



De Filipp's

LIFO LOOKOUT

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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. LIFO FINANCIAL STATEMENT CONFORMITY REQUIREMENTS.

For those once optimistic that the IRS might provide clarification and reasonable guidance for auto dealers' LIFO reporting, this year comes to a close under clouds of uncertainty and malaise. And there's no official guidance in sight. We've expanded our usual year-end LIFO conformity update to include major 1995 developments from the IRS and manufacturers and some of the conflicting advice and rumors floating around. Here's a brief rundown.

NADA: Expended great energy and resources during 1995 trying as hard as possible to obtain some resolution with the IRS. Possibly now wondering whether the only real solution may be to lay it all on the line and to fight the IRS for a total amnesty. Hoping to have some resolution to announce by the NADA Convention in Vegas in February.

IRS: What "IRS"? There is no "IRS" in the sense of unified opinion, understanding of the problems or desire to resolve the problems. Right now there seem to be too many cooks in the kitchen—some not fully understanding what goes on in the real world between dealerships and the factories, but they're cooking up good legal theories—and concepts like "legislative intent" and "credit purposes" are the stuff dreams are made of. Furloughs, slowdowns, personnel turnover changes and reorganizations at higher levels all reinforce the attitude expressed by a few that no one (at least in the IRS) ever forced dealers to elect LIFO, so if they can't stand the heat, they ought to get out of the kitchen.

THE COMMISSIONER: Recently reports to the House Small Business Committee hearing that the IRS is making steady progress in reducing regulatory burdens on small businesses. (Excuse me!) In late October, Commissioner Richardson lists actions the IRS has taken to help small firms comply with their tax and reporting obligations without facing exces-

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sive costs and administrative burdens. Apparently, what's going on with auto dealer LIFO conformity falls elsewhere in the overall scheme of things. But, it's hard to follow what's going on when so many top people in the IRS keep leaving those high level posts (and ending up in Washington law firms or Big 6 CPA firms, no less).

"GUIDANCE": It may be coming, but will the cure be worse than the disease? See page 12.

FACTORIES: Intransigent, hostile, "it's the dealers' problem, not ours" ...often uncooperative and royally peeved that anyone—especially a lone CPA or two—might question their authority on these matters.

CPAs: Divided—some conservative, hoping the conformity controversy will simply go away. Others seeing a great opportunity to get more clients out of the conformity confusion ...especially by pretending to know what the answer is when everybody else doesn't.

see LIFO UPDATE, page 2

LIFO Update

AICPA: When recently approached by NADA for help, provided none. If anything, comments by Tax Division Chairperson in a recent article in *Tax Notes* may have done more to harm CPAs than to help them. Tsk! Tsk!

LAWYERS: Licking their chops, sensing that some CPAs will be sued over what they should have known or done to protect dealers' LIFO elections. How many lawyers will it take to settle these questions? Answer: How many can you afford?

THE "SOLUTION"? In my opinion, NADA needs to fight for total amnesty for auto dealers. All or nothing. If possible, try to pit the advice and year-end LIFO reporting practices forced on dealers by the *Factories* against the unrealistic interpretations of the IRS. These bureaucracies deserve each other.

If ever there was a good case for a Market Segment Understanding (MSU), dealer conformity seems to be it. The unique feature of a MSU is the establishment of a working group of IRS and private sector segment representatives to develop a MSU *product*. Through discussions, the working group seeks to achieve a mutual understanding of the facts and, to the extent feasible, a mutual understanding of how legal principles may be applied to varying facts and circumstances which exist within the market segment.

The MSU process requires market segment representatives who are willing to engage in discussions that are aimed at reducing noncompliance. Interest in a particular area of noncompliance is also needed at the District or National Office level. **The primary products of the MSU process are guideline documents that provide clarification of the issue or a proforma accord.**

When these documents are issued by the IRS, the general agreement of the segment representatives should be obtained before the IRS issues the MSU documents. Thus, the intention of the joint meetings is to create mutually acceptable written guidelines which are applied on a prospective basis. One example of a MSU product is the recent "Market Segment Understanding With the Food Service Industry—Tip Reporting Alternative Commitment (TRAC)."

The question is: Why not an MSU for dealers? NADA seems willing, but the IRS is standoffish. It will take resources and reasoning power greater than mine to make the case for a MSU before the Treasury or in Congress. There are other reasons to forget it: an MSU on dealer conformity is too logical and it sounds too much like Compliance 2000 rhetoric. Besides, it might result in auto dealers being treated

(Continued from page 1)

consistently and without recrimination. What fun would that be... and what would we do with our spare time?

#2. LOWER INVENTORY LEVELS. Many dealers are reporting lower inventory levels at year-end 1995 than last year. This may affect their LIFO reserve balances, although in many instances even though inventory levels go down, the LIFO reserves may go up.

Also, many dealers affected by Cadillac's Regional Distribution Center Program are likely to incur significant LIFO complications. For all practical purposes, the plan still seems to be a good one for dealers because it reduces their overall floor plan interest costs. However, offsetting this benefit—in a substantial way in some cases—is the potentially adverse LIFO tax consequences as dealers under the program may face LIFO reserve repayments because of significantly lower inventory levels which eat into prior years' lower cost LIFO layers.

#3. LIFO FOR USED VEHICLES is another hot topic right now for auto dealers. See the December, 1994 *Lookout* (page 22-23) for a comprehensive discussion on this subject. Also, see our September, 1995 Update in which we queried whether prices dropped too much to consider a LIFO election for '95.

If you're going to *go for it*, remember to include an estimate of the LIFO change on all of your year-end income statements and don't forget to collect and retain adequate documentation and invoices. Two more reminders on used car LIFO: (1) don't forget to watch the reversal and taxation of those prior year-end writedowns and (2) don't forget to file a properly completed Form 970 with your tax return extending the LIFO election to used vehicles.

#4. LIFO AND BARGAIN PURCHASES. In another recent tax case, *Kohler Co.*, the IRS powerful victory in *Hamilton Industries* has been reaffirmed in denying LIFO benefits in a bargain purchase situation. The question raised in this case was whether the taxpayer's income was clearly reflected by its use of the Last-In, First-Out method when it treated goods purchased at a substantial discount the same as goods manufactured much later. The answer was: "No." This case will be discussed in a future issue of the *LIFO Lookout*.

#5. EARLIEST ACQUISITION OR DUAL INDEX APPROACHES continue to be viewed unfavorably by the IRS. The IRS recently finalized its Industry Specialization Program Coordinated Issue Paper on the use of dual indexes and short-cut approaches. This Paper, dated October 23, 1995, will be discussed in a future issue of the *LIFO Lookout*.

see **LIFO UPDATE**, page 28

De Filippis' LIFO LOOKOUT



STILL THE ULTIMATE LIFO TRAPS: FINANCIAL STATEMENT CONFORMITY REQUIREMENTS

1995
UPDATE

According to at least one LIFO expert, you're just wasting your time reading this. Chris Groff, President of LIFO Systems, says that all a dealer has to do is to call the Factory and ask them how to report LIFO. In November, 1995 *Dealer Business*, he says "If they are not helpful, you may be forced to enter the adjustment in a way different than the manufacturer proposes. That's all there is to it! It is not the complex, insoluble problem some have made it out to be." Besides, the noncompliance penalty is discretionary and maybe you'll be lucky enough to slip through the cracks or get an IRS agent who doesn't enforce the "rules."

See page 14-15 for a more recent analysis reprinted with permission from *Tax Notes*, December 4, 1995, p. 1171-2.

Another CPA, Ed Pasini, (*Dealer Business*, November, 1995), observes that "...The IRS is going after dealers on a compliance rule that was drafted for public companies and is attacking LIFO elections because the charge on the income statement has gone to other deductions rather than cost of sales. Will some one please tell me what impact the account classification has on taxable income? The only question that matters when dealing with LIFO is 'Does the method used accurately reflect cost of sales on a last in, first out basis?' If the answer is yes, then go look for somebody who is really breaking the law."

Pasini points out that the IRS' Mission Statement—oft quoted by Mr. Zwiers—is that "the purpose of the Internal Revenue Service is to collect the proper amount of revenue at the least cost, serve the public by continually improving the quality of our products and services, and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness."

Finally, Pasini urges dealers to "get on the ball, get the NADA involved, write your congressman. You are paying the IRS to live up to their own Mission Statement, not to nit pick."

On still another note, many CPAs believe that the eventual journal entry for many dealers losing their LIFO elections because of conformity violations—if the Pasini-Groff logic is wrong or flawed—will be to debit a receivable from their (former) accounting firm for malpractice suit settlement proceeds, offset by a credit for the payable to the IRS for the taxes on the LIFO reserve and, of course, a payable to attorneys for their fees for helping to straighten out the mess. Dealers who have looked exclusively to CPAs for advice on LIFO matters over the years will view themselves simply as middlemen between the IRS and their CPAs who (according to some) should have known better all along.

Some of us even think GM and Ford may be wrong in telling their dealers what to do on their year-end statements. See "Accountants Say GM's LIFO Rules Can Hurt Dealer," *Automotive News*, December 4, 1995, page 46. And at least one IRS specialist has indicated off the record agreement with our concerns.

Who is right? Who knows? Perhaps this Update can help you decide what to do and tell your clients.

CONFORMITY REQUIREMENTS

There are many conformity requirements and they exist as restrictions on a taxpayer's general desire to pay lower taxes using LIFO while reporting more income to shareholders or banks using a non-LIFO method. The intention underlying the conformity requirements is that LIFO should be used in all reports covering a full year to insure that the use of LIFO for tax purposes conforms as nearly as possible with the best accounting practice in the trade or business in order to provide a clear reflection of income.

LIFO must be used to compute income in the year-end financial statements: technically, only in the primary presentation of income. For many taxpayers, the LIFO conformity requirements really pose two general sets of requirements:

- **First**, they require that any year-end financial statements issued in report form by the taxpayer to creditors, shareholders, partners or other users must also reflect the year-end results on LIFO.
- **Second**, they also require all year-end financial statements sent to a manufacturer or supplier (12th, 13th and any other fiscal year-end statements) to reflect LIFO.

see **STILL THE ULTIMATE LIFO TRAPS....**, page 4



A taxpayer may adopt LIFO only if it has used no other procedure than LIFO in preparing an income or profit or loss statement covering the first taxable year of adoption. For subsequent taxable years, similar restrictions are imposed. However, the Commissioner has the discretion to allow a taxpayer to continue to use the LIFO method even though conformity violations might have occurred.

As events during the last 12 months have shown, the IRS is currently unwilling to exercise any discretion or leniency toward a taxpayer who has violated a conformity requirement and it will simply terminate the LIFO election. Accordingly, a LIFO reserve—no matter how large—can be completely and abruptly lost if careful attention is not paid to the conformity requirements in year-end financial statements sent to the Factory/Manufacturer/Supplier...as well as to the more conventional year-end statements issued in report form by CPAs.

REPORTS ISSUED BY CPAS

This section deals with reports issued by CPAs, where the CPA controls the release, content and format of the statements, notes and supplementary information. These are unlike monthly statements which may be prepared internally and sent out to the manufacturer or supplier without direct CPA involvement or review.

The LIFO conformity requirement requires that in the primary presentation of income (i.e., the income statement), the results disclosed must only be the **net-of-LIFO** results. The primary income statement CANNOT show results before LIFO, followed by either an addition or subtraction for the net LIFO change, coming down to a final net income or loss after-LIFO figure. This means that a business using LIFO will usually be reporting lower operating results in order to satisfy the conformity requirement.

The Regulations were liberalized in 1981 to allow taxpayers to disclose non-LIFO operating results in **supplementary** financial statements as long as those supplementary non-LIFO financial statements are (1) issued as part of a report which includes the primary presentation of income on a LIFO basis and (2) as long as each non-LIFO financial statement contains on its face a warning or statement to the reader that the non-LIFO results are supplementary to the primary presentation of income which is on a LIFO basis. Accordingly, in CPA-prepared year-end financial statements, results on a non-LIFO basis can be disclosed in this manner as supplementary information.

Alternatively, the Regulations permit disclosure of non-LIFO results in a footnote to the regular year-end financial statements, as long as the statement of income itself does not disclose this information parenthetically or otherwise **on its face** and the notes are all presented together and accompany the income statement in a single report.

As a result of these "liberalizations" in the Regulations in 1981, these LIFO conformity requirements shouldn't present any major reporting problems for reports issued by CPAs.

