



Willard J. De Filippis, CPA, PC

www.defilippis.com

DEALER TAX WATCH

A Quarterly Update of Essential Tax Information

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DEALER TAX WATCH OUT

If you had called me personally to ask, "What's happening lately with IRS audits of dealers and dealerships that I need to know about?" ... Here's what I'd say:

#1. IF YOU'RE GOING TO BE IN PHOENIX, PLEASE STOP BY AND SEE US. We will have an exhibitor booth at the AICPA National Auto Dealership Conference at Pointe South Mountain Resort in late October. We hope you'll stop by to say, "Hello," and find out more about some of the other activities that are keeping us busy these days.

#2. THE IRS IS NOW MUCH MORE ACTIVE IN AUDITING DEALERSHIPS THAN IT HAS BEEN FOR SEVERAL YEARS. Discussions with many practitioners support this observation. If you've not had auto dealer clients under examination by the LMSB division recently, you may be in for a surprise. On pages 3-9, we've given you a sample of what is going on and what you can expect.

The *IRS treatment of auto dealers as "producers," rather than "resellers," under Section 263A* is still an unresolved issue. We discussed this issue in the March 2006 *Dealer Tax Watch*. For an update on this, see page 9. Also, we've learned that the potential resolution of this issue now may be linked to a new creature of IRS design ... the *GLAM*. For more on this *GLAMorous* development, see Update #6 below and also pages 15-17.

#3. TECHNICIAN TOOL REIMBURSEMENT ACCOUNTABLE PLANS ... STILL VERY MUCH ALIVE AND KICKING. Since late last year when the IRS issued Revenue Ruling 2005-52, things have been relatively quiet on the surface. In our last issue of the *DTW*, we did report that the Tax Court's decision in favor of the IRS in the *Namyst* case was upheld because the taxpayer did not return excess reimbursements to his employer.

After the IRS scared everyone out of the water in 2000 with its Coordinated Issue Paper, it took a few years for some folks to venture back onto the beach. (Think: *Jaws*, here.) After a while, the beach was swarming again, and in 2005, it was time for the IRS

WATCHING OUT FOR

DEALER TAX WATCH OUT	1
UPDATE ON CURRENT AUTO DEALERSHIP IRS AUDITS	
• IN GENERAL	3
• SEC. 263A ISSUES, INCLUDING "PRODUCER" VS. "RETAILER" STATUS FOR DEALERSHIPS	9
• ACCOUNTABLE PLANS UNDER SEC. 62(c) FOR REIMBURSING TECHNICIANS FOR THEIR TOOL COSTS ..	10
IRS REVISES FORM 3115 INSTRUCTIONS	12
IRS TECHNICAL ADVICE ...	
AN INSIDE LOOK AT THE FLAWED TAM PROCESS... WILL GLAMs BE MORE EFFECTIVE THAN TAMs?	15
NADA REVISES ITS DEALER GUIDE TO FEDERAL TAX ISSUES	18
COST SEGREGATION CAN DIRECTLY IMPROVE CASH FLOW FOR AUTO DEALERS	22

to yell "Shark!" again and drive more timid souls even further back from the shoreline. (Think: Revenue Ruling 2005-52, here.)

Both within, and outside, the industry, many have cynically referred to some tool reimbursement plans as "*Buzz Lightyear*" plans (think: *Toy Story*, here) in the sense that these plans would seem to (if unchecked by the IRS) reimburse technicians ... "to infinity and beyond." Under these plans, what about the technician repaying any excess disbursement back to the employer? *Fuggetaboutit*.

Maybe (even despite its tunnel-vision) the IRS didn't have it all wrong. But, the Service still has backed away from providing any positive guidance. (Think: "What you *can* do" vs. "What you *can't* do.") So much for the IRS line ... "we're here to help you."

LOOKING FOR ADDITIONAL & "VALUE ADDED" SERVICES FOR DEALER CLIENTS?

Look no further... Just use the *Dealer Tax Watch* for a head start in golden consulting opportunities and activities to help dealer clients—and, in the process, to help yourself.

see DEALER TAX WATCH OUT, page 2

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