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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. PRIMARY FOCUS ... ELECTRONIC RECORDKEEPING REQUIREMENTS. Our primary focus in this issue is on Revenue Procedure 98-25 and the steps taken by ADP to provide a compliance solution for its dealers. Rev. Proc. 98-25 contains the IRS' electronic recordkeeping requirements (ERR) for most auto dealerships.

We have reported the repeated expressions of concern by the IRS over the lack of compliance by the auto dealer industry, in general, with these requirements.

On page 3 of our last issue of the *DTW*, we reported that ADP had satisfied these requirements, and this issue describes the process by which ADP accomplished this result. We have included other background information so that you will be able to consider whether, or to what extent, your dealer clients might have any exposure in this area.

For their cooperation in our interviews to bring you this coverage, we are indebted to Mr. Steve Hanusa of ADP and to Mr. Ron Barker, the Controller of the dealership at which ADP's software enhancements were successfully field tested.

#2. 2007 NADA DEALERSHIP CONVENTION. In this issue, you'll also find a summary of the 3 days I spent at the NADA Convention in Las Vegas in February.

Again, one of the highlights was the opportunity to attend a seminar given by attorneys Richard Sox and Shawn Mercer in which they discussed emerging legal issues impacting automobile dealerships.

A summary of their discussion of issues that have been added since our previous article appears on pages 4-5.

#3. INDEX OF *DTW* ARTICLES THROUGH DEC. 31, 2006. We have updated and expanded our *Index* of all articles appearing in the *Dealer Tax Watch* from our first issue, June 1994, through December, 2006.

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This *Index of Articles* is available for your review on our web site, www.defilippis.com. You can print the *Index* out on your own or, if you prefer, contact us for a printed copy.

This *Index of Articles* is divided into ten sections which list all articles by key topic or subject. It also includes *Finding Lists* for all tax cases, Revenue Rulings and Procedures, Letter Rulings (including TAMs), IRS Coordinated Issue Papers, Field Service Advice Memos, Motor Vehicle Technical Advisor *Automotive Alerts*, and *Practice Guides*.

Welcome to our 14th year of publication. ❄

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.

WALKING AROUND... AT THE 2007 NADA CONVENTION

**NADA
REPORT**

While many parts of the country were battling unusually heavy snowfalls, severe winds, frostbite and an assortment of other weather-related "inconveniences," the 2007 NADA Convention was held on February 3-6 in hot, sunny Las Vegas. A year ago, I explained my "game plan" when attending NADA Conventions. This year the fact that the Convention was held on Super Bowl weekend ... in Las Vegas, as if there aren't enough distractions ... did not cause me to change my overall strategy.

So, following last year's approach, if you called me personally to ask "What did I do and what did I 'learn' at the NADA Convention this year?" ... Here's what I'd say...

#1. OVERALL. This year, attendance at the 2007 Convention seemed to be somewhat smaller than what you might expect for a Las Vegas location. At least that's what a number of exhibitors told me.

Last year, you may recall the big question providing a backdrop for the Convention was ... What was going to happen to GM? This year the big question seemed to be ... Will Toyota overtake GM in 2007 in the production and sale of vehicles, etc?

Now, even that has been overshadowed by the questions ... Who will acquire Chrysler and what will happen to it afterwards?

#2. THE IRS AT NADA. The IRS was again present ... physically ... at NADA as part of the Federal Agency Outreach booth. This booth also included representatives from other governmental agencies, including OFAC, FTC, FCC, EPA, OSHA and NHTSA.

Terri Harris, the IRS Motor Vehicle Technical Advisor, and her assistant Laurie Shutter, again held the fort for the IRS. I did check out the IRS literature rack, but it did not have any new *Automotive Alerts*.

Auto dealerships & Section 263A. One of the items mentioned in my report on walking around the 2006 NADA Convention last year was the issue of whether under Section 263A the IRS should be treating dealerships as (1) producers/manufacturers or (2) as retailers/resellers. For in-depth discussions on this, see the September 2006 issue of the *Dealer Tax Watch*.

On this subject, Ms. Harris confirmed two points. **First**, the anticipated GLAM (Generic Legal Advice Memorandum) apparently is progressing on schedule, and it should be released sometime in the spring (of 2007).

Second, the Service will be issuing a separate TAM (Technical Advice Memorandum) that will cover several other Sec. 263A issues. Unlike a GLAM, a TAM is issued to a specific taxpayer. However, under the *Freedom of Information Act*, we will be able to learn what the TAM says once it becomes available to the public several months after issuance by the IRS.

Electronic recordkeeping requirements. Under Revenue Procedure 98-25, if a business incurs an event that disrupts its electronic recordkeeping system, there are formal procedures that taxpayers are required to follow. These include notifying appropriate IRS personnel of a plan to reconstruct records, etc. In this respect, see Section 8 of the Rev. Proc. ... especially Section 8.04.

I mentioned to Ms. Harris that I had not seen any formal announcement by the IRS that would waive, or lessen, these requirements or otherwise provide an official dispensation to the countless businesses whose records were destroyed by Katrina, Wilma, Rita and their ilk.

Ms. Harris indicated that she couldn't recall seeing anything issued by the IRS on this, and said she would look further into this matter. This raises two questions. Have any of you sharp-eyed readers seen something that both of us have missed? What, if anything, have CPAs in these areas been doing about this?

#3. CASH TRANSACTION REPORTING ... SPECIALISTS YOU SHOULD KNOW ABOUT. While walking around the exhibition area, I had an interesting conversation with a first-time exhibitor, Joe Lujan.

Mr. Lujan is a former IRS Special Agent with over 20 years experience with that agency. His primary responsibilities were to conduct investigations and to develop agency projects designed to train and assist the business community identify violations relating to cash transactions and money laundering requirements. He was also instrumental in developing the IRS' training manuals on these subjects.

Mr. Lujan is the President of Cash Transaction Management Services, a firm headquartered in Phoenix. His firm specializes in Form 8300 compliance including on-line Form 8300/AML training and certification. In addition, CTM Services performs compliance audits and establishes corporate compliance programs.

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There's more. CTM offers software for cash transaction reporting requirements and Form 8300 filings, and it has a well-written newsletter entitled "*Catch the Cash*" with the byline "Cash Transaction Knowledge, Tools & Guidance for the Auto Dealer." You might want to contact Mr. Lujan and ask to be added to the mailing list for this newsletter.

CTM's web site is www.ctmservices.net. Additional contact information for Mr. Joseph F. Lujan is jlujan@ctmservices.net, 3030 N. Central Avenue, Suite 1001, Phoenix, Arizona 85012, Tel: (602) 234-9663.

#4. BUY-HERE, PAY-HERE DEALERS. In my visit to the Buy-Here, Pay-Here Conference Booth, my good friend Ken Shilson mentioned a few items that are certainly worth passing along here.

He indicated that franchise automobile dealers continue to show great interest in expanding their present activities to include Buy-Here, Pay-Here operations. Ken said that at a Buy-Here, Pay-Here Conference held in the fall of 2006 in Atlanta, about 60% of the attendees were new car dealers.

Use of the cash method by BHPH dealers is prohibited. As our conversation turned to more technical matters, Ken indicated that there are still "pockets of the country" where individuals preparing and filing tax returns for Buy-Here, Pay-Here dealers still do not know that BHPH dealers cannot use the cash (basis) method for tax reporting.

Buy-Here, Pay-Here dealers are required to use the accrual method of accounting for income tax return purposes. It seems that there are quite a few "practitioners" who are either ignorant of this requirement ... or who are simply unwilling to comply with it. Interestingly, the area of the country that Ken mentioned as providing the basis for his impressions of practitioner compliance was different from the area of the country that I recently had some exposure to on my own in a consulting engagement shortly before attending the Convention.

We can only guess at what is going on elsewhere in the country. Nevertheless, it seems that there are still many Buy-Here, Pay-Here dealers who are having their tax returns prepared by individuals who should know better than to use the cash method in preparing these returns.

Form 1099-C reporting dilemma. Ken also mentioned another area where BHPH dealers and their advisors were encountering conflicting practices. This relates to whether BHPH dealers can legally ... or should, as a matter of good business policy ... continue collection or recovery attempts

with the customer after the dealership has filed IRS Form 1099-C (*Cancellation of Debt*) with respect to that customer's loan balance.

Forms 1099-C are required for cancelled or forgiven indebtedness of \$600 or more. These Forms are required to be filed with the IRS by January 31 (Copy A) and with the debtor by February 28 (Copy B) of the year following the cancellation/forgiveness event.

The answer seems to depend on the nature of the event that triggered the filing of the Form 1099-C in the first place. For more on this, see Ken's article, "The Debt Discharge Reporting Dilemma" on page 7.

#5. PORCs & LISTED TRANSACTIONS. While walking around I happened to cross paths with Greg Petrowski. As we have mentioned previously, Greg is an excellent resource in the area of dealer reinsurance, PORCs and listed transactions. I asked him "what's new" now that the IRS has chilled out over many of the dealer PORC issues that the Service had raised when it was hunting for listed transactions.

Greg said that there have been a number of state issues that have cropped up recently. In addition, he mentioned that the Service continues to look for the usual suspects (also known as ... the more general tax concerns) that dealers with PORCs might have. These include matters involving non-performing loans where dealers borrow money from their PORCs and do not follow a proper repayment schedule. Other than that, quieter is definitely better. "Amen" to that!

#6. UPDATE ON EMERGING ISSUES IMPACTING AUTOMOBILE DEALERS. Last year at the NADA Convention, Myers & Fuller presented its first annual "State of the Industry" seminar. This seminar was summarized in the March 2006 *Dealer Tax Watch* on pages 19-23.

This year, the Firm's second annual "State of the Industry" seminar was presented on Saturday, February 3 at the Venetian. The seminar was entitled *Emerging Issues Impacting Automobile Dealerships*, and the speakers were Richard N. Sox and Shawn D. Mercer, partners in the Firm.

This excellent seminar was similar to ... in the sense that it "updated" ... the presentation that Mr. Sox had made at the AICPA Auto Dealership Conference last fall and which was covered at length in the December, 2006 *Dealer Tax Watch* on pages 24-40.

The seminar contents, at the top of the next page, highlight what was new this year. The discussion of *What Bankruptcy by a Manufacturer Could Mean to Dealers* was not repeated. It was replaced, however, by four new sections... (1) class action lawsuits involving documentary fees, (2) other class action

see WALKING AROUND... AT THE 2007 NADA CONVENTION, page 6



Seminar Topics

New Topics (Discussed Below)	<ul style="list-style-type: none"> • <i>Class Action Lawsuits Involving Documentary Fees</i> • <i>Other Class Action Lawsuits</i> • <i>DMS Provider Actions</i> • <i>Measuring Standards for Sales and CSI</i>
Continuing Topics (For Discussion, See DTW, Dec. 2006)	<ul style="list-style-type: none"> • <i>Incentive Programs & Advertising Groups</i> • <i>Image / Exclusive Facilities Programs</i> • <i>Manufacturer/Factory Audits ... Sales Incentive Programs & Warranty Claims Audits</i> <ul style="list-style-type: none"> ♦ <i>Guide to Manufacturer's Incentive Warranty Audits ... Some Do's & Don'ts</i> • <i>Terminations of Franchises ... Actual & Constructive, and Variations on the Theme</i> • <i>Add Points & Relocations</i> • <i>Chinese Vehicles</i> • <i>Know Your Rights & Get Involved</i>
Deleted	<ul style="list-style-type: none"> • <i>What Bankruptcy (by General Motors or Ford) Could Mean to Dealers</i>

Class Action Lawsuits Involving Documentary Fees

The first portion of the discussion on class action lawsuits dealt with documentary fees and other handling fees that dealerships are charging their customers. Three developments were discussed in this category.

First, there was a recent decision in Arkansas involving a dealer who charged purchasers different (i.e., variable) amounts for documentary fees. In this case, the dealer's action constituted an unfair trade practice and the dealer was held to be engaging in the unauthorized practice of law in connection with preparing the paperwork supporting the documentary fees that customers were being charged. Fortunately for the dealer, no damages were awarded to the plaintiff for transactions that occurred before the judge's order; otherwise there might have been treble damages plus attorney's fees awarded to the plaintiffs.

Second, there was a class action suit over documentary fees filed against all of the dealers in the State of South Carolina. This case was a refund suit for all documentary fees paid within the last four years. At issue was the failure by some dealers to identify documentary fees in their advertising as part of the advertised price of the vehicle.

Third, the speakers discussed the practice by some dealers to bundle together "documentary/administrative/processing fees." If dealers are charging administrative and processing fees, those fees should be labeled as such and they should not be referred to or described as "documentary fees." In this area, dealers were urged to know the applicable state and local statutory requirements so that they can fully comply with them.

In addition, dealers should consider including

- An arbitration provision in every deal that basically provides for alternative dispute resolution if there is disagreement between the customer and the dealer and
- Language to the effect that the customer agrees that he or she will not act as a participant in either a class action or a class arbitration action against the dealer.

It was suggested that this language should be prominently/conspicuously displayed in the contract ... it should not be buried in the small fine print. Finally, it might not be a bad idea for the agreement to allow or permit the customer to choose the arbitration firms that might be involved.



Class Action Lawsuits - Other

This portion of the presentation addressed the significant private and public enforcement activity involving areas other than documentary fees. Product suits involving Etch have included issues of alleged misrepresentation of the product and/or unlawful or unlicensed forms of "insurance." Other instances involving allegations of lender/consumer "fraud" have surfaced as lenders have been named in various suits, some of which have originated as a result of claims that an over-allowance on a trade-in should be considered to be the equivalent of the creation of a false down-payment.

As part of the whole process of helping customers obtain financing, lenders who accept dealer benefits are now being targeted for lawsuits under the theory that these lenders should also be held responsible for improper/illegal dealer actions.

Other comments and observations included ...

- There is significant private and public enforcement activity going on at the present time.
- Full and honest disclosure is the best way to avoid entanglements.
- Dealers should be wary of over allowances, bumping sales prices and other similar practices.
- Proper menu selling supports disclosure and increased sales.
- Routine audit of business practices is essential.

DTW Comment

"Payment Packing in Los Angeles." This is the title of an article by Gregory Arroyo in the February 2007 issue of F & I Management and Technology. The front cover of this magazine is a photo of a southern California dealership with this screaming headline... "Fraud Exposed! How Prosecutors Nabbed Los Angeles Dealerships Napping."

The article begins... "In the last five years, the Los Angeles County District Attorney's Office has been active in curbing the practice of 'payment packing.' Consumer complaints against dealerships are on the decline due to the response of state and local associations, but other concerns exist, officials warn." This article reports in depth on how several large dealerships in southern California recently settled cases that were brought against them by various groups. Although this article was not mentioned in the presentation by Messrs. Sox and Mercer, it is worth your time to read it in its entirety.

DMS Provider Actions ... Especially w/r/t Master Service Agreements

Apparently, action taken by some DMS providers have created situations where dealers have had to resort to litigation. Mentioned in this context were ...

- Reynolds-UCS Merger,
- UCS class action arbitration involving 18 dealers,
- Reynolds actions related to failure of its DMS (Dealer Management System) and back-ups/power supply and
- ADP/Reynolds master agreement provisions.

The basic warning and advice here is that a dealer should know what he/she is agreeing to *before* signing a dealer master service agreement. There are fewer DMS options and the range of charges for UCS server upgrades is ever widening. This range was suggested to be from \$35,000 to \$190,000.

Many problems have been created where there has been a catastrophic loss of data, possibly caused by a freak storm or one of unusual severity which caused the back-up system (if there was one) to fail. Questions include: Who bears the cost of restoring the lost data? What does the master agreement say about the provider's responsibility in these cases? ... Usually, not much that is favorable to the dealer. [See our coverage of the requirements in Rev. Proc. 98-25 for notifying the IRS!]

