



De Filipp's

# LIFO LOOKOUT

A Quarterly Update of LIFO - News, Views and Ideas

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## LIFO UPDATE

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

### #1. LIFO CONFORMITY: PENDING IRS REV. PROC. PUNISHING DEALERS FOR FINANCIAL STATEMENT CONFORMITY VIOLATIONS... STILL PENDING.

In considering what to write at year-end about the LIFO financial statement conformity requirement for auto dealers, I reviewed our five prior December year-end issues to see what had been said before. Rereading them, especially last year's, led me to conclude that this time around, the less said, the better ... since there's really not much new to be added.

Suffice it to say that the IRS is still sitting on a draft of a Revenue Procedure addressing the penalty aspects for conformity violations. Apparently, each succeeding review complicates, generalizes and bogs down the document even more. NADA has done everything it can and now just hopes it will see whatever the IRS decides to release before it goes ahead and releases it.

As the year-end/twelfth statements are readied to be sent to the Factory, CPAs and dealers are still in the same quandary. NADA has advised dealers that, in the absence of written IRS guidance to the contrary, they should be sure to make the LIFO adjustment in their year-end income statements sent to the manufacturers, following the instructions provided in the manufacturers' accounting manuals.

However, a reminder of the conformity pitfalls and traps is always in order. Our "1040 E-Z" conformity update appears on page 3. A "long form" Report would consist of copies of some of our previous articles. These are also listed on page 3. "Guidance from the IRS—A Cure Worse than the Disease?" speculates about the content of what a year ago was anticipated to be in a "soon to be released" revenue procedure that still hasn't appeared.

Reference to this bogeyman throughout the year—in this publication, as well as by NADA and by the IRS—seems to be getting on everybody's nerves ... What will be, will be ... whenever it comes...we'll deal with it then.

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### #2. YEAR-END PROJECTIONS FOR DEALERS BASED ON "ONE-OF-EACH."

Each year we've provided a listing that can be used for projection purposes showing for each model the weighted average intro '96-to-intro '97 dealer base cost increases, and in some cases this year, decreases.

Generally, the overall price increases are significantly smaller this year than they have been in the past. Expect your year-end inflation indexes to be lower and your LIFO reserve increases to be smaller due to competitive pressures among the manufacturers and dollar-to-foreign currency pressures. Another general observation is that there doesn't seem to be a significant difference in the number of new item categories this year for Alternative LIFO purposes (there may even be slightly fewer), so the "pure inflation" amounts are less diluted by the repricing of new items at 1.000 in our one-of-each computations.

The weighted averages we have computed are determined by taking all of the underlying item categories (for which information is currently available) and simplistically assuming that a dealer at year-end had an inventory mix of one-of-each.

see **LIFO UPDATE**, page 2

## **LIFO Update**

CPAs have a variety of ways for "coming up with" an estimate of the inflation for projection purposes. Our simplified inflation indexes, based on one-of-each, may be used in the year-end projections as a substitute for either selecting some other arbitrary or assumed inflation rate (like 3%, 4% or 5%—which may be high) or coming up with a guesstimate number to use by some other method, such as a roll of the dice.

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 close to the end of the year. By doing this, we achieve a more accurate model mix, as well as factor in the actual average beginning-of-the-year item category costs for continuing models.

When the year-end LIFO repricings are made to compute inflation using all actual year-end invoices (including all vehicles in transit), the inflation increases based on detailed item categories may be significantly different from the one-of-each weighted average assumed for all item categories within the given model. Also, a dealer's beginning-of-the-year average cost for an item category may be considerably less than the 1996 intro dealer cost used in compiling the intro-to-intro averages and this would result in a slightly higher inflation index. Despite these limitations, some readers have found our one-of-each results to be useful in estimating LIFO reserve changes (or in comparing their results with ours).

Our analysis begins on page 20.

### **#3. NO LIFO RECAPTURE ON INVENTORY**

**TRANSFER TO LLCs.** The IRS recently issued Letter Ruling 9644027 in which it ruled that an S corporation operating several auto dealerships as divisions would not experience a LIFO recapture or other adverse tax consequences on the contribution of assets to several Limited Liability Companies (LLCs) it was planning to form.

This is the first letter ruling issued by the IRS connecting LIFO inventory transfers and LLCs...but it appears to involve some unusual facts. Dealers' advisors will want to read this ruling carefully as it points out some of the potential problems that make obtaining an advance ruling from the IRS before proceeding almost mandatory. Also, some of the Service's premises on which its conclusions are based may be subject to question. If you're the taxpayer who received a favorable ruling, you're not about to look the proverbial gift horse in the mouth. But, if you're a by-stander ... that's a different story!

**#4. LIFO FOR USED VEHICLES.** At our LIFO seminars this year and at the AICPA Dealer Conference in Phoenix, *LIFO for Used Vehicles* was a very hot topic. Some CPAs see a LIFO election for used

(Continued from page 1)

vehicles as a way to help their dealer clients... others see it as a way to save themselves from losing their dealer clients, as more aggressive CPAs try to pry their dealer clients away by telling them how and why they should "be on used car LIFO."

Many dealers have been on used car LIFO for over 20 years, so it's not really that new. However, how one does the calculations is about as individual as one's fingerprints. There is as much confusion ... and debate ... over how used car LIFO calculations should be done as there was several years ago before the Alternative LIFO Method came along for new vehicles and brought significant certainty to that calculation.

We have again taken on the subject of used car LIFO, but in a much more thorough sense than we did two years ago in the December, 1994 *LIFO Lookout*. In this context, we have summarized and analyzed the presentation made at the Third Annual AICPA National Auto Dealership Conference in Phoenix on October 21-22 by Chris Groff, President of LIFO Systems, Inc., entitled "Used Car LIFO—A New Profit Center?"

After listening to the details and elaborate procedures suggested as "The Method" (including repricing all options, the worst possible interpretation of the term "item" and separate databases for auction-purchased vs. trade-in vehicles), some wondered ... "A New Profit Center ... for Whom?" Are we in the midst of a repeat performance of the circumstances and events that led up to the Alternative LIFO Method in 1992? Do things have to get that confused and out of hand before common sense prevails? Whatever happened to the CPAs who claimed to be proactive dealer advocates?

### **#5. NEW WRINKLE IN IRS AUDITS WHERE REV. PROC. 92-79 MECHANICS ARE NOT FOLLOWED ... DOES DEALER LOSE "AUDIT PROTECTION" FOR PRIOR YEARS?**

In a recent conversation, a CPA mentioned an audit situation where the IRS was taking a very "hard line" on an auto dealer whose CPA elected the Alternative LIFO Method, but did not follow the proper methodology. As a result of finding that some of the methodology requirements were not followed, the Service is taking the position that the dealer loses the protection Rev. Proc. 92-79 allows for pre-change years.

In other words, if a dealer's Alt-LIFO calculations are either "fudging" the method or inadvertently incorrect, the IRS may try to challenge the dealer's LIFO reserves built up in years prior to electing the Alternative Method. When do math errors and mistakes become methods of accounting, or reasons the Service can use to leap frog over its self-imposed restrictions?

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## LIFO Update

**#6. CHANGES IN HEAVY TRUCK & EQUIPMENT DISCOUNT PRICING.** During 1996, some manufacturers changed their discount policies. These changes may cause CPAs to rethink their treatment of discounts in LIFO repricing where the link-chain, index method requires comparisons between beginning-of-the-year and end-of-the-year prices.

For example, during 1996 Navistar implemented its Progressive Pricing strategy. In a memo dated July 15, 1996, Progressive Pricing is described as a "published pricing strategy developed in response to input from the Heavy Truck Advisory Board. Dealers wanted to bring list prices and the prices paid by Navistar customers closer together." Part of the Progressive Pricing action involves eliminating significant discounts from price lists. This resulted in the "reduction" of dealer net prices.

To illustrate, in the past a \$48,000 piece of equipment would be listed as \$60,000 in the price list, subject to a 20% discount ... netting its cost to the dealer down to \$48,000. That would be the equivalent of the beginning-of-the-year price. At the end of the year, the comparable item was listed at \$50,000 with a 2% (\$1,000) discount, netting to \$49,000.

Query: What should be done for LIFO inflation index computation purposes? Should the dealer show almost 17% (16.67%) deflation?

It would appear that the \$48,000 net price at the beginning of the year should be compared to the \$49,000 net price at the end of the year, thus showing a modest amount of inflation (2.08%).

The position of the IRS ... and of the Tax Court in cases such as *Amity Leather Products, E. W. Richardson and Hamilton Industries, Inc.* has been that LIFO indexes should not reflect factors other than inflation. Examples of factors other than inflation include: different cost characteristics, different inventory mixes at the beginning and at the end of the year, and different option configurations or option-to-standard equipment level changes between beginning-of-the-year and end-of-the-year models.

It would appear that the volume discounts previously employed by International Harvester/Navistar are artificial insofar as the dealer really pays the net amount, rather than being affected by the listed gross price. Accordingly, it should be appropriate to use the \$48,000 to \$49,000 comparison, and others similarly calculated, in determining inflation indexes for the current year, rather than to regard these changes as involving different "items", or rising to the level of changes in accounting methods.

Readers comments on this, as well as other issues, are always welcome.

Happy New Year!

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1040EZ

## LIFO CONFORMITY UPDATE...YEAR-END 1996

### 1. *What's new?*

Nothing really. Although NADA and even Robert Zwiers, the IRS' Motor Vehicle Industry Specialist, thought a revenue procedure clarifying conformity would be out by mid-year, we are at year-end and nothing is in sight.

### 2. *What should we do now at year-end?*

Be sure to put at least an estimate of the LIFO reserve change for the year on every year-end financial income statement, whether it is going to the manufacturer or elsewhere. With the statements going to the manufacturer, do the same thing you did last year, if you were comfortable with it last year (there's really nothing new that's been added on the subject all year).

### 3. *What is NADA telling dealers now?*

The same thing it said last year: i.e., "... In the absence of written guidance to the contrary, ... 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 12<sup>th</sup> month statement does not go out before a LIFO adjustment is made."

### 4. *What do you advise?*

The same thing NADA is advising ... see above.

### 5. *How do we know what we did last year was right?*

Unfortunately, there's no way to know that until the IRS more specifically defines what it means by "a conformity violation."

### 6. *When will we know?*

That's anybody's guess. No timetable or release date has been promised, or even hinted. Don't expect any clarification soon.

### 7. *What can we expect?*

Probably confusion—not clarification and certainty.

### 8. *Why is this whole thing taking so long to resolve?*

NADA has stopped trying to figure that out, and so have I.

### 9. *Where can I get more detailed information?*

For readers who want a comprehensive, long form Report on auto dealer LIFO conformity requirements and developments, we suggest the following from the September and December, 1995 issues of the *LIFO Lookout*:

#### DECEMBER, 1995

- Financial Statement Conformity Requirements: Still the Ultimate LIFO Traps.
- NADA Dealer Conformity Bulletin, Dec. 1995
- "Guidance" From the IRS—A Cure Worse Than the Disease?

#### SEPTEMBER, 1995

- LIFO Conformity Flowcharts for Calendar Year & Fiscal Year Dealerships
- Dealer LIFO Elections Terminated by IRS Letter Rulings 9535009 & 9535010

# NO LIFO RECAPTURE FOR DEALERSHIP CONVERSION TO LLC

LLCs

Recently published Letter Ruling 9644027 is the first to address the consequences of transferring LIFO inventory to a newly formed LLC (limited liability company). In Letter Ruling 9644027, the IRS ruled that an S Corporation operating several auto dealerships as divisions would not recognize gain or loss when it contributed those dealership assets to several limited liability companies (LLCs) in exchange for member interests in the LLCs. The Service further ruled that there would be no recapture of LIFO reserves when those inventories were transferred to the LLCs.

The taxpayer who requested the Ruling owns and operates separate motor vehicle dealerships under four separate franchise agreements ... "one with Motor 1 ("A"), one with Motor 2 ("B"), one with Motor 3 ("C"), and one with Motor 4 ("D")." Each dealership is operated as a separate division with its own separate accounting records. The taxpayer is an S corporation formed under the laws of State "X" and it is wholly owned by a Trust which previously acquired the stock by inheritance from the sole shareholder.

The dealership's LIFO election uses the link-chain LIFO method for valuing its dollar-value inventory pools. There are three LIFO pools: (1) new trucks and demonstrators, (2) new cars and demonstrators, and (3) new parts. The Ruling states that the taxpayer does not distinguish items within each pool by model or make of vehicle and that the taxpayer applies an outside index to the aggregate dollar value of each pool to determine the LIFO value and the LIFO reserve amount for each pool.

The Ruling contains a questionable premise: It states that "because the success of a motor vehicle dealership depends largely upon the effectiveness of its general manager, vehicle *manufacturers commonly insist* that the general managers be allowed to acquire an "incentive" ownership interest in the dealerships they manage." Apparently, one of the manufacturers required the dealer to provide the general manager with an opportunity to acquire such an interest as a condition of its franchise agreement.

In this case, however, the taxpayer corporate entity operates 4 dealerships, each of which is operated as a separate division. If the general managers buy interests in the taxpayer in order to acquire interests in the dealerships they manage, the value of their ownership interests will be tied to the success or failure of the other dealerships over which they have no direct responsibility or control. Also, that might require a disproportionate amount of cash investment.

