



Key Dealership Tax Opportunities

March 24, 2021

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Today's Presenters



Jennifer Rohen

Principal
CLA St. Louis



Dave Wiggins

Principal
CLA St. Louis



Employee Retention Credit

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Process

1

- Determine Eligibility

- If Overall Eligible
- Periods Eligible
- Employee Eligible

2

- Calculate Eligible Wages/Health Benefits & Related Credit

3

- File 941X for Respective Periods

- This will be Paper Filed
- Could Take Over a Year to Receive the Credit



Process (Con't)

4

- Reduce Wages in Respective Year for Business Tax Filing

5

- Reduce Health Plan Costs in Respective Year for Business Tax Filing

6

- Credit is Not Taxable Income



Eligibility

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Eligibility – Shutdown Period

Shutdown

Government Order (Federal, State, Local)

- If an organization was closed due to a valid government order, then the credit still is applicable for the dates the government order is in effect.
- Please note that it must be a government order and not a guideline impacting business operations in order to be valid.

CDD Guidelines and CMS Recommendations are not government order

Eligibility – Shutdown Period (Con't)

Shutdown (Con't)

Partial Shutdown

Partial Suspension Objective Test:

- Gross receipts from that portion of the business operation is not less than 10% of the total gross receipts (both determined using the gross receipts of the same calendar quarter in 2019), or
- The hours of service performed by employees in that portion of the business is not less than 10% of the total number of hours of service performed by all employees in the employer's business (both determined using the number of hours of service performed by employees in the same calendar quarter in 2019).

Eligibility – Shutdown Period (Con't)

Shutdown (Con't)

Partial Shutdown (Con't)

Comparable Operations/Ability to Telework:

- Employer's telework capabilities
- Portability of employees' work –portable or otherwise adaptable to be performed from a remote location.
- Need for presence in employee's physical workspace.
- Transitioning to telework – is the adjustment period significant?

Eligibility – Decline in Receipts

2020 - Greater than 50% Reduction in
Gross Receipts

2021 - Greater than 20% Reduction in
Gross Receipts



Eligibility – Decline in Receipts (Con't)

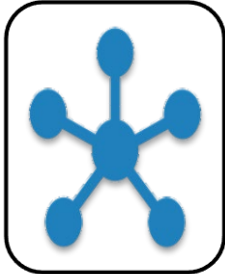
Determining Gross Receipts



Services & Sales

Investments

Rents, Royalties, and Annuities



Follows Tax Method for year credit is applied for
Same accounting method for both years



Eligibility – Employees

- 2019 Full-Time Employees – a full time employee is one who works 30 hours weekly or 130 monthly

2020	2021
If under 100, wages for eligible employees with no restrictions	If under 500, wages for eligible employees with no restrictions
If over 100, wages for eligible employees are only those paid while employee was not providing services	If over 500, wages for eligible employees are only those paid while employee was not providing services

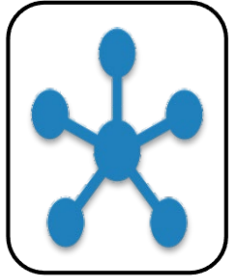


Eligibility – Employees (Con't)

Employee Type by Entity Type

	SMLLC	Ptshp	S Corp	C Corp	Non-Profit
Owner	None as No Wages	None as No Wages	Owns 50% or Less	Owns 50% or Less	N/A
Owner's Family	Not Eligible	Owns 50% or Less	Owns 50% or Less	Owns 50% or Less	N/A
Part-Time	Eligible	Eligible	Eligible	Eligible	Eligible
Full-Time	Eligible	Eligible	Eligible	Eligible	Eligible

Aggregation Rules



All members of a controlled group must look at the eligibility pieces as if a single employer



Calculation

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Calculation

1. PPP Interplay

- Wages used in PPP Forgiveness (up to loan amount) are Not Eligible
 - Forgiveness applied for can not be altered to include additional non-payroll expenses
 - Apply PPP first to any other expenses and remaining for wages



Calculation (Con't)

2. Determined Total Wages by Quarter

- March, 2020, shutdown period will be included in 2nd Quarter
- This will be detailed to be provided by employee

Calculation (Con't)

3. Determined PPP Wages by Quarter

- March, 2020, shutdown period will be included in 2nd Quarter
- This will be detailed to be provided by employee

Calculation (Con't)

4. Determined FFCRA Wages by Quarter

- March, 2020, shutdown period will be included in 2nd Quarter
- This will be detailed to be provided by employee

Calculation (Con't)

5. Qualified Health Plan Expenses by Quarter

- Includes costs paid by employer and pre-tax payments by employee
- This includes costs paid or incurred during eligible period
- Includes group health plan, HRA, and FSA
- Does not include HSA, MSA, or Life or Disability Insurance

Calculation (Con't)

6. Qualified Wages

- 2020 - Up to \$10,000 per Eligible Employee Annually
- 2021 - Up to \$10,000 per Eligible Employee per Quarter

Calculation (Con't)

7. Credit Amount

- 2020 - 50% of Qualified Wages & Qualified Health Plan Expenses
- 2021 - 70% of Qualified Wages & Qualified Health Plan Expenses



