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# HEADLIGHTS



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## CURRENT CLIMATE OF THE SBA'S PPP LOAN FORGIVENESS PROGRAM

**T**he Small Business Administration's Paycheck Protection Program (PPP) has changed many times since its release, with more than 20 interim final rules (IFRs) and many revisions to these IFRs. The Paycheck Protection Program Flexibility Act (PPPFA), signed into law on June 5, amends the original PPP act significantly. Most significant is the extension from an 8-week covered period to 24 weeks. The June 20 IFR explains that a borrower can apply for forgiveness once all the funds are spent. For example, if the covered period ends in October and the funds run out in August, the borrower is eligible to apply in August. **Caveat:** If the borrower has reduced any employee's salary or wages in excess of 25%, the borrower must account for the excess salary reduction for the full 8 or 24 weeks.

In addition, the PPPFA reduced the percentage of the loan forgiveness to be spent on payroll expenses from 75% to 60%, allow-

ing nonpayroll expenses to make up 40% of the loan forgiven. One recent IFR confirmed that the amount forgiven would be computed on a sliding scale. If the borrower had a loan for \$100,000 and spent \$45,000 on payroll expenses, assuming no other reductions, the full \$45,000 would be forgiven. In conjunction with this, the nonpayroll expenses of \$55,000 are eligible for forgiveness but limited to only 40% of the total amount forgiven, as noted above, making the forgiven payroll \$45,000, divided by 1.5, to equal \$30,000 to represent the full amount of nonpayroll forgivable expenses. In this example, the \$25,000 remaining from the original loan proceeds of \$100,000 would remain as a loan that must be paid back.



**Adam  
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### SUMMER 2020

**FINANCE-INSURANCE SERVICE  
CONTRACT CHARGEBACKS**

**8300 FILING REQUIREMENTS AND  
CURRENT TRENDS**

Another beneficial change the PPPFA made was to allow two new exceptions for full-time equivalent (FTE) counts. If the borrower could not find qualified employees or was unable to restore business operations to the February 15, 2020 level due to COVID-19–related operating restrictions, those FTE counts would not affect the borrower’s FTE total at the end of the covered period.

A new loan forgiveness application form (3508EZ) has eight lines of input and no tables or schedules that need to be completed. The borrower must be able to certify such items as not reducing employee salaries or the number of employees, and show that the borrower was unable to operate during the covered period at the same level of pre-February 15, 2020 business activity.

The borrower chooses the option of the original 8-week or the new 24-week covered period; dealerships need to ensure a few items to maximize loan forgiveness. One involves the compensation of commission-based or variable salaried employees. Dealers may think they have not reduced anyone’s pay and have not restructured pay plans, but due to sales and service business reductions, salespeople are not selling as many vehicles,

therefore reducing commissions. Additionally, technicians are flagging fewer hours, reducing their pay, as well.

The PPP was designed to make sure that employees are still paid their “normal” wages, and the salary and wages reduction calculation will determine whether that occurred. First, dealers need to pay flat, guaranteed amounts and other nonvariable wages for “phantom” hours and commissions. Second, the FTE count works in combination with payroll calculations. Even if an employee worked 10 hours but the wages paid equated to 40 hours, the hours needed to maintain the person’s full FTE status has been fulfilled. There wouldn’t be any reduction in the workforce, which factors into the loan forgiveness calculation.

The PPPFA expanded the parameters for administering the PPP loan proceeds and the calculations in applying for loan forgiveness. Detailed records must be kept, and the rules pertaining to salary levels and FTE counts must be followed. Additional guidance is frequently released by both the Treasury Department and the SBA. Please contact your **AutoCPAGroup** firm for further assistance and guidance. ↗

## FINANCE-INSURANCE SERVICE CONTRACT CHARGEBACKS

**Carl Woodward, CPA**  
**Woodward & Associates, Inc.**

**R**ecently, we reviewed manufacturer financial statements as they relate to “chargebacks.” Chargebacks represent cancellation and repayment of prior income to suppliers for prior sales of finance reserves, insurance products and service contract income. Best accounting practice is to set up a monthly payable reserve for expected chargebacks.

This accounting entry reduces current income while setting up a payable for estimated future chargebacks, which reduces net worth and work-



ing capital. Because there is a wide range of what this payable/reserve will ultimately be, this amount can only be estimated.

A review of major manufacturers’ financial statements found that several manufacturers did not have an account that reflected the amount of service contract income chargebacks. They included Audi, BMW, GM, Jaguar-Land Rover, Kia, Mazda, Mercedes, Mitsubishi, Subaru,

VW and Volvo. Hopefully, these manufacturers will “freshen” up their financial statements to allow for this missing metric.