In order for the general managers to acquire an interest in only the dealerships they manage, the taxpayer arranged for the formation of three State X limited liability companies (LLCs) which would operate the dealerships after the transaction was completed. The taxpayer represents that each LLC will be classified (i.e., taxed) as a partnership under Section 301.7701-2 of the Procedure and Administration Regulations. One LLC will operate two of the dealerships (presumably the same manufacturer), one LLC will operate another dealership, and one LLC will operate the remaining dealership.

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## INVENTORY INFORMATION REQUIRED AS OF DIFFERENT DATES

	New Cars (incl. demos)	New Trucks (incl. demos)	New Parts
"Actual Value"	\$ <u>    A    </u>	\$ <u>    A    </u>	\$ <u>    A    </u>
LIFO Value	\$ <u>    B    </u>	\$ <u>    B    </u>	\$ <u>    B    </u>
LIFO Reserve (L/R)	\$ <u>    C    </u>	\$ <u>    C    </u>	\$ <u>    C    </u>
L/R as a % of "Actual Value" (C divided by A)	<u>          </u> %	<u>          </u> %	<u>          </u> %



## **No LIFO Recapture for...LLC**

After formation of the LLCs:

1. The taxpayer proposes to contribute the net assets of each dealership, including LIFO inventories that have a fair market value in excess of their basis, to each LLC in exchange for membership interests.
2. The taxpayer will stay in existence and maintain a majority ownership interest in the profits and capital of each LLC.
3. The opening inventory of each LLC will consist of the transferred LIFO inventory and the taxpayer represents that each LLC will adopt the same LIFO method to value its inventory as used by the taxpayer prior to the transfer.
4. The amount of the LIFO reserve allocated to the inventories of each dealership will approximate the same percentage of the actual value as existed prior to the transfer.
5. The asset transfer will be conducted in a manner that results in the three general managers holding supervisory authority over the same personnel and locations as before the transfer.
6. It is expected that each general manager will contribute cash to the LLC that employs him in exchange for an ownership interest commensurate with the amount of his capital contribution compared to the total value of the capital of the LLC.
7. The capital accounts of the general managers will not be credited with amounts other than the cash contributed (i.e., not for services rendered...).

### **IRS HOLDINGS IN LTR 9644027**

1. **No Immediate Tax:** Under Section 721(a) of the Internal Revenue Code, neither a partnership nor any of its partners recognizes gain or loss when property is contributed to a partnership in exchange for a partnership interest. Because the taxpayer will contribute assets to each LLC in exchange for a membership interest in that LLC, the taxpayer will not recognize gain or loss on the contributions.
2. **No LIFO Reserve Recapture:** The contribution of the LIFO inventory property to the LLC formed to qualify for partnership tax treatment will not trigger recapture of the LIFO reserve under Section 721(a).
3. **Transaction Also Tax Free to the Managers. However...** To the extent that any partner gives up any part of his right to be repaid his contributions in favor of another partner as compensation for services, Section 721 does not apply and there would be immediate tax consequences to the contributing member-partners. In this case, however, each of the three general managers is making a cash contribu-

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tion to an LLC in return for an ownership interest proportionate to that cash contribution. No manager is receiving an interest in a partnership in return for services rendered. Accordingly, the ownership interests in the LLCs granted to the general managers will be tax free under Section 721(a) to the extent those interests are received in exchange for property contributed to the LLCs.

4. **File Form 970:** A taxpayer may elect to use the LIFO method of inventorying goods provided certain conditions are satisfied. One of the requirements for a valid LIFO election is that an application to use the LIFO method must be filed in such manner as the Secretary may prescribe. Section 703(b) requires that any election affecting the computation of taxable income derived from a partnership is to be made by the partnership. Therefore, in order to adopt the dollar-value LIFO inventory method, each transferee LLC must file Form 970 with its tax return (Form 1065) for the year in which the inventory transfers occur. In addition, each LLC also must comply with the provisions of Section 472 and the regulations thereunder.

5. **Built-In Gain:** Property contributed to a partnership at a time when its book value differs from the contributing partner's tax basis is referred to as "Section 704(c) property". Reg. Sec. 1.704-3(a)(3)(i) provides that for this purpose, book value equals fair market value at the time of contribution. The excess of the property's book value over the contributing partner's adjusted tax basis is the amount of the built-in gain on the contributed property.

**Average Cost Special Collapsed Layer:** The taxpayer has represented that each LLC will elect (as provided under Regulation Section 1.704-3(e) for partnerships that do not use a specific identification method of accounting) to aggregate each item of inventory for purposes of making allocations under Section 704(c). Each transferee LLC shall treat those items included in its opening inventory as having been acquired at the same time and determine their cost by the average cost method as provided by Section 472(b)(3). In determining its LIFO inventory at the close of the first taxable year, each LLC shall treat those goods specified in the application as being: first, those included in opening inventory to the extent thereof; and second, those acquired in the taxable year.

The LIFO inventories contributed to the LLCs are Section 704(c) property, and any built-in gain attributable to the inventory contributed by the taxpayer must be allocated back to the taxpayer when the LLC recognizes that gain.

see **NO LIFO RECAPTURE FOR...LLC**, page 6

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## No LIFO Recapture for...LLC

6. **In The Shadows of *Hamilton Industries*:** LTR 9644027 states that the Tax Court has ruled that inventory goods may be in separate item categories because they have substantially dissimilar characteristics, whether in terms of their physical nature or whether in terms of their cost (citing *Hamilton Industries, Inc. v. Commissioner*, 97 T.C. 120, 136 (1991)). In *Hamilton*, that taxpayer's entire base-year inventory was composed of two steep-discount purchases, one at a discount of 96% and one at 60% from the value of the inventory in the hands of the seller. The Tax Court found that treating the bargain-purchase goods as the same item as later-acquired inventory would distort income because the cost characteristics were greatly disparate, and for that reason it held that the purchased inventory should be treated as different **items** for LIFO inventory purposes.

"Assuming *Hamilton* could apply to the facts of the proposed transaction, the discounts represented by the difference between the LIFO values and the actual values, as represented by the taxpayer, *are different* from the discounts that led the Tax Court in *Hamilton* to hold it was proper to treat those bargain-purchase inventories as different items from those subsequently acquired or produced. Therefore, it is not necessary to treat the transferred inventories as items separate from later-acquired items because of disparate cost characteristics. (This appears to mean that recapture is not triggered as soon as the individual items are sold.)

7. **Elective Tax Year Considerations:** The taxpayer has a Section 444 elective taxable year ending Day 1. When the taxpayer acquires a majority interest in the newly formed LLCs, it will be a member of a tiered structure and technically membership in a tiered structure will terminate the taxable year election unless the tiered structure consists only of partnerships or S corporations (or both) that all have the same taxable year.

Consequently, because the taxpayer/S Corporation will have a majority interest in the profits and capital of each of the LLCs, each LLC must adopt the same taxable year as the taxpayer. The taxpayer's Section 444 election will not terminate when it obtains the majority ownership interests in the three LLCs, even though at that time it will be a member of a tiered structure, because the taxpayer's tiered structure will consist solely of the three LLCs and an S corporation having the same taxable year and because the taxpayer's principal purpose of forming the three LLCs was not to obtain a significant unintended tax benefit from making or continuing a Section 444 election.

(Continued from page 5)

## COMMENTS ON LTR 9644027

Many of the articles to date discussing the advisability of existing S and C Corporations converting operating activities to LLC form conclude that there could be serious disadvantages because of anticipated triggering of tax liabilities on formation and/or funding of the LLCs.

"Traditional thinking" regarding the recognition of gain or loss in connection with the forming of LLCs usually assumes that the transferor entity, if a corporation, will liquidate first and then its shareholders will transfer assets to the LLC. As a result of the liquidation, double taxation would be incurred by regular C Corporations (once at the corporate level, followed by tax at the shareholder level to the extent the net-of-corporate tax proceeds exceed the basis in their stock). S Corporations would incur a single level of tax ... at the shareholder level. Furthermore, even with an S Corporation, there may be built-in gains taxes attributable to the LIFO inventory reserve and/or to other assets. In the situation addressed in the Letter Ruling, note that the taxpayer represented that it would stay in existence (i.e., it would not liquidate) and maintain a majority ownership interest in the profits and capital of each LLC.

Are there significant limiting factors which could make the application of this Ruling relatively limited? ... not counting the fact that the Ruling is directed only to the taxpayer who requested it and Section 6110(j)(3) provides that it may not be used or cited as precedent.

LTR 9644027 may be limited to its very unusual fact pattern insofar as the S Corporation involved was one that was owned by a trust that had acquired its stock by inheritance from the sole shareholder.

The Ruling appears to give significant weight to the belief that vehicle manufacturers commonly insist that general managers be allowed to acquire an "incentive" ownership interest in the dealerships they manage insofar as one of the manufacturers required the taxpayer to provide the general manager an opportunity to acquire such an interest as a condition of a franchise agreement. Many experienced practitioners and dealer advisors would disagree with this statement. Perhaps under the circumstances in the Ruling, that would not be unusual because a Trust owned the stock of the entity that operated the dealership. Otherwise, this may be a shaky premise.

The Service provided no rationale in the Ruling in support of its no LIFO recapture conclusion. In considering the Service's holdings relative to *Hamilton Industries*, observe that *Hamilton* involved "steep discounts" which resulted in "greatly disparate" cost characteristics. LTR 9644027 states—without fur-

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## No LIFO Recapture for...LLC

ther elaboration—that the discounts that led the Tax Court to treat the steep discount bargain purchase goods as separate items ... “are different from ... the discounts” represented by the LIFO reserves. In what fashion or manner, or is this a matter of degree?

Query: If the LIFO reserves as a percentage of the ending inventory's capitalized cost were extremely large, could *Hamilton* apply? Might the “clear reflection of income” standard be invoked? Without knowing the dollar amounts and sizes of the actual percentages, one is left to wonder.

In other respects, the Ruling leaves much to the imagination. In addressing the dealership's use of link-chain LIFO for its inventories, it states that autos, trucks and parts are on LIFO. The taxpayer is not using the Alternative LIFO Method because the Ruling states that “the taxpayer does not distinguish items within each pool by model or make of vehicle.” The Ruling further states as a fact that the taxpayer applies “an outside index” to the aggregate dollar value of each pool to determine the LIFO value and the LIFO reserve amount for each pool. The reference to “an outside index” in the LIFO context is unclear. Does an “outside” index equate with an “external” index? If so, something is clearly missing. Also, what about the dealership's used car inventories? How are they valued?

Another puzzling element is the Ruling's reference to the “actual value” of the LIFO inventories. The use of the term “actual value” is confusing. Isn't actual value determined by subsequently negotiated sale activities, rather than any other standard? Does “actual cost” mean “capitalized cost?” Which equals book value? Or fair market value? Or something

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else? The failure to be more precise relative to Section 1363(d) and the built-in gains issues related to the determination of cost, fair market value, and the determination of fair market value renders the Ruling somewhat nebulous.

Query: Would the Ruling be different if the sole shareholder were still alive (i.e., a living individual) and a trust were not involved?

In stating that the *Hamilton* rationale does not apply here, might one expect distinctions to be made in other fact patterns where the LIFO reserves might be significantly larger? And what about situations where the auto dealer in those situations might otherwise have audit protection for its LIFO reserve calculations for prior years available under Rev. Proc. 92-79? Without knowing the size of the LIFO reserves, readers unfamiliar with the facts are again left in the dark.

Query: If only one of the manufacturers requires the taxpayer to provide the general manager for that franchise with an opportunity to acquire stock as a condition of its franchise agreement, isn't the IRS being overly generous in allowing the formation of three LLCs, two of which apparently operate franchises where this requirement is not a condition of the franchise?

## Conclusion

While Letter Ruling 9644027 is favorable to the dealer who received it from the IRS, other dealers and advisors should definitely not proceed in this area without first securing their own—hopefully favorable—ruling from the Service. Once these transactions are completed without a ruling from the Service, it's too late to undo them if the results turn out to be adverse tax-wise.

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# LIFO FOR USED VEHICLES—1996 UPDATE

LIFO for Used Vehicles for many is a new idea or thought. For starters, think about LIFO in a new way. Instead of thinking about **LIFO** as representing the **Last-In First-Out Inventory Method**, think about those letters as a **Legitimate Inventory Financing Opportunity**. In that sense, LIFO comes down to simply being an interest free loan from the US Treasury to help cut the cost of financing those used vehicles until they are sold. With prudent management, LIFO can provide significant benefits until that loan has to be repaid. That's a far better "deal" than writedowns, "push-pull", "\$100 on-\$100 off" or other self-deluding gimmicks or elixirs can ever provide.

Dealers have been experiencing inflation in all of their inventories for many years. Consequently, LIFO can be just as beneficial for their used vehicle inventories as it has been for new vehicles and parts... and inflation rates for used vehicles over the last few years have been slightly higher than the inflation rates for new vehicles. This year, more CPAs are considering LIFO for used vehicles and many dealers are making New Year's resolutions to finally give up their fatuous writedown habits for the legal, lasting LIFO benefits.

Prior coverage in the *LIFO Lookout* included "LIFO for Used Vehicles—Theory and Practice," in the December, 1994 issue and a complete Form 970 sample, proforma attachments, comments and reminder checklist for used vehicle LIFO elections in the March, 1996 *LIFO Lookout* (pages 21-27). In October, 1996, this subject was discussed at the 3rd Annual AICPA National Auto Dealer Conference in Phoenix by Chris Groff, President of LIFO Systems, Inc. Readers can obtain a copy of that presentation outline, as well as an audio recording of Mr. Groff's remarks, directly from the AICPA.

