



## Support the Paul Amendment to Preserve Floor Plan Deductibility in Senate Tax Reform Bill

### Issue

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The Senate Finance Committee approved the “Tax Cuts and Jobs Act” which includes a provision that would reduce the current 100% deduction of business interest, including floor plan interest, to 30% of adjusted taxable income. The House tax reform bill, H.R. 1, recognizes the importance of preserving interest deductibility for floor plan financing because limiting this type of business interest would disproportionately hurt small business auto, boat, RV and motorcycle retailers, particularly during an economic downturn. **Senators are urged to support Sen. Rand Paul’s (R-KY) amendment to preserve full floor plan interest deductibility as included in the House tax bill.**

### Background

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**The floor plan loan is the economic cornerstone of the franchised dealership.** Dealers rely almost exclusively on floor plan lending to buy vehicles from the auto manufacturers and hold the vehicles in inventory on their lots. For the vast majority of new cars and trucks sold each year at retail, dealers finance the purchase of the inventory with floor plan loans. Most of the nation’s franchised dealerships are closely-held, family-owned businesses that are organized as pass-through entities. Small business auto dealerships employ more than 1.1 million individuals and generate significant state and local tax revenue.

**Floor plan financing is highly specialized credit, different from other types of bank financing, and has been essential to the auto industry for decades.** These loans are “interest only” lines of credit fully collateralized by the dealer’s inventory of vehicles. The dealer typically pays the lender monthly interest on the total inventory. The dealer only repays the “principal” for a specific vehicle in inventory after the vehicle is sold. The dealer then borrows against the line of credit again to add new inventory. The longer a vehicle sits in inventory, the more the dealer pays in floor plan expense. With the average selling price of a new vehicle almost \$35,000, even relatively small dealerships have inventory financing borrowings of more than several million dollars. **As a result, interest expense historically has been one of the top three expenses at a typical dealership.**

### Key Points

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- **The Senate limit on all business interest unfairly puts small business dealers with high-cost inventory at risk of paying higher taxes even when the dealership does not show a profit.** Floor plan financing is a specialized loan that funds affordable vehicle inventory, and limiting its deductibility would disproportionately harm small business dealers by substantially raising financing costs.
- **The Senate bill treats dealers, generally closely-held small businesses, the same as large corporations that choose debt over equity for tax purposes.** Franchised automobile dealers do not have access to equity markets, so floor plan financing is a necessity, not a choice.
- **The Senate bill is harmful to small businesses and needs to be corrected to allow full deductibility of specialized floor plan loans.** The House tax reform bill (H.R. 1) and the Paul Amendment, recognizing that floor plan loans are different, limit business interest deductibility but preserve full deductibility of floor plan financing for high-cost inventory such as vehicles, boats, farm equipment, etc.

### Status

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On November 16, the Senate Finance Committee passed the Tax Cuts and Jobs Act. The Senate is expected to consider the bill on the Senate floor this week. **NADA urges the Senate to support the Paul amendment to ensure that full floor plan interest deductibility is preserved.**

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