Hence, the advice by the attorneys is that it is important to read and understand all agreements before they are signed and to explore options and to attempt to negotiate terms before agreements are signed.

Measuring Standards For Sales & CSI

This discussion emphasized that dealers must understand the basis for how they are being measured by the Factory (in terms of sales and territory). They must also understand the "territory" upon which the dealership's sales penetration will be judged. Often, a manufacturer may allege "poor performance" by a dealer when that "poor performance" is impacted by market conditions beyond the dealer's control. In other words, there may be various anomalies in the dealer's market.

This discussion had previously been included in Mr. Sox' discussion under the heading of "Terminations of Franchises - Actual and Constructive." For considerably more discussion on this, see "Allegations of Dealer 'Non-performance'" and "Add Points & Relocations" appearing on pages 34 and 35 of the *Dealer Tax Watch*, December 2006.



lawsuits, (3) DMS provider actions and (4) measuring standards for sales and CSI. For more detail, see pages 4-5.

In closing, Messrs. Sox and Mercer made two recommendations. **First**, dealers should become better acquainted with their rights under state law because these laws vary by state and are intended to protect dealerships from situations where the Factory may attempt to encroach on the dealer's rights by adopting dealer-averse business policies and/or practices.

Second, dealers should be active in their state and local dealer associations. They should continually ask these associations about the extent of the protection dealers have under their state law in the event of potential disputes with either their manufacturers or their customers. This could lead to the Association's working to enact legislation that will more fully protect dealers.

#7. MICROSOFT ENTERS THE PICTURE. Microsoft Corporation was a "first time" exhibitor at NADA this year. Microsoft had announced previously that it would be entering the marketplace to compete with, among others, ADP and Reynolds & Reynolds in offering dealership management systems.

A year ago in Orlando, Microsoft had a much smaller presence at NADA. This year, at its very large booth, information was available concerning its DMS system which is based on Microsoft's Dynamics AX business management software.

A Microsoft representative told me that the Company would initially be targeting only "smaller" dealerships ... apparently, this means dealerships with not more than 3 to 5 locations. Microsoft's program was described as being in "pilot mode" for 2007, with the expectation that it would develop into a full "roll out" mode in 2008. My conversations with several other DMS specialists at the Convention lead me to believe that Microsoft may be somewhat underestimating the amount of time it will take to really get its product ready for market.

Microsoft has aligned itself with several "partners" who will help it to develop specific software applications for its new system. These partners include Crowe Chizek, LLC, Cobalt Group, Dealer Track, Inc., Mannheim and JM Solutions.

#8. TECHNOLOGY... COMPUTERS ...

TECHNOLOGY ... COMPUTERS... Another friend whose booth I always visit is Paul Gillrie of the Paul Gillrie Institute. I've known Paul since he started his consulting business to help dealers reduce their technology expenses some 15 years ago.

The Winter 2007 issue of Paul's *"Journal of Dealership Computing for the Car and Truck Indus-*

BAD ASSUMPTIONS

1. I'm not going to buy a new computer until I get into my new building.
2. I'm in the middle of a buy/sell ... I'll think about computers only after the dust settles.
3. I'm going to wait for Microsoft.
4. I'm going to let my contract go month-to-month.
5. I don't want to check to see if I got a good deal ... I know it's good.
6. My IT people know computers ... I'm going to let them negotiate the deal.
7. I'm sure my deal hasn't changed ... My office checks the bill before we pay it.
8. I know my rep for years ... He always gives me a good deal.
9. I can't [be bothered to] think about my computer [now] ... Business is very soft.
10. I don't have to worry ... My vendor has fixed pricing.

try," includes one article that you ought to read thoroughly ... *"Top Ten Bad Ideas to Avoid in 2007."* This article discusses ten common assumptions that auto dealers usually make about technology decisions and explains why these assumptions should not be made (see above).

You can request a copy of Paul's Winter newsletter by contacting him at 800-576-6959, email: info@paulgillrie.com. He'll be glad to add your name to his mailing list. Tell Paul I sent you!

#9. DEALER CONCERNS. A popular and eagerly-awaited source of information at the Convention each year is the *"NADA Daily."* This is published every day at the Convention by the *Automotive News*.

In past years, each issue of the *Daily* included articles reporting on dealer meetings, concerns and interactions with the manufacturers. These articles included helpful 3-point summaries of the concerns expressed by dealers in their make meetings with their manufacturers.

This year, the *Daily* eliminated these 3-point summaries. Instead, for each manufacturer/make, the *Daily* included interviews, usually with dealers who are members of their Dealer Councils, in which, among other questions, the dealers were asked ... "What's your chief concern for 2007?"

Dealers in 17 of the interviews said it in one word ... **"Profitability."** The best summary of the dealers' answers probably comes from the headlines for these articles, and these may be found on page 40. ❄



For 2006, new IRS regulations were issued requiring creditors to report debt discharges on Form 1099-C after canceling a debt. With a year of reporting under our belts, more questions than answers surround complying. The Buy Here, Pay Here industry which experiences a very high number of repayment defaults is particularly hard pressed to comply because they often pursue recoveries after a charge-off or enter into voluntary repossession agreements.

The dilemma is caused by a legal question which arises on whether recovery activity can legally continue after a Form 1099-C has been issued and filed with the IRS. The answer seems to depend on the event that triggers the filing. Treasury Regulation 26 C.F.R.1.6050P-1 sets forth eight (8) identifiable events - one of which must occur for the creditor to report a debt cancellation on Form 1099-C.

Six (6) of the eight identifiable events completely extinguish the debt and preclude any further recovery action to take place. These six events include debts discharged ...

- In bankruptcy,
- In negotiated settlement,
- By expiration of the statute of limitations,
- Through foreclosure,
- In probate, or
- Via receivership.

After the occurrence of any one of these triggering events, a debt can no longer be collected because it has legally been extinguished.

However, with the occurrence of the other two events, the debtor remains obligated to pay the debt. These events include...

- Situations where the creditor makes a business decision to discontinue collection activity and to discharge the debt, or
- Upon expiration of a 36 month non-payment testing period defined by the Form 1099-C reporting regulations.

If all of this isn't confusing, then you aren't reading carefully enough!

There are even a few court decisions that have examined this issue. These cases have occurred at both the federal and the state levels. It appears from a careful study of these cases that, if a creditor is required to file Form 1099-C, then that creditor should do so and subsequently file an amended 1099-C if the creditor intends to pursue further collection or recovery activity. However, it should be noted that the regulations do not require creditors to file an amended 1099-C.

In states where recovery activities (such as wage garnishments and property liens) aren't permitted, voluntary forbearance agreements are common. In these circumstances, the creditor often agrees not to report a deficiency to the credit bureau in return for the voluntary surrender of the vehicle by the debtor. In this case, reporting a debt discharge via (i.e., by filing) Form 1099-C seems to breach the spirit of this type of agreement.

Given the challenging legal problems associated with issuing 1099-C's, the IRS acknowledges the need for further guidance. The 2007 Instructions state that "no penalty will apply for failure to file Form 1099-C or to provide statements to debtors until further guidance is issued."

It should also be noted that 1099-C debt discharge reporting applies only to debt discharged in non-lending transactions. Therefore, debt discharges of installment contracts originated by a used car dealer for which the contracts were not subsequently sold to a related finance affiliate or to a third-party need not be reported.

In summary, I suggest that creditors consult with their tax advisors to determine when they must report on Form 1099-C and to formulate the best strategy for complying without surrendering their collection rights. From the debtor's perspective, the receipt of a Form 1099-C will likely have adverse tax consequences caused by the need to declare the discharged indebtedness as income in their personal tax returns. For low-income taxpayers, the inclusion of such income may reduce or eliminate refunds from earned income credits or other tax benefits. The old saying "paper tiger" really seems to apply in these circumstances. Good Luck!

Kenneth B. Shilson, CPA, is a Principal in Shilson, Goldberg, Cheung & Associates, LLP, and is President of Subprime Analytics, which performs electronic portfolio analysis. Mr. Shilson is also the founder of the National Alliance of Buy Here Pay Here Dealers (NABPD) which will host its 9th Annual National Buy Here, Pay Here Conference in Las Vegas, Nevada on May 14-16, 2007. For further information, visit the NABPD website at www.bhphinfo.com or call 713-290-8171.



ELECTRONIC RECORDKEEPING REQUIREMENTS

... ARE WE FINALLY GETTING CLOSER TO "FULL" COMPLIANCE?

For about a decade (see the Timeline on pages 10-11), the *Dealer Tax Watch* has been reporting on the concerns expressed by the IRS over the general level of non-compliance by automobile dealers (as a group or industry) with the electronic recordkeeping requirements (ERR) set forth in Revenue Procedure 98-25. These requirements apply to automobile dealerships - and all other taxpayers, as well - with total assets of more than \$10 million.

Principally through presentations given by its Motor Vehicle Technical Advisors at the annual AICPA National Auto Dealership Conferences, the IRS has indicated that its Computer Audit Specialists (CASs) have identified both hardware and software problems when Field Agents have sought their help during audits in attempting to access the electronic records that should have been maintained by dealerships.

Some of the problems that these CASs have been repeatedly encountering include: (1) the failure of dealerships to retain appropriate back-up information, (2) back-up information that cannot be accessed without the specific version of software used to generate the records and access to the dealer's equipment and (3) back-up information that does not contain adequate transactional detail.

In October 2006, at the AICPA National Auto Dealership Conference in Phoenix, Ms. Terri Harris, the current IRS Motor Vehicle Technical Advisor, suggested that the Service is now on a (somewhat) faster track in its efforts to promote a much higher degree of compliance with these requirements by the automotive industry in general.

Ms. Harris referred, in part, to the current "process" which the IRS has recently initiated for working one-on-one with the hardware and software vendors serving the auto dealership industry. She basically described the process as one involving joint meetings and field testing of specific software on a individual vendor-by-vendor basis.

Understandably, Ms. Harris was unable to identify those vendors with whom the IRS has been working, or to go into any specific detail in describing the "process."

However, as reported in the last issue of the *Dealer Tax Watch* (see page 3, Dec. 2006, *DTW*), ADP is one of the vendors with whom the IRS has worked. And it recently completed a rigorous exercise culminating in the successful field testing of enhanced software that it developed for this purpose.

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Mr. Steve Hanusa, Product Manager for ADP, Inc., recently discussed this experience with us in several interviews, and we are pleased to report them in the accompanying article.

It became very evident in our discussions with Mr. Hanusa that ADP was totally committed to seeing the process all the way through to a successful ending. And, it should be added, this "process" stretched over 4 years and required the coordination and involvement of as many as 10 other different ADP specialists.

ADP saw the satisfactory resolution of these ERR issues - the need to "do it right" - as involving a process not limited to only its dealers in the United States, but one that had to be "North American" in scope. Therefore, with the concurrence of the IRS, the scope of the project was expanded to involve representatives of the Canada Revenue Agency (CRA), as well.

Mr. Hanusa described the process of working with the IRS on Rev. Proc. 98-25 compliance issues as being "very collaborative." That process has resulted in letters from both the IRS and the CRA stating that ADP's enhanced software was successfully field tested and complies with their requirements.

The principal focus of this issue of the *Dealer Tax Watch* is on the IRS electronic recordkeeping retention requirements and on how ADP has helped its dealers achieve compliance. Our main article and the ADP materials included are based on interviews with Mr. Hanusa and other information provided by ADP. These provide a useful account of the "process" (referred to, in generalities, by Ms. Harris) of how vendors can work with the IRS on ERR issues.

In describing the actual field testing of ADP's software, we have used our interview with the dealership Controller (Mr. Ron Barker) who also very openly talked about this part of the process with us. We believe Mr. Barker's additional comments, incorporated in the Controller's viewpoint article, are of further interest.

The successful field test demonstrated to the IRS what dealerships are now capable of routinely producing for audit purposes. As a result of this hands-on experience, the Service may be more likely to step up its 98-25 compliance initiatives, especially with respect to automobile dealerships, since it knows it is not asking for anything that is unreasonable or impossible.

One result could be that the IRS' expectations of all dealerships in this regard may now be considerably higher than they were before "the ADP experience." At the same time, we wouldn't be surprised if the IRS' tolerance for non-compliance by dealerships might have become significantly diminished.

Our coverage also looks in depth at the specifics of Revenue Procedure 98-25 and its oft-cited companion, Revenue Procedure 97-22. The latter deals with electronic storage systems that taxpayers may use to maintain their books and records.

We've also summarized and compiled our thoughts in a "Practice Guide" ... *Compliance Considerations and Practice Suggestions Checklist* ... that may be useful to dealerships and their CPAs.

As always, we invite readers and vendors to share their experiences with us, so that we can make our coverage on this important issue as complete and balanced as possible. ❄



1997-2006	Timeline of Electronic Recordkeeping Requirements & Developments Page 1 of 2
1997 Rev. Proc. 97-22	<ul style="list-style-type: none"> • IRS issues Revenue Procedure 97-22. (1997-1 CB 652) • This Revenue Procedure provides guidance for taxpayers who use a electronic storage systems to maintain their books and records by using a system that either... <ul style="list-style-type: none"> ♦ Images their hardcopy (paper) books and records, or ♦ Transfers their computerized books & records to an electronic storage media, such as an optical disk. • Permits the destruction of the original hardcopy books and records and the deletion of original computerized records. <ul style="list-style-type: none"> ♦ However... before any records can be destroyed, the taxpayer must first complete testing of the storage system to establish that books and records can be reproduced.
1998 Rev. Proc. 98-25	<ul style="list-style-type: none"> • IRS issues Revenue Procedure 98-25 (1998-1 CB 689; 1998-11 I.R.B. 7) • This Revenue Procedure provides basic requirements that taxpayers must meet in order to maintain their records on computers. • Electronic records must be retained and contain sufficient transaction level detail. • Must be "capable of being processed." <ul style="list-style-type: none"> ♦ Retrieve, manipulate, print, produce output • If data files are stored in DBMS structure, they must convert to an ASCII/EBCDIC format, or allow IRS to process historical DBMS files on taxpayer's computer equipment. <ul style="list-style-type: none"> ♦ Retained "print" copy may be usable ... however, just retaining print copies is not compliant.
May 1998 October 1998	<ul style="list-style-type: none"> • At several conferences, IRS Motor Vehicle Industry Specialist, Ms. Mary Burke Baker, expresses IRS dissatisfaction with general level of dealership compliance with ERR requirements. <ul style="list-style-type: none"> ♦ <i>De Filippis' Spring CPA-Auto Dealership Niche Conference</i> (May 1998) ♦ <i>1998 AICPA National Auto Dealership Conference</i> (October 1998) • Ms. Baker warns that the IRS is finding that some dealership software programs delete all of the details for a particular month once that current month's information has been input, and rolled over into the next month and summarized. This does not comply with the provisions of Rev. Proc. 98-25.
May 1999 October 1999	<ul style="list-style-type: none"> • A year later, Ms. Baker reports no real progress is being made. <ul style="list-style-type: none"> ♦ <i>De Filippis' Spring CPA-Auto Dealership Niche Conference</i> (May, 1999) ♦ <i>1999 AICPA National Auto Dealership Conference</i> (October 1999) • "Although I would like to say that we've made progress on the general issue of dealer software and whether or not it meets the requirements of our Revenue Procedure 98-25 (as far as the retention of electronic records) ... We have not made any further movement on this ... We have recognized that there are some problems when our computer specialists go out to a dealership, and try to load up the electronic information, they're having a problem accessing that. That is something that I hope that in the next year we will have some more time to focus on."
June 2000	<ul style="list-style-type: none"> • Ms. Terri Harris (IRS Interim Motor Vehicle Technical Advisor) succeeds Ms. Mary Burke Baker (IRS Motor Vehicle Industry Specialist). • New personnel, same continued concern is expressed by IRS over lack of compliance. <ul style="list-style-type: none"> ♦ <i>De Filippis' 3rd Annual CPA-Auto Dealership Niche Conference</i> (June 2000) • Again, the IRS warns that its Computer Audit Specialists (CASs) have identified serious hardware and software problems when attempting to access electronic records maintained by auto dealerships.
July 2000	<ul style="list-style-type: none"> • Special one-day meeting held in Lanham, Maryland in July 2000 to address these problems. <ul style="list-style-type: none"> ♦ <i>IRS Motor Vehicle Technical Advisor Automobile Dealership Industry Working Group Meeting</i> • This meeting is chaired by Ms. Terri Harris, IRS Motor Vehicle Technical Advisor (MVTA). • 19 attendees include representatives from the IRS, NADA, major software vending companies, a few selected dealerships and CPAs (including W. J. De Filippis). • Sharp focus on the problems of non-compliance with Rev. Proc. 98-25 is prevented, in part, by collateral discussions involving the industry-wide problem of all dealerships' inability to maintain accounting records showing actual cost with respect to their inventories of parts and accessories. <ul style="list-style-type: none"> ♦ At this time, the IRS was still enmeshed with the <i>Mountain State Ford Truck Sales</i> case. This would subsequently result in the IRS' recognition that its insistence that dealers use actual cost (rather than permitting them to use replacement cost) for valuing parts inventories was impossible/impractical. <ul style="list-style-type: none"> ▪ Eventually, the IRS conceded this point (despite its winning on this issue in the Tax Court). ▪ IRS issued Rev. Procs. 2002-17 (auto dealers) and 2006-14 (heavy equipment dealers). • A fair summary would be to say that nothing significant materializes from this meeting.