This article updates and expands the *Lookout's* prior articles on Used Vehicle LIFO and, in the process, critiques portions of the AICPA Conference presentation on that subject. The first part of Mr. Groff's presentation in Phoenix extolled the benefits of a LIFO election for used vehicles. The second part of his presentation discussed the methodology his firm employs for its Used Vehicle LIFO computations, and this is much more controversial.

Because Mr. Groff went into significant explanation and justification for the method his firm has selected to apply, part of this article discusses and challenges that method in some detail. Be forewarned that the Used Car LIFO methodology espoused by Mr. Groff and his firm is a conservative one, admittedly bowing to all of the demands of the nameless, faceless "Form 3115 Department" in Washington, D.C... and it is about as complicated and expensive as any Used Car LIFO methodology could possibly be. CPAs choosing to blindly adopt that method or to "follow any pied piper" should give some thought to the advisability of counting on the IRS to do their thinking for them and whether what the clerks in the "Form 3115 Department" think is required or fashionable today will be necessary or acceptable tomorrow.

If you were at that presentation in Phoenix or if you obtain the tape and listen to it...all the way to the end...you will note that Mr. Groff significantly yields ground at the very end when questioned as to the methodology suggested. For more on this, see page 19: "Why Volunteer to Make Things Harder on Yourself...Especially When No One in Particular is Really Calling the Shots?" Furthermore, those who would rely on the Internal Revenue Service guidance in this method should (1) reflect on the nature and the substance of the "guidance" received so far from the IRS on dealer financial statement conformity matters and (2) recall that you can get a different opinion on most LIFO subjects, including how Used Car LIFO should be done, from every agent and person in the IRS you talk to. Mr. Groff suggested that the experience of the last ten years in working with New Vehicle LIFO suggests patterns for working with Used Vehicle LIFO: The more pertinent observation is that experience with working with New Car LIFO over the last ten years suggests that initially adopting LIFO election procedures that are more complicated than necessary simply cost dealers more money with not much commensurate tax savings.

There are some who would conclude that the Alternative LIFO Method provides a sound basis for guessing what the IRS might accept in the way of used vehicle LIFO calculations. Others would conclude that since the critical issues deal with LIFO computational aspects, there is no reason to necessarily be conservative or resolve doubtful issues in favor of "the IRS" since the only downside in any audit situation is that the LIFO computations might have to be redone to satisfy the particular agent... and not necessarily the extraordinary technical whims of the IRS National Office. Perhaps one of the lessons from the evolution and issuance of the Alternative LIFO Method for new vehicles is that overemphasis on so-called "100% accuracy" turned out to be unnecessary and mighty expensive for those who paid for it. Remember, many dealers are already on Used Car LIFO and have had their "methods" accepted by IRS agents on audit with little or no modification.

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The major "problem" with Used Vehicle LIFO is that right now there is no official guidance from the IRS on how the index calculations should be made ... and the Alternative LIFO Methodology for New Vehicles in Rev. Proc. 92-79 does not apply to used vehicles. In this regard, more recently the IRS/MSSP Audit Guide for Independent Used Car Dealers did address the area (see page 17: "What Has the IRS Said About Used Car LIFO?"). Technical Advice Memo 8906001 is not a precedential statement by the IRS on Used Car LIFO and as far as leaning heavily upon the lessons and experience of working with the National Office in auto dealer LIFO matters, just think for a moment about how inconclusive... not to mention insensitive to business "realities"... the Service has been on the Dealer-Factory Statement Conformity issue, and from that determine just how much you want to depend on the Service to *help you out* with your Used Vehicle LIFO computations.

Dave Jarrett, the moderator at the AICPA conference in Phoenix, concluded the session by reminding attendees that they should go back and "explain to their clients that this is a whole lot more work than new car LIFO." Is this more smoke and mirrors... or what? Long time readers of the *LIFO Lookout* may recall that the very first issue (March, 1991) reported on the 1990 NADA Auto Dealer LIFO Workshops at which Mr. Groff and I were both participants and exchanged, shall we say, spirited opinions and different viewpoints on how LIFO computations for new vehicles really needed to be done or ought to be done. Again, on the subject of Used Car LIFO, there are several computational issues over which our differences of opinion and approach may provide more thoughtful readers with the basis for considering their own course of action and election methods.

### **SPURIOUS REASONS FOR NOT ELECTING USED CAR LIFO**

For CPAs who want a list of some of the goofy reasons that dealers come up with in objecting to changing to LIFO for the Used Vehicles, the conference outline and tape discussed:

1. I didn't know it was available...
2. I didn't know how to do it...
3. I don't know what benefit is available...
4. I'd rather use write-downs than LIFO...
5. The dealership turns its inventory so fast, LIFO wouldn't help...
6. I'm worried about the IRS' recent activity in the area of dealership LIFO.

Despite at least one glaring error, discussed later, the outline and Mr. Groff do a good job of shooting holes in what Zig Ziglar describes as "stinkin' thinkin'" or spurious reasons and what passes for logic. Those of us who have been doing used car LIFO for many years have heard all of these, and then some. However, CPAs new to the notion of Used Car LIFO would be remiss if they didn't understand these oft-encountered objections. In many cases, all of the CPA's logic refuting these spurious reasons fails simply because of the dealer's dominant personality, coupled with the reality that it's his business and he can do anything (...or just about anything) he wants to and since he pays the bills for advice, whether or not he follows that advice is another matter.

The underlying message to practitioners in the area is that they should understand why the dealer's objections are incorrect and shallow and make an effort to "go on record" with the dealer that his logic, if he persists in it, is flawed. Sooner or later, some dealers wake up and if they have been saying for years, in effect, that they're taking write-downs and write-downs are just as good as LIFO, if the CPA has not attempted to correct that mistaken notion, or has simply remained silent, that dealer may take the CPA's passivity or silence as confirmation or ratification of his illogical conclusions. Dealers attend *20 GROUP* meetings and read articles on Used Car LIFO (which typically are much shorter than this one) and when the light goes on eventually, they may hold their CPA accountable for not "putting them on the right track" sooner. Many dealers are changing CPA firms at the drop of a hat or, more accurately, at the drop of the suggestion that if their CPA firm can't put their used cars on LIFO or doesn't know about Used Car LIFO, that's exactly why that dealer should be changing CPA firms to a firm "more experienced" in dealership matters.

Unfortunately, in discussing the "I didn't know it was available" objection, Mr. Groff mistakenly states that the "IRS has published a technical advice memorandum in which they (sic) approved a methodology for Used Vehicle LIFO, so it is not as if the IRS is opposed to the idea of Used Car LIFO (See LTR 89~~60~~001 (sic))." First of all, the Letter Ruling citation is incorrect: it should be 89~~06~~001. More unfortunate, the IRS did not "approve a methodology for Used Vehicle LIFO" in 8906001. It addressed the issues of pooling for used cars (holding that used cars and used trucks should be in separate LIFO pools) and it concluded that the taxpayer in determining the LIFO cost of its trade-in vehicles could use the values listed in an official used car guide, such as the *Kelley*

see **LIFO FOR USED VEHICLES—1996 UPDATE**, page 10



*Blue Book.* In the context of new vehicles, and further in the context of computations in which a dealer averaged new vehicles, the Service concluded that because the taxpayer's "calculation method is essentially an averaging technique that does not properly compare vehicles in ending inventory with those in beginning inventory...that method...does not clearly reflect income." That's all it says... beyond which there is simply the inference that averaging techniques do not sit well with the IRS.

In discussing the objection "My clients use write-downs rather than LIFO for the used vehicles", it is observed, and correctly so, that although a taxpayer is required to restore the prior year used car write-downs upon electing LIFO, the regulations allow the restoration of the write-down to be taken into income over three years. The outline observes "this method of restoring past write-downs gives an added advantage, by prolonging the write-down benefits for a couple of extra years." CPAs should be aware of that if the dealer has been aggressive...or possibly even egregiously aggressive in its write-downs, that can easily be flushed out by an agent and those write-downs may not be allowed the three year restoration spread since they were not correct in the first instance. In other words, aggressive used car write-downs in the last year before the LIFO election may not enjoy the benefit of a three year spread if challenged by the IRS under the "method of accounting" and/or "clear reflection of income" concepts which the Tax Court has significantly endorsed in its recent LIFO decisions.

A question often asked is: What is the "minimum amount" of used car inventory a dealer should have before a LIFO election is advisable or worthwhile? Mr. Groff suggests \$300,000 as the minimum. Perhaps that could be a little lower if a reasonably cost effective LIFO computation methodology is employed...or should be somewhat higher if a more expensive methodology is employed.

### **THEORY...LOGIC**

LIFO gives auto dealers a deduction for inflation included in their year-end inventories before those vehicles are actually sold. As a result, it is necessary to measure... to estimate...the impact of inflation and the same theory applied to new vehicles in LIFO computations should be applicable in determining the impact of inflation on used vehicles. That theory or logic is best illustrated by an example: If a dealer had a 1995 Buick Roadmaster 4 door sedan in the used vehicle inventory at December 31, 1996, then price inflation for that vehicle could reasonably be determined (estimated) by comparing that 1995 Buick Roadmaster at the end of the year with a 1994 Buick Roadmaster 4 door sedan at the beginning-of-the-year. In other words, the underlying approach is that the age of the vehicle at the end of the year (expressed in terms of vintage or model years) is repriced/matched/ "double extended" by comparing it with a vehicle of the same age at the beginning-of-the-year.

Dealers electing LIFO for their used vehicle inventories should elect to use the "dollar-value method" for pricing LIFO inventories because this method treats the inventory as an investment of dollars, rather than as an aggregation of individual units. Dealers should further elect to use the link-chain, index method for computing the LIFO value of the dollar-value pools. Under the link-chain, index method, the change in cost levels is measured first on an annual basis (i.e., end of the year compared with beginning of the year), and then the cumulative change forward from the base date (i.e., the first day of the first year of the LIFO election) is determined by multiplying the current year annual inflation index by the last previously determined cumulative inflation index (i.e., by the cumulative inflation index at the beginning of the year). The sample filled in proforma Used Vehicle Form 970 and attachments in the March, 1996 *LIFO Lookout* reflect these more technical aspects of the election and filing requirements. They also bring out the further special filing requirement that is necessary with the IRS National Office when this type of LIFO election is made.

In other respects, the computation of the inflation index for the pool would be similar to any other dollar-value, link-chain, index LIFO computation. The overall index determined by repricing (all) of the vehicles in ending inventory for the pool would be applied to the entire current cost of the vehicles in that pool in order to express that current year cost in its base dollar expression as of the beginning of the year. Increments, expressed in base dollar equivalents, would be valued at current cost by applying whatever method has been elected in item 6(a) on Form 970. For simplicity and practicality, many used vehicle computations employ the same inflation or "deflator" index for the pool as the inflator index for valuing that year's increment. This would most accurately be described as the "specific identification increment method" or, as indicated in the Pro Forma 970 (on page 22 of the March, 1996 issue of the *Lookout*), by checking the "other" box for item 6(a) and describing it as "specific identification which approximates most recent purchases."

Some CPAs may prefer and elect to use an "earliest acquisitions" approach for valuing increments. This method for valuing increments is discussed extensively in the June, 1996 *Lookout* which describes dual index →



procedures and compares the LIFO reserve results when dual link chain indexes are used for valuing increments. CPAs should be aware that the IRS finalized a Coordinated Issue Paper in October of 1995 in which it concluded that a taxpayer who elected to use the earliest acquisition(s) cost method of determining the current year cost of items making up a pool may not:

1. "Use a prior year's cumulative index in determining current year cost (earliest acquisitions).
2. "Use an inventory turn, shortcut approach unless the taxpayer can demonstrate ...that its method consistently results in the clear reflection of its income."

For more discussion of these technicalities, see page 14 of the June, 1996 *LIFO Lookout*.

The step-by-step computation of the LIFO reserve (after the current year inflation rate has been determined) is shown as steps A through H on page 24 of the March, 1996 *Lookout*. These are simple and straightforward.

### **IMPORTANT WARNINGS AND REMINDERS**

In order to have a valid LIFO election for used vehicles, the warnings and reminders below are vital. In fact, Revenue Procedure 79-23 indicates that failure to satisfy any one of the first four listed may warrant termination of the LIFO election. That Revenue Procedure adds another requirement relative to "books and records (recordkeeping)" which is discussed separately later.

1. The dealer must include at least an estimate of (if not completely reflect) the LIFO increase due to the used vehicle LIFO election on his year-end (December) financial income statement to the manufacturer and comply with all the other year-end financial statement reporting requirements discussed elsewhere. This must be done in the first year... and every year thereafter... as long as the dealer remains on LIFO. See the Conformity Update on page 3.

2. The actual election to apply LIFO to the used vehicle inventory must be made on a Form 970 attached to the timely filed Federal Income Tax Return when it is filed for the year of the election. If the dealer has already elected LIFO for new vehicles and/or parts in a prior year, then the "subsequent election" box in the upper right-hand corner of Form 970 should be checked.

3. Any writedowns to the used vehicle inventory at the beginning year (i.e., as of the end of the preceding year) must be restored to income. This writedown is taken into income over three years starting with the first year of the LIFO election. If all of the used vehicles that were written down at the beginning of the year have been sold during the year, then 100% of that writedown is already in the current year income and two-thirds of it should be deferred by a Schedule M-1 adjustment in the tax return.