"GETTING AROUND" THE CONFORMITY REQUIREMENTS

Many businesses (publicly-held, reporting to the SEC) using LIFO would like to report lower taxable income/earnings in tax returns while reporting higher earnings/more income to their shareholders and creditors for financial purposes. This can easily be done through loopholes conveniently provided in the Regulations. The Regulations allow taxpayers to legitimately avoid the intent of the conformity requirement by allowing them to use LIFO methods and sub-elections in their financial statements that are different from those LIFO sub-elections and methods that are used in their income tax return computations. That's right: **DIFFERENT LIFO METHODS MAY BE USED FOR BOOK AND FOR TAX PURPOSES**. It is **not** necessary for the year-end financial statements to use the same exact LIFO sub-elections that are used in the tax return LIFO calculations. The Regulations simply require that both sets of statements (financial reports and tax returns) must report using LIFO methods.

This allows some companies to use more pools for financial reporting purposes than for income tax purposes. Others use link-chain or link-chain, index methods to lower LIFO income for tax purposes, but use double-extension LIFO for financial reports. Still others reconstruct base prices for new items in their tax return LIFO calculations while pricing new items at current cost in their financial statements. These companies enjoy the best of both worlds without violating the fine print in the "conformity" requirements. What a game...what a farce...played by CPAs and the IRS alike with straight faces.

If all this can be done to bend the rules so easily, why is the IRS being so tough on auto dealers now?

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INTERIM REPORTS

Interim reports covering a period of operations that is **less than** the whole of a taxable year may be issued on a non-LIFO basis without violating the LIFO conformity requirement for tax purposes. Although GAAP may present some difficulties in this regard, the Regulations clearly do not.

DEALERSHIP YEAR-END STATEMENTS SENT TO FACTORY/MANUFACTURER/ SUPPLIER

The **BAD NEWS** is that the Regulations contain several LIFO reporting restrictions which the IRS interprets to apply to the Factory-prescribed format financial statements sent by a dealership immediately after year-end to the Factory/Manufacturer/Supplier. These restrictions pose fatal LIFO traps that are potentially more perilous than those for year-end reports issued by CPAs.

In this regard, the Regulations provide that any income statement that reflects a full year's operations must report on a LIFO basis. This would apply regardless of whether the income statement is the last in a series of interim statements, or the December statement itself which shows two columns—one for current month and one for year-to-date figures. The Regulations provide that a series of credit statements or financial reports is considered a single statement or report covering a period of operations if the statements or reports in the series are prepared using a single inventory method and can be combined to disclose the income, profit, or loss for the period. If one can combine or "aggregate" a series of interim or partial-year statements to disclose the results of operations for a full year, then the last statement must reflect income computed using LIFO to value the inventory.

Literally interpreted, this wording applies to an auto dealer's 12th statement (i.e., December—unadjusted) as well as to the 13th statement. The 12th statement is usually issued on a preliminary basis, before accruals are refined by detailed adjusting entries. The 13th statement is usually issued several weeks after the 12th statement, and it reflects year-end accrual adjustments and other computations not otherwise completed within the tight time frame for the issuance of the December or 12th statement (usually the 10th day of the following month).

LETTER RULING 9535010

In May of 1995, IRS Letter Ruling/Technical Advice Memo 9535010 "officially" restated the restrictive position of the IRS concerning dealer financial statements submitted to the manufacturer. In this Letter Ruling, a calendar year dealership raised the conformity question in the context of what happens when the monthly statements—including year-end—are not on LIFO but the CPA prepares annual audited financial statements for the dealership which reflect LIFO. Here, the taxpayer's argument was that these audited statements reflecting LIFO were the **primary** financial statements, while the monthly statements sent by the dealership to the manufacturer and to the credit corporation were "**supplementary** statements." The IRS concluded that a violation occurred by using the four-part test below:

IRS TESTS

- The dealership used an inventory method other than LIFO in ascertaining its income in the monthly financial statements,
- The financial statements ascertain income for the "taxable year,"
- The financial statements are "for credit purposes," and
- The financial statements are not within any of the exceptions to the LIFO conformity requirements that are provided in the Regulations.

With respect to the use of the financial statement "for credit purposes," the IRS found that a debtor-creditor relationship did exist between the dealership and the manufacturer and the credit corporation. The IRS stated that if the taxpayer's "operations began to deteriorate, it is doubtful that Corp. X (the manufacturer) and Corp. Y (the Credit Corporation) would ignore these reports and continue to extend credit to T (the taxpayer) as though nothing has changed." The IRS noted that the taxpayer was unable to provide any explanation of what purpose other than credit evaluation the credit subsidiary might have for requesting the dealer's financial statements.

see **STILL THE ULTIMATE LIFO TRAPS....**, page 6



Additional analysis of LTR 9535010 was published in the September, 1995 *LIFO Lookout*, along with a flowchart to assist in its interpretation and application.

FIRST YEAR AND EVERY YEAR

This conformity requirement means that to remain eligible to use LIFO, **EVERY YEAR** the dealership's December (or last monthly) statement must reflect an estimate of that year's change in the LIFO reserve if the actual change cannot be computed before the statement has to be released.

If the dealer is considering or planning to make a LIFO election for the year, an **ESTIMATE** of the LIFO reserve (or the actual amount if it has been calculated) must be placed in the year-end statements issued to the Factory/Manufacturer or issued to any other party in order to preserve the ability to elect LIFO for the year by filing Form 970 when the tax return is filed at a later date.

Also, don't overlook this conformity requirement if a dealer already has new vehicles on LIFO and is considering extending LIFO to other inventories, such as used vehicles or parts. In this case, the dealer's year-end statement going to the Factory should also reflect an estimate of the LIFO reserve expected by extending the LIFO election(s) to the additional classes of goods under consideration.

DIFFERENT YEAR-ENDS FOR BOOK AND TAX PURPOSES (FISCAL YEARS)

LIFO conformity problems are multiplied where the dealer has a different year end for reporting to the Factory/Manufacturer/Supplier (calendar year-Dec. 31) than the fiscal year used for income tax return purposes. For these fiscal year taxpayers, in order to satisfy another **strict** conformity requirement, the Regulations require the financial statements to reflect LIFO at the end of **both** twelve month annual reporting periods or years.

This regulation states that the conformity rules also apply to the determination of income, profit or loss for a one-year period other than a taxable year and credit statements or financial reports that cover a one-year period other than a taxable year, but only if the one-year period both begins and ends in a taxable year or years for which the taxpayer uses the LIFO method for Federal income tax purposes. For example,...in the case of a calendar year taxpayer, the requirements...apply to the taxpayers determination of income for purposes of a credit statement that covers the period October 1, 1981, through September 30, 1982, if the taxpayer uses the LIFO method for Federal income tax purposes in taxable years 1981 and 1982.

LETTER RULING 9535009

In May of 1995, IRS Letter Ruling/Technical Advice Memo 9535009 "officially" restated the restrictive position of the IRS concerning financial statements submitted to the manufacturer where the dealer reported for tax purposes using a fiscal year.

The IRS employed the same four-step analysis in LTR 9535009 as it did in 9535010 to determine whether the dealership violated the LIFO conformity requirements (see page 5: "IRS TESTS"). In connection with the second "test" related to whether the dealership's financial statement to the Factory ascertained the taxpayer's income for the taxable year, the IRS noted that the year-to-date column information readily does this for the reader. Even without year-to-date accumulations on the face of the monthly income statement, any series of months could be added together to reflect a complete 12-month period of anyone's choice. LTR 9535009 states that the taxpayer issued a financial statement (in January, 19xx) that ascertained its income for the entire prior calendar year and that calendar year statement is considered a statement covering the "taxable year" because it covers a 1-year period that both begins and ends in a taxable year or years for which the taxpayer used the LIFO method.

An extensive analysis of LTR 9535009 was also published in the September, 1995 *LIFO Lookout* along with a flowchart to assist in its interpretation and practical application.

ELECTING THE ALTERNATIVE LIFO METHOD UNDER REV. PROC. 92-79 DID NOT PROTECT FROM A CONFORMITY ATTACK

Both of the dealerships in Letter Rulings 9535009 and 9535010 argued that the IRS should not be able to throw out their LIFO elections because they anticipated "audit protection" was available for dealers who changed to the Alternative LIFO Method. In denying this argument, Letter Ruling 9535010 stated that "the LIFO →



Conformity requirement is not a method of accounting, nor is it a LIFO sub-method. Rather, it is a condition upon the use of any LIFO method of accounting. Rev. Proc. 92-79 does not provide audit protection with respect to violations of the statutory LIFO Conformity requirement."

PLACEMENT OF LIFO CHANGE IN THE STATEMENT OF INCOME

Over a year ago, *Lookout* readers were warned that the top IRS LIFO specialist for dealerships (Mr. Robert Zwiers) said that on the twelfth statement the LIFO adjustment had to go through cost of goods sold (via the beginning-of-the-year and end-of-the-year inventory valuations) rather than through an other deductions account...or else dealers would not be complying with the LIFO year-end conformity requirement. The IRS specialist said he believed the regulations could be interpreted to support the agents on this point.

Under this interpretation, where and how the LIFO adjustment is run through on the income statement becomes critical. This IRS interpretation will result in even more LIFO election terminations where the (projected) change in the LIFO reserve was run through an "Other Income/Other Deductions" account. During the last year, I have represented a dealer in a request for technical advice from the IRS National Office involving this specific matter. The IRS indicated it will rule adversely against the taxpayer.

EITHER WAY, DEALERS CAN'T WIN

Many manufacturers' prescribed statement formats either do not permit or strongly discourage putting the LIFO adjustment in any (Cost of Goods Sold) account that affects gross profit determinations because that destroys or greatly impedes their ability to analyze gross profit by line items/models. Accordingly, the IRS' LIFO conformity requirements and interpretations are not compatible with the manufacturers' year-end statement preparation requirements. The dealer is caught in the middle and stands to lose either way.

This incompatibility is heightened tremendously because the Factory prescribed formats do not allow for a typical or conventional "Statement of Income" presentation which includes separate disclosure of the beginning-of-the-year inventory and the end-of-the-year inventory amounts. The Factory prescribed format for the Statement of Income begins with Gross Profit. Gross Profit is also shown in a supporting schedule by model/line item only, with corresponding sales revenue by model/line items. There is no "traditional" Cost of Goods Sold detail on the Factory prescribed statement (in the sequence: Beginning Inventory plus Purchases minus Ending Inventory equals Cost of Goods Sold). The amount corresponding to "Purchases" is simply a "plugged" or forced differential amount. This explains some of the contortions in attempting to comply with the vague requirements in the regulations.

Almost all dealers will have a hard (if not impossible) time reporting to the factory at year-end in a way that does not violate some of the IRS' restrictive interpretations of the conformity requirements.

GM SAYS...COULD GM BE WRONG?

In a Dealer Bulletin dated November 7, 1995, General Motors stated that:

"Beginning with transmission of December data to FACTS, the data will not be accepted if it reflects LIFO Reserves and the memo LIFO Adjustment is ZERO. An error message will be transmitted back to the Dealer noting the missing LIFO Adjustment. The LIFO Adjustment is reported to FACTS as a Memo item on Page 10 of the GM Trial Balance. The Dealer will be required to re-submit the data with the LIFO Adjustment amount. This also applies for any subsequent submission of adjusted December data.

"The GM Dealers Standard Accounting Manual advises that the LIFO Adjustment should be recorded to Account 955, Other Deductions. When FACTS prints the Dealer Operating Report, the LIFO Adjustment is transferred from Net Additions and Deductions to the Total Dealership Cost-of-Sales and reflected in the Total Dealership Gross Profit. For a complete explanation of LIFO reporting and FACTS Operating Report preparation, refer to the January 1, 1994 edition of the GM Dealer's Standard Accounting Manual, Pages 0-10, 11 and S-6,7. (Note: The Manual is available from the Reynolds & Reynolds Company.)

"This letter and the GM Dealer Standard Accounting Manual does not attempt to deal with all intricacies of the IRS LIFO regulation. Therefore, we recommend that you should contact your tax advisor in order to ensure your full compliance with this and all IRS regulations."

see **STILL THE ULTIMATE LIFO TRAPS....**, page 8



Many accountants are concerned that the reporting processes and procedures insisted upon by General Motors create potential conformity problems because pages 2 and 3 of the General Motors prepared financial statements will reflect unchanged amounts for the "other deductions" and "gross profit" accounts. According to GM, the entry made by dealers as a memo entry will cause the gross profit and net additions/deductions on page 1 of the GM statement to be adjusted so that gross profit will be reduced and the net other additions and deductions balance will be increased.

