

# The Federal Tax Implications of COVID-19

## *How the New Environment Affects Dealers*



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# Legal Disclaimer

This presentation is offered for general informational purposes only and is not intended as, and does not constitute, legal or accounting advice. It is important that dealers consult with their tax advisor for guidance on their individual tax planning and reporting responsibilities.

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# What We'll Cover

- Individual Tax Rebates
- Use of Retirement Funds
- Charitable Contributions
- Individual Business Losses
- Employee Retention Credit
- Employer Payroll Tax Payments
- Net Operating Losses
- Corporate AMT
- Business Interest
- Qualified Improvement Property
- State Tax Law Considerations
- **What should I consider doing tomorrow?**

# Individual Tax Rebates

# Recovery Rebates for Individuals

- 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 others 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, IRS will use 2018 return.

# Use of Retirement Funds

# Use of Retirement Funds

- Special Rules
  - Waiver of 10% early withdrawal penalty up to \$100,000 of distributions
    - COVID-19 related purpose after January 1, 2020
      - Individual, spouse or dependent diagnosed who experiences adverse financial consequences
    - Income on such distributions taxable over three years
    - Recontribute the funds without regard to annual contribution limit
  - Waiver of Required Minimum Distribution Rules for 2020



# Charitable Contributions

# Charitable Contributions

- The CARES Act expands 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.
  - This provision does not apply to contributions to private foundations or donor advised funds.
- Corporate charitable contributions limitation for 2020 increased from 10% to 25% of taxable income.
- The limitation on contributions of food inventory increased from 15% to 25% of taxable income.

# Individual Business Losses

# Individual Business Losses

- The \$500,000 cap on individual business losses suspended until the 2021 tax year.
  - Pass-through businesses and sole proprietors
    - Includes losses from Schedule C and Schedule E
  - Allows for greater utilization of new NOL carryback provisions.

# **Employee Retention Credit**

# Employee Retention Credit

## **Section 2301. Employee retention credit for employers subject to closure due to COVID-19**

The provision provides a refundable payroll tax credit for 50 percent of wages paid by employers to employees during the COVID-19 crisis. The credit is available to employers whose (1) operations were fully or partially suspended, due to a COVID-19-related shut-down order, or (2) gross receipts declined by more than 50 percent when compared to the same quarter in the prior year.

# Employee Retention Credit

- Employment tax credit equal to 50% of wages up to \$10,000 of wages per employee
  - The credit is equal to 50% of wages paid to an employee after March 12, 2020, in each qualifying calendar quarter, up to a total of \$10,000 in wages for all quarters, per employee. The maximum eligible credit may be worth up to \$5,000 per eligible employee.
- Eligible for employers where:
  - Business is fully or partially suspended during calendar quarter due to orders from an appropriate government authority, or
  - A business experiences a significant decline in Gross Receipts, less than 50% in prior year same quarter.
  - Ends in quarter where gross receipts are greater than 80% of gross receipts in prior year same quarter.
- Qualified Wages are:
  - For employer with over 100 employees: wages for employees who are NOT working
  - For employer with 100 employees or less: wages for all employees
  - Does not include wages paid under Families First Coronavirus Response Act (emergency sick and family leave) or if using the Payroll Protection Program
  - Affiliated or controlled group rules may apply to the 100 employees test

# Frequently Asked Questions

- Does my business qualify to receive the Employee Retention Credit?
- How is the credit calculated?
- How do I know which wages qualify?
- I am an eligible employer. How do I receive my credit?
  - [www.irs.gov/pub/irs-pdf/f7200.pdf](http://www.irs.gov/pub/irs-pdf/f7200.pdf)
- IRS FAQs
  - [www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act](http://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act)



# **Employer Payroll Tax Payments**

# Employer Payroll Tax Payments

## **Section 2302. Delay of payment of employer payroll taxes**

The provision allows employers and self-employed individuals to defer payment of the employer share of the Social Security tax they otherwise are responsible for paying to the federal government with respect to their employees. Employers generally are responsible for paying a 6.2-percent Social Security tax on employee wages. The provision requires that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022.

# Employer Payroll Tax Payments

- May defer payment of employer portion of Social Security taxes beginning March 27, 2020 through December 31, 2020
- 50% payable December 31, 2021 and remainder payable December 31, 2022
- Most importantly - Employer not eligible to defer if you have debt forgiveness under the new Payroll Protection Program



# **Net Operating Losses**

# Net Operating Loss

## **Section 2303. Modification for net operating losses**

The provision relaxes the limitations on a company's use of losses. Net operating losses (NOL) are currently subject to a taxable-income limitation, and they cannot be carried back to reduce income in a prior tax year. The provision provides that an NOL arising in a tax year beginning in 2018, 2019, or 2020 can be carried back five years. The provision also temporarily removes the taxable income limitation to allow an NOL to fully offset income. These changes will allow companies to utilize losses and amend prior year returns, which will provide critical cash flow and liquidity during the COVID-19 emergency.