**CAUTION:** Where should you report the adjustments to restore writedowns? The instructions for the corporate tax return (Form 1120) indicate that taxpayers should include on Page 1, Line 10, **Other Income**... "any adjustment under Section 481(a) required to be included in income during the current tax year due to a change in a method of accounting."

Note: Technically the change to LIFO is a "change in the method of accounting." However, the three year spread due to the restoration of the writedown is required by Section 472 and not by Section 481(a) as a mandated adjustment. Consequently, as one reads further in the Tax Return instructions for Schedule A (lines 9a-9f), they state explicitly that... "if the corporation changed or extended its inventory method to LIFO and had to write up the opening inventory to cost in the year of election, report the effect of the write-up as other income (line 10, page 1), proportionately over a three year period that begins with the year of the LIFO election (Section 472(b))."

Consequently, it would appear that all (or 100% of the dollar amount) of the adjustments relating to the restoration of the writedown in beginning inventory over three years are supposed to be reported on Page 1, Line 10, **Other Income**...and not netted in Schedule A as part of the beginning and ending inventory amounts. This instruction is often overlooked...or disregarded.

4. No writedowns against the used vehicle inventory are allowed at the end of the year, or at the end of any subsequent year as long as the LIFO method is in effect.

5. Don't forget the special notification to be sent to Washington, D.C. — A statement advising the IRS that the double extension LIFO method is not being used must be filed with the IRS National Office in Washington, D.C. That statement should be filed at the same time as the corporate tax return extending the LIFO election to used vehicles is filed with the IRS Service Center. For a sample transmittal letter, see page 27 of the March, 1996 *LIFO Lookout*.

see **LIFO FOR USED VEHICLES—1996 UPDATE**, page 12



**COST**

Cost, for used vehicles in the ending inventory acquired by direct purchase at auction, would include the actual cost, plus transportation and any internal add-ons for repairs, detailing or reconditioning, including labor. In this regard, profit included in transfers from the Parts Department for parts or the Service Department for labor usually is not eliminated even though the service hours are usually transferred at amounts and rates greater than the dealer's actual cost.

For vehicles acquired from customers by trade-in, the net residual value "booked" as the cost of the used vehicle may be adjusted to (usually reduced) the amount published in an officially recognized valuation guide at the end of the month in which the trade occurred. If this latter practice is consistently followed, it would appear to be a "method of accounting" in determining cost that the IRS will accept for used vehicles taken in trade. Issue 6 in PLR/TAM 8906001, issued in 1989, states: "(The dealer) frequently allows a higher trade-in value for a used vehicle simply as a marketing tool. We believe that the use of a common guide such as the *Kelly* (sic, *Kelley*) *Blue Book* to value used vehicles accepted as trade-ins is a proper method of valuing such vehicles. However, M (the dealer) must determine the cost of its used vehicles taken as trade-ins only at the time of their purchase from the customer. Any future writedowns are impermissible since a LIFO taxpayer must value its inventory at cost, not lower of cost or market." This statement is repeated verbatim in the IRS/"MSSP Audit Guide for Independent Used Car Dealers" released in 1996.

Revenue Ruling 67-107 provides that used vehicles taken in trade as part payment on the sale of another vehicle may be valued at a cost equal to the amount representing the average wholesale price listed by an official used car guide at the time of the trade-in. If the dealer values his used vehicle inventory at lower of cost or market, then the inventory value of trade-ins not sold at the end of the year is adjusted to the average wholesale price listed at that time. However, with used vehicles on LIFO, there should not be any further writedowns to guide values at the end of the year...and if such writedowns are made for internal management purposes, they should be reversed so that the ending inventory is stated at cost.

**"ITEM" DEFINITION**

We now come to the practical and forensic problems relating to how inflation in used vehicles can or should be measured. Within the framework of generally understood LIFO theory, this comes down to how narrowly the definition of an "item" for dollar value LIFO purposes should be carried by auto dealers in connection with the specific unit/vehicle in ending inventory.

For a thorough discussion of this Gordian knot see "What is an 'Item'? Does Anybody Know?" in the September, 1991 *LIFO Lookout* at pages 8-9. In applying LIFO to auto dealer inventories, whether new or used vehicles are involved, there are at least six possible definitions of the term "item." Different variations were employed...and many still are being employed if the Alternative LIFO Method has not been elected...for new vehicles. There is absolutely no reason to believe that all of the underlying theory developed for new vehicle LIFO applications has to be discarded. It still sets the foundation or background against which the repricing decisions are considered. The additional variation that now exists for new vehicles is provided by the term "item category" created by the Alternative LIFO Method which may be transferable with or without variation to used vehicles. It should be remembered that some more hardy taxpayers were prepared to argue different definitions before the Alternative LIFO Method came along and rendered the question moot for those willing to change methods and item definitions. Pending any official statements by the IRS indicating a methodology for used vehicle LIFO computations which it will automatically accept, all else...is speculation.

Having made these statements, one might try to "simplify" matters significantly in the context of used vehicle LIFO computations by assuming all of them away and leading with the question: Is it necessary to create further "subdivisions" of an item (i.e., "sub-items") as is done via "item categories" in Section 4.02(3) of Rev. Proc. 92-79 (The Alternative LIFO Method for New Vehicles) so that every different body and style variation on a used vehicle constitutes an individual "item" to be repriced?

Many believe that approach would be reasonable and appropriate and that a dealer's used vehicle LIFO calculations could be made sufficiently detailed to satisfy the "clear reflection of income" standard by adhering to the make, model, body style designations found in Official Used Car Guides (*Guides*).

Others, including Mr. Groff, believe it is necessary to go further (much further) and to analyze not only all of the above, but also to analyze the content and the option configuration of each vehicle in the ending inventory,

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taking all of those particulars into account in defining an "item" in a more detailed approach for *estimating/guessing* what the rate of inflation was for the year.

There is no doubt that a more narrow definition of the term "item" will result in a "clearer reflection of income." Those advancing the argument that it is necessary to analyze the content and the option configuration have referred to Technical Advice Memo 8906001 as support. It would appear that before looking at Technical Advice Memoranda—which have no precedential value—it might be appropriate to consider the holding of the Tax Court in *Wendle Ford Sales, Inc.* that **the term "item" in the case of a retailer refers to a finished product of inventory and not to its individual components or parts.**

In *Wendle Ford*, the taxpayer-retailer was an automobile dealer. More specific, the "item" over which the litigated dispute arose was a new vehicle, with respect to which certain modifications (catalytic converter and electronic/solid-state ignition system) were debated. In connection with used vehicles, the additions of options and accessories have, through the passage of time and wear and tear, often become an inseparable part of that vehicle or some may have become very difficult to remove without damaging or otherwise impairing the vehicle. Accordingly, the analysis becomes even more complex and again presents the necessity to move beyond the theoretical definition of an "item" and in a more practical sense consider how much of the cost components of the item are necessary to reprice in order to arrive at a "clear reflection of income."

In this regard, consider the numerous statements by the Tax Court in LIFO cases which qualify the statement that "a narrower definition of an item will lead to a clearer reflection of income" by adding **"at the same time, the method of inventory accounting must be administratively feasible."** Some would contend that fussing around with options and accessories will simply raise the level of guesstimation further in connection with used vehicle computations and not necessarily add any greater accuracy to the end result. Without rising to the level of this additional work, the framework for repricing a comparable basic used vehicle in terms of make, model and body style as set forth in the Guides certainly provides the IRS a degree of "assurance" that the taxpayer has not had a hand in manipulating the result since those Guides are compiled independently.

Furthermore, in fussing with the options, what if all the options don't properly work on the vehicle? In suggesting that dealers "create an invoice" for every used vehicle and spec it out thoroughly, one might question whether this is a requirement or should be a requirement for LIFO computation purposes ... even though, in general, that might be a prudent business practice. This "paper creating" process may add cost and time drains and, it should be remembered, the information put down is only as reliable as the conscientious effort set forth by the individual filling out the form in the first instance. And that person might have some ulterior motive for not being too accurate. Still possibly adding to the inaccuracy that might result if options on used vehicles were repriced is the fact that the amounts estimated in used car guides as the adjustments for the presence of options are simply estimates. That information does not reflect actual hard data or manufacturer price information in connection with the cost of those options, but really is a best guess as to what the added value of that option might be.

Another reason why it may be unwise to bind a dealer to repricing every option on used vehicles: Over the years, as more manufacturers have reduced the number of options (i.e., as options have become standardized) that will over time diminish the number of used vehicles for which these options changes will need to be tracked. Consequently, the built-in cost for tracking a diminishing number of (minor) option adjustments might not be justified.

In 1989, the Industry Specialization Program, Motor Vehicle Industry, released a Coordinated Issue Paper related to new vehicle item definition. This Paper concluded that adjustments should be made to achieve comparability between beginning-of-the-year and end-of-the-year units for repricing purposes. At about the same time, Technical Advice Memorandum (TAM) 8906001, already cited, was in the works. One of the conclusions in that TAM was that the taxpayer's method of computing its inventory price index for new vehicles did not clearly reflect income because the vehicles used to compute the prior-year cost and the current-year cost were not comparable since the options and accessories on the vehicles in the beginning of the year inventory were different from the options and accessories on the vehicles in the inventory at the end of the year. The TAM's conclusion also stated: "this may result in a distortive effect on (the taxpayer's) computation of its LIFO index."

In TAM 8906001, the taxpayer used an averaging technique for its new vehicle LIFO calculations. The IRS was concerned that in grouping vehicles for repricing purposes and averaging them, the averaging would be distortive because of the possibility of a shift or change in the mix of the inventory at the end of the year. When

see LIFO FOR USED VEHICLES—1996 UPDATE, page 14



an averaging approach is employed, a change in the inventory mix might result in the comparison of autos that included every available option at one end of the year with autos that had no options at the other end of the year. That concern is certainly understandable where a taxpayer (like the one in the TAM or *E. W. Richardson* in TCM 1996-368) is using an averaging method in connection with its item definition. But is that concern relevant at all—or as relevant—where every used vehicle in ending inventory is essentially repriced against itself in the form of a comparably vintaged vehicle having the same body, make, and style variations? The contemplated method for computing many used vehicle inflation indexes is to take every vehicle in ending inventory and essentially reprice it at end-of-the-year and beginning-of-the-year cost of comparably aged vehicles.

The conclusion and concern expressed by the IRS in the July, 1989 Coordinated Issue Memo, while stating that adjustments should be made to achieve comparability, can be satisfied to a very substantial degree (if not completely) where the approach for repricing used vehicles compares the vehicle without options at both the beginning and the end of the year. In this approach, the repricing is done by not “grossing up” the options ... instead, the base vehicle, net of options, is the measuring point of reference. This is exactly what Revenue Procedure 92-79 allows for new vehicles right now.

While certain options may affect the price a dealer is willing to pay for a used vehicle (whether by cash purchase at auction or a trade-in vehicle is involved), the presence of those options may not perceptibly affect the rate of inflation for that entire vehicle when it is compared with a hypothetically similarly equipped vehicle one model year older at the beginning of the year. After all, many of the options or features adding value cannot (cost efficiently) be removed from the vehicles so that they may be sold separately or so the vehicle, without them, may be made more saleable. Most used vehicles, with options, are simply sold as a “package.” As stated previously, the amounts reflected in the Guides for amounts to add or deduct for the presence or absence of options are, themselves, nothing more than estimates. Often, these amounts do not change appreciably in the course of one year. The margin for error or inaccuracy in the LIFO index is relatively small since the actual amount of difference will be related to the difference between the rate of inflation on the option amounts versus the rate of inflation computed on the base vehicle amounts. Repricing options on used cars for LIFO purposes may just be expensive and unnecessary makework with no real value added.

In describing LIFO Systems' approach to used car LIFO computations, Mr. Groff states that it is necessary to look at the prior year inventory to see if the dealer had an identical vehicle by both base model and set of options. If the dealer did have the same vehicle, including all options, then he would have the same “item.” This is the most restrictive interpretation of “item” definition possible. It also contradicts the Tax Court's holding in *Wendle Ford Sales, Inc.* that the term “item” in the case of a retailer refers to a finished product of inventory and not to its individual components or parts. Groff indicates that his Company's experience is that one can expect to find a match in maybe two out of every 100 vehicles. If that's the case, then why select a method involving added work that experience shows will result in failure 98% of the time? These types of concessions in the methodology need to be evaluated by CPAs who regard themselves more as dealer advocates than unquestioningly submissive to “the 3115 Department” in tax matters.

### **MEASURING OR ESTIMATING INFLATION BY REPRICING: WHOSE YARDSTICK?**

Official used car guides may be used for repricing purposes. The Service seems to readily accept the use of officially recognized valuation guides such as Kelley Blue Book, Black Book or the NADA Official Used Car Guide for valuation and for other purposes. In general, the used car guide that should be referred to is the one that the dealership regularly uses in appraising vehicles. However, that may overlook the fact that some dealerships have two or even three different guides that they will “use” for this purpose, especially if the figures from “the book” are going to be shown to the customer in the trade-in negotiations.

