

2023 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 pass-through entities such as Partnerships and S Corporations are potentially eligible for a deduction of up to 20% of their qualified business income (QBI). The deduction can be maximized through salary planning and entity aggregation.
- The Section 179 expensing limit for 2023 is \$1,160,000 with a \$2,890,000 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 2023 to take advantage of this expensing limit.
- Bonus depreciation has been reduced to 80% for assets acquired and placed in service in 2023. This is not available if you must use the floor plan interest exception to fully deduct interest expense for 2023. For tax years ending on or after December 31, 2021, Illinois no longer allows a deduction for bonus depreciation.
- If you plan to make any charitable contributions, consider making them in 2023 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 later. With the increase in the standard deduction, consider bunching two years of contributions into one year to benefit from itemizing your deductions.
- Confirm you have made all required personal and corporate income tax estimated payments for 2023 and see that your personal income tax withholding is adequate.
- Consider maximizing your 401(k) retirement contribution, which is \$22,500 for 2023. An additional \$7,500 catch-up deferral is allowed for age 50 or over.
- If you or the dealership own stock with 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.



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- Accrued interest on loans from shareholders and other related parties and rent must be paid so the dealership can deduct these amounts in the current year.
- The pass-through entity income tax election (Illinois and certain other states) allows owners to increase their federal deduction for state taxes and bypass the \$10,000 SALT limitation by having their dealership pay their personal state income tax. Generally, entities are required to make estimated payments during the year. Only payments made during the year will be deductible. Further, some states require a separate election to be made.

Keep the Accounting Records Open at the End of December:

- Maximize LIFO deductions. Record all new vehicles built and invoiced in 2023 as vehicle purchases in 2023 by keeping the new vehicle purchase journal open for the first few days of 2024.
- 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.

- Ensure all miscellaneous inventories are adjusted to actual, including labor inventory, sublet, gas-oil-grease, etc.
 - Record December finance charge-backs in December.
 - Keep your accounts payable journal open to record all 2023 expenses in 2023.
 - If you did not pay your 2023 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 2023 (all paperwork and funding in 2023), then treat it as a 2024 vehicle sale.
 - All wages and commissions paid in 2024 for 2023 services should be accrued in 2023. Make sure the first payroll in 2024 (even though some portion of the payroll was for 2023 services) is not included on your W-2s for 2023, but will instead be on the W-2s for 2024.
 - a. All accrued payroll for non-shareholders must be paid no later than March 15, 2024, to be deductible in 2023.
 - b. If you are a C Corporation, pay any salaries, commissions, or bonuses to stockholders and related parties in December (if their ownership exceeds 50%, including related party interests) to take a 2023 tax deduction.
 - c. If you are an S Corporation, wages to any shareholder (or certain related family members) cannot be accrued and deducted for tax purposes. **You must pay them in 2023 and include the wages on the 2023 W-2.**
 - Distributions paid to S Corporation shareholders should be equalized according to their ownership percentage before year-end.
 - Reconcile, where possible, all balance sheet accounts before closing the year.
- 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. (The regulations will support the expensing treatment as long as the write-off policy is at or below these thresholds.)
- Review all past due accounts receivables, including employee receivables. Write off those receivables that are noncollectable.
 - Review prepaid assets and expense all items in this account that are not valid as prepaid at year-end.
 - All payroll and sales tax payable accounts must equal the actual amount of the applicable taxes paid in 2024 for the 2023 fourth quarter and year-end filings.
 - Compute the December 31, 2023 accrued vacation wages payable and adjust the books accordingly. Accrued vacation wages paid January 1, 2024 through March 15, 2024 are deductible in 2023 for tax purposes. No vacation accrual is allowed for any shareholders.
 - Review bank reconciliations for checks (including payroll checks over 60 days old) that are not expected to clear. These checks should be voided and reissued.
 - Unclaimed property. Review records for all old outstanding checks, customer deposits, credit balances, and the like, and attempt to return the funds to the true owner. Illinois requires an attempt be made to contact and return the funds to the true owner before remitting the funds to Illinois. Unclaimed property reports are due May 1, 2024. This report will include activity from January 1, 2020 through December 31, 2020.

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 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

Additional Year-End TO DOs:

- If you are not on LIFO for used vehicles, adjust your used vehicles to the 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

the IRS and sent to recipients by January 31, 2024. 1099-MISC, 1099-INT, and 1099-DIV forms must be filed with the IRS by February 28, 2024 if you file on paper or April 1, 2024 if you file electronically and must be sent to recipients by January 31, 2024.

- W-2s for S Corporation shareholders must include health insurance premiums paid by the corporation in wages. This amount is not subject to Social Security or Medicare tax.
- W-2s are required to be filed electronically if there are 250 or more.
- 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.
- If you sold new clean vehicles (EVs, Electric vehicles, and FCVs Fuel Cell vehicles) that qualify for the tax credit, a report must be furnished to the buyer with the required information detailed on the IRS website <https://www.irs.gov/credits-deductions/clean-vehicle-credit-seller-or-dealer-requirements>. You must also submit the required information about a qualifying clean vehicle sale to the IRS by January 15, 2024 for all 2023 sales. The dealership must register with the IRS to file these forms.

Review Procedures for the Use of Demonstrators to Ensure You Comply With the Current IRS Regulations:

- All individuals 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 every month. The IRS has provided daily income amounts based on the vehicle's value. 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 relatively complicated and restrictive.
- The annual lease value method is used for employees who are not full-time salespeople and any other individuals who drive demos. The amount

included in income is based on personal-use mileage and the IRS annual lease table. The IRS requires that logs be maintained 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, Medicare tax, and state and federal withholding. 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. Remember that starting in 2024, Form 8300 must be filed electronically.
- If the dealership has a Section 125 plan (cafeteria plan), make sure eligible employees complete the 2024 election forms before the first 2024 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 2023 is limited to \$3,050. Stockholders owning more than 2% in an S Corporation or an LLC can participate with certain restrictions. If your company offers a qualified high-deductible health insurance plan, you and your employees might be able to contribute to individual Health Savings Accounts (HSAs). Contribution limits for 2023 are \$3,850 for an individual and \$7,750 for a family, with a \$1,000 additional contribution for those age 55 and over.

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

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