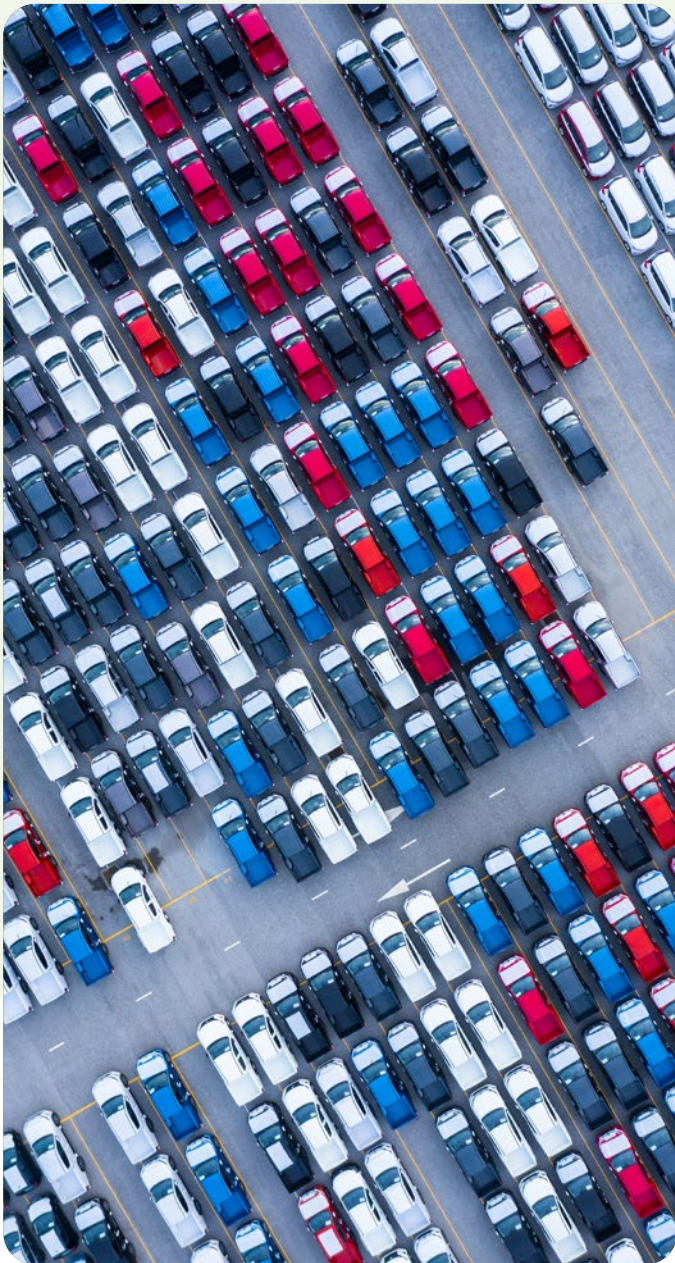


ERC Provides Cash Flow to Auto Dealerships Who Invested in Their Employees



Challenge

Auto dealerships faced substantial challenges during the COVID-19 pandemic. With state government mandates and other countries closing manufacturing sites, international trade, production, and sales slowly came to a halt. As a result, many dealerships were faced with a tough decision: keep their employees on the payroll despite lower revenues, or risk permanently losing their investment in their staff with temporary layoffs. The Coronavirus Aid, Relief, and Economic Security (CARES) Act introduced the Employee Retention Credit (ERC) that incentivized and rewarded businesses that kept on employees while they were impacted by COVID-19 government mandates.

Auto Dealership 1

Auto Dealership 1 is a franchised group of six automotive dealerships headquartered in Pennsylvania. They are part of a group of companies that include four other dealerships with more than 400 full-time employees before the pandemic.

Auto Dealership 2

Auto Dealership 2 is a family-owned group of dealerships, six of which are eligible for ERC. These dealerships also conduct business in Pennsylvania.

Both Auto Dealerships encountered a negative impact on their businesses in the second quarter of 2020 through the first quarter of 2021. Local and state mandates placed limitations on the Auto Dealerships in an effort to combat the virus. Initially in 2020, dealerships were required to shut down, as they were deemed non-essential. Subsequently, when they were able to reopen, due to capacity restrictions, they did so under a limited scope of operations. This, in turn, limited interactions with potential customers and clients, resulting in significant operational impact. Like all auto dealerships, these businesses rely on face-to-face interaction to help clients find them the best vehicle for their needs.

COVID-19 Government Mandates

Government mandates that affected Auto Dealerships 1 and 2 were the “The Closure Of All Businesses That Are Not Life Sustaining” ordinance, which banned all non-life sustaining businesses from staying open, and the “Stay At Home” ordinance, which forced employees and potential clients to stay in place. The “Stay At Home” ordinance forced auto dealerships to shut down for over a month. With the government COVID-19 mandates impacting both Auto Dealerships’ business, they became eligible for ERC.

Unique to Pennsylvania Auto-Dealerships

While many states categorized auto dealerships as essential businesses, which would often exclude them from having to adhere to COVID-19 related mandates, the state of Pennsylvania did not. Specifically, Pennsylvania issued mandates to force initial closures and subsequent capacity restrictions upon reopening, limiting dealerships’ ability to operate normally. This often led to a partial, or even full, suspension of their business operations.