1997-2006	Timeline of Electronic Recordkeeping Requirements & Developments Page 2 of 2
October 2003	<ul style="list-style-type: none"> In summary, Ms. Harris says that the IRS is starting to work with some of the vendors to help them understand what the IRS requires. <ul style="list-style-type: none"> ♦ 2003 AICPA National Auto Dealership Conference (October 2003) Note: This AICPA Conference was held shortly before the first meeting between ADP and the IRS/CRA.
October 2004	<ul style="list-style-type: none"> In her IRS Update presentation, Ms. Harris only briefly mentions Rev. Proc. 98-25 and ERR. <ul style="list-style-type: none"> ♦ AICPA National Auto Dealership Conference (October 2004) She does say that the auto dealer industry is about the only major industry that still is non-compliant with these clear recordkeeping requirements. Note: This AICPA Conference was held shortly <i>after</i> the second meeting between ADP and the IRS/CRA and shortly <i>before</i> the third ADP/IRS meeting.
January 2005	<ul style="list-style-type: none"> The IRS issues <i>Automotive Alert!</i> dated Jan. 12, 2005. <ul style="list-style-type: none"> ♦ This <i>Alert!</i> is entitled "Electronic Records Retention Requirements for Auto Dealerships." In it, the IRS cites factors contributing to dealership industry non-compliance. (See page 14.) This <i>Alert!</i> includes a list of common files necessary for most IRS audits. (See page 23.)
October 2005	<ul style="list-style-type: none"> IRS MVTA Harris announces that the IRS is now trying to work with software vendors on an individual basis. <ul style="list-style-type: none"> ♦ AICPA National Auto Dealership Conference (October 2005) Note: This AICPA Conference was held shortly after the fourth meeting between ADP and the IRS/CRA (June 2005) for the purpose of testing and validation of preliminary enhanced software.
June 2006	<ul style="list-style-type: none"> ADP tests its enhanced software and validates the test dealership's compliance with Rev. Proc. 98-25. <ul style="list-style-type: none"> ♦ This test is in a live test environment at an automobile dealership that is undergoing a current IRS audit. Participants include Terri Harris, other IRS CASs and Canada Revenue Agency representatives. Ultimately, IRS issues compliance letter to dealership. (See page 20.)
October 2006	<ul style="list-style-type: none"> The IRS MVTA, Terri Harris, announces significant progress over the past year in connection with IRS' "new" approach of working with software vendors on an individual basis. <ul style="list-style-type: none"> ♦ AICPA National Auto Dealership Conference (October 2006) Ms. Harris explains that the IRS CAS Specialists are now sitting down with a vendor's code writers in order to explain to them exactly what is required and needed and exactly where the Service believes the system currently is failing (i.e., where it is still not meeting the recordkeeping requirements of Rev. Proc. 98-25). <ul style="list-style-type: none"> ♦ The IRS Specialists will also tell the code writers exactly what they would like to see as "fixes" or corrective measures. ♦ The IRS does not have the authority to tell (i.e., insist that) a software vendor that it must make these changes ... The IRS cannot force the vendors to make their systems comply. <ul style="list-style-type: none"> ▪ However, the IRS can tell the vendors what the IRS would like to see in the way of changes. The IRS cannot disclose which companies have come forward for this assistance. <ul style="list-style-type: none"> ♦ Ms. Harris reports that a few vendors have been working with the IRS on this. Once that reassessment is done, and if the Service finds that the dealership's system is compliant (as a result of these changes), then the IRS will issue the dealership a "records evaluation" letter. <ul style="list-style-type: none"> ♦ This letter from the IRS will not necessarily apply to the entire recordkeeping system, but it will explain the various parameters or conditions within which the IRS has found the dealership's records to be compliant. Although some vendors have indicated that they now have made changes or modifications so that their systems will be compliant with Rev. Proc. 98-25, Ms. Harris indicates that it will be necessary for the Service to test these changes to confirm that, in fact, they are compliant with the Rev. Proc. Ms. Harris says, with greater emphasis than in previous years, that the IRS may be losing patience with non-compliant dealers and that the Service may consider the possibility of assessing penalties for non-compliance in the future.



ADP's SOLUTION FOR THE IRS' ELECTRONIC RECORDKEEPING REQUIREMENTS

CASE STUDY

In early 2003, ADP responded to an inquiry from the IRS Motor Vehicle Technical Advisor, Terri Harris, that resulted in a joint project, involving several 2-3 day meetings. Overall, the project spanned several years and required numerous meetings to complete three distinct phases or stages ... (1) research and product requirements, (2) development and (3) field testing in a live dealership environment.

Ultimately, the project has resulted in ADP's ability to now assure its dealer clients that its software enables dealership compliance with the IRS' electronic recordkeeping requirements found in Revenue Procedure 98-25. Now, over 75% of ADP's clients have loaded (i.e., are using) the software enhancement that ADP developed as a result of working with the IRS on this project.

From the start, ADP decided to be proactive in working with the IRS in this regard. In addition, it believed that it would be advisable to include the Canada Revenue Agency (CRA) at the same time so that all of ADP's dealers in North America would benefit from the solutions that would eventually be reached.

Over the course of the meetings, three representatives of the IRS were involved. Two IRS Computer Audit Specialists (CASSs) - Robert Hammel and Ken Szymanski were involved as the more direct participants because their day-to-day responsibilities with the IRS include their direct interaction or intervention in dealership audit situations. Ms. Harris was also involved in more of an overall advisory and industry relations representative capacity. The Canada Revenue Agency was represented by Mr. Peter Brush, Regional Electronic Commerce Audit Advisor.

The activities of ADP's representatives were coordinated by Steve Hanusa (Product Manager). Other key ADP personnel involved in the project included Mike Shaw (Software Development Manager), Chris Hoyt (Project Lead), Dave Cannard (Software Analyst) and Joe Di Paola (Software Engineer), as well as at least 5 or 6 other ADP specialists.

1st MEETING ... November 2003

The first meeting was held on Nov. 17, 2003 at the ADP office in Portland, Oregon. The reason for meeting at that location was because almost everyone involved from ADP was from that location.

According to Steve Hanusa, everyone agreed that good communication and identification of the proper requirements was critical to the success of the project. Therefore, the agenda for the first meeting was more focused on having the IRS educate the ADP participants about the electronic recordkeeping requirements (ERR) and how the IRS interpreted them. The IRS also discussed some of the problems in this regard that its Examining Agents were encountering in actual dealership audit situations.

Finally, the IRS also covered how its electronic audit software works and what that software required from any given dealership's electronic accounting system in order to work smoothly in an audit situation.

It was important for ADP to learn this information so that it could better focus afterward on (to quote Steve Hanusa), "what we're trying to accomplish and what requirements we need to meet."

In other words, the first step for ADP was to know what the U.S. and the Canadian authorities required. They also needed to know what steps IRS and CRA Agents were trying to follow in conducting an electronic audit. These educational presentations at the first meeting set the stage for what ADP would have to try to develop and deliver in the way of its final software enhancement.

2nd MEETING ... September 2004

After the first meeting, the ADP representatives needed some time to reflect and digest what they learned at the November 2003 meeting. Time was also needed to do some research based on that information. About 10 months later, the next meeting occurred.

The next meeting in Portland was a 2-day session on September 22-23, 2004. The focus of the second meeting was the determination of the product requirements and a review of file structures. The objective here was to take the software enhancements (that ADP was anticipating it would develop) to the field level in order to identify the exact data that the IRS and CRA would need to touch/access during the audit process. This data would have to include all appropriate files and data elements.

ADP wanted to be sure that its software enhancements and output would be tailored exactly to the needs of the IRS and the CRA. There was another important consideration... namely that ADP's soft-

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<i>Timeline</i>	<i>ADP - IRS & CRA ACTIVITIES TIMELINE</i>
<i>Nov. 17, 2003</i>	<ul style="list-style-type: none"> • First meeting (ADP Offices, Portland, Ore.) involves ADP, IRS and Canada Revenue Agency (CRA). • Reviews Rev. Proc. 98-25 requirements and IRS/CRA electronic audit processes.
<i>Sept. 22-23, 2004</i>	<ul style="list-style-type: none"> • Second meeting (ADP Offices, Portland, Ore.) • Determines ideal product (software enhancement) specifications and requirements.
<i>Nov. 22, 2004</i>	<ul style="list-style-type: none"> • Conference call • Results in approval (i.e., confirmation of mutual understanding) of product specifications, etc.
<i>June 14-15, 2005</i>	<ul style="list-style-type: none"> • Third meeting (ADP Offices, Portland, Ore.) • Tests and validates that preliminary program (run with test/dummy data) meets agreed upon specifications and requirements.
<i>Aug. 16, 2005</i>	<ul style="list-style-type: none"> • ADP notifies its dealership clients of upcoming ERR compliance enhancements to software.
<i>"Hiatus"</i>	<ul style="list-style-type: none"> • ADP needs an auto dealership to volunteer for on-site (live) testing ... easier said than done. • Because of taxpayer confidentiality issues and concerns, the IRS was not able to suggest a dealership under audit for test purposes. • But, a volunteer dealership comes forth.
<i>June 21-23, 2006</i>	<ul style="list-style-type: none"> • Fourth meeting (on site ... Penn. dealership) ... IRS/CRA representatives all in attendance. • Live environment (field) testing of ADP software enhancement using real dealership data. • Result: Testing deemed successful by all parties.
<i>Aug. 10, 2006</i>	<ul style="list-style-type: none"> • ADP Release Bulletin - General Ledger/Accounting Utility Compliance - GL981/AC981 (Nov. 2006)
<i>Nov. 29, 2006</i>	<ul style="list-style-type: none"> • IRS issues "compliance letter" to dealership at which field testing was successfully conducted. • This appears to be the only such letter (to date) issued by the IRS to any dealership in the country!
<i>Feb. 12, 2007</i>	<ul style="list-style-type: none"> • Canada Revenue Agency issues a broader, more generic "compliance letter" to ADP.
<i>March 2007</i>	<ul style="list-style-type: none"> • Over 75% of ADP's dealership clients have loaded its new enhanced software. • This release captures over 95% of all of the data required by the IRS/CRA. • This enhancement is included at no charge, as part of ADP's software package.

ADP's Solution

ware enhancements should not produce data that was extraneous or unnecessary to meet the IRS/CRA requirements.

Mr. Hanusa indicated that this phase or stage of the process involved an intense mapping of necessary data over that 2-day meeting in Portland. He said that all of the time expended in this regard ultimately turned out to be well worth the effort. This was clearly borne out in the live field testing, as the dealership Controller would confirm. (For his comments, see pages 18-19.)

One of the areas discussed at the second meeting involved timing considerations. This included over what period of time the IRS required the data to be supplied. It also included the frequency and interval of the data with respect to the dealership's taxable year-end. ADP recognized that it would be important to include a control to prevent controllers from having an option to save less than 12-months' worth of data. In the end, ADP gave no option in this regard, and there is an automatic default to saving 12-months' worth of data.

Format requirements were also discussed. In what format did the IRS/CRA want the dealership to

(Continued)

save the data? The answer to this was that the data should be compressed and in ASCII format.

Specifically, the data has to be in a medium that the IRS/CRS will be able to use without any further modification. The data has to be downloadable and savable so that it can be imported into the IRS' database/audit software. (IRS is using *Microsoft Access* and Canada is using *Idea* for this process.)

With the information in this format, the IRS is able to run the data through its own audit program which, after mining the data, will indicate or "pop up" exceptions and/or areas that the IRS would then flag and further investigate.

Obviously, this capability should provide considerable time savings for the IRS/CRA because their software would find the problems, and it would not have to rely on personnel to review the detail workpapers and reports to find the problems.

A major consideration from ADP's standpoint involved issues that could arise as dealerships upgraded their systems over time. Particularly, ADP focused on how to prevent archived data from becoming "lost" when the dealership changes computer

see **ADP's SOLUTION**, page 16

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Factors Contributing to Dealership Non-Compliance

*[Source: IRS Motor Vehicle Technical Advisor Automotive Alert! January 12, 2005
 Revenue Procedure 98-25 Electronic Records Retention Requirements for Auto Dealerships, Page 1]*

This Rev. Proc. is not limited to automobile dealerships; it applies to any taxpayer with assets of \$10 million or more.

- For purposes of the \$10 million asset test, a controlled group of corporations as defined in Section 1563 is considered to be one corporation, and all assets of all members of the group are aggregated.
- Presumably, the gauge for this \$10 million cutoff is the amount shown as total assets at the end of the year on the balance sheet (Schedule L) of the income tax return filed for that year.

Historically, there are at least six reasons why dealerships lag far behind other industry groups in complying with the electronic recordkeeping retention (ERR) requirements of Revenue Procedure 98-25.

- ♦ Dealerships have a limited number of hardware and software vendors from which to choose.
- ♦ The transfer of data from one vendor's product to another is difficult or impossible.
- ♦ Information systems are typically relatively small and do not store information from prior cycles.
- ♦ Back-up tapes might be made but typically are not retained for an extended period.
- ♦ If back-up information is available, it generally cannot be loaded back onto the dealer's system without removal of the current activity.
- ♦ Information systems contain proprietary software that usually cannot be accessed by an IRS Computer Audit Specialist (CAS).

Requirements

Even though automobile dealerships generally utilize computer systems that must meet the manufacturers' requirements and that are designed specifically for their businesses, ***"in many cases, the systems do not meet the requirements imposed by Rev. Proc. 98-25."*** (Emphasis added.)

With respect to the maintenance of electronic records, the requirements are that these records ...

- Are capable of being processed
- Can be retrieved, manipulated and printed
- Contain sufficient transaction level detail

In addition, during the course of an IRS audit examination, taxpayers must provide, as necessary, resources to process record including hardware, software, terminal access, computer time and personnel.

Common files necessary for an IRS audit

For a typical Information Document Request (IDR) issued by the IRS in early 2005, see page 22.

IRS Computer Audit Specialists have developed a list of common files necessary for most IRS audits. This list is included as the second page of the IRS *Automotive Alert!*, and it is reproduced on page 23.

