De Filipps' LIFO LOOKOUT

A Quarterly Update of LIFO - News, Views and Ideas

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LIFO UPDATE

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

#1. IRS PLANS TO "CHECK UP" ON AUTO DEALERS CONFORMITY VIOLATION SETTLEMENT PAYMENTS. At the AICPA National Auto Dealership Conference in San Diego, the IRS Motor Vehicle Industry Specialist said that she anticipates the IRS will probably do some type of "compliance checking" to follow-up on the summer's collections from dealers paying settlement fees to avoid termination of their LIFO reserves. So far, no major activity has surfaced. For more, see page 5.

Related to the compliance-payment subject, some dealers have been doing more than just thinking about holding their CPAs accountable for their settlement payments...they have lined up lawyers to put some pressure on CPAs to share the costs.

#2. BE SURE YEAR-END FINANCIAL STATEMENTS SATISFY ALL OF THE LIFO CONFORMITY REQUIREMENTS. It's time again for our annual reminders about year-end projections, estimates and the importance of placing LIFO inventory disclosures in the year-end financial statements. The IRS will not be as forgiving this year as it was in the past: LIFO conformity violations on year-end financial statements will most likely result in LIFO election terminations.

The article on page 6 discusses the many year-end reporting requirements and traps that LIFO users need to be aware of before issuing year-end financial statements. Also, for businesses that need to come up with estimates of LIFO reserve changes before the final amounts can be calculated, there is a section discussing how to come up with projected changes quickly and effectively.

#3. STRANGE–BUT EXPLAINABLE–RESULTS FROM THE WACKY WORLD OF NEGATIVE LIFO RESERVES. In the course of doing some year-end projections and planning, we observed what at first seemed to be an incongruous result: the LIFO pool with a negative reserve and not much current year inflation had a big decrement which was carried back to prior years...and the result was that the LIFO reserve was going up significantly! In other words, the dealer was increasing the current year's LIFO reserve and reducing (taxable) income by carrying back a current year decrement.

Everything made sense after the facts were carefully reviewed. In 1996, the LIFO pool had experienced 7% deflation. Based on how the numbers are interrelated, multiplying a deflationary factor (in the form of an index or decimal less than 1.000) by the prior year's cumulative inflation index caused that current year's cumulative inflation index to become **less than** the cumulative index at the beginning of the year. This, in turn, resulted in a change in the composition of the net inflation in each of the prior year's LIFO layers.

The business was now projecting a large decrease in 1998 year-end inventory. This would translate into a decrement expressed in base dollars which would be carried back against prior years' layers that had been previously recharacterized as contributing negatively to the prior year-end LIFO reserve balance.

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LOOKOUT LOOKS INTO

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On pages 14-19 note how the composition of the LIFO reserve at the end of 1997 becomes negative for the LIFO layer increments built up in 1995 and in 1996. Therefore, as the decrement projected for 1998 is carried back (through 1997), it erases the negative contribution to the LIFO reserve at year-end 1997 associated with the LIFO layers for the increments built up in 1995 and 1996.

In interpreting all of this with the dealer and his controller, the dealer was advised ***not*** to try to increase the inventory in this pool any further. The dealer was also advised that he would be unable to generate any significant additional deductions/increase in this pool's LIFO reserve by further dropping this pool's inventory level. This was because the analysis of the LIFO layers showed that there was only a comparatively small amount of base dollars left ($4,011) once the year-end inventory dropped to the projected low level of $72,000. It simply wasn't worth the effort of trying to refine the year-end inventory level any further.

The type of LIFO layer analysis provided by our *SUPERLIFO* software made this all much easier to explain to the dealer.

#4. YEAR-END PROJECTIONS FOR DEALERS BASED ON "ONE-OF-EACH". Many auto dealers are under significant pressure to release their year-end financial statements before the actual LIFO calculations can be completed. Each year we provide a listing for auto dealer ***new*** vehicle LIFO reserve projection purposes showing weighted average information for each model. Our information compares everything in our database as of December 1, 1997 (i.e., the beginning of the year) ...with intro-'99 model prices, unless the '99 intro price was subsequently updated and that information is also in our database for the end of the year.

The summary table on page 20 shows that the overall price increases for new vehicles are small again this year. For calendar year-end 1998, you can expect your year-end inflation indexes to be low and your LIFO reserve increases to be small due to competitive pressures among the manufacturers and currency pressures. Also, this year several manufacturers changed option packages either to or from standard base vehicles, and/or "decontented" their year-end models.

The one-of-each inflation indexes shown for various manufacturers reflect a number of interesting applications of the Alternative LIFO Method's subjective rules for determining whether or not a vehicle is a new item or a continuing item. In comparing 1999 item categories with 1998, in a number of instances vehicles with significant changes in equipment or appearance turned out not to be new items. In other instances, vehicles that "on the surface" appeared to be continuing items actually turned out to be new items.

Vehicles posing interesting problems this year include Acuras, Chevy Blazers, Ford Mustangs, GMC Jimmys, Mitsubishi Montero Sports, the Saturn 3-door coupes and Toyota Camrys and Corollas.

Also, several major truck lines underwent extensive replatforming and, accordingly, turned out to have significant new items with 1.000 consequences for inflation purposes.

Overall, the 1998 year-end LIFO inflation indexes are likely to be relatively flat for new vehicles ... and even flatter, if not negative, for used vehicles. However, this needs to be qualified because not all manufacturers have made their information available, and that means our database is not entirely complete at this time.

