

IRS AUDITS

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IRS AUDITS

- **Expansion of audit to include all entities under your control**
- **Bad Debts**
- **Issuing 1099 forms (rent, interest, contract labor, cancellation of debt)**
- **Inventory issues (write down and make ready)**
- **IRS 26 point checklist**

EXPANSION OF AUDITS

- **Government regulations and reporting requirements allow for so much more information**
- **Agents are checking state DMV record and matching up sales**
- **Agents researching information on owners**
- **Agents googling companies in pay ledger to determine nature of transaction**

BAD DEBTS

- **What is your policy to determine when an account should be written off? Be sure to follow policy!**
- **Use guidebook to determine ACV of repos**
- **Lookback loss does NOT mean run first quarter bad debt report**

FORM 1099

- **Be sure to issue all required 1099 information forms. Penalties can be steep!**

INVENTORY

- **Make ready expenses need to be included in inventory balance**
- **Guidebook should be used to determine market value if claiming an inventory write down**

INVENTORY

					Column F is lower of	
Sample of Inventory Writedown Calculation					D or E	
A	B	C	D	E	F	G
Inventory	Cost	Make Ready	Total Cost	Guide Book	Ending Inventory Valuation	Inventory Writedown
2010 Toyota Camry	8,600.00	350.00	8,950.00	8,000.00	8,000.00	950.00
2004 Acura MDX	10,800.00	750.00	11,550.00	12,500.00	11,550.00	None
2007 BMW 3-Series	15,500.00	800.00	16,300.00	15,750.00	15,750.00	550.00
2006 Chevy Suburban	12,500.00	325.00	12,825.00	13,500.00	12,825.00	None
			<u>49,625.00</u>		<u>48,125.00</u>	<u>1,500.00</u>
In this example, the inventory writedown would be \$1,500 (Column D Minus Column F)						

IRS 26 POINT CHECKLIST

RELATED FINANCE COMPANY CHECKSHEET

ORGANIZATION

1. Is the RFC a separate, legal entity from the dealership?
2. Does the RFC meet all state licensing requirements?
3. Does the RFC maintain all required, local business licenses?
4. Does the RFC comply with title and lien holder laws in its area?
5. Does the RFC have adequate capital to pay for the contracts?
6. Does the RFC have its own address and operate from separate facilities?
7. Does the RFC have its own telephone number?
8. Does the RFC maintain its own books, separate from the dealership(s)?
9. Does the RFC have its own employees?
10. Does the RFC compensate the employees directly?
11. Does the RFC pay its own expenses?
12. Does the RFC maintain its own bank accounts, separate from the related dealership(s)?

IRS 26 POINT CHECKLIST

13. Does the lien holder on the finance contract change from the dealership to the finance company?
14. Does the dealership notify customers that the contracts were sold?
15. Does the RFC pay the dealership for the contracts at the time of purchase?
16. Does the RFC purchase any contracts from unrelated companies?
17. Does the RFC have written agreements with the dealership(s)?
18. If so, does the agreement state how the discount rate was determined?
19. Does the discount rate approximate the actual loss experience?
20. Are the finance contracts non-recourse?
21. Does the RFC handle repossessions?
22. Does the dealership sell any finance contracts to unrelated finance companies?
23. Does the RFC report income on a pro-rata basis?
24. Did the profit reported on the initial sale of the vehicle exceed the loss on the sale of the finance contract?
25. Does the RFC have a business purpose?
26. Did the RFC investigate items such as the borrower's credit history, length of the note, age of the vehicle, and payment history prior to determining FMV of the note?