De Filipps' LIFO LOOKOUT

A Quarterly Update of LIFO - News, Views, and Ideas

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LIFO UPDATE

If you had called me personally to ask "what's happening lately with LIFO that I need to know about?"... Here's what I'd say:

1. Not a whole lot has happened since the March, 1991 issue in terms of major Court cases, Revenue Rulings, Procedures, or other IRS pronouncements on LIFO. Think of that as good news because there's enough going on right now with IRS audits and processing LIFO change requests and Forms 3115 to keep most of us plenty busy.

2. IRS audit activity concerning LIFO applications includes reports from a number of conversations where the IRS is severely questioning pooling and other LIFO computational methods. In one instance, for the years 1980-1986, the IRS reconstructed indexes and came up with about 2% per year for new Ford cars and about 3% per year for new Ford trucks over that time frame. In another audit of a Chrysler dealer, the IRS has suggested that the new vehicles on LIFO should be split into three (3) pools: (1) new cars, (2) new trucks, and (3) minivans. In still another instance, the IRS is threatening to throw out the entire LIFO election - all years - because the dealer didn't save adequate records.

See "Reader Feedback" for more discussion of current IRS audit issues.

3. This issue of the Lookout contains several articles devoted to requests for permission from the IRS National Tax Office to make various LIFO method changes. These would be voluntary requests to change from LIFO practices that we believe are not in our client's own best interests. The majority of voluntary LIFO changes require Form 3115 filing within the first 180 days of the year (i.e., by the "end of June" for changes intended to be effective for calendar 1991 tax returns). Therefore, I wanted to get this issue into your hands somewhat in advance of this year's filing date if you are now feverishly working on '91 change requests.

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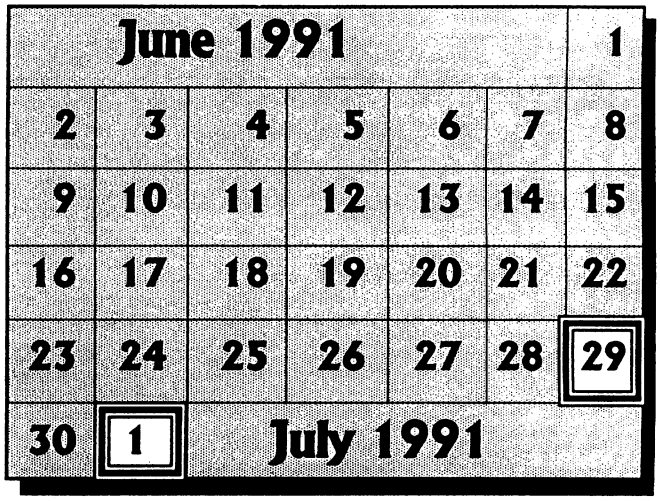

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VOLUNTARY LIFO METHOD CHANGE REQUESTS: RULES, REQUIREMENTS AND PRACTICAL PROBLEMS

Many CPAs are busy in May and June every year requesting LIFO accounting method changes for newly acquired clients whose LIFO computations are potentially troublesome or not as beneficial for the client as they ought to be. In some instances, the double extension method was originally elected when a link-chain, index method better measures changing inventories. In other instances, the computational approaches may not be too accurate and they may have resulted in questionable LIFO reserve amounts. Or maybe there are too many pools when fewer pools would produce larger LIFO reserves and still be just as acceptable to the Internal Revenue Service.

In taking over a new LIFO client and reviewing the LIFO procedures set up by the former CPA, the new CPA should recognize that he or she cannot arbitrarily or unilaterally "fix things" on their own...even though some immediate changes in LIFO methods might obviously be in the client's best interests. It is important for the new CPA to resist the impulse to shoot from the hip, "clean up the reserves" or to otherwise take things into one's own hands: Changing LIFO methods usually involves a laborious, time-consuming change request process that involves filing Form 3115...and waiting.

Another impulse to resist is the temptation to simply close one's eyes and ignore sub-par or improper LIFO sub-elections that are getting dangerously out of hand or that are really limiting the benefits the client could derive from LIFO. You may know that the client is using more pools than necessary, using a double extension method instead of a link-chain, index method, or continuing to apply computational methodologies that, in your own heart, you know you would never have started and can never be comfortable with or hope to justify to the IRS. Chronic LIFO problems like these usually do not go away with the passage of time; they usually only create bigger problems as the years go by, according to Murphy's law.

Consider one writer's summary of accounting method changes: "The treatment of accounting methods and changes since the 1954 Code has been ambiguous, complicated and contradictory. The great intentions of the drafters of the 1954 Code have resulted in a set of rules and regulations that are incredibly complex and paradoxal. There are very few authorities on the subject of accounting method changes and very little evidence exists that local IRS agents have any formal training in this area. As a result, the majority of professionals are perplexed when the issue arises. In many cases, both IRS agents and practitioners have no idea how to handle the problem. In a number of private letter rulings, IRS agents have requested National Office advice on these matters and have sometime made arbitrary assumptions that were completely erroneous." (See "Inventory and Accounting Methods: Controversy and Paradoxes" by Sheldon Drobny in the October, 1990 issue of Taxes - The Tax Magazine at page 764.)

Section 446(e) of the Internal Revenue Code provides that before a taxpayer can change any method of accounting, it must first secure permission or consent from the IRS to make the change. The Regulations provide that in order to secure the Commissioner's consent to a change in method of accounting, the taxpayer generally must file an application on Form 3115, Application for Change in Accounting Method, with the Commissioner of Internal Revenue, Washington, D.C., within 180 days after the beginning of the tax year for which the proposed change is to be made. This procedure may take as long as two years from start to finish.

The Regulations under Section 446 also provide that the Commissioner may prescribe administrative procedures, appropriate limitations, terms and conditions to permit taxpayers to change their accounting practices and to prevent the omission or duplication of items includible in gross income or deductions. Section 481(a) of the Code requires that those adjustments necessary to prevent amounts from being duplicated or omitted be taken into account when the taxpayer's taxable income is computed under a method of accounting different from the method used to compute taxable income for the preceding tax year.

In working with LIFO and LIFO changes, it is important to correctly identify changes which require filing Form 3115, changes which clearly do not involve or require Form 3115...and several other gray area or "in between" circumstances which leave the question →

Method Changes (Continued)

of whether a change in LIFO method is involved open to uncertainty and second guessing. These are set out in the accompanying box: "What Are and What Are Not LIFO Method Changes."

Two controlling revenue procedures prescribe rules for LIFO method changes. They are Revenue Procedure 84-74 (1984-2 C.B. 736) and Revenue Procedure 88-15 (1988-1 C.B. 683). The latter relates to LIFO terminations under special circumstances where the taxpayer is "clean" and the procedural rules are relaxed a little.

Revenue Procedure 84-74 is used in numerous situations not involving voluntary changes, such as where changes are being made because an IRS agent has precipitated them as a result of an audit, or where taxpayers are using Category A ("outlawed") methods.

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WHAT ARE AND WHAT ARE NOT LIFO METHOD CHANGES

LIFO changes fall into 3 categories: (1) those which do not require filing Form 3115, (2) those which clearly do require filing Form 3115, and (3) those which fall into the gray area somewhere in between.

CHANGES NOT REQUIRING OR INVOLVING FORM 3115 FILING

1. The initial election to use LIFO requires filing Form 970 with the first income tax return on which LIFO is being used, along with other filing requirements...but it does not involve filing Form 3115.
2. The extension of the LIFO inventory method to additional classes of inventory goods. This is referred to as a "subsequent" election and it involves filing a new Form 970 and not Form 3115.
3. Corrections of mathematical or posting errors are not changes in accounting methods.
4. A change in method of accounting does not include a change in treatment resulting from a change in underlying facts (Reg. Sec. 1.446-1(e)(2)(ii)(b)).
5. A change from the unit (specific goods) LIFO method to the dollar value LIFO method if the taxpayer continues to use exactly the same pools as were used under the other LIFO method does not require advance permission (Regulation Section 1.472-8(f)(1)).

CHANGES REQUIRING FORM 3115 FILING

1. Specific goods (unit) method to dollar value method...if pooling or other changes also are involved.
2. Change decreasing the number of pools...combining or consolidating pools.
3. Change increasing the number of pools (dividing, splitting or separating pools).
4. Changes in method of valuing LIFO layers (increments) Form 970, item 6.
5. Changes in composition of pools and miscellaneous LIFO related changes.
6. Change from double-extension method to index or link-chain, index method.
7. Change from index to link-chain method.
8. Termination of LIFO election.
9. Reelection of LIFO after a previous termination of a LIFO election.

CHANGES THAT MAY OR MAY NOT INVOLVE FORM 3115 FILING

Two important aspects relating to LIFO computations seem to be without specific guidance on whether the filing of Form 3115 is required when changes are made:

1. Item definition. If a taxpayer alters its computational approach in such a way that it involves or is interpreted as involving a change in the definition of the term "item," the Regulations are silent on whether such a change is a method of accounting change first requiring IRS permission.
2. Changes in detail computational techniques and/or sampling procedures. Under the index and link-chain, index approaches, competent professional judgement needs to be exercised in determining the manner in which indexes are computed and in other qualitative analyses as to whether or not a "representative portion" of the inventory is being repriced and whether the overall results are reasonable and "clearly reflect income." This judgement (in theory, anyway) needs to be reevaluated every year taking into consideration changes in the inventory levels, inventory mix and other factors. The IRS position might be that under Reg. Sec. 1.446-1(e)(2)(ii)(a) these approaches or procedures, sampling techniques and judgements each in the narrowest sense involve "methods of accounting" requiring Form 3115 permission to change. However, the Regulations are not 100% clear on this point and the profession seems to have produced no authoritative literature, guidance or even published "suggestions" bearing on every day LIFO sampling and related judgement issues.

