Sam Agresti: Hello, everyone, and welcome to Brady Ware's webinar covering the One Big Beautiful Bill Act on dealerships. I'm Sam Agresti, shareholder and director in Brady Ware's Dealership Advisory Group, and I appreciate you all being on with us here today.

Sam Agresti: and scanning the attendee list, I see a lot of familiar names, and so I like to thank clients and associates for taking time to listen in. I noticed a lot of folks that aren't familiar with Brady Ware, so I'd like to focus a little bit about who Brady Ware is. So our focus for over 70 years has been able to provide business owners and individuals tax and accounting advisories, guidance, and support.

Sam Agresti: From our four offices and more than 150 professionals, we assist traditional tax accounting questions and issues. But as advisors to our clients, many times we find ourselves helping with those intangible issues that can sometimes even be more challenging to contend with. When it comes to our niche of dealerships, we serve over 200 rooftops across the Midwest and nationally and have over 80 years combined experience.

Sam Agresti: Signed into law just more than a little more than a month ago, the one big, beautiful bill would act to extend some existing tax provisions while creating some new ones. So what does this mean for dealerships, and what implications does it have on their financial operations? Are some of the areas are there more pressing areas than others?

Sam Agresti: Joining me today to walk us through this new legislation are members of our national tax team, as well as our dealership advisory team. Kristen Krabacher will cover federal tax aspects of the new legislation, and Mark Rossetti will focus on state and local tax impacts. So with that, let's get started.

Kristin Krabacher: So, there's really 3 big key business provisions in the One Big Beautiful Bill Act. There's Section 174, which is related to R&D, the deduction of R&D, expenses. We're not going to dive into that today, it's not super applicable to dealers, but it's something that you'll want to consider if you've got investments outside the dealership space, as it is a big change for really heavily focused R&D companies.

Kristin Krabacher: We're going to touch on Section 163J, which affects interest capitalization. And then we're also going to talk about bonus depreciation, and how that has been extended in the One Big Beautiful Bill Act.

Kristin Krabacher: So, 163J, otherwise known as the interest expense limitation, a little history related to that. Before the Tax Cuts and Jobs Act in 2017, the interest paid or accrued on business debt was generally fully deductible with no cap on… based on their income or EBITDA. The only limitation was generally applied to corporations with foreign affiliates.

Kristin Krabacher: Now, when the Tax Cuts and Jobs Act was enacted, 163J came into play, starting in December 2017. That limitation is based on 30% of adjusted taxable income for the years 2018 and 2021, it was, defined similarly to EBITDA, so we're adding back depreciation. Beginning in 2022, it was calculated based on EBIT, which does not add back depreciation, and thus kind of limits the deduction.

Kristin Krabacher: This has been a big, pain point for dealers, as in order to fully deduct our floor plan interest, many of you know we often lose the benefit of bonus depreciation, as that's kind of one of the trade-offs that went into play, when the TCJA was enacted.

Kristin Krabacher: Having this depreciation add-back gives us a little more flexibility in that space, so, hopefully any interest outside of our floor plan interest is being less limited, and we're able to better utilize that bonus depreciation.

Kristin Krabacher: So, under the OBBBA, the 163J is again modified to add back that depreciation and amortization. Here's an example of the impact on interest limitations. So, if we're looking at the TCJA-enacted limitations, you'll see the taxable income before the interest limit at $700,000.

Kristin Krabacher: We reduce that by interest income, add back interest expense, we get to that ATI and determine the interest limitation based on that amount that creates taxable income after the limit after the interest limit of $785,000 and a total tax at about $165,000,

Kristin Krabacher: If we're looking at the one big beautiful bill calculation, the taxable income is the same at $700,000. We reduce by the interest income, add back interest expense, we add back depreciation and amortization, and come in at that higher ATI, which the interest limit is then calculated off of based on that calculation, the tax is coming in about $147,000, so that can be a significant savings, for those who have been previously limited on their interest expense deduction. And again, floor plan is, excluded from this limitation, as long as bonus depreciation is not taken.

