



COVID-19 CATA Dealer Operations Survey

The Chicago Automobile Trade Association on March 30 surveyed its dealer members to get a sense of their operations during this pandemic, so that the CATA can help them make the most informed decisions for their businesses.

The seven-question survey sought information about a dealership's business hours, whether sales departments were operating, and how service volume compared to January 2020.

About 100 survey respondents representing more than 120 area new-car dealerships said the following:

1. Please report the current state of your business

- Completely shut down: 9.4%
- Maintaining service operations and sales by appointment: 89.4%
- Maintaining service operations only; sales closed: 1.1%

2. Please provide your active employee headcount (approximate) in these areas of your store over the past 60 days.

- Service staffing down 44% (47% if closed dealerships are counted)
- Sales staffing down 45% (49% if closed dealerships are counted)

3. Are your technicians unionized? (represented by Mechanics' Local 701)

- Yes: 48%
- No: 52%

4. Are your parts employees and porters unionized? (represented by Teamsters Local 731)

- Yes: 29%
- No: 71%

5. Sales Volume today as compared to 1/31/20

- 10% of volume: 24% of respondents
- 25% of volume: 24% of respondents
- 50% of volume: 39% of respondents
- 75% of volume: 11% of respondents
- 100% of volume: 2% of respondents

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Paycheck Protection Program applications begin

The federal government's Paycheck Protection Program on April 3 began accepting applications for loans to small businesses and sole proprietorships affected by the coronavirus pandemic.

The application can be found on the U.S. Treasury's website, along with details for borrowers and for lenders. Treasury representatives urged those in need of funding to apply quickly, noting that the program has a cap and demand

is likely to be high.

The \$349 billion program was enacted as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed by President Trump on March 27. Under the program, small businesses with 500 or fewer employees including not-for-profits, veterans' organizations, tribal concerns, self-employed individuals, sole proprietorships,

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CARES Act Q&A

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President Trump signed into law the CARES Act — worth more than \$2.2 trillion — on March 27 to help stimulate the economy reeling from the effects of the coronavirus.

What are the aspects of the CARES Act that can help my busi-

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'Phase 4' coronavirus relief bill?

Following the massive \$2.2 trillion CARES Act to provide direct cash payments to Americans and expand unemployment, signed March 27, Congress already is eyeing a "phase four" legislative package to respond to the coronavirus pandemic amid continuing signs of economic devastation and widespread job loss.

House Speaker Nancy Pelosi said March 30 that members of the House could do committee work remotely to have legislation ready to approve when congressmen return from recess in late April.

The first three phases passed in lightning speed — especially for Washington, D.C. — in March. A recap:

Phase 1

Targeted at slowing the spread of the virus, Phase 1 allocates a significant portion of the funds to the Department of Health and Human Services for vaccination research, CDC emergency funding, medical equipment, and grants for state, local, and tribal public health agencies and organizations. In addition, the bill provides \$20 million to the Small Business Administration disaster loans programs to support the SBA's administration of loan subsidies that will be made available to affected small businesses.

Phase 2

The bill's main feature is federally mandated paid leave available for certain employees. Employers with less than 500 employees are required to provide two weeks of paid

sick leave to any employee unable to work due to quarantine, isolation, coronavirus symptoms, or who are caring for someone in quarantine or isolation, or who has a child in schools that have been closed. Tax credits will be provided to the employer to offset these costs. Employees are further protected under the bill as they cannot be required to find replacements or use other paid time off. Also provides paid sick leave, free coronavirus testing, expanded unemployment benefits, and food insecurity measures.

Phase 3

The CARES Act (Coronavirus Aid, Relief, and Economic Security) carries a number of provisions. Among them:

- Allocates \$500 billion for assistance to businesses, states, and municipalities, with no more than \$25 billion designated for passenger air carriers, \$4 billion for air cargo carriers, and \$17 billion for businesses critical to maintaining national security

- Creates a \$349 billion loan program for small businesses

- Provides \$1,200 to Americans making \$75,000 or less (\$150,000 in the case of joint returns and \$112,500 for head of household) and \$500 for each child

- Expands eligibility for unemployment insurance and provides people with an additional \$600 per week on top of the unemployment amount determined by each state

PPP

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and independent contractors are eligible for loans to pay up to eight weeks of payroll costs including benefits as well as other costs. Businesses with more than 500 employees are eligible in certain industries, Treasury said.

Loan forgiveness is based on the employer's maintaining or quickly rehiring employees and maintaining salary levels, Treasury said in its overview documents. Forgiveness will be reduced if full-time headcount declines or if salaries and wages decrease.