In Letter Ruling 8403009, the IRS did hold that a change in sampling procedure was an unauthorized change in accounting method. The taxpayer in that case had repriced only certain types of raw materials instead of repricing its entire inventory. Subsequently, as a result of what the taxpayer considered to be a change in facts, it computed its indexes by repricing the entire inventory. The IRS held that this change, even though intended by the taxpayer to produce a more accurate overall result, was to be treated as a change in sampling procedure made without IRS advance approval.

SAMPLE LETTER ATTACHED TO FORM 3115 REQUESTING LIFO CHANGES

STATEMENT OF CHANGES IN ACCOUNTING METHOD REQUESTED

Taxpayer filed Form 970 with respect to its calendar year 1979 electing LIFO with respect to its new cars and new truck inventories. At that time, taxpayer established 7 pools as shown below and it now requests permission to consolidate those 7 pools into the 2 pools shown below:

Old Pools		Proposed New Pools	
Pool #	Description	Pool #	Description
1	Large Chevrolet	1	New Cars
2	Medium Chevrolet		
3	Small Chevrolet		
4	Corvettes		
5	Cadillacs		
6	Light Trucks (Chevrolet)	2	New Trucks
7	Medium Trucks (Chevrolet)		

As a franchised General Motors Chevrolet and Cadillac dealer, XYZ Motors, Inc. under the regulations is allowed to pool by "major lines, types or classes" of goods. Taxpayer requests permission to place all new cars in a single pool, and all new trucks in a separate, single pool, since its overall "classification" of goods consists of:

1. New vehicles (including demonstrators)
2. Used vehicles
3. Parts and accessories

The present pooling arrangement employed by taxpayer includes separate pools for various vehicle body sizes. Taxpayer requests permission to consolidate its new vehicle LIFO inventories into two (2) separate pools, one for all new cars (including demonstrators) and a second, separate pool for all new trucks (including demonstrators). This pooling arrangement would be consistent with the decisions rendered in 1981 by the United States Tax Court in Fox Chevrolet, Inc. (76 TC 708; Dec. 37,893) and in Richardson Investments, Inc. (76 TC 736; Dec. 37,894). In both of these decisions, the Tax Court allowed franchised automobile dealers (one a Chevrolet dealer, the other a Ford dealer) to use a single pool for all new "cars" and a separate, single pool for new "trucks." Taxpayer believes it should be entitled to this pooling arrangement for all new vehicles covered by its franchise agreements.

Form 970 filed by the taxpayer specified that these new vehicle inventories were subject to the dollar value, double extension LIFO elections. With respect to its year ending December 31, 1988, taxpayer requests permission to use a dollar value, link-chain, index method in computing the LIFO values for its new vehicle pools (this sub-election conforming to item 8(e) - previously item 8(c) on Form 970). In connection with this change, taxpayer also requests permission to change its cost determination from an average unit cost to a cost determined by reference to the specific identification of the vehicle purchase invoice.

In connection with these requested changes, taxpayer will continue to use a method in valuing increments that will approximate the most recent purchases method to determine the cost of goods in its closing inventory in excess of those goods in the opening inventory (this sub-election conforming to item 6 on Form 970). As a result, taxpayer will continue to apply the same cumulative index used to deflate the ending inventory to raise or adjust any increment so calculated to current cost.

The overall intention of the taxpayer is to produce a LIFO computation methodology that will be more in keeping with the nature of the technological changes found within its new vehicle inventories and to produce a more accurate computation of the annual inflation or deflation indexes.

COMPUTATIONAL ADJUSTMENTS

The overall link-chain, index LIFO approach taxpayer proposes to employ is intended to result in a more accurate measurement of price changes in the ending inventories. This should, in turn, result in a more accurate measurement of income each year. Previous LIFO measurement procedures and results were more directly affected by (1) pure quantity changes in the number of vehicles in its year-end inventories, (2) the model mix and

See To IRS, page 6

IRS LETTER APPROVING CHANGES REQUESTED BY FILING FORM 3115

This refers to an application filed on behalf of XYZ Motors, Inc. (the taxpayer) for permission to change its accounting method with respect to its last-in, first-out (LIFO) inventory, as described below, for Federal income tax purposes, beginning with the taxable year ended December 31, 1988 (year of change).

Changes are:

1. From the double-extension method to the link-chain method of computing the value of its dollar-value LIFO inventory pools.

2. From the method of using seven dollar-value LIFO pools for its inventory of new vehicles to the method of using two pools. One pool will consist of new automobiles and other pool will consists of new trucks.

3. From the method of determining the cost of layers of increments by reference to the actual cost of the actual ending inventory to the method of determining the cost of layers of increments by reference to the actual cost of the goods most recently purchased or produced in accordance with Section 1.472-8(e)(2)(ii)(a) of the Income Tax Regulations for its pools of new vehicles.

Information submitted indicates that the taxpayer is a retail automobile dealer, employs the accrual method of accounting, is a C corporation and is subject to the uniform capitalization rules of Section 263A of the Internal Revenue Code. Beginning with the tax year ended December 31, 1979, the taxpayer adopted the dollar-value LIFO method for its inventory of new vehicles, including demonstrators. The taxpayer has been determining the cost of layers of increments in its pools by reference to the actual cost (specific identification) of the actual ending inventory, notwithstanding that its Form 970 (Application to Use LIFO Inventory Method) specified that it would use the "most recent purchases" method (the proposed method). Presently, the taxpayer maintains the following dollar-value pools, computed under the double-extension method:

Description of Present Pools

1. Large Chevrolet
2. Medium Chevrolet
3. Small Chevrolet
4. Corvettes
5. Cadillacs
6. Light Trucks (Chevrolet)
7. Medium Trucks (Chevrolet)

The taxpayer considers the double-extension method to be impractical due to the rapid technological changes in the automobile industry and the complexity of the automobile products inventoried by the taxpayer. The requested changes will serve to more clearly reflect the taxpayer's income. The proposed method of pooling will allow the taxpayer to conform to the decisions in Fox Chevrolet, Inc. v. Commissioner 76 T.C. 708 (1981) and Richardson Investment, Inc. and Subsidiaries v. Commissioner 76 T.C. 736 (1981).

It has been represented that in computing the current-year indexes under the proposed link-chain method, the cost of options and accessories installed on the vehicles will continue to be included in the inventoriable cost of the items (vehicles) used in computing the indexes.

Section 1.472-8(c) of the Regulations provides, in part, that items of inventory in the hands of wholesalers, retailers, jobbers, and distributors shall be placed into pools by major lines, types, or classes of goods.

Although some information has been presented regarding the computations relative to the use of the link-chain method, no final determination can be made by this office regarding the use, accuracy, or reliability of such method. In this connection, see Section 1.472-8(e) of the Regulations.

Based solely on the information presented, permission is hereby granted the taxpayer to change its accounting method with respect to its LIFO inventory, as described above, beginning with the year of change, provided:

1. That the taxpayer keeps its books and records for the year of change and for later taxable years on the LIFO inventory method, and that it uses the LIFO inventory method for all reports, including financial statements and statements for credit purposes in conformity with the provisions of Section 1.472-2(e) of the Regulations;

See **From IRS**, page 7

model year of purchases in each year's ending inventory and (3) the extent by which vehicles in the ending inventory differed from those in the preceding year due to the number and cost of options and accessories included as part of the vehicle costs. Thus, because the LIFO methodology presently used and from which a change is requested is related more specifically to unadjusted average costs of units, in some instances less accurate results could be calculated because of changes in physical quantities and differences in option and accessory mix and/or body style mix when, in theory, these factors should have a negligible impact on the index computations.

An approximated recomputation of the LIFO valuation of taxpayer's inventories for all prior years under the link-chain, index methodologies proposed cannot be readily calculated. With respect to the potential issue or matter of a Section 481(a) transitional adjustment, taxpayer believes it is not possible to readily recompute these prior valuations because much of the information necessary for the recalculations is either not readily available, is no longer available, or could not be determined without great subjectivity, expense and/or inconvenience or without using assumptions that would approximate those inherent in the link-chain, index methodology.

Taxpayer believes that the extensive, burdensome and subjective computations that would have to be made to establish LIFO reserve calculations for all prior years under the new method are not practical and requests relief from this exceedingly subjective task.

Therefore, taxpayer proposes to make no change in its overall LIFO reserve amount or the overall LIFO value of the opening inventory for the year of change. Accordingly, it proposes that a "cut-off" method be applied and that the amount of the LIFO reserve as of December 31, 1987 become (and will be used as) its LIFO reserve balance as of January 1, 1988 for the two pools - (1) new cars and (2) new trucks - that it proposes to use. This is reflected in the schedules attached as part of this Form 3115 submission.

LINK-CHAIN, INDEX METHOD

As an automobile dealer, taxpayer believes that the LIFO valuation of its new vehicle inventories determined under a link-chain, index method is likely to be more accurate than that produced under any other method. Technical advice memoranda issued by the National Office involving automobile dealer LIFO applications have indicated that the link-chain, index method is more suitable and preferable than other LIFO methods because of the rapid technological change in the automobile industry and the complexity of the automotive products involved which comprise an automobile dealer's inventories.

A link-chain method uses the beginning of each year as the measuring reference for determining change (in contrast, the double extension method presently employed uses a fixed base date, which is defined as the first day of the first year LIFO was elected). An index method reprices a representative portion of the overall inventory rather than "every item" as required under the double extension portion of the Regulations. Therefore, a link-chain, index method is a method that (1) uses a moving, or updated, base date each year and (2) reprices a representative portion (rather than "every" item) of the inventory in determining the annual index.

