Bonus Depreciation and Your Eligibility

By Matthew Feuerbach, CPA

With the first year after the major tax overhaul from the Tax Cuts and Jobs Act (TCJA) now complete, there are still changes being made as more regulations and guidance are released. One of the biggest clarifications in 2019, and a victory for dealerships, is the availability to take bonus depreciation under certain conditions. A big issue of contention among taxpayers and tax professionals in 2018 was what the IRS intended when they said "floor plan financing is taken into account" in reference to the disallowance of bonus depreciation. In September, the IRS issued final regulations concurrently with additional proposed regulations on bonus depreciation. Under this guidance, the IRS clarified that if a taxpayer's interest expense, including floor plan interest, does not exceed 30% of adjusted taxable income plus business interest income, then the entity would be eligible to take 100% bonus depreciation in that year.

See the below examples:

Example 1: A dealership has adjusted taxable income of $50,000, which includes $12,000 of interest expense ($10,000 of floor plan interest and $2,000 of business interest). Since the dealer's interest expense of $12,000 is less than its ATI of $15,000 ($50,000 x 30%), the dealership would be eligible for bonus depreciation on qualifying property.

Example 2: A dealership has adjusted taxable income of $50,000, which includes $16,000 of interest expense ($14,000 of floor plan interest and $2,000 of business interest). Since the dealer's interest expense of $16,000 is more than its ATI of $15,000 ($50,000 x 30%), the dealership would not be eligible for bonus depreciation in

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Dealer Details

For Executives of Automobile Dealerships

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The Who, What, When, Where & Why of Centralized Accounting for your Dealerships

By John Daugherty-Dixon, Director of Dealership Services

With ever-increasing costs to operate your dealerships, a sinking pool of skilled talent to hire and increasing regulations that must be met, the time is now for dealers to consider consolidating the accounting offices of multiple dealerships into one location. This is an ideal time for you to consider this growing trend in our industry, but just what is consolidated or centralized accounting and is it right for your dealerships. Let's look at the basics to who, what, when, where & why of how it works, what you need to understand, and how to plan & implement a centralized accounting department for your dealerships.

The **WHO** is simple. Any group of two or more dealerships should consider implementing this business model.

So, **WHAT** are we suggesting you do? Reduce the number of actual, fully staffed accounting offices at your dealerships.

WHEN – the time is now.

WHERE – at any one of your current locations.

WHY would a dealer want to consider this business model?

The dealer can maximize the productivity of their employees.

The dealer will have a more standardized process and more consistency in the transactions that are being posted to the DMS (i.e. CDK, Reynolds & Reynolds, DealerTrack, Automate, etc.).

The dealer will be able to reduce both the number of office managers and team members required to operate its dealership accounting offices. This will reduce the payroll, payroll tax, and employee benefit expenses each week.

How should a dealer move forward with the centralized accounting office model and what do they need to do next?

The steps to implement a centralized accounting office model are simple but first, require a detailed study of the dealerships and how they function on a day-to-day basis. It is not just the accounting office being analyzed, but the entire dealership. Remember every piece of paper is money to the dealership and every piece of paper must end up in the accounting office.

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Centralized Accounting for your Dealerships *(continued)*

How the workflows into the accounting office can be very different in each dealership and the skill level of the employees in the different dealerships can be as different as night and day. The workflow in each individual dealership needs to be evaluated in order to establish one set of processes and internal controls that will be applied to the entire group.

Where does the dealer start planning the move to a centralized accounting office?

Analyze and understand the skill level of the Office Managers/Controllers and the team of clerks in each of the individual accounting offices. Who is under-utilized? Who is the strongest leader?

How cross-trained is each of the team members? What will it take to cross-train more of the team?

After analyzing the accounting office staff, the dealer also needs to look at the general workflow coming into the office from the other departments as well as determine how well your dealerships' DMS functions are being utilized. Are all ROs closing and posting automatically to accounting each night or is this still a manual process? Does each F&I office turn their deals into the office in a timely manner and are their deal jackets complete more than 90% of the time? Who reviews the invoices and approves the expenses from your vendors? How does the AP Clerk know if the invoice is approved for payment? These are all just some basic operation processes that the dealership should review on a regular basis and use the DMS to help keep the workflows going forward for the dealership.

Once the dealer has analyzed its operations at the dealerships, it is time to write an implementation plan to move the dealerships to the centralized accounting model. The plan needs to detail how the individual workflows will be changed from being with each individual dealership business office to being sent into the centralized accounting office.

Here are some basic items that you need to account for in your implementation plan:

Which workflows should be consolidated first? Payroll and/or Accounts Payable?

How will information be sent from the dealership to the centralized accounting office?

What additional software or hardware will you need to add to your network?

Does the DMS offer a consolidate accounting format?

Then it is time to implement. The implementation of this new workflow will not be easy. You are creating a change in the culture of your dealerships and this is not going to run smoothly overnight. This is a change and most employees are not thrilled with change. The dealer needs to communicate with the management of the dealerships and explain why this change is important and explain why it will be positive for the dealerships. Then, the management will need to help the dealer communicate this message to the employees. Take it slow; do not rush the change. Be ready to continuously review the new workflow as you are making the transition, and be ready to modify the new process during implementation if necessary, in order to make it work effectively for your dealerships. Follow up after 2 or 3 months of running with the new workflows to test if things are working as planned.

Moving your dealership to the centralized accounting model is a short-term investment of time and money. It is not going to bring instant savings to the dealership, however, over time the dealerships will be able to maximize the productivity and reduce the need for additional team members as the dealerships grow.

Remember the key steps to a successful implementation:

Analyze the current workflows and the employees

Plan the implementation in detail

Communicate the positive benefits to the dealership and its employees

Follow the implementation plan but do not rush the process

Re-evaluate the workflows 2 to 3 months after it is running.