Earlier in illustrating the logic for repricing vehicles to estimate inflation, the example given was of a 1995 Buick Roadmaster 4-door sedan in the inventory at December 31, 1996 and its counterpart for repricing purposes would be a 1994 Buick Roadmaster 4-door sedan at the beginning of the year. To determine the annual inflation index, one would use one of the January, 1997 “Official Used Car Guides” to obtain the December, 1996 (i.e., end of the year cost) of that 1995 Buick and one would use the January, 1996 guide (showing the December, 1995 prices) to determine the beginning of the year price for a 1994 Buick Roadmaster 4-door sedan at the beginning of the year. To make LIFO “work” to reflect inflation for year-end 1996 used car inventories, the vehicles being compared are one model year apart and are considered to be of the same “age” at the respective years-end. The 2 model-year-old vehicle at the end of 1996 is compared with an equally old (2 model year) vehicle at the beginning of the year (i.e., at the end of 1995). →





In referring to Official Used Car Guides, the “wholesale-average” (*Black Book*) or “wholesale” (*Kelley Blue Book*) price or “trade-in price” (*NADA*) should be used as these are more indicative of inflation. These are less influenced by factors other than inflation, than are the “retail,” “suggested retail,” “list,” or “loan values” also listed in these Guides. Whichever Guide book is selected, it should be consistently used from year to year. As long as the same Guide (i.e., *Kelley*, *Black Book* or *NADA*) is used consistently over the years, it shouldn’t matter whether one might be relatively higher or lower than the others—or have some other built-in bias uncontrolled by the taxpayer—since the prices from the Guides are only being referred to in this context to estimate inflation.

## REPRICING SPECIFICS:

### SHOULD DIFFERENT SOURCES BE CONSULTED

#### DEPENDING ON WHETHER USED VEHICLES WERE ACQUIRED BY TRADE-IN OR BY PURCHASE AT AUCTION?

?

For used vehicles in the ending inventory acquired by trade-in, an Official Used Car Guide price should be used to determine the beginning of the year price and the same Guide should be used consistently.

For used vehicles in ending inventory acquired by purchase at the auction (or elsewhere), ...that’s another debate. For purposes of computing the inflation index (i.e., for repricing end-of-the-year versus beginning-of-the-year), for cash-purchased (auction) vehicles, if you can’t find an exact match at the beginning of the year for a cash-purchased vehicle, some (LIFO Systems) would say it is necessary to reconstruct that price as if you had purchased that vehicle at auction. They contend that the *Kelley Book/Guide* is not an appropriate cash-purchase guide because it is put together by a bunch of people sitting around a table trying to determine what the value of the vehicle should be. And, some of the people included in these discussions are manufacturers’ representatives who might have a vested interest in showing a higher resale value than circumstances might otherwise warrant. Under those circumstances, LIFO Systems contends that *Manheim Auction Guide* would be a more appropriate reference for cash-purchased vehicles. When pressed on this point during the question session (on the tape, not in the outline), Mr. Groff appeared to concede that as an alternative, the *Black Book* could be substituted for the *Manheim Guide*. Query: If so, why press the distinction initially?

Others would argue that the distinctions made in support of using different beginning-of-the-year repricing sources for vehicles acquired in trade (vs. vehicles acquired by cash purchase at the auction) aren’t likely to produce significantly different results to justify the cost of the effort. If the *Kelley Book*, which if used for beginning-of-the-year prices is reflecting higher prices, then the inflation index for those specific vehicles will be lower and, there would be less reason for the Service to object. Possibly when the National Office realizes that this distinction relative to method of acquisition might result in a higher/larger inflation index for taxpayers using the *Manheim* reported prices, the National Office may reconsider and decide not to push this as a “Form 3115” requirement in the future. If in the interest of simplicity, computational ease and lower accounting fees, the dealer as a practical matter initially decides to use the *Black Book* (or one of the other Guides) for both beginning and end-of-the-year prices, will IRS examining agents object to that simplified approach? In the past, many have not.

Those who believe the distinction by method of acquisition is not necessary would be unpersuaded by the argument that using the *Manheim Auction* results are “in the best interests of the client” because that is likely to produce a slightly larger LIFO reserve. Is there a real way to gauge the additional cost of producing that (marginal) result? It would seem that describing the dual database approach as a “*more aggressive*” position on behalf of the taxpayer seems out of place and hardly laudatory when weighed against all of the other adverse aspects of a voluntarily elected straightjacket methodology conceding everything else to the IRS.

Also, using the argument that *Manheim* reported prices are more appropriate because they represent thousands of transactions on a nation-wide basis overlooks the inconsistency that arises where a database reflecting national results may be used for one portion of the inventory and a database representing more specific regional transactions might be used for another portion. Taken a step further, given the strong likelihood that the mix of ending inventories from year to year will change either by percentages of vehicles or dollars acquired by purchase at auction versus those acquired by trade-in, the use of different databases might produce a more unpredictable and inconsistent result over the years than if a single source database Guide were used consistently. In effect, the measure of inflation for one portion of the inventory (purchased at auction vehicles) would be developed with reference to a national, broader external index than the measure of inflation determined for another portion of the inventory (vehicles acquired by trade-in) which might be based on a more regionally (or possibly even state) specific database.

see LIFO FOR USED VEHICLES—1996 UPDATE, page 16



For those who see the issue as so important that it might go all the way to the Tax Court, the outcome might be more unpredictable there. Technical arguments could be made for treating vehicles in the ending inventory acquired by cash purchase at auctions as different items from used vehicles in the ending inventory acquired in trade from customers. In brief, if these are goods with different "cost characteristics", then they would either belong in separate pools, and the IRS and the Tax Court seem to believe (based on cases so far) that the only distinctions for pooling purposes should be to separate used autos/cars from used light-duty trucks, or they would warrant different treatment because they are different "items."

The Tax Court in a series of cases beginning with *Wendle Ford Sales* and running through *Amity Leather Products*, *Hamilton Industries, Inc.* and *E.W. Richardson* has consistently pointed out that a narrower definition of an item within a pool will generally lead to a more accurate measure of inflation (i.e., a price index) and thereby lead to a clearer reflection of income. The concern of the Tax Court is that **factors other than inflation** should not be entering into the determination of the LIFO indexes and the IRS is the watchdog in that respect.

In *Hamilton Industries, Inc.*, the Tax Court said: ... "The nature of "items" in a pool must be similar enough to allow a comparison between ending inventory and base-year inventory. Because the change in the price of an item determines the price index and the index affects the computation of increments or decrements in the LIFO inventory, the definition and scope of an item are extremely important to the clear reflection of income. If factors other than inflation enter into the cost of inventory items, a reliable index cannot be computed. For example, if a taxpayer's inventory experiences mix changes that result in the substitution of less expensive goods for more expensive goods, the treatment of those goods as a single item increases taxable income. This occurs because any inflation in the cost of an item is offset by the reduction in cost resulting from the shift to less expensive goods. Conversely, if changes in mix of the inventory result in the substitution of more expensive goods for less expensive goods, the treatment of those goods as a single item (emphasis added) decreases taxable income because the increase in inventory costs is eliminated from the LIFO cost of the goods as if such cost increase represented inflation ...

"In *Amity Leather Products*, we were presented with a situation in which grouping two classes of goods within the same item category would have resulted in the substitution of less expensive goods for more expensive ones, thus overstating the taxpayer's income... In the instant case, however, we are presented with the converse setting, that is, petitioner seeks to fill its inventory with goods purchased at a steep discount, and then replace them with goods purchased and produced at higher cost. The difference between petitioner's base year inventory cost and inventory cost incurred after the acquisition is not attributable to inflation, but rather to the artificially low value assigned base year inventory as compared to the cost of subsequently purchasing or producing such inventory at prevailing market prices... Such inventory therefore possessed materially different cost characteristics from inventory purchased or produced after the acquisitions" (emphasis added).

In the *Hamilton Industries* case, the Tax Court was confronted with "materially different cost characteristics." In *Hamilton*, there were very steep and significant bargain purchase elements. In the typical used car inventory, whether the vehicles are acquired by cash purchase at auction or by customer trade-in, these differences would appear not to be the kind of "materially different cost characteristics" that concerned the Tax Court in either *Hamilton Industries* or *Amity Leather Products* where costs in different countries were involved or *E.W. Richardson* where it was possible to shift inventory mix and create distortions thereby.

The "bifurcated-by-type-of-acquisition" approach, if pursued by the IRS, could also raise the issue of "administrative feasibility" which the Tax Court indicated was the balancing factor against a narrower definition of income. In other words, in *Amity Leather Products*, the Tax Court said that although a narrower definition of "item" will generally lead to a more accurate measure of inflation and thereby lead to a clearer reflection of income, it pointed out that at the same time, the method of inventory accounting must be "administratively feasible." Recently, in *E. W. Richardson*, the Tax Court said that it has "cautioned that the definition of an item of inventory must not be so narrow as to impose unreasonable administrative burdens upon a taxpayer, thus rendering impractical the taxpayer's use of the dollar-value LIFO method of inventory valuation."

Then, there is always the possibility that all of this discussion about differences between vehicles acquired by purchase at auction vs. vehicles acquired by customer trade-in might prompt the IRS to take the position that these are different goods that belong in different pools. It could support this separate pooling argument, in part, by distinguishing used vehicles which may be acquired from a variety of sources from new vehicles which may

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only be acquired from the manufacturer, other than for an occasional dealer trade. The LIFO regulations do provide that for manufacturers, "manufactured" goods should be placed in a separate pool from purchased goods... thus creating a distinction between how the goods were acquired, even though the goods might be identical.

In *E.W. Richardson*, the Tax Court stated that requiring the taxpayer there to use a model code definition of item was not tantamount to placing the taxpayer on the specific goods method of LIFO. If a distinction is to be made relative to the treatment for LIFO purposes of used vehicles acquired by purchase versus goods acquired by trade-in, then should that distinction more appropriately be made by requiring those items to be placed in separate or different pools, if they were in some way inconsistent with each other? Otherwise, the dollar value method (which does not require the matching of specific goods in opening and closing inventories, but focuses on the total dollars invested in inventory) should allow all items which by nature properly fall within a pool to be repriced similarly for index computation purposes. Transactions involving used cars occur within the context of the ordinary course of an auto dealer's business and distinctions by method of acquisition are not part of the "customary business classification" employed by dealerships. However, dealers undeniably have established "a course of business" of buying vehicles at auction and this may be a type of distinction the IRS was unsuccessful in trying to make in *UFE Inc.* in 1989.

It might be argued that the acquisition of used vehicles at auction produces a distinction because of the process by which the dealer acquires those goods, competing against presumably far more savvy, sharp and competitive other purchasers for the acquisition of those vehicles than when the dealer is competing one-on-one against a generally less well-informed customer with regard to the potential acquisition of the customer's vehicle as a trade-in or offset against the cost of another vehicle. One might further argue that if a dealer wanted to, before the end of the year he might engage in some transactions which might end up producing the substitution of one type of good that is more expensive in the ending inventory for a different type of good that is less expensive, with the increase in cost erroneously eliminated from the LIFO cost as if it were inflation. This could also happen in the complete reverse. Against this backdrop, it is necessary to mesh the consideration that under Section 471, the classification of used vehicle inventory disregarding the source from which it is acquired at present conforms "as nearly as may be to the best accounting practice in the trade or business" and has been consistent from year to year.

This is the knottiest problem of all. It presents the need to distinguish between what properly falls in the composition of a pool... with the definition and treatment of items in that pool. The Tax Court has held that the considerations applicable to the proper composition of pools are different than those which are required to answer the question of what constitutes an item within that pool. This was a point that tripped up at least one expert witness in the *E. W. Richardson* litigation (see June, 1996 *LIFO Lookout* page 22). But is this distinction more in the eye of the beholder?

Perhaps the proper inquiry is whether the auto dealer's definition of "item" clearly reflects income if it treats as the same item of inventory, used vehicles which may be acquired by different processes in the ordinary course of the dealer's trade or business. This whole area warrants further discussion so that a well-informed position can be taken and the issue resolved.

### **WHAT HAS THE IRS SAID ABOUT USED CAR LIFO?**

In addition to the previous references to IRS statements regarding used car LIFO, one other source deserves mention. In the April, 1996 IRS/MSSP Audit Guide for Independent Used Car Dealers, the IRS manual states that "the proper method for computing the (inflation) index for used vehicles is:

1. To use the taxpayer's own cost (actual for vehicles purchased and *Blue Book* value as of the trade-in date for vehicles obtained in a trade-in); and
2. To use the taxpayer's own cost (as described in #1) for the same type vehicle in the ending inventory of the preceding year, or, if there was no such vehicle in the ending inventory of the preceding year, use the "reconstruction" techniques contained in Reg. Section 1.472-8(e)(2)(iii) for items not in existence and items not stocked in the prior year—that is, the *Blue Book* value for the same type of vehicle at the beginning of the year."

Dealers using LIFO for used car inventories are to be asked: ... "In determining the yearly LIFO index, what is the vehicle in ending inventory compared to in the ending inventory of the preceding year (that is, the taxpayer's own cost for the same type of vehicle or a "reconstructed" cost from an official valuation guide for the same type

see **LIFO FOR USED VEHICLES—1996 UPDATE**, page 18



of vehicle at the beginning of the year)? ... and then... "Explain how these vehicles are comparable." This may suggest the IRS' current thinking on, and broad inquiry for, used car LIFO. However, it does not suggest any answers!

Query: Is a distinction to be made between Used Car Dealers and franchise new car dealers who operate a used car department as part of their overall operation?