For the Tax Court's discussion of the link-chain, method, see Richardson Investments, Inc. (76 TC 736). In that case, the taxpayer was a Ford dealership and the Tax Court allowed - and the Internal Revenue Service did not take exception to - the use of a link-chain, index method by that taxpayer as a more natural means of coping with the problems of technological change in the new vehicle inventories.

Under the link-chain, index method, the change in cost levels from year to year will be measured first on an annual basis, and then the cumulative change forward from the new base date is determined by multiplying the current annual index by the last previously determined cumulative index.

As an adjunct to its use of a link-chain, index method, taxpayer proposes to continue to value any future annual increments by applying the index developed with reference to the specific identification of items in inventory at year-end, and this method is expected to closely approximate the "most recent purchases" method. This approach will simplify the index computations because the same index that is used in converting (deflating) the ending inventory from actual cost to a base dollar equivalent will also be used for valuing any increments that are computed at year-end.

A pro forma computation format for the calculations under the proposed link-chain, index method is attached.




2. That for any taxable year prior to the year of change, there will be no issue pending before the Internal Revenue Service or any Federal Court concerning the accounting method that is the subject of this ruling;

3. That the value of the taxpayer's inventory at the beginning of the year of change shall be the same as the value of such inventory at the end of the preceding taxable year;

4. That the taxpayer combines and/or separates the pool or pools being changed in accordance with the provisions of Section 1.472-8(g)(2) of the Regulations.

For purposes of Section 312 of the Code, the computation of earnings and profits available for the payment of dividends shall follow the new method of accounting.

It should be noted that Section 312(n)(4) of the Code was added by the Tax Reform Act of 1984. Accordingly, earnings and profits shall be increased or decreased at the end of each taxable year by the amount of any increase or decrease in the LIFO recapture amount as provided under Section 312(n)(4).

As provided in Section 1.472-8(d) of the Regulations, whether the number and the composition of the pool or pools used by the taxpayer are appropriate, as well as the propriety of all computations incidental to the use of such pool or pools, including those relative to the suitability, accuracy, and reliability of the link-chain method remain subject to determination by the District Director in connection with the examination of the taxpayer's income tax returns.

With respect to the use of the link-chain method, it will be necessary for the taxpayer to use its costs at the beginning of the year of change as its basis for computations of cumulative indexes and for determining future increments and decrements in its LIFO inventory.

It should be understood that, in computing the taxpayer's annual inventory price index for its vehicle pools under the link-chain method, the vehicles (items) used to compute the prior-year cost and the current-year cost should be comparable in terms of vehicle model, options and accessories, in order for these indexes to clearly reflect income. Furthermore, for each item entering a pool for the first time, the prior-year unit cost of the entering item shall be the current-year unit cost of that item unless the taxpayer is able to reconstruct or otherwise establish a different cost, subject to the satisfaction of the Commissioner.

This letter should not be construed as a ruling that the taxpayer's method of inventory costing is in conformity with Section 263A of the code and the Regulations thereunder.

If the taxpayer agrees to the terms and conditions contained above, the taxpayer is to sign and date the attached copy (CONSENT AGREEMENT) and return to Commissioner of Internal Revenue, Attention: CC:IT&A:11, P.O. Box 14095, Benjamin Franklin Station Washington, D.C. 20044, within 45 days from the date of this letter. The signed copy constitutes an agreement (CONSENT AGREEMENT) within the meaning of Section 481(c) of the Internal Revenue Code and Section 1.481-5(b) of the Income Tax Regulations, and shall be binding on both parties except that it will not be binding on the Service upon a showing of fraud, malfeasance, or misrepresentation of a material fact upon which the taxpayer based its request. In addition, a copy of the executed Consent Agreement must be attached to the taxpayer's income tax return for the year of change. For further instructions see Section 7.05 of Rev. Proc. 84-74, 1984-2 C.B. 736 (copy enclosed).

The accounting method change granted in this letter is directed only to the taxpayer who requested it and may not be used or cited as precedent.

Method Changes

(Continued from page 3)

Category A methods are methods specifically not permitted by the Internal Revenue Code, or by Income Tax Regulations or as a result of a Supreme Court decision.

Revenue Procedure 84-74 is also involved where LIFO method changes are voluntarily requested or initiated by taxpayers and their advisors. In this context, and in the context of this article, these voluntary LIFO method change request involve changes that are referred to as Category B methods. By definition a Category B accounting method is one which is not a Category A (i.e., a specifically prohibited or "outlawed") method.

Accordingly, Form 3115 is the eye of the needle through which the Camel bearing the LIFO change request must pass. Although the instructions for Form 3115 refer to specific sections of Rev. Proc. 84-74 in a few paragraphs dealing with specific matters, that Revenue Procedure should be thoroughly reviewed along with IRS Publication 538, Accounting Periods and Methods, as part of the Form 3115 preparation process.

The most recent Form 3115 has a January, 1989 Revision date and should be used for any current change requests until it is superseded by a newer version. The instructions for Form 3115 indicate that all relevant facts, including detailed descriptions of present and proposed (LIFO) methods must be submitted. You must also state the reason(s) you believe approval to make the requested (LIFO) changes should be granted. The instructions also indicate that you should state whether you desire a conference in the National Office if the Service considers an unfavorable response to your request. If you do not specifically request a conference, the IRS presumes that you do not want one. In addition, the instructions remind you there is a user fee (which was increased to $300 from the $200 printed in the instructions) in connection with filing Form 3115, as well as specifying the IRS address to which the application must be mailed.

Form 3115 consists of 6 pages, Sections A through H, and a signature block on page 6. The portions of Form 3115 that are required to be completed in connection with LIFO method changes are Section A, a full page and one half of general information, and Section C, relating to Change in Method of Valuing Inventories. Section C on its face contains a note that Section D should also be completed and Section D on its face says: "Complete this section if the requested change involves either property produced, property acquired for resale, or long-term contracts." This note seems to be contradicted by the instructions for Section D which appear to require the completion of Section D only in the more limited context of Section 263A method changes: "Applications requesting to change their method of valuing property produced, property acquired for resale under Section 263A MUST complete Schedule D showing the treatment under both the present and proposed methods." It would seem that where only LIFO changes (but not Section 263A changes) are involved, Section D need not be completed. However, to be safe it would be advisable to fill out Section D anyway. Of course, the Signature Block needs to be completed too. Relevant portions of Form 3115 (Sections A and C only) are reproduced, as are the Form 3115 instruction pages.

In most instances involving LIFO changes from the double extension to the link-chain, index method or involving the consolidation of LIFO pools, it would be advantageous and desirable to request the "cut-off" method, wherever possible, in order to avoid having to make a Section 481(a) computation. This is so because in the context of many LIFO change requests, prior years' invoices, cost records and other information may not exist or may have not been saved and it is often impossible to compute the Section 481(a) adjustment of what the inventory valuation would have been if the method desired actually had been used from the start of the LIFO election. The IRS reviewers are usually very reasonable about this request.

Accompanying this summary is an example of a Form 3115 request letter submitted to the IRS and the corresponding reply eventually received from the IRS (about 20 months later) granting permission to make the changes requested. The Form 3115 requested permission to change from the double extension to the link-chain, index method. Inherent in this change request was the desire to get away from the underlying, less desirable "averaging" computational approach previously employed. The Form 3115 also requested permission to consolidate down to only two pools, one for new cars and one for new trucks, instead of continuing to use multiple pools by body size (i.e., large, medium, small) as previously elected on Form 970. Note that the request to use the "cut-off method" was made and it was allowed by the Internal Revenue Service so there was no Section 481(a) dollar adjustment as a result of the changes.

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Method Changes (Continued)

One of the practical problems with Form 3115 filings is that the request process will take so long in the IRS National Office that the taxpayer requesting the change will have to file a tax return for the year of change before it is known whether or not permission will be granted. This means the taxpayer/CPA will have to decide whether to file the tax return (for calendar year 1991, for example) using the "old" or previous method or file the return using the "new" computation method(s) being requested.

Technically, and according to the statute, the correct answer is that until the taxpayer receives official permission from the IRS to change, it cannot unilaterally change from its current method. Even if you receive a letter from the IRS granting permission to change, you still do not have to make those changes...unless you really want to. The IRS gives you 45 days in which to make a final decision as to whether you will make that change or not for the year in question. This is clear from the closing paragraphs in the change approval letter the IRS sends back.

As a practical matter, and notwithstanding the foregoing, many CPAs go ahead and prepare the tax return for the year of change (when they can hold off its filing no longer) employing the "new" computational methods and (1) disclose in an attachment to the tax return being filed that a change request is pending in the National Office from the "old method" to the "new method" employed in the LIFO computations in the return and (2) state in the attachment that if permission to make the change is not granted, an amended return for the year will be filed and, (3) further state that if permission to change is received, a copy of that permission letter from the IRS National Tax Office will be associated with the current year return being filed by means of an amended return: Form 1120-X. Also, as a matter of good housekeeping, the boxes in the Cost of Goods Sold/Inventories section on page 2 of Form 1120 should also be checked indicating that a change has been made so the IRS has obvious notice on the face of the tax return as to what is going on in arriving at the LIFO valuation of the ending inventory.

One alternative is fairly common. Either at the suggestion of the National Tax Office or because the review process takes so long, the taxpayer is allowed to defer the year of change from the year originally specified on Form 3115 to the next following year.

Another practical problem created by the length of time some accounting request changes take is that the taxpayer may change CPA accounting firms before the IRS completes its review. Don't think you can't be on the giving or the receiving end of this one. This may create significant predecessor/successor CPA firms problems...especially if additional information is requested by the IRS after the original Form 3115 submission has been filed. This suggests the importance to both the CPA and the client of having a written engagement letter describing the responsibility for the accumulation of information, the computation of the transitional adjustments, if any, and the representation services to be rendered before the IRS in connection with the Form 3115 method change request, including an understanding of the estimated fees and time of payment in connection with these services.

