



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. AS WE GO TO PRESS WITH THIS ISSUE...

There is nothing earth-shaking to report. But there have been developments in several areas that we want to bring you up-to-date on.

One thing, however, is for sure ... There are severe storm clouds quickly gathering for dealers in connection how the IRS believes the inventory cost capitalization rules should be applied to their dealerships. Read on...

#2. SECTION 263A ... IRS' GUIDANCE ON COST CAPITALIZATION FOR AUTO DEALERS.

Do you remember all that we've said previously about the IRS' high hopes for "guidance" on the "producer" issue in the form of a GLAM? It now seems that the IRS has backed off of this entirely. But, there's been nothing official issued in which the IRS has "conceded" or confirmed this point.

The real bad news for dealers is contained in a Technical Advice Memorandum (TAM) that the IRS has already issued. However, we have nothing tangible to report at this time because this TAM still has not been made public under the *Freedom of Information Act*. So, we'll have to wait until next time to deal with that. But, we'll tell you now what we can about developments in that area. Fasten your seatbelts.

My conversations with CPAs representing dealers under audit suggest that you'll be incredulous once you understand how the IRS "thinks" Section 263A should be applied to dealerships. Unfortunately, the *Automotive Alert!* issued by the IRS in January (see page 8) gives you no hint of what's really in store.

From what we've heard (anecdotally) about current audits where the IRS is looking at how Section 263A should be applied to auto dealerships, it seems that every few days, the IRS comes back, wants more

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information, has another set of calculations and another set of interpretations. How can one kindly or politely say that it seems like the IRS is running around on this like a chicken with its head cut off? **The bottom line** seems to be that all of this apparent confusion will still add up to very large deficiencies and major changes that CPAs will have to reckon with when all of this stuff hits the fan.

In addition to conversations with CPAs with dealerships under audit, I have had several recent discussions with NADA representatives and obtained permission to reprint the letter that NADA sent to the IRS in March on the so-called "producer" issue.

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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.