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 would have an inventory mix of one-of-each. These simplified, one-of-each inflation indexes, may be used in year-end projections as a substitute for selecting some other arbitrary or assumed inflation rate (like 1%, 2% or 3%) or coming up with a guesstimate number to use by some other method.

But, if a dealer is going to reflect an ***estimate*** of the LIFO change for the year in a year-end Income Statement sent to the Factory, that ***estimate*** must be a ***reasonable*** estimate in order to satisfy the IRS under Revenue Ruling 97-42. As discussed elsewhere, no one really has any idea of what the IRS will accept as reasonable—or as unreasonable. So be careful, and save your projection calculations.

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 or deflation decreases 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 lower than the 1998 intro dealer cost used in compiling the rough intro-to-intro averages, and this would result in a slightly higher inflation index.

Therefore, we have found that a more accurate way to project LIFO changes is to input all of the

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dealer's invoices on hand as of a date close to the end of the year. By doing this, we achieve a more accurate weighted model mix. In addition, this allows us to factor in the actual average beginning-of-the-year item category costs for continuing models.

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. This year's more detailed analyses start on page 21.

#5. REV. PROC. 98-60: AUTOMATIC ACCOUNTING METHOD CHANGES UPDATED AGAIN. Last year the IRS issued Revenue Procedures 97-27 and 97-37 updating and overhauling procedures for requesting IRS permission to change LIFO and other accounting methods. Revenue Procedure 97-27 dealt with method changes requiring advance approval from the IRS, and Revenue Procedure 97-37 addressed requests the IRS found so common or uncontroversial that the Service was willing to grant automatic approval subject to taxpayer's notifying the IRS of the change. Now, the IRS has expanded the "automatic" change group by issuing Revenue Procedure 98-60 to supersede Rev. Proc. 97-37.

Among the significant changes made by Rev. Proc. 98-60 relating to taxpayers using LIFO inventories are: (1) providing that taxpayers who terminate a LIFO election and subsequently want to reelect LIFO are not required to file Form 3115 to reelect the LIFO method after a period of 5 years, beginning with the year of change; (2) adding several LIFO accounting method changes to the Appendix to Section 10; and (3) requiring taxpayers who want to make an IPIC change following a bulk bargain purchase of inventory to comply first with the Tax Court's decision in *Hamilton Industries, Inc.* (97 T.C. 120, 1991) and to compute a Section 481(a) adjustment for the bargain purchase part of the change. In this latter regard, be sure to consider all of the implications of the *LaCrosse* decisions and Update #7 below.

Generally, Revenue Procedure 98-60 is effective for tax years ending on or after December 21, 1998. Taxpayers who have Forms 3115 pending before the IRS on December 21, 1998 may make their changes under Rev. Proc. 98-60, as long as some conditions are satisfied. The IRS will return to taxpayers any applications filed on or after December 21, 1998 that are within the scope of Rev. Proc. 98-60, but that fail to comply with it.

#6. MORE ON APPLICATION OF BLS-IPIC METHOD TO AUTO DEALERS INVENTORIES. In the June 1998 *Dealer Tax Watch*, we had stated that an auto dealer using the BLS inflation index must "place all of his inventory on LIFO rather than only new vehicle dollars." Actually, Reg. Sec. 1.472-8(e)(3)(i) states that... "a taxpayer using the inventory price index computation method provided by paragraph (e)(3) must use such method in determining the value of all goods for which the taxpayer has elected to use the LIFO method."

We appreciate a sharp-eyed reader pointing out that the Regulation does not say that *all* of the inventory must be subject to BLS indexes if any is subject to BLS indexes; rather the Regulation requires only that if the taxpayer desires to use BLS indexes for any portion of its LIFO inventory, all portions of its LIFO inventories must use BLS indexes. Since a taxpayer is permitted to pick and choose what classes of goods it wants to cover in a LIFO election, it may make a valid election to include less than all of its inventory in a LIFO election.

Revenue Procedure 84-57 restates the Regulation requirement almost verbatim. In the context of auto dealer LIFO applications, Revenue Procedure 97-36 states that "an automobile dealer using the IPIC method must use that method in determining the value of all goods for which the automobile dealer has elected to use the LIFO method."

Not contrary to the foregoing, but consistent with Reg. Sec. 1.472-8(e)(3)(iv), some auto dealers have elected to establish one LIFO pool for all items that fit within one of the eleven general categories of consumer goods in the *CPI Detailed Report*. One of the eleven categories is "private transportation (including gasoline)." As observed by Leslie Schneider, in *Federal Taxation of Inventories* (Section 14.04[5]) at note 470 in discussing methods of pooling: "This provision could prove to be a significant benefit in some industries. For example, retail automobile dealers might be able to maintain a single pool for new automobiles, new trucks, used vehicles and parts."

#7. *LaCROSSE* & BARGAIN PURCHASE LIFO UPDATE ... COMMENTATORS CRITICIZE COURT FOR REACHING THE WRONG RESULT. In the June 1998 issue of the *LIFO Lookout*, we discussed what we described as "an unexpected, too-good-to-be-true bonanza" for taxpayers involved in certain bargain purchase inventory situations. In commenting on the U.S. Court of Federal Claims' decision in May, 1998, we said that the updated *LaCrosse* decision may result in the IRS winning the battle ... but losing the war.