A third practical problem associated with Form 3115 filings in LIFO termination situations involves the "penalties-of-perjury" statement required to be signed affirming that the taxpayer is not aware of the occurrence of any events in an open tax year that could otherwise result in the termination of the LIFO election. In other words, there is a requirement that if any of the "terminating events" listed in Revenue Procedure 79-23 have occurred, those must be disclosed as part of the Form 3115 application. This means that a taxpayer requesting to terminate its LIFO election must come to the IRS with clean hands.

This presents practical problems if financial statements at earlier year-ends have not reflected LIFO, thus resulting in a possible LIFO conformity violation. What do you do if you know that the inventory has not been carried at cost or there have been some unauthorized writedowns in addition to LIFO? Or that Form 970 was not originally (or ever) filed to make the LIFO election "official?" And even more troubling in this regard is the IRS position, expressed in Revenue Procedure 79-23, Section 3.01(d), that failure to maintain adequate books and records and information to support LIFO inventory computations also can be a LIFO election terminating event. This provision in 79-23 is becoming more and more of a club in the hands of some IRS agents who routinely threaten to throw out a LIFO election where the dealer can't produce all invoices, other cost records and model information for all prior LIFO years.

RUNNING OUT OF TIME? ATTACH EXPLANATION... OR FILE FOR AN EXTENSION?

The due date for filing Form 3115 is the 180th day of the tax year in which it is desired to make the change. In other words, a LIFO change to take effect for calendar year 1991 must be requested by filing Form 3115 with the Internal Revenue Service by June 29, 1991. The IRS is very strict about timely filing of Form 3115.

Are you running out of time? Relax...Dude! For starters, this year (1991) you get 2 whole extra days because the 180th day falls on a Saturday. Although not stated in the Form 3115 instructions, IRS Pub. 538 states that if the 180th day falls on a Saturday, Sunday or legal holiday, the filing date is extended to the next working day. Well, thanks a lot, but that may not be of much help.

If Form 3115 is not filed by the due date, and if it is filed after the 180-day period (but within 9 months from the beginning of the year of change), it is late and it will be considered for processing as if it were filed on time →

FILING FORM 3115: SUGGESTIONS & OBSERVATIONS

1. A tax services engagement letter should be drawn up if you want to protect both yourself and your client by having a written understanding before embarking on the ruling request process. Once initiated, the Form 3115 filing process may involve considerably more time and expense than originally anticipated...especially if the IRS requires additional information to be submitted or computations be provided or raises unexpected or novel reasons opposing your request. It is best to have a written understanding up front with your client reflecting all of this along with your own estimate of how much time might be involved in accumulating information for the ruling request, actually drafting it, discussing it with the IRS and implementing it if permission to change is granted.
2. Don't necessarily assume that if you request permission to change LIFO methods, the IRS will automatically audit prior or current income tax returns...regardless of the nature or the reasons for your request.
3. Also, don't necessarily assume that just because a similar change request might have been approved without "too much trouble" a few years ago, that the current request will go through as quickly or readily as in the past. Policies and IRS personnel attitudes towards specific technical issues differ, individuals gain more experience over time dealing with technical matters, and what seem to be relatively simple change requests may now require more background information or evaluation. Not to mention the big backlog of 3115 cases pending in the NTO before yours comes along.
4. If the IRS approves the change requested, don't necessarily assume that you are required to make that change. Part of the overall process gives you 45 days in which to notify the IRS as to whether or not you will make the approved change.
5. In writing the formal submission, remember to request that a conference be held in the National Office if the IRS believes that it will be unable to approve the change request.
6. If you do not have complete prior year information relative to the index computations or methodology, provide as much background information as possible relative to the LIFO computations and the inventory size and mix so that the IRS has some overall frame of reference for considering the change.
7. If you cannot find authoritative, written support for your change request (in the Code, Regulations, or decided tax cases), say so...and mention (1) the absence of any discussion on the issue (if the Code and regulations are silent) or (2) the lack of any specific prohibition against the change you are requesting. In some instances, the National Office requests taxpayers to cite "authority" in the Code or Regulations for a requested change when, in fact, there is no formal guidance on the matter anywhere.
8. Be careful to avoid disparaging or incriminating language in describing the reason(s) for requesting the change. Downplay - or at lease don't elaborate on - the possible unfavorable impact of assumptions, judgments, shortcuts or other inaccuracies which may be inherent in the prior computational methods. For example, if a change from the double extension to the link-chain, index method is being requested, justification for the request can be worded to emphasize the taxpayer's desire to have a new computational methodology that is believed to be more likely to clearly reflect income than the previous method (without going into details over the shortcomings of that previous method).

   On the other hand, if there is some clear cut authority, like the Fox Chevrolet decision in support of a request to consolidate multiple pools, simply cite the Tax Court decision and say no more.
9. If you have a strong feeling or belief that the change you are requesting should more clearly reflect sound accounting practices, then say so...even though you aren't able to document it with any authoritative literature on what constitutes present LIFO practices. (In some cases, there simply isn't any!) If your own practical experience is all you have to rely on, don't underestimate your own professional judgement as to what constitutes a reasonable effort at compliance with the "clear reflection of income" standard.
10. Don't necessarily assume that you have to be able to go back and recompute what the LIFO reserve(s) would have been if the "new" method you are requesting permission to change to were employed since the first LIFO year. In many instances, the IRS will allow a carryover of the existing LIFO reserves through the use of the so-called "cut-off" method. As a result it will not require a Section 481(a) computation. This means that the taxpayer may be spared a lot of time and effort in attempting computations as to prior LIFO reserve balances under alternative computations. This is especially important where changes from the double extension to the link-chain, index method are involved.

only upon a showing of "good cause" and that granting an extension will not jeopardize the Government's interests. IRS Publication 538 appears to sanction an informal submission under Revenue Procedure 79-63 as part of a late Form 3115 filing. The Form 3115 instructions also refer to Revenue Procedure 79-63 (1979-2 C.B. 578).

So if you're running out of time, it appears you have to choose between (1) simply filing Form 3115 "late" and attaching an explanation...or...(2) formally requesting an extension of time to file Form 3115 under Regulation Section 1.9100-1. Neither alternative is satisfactory nor highly likely to result in the year of change being the year you want, except in the most extraordinary and unusual circumstances.

Under Regulation Section 1.9100-1, the Commissioner has discretionary authority to grant extensions of time for making an election or application for relief. Each request for an extension under this section is considered on its own specific facts and circumstances and, as indicated above, such extensions are very difficult to justify and obtain.

Revenue Procedure 79-63 provides that the following factors generally will be taken into consideration in determining whether good cause has been shown. These are also listed in IRS Pub. 538 in connection with late filing explanations attached to Form 3115:

1. DUE DILIGENCE OF TAXPAYER. What action, if any, did the taxpayer take to determine the existence of and requirements for the application? Did the taxpayer consult an attorney or accountant knowledgeable in tax matters or communicate with a responsible employee of the Service? Further, what efforts or action did the taxpayer take to comply with the application requirements?

2. PROMPT ACTION BY TAXPAYER. Is the taxpayer requesting the extension within a reasonable time after discovering a deadline that could not be met or, alternatively, within a reasonable time after discovering a deadline that has already passed? Was the discovery made within a reasonable time after passage of the deadline? Did the taxpayer take reasonable action under all the circumstances to deal promptly with a missed deadline?

3. INTENT OF TAXPAYER. Did the taxpayer intend to make the election or application on time? If the taxpayer knew of the election or application, was the taxpayer's failure to elect or apply on time due to mere inadvertence or to significant intervening circumstance beyond the taxpayer's control? Have the taxpayer's actions been consistent with the intent to make the particular election or application or has the taxpayer taken action inconsistent with the intent to make the particular election or application?

4. PREJUDICE TO THE INTERESTS OF THE GOVERNMENT. Would granting the extension neither prejudice the interests of the Government nor cause undue administrative burden? For example, has the taxpayer used or had the opportunity to use hindsight to the Government's prejudice by actions based on knowledge of events occurring after the time when the taxpayer would have had to act in order timely to make the election or application?

5. STATUTORY AND REGULATORY OBJECTIVES. Would granting the extension be consistent with the objectives of the underlying statute and the regulatory election or application provision?

If you decide to file a formal request for an extension of time under Section 1.9100-1, be sure to submit information that is specifically responsive to **ALL** of these questions. The Revenue Procedure also requires a statement under the penalties of perjury regarding the completeness of the representations being made. Don't ask for any period extending beyond 270 days from the start of the year of change. The IRS simply will not consider it.

If the formal request for an extension of time to file Form 3115 is being made, the letter should be sent to the Internal Revenue Service address shown in the sample letter. This address is different from the address to which Form 3115 is actually sent because Section 1.9100 requests are reviewed by different IRS personnel than those who process Form 3115 change requests.

The instructions for Form 3115 indicate that if you choose to not formally request an extension of time (i.e., if you are simply filing late with an explanation), a user fee of $300 should be submitted, instead of the $200 user fee for timely filed 3115's. The user fee for requests for extension of time under Section 1.9100 regarding Form 3115 filed after March 31, 1990 was listed at $500 in Rev. Proc. 90-17 (1990-1 C.B. 479).

A good reference article appeared in the March, 1986 issue of **The Tax Advisor:** "Regs. Sec. 1.9100: A Second Chance to Make the Election," by John L. Crawford. ✻

THE ULTIMATE CHANGE... TERMINATING A LIFO ELECTION

It has been said there are only three problems with LIFO: getting on...staying on...and...getting off!