Kristin Krabacher: One change in bonus depreciation prior to the Tax Cuts and Jobs Act.

Kristin Krabacher: was 50% for equipment placed into service in 2017, 40% in 18, and 30% in 19. So they've started to create these phase-outs. When the Tax Cuts and Jobs Act came around, the TCJA temporarily allowed 100% expensing, which many of us benefited from.

Kristin Krabacher: That was for business property placed into service after September 27, 2017, and before January 1st, 23. And we've kind of seen that, allowance start to go down by 20% each year, and it was set to expire after January 1st, 2027.

Kristin Krabacher: Under the One Big Beautiful Bill Act, that 100% bonus depreciation was permanently restored for property acquired and placed into service after January 19, 2025.

Kristin Krabacher: There's also a new elective 100% depreciation allowance for qualified production property allowed for construction beginning after January 19th, 2025. Again, not going to be super applicable to dealerships, but if you have investments in other production property, you may be able to take advantage of this.

Kristin Krabacher: Some other business changes… Section 179, the deduction increased to $2.5 million, with a phase-out threshold of $4 million for assets placed into service after 2024. Also, the filing thresholds for the 1099 NEC and 1099-MIS increased from 600 to 2,000, and that's going to go into effect in 2026.

Kristin Krabacher: There's also a new tips credit related to the food and beverage industry, which is expanding to the beauty service industry, but again, not super applicable to dealerships.

Kristin Krabacher: Qualified small business stock, before the One Big Beautiful Bill Act, an active domestic C corporation with gross assets not exceeding $50 million.

Kristin Krabacher: Could 100% exclude the gain on a sale of that stock if it was held for more than 5 years. The exclusion was limited to the greater of $10 million, or 10 times the basis with the OBBBA, an active domestic C-Corp with gross assets not exceeding $75 million immediately after stock issuance.

Kristin Krabacher: Can now exclude 100% for qualified stock held 5 years, 50% after 3 years, 75% after 4 years, and that exclusion is limited to 15 million. Again, we don't see a lot of stock sales in the dealership space, but, this is a very beneficial thing to be aware of as if you're able to sell the stock of any other closely held corporation.

Kristin Krabacher: Energy credits, as you all know, terminated after September 30th as the Commercial Clean Vehicle Credit, the previously owned Clean Vehicle Credit and, the Clean Vehicle Credit, and then it terminated after December 31st, 25, we're going to lose the energy-efficient Home Improvement Credit, Residential Clean Energy Credit, and sustainable aviation fuel credit.

Kristin Krabacher: We've got some additional credits we'll lose in June of 2026, mostly related to energy-efficient home. The Alternative Vehicle Refueling Credit, Clean Fuel Production Credit, building deduction credits. Clean electricity, clean hydrogen, advanced manufacturing, and clean electricity investment credits.

Kristin Krabacher: A couple small changes in the meals realm. One, interesting exception they added to keep meals at 100% deductible are for fishing activities. Not super applicable, but it's something that an Alaska senator threw in there just to, you know, secure his vote. Meals will otherwise be 50% deducted.

Kristin Krabacher: And then there's going to be a prevention of payment for certain claims on the employee retention credit, and I believe those are for credits that were applied for in January of 2024 or after. 199A, you all probably know that as the small business deduction that was set to expire after 2025. 20% of qualified business income is exempt from taxation under this. There's phase-out for specified service businesses and limits based on taxable income, wages, and assets in use.

Kristin Krabacher: After the One Big Beautiful Bill Act, they permanently included that 20% deduction. Created higher phase-outs. And a $400 minimum for taxpayers with $1,000 of QBI, and that starts in January of 2026. And now I'm going to throw it over to Mark to talk about some insights on state and local taxes.