# Net Operating Loss

- Net operating losses originated in 2018, 2019, and 2020 can be carried back for five years.
- Removes 80% of taxable income limitation to allow net operating losses to fully offset other taxable income until 2021.
- Postpones the excess business loss rules for individuals until tax year 2021.
- Retroactively removes excess business loss rules to 2018 which provides immediate cash opportunity if you had losses in 2018.

# Corporate AMT

# Corporate AMT

## **Section 2305. Modification of credit for prior year minimum tax liability**

The corporate alternative minimum tax (AMT) was repealed as part of the Tax Cuts and Jobs Act, but corporate AMT credits were made available as refundable credits over several years, ending in 2021. The provision accelerates the ability of companies to recover those AMT credits, permitting companies to claim a refund now and obtain additional cash flow during the COVID-19 emergency.



# Corporate AMT

- Under TCJA, corporate AMT credits were refundable over a four-year period from tax years beginning in 2018–2021.
- Under the CARES Act, any remaining corporate AMT credit is fully refundable for the tax year beginning in 2019.
- Alternatively, a taxpayer may elect to make the credit fully refundable for the tax year beginning in 2018.
- The CARES Act directs Treasury to provide procedures where a taxpayer electing to make the credit refundable for 2018 can file for a tentative refund of the additional credit amount, and such refund should be granted within 90 days.

# **Business Interest**

# Business Interest

## **Section 2306. Modification of limitation on business interest**

The provision temporarily increases the amount of interest expense businesses are allowed to deduct on their tax returns, by increasing the 30-percent limitation to 50 percent of taxable income (with adjustments) for 2019 and 2020. As businesses look to weather the storm of the current crisis, this provision will allow them to increase liquidity with a reduced cost of capital, so that they are able to continue operations and keep employees on payroll.

# Business Interest - Corporations

- For taxable years beginning in 2019 and 2020, taxpayers may deduct business interest expense up to 50% of ATI, an increase from 30% of ATI under the TCJA.
- For any taxable year beginning in 2020, the taxpayer may elect to substitute the ATI for the last taxable year beginning in 2019 for the 2020 ATI.
- If 2019 return was already filed, taxpayers can file a superseding return/amended return to claim refund, if applicable.

# Business Interest - Partnerships

## 2019 TAX RETURNS

- 30% limit still applies
- Special Rule - 50% of any interest limitation incurred in 2019 is deductible in 2020 (on Form 1040)
- Other 50% follows normal rules
- Any partner can opt out of Special Rule

# Business Interest - Partnerships

## 2020 TAX RETURNS

- Taxpayers may deduct business interest expense up to 50% of ATI, an increase from 30% of ATI under the TCJA.
- The taxpayer may elect to substitute the ATI for the last taxable year beginning in 2019 for the 2020 ATI.

# Business Interest

- Remember how floorplan carveout works
  - Dealers make this calculation 2 ways –
    - including floorplan interest and excluding floorplan interest.
  - If you are below the 30% threshold including floorplan interest, then Treasury's proposed rule states that you can take bonus depreciation (BD) (currently 100% for new and used property) for that year.
  - If you are above 30% including floorplan interest, then you can deduct 100% of floorplan interest but cannot take BD.
  - Now the 30% is replaced with 50% for 2019 and 2020, so this increases likelihood of a dealer being eligible for BD. And you won't be hurt by a decline in profits for 2020 as it relates to interest and BD.

# **Qualified Improvement Property**



# Qualified Improvement Property

## **Section 2307. Technical amendment regarding qualified improvement property**

The provision enables businesses to write off immediately costs associated with improving facilities instead of having to depreciate those improvements over the 39-year life of the building. The provision, which corrects an error in the Tax Cuts and Jobs Act, not only increases companies' access to cash flow by allowing them to amend a prior year return, but also incentivizes them to continue to invest in improvements as the country recovers from the COVID-19 emergency.

# Qualified Improvement Property

- Examples of such qualifying improvements include installation or replacement of drywall, ceilings, interior doors, fire protection, mechanical, electrical and plumbing.
- Excluded improvements are internal structural framework, enlargements to the building, and elevators or escalators.
- Replaces the concepts of Qualified Leasehold Improvements, Qualified Retail Improvement Property and Qualified Restaurant Property that existed prior to TCJA.

# Qualified Improvement Property

- Can be owner occupied (self rental)
- 3 year rule does not apply
- Was intended to be 15 year property
  - eligible for BD and Sec 179 under the TCJA
- Clerical error made it 39 year property
  - not eligible for BD
- Could not be fixed via a technical correction, required congressional action.
  - Needed a bi-partisan bill

# Qualified Improvement Property

- The correction is retroactive to 1/1/18 acquisitions.
- Can amend 2018 return or correct on a cumulative basis in 2019.
  - If either generates a loss, some of the items the previous speakers talked about regarding NOLs and loss limitations would come into play.
  - Might even generate refunds from higher tax rate years.
- If no cost segs done, do them now.
- If costs segs done, may need to be updated.

