



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. IRS GUIDANCE ON VALUING EMPLOYEE USE OF DEMOS. The guidance the IRS recently provided in Revenue Procedure 2001-56 has been favorably received by the majority of practitioners who have taken the time to share their opinions with us. In a follow-up conversation, Terri Harris indicated that the Service has received few questions on these new rules since they came out.

The Service seems to be very pleased with the results of its Industry Issue Resolution Program, which, in part, accounted for these new guidelines. The Service now says that it will make the Industry Issue Resolution Program a permanent program for this year. If you have any suggestions for other issues that you think the Service ought to consider, contact Terri Harris directly at (616) 235-1655.

#2. IRS DOES AN ABOUT-FACE: DEALERS CAN USE REPLACEMENT COST FOR VALUING PARTS INVENTORIES. In Revenue Procedure 2002-17, the IRS announced that it will allow auto dealers ... and truck dealers ... to value their parts inventories using a replacement cost method grounded in their manufacturers' standard price lists.

In announcing its 100% reversal of position on this important issue, the Service said that it has given careful consideration to the "unique circumstances surrounding the use of replacement cost by automobile dealers." It said that it was now willing to provide auto and truck dealers with a safe-harbor method of accounting to determine the cost for parts using replacement cost to approximate actual cost.

If dealers are currently under IRS audit exam and the use of replacement cost is in question, the IRS will drop the issue.

In effect, the IRS is forfeiting the Tax Court victory it achieved in *Mountain State Ford Truck Sales*. The IRS Motor Vehicle Technical Advisor, released an

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Automotive Alert! discussing the safe harbor Revenue Procedure and this was reproduced in the March 2002 issue of the *LIFO Lookout*. Further analysis and commentary on Rev. Proc. 2002-17 will appear in the June issue of the *LIFO Lookout*.

#3. IRS PRIVATE LETTER RULING PROVIDES RELIEF FOR OLDS DEALER BOUGHT OUT BY GM. In December of 2000, GM took its dealership network—and the industry—by surprise when it announced that it would discontinue its Oldsmobile line. Among the many concerns facing dealers is how they will be taxed on the payments they negotiate from GM in return for giving up their franchises.

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.

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