

20% Qualified Business Income (QBI) Deduction for Pass-thru Entities

This is by far, the most beneficial part of the new tax law for Auto Dealers

In its simplest interpretation, which will apply in most cases for Auto dealers, you will receive a deduction on your 1040 equal to 20% of your share of the income from your dealership if you are an S-Corporation, LLC or Partnership, which most of you likely are.

Assuming you are in the highest tax bracket, this deduction reduces the effective Federal tax rate on your income from 37% to 29.6%. ($37\% \times 80\% = 29.6\%$)

One limitation that may apply in unusual situations (a very small, but highly profitable dealership) is that the deduction can NOT be greater than 50% of the W-2 wages paid during the year. In most cases dealership salaries, commissions & bonuses will exceed this threshold.

If you use a common paymaster for multiple dealerships, you will have to wait for further guidance from the IRS, as this is not spelled out in the law. We are hopeful that a "reasonable" allocation will be acceptable.

This same 20% QBI deduction may also be available for your real estate entities that own the property your dealership operates on and leases it to the dealerships. Even though it is very unlikely that a real estate entity will have significant wages, there is a second rule that will apply for real estate entities.

The second rule says the 20% QBI deduction can't be greater than 25% of wages plus 2.5% of the cost basis of your depreciable property subject to certain limitations depending on what type of property (buildings, land improvement or equipment) and how old the property is. This use of 2.5% of the property's cost basis should very helpful in allowing the full (or at least partial) QBI deduction in most cases.

If you wish to discuss the impact of these rules on your particular situation, please email me at marc@crumbackassociates.com or give me a call at 443-286-7969