"*LaCrosse* now appears to receive a stepped-up basis for its opening inventory, such that the benefit of the bargain purchase is never realized as income or taxed. This happens when it establishes its base

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year cost of the bargain purchase inventory at fair market value. Wow! ... Some of us can hardly believe this result. But, we'll take it...unless, of course, the Court reconsiders its conclusion or otherwise severely limits its application. If not, or until then, some bargain purchases may turn out to be even greater bargains than anyone ever thought."

Readers interested in this controversy should not miss the lengthy article in the December 1998 *Journal of Taxation* by Dennis J. Gaffney, Richard O. Davis, and Maureen H. Smith. In this article the authors conclude that "while the court's view of the significance of GAAP (Generally Accepted Accounting Principles) in deciding tax accounting issues is correct, it misinterpreted GAAP by not applying the operative GAAP provisions in their entirety. In short, there is a gap in the court's notion of GAAP."

LaCrosse has been appealed to the Federal Circuit where it may–or may not–be reversed. The IRS is likely to again fight for the inclusion of the bargain element in income somewhere along the line–usually sooner rather than later... and certainly not never. We can expect to hear still more on this issue... and maybe even on this case... in the future.

On a related note, bargain purchase inventory situations and general LIFO planning often work better when the "earliest acquisition method" is elected for valuing increments as part of the overall Form 970 filing. A very detailed article on this subject appears in the October, 1998 *Journal of Taxation*. "Fine-Tuning Dollar-Value LIFO: When to Use the Earliest Acquisition Method," by W. Eugene Seago, beginning at page 239, is well worth your reading.

#8. NO LIFO RECAPTURE: IRS RULES FAVORABLY ON PARENT'S TRANSFER OF LIFO INVENTORIES TO NEW QSSSs. In LTR 9807023, the IRS ruled that there would be no LIFO recapture under Section 1363(d) when a parent S Corporation transferred its LIFO inventories to several newly created subsidiaries for whom it elected QSSS (that's Qualified Subchapter S Subsidiary) treatment. The QSSSs were newly created to help increase the overall commercial credit amount available and to protect the assets of each subsidiary from the liabilities of the others. These separate, independent business entities each made a LIFO election and a QSSS election (under Notice 97-4) of its own.

The Service held that these subsidiaries would constitute QSSSs provided that the parent qualified as an S Corporation under Section 1361 and made a valid QSSS election. The Service held further that the parent's transfer of its LIFO inventory to the subsidiaries would not be subject to LIFO recapture under Section 1363(d).

This taxpayer-favorable ruling is consistent with several others issued by the IRS during 1997 involving automobile dealerships having similar motives (LTRs 9746011 and 9746018 et. seq.).

#9. FSA ON AVOIDING A SECTION 481(a) ADJUSTMENT BY USING THE CUT-OFF METHOD. In the September, 1998 LIFO Lookout, Update items #4 & 5, we focused on Field Service Advice (FSA) that the IRS was now being forced to make available under the Freedom of Information Act. In another FSA, 1998-134, Assistant Chief Counsel concluded that a taxpayer could not force the IRS to allow it to use the cut-off method in implementing a change in LIFO inventory methods where the taxpayer had not previously filed Form 3115 nor requested the Appeals Officer to enter into any written agreement to make the cut-off provisions of a Revenue Procedure applicable to it.

Stressing that the cut-off method is intended for a taxpayer who is ***voluntarily*** changing its accounting method, Counsel concluded that a Section 481(a) adjustment should be legally defensible in the applicable case because the taxpayer was estopped from requesting a change in method from the National Office without the consent of Appeals.

The FSA, however, does state that it is left to the discretion of Appeals whether the Section 481(a) adjustment should be waived as part of any overall settlement. This, of course, opens the door for Appeals to cut whatever deal it thinks best or advisable.

Q&A

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this agreement, you are complying and agreeing with all the terms of the Revenue Procedure. So therefore, you are liable, even if you've made one payment, you're liable for all three payments; and we are not planning on refunding any amounts otherwise."

CONFORMITY CLARIFICATION

When asked whether there ***are any TAMs or Private Letter Rulings forthcoming on currently unanswered conformity issues,*** Ms. Baker answered that she was not aware of any.

She referred further questions to IRS Chief Counsel attorney Jeff Mitchell. He is the author of Rev. Rul. 97-42 and Rev. Proc. 97-44, and his phone number is 202-622-4970.

IRS MOTOR VEHICLE INDUSTRY SPECIALIST COMMENTS ON CONFORMITY & USED VEHICLE LIFO

At the AICPA National Auto Dealership Conference in San Diego on October 22, 1998, several LIFO issues came up for discussion during the Tax Panel presentation. Panel members were (1) Mary Burke Baker, IRS Motor Vehicle Industry Specialist, Grand Rapids, MI; (2) James Minnis, Esq., Legal & Regulatory Affairs Department, National Automobile Dealers Association, McLean VA; and (3) William Morris, Esq., Moore & Bruce, LLP, Washington, D.C.

Mary Baker was appointed to succeed the recently retired Robert Zwiers as the IRS Motor Vehicle Industry Specialist. Ms. Baker has been with the IRS for over 20 years and prior to her recent appointment had been in the Coordinated Examination Program (Large Case) for 11 years.

Not much new was said about LIFO by any of the speakers during their prepared remarks. However, during the question/answer period, Mary Baker provided several interesting responses to some auto dealer LIFO questions which are summarized below.

