



## IRS Clarifies Revenue Procedure 2010-44

The issue of UNICAP §263A appears to be resolved with the recent issuance of Revenue Procedure 2010-44. The following briefly outlines key points of the two safe harbors.

The IRS expects the safe harbors to benefit virtually all dealerships, and anticipates that in nearly every situation it will be better for dealerships to elect both safe harbor methods.

The first safe harbor is the retail sales facility safe harbor which allows a dealership to deduct rather than capitalize storage and handling costs incurred at the retail sales facility. This means that no storage and handling costs need to be capitalized if all of the dealership's business is contained at a single location/facility.

This safe harbor applies to activities performed at the retail sales facility. Activities must be performed on-site. If such activities are performed off-site where end customers do not routinely visit (i.e. off-site storage lots or body shops) they must be capitalized as handling costs. This also applies to activities performed off-site by third parties.

The second safe harbor is reseller without production activities. Under current guidance, certain activities performed on dealership-owned/customer-owned vehicles are considered production and/or handling costs. If these costs are incurred on-site at the retail sales facility, they do not need to be capitalized under the safe harbor. This safe harbor protects dealers from the producer designation.

The safe harbors only addresses the retail sales facility and reseller with production activity issues. Issues specifically related to other parts of the §263A calculation, including purchasing and mixed service costs, are not covered in Rev. Proc. 2010-44. However, taxpayers do have the option to file concurrent changes to correct and adopt other §263A items.

### Removal of internal profit and labor for inventory costs

The Revenue Procedure states that dealerships must capitalize the cost of parts added to dealer-owned vehicles. However, the IRS says that the proper treatment is to expense internal labor and profit related to the installation of parts on dealer-owned vehicles.

Under the safe harbor method change, dealers may elect to remove internal profit and internal labor from the cost of vehicles. This creates a deduction and the potential for a favorable adjustment.

### Procedural aspects of Rev Proc 2010-44

Dealers must file Form 3115 and elect the safe harbors to receive the benefits discussed above. Even if their current method results in the same amount capitalized (in many cases zero) they must make the change or risk being subject to the methodology outlined in TAM 200736026.

The change in accounting method to adopt the safe harbors is an automatic change request. There is no filing fee and the change can be made up to the extended due date of the tax return.

Rev. Proc. 2010-44 waives most of the scope limitations associated with accounting method changes for the 2010 and 2011 tax years only. If a taxpayer previously filed a Form 3115 related to a §263A calculation within the last five years, including filing a Form 3115 to move to the method outlined in the TAM, they may still make the method change to adopt the safe harbors.

Like other changes related to §263A, dealers on LIFO must compute a three average §263A absorption ratio and apply this ratio to all LIFO layers. Taxpayers not using LIFO will only need to recalculate their §263A for the immediate prior year.

### SourceCorp's process for assisting dealers and their CPAs with this change.

SourceCorp is here to assist dealers and their CPAs in one of two ways. First, we can recalculate the §263A calculation, compute the resulting §481(a) adjustment and prepare the Form 3115. Alternatively, we can simply prepare the Form 3115.

Turnaround time will depend on completeness of the information. Assuming all worksheets are complete, turn time will be 2-3 weeks.

### Pricing

Our price to prepare the recalculation and §481(a) adjustment along with the Form 3115 (alternative 1) is \$3,000.

To prepare only the Form 3115 (alternative 2) is \$2,000.

There will be additional fees for assistance in calculating internal labor and profit as well as converting current calculation data to our worksheet template. As always, if you have multiple dealerships, we will work with you on volume discounts.

### For more information

To replay the LIVE blog discussion in its entirety, go to [www.itaxblog.com](http://www.itaxblog.com).

For those interested in talking more about the §263A changes or getting started on filing the Form 3115, please contact your account manager.

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To review questions that were asked during the LIVE Blog session click here:

[http://www.sourcecorptax.com/pdf/263a\\_Safe\\_Harbor\\_Synopsis\\_LIVE\\_Blog\\_Questions.pdf](http://www.sourcecorptax.com/pdf/263a_Safe_Harbor_Synopsis_LIVE_Blog_Questions.pdf)