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Beyond the Deadline: The Power of Year-Round Tax and Financial Planning

By Brad Stanek, Financial Advisor, CFP® and Paulina Matel, Financial Advisor, CFP®

As the tax filing deadline fades into memory, powersports dealer principals across the board find themselves mentally in various states, from those who successfully submitted their returns, to those on extensions, or even those faced with an unexpected tax bill. Regardless of where you stand in this spectrum, now is an opportune moment to shift focus from the immediate rush of the tax season to a more proactive approach: year-round tax and financial planning. By revisiting key planning tips and strategies, you can fortify your financial position, minimize surprises, and set a solid foundation for the year ahead. So, let’s journey ‘beyond the deadline’ and explore the power of continuous financial and tax foresight as we sit down with Steve Blake, CPA and Managing Director with the CBIZ Dealership Team.

Safe Harbor & Estimated Tax Payments

CPAs often rely on prior-year books and records to establish a baseline for estimating tax payments, a practice aimed at meeting IRS safe harbor regulations and avoiding penalties for underpayment.

However, this approach becomes problematic when economic shifts or projected dealership revenue render the established baseline irrelevant. Steve Blake suggests that powersports dealers proactively share with their CPAs not only prior-year records, but also projected budgets to determine the lowest possible safe harbor tax payment. It’s also recommended that the current year financials are reviewed with your CPA on a quarterly basis to account for any significant changes and to ensure accurate tax planning throughout the year – helping you avoid underpayment fees in the process.

Adjustments, Write-Offs, and Bonus Depreciation

Powersports dealers often sit-down with their CPAs during the final quarter of the year to discuss dealership write-offs and adjustments, a common practice in the industry. However, why not address these questions throughout the year?

As you may be aware, bonus depreciation serves as a tax incentive enabling powersports dealerships to deduct a substantial portion of the purchase price for eligible business assets. Previously, businesses could deduct 100% of the cost of the qualifying property. However, bonus depreciation is slated for a gradual reduction, with the rate diminishing to 60% in 2024 and decreasing by 20% annually thereafter until its full elimination in 2027 (unless Congress intervenes to extend it)[1] .

Steve Blake highlights a crucial aspect of planning here: at a high level, if your floor plan interest surpasses your regular business interest expense, you may lose eligibility for bonus depreciation costing you significant tax savings. Blake recommends that dealers schedule quarterly meetings with their CPAs to address key questions, such as:

- When is the last time you compared floor rate expenses and your regular business interest expenses?
- When managing inventory, what are the write downs going to be?
- Will you be writing off units mid-year as part of your tax-planning and realize that loss sooner?
- How will those moves impact your ability to take bonus depreciation?

Cost Segregation

For powersports dealers aiming to undertake significant building improvements while maintaining profitability, Steve Blake suggests considering a cost segregation study. This tax strategy involves frontloading depreciation deductions for real estate assets in the early years. For instance, when investing $3M for a new dealership building, opting for a cost segregation accelerates the depreciation resulting in higher deductions early on, potentially placing you in a lower tax bracket. Consequently, your building is then depreciated over a shorter timeframe, typically 5-15 years, instead of the standard 39 years for nonresidential real estate.

Moreover, if you recently completed a major improvement without a cost segregation study, there's no need for concern. The IRS permits a one-year catch-up deduction to bridge the gap, Steve shared.

Specific Circumstances

Steve Blake emphasized the remarkable pace of change in the tax landscape over the past few years. While from 1986 to 2017 there was relatively little alteration in tax policies, the period since 2017 has seen the enactment of eight significant tax laws. As you navigate through the process of developing your tax and financial plan, don't forget to take into account your unique individual circumstances. Strategies below can help you ensure that you can fully capitalize on tax benefits tailored to your powersports dealership, your family, and your goals:

Notes:

[1] https://tax.thomsonreuters.com/en/glossary/bonus-depreciation

- **529 College Accounts** – If you have children or grandchildren going to college, certain 529 plans offer state-level deductions in addition to the tax-free earnings if funds are used for qualified college expenses.
- **Retirement Plans** – Your dealership and your employees may benefit from retirement plans, like the 401(K). Certain plans also offer tax credits.
- **Other Tax Advantaged Accounts** – Accounts such as Roth IRAs and Discretionary Profit Sharing can serve as additional planning tools.

Conclusion

As highlighted earlier in our article, powersports dealers are encouraged to adopt a year-round tax and financial planning approach, that extends beyond the tax filing deadline. Should you like to learn more on how we help dealer principles, or if you have additional questions, contact us!

Our team offers a complimentary service, the **Second Opinion Service**, a 360-degree review of your dealership and personal financial situation, aligned to your own stated goals, legacy, and even business transition timeline.

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