USED CAR LIFO METHODOLOGY

CPAs and auto dealers are still very interested in LIFO for used vehicles. Several IRS audits focusing on used vehicle LIFO mechanics are said to be bottled up (somewhere) in the IRS.

One question posed was: ***When will there be an alternative method for used vehicles similar to the Alternative LIFO Method for new vehicles?*** Ms. Baker's response was:

"We do have questions in the National Office on LIFO for used vehicles, and there are a lot more questions at this point than there are answers. I think that our ultimate goal is to come up with a Revenue Procedure that is similar to Alternative LIFO for new vehicles to provide some sort of guidance and simplicity for dealers to compute their LIFO for used cars."

IRS POLICING OF SETTLEMENT PAYMENTS

What is the IRS planning to do as a follow-up to the LIFO conformity issue settlement, self-audit, and the 4.7% payment required in case of violation? In response to this question, Ms. Baker said:

"We do anticipate that we will be doing some sort of a compliance check on this. We don't really have a process in place as to precisely how we're going do this compliance check, but we do anticipate that there will be one. And, if that is the case, and it's determined that there were conformity violations, then that taxpayer can expect to be taken off LIFO."

As a follow-up, she was asked, ***Do you expect the compliance tests or checks to be conducted on a sample basis, an overall basis, a 100% basis, etc.?*** Her reply was that the Service just doesn't have the "manpower" to audit to all of the dealers who might be involved. Therefore, she expected that any follow-up by the IRS "would probably be on a statistical basis of some sort." Whether further IRS follow-up would be based on a statistically valid sample, a certain dollar criteria, or dealership size...she was not sure. Stay tuned: time will tell.

"SECOND THOUGHTS" ON CONFORMITY SETTLEMENT PAYMENTS

Apparently, some dealers and/or their CPAs are having "second thoughts" about payments made under Rev. Proc. 97-44 to the IRS. Maybe they over-reacted or should have done more homework. In this regard, someone asked: ***What if you've entered into the settlement, and you've had second thoughts about it and decided maybe you didn't need to make the payment after all. Can you ask for your money back?***

According to Ms. Baker: "If your calculator was broken that day and you couldn't multiply 4.7% times your LIFO reserve and you made a mistake, you can ask for an adjustment to the amount that you made." Ms. Baker commented that if the multiplication error resulted in the taxpayer owing more money to the IRS, she was sure that the taxpayer would ante up that additional payment, too. After all, math is math.

However, if the taxpayer was just having *second thoughts* or *remitter's remorse*, then her comments were: "No. We're not going to honor those [requests for refunds of payments]. The idea is that this was a settlement agreement that could be entered into. It was a relief provision. The Revenue Procedure clearly says that the payments are not refundable, and they're not creditable; and that by making the first payment or entering into

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BE SURE YEAR-END FINANCIAL STATEMENTS SATISFY ALL OF THE LIFO CONFORMITY REQUIREMENTS

Taxpayers using the Last-In, First-Out (LIFO) method for valuing inventories are often under significant pressure to issue their financial statements. These taxpayers must be sure that their year-end statements satisfy all of the LIFO conformity requirements... or they face the risk of losing their LIFO elections.

Last year's conformity review included substantial discussion of the 1997 developments affecting auto dealers' year-end statements to manufacturers which resulted in the issuance of Revenue Procedure 97-44 and Revenue Ruling 97-42 by the IRS. Rev. Proc. 97-44 gave dealers who had certain financial statement conformity violations in the past a way to escape the LIFO election termination consequences by simply paying a relatively small fine.

Although the impact of this Revenue Procedure has yet to be fully realized, discussion of it in this article will serve no useful purpose. The action of the IRS in 1997 was to only forgive conformity violations on auto dealers' year-end financial statements sent to the manufacturers or to their credit subsidiaries for years ending before October 14, 1997. Therefore, LIFO conformity violations on calendar year-end 1997 statements and on any other year-end statements issued thereafter will not be excused as lightly.

As we repeatedly emphasize in our year-end reviews, there are many other year-end LIFO conformity requirements, just as there are many other kinds of businesses using LIFO in addition to automobile dealers. All taxpayers must comply with all of the multiple LIFO conformity requirements in order to properly elect and remain eligible to use the LIFO method in later years.

Form 970 is the LIFO election form which is required to be included with the tax return for the first LIFO year. One of the significant traps for the unwary is that Form 970 asks only whether the year-end financial statements ***for the election year*** have satisfied certain conformity requirements. Question 5 on the form does not warn taxpayers that these conformity requirements must be satisfied for every year-end statement for as long as the LIFO method is being used. This requirement is contained in Reg. Sec. 1.472-2(e)(1). Furthermore, the comparatively limited instructions for Form 970 give no hint of the many troublesome interpretations that await any practitioner who takes the time to read through the regulations. As evidenced by the debacle that resulted in Rev. Proc. 97-44, many practitioners have never even looked at, much less attempted to study, "the regulations."