Three Serious Deficiencies Commonly Found in Dealerships

[Source: IRS Update presentation at the De Filippis' 3rd Annual CPA-Auto Dealership Niche Conference ... June 2000]

Three hardware and software problems have been identified as being serious by IRS Computer Audit Specialists when they have attempted to access electronic records maintained by auto dealerships.

- ♦ No retention of back-up information.
- ♦ Retained back-up information cannot be accessed without the specific version of the software used to generate the records and access to the dealer's equipment.
- ♦ Retained back-up information does not contain adequate transaction level detail.



Some Observations & Words of "Advice" from the MTA

[Source: IRS Update presentation at the 2006 ACPA National Auto Dealership Conference ... October 26, 2006]

Compliance is the dealership's obligation ... it is the dealer's responsibility to comply

- In some instances, dealers not currently in compliance might be able to reach that level if they are willing to spend the additional money to purchase whatever "add-ons" may be available to the current system.
- To the extent a dealer can achieve compliance by spending more money or training personnel, that becomes a decision the dealer has to make.

Some vendors have indicated that they now have made changes or modifications so that their systems will be compliant with Rev. Proc. 98-25. It will be necessary for the Service to test these changes to determine whether these changes result in dealership compliance with the Rev. Proc.

CPAs can and should become more involved in this area by questioning the vendors, if the dealers have not already done so.

Questions CPAs and/or dealers should ask the vendor

- Have you recently met or engaged in a process or a series of meetings with the IRS?
- Have you developed your products so that the dealership using them will be in compliance with the electronic recordkeeping retention requirements of Rev. Proc. 98-25?
- Is the data stored in an unalterable format?
 - Note: The IRS requires that archived data must be in an unalterable format.
- Will the IRS be able to use ASCII / EBCDIC print reports versus the taxpayers' DBMS data files?
 - Note: The IRS cannot convert .pdf files.

Measures available to the IRS to combat non-compliance with Rev. Proc. 98-25

Inadequate records notice. Because of the variations between different vendors automatic data processing systems, the IRS may issue an "inadequate records" notice to the taxpayer. According to Ms. Harris, if the IRS issues such a notice, it is "pretty much a guarantee that the IRS will be back." (See Section 12 of Rev. Proc. 98-25.)

Threat of penalties. On several occasions in her update presentations, Ms. Harris has stated that the Service may possibly seek to assess penalties for non-compliance with Rev. Proc. 98-25.

- These penalties could include those under Section 6662(a) ... accuracy-related civil penalty and Section 7203 ... willful failure criminal penalty.
- The possibility of imposing penalties is not a new point. However, in 2006, Ms. Harris stated it more emphatically than she has in previous years' presentations.

Current & Quotable re: IRS Interaction with Vendors

Recently (late March 2007), Ms. Harris made the following comments, which we have her permission to reprint.

"As you know, the Service cannot directly comment on the individual vendors that we have worked with in this process. I would say that all of the vendors that we have been in contact with have been accommodating and interested in opening the lines of communication with the IRS. In some situations, our contacts have been limited. However, we have found some vendors to be extremely cooperative. They have worked diligently and frequently with our computer specialists to ensure that their system allows customers to be compliant with the dealership's electronic recordkeeping requirements.

"While compliance with recordkeeping requirements remains the responsibility of the dealership, we appreciate the cooperation of the vendors and look forward to continuing those relationships that we have established."



systems (i.e., for example, in changing from ADP's 9200 to 9400 DMS). It is important for the data to be transferred smoothly and accurately. (With the enhancements ultimately developed, many dealers now have the ability - as a secondary safeguard - to download the data to a CD and keep it at an off-site storage facility.)

3rd MEETING ... November 2004

The next overall interaction involved a conference call, rather than a physical meeting. On November 22, 2004, ADP and the IRS/CRA confirmed their mutual understandings of the requirements that the software enhancements to be developed by ADP would have to satisfy.

This call confirmed that if ADP's software could provide the agreed upon data in the agreed upon format, then dealerships using that software should be in compliance with the electronic recordkeeping requirements of Rev. Proc. 98-25.

Thus ended the first phase involving research and the development of the enhanced product requirements.

4th MEETING ... June 2005

On June 14-15, 2005, the task force of IRS/CRA and ADP personnel again met in Portland with the objective of testing the preliminary software enhancements and validating that it satisfied the previously agreed-upon requirements. As Mr. Hanusa colorfully quipped, "It was time to see if the dog would hunt." ... And, indeed, it did.

At this meeting, ADP's preliminary enhanced program was run using test data. This testing validated that ADP's program output met the specifications and requirements that all participants had agreed upon.

Shortly after this favorable result, ADP notified its dealers that it was now very close to a final solution for compliance with Rev. Proc. 98-25. In an August, 2005 announcement, it said, "ADP is excited to share details about the great new enhancements available in the upcoming software release for users of ADP's 9200 and 9300 Dealer Management Systems (DMS). ... and in the upcoming w.e.b.Suite™ software release for users of ADP's 9400 and 9500 Dealer Management Systems." (See page 38 for these announcements.)

CLEARING THE HURDLE ... FINDING A "VOLUNTEER"

After running the enhanced program in a test environment for the IRS/CRA, the next logical step

was to see if the program would work in a live dealership situation. In this regard, although the IRS was as anxious as ADP to put the software to this more practical test, the IRS was bound by "taxpayer confidentiality" which prevented it from identifying any specific dealership as a test site for this purpose.

Quite unexpectedly, the problem of finding a volunteer suddenly became a major hurdle, and time passed by.

But other circumstances (also unforeseen by any of the participants) came into play. It so happened that in Pennsylvania, the Controller of a six-dealership group was undergoing an IRS audit, and he had been laboring considerably in trying to provide the IRS with all of the data it was requesting. He had spent about a week manually compiling all of the necessary data and files for the IRS.

Out of frustration, the Controller called his ADP representative to ask if there was any way ADP could provide some help. To oversimplify, ultimately, once the ADP rep involved Steve Hanusa, the conversations went something like this ... ADP: "We're looking for a volunteer to test our software enhancement to show the IRS compliance with Rev. Proc. 98-25." Controller: "We're willing to be that volunteer."

Finally, by mid-June 2006, ADP had completed all of its own testing and development, and it was eagerly looking forward to a field test in a live dealership environment.

FIELD TEST ... June 2006 ... from the Controller's Point of View

On June 21-23, 2006, representatives from the IRS, the CRA and ADP all met at the volunteer dealership in Pennsylvania. The dealership Controller involved in this test was very generous and willing to talk about this live test experience.

All test participants crowded around the conference table adjacent to the Controller's office. The Controller recalled, "I never saw so many laptops on a table in my life." ADP walked in and did their routine to load the software enhancement ... it was a simple routine. The test consisted of using dealership data as of an interim 2006 date cut-off.

After the program was up and the feature was run, the system put the data in a .zip file on the Controller's desktop. He then transferred it to a CD burner, burned it to CD, and handed the IRS and CRA representatives a copy for their own use. Within 30 minutes, they all said ... "this is everything." They then compared the output to hard copies/workpaper copies and found no exceptions.

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According to the Controller, ADP's enhanced software was ... **"absolutely flawless ... to the penny."** The equivalent of all the data that it had taken the Controller a week to prepare without the enhanced software during the current IRS audit ... "ADP's new software assembled in less than 15 minutes."

The Controller added that during the field test, he could tell how well-planned the software was ... it ran so smoothly. He said that every concern or question that either he or the IRS had was answered by the file that was output. He said it was obvious to him that ADP had tried to anticipate and plan for every possible situation and that the IRS/CRA representatives were very pleased with the outcome.

It should be noted that ADP's software enhancement that was field tested was not the final issuance of ADP's software ... but this seems to be a mere technicality.

The Controller is very proud that his dealership has received the first letter that the IRS has ever issued to any dealership stating that it is in compliance with Rev. Proc. 98-25. (Additional recollections and comments from our interview with the Controller are on pages 18-19.)

IRS FOLLOW-UP

Ultimately, the IRS sent the test dealership a letter confirming what to a layperson would be considered a "successful" field test. The IRS letter acknowledges that the files produced by the ADP enhancements tested comply with the requirements of Section 5.01 of Revenue Procedure 98-25, namely that the records must be "capable of being processed," and contain sufficient transaction level detail so the information and the source documents underlying the machine sensible records can be identified. Additional compliance with Section 5.02(1) is also included.

The IRS letter to the dealership is dated November 29, 2006. With the permission of the recipient dealership, a copy (with the Appendix referring to specific ASCII files) appears on page 20. We have deleted the dealership name and other identifying information from the letter.

It would appear that this letter from the IRS, or some close variant of it, would be the type of letter that a dealership might expect to receive if it were to successfully undergo an electronic audit.

For its participation in the overall process, ADP was expecting to receive a letter directly from the IRS acknowledging ADP's cooperation and the satisfactory level of performance of the software enhancements that it had developed. To date, ADP has not received a letter from the IRS of this nature addressing the compliance aspects of its enhanced software with the requirements of Revenue Procedure 98-25.

CRA FOLLOW-UP

The Canada Revenue Agency, on the other hand, has been more direct with ADP. It has issued a letter, dated February 17, 2007, directly to ADP in which it acknowledges its satisfaction with ADP's software enhancements. A copy of this letter from the CRA appears on page 21.

ADP FOLLOW-UP

The overall process to jointly resolve issues and needs arising in connection with electronic recordkeeping requirements began in 2003 and, to a somewhat lesser extent, is still continuing today. Nevertheless, it appears that all of the really heavy lifting on this project has been done ... at least for ADP.

Shortly after the successful field test, ADP rolled out its enhanced software release in August 2006. To date, approximately 75% of ADP's dealership clients have loaded the release and are using it. It would seem that if a dealer is using the ADP software enhancements, that use should *enable* the dealership to be compliant with IRS requirements.

In reflecting on the process from ADP's point of view, Mr. Hanusa said that both the IRS and the CRA were excellent to work with once they saw how firmly ADP was behind the process and recognized its intentions and commitment to quality. Overall, Mr. Hanusa described it to be a "very collaborative" process.

ADP is committed to seeing that its dealers are properly educated in the use of these new software enhancements, and it is currently working to this end with follow-up letters to its dealership clients and accountant relationships including CPAs and Chartered Accountants.

In this latter respect, the CPAs servicing dealerships can provide very useful assistance to their dealer clients and to the IRS by considering some of the suggestions on pages 24-25. ❄



The Controller of the volunteer dealership at which ADP's enhanced software was tested has been working with ADP since the early 1980s. He has had close involvement with a regional ADP User Group (western Penn./eastern Ohio) for many years, serving several terms as the Group's President. During this time, several Group members experienced IRS audits that involved electronic recordkeeping compliance issues, and these experiences were candidly shared by the Group members.

The Controller also gained significant industry experience operating his own consulting company for over a dozen years, during which time he worked with multi-store dealerships, helping them with office consolidation and in streamlining expenses and accounting functions.

Based on this experience, the Controller estimated that at least half of the dealers he knew would be "clueless" if they came under a compliance audit that involved electronic recordkeeping issues. He went so far as to say that most dealerships of which he has knowledge are "ill prepared" for a compliance audit because most dealers believe, "If this is something that will be a compliance issue, my vendor (i.e., ADP or whomever) will come up with something."

The Controller's dealership had been selected by the IRS for a "routine" audit involving 2004. And, at that time, the IRS was beginning to enforce Rev. Proc. 98-25 more closely, especially insisting that taxpayers provide their data in a format that the IRS could easily import into its own system and then read, manipulate and/or otherwise use. The Controller acknowledged that in previous audits, he had been able to satisfy IRS Agents by simply providing them with journals and year-end schedules.

However, during the 2004 audit, the IRS was requiring much more of the dealership. This time around, the IRS Computer Audit Specialists were calling the shots, telling the dealership what files should be produced for the Examining Agents. They wanted to be able to see 12 months' worth of data through the IRS' own software. In other words, for the entire year, the IRS wanted to be able to *download into its own system* every dealership transaction to the penny.

The Controller had to manually compile all of the necessary data (by copying, cutting and pasting data and reports into WordPad, which the IRS could then use in its own system). The Controller completed the laborious task in about a week's time. (Considering that this Controller is probably more computer-literate than the average dealership controller, imagine how much longer it might have taken other less computer-savvy controllers to do the job!)

In reflecting on the overall time spent and his effort in the process, the Controller decided to call his ADP representative to see if there was a way to expedite this data retrieval process through ADP's DMS software. He felt that this should have already been a feature of the ADP software that his dealership was currently using.

In their discussion, the representative informed him that ADP was getting ready to provide a new enhancement to its software to this end, and put the Controller in contact with Steve Hanusa. In talking with Mr. Hanusa, the Controller learned of ADP's need to field test the enhanced software for the IRS in a live dealership environment, particularly in a dealership that was already under audit. At this point, the Controller volunteered his dealership to be the test dealership for ADP's enhanced software.

The Controller said that the field test made clear how well-planned and researched the enhancement was ... that "it all ran so smoothly." He noted that the data that the enhanced software exported reflected the presence of controls and secondary controls which provided considerable explanation. Both the IRS and the CRA representatives seemed to appreciate this.



FURTHER THOUGHTS & OBSERVATIONS
From the Controller of the Volunteer Dealership

According to the Controller, every concern or question that the IRS/CRA could come up with was answered by the file that was output during the test.

The Controller estimated that if ADP's enhanced software been available to him at the start of the IRS audit, it would have "knocked about 8 weeks off the total audit time."

Everyone had scheduled 3 days for the field test at the dealership. In fact, they finished more than a half-a-day early. The Controller said the testing was so successful and the participants were so satisfied with the results, that "they all wanted earlier flights home." He said that it seemed as if the IRS/CRA representatives were "as impressed with the software as I was."

The Controller described the field test experience as making him feel as if he "watched the IRS jump into the computer age... that (he) got to witness the birth of their computer era." He said it was like seeing the IRS "taking baby steps" to get information the dealer can get easily. His final comment on the experience was, "I could see the glee on their [i.e., the IRS/CRS representatives] faces."

The Controller pointed out that ADP's enhanced software provides many benefits to the IRS, and not just to its dealer users. The field test showed that it works very easily within the IRS' system, which saves time and requires less personnel. Its output level also makes "audits by remote" more possible. What this successful field test also has done, in the Controller's opinion, is heighten the expectations of the IRS ... "Dealerships should now be looking for more IRS insistence on compliance with [Rev. Proc.] 98-25."

The Controller's overall opinion was that "ADP did a great job" with this enhancement. He said that "ADP really thought of everything ... of every scenario, and they engineered all of these possibilities into the enhancement which makes it easy to use and not dependent on just one computer person at a dealership. The software is smart enough to take care of business on its own until it's told what to run when it's needed."

The Controller pointed out that it's not a problem if a dealership doesn't have a person who is computer-savvy who handles the data system. He said that "the greatest part" is the fact that with this enhanced software, "you don't need a computer expert ... the computer (i.e., ADP's enhanced software) is smart enough, so you don't have to be."

He continued that if "someone" doesn't remember to run the capture process at year-end, there's no problem ... ADP has thought of it ... so it will run automatically. He noted that "the software will keep the data on the system until someone runs it," that "it knows what (data) you export and don't," and that "you don't have to do anything until you are ready to export it." When the 12th month is closed, the program will automatically build the file for the user, and he pointed out that the user can build a file starting from any month (i.e., one can easily run the data for a mid-year ending). All of these features lessen the dependence of the dealership on any one employee.

In closing our interview, the Controller said that he especially appreciated that the software enhancement is part of ADP's standard accounting package. ADP did not opt to provide this enhancement at additional cost to its users, which it easily could have. He interpreted this, along with his prior experience with the company, to mean that ADP is more interested in supplying useful features to their existing dealers than in making a quick dollar.





