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REMINDER – THE TIME IS NOW TO BEGIN PREPARATIONS FOR YOUR YEAR-END

[*This information is provided courtesy of your Association's accounting partner, O'Connor & Drew*.]

If COVID-19 was not enough, it is now time to do tax planning for the year-end. In addition to dealing with the profitability of your dealership, there are a number of other items that you need to take into account. We have summarized just a couple of items for you below:

LIFO: For those of you on LIFO (last in, first out) for new inventory, based upon the current levels of new inventory, there could be a significant recapture of the LIFO reserve in 2020. Not to bore you, but to understand what we mean you first need to understand how LIFO is calculated when it comes to new inventory. The two major components in the calculation are the increase in price for each model from prior year to current year and the new inventory level from the end of last year compared to the end of this year. If the manufacturer over the next couple of months is not able to produce and deliver the dealer's inventory to bring the levels to prior year levels, it could result in a significant reduction in your current inventory LIFO reserve. This would result in additional taxable income for the dealership in 2020.

Paycheck Protection Program (PPP): As you may or may not know, the PPP program has evolved over the past six months with many changes from when the program originated. In addition to all of these changes, the most significant aspect of the program for tax planning purposes is the interpretation by the Internal Revenue Service (IRS). The way it stands now but subject to change, the PPP money that is forgiven will not be taxable; however, expenses paid by this money will not be deductible. The result is a significant amount of additional taxable income for dealerships that needs to be addressed for planning purposes. With this interpretation comes a number of questions that should be considered: If the money is not forgiven until next year, can you still deduct the expenses that were paid in the current year? Can you push the forgiveness off for tax purposes until 2021? You technically have ten months after the covered period to apply for forgiveness so for application purposes you can definitely push off until 2021 but for tax purposes can you? This is the uncertainty that we will all be dealing with, so stay tuned. Hopefully we will get some guidance from the IRS sooner rather than later.

Conclusion: Although at this time we do not have the answers to all of the questions above, it is important that dealers get together with their Controllers, CFOs, and their outside CPA firms to begin the process of dissecting the year-end numbers to be best prepared for the year-end inevitable tax situation.

If you have any questions, please do not hesitate to contact Kevin Carnes at O'Connor &

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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.