For example, assume a dealer would have gross profit of \$500,000 and a net amount of \$75,000 of other income and deductions (including therein a \$50,000 LIFO reserve increase/deduction representing the change for the year). The gross profit of \$500,000 would be reported on page 3 of the GM operating report and the net additions and deductions (\$75,000) would be reported on page 2 of the GM operating report. According to GM, when page 1 is printed, it will reflect a gross profit of \$450,000 and net additions and deductions will be \$125,000. That will result in the gross profit reported on page 1 being a different amount from that reported on page 3. Similarly, the net additions and deductions amount on page 1 will be different from that reported on page 2.

The concern expressed by many CPAs is that when a dealer makes the required entries and prints out the internally prepared dealer financial statements, the required LIFO entries will not be in cost of goods sold in either the dealership accounting records or in the dealer-generated financial statements. When General Motors prints out financial statements for the dealer, there will be two different sets of financial statements floating around. One version—GM's—will have gross profit reduced on page 1 by the LIFO adjustment but the gross profit reflected on page 3 will not be so reduced. Furthermore, the dealership's internally prepared financial statements will reflect LIFO as a charge against the Other Income & Deductions account.

If an inquisitive and persistent IRS auditor wants to see all the year-end financial statements, will having these conflicting sets of year-end financial statements present problems? We all know from experience with the IRS that some agents are suspicious, untrusting and anxious to find fault with the least infraction or the remotest of chances that something "might" or "could" happen (even if it is something over which the taxpayer has no control).

It has been reported that some GM executives are extremely defensive in discussing these changes. It also seems obvious that GM has not received any official guidance or opinion (favorable to the dealer's LIFO election) from the IRS recently on the changes it has mandated for 1995. If GM had, it would certainly have referred to a ruling it had received from the IRS protecting dealers on this matter.

OTHER FACTORY CHANGES, REPORTING CONCERNS AND NADA GUIDANCE

Similarly, Ford and Honda recently reported changes in their respective LIFO reporting requirements. Like GM, it appears that Ford has changed its LIFO reporting directives to dealers without benefit of any official guidance or clarification from the IRS that its new procedures will protect dealers' LIFO elections. Also, some folks at Ford become very defensive in discussing this. My own discussion ended with the sharp annoyance that anyone would question "Ford" on this at all!

Both the Ford and the Honda revisions provide separate line entries for directly identifiable charges in the cost of goods section of the income statement on which dealers are to put LIFO reserve adjustment amounts. These separate line items will easily allow the manufacturers to spot and then reverse the impact of LIFO so they can analyze the statements on a non-LIFO basis.

Ford, warm in the glow of self-induced euphoria, announced to its dealers that it had "found a better idea" so that effective with October, 1995 reporting, Ford's "major enhancement greatly simplifies dealership compliance with federal tax guidelines by reducing the reporting complexity associated with the LIFO accounting practices." How fortunate for Ford's dealers that after all these years it finally came to its senses and dug beneath the only four leaf clover in the field and somehow found the Rosetta Stone solving all the mysteries of LIFO conformity which heretofore have eluded everyone (except Congress and Mr. Groff). Now, if we could just see that favorable 1995 letter ruling from the IRS, put a gilt-edge around that optimism!

It would appear that having a separate line item for the LIFO reserve adjustment in the Cost of Goods Sold section of the Income Statement is just as much a conformity violation as having a separate line item for the LIFO adjustment anywhere else in the Income Statement. According to the IRS "theory" on this, LIFO has to be

see **STILL THE ULTIMATE LIFO TRAPS...**, page 10





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MEMORANDUM

To: All NADA Members

From: William A. Newman, Chief Counsel
J. Peter Kitzmiller, Assistant Director of Regulatory Affairs

Re: LIFO Conformity

Date: December 11, 1995

As many of you are aware, the IRS has recently required a number of dealerships to terminate their use of the LIFO method because of a failure to adjust the LIFO reserve on their twelve month factory statement.

Under IRC Sec. 472(c) and (e), if a taxpayer adopts the LIFO method for tax purposes, it must also be used for credit purposes and for reports to shareholders, partners or other proprietors or to beneficiaries. Violation of this LIFO conformity requirement can be a termination event and the IRS, at its discretion, can require a taxpayer to terminate the use of LIFO. Termination of a dealer's LIFO election will require the entire LIFO reserve to be taken into income immediately. There is no statute of limitations on the conformity issue; and it appears that the IRS has the ability to terminate LIFO for a conformity violation that occurred in a closed tax year.

The IRS has taken the position that the monthly statements that dealers provide to the manufacturers constitute statements to creditors for LIFO conformity purposes. Dealers who do not have an adjusted LIFO figure on their twelve month statement to the manufacturer are subject to having their LIFO election terminated.

NADA has been working with the National Office of the Internal Revenue Service to try to develop a reasonable solution to the conformity issues raised by the monthly factory statement. NADA has strongly argued that the best way to resolve these issues would be for the IRS to issue specific guidance as to where and when the LIFO adjustment should be made and that this guidance be applied on a go-forward basis (no effort would be made to audit dealers on conformity issues for prior years). We hope to have a final resolution in the near future. However, it is unlikely that we will have an answer before the December 1995 factory statements are due.

The issues raised by these IRS audits are complicated. This memo is not intended to address all possible conformity problems. NADA has presented numerous legal and technical arguments to the IRS in an effort to obtain relief for dealers. We will continue to seek a resolution. Until this issue is resolved, if you use the LIFO method, you must make an adjustment to your LIFO reserve on your twelfth month factory statement. If you are a calendar year taxpayer, be sure that your December statement to the factory contains an adjustment to the LIFO reserve. This adjustment may be an actual LIFO adjustment or a good faith estimate, but it must be on the December statement. If you do not get your actual LIFO figure until 1996, you still should make an estimated LIFO adjustment on the December statement.

There has been much discussion about where to make the LIFO adjustment on the twelfth month statement. The IRS has indicated in two audits that the adjustment should be made to a cost of goods sold account. There is no formal guidance from the IRS that the adjustment must go through cost of goods sold. NADA believes, in the absence of written IRS guidance to the contrary, that dealers can make the LIFO adjustment pursuant to the instructions provided in the manufacturers' accounting manuals. Please consult your tax professional to discuss where to make the LIFO adjustment, however, make sure that your twelfth month statement does not go out before a LIFO adjustment is made.

NADA recognizes the dramatic economic impact that a LIFO conformity violation can have on dealers. We will continue to press the IRS to reasonably resolve this issue for prior years and give dealers specific guidance as to how to conform in the future.



reflected by invisibly netting it against the valuation of the inventories (both beginning and end). That seems to be a far cry from reflecting it as a separate line item in the cost of goods sold detail.

Many CPA firms (especially those servicing larger numbers of dealership clients) have been advising their clients to disregard the directives of the manufacturers and, instead, to bury the net LIFO reserve change for the year by allocating it (without a trace) in the detail by model line in the cost of goods sold section. Others believe they have found a way to "trick" the manufacturers' computers into accepting LIFO-related information that can be offered without affecting the vulnerability of the LIFO election.

NADA's "MEMORANDUM to All NADA Members" dated December 11, 1995 is reprinted, with permission, on page 9. NADA has indicated its belief that, in the absence of written IRS guidance to the contrary, dealers ought to make their LIFO adjustments pursuant to the instructions provided in the manufacturers' accounting manuals. I tend to agree, and hope that the dealers can hide behind the self-righteous factories on this score. Besides, some attorneys-at-law get real uppity when a non-lawyer CPA starts giving advice on legal matters arising out of franchise agreements.

What should be obvious from all of this is that, under no circumstances, should any adjustments relative to LIFO be made directly to the retained earnings account. Another point overlooked by many is that the so-called simplifications and improvements the Factories are making for ersatz dealer reporting this year (for the first time) do nothing to protect the dealer's LIFO elections for all prior years. All the prior years on LIFO are still in jeopardy because the conformity requirement applies to every year a dealer is on LIFO...and right now, the IRS is not giving dealers credit for trying to do the right thing by forgiving past errors of omission or commission.

CAN'T REPAIR DAMAGE (ONCE OUT, TOO LATE)

CPAs and their clients should be especially careful to monitor the release of all year-end financial statements. The position of the IRS is that once financial statements have been issued or released on a non-LIFO basis, it is too late to recall them and reissue statements on a LIFO basis. A discussion of the *William Powell Company* decision was included in our conformity discussion in the December, 1993 issue. So was the *Insilco* decision. As far as the IRS is concerned, these cases don't mean much, even though in both instances the taxpayers went to Court and won!

"QUALITY" OF ESTIMATES

Some IRS agents are aggressively asking for proof that all financial statements at year-end were not in violation of the LIFO conformity requirements. In addition, they are asking to see detailed computations in support of any year-end estimated changes. In other words, some agents are looking at the "quality" of the estimate placed on year-end statements, as well. →

POSSIBLE REPORT DISCLOSURE

"Recently, the Internal Revenue Service has informally indicated several restrictive interpretations of the LIFO inventory year-end financial statement conformity regulations under which XYZ Dealership's LIFO election might be terminated or otherwise adversely affected retroactive (to 19XX) causing all of the income cumulatively deferred in its LIFO reserve account (\$ indicate dollar amount) to become fully taxable. Interest may or may not be computed correspondingly and statute of limitations protection may not be available.

"Until these interpretive controversies are resolved, the tax deferral previously experienced by XYZ Dealership and/or its shareholders under its LIFO election(s) for new vehicles, used vehicles and/or parts inventories should be regarded as potentially subject to challenge, and possibly termination, by the Internal Revenue Service.

"If challenged, the likelihood of the outcome either cannot be predicted or may be adverse to XYZ Dealership and/or its shareholders."



CAN IT POSSIBLY GET WORSE? ANYTHING'S POSSIBLE

Your guess is as good as mine. But, in this regard, see page 12 for our speculation on forthcoming IRS guidance.

PRACTITIONER LIABILITY CONCERNS

In our December, 1994 Update on conformity, we included several suggestions relative to practitioner liability concerns that arise out of all this conformity confusion. Only one is repeated below.

If your CPA firm issues any reports on dealer financial statements, perhaps you should consider including a note regarding contingencies or potentially adverse results to the financial statements. This would apply to all audit, review and/or compilation reports. This disclosure (see page 10) could be used to inform readers that dealers' LIFO elections may be in jeopardy and may be terminated at any time by the IRS under these interpretations where dealer financial statements have failed to conform at any time in the past.

WHAT CAN YOU DO?

RECOMMENDATIONS

First, remember there is not much anyone can do to dodge the pervasive reach of these IRS interpretations. Our Catalog of Conformity Nightmares (December, 1994) and *oversimplified* flowcharts (September, 1995) make that clear. A conformity violation is like a genetic defect—it cannot be ignored, cured or erased. It must be lived with. All this is compounded where dealerships have changed CPAs over the years and information for prior years may not be available.

Second, keep in mind that the IRS' attitude seems to be "Sorry...you should have known this all along—and read our minds (and our Regulations) and asked us for an official written ruling a long time ago... GOTCHA!"

Third, realistically assess your vulnerability and talk to your clients and level with them.

Fourth, write your representatives in Congress. Ask them to intervene and help. See page 18.

Finally, don't overlook other common exposures to conformity violations where copies of Factory statements are given to banks and other creditors. Often banks will ask for a copy of the dealer's year-end Factory statements just to put in their files! Before a copy is released to any bank, be sure it "properly" reflects LIFO. Also, be wary of situations where dealers exchange financial statements in connection with prospective dealership purchases and sales and other financing "deals." Don't let these catch you with your *conformity guards* down.

*



De Filipp's LIFO LOOKOUT

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“GUIDANCE” FROM THE IRS— A CURE WORSE THAN THE DISEASE?

This article summarizes where I think we are in terms of possible “Guidance” from the IRS on dealer year-end LIFO reporting to the manufacturers. Other sources have reported that the IRS may issue a Revenue Procedure addressing dealer conformity problems. Please understand that such a Revenue Procedure will not tell us how to report in compliance with the conformity requirements. It’s not going to tell us how to avoid the problem. Instead, it is going to tell dealers how to pay back their LIFO reserves because their year-end statements failed to conform in the past.

Each manufacturer has its own accounting instructions to its franchisees and a favorite question the IRS asks is: “How do the manufacturers want you to do it?” The IRS doesn’t realize that it is asking NADA to answer for several dozen different manufacturers in one response.

NADA has been trying to work with the IRS, and in so doing reached a point where the IRS submitted a draft Revenue Procedure to NADA. This was presumably only for NADA’s eyes, but it’s been discussed quite openly at a number of meetings and in a number of publications. Perhaps the IRS wants to let some of the bad news filter out before the entire document is released. This guidance was originally expected to be released before the end of the year; but a number of occurrences have complicated the release of this guidance.