LARGE AND MID-SIZE
BUSINESS DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

November 29, 2006

Attn: Mr. Ron Barker, Controller

Dear Mr. Barker,

Representatives from our Computer Audit Specialist Group 1793 recently evaluated the upgrades and revisions to your financial accounting system at

Specifically, we tested the 9200/9300 DMS system release, dated July 2006, for the AC981 hardware computer which was developed and engineered by ADP, Inc.

The testing consisted of reviewing the ASCII data files produced by the system and then converting the data into a format useable by the Internal Revenue Service. A listing of the files tested is in Appendix A. The files produced by the 9200/9300 DMS system release dated July 2006, comply with the requirements of Section 5.01 and 5.02(1) of Revenue Procedure 98-25. Specifically, the requirement that the records are "capable of being processed", and contain sufficient transaction level detail so the information and the source documents underlying the machine sensible records can be identified. In addition, the files created by the DBMS system are considered to be the type of files referenced in Section 5.02(1) of the Revenue Procedure.

If you have any questions regarding this matter, please contact Computer Audit Specialist Robert J. Hammel, Badge # 12-10995 at 313-850-8797 or write to him at 38275 West 12 Mile Rd. Farmington Hills, MI 48331-3042, Att: C.Read\Hammel, Team 1793.

Sincerely,

Jerry Benchich
Computer Audit Specialist
Team Manager - 1793

Attachments
Appendix A
Copy of Rev. Proc. 98-25

[From second page of IRS letter ...]

APPENDIX A

Listing of ASCII files

ASCII File Names

AUDIT-HEADER
GL_TRANS
GL_TRANS_VEH_BAL
GL_ACCT_LDGR
GL_JRNL_SETUP
GL_COA
CAR_INV
NAME_FILE
GL_VALID
GL_DEPT

ASCII FILE NAMES & DESCRIPTIONS (Provided by ADP)

- **AUDIT-HEADER** ... This is the Audit Data Header Record that contains dealership name & address, and fiscal year end date.
- **GL_TRANS** ... This is the file of all posted documents in the accounting system for a particular fiscal year.
- **GL_TRANS_VEH_BAL** ... This file provides the posting detail for vehicle transactions that span the fiscal year; such as a vehicle that was added to inventory in FY2004 and sold in FY2005, in order to provide a complete transaction record for the vehicle.
- **GL_ACCT_LDGR** ... Stores general ledger account balances (summarizes journal postings by company, account and month) by fiscal year.
- **GL_JRNL_SETUP** ... Defines a set of journals for each company. Each item defines the characteristics of a single journal that is used to record financial transactions.
- **GL_COA** ... Stores static chart of accounts information including Schedules data.
- **CAR_INV** ... The Car Inventory file contains vehicle information, including make model, sale date, etc.
- **NAME_FILE** ... The file contains customer and vendor information, including name, address, Federal ID number, etc.
- **GL_VALID** ... Stores validation types and codes for the chart of accounts.
- **GL_DEPT** ... Department codes and descriptions (i.e. 01 = New Vehicle).





Canada Revenue
Agency

Agence du revenu
du Canada

ADP Dealer Services
1950 Hassell Road
Hoffman Estates, IL 60195
USA

Your file Votre référence

Our file Notre référence

Attn: Mr. Steve Hanusa, Product Manager

Date: February 12, 2007

Re: General Ledger/Accounting Utility Compliance – GL981/AC981

The Canada Revenue Agency (CRA) acknowledges the cooperation received from ADP Dealer Services during the redesign of its automobile dealership software.

In the past, CRA auditors encountered some difficulties when requesting electronic records from taxpayers using ADP Dealer Services software. This was attributable to limitations of earlier versions of its software making it difficult for its clients to comply with the requirements of the Acts administered by the CRA.

As these difficulties were brought to their attention, CRA officials were pleased to see ADP Dealer Services launch an initiative to redesign its software for the North American market. A representative of CRA worked directly with ADP Dealer Services staff to identify the changes necessary to make it easier for its clients to fully comply with our legislation. These joint efforts have resulted in ADP Dealer Services upgrading its software to include a new application, General Ledger/Accounting Utility Compliance – GL981/AC981, that addresses the previous problems.

The output produced by the new version of the software has been tested at a dealer site and it has been found to retain and reproduce records that meet CRA requirements.

The Canada Revenue Agency appreciates the cooperation received from ADP Dealer Services in creating this newly released software application.

Sincerely,

Mark Richer
Director, Electronic Commerce Compliance Division
Audit Professional Services Directorate
Compliance Programs Branch
Canada Revenue Agency

TF690 E (06)

Canada



Form 4564

Department of the Treasury
Internal Revenue Service
Information Document Request

Request Number

To:

Subject:

Machine sensible records

Submitted to:

Mr.

Dates of Previous Requests:

Description of Documents Requested:

Please provide copies of the following machine sensible files for the tax year ended December 31, 2003 for _____ and qualified subchapter S subsidiaries.

1. General Ledger year to date detail transaction file. This file will include all journal entries for the fiscal period identified and will tie into the general ledger. Fields to be included in the file should be general ledger account number, journal entry date, journal entry number, period charged, description of journal entry, and dollar amount of journal entry. Any other fields required to request source data for journal entries should also be included in the file. An acceptable alternative to this file is a print (report) file in machine sensible format.
2. Accounts Payable Distribution File. This file will include all charges to accounts payable. Fields to be included should be general ledger account number, date (period) posted, invoice date, vendor number, vendor name, and dollar amount charged to accounts payable. Any other fields required to request source data for accounts payable should also be included in the file. An acceptable alternative to this file is a print (report) file in machine sensible format.
3. Chart of Accounts File. Fields to be included in the file should be general ledger account number and account description. An acceptable alternative to this file is a print (report) file in machine sensible format.
4. General Ledger Master File – if the opening balances for the balance sheet accounts are not available as part of either 1 or 3 above, please provide this information.
5. General Ledger trial balance in order to reconcile the general ledger detail computerized files being supplied with the beginning balances to the final book figures from the trial balance.
6. Vendor Master File. Fields to be included in the file should be vendor number and vendor name. This file is necessary only if the vendor name is not part of the accounts payable distribution file. An acceptable alternative to this file is a print (report) file in machine sensible format.

Please provide a record layout for each file that will include a field description, length of field, type of field, and a brief description of what the field is. A record layout will not be necessary if the file(s) provided are report files with column headers as part of the report.

The files may be provided on nine track tape, 3480/3490/3490e IBM compatible cartridge, 3½" diskette, CD, DVD, Jaz disk, or Zip disk. Each file must be a flat, sequential file either in ASCII or EBCDIC in a non-backup, non-compressed format. If on disk, files may be compressed using Winzip. Tapes should have 6250 BPI and a maximum blocking factor of 32,000.

Please identify all systems, which directly interface with the GL and whether or not postings are in summary or in detail sufficient to obtain source documents. Also, identify those systems which do not directly interface with the GL and method used to post from such systems.

Please provide the name and telephone number of a MIS contact person who is familiar with the files provided. If there is any question regarding the information requested in this document request, please contact me at the number listed below.

Information Due By

4/11/05

At Next Appointment



Mail In



Name and Title of Requestor

Date:

FROM

Computer Audit Specialist Badge #

March 24, 2005

Office Location:

Phone: Voice

FAX

Page 2 of 2

Form 4564

Photocopying or Reprinting Without Permission Is Prohibited



A Quarterly Update of Essential Tax Information for Dealers and Their CPAs

22 March 2007

De Filippis' DEALER TAX WATCH, Vol. 14, No. 1

	Generic Listing of Computer Files Necessary for Most IRS Examinations
Types of Files:	<p>Although not all-inclusive, the following list indicates files most used by an IRS Computer Audit Specialist.</p> <ul style="list-style-type: none"> Files are in a sequential/ fixed-length, or delimited, or print file, record format--ASCII. Documentation would include the file layouts outlining: <ul style="list-style-type: none"> Field names and description; Data formats (character, text, numeric, packed decimal, etc.); Length of each field; Total record length. Each file retained on magnetic media should have a label that contains file name, record length, and number of records.
General Ledger Master File	<ul style="list-style-type: none"> Contains the complete General Ledger Account number, Account Name Description, and Prior 12-month Debit or Credit Ending GL Balances.
General Ledger Transaction File	<ul style="list-style-type: none"> Contains the complete 12 month (including post-closing entries) detail journal voucher transactions. Fields that may be contained in this file would be: <ul style="list-style-type: none"> General Ledger Account Number; Corp. Number; Plant Number; Journal Reference Number; General Ledger Account Name Description; Transaction/posted date(s) in a MM/DD/YYYY format (Y2K compliant date fields); JV Number, JV Description, Posted JV Debit/Credit Amounts. There must be enough information contained in this file for IRS examiners to request specific JV source documents. This file may also contain detail accounts payable entries. If so, a Vendor Number, Vendor Name, and Invoice Number should be included.
Accounts Payable Distribution File	<ul style="list-style-type: none"> Contains the complete 12-month booked detail postings of accounts payable transactions. Data formats same as GL or other files. Fields contained in this file would be: <ul style="list-style-type: none"> General Ledger Account Number; Plant Number and Corp. Number; Transaction/Posted Date(s) in Y2K compliant format; Invoice Number; Vendor Number and Name; Transaction Amount. Accounts payable payment file There must be enough information contained in this file to pull invoice source documents.
Vendor Master File	Contains the Vendor Number, Vendor Name, and Vendor Full Address.
LIFO/Inventory Files	<ul style="list-style-type: none"> In general, the records should contain inventory-costing information necessary to calculate the LIFO index.
Miscellaneous	<ul style="list-style-type: none"> Files that may be necessary to administer other IRS provisions including: <ul style="list-style-type: none"> W-2 and 1099 files; Fixed Asset Files; Excise Tax Files; Corp Tax or Fast Tax Files Any other records pertinent to the examination.



<i>Practice Guide</i>	<i>Electronic Recordkeeping Requirements & Rev. Proc. 98-25 Compliance Considerations & Practice Suggestions Checklist</i>	Page 1 of 2 Yes, No, Comments
<i>Basic Questions & Background Information</i>	<ul style="list-style-type: none"> • Who is the current DMS provider for the dealership? <ul style="list-style-type: none"> ♦ When did the current contract start? ♦ What versions of the software and equipment are being used? ♦ Has a needs assessment been completed? ♦ When do the current contracts/leases expire? ♦ If the expiration dates are less than 18 months away, if the dealer believes changes need to be made, has he/she begun the process of evaluating alternatives to the current provider? <ul style="list-style-type: none"> ▪ If so, what activity has occurred to date? ▪ Are there problems looming that should be addressed immediately? • Is the data stored in an unalterable format? <ul style="list-style-type: none"> ♦ Note: The IRS requires that archived data must be in an unalterable format. • Has the dealership ever changed DMS providers? <ul style="list-style-type: none"> ♦ If so, how long ago was the change made? ♦ What were the circumstances? ♦ Which dealership employees at that time were responsible for the coordination with the new provider in terms of installation and set-up? ♦ How much training time did these dealership employees receive at that time? ♦ Are the employees who received that training still employed by the dealership? <ul style="list-style-type: none"> ▪ If not, who has replaced them? • Is the dealer a member of a 20 Group or a vendor user group? <ul style="list-style-type: none"> ♦ If so, ask him/her to survey the other members of the group to see how they are complying with the ERR requirements and whether their software providers have enhanced their software for this purpose. 	
<i>Dealership Employee (Controller) Responsibilities</i>	<ul style="list-style-type: none"> • Is the controller or some other individual in the dealership responsible for regularly saving the data necessary for compliance with Rev. Proc. 98-25? <ul style="list-style-type: none"> ♦ Is the dealership dependent on one individual for this purpose? <ul style="list-style-type: none"> ▪ If so, whom? ♦ Does the vendor's software remove the dealership's dependence on one individual? • Where and how is the data being saved? Provide details. • Is there a secondary or off-site storage? Provide details. 	
<i>Dealerships Who Are ADP Customers</i>	<ul style="list-style-type: none"> • If the dealership is using ADP, have you followed up to see if ADP's software enhancements for R.P. 98-25 compliance are being used properly? <ul style="list-style-type: none"> ♦ Has the software been loaded, and is it properly executing all of the necessary protocols? <ul style="list-style-type: none"> ▪ ADP estimates that over 75% of its dealers have loaded the software release. That means that 25% of the dealerships have not. ▪ Into which category does your dealership client fall? • Have you discussed the benefits of ASP (Application Service Provider) Managed Services with the dealership? ... If not, why not? 	
<i>Dealerships Who Are Not ADP Customers</i>	<ul style="list-style-type: none"> • Has the vendor that the dealership is using recently met one-on-one with the IRS to determine whether its software will enable the dealership to comply with the electronic recordkeeping requirements of Rev. Proc. 98-25? <ul style="list-style-type: none"> ♦ If so, when? ♦ Who was involved in the process? ♦ Did this process involve a field test in a actual dealership? <ul style="list-style-type: none"> ▪ If so, what were the results and how can you independently confirm this? ♦ What written evidence or documentation exists to confirm this? • <i>Alternatively</i>, if the IRS audits that dealership, it is advisable to immediately determine whether its software vendor has had any interaction with the IRS regarding the compliance of its software output with Rev. Proc. 98-25. <ul style="list-style-type: none"> ♦ Call IRS computer audit specialist (Ron Hammel), and ask him to explain these requirements to the examining agent. 	



Practice Guide	<i>Electronic Recordkeeping Requirements & Rev. Proc. 98-25 Compliance Considerations & Practice Suggestions Checklist</i>	Page 2 of 2 Yes, No, Comments
<p><i>"Notification" Events</i></p> <p>...</p> <p><i>Previous Dealership Events that Could Affect ERR Compliance</i></p>	<ul style="list-style-type: none"> • Have you read Section 8 (Notification) of Rev. Proc. 98-25? • <i>Computer/System crashes.</i> Any time a dealer's computer system crashes and all, or much, of the accounting data is lost or compromised, compliance with Rev. Proc. 98-25 and Rev. Proc. 97-22 should be ascertained. <ul style="list-style-type: none"> ♦ If data has been lost, appropriate and reasonable steps are required to be taken to comply. ♦ Has such an event ever occurred? Provide details. • <i>Hurricanes, tornadoes and other disasters.</i> Has the dealership been affected by Katrina, Wilma or any other natural disasters? <ul style="list-style-type: none"> ♦ If so, when and where does it stand in terms of these notification requirements? • <i>Vendor changes.</i> Whenever a dealer changes computer vendors and/or systems, continuity of the records and journals and continuing compliance with Rev. Proc. 98-25 and with Rev. Proc. 97-22 must be maintained. <ul style="list-style-type: none"> ♦ Has there been a change in vendors within the past 5 years? If so, provide details. ♦ See "Update on Emerging Issues Impacting Automobile Dealerships," Item #3 ... <i>DMS Provider Actions</i> ... on page 5 of this issue of the <i>DTW</i>. • <i>Employee dishonesty and/or major defalcations.</i> Occasionally, key employees in dealerships commit fraud on their employers, and in so doing, they significantly corrupt financial records that might otherwise make their detection easier. <ul style="list-style-type: none"> ♦ Has there been such an occurrence within the past 5 years? If so, provide details. 	
<p><i>Dealer Responsibilities</i></p> <p>...</p> <p><i>Basic Considerations to Be Reviewed with the Dealer</i></p>	<ul style="list-style-type: none"> • The dealer has the sole responsibility for compliance with the requirements of Rev. Proc. 98-25. Nothing can change this fact. • It is up to the dealer to take the initiative and to ask his/her software provider whether that provider has tested its software for compliance of its output with the requirements of Rev. Proc. 98-25. • The IRS cannot work with data if that data is simply in a .pdf file format. • In the event of an audit by the IRS, will the dealership be able to <ul style="list-style-type: none"> ♦ Provide the IRS auditors with terminal time? ♦ Assist the IRS in record extraction activities? <ul style="list-style-type: none"> ▪ Which individual(s) would the dealer designate for this purpose? ▪ How long has that individual been employed by the dealership? ▪ Would that individual's experience and responsibilities, to date, enable him/her to satisfactorily work with the IRS and the dealership's DMS? ▪ Note: If the dealer expects its CPA to do this, this may not suffice. 	
<p><i>Engagement Letter Considerations & Tax Practice Responsibilities</i></p>	<ul style="list-style-type: none"> • Have you specifically discussed the requirements of Rev. Proc. 98-25 with the dealer and with the controller of the dealership? • Have you reviewed the notification events (above) with the dealer? • Have you discussed the penalty provisions in the Rev. Proc. with the dealer? • What was the date of these discussions? • Have you incorporated (or referred to) these discussions in your engagement letter? <ul style="list-style-type: none"> ♦ Is the dealer's awareness acknowledged by his/her signature on the engagement letter? ♦ <i>Recommendation.</i> In the engagement letter, consider using a separate section entitled "<i>Compliance with Electronic Recordkeeping Requirements.</i>" • If a dealer is audited by the IRS and found to be significantly at risk due to non-compliance with these electronic recordkeeping requirements, could the CPA firm have expanded liability for failing to advise the dealer of this non-compliance? <ul style="list-style-type: none"> ♦ Has the engagement letter been reviewed to see what, if anything, it says about this either affirmatively or negatively? • Overall, what are your comfort levels with the dealership's compliance with ... <ul style="list-style-type: none"> ♦ The requirements of Rev. Proc. 98-25 for electronic recordkeeping requirements? ♦ The requirements of Rev. Proc. 97-22 for electronic storage systems for books and records? 	



