2021 YEAR-END CHECKLIST FOR DEALERS

As another tax year comes to a close, it is time to consider your tax planning opportunities and year-end tasks.

Year-End Planning:

- [ ] Owners who operate their businesses as sole proprietors or 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.

- [ ] Section 179 expensing limit for 2021 is $1,050,000 with a $2,620,000 investment limit phase-out. This allows businesses to expense the cost of fixed assets such as equipment and furniture and fixtures. This expensing opportunity is also available for certain qualified improvements to property. Consider placing eligible assets into service before the end of 2021 to take advantage of this expensing limit.

- [ ] 100% bonus depreciation also can be used to write off the cost of both used and new fixed assets that are placed in service before year end. This is not available if you will need to use the floor plan interest exception to fully deduct interest expense for 2021. For tax years ending on or after December 31, 2021, Illinois has decoupled from 100% federal bonus depreciation.

- [ ] If you plan to make any charitable contributions, consider making them in 2021 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. With the increase in the standard deduction, consider bunching two years of contributions into one year in order to benefit from itemizing your deductions.

- [ ] Confirm you have made all required personal and corporate income tax deposits for 2021 and see that your personal income tax withholding is adequate.

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- [ ] Consider maximizing your retirement contributions, $58,000 for defined contribution plans. This $58,000 limit includes your employee elected deferrals ($19,500 for 2021). An additional $6,500 catch up deferral is allowed for age 50 or over.

- [ ] If you or the dealership own 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 2021 meal and travel expenses. Travel expenses continue to be 100% deductible. Meals, including those provided to employees purchased from a restaurant are 100% 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.

- [ ] The new pass-through entity income tax election (Illinois and certain other states) will allow the owners an increase in their federal deduction for state taxes and bypass the $10,000 limitation.

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Keep the Accounting Records Open at the End of December:

- [ ] Maximize LIFO deductions. Record all new vehicles that were built and invoiced in 2021 as vehicle purchases in 2021 by keeping the new vehicle purchase journal open the first few days of 2022.

- [ ] 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.**

- [ ] 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 and disposed of by year end.

- [ ] Make sure all miscellaneous inventories are adjusted to actual, including labor inventory, sublet, gas-oil-grease, etc.

- [ ] Record December finance chargebacks in December.

- [ ] Keep your accounts payable journal open to record all 2021 expenses in 2021.

- [ ] If you did not pay your 2021 real estate taxes by year end, adjust your property tax payable account to equal what you anticipate it will be.

- [ ] If any vehicle deal is not a 100% completed deal in 2021 (all paperwork and funding in 2021), then treat it as a 2022 vehicle sale.

- [ ] All wages and commissions paid in 2022 for 2021 services should be accrued in 2021. Make sure the first payroll in 2022 (even though some portion of the payroll was for 2021 services) is **not** included on your W-2s for 2021, but will instead be on the W-2s for 2022.
  - All accrued payroll for non-shareholders must be paid no later than March 15, 2022 to be deductible in 2021.
  - 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 2021 tax deduction.
  - If you are an S Corporation, wages to any shareholder cannot be accrued and deducted for tax purposes. You must pay them in 2021 and include the wages on the 2021 W-2.

- [ ] Distributions paid to S Corporation shareholders should be equalized in accordance to their ownership percentage before year end.

- [ ] 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.

- [ ] Review all past due accounts receivables, including employee receivables. Write off those receivables that are uncollectible.

- [ ] 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 2022 for the 2021 fourth quarter and year-end filings.

- [ ] Compute the December 31, 2021 accrued vacation wages payable and adjust the books accordingly. Accrued vacation wages paid January 1, 2022 through March 15, 2022 are deductible in 2021 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.

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Year-End Tax Reporting:

- [ ] IRS Form 1099-NEC must be issued to all individuals who are not employees and all unincorporated businesses who received $600 or more for payment for services, commissions or fees. This includes payments of fees for services to all attorneys, whether incorporated or not. Form 1099-MISC must be issued for all rents, royalties, prizes, awards, and other income paid to non-corporate taxpayers, including shareholders. Forms 1099-INT and 1099-DIV must be used to report interest payments to shareholders and others and dividend payments to shareholders, respectively. 1099-NEC forms must be filed with the IRS and sent to recipients by January 31, 2022. 1099-MISC, 1099-INT and 1099-DIV forms must be filed with the IRS by February 28, 2022 if you file on paper or March 31, 2022 if you file electronically and must be sent to recipients by January 31, 2022.

- [ ] 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.

- [ ] 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.

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 salespeople. The first 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. The second method provides them with tax-free use of the demo. This method is fairly complicated and restrictive.

- [ ] 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.

- [ ] 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 2022 election forms before the first 2022 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 Account (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 2022 is limited to $2,850. 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 2022 are $3,650 for an individual and $7,300 for a family with a $1,000 additional contribution for those who are age 55 and over.

- [ ] Applications and instructions for PPP loan forgiveness are available at **https://www.sba.gov/document/sba-form-paycheck-protection-program-loan-forgiveness-application**. Businesses have up to 10 months after their chosen covered period (8 or 24 weeks) to apply for forgiveness.

If you have any questions about year-end tax planning or if you need further assistance, please contact us.

Steve Stehman, CPA – Manager, has over 9 years of experience at MichaelSilver. His tax expertise includes compliance and planning services for individuals, C corporations, S corporations, partnerships, and trusts. Industry experience includes automobile dealerships, manufacturing, retail, trucking, and professional service companies, including analysis of cost segregation studies, IRS tax examination and notice representation, year-end tax planning, and sale and purchase transaction consulting for auto dealerships. Steve is a graduate from the Liautaud Graduate School of Business at the University of Illinois at Chicago, holding a Master of Science in Accounting and a graduate of Northern Illinois University holding a Masters of Science in Taxation.