



The following recaps some of the key questions asked during the LIVE blog session.

Q. Do we need to prepare two Form 3115's to elect both safe harbors, or will one suffice?

A. One Form 3115 will suffice. You can even make additional §263A changes outside of the safe harbor elections on the same Form 3115.

Q. On both changes, can the simplified retail method be used?

A. Yes. The intent of the safe harbor methods was to open the simplified resale method up to all dealerships.

Q. What is the difference between the two methods other than the elimination of internal profit and labor on safe harbor #2 (reseller without production activities)? Am I correct?

A. The first safe harbor addresses the retail sales facility issue and storage and handling costs. The second safe harbor more closely speaks to the production issue (i.e. the TAM's assertion that many dealers might be considered a producer).

Q. If we choose not to remove the parts markup and labor from inventory, it is possible that there will be no §481a adjustment? How do we file a Form 3115 and adopt the safe harbor and have no dollar value change in the §263A cost calc?

A. It is very possible, and may be very likely with many dealers, that electing the safe harbors will not result in a §481(a) adj. Terri did not appear to have an issue with this. I think the IRS just wants to see proper adoption of the safe harbors.

Q. Give example of handling costs

A. Typical items might be costs to unload, unpack, mark, tag inventory, process, repackage and transport.

Q. Could you explain how the three-year lookback works regarding LIFO?

A. You would essentially do the three prior year calculations under the new method, determine an average and apply that average to the LIFO layers.

Q. We have a new dealership client who uses LIFO but has never calculated a §263A adjustment, can we elect one of the safe harbor methods?

A. I would have them adopt the simplified resale method, the safe harbors in Rev. Proc. 2010-44 and any other submethods such as the 1/3 - 2/3 purchasing rule by filing a Form 3115.

Q. What is the first year for which the accounting change can be made? We have a client with an 8/31/10 year end. Will they qualify to make the change to the safe harbor methods?

A. They can make the change for their current open tax year. In this case, the 8/31/10 tax year.

Q. We picked up a new client (dealership) last year. The box for whether or not §263A applies has historically been checked yes; however the dealership (under the prior accountant) has never done §263A calculations. They have taken the position they are de minimis. Can a Form 3115 be filed to use the Safe Harbors under this circumstance?

A. In this situation, I would recommend they officially elect the simplified resale method along with any other advantageous submethods. Their old method might be considered a facts and circumstances method but more detail would be needed to determine with certainty.

Q. Why does IRS and NADA think this is a big tax savings?

A. I think they believe it is a win considering the alternative to be the methodology outlined in the TAM. You're right though. Most dealers will have an absorption ratio very similar, if not the same, as they did before.

Q. Should a dealer remove internal profit & labor costs only on company vehicles or on any new vehicle sold with additional accessories?

A. It should be any new vehicle sold with additional accessories still in ending inventory.

Q. If not over 10 Million in gross receipts now, but dealer is say 3 years from now, when should they file the Form 3115 for the audit protection?

A. I would adopt the safe harbors at the time they are subject to UNICAP/§263A.

Q. Can the §263A accounting change be made concurrently with a change in inventory value. For example, an auto dealer wanted to change from the Alternative LIFO method to the IPIC LIFO method?

A. The automatic change provisions of Rev. Proc. 2008-52 covering a change to the IPIC LIFO method do not allow a concurrent change for the safe harbors. Two separate Form 3115s would need to be filed.

Q. Is there any template or example out there to guide us on applying the 3 year average absorption ratio to the LIFO layers?

A. I'm not aware of any specific template. One of our account managers would be happy to help.

Q. The 3 year lookback pertains specifically to §263A costs and the resulting absorption rate. What about dealers that have no §263A costs before or after electing this Rev. Proc. (because of de minimis costs)?

A. The dealer would still need to calculate a 3 year average using the safe harbor methods to show proper due diligence had been performed.

Q. What costs are generally included in mixed service costs?

A. Examples would be administrative and accounting costs that may indirectly support the purchasing function.

Q. Will SourceCorp be modifying its LIFO calculation software to embrace the concept of 263A absorption in terms of rates or ratios rather than in absolute dollars?

A. I think we'll consider but it will not be until next year's update (for the 2011 tax year) given the timing of this guidance.

Q. Is it safe to say that if the new method results in the same §263A number as the method currently in use, then no LIFO adjustment would be necessary? i.e. when no §481 is present?

A. Correct.

Q. If we use SourceCorp's LIFO software and do the calculations on our own, how do we go back and redo the calculations for the Form 3115?

A. You should be able to simply adjust the capitalized cost amount for each layer. Your account manager can walk you through it.

Q. If you elect the safe harbor methods and you meet the 1/3 rule for the purchasing function and you have no off-site storage, could your §263A be zero?

A. Yes.

Q. I would assume most §481(a) adjustments will be negative, if there is any adjustment at all, do you agree?

A. Possibly. If you do not consider the removal of internal costs and, assuming dealers have been treating their facility as "dual function", then applying the safe harbors should yield a negative §481(a) adj.

Q. If dealers are eliminating storage costs, would not insurance, data processing, etc be eliminated from mixed service costs? Or is it just cost directly related to storage & handling?

A. Direct storage and handling would be eliminated. If you assume these costs are indirect costs, they may or may not be eliminated through the use of the 90/10 de minimis rule.

Q. Dealerships with sales under \$10 Million would be exempt from §263A?

A. Yes, if considered a reseller with de minimis production activities.

Q. With no handling & storage labor, the mixed service cost percentage factor to total labor should be reduced?

A. Correct.

Q. Follow-up on previous comment. Only labor to factor would be purchasing labor divided by total labor?

A. Correct.

Q. If a dealership is on a fiscal year, and the 2009 tax return has not been filed yet (as the extended due date has not been reached), can the safe harbor methods be elected with the 2009 return?

A. Yes.

Q. Can the §263A adjustment be calculated on a department-by-department basis rather than globally for the dealership as a whole?

A. The IRS views a dealership as one trade or business, so one §263A method should be applied to the entire single trade or business.

Q. If the taxpayer elects not to remove the internal parts profit and labor from ending inventory and is on LIFO, will this create a cost conformity issue?

A. Good question. Terri did not think the IRS would try to attack LIFO using this type of "gotcha." I tend to agree but I think it depends on the LIFO specialist at the time and how aggressive they are in interpreting conformity.

Q. Would mixed service cost capitalization almost be eliminated in most retail dealerships?

A. Likely. If there is nothing in the numerator (i.e. no purchasing or S&H labor), then no mixed service costs would be capitalized.

Q. For those of us comfortable performing the calculations and preparing the Form 3115, are you intending to market your worksheets and templates for guidance?

A. We're not intending to market our worksheets or templates but we'd be happy to work with you on a solution.

Q. For a consolidated return (Parent and 5 subsidiary operating dealerships), would you file one Form 3115 or one for each dealership?

A. You can file one Form 3115 under the parent on behalf of all five subs.

To replay the LIVE blog discussion, go to www.itaxblog.com.

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

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