2019 YEAR-END CHECKLIST FOR DEALERS

Woodward & Associates
1707 Clearwater Ave., Bloomington, IL 61704
Work Phone: 309.662.8797 Fax: 309.662.9438
E-mail: carlswoodward@cpaauto.com

As another tax year comes to a close, it is time to consider your tax planning opportunities. The tax law passed at the end of 2017 continues to have a major impact on your business and personal income tax returns.

Year-End Planning:

1. Owners who operate their business as a pass-through entity such as partnerships and S Corporations are entitled to a deduction of up to 20% of their qualified business income (QBI). The deduction can be maximized through salary planning and entity aggregation.
2. The Section 179 expensing limit for 2019 is $1,020,000 with a $2,550,000 investment limit phase-out. This allows businesses to expense the cost of fixed assets such as equipment and furniture and fixtures. Consider placing eligible assets into service before the end of 2019 to take advantage of this expensing limit.
3. 100% bonus depreciation may be used to write-off the cost of both used and new fixed assets that are placed in service before year end. The rules are technical and need to be discussed with your CPA.
4. If you plan to make any charitable contributions, consider making them in 2019 to receive a tax deduction. Payments by credit card are deductible on the day they are made even if the payment to the credit card company occurs on a later date. Consider bunching two years of contributions into one year in order to benefit from itemizing your deductions.
5. Confirm you have made all required personal and corporate income tax deposits for 2019 and see that your personal income tax withholding is adequate.
6. Consider maximizing your retirement contributions, $56,000 for defined contribution plans. This $56,000 limit includes your employee elected deferrals ($19,000 for 2019). An additional $6,000 catch up deferral is allowed for age 50 or over.
7. If you or the dealership owns stock that has unrealized losses, consider discussing with your tax or investment professional the benefit of selling them by year-end to offset realized gains recognized earlier in the year.
8. Have substantiation for your 2019 meal and travel expenses. Travel expenses continue to be 100% deductible. Meals including those provided to employees are 50% deductible. Entertainment expenses are no longer deductible.
9. Accrued interest on loans from shareholders and other related parties, as well as rents, must be paid in order for the dealership to deduct these amounts in the current year.

Keep the Accounting Records Open at the End of December:

1. Record December finance chargebacks in December.
2. Maximize LIFO deductions. Record all new vehicles that were built and invoiced in 2019 as vehicle purchases in 2019 by keeping the new vehicle purchase journal open the first few days of 2020.
3. Keep your accounts payable journal open to record all 2019 expenses in 2019, including advertising, interest, utilities, telephone, gasoline, data processing, insurance, etc.
4. Adjust your property tax payable account to equal at least the total you actually paid in 2019.
5. If any vehicle deal is not a 100% completed deal in 2019 (all paperwork and funding in 2019), then treat it as a 2020 vehicle sale.
6. Make sure all miscellaneous inventories are adjusted to actual.
7. Distributions paid to S corporation shareholders should be equalized in accordance to their ownership percentage.
8. You must include a reasonable estimate of your LIFO adjustment for the year on all versions of your December financial statements. **There are no exceptions**. If there is not a separate LIFO cost of sales account, charge the LIFO estimate to cost of sales in a cost account that has no other activity.
9. Take an inventory of your parts and adjust your books accordingly. Have your parts manager determine which parts should be considered worthless. Subject to your review, dispose of these parts by year-end.
10. All wages and commissions paid in 2020 for 2019 services should be accrued in 2019. Make sure the first payroll in 2020 (even though some portion of the payroll was for 2019 services) is **not** included on your W-2s for 2019, but will instead be on the W-2s for 2020.
    a. Accrued payroll for non-shareholders must be paid no later than March 15, 2020 for it to be deductible in 2019.
    b. If you are a C Corporation, make sure you pay any salaries, commissions, or bonuses to stockholders and related parties in December (if their ownership exceeds 50% including related party interests) in order to take a 2019 tax deduction.
    c. If you are an S Corporation, wages to a shareholder cannot be accrued and deducted for tax purposes. You must pay them in 2019 and include the wages on the 2019 W-2.
11. Reconcile, where possible, all balance sheet accounts before closing the year.

Additional Year-End TO DOs:

1. Adjust all of your used vehicles to current wholesale market value at year-end.
2. Consider the “de minimis safe harbor election” to expense the costs of lower value capital assets, materials, and supplies. Regulations allow businesses to write-off small asset purchases. The safe harbor amount that can be written off is up to $5,000 per item or invoice if you have an audited financial statement and $2,500 if you do not.
3. Review all past due accounts receivables. Write-off all receivables that are not collectible.
4. Review prepaid assets and expense all items in this account that are not valid as prepaid at year-end.