Mark Rossetti: Like the federal One Big Beautiful Bill Act, most of the state and local implications are positive. So, there was talks of removing the cap, or increasing the cap, in the salt cap realm.

Mark Rossetti: The cap was originally placed at the TCGAA bill in 2017 at $10,000, so that obviously limited businesses' owners' ability to deduct state and local taxes, and the states acted accordingly, and

Mark Rossetti: Implemented a regime to tax pastor entities at the entity level, so it would circumvent that cap at the individual level.

Mark Rossetti: The One Big Beautiful Bill Act raises that $10,000 cap to $40,000. So, you have a little bit more leeway, and there'll be a little bit more ability to look at the PTT regime and whether or not it's applicable, but this does provide a little bit of additional

Mark Rossetti: Cushion for people who are in that realm. It is phased out for people who make over $500,000 a year, federal AGI, but, just know that it's out there.

Mark Rossetti: So, one of the things that they kicked around when passing the One Big Beautiful Bill Act was getting rid of the PTET regime that these states have come up with. Thankfully, they did not do that. So right now, currently, we have 36 states, including Ohio, that allow a PTET

Mark Rossetti: Regime. And that allows the pastor entity to pay the tax on behalf of the individual, thereby circumventing the individual having to be subject to the $10,000, and now $40,000 cap. There are certain states that have expiring PTT regimes, and so with the One Big Beautiful Bill Act, you would think that they would

Mark Rossetti: pass legislation to extend those, and I fully expect them to do that, but just know if you're in some of the states listed there at the bottom, those states are in limbo currently.

Mark Rossetti: So the next couple slides are all things that are related to federal changes that have state implications, because the states start with federal AGI generically, most do, and then either conform or decouple from the IRS changes.

Mark Rossetti: So, just know, if you have any of the next few slides, and I know it's not going to be much for dealerships, just like Kristen mentioned, R&E is not a huge item, but these are on a state-by-state basis, so depending upon what state your dealership is located, they will either conform or decouple from these provisions within the One Big Beautiful Bill Act.

Mark Rossetti: So R&E expenses. 163J, 163J has been around now for a while. Again, there's some pretty clear guidance on whether or not the states conform or don't conform. So, depending upon your state, make sure you look into, conformity.

Mark Rossetti: Bonus appreciation. Obviously, this has been around for a really long time. Most dealerships understand, bonus depreciation, and there's add-backs, and all sorts of, ways to, for states to claw back money. So just know that, those are out there.

Mark Rossetti: And the last one's the GILTI and FIDI, and again, these are international, provisions, not necessarily applicable to U.S.-based dealerships.

Kristin Krabacher: Now, we'll go through some of the individual income tax, expectations under the OBVBA. There was a permanent extension of the lower income tax rate schedules for individuals. It adds an additional year of inflation adjustment for that 10% bracket.

Kristin Krabacher: in the 12% bracket, effective for taxable years beginning after 2025. You'll see the 2025 tax rates, the single filer up to, $11,925 is paying 10%, and married filing jointly is at $23,850.

Kristin Krabacher: And then we cap out 37% for single filers making over $626,350, and for those married filing joint filers, they'll pay 37% for income over $751,600.

Kristin Krabacher: The higher standard deduction is established under the Tax Cuts and Jobs Act, is now here to stay, and will be increased with inflation. The single filers have a standard deduction of $15,000 this year. Married filing jointly is at $30,000, and head of household at $22,500. Again, these higher limits create fewer itemized filers.

Kristin Krabacher: This brings us to the SALT deduction. Mark touched on this, but here's a good slide to reference, kind of, where we've been and how far we've come in the differences in our SALT deduction and where they've been capped going forward.

Kristin Krabacher: There were a few changes to itemized deductions starting in 2026. The unreimbursed educator expenses was added to be an itemized deduction rather than an unreimbursed employee business expense.

Kristin Krabacher: That allows it to continue to be deductible as employee reimbursement expenses, are no longer deductible.