Revenue Procedure 98-25
Electronic Recordkeeping Requirements

Summary

- This Revenue Procedure specifies the basic requirements that the IRS considers to be essential in cases where a taxpayer's records are maintained within an Automatic Data Processing (ADP) system.
- These requirements are applicable to all Internal Revenue Code provisions that have unique or specific recordkeeping requirements.
- Citation: 1998-1 C.B. 689
 - ♦ Rev. Proc. 98-25 supersedes Rev. Proc. 91-59 (its predecessor).
- Key sections ... At a glance ...
 - ♦ Sec. 3 ... Scope ... \$10 million in assets and threshold determination
 - ♦ Sec. 6 ... Documentation
 - ♦ Sec. 7 ... Resources, including no restrictions on IRS access to data
 - ♦ Sec. 8 ... Notification
 - ♦ Sec. 10.2 ... Records evaluation
 - ♦ Sec. 12 ... Penalties

Contents

- *Sec. 1 ... Purpose* See summary above
- *Sec. 2 ... Background* Page 1 of 7
- *Sec. 3 ... Scope* Page 2 of 7
- *Sec. 4 ... Definitions* Page 2 of 7
- *Sec. 5 ... Retaining Machine-Sensible Records* Page 3 of 7
- *Sec. 6 ... Documentation* Page 4 of 7
- *Sec. 7 ... Resources* Page 4 of 7
- *Sec. 8 ... Notification* Page 5 of 7
- *Sec. 9 ... Maintenance* Page 6 of 7
- *Sec. 10 ... IRS Authority - Record Retention Limitation Agreements* Page 6 of 7
- *Sec. 10 ... IRS Authority - Records Evaluation & Testing* Page 7 of 7
- *Sec. 11 ... Hardcopy Records* Page 7 of 7
- *Sec. 12 ... Penalties* Page 7 of 7
- *Sec. 13 ... Effect on Other Documents* Omitted
- *Sec. 14 ... Effective Date* ... Taxable years beginning after Dec. 31, 1997
- *Sec. 15 ... IRS Office Contact* Omitted
- *Sec. 16 ... Paperwork Reduction Act* Omitted

Section 2.
Background
 ...
Sec. 6001
Requirements

- Every person liable for any tax imposed by the Code, or for the collection thereof, must keep such records, render such statements, make such returns, and comply with such rules and Regulations as the Secretary may from time to time prescribe.
- Whenever necessary, the Secretary may require any person, by notice served upon that person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not that person is liable for tax.
- Persons subject to income tax, or required to file a return of information with respect to income, must keep such books or records, including inventories, as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown in any return of such tax or information.
- These books or records required by Section 6001 must be kept available at all times for inspection by authorized IRS employees.
- These books and records must be retained so long as the contents thereof may become material in the administration of any internal revenue law.
- All machine-sensible data media used for recording, consolidating, and summarizing accounting transactions and records within a taxpayer's ADP system are "records" and are required to be retained so long as the contents may become material in the administration of any Internal Revenue law. (Rev. Rul. 71-20, 1971-1 C.B. 392)



Revenue Procedure 98-25
Electronic Recordkeeping Requirements

<p>Section 3.01</p> <p><i>Scope</i> ... <i>Records</i></p>	<ul style="list-style-type: none"> • The requirements pertain to all matters including, but not limited to, income, excise and employment taxes. These requirements also apply to employee plans and to exempt organizations. • The requirements are applicable to any sections of the Code that have unique or specific recordkeeping requirements. <ul style="list-style-type: none"> ♦ For example, machine-sensible records maintained by the taxpayer to meet the requirements of Section 274(d) relating to the substantiation of the amount, time, place, and business purpose of a business expense must also meet the requirements of this Revenue Procedure. • All requirements that apply to hardcopy books and records apply as well to machine-sensible books and records that are maintained within an ADP system unless otherwise provided in this Revenue Procedure.
<p>Section 3.02</p> <p><i>Scope</i> ... <i>Taxpayers Affected</i></p>	<ul style="list-style-type: none"> • Taxpayers with \$10 million or more in assets. A taxpayer with assets of \$10 million or more at the end of its taxable year must comply with the record retention requirements of Rev. Rul. 71-20 and the provisions of this Revenue Procedure. <ul style="list-style-type: none"> ♦ A controlled group of corporations, as defined in Section 1563, is considered to be one corporation and all assets of all members of the group are aggregated. • Taxpayers with under \$10 million in assets must also comply if any of the following conditions exist. <ul style="list-style-type: none"> ♦ All or part of the information required by Section 6001 is <u>not</u> in the taxpayer's hardcopy books and records, but is available in machine-sensible records, ♦ Machine-sensible records were used for computations that cannot be reasonably verified or recomputed without using a computer (e.g., Last-In, First-Out (LIFO) inventories), or ♦ The taxpayer is notified by the IRS that machine-sensible records must be retained. • Use of service bureaus. A taxpayer's use of a third-party (such as a service bureau, time-sharing service, value-added network, or other third-party service) to provide services (e.g., custodial or management services) in respect of machine-sensible records does not relieve the taxpayer of its recordkeeping obligations and responsibilities under Section 6001 and this Revenue Procedure.
<p>Section 4.</p> <p><i>Definitions</i></p>	<ul style="list-style-type: none"> • An "ADP system" consists of an accounting and/or financial system (and subsystems) that processes all or part of a taxpayer's transactions, records, or data by other than manual methods. <ul style="list-style-type: none"> ♦ An ADP system includes, but is not limited to, <ul style="list-style-type: none"> ▪ A mainframe computer system, ▪ Stand-alone or networked microcomputer system, ▪ Data Base Management System (DBMS), and ▪ A system that uses or incorporates Electronic Data Interchange (EDI) technology or an electronic storage system. • "Capable of being processed" means the ability to retrieve, manipulate, print on paper (hardcopy), and produce output on electronic media. <ul style="list-style-type: none"> ♦ This term does not encompass any requirement that the program or system that created the computer data be available to process the data unless that program or system is necessary to... <ul style="list-style-type: none"> ▪ A tax-related computation (e.g., LIFO inventories ...), or ▪ The retrieval of data (e.g., some data base systems processes where the taxpayer chooses not to create a sequential extract). • A "DBMS" is a software system that creates, controls, relates, retrieves, and provides accessibility to data stored in a data base. • "EDI technology" ... the computer-to-computer exchange of business information. • "Electronic storage system" ... a system used to prepare, record, transfer, index, store, preserve, retrieve, and reproduce books and records by either: <ul style="list-style-type: none"> ♦ Electronically imaging hardcopy documents to an electronic storage media, or ♦ Transferring computerized books and records to an electronic storage media using a technique such as "COLD" (computer output to laser disk), which allows books and records to be viewed or reproduced without the use of the original program. ♦ See Rev. Proc. 97-22 for electronic storage system requirements. • "Machine-sensible record" ... Data in an electronic format that is intended for use by a computer. <ul style="list-style-type: none"> ♦ Machine-sensible records do not include paper records or paper records that have been converted to an electronic storage medium such as microfilm, microfiche, optical disk or laser disk.



Section 5.

**Retaining
Machine-
Sensible
Records**

...
General

- The taxpayer must retain machine-sensible records so long as their contents may become material to the administration of the internal revenue laws.
 - ♦ At a minimum, this materiality continues until the expiration of the period of limitation for assessment, including extensions, for each tax year.
- In certain situations, records should be kept for a longer period of time.
 - ♦ For example, records that pertain to fixed assets, losses and LIFO inventories should be kept for longer periods of time.
- The taxpayer's machine-sensible records must provide sufficient information to support and verify entries made on the taxpayer's return and to determine the correct tax liability.
- The taxpayer's machine-sensible records will meet this requirement only if they reconcile with the taxpayer's books and the taxpayer's return.
- A taxpayer establishes this reconciliation by demonstrating the relationship (i.e., audit trail):
 - ♦ Between the total of the amounts in the taxpayer's machine-sensible records by account and the account totals in the taxpayer's books, and
 - ♦ Between the total of the amounts in the taxpayer's machine-sensible records by account and the taxpayer's return.
- ***The taxpayer must ensure that its machine-sensible records contain sufficient transaction-level detail so that the information and the source documents underlying the machine-sensible records can be identified.***
- All machine-sensible records required to be retained by this Revenue Procedure must be made available to the Service upon request and must be capable of being processed.
- A taxpayer is not required to create any machine-sensible record other than that created either in the ordinary course of its business or to establish entries on its tax returns.
 - ♦ ***Example.*** A taxpayer who does not create, in the ordinary course of its business, the electronic equivalent of a traditional paper document (such as an invoice) is not required by this Revenue Procedure to construct such a record. (However, for requirements relating to hardcopy records, see Section 11 of this Revenue Procedure.)
- Exceptions are discussed with respect to DBMS and EDI technology. [See below.]
- A taxpayer's disposition of a subsidiary company does not relieve the taxpayer of its responsibilities under this Revenue Procedure to retain all appropriate books and records.
 - ♦ The files and documentation retained for the Service by, or for, a disposed subsidiary must be retained as otherwise required by this Revenue Procedure.

Section 5.

**Retaining
Machine-
Sensible
Records**

...
**DBMS
&
EDI
Technology**

- A taxpayer has the discretion to create files solely for the use of the Service.
 - ♦ ***Example.*** A taxpayer that uses a DBMS may satisfy the provisions of this Revenue Procedure by creating and retaining a sequential file that contains the transaction-level detail from the DBMS and otherwise meets the ERR requirements.
 - ♦ A taxpayer that creates a file as described above must document the process that created the sequential file in order to establish the relationship between the file created and the original DBMS records.
- A taxpayer that uses EDI technology must retain machine-sensible records that alone, or in combination with any other records (e.g., underlying contracts, price lists, and price changes), contain all the information that Section 6001 requires of hardcopy books and records.
 - ♦ ***Example.*** A taxpayer that uses EDI technology receives electronic invoices from its suppliers. The taxpayer decides to retain the invoice data from completed and verified EDI transactions in its accounts payable system rather than retain the incoming EDI transactions. Neither the EDI transactions, nor the accounts payable system, contain product descriptions or vendor names. To satisfy the requirements of Section 6001, the taxpayer must supplement its EDI records with product code description lists and a vendor master file.
- A taxpayer may capture the required detail for an EDI transaction at any level within its accounting system. However, the taxpayer must establish audit trails between
 - ♦ The retained records and the taxpayer's books, and
 - ♦ The retained records and the tax returns.
- Additional guidance concerning hardcopy requirements related to EDI transactions is in Sec. 11.02.



Section 6.
Documentation

- The taxpayer must maintain and make available to the IRS upon request documentation of the business processes that ...
 - ♦ Create the retained records,
 - ♦ Modify and maintain its records,
 - ♦ Satisfy the requirements of
 - Sufficient transaction level detail and
 - Book-to-tax return reconciliations to support and verify entries made on the taxpayer's return and to determine the correct tax liability, and
 - ♦ Evidence the authenticity and integrity of the taxpayer's records.
- The documentation described above must be sufficiently detailed to identify ...
 - ♦ The functions being performed as they relate to the flow of data through the system,
 - ♦ The internal controls used to ensure accurate and reliable processing,
 - ♦ The internal controls used to prevent the unauthorized addition, alteration, or deletion of retained records, and
 - ♦ The charts of accounts and detailed account descriptions.
- For each file that is retained, the taxpayer must maintain, and make available to the IRS upon request, documentation of ...
 - ♦ Record formats or layouts,
 - ♦ Field definitions (including the meaning of all "codes" used to represent information),
 - ♦ File descriptions (e.g., data set names),
 - ♦ Evidence that the retained records reconcile to the taxpayer's books, and
 - ♦ Evidence that the retained records reconcile to the taxpayer's tax returns.
- Where there is a partial loss of data, the taxpayer must maintain evidence that periodic checks (as described in detail in the Revenue Procedure) of the retained records were performed.
- The system documentation must include a record of any changes to all of the items above and the dates these changes are implemented.

Section 7.
Resources
 ...
In the
Event
of an
IRS Audit

- At the time of an examination/audit by the IRS, the taxpayer must provide the IRS with resources that are necessary for the IRS to process the taxpayer's machine-sensible books and records.
 - ♦ These "resources" include, but are not limited to ...
 - Appropriate hardware and software,
 - Terminal access,
 - Computer time, and
 - Personnel.
- **Possible limited relief.** At the request of the taxpayer, the IRS may, at its discretion:
 - ♦ Identify the taxpayer's resources that are not necessary to process books and records,
 - ♦ Allow a taxpayer to convert machine-sensible records to a different medium (e.g., from mainframe files to microcomputer diskette(s)),
 - ♦ Allow the taxpayer to satisfy the processing needs of the Service during off-peak hours, and
 - ♦ Allow the taxpayer to provide the Service with third-party equipment.
- **No limitations may be place on IRS access to electronic records.** An ADP system must not be subject, in whole or in part, to any agreement (such as a contract or license) that would limit or restrict the Service's access to and use of the ADP system on the taxpayer's premises (or any other place where the ADP system is maintained),
 - ♦ This means that there can be no limitations on IRS access to
 - Personnel,
 - Hardware,
 - Software,
 - Files,
 - Indexes, and
 - Software documentation.



Section 8.
Notification
 ...
In General

- **General situations requiring the taxpayer to notify the IRS.** The taxpayer must promptly notify the IRS/District Director if any machine-sensible records are
 - ♦ Lost, stolen, destroyed, damaged, or otherwise no longer “capable of being processed,” or
 - ♦ Found to be incomplete or materially inaccurate (affected records).
 - ♦ A limited exception is made for “partial” loss of data. [See Section 9.]
- **Contents of Notice.** The taxpayer’s notice to the IRS must ...
 - ♦ Identify the affected records and
 - ♦ Include a plan that describes how, and in what timeframe, the taxpayer proposes to replace or restore the affected records in a way that assures that they will be capable of being processed.
 - ♦ The plan must demonstrate that all of the ERR requirements will continue to be met with respect to the affected records.
- The IRS will notify the taxpayer of any objection(s) to the taxpayer’s plan.
- **Possible limited relief.** A IRS may consider, whenever warranted by the facts and circumstances, the possibility of requiring less than a total restoration of missing data.