American Rescue Plan Changes to FFCRA and ERC

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Families First Coronavirus Response Act

- **Refresher on credit**
- **Changes under ARP:**
 - Continued not to have obligation to pay;
 - Extended available credit for qualified employers through 9/30/21;
 - Updated maximum potential benefit per employee: \$12,000 from \$10,000;
 - Clock resets starting 4/1/21



Employee Retention Credit

- **Everything in Notice 2021-20 still applies;**
- **Changes under ARP:**
 - Credit extended to all 4 quarters in 2021 for a maximum per employee of \$28,000 for qualifying organizations;
 - More clarity around double dipping and which programs may not be utilized in concert with one another;
 - Recovery Start Up Business Limitations
 - ◇ Credit limited to \$50,000 per quarter for businesses started after 2/15/20
 - Severely Distressed Businesses
 - ◇ Can claim credit for all employees regardless of size for Q3 and Q4 21 if there is a 90% decline in Gross Receipts.





Tax Incentives

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Opportunity Zone Investment Benefits

Deferred recognition of capital gains

Partial permanent reduction of deferred gains

Permanent exclusion on gain realized from appreciation on investment

Capital Gain Deferral Period

- Deferred until investment is sold, or Dec. 31, 2026, whichever comes earlier
- If investment is not sold before Dec. 31, 2026, any remaining deferred gain is recognized at that time and taxed at the current income tax rates enacted at the time.

Permanent Reduction of Deferred Gain

- Investments held less than 5 years result in 100% deferred gain recognition
- Investments held > 5 years, < than 7 years result in recognition of 90% of deferred gain (**investment must be made on or before December 31, 2021**)
- Investments held > 7 years result in 85% deferred gain recognition (**pre-2020 investments only**)

Permanent exclusion for investments held for at least 10 years

- At sale of investment, election made to step up basis in investment to FMV
- Election results in a permanent exclusion from income of any post-acquisition capital gain
- Results in permanent benefit for depreciation deductions
- Taxpayers can recognize losses by not making the permanent exclusion election



Opportunity Zones

- Allows for use of gains recognized as far back as January 2019 to be invested by March 31, 2021.
- May allow dealerships located in opportunity zone to setup real estate or businesses in the Op Zone area with tax deferral of original capital gain and elimination of gain on ultimate sale of Op Zone property and business.
- Could be a good investment for gains recognized from real estate sale, crypto gains or stock gains
- Requires a long-term approach
- CLAWA and others have private equity Op Zone offerings



Op Zone Example – Dealership Scenario

- **Situation: Existing dealership is located in Op Zone – but needs to re-brand and will build new dealership.**
- **Transaction Structure:**
 - Will sell old land and building to Op Zone purchaser to build apartments- this will create capital gain
 - Will purchase new land in Op Zone to build new dealership
 - Will put new dealership new franchise into Op Zone
 - Will keep old dealership assets in old business and sell old assets to unrelated party
 - Will convert to S corporation from C corporation



Op Zone Example – Dealership Scenario

- **Benefits of this transaction:**

- Will defer until 12/31/26 capital gains on building and land sale
- Will convert to S corporation and not recognize built in gain on sale of building and land because over 5 years occurs since S election
- In 10 years will be able to sell dealership at its depreciated basis and recover all depreciation recapture and appreciation after 10 years with no federal income tax (possibly no state income tax depending on state)
- In 10 years will be able to sell dealership and not pay tax on any capital gain items (primarily franchise value/goodwill).





PPP Loans and Forgiveness

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PPP Borrowing and Loan Forgiveness

- **2nd round of PPP**

- Recent guidance has provided guidance that if a borrower meets the 25% gross receipts test they do not have to be concerned about the other certification test related to other cash flows, borrowings or need.
- New franchise dealerships, that can get franchise identifier codes, are not required to affiliate in looking at the 25% gross receipts reduction.
- All other dealerships and businesses must add all affiliated companies gross receipts together to see if they meet the 25% gross receipts reduction.
- The last day currently to apply for the 2nd round of PPP is March 31, 2021. But stay alert, congressional activity is occurring that if passed would extend the date to May 31, 2021.
- Other income items should be included that may not be in normal gross receipts on manufacturer statements.
- Intercompany sales should be eliminated in this process.



PPP Borrowing and Loan Forgiveness

- **Things we don't know:**

- Can interest for accrual-based taxpayers be accrued and deducted but not picked up as income when forgiven?
- For S corporations when does stock basis get increased – stock basis is what determines how much can be distributed. In year income picked up or only in year when forgiven?
- Self employed are eligible and they just changed calculation to gross receipts from gross income. Do you have Schedule C income and could this help?
- Is forgiveness non-taxable for your state? Each one is different.
- March 31 extension to May 31st is coming?
- Will there be any way to resize 2nd PPP loan calculated wrong?





Questions?

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Thank you!

Dave Wiggins
David.Wiggins@CLAconnect.com
314-925-4316

Lee Ferguson
Lee.Ferguson@CLAconnect.com
314-925-4361



CLAconnect.com



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