you are following plan compensation and employer match or profit sharing as defined by the plan document. A plan checkup will also look at your compliance with hot topics for the IRS and DOL.

Additionally, as part of your employee benefit plan maintenance, it is imperative to remove employees from your plan when they retire or terminate employment. Otherwise, the IRS and DOL consider them participants, costing you annual administrative fees and possibly pushing you to an annual audit that could have been avoided. Keep in mind that after your plan hits the 120-employee mark, it must drop below 100 before annual audits are not required under current law.

3. Empower the team: When audits or plan testing results are received, include high-level financial personnel such as the controller or CFO, along with the office manager or human resources, to review the results.

4. Align compensation and deferrals: Your 401(k) plan details the types of compensation that qualify for deferral. Some dealers count bonuses as part of 401(k)-eligible compensation; others might not. Work with an experienced third-party administrator to correctly set up and monitor your plan, and describe your choice of how deferral is calculated and eligible plan compensation is determined. Thus, you are assured that deferrals are accurately calculated, withheld and remitted.

5. Consider consolidating plans: Some dealers establish separate plans for different locations or employee groups. However, if personnel frequently move among locations, it can be challenging to maintain the accuracy of deferral calculations and withholdings. Your TPA can help you decide whether one plan is a better solution.

6. Avoid top-heaviness: The IRS considers a plan “top heavy” if the retirement accounts of high-earning, key employees account for more than 60%

of the total plan assets. A simple solution includes having highly compensated employees stop deferrals, withdraw some of their money or put excess savings into IRAs. Once the plan is considered top heavy, there is no going back for that year.

Consult with your **AutoCPAGroup** member to help navigate the retirement plan unique to the automotive industry. ☞

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