Kristin Krabacher: There's now a phase-out that was reinstated from before, the Tax Cuts and Jobs Act, where depending on your income, those in high income thresholds could be phased out of their itemized deduction, ultimately getting a deduction for

Kristin Krabacher: 30… 35 cents on the dollar, so, there's going to be some big planning implications to, weight your itemized deductions in certain tax years, so you get the full benefit of those deductions.

Kristin Krabacher: As far as charitable deductions, they added a $2,000 deduction for married filing joint taxpayers that is allowed for even those that are using the standard deduction. I believe that's $1,000 for single filers.

Kristin Krabacher: We've got some family-related credits. The child tax credit was made permanent at $2,200 per child. Again, subject to income limitations, and there's certain amounts of that is refundable versus non-refundable, but ultimately, that's a win for a lot of middle-class taxpayer families.

Kristin Krabacher: There's the new Trump accounts. This is kind of functions like an IRA, where you can contribute money for a beneficiary to basically grow until they're of retirement age and take distributions at that point.

Kristin Krabacher: There's going to be opportunities for employers to put money in that tax-free, and children born between 2025 and 2028 will have $1,000 deposited into that account by the government.

Kristin Krabacher: There's also some more flexibility in the 529 and what you're allowed to use those funds for. They've opened it up to homeschooling expenses, certain educational-related therapies.

Kristin Krabacher: A lot of post-secondary certificates that aren't necessarily college, there's really a lot more flexibility in what we can use those funds for now.

Kristin Krabacher: of interest to our dealerships, we've got our new car interest deduction. So this is a deduction that's above the line for up to $10,000 of interest on qualified passenger vehicle loans that originate between 2025 and 2028.

Kristin Krabacher: Those vehicles must be new, assembled in the United States, and for personal use, and that phase-out begins at $100,000 for single taxpayers.

Kristin Krabacher: And $200,000 for joint taxpayers. That'll be a nice selling point, for the cars that qualify. Hopefully, we'll see some more buyers come out for those vehicles.

Kristin Krabacher: Another deduction that was added is the senior deduction, where individuals over 65 would get an additional deduction of $6,000 per individual.

Kristin Krabacher: And that phase-out begins at $75,000 for single taxpayers and $150,000 for joint. We also have the TIP income deduction, where individuals can deduct up to $25,000 in qualified TIP income. Now these must be for occupations deemed by the IRS to be customarily receiving tips. We haven't gotten official guidance on what that entails, but we will certainly pass that out if any of that information is relevant to our dealership clients.

Kristin Krabacher: The overtime pay deduction, you're probably going to get a lot of questions on this from your employees, but individuals with qualified pay can now deduct the premium, the extra half-time portion, up to $12,500 per individual on their tax returns.

Kristin Krabacher: That phase-out begins at $150,000 for single filers, or $300,000 for joint filers. Now this is effective for the tax year 2025, so there's going to be some new reporting requirements to make sure we get that information to our employees at year-end.

Kristin Krabacher: We're thinking that they're going to provide some guidance on that, hopefully by year-end, but we'll likely want to put that overtime premium in an informational box on the W-2, so the employees have the information relevant to file for that deduction.

Kristin Krabacher: Aside from that, this deduction is determined at the employee level, so I don't anticipate there will be any other considerations for the employer as far as changing the tax withholdings or anything.

Kristin Krabacher: The estate and gift tax exemption. $30 million was set to sun was set to sunset at the end of 2025 and revert back to $14 million. This $30 million exemption has been permanently extended and will continue to be indexed for inflation. So that's a win for, you know, making sure our states are not taxed. There's also a $19,000 gift threshold that will continue to be indexed for inflation.

Tom Wolf: Thank you, Kristen. Good afternoon, everyone. I'm Tom Wolf, also with the Brady Ware Dealership Service Advisors.

Tom Wolf: I want to remind everyone, if you haven't already, to put some questions out there in the Q&A section, if there was something we didn't cover that you wanted to further discuss.