ISSUES

- Who’s hit; who’s not. Who will be affected? How do you prove your innocence?
- Lookback period. How far back will the IRS look to see if you’ve committed a conformity violation?
- Computational matters and questions. If you’ve committed a conformity violation, what’s the penalty and how do you compute it? How do you determine the extent of the damages?
- Timing or spread period for repayment. How many years will be allowed for repayment?
- Policing conformity violations. How (in the world) is the IRS going to audit this?

It is expected that the IRS will adopt the pretense that “Oh, we’re not going to terminate your LIFO election, that would be too harsh. We’re going to be lenient and **only** require you to repay the LIFO reserves that were built up in years when you had conformity violations.” Apparently, if you’ve had a conformity violation every year that you’ve been on LIFO, you’re going to be paying back your entire LIFO reserve. In other words, the IRS will be neutering LIFO elections... but not terminating them.

WHO WILL BE AFFECTED

The original draft of the Revenue Procedure divided LIFO conformity violations by dealers into two groups. One group was referred to as egregious conformity violations—in other words, those that were considered to be more severe. The second group was nonegregious, or less severe, violations.

It would appear that nonegregious violations would be those where a LIFO adjustment was reported in the 12th statement, even though it was not reported in the Cost of Goods Sold section. So, if you had it in Other Deductions so that it was at least reported in the statements—just in the wrong place—you might incur no penalty. Part of today’s problem is that now the IRS is telling dealers where the right place is... but the manufacturers still don’t want them to put it there. An egregious violation would be one where the dealer’s year-end report to the Factory had not reflected LIFO at all. And that’s oversimplifying because many fiscal year taxpayers will book the adjustment at some point even though they don’t book it as of the end of their calendar or fiscal year. They’ll book it when it’s computed and then not change it on until it’s recomputed again. So, there may be some dealers using LIFO who’ve reported it in Other Deductions and they may not be subject to this penalty.

LOOKBACK PERIOD

How far back are you going to have to look to see if there’s been a conformity violation? Do you look all the way back to the first LIFO year ...which could be as far back as 1974—some twenty years ago? Or do you look back only three years, or possibly to the earliest open tax year? Or, do you look back five or six years? NADA is trying to negotiate with the IRS for a reasonable limit on the number of lookback years.

NADA may feel that if the IRS only wants dealers to look back three years for conformity violations, that may not be too bad because we’re only talking about paying back for conformity violations that occurred in three years—as opposed to looking back six years or ten years or possibly over the entire lifespan of the LIFO election. How far back you look has some additional problems built into it regardless of where one draws the line because a dealer may have had prior IRS audits which are “closed.” What’s the effect of prior IRS audits or settlements? How many dealers have *closing agreements* with respect to prior years as opposed to just *adjustments* to prior years? We are talking here about eligibility violations that, according to the IRS, can transcend the normal statute of limitations.

→



COMPUTATIONAL MATTERS AND QUESTIONS

When we get to the computational side, a number of questions arise. Once the lookback period is defined, you may find that in some of the years the LIFO reserve went down or decreased, you've already repaid some of your LIFO benefit. It appears that the IRS would want dealers to ignore any years in which they had a reduction in their LIFO reserves. It appears the IRS will count and fully penalize all those years when a dealer had increases in the LIFO reserve. Decreases in the LIFO reserve could not be offset against increases in computing the dollar amount of the penalty.

Another question: How would this impact businesses that previously converted from "C" to "S" taxpaying status, and who repaid their previous "C" Corporation LIFO reserves over a four-year period of time and who already have a step-up in basis from their special collapsed layer under Section 1363(d)?

Computational problems for previous LIFO terminations: Any business or dealer who's terminated a LIFO election in the last few years may have received the benefit of spread forward recapture of income based upon the taxpayer's representation that there was no previous conformity violation in an otherwise open year. Now, according to the IRS' interpretations, there would be conformity violations. Those conformity violations would negate the representations made in getting off of LIFO and securing a spread period. How are these dealers affected? Will there be any impact on dealers who have terminated their LIFO elections in recent years? If so, what will it be? Remember, when you filed that Form 970, you agreed to make any adjustments for years before, during or in getting off of LIFO.

Will IRS guidance address the ability to use net operating losses against that income or is the recapture pure income subject to taxes? Will we add the amount of the LIFO reserve to income and then compute additional tax and pay the amount of the additional tax ...or will we take the deficiency and spread it pro rata (or equally?) into several years so that the incremental tax rates might be different in different years?

What if there's been a change in entity sometime during the LIFO election? Who bears the impact of the adjustment for the conformity violation? These are just some of the computational problems. Many, many interpretive problems will emerge one by one.

TIMING OR SPREAD PERIOD FOR REPAYMENT

Once you have settled all the computational matters and questions, what's the timing? Over what period do you spread the impact? Do you take all the LIFO reserve repayment into income in one year? If so, what year? Or is the repayment spread over three years... or five ...or six ...or ten?

When a taxpayer is hit with a Section 481(a) adjustment due to a change in accounting method, there is typically a spread of that adjustment over a period of years so as to minimize to some extent the impact of the computation. Will there be a spread period in connection with the LIFO adjustments? The IRS has said in LTR 9535010 that the LIFO conformity requirement is not a method of accounting, nor is it a LIFO sub-method. Rather, it is a condition upon the use of any LIFO method of accounting.

NADA would like dealers to receive a ten year spread. The IRS appears to want a shorter spread period, like three years. Will the spread period include 1995? Again, this is like negotiating with the IRS at an appeals level and it is my understanding that dealers whose LIFO conformity elections are being challenged now are being offered similar terms as part of the negotiation to settle the case.

POLICING CONFORMITY VIOLATIONS... HOW WILL IT BE DONE?

How is the IRS going to audit this? What mechanisms will the Revenue Procedure put in place to police this? The original draft indicated that this was to be accomplished by self-audit. In other words, you and I, the CPA, would review our dealers conformity or lack of conformity and blow the whistle on them as if we were working for the IRS. We would do that by attaching a statement to the tax return for the year that's first affected by this Revenue Procedure. A date in 1995 was already in the draft of the Revenue Procedure, so if that date remains unchanged, and if a self-audit provision remains, then some additional work will have to be done in a hurry before tax returns for 1995 are filed for dealer clients. And, we all know the propensity of the IRS to come out with *guidance* on the day before we have to file a tax return. Just think about the possibility that, yes, we've got guidance before the NADA meeting. Great news! Now we know what to tell you. Here's the news, you've got to adjust your prior year tax returns, or look at your prior year tax returns and then make a penalty computation and pay the tax associated with it in the tax return for 1995 that you're going to file in less than a month. Not a very pleasant prospect!

Will the IRS simply give another draft of guidance to NADA and say: "We want you to see this before we issue it... tomorrow?" Or might the Service say: "Here's a revised draft and we'd like to have your reaction to it?" Obviously, no one knows.

*



Auto Franchise Dealers Could Lose LIFO Because of Reports to Makers

For some automobile dealers across the country, the next month or two may determine the extent of their profit or loss — not from close-of-year sales but from the imminent conclusion of current negotiations between their representatives and the IRS national office.

Observers point out that these talks can affect other types of franchise dealers and other businesses benefiting from the use of the inventory accounting method known as LIFO — last in/first out. LIFO can effectively defer income until the business shuts down or, under certain conditions, until the IRS puts a stop to the use of the LIFO method. In fact, many car dealers' LIFO reserves can accumulate more than \$3 million in untaxed money in a decade, industry insiders say.

IRS agents have begun prying those reserves open, ordering the termination of the inventory accounting methods of more than 20 auto dealers so far.

IRS agents have begun prying those reserves open, ordering the termination of the inventory accounting methods of more than 20 auto dealers so far, and requiring at least 10 of them to each pay at least \$1 million in taxes, say representatives of the National Automobile Dealers Association (NADA). IRS field agents have so far gone after dealers only in Houston, parts of Georgia, and Colorado. But the agency could begin requiring others across the country to do the same, sources say, depending on the outcome of the negotiations.

As the talks continue behind closed doors, IRS officials are keeping mum. Industry observers say it was this reticence that caused the uncertainty in the past and that led to the dealers' surprise when the Service came out with two tech advice memos this spring.

In two similar technical advice memorandums (LTR 9535009, 95 TNT 173-8, and LTR 9535010, 95 TNT 173-9), the Service ruled that two dealers should have used the LIFO method in the monthly reports universally required by manufacturers.

Section 472(e) requires a taxpayer that has begun using the LIFO method to continue using that method for ascertaining income for the tax year or for credit purposes — unless the IRS says it is okay not to. The taxpayer risks losing its LIFO by using a different method in valuing inventory for financial reports to stockholders or to creditors. The Service is required to terminate the

LIFO reserve, with consequent recapture of taxes for the tax year(s) in which LIFO has been terminated.

Automobile franchise agreements generally require auto dealers to send monthly reports in a form suggested by the manufacturer. The franchise agreement also requires dealers to send a copy of the report to the credit lending arm of the manufacturer. The statements disclose the dealer's income for the month and year-to-date using the specific identification inventory method, which is based on the cost of each particular inventory item.

Manufacturers send instructions to dealers on how to fill out the forms. Generally, the instructions do not tell the dealers to use LIFO when filling out the operating summary or the sheet that reports the units and sales of new vehicles — both of which qualify as income statements that, the Service maintains, must reflect LIFO computations if the dealer has adopted LIFO. In the TAMs, the dealers' failure to use LIFO inventory accounting in the reports was a nonconformity under section 472(e).

Now They Tell Us

Auto dealers think this is unfair because many of them have been audited two or three times in the past without the IRS agent showing any interest whatsoever in the reports to the manufacturer. Bill Morris, outside counsel to the NADA, said auto dealers vainly tried to get the IRS to explain section 472(e) back in 1980.

But not everyone is sympathetic. The dealers did not try hard enough to get the Service's clarification, according to Michael Frankel, chair of the Tax Accounting Committee of the American Institute of Certified Public Accountants. If the rules were not clear then, dealers should have requested private letter rulings much earlier on, he told Tax Analysts. On the other hand, he concedes that technical advice is not an appropriate vehicle for clarifying the issue for everyone concerned.

In any case, just because an IRS agent audited a dealer in the past does not estop the Service from doing so now if the LIFO conformity issue was not within the scope of a prior audit, other practitioners noted. Still, practitioners and auto dealer controllers observe that the various district offices lack consistency in the way the rules are enforced.

Other practitioners, in morbid resignation, said that at least the TAMs could establish consistent treatment of franchises from now on, albeit harsh.

For Your Eyes Only

IRS regulations do not require the LIFO method for "internal management reports" and



for reports for periods of less than a year. On the other hand, some periodic reports can be classified as one report for the entire year.

In the TAMs, the Service maintained that the monthly statements are not "internal management statements and reports" excepted from the LIFO conformity requirement. An example of an internal management report is one the employer provides to a benefit plan administrator showing earnings from which employee benefits are computed, the Service pointed out in one of the TAMs.

Morris said the IRS included the exception for "internal management reports" in final regulations enacted in 1981 but never really defined the term. In fact, the regulations simply "reserved" that subsection for future elucidation. The dealers' interpretation of "internal management reports" is reasonable and in good faith, Morris argued. NADA — representing over 20,000 auto dealers nationwide — is asking the IRS national office for a prospective application of the rules and for a clearer elaboration in the form of a revenue procedure.

In the TAMs, however, the Service insisted that the guidance was out there for the viewing: "Published guidance addressing this issue specifically states that the provision of monthly statements, reporting income computed using an inventory method other than LIFO, by an automobile dealer to its franchisor and the franchisor's credit subsidiary results in a LIFO Conformity violation and the termination of the LIFO election. Accordingly, the district director may terminate T's LIFO election." (LTR 9535010.)

But Morris counters that a manufacturer that requires a dealer to send the monthly report is a "related" party *in loco parentis* with the dealer. Although not in the case of the dealers involved in the TAMs, most dealers must comply with the specific form imposed by the manufacturer or face the risk of losing the franchise, he said.

Furthermore, the reports are not financial reports in the first place, said NADA's assistant director for regulatory affairs Peter Kitzmiller. The manufacturers do not primarily depend on these reports for judging profit and loss, but for gauging the general performance of products in a district of a region, he told Tax Analysts.

He added that a manufacturer's financing arm is really an auxiliary to the manufacturer — and as such is also a related party. Thus the copy of the monthly report sent to the creditor is also an internal management report worthy of exception.