### **OTHER CONSIDERATIONS**

1. Pooling: According to several Letter Ruling/TAMs, it would appear that there should be two pools: Pool #1: Used automobiles and Pool #2: Used light-duty trucks. However, if a single pool for "Used vehicles" is used and challenged by the IRS, the failure to defend a single pool will not result in the loss of the LIFO election. *Fox Chevrolet* and the Alternative LIFO Method have established the two-pool... #1 auto, #2 truck... arrangement for new vehicles. But are used vehicles inherently different from new vehicles for LIFO pooling purposes?

2. Extent of Repricing: One hundred percent (100%) of the total dollars in ending inventory probably should be repriced in determining the inflation index for the pool. Note, however, that the Tax Court did say in *Richardson Investments* that "...we believe that as long as (the taxpayer) selects a representative portion of the inventory in a particular pool to compute an index for the pool under the link-chain method, the computation will be valid."

3. The National Tax Office in Form 3115 change requests appears to now require that the dealer's actual cost for auction purchased vehicles be used in the repricing as the end-of-the-year cost instead of substituting a Used Car Guide price for that vehicle.

4. The National Tax Office in Form 3115 change requests also now appears to require that if the dealer had a comparable used vehicle (i.e., adjusted for model year age) on hand at the beginning of the year, then the dealer's actual cost for that used vehicle at the beginning of the year would be treated as the beginning-of-the-year cost (instead of substituting a Used Car Guide cost). In other words, the IRS appears to require the dealer's actual cost of the used vehicle at the beginning of the year to be used instead of a surrogate cost factor taken from a Used Car Guide. But if a comparable item was in existence at the beginning of the year but not in the dealer's inventory, then reference to external publications (such as *Kelley Blue Book*, *Black Book*, *NADA Guides*) is permitted. The question still remains: How far do you have to go to determine "comparability"?

5. The Service is likely to take the position that, in referring to Used Car Guides, where there is a BOY-EOY lack of comparability due to significant changes in the vehicle or new model introductions, the beginning-of-the-year cost should be the same amount as the end-of-the-year cost, essentially treating the non-comparable used vehicle as a "new item." As a consequence, that vehicle would have a 1.000 line index reflecting no price reconstruction at the beginning of the year and no inflation.

6. If a vehicle is so old that it cannot be located in the comparable Used Car Guide being used for the beginning-of-the-year cost, then that vehicle also probably should have a line index of 1.000 reflecting the end-of-the-year cost as the beginning-of-the-year cost. In some instances, more detailed information regarding significantly older model years may be obtained from the *Black Book Official Old Car Market Guide*, rather than, for simplification or practical purposes, using 1.000 in lieu of any further search efforts.

7. In some Form 3115 change situations involving used vehicle LIFO computations, the IRS is reported to include a statement to the effect that the items used in computing the taxpayer's own prior year costs and its own current year costs are required to be comparable in order for the inflation indexes "to clearly reflect income" — and this comparability statement is expanded to indicate that the vehicles are required to be comparable in terms of base vehicle model, options and accessories. Query: what were the underlying facts?

### **RECORDKEEPING...BOOKS & RECORDS**

Dealers electing used vehicle LIFO should retain indefinitely all of the underlying used vehicle invoices or other information on acquisition costs and other costs capitalized, as well as the database or reference sources from which they computed their inflation index. The "books and records" requirement that taxpayers retain all underlying information for all years on LIFO would apply to used vehicle LIFO computations just as it applies to all other LIFO computations. Inadequate books and records is a situation that "may" warrant termination of the LIFO election under Revenue Procedure 79-23.

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Although failure to maintain adequate books and records “may” warrant termination of the LIFO election, the argument can be made that a taxpayer is not required to maintain books and records to support any calculation other than that which the taxpayer elected to make. Therefore, if the IRS contends that more information should have been saved, but it wasn’t because it was not necessary to support the taxpayer’s calculation, that may be a defense against an attempt by the Service to terminate the LIFO election, although it probably won’t be a defense against having to redo the LIFO calculations to settle the audit.

### **FILING 3115s WHERE THERE ARE PROBLEMS**

Dealers may want to consider filing Form 3115 for permission to change methods if they want to obtain protection from possible IRS audit adjustment of their prior practices. “Problems” in the calculation method or “problems” with record retention/documentation to specifically identify used vehicles in ending inventory and their cost in prior years may generate concern. If there are major concerns over being unable to document prior year LIFO computations, that may be a reason for requesting a change in method in order to secure cut-off protection under Revenue Procedure 92-20... even though the required post-change methodology may be more restrictive and more expensive to compute. If the dealer is not under audit when the Form 3115 is filed, LIFO changes under Revenue Procedure 92-20 usually are made using the cut-off method...and that may be a result well worth the filing even though, as indicated above, future year inconvenience or complexity may be part of the price to be paid.

### **WHY VOLUNTEER TO MAKE THINGS HARDER ON YOURSELF ...**

#### **ESPECIALLY WHEN NO ONE IN PARTICULAR IS REALLY CALLING THE SHOTS?**

Some practitioners question the advisability of volunteering—when under no compulsion to do so—to make the most complicated computations possible (i.e., repricing every option, using different databases for beginning of the year prices depending on whether the vehicles being repriced were acquired by purchase at auction or by trade-in from customers, etc...)

As everyone knows, the procedures and content of Form 3115 consent letters issued by the IRS National Office is not necessarily consistent and it can often change in a matter of weeks. Even Mr. Groff acknowledged that to the AICPA audience. If that’s the case, why file new elections ... which are not subject to formal, more detailed Form 3115 inquiry ... voluntarily choosing the most onerous and expensive methodology possible? If IRS field agents will accept methods that are less detailed and more practical than those insisted upon by the “Form 3115 Department,” why not satisfy those simpler demands? Why not start in a more generalized way and work up in the details and specifics, if necessary?

Often taxpayers are looking for reasons or excuses to file Forms 3115 in order to protect “problems” with prior years’ LIFO calculations. If these Forms 3115 are timely and properly filed when the taxpayers are not under audit, the IRS cannot challenge prior year LIFO calculations. When a taxpayer goes to the National Office with hat in hand asking and hoping for permission to change accounting methods, the IRS can require it to agree to conditions which, under other circumstances, the taxpayer might not voluntarily accept. It doesn’t seem surprising that the “Form 3115 Department” might want to deal more harshly with taxpayers under these circumstances by making conditions more onerous or punitive because the taxpayer behaved badly in the past or overly stretched the rules in its LIFO computations. But, why burden initial LIFO elections for used vehicles with some of the penalties on other taxpayers for prior bad LIFO behavior or bad facts?

In the absence of formal precedential guidance from the IRS on used vehicle LIFO calculations, why voluntarily sign up for the same adverse treatment? If the IRS wants used vehicle LIFO calculations done in a specific way, most dealers, CPAs and NADA would welcome guidance in the form of a published methodology similar to that in Revenue Procedure 92-79. The sooner... the better.

In the meantime, dealers and CPAs contemplating a Used Vehicle LIFO election for 1996 should think long and hard about the methodology they’re going to adopt... because they may have to live with it for a long time.



**INFLATION ESTIMATE REPORT BY MAKE**  
**1996 INTRODUCTION TO 1997 INTRODUCTION DEALER COST-BASED ON INFORMATION**  
**AVAILABLE**

Complete 1997 intro price information is not currently available for all models. Accordingly, some inflation indexes exclude certain item(s) for which 1997 information is missing. New items are repriced at current cost -- i.e., no inflation.

# LOOKOUT EXCLUSIVE



## LIFO LOOKOUT EXCLUSIVE

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL  
1996 INTRODUCTION TO 1997 INTRODUCTION DEALER COST  
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

DECEMBER 26, 1996

BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
<b>ACURA</b>						
NEW AUTOS - POOL #1						
CL	6		127,701	127,701	0	0%
INTEGRA	14	248,881		248,880	(1)	(0)%
LEGEND	0				0	N/A%
NSX	0				0	N/A%
NSX-T	0				0	N/A%
RL	3	112,437		112,437	0	0%
TL	4	109,679		111,921	2,242	2.04%
TOTAL NEW AUTOS	27	470,997	127,701	600,939	2,241	0.37%
NEW LIGHT-DUTY TRUCKS - POOL #2						
SLX SPORT UTILITY	0				0	N/A%
TOTAL NEW L/D TRUCKS	0				0	N/A%
TOTAL ACURA	27	470,997	127,701	600,939	2,241	0.37%
<b>ALFA ROMEO</b>						
NEW AUTOS - POOL #1						
164	0				0	N/A%
TOTAL NEW AUTOS	0				0	N/A%
TOTAL ALFA ROMEO	0				0	0%
<b>AUDI</b>						
NEW AUTOS - POOL #1						
A4 SERIES	8	94,960	82,834	181,120	3,326	1.87%
A6 SERIES	8	233,252		235,736	2,484	1.06%
A8 SERIES	2		106,108	106,108	0	0%
CABRIOLET SERIES	1	32,332		30,424	(1,908)	(5.90)%
TOTAL NEW AUTOS	19	360,544	188,942	553,388	3,902	0.71%
TOTAL AUDI	19	360,544	188,942	553,388	3,902	0.71%
<b>BMW</b>						
NEW AUTOS - POOL #1						
3 SERIES	16	397,870	34,080	442,140	10,180	2.36%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL  
1996 INTRODUCTION TO 1997 INTRODUCTION DEALER COST  
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

DECEMBER 26, 1996

BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
<b>BMW</b>						
5 SERIES	4		153,935	153,935	0	0%
7 SERIES	3	129,210	52,965	188,300	6,185	3.39%
8 SERIES	2	138,075		144,710	6,635	4.81%
Z3	2	24,875	31,080	56,666	711	1.27%
TOTAL NEW AUTOS	27	690,030	272,090	985,831	23,711	2.46%
TOTAL BMW	27	690,030	272,090	985,831	23,711	2.46%
<b>BUICK</b>						
NEW AUTOS - POOL #1						
CENTURY	0				0	N/A%
LESABRE	2	43,426		43,536	110	2.53%
PARK AVENUE	2		58,815	58,815	0	0%
REGAL	0				0	N/A%
RIVERA	1	26,380		27,250	870	3.30%
ROADMASTER	0				0	N/A%
SKYLARK	2	29,596		30,184	588	1.99%
TOTAL NEW AUTOS	7	55,976	58,815	159,785	1,568	0.99%
TOTAL BUICK	7	55,976	58,815	159,785	1,568	0.99%
<b>CADILLAC</b>						
NEW AUTOS - POOL #1						
CATERA	2		59,165	59,165	0	0%
DE VILLE	3	69,988	36,595	108,870	2,287	2.15%
ELDORADO	2	71,441		73,094	1,643	2.30%
FLEETWOOD	0				0	N/A%
SEVILLE	2	78,274		80,091	1,817	2.32%
TOTAL NEW AUTOS	9	219,703	95,760	321,210	5,747	1.82%
TOTAL CADILLAC	9	219,703	95,760	321,210	5,747	1.82%
<b>CHEVROLET/GEO</b>						
NEW AUTOS - POOL #1						
BERETTA	0				0	N/A%
CAMARO	6	110,120		114,157	4,037	3.67%
CAPRICE	0				0	N/A%
CAVALIER	6	61,149	11,054	74,067	1,864	2.58%
CORSICA	0				0	N/A%



# LIFO LOOKOUT EXCLUSIVE

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL  
1996 INTRODUCTION TO 1997 INTRODUCTION DEALER COST  
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
CORVETTE	0				0	N/A%
GEO METRO	3	25,145		25,848	703	2.80%
GEO PRIZM	2	24,015		24,657	642	2.67%
LUMINA	2	31,141		32,661	1,520	4.88%
MAJIBU	2		30,799	30,799	0	0%
MONTE CARLO	2	33,223		33,836	615	1.85%
<b>TOTAL NEW AUTOS</b>	<b>23</b>	<b>284,793</b>	<b>41,853</b>	<b>336,027</b>	<b>9,381</b>	<b>2.87%</b>
<b>NEW LIGHT-DUTY TRUCKS - POOL #2</b>						
ASTRO VAN	6	107,519		110,087	2,568	2.39%
BLAZER	4	76,971		80,354	3,383	4.40%
C-K CHASSIS CAB	13	231,726		236,135	4,409	1.90%
C-K PICKUP	29	466,062		488,425	12,363	2.54%
CHEVY VAN	10	143,809	42,960	189,798	3,029	1.62%
EXPRESS VAN	5	105,840		108,128	2,288	2.16%
GEO TRACKER	6	83,766		83,766	0	0%
LUMINA APV	0				0	N/A%
S10 PICKUP	14	190,693		196,922	6,229	3.27%
SPORTVAN	0				0	N/A%
SUBURBAN	4	90,203		92,985	2,782	3.08%
TAHOE	4	93,406		96,279	2,873	3.08%
VENTURE	4		77,149	77,149	0	0%
<b>TOTAL NEW L-D TRUCKS</b>	<b>99</b>	<b>1,609,995</b>	<b>120,109</b>	<b>1,770,028</b>	<b>39,924</b>	<b>2.31%</b>
<b>TOTAL CHEVROLET/GEO</b>	<b>122</b>	<b>1,894,788</b>	<b>161,962</b>	<b>2,106,055</b>	<b>49,305</b>	<b>2.40%</b>
<b>CHRYSLER</b>						
<b>NEW AUTOS - POOL #1</b>						
CIRRUS	1	16,098		16,522	424	2.63%
CONCORDE	1	17,836		17,836	881	4.94%
LHS	1	27,702		27,702	0	0%
NEW YORKER	0				0	N/A%
SEBRING	4	73,846		75,470	1,624	2.20%
<b>TOTAL NEW AUTOS</b>	<b>7</b>	<b>135,482</b>		<b>138,411</b>	<b>2,929</b>	<b>2.16%</b>
<b>NEW LIGHT-DUTY TRUCKS - POOL #2</b>						
TOWN & COUNTRY	5	70,156	57,284	134,183	6,743	5.29%
<b>TOTAL NEW L-D TRUCKS</b>	<b>5</b>	<b>70,156</b>	<b>57,284</b>	<b>134,183</b>	<b>6,743</b>	<b>5.29%</b>
<b>TOTAL CHRYSLER</b>	<b>12</b>	<b>205,638</b>	<b>57,284</b>	<b>272,594</b>	<b>9,672</b>	<b>3.69%</b>

