# 2018 YEAR-END PLANNING CHECKLIST FOR DEALERS

As another tax year comes to a close, it is time to consider your tax planning opportunities. The tax law passed last December (TCJA) could have a major impact on your business and personal income tax returns.

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## Year-End Planning:

- [ ] The C Corporation tax rate has been reduced to 21%. The tax rate for dividends paid from a corporation are taxed at the same rate as prior years which includes the qualified dividend rate of 15/20% plus the net investment income tax rate of 3.8%.

- [ ] Taxpayers who own and operate their business as a pass-thru entity such as partnerships and S Corporations are entitled to a deduction of up to 20% of their qualified business income (QBI). If taxable income exceeds $315,000 for a married couple filing jointly or $157,500 for all other taxpayers, the deduction calculation is limited to the lesser of 20% QBI or the greater of 1) 50% wages or 2) 25% of wages plus 2.5% of the unadjusted basis of qualified property. Taxpayers can elect to aggregate and group similar entities in order to maximize the deduction.

- [ ] Dealers with average gross receipts of more than $25 million will no longer be allowed use bonus depreciation. This was a trade-off in the TCJA for dealers to not be subject to the new 30% interest expense limit. Dealers can still take advantage of Section 179 expensing. For 2018, the Section 179 expensing limit is $1,000,000 and the investment ceiling limit is $2,500,000. Expensing is generally available for most depreciable property (other than buildings), and off-the-shelf computer software. Expensing also is available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems. Consider placing eligible assets into service before the end of 2018 to take advantage of this expensing limit.

- [ ] Beginning in 2018, deduction of business losses cannot exceed the excess business loss (EBL) limit.

  An EBL exists if the aggregate losses and deductions from a taxpayer's trades or businesses exceed the sum of:
  - Aggregate gross receipts from such trades or business
  - $500,000 for married filing joint taxpayers or $250,000 for other taxpayers

  Consider planning year end revenue and expenses to avoid being subject to this limit.

- [ ] Starting in 2018, many taxpayers who claimed itemized deductions in past years will no longer be able to do so. The basic standard deduction has been increased (to $24,000 for joint filers, $12,000 for singles) and many itemized deductions have been cut back or abolished. No more than $10,000 of state and local taxes may be deducted; miscellaneous itemized deductions (e.g., investment advisory and tax preparation fees) are no longer deductible. Deductible expenses include medical expenses to the extent they exceed 7.5% of your adjusted gross income, state and local taxes up to $10,000, your charitable contributions, plus interest deductions on a restricted amount of qualifying residence debt, but payments of those items won't save taxes if they don't cumulatively exceed the new, higher standard deduction.
  - To maximize your itemized deductions consider applying a "bunching strategy" to pull or push discretionary medical expenses and charitable contributions into the year where they will be maximized. For example, if a taxpayer knows he

or she will be able to itemize deductions this year but not next year, the taxpayer may be able to make two years' worth of charitable contributions this year, instead of spreading out donations over 2018 and 2019.

- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your deductions for that year even if you don't pay your credit card bill until after the end of the year.

☐ Confirm you have made all required personal and corporate income tax deposits for 2018, and see that your personal income tax withholding is adequate.

☐ Consider maximizing your retirement contributions, $55,000 for defined contribution plans. This $55,000 limit includes your employee elected deferrals ($18,500 for 2018). An additional $6,000 catch up deferral is allowed for age 50 or over.

☐ 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.

☐ Confirm you have substantiation for your 2018 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.

☐ 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:

Record December finance chargeback in December.

☐ Maximize LIFO deductions. Record all new vehicles that were built and invoiced in 2018 as vehicle purchases in 2018 by keeping the new vehicle purchase journal open the first few days of 2019.

☐. Keep your accounts payable journal open to record all 2018 expenses in 2018, including advertising, interest, utilities, telephone, gasoline, data processing, insurance, etc.

☐ Adjust your property tax payable account to equal at least the total you actually paid in 2018.

☐ If any vehicle deal is not a 100% completed deal in 2018 (all paperwork and funding in 2018), then treat it as a 2019 vehicle sale.