The question, therefore, is whether a financial statement sent to a creditor can still qualify as an internal management report. The IRS was reminded of this potential ambiguity at least as far back as the beginning of this year, but did not

publish any announcement of its position until the TAMs. Willard De Filippis, a CPA in Mt. Prospect, Ill., and publisher of a newsletter on LIFO issues, wrote IRS Commissioner Margaret Richardson alerting her to the fact that the Service had not provided guidance on "how the term 'Internal Management Reports' is to be interpreted where it overlaps with the possibility that an auto dealer's year-end financial statements may be used 'for credit purposes.'"

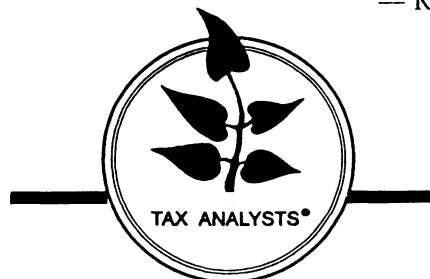
De Filippis said the issue is causing an enormous waste of time and resources. "Decisive and immediate action by your office can halt this enormous drain and rechannel all our efforts into more productive areas," he wrote the commissioner. IRS officials have declined to comment on the matter.

'Decisive and immediate action by your office can halt this enormous drain and rechannel all our efforts into more productive areas,' De Filippis wrote the commissioner.

The December reports for this year are due by January 10 — auto manufacturers require dealers to send in their statements by the 10th day after the applicable month. Already, Ford and GM have modified their forms to allow the dealer to make LIFO adjustments in the income statement, and not just in the balance sheet. Morris explained that the Service requires the twelfth statement — the last one in the tax year — to contain the LIFO adjustments.

The real risk is in how the IRS will treat the past years. Some comptrollers who have tried to comply in the past say they could use only estimates to come up with the LIFO adjustments and may not be in technical compliance. However, many practitioners believe the inability to comply in full should not necessarily lead to total termination of the LIFO reserve. Part of the negotiations with the national office involves establishing a less harsh penalty for those who have tried to conform. Some tax attorneys even charge that a termination could amount to a taking without due process. ■

— Rod Garcia



COMMENTS ON TAX NOTES ARTICLE

LIFO: LEAVE IT FOR OTHERS (BUT NOT THE IRS) TO RESOLVE

Hopefully this adds some clarification and perspective to the article: "Auto Franchise Dealers Could Lose LIFO Because of Reports to Makers" (*Tax Notes*, December 4, 1995).

The article refers to negotiations currently occurring between NADA as the auto dealers representatives and "the IRS National Office". It is unfortunate that those folks on the IRS-Treasury side of the issue include not only National Office, Chief Counsel, and Treasury officials, but also representatives of the MSSP (Market Segment Specialization Program) who may be very much involved with "calling the shots" on this. If so, that's like letting a hungry fox stand guard over the hen house. Remember that three years ago, in 1992, NADA and the IRS-Treasury worked out major differences relating to LIFO computations for auto dealers. A compromise was struck—the Alternative LIFO Method—that became Revenue Procedure 92-79. That pulled the carpet out from under examining agents and appeals officers and the MSSP all over the country. Suddenly, the Service has awakened to the opportunity in conformity interpretation to terminate *en masse* auto dealer LIFO elections.

In attempting to convince "the IRS" that almost all auto dealers using LIFO were affected, NADA took a calculated gamble that in documenting the widespread impact of these interpretations as a National issue, the IRS might turn it around and see a golden goose opportunity for sizable audit adjustments through LIFO election terminations.

What's ironic is that virtually all of the manufacturers mandated accounting practices and financial statement reporting practices make it impossible for dealers to comply with the strict interpretation "trial balloons" the IRS sends up during some of its audit adventures of car dealers.

In the auto dealer LIFO Conformity issue, no income, economic benefit nor timing difference is at stake. Instead, what we have is an enormous trivial pursuit game, reminiscent of the 60's TV series in which no matter what effort our hapless hero made to escape, the result for *The Prisoner* was always a dead end, no exit (in this case any conformity violation automatically terminates the LIFO election).

Monthly reporting forms are not in a form "suggested" by the manufacturer; their use is mandatory. In several instances, the manufacturers have never allowed auto dealers to reflect LIFO in their year-end financial statements sent to them. Furthermore, it is apparent that neither GM nor Ford (both mentioned

in the article as changing their statements in 1995) has done so with the blessing of a current Letter Ruling or Technical Advice Memo from the Internal Revenue Service. By the way, what does all this current changing of the statements by the manufacturers suggest about deficiencies or defects in prior LIFO reporting practices?

A conformity violation is like a genetic defect: It can never be cured, made to go away, nor erased. What's worse, many dealers often found out about the opportunity to use LIFO long after their year-end statements for their first LIFO year were already sent to the manufacturer. For them, any option or chance to satisfy the conformity requirement was already gone—it was already too late. Doomed from Day 1!

LTR 9535010 states that "**published guidance** addressing this issue specifically states that the provision of monthly statements...at year-end which are not on LIFO results in a LIFO Conformity violation." *Tax Notes* has long been aware that a Letter Ruling or TAM is a double-edged sword. Such "guidance" is either *precedential* or *non-precedential* depending on whether it holds for the taxpayer or against the taxpayer, and depending on who uses it as a weapon or raises it as a shield.

The so-called "published guidance" referred to in 9535010 consists of letter rulings that predate the 1981 change in the regulations. In my opinion, these are poorly reasoned. There has been no attempt by the IRS since then until now to update its old "logic" in terms of current business practices. It is apparent from discussions with some IRS individuals involved with this issue that they have no first-hand experience in the real world of dealer-factory reporting and relationships. It is as if some believe that dealers' accountants wearing green eyeshades are still powdering their quill-posted ledgers and then recopying an extra set of financial statements by hand to mail to the Factory. What we are really dealing with here is information collected under tremendous time pressure for statistical analysis which is transmitted instantaneously and electronically ...and which the manufacturer often redistributes directly to the credit corporations.

The article also indicates that "the Service is required to terminate the LIFO reserve, with consequent recapture of taxes...". If this is a requirement, in the past more agents have ignored it than followed it. NADA has argued that a LIFO conformity violation does not automatically have to result in LIFO termination...it simply might warrant termination of →



LIFO: Leave it for Others (But Not the IRS) to Resolve

(Continued)

the election (see Revenue Procedure 79-23). The lack of consistency and uniformity by the IRS is so egregious in this matter that *that* ought to be the subject of a Congressional investigation.

Given the numerous recent departures from the IRS/Treasury at top levels, how soon is anyone really going to step in and face the heat that any "guidance" that the IRS issues on this subject will generate? Not to mention the impact of "furloughs" on the eventual release of guidance on this subject.

That heat will be intense, as many insiders believe that the IRS is going to play a semantics game and say "we're not terminating your LIFO election, we're simply going to ask you to repay your LIFO reserve buildup". Dealers will be furious, first with the IRS, then with NADA, and then...ultimately, with their CPAs.

FURTHER GUIDANCE

Other publications have opined that upcoming guidance may take the form of a Revenue Procedure telling auto dealers to incriminate themselves and self-assess the tax. In this regard, see page 12. It has even been rumored that these confessions will be self-audits—conducted by none other than the dealer's own CPA (who should have known better). A punishment worthy of the Mikado!

Speculating on some of the questions that IRS guidance will need to address, we have an ominous list: How far back do we look? What will be the effect on previous audits, previous closing agreements? What if the dealer/taxpayer has not retained information? How does one measure the amount of income to be "repaid" arising from a LIFO Conformity violation? What happens within a series of years if there were decrements in some of those years? Will there be a spread period for the amount required to be taken into income? Or will there be a computation of tax which will be spread into income? How will these changes be integrated with corporations that previously made S elections and already have, to some extent, a special Section 1363(d) collapsed layer? Will dealers be better off just to hide in the bushes or should they "fess up"? How forthright will their CPAs be in interpreting ambiguities in forthcoming guidance against their own dealer clients? Might they be more inclined to interpret ambiguities if they were not the dealer's CPA in prior years?

AICPA COMMENTS:

MR. FRANKEL...OH! PLEASE!

And then there are those remarks by the AICPA Tax Accounting Committee Chairperson. Will they become fodder for every dealer/plaintiff's attorney when they go to sue CPA's for screwing up their

dealer's LIFO Conformity requirements? As a member of the AICPA Tax Division, I receive "Minutes" of various meetings. I doubt very much that the "bigger" issues on which the AICPA's Tax Accounting Committee spends more of its time (such as components-of-cost, item cost characteristics *a la* *Amity Leather* and *Hamilton Industries*, practical capacity, *Indopco*, or the embarrassing lack of any standards for statistical sampling of LIFO inventories) are treated as cavalierly. Do the conformity requirements only apply to everybody else's dealer clients?

I believe Mr. Frankel's comments miss the mark entirely and reflect poorly on his committee and on the AICPA in this matter. NADA is doing the best it can to protect its dealers...and some of those dealers, like cornered animals, will turn on their accountants to reimburse them for the tax dollars on the LIFO reserves they may have to repay.

PROBLEMS FOR CPAs

Contrasted with Mr. Frankel's comments we have the "morbid resignation" attributed to some other practitioners. What some of these practitioners may be missing is that maybe dealers will be looking to them to justify how they collected fees for interpretive advice that has cost the dealers their LIFO elections. In accounting language: debit "Due From Former CPA" and credit "Due to IRS and Lawyers."

One of the IRS statements in Letter Ruling 9535010 is that the dealer taxpayer made no effort to comply. This is in error and is inconsistent with all the facts. Auto dealers and their controllers run the other way when LIFO is mentioned. Bodies can't run away fast enough from this subject that cures insomnia like no other palliative. Most—if not all—dealers have relied on CPAs and other professional help for interpretations of these regulations and the coming debacle will be most unfortunate for the accounting profession and individual firms and practitioners servicing auto dealers who were on LIFO.

Many of the issues are far broader than what meets the eye, especially one that is already half shut. These issues relate not only to auto dealers and their statements to manufacturers, but to countless types of other businesses that operate within similar franchise or other environments.

A SOLUTION VS. WISHFUL THINKING

In my opinion, the real solution should come from intervention by Congress or from a MSU (Market Segment Understanding). What is needed are written, reasonable and uniformly implied interpretations set forth on a prospective basis.

Anything less will be a mess.

✱



Willard J. De Filippis, CPA, P. C.



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November 16, 1995

Honorable Bill Archer
U.S. House of Representatives
10000 Memorial Dr., Suite 620
Houston, TX 77024

Dear Congressman Archer:

I am writing at the request of many of your constituents - auto dealers and their CPAs in Houston and elsewhere in Texas whom I have known for many years - to ask you to prevent the IRS from collecting hundreds of thousands of dollars from auto dealers based on what the IRS "thinks" Congress meant many years ago in an obscure directive.

The IRS bureaucrats trying to interpret Congressional intent are unfamiliar with the intricacies of the relationships between auto dealers and their manufacturers, yet they presume to tell the manufacturers what is "best for them."

Almost every auto dealer in Texas using the LIFO (Last-In, First-Out) inventory method is affected. Many of the dealers involved are within a short radius of your own home office in Houston. These dealers have been relying on the advice and interpretations of local CPAs who are also your constituents.

For years I have carried on almost a one-man battle against the IRS over the LIFO financial statement conformity requirement as the IRS interprets it for auto dealers. In fact, I have represented the auto dealer who was the subject of IRS Letter Ruling 9535009 who is right "down the street" from your office and I have spoken with many Texas CPAs representing dealerships threatened with the same consequences.

Auto dealerships are a credit to the communities in which they do business, often significantly improving the quality of life through participation in community activities. In addition, each dealership is a stable employer of dozens, if not hundreds, of employees. The IRS levies - if unchecked by Congress - will put many of these dealerships out of business and many former employees out of work.

I have previously written to IRS Commissioner Richardson, and enclose a copy of my letter and her reply. In the meantime, things have only gotten worse for auto dealers and the IRS is poised to issue "guidance" which will damage countless dealerships.

I have also summarized some of the reasons why Congress should intervene in this matter. With the greatest respect for your time, I have attached only this material to this letter.

Included in a separate package are detailed materials addressing all of the technical matters and placing them in broader contexts. I would be pleased to review all of this technical material with your aides at any time if that would be helpful.

I have great faith that with even a few moments of your time, you will appreciate the injustice we all hope you will prevent.