Make sure you have the talent and the time to manage this process

Consider meeting with your OCD team. OCD has the experience and talent to help you to analyze, plan and execute your implementation. OCD's experience will give the dealer and management the ability to keep their focus on day-to-day business and move the implementation forward at a quicker pace than management trying to manage the daily business during the implementation process.

Year-end Navigation for Individual Tax 2019

By Lucy Luo, CPA

Tax reform significantly altered the U.S. taxation system for the 2018 tax year. We have completed our initial pass through the maze and now it's time to navigate the tax issues for the remainder of 2019. The biggest drivers of tax planning are your personal goals and situation.

You should consider strategies such as deferring income into a subsequent year, accelerating deductions or expenses, or acting based upon an implication of the tax reform. Whether you should defer or accelerate income and deductions between 2019 and 2020 mainly depends on your projected marginal tax rate for each year. If your rate is expected to be the same for 2019 and 2020, generally you should defer income to 2020 and accelerate deductions into 2019 due to the time value of money.

Control Your Income

You should arrange your year-end bonus with your employer to the year in which you will be in a lower tax bracket. If you are a small business owner, you can control the receipts of various types of income depending on your situation, such as dividend payments from closely-held companies. For commissions, you can close sales in December or January. You should be cautious about constructive receipts when you take care of these matters. You can also use strategies such as the installment sale method to defer taxable gains on sales.

If you plan to convert a traditional IRA to a Roth IRA, convert in a lower tax bracket year since you will pay tax on the amounts converted that were previously deducted. Keep in mind, a conversion will increase your AGI and potentially increase your tax bracket overall.

Control Your Deductions

Many taxpayers are not able to itemize now because of the higher standard deduction and the $10,000 limitation on state and local taxes deduction. You can use a "bunching strategy" to pull or push discretionary medical expenses and charitable contributions into the years in which you plan to itemize. This may include making charitable contributions every other year, for example.

If you become eligible in December 2019 to make health savings account (HSA) contributions, you can make a full year deductible contribution for 2019.

If you want to accelerate deductions, consider using a credit card to pay expenses before the end of the year. You can take the deductions for 2019 even if you do not pay your credit card bill until 2020.

If you have a business, consider purchasing and placing business assets in service in 2019. The section 179 expense limit is $1,020,000 for 2019 with an investment ceiling limit of $2,550,000.

Establish a SEP plan for you and your employees if you are a sole proprietor. Maximum allowable contributions are $56,000 for an employee.

Section 199A

Tax reform allows business owners of passthrough entities and sole proprietors to deduct up to 20% of qualified business income. Depending on your business model, you may be able to increase your deduction with certain strategies, such as paying additional wages before year end. The rules for the 20% deduction are complex, so please contact our office for assistance.

Qualified Opportunity Funds (QOF)

QOF were created under tax reform to promote the investment in low-income communities. QOFs are a hot topic since you can defer, reduce, or permanently exclude capital gains on investment in a QOF. If you expect large capital gains, consider making this investment to obtain significant tax savings.

Other Year-end Reminders

Make gifts sheltered by the annual gift tax exclusion before year end. The exclusion is up to $15,000 for 2019 to each of an unlimited number of donees. The tax reform also nearly doubled the estate tax exemption. For 2019, the exemption is $11.4 million per person. Review your estate plan with your advisor and make use of it.

Consider making traditional or Roth IRA contributions. The limit is $6,000 for 2019 ($7,000 for age 50 or older). Remember to take required minimum distribution (RMD) from your IRA or 401(k) if you reach age 70½ to avoid the 50% not-withdrawn penalty.

If you invest Qualified Small Business Stock (QSBS) and have a projected gain, make sure you have held the stock for more than five years before selling to qualify for the QSBS gain exclusion.

Review your income, deductions, withholding, and estimated taxes paid for any significant changes from the prior year. Catch up withholdings or estimated tax payments may help reduce or eliminate an underpayment penalty.

The above ideas only scratch the surface of tax-planning and savings strategies and may differ based upon your personal tax situation. If you have any questions, please contact our office. Our tax professionals can review and consider the interplay of various tax rules for you.

Bonus Depreciation and Your Eligibility *(continued)*

the current year.

This testing would be done each year, so being ineligible for bonus depreciation in one year would not prevent the entity from taking bonus depreciation in a later year. Because this determination is based on adjusted taxable income, many entities may not know whether they will be eligible for bonus depreciation until well after year end. This makes year end planning more important than ever.

Additionally, the IRS has confirmed that leasing property to a trade or business with floor plan financing would not prohibit the lessor from taking bonus depreciation on eligible property.

Entities that cannot take bonus depreciation should continue to look to Section 179 expensing. For 2019, the Section 179 expense limit has been increased to $1,020,000. The phaseout for assets placed in service has also been increased with a new starting threshold of $2,550,000, and a complete phaseout at $3,570,000. Listed vehicles with a gross vehicle weight over 6,000 lbs. and under 14,000 lbs. can take up to $25,500 of section 179 in 2019. This is the first time in many years that this amount has been increased from $25,000, as this amount will now receive inflation adjustments due to changes from the TCJA.

It is a year later, and we still have not received a technical correction to give Qualified Improvement Property a 15-year class life. This means that any improvements made to a leased building must still use a 39-year life. While Congress originally intended to give these improvements a 15-year life, and thus be eligible for bonus depreciation, it was not included when updating the tax code. Several bills that included the technical corrections have entered the house, but did not receive enough votes to pass. The IRS has explicitly stated that only a technical correction of the code made by Congress can fix this error. Fortunately, this property remains eligible for section 179, even as a 39-year asset.

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