

A WAKE UP CALL ON REPORTING CASH PAYMENTS OF OVER \$10,000

IRS STEPS UP ENFORCEMENT OF FORM 8300 FILING

Recently, an automobile dealer was audited by the IRS to determine compliance with reporting cash payments over \$10,000 received in their trade or business on Form 8300. At the end of the audit, the dealership was notified that they owed the IRS slightly more than \$236,000 in fines and penalties. Of the 41 car deals cited in the IRS report, the dealer was fined \$26,200-\$26,600 for each of the 10 non-reported cash car deals found from the three years examined.

In other words, more than \$236,000 of audit fines and penalties were due to 10 non-reported cash deals in a dealership selling well over 1000 new and used vehicles per year.

For purposes of reporting, cash or cash equivalent means:

- United States and foreign currency in excess of \$10,000;
- Cashier's checks—by whatever name called, including treasurer's check and bank check;
- Bank drafts, traveler's checks or money orders having a face amount of not more than \$10,000.

Cashier's checks, bank drafts, traveler's checks or money orders in this category are considered reportable when two or more are presented to a dealership and the total amount exceeds \$10,000—and also when combined with cash and the total amount exceeds \$10,000. Personal checks, checks drawn on the account of a business, certified personal and business checks, and amounts charged to credit cards are not considered cash under IRS rules.

Now is the time to ask these questions:

- Is my dealership in compliance with IRS guidelines on cash payments of over \$10,000?
- Am I prepared to pay \$25,000 plus 10% of the cash received in civil penalties for each violation in an IRS audit?
- When was the last time my dealership had a self-audit to ensure that policies and procedures are being followed in *all* instances?

As business people, the mandate regarding Form 8300 filing cannot be ignored. The new Patriot Act requires that financial institutions establish procedures

that enable employees to track all cash transactions to determine when a Form 8300 should be filed. Dealerships should develop a written policy that explains how cash transactions over \$10,000 will be handled. Make sure that all affected employees are aware of, and fully understand, their responsibilities as set out in the policy statement. The policy statement should include a statement instructing salespeople not to discuss the cash reporting law with customers at any time or for any reason.

Dealerships should also designate both a primary and secondary person who can answer customer questions concerning the filing of Form 8300. These persons should be responsible for filing the forms within the 15-day time limit after the transaction and notifying all customers at year-end that a Form 8300 has been filed on their transaction—or series of related cash transactions totaling over \$10,000.

In addition, the following procedures are recommended as part of an educational program in your dealership:

- Provide ongoing training programs for salespeople, managers, and office staff. Explain the procedures and controls that will be followed when handling a cash transaction over \$10,000.



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11th Annual CFO/CEO Forum
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- Document in writing all meetings and educational activities.
- Establish an independent audit function to test the program.

Finally, you should consider an internal audit on Form 8300 compliance in your dealership to identify any non-reported \$10,000 cash transactions from the previous two years. If you discover any, file a Form 8300 on each of them. Of course there are some small penalties for late filing, but they are insignificant to the fines and penalties for not filing at all.

Complying with the cash reporting laws and educating your employees as to their responsibilities under the regulations will be to your benefit if the IRS audits your dealership. For more information regarding training, compliance or assistance with an internal audit, contact your local ATA member firm.



QUICK CHECK

Are special order parts contributing to gross profits? Or are they languishing on the shelf?

It's important for the dealer to review the follow up procedures for special order parts with the parts department manager on a periodic basis.

Too often, procedures are not followed and the dealership misses the opportunity to return the special order part to the factory with no penalty—or fails to get the customer back into the dealership to install or pick up the part.

This is an area that can add to obsolescence problems in the parts inventory and unnecessarily consume working capital.

HIPAA REQUIRES DEALERSHIP COMPLIANCE WITH PRIVACY OF HEALTH INFORMATION

Most dealerships will be required to comply with the Privacy Rule of the Health Insurance Portability and Accountability Act (HIPAA) by April 14, 2004. The rule ensures the privacy of the protected health information of employees and eliminates its use in employment-related decisions.

Protected health information is generally provided to an employer as part of health care insurance coverage or through other related means. If that medical care information can be identified to a specific individual, it should be safeguarded from any public disclosure.

Dealerships will have to evaluate if the Privacy Rule applies to them. The specific compliance requirements depend on the health insurance plan structure for employees. If your plan coverage is dealership-sponsored or funded and considered to be a small health plan with less than \$5,000,000 in annual receipts, the Privacy Rule is applicable to your dealership. Group health plans, health insurance issuers, and HMOs providing medical, dental and/or vision coverage, employee assistance programs, and flexible spending accounts are bound by the rule.

Though most dealerships have limited access to protected health information, it is best to put some policies and procedures in writing and keep them on file. A simple policy and procedures document should consist of: a statement



Tax Tip



IRS ISSUES TIPS ON AVOIDING K-1 ERRORS

The IRS recently issued tips to taxpayers and tax professionals to help avoid errors related to Schedules K-1, which are used to report income from partnerships, S corporations, and some trusts. The IRS is attempting to improve its year-old program of matching income from Schedules K-1 to other returns, which stresses the importance of accurate filing.

The IRS indicated that recipients of Schedule K-1 should not net income against losses or expenses on Schedule E and should separately report current and prior year loss limitations, such as amounts "at risk".

Reminders issued by the IRS to taxpayers and tax professionals include the following:

- (1) Income must be reported in the proper location on individual returns, as instructed by Schedule K-1, column (c).
- (2) Netting or combining income and deductions on Schedule E should be avoided, with the exception of passive activity income and deductions from Form 8582, Passive Activity Loss Limitations (reference should be made to Form 8582). Generally, income and related deductions (such as unreimbursed partnership expenses and Code Section 179 expense deductions) must be reported separately.
- (3) Losses carried forward from prior years due to the at-risk and basis limitations must be reported on a separate line of Schedule E. They should not be combined with amounts reported for the current year.

The IRS said it expects to finish matching income from Schedules K-1 for 2001 and begin matching 2002 documents before the end of 2004.

of purpose, what the policy covers, any documented revisions, and how any violations of the policy will be managed.

Another important aspect of dealership compliance is to select a privacy officer to ensure that conformity to the rule is in place. That person should also be able to answer any questions about the rule and to deal with grievances arising from any health plan participants.

Employees who have any contact with protected health

information should be trained in the standards of the Privacy Rule. In addition, all employees should be directed to discuss any health insurance benefit information or claims to the dealership's designated plan administrator.

If you feel the Privacy Rule affects your dealership, it is best to research the rule to ensure adequate protection. Also, state laws regarding privacy protection of health information may have more restrictions. For further guidance, contact your local Auto Team America firm.