Respectfully,

Willard J. De Filippis
WILLARD J. DE FILIPPIS, CPA



PROJECTING YEAR-END LIFO RESERVE CHANGES

Very often, it is not possible to make the computation of the year-end change in the LIFO reserve before the so-called 12th statement has to be sent to the Factory. Nevertheless, these year-end statements must not be released until an **ESTIMATE** of the LIFO reserve change has been computed and reflected in them. In current IRS audits, agents have requested documentation to check compliance with the year-end LIFO conformity requirement. *It is important to prepare a reasonable estimate of the change in the LIFO reserve for the year, document it and save it **permanently**.*

Estimating the change in the LIFO reserve is usually not too difficult or time-consuming. It involves two factors: (1) the ending inventory level—actual or estimated, and (2) an **estimate** of the overall inflation percentage for the year. By the time the estimate is being prepared, the actual dollar amount of the ending inventory usually is known. That means the only unknown is the estimated rate of inflation for the pool for the year. All other factors necessary to compute the estimated change are **known**:

- Beginning-of-the-year inventory expressed in total dollars and in base dollars,
- Beginning-of-the-year LIFO valuation of the inventory,
- Method used for valuing current year increments, and
- Cumulative inflation index as of the beginning-of-the-year.

The computation of the projected change in the LIFO reserve is made by plugging in the estimate of the current year's rate of inflation or inflation index and then working backwards in the following order:

- (1) Determine the cumulative index as of the end-of-the-year—this is the estimated current year inflation index times (i.e. multiplied by the) beginning of year cumulative index,
- (2) Divide the end-of-the-year actual inventory dollars by the year-end cumulative index—to get the end-of-the-year inventory stated or expressed in base dollars,
- (3) Compare end-of-the-year inventory at base dollars with the beginning-of-the-year inventory stated in base dollars to determine whether there is an increment or a decrement projected for the year,
- (4) Value the projected increment under the method already selected. Alternatively, if a decrement is projected for the year, carry the decrement (expressed in base dollars) back against prior years increments (also expressed in base dollars) on a LIFO or reverse-chronological-order basis.
- (5) Add all the resulting layers of inventory at their respective LIFO valuations to get the end-of-the-year inventory stated at its LIFO valuation,
- (6) Subtract the ending inventory at its LIFO valuation from the ending inventory at its actual or estimated current non-LIFO cost to determine the projected LIFO reserve as of the end-of-the-year,
- (7) **Finally**, subtract the **actual** LIFO reserve as of the beginning-of-the-year from the **projected** LIFO reserve as of the end-of-the-year.

The result in step 7 is the estimate of change in LIFO reserve for the year. This amount is then rounded and put into the 12th statement by an adjusting entry before the statement is released. The entry should be to the inventory valuations in the Cost of Goods Sold section of the income statement.

*These **estimates** of change are routinely prepared and reflected in the dealer's year-end financial statements sent to the Factory: You don't have to know the exact change to reflect LIFO in the December statement. Reasonable estimates are permitted on the 12th statement.* The actual computation of the change in the LIFO reserve for the year is usually made **after** the 12th statement has been sent out, when all of the actual inventory invoices are available and fully reconciled. After the actual change in the LIFO reserve for the year has been computed, the 13th statement should adjust the estimated amount to the actual LIFO reserve amount. On the 13th statement, the finalizing entry should be to the inventory valuations in the Cost of Goods Sold section of the Income Statement.



PROJECTIONS OF LIFO RESERVE CHANGES FOR THE XYZ DEALERSHIP GROUP

As a followup to our recent conversations and the information you provided, below are the projected changes as of September 30, 1995 for the new vehicle LIFO reserves for all five XYZ dealerships.

	Pool #1 New Autos	Pool #2 New Trucks	Net Change 09-30-95 New Vehicle LIFO Reserve
Dealer A, Inc. d/b/a A Imports	\$ 18,212	-0-	\$ 18,212
Dealer B Lincoln-Mercury	20,732	(5,180)	15,552
Dealer C, Inc. d/b/a C Ford-Mercury	53,841	75,388	129,229
Dealer D, Inc. d/b/a D Toyota	49,386	54,495	103,881
Dealer E Ford, Inc.	99,598	96,868	196,466
Projected Net Changes for FYE 9-30-95	<u>\$ 241,769</u>	<u>\$ 221,571</u>	<u>\$ 463,340</u>

Below are the inflation rates and inventory levels used in arriving at the projected LIFO reserve changes for 1995. For comparative purposes, you can see the actual inflation rate computed for each pool last year (i.e., for the FYE 9/30/94) as well as the actual inventory dollar amount at September 30, 1994. Thank you for providing both the August 31, 1995 inventory level as well as the September 19 printout data. From that information, you can see the "estimated" dollar amount of inventory for each pool. The only real difference is that the LIFO computations include Previas, 4Runners and Land Cruisers in the truck pool. We used the total dollars indicated by your information, but split the total between the two pools on an approximate basis.

The estimated inflation rates are based on a rough weighted average assuming an inventory mix of "one-of-each" item category, with the net result rounded off to an even full percentage point. As we discussed, these projections are only as "good" as the estimated inflation rates and the estimated inventory levels used.

	09/30/94 Actual		09/30/95 Projected	
	Inflation Rate	Inventory Level	Inflation Rate	Inventory Level
Dealer A, Inc. d/b/a A Imports				
Pool #1 - Autos	1.03%	\$ 1,821,000	1.0%	\$ 2,700,000
Pool #2 - Trucks	0.3%	58,000	Nil	100,000
Dealer B Lincoln-Mercury				
Pool #1 - Autos	3.9%	\$ 1,305,000	3.0%	\$ 1,100,000
Pool #2 - Trucks	8.9%	466,866	3.0%	250,000
Dealer C, Inc. d/b/a C Ford-Mercury				
Pool #1 - Autos	8.4%	\$ 1,592,000	4.0%	\$ 1,400,000
Pool #2 - Trucks	5.5%	2,513,000	3.0%	2,800,000

Dealer D, Inc. and Dealer B Ford - data omitted

ANALYSIS: In general, the only real "pay-back" situations are projected to occur in the Dealer B Lincoln-Mercury pools. In the auto Pool #1, the comparatively lower year-end inventory level results in a net overall increase in the LIFO reserve for that pool, but one factor in arriving at that net increase is a pay-back of approximately \$11,300 due to the drop in inventory levels. In Pool #2 for Dealer B Lincoln-Mercury, the projection shows an absolute decrease in the LIFO reserve of approximately \$5,200...of which one component is an increase in the LIFO reserve due to inflation of \$7,300 which is completely offset by a pay-back of approximately \$12,500 due to the lower inventory level.

In all other pools where the projected '95 inventory levels are greater than last years, and increments result for LIFO computation purposes, the projected net increases in the LIFO reserves cannot be made any greater by further increasing the ending inventory levels.

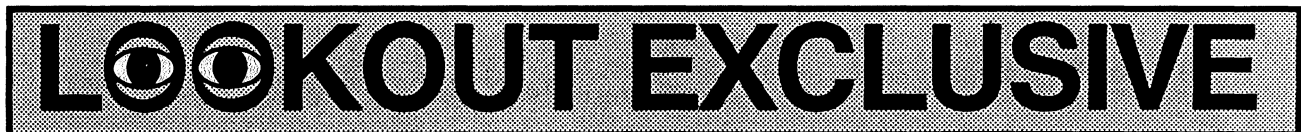
Accordingly, at this time and based on the projected inventory levels and assumed inflation rates, it would appear that only Dealer B Lincoln-Mercury might have a higher net increase in its LIFO reserves if it is carrying more inventory in each pool at September 30, 1995.



**1995-1996 MODEL / ITEM CATEGORY INFLATION SURVEY
FOR QUICK, ONE-OF-EACH, LIFO ESTIMATES
AS OF DECEMBER 31, 1995**

**INFLATION ESTIMATE REPORT BY MAKE
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE**

	POOL #1 NEW AUTOMOBILES	POOL #2 NEW LIGHT-DUTY TRUCKS
ACURA	3.13%	0%
AUDI	Information Not Currently Available	
BMW	Information Not Currently Available	
BUICK	4.49%	0%
CADILLAC	3.26%	0%
CHEVROLET/GEO	3.31%	5.40%
CHRYSLER	3.81%	0%
DODGE	2.17%	3.91%
EAGLE	3.09%	0%
FORD	3.04%	5.01%
GMC TRUCKS	0%	5.30%
HONDA	1.48%	2.38%
HYUNDAI	5.77%	0%
INFINITI	2.28%	0%
ISUZU	Information Not Currently Available	
JAGUAR	Information Not Currently Available	
JEEP	0%	7.02%
KIA	Information Not Currently Available	
LAND ROVER / RANGE ROVER	Information Not Currently Available	
LEXUS	10.33%	0%
LINCOLN	3.84%	0%
MAZDA	6.63%	2.30%
MERCEDES	4.29%	0%
MERCURY	3.42%	5.37%



**1995-1996 MODEL / ITEM CATEGORY INFLATION SURVEY
FOR QUICK, ONE-OF-EACH, LIFO ESTIMATES
AS OF DECEMBER 31, 1995**

**INFLATION ESTIMATE REPORT BY MAKE
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE**

	POOL #1 NEW AUTOMOBILES	POOL #2 NEW LIGHT-DUTY TRUCKS
MITSUBISHI	6.05%	5.32%
NISSAN	6.08%	4.84%
OLDSMOBILE	0%	0%
PLYMOUTH	2.23%	0%
PONTIAC	3.10%	8.41%
PORSCHE	5.28%	0%
ROLLS ROYCE / BENTLEY	Information Not Currently Available	
SAAB	2.91%	0%
SATURN	0.86%	0%
SUBARU	5.18%	0%
SUZUKI	0%	4.65%
TOYOTA	3.36%	5.26%
VOLKSWAGEN	(1.56)%	0%
VOLVO	5.92%	0%

Complete 1996 intro price information is not currently available for all models.
Accordingly, some inflation indexes exclude certain item(s) for which 1996 information is missing.
New items are repriced at current cost - i.e., no inflation.

Sources: W.J. De Filippis' Make / Model Analysis Data Base Report, Preliminary Edition (Copyright, 1996)

LOOKOUT EXCLUSIVE



PAGE 1

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - LE, NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
ACURA								
NEW AUTOS - POOL #1								
INTEGRA	16	0	16	262,993		279,206	16,213	6.16%
NSX	0	2	2		139,474	139,474	0	0%
NSX-T	2	0	2	142,048		146,340	4,292	3.02%
TL	0	4	4		109,679	109,679	0	0%
TOTAL NEW AUTOS	18	6	24	405,041	249,153		20,505	3.13%
TOTAL ACURA	18	6	24	405,041	249,153	674,699	20,505	3.13%
ALFA ROMEO								
				No longer sold in U.S.				
AUDI								
				Info N/A				
BMW								
				Info N/A				
BUICK								
NEW AUTOS - POOL #1								
CENTURY	2	0	2	29,929		32,589	2,660	8.89%
LESABRE	2	0	2	41,300		42,790	1,490	3.61%
PARK AVENUE	2	0	2	53,049		54,617	1,568	2.96%
REGAL	4	0	4	72,300		75,194	2,894	4%
RIVIERA	1	0	1	24,454		26,380	1,926	7.88%
ROADMASTER	3	0	3	69,904		73,771	3,867	5.53%
SKYLARK	0	2	2		29,596	29,596	0	0%
TOTAL NEW AUTOS	14	2	16	290,936	29,596	334,937	14,405	4.49%
TOTAL BUICK	14	2	16	290,936	29,596	334,937	14,405	4.49%
CADILLAC								
NEW AUTOS - POOL #1								
DE VILLE	2	0	2	67,985		69,988	2,003	2.95%
ELDORADO	2	0	2	68,988		71,441	2,453	3.56%
FLEETWOOD	1	0	1	32,569		33,850	1,281	3.93%
SEVILLE	2	0	2	76,008		78,274	2,266	2.98%
TOTAL NEW AUTOS	7	0	7	245,550		253,553	8,003	3.26%
TOTAL CADILLAC	7	0	7	245,550		253,553	8,003	3.26%
CHEVROLET/GE0								
NEW AUTOS - POOL #1								
BERETTA	6	0	6	77,846		79,926	2,080	2.67%
CAMARO	4	2	6	68,401	36,792	110,120	4,927	4.68%
CAPRICE	2	4	6	41,926	77,865	122,547	2,736	2.28%
CAVALIER	4	1	5	43,373	16,188	61,149	1,588	2.67%
CORSCA	3	0	3	37,731		38,909	1,178	3.12%
CORVETTE	2	0	2	68,785		70,353	1,568	2.28%
GEO METRO	4	0	4	32,738		33,841	1,103	3.37%