What if a taxpayer voluntarily wants to terminate its LIFO election? The answer is that terminating the LIFO election requires the filing of Form 3115, since technically terminating a LIFO election constitutes a change in accounting method. The LIFO termination procedure taken will depend upon whether Revenue Procedure 84-74 or Revenue Procedure 88-15 is involved.

Revenue Procedure 88-15 allows certain taxpayers to obtain expeditious consent to discontinue the use of LIFO, and this Revenue Procedure will apply unless a taxpayer is ineligible for its provision, in which case Revenue Procedure 84-74 will be applicable.

In general, it is preferable for the LIFO termination to be made under Revenue Procedure 88-15 since this procedure allows the filing of Form 3115 as late as 270 days after the start of the year of termination. This Revenue Procedure can be used by any taxpayer desiring to discontinue the use of the LIFO method for all of its LIFO inventory and who will change to a permitted method prescribed by the Revenue Procedure. If Revenue Procedure 88-15 applies, then Revenue Procedure 84-74 is not applicable to the termination request.

Revenue Procedure 88-15 does not apply to a taxpayer already under audit by the IRS or before an Appeals Office unless the taxpayer gets permission from the agent or appeals officer to file under Rev. Proc. 88-15. Also, if a taxpayer is in violation of Section 263A cost capitalization requirements, it cannot use Revenue Procedure 88-15. In addition, any taxpayer who did not previously file Form 970 when electing LIFO cannot use Revenue Procedure 88-15, nor can the procedure be used if the taxpayer had a LIFO "termination event" as described in Revenue Procedure 79-23 occur in a year that is still open under the statute of limitations. Consult Revenue Procedure 88-15 for other exceptions to its use.

This Revenue Procedure waives the 180-day period for the filing of Form 3115 and instead requires that Form 3115 be filed in duplicate: one copy mailed to the IRS National Office in Washington, D.C. (with no user fee required to be paid) within 270 days after the beginning of the year of change. The original of Form 3115 is to be attached to the timely filed Federal income tax return for the year of change. The Form 3115 should be clearly marked at the top as being "Filed Under Rev. Proc. 88-15."

The Section 481(a) adjustment repaying the LIFO reserves cannot be amortized over more than 6 years. The number of years over which the spread is allowed and the amount to be repaid each year will depend on the historical build-up of the LIFO reserve. If there has been a "terminating event," the amortization period can be as short as one year.

A taxpayer going off LIFO cannot use any part of a net operating loss carryover or a credit carryover from years before the year of termination against the amount of Section 481(a) adjustment taken into income in the year of termination. However, operating losses or credits arising in the year of termination and in subsequent years are not so limited against recaptured amounts in those later years. If the entire amount of the Section 481(a) adjustment is attributable to the year before the year of termination, then the entire Section 481(a) adjustment is taken into account in the year of change/termination. If this does not apply, and the LIFO method has been used for more than 4 years and certain other percentage-build up tests are satisfied, the taxpayer is entitled to a spread period of not more than 6 years.

Two other conditions a taxpayer wanting to get off of LIFO must accept are (1) LIFO cannot be reelected for 10 years, unless Form 3115 is filed and permission to make the reelection is granted by the IRS and (2) the same non-LIFO inventory method must be used for financial statements, books and tax return purposes: a post-LIFO financial statement conformity requirement.

There are two practical problems involved with using Revenue Procedure 88-15. First, the inventory method to be used by the taxpayer after terminating the LIFO election is subject to special rules contained in Section 4.02 which depend upon whether the taxpayer previously had all inventoriable goods on LIFO or not. The Revenue Procedure contains a lengthy discussion of the "method to be used" and specifically conditions the eligibility to use the Procedure upon the taxpayer's use of the "method to be used."

The second practical problem is that the following termination event statement must be signed and attached to Form 3115: "Under penalties of perjury, I hereby certify that to the best of my knowledge and belief, with respect to (name of taxpayer)'s use of the LIFO inventory method, no termination event (as defined in Section 3.02(5) of Revenue Procedure 88-15) has occurred during a year not barred by the statute of limitations as of the filing of the Form 3115 with the National Office." The Procedure defines a "termination event" as a situation described in Revenue Procedure 79-23, with certain exceptions.

Under the more restrictive, "alternative" Revenue Procedure 84-74 for voluntary LIFO terminations, the filing of Form 3115 with the IRS National Tax Office must take place within 180 days of the beginning of the year of change, the spread period for repaying the LIFO reserve will be shorter (possibly as short as all in one year) and the use of net operating losses and tax credits against recapture income is similarly limited.

SAMPLE LETTER REQUEST FOR EXTENSION OF TIME TO FILE FORM 3115

(To be typed on Taxpayer Letterhead)

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Date _____

Internal Revenue Service
Assistant Commissioner (Technical)
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Attention: T:FP:T

re: Name _____
Address _____
_____
EI# _____

Request for Extension of Time to File Form 3115
"Application for Change in Accounting Method"
With Respect to Calendar Year 19

Dear Sir or Madam:

Pursuant to Section 1.9100-1 of the Regulations, we are requesting an extension of time until September 30, 19_ in which to file Form 3115 concerning our application for permission to change certain dollar value LIFO (Last-In, First-Out) inventory accounting methods.

Specifically we are requesting permission to change from the (double extension method) to a (link-chain, index method in valuing our inventory under the overall LIFO method) and to (consolidate the pooling from six (6) pools down to two (2) pools). (Note: These are just 2 examples; describe your specific changes here.)

Our request for an extension of time is necessitated by the fact that...(the decision by management, after studying the advisability of making this change for some time, has just been made. Our accountants have advised us that due to their heavy workload at this time and due to the complexity of the data required to be submitted in support of our request to change accounting method, that it would be impossible to properly complete Form 3115 and the required supporting data). (Include all pertinent reasons and facts and circumstances here and be responsive to the questions asked by Rev. Proc. 79-63.)

At this time our request is being made before expiration of the deadline fixed by the regulation and it is being made to enable us to submit a more complete Form 3115 within the next ninety (90) days.

We do not believe that your granting of the extension of time would in any way prejudice the interest of the government nor cause any undue administrative burdens, nor would it be inconsistent with the objectives of the underlying statutes and the applicable regulations. Furthermore, we have not taken any action inconsistent with the intent to make this request or change.

Under penalties of perjury I declare that I have examined this request including any accompanying documents and to the best of my knowledge and belief the facts presented in support of the request for an extension of time to File Form 3115 are true, correct, and complete.

A copy of Form 2848 is enclosed to enable you to contact our authorized representatives to discuss any question or possible objection to our request for this extension of time.

Also enclosed is a check for the $__ User fee in connection with this application.

Respectfully submitted,

TAXPAYER NAME

_____

(Authorized Officer), President

4. As reported in the March, 1991 issue (Heard Unofficially...For What It's Worth...), the major pronouncement that the IRS National Office is on the verge of issuing looms as the major coming event - although still unscheduled - on the horizon. It has been confirmed since the last issue from several sources that this major pronouncement will come out and say that manufacturers cannot use the "component of cost" method for LIFO purposes any longer. This could be a real bombshell involving huge (hundreds of millions of dollars) assessments for some manufacturers, possibly car manufacturers. That may explain why the IRS has been so interested in collecting information on the definition of an "item" in many recent auto dealer LIFO audits and discussions.

I understand that representatives of the AICPA, American Bar Association and other prominent interested parties met earlier this month with the IRS in Washington, D.C. and soon (in the slow time frame by which the IRS moves) this major LIFO edict will be issued. Transitional rules and penalties for failure to conform will be of great interest, regardless of what type of client LIFO application you are working on.

5. I have become aware of some recently developed software for year-end planning that's especially useful for retailers with multiple pools, using either the cost method or the retail LIFO method. If you are interested in this software, let me know and I will be happy to put you in touch with the developer who sent me the documentation and a demo disk.

AVOIDING FORM 3115 BY USING SECTION 351

Sometimes a taxpayer's LIFO methods and procedures are so sloppy that the results are technically indefensible and seemingly hopeless beyond repair. Consequently, the prospect of submitting a Form 3115 method change request to the IRS National Office LIFO experts is not viewed with great enthusiasm. The other horn of the dilemma is that continuing to do sloppy or inconsistent LIFO computations just because they were done that way in the past is not a course of action anyone prefers to continue.

Can anything be done? Are there any alternatives...when other technical avenues seem closed?

There seems to be one way to completely get around the Form 3115 method of accounting change filing requirement. This might be accomplished by transferring all of the inventories (and the entire business) to a newly created, controlled corporation in a Section 351 transaction. Admittedly an "exotic" transaction, it seems to fit into a current loophole that the IRS can only attack by getting Congress to change the law if it really wants to close this escape hatch.

Under the Section 351 escape, the existing taxpayer on LIFO (i.e., the one with the crummy LIFO practices) creates a new 100% wholly-owned subsidiary. As the "parent," it then transfers to its new, 100%-controlled subsidiary all of its assets, including the troublesome LIFO inventory. In its first tax return, the new subsidiary then makes its own LIFO election in its first Form 1120 by filing Form 970 employing all of the "right" LIFO methodology and sub-elections, thus getting off on the right foot with its own LIFO inventory methods.

In Section 351 transactions, the LIFO inventory methods and sub-elections of the parent corporation-transferor do not carry over to the subsidiary-transferee. They would carry over only if Section 351 transactions were governed by Section 382 - which they are not. That's why the new subsidiary has to make its own LIFO election in its first tax return by filing Form 970.