Tom Wolf: wanted to thank Kristen and Mark both for their, information today. Hopefully you found it was helpful. I do have a few questions, too, that have come up in the chat box, but again, if you've got more, please, put those in there now. I think this one would be a good one for Kristen, talking about the deductibility of the auto loan interest.

Tom Wolf: How aggressive should dealers be with the… dealing with the customers and talking about the auto loan interest deduction?

Kristin Krabacher: I think it's really important to make sure that your sales team is trained in what vehicles qualify for that deduction, and remember, you know, you don't know your customer's whole tax situation, so you can't guarantee that they're going to be eligible for the deduction.

Kristin Krabacher: But it is a nice selling point as those… as people look to finance their vehicles.

Tom Wolf: Yeah, I think making sure that they, you know, the salespeople know what vehicles qualified for the induction based upon where they were assembled, I think is the key thing there, and then letting the customer take it from there. So, it's a good question for sure.

Tom Wolf: Mark, I think this one would be best suited for you, so just with dealers kind of seeing some extra, you know, audits from the state of Ohio in regards to sales and use tax, can you just spend a few minutes on some things to kind of just be aware of, and kind of, you know, high-level things that'll really help the dealers make sure that they're prepared for those things and not going to get in any trouble.

Mark Rossetti: Sure, yeah. You know, most people assume that a sales and use tax audit is going to focus on the sales side of things, and although they do

Mark Rossetti: cross-reference and check your sales and if you're charging tax properly. The focus of those audits tends to be on the use tax, so it's the purchases that dealerships make.

Mark Rossetti: and the things that they pull out of inventory and use, but don't accrue use tax. So, if a dealership doesn't have a use tax license in the state of Ohio, I would say that's probably a big red flag for the state to come out and audit. Every dealership should have a use tax license. That's their only way to

Mark Rossetti: pay tax to the state of Ohio on things that they either pull out of inventory and use, or purchase that is subject to tax to them. And some of the big areas that I see on every audit is demos and service loaners.

Mark Rossetti: Obviously, if a demo is being used for a customer test drive, that's an exempt type of activity, but if the demo is being taken home by a salesperson, or the owner, or something like that, Ohio would say that's a taxable use, and so you'd have to calculate the taxable fair market value of that vehicle and accrue use tax on it. Same way with service loaners. I know some manufacturers dictate to the dealership whether or not they can give those service loaners away for free, or whether or not they have to give those service loaners away for free. And obviously, if you're charging a rental fee to somebody for those service loaners, then you're probably charging sales tax on that rental.

Mark Rossetti: But it's the ones where you give it away for free that the state of Ohio would say the dealership is using that vehicle

Mark Rossetti: And the fair market value of that rental for the month would be subject to use tax.

Mark Rossetti: So, those and then shop supplies, obviously, is always something that the state digs into, because, you know, a lot of dealerships put a shop supply fee on their invoices, on their service invoices, but that only covers resale of things that physically leave with the customer, so…

Mark Rossetti: you know, if you're putting the paper floor mats in, if you're putting wax on the car, if you're putting air fresheners or something in the car, all those things that leave with the customer would be subject to the resale exemption. However, things that you purchase shop supply-wise that doesn't leave with the customer

Mark Rossetti: Those would still be taxable to the dealership, and so that's generally an area that gets, hit a lot. So, if you are a dealership, you don't have a use tax license, or some of the things that I just said are items that you don't believe you're doing properly, there are ways to mitigate the potential exposure. There's voluntary disclosures programs in Ohio and other states.

Mark Rossetti: Where you can come forward anonymously, absolve yourself of that tax liability for a predetermined period of time, look-back period, and then they waive penalties, and as long as you agree to be a good taxpayer on a go-forward basis.

Tom Wolf: Shad and Mark, I think that's great information. Like I said, we see a lot of, issues and questions in that area, so I think that's very helpful.