Section 8.
Notification
 ...
Two
Examples

- **Example #1: Situations where taxpayer is not required to notify the IRS.**
 - ♦ Taxpayer A replaces its general ledger software system with a new general ledger software system with which the original system’s records are incompatible.
 - ♦ However, A’s original records are retrievable and capable of being processed on A’s hardware system.
 - ♦ A is not required to notify the IRS of the change in its software system because A’s records remain capable of being processed.
- **Example #2: Situations where taxpayer is required to notify the IRS.**
 - ♦ Taxpayer B replaces its original ADP hardware system with a new system that cannot process the machine-sensible records created and maintained by B’s original system.
 - ♦ B must notify the IRS of this hardware system change and propose a plan for assuring that the machine-sensible records created and maintained by the original ADP hardware system are capable of being processed.
 - ♦ To that end, B considers the following options:
 - Having all records in the taxpayer’s original system immediately reformatted so that the new system can retrieve and process those records,
 - Having all records in its original system reformatted by a designated future date, or
 - Having an arrangement with a third party to process all records in its original system on a compatible system.
 - ♦ Any of these options may be acceptable provided the option selected enables the taxpayer to meet the requirements of this Revenue Procedure with respect to those records.
 - ♦ The taxpayer must be able to demonstrate that any third-party reformatting or processing is done with the quality controls in place that will ensure the continued integrity, accuracy and reliability of the taxpayer’s records.

DTW
Comment
 “Notification”
 Events
 ...
 Previous
 Dealership
 Events that
 Could Affect
 98-25
 Compliance

- **Computer/System crashes.** Any time a dealer’s computer system crashes and all, or much, of the accounting data is lost or compromised, compliance with these notification requirements must be considered.
 - ♦ If data has been lost, appropriate and reasonable steps are required to be taken to comply.
- **Hurricanes, tornadoes and other disasters.** Any dealership that has been affected by Katrina, Wilma or any other natural disasters must consider the impact of these notification requirements.
 - ♦ In these circumstances, might the IRS provide affected taxpayer with significant relief?
- **Vendor changes.** Whenever a dealer changes computer vendors and/or systems, continuity of the records and journals and continuing compliance with Rev. Proc. 98-25 and with Rev. Proc. 97-22 must be maintained. ...See Example #2 above, where the taxpayer is required to notify the IRS and submit its plan for an appropriate remedy.
 - ♦ See “Update on Emerging Issues Impacting Automobile Dealerships,” Item #3 ... *DMS Provider Actions* ... on page 5 of this issue of the *DTW*.
- **Employee dishonesty and/or major defalcations.** It is not uncommon for key employees in dealerships to commit fraud on their employers, and in the course of doing so, to significantly corrupt financial records that might otherwise make their detection easier.
 - ♦ If data has been lost, destroyed or corrupted, notification requirements should be considered.



ERR	<p style="text-align: center;">Revenue Procedure 98-25 Electronic Recordkeeping Requirements</p> <p style="text-align: right;">Page 6 of 7</p>
<p style="text-align: center;">Section 9. Maintenance ... Recommended Practices & Partial Loss of Data</p>	<ul style="list-style-type: none"> • The implementation of records management practices is a business decision that is solely within the discretion of the taxpayer. • Recommended records management practices include <ul style="list-style-type: none"> ♦ The labeling of records, ♦ Providing a secure storage environment, ♦ Creating back-up copies, ♦ Selecting an offsite storage location, and ♦ Testing to confirm records integrity. • One example of a records management resource that a taxpayer may choose to consult when formulating its records management practices is the National Archives and Record Administration's (NARA) Standards for the Creation, Use, Preservation, and Disposition of Electronic Records, 36 C.F.R., Ch XII, Part 1234, Subpart C (1996). <ul style="list-style-type: none"> ♦ In part, this requires an annual reading of a statistical sampling of magnetic computer tape reels to identify any loss of data and to discover and correct the causes of data loss. ♦ Although this NARA sampling standard is specifically for magnetic computer tape, the IRS recommends that all retained machine-sensible records be sampled and tested as described in the NARA standard. • Partial Loss of Data. A taxpayer that loses only a portion of the data from a particular storage unit will not be subject to the penalties under this Revenue Procedure if the taxpayer can demonstrate to the satisfaction of the IRS/District Director that the taxpayer's data maintenance practices conform with the NARA sampling standard. <ul style="list-style-type: none"> ♦ However, the taxpayer still remains responsible for substantiating the information on its income tax return.
<p style="text-align: center;">Section 10.01 ... Record Retention Limitation Agreements (RRLAs)</p>	<ul style="list-style-type: none"> • A taxpayer who maintains machine-sensible records may request to enter into a Record Retention Limitation Agreement (RRLA) with the IRS/District Director. This agreement provides for the establishment and maintenance of records as agreed upon by the District Director/IRS and the taxpayer. • The taxpayer's request must identify and describe those records the taxpayer proposes not to retain and explain why those records will not become material to the administration of any internal revenue law. • The IRS will notify the taxpayer whether or not the it is willing to enter into an RRLA. • In an RRLA, the IRS may waive all or any of the specific requirements in R.P. 98-25. <ul style="list-style-type: none"> ♦ A taxpayer remains subject to all the requirements in this Revenue Procedure that are not specifically modified or waived by an RRLA. • Limitations. <ul style="list-style-type: none"> ♦ An RRLA shall not apply to accounting and tax systems added subsequent to the completion of the record evaluation upon which the agreement is based unless an RRLA otherwise specifies. <ul style="list-style-type: none"> ▪ All machine-sensible records produced by a subsequently added accounting and tax system, the contents of which may be or may become material in the administration of the Code must be retained by the taxpayer signing the RRLA until a new evaluation is conducted by the IRS. ♦ An RRLA does not apply to a subsidiary acquired subsequent to the completion of the record evaluation upon which the RRLA is based unless an RRLA specifies otherwise. <ul style="list-style-type: none"> ▪ All machine-sensible records produced by the acquired subsidiary, the contents of which may be or may become material in the administration of the Code must be retained pursuant to this Revenue Procedure and any pre-acquisition RRLA ("former RRLA") that applies to the acquired subsidiary. ▪ The former RRLA applies to the acquired subsidiary until the IRS either revokes the former RRLA (in whole or in part) or enters into a new RRLA that applies to the acquired subsidiary. ♦ Upon the disposition of a subsidiary, the files being retained for the Service pursuant to an RRLA by, or for, the disposed subsidiary must be retained by the taxpayer until a new evaluation is conducted by the IRS. • The IRS' decision to revoke an RRLA, or not to enter into an RRLA, does not relieve the taxpayer of its recordkeeping obligations under Section 6001 or its responsibilities described in R.P. 98-25.



<p>Section 10.02</p> <p>...</p> <p>IRS</p> <p>"Records Evaluation"</p>	<ul style="list-style-type: none"> • The IRS/District Director may conduct a records evaluation at any time it deems it appropriate to review the taxpayer's record retention practices, including the taxpayer's relevant data processing and accounting systems. (Section 10.02(1)) • This records evaluation is not an "examination," "investigation" or "inspection" of the books and records within the meaning of Section 7605(b) of the Code, or a "prior audit" for other purposes because this records evaluation is not directly related to the determination of the tax liability of a taxpayer for a particular taxable period. It is not considered to be an "exam," "audit," etc. • The IRS will inform the taxpayer of the results of a records evaluation.
<p>Section 10.03</p> <p>...</p> <p>IRS</p> <p>"Records Testing"</p>	<ul style="list-style-type: none"> • The IRS may periodically initiate tests to establish the authenticity, readability, completeness, and integrity of a taxpayer's machine-sensible records retained in conformity with this Revenue Procedure. • These tests may include a review of integrated systems such as EDI or an electronic storage system, and a review of the internal controls and security procedures associated with the creation and maintenance of the taxpayer's records. • These tests are not an "examination," "investigation" or "inspection" of the books and records within the meaning of Section 7605(b) of the Code, or a "prior audit" for other purposes because these tests are not directly related to the determination of the tax liability of a taxpayer for a particular taxable period. • The IRS/District Director will inform the taxpayer of the results of these tests.
<p>Section 11.</p> <p>Hardcopy Records</p> <p>...</p> <p>When Required & When Not Required</p>	<ul style="list-style-type: none"> • These ERR provisions do not relieve taxpayers of their responsibility to retain hardcopy records that are created or received in the ordinary course of business. • Hardcopy records may be retained in microfiche or microfilm format in conformity with Rev. Proc. 81-46, 1981-2 C.B. 621. • Hardcopy records may also be retained in an electronic storage system in conformity with Rev. Proc. 97-22. • These records are not a substitute for the machine-sensible records required to be retained by this Revenue Procedure. • A taxpayer does not need to create or retain hardcopy records if ... <ul style="list-style-type: none"> ♦ The hardcopy records are merely computer printouts created only for validation, control, or other temporary purposes, ♦ The hardcopy records are not produced in the ordinary course of transacting business (as may be the case when utilizing EDI technology), or ♦ All the details relating to the transaction are subsequently received by the taxpayer in an EDI transaction and are retained as machine-sensible records by the taxpayer in conformity with this Revenue Procedure. <ul style="list-style-type: none"> ▪ Example. A taxpayer need not retain credit card receipts generated at the time of a transaction if all pertinent information on the receipts is subsequently received in an EDI transaction and retained as a machine-sensible record. • A taxpayer does not need to create hardcopy printouts of its machine-sensible records unless the taxpayer is requested to do so by the Service. • The Service may request such hardcopy printouts either at the time of an examination or in conjunction with the periodic testing prescribed for above.
<p>Section 12.</p> <p>Penalties</p>	<ul style="list-style-type: none"> • The IRS/District Director may issue a Notice of Inadequate Records pursuant to Reg. Sec. 1.6001-1(d) if a taxpayer fails to comply with this Revenue Procedure. <ul style="list-style-type: none"> ♦ This includes a failure by the taxpayer to satisfy the resource requirements of Section 7 of this Revenue Procedure. • A taxpayer's failure to comply with the requirements of this Revenue Procedure may also result in the imposition of penalties including ... <ul style="list-style-type: none"> ♦ Section 6662(a) accuracy-related civil penalty, and ♦ Section 7203 willful failure criminal penalty.
<p>Sections Omitted</p>	<ul style="list-style-type: none"> • Sec. 13 ... Effect on Other Documents • Sec. 14 ... Effective Date ... Taxable years beginning after Dec. 31, 1997 • Sec. 15 ... IRS Office Contact • Sec. 16 ... Paperwork Reduction Act



Rev. Rul. 71-20	<i>Machine Sensible Tax Records ... All Machine Sensible Data Media Constitute "Records" under Section 6001</i>
<i>Facts</i>	<ul style="list-style-type: none"> • In the typical situation the taxpayer maintains records within his automatic data processing (ADP) system. • Daily transactions are recorded on punched cards and processed by the taxpayer's computer which prints daily listings and accumulates the individual transaction records for a month's business on magnetic tapes. • At the month's end the tapes are used to print out monthly journals, registers, and subsidiary ledgers and to prepare account summary totals entered on punched cards. <ul style="list-style-type: none"> ♦ The summary data from these cards is posted to the general ledger and a monthly printout is generated to reflect opening balances, summary total postings, and closing balances. • At the year's end several closing ledger runs are made to record adjusting entries. • In other situations taxpayers use punched cards, disks, or other machine-sensible data media to store accounting information.
<i>Holdings</i>	<ul style="list-style-type: none"> • Punched cards, magnetic tapes, disks and other machine-sensible data media used in the automatic data processing system (for recording, consolidating and summarizing accounting transactions) constitute records within the meaning of Section 6001 of the Code and the Regulations thereunder. • As such, they are required to be retained so long as their contents may become material in the administration of any internal revenue law. • Exception ... Punched cards need not be retained if they are used merely as a means of input to the system and the information is duplicated on magnetic tapes, disks, or other machine-sensible records.
<i>Citation</i>	<ul style="list-style-type: none"> • 1971-1 C.B. 392

Rev. Rul. 81-205	<i>Penalties Can Be Asserted if a Taxpayer Fails to Retain Machine Sensible Tax Records</i>
<i>Issue / Questions</i>	<ul style="list-style-type: none"> • Can the addition to tax under Section 6653(a) of the Internal Revenue Code and the criminal penalty under Section 7203 be applied for failure to retain machine-sensible tax records as required by Rev. Rul. 71-20? <ul style="list-style-type: none"> ♦ Holding / Answer ... "Yes," to both. • The IRS has instructed Revenue Agents to examine cases in which such records are not retained, and to assert these penalties in appropriate cases.
<i>Key Code Sections</i>	<ul style="list-style-type: none"> • The "Law and Analysis" section of the Revenue Ruling recites the recordkeeping-related requirements and taxpayer responsibilities set forth in Sections 6001, 6653(a), 7203 and 7602. • Section 7602 authorizes the Secretary to examine any books, papers, records or other data which may be relevant or material, and to summon the person liable for the tax, or who has custody of the books relating to the business of the person liable for the tax to appear before the Secretary at the time and place named and to produce such records for the purpose of ascertaining the correctness of any return, ... or determining the liability of any person for any tax, or collecting such liability.
<i>Discussion</i>	<ul style="list-style-type: none"> • In <i>United States v. Davey</i>, 543 F.2d 996 (2d Cir. 1976), the position set forth in Rev. Rul. 71-20 was, in effect, sustained. <ul style="list-style-type: none"> ♦ The Court ordered unconditional enforcement of the IRS summons for the production of computer tape records for the taxable years in question. ♦ The Court stated: "In this era of developing information-storage technology there is no conceivable reason to adopt a construction that would immunize companies with computer-based record-keeping systems from IRS scrutiny." • Enforcement of the provisions of Rev. Rul. 71-20 is normally carried out through the District Director's notice to taxpayers to retain records [under Reg. Sec. 1.6001-1(d) and (e)] and the summons to produce records [under Section 7602 and Reg. Sec. 301.7602-1]. • When any part of a deficiency is attributable to the fact that a taxpayer has refused or neglected to retain machine-sensible records, the civil penalty under Section 6653(a) of the Code may be applicable. <ul style="list-style-type: none"> ♦ Furthermore, a taxpayer who disposes of such records will be in violation of the taxpayer's known legal duty to retain records as required by Rev. Rul. 71-20, and the criminal penalty under Section 7203 may also be applicable.
<i>Citation</i>	<ul style="list-style-type: none"> • 1981-2 C.B. 225