However, the parent-transferor's adjusted tax basis for its LIFO inventory (i.e., its lower, net of LIFO reserve, valuation) does carry over to the subsidiary. In other words, the parent's LIFO tax basis for its inventories carries over to the subsidiary and becomes the subsidiary's opening inventory valuation amount even though its LIFO sub-elections and methodology do not. As a mechanical matter, all the parent's base year and subsequent year increment layers are "collapsed" into a single, opening or base layer for the new subsidiary electing LIFO.

In setting up a Section 351 transaction, note that it is necessary to have a valid business purpose for the exchange and the Regulations under Section 351 contain various information reporting and other requirements. Valid business reasons could include the potential greater protection of assets or further insulation of assets from creditors, insurance purposes, state tax reasons, or others. Timing is also important. Caution: there may be other non-LIFO or non-tax disadvantages to attempting this route just to cure LIFO problems. For example, if there are significant assets subject to leases, some of the leases may be subject to renegotiation or there may be other "releases" to be obtained.

If you are working with LIFO methods that are really so bad or so hopeless that only this alternative seems attractive, I can provide the names of some people you can talk to who have solid experience with these Section 351 escape hatches and assure me they really do work...at least for the time being.

READER FEEDBACK: IRS AUDITS

One reader's letter raises several interesting LIFO questions in an IRS audit context.

"One of our clients is currently under examination by the IRS. The agent involved is questioning some of the LIFO calculations as follows:
(A) New vehicles: "You have excluded 26 cars and 13 trucks in the index calculation. (These are all one model year old.) Explain why these would not go in both beginning of the year (BOY) and end of the year (EOY) at the same cost.
(B) Used vehicles: "In my opinion, cars and trucks should generally be pooled separately - the same for used as for new. In this particular year, the impact appears to be negligible, so the issue is not pursued at this time.

Items excluded from the index are those so old that there is no prior year listed in the black book, and items which are the first year for that model, so that there is no value for a prior year model listed. Explain why you feel these items should no go into the calculation - same value beginning and end of the year."

In connection with the new vehicle question, it would seem the IRS agent is more correct in contending that the one model year old vehicles should be included in the index calculation, rather than left out entirely. In my opinion, the "ideal" LIFO index computation for new vehicles would involve repricing all of the vehicles included in ending inventory to the greatest extent possible and practical in terms of both units and dollars. If these 26 cars and 13 trucks actually were on hand at year-end (which they were), I believe they ought to be included in the respective index computations, even though to do so might decrease the overall index.

I would not necessarily agree with the IRS agent that these vehicles should be included in the beginning of year (BOY) column and the end of the year (EOY) repricing column at the same cost, especially if during the year there were price increases in that particular model. The link-chain, index approach in a given year uses the previous year's (EOY) or end of the year column price as the corresponding unit price for the (BOY) beginning of the year price in the following year. This is how the repricing should be "linked together." As a practical matter, this approach will then result in picking up any inflation reflected in mid-year price increases experienced prior to the introduction of the new model, to the extent those mid-year price increases are actually reflected in the invoices for the one model year old vehicles on hand at the end of the year. That is why I suggest that all price information for a each year be retained, even though only some of it may be necessary in connection with that year's LIFO repricing. The possibility that information may be useful in the following year suggests that all price and product information should be retained.

With respect to the used vehicles, in my opinion the IRS agent is being generous giving the dealer a "pass" on combining all used cars and used trucks in the same pool. Many IRS agents would insist upon a separate used car pool and a separate used truck pool as a matter of principle. This was one of the IRS holdings in TAM 8906001. In other words, if Fox Chevrolet stands for the proposition that cars should be pooled separately from trucks, then in the eyes of the IRS, whether the cars and trucks are new or used would be immaterial. (What about a 3115 filing?)

Moving to the question raised by the IRS agent in connection with used vehicles, the essence of the link-chain, index approach is that a representative portion of the ending inventory be repriced. There is no definite guidance as to what constitutes a "representative portion," although some commentators have suggested that the IRS will or should accept the results if 80-85% of the dollars in ending inventory are repriced and 50% of the items in inventory are also repriced. As a practical matter, when used vehicles are so old that there is no prior listing in the black (or red or blue) book, chances are they do not represent a significant percentage of value or dollars in the ending inventory. As a practical matter, if repricing these older vehicles at the same dollar amount in the beginning of year and end of year repricing columns is what it takes to satisfy the agent, that may be a relatively minor concession to make, even though it will lower your index and LIFO reserve to some extent.

Alternatively, you can offer the argument that the factors affecting the end of the year price for those used vehicles actually repriced were likely to be the same factors as those bearing on the models that had to be excluded from the repricing computation because of insufficient information in the accepted industry guide. How to prove that contention is another matter...since the compilers of the black book information arbitrarily no longer list vehicles once they reach a certain age.

The agent's query regarding first year used car models seems to warrant similar responses. However, including all of the first year model vehicles in the repricing computation at the same BOY and EOY amounts might result in a significantly lower overall index if the mix of used vehicles at the end of the year were heavily skewed in favor of first year models. To me, this suggests that some judgement or reevaluation of the mechanics needs to be applied if arbitrarily leaving out all of the first year models would result in such a small amount of ending inventory dollars being repriced that "a representative portion" of the inventory were not being repriced.

BEATING THE CONFORMITY REQUIREMENT... BRILLIANT IDEA... OR WISHFUL THINKING?

The fact pattern is not unusual: The CPA for an auto dealer on LIFO never told the dealer that the December monthly financial statement sent to the Factory should reflect an estimate of the LIFO adjustment for the year (See Lookout, March, 1991, page 4). Consequently, the year-end statements were sent to the Factory/manufacturer without reflecting any LIFO adjustments. Wow! This could subject the dealer to a termination of his LIFO election if an IRS agent took the position that the LIFO election should be terminated due to a conformity violation.

Conventional wisdom suggests that the taxpayer's LIFO election is invalid and the LIFO gets thrown out and the dealer owes the IRS a bundle of money...because of this obscure trap.

Let's further assume the CPA raises as many defenses as possible, but the IRS either shoots them all down or at least says "go to Court" if you want to raise some novel argument.

Is there any hope? What about the following argument? The Regulations permit taxpayers to use different LIFO methods for book/financial statement purposes than are used for tax return purposes. In other words, a taxpayer doesn't have to use the same LIFO sub-elections to compute year-end financial statement results as those used in computing tax return LIFO reserves. Reg. Sec. 1.472-2(e)(8) permits different book-tax methods for determining what is an "item," or how inventory is pooled, or even a double extension approach for one and a link-chain approach for the other.

Can we carry this further in defense of the dealer? Consider this position: For purposes of the financial statements sent to the Factory, the dealer was using the unit method (not the dollar value method) and the dealer's definition of what is an "item" is the same very restrictive definition of an "item" that the IRS seems to favor in holding that every vehicle, unless it has an identical configuration of options and accessories, constitutes a separate "item."

We might even mention a Revenue Ruling issued in 1985 holding that a taxpayer may use the dollar value method for income tax purposes and continue to value its LIFO inventories on the specific goods method for financial reporting purposes without violating the conformity requirement. See Revenue Procedure 85-129 (1985-2 CB 158).

Under this "justification" it would follow that for Factory financial statement purposes the dealer did not violate the conformity requirement because he was using the LIFO combination of (1) the unit method and (2) the most restrictive definition of an "item" possible. In other words, that most unflattering LIFO combination produced the same year-end inventory value in the statements sent to the Factory as that produced by using specific identification without any adjustment to reflect LIFO...either intentionally or inadvertently...!

Is this a brilliant idea...or at least worth a try if you're desperate...or it is just wishful thinking? What do you think? ✻

IN COMING ISSUES

- LATEST IRS RULINGS AND CASES.
- IRS AUDIT UPDATES.
- LANDMARK LIFO CASES AND RULINGS, ANALYSIS AND COMMENT.
- READER FEEDBACK.

The De Filipps' LIFO Lookout newsletter is a quarterly publication of LIFO News, Views and Ideas by Willard J. De Filipps, CPA, P.C., 317 West Prospect Avenue, Mt. Prospect, IL 60056. It is intended to provide accurate, general information on LIFO matters and it should not be construed as offering accounting or legal advice or accounting or legal opinion on any specific facts or circumstances. The contents are intended for general information purposes only. Readers should consult their certified public accountant, attorney and/or other competent advisors to discuss their own situations and specific LIFO questions. Mechanical or electronic reproduction or photocopying is prohibited without permission of the publisher. Annual subscription: $250. Not assignable without consent. Any quoted material must be attributed to De Filipps LIFO Lookout published by Willard J. De Filipps, CPA, P.C. Editorial comments and article suggestions are welcome and should be directed to Willard J. De Filipps at (708) 577-3977; FAX (708) 577-1073. Lookout format designed by *Publish or Perish*, (708) 289-6332.

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Department of the Treasury
Internal Revenue Service

Instructions for Form 3115

(Rev. January 1989)

Application for Change in Accounting Method

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	98 hrs., 17 min.
Learning about the law or the form	6 hrs., 58 min.
Preparing the form	11 hrs., 40 min.
Copying, assembling, and sending the form to IRS	48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

General Instructions

Purpose of Form

File this form to request a change in your accounting method, including the accounting treatment of any item. If you are requesting a change in accounting period, use **Form 1128**, Application for Change in Accounting Period. For more information, see **Pub. 538**, Accounting Periods and Methods.

When filing Form 3115, taxpayers are reminded to determine if IRS has published a ruling, notice, or procedure dealing with the specific type of change since January 1989 (the current revision date of Form 3115).

Generally, applicants must complete Section A. In addition, complete the appropriate sections (B-1 through H) for which a change is desired.

