Congress Passes Comprehensive Tax Reform (H.R. 1)

New Law Lowers Rates, Preserves Important Dealer-Related Tax Provisions

PASSAGE OF H.R. 1

Late last year Congress passed the first major rewrite of the tax code since 1986. NADA had urged Congress to lower corporate and individual tax rates and ensure that overall tax code changes do not hurt small-business automobile and truck dealerships. H.R. 1 lowered rates and contained several provisions beneficial to franchised dealers that help dealers continue to provide jobs and investment in local communities. **Dealers are encouraged to thank those members of Congress who voted for H.R. 1**, a pro-dealer, pro-small-business tax reform bill.

BACKGROUND

Small-business dealerships employ more than 1.1 million individuals and generate significant state and local tax revenue. Most dealerships are organized as pass-through entities that result in a blended tax rate, split between wage income and business profits. NADA priorities focused on both lowering tax rates and preserving tax provisions integral to the dealers' unique business model. Many of the new tax provisions went into effect on January 1, 2018. Below are important NADA-supported tax provisions included in H.R. 1.

- **Preserves full deductibility of floor plan interest.** The original House and Senate tax bills generally disallowed interest deductibility, including floor plan financing, for interest expenses exceeding 30 percent of adjusted taxable income. NADA supported House and Senate amendments to preserve full deductibility of floor plan interest. NADA's position prevailed, and **floor plan interest remains 100 percent deductible on a permanent basis.** (Under H.R. 1, entities that receive full deductibility of floor plan interest cannot claim the new temporary immediate expensing provisions; however, Section 179 expensing, with permanent increased limits, remains available.)
- **Significant estate tax reform.** NADA has long fought to reform the "death tax" because of its adverse effect on family-owned dealerships. H.R. 1 **doubles** the estate, gift and generation-skipping transfer tax exemptions from $5.6 million to $11.2 million per individual and $22.4 million per couple, indexed for inflation with portability, **effective January 1, 2018, and expiring December 31, 2025.**
- **Maintains the LIFO (last in, first out) inventory accounting method.** NADA fought to preserve LIFO, which many dealerships have utilized for decades. Despite numerous attempts to repeal LIFO, this accounting method was preserved in the final bill.
- Maintains 100 percent deductibility of advertising expenses, historically one of the largest expense items for dealers other than personnel.
- **Lowers the tax rate and ensures tax relief for pass-through dealerships.** The final bill allows a **20 percent** deduction on pass-through income (including from trusts and estates), which results in an effective tax rate below 30 percent for business income. Pass-through income is limited to 50 percent of the W-2 wages paid by the business or the sum of 25 percent of the W-2 wages plus 2.5 percent of depreciable capital.

STATUS

H.R. 1 passed the House on November 16, and the Senate on December 2. On December 22, President Trump signed H.R. 1 into law [P.L. 115-97].

September 14, 2018