5. All payroll tax and sales tax payable accounts must equal the actual amount of the applicable taxes paid in 2020 for the 2019 fourth quarter and year-end filings. Investigate variances. The year-end payroll tax accrual can only include taxes owed on wages actually paid in 2019.
6. Confirm your sales tax calculation for leases. It must include reimbursement for sales tax and interest charges.
7. Compute and adjust the December 31, 2019 accrued vacation wages payable. Accrued vacation wages paid January 1, 2020 through March 15, 2020 are deductible in 2019 for tax purposes.
8. Review bank reconciliations for checks (including payroll checks over 60 days old) not expected to clear. These checks should be voided and reissued. Funds owed to payees who cannot be located may be considered unclaimed property, which would require you to remit the funds to the appropriate state agency.

Year-End Tax Reporting:

1. IRS Form 1099-MISC must be issued to all businesses that are not incorporated (including LLCs) and received $600 or more during 2019. A Form 1099-MISC must be issued for payments to an attorney even if they are incorporated. When preparing the 1099, for those vendors from whom you purchased parts in conjunction with a service, you must report the total payment made to them on the 1099. Also, Form 1099-MISC must be issued for all rents paid to non-corporate taxpayers, including shareholders, and Form 1099-INT must be issued for interest paid to shareholders and any other individuals. The deadline for filing 1099s is January 31, 2020, for both paper and electronically filed for non-employee compensation. All other 1099s are due February 28, 2020, if paper filed and March 31, 2020, if electronically filed.
2. W-2s for S corporation shareholders must include in wages health insurance premiums paid by the corporation. This amount is not subject to social security or Medicare tax. If the dealership pays the premiums on behalf of the shareholders' children who are employees of the dealership, the children's W-2 must include the insurance premiums.
3. Under the Affordable Care Act, if you have 50 or more full-time or full-time equivalent employees, you are considered an Applicable Large Employer ("ALE"). ALEs are required to complete Form 1095-C, Employer-Provided Health Insurance Offer and Coverage for all full-time employees. The deadline for providing the forms to employees is January 31, 2020. Paper filed forms are due February 28, 2020, and electronic forms on March 31, 2020. At this time the IRS has not provided any extensions for these forms.
4. Determine if you are receiving services from individuals who should be considered employees. The IRS provides a voluntary program that will allow you to convert these individuals prospectively from independent contractors to employees with partial relief from penalties and interest.

Review Procedures for the Use of Demonstrators to Ensure You Comply With the Current IRS Regulations:

1. All individuals who are provided a demo to drive should sign a written demonstrator agreement.
2. There are two IRS approved methods that can be used for full-time salespeople. The first method, used by most dealers, is the partial exclusion method. Under this method, an amount is added to wages on a <u>monthly</u> basis. The IRS has provided daily income amounts based on the value of the vehicle. For example, for a vehicle valued at $40,000, the daily inclusion is $9.00. Under this method, employees are not required to maintain logs. The second method provides them with tax-free use of the demo. This method is fairly complicated and restrictive.
3. For employees who are not full-time salespeople and any other individuals who drive demos, the annual lease value method is used. The amount included in income is based on personal-use mileage and the IRS annual lease table. The IRS requires that logs be maintained in order to verify business versus personal use of the vehicle.
4. The amount included in income is to be added to each employee's W-2. Non-employee family member income amounts must also be included in the <u>employee's</u> W-2. This income is subject to social security and Medicare tax. Shareholders not on the payroll and any other non-employees must be issued a Form 1099-MISC for the income.
5. You can obtain more information about the personal use of autos including sample demonstrator agreements by requesting our Dealer Demonstrator Guidelines.

Other:

1. Form 8300 must be filed if you receive cash in excess of $10,000 from a customer. This includes cashier checks, money orders, and traveler's checks except those issued by financial institutions requiring a lien on the vehicle.
2. If the dealership has a Section 125 plan (cafeteria plan), make sure eligible employees complete the 2020 election forms before the first 2020 payroll. Remember that stockholders owning more than 2% in S Corporations (LLCs, etc.) are not eligible to participate.
3. If you offer a health care Flexible Spending Arrangement (FSA) as part of your cafeteria plan, in order for it to be a qualified benefit under a cafeteria plan, the maximum salary reduction contribution to the health care FSA for 2020 is limited to $2,750. Stockholders owning more than 2% in an S Corporation or an LLC are not eligible to participate. If your company offers a qualified high deductible health insurance plan, you and employees might be able to contribute to individual Health Savings Accounts (HSAs). Contribution limits for 2020 are $3,550 for an individual and $7,100 for a family with a $1,000 additional contribution for those who are age 55 and over.
4. If you make gifts to individuals each year for estate tax purposes, the payments must be made by year-end. You may also be required to file a gift tax return depending on the size of the gift.