You must give all relevant facts, including a detailed description of your present and proposed methods. You must also state the reason(s) you believe approval to make the requested change should be granted. Attach additional pages if more space is needed for explanations. Each page should show your name, address, and identifying number.

State whether you desire a conference in the National Office if the Service proposes to disapprove your application.

User Fee

Applicants filing Form 3115 and requesting a change in accounting method under Revenue Procedure 89-1, 1989-1 I.R.B. 8, must pay a $200 user fee. A $300 user fee is required for a late application. Applicants requesting automatic changes or changes based on expeditious procedure rules, such as Revenue Procedure 85-36, are not required to pay the user fee when they file Form 3115.

Time and Place for Filing

Generally, applicants must file this form within the first 180 days of the tax year in which it is desired to make the change.

Taxpayers, other than exempt organizations, should file Form 3115 with the Internal Revenue Service, Associate Chief Counsel (Technical and International) Attention: CC: CORP, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. Exempt organizations should file with the Assistant Commissioner (Employee Plans and Exempt Organizations), Attention: E:EO, P.O. Box 120, Ben Franklin Station, Washington, DC 20044.

You should normally receive an acknowledgment of receipt of your application within 30 days. If you do not hear from IRS within 30 days of submitting your completed Form 3115, you may inquire as to the receipt of your application by writing to: Control Clerk, CC:IT&A, Internal Revenue Service, Room 5517, 1111 Constitution Avenue, NW, Washington, DC 20224.

Payment of the user fee (check or money order made payable to the Internal Revenue Service) should be sent with Form 3115 at the time Form 3115 is filed.

See section 5.03 of Rev. Proc. 84-74, 1984-2 C.B. 736 for filing an early application.

Note: *If this form is being filed in accordance with Rev. Proc. 74-11, see Section G below.*

If you want to make a late election out of the installment method or to revoke an earlier election out of the installment method, do not file this form. Instead, submit a request for a letter ruling to the National Office of the Internal Revenue Service. To request a letter ruling, furnish the information in section 8 of Revenue Procedure 89-1, 1989-1 I.R.B. 8, and submit a check for $300, as required by Rev. Proc. 89-4, 1989-3 I.R.B. 18. Please note that such requests are rarely granted.

Late Applications

If your application is filed after the 180-day period, it is late. The application will be considered for processing only upon a showing of "good cause" and if it can be shown to the satisfaction of the Commissioner that granting you an extension will not jeopardize the Government's interests. For further information, see Rev. Proc. 79-63 and section 6110.

Identifying Number

Individuals.—An individual should enter his or her social security number in this block. If the application is made on behalf of a husband and wife who file their income tax return jointly, enter the social security numbers of both.

Others.—The employer identification number of an applicant other than an individual should be entered in this block.

Signature

Individuals.—An individual desiring the change should sign the application. If the application pertains to a husband and wife filing a joint income tax return, the names of both should appear in the heading and both should sign.

Partnerships.—The form should be signed with the partnership name followed by the signature of one of the general partners and the words "General Partner."

Corporations, cooperatives, and insurance companies.—The form should show the name of the corporation, cooperative, or insurance company and the signature of the president, vice president, treasurer, assistant treasurer, or chief accounting officer (such as tax officer) authorized to sign, and his or her official title. Receivers, trustees, or assignees must sign the application they are required to file. For a subsidiary corporation filing a consolidated return with its parent, the form should be signed by an officer of the parent corporation.

Fiduciaries.—The form should show the name of the estate or trust and be signed by the fiduciary, personal representative, executor, executrix, administrator, administratrix, etc., having legal authority to sign, and his or her title.

Preparer other than partner, officer, etc.—The signature of the individual preparing the application should appear in the space provided on page 6.

If the individual or firm is also authorized to represent the applicant before the IRS, receive a copy of the requested ruling, or perform any other act(s), the power of attorney must reflect such authorization(s).

Affiliated Groups

Taxpayers that are members of an affiliated group filing a consolidated return that seeks to change to the same accounting method for more than one member of the group must file a separate Form 3115 for each such member.

Specific Instructions

Section A

Item 5a, page 1.—"Taxable income or (loss) from operations" is to be entered **before** application of any net operating loss deduction under section 172(a).

Item 6, page 2.—The term "gross receipts" includes total sales (net of returns and allowances) and all amounts received for services. In addition, gross receipts include any income from investments and from incidental or outside sources (e.g., interest, dividends, rents, royalties, and annuities). However, if you are a resaler of

personal property, exclude from gross receipts any amounts not derived in the ordinary course of a trade or business. Gross receipts do not include amounts received for sales taxes if, under the applicable state or local law, the tax is legally imposed on the purchaser of the goods or service, and the taxpayer merely collects and remits the tax to the taxing authority.

Item 7b, page 2.—If item 7b is "Yes," indicate on a separate sheet the following for each separate trade or business: Nature of business (manufacturing, retailer, wholesaler, etc.), employer identification number, overall method of accounting, and whether, in the last 6 years, the business changed its accounting method, or is changing its accounting method as part of this request or as a separate request.

Item 11, page 2.—If you cannot provide the requested information, you may sign a statement under penalties of perjury that:

(1) Gives your best estimate of the percentage of the section 481(a) adjustment that would have been required if the requested change had been made for each of the 3 preceding years; and

(2) Explains in detail why you cannot provide the requested information.

See section 5.06(2) of Rev. Proc. 84-74 for the required perjury statement that must be attached.

If IRS later examines your return for the year of the change or for later years, it has the right to verify your statement at that time.

Item 13, page 2.—Insert the actual number of tax years. Use of the term "since inception" is not acceptable. However, "more than 6 years" is acceptable.

Section B-1

Item 1b, page 2.—Include any amounts reported as income in a prior year although the income had not been accrued (earned) or received in the prior year; for example, discount on installment loans reported as income for the year in which the loans were made instead of for the year or years in which the income was received or earned. Advance payments under Rev. Proc. 71-21 or Regulations section 1.451-5 must be fully explained and all pertinent information must be submitted with this application.

Sections B-2 and B-3

Limits on the Use of the Cash Method of Accounting.—Except as provided below, C corporations, partnerships with a C corporation as a partner, and tax shelters may not use the cash method of accounting. For purposes of this limit, a trust subject to the tax on unrelated business income under section 511 is treated as a C corporation with respect to its unrelated trade or business activities.

The limit on the use of the cash method (except for tax shelters) does not apply to—

(1) Farming businesses.—For this purpose, the term "farming business" is defined in section 263A(e)(4), but it also includes the raising, harvesting, or growing of trees to which section 263A(c)(5) applies. This exception notwithstanding, section 447 requires certain C corporations and partnerships with a C corporation as a partner to use the accrual method.

(2) Qualified personal service corporations.— A "qualified personal service corporation" is any corporation: (a) substantially all of the activities of which involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and (b) substantially all of the stock of which is owned by employees performing the services, retired employees who had performed the services, any estate of an employee or retiree described above, or any person who acquired stock of the corporation as a result of the death of an employee or retiree described above if the acquisition occurred within 2 years of death.

(3) Entities with gross receipts of $5,000,000 or less.—To qualify for this exception, the C corporation's or partnership's annual average gross receipts for the 3 years ending with the prior tax year may not exceed $5,000,000. If the corporation or partnership was not in existence for the entire 3-year period, the period of existence is used to determine whether the corporation or partnership qualifies. If any tax year in the 3-year period is a short tax year, the corporation or partnership must annualize the gross receipts by multiplying the gross receipts by 12 and dividing the result by the number of months in the short period.

For more information, see section 448 and Temporary Regulations section 1.448-1T.

Section C

Applicants must give complete details about the present and the proposed methods of valuing inventory . State whether all or part of your inventory is involved in the change.

Inventories of retail merchants.—The retail method of pricing inventories does not contemplate valuation of goods at the retail selling price. The retail selling price of goods on hand must be reduced to approximate cost or the lower of cost or market by the adjustments required in Regulations section 1.471-8.

LIFO inventory changes.—Attach a schedule with all the required computations when changing the method of figuring LIFO inventories. If you are changing from LIFO to a non-LIFO method, attach a schedule with the following additional information:

(1) The specific types and classes of goods in the LIFO inventories involved in the proposed changes and the comparative value of such inventories as of the end of the tax year preceding the year of change determined by: (a) the LIFO method, and (b) the proposed method and basis (such as FIFO, cost, or lower of cost or market).

(2) State whether the proposed identification and valuation methods conform to the inventory method currently used with respect to non-LIFO inventories, if any, or how such method is otherwise consistent with Regulations section 1.472-6.

(3) The termination event statement required by section 5.10 of Rev. Proc. 84-74, as modified by Rev. Proc. 88-15, 1988-10 I.R.B. 51, and an explanation if there has been a termination event.

Section D

Applicants requesting to change their method of valuing property produced, property acquired for resale, or long-term contracts under section 263A or 460 MUST complete section D showing the treatment under both the present and proposed methods.

Applicants must also complete the section 263A checklist contained in Notice 88-92, 1988-34 I.R.B. 23 (reprinted as **Pub. 1426,** Automatic Change in Method To Comply With Section 263A).

Section E

Section 460(f) provides that the term "long-term contract" means any contract for the manufacture, building, installation, or construction of property that is not completed within the tax year in which it is entered into. However, a manufacturing contract will not qualify as a long-term contract unless the contract involves the manufacture of: (1) a unique item not normally included in your finished goods inventory, or (2) any item that normally requires more than 12 calendar months to complete.

Generally, all long-term contracts entered into after February 28, 1986, must be accounted for using either the percentage of completion-capitalized cost method or the percentage of completion method. See Notice 87-61, 1987-2 C.B. 370; Notice 88-66, 1988-25 I.R.B. 41; and section 460.