BASIC LIFO ELIGIBILITY REQUIREMENTS: "CONFORMITY" IS ONLY ONE

It should be understood that the IRS can disallow a LIFO election if it finds a violation of any one of the following four eligibility requirements:

ELIGIBILITY REQUIREMENTS

1. Failure to value LIFO inventory at cost for tax purposes for the year preceding the year of LIFO election, the election year, and all subsequent years ***(Cost).***

2. Violation of the financial statement reporting conformity requirements for the election year and all subsequest years ***(Conformity).***

3. Failure to properly elect LIFO, including the failure to file Form 970 ***(Consent).***

4. Failure to maintain adequate books and records with respect to the LIFO inventory and all computations related to it ***(Books & Records).***

Even if one of these situations exists, the Internal Revenue Service has the discretionary power to allow the LIFO election—if it can be persuaded to exercise that power in the taxpayer's favor. For example, Revenue Procedure 79-23 reflects the position of the Service that a LIFO election can be disallowed if the taxpayer fails to maintain adequate books and records with respect to the LIFO inventory and computations related to it. However, if a taxpayer is able to reconstruct the information necessary to calculate the LIFO inventory amount properly, it **may** be possible to avoid termination of the LIFO election for a violation of the "books and records" requirement.

Revenue Procedure 79-23 (1979-1C.B.564) states that in other circumstances where LIFO infractions occur, such as computational errors, incorrect pool selection or item determination, or differences in the levels of costing inventories between financial statements and tax returns—the IRS is not authorized to take the taxpayer off of LIFO. However, where the LIFO violations involve conformity, cost or Form 970 consent matters, the Service usually looks to terminate the errant taxpayer's election. Revenue

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Procedure 97-44 should be regarded as a very limited exception to this general behavioral pattern.

Incidentally, there was one surprising development during 1998 relating to how the IRS and the Tax Court interpret Rev. Proc. 79-23. The Tax Court held in *Consolidated Manufacturing, Inc. v. Commissioner,* 111 T.C. No 1 (Tax Court Docket No 6176-96) that the Commissioner did not abuse her discretion to terminate the taxpayer's LIFO election in a case that was interpreted to be a failure by the taxpayer to properly elect LIFO under Rev. Proc. 79-23 because all of the elements that properly constituted ***"goods"*** were not placed on LIFO by that taxpayer.

CONFORMITY REQUIREMENTS...THERE ARE MORE THAN ONE

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

Although it is commonly stated that LIFO must be used to compute income in the year-end financial statements, technically, the IRS only requires LIFO to be used in the primary presentation of income (i.e., in the Income Statement). For most taxpayers, the LIFO conformity requirements really pose at least two general sets of requirements:

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

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

Accordingly, a LIFO reserve, no matter how large, can be completely and abruptly lost if careful attention is not paid to the conformity requirements in year-end financial statements sent to the Factory/Manufacturer/Supplier...as well as to the more conventional year-end statements issued in report form by CPAs.

EVERY YEAR, ALL OF THE CONFORMITY REQUIREMENTS MUST BE MET

To remain eligible to use LIFO, **every year**, the last monthly statement for the year sent to the manufacturer and/or any other credit source must reflect an estimate of the year-end change in the LIFO reserve if the actual change cannot be computed before the statement has to be released.

If a taxpayer is thinking about making a LIFO election for the year, then it should place an estimate of the year-end LIFO reserve ...or the actual amount if it has been calculated... in the year-end statements (including those issued to the Factory/Manufacturer or issued to any other party) in order to preserve its ability to elect LIFO when it files Form 970 as part of its Federal income tax return for the year at a later date.

Also, the expansion of the conformity requirements to other classes of goods should not be overlooked if a taxpayer is already on LIFO for one class of inventory (such as new vehicles or equipment) and is considering extending LIFO to another class of inventory (such as used vehicles, equipment or parts). In this situation, the year-end Income Statements should also reflect an estimate of the LIFO reserve expected to be produced by extending the LIFO election(s) to the additional classes of goods under consideration.

TRADITIONAL FINANCIAL STATEMENTS IN ANNUAL REPORTS ISSUED BY CPAs

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

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

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mity requirement. This very strict disclosure limitation existed with no room for deviation for many years.

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

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

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

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

Many CPAs serving automobile dealers are aware that the Regulations contain several year-end LIFO reporting restrictions which apply to the specially formatted financial statements sent by auto dealerships and other businesses immediately after year-end to the Manufacturer/Supplier/Creditors. Many CPAs serving auto dealers who were not aware of these restrictions, if still unaware, are about to experience a rude awakening when their (former) dealer clients–through their attorneys–ask them to help the dealers pay their "settlement amounts" under Rev. Proc. 97-44.

For automobile dealerships, and for any other LIFO users who have similar year-end reporting fact patterns or requirements, these restrictions on year-end dealership-issued statements pose fatal LIFO traps that are much harder to deal with than those for year-end reports issued by CPAs.

The Regulations provide that any Income Statement that reflects a full year's operations must report on a LIFO basis. This requirement applies regardless of whether the Income Statement is the last in a series of interim statements, or a December statement which shows two columns, one for the current month results and another for year-to-date cumulative results.

The Regulations further provide that a series of credit statements or financial reports is considered a single statement or report covering a period of operations if the statements or reports in the series are prepared using a single inventory method and can be combined to disclose the income, profit, or loss for the period. See Reg. Sec. 1.472-2(e)(6). If one can combine or "aggregate" a series of interim or partial-year statements to disclose the results of operations for a full year, then the last Income Statement must reflect income computed using LIFO to value the inventory.

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

The IRS confirmed dealers' worst fears and apprehensions during 1995 in LTR 9535010. In this Letter Ruling, a calendar year dealership raised the conformity question in the context of what happens when the monthly statements, including year-end, are not on LIFO but the CPA prepares annual audited financial statements for the dealership which reflect LIFO.

