

# Helping Dealers Navigate COVID-19: Operational, Cash Flow and Tax Strategies

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# Your CLA Presenters



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# Helping Dealers Navigate COVID-19

- CARES Act
  - Paycheck Protection Program Loans
- Operational Matters
- Cash Flow and Financing
- Tax Law Changes



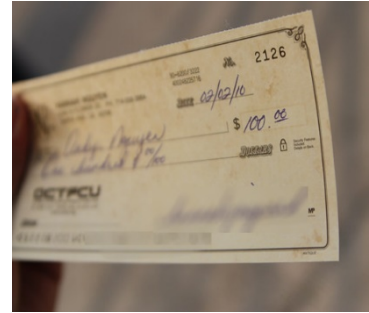
# CARES Act

- Signed into law on Friday, March 27<sup>th</sup>
- \$2.2T Federal Stimulus
- Significant provisions for dealers
- Tax Provisions
- Paycheck Protection Loan Program (PPP)
  - Loan Forgiveness Provisions
  - Eligibility Provisions



# Paycheck Protection Program (PPP)

- Loans offered under 7(a) SBA program
  - Up to \$10,000,000 maximum loan amount
  - Interest at **.5% over 2 years**
  - 6 month deferral period (P&I)
  - Guaranteed by SBA; no personal guarantees
- Calculation of Available Loan Amount
- Calculation of Loan Forgiveness
  - Amount forgiven is not taxable for federal purposes



# Paycheck Protection Program (PPP)

- Eligibility Provisions – Employee limit
  - 500 employee limit with a few exceptions
  - Waiver of Affiliation Rules applies to franchised dealers
    - “any business concern operating as a franchise that is assigned a **franchise identifier code** by the Administration”*
    - ◇ “Franchise identifier code” – most OEMs have applied
  - Common paymaster structure issue for larger groups
    - ◇ Employees in a holding company and charged to the stores



# Paycheck Protection Program (PPP)

- Calculation of Available Loan Amount
  - Avg monthly “Payroll Cost” over last 12 months times 2.5
    - ◇ Wages, Salaries, Commissions
      - Not in Excess of \$100,000 per employee per year
    - ◇ Paid Leave (vacation, parental, family, medical, sick)
    - ◇ Severance payments
    - ◇ Health insurance premiums
    - ◇ Retirement benefits
    - ◇ State or Local employment taxes
    - ◇ Payments to independent contractors for services (\$100k max)





# Paycheck Protection Program (PPP)

- Calculation of Loan Forgiveness Amount
  - Calculated based on 8 week period following loan origination date
    - ◇ **“Covered period”**
  - Eligible Costs include:
    - ◇ Payroll Costs
    - ◇ Interest on mortgages (prior to Feb 15<sup>th</sup>)
    - ◇ Floorplan interest; not curtailments (inventory acquired prior to 2/15)
    - ◇ Rent Payments (leases in place prior to Feb 15<sup>th</sup>)
    - ◇ Utilities (service originating prior to Feb 15<sup>th</sup>)
  - **Employee or salary reductions in covered period reduce loan forgiveness**



# Paycheck Protection Program (PPP)

## Employee Retention Analysis

**Tentative Loan Forgiveness (before required reductions)** **\$ 406,000**

**LESS: Required Reductions in Loan Forgiveness:**

*Number of Employees:*

Monthly Average Full Time Equivalent ("FTE") Employees for the  
Covered Period (8 weeks following origination of the covered loan)\*\*

32

*Lesser of (at borrower's choice):*

Monthly Average FTE's for the period February 15 to June 30, 2019

41

Monthly Average FTE's for the period January 1 to February 29, 2020\*\*

38

38

% Reduction

15.79%

**(64,105)**

*Compensation Reduction:*

Individual Employee Compensation Reduction in Excess of 25%

Compared to the Most Recent Full Quarter Before Origination of Loan\*\*\*

**(30,000)**

*Tentative Loan Forgiveness*

**c) \$ 311,895**

**TOTAL LOAN FORGIVENESS [lesser of b) or c) above]**

**d) \$ 311,895**

**BALANCE OF LOAN NOT FORGIVEN (if any)**

**\$ 71,647**

*\*\* A reduction in FTE's between February 15th and April 27th, 2020 is disregarded if the reduction is eliminated by June 30, 2020 for purposes of the reduction in number of employees and/or compensation.*



# Paycheck Protection Program (PPP)

- Paycheck Protection Program Action Items
  - Funded through banks certified with SBA
  - Connect with your Banker and get Registered
  - Prepare required historical financial data
  - Understand Loan Forgiveness calculation
  - Limited SBA Funds with massive demand
  - **Time is of the Essence!**