PPP funds also can be used to pay interest on mortgages, rent, and utilities. Treasury noted that due to

likely high demand for the program, at least 75% of the forgiven loan amount must have been used for payroll.

Loan payments will be deferred for six months. No collateral or personal guarantees are required. Neither the government nor lenders will charge small businesses any fees.

An employer who receives a loan under the PPP is not eligible to also claim an employee retention credit under the CARES Act. The employee retention credit gives eligible employers whose business operations are fully or partially suspended due to the COVID-19 pandemic a credit against employment taxes equal to 50% of qualified wages (up to \$10,000 in wages) for each employee.

Survey

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6. Service volume today compared to 1/31/20

- 10% of volume: 11% of respondents
- 25% of volume: 22% of respondents
- 50% of volume: 40% of respondents
- 75% of volume: 23% of respondents
- 100% of volume: 4% of respondents

7. Does your dealership intend to pursue a business loan (and potential loan forgiveness) under the CARES Act?

- Yes: 90%
- No: 10%

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Review past editions dating to 1998 or search by subject at www.cata.info/publication/bulletins.

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ness (and my employees)?

Loans and payroll credits along with unemployment benefits, including the Paycheck Protection Program loans (PPP), emergency Economic Injury Disaster Loans (EIDL), refundable payroll tax credits, deferment for some payroll tax payments, and enhanced unemployment benefits

Which loan is best for my business, an EIDL or PPP loan?

EIDLs provide a \$10,000 cash advance within three days of applying for the loan. The \$10,000 cash advance does not need to be repaid if the loan is subsequently denied. EIDLs are capped at \$2 million. PPP loans are capped at \$10 million and provide an opportunity for a portion of the loans to be forgiven. The forgiveness or cancellation of the loans would not be treated as income for tax purposes. If cash flow is not an immediate concern, the PPP loan may be the better option.

Should I use my other sources of business funding before applying for these loans?

A key factor to consider when deciding whether or not to apply for these loans is the potential forgiveness factor of the PPP loan. However, applying for a line of credit to help in the short run doesn't preclude you from applying for a PPP loan.

Is my business eligible for the PPP loans? What are the affiliation rules?

Businesses with 500 or fewer employees are eligible. To determine the 500 limit, affiliation does not apply to a business operating a franchise that is assigned a franchise identifier code by the SBA. OEM brands with franchise identifier codes including Chrysler, Dodge, Jeep, Ram; Kia; Ford, Lincoln; Mazda; Mitsubishi; Subaru; and Volvo. Many other OEM's have applied to the SBA for a franchise identifier code. Once obtained, the franchisee may also be exempt from the affiliation rules. The NADA is encouraging the SBA to expedite this process.

How much of a loan can I receive for each one of my dealerships?

The maximum loan amount is limited to 2.5 times the average monthly payroll costs for the last 12 months, with compensation of each employee limited to \$100,000. Payroll costs include salary, wages and commissions, tips, paid leave, healthcare, and retirement payments. The payroll costs are reduced for any qualified sick leave or family leave wages for which a credit was allowed under the Families First Coronavirus Response Act. The maximum loan amount is \$10 million.

What are the allowable uses of the loan proceeds?

- Salaries and commissions
- Costs related to the continuation of group health insurance and other benefits
- Mortgage interest payments
- Rent subject to a lease
- Utilities

• Interest on debt obligations incurred before the covered period

How much of the loan will be forgiven?

Total payroll costs, rent, utilities, and mortgage interest paid during the eight-week covered period. This amount is reduced if the number of employees declines during the covered period as compared to the number of employees for the period Feb. 15-June 30, 2019 or Jan. 1-Feb. 29, 2020, whichever is lower. Reductions in employment or wages that occur during the period beginning Feb. 15, 2020 and ending 30 days after enactment of the CARES Act, (as compared to Feb. 15, 2020) will not reduce the amount of loan forgiveness IF the borrower eliminates the reduction in employees or reduction in wages by June 30, 2020.

What if I continue to reduce my workforce? Does that reduce how much will be forgiven?

Yes, the amount of loan forgiveness is reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees.

What happens after the forgiveness period?

Any loan amount not forgiven at the end of one year is carried forward as a loan with a maximum term of two years. Principal and interest will be deferred for a total of six months to one year after disbursement of the loan.

What are the loan terms and interest rates?

The maximum term is two years and maximum in-

terest rate is 0.5% as of April 1, 2020.

Will I be required to personally guarantee the loan?

No personal guarantee or collateral is required. A "good faith certification" is required to verify the forgiveness portion of the loan.

Who should I contact if I would like to apply for a loan?

