



IRS

Revenue Procedure 98-25

1998-1 CB 689, (Feb. 26, 1998). 1998-11 I.R.B. 7

Electronic Records Retention Requirements for Auto Dealerships

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**Motor Vehicle
Technical
Advisor**

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The Motor Vehicle Technical Advisor (MVTA) program is engaged in a joint project with IRS Computer Audit Specialists (CAS) to identify and resolve concerns regarding compliance with Rev. Proc. 98-25. Historically, automobile dealerships have not been compliant in maintaining records as required under the revenue procedure.

Rev. Proc. 98-25 is not specific to auto dealerships and applies to any taxpayer with assets \geq \$10 million. Requirements of Rev. Proc. 98-25 include the maintenance of electronic records that:

- *are capable of being processed*
- *can be retrieved, manipulated, printed*
- *contain sufficient transaction level detail*

In addition, taxpayers must provide, as necessary, resources to process records including hardware, software, terminal access, computer time, and personnel.

Auto dealerships generally utilize computer systems that must meet the manufacturers' requirements and that are designed specifically for their businesses. In many cases, the systems do not meet the requirements imposed by Rev. Proc. 98-25. Several factors contribute to the auto dealership industry non-compliance, such as:

- *Dealerships have a limited number of hardware and software vendors from which to choose.*
- *The transfer of data from one vendor's product to another is difficult or impossible.*
- *Information systems are typically relatively small and do not store information from prior cycles.*
- *Back up tapes might be made but typically are not retained for an extended period.*
- *If back up information is available; it generally cannot be loaded back onto the dealer's system without removal of the current activity.*
- *Information systems contain proprietary software that usually cannot be accessed by a Computer Audit Specialist.*

In order for dealers to evaluate whether or not their system is in compliance, IRS CAS have developed a list of common files necessary for most IRS audits. If you have any questions regarding your dealerships' compliance, contact your software vendor. For questions regarding the requirements of Rev. Proc. 98-25, contact the MVTA team. We will be happy to discuss the issue with you and if necessary put you in contact with IRS computer specialists.

Generic Listing of Computer Files Necessary for Most IRS Examinations

<p>Types of Files:</p>	<p>Although not all-inclusive, the following list indicates files most used by an IRS Computer Audit Specialist.</p> <ul style="list-style-type: none"> • Files are in a sequential/ fixed-length, or delimited, or print file, record format--ASCII. • Documentation would include the file layouts outlining: <ul style="list-style-type: none"> ○ Field names and description; ○ Data formats (character, text, numeric, packed decimal, etc.); ○ Length of each field; ○ Total record length. ○ Each file retained on magnetic media should have a label that contains file name, record length, and number of records.
<p>General Ledger Master File</p>	<ul style="list-style-type: none"> • Contains the complete General Ledger Account number, Account Name Description, and Prior 12-month Debit or Credit Ending GL Balances.
<p>General Ledger Transaction File</p>	<ul style="list-style-type: none"> • Contains the complete 12 month (including post-closing entries) detail journal voucher transactions. • Fields that may be contained in this file would be: <ul style="list-style-type: none"> ○ General Ledger Account Number; ○ Corp. Number; ○ Plant Number; ○ Journal Reference Number; ○ General Ledger Account Name Description; ○ Transaction/posted date(s) in a MM/DD/YYYY format (Y2K compliant date fields); ○ JV Number, JV Description, Posted JV Debit/Credit Amounts. • There must be enough information contained in this file for IRS examiners to request specific JV source documents. • This file may also contain detail accounts payable entries. If so, a Vendor Number, Vendor Name, and Invoice Number should be included.
<p>Accounts Payable Distribution File</p>	<ul style="list-style-type: none"> • Contains the complete 12-month booked detail postings of accounts payable transactions. Data formats same as GL or other files. • Fields contained in this file would be: <ul style="list-style-type: none"> ○ General Ledger Account Number; ○ Plant Number and Corp. Number; ○ Transaction/Posted Date(s) in Y2K compliant format; ○ Invoice Number; ○ Vendor Number and Name; ○ Transaction Amount. • There must be enough information contained in this file to pull invoice source documents.
<p>Vendor Master File</p>	<ul style="list-style-type: none"> • Contains the Vendor Number, Vendor Name, and Vendor Full Address.
<p>LIFO/Inventory Files</p>	<ul style="list-style-type: none"> • In general, the records should contain inventory-costing information necessary to calculate the LIFO index.
<p>Miscellaneous</p>	<ul style="list-style-type: none"> • Files that may be necessary to administer other IRS provisions including: <ul style="list-style-type: none"> ○ W-2 and 1099 files; ○ Fixed Asset Files; ○ Excise Tax Files; ○ Corp Tax or Fast Tax Files ○ Any other records pertinent to the examination.