

17th Annual CFO/CEO Forum

ON THE WAY UP: WHAT'S NEXT FOR THE AUTO INDUSTRY?

With an industry seeing some positive signs ahead, there's one question all dealers are asking: How can my dealership position itself on the way up?

Auto Team America will hold its 17th Annual CEO/CFO Forum on Friday, February 4, 2010, preceding the start of the NADA convention in San Francisco. The forum will take place from 3:00 pm – 6:00 pm at the Stanford Court Renaissance. Immediately following the event will be a cocktail reception exclusively for the forum attendees.

Consolidation, industry bailouts, dealership closings, and the changing priorities of the American consumer have remade the auto industry during these times of financial turmoil. How can you prepare for the challenges and take advantage of the opportunities? Auto Team America will field a panel of industry experts who will discuss what's next for dealers and how they can take advantage of the current market climate.

Attendees of the forum will include CEOs/CFOs of dealership groups, dealers and general managers, controllers and office managers, and related

industry associates involved in dealership business management. This year, to support our automotive industry friends, we are offering this program at no cost to attendees. Attendees may register online and submit panel questions at www.autoteamamerica.com.

Not traveling to San Francisco? You still have the opportunity to participate. Auto Team America is offering the session via a webinar for the low cost of \$49 per connection. For more information and to register, please visit http://www.autoteamamerica.com/cfo_forum.html.

IMPACT OF IFRS ON AUTOMOBILE DEALERSHIPS

International Financial Reporting Standards (IFRS) have been discussed in financial circles for years. In November 2002, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) entered into a memorandum of

understanding to develop consistent worldwide accounting standards. As economies have globalized, accounting standard setters and financial professionals have increasingly felt the need for one set of global accounting standards.

As a result of the collaboration

between FASB and IASB, a number of United States Generally Accepted Accounting Principles (GAAP) standards have been modified to conform with IFRS. The intention of these changes is to streamline the inevitable conversion from US GAAP to IFRS for financial reporting.

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It is believed that a single set of accounting standards will produce more comparable and reliable global financial information, which will in turn be good news for all parties involved.

U.S. companies currently utilize GAAP for financial reporting

(See IFRS on page 2)

PASSIVE ACTIVITY LOSS RULES

The IRS has repeatedly attacked the use of tool plans as a means of avoiding taxes. The IRS recently blessed a taxpayer's reimbursement plan, but the ruling provides little practical guidance for taxpayers.

Background

Under an acceptable tool plan, an employer may reimburse an employee for the cost of his tools tax-free, if the plan requires that (1) the tools be used for the employer's business and be deductible as a business expense, (2) the employee maintains adequate substantiation of the expense, and (3) any excess reimbursements be returned to the employer.

PLR 200930029

The plan in question had the following features:

Business connection – The Tool Plan only covered expenses incurred during the current plan year and on job assignments while employed with the current employer. Tools and equipment must be maintained at the employer's place of business and must be considered necessary for the industry.

Substantiation – Employees must submit a claim form that certifies that the purchased item

meets the requirements listed above and identifies the job assignments requiring the expenses. The employee must submit acceptable proof of purchase that includes the item description, date of purchase, and cost within 30 days of purchase.

Repayment – The plan does not allow cash advances, so there should not be excess reimbursements. However, it states that erroneous reimbursements must be returned within 30 days.

Other – The Tool Plan required the employer to determine a maximum reimbursement limit per employee at the beginning of the year. The employer stated that reimbursements are not made as part or instead of compensation. The plan did not provide adjustments to compensation on account of reimbursements.

Although it is encouraging that the IRS did not dispute the plan above, it is hardly informative for taxpayers seeking guidance for terms not falling squarely under the rule. To use the Tool Plan as a guide would likely require employers and employees to change the terms of their current agreements.

(IFRS continued from page 1) purposes. Internationally, however, more than 110 countries have adopted IFRS, and numerous additional countries plan to adopt it over the next few years. The Securities and Exchange Commission (SEC) is requiring large accelerated filers to convert to IFRS in 2014 and is phasing in compliance for other filers thru 2016. While no conversion deadline exists for privately held companies, it is widely anticipated that privately held companies will eventually adopt IFRS.

During 2009, the IASB released IFRS for Small and Medium-sized Entities (SMEs). IFRS for SMEs is intended to ease some of the burdens of compliance

and reduce the number of required disclosures. Most privately held automobile dealerships will qualify for reporting under this simplified method.

Automobile dealers will most likely be impacted by the following areas of IFRS:

- The Last In First Out (LIFO) method of accounting for inventory is prohibited under IFRS. This has created a sub-issue for US companies, as the Internal Revenue Service only allows LIFO to be used for tax purposes when it is also used for financial statement purposes.
- Many leases currently treated as operating expenses will be required to be capitalized and

TAX TIPS SMALL BUSINESS JOBS ACT AND R&D TAX CREDIT

The general business credits have been around for many years; however, many businesses have not been able to benefit from these credits, primarily due to alternative minimum tax ("AMT limitation"). Under current law, unused general business credits can be carried back first to the preceding taxable year, then carried forward to each of the twenty succeeding taxable years, subject to the AMT limitation.

The Small Business Jobs Act of 2010 should greatly enhance the ability of many businesses to fully enjoy the benefits of their business credits generated in a tax year beginning in 2010. Under the new law business credits ("eligible small business credits") generated in tax year 2010 by an eligible small business can be used to offset regular tax and AMT. Any unused 2010 credits can be carried back five tax years and carried forward 20 years without being subject to the AMT limitation. Thus, it can offset regular tax and AMT.

Eligible small businesses are businesses that are corporations with non-publicly traded stock, partnerships, or sole proprietorships that have average annual gross receipts of \$50 million or less for the three years preceding the first tax year beginning in 2010. For pass-through entities such as S corporations and partnerships, the \$50 million gross receipts threshold must be satisfied at the entity level as well as the partner/shareholder level. Subject to further guidance, it is likely that the gross receipts test at the partner/shareholder level would include a proportionate share of gross receipts from the partnership/S corporation.

Since this favorable tax treatment only applies to business credits generated in a tax year beginning in 2010, eligible small businesses should accelerate their qualified business investment and expenditures to 2010 to maximize the tax benefit of this new provision.

The Research and Development Tax Credit provides is such a credit which provides cash incentives for companies conducting R&D in the U.S. These incentives are backed by the IRS, Congress and the current administration in order to stimulate research and development in industries of all sizes.

Recent changes to IRS regulations now provide greater opportunities for small and mid-sized companies to qualify for the credits. The R&D credit has existed since 1981, however, prior to December 2001, the requirements necessary to qualify for it were rather difficult to attain. In late 2001 IRS issued proposed regulations which were ratified in 2004 and apply retroactively. These regulations have made it significantly easier to qualify for credits, which have opened the door for eligible taxpayers to look back for potential refund claims for credits for which taxpayers are unaware. The new regulations make it easier for a broader array of companies to qualify their activities as R&D and provide flexibility in certain recordkeeping requirements.

You should discuss this with your ATA representative to avail yourself of this tax benefit.

- depreciated.
 - Goodwill and indefinite-lived intangibles will be amortized over their useful lives or ten years if the useful cannot be determined. Impairment will only be required to be tested when an indication of impairment exists.
 - There will be a lower threshold for determining when to record a contingent liability.
 - Companies will be required to cure debt covenants prior to their year end.
- As world economies move to a global set of accounting standards, your automobile dealership must be aware of these impending changes. Please contact your local Auto Team America member for further guidance on IFRS.