An exception applies to real property construction contracts expected to be completed within 2 years by contractors whose average annual gross receipts for the 3 prior tax years does not exceed $10,000,000; to qualified ship contracts; and to home construction contracts entered into after June 20, 1988, involving single-family residences and dwelling units in buildings containing 4 or fewer dwelling units.

Section G

This section is to be used only to request a change in a method of accounting for depreciation under section 167.

Rev. Proc. 74-11 provides a procedure whereby applicants are considered to have obtained the consent of IRS to change their method of accounting for depreciation. You must file Form 3115 with the Service Center where your return will be filed within the first 180 days of the tax year in which it is desired to make the change. Attach a copy of the form to the income tax return for the tax year of the change.

Note: *Do **not** use Form 3115 to make an election under section 168. Such an election may be made only on the tax return for the year in which the property is placed in service. In addition, Form 3115 is not to be used to request approval to revoke an election made under section 168. Such a request must be made in accordance with Rev. Proc. 89-1 (updated annually). Elections with respect to property placed in service after December 31, 1986, are generally irrevocable.*

Section H

Generally, this section should be used for requesting changes in a method of accounting for which provision has not been made elsewhere on this form. Attach additional pages if more space is needed for a full explanation of the present method used and the proposed change requested.

If you are making an election under section 458, show the applicable information under Regulations section 1.458-10.

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Form **3115**
(Rev. January 1989)
Department of the Treasury
Internal Revenue Service

Application for Change in Accounting Method

► **See separate instructions.**

OMB No. 1545-0152
Expires 9-30-91

Name of applicant (if joint return is filed, also give spouse's name)	**Identifying number (see instructions)**
Address (number and street)	Applicant's area code and telephone number ( )
City or town, state, and ZIP code	District Director's office having jurisdiction
Name of person to contact (Please type or print.)	Contact person's area code and telephone number ( )

If power of attorney is applicable, check box if your representative has enclosed one (**Form 2848,** Power of Attorney and Declaration of Representative) with Form 3115 . . . . . ☐ **Yes** ☐ **No**

Check one: ☐ Individual ☐ Partnership; No. of Partners _____ ☐ Corporation ☐ S Corporation; No. of Shareholders _____
☐ Cooperative (Section 1381(a)) ☐ Ins. Co. (Sec. 801) ☐ Ins. Co. (Sec. 831) ☐ Qualified Personal Service Corporation (See section 448.)
☐ Exempt organization. Enter code section ► _____
☐ Other (specify) ► _____

NOTE: *Are you making an election under section 458?* . . . . . ☐ **Yes** ☐ **No**
If "Yes," see Specific Instructions for Section H. Do not fill in Section A. If "No," you must complete Section A.

Section A. Applicable to All Filers Other Than Those Answering "Yes" to the "Note" Above

1a Tax year of change begins (mo., day, yr.) ► _____ and ends (mo., day, yr.) ► _____

b Enter the 180th day of your tax year ► _____ If this date is earlier than the date you signed this Form 3115 on page 6, see General Instruction for "Late Applications" before going on.

2 Nature of business and principal source of income (including type of business designated on your latest income tax return) ► _____

3 The following change in accounting method is requested (check and complete appropriate spaces):

a ☐ Overall method of accounting: from ► _____ to _____
If the taxpayer is requesting a change to the accrual method, see section 448, Temporary Regulations section 1.448-1T, Rev. Proc. 85-36 and Rev. Proc. 85-37.

b ☐ The accounting treatment of (identify item) ► _____
from (present method) ► _____ to (new method) ► _____
Attach a separate statement providing all relevant facts, including a detailed description of your present and proposed methods. See also item 15 of Section A on page 2 regarding the "legal basis" for the proposed change.

c If a change is requested under 3b above, check the present overall method of accounting:
☐ Accrual ☐ Cash ☐ Hybrid (Explain the overall hybrid method in detail in a separate statement.)

	Yes	No
d Is your use of your present method specifically not permitted by the Internal Revenue Code, the Income Tax Regulations, or by a decision of the U.S. Supreme Court? See sections 4, 5, and 6 of Rev. Proc. 84-74		
e Is the requested change specifically required by the Tax Reform Act of 1986 or the Revenue Act of 1987?		
f Are you currently under examination, or were you or any member of the affiliated group contacted in any manner by a representative of the Internal Revenue Service for the purpose of scheduling an examination of your Federal tax return(s) prior to the filing of this application, or do you have an examination under consideration by an appeals officer or before any Federal court, or is any criminal investigation pending? See sections 4 through 7 of Rev. Proc. 84-74		
g Are you a taxpayer that produces property or acquires property for resale to whom section 263A applies? If "Yes" and item to be changed is subject to section 263A, section D must be completed		
h Are you a manufacturer to whom Income Tax Regulation section 1.471-11 applies?		
4a In the last 6 years have you requested permission to change or have you changed your accounting period, your overall method of accounting, or the accounting treatment of any item? (Affiliated group members filing a consolidated return, see item 8e on page 2.)		
b If 4a is "Yes," was a ruling letter granting permission to make the change issued? If "Yes" and the change was made, attach a copy of the letter. If permission was granted, but you did not make the change, attach an explanation		
c Regardless of your response to 4a, do you or an affiliated corporation have pending any accounting method or period ruling or technical advice request in the National Office?		

d If 4c is "Yes," indicate the type of request (method, period, etc.) and the specific issue involved in each request ► _____

5 If engaged in a business or profession: **a** Enter your taxable income or (loss)* from operations for tax purposes for the five (5) tax years preceding the year of change: (See Specific Instructions for Section A.)

1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.	4th preceding year ended: mo. yr.	5th preceding year ended: mo. yr.
$	$	$	$	$

b Enter the amount of net operating loss to be carried over to the year of change, if any	$
c Amount of general business credit carryover to year of change, if any	$
d Other credit carryover, if any. (Identify) ►	$

*Individuals enter net profit or (loss) from business; partnerships enter ordinary income or (loss); members of an affiliated group filing a consolidated return see item 8b on page 2.

6 Gross receipts for the three (3) tax years preceding the year of change. (See Specific Instructions for Section A.)

1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.
$	$	$

	Yes	No
7a Do you have more than one trade or business?		
b If 7a is "Yes," do you account for each trade or business separately? If "Yes," see Specific Instructions for Section A for additional information that must be provided		
8a Is applicant a member of an affiliated group filing a consolidated return for the tax year of change?		
b If 8a is "Yes," state parent corporation's name, identifying number, address, tax year, and Service Center where return is filed, and provide the information requested in item 5 on a consolidated basis ▶		
c If 8a is "Yes," do all other members of the affiliated group employ the method of accounting for which the change is requested? If "No," explain ▶		
d If 8a is "Yes," are any of the items involved in the calculation of the net section 481(a) adjustment attributable to transactions between members of the affiliated group? If "Yes," attach explanation		
e If 8a is "Yes," provide the information requested in items 4a, 4b, 4c, and 4d for each member of the affiliated group.		
9a Is applicant a member of an affiliated group not filing a consolidated return for the tax year of change?		
b If 9a is "Yes," are any of the items involved in the calculation of the net section 481(a) adjustment attributable to transactions between members of the affiliated group or other related parties? If "Yes," attach explanation		
10 If change is granted, will the new method be used for financial reporting purposes? If "No," attach an explanation. Such explanation should include a discussion of whether your new method of accounting conforms to generally accepted accounting principles and why it will clearly reflect income.		

11 Enter the net section 481(a) adjustment for the year of change, and the net section 481(a) adjustment that would have been required if the requested change had been made for each of the 3 tax years preceding the year of change. (See Specific Instructions for Section A.)	At the beginning of the year of change ended, enter: mo. yr.	At the beginning of the 1st preceding year ended, enter: mo. yr.	At the beginning of the 2nd preceding year ended, enter: mo. yr.	At the beginning of the 3rd preceding year ended, enter: mo. yr.
	$	$	$	$

	Yes	No
12 Has net adjustment under section 481(a) for the year of change been reduced in any way by a pre-1954 amount?		
13 Number of tax years present method has been used for which the change is requested in item 3a or 3b. (See Specific Instructions for Section A.) ▶ _____		
14 Has your present method been designated by a Rev. Rul. or Rev. Proc. more than 2 years before filing this form as a change in method of accounting to which section 5.12(2) of Rev. Proc. 84-74 applies?		

15 State the reason(s) including the legal basis (statutes, regulation, published rulings, etc.) why you believe approval to make this change should be granted. See section 7 of Rev. Proc. 84-74.

Section C. Change in Method of Valuing Inventories. *(See Specific Instructions for Section C.)*

Note: *Also complete Section D.*

1 Description of inventory goods being changed ▶

2 Description of inventory (if any) not being changed ▶

3 Present method of identifying costs in inventory: ☐ Specific identification ☐ FIFO ☐ LIFO
If "LIFO," attach copy of Form 970 adopting that method and copies of any Forms 970 filed to extend the use of the method.

4 Present method used to value inventory: ☐ Cost ☐ Cost or market, whichever is lower ☐ Retail cost
☐ Retail, lower of cost or market ☐ Other (attach explanation)

5 Show method and value of the inventories being changed at the end of the tax year preceding the year of change under:

a Present method ▶	$
b Proposed method ▶	$

c If changing to cost method, are you going to elect LIFO for identifying costs? ☐ Yes ☐ No

6 Attach the computation used to arrive at the section 481 adjustment.

Signature—All Filers *(See instructions.)*

Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.

Applicant's name	Signature and title	Date
Signing official's name (Please print or type.)	Signature and title of officer of the parent corporation if applicable	Date
	Signature of individual or firm preparing the application	Date