ESS	<p style="text-align: center;">Revenue Procedure 97-22 Use of Electronic Storage Systems for Books & Records</p> <p style="text-align: right;">Page 1 of 4</p>
<p style="text-align: center;">Summary</p>	<ul style="list-style-type: none"> • This Revenue Procedure provides guidance to taxpayers who maintain books and records by using an electronic storage system (ESS) that either ... <ul style="list-style-type: none"> ♦ Images their hardcopy (paper) books and records, or ♦ Transfers their computerized books and records to an electronic storage media (such as an optical disk). • Records maintained in an electronic storage system that complies with the requirements of this Revenue Procedure will constitute records within the meaning of Section 6001 of the Code. • Document imaging is allowed if documents are retrievable by a computer software indexing system. • Documents should not be capable of being altered once they have been imaged. • If the IRS cannot access/retrieve image documents, then the taxpayer is not in compliance. • Citation: 1997-1 C.B. 652
<p style="text-align: center;">Contents</p>	<ul style="list-style-type: none"> • <i>Sec. 1 ... Purpose</i> See summary above • <i>Sec. 2 ... Background</i> Page 1 of 4 • <i>Sec. 3 ... Scope</i> Page 1 of 4 • <i>Sec. 4 ... Electronic Storage System Requirements - General</i> Page 2 of 4 • <i>Sec. 4 ... Electronic Storage System Requirements - Indexing System</i> Page 3 of 4 • <i>Sec. 5 ... District Director Testing</i> Page 3 of 4 • <i>Sec. 6 ... Compliance</i> Page 3 of 4 • <i>Sec. 7 ... Destruction & Deletion of Original Books & Records</i> Page 4 of 4 • <i>Sec. 8 ... Impact on Machine-Sensible Records</i> Page 4 of 4 • <i>Sec. 9 ... Penalties</i> Page 4 of 4 • <i>Sec. 10 ... Internal Revenue Service Office Contact</i> Omitted • <i>Sec. 11 ... Paperwork Reduction Act</i> Omitted
<p style="text-align: center;">Section 2. Background ... Sec. 6001 Requirements</p>	<ul style="list-style-type: none"> • Every person liable for any tax imposed by the Code, or for the collection thereof, must keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. • Whenever necessary, the Secretary may require any person, by notice served upon that person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not that person is liable for tax. • Persons subject to income tax, or required to file a return of information with respect to income, must keep such books and records, including inventories, as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown by that person in any return of such tax or information. • These books or records must be kept available at all times for inspection by authorized internal revenue officers or employees. • These books or records must be retained so long as the contents thereof may become material in the administration of any Internal Revenue law.
<p style="text-align: center;">Section 3. Scope</p>	<ul style="list-style-type: none"> • Application. This Revenue Procedure applies to taxpayers who maintain books and records using an "electronic storage system" (ESS). • An electronic storage system is a system to prepare, record, transfer, index, store, preserve, retrieve, and reproduce books and records by either ... <ul style="list-style-type: none"> ♦ Electronically imaging hardcopy documents to an electronic storage media, or ♦ Transferring computerized books and records to an electronic storage media using a technique ... which allows books and records to be viewed or reproduced without the use of the original program. • These requirements pertain to all matters ... including income, excise, employment and gift taxes, as well as employee plans and exempt organizations. • A taxpayer's use of a third party (such as a service bureau or time-sharing service) to provide the taxpayer with an electronic storage system for its books and records does not relieve the taxpayer of the responsibilities described in this Revenue Procedure. • All requirements of Section 6001 that apply to hardcopy books and records apply as well to books and records that are stored electronically, unless otherwise provided in this Revenue Procedure.



Section 4.01**ESS**

...
**General
 Requirements**

- An electronic storage system must ensure an accurate and complete transfer of the hardcopy or computerized books and records to an electronic storage media.
- The electronic storage system must also index, store, preserve, retrieve, and reproduce the electronically stored books and records.
- **Mandatory components of an ESS.** An electronic storage system must include 5 components...
 - ♦ Reasonable controls to ensure the integrity, accuracy, and reliability of the electronic storage system,
 - ♦ Reasonable controls to prevent and detect the unauthorized creation of, addition to, alteration of, deletion of, or deterioration of electronically stored books and records,
 - ♦ An inspection and quality assurance program evidenced by regular evaluations of the electronic storage system including periodic checks of electronically stored books and records,
 - ♦ A retrieval system that includes an indexing system, and
 - ♦ The ability to reproduce legible and readable hardcopies (within the meaning of Section 4.01(3) of this Revenue Procedure) of electronically stored books and records.
- **Legibility & readability.** All books and records reproduced by the electronic storage system must exhibit a high degree of legibility and readability when displayed on a video display terminal and when reproduced in hardcopy.
 - ♦ The term "*legibility*" means that the observer must be able to identify all letters and numerals positively and quickly to the exclusion of all other letters or numerals.
 - ♦ The term "*readability*" means that the observer must be able to recognize a group of letters or numerals as words or complete numbers.
 - ♦ The taxpayer must ensure that the reproduction process maintains the legibility and readability of the electronically stored document.
- The information maintained in an electronic storage system must provide support for the taxpayer's books and records (including books and records in an automated data processing system).
 - ♦ For example, the information maintained in an electronic storage system and the taxpayer's books and records must be cross-referenced in a manner that provides an audit trail between the general ledger and the source document(s).
- For each electronic storage system used, the taxpayer must maintain, and make available to the Service upon request, complete descriptions of...
 - ♦ The electronic storage system, including all procedures relating to its use, and
 - ♦ The indexing system.
- At the time of an examination or for other testing purposes, the taxpayer must ...
 - ♦ Retrieve and reproduce (including hardcopies if requested) electronically stored books and records, and
 - ♦ Provide the Service with the resources (e.g., appropriate hardware and software, personnel, documentation, etc.) necessary to locate, retrieve, read, and reproduce (including hardcopies) any electronically stored books and records.
- **No restrictions on accessibility to the records by the IRS.** An electronic storage system must not be subject, in whole or in part, to any agreement (such as a contract or license) that would limit or restrict the Service's access to and use of the electronic storage system on the taxpayer's premises (or any other place where the electronic storage system is maintained), including personnel, hardware, software, files, indexes, and software documentation.
- The taxpayer must retain electronically stored books and records so long as their contents may become material in the administration of the Internal Revenue laws.
- The taxpayer may use more than one electronic storage system.
 - ♦ If the taxpayer uses more than one ESS, each system must meet the requirements of this Revenue Procedure.
- **Changes in systems/hardware.** Electronically stored books and records that are contained in an ESS with respect to which the taxpayer ceases to maintain the hardware and the software necessary to satisfy the conditions of this Rev. Proc. will be deemed destroyed by the taxpayer, unless the electronically stored books and records remain available to the Service in conformity with this Rev. Proc.
- Taxpayers may use reasonable data compression or formatting technologies as part of their electronic storage system so long as the requirements of this Revenue Procedure are satisfied.



<p>Section 4.02</p> <p>ESS</p> <p>...</p> <p>Requirements of an "Indexing System"</p>	<ul style="list-style-type: none"> • Definition of "indexing system." <ul style="list-style-type: none"> ♦ For purposes of this Revenue Procedure, an "indexing system" is defined as a system that permits the identification and retrieval for viewing or reproducing of relevant books and records maintained in an electronic storage system. ♦ For example, an indexing system might consist of assigning each electronically stored document a unique identification number and maintaining a separate database that contains descriptions of all electronically stored books and records along with their identification numbers. • Any system used to maintain, organize, or coordinate multiple electronic storage systems is treated as an indexing system under this Revenue Procedure. • The requirement to maintain an indexing system will be satisfied if the indexing system is functionally comparable to a reasonable hardcopy filing system. • The requirement to maintain an indexing system does not require that a separate electronically stored books and records description database be maintained if comparable results can be achieved without a separate description database. • Reasonable controls must be undertaken to protect the indexing system against the unauthorized creation of, addition to, alteration of, deletion of, or deterioration of any entries. • The implementation of records management practices is a business decision that is solely within the discretion of the taxpayer. • Recommended records management practices ... <ul style="list-style-type: none"> ♦ The labeling of electronically stored books and records, ♦ Providing a secure storage environment, ♦ Creating back-up copies, ♦ Selecting an off-site storage location, ♦ Retaining hardcopies of books or records that are illegible or that cannot be accurately or completely transferred to an electronic storage system, and ♦ Testing to confirm records integrity.
<p>Section 5.</p> <p>Testing by the IRS / District Director</p>	<ul style="list-style-type: none"> • The District Director/IRS may periodically initiate tests of a taxpayer's electronic storage system. • These tests may include an evaluation (by actual use) of a taxpayer's equipment and software, as well as the procedures used by a taxpayer to prepare, record, transfer, index, store, preserve, retrieve and reproduce electronically stored documents. • In some instances, the District Director/IRS may choose to review the internal controls, security procedures and documentation associated with the taxpayer's electronic storage system. • These tests are not an "examination," "investigation" or "inspection" of the books and records within the meaning of Section 7605(b), or a "prior audit" ... because these tests are not directly related to the determination of the tax liability of a taxpayer for a particular taxable period. • The District Director/IRS must inform the taxpayer of the results of any tests under this Section.
<p>Section 6.</p> <p>Compliance</p>	<ul style="list-style-type: none"> • A taxpayer's electronic storage system that meets the requirements of this Revenue Procedure will be treated as being in compliance with the recordkeeping requirements of Section 6001. • A taxpayer's electronic storage system that fails to meet the requirements of this Revenue Procedure may be treated as not being in compliance with the recordkeeping requirements of Section 6001. <ul style="list-style-type: none"> ♦ Section 9 of this Revenue Procedure discusses potential applicable penalties. ♦ The penalties described may not apply if the taxpayer maintains its original books and records, or maintains its books and records in micrographic form in conformity with Rev. Proc. 81-46 (1981-2 C.B. 621).



ESS	<p style="text-align: center;">Revenue Procedure 97-22 Use of Electronic Storage Systems for Books & Records</p> <p style="text-align: right;">Page 4 of 4</p>
<p style="text-align: center;">Section 7. Destruction or Deletion of Original Books & Records</p>	<ul style="list-style-type: none"> • Records that a taxpayer cannot destroy. The taxpayer may not destroy or delete any "machine-sensible" records required to be retained by Rev. Proc. 91-59, 1991-2 C.B. 841. <ul style="list-style-type: none"> ♦ Note: Rev. Proc. 91-59 is the predecessor Revenue Procedure which was superseded by Rev. Proc. 98-25. • Records that a taxpayer can destroy. This Revenue Procedure does permit the destruction of the original hardcopy books and records and the deletion of the original computerized records (other than "machine-sensible" records required to be retained by Rev. Proc. 91-59, 1991-2 C.B. 841). <ul style="list-style-type: none"> ♦ However, before destruction and/or deletion of any originals, the taxpayer must satisfy two requirements ... <ul style="list-style-type: none"> ▪ It must complete its own testing of the electronic storage system. This testing must establish that hardcopy or computerized books and records are being reproduced in compliance with all the provisions of this Revenue Procedure, and ▪ It must institute procedures that ensure the taxpayer's continued compliance with all the provisions of this Revenue Procedure.
<p style="text-align: center;">Section 8. Impact on Machine- Sensible Records</p>	<ul style="list-style-type: none"> • The provisions of this Revenue Procedure do not relieve taxpayers of the responsibility of retaining any other books and records required to be retained under Section 6001. • Such other books and records may include "machine-sensible" records required to be retained by Rev. Proc. 91-59 in connection with the taxpayer's use of an automatic data processing (ADP) system. <ul style="list-style-type: none"> ♦ Note: Rev. Proc. 91-59 is the predecessor Revenue Procedure which was superseded by Rev. Proc. 98-25.
<p style="text-align: center;">Section 9. Penalties</p>	<ul style="list-style-type: none"> • The District Director/IRS may issue a Notice of Inadequate Records pursuant to Reg. Sec. 1.6001-1(d) if the taxpayer's books and records are available only as electronically stored books and records and the taxpayer's electronic storage system fails to meet the requirements of this Revenue Procedure. • Taxpayers whose electronic storage system fails to meet the IRS requirements may also be subject to applicable penalties under Subtitle F of the Code. These include... <ul style="list-style-type: none"> ♦ Section 6662(a) accuracy-related civil penalty, and ♦ Section 7203 willful failure criminal penalty.
<p style="text-align: center;">Sections Omitted</p>	<ul style="list-style-type: none"> • Sec. 10 ... Internal Revenue Service Office Contact • Sec. 11 ... Paperwork Reduction Act



August 16, 2005

SUBJECT: w.e.b.Suite™ Electronic Audit Enhancements

ADP is excited to share details about the great new enhancements available in the upcoming **w.e.b.Suite™** software release for users of ADP's 9400 and 9500 Dealer Management Systems (DMS).

SUBJECT: Electronic Audit Enhancements

ADP is excited to share details about the great new enhancements available in the upcoming software release for users of ADP's 9200 and 9300 Dealer Management Systems (DMS).

The new release provides functionality to make it easier for dealers to comply with Internal Revenue Service (IRS) and Canada Revenue Agency (CRA) legislation regarding the retention of electronic books and records. ADP has worked closely with the IRS and CRA to identify the data elements needed to be retained by ADP clients that will allow them to comply with the respective legislation they fall under. The IRS and CRA also participated in systems testing.

ADP's solution will provide Dealers an easy way to comply with electronic audit requirements, including IRS Revenue Procedure 98-25, and will help reduce the cost of an audit.

The longer auditors stay on-site, the more expense a Dealer incurs due to professional fees from Certified Public Accounts (CPAs) and Chartered Accountants (CAs) and time expended by dealership employees.

ADP's solution will assist your dealership in the following areas:

Data Capture:

Capture data automatically when the fiscal year-end is closed. The data is compressed, and stored in a secure file on the DMS. The data can then be downloaded to a Windows® PC and copied to a CD to provide instant information access for an auditor.

ADP's solution will save IRS and CRA auditors time accessing the data since it is in a format that is easily imported into their audit software.

Dealers who are currently outsourcing to a data warehousing provider no longer have to rely on, or incur the additional expense, from a third party.

Data Retention:

Per CRA and IRS guidelines, the DMS will now archive accounting transactions for a minimum of 12 months to provide electronic data (including all post-closing entries) that make up the complete fiscal or calendar tax year.

Files for multiple years can be stored on the DMS and provided to the IRS or CRA upon request.

ADP's new enhancements are an excellent complement to the Document Storage and Document Archiving (DSDA) product. IRS and CRA audit software identifies the transactions and documents that need to be examined, and DSDA provides auditors with a means to quickly select, view, and even re-print those items.

Some dealerships will need to acquire more disk space to utilize these enhancements. Within the next 60 days, ADP will be contacting those dealerships to review their storage options.

If you have any questions concerning this announcement, please feel free to contact me at the number listed below.

Sincerely,

Steve Hanusa
Product Marketing
(847) 485-4097

No ADP product or service substitutes for legal advice. Please consult your attorney to ensure your compliance with IRS and CRA regulations.



General Ledger/Accounting Utility Compliance - GL981/AC981

Attention: Business Office Manager

CAUTION! This bulletin outlines changes to your General Ledger/Accounting software. Be sure to read this entire document before your dealership loads the GL981/AC981 upgrade.

GL981/AC981 General Ledger/Accounting Utility Compliance Release Bulletin

General Ledger/Accounting Utility Compliance

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A Quarterly Update of Essential Tax Information for Dealers and Their CPAs

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De Filippis' DEALER TAX WATCH, Vol. 14, No. 1



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BY MAKE ... MAJOR DEALER CONCERNS FOR 2007

Acura Acura must make do with new MDX for now	Land Rover Ford uncertainty clouds Land Rover landscape
Audi Angry Audi dealers want more advertising	Lexus Lexus dealer chief wants wiser Web marketing
BMW BMW dealers must cut costs	L-M Lincoln Mercury dealers look for a slightly better year
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Dodge Dodge's priorities are inventory, bottom line	Pontiac-GMC ...Pricing, margins are hot topics at Pontiac
Ford Profits, products top Ford dealers' concerns	Porsche Sagging Cayenne takes spice from Porsche menu
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Hummer Hummer dealers push GM for diesel option	Saturn For Saturn dealers, the "best years are ahead"
Hyundai Hyundai dealer council chief is prophet of profit	Subaru Subaru dealer chair seeks value-oriented marketing
Infiniti Dealers are ready for a reinvigorated Infiniti	Suzuki Best thing about Suzuki? It lets dealers be dealers
Isuzu At Isuzu, used trucks are critical	Toyota Toyota dealers' test: Servicing big Tundra
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Kia Kia's problem: Low prices mean low profits	Volvo 2007 will be big year for launches at Volvo

Source: *Automotive News*, "N.A.D.I Daily" (Las Vegas) issues for February 3-6, 2007

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De Filippis' DEALER TAX WATCH

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