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U.S. TREASURY ISSUES FINAL REGULATIONS ON FLOOR PLAN FINANCING AND BONUS DEPRECIATION

BE SURE TO CONSULT YOUR TAX ADVISOR

The U.S. Treasury Department has issued final regulations on the availability of bonus depreciation to motor vehicle dealers that Congress excluded from the limitation on the deductibility of business interest that was included in the Tax Cuts and Jobs Act of 2017. The final regulations largely reflect the determinations Treasury made in the proposed regulations it released in September 2019. Key features of the final regulations that NADA urged Treasury to adopt include:

- Dealers whose total business interest, including floor plan financing interest, is below the statutory cap on interest deductibility (which was 30% of a dealer's adjusted taxable income but was expanded by the CARES Act to 50% for 2020, as well as 2019 for corporations) are eligible for bonus depreciation;
- The determination of a dealer's eligibility for bonus depreciation is made on an annual basis (meaning ineligibility one year does not necessarily preclude eligibility the next year); and
- The IRS will promulgate transition rules for dealers who elected out of bonus depreciation or who reduced their floor plan financing in 2018.

The amount of business interest dealers deduct is a straight calculation (meaning it may not be limited to an amount below the statutory threshold in order to provide access to bonus depreciation). NADA will soon release additional information on the final regulations. Dealers are encouraged to review this development with their tax advisor.

MSADA - YOUR DEALER ANSWER PLACE

If you have any questions regarding this bulletin, please contact Robert O'Koniewski, Esq., MSADA Executive Vice President, by e-mail at rokoniewski@msada.org, or Peter Brennan, Esq., MSADA staff attorney, by e-mail at pbrennan@msada.org, or either by phone at (617) 451-1051.