Most of the banks will be handling the application and processing of the PPP loans through the SBA. EIDLs can be applied for directly from the SBA website.

How should I account for these loans and track the expenses?

Document the amount eligible for forgiveness. Support includes the following:

- Verification of the number of employees and payroll paid using payroll tax returns
- Documentation of other eligible costs such as group health care benefits, including insurance premiums, payments of interest on mortgage loans, rent, utilities, and interest on debt incurred before the covered period
- Certification by a representative of the business

Consider a separate bank account to track the appropriate use of funds for specific costs during a specific period.

Should I consider taking these loans or should I use the payroll tax credits instead?

There is a payroll tax credit available if you choose not to apply for a loan. The

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details are provided below. There also is an option to defer the payment of a portion of the employer payroll taxes.

- Employee retention credit in the form of a refundable payroll tax credit:

- o Eligible employers include any business that is required to partially or fully suspend operations due to COVID-19

- o Businesses whose gross receipts are 50% or less this quarter compared to the same quarter in the previous year

- o The credit is computed at 50% of wages up to \$10,000 of wages per employee for eligible employers (\$5,000 credit).

- o Wages of employees who are furloughed or face reduced hours are eligible for the credit

- Delayed payment of certain employer payroll taxes (6.2% OASDI) through the end of 2020

- o The deferred tax liability would be paid in two installments – half by Dec. 31, 2021 and the remaining half by Dec. 31, 2022

Can I take the credits and payroll tax deferral if I have a PPP loan?

No. If you receive PPP loan proceeds, you are not eligible for the credit and tax deferral payments. More than likely, the PPP loan is a better option unless your workforce is significantly decreased during the next several months.

What are my options if I do not qualify for the PPP loan?

Small businesses with less

than 500 employees may request an advance of \$10,000 through an EIDL to be used for providing sick leave, maintaining payroll to retain employees, meeting increased material costs, making rent or mortgage payments, and repaying obligations that cannot be met due to revenue losses.

If I have to lay off employees, what kind of unemployment benefits would they receive?

- Recipients are eligible for an additional \$600 per week payment through the end of July in addition to their state unemployment benefits.

- The unemployment benefits created under the CARES Act terminate at the end of 2020.

What is the Families First Coronavirus Response Act?

Congress also passed the Families First Coronavirus Response Act (FFCRA). This act went into effect April 1, 2020 and mandates employers with less than 500 employees to provide paid sick pay and family leave for employees who are affected by the virus. The NADA issued a FAQ document that can answer many questions about how the various credits work under this Act.

If I have any questions about the CARES Act and FFCRA, who should I contact?

You should discuss all of these options with your professional advisors including your banker, your employment attorney, and your CPA. We at MichaelSilver also are available to answer any additional questions.

Dealer cash might be taxable

It is believed that one or more of the OEMs might have recently changed a stair-step dealer cash program to straight dealer cash. If that is accurate, the amounts paid to the dealer would become taxable by the state of Illinois.

Basically, dealer incentives are taxable unless they are contingent at the time of sale on making or having additional retail sales (common stair-step programs), or contingent on some other qualifier, such as the dealer

meeting certain manufacturer required marketing standards, facility standards, or sales and service department goals (CSI).

Illinois dealers must report taxable dealer incentives on Section 6, Line 1 of Form ST-556 as part of the sale of the vehicle reported on that return, one of several Illinois Revenue Department changes that took effect July 1, 2008. The changed regulations depict six distinct types of dealer cash transactions; only one of them is taxable.

In Memoriam

William Koloseike, 92, founder of the Bill Kay Auto Group, died March 6 at his home in Naperville.

A veteran of the U.S. Marine Corps, Mr. Koloseike graduated from Loyola University and took a dealership sales position. He opened his first dealership in 1969 and expanded to nine stores in Illinois and Arizona before retiring in 2002.

Known as a tough but generous man, Mr. Koloseike volunteered for the Family Focus organization; and he worked with the Ignation Volunteer Corps, a Jesuit ministry. He was instrumental in the construction of St Aloysius Gonzaga Secondary School in Nairobi, Kenya. It is the world's first high school for AIDS orphans. A supporter of many charities and nonprofits, including Leo High School, Mr. Koloseike was honored by the school as a distinguished alumnus and Man of the Year in 2009.

Mr. Koloseike was a longtime member of Naperville Country Club. He was an avid traveler and active in many sports including golfing, skiing, scuba diving and hunting. His sense of adventure led him to actions ranging from riding motorcycles to zip lining to traveling across the country via RV.

Survivors include sons Mark and William; daughters Judy and Nina; 10 grandchildren; and five great-grandchildren. Memorials appreciated to JDRLF.

