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Profitable Ideas for Automobile Dealers

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## Lessons Learned from Recent IRS Audits



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For the past few years, the media has been giving us a false sense of security as it relates to IRS audits. You have likely heard about the cutbacks, lack of funding and expanding workload. You have likely also heard from friends and colleagues who've experienced audits about the inept agents that showed up at their doors. It appears those days are behind us. This article will examine the good and the bad based on recent IRS audits.

### **The Good:** Agents are better trained.

They also are focused on larger dollar items. Rather than focusing on the timing of a deduction, agents are looking at real adjustments. They are under pressure to complete the audit as quickly as possible. If you give them reasonable support and back-up, they will likely clear the issue and move ahead.

### **The Bad:** Agents are better trained.

Giving them insufficient support, or no support, will result in a proposed adjustment that is not in your favor. Their patience quickly deteriorates if you are slow to respond and their willingness to work with you decreases.

### **Three Areas to Which Auto Dealers Should Pay Attention**

#### **1. Travel and Entertainment Expenses**

Decreased audit activity has resulted in relaxed documentation practices especially regarding travel and entertainment expenses. The agents want to see the business purpose of the expense. If you have decent documentation, a notation on the credit card statement may suffice. Airline flights to Las Vegas or Florida will require more documentation.

A receipt must confirm who, what, why and when. If you are lucky, agents will accept the credit card statements with explanations of the expenses unless they suspect you to be abusive. If you do not have the proper documentation, they have the authority to deny the deduction.

*Continued on page 2*





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## 2. Related Companies

Related companies are coming under more scrutiny. Both auto dealerships and transactions are being questioned. Recent abuses have the IRS looking closer at these entities. Ensure that your related company ownership structure and business purpose are clearly defined and legitimate. Please do not put “avoiding income tax” on or in any corporate documents. Avoiding income tax IS NOT a legitimate business purpose.

## 3. Facility Upgrades

Facility upgrades and factory image programs are also on the target list. Most, if not all, factory reimbursements are taxable when earned. While you may receive a hall pass for waiting until receipt of the funds, the money is taxable.

Under personal property regulations finalized by the IRS last year, you have the ability to expense demolition costs and certain personal property additions to help generate a significant deduction or at least offset the reimbursement income.

**Don't Forget...The IRS does not call.** If you receive an unexpected call from someone identifying themselves as an IRS agent, it is a scam. All examinations or inquiries are communicated through the postal service. When you receive a notice, handle it with priority.

**Ensure your 941's reconcile to the W-2's and W-3 each year.** Failure to do so creates issues with both the Social Security Administration and the IRS. Keep detailed records for the 1099's you issue. If you receive a notification that federal identification numbers do not match 1099 information, be prepared to immediately withhold taxes from these vendors.

**Do not forget the Form 8300 for cash in excess of \$10,000.** If examined, the agent will also ask to see your Form 8300 file.

An audit by the IRS can be a stressful, unpleasant experience. Never go into the examination without tax advisor representation. If you need help with an examination in progress or help preparing for an examination, call us today; we are ready to help.



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