Here, the taxpayer's argument was that the CPA's audited statements reflecting LIFO were the primary financial statements, while the monthly statements sent by the dealership to the manufacturer and to the credit corporation were "supplementary statements." The IRS concluded that the dealer in LTR 9535010 had violated the LIFO conformity requirement because:

IRS TESTS

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

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

In a companion letter ruling, LTR 9535009, the IRS "officially" restated its position with respect to a dealer who reported for tax purposes using a fiscal year. The IRS employed the same four-step analysis as above to determine whether the fiscal year dealership had violated the LIFO conformity requirements. In connection with the second "test" related to whether the dealership's financial statement to the Factory ascertained the taxpayer's income for the taxable year, the IRS noted that the year-to-date column information readily provides this computation for the reader. Even without year-to-date accumulations on the face of the monthly Income Statement, any series of months could be added together to reflect a complete 12-month period of anyone's choice.

LTR 9535009 states that the fiscal year dealer taxpayer issued a financial statement (in January, 19xx) that ascertained its income for the entire prior calendar year and that calendar year statement is considered a statement covering the "taxable year" because it covers a 1-year period that both begins and ends in a taxable year or years for which the taxpayer used the LIFO method. This is the IRS' interpretation of Reg. Sec. 1.472-2(e)(2) which covers *one-year periods other than a taxable year.*

REVENUE RULING 97-42

On September 25, 1997, the IRS issued Revenue Ruling 97-42 which provides special interpretations allowing auto dealers to satisfy the LIFO conformity requirements. These special interpretations only relate to a year-end financial statement prepared in a format required by an automobile manufacturer on preprinted forms supplied by the automobile manufacturer.

PLACEMENT IN THE INCOME STATEMENT. LIFO adjustments must appear in the twelfth month Income Statement...but they do not have to be reflected in the Cost of Goods Sold section through inventory valuation accounts ..., as long as they are reflected somewhere in the determination of net income in the Income Statement.

USE OF ESTIMATES. A "reasonable estimate" of the change in the LIFO reserve for the year may be reflected instead of the actual change..., as long as that "reasonable estimate" is reflected somewhere in the year-end Statement of Income. No one has any definite idea of what the IRS will accept as a "reasonable estimate" or what procedures the IRS will recognize as being "reasonable" in the preparation of an estimate.

FISCAL-YEAR TAXPAYERS. If an auto dealer employs a fiscal taxable year, and reflects the LIFO change in Cost of Goods Sold or anywhere else in the Income Statement, the LIFO conformity requirements will be satisfied if the dealer makes either (1) an adjustment for the change in the LIFO reserve that occurred during the calendar year in the month and year-to-date column of the December Income Statement or (2) an adjustment for the change in the LIFO reserve that occurred during the fiscal year in the month and year-to-date columns of the Income Statements provided for the last month of the fiscal year.

In other words, the IRS does not require the change in the LIFO reserve to be updated twice in the fiscal year-end... calendar year-end sequence. The IRS will permit a timing mismatch under these limited circumstances. For example, in a situation where a dealer has a September fiscal year end and December (calendar) reporting year to the manufacturer: If the dealer reflects the (reasonable estimate) change in the LIFO reserve in the September monthly and year-end statement, that dealer does not need to recompute and update a LIFO change for the three month period from October 1 through December 31 and reflect a 3 month change in the December statement. The dealer may simply carry through the annual LIFO reserve change effect reflected in the September fiscal year-end Income Statement without modification in the December Income Statement. Note that the December Income Statement must reflect the charge against income for the prior fiscal year-end LIFO reserve change and that prior September fiscal year-end LIFO reserve change should not be reversed so that the December statement of income does not reflect any LIFO reserve charge for the twelve month period ending December 31.

It is clear from Revenue Ruling 97-42 that if a LIFO reserve adjustment is posted directly to the retained earnings account and reflected on the dealership's balance sheet, that treatment of the LIFO reserve change will not satisfy the conformity requirements because the LIFO change must be

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reflected in the Income Statement. For years ending after October 14, 1997, it is thus imperative that the LIFO adjustment be properly reflected in the Income Statement prepared for the last month of the year.

Revenue Procedure 97-44 provided "relief" to auto dealers who failed the conformity requirements at any time during a six-year "look-back" period by allowing those dealers to keep their LIFO elections if they paid a 4.7% penalty tax/settlement amount and satisfied certain other special requirements.

One of the major traps that practitioners and auto dealers face lies in the deliberate (?) lack of synchronization between the language of Revenue Ruling 97-42 and Revenue Procedure 97-44. Revenue Ruling 97-42 applies to the issuance of statements to a "credit subsidiary." In contrast, Revenue Procedure 97-44 contains broader language in its scope (Section 3) referring to the providing "for credit purposes" ...an income statement in the format required by the franchisor.

See the analysis of Revenue Procedure 97-44 in the September, 1997 and December, 1997 issues of the *LIFO Lookout* for discussions of the settlement amount 4.7% penalty payment and many questions that are still in need of answers.

TWO SPECIAL INTERPRETATIONS CLARIFIED ONLY FOR AUTO DEALERS... BUT STILL WAITING TO TRAP ALL OTHER BUSINESSES USING LIFO

DIFFERENT YEAR-ENDS FOR BOOK AND TAX PURPOSES (FISCAL YEARS). LIFO conformity problems are multiplied where a taxpayer has a different year-end for reporting to a manufacturer, supplier, or creditor (calendar year-Dec. 31) than the fiscal year it uses to report for income tax return purposes and for other financial statement reporting purposes. For these fiscal year taxpayers... other than auto dealers and light, medium & heavy-duty truck dealers... in order to satisfy another strict conformity requirement, the full year Income Statements must reflect LIFO at the end of ***both*** twelve month annual reporting periods or years (Reg. Sec. 1.472-2(e)(2)).