DECEMBER 26, 1996

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL  
1996 INTRODUCTION TO 1997 INTRODUCTION DEALER COST  
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
<b>DODGE</b>						
<b>NEW AUTOS - POOL #1</b>						
AVENGER	2	29,524		29,478	(46)	(0.16)%
INTREPID	2	37,287		38,720	1,433	3.84%
NEON	4	39,230		42,716	3,486	8.89%
STEALTH	0				0	N/A%
STRATUS	2	28,067		28,997	930	3.31%
VIPER	1	59,230		59,280	50	0.08%
<b>TOTAL NEW AUTOS</b>	<b>11</b>	<b>193,338</b>		<b>199,191</b>	<b>5,853</b>	<b>3.03%</b>
<b>NEW LIGHT-DUTY TRUCKS - POOL #2</b>						
CARAVAN	11	151,702	75,200	237,563	10,861	4.70%
DAKOTA	5		71,845	71,845	0	0%
RAM CAB & CHASSIS	6	106,540		107,519	979	0.92%
RAM PICKUP	20	343,803		351,530	7,727	2.25%
RAM VANS	7	110,115		114,482	4,367	3.97%
RAM WAGON	4	75,095		78,957	3,862	5.14%
<b>TOTAL NEW L-D TRUCKS</b>	<b>53</b>	<b>787,255</b>	<b>147,045</b>	<b>961,896</b>	<b>27,596</b>	<b>2.99%</b>
<b>TOTAL DODGE</b>	<b>64</b>	<b>980,593</b>	<b>147,045</b>	<b>1,161,087</b>	<b>33,449</b>	<b>2.97%</b>
<b>EAGLE</b>						
<b>NEW AUTOS - POOL #1</b>						
SUMMIT	0				0	N/A%
TALON	4	62,173		62,153	(20)	(0.03)%
VISION	2	39,416		40,938	1,522	3.86%
<b>TOTAL NEW AUTOS</b>	<b>6</b>	<b>101,589</b>		<b>103,091</b>	<b>1,502</b>	<b>1.48%</b>
<b>TOTAL EAGLE</b>	<b>6</b>	<b>101,589</b>		<b>103,091</b>	<b>1,502</b>	<b>1.48%</b>
<b>FORD</b>						
<b>NEW AUTOS - POOL #1</b>						
ASPIRE	2	17,037		17,759	722	4.24%
CONTOUR	4	40,678	12,609	54,464	1,177	2.21%
CROWN VICTORIA	4	79,371		81,548	2,177	2.74%
ESCORT	3		32,322	32,322	0	0%
MUSTANG	6	118,197		119,734	1,537	1.30%
PROBE	2	27,819		28,393	574	2.06%
TAURUS	6	114,385		116,706	2,321	2.03%

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1986 INTRODUCTION TO 1997 INTRODUCTION DEALER COST  
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

DECEMBER 26, 1996

BODY STYLE	TOTAL ITEMS	1986 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
THUNDERBIRD	1	15,982		16,318	336	2.10%
<b>TOTAL NEW AUTOS</b>	<b>28</b>	<b>413,469</b>	<b>44,931</b>	<b>467,244</b>	<b>8,844</b>	<b>1.93%</b>
<b>NEW LIGHT-DUTY TRUCKS - POOL #2</b>						
AEROSTAR	4	71,866		71,413	(453)	(0.63)%
BRONCO	0				0	N/A%
CUTAWAY VAN	15	246,596		250,567	3,981	1.61%
E SERIES VAN/WAGON	13	233,525		252,847	19,322	8.27%
EXPEDITION	4		106,576	106,576	0	0%
EXPLORER	15	354,559		362,310	7,751	2.19%
F SERIES CAB & CHASSIS	7	126,337		131,789	5,452	4.32%
F SERIES PICKUP	0				0	N/A%
F150 PICKUP	44	786,028		786,028	0	0%
F250 PICKUP	24	143,289	302,696	451,063	5,078	1.14%
F350 PICKUP	7	109,126	16,676	129,961	4,159	3.31%
RANGER	19	272,021		281,238	9,217	3.39%
WINDSTAR	4	56,422	17,063	75,430	1,945	2.65%
<b>TOTAL NEW L-D TRUCKS</b>	<b>156</b>	<b>2,399,759</b>	<b>443,011</b>	<b>2,899,222</b>	<b>56,452</b>	<b>1.99%</b>
<b>TOTAL FORD</b>	<b>184</b>	<b>2,813,228</b>	<b>487,942</b>	<b>3,366,466</b>	<b>65,296</b>	<b>1.98%</b>
<b>GMC TRUCKS</b>						
<b>NEW LIGHT-DUTY TRUCKS - POOL #2</b>						
C-K CAB & CHASSIS	13	232,284		234,221	1,937	0.83%
C-K SIERRA PICKUP	29	487,601		500,718	13,117	2.69%
CHASSIS LO-PRO	0				0	N/A%
JIMMY	4	77,660		81,022	3,362	4.33%
RALLY WAGON	0				0	N/A%
S15 SONOMA	14	193,141		199,340	6,199	3.21%
SAFARI	6	107,901		110,434	2,533	2.35%
SAVANA	15	250,837	43,072	298,766	4,857	1.65%
SUBURBAN	4	90,207		93,218	3,011	3.34%
VANDURA	0				0	N/A%
YUKON	4	93,406		93,878	472	0.51%
<b>TOTAL NEW L-D TRUCKS</b>	<b>89</b>	<b>1,533,037</b>	<b>43,072</b>	<b>1,611,597</b>	<b>35,488</b>	<b>2.25%</b>
<b>TOTAL GMC TRUCKS</b>	<b>89</b>	<b>1,533,037</b>	<b>43,072</b>	<b>1,611,597</b>	<b>35,488</b>	<b>2.25%</b>
<b>HONDA</b>						
<b>NEW AUTOS - POOL #1</b>						
ACCORD	22	357,880	35,875	395,083	1,328	0.34%
CIVIC	17	208,081		213,890	5,809	2.79%

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BODY STYLE	TOTAL ITEMS	1986 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
DEL SOL	5	77,303		77,303	0	0%
PRELUDE	3		64,839	64,839	0	0%
<b>TOTAL NEW AUTOS</b>	<b>47</b>	<b>643,264</b>	<b>100,714</b>	<b>751,115</b>	<b>7,137</b>	<b>0.98%</b>
<b>NEW LIGHT-DUTY TRUCKS - POOL #2</b>						
ODYSSEY	3	64,575		64,575	0	0%
PASSPORT 4x2	3	62,170		62,169	(1)	(0)%
PASSPORT 4x4	6	139,801		139,801	0	0%
<b>TOTAL NEW L-D TRUCKS</b>	<b>12</b>	<b>266,546</b>		<b>266,545</b>	<b>(1)</b>	<b>(0)%</b>
<b>TOTAL HONDA</b>	<b>59</b>	<b>909,810</b>	<b>100,714</b>	<b>1,017,660</b>	<b>7,136</b>	<b>0.71%</b>
<b>HYUNDAI</b>						
<b>NEW AUTOS - POOL #1</b>						
ACCENT	7	27,150	36,762	64,354	442	0.69%
ELANTRA	3	34,529		35,073	544	1.58%
SCOUPE	0				0	N/A%
SONATA	5	70,848		73,963	3,115	4.40%
TIBURON	4		52,024	52,024	0	0%
<b>TOTAL NEW AUTOS</b>	<b>19</b>	<b>132,527</b>	<b>88,786</b>	<b>225,414</b>	<b>4,101</b>	<b>1.85%</b>
<b>TOTAL HYUNDAI</b>	<b>19</b>	<b>132,527</b>	<b>88,786</b>	<b>225,414</b>	<b>4,101</b>	<b>1.85%</b>
<b>INFINITI</b>						
<b>NEW AUTOS - POOL #1</b>						
G20	0				0	N/A%
I30	5	132,995		134,271	1,276	0.96%
Q30	2	33,460	29,771	61,543	(1,688)	(2.67)%
Q45	2		86,915	86,915	0	0%
<b>TOTAL NEW AUTOS</b>	<b>9</b>	<b>166,455</b>	<b>116,686</b>	<b>282,729</b>	<b>(412)</b>	<b>(0.15)%</b>
<b>NEW LIGHT-DUTY TRUCKS - POOL #2</b>						
QX4	1		31,666	31,666	0	0%
<b>TOTAL NEW L-D TRUCKS</b>	<b>1</b>		<b>31,666</b>	<b>31,666</b>	<b>0</b>	<b>0%</b>
<b>TOTAL INFINITI</b>	<b>10</b>	<b>166,455</b>	<b>148,352</b>	<b>314,385</b>	<b>(412)</b>	<b>(0.13)%</b>



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BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
<b>ISUZU</b>						
NEW LIGHT-DUTY TRUCKS - POOL #2						
HOMBRE	0				0	N/A%
OASIS	0				0	N/A%
RODEO	8	163,332		164,248	916	0.56%
TROOPER	0				0	N/A%
<b>TOTAL NEW L-D TRUCKS</b>	<b>8</b>	<b>163,332</b>			<b>916</b>	<b>0.56%</b>
<b>TOTAL ISUZU</b>	<b>8</b>	<b>163,332</b>		<b>164,248</b>	<b>916</b>	<b>0.56%</b>
<b>JAGUAR</b>						
NEW AUTOS - POOL #1						
XJ	4	157,591	51,892	211,932	2,449	1.17%
XJS	0				0	N/A%
XX8	2		118,576	118,576	0	0%
<b>TOTAL NEW AUTOS</b>	<b>6</b>	<b>157,591</b>	<b>170,468</b>	<b>330,508</b>	<b>2,449</b>	<b>0.75%</b>
<b>TOTAL JAGUAR</b>	<b>6</b>	<b>157,591</b>	<b>170,468</b>	<b>330,508</b>	<b>2,449</b>	<b>0.75%</b>
<b>JEEP</b>						
NEW LIGHT-DUTY TRUCKS - POOL #2						
CHEROKEE	10	164,386		172,584	8,198	4.99%
GRAND CHEROKEE	5	133,174		137,240	4,066	3.05%
WRANGLER	3		44,459	44,459	0	0%
<b>TOTAL NEW L-D TRUCKS</b>	<b>18</b>	<b>297,560</b>	<b>44,459</b>	<b>354,283</b>	<b>12,284</b>	<b>3.99%</b>
<b>TOTAL JEEP</b>	<b>18</b>	<b>297,560</b>	<b>44,459</b>	<b>354,283</b>	<b>12,284</b>	<b>3.99%</b>
<b>KIA</b>						
NEW AUTOS - POOL #1						
SEPHIA	9	76,862	9,593	88,607	2,152	2.49%
<b>TOTAL NEW AUTOS</b>	<b>9</b>	<b>76,862</b>	<b>9,593</b>	<b>88,607</b>	<b>2,152</b>	<b>2.49%</b>
NEW LIGHT-DUTY TRUCKS - POOL #2						

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DECEMBER 26, 1996

BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
<b>SPORTAGE</b>	<b>8</b>	<b>57,880</b>	<b>55,884</b>	<b>116,194</b>	<b>2,420</b>	<b>2.13%</b>
<b>TOTAL NEW L-D TRUCKS</b>	<b>8</b>	<b>57,880</b>	<b>55,884</b>	<b>116,194</b>	<b>2,420</b>	<b>2.13%</b>
<b>TOTAL KIA</b>	<b>17</b>	<b>134,752</b>	<b>65,477</b>	<b>204,801</b>	<b>4,572</b>	<b>2.28%</b>
<b>LAND ROVER/RANGE ROVER</b>						
NEW LIGHT-DUTY TRUCKS - POOL #2						
LAND ROVER DEFENDER 90	2		59,000	59,000	0	0%
LAND ROVER DISCOVERY	6	180,801		187,790	7,189	3.98%
RANGE ROVER	2	103,300		104,875	1,575	1.52%
<b>TOTAL NEW L-D TRUCKS</b>	<b>10</b>	<b>283,901</b>	<b>59,000</b>	<b>351,665</b>	<b>8,764</b>	<b>2.56%</b>
<b>TOTAL LAND ROVER/RANGE ROVER</b>	<b>10</b>	<b>283,901</b>	<b>59,000</b>	<b>351,665</b>	<b>8,764</b>	<b>2.56%</b>
<b>LEXUS</b>						
NEW AUTOS - POOL #1						
ES 300 SEDAN	2		51,942	51,942	0	0%
GS 300 SEDAN	2	77,690		78,466	776	1%
LS 400 SEDAN	2	88,872		89,760	888	1%
SC 300 COUPE	0				0	N/A%
SC 400 COUPE	0				0	N/A%
<b>TOTAL NEW AUTOS</b>	<b>6</b>	<b>166,562</b>	<b>51,942</b>		<b>1,664</b>	<b>0.76%</b>
NEW LIGHT-DUTY TRUCKS - POOL #2						
LX 450	1	40,375		41,595	1,220	3.02%
<b>TOTAL NEW L-D TRUCKS</b>	<b>1</b>	<b>40,375</b>		<b>41,595</b>	<b>1,220</b>	<b>3.02%</b>
<b>TOTAL LEXUS</b>	<b>7</b>	<b>206,937</b>	<b>51,942</b>	<b>281,763</b>	<b>2,884</b>	<b>1.11%</b>
<b>LINCOLN</b>						
NEW AUTOS - POOL #1						
CONTINENTAL	2	36,867	33,910	67,909	(2,868)	(4.05)%
MARK VIII	3	34,970	69,946	103,940	(976)	(0.93)%