JANUARY 2, 1996 PAGE 2

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - LE, NO INFLATION

JANUARY 2, 1996

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
GEO PRIZM	2	0	2	22,482		24,015	1,523	6.77%
LUMINA	2	0	2	29,358		31,141	1,783	6.07%
MONTE CARLO	2	0	2	32,345		33,225	880	2.72%
TOTAL NEW AUTOS	31	7	38	454,995	130,865	605,226	19,366	3.31%
NEW LIGHT-DUTY TRUCKS - POOL #2								
ASTRO VAN	6	0	6	102,925		107,519	4,594	4.46%
BLAZER	4	0	4	72,267		76,971	4,704	6.51%
C-K CHASSIS CAB	13	0	13	220,701		231,726	11,025	5%
C-K PICKUP	29	0	29	462,928		486,062	23,134	5%
CHEVY VAN	3	3	6	48,695	53,225	105,573	3,653	3.58%
CUTAWAY VAN				Info N/A				
F.C. CHASSIS				Info N/A				
GEO TRACKER	4	4	8	50,832	57,663	111,136	2,641	2.43%
LUMINA APV	1	0	1	15,923		18,000	2,077	13.04%
S10 PICKUP	10	0	10	124,951		133,135	8,184	6.55%
SPORTVAN	1	0	1	18,401		19,146	745	4.05%
SUBURBAN	4	0	4	81,672		90,203	8,531	10.45%
TAHOE	3	1	4	67,197	20,025	93,406	6,184	7.09%
TOTAL NEW L-D TRUCKS	78	8	86	1,266,492	130,913	1,472,877	73,472	5.40%
TOTAL CHEVROLET/GE0	109	15	124	1,721,487	261,778	2,078,103	94,838	4.78%
CHRYSLER								
NEW AUTOS - POOL #1								
CONCORDE	2	0	2	34,483		33,934	(549)	(1.59)%
LHS	1	0	1	26,646		27,702	1,056	3.96%
NEW YORKER	1	0	1	23,067		24,992	1,925	8.35%
SEBRING	2	0	2	31,532		33,506	1,974	6.26%
TOTAL NEW AUTOS	6	0	6	115,728		120,134	4,406	3.81%
NEW LIGHT-DUTY TRUCKS - POOL #2								
TOWN & COUNTRY	0	3	3		70,156	70,156	0	0%
TOTAL NEW L-D TRUCKS	0	3	3		70,156	70,156	0	0%
TOTAL CHRYSLER	6	3	9	115,728	70,156	190,290	4,406	2.37%
DODGE								
NEW AUTOS - POOL #1								
AVENGER	2	0	2	28,013		29,524	1,511	5.39%
INTREPID	2	0	2	34,966		37,287	2,321	6.64%
NEON	5	1	6	52,012	8,930	62,300	1,358	2.23%
STEALTH	3	0	3	79,229		78,512	(717)	(0.90)%
STRATUS	2	0	2	28,695		28,067	(628)	(2.19)%
VIPER	1	0	1	48,725		50,960	2,235	4.59%
TOTAL NEW AUTOS	15	1	16	271,640	8,930	286,650	6,080	2.17%

PAGE 3

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
NEW LIGHT-DUTY TRUCKS - POOL #2								
CARAVAN	0	6	6		109,406	109,406	0	0%
CARAVAN CV				Info N/A				
DAKOTA	14	0	14	190,435		200,028	9,593	5.04%
RAM CAB & CHASSIS	6	0	6	101,607		106,540	4,933	4.85%
RAM PICKUP	20	2	22	324,595	38,542	376,465	13,328	3.67%
RAM VANS	7	0	7	106,286		110,115	1,829	1.69%
RAM WAGON	4	0	4	67,999		75,095	7,096	10.44%
TOTAL NEW L-D TRUCKS	51	8	59	792,922	147,948	977,649	36,779	3.91%
TOTAL DODGE	66	9	75	1,064,562	156,878	1,264,299	42,859	3.51%
EAGLE								
NEW AUTOS - POOL #1								
SUMMIT	8	0	8	98,368		101,115	2,747	2.79%
TALON	3	0	3	47,308		49,145	1,837	3.88%
VISION	2	0	2	38,312		39,416	1,104	2.88%
TOTAL NEW AUTOS	13	0	13	183,988		189,676	5,688	3.09%
TOTAL EAGLE	13	0	13	183,988		189,676	5,688	3.09%
FORD								
NEW AUTOS - POOL #1								
ASPIRE	2	0	2	16,110		17,037	927	5.75%
CONTOUR	2	0	2	24,632		25,907	1,275	5.18%
CROWN VICTORIA	4	0	4	75,900		79,371	3,471	4.57%
ESCORT	6	0	6	60,795		64,539	3,744	6.16%
MUSTANG	4	2	6	68,127	47,539	118,197	2,531	2.19%
PROBE	2	0	2	27,755		27,819	64	0.23%
TALURUS	0	4	4		74,181	74,181	0	0%
THUNDERBIRD	1	0	1	15,516		15,982	466	3%
TOTAL NEW AUTOS	21	6	27	288,835	121,720	423,033	12,478	3.04%
NEW LIGHT-DUTY TRUCKS - POOL #2								
AEROSTAR	4	0	4	69,107		71,866	2,759	3.99%
BRONCO	3	0	3	63,625		67,060	3,435	5.40%
CUTAWAY VAN	10	1	11	149,140	15,073	173,558	9,345	5.69%
E SERIES VAN/WAGON	15	0	15	267,026		279,553	12,527	4.69%
EXPLORER	12	0	12	263,230		272,964	9,734	3.70%
F SERIES CAB & CHASSIS	11	0	11	182,813		196,294	13,481	7.37%
F SERIES PICKUP	24	5	29	369,642	90,410	473,704	23,652	5.26%
RANGER	19	0	19	261,373		272,021	10,648	4.07%
WINDSTAR	3	0	3	53,059		56,422	3,363	6.34%
TOTAL NEW L-D TRUCKS	101	6	107	1,669,015	105,483	1,863,442	88,944	5.01%
TOTAL FORD	122	12	134	1,957,850	227,203	2,286,475	101,422	4.64%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
GMC TRUCKS								
NEW LIGHT-DUTY TRUCKS - POOL #2								
C-K CAB & CHASSIS	13	0	13	220,788		232,287	11,499	5.21%
C-K SIERRA PICKUP	28	0	28	446,676		467,817	21,141	4.73%
CHASSIS LO-PRO				Info N/A				
JIMMY	4	0	4	72,958		77,660	4,702	6.44%
RALLY WAGON	2	0	2	37,937		39,206	1,269	3.35%
S15 SONOMA	10	0	10	130,328		134,616	4,288	3.29%
SAFARI	6	0	6	103,307		107,901	4,594	4.45%
SUBURBAN	4	0	4	81,922		90,215	8,293	10.12%
VANDURA	4	0	4	65,830		70,007	4,177	6.35%
YUKON	3	1	4	67,258	20,025	93,406	6,123	7.02%
TOTAL NEW L-D TRUCKS	74	1	75	1,227,004	20,025	1,313,115	66,086	5.30%
TOTAL GMC TRUCKS	74	1	75	1,227,004	20,025	1,313,115	66,086	5.30%
HONDA								
NEW AUTOS - POOL #1								
ACCORD	22	1	23	379,580	22,179	408,708	6,949	1.73%
CIVIC	0	21	21	262,056	262,056		0	0%
DEL SOL				Info N/A - Will be new model				
PRELUDE	5	0	5	95,673		99,973	4,300	4.49%
TOTAL NEW AUTOS	27	22	49	475,253	284,235	770,737	11,249	1.48%
NEW LIGHT-DUTY TRUCKS - POOL #2								
ODYSSEY	3	0	3	63,071		64,575	1,504	2.38%
PASSPORT 4C2				Info N/A - Will be new model				
PASSPORT 4X4				Info N/A - Will be new model				
TOTAL NEW L-D TRUCKS	3	0	3	63,071			1,504	2.38%
TOTAL HONDA	30	22	52	538,324	284,235	835,312	12,753	1.55%
HYUNDAI								
NEW AUTOS - POOL #1								
ACCENT	5	0	5	41,392		43,274	1,882	4.55%
ELANTRA				Info N/A - Will be new model				
SONATA	5	0	5	66,509		70,848	4,339	6.52%
TOTAL NEW AUTOS	10	0	10	107,901		114,122	6,221	5.77%
TOTAL HYUNDAI	10	0	10	107,901		114,122	6,221	5.77%



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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
INFINITI								
NEW AUTOS - POOL #1								
G20	4	0	4	83,748		87,716	3,968	4.74%
I30	0	5	5		132,995	132,995	0	0%
J30	1	0	1	31,997		33,460	1,463	4.57%
Q45	1	0	1	43,628		44,860	1,232	2.82%
TOTAL NEW AUTOS	6	5	11	159,373	132,995	299,031	6,663	2.28%
TOTAL INFINITI	6	5	11	159,373	132,995	299,031	6,663	2.28%
ISUZU	Info N/A							
JAGUAR	Info N/A							
JEEP								
NEW LIGHT-DUTY TRUCKS - POOL #2								
CHEROKEE	10	0	10	154,237		164,386	10,149	6.58%
GRAND CHEROKEE	4	0	4	96,090		103,522	7,432	7.73%
WRANGLER	Info N/A - Will be new model							
TOTAL NEW L-D TRUCKS	14	0	14	250,327			17,581	7.02%
TOTAL JEEP	14	0	14	250,327		267,908	17,581	7.02%
KIA	Info N/A							
LAND ROVER/RANGE ROVER Info N/A								
LEXUS								
NEW AUTOS - POOL #1								
ES 300 SEDAN	2	0	2	52,290		55,080	2,790	5.34%
GS 300 SEDAN	2	0	2	70,882		77,690	6,808	9.60%
LS 400 SEDAN	2	0	2	83,968		88,872	4,904	5.84%
SC 300 COUPE	4	0	4	132,676		149,090	16,414	12.37%
SC 400 COUPE	2	0	2	76,000		88,032	12,032	15.83%
TOTAL NEW AUTOS	12	0	12	415,816		458,764	42,948	10.33%
TOTAL LEXUS	12	0	12	415,816		458,764	42,948	10.33%
LINCOLN								
NEW AUTOS - POOL #1								
CONTINENTAL	1	0	1	35,521		36,867	1,346	3.79%
MARK VII	1	0	1	33,753		34,970	1,217	3.61%
TOWN CAR	3	0	3	100,926		104,892	3,966	3.93%
TOTAL NEW AUTOS	5	0	5	170,200		176,729	6,529	3.84%
TOTAL LINCOLN	5	0	5	170,200		176,729	6,529	3.84%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
MAZDA								
NEW AUTOS - POOL #1								
626	4	0	4	66,037		70,607	4,570	6.92%
MILLENNIA	3	0	3	74,565		82,621	8,056	10.80%
MX-6 MIATA	1	0	1	15,768		16,624	856	5.43%
MX-6	1	1	2	16,546	21,110	38,567	911	2.42%
PROTEGE	3	0	3	38,225		39,240	1,015	2.66%
RX-7	Info N/A							
TOTAL NEW AUTOS	12	1	13	211,141	21,110		15,408	6.63%
NEW LIGHT-DUTY TRUCKS - POOL #2								
MPV	Info N/A							
PICKUP	11	1	12	147,698	12,971	164,364	3,665	2.30%
TOTAL NEW L-D TRUCKS	11	1	12	147,698	12,971	164,364	3,665	2.30%
TOTAL MAZDA	23	2	25	358,839	34,081	412,023	19,103	4.86%
MERCEDES								
NEW AUTOS - POOL #1								
C CLASS	3	0	3	99,580		101,050	1,470	1.48%
E CLASS	0	2	2		72,550	72,550	0	0%
S CLASS	7	0	7	535,615		561,570	25,955	4.85%
SL CLASS	3	0	3	239,290		252,470	13,180	5.51%
TOTAL NEW AUTOS	13	2	15	874,485	72,550	987,640	40,805	4.29%
TOTAL MERCEDES	13	2	15	874,485	72,550	987,640	40,805	4.29%
MERCURY								
NEW AUTOS - POOL #1								
COUGAR	1	0	1	15,039		15,933	894	5.94%
GRAND MARQUIS	2	0	2	40,484		42,212	1,728	4.27%
MYSTIQUE	2	0	2	26,236		27,531	1,295	4.94%
SABLE	0	3	3		55,161	55,161	0	0%
TRACER	3	0	3	33,311		35,215	1,904	5.72%
TOTAL NEW AUTOS	8	3	11	115,070	55,161	176,052	5,821	3.42%
NEW LIGHT-DUTY TRUCKS - POOL #2								
VILLAGER	4	0	4	77,153		81,293	4,140	5.37%
TOTAL NEW L-D TRUCKS	4	0	4	77,153		81,293	4,140	5.37%
TOTAL MERCURY	12	3	15	192,223	55,161	257,345	9,961	4.03%