This regulation states that the conformity rules also apply to (1) the determination of income, profit, or loss for a one-year period other than a taxable year, and to (2) credit statements or financial reports that cover a one-year period other than a taxable year, but only if the one-year period both begins and ends in a taxable year or years for which the taxpayer uses the LIFO method for Federal income tax purposes. For example,...in the case of a calendar year taxpayer, the requirements...apply to the taxpayer's determination of income for purposes of a credit statement that covers the period October 1, 1981, through September 30, 1982, if the taxpayer uses the LIFO method for Federal income tax purposes in taxable years 1981 and 1982.

PLACEMENT OF LIFO CHANGE IN THE YEAR-END STATEMENT OF INCOME. In fighting with auto dealers over conformity, in 1994 the IRS informally stated that on the last monthly (i.e., twelfth statement) the LIFO adjustment had to be run through the cost of goods sold section (via the beginning-of-the-year and the end-of-the-year inventory valuations), rather than through an other income/deductions account...or else dealers would not be complying with the LIFO year-end conformity requirement. The IRS subsequently retreated on this point in Revenue Ruling 97-42.

For LIFO taxpayers other than those dealers indicated above, where and how the year-end LIFO adjustment is placed on the Income Statement becomes critical. The IRS "only-through-cost-of-goods-sold" interpretation could disastrously result in countless LIFO election terminations in situations where the (projected) change in the LIFO reserve at year-end was placed in some other section of the income statement, such as in an *Other Income* or *Other Deductions* account. Fortunately, in Revenue Ruling 97-42, the IRS said (to certain dealers only) that the LIFO adjustment could be placed anywhere on the Income Statement.

Warning: All taxpayers...other than auto and truck dealers...using LIFO who issue monthly statements to manufacturers, suppliers or creditors are not protected by the special rules in Revenue Ruling 97-42 which modify the Regulations only for auto dealers. Unfortunately, the IRS "guidance" for franchised auto dealers in Revenue Ruling 97-42 and the "relief" for prior conformity violations under Revenue Procedure 97-44 does not apply to any other type of taxpayer issuing what might be "similar" statements under "similar circumstances" to other manufacturers, suppliers or credit sources. No one can be sure what these other businesses who have LIFO conformity violations should do in light of what we now have come to understand to be the IRS interpretations of the Regulations.

What should these businesses/taxpayers using LIFO be told about their LIFO elections? Are they subject to retroactive termination of their LIFO elections at any time, literally at will, by the IRS? What responsibility does the CPA practitioner have as preparer of the tax return now that the IRS position has been more clearly set forth in Revenue Ruling 97- →

42? We asked those questions over a year ago, and they are still relevant...and unanswered...today.

ONCE YEAR-END FINANCIAL STATEMENTS ARE RELEASED, IRS WILL NOT ALLOW LIFO CONFORMITY VIOLATIONS TO BE CORRECTED

The position of the IRS is that once a year-end Income Statement has been issued or released on a non-LIFO basis, that statement cannot be recalled and corrected to reflect LIFO by the re-issuance of statements satisfying the conformity requirement.

The *William Powell Company* decision (81-1 USTC ¶ 9449) illustrates one taxpayer's success (or was it luck?) in avoiding termination of its LIFO election when it came down to "all-or-nothing" on this issue. This case, decided in 1981, involved what would have been the termination of a LIFO election made in 1973 because at the end of the first LIFO year, the taxpayer had issued non-LIFO statements and then later made a LIFO election when it filed its tax return. In that case, the taxpayer recalled its non-LIFO statements and replaced/reissued LIFO statements to all the banks, creditors and shareholders before the income tax return for the first year was filed. The taxpayer probably would have lost its LIFO election if it had litigated the issue in the Tax Court, but the taxpayer chose to litigate this issue in the District Court in Ohio.

The taxpayer took the position that it had not "used" FIFO within the meaning of Section 472(c). Its position with respect to Section 472(c)(2) was that non-LIFO "worksheets" were not used for "credit purposes," since the credit had been extended prior to the delivery of the worksheets. The District Court accepted the taxpayer's arguments. With respect to Section 472(c)(1), *Powell* contended that *use* is determined at the time of the LIFO election and that this election need not be made until the taxpayer files its return. At the time Powell elected LIFO, it was no longer *using* the FIFO statements, inasmuch as they had been recalled prior to the election and LIFO statements had been reissued.

The District Court, while agreeing that *Powell*'s activities seemed to violate the plain language of Section 472(c)(2), was hesitant to strictly apply the "plain meaning rule" in this case. The Court said that it is the general rule that the words of a revenue statute are interpreted "in their ordinary, everyday senses" and a rigid application of this rule would not be consistent with the Commissioner's ongoing interpretation of the conformity requirement.

HOW SAVVY BUSINESSES "FOIL" THE LIFO CONFORMITY REQUIREMENTS

Many businesses using LIFO (especially publicly-held companies reporting to the SEC) would like to reduce taxes by reporting lower taxable income/earnings in tax returns while at the same time reporting higher earnings/more income to their shareholders and creditors for financial and market valuation purposes. This can be done easily, thanks to loopholes conveniently provided in the Regulations. But one has to know they are there.