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BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
TOWN CAR	6	104,892	105,706	211,498	900	0.43%
TOTAL NEW AUTOS	11	176,729	209,562	383,347	(2,944)	(0.76)%
TOTAL LINCOLN	11	176,729	209,562	383,347	(2,944)	(0.76)%
MAZDA						
NEW AUTOS - POOL #1						
626	4	70,607		71,241	634	0.90%
MILLENNIA	3	82,621		85,827	3,206	3.88%
MX-5 MIATA	1	16,624		17,248	624	3.75%
MX-6	0				0	N/A%
PROTEGE	3	39,240		37,909	(1,331)	(3.39)%
RX-7	0				0	N/A%
TOTAL NEW AUTOS	11	209,092			3,133	1.50%
NEW LIGHT-DUTY TRUCKS - POOL #2						
MPV	4	93,452		94,959	1,507	1.61%
PICKUP	7	50,445	45,392	97,646	1,809	1.89%
TOTAL NEW L-D TRUCKS	11	143,897	45,392	192,605	3,316	1.75%
TOTAL MAZDA	22	352,989	45,392	404,830	6,449	1.62%
MERCEDES						
NEW AUTOS - POOL #1						
C CLASS	3	74,710	26,325	96,965	(4,070)	(4.03)%
E CLASS	3	72,220	43,248	116,608	1,140	0.99%
S CLASS	7	560,415		561,545	1,130	0.20%
SL CLASS	3	251,975		254,145	2,170	0.86%
TOTAL NEW AUTOS	16	959,320	69,573	1,029,263	370	0.04%
TOTAL MERCEDES	16	959,320	69,573	1,029,263	370	0.04%
MERCURY						
NEW AUTOS - POOL #1						
COUGAR	1	15,933		16,279	346	2.17%
GRAND MARQUIS	2	42,212		43,272	1,060	2.51%
MYSTIQUE	3	27,531	13,079	41,353	743	1.83%
SABLE	4	75,542		75,844	302	0.40%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL  
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NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

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BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
TRACER	3		32,754	32,754	0	0%
TOTAL NEW AUTOS	13	161,218	45,833	209,502	2,451	1.18%
NEW LIGHT-DUTY TRUCKS - POOL #2						
MOUNTAINEER	2		50,942	50,942	0	0%
VILLAGER	4	81,293		83,134	1,841	2.26%
TOTAL NEW L-D TRUCKS	6	81,293	50,942	134,076	1,841	1.39%
TOTAL MERCURY	19	242,511	96,775	343,578	4,292	1.27%
MITSUBISHI						
NEW AUTOS - POOL #1						
3000GT	5	147,963		138,271	(9,692)	(6.55)%
DIAMANTE	1		25,492	25,492	0	0%
ECLIPSE	14	239,832		241,879	2,047	0.85%
GALANT	4	36,246	28,210	64,548	92	0.14%
MIRAGE	8		90,464	90,464	0	0%
TOTAL NEW AUTOS	32	424,041	144,166	560,654	(7,553)	(1.33)%
NEW LIGHT-DUTY TRUCKS - POOL #2						
MONTERO	2	56,636		55,464	(1,172)	(2.07)%
PICKUP	0				0	N/A%
TOTAL NEW L-D TRUCKS	2	56,636			(1,172)	(2.07)%
TOTAL MITSUBISHI	34	480,677	144,166	616,118	(8,725)	(1.40)%
NISSAN						
NEW AUTOS - POOL #1						
200SX	6	81,734		85,443	4,209	5.18%
240SX	4	73,359		73,696	337	0.46%
300ZX	0				0	N/A%
ALTIMA	7	112,198		113,806	1,698	1.51%
MAXIMA	5	102,276		106,594	4,318	4.22%
SENTRA	7	91,362		93,494	2,132	2.33%
TOTAL NEW AUTOS	29	460,429		473,123	12,694	2.76%
NEW LIGHT-DUTY TRUCKS - POOL #2						
4X2 PICKUP	7	92,438		96,172	3,734	4.04%
4X4 PICKUP	3	47,500		49,368	1,868	3.93%
PATHFINDER	10	192,266	56,998	252,119	2,855	1.15%



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## INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL 1996 INTRODUCTION TO 1997 INTRODUCTION DEALER COST NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
QUEST	2	40,796		42,099	1,303	3.19%
TOTAL NEW L-D TRUCKS	22	373,000	56,998	439,758	9,760	2.27%
TOTAL NISSAN	51	833,429	56,998	912,881	22,454	2.52%
OLDSMOBILE						
NEW AUTOS - POOL #1						
ACHIEVA	8	39,994	72,775	117,770	5,001	4.43%
AURORA	2	31,783	32,312	64,652	557	0.87%
CIERA	0				0	N/A%
CUTLASS	2		33,443	33,443	0	0%
CUTLASS SUPREME	12	103,306	108,942	217,918	5,670	2.67%
EIGHTY EIGHT	4	40,814	42,440	84,795	1,541	1.85%
LSS	2	24,319	25,423	50,764	1,022	2.05%
NINETY EIGHT	0				0	N/A%
REGENCY	2		51,038	51,038	0	0%
TOTAL NEW AUTOS	32	240,216	366,373	620,380	13,791	2.27%
NEW LIGHT-DUTY TRUCKS - POOL #2						
BRAVADA	1	27,292		27,408	116	0.43%
SILHOUETTE	6		130,954	130,954	0	0%
TOTAL NEW L-D TRUCKS	7	27,292	130,954	158,362	116	0.07%
TOTAL OLDSMOBILE	39	267,508	497,327	778,742	13,907	1.82%
PLYMOUTH						
NEW AUTOS - POOL #1						
NEON	5	52,148		56,289	4,141	7.94%
TOTAL NEW AUTOS	5	52,148		56,289	4,141	7.94%
NEW LIGHT-DUTY TRUCKS - POOL #2						
GRAND VOYAGER	2	33,635		35,734	2,099	6.24%
VOYAGER	2	31,833		33,741	1,908	5.99%
TOTAL NEW L-D TRUCKS	4	65,468		69,475	4,007	6.12%
TOTAL PLYMOUTH	9	117,616		125,764	8,148	6.93%

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BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
PONTIAC						
NEW AUTOS - POOL #1						
BONNEVILLE	2	43,574		44,596	1,022	2.35%
FIREBIRD	6	120,400		126,684	6,284	5.22%
GRAND AM	4	53,068		55,830	2,762	5.20%
GRAND PRIX	3		51,832	51,832	0	0%
SUNFIRE	4	50,066		52,611	2,545	5.08%
TOTAL NEW AUTOS	19	267,108	51,832	331,553	12,613	3.95%
NEW LIGHT-DUTY TRUCKS - POOL #2						
TRANS SPORT	3		59,085	59,085	0	0%
TOTAL NEW L-D TRUCKS	3		59,085	59,085	0	0%
TOTAL PONTIAC	22	267,108	110,917	390,638	12,613	3.34%
PORSCHE						
NEW AUTOS - POOL #1						
911 CARRERA SERIES	9	588,622		586,702	(1,920)	(0.33)%
TOTAL NEW AUTOS	9	588,622		586,702	(1,920)	(0.33)%
TOTAL PORSCHE	9	588,622		586,702	(1,920)	(0.33)%
ROLLS ROYCE						
NEW AUTOS - POOL #1						
BENTLEY	7	1,170,705	282,315	1,490,190	37,170	2.56%
ROLLS-ROYCE	3	297,450	260,913	571,503	13,140	2.35%
TOTAL NEW AUTOS	10	1,468,155	543,228	2,061,693	50,310	2.50%
TOTAL ROLLS ROYCE	10	1,468,155	543,228	2,061,693	50,310	2.50%
SAAB						
NEW AUTOS - POOL #1						
900 SERIES	8	223,962		232,775	8,813	3.94%



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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL  
1996 INTRODUCTION TO 1997 INTRODUCTION DEALER COST  
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

DECEMBER 26, 1996

BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
9000 SERIES	4	126,357		132,897	6,530	5.17%
TOTAL NEW AUTOS	12	350,329		365,672	15,343	4.38%
TOTAL SAAB	12	350,329		365,672	15,343	4.38%
SATURN						
NEW AUTOS - POOL #1						
SC1	2		22,551	22,551	0	0%
SC2	2		24,646	24,646	0	0%
SL	1	9,131		9,250	119	1.30%
SL1	2	20,550		20,979	429	2.09%
SL2	2	22,116		22,551	435	1.97%
SW1	2	21,585		22,027	432	2%
SW2	2	23,160		23,598	438	1.89%
TOTAL NEW AUTOS	13	96,552	47,197	145,602	1,853	1.29%
TOTAL SATURN	13	96,552	47,197	145,602	1,853	1.29%
SUBARU						
NEW AUTOS - POOL #1						
IMPREZA	10	84,987	62,616	149,454	1,851	1.25%
LEGACY	19	248,713	123,490	377,661	5,459	1.47%
SVX	2	59,028		60,335	1,307	2.21%
TOTAL NEW AUTOS	31	392,728	186,106	587,450	8,616	1.49%
TOTAL SUBARU	31	392,728	186,106	587,450	8,616	1.49%
SUZUKI						
NEW AUTOS - POOL #1						
ESTEEM	5	62,410		63,269	859	1.38%
SWIFT	0				0	N/A%
TOTAL NEW AUTOS	5	62,410		63,269	859	1.38%
NEW LIGHT-DUTY TRUCKS - POOL #2						
SIDEKICK	12	179,727		179,541	(186)	(0.10)%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL  
1996 INTRODUCTION TO 1997 INTRODUCTION DEALER COST  
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

DECEMBER 26, 1996

BODY STYLE	TOTAL ITEMS	1996 INTRO	NEW ITEMS	1997 INTRO	DOLLAR CHANGE	PERCENT CHANGE
X90	4	41,471	13,300	53,944	(827)	(1.51)%
TOTAL NEW L.D. TRUCKS	16	221,198	13,300	233,485	(1,813)	(0.49)%
TOTAL SUZUKI	21	283,608	13,300	296,754	(154)	(0.09)%
TOYOTA						
NEW AUTOS - POOL #1						
AVALON	4	85,611		86,151	(460)	(0.53)%
CAMRY	7		120,128	120,128	0	0%
CELICA	8	136,877		138,136	1,259	0.92%
COROLLA	6	47,707	23,581	72,250	952	1.35%
PASEO	4	23,382	30,582	54,280	296	0.95%
SUPRA	6	213,020		185,346	(26,674)	(12.52)%
TERCEL	4		42,374	42,374	0	0%
TOTAL NEW AUTOS	39	507,597	216,885	699,645	(24,817)	(3.49)%
NEW LIGHT-DUTY TRUCKS - POOL #2						
4RUNNER	9	163,701	26,705	193,383	2,987	1.57%
LAND CRUISER	1	33,615		34,292	677	2.01%
PREVIA VAN	4	96,370		98,300	1,930	2%
RAV4	7	100,813		101,859	1,046	1.04%
T100 PICKUP	10	173,420		176,595	3,085	1.78%
TACOMA PICKUP	15	228,296		230,783	2,487	1.09%
TOTAL NEW L.D. TRUCKS	46	798,215	26,705	835,132	12,212	1.48%
TOTAL TOYOTA	85	1,303,812	243,570	1,534,777	(12,405)	(0.80)%
VOLKSWAGEN						
NEW AUTOS - POOL #1						
CABRIO	4		73,576	73,576	0	0%
GOLF	13	129,132	54,776	185,254	2,346	1.28%
JETTA	14	153,116	56,224	212,650	3,310	1.59%
PASSAT	8	153,412		153,412	0	0%
TOTAL NEW AUTOS	39	435,680	184,576	625,852	5,656	0.91%
NEW LIGHT-DUTY TRUCKS - POOL #2						
EUROVAN CAMPER	0				0	N/A%
TOTAL NEW L.D. TRUCKS	0				0	N/A%
TOTAL VOLKSWAGEN	39	435,680	184,576	625,852	5,656	0.91%
VOLVO						
NEW AUTOS - POOL #1						
850 SERIES	18	395,850	124,570	518,400	7,980	1.56%
900 SERIES	2	63,820		64,750	930	1.46%
TOTAL NEW AUTOS	20	448,670	124,570	583,150	8,910	1.59%
TOTAL VOLVO	20	448,670	124,570	583,150	8,910	1.59%

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