# **State Income Tax Considerations**

# State Income Tax Considerations

[www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/coronavirus-state-filing-relief.pdf](http://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/coronavirus-state-filing-relief.pdf)



## State Tax Filing Guidance for Coronavirus Pandemic

Updated: 3/30/20 – 6:30 pm et

U.S. states are providing tax filing and payment due date relief for individuals and businesses. The AICPA has compiled the [below](#) latest developments on state tax filings related to coronavirus. This document contains the first few pages as a summary in reverse chronological order, starting with the furthest revised original due date of state filing relief to the soonest date order. The next part of the chart details each state or jurisdiction’s guidance on tax filing and payment relief in alphabetical order by state. The final part covers federal updates, [AICPA tax policy and advocacy efforts and resources](#), and other state tax resources. We plan to update the information daily while the states are issuing guidance. Because the state tax authorities are often updating their information, it is best to confirm with each [state’s department of revenue website](#) for the most updated information.

State	Guidance/Date	Guidance Relief Provisions for Coronavirus	Other Information
Summary of States Filing Relief		<p>State filing relief/revised due dates in response to Coronavirus</p> <ul style="list-style-type: none"> <li>- 37 states (including DC) [AL, AR, AZ, CA, CO, CT, DC, DE, GA, IL, IN, KS, KY, LA, MA, ME, MD, MI, MN, MO, MT, NC, ND, NE, NM, NY, OH, OK, OR, PA, RI, SC, TN UT, VT, WI, WV] and USVI have changed from 4/15 to 7/15 filing and payments deadline for coronavirus pandemic. Note: CT and MN business deadlines not 7/15.</li> <li>- 8 states [IA (7/31), HI, (7/20), ID (6/15), NH (6/15) MS (5/15), OR (4/30), VA (6/1), WA (6/15)] and Puerto Rico (6/15) changed to other filing and payments deadline for coronavirus pandemic.</li> <li>- 1 state with a personal income tax (NJ) not yet provided guidance on</li> </ul>	<p>[Note:</p> <ul style="list-style-type: none"> <li>- 7 states not impacted for individual income taxes</li> <li>- no personal income tax (AK, FL, NV, SD, TX, WA, WY), and 2 states no tax on wages (NH and TN – interest and dividends) (41 states have personal income tax)</li> <li>- 2 states (SD, WY) no corporate income tax and no gross receipts tax,</li> <li>- 4 states (NV, OH, TX, WA) have gross receipts taxes instead of corporate income taxes]</li> </ul>

**What should I consider doing tomorrow?**

LIQUIDITY



# What should I consider doing tomorrow?



DEALERSHIP LIFELINE WEBINAR SERIES

**MANAGING CASH FLOW:**  
MAKING IT THROUGH THE COVID-19 PANDEMIC

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3

Managing Cash Flow: Making it through the Covid-19 Pandemic

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The image shows a promotional card for a webinar. The top half features a dark blue background with abstract light patterns and a red banner at the top left containing the text 'DEALERSHIP LIFELINE WEBINAR SERIES'. Below this, the main title 'MANAGING CASH FLOW: MAKING IT THROUGH THE COVID-19 PANDEMIC' is displayed in white. The bottom half of the card has a white background and contains the date 'APR 3', the title 'Managing Cash Flow: Making it through the Covid-19 Pandemic', and the host information 'Public · Hosted by National Automobile Dealers Association'.



# What should I consider doing tomorrow?

- NON-TAX ITEMS

- Contact bank about Paycheck Protection Program Application.
- Consider applying for Economic Injury Disaster Loan.
- Consider staffing needs.
  - Understand federal unemployment subsidy.
- Evaluate whether any employees are eligible for new statutory Paid Sick Leave or Paid FMLA.
- Contact lenders about deferrals and/or concessions.
- Contact vendors about deferrals and/or concessions.

# What should I consider doing tomorrow?

- TAX ITEMS

- If not applying for PPP loan:
  - gather info to calculate employee retention credit
  - Begin to defer ER FICA taxes
- Determine if NOL existed in 2018 or 2019; consider amending tax returns.
- Determine if losses were limited in 2018 or 2019; consider amending tax returns.

# What should I consider doing tomorrow?

- TAX ITEMS

- Determine if 50% interest limit changes either interest expense deduction or BD eligibility and amend 2019 tax return if already filed.
- Review fixed asset additions for 2018 and 2019. Identify any QIP and take additional deductions.
- Determine if AMT credits exist and apply for refund.

# Additional Resources

- IRS Coronavirus Tax Relief Page
  - [www.irs.gov/coronavirus](http://www.irs.gov/coronavirus)
- IRS Credits for Sick Leave & Family Leave under FFCRA (COVID 2)
  - [www.irs.gov/newsroom/covid-19-related-tax-credits-for-required-paid-leave-provided-by-small-and-midsize-businesses-faqs#how to claim](http://www.irs.gov/newsroom/covid-19-related-tax-credits-for-required-paid-leave-provided-by-small-and-midsize-businesses-faqs#how%20to%20claim)
- NADA Coronavirus Hub
  - [www.nada.org/coronavirus](http://www.nada.org/coronavirus)
- Comments/Suggestions
  - [www.nada.org/stimulushelpform](http://www.nada.org/stimulushelpform)



**Questions?**