A good rule of thumb for estimating what a chargeback reserve should be for a dealership is an approximation of 24 times the most recent average month's chargeback.

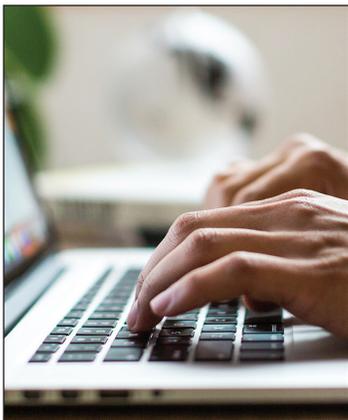
After analyzing chargeback amounts for three dealerships that sold out several years ago, we found that in their last year of operation, total finance and insurance (F&I) service contract income before chargebacks was as follows: \$2,050,000; \$1,130,000; and \$685,000. The actual chargebacks over the next five to six years after these dealerships closed were \$1,650,000; \$330,000; and \$110,000. The chargeback percent-

ages of F&I service contract income for the last full year in operation were 80%, 29% and 16%. This is a huge difference with a large amount of volatility. Based on chargebacks for the last year in operation, the number of months of chargebacks, compared with our 24 months guideline, were 50 months, 24 months and 26 months. This indicates what the chargeback reserve should have been at the sale of the dealership.

If you are motivated to follow best accounting practices to set up realistic reserves for chargebacks, contact your **AutoCPA Group** member for guidance. ✍

## 8300 FILING REQUIREMENTS AND CURRENT TRENDS

**Wayne Zimmerman  
Pomares & Co., LLP**



**W**ith cash reporting audits picking up in frequency, dealerships must review their cash reporting process to determine its adequacy.

**Cash or specified monetary instruments (CMI)** include coins and currency of the United States and

any other country, and any certified monetary instrument (including cashier checks, bank drafts, traveler checks and money orders, all with a face value of less than \$10,000) received in a designated reportable transaction, or any transaction structured in such a way that you believe the buyer is trying to avoid the reporting requirement.

- ✓ A check drawn on a buyers' personal account is specifically excluded as CMI.
- ✓ A bank draft is excluded if the proceeds are from a bank loan, as proven by a specific loan document or lien instruction from the bank.

- ✓ Wire transfers, credit cards, debit cards and ACH payments are not considered CMIs.
- ✓ A written or electronic statement must be provided to each person named on Form 8300, but only if the recipient has formally agreed to receive the notice in that format. The notice must indicate that the information is being provided to the Internal Revenue Service and must be sent to the individual by January 31 of the year subsequent to the year in which the reportable condition was reported. A copy of each 8300 form must be kept for a 5-year period.

It is imperative to obtain verifiable taxpayer identification for each buyer involved in the transaction. The most common form of such identification is a driver's license.

It is also important to provide the dollar value of all currency in the form of \$100 bills.

### **Some dealership-specific issues**

When cash is received on two independent purchases from the same individual in a 24-hour period, these transactions must be considered in the aggregate.

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A filing must be made if a reportable condition exists even if the related deal is cancelled for any reason.

A wholesaler transaction is reviewed independently, except those occurring within a 24-hour period.

In general, a dealership may tell a customer about the law requiring the reporting of cash or a specified monetary instrument, but may never aid a customer in structuring a transaction to prevent a filing requirement.

A dealership voluntarily filing an 8300 because of suspicious activity cannot inform the individual of the filing.

### Internal control considerations

All individuals handling cash should be trained in cash reporting compliance and then sign a formal acknowledgement of such training to be maintained in the respective employee file. These individuals must understand both reportable conditions and the avoidance of “coaching”—instructing buyers or potential buyers how to avoid the cash reporting requirements. Coaching can result in civil and criminal fines to both the dealership and the employees involved in such activity.

### Accounting controls

- ✓ Sales receipts should list all forms of payments, including cash and other currency, cashier checks, money orders, traveler checks and bank drafts.
- ✓ The finance department employee should be well trained in cash reporting requirements and should indicate on each deal his or her evaluation of whether a filing condition may exist.
- ✓ The cash receipts clerk should provide a summary of all daily suspected filing requirements transactions to the controller for review consideration.
- ✓ The deal billing clerk should perform an 8300 evaluation on every deal and indicate such a review was done by writing “8300” on the corner of each deal jacket, by signing off on a deal checklist or by signing off on a cash reporting evaluation form.

✓ If there is a potential filing condition, the billing clerk should provide the deal jacket to the controller for final determination as to the existence of a filing condition and the actual filing of Form 8300 if appropriate.

Contact your **AutoCPAGroup** member for further assistance and guidance. ↵

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