

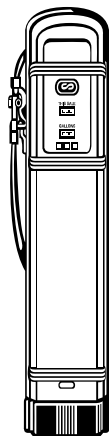
MSSP

OVERVIEW OF IMAGING REIMBURSEMENT PROGRAM



FOR GASOLINE STATION OWNERS

Office of Compliance Specialization



This Brochure Provides
General Information
for Reporting
Payments Received Under
"Image Upgrade Programs"
Having the Following
Characteristics

- A petroleum company makes payments to a gasoline station owner. The payments are to be used to improve the station's image. The station owner retains ownership of the improvements.
- The station owner's right to receive or retain payments may be contingent upon the station owner purchasing a specified volume of petroleum products
- The petroleum company may disburse the cash payments in a lump-sum or in a series of payments based upon the purchase of petroleum products. The petroleum company might also require the station owner to pay for the improvements before disbursing the cash payments.

PROGRAMS MAY VARY

The facts and circumstances of specific image upgrade programs may vary and therefore produce different tax results. For example, the tax results may vary depending on the relationship of the cash payments to purchases of petroleum products, the nature and ownership of the image upgrades, or the contractual relationship between the gasoline station owner and the petroleum company.

RECORDS TO KEEP

The following records are among those frequently requested by IRS examiners when reviewing a recipient taxpayer's treatment of image upgrade payments:

1. Written contracts or agreements with the payor petroleum company which detail the taxpayer's involvement in the image upgrade program,
2. Accounting records showing how the payments were recorded in the recipient's books and records,
3. Invoices and descriptions of improvements or enhancements purchased with the funds received,
4. Applications for reimbursements or other records which were filed with the payor, and
5. Proof of loan payments.

HOW TO REPORT PAYMENTS

• PAYMENTS RECEIVED

Generally, a gasoline station owner should include the payments received fully in gross income in the taxable year received. As noted above, the tax results may vary depending on the specific situation.

• DEDUCTIBLE EXPENDITURES

A gasoline station owner may deduct certain costs paid with monies received under an image upgrade program. To be deductible, these costs must be for ordinary and necessary expenses paid or incurred in the taxable year for carrying on a trade or business. Deductible costs may include incidental repairs and advertising.

• NON-DEDUCTIBLE EXPENDITURES

Deductions are not permitted for costs paid or incurred for new buildings or permanent improvements or betterments that increase the value or prolong the useful life of property. These costs must be treated as capital expenditures. Generally, these costs may be recovered through depreciation, amortization, or taken into account in determining gain when property is sold or otherwise disposed of. For example, expenditures that must be capitalized may include those for new signage and new gas pumps.

CAN IMAGE UPGRADE PAYMENTS BE LOANS?

A taxpayer does not include the proceeds from bona fide loans in his gross income. The IRS will ordinarily look to the existence of the following in determining whether or not a bona fide loan exists:

1. a true debtor-creditor relationship between the payor and the recipient,
2. an intent on the part of the recipient to repay the loan,
3. an intent by the payor (creditor) to enforce the obligation,
4. a written loan agreement,
5. regular payment of interest and principal,
6. a specific date for repayment, and
7. an unconditional obligation for repayment not contingent upon future events.

If an agreement meets the above criteria, it will ordinarily be considered a loan. The fact that an agreement is labeled as a "loan" does not necessarily mean it will be treated as a loan for federal income tax purposes.

QUESTIONS?

For further information contact the
Internal Revenue Service,
Compliance Specialization at
(619) 230-8148



This publication is also available on
the IRS home page:
www.irs.gov
under "Forms and Publications"



Department of the Treasury
Internal Revenue Service

Publication 3106 (Rev. 6/02)
Catalog Number 25822M