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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
MINI								
NEW AUTOS - POOL #1								
3000GT	5	0	5	138,716		147,963	9,247	6.67%
ECLIPSE	8	0	8	130,263		136,391	6,128	4.70%
GALANT	5	0	5	77,091		83,015	5,924	7.68%
MIRAGE	4	0	4	41,982		44,144	2,162	5.15%
TOTAL NEW AUTOS	22	0	22	388,052		411,513	23,461	6.05%
NEW LIGHT-DUTY TRUCKS - POOL #2								
MONTERO	3	0	3	76,880		80,972	4,092	5.32%
PICKUP Info N/A								
TOTAL NEW L.D. TRUCKS	3	0	3	76,880			4,092	5.32%
TOTAL MINI	25	0	25	464,932		492,485	27,553	5.93%
NISSAN								
NEW AUTOS - POOL #1								
200SX	6	0	6	77,871		81,234	3,363	4.32%
240SX	4	0	4	68,221		73,359	5,138	7.53%
300ZX	9	0	9	306,830		325,738	18,908	6.16%
ALTIMA	7	0	7	106,845		112,198	5,353	5.01%
MAXIMA	5	0	5	95,141		102,276	7,135	7.50%
SENTRA	7	0	7	86,234		91,362	5,128	5.95%
TOTAL NEW AUTOS	38	0	38	741,142		786,167	45,025	6.08%
NEW LIGHT-DUTY TRUCKS - POOL #2								
402 PICKUP Info N/A - Will be new model								
404 PICKUP Info N/A - Will be new model								
PATHFINDER Info N/A - Will be new model								
QUEST	2	0	2	38,914		40,796	1,882	4.84%
TOTAL NEW L.D. TRUCKS	2	0	2	38,914		40,796	1,882	4.84%
TOTAL NISSAN	40	0	40	780,056		826,963	46,907	6.01%
OLDSMOBILE								
NEW AUTOS - POOL #1								
ACHEVA	0	7	7		101,321	101,321	0	0%
AURORA	0	1	1		31,783	31,783	0	0%
CIERA	0	5	5		77,787	77,787	0	0%
CUTLASS SUPREME	0	9	9		157,986	157,986	0	0%
EIGHTY EIGHT	0	4	4		84,684	84,684	0	0%
NINETY EIGHT	0	2	2		53,688	53,688	0	0%
TOTAL NEW AUTOS	0	28	28		507,249	507,249	0	0%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

JANUARY 2, 1996

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
NEW LIGHT-DUTY TRUCKS - POOL #2								
BRAVADA	0	1	1		27,292	27,292	0	0%
SILHOUETTE	0	2	2		41,149	41,149	0	0%
TOTAL NEW L.D. TRUCKS	0	3	3		68,441	68,441	0	0%
TOTAL OLDSMOBILE	0	31	31		575,690	575,690	0	0%
PLYMOUTH								
NEW AUTOS - POOL #1								
NEON	5	1	6	52,012	8,930	62,300	1,358	2.23%
TOTAL NEW AUTOS	5	1	6	52,012	8,930		1,358	2.23%
NEW LIGHT-DUTY TRUCKS - POOL #2								
GRAND VOYAGER	0	2	2		33,635	33,635	0	0%
VOYAGER	0	2	2		31,833	31,833	0	0%
TOTAL NEW L.D. TRUCKS	0	4	4		65,468	65,468	0	0%
TOTAL PLYMOUTH	5	5	10	52,012	74,398	127,768	1,358	1.07%
PONTIAC								
NEW AUTOS - POOL #1								
BONNEVILLE	2	0	2	42,181		43,574	1,393	3.30%
FIREBIRD	6	0	6	118,249		120,400	2,151	1.82%
GRAND AM	4	0	4	50,980		53,068	2,088	4.10%
GRAND PRIX	2	0	2	31,126		32,434	1,308	4.20%
SUNFIRE	4	0	4	48,003		50,066	2,063	4.30%
TOTAL NEW AUTOS	18	0	18	290,539		299,542	9,003	3.10%
NEW LIGHT-DUTY TRUCKS - POOL #2								
TRANS SPORT	1	0	1	16,190		17,552	1,362	8.41%
TOTAL NEW L.D. TRUCKS	1	0	1	16,190		17,552	1,362	8.41%
TOTAL PONTIAC	19	0	19	306,729		317,094	10,365	3.38%
PORSCHE								
NEW AUTOS - POOL #1								
911 CARRERA SERIES	6	4	10	336,885	278,824	648,219	32,510	5.28%
TOTAL NEW AUTOS	6	4	10	336,885	278,824		32,510	5.28%
TOTAL PORSCHE	6	4	10	336,885	278,824	648,219	32,510	5.28%



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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
ROLLS ROYCE	Info N/A							
SAAB								
NEW AUTOS - POOL #1								
900 SERIES	6	2	8	160,037	53,534	223,962	10,391	4.87%
9000 SERIES	4	0	4	126,840		126,367	(473)	(0.37)%
TOTAL NEW AUTOS	10	2	12	286,877	53,534	350,329	9,918	2.91%
TOTAL SAAB	10	2	12	286,877	53,534	350,329	9,918	2.91%
SATURN								
NEW AUTOS - POOL #1								
SC1	2	0	2	21,411		22,018	607	2.83%
SC2	2	0	2	23,325		23,939	614	2.63%
SL	0	1	1		9,162	9,162	0	0%
SL1	0	2	2		20,621	20,621	0	0%
SL2	0	2	2		22,183	22,183	0	0%
SW1	0	2	2		21,669	21,669	0	0%
SW2	0	2	2		23,240	23,240	0	0%
TOTAL NEW AUTOS	4	9	13	44,736	96,875	142,832	1,221	0.86%
TOTAL SATURN	4	9	13	44,736	96,875	142,832	1,221	0.86%
SUBARU								
NEW AUTOS - POOL #1								
IMPREZA	10	2	12	145,209	28,168	182,157	8,780	5.06%
LEGACY	17	5	22	290,315	98,462	409,121	20,344	5.23%
SVX	Info N/A							
TOTAL NEW AUTOS	27	7	34	435,524	126,630		29,124	5.18%
TOTAL SUBARU	27	7	34	435,524	126,630	591,278	29,124	5.18%
SUZUKI								
NEW AUTOS - POOL #1								
ESTEEM	Info N/A							
SWIFT	Info N/A							
TOTAL NEW AUTOS	0	0	0				0	N/A%
NEW LIGHT-DUTY TRUCKS - POOL #2								
SIDEKICK	8	4	12	100,733	69,156	179,727	9,838	5.79%
X90	0	3	3		41,471	41,471	0	0%
TOTAL NEW L-D TRUCKS	8	7	15	100,733	110,627	221,198	9,838	4.65%
TOTAL SUZUKI	8	7	15	100,733	110,627	221,198	9,838	4.65%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
1995 INTRODUCTION TO 1996 INTRODUCTION DEALER COST - BASED ON INFORMATION AVAILABLE
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	1995 INTRO	NEW ITEMS	1996 INTRO	DOLLAR CHANGE	PERCENT CHANGE
TOYOTA								
NEW AUTOS - POOL #1								
AVALON	4	0	4	84,196		86,611	2,415	2.87%
CAMRY	14	0	14	243,751		250,148	6,397	2.62%
CELICA	10	0	10	169,352		170,653	1,301	0.77%
COROLLA	6	0	6	72,190		74,293	2,103	2.91%
PASEO	0	2	2		23,382	23,382	0	0%
SUPRA	7	0	7	237,971		252,954	14,983	6.30%
TERCEL	6	0	6	60,452		63,163	2,711	4.48%
TOTAL NEW AUTOS	47	2	49	867,912	23,382	921,204	29,910	3.36%
NEW LIGHT-DUTY TRUCKS - POOL #2								
4RUNNER	Info N/A - Will be new model							
LAND CRUISER	1	0	1	30,958		33,615	2,657	8.58%
PREVIA VAN	4	0	4	90,435		96,370	5,935	6.56%
T100 PICKUP	10	0	10	160,090		173,422	13,332	8.33%
TACOMA PICKUP	15	0	15	223,669		228,297	4,628	2.07%
TOTAL NEW L-D TRUCKS	30	0	30	505,152		531,704	26,552	5.26%
TOTAL TOYOTA	77	2	79	1,373,064	23,382	1,452,908	56,462	4.04%
VOLKSWAGEN								
NEW AUTOS - POOL #1								
CABRIO	2	0	2	37,178		37,178	0	0%
GOLF III	7	2	9	98,150	30,340	123,930	(4,560)	(3.55)%
JETTA III	16	0	16	267,156		257,632	(9,524)	(3.55)%
PASSAT	6	4	10	110,725	72,314	187,503	4,464	2.44%
TOTAL NEW AUTOS	31	6	37	513,209	102,654	606,243	(9,620)	(1.56)%
NEW LIGHT-DUTY TRUCKS - POOL #2								
CONVERSION-READY EUROVAN	Info N/A							
TOTAL NEW L-D TRUCKS	0	0	0				0	N/A%
TOTAL VOLKSWAGEN	31	6	37	513,209	102,654	606,243	(9,620)	(1.56)%
VOLVO								
NEW AUTOS - POOL #1								
860 SERIES	10	6	16	255,050	169,070	445,470	21,350	5.03%
900 SERIES	2	0	2	56,700		63,820	7,120	12.56%
TOTAL NEW AUTOS	12	6	18	311,750	169,070	509,290	28,470	5.92%
TOTAL VOLVO	12	6	18	311,750	169,070	509,290	28,470	5.92%

#6. FORM 3115. This form is used for applying for permission from the IRS to change (LIFO) accounting methods. It was supposed to be revised in November, but the revision of the form has been delayed for another three years until August 31, 1988. This announcement, in a recent *Internal Revenue Bulletin*, shows that the IRS has no problems in meeting its own deadlines... it just extends them!

#7. YEAR-END PLANNING AND PROJECTIONS.

At this time, despite all the uncertainty about where and how to report LIFO adjustments in year-end financial statements, somebody has to crunch the numbers and get them in, even if they're estimates of the LIFO reserve changes before all the detailed repricings and calculations can be made.

Our analysis reflects a weighted average by model for 1996 models. This listing shows for each model the weighted average intro-to-intro increase; it also shows the number of underlying item categories. The weighted average was determined by taking almost all of the underlying item categories and assuming a dealer had a year-end inventory mix of one-of-each. This one-of-each assumption tends to decrease the overall inflation index where many **new** item categories were introduced because those are repriced at current cost showing no inflation.

When the year-end repricings are made using all actual year-end invoices—i.e., reflecting the actual mix—the inflation indexes may be significantly different. Also, a dealer's beginning-of-the-year average cost for an item category may be considerably lower than the prior year's intro dealer cost used in compiling the intro-to-intro averages. These lower beginning-of-year average costs would give the dealer a higher inflation index.

Despite these and other limitations, one-of-each, intro-to-intro inflation percentages may be useful in **estimating** LIFO reserve changes where time is short and the dealer's statement has to be in to the Factory by January 10th.

We have found the best way to project year-end LIFO changes is to input all of the dealer's invoices on hand as of a date late in December. This provides more accuracy in the model mix, as well as allowing us to incorporate the actual average beginning-of-the-year corresponding item category costs. Not only does this result in more accurate estimates, but having to deal with only the net changes for additions and deletions for vehicles received or sold between the input date and year-end should permit faster turnaround time with the final calculations. *

The *De Filippis' LIFO Lookout* newsletter is a quarterly publication of LIFO News, Views and Ideas by Willard J. De Filippis, 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: \$325. Back issues available for \$70 each. Not assignable without consent. Any quoted material must be attributed to *De Filippis LIFO Lookout* published by Willard J. De Filippis, CPA, P.C. Editorial comments and article suggestions are welcome and should be directed to Willard J. De Filippis at (708) 577-3977; FAX (708) 577-1073. *De Filippis' LIFO Lookout* format designed by *Publish or Perish, Inc.* (708) 289-6332. © Copyright 1995 Willard J. De Filippis.

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