☐ Make sure all miscellaneous inventories are adjusted to actual, including labor inventory, sublet, gas-oil-grease, body shop materials, etc.

☐ Distributions paid to S corporation shareholders should be equalized in accordance to their ownership percentage before year-end.

☐ 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.

☐. Compare your actual parts inventory to the accounting parts inventory and make adjustments where appropriate. Have your parts manager determine which parts should be considered worthless. Subject to your review, dispose of these parts by year-end.

☐ All wages and commissions paid in 2019 for 2018 services should be accrued in 2018. Make sure the first payroll in 2019 (even though some portion of the payroll was for 2018 services) is not included on your W-2s for 2018, but will instead be on the W-2s for 2019.

a. All accrued payroll for non-shareholders must be paid no later than March 15, 2019 for it to be deductible in 2018.
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 2018 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 2018 and include the wages on the 2018 W-2.

☐ Reconcile, where possible, all balance sheet accounts before closing the year.

## Additional Year-End TO DOs:

☐ If you are not on LIFO for used vehicles, adjust all of your used vehicles to current wholesale market value at year-end. On an annual basis, used vehicle LIFO should be discussed with your tax advisor.

☐ Businesses should 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. However, you can set a write-off policy at any level that is material to you. In light of the qualified business income deduction (QBID), you may want to reevaluate the election.

☐ Review all past due accounts receivables, including employee receivables. Write-off those receivables that are not collectible.

☐ Review prepaid assets and expense all items in this account that are not valid as prepaid at year-end.

☐ All payroll tax and sales tax payable accounts must equal the actual amount of the applicable taxes paid in 2019 for the 2018 fourth quarter and year-end filings. Investigate variances. The year-end payroll tax accrual can only include taxes owed on wages actually paid in 2018.

☐ Compute the December 31, 2018 accrued vacation wages payable and adjust the books accordingly. Accrued vacation wages paid January 1, 2019 through March 15, 2019 are deductible in 2018 for tax purposes. No vacation accrual is allowed for any shareholders.

☐ 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. Before reissuing a check to a vendor, be sure that it has not been paid with a subsequent billing.

## Year-End Tax Reporting:

☐ IRS Form 1099-MISC must be issued to all businesses that are not incorporated (including LLCs) and received $600 or more during 2018 for payment of services, awards, commissions, or fees for services. 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, 2019, for both paper and electronically filed Box 7 non-employee compensation. All other 1099s are due February 28, 2019, if paper filed and April 1, 2019, if electronically filed.

☐ 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 insurance premiums on behalf of the shareholders' children who are employees of the dealership, the children's W-2 must include the insurance premiums.

☐ 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. This form details by month the employer health insurance offered to individual employees. The deadline for providing the forms to employees is January 31, 2019. Paper filed forms are due February 28, 2019, and electronic forms on April 1, 2019. There are extensions available if requested.

- [ ] 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 including protection from prior year audits of the converted class of workers. Consult your tax advisor for details.

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

- [ ] All individuals who are provided a demo to drive should sign a written demonstrator agreement.
- [ ] There are two IRS approved methods that can be used for full-time salespersons. The first method provides them with tax-free use of the demo. This method is fairly complicated and restrictive. The second method, used by most dealers, is the partial exclusion method. Under this method, an amount is added to wages on a monthly 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.
- [ ] For employees who are not full-time salespersons 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.
- [ ] 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 employee's 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.
- [ ] You can obtain more information about the personal use of autos including sample demonstrator agreements by requesting our Dealer Demonstrator Guidelines.

## Other:

- [ ] 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.
- [ ] If the dealership has a Section 125 plan (cafeteria plan), make sure eligible employees complete the 2019 election forms before the first 2019 payroll. Remember that stockholders owning more than 2% in S corporations (LLCs, etc.) are not eligible to participate.
- [ ] 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 2019 is limited to $2,700. 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 2019 are $3,500 for an individual and $7,000 for a family with a $1,000 additional contribution for those who are age 55 and over.
- [ ] 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, please consult your tax advisors on further guidance on this.