Tom Wolf: Looking at another question here, Kristen, maybe go back to the, Section 179 and bonus depreciation, just kind of how that's intertwined, and how the limits have increased, and the phase-outs, just to make sure that is kind of understood for everyone.

Kristin Krabacher: Yeah, so the 179 limits, you can now expense up to $2.5 million of asset additions in a single tax year. There's a phase-out, so when you

Kristin Krabacher: place more than $4 million of assets into service in a single tax year, you'll start to lose the benefit of some of that $2.5 million deduction. But on the other hand, there is 100% bonus depreciation

Kristin Krabacher: If you do happen to go over that $4 million threshold, so…

Kristin Krabacher: Between bonus and 179, we've got some really good options to expense asset additions.

Tom Wolf: All right, good, thank you. I can hear maybe one more thing here. This one probably is for Mark on the cat tax. Again, just kind of a a hot topic, maybe just talk a little bit, Mark, about, with… we've got a lot of dealers on here with multiple stores and ownership structures on how those grouping rules can work for cat tax to make sure we've got some of the right filing situations there.

Mark Rossetti: Yeah, so in conjunction with sales and use tax audits, a lot of times the state will open up a commercial activity tax audit, and although most dealerships understand that they're subject to the commercial activity tax, and they have a

Mark Rossetti: a general idea of all the receipts that are subject to it. The one area that really gets missed is the consolidated grouping. So, you might have a situation where a dealership has, you know, operating entity, real estate entity, and

Mark Rossetti: reinsurance company, and all these different companies. And there's reasons to start new companies after the fact, and a lot of times, people just forget to add those companies to the consolidated group.

Mark Rossetti: And the detriment is, if they're part of a consolidated group, then any intercompany receipts get eliminated. But if you don't add them to the consolidated group.

Mark Rossetti: Ohio would say, well, wait a second, you're not in a consolidated group with that entity, and it should have been filing, and so those intercompany receipts are now a gross receipt for CAP purposes and subject to the tax. So you can run afoul of a lot of things just with the grouping.

Mark Rossetti: And once you're a consolidated elected taxpayer, it is pretty easy just to add companies in, but what I find is, a lot of times, people just assume that somebody added them in, or that they got added. They don't include the receipts as part of the filing, and then when Ohio comes out to audit, they pick those receipts apart, so…

Mark Rossetti: Obviously, you know, the actual gross receipts that get reported, that is an issue as well, you know, what's excludable, what's excludable, but … but the grouping is one that's a very common issue amongst dealerships.

Tom Wolf: All right, thank you, Mark. Got a few more questions here, might have time for one more. I think, this one is probably bested for Kristen. Can you go back to the EV credits and talk a little bit more about when those expire and what's going to happen after, after those expire here in the fall?

Kristin Krabacher: Yeah, so the $7,500 credit for new EVs and the $4,000 credit for used EVs, that's gonna expire at the end of September, so now is a really good time to aggressively promote these vehicles if they're still on your lot.

Kristin Krabacher: There's also a concern that the EV credit website won't be available for long after that September 30th date, so it's important to get those credits entered as soon as possible.

Tom Wolf: Yeah, I would say for dealers to… thank you for dealers to punch those, credits into the website, on the 30th if you can. If not, very soon after. We never know what's going to happen with the government and that website, so…

Tom Wolf: Yeah, so I think we've got some great questions. Apologize that we had a few questions that we didn't have a chance to get to, but we'll be reaching out to everyone individually on that to follow up if we didn't get your question answered today. So, I want to thank you, everyone, for our time, for your time, Kristen, Mark, especially for the presentation. Hopefully, our clients and

Tom Wolf: Other friends have found it helpful. Here's some additional resources you can kind of track with any changes and updates to the new tax bill. Any thoughts that we put out on that, there's a way on our website to keep track of that. We appreciate everyone's, time today. Again, if you have future questions, please don't hesitate to reach out, and hope everyone has a great afternoon. Thank you.