# Dealership Operational Matters

- Determination of “Essential Service”
  - Sales and Parts/Service departments
  - State by State determination
- Reduction in store hours
- Employees
  - Wage furloughs or reductions
  - Segregate service department staff
    - ◇ Separate Shifts – Red/Blue Teams



# Dealership Operational Matters

- Opportunity to Hire Great Employees
  - Technicians
  - Managers
- Expand Investment in Online Sales channel
  - Expanded Focus on Processes
- Expense reductions
  - Advertising
  - Technology vendors have been great
  - Discretionary items – Travel, Training, M&E, loaners



# Cash Flow and Financing

- Floorplan all new and used vehicles
- Evaluate options for term debt, mortgages and floorplans
  - Low interest rates
  - Fix interest rates where possible
  - Deferral of Curtailments and Principal amounts being offered
- Review Swap alternatives for a portion of debt
- Determine Excess Cash Available in Reinsurance Companies
- Freeze all capital expenditures including facilities



# Tax Law Changes - FFCA

- Families First Coronavirus Act (FFCA)
  - Tax Credits
    - ◇ Available for both Paid Sick Time & Expanded-FMLA
    - ◇ Refundable
    - ◇ Dollar-for-Dollar
    - ◇ Effective 4/1/2020 through 12/31/2020
    - ◇ Credits offset deposit of employment taxes

# Tax Law Changes – July 15<sup>th</sup>, the new April 15<sup>th</sup>

- April 15<sup>th</sup> **Federal Income Tax** Filing & Payment Deadlines moved to July 15<sup>th</sup>
  - Covers any “person”; Everyone and everything
    - ◇ Income Tax Return due or Income Tax Payment due on April 15
  - Includes Fiscal Year Corporations due on April 15
  - Also covers:
    - ◇ IRA contributions, Other retirement plan contributions
    - ◇ HSA, Archer MSA contributions





# Tax Law Changes – July 15<sup>th</sup>, the new April 15th

- Not covered
  - Income Tax Returns due after April 15th
  - Payroll and excise taxes
  - June 15 estimates
  - Estate Tax Returns
  - State Tax Filings
    - ◇ Each State is making a determination
    - ◇ Please consult early and often; changes happen every day



# Tax Law Changes – July 15<sup>th</sup>, the new April 15<sup>th</sup>

- Additional Guidance needed for
  - Certain International Tax Forms
  - US citizens living abroad
  - Nonresidents of the US
  - How overpayments at July 15 treated as applying to quarterly estimates



## Tax Law Changes – The CARES Act

- 2020 Recovery Rebates for Individuals
- Special Rules for Retirement Funds
- Waiver of Required Minimum Distributions
- Charitable Contributions expanded limitations
- Corporate Minimum Tax Credits
- Delay of Employer Payroll Taxes



## Tax Law Changes – The CARES Act

- Suspension of Excess Business Loss until 2021
- Qualified Improvement Property Fix
- Modifications to Net Operating Loss Rules
  - 80% of Taxable Income limitation suspended through 2020
  - 5 year carry back for NOLs from 2018, 2019, or 2020
- Business Interest Limit increased
  - 30% limit increased to 50% for 2019 and 2020



# Tax Law Changes – The CARES Act

- Employee Retention Credit
  - Not available if taxpayer uses Paycheck Protection Program Loan



## Tax Law Changes – Planning Opportunities

- Reassess Net Operating Loss Strategies to maximize a 5 Year Loss C/B to tax years with potentially higher effective tax rates
- Evaluate need to amend 2018 or 2019 returns
  - Qualified Improvement Property
  - Excess Business Loss Changes
  - Business Interest Limit Changes



## Tax Law Changes – Planning Opportunities

- Consider Estate Planning options while business values are decreased
- Retirement planning – 401(k) to ROTH IRA Conversions



# CLA Intuition 2.0: Plan Ahead and Respond Effectively



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- Business Financial Modeling Program
- Integrates Revenues, Expenses, Capital and Financing
- Provides concise macro business overview
- Enables dealers to model multiple financial scenarios and make decisions based on the data







# COVID-19 Resources

## Help plan for your business and people

- <https://www.claconnect.com/COVID19>
  - Operational Support
  - Regulatory and Tax Updates
  - Financial Management
  - Accounting and Financial Statement Guidance
  - Workforce and Human Resource Guidance
  - **Join multipart livestream series on Tuesdays and Thursdays on latest developments! Sign up on [www.claconnect.com](https://www.claconnect.com)**



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