Methodology

When qualifying for the ERC tax credit, the government is looking for either a significant decline in gross receipts or a partial to full suspension of operations due to a COVID related government mandate. To qualify for the ERC tax credit, an auto dealership is not required to have a full suspension, since a partial suspension of operations could be qualifying as well.

The Auto Dealerships presented here had both a full suspension of operations due to the initial shutdown, and a partial suspension of operations due to the subsequent capacity restrictions upon reopening. Because the Auto Dealerships were able to show the resulting impact from these orders that substantiated the suspension of business, they are able to claim the ERC credit.

The first step to claiming the ERC is to consult with a reputable provider, who can help assess the avenues to qualification and the potential calculated benefit when claiming the ERC. Qualification does not immediately generate benefit.

Once an estimate of benefit is established, it is often beneficial to consult with the business’s CPA to see if the amending the returns is worth the financial outlay. The ERC benefit is a credit that must be removed from expenses for the year of the claim.

When the dealership is satisfied and prepared to take the tax position of claiming the ERC, it will need to complete Form 941-X for the qualifying quarters in 2020 and 2021. Following the completion of Form 941-X, it should be mailed via registered or certified mail to the Department of the Treasury Internal Revenue Service.

There are a few important things to remember when claiming the ERC tax credit. You must understand it is your responsibility to file Forms 941-X with the IRS. The 2020 and 2021 credit is claimed on Form 941-X, Adjusted Employer’s Federal Quarterly Tax Return. Also, remember to only mail the completed form and do not send the Form 941 Worksheet, as this copy is only for your future reference.

Data Request

Data for Scoping

(Discussed on Scoping Call Before Provided)

1. Prior filed Forms 941 for 2020 and 2021
2. Organization Charts: Provide Legal Entity Organization Charts so that we may document the Controlled Group
3. Number of Full-time Employees (FTE) in 2019 across the Controlled Group: FTE is an employee that works 130+ hours per month or +30 hours per week
4. Government Mandates: Identify all company locations where government orders may have caused partial shutdown
5. Gross Receipts by Quarter 2019 - 2021
6. PPP Data:
 - a. 2020 PPP Forgiveness Application Form 3508 (or b.)
 - b. 2020 PPP amount, covered period and other qualified expenses
 - c. 2021 PPP Forgiveness Application Form 3508 (or d.)
 - d. 2021 PPP amount, covered period and other qualified expenses

Data for Project

1. W-2 Data: Provide Gross Wage and Employer Health Plan Expense data by employee by pay date for each qualifying Quarter in 2020 - 2021.
 - a. Employee ID (Number)
 - b. Employee Name (Name)
 - c. Employee is Owner? (Y/N)
 - d. Employee related to Owner? (Y/N)
 - e. Employee Entity Name (Name)
 - f. Wages Paid (Amount)
 - g. Employer Healthcare Costs Paid (Amount)
 - h. COVID-19 Sick Leave Wages (Amount)
 - i. Family Leave Credit Wages (Amount)
 - j. Employee included in WOTC Credit? (Y/N)

Auto Dealership 1

Credit Period Quarter Ended	Auto Dealership 1	Auto Dealership 2	Auto Dealership 3	Auto Dealership 4	Auto Dealership 5	Auto Dealership 6
June 30, 2020	\$34,000	\$9,000	\$34,000	\$0.00	\$10,000	\$86,000
March 31, 2021	\$0	\$446,000	\$1,100,000	\$175,000	\$377,000	\$2,100,000
June 30, 2021	\$0	\$413,000	\$1,000,000	\$177,000	\$328,000	\$1,900,000
Total Credit	\$34,000	\$868,000	\$2,134,000	\$352,000	\$715,000	\$4,086,000

Auto Dealership 2

Credit Period Quarter Ended	Auto Dealership 1	Auto Dealership 2	Auto Dealership 3	Auto Dealership 4	Auto Dealership 5	Auto Dealership 6
June 30, 2020	\$311,000	\$106,000	\$258,000	\$130,000	\$116,000	\$202,000
March 31, 2021	\$380,000	\$0	\$255,000	\$145,000	\$105,000	\$195,000
June 30, 2021	\$0	\$0	\$250,000	\$0	\$0	\$195,000
September 30, 2021	\$0	\$0	\$255,000	\$0	\$0	\$0
Total Credit	\$691,000	\$106,000	\$1,018,000	\$275,000	\$221,000	\$592,000

Significance

The ERC was able to aid auto dealerships that chose to retain employees during the COVID-19 pandemic. Auto dealerships that qualify for the benefit are given a significant refund to compensate for the many financial setbacks they faced during 2020 and 2021. These funds should allow auto dealerships to get back on track operationally.

ERC Guidance

Cherry Bekaert has an experienced and knowledgeable ERC team that can help guide your auto dealership in the application and claiming process for ERC.

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Auto Dealership 1

Through the ERC, Auto Dealership 1 was able to save over **\$4.1 million.**

Auto Dealership 2

Through the ERC, Auto Dealership 2 was able to save over **\$2.9 million.**

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