The Regulations allow taxpayers to legitimately avoid the intent of the conformity requirement by allowing them to use LIFO methods and sub-elections in their financial statements that are different from those LIFO sub-elections and methods that are used in their income tax return computations. That's right: ***different LIFO methods may be used for book and for tax purposes.*** It is not necessary for the year-end financial statements to use the same exact LIFO sub-elections that are used in the tax return LIFO calculations. The Regulations simply require that both sets of financial statements (i.e., those included in the financial reports and those inherent in the income tax returns) must report using LIFO methods.

This allows some companies to use more pools ...in one case, several hundred more pools... for financial reporting purposes than for income tax purposes. Others use link-chain or link-chain, index (dollar value) methods to lower LIFO income for tax purposes, while they use double-extension (dollar value) LIFO methods for financial reports. Still others reconstruct long distant base prices for new items in their tax return LIFO calculations while they price new items at current cost in their financial statements. These companies enjoy the best of both worlds without violating the fine print of the "conformity" requirements.

On the same subject, we have always questioned the efficacy of the advice given to auto dealer groups that have gone public in connection with the supposed "benefits" from terminating their LIFO elections. It seems that many millions of dollars of LIFO deferral tax savings have been thrown away or sacrificed in exchange for the perceived benefit of instant higher earnings per share and hopefully higher market valuations. The significant–if not Draconian–penalties the market place has repeatedly exacted from dealers who miss earnings per share projections by even a penny suggest that sacrificing real millions of dollars "just for show" was costly, if not needlessly extravagant.

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INTERIM REPORTS

Interim reports covering a period of operations that is less than the whole of a taxable year may be issued on a non-LIFO basis without violating the LIFO conformity requirement for tax purposes. The Regulations are completely clear and unambiguous on this point. Although Generally Accepted Accounting Principles may present some difficulties in this regard, the Income Tax Regulations clearly do not.

INSILCO AND SECTION 472(g)

For another example of how seriously the Treasury/IRS polices the LIFO conformity requirement, consider the origin of Code Section 472(g). This subsection was added because the IRS lost the *Insilco* decision in the Tax Court. This case involved a subsidiary using LIFO who reported to its parent corporation using LIFO, but the parent corporation reported its consolidated earnings (which included those of the LIFO-user subsidiary) to its own shareholders on a non-LIFO basis.

In upholding *Insilco*, the Tax Court told the IRS that if it didn't like the result, it should get Congress to change the law. And that's exactly what the IRS/Treasury did! After its loss, the Treasury persuaded Congress to change the law (which it did by adding subsection (g) to Section 472) so that taxpayers in the future couldn't get around the conformity requirement the way *Insilco* had.

Section 472(g) provides that all members of the same group of financially related corporations shall be treated as one taxpayer for purposes of the conformity provisions of the Internal Revenue Code. For purposes of these provisions, affiliated groups are determined by using a lower 50% ownership threshold (than 80%). Furthermore, Section 472(g)(2)(B) provides that any other group of corporations which consolidate or combine for purposes of financial statements...shall be treated as one taxpayer for purposes of the conformity provisions.

The *William Powell Company* and the *Insilco* decisions are the only recorded cases where taxpayers contested the IRS termination of their LIFO elections in court. The bottom line is that the IRS takes all of these conformity requirements seriously. On many audits, instead of assuming that the taxpayer has complied, the IRS asks for proof that financial statements at year-end were not in violation of the LIFO conformity requirements.

As noted previously, the first year of the LIFO election is very often the easiest one for the IRS to find a conformity violation in because by the time the election is made in the tax return months after year-end, the financial statements for the year are long gone out the door.

In these situations, the IRS asserts that there is no statute of limitations preventing it from inquiring as to conformity eligibility ... and that it can go as far back as the initial LIFO election year. Furthermore, the burden of proof would fall on the taxpayer—not on the IRS—in these inquiries.

YEAR-END PROJECTIONS FOR PLANNING OR STATEMENT PURPOSES

When the pressure is great to issue the financial statements before detailed LIFO computations can be made, the conformity requirement should be satisfied by using a reasonable estimate of the change in the LIFO reserve in lieu of the actual amount. (Revenue Ruling 97-42 says so explicitly for auto dealers.) As mentioned previously, another alternative might be to use a different LIFO computation methodology for the financial statements than the one used for tax purposes.

Actually, projecting changes in LIFO reserves at year-end for conformity estimate purposes or tax planning estimate purposes usually is not too difficult or time-consuming. These LIFO reserve change projections involve only two **estimates**: (1) the ending inventory level, and (2) the overall inflation percentage for the year. All other factors necessary to compute projected year-end changes in the LIFO reserves for dollar-value LIFO pools are **known** at the time the projections are made because they are **"facts"** related to the beginning of the year:

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

PROJECTION MECHANICS. The computation of the projected change in a LIFO reserve is made by plugging in the estimates of (1) the year-end inventory level and (2) the current year's rate of inflation or inflation index ... and then "working backwards".

(1) ***Determine*** the cumulative index as of the end-of-the-year—this is the estimated current year inflation index times (i.e., multiplied by) the beginning-of-the-year cumulative index,

(2) ***Divide*** the end-of-the-year estimated (or, if known, actual) inventory dollars by the year-end cumulative index—to determine the end-of-the-year inventory stated or expressed in base dollars, →

(3) ***Compare*** the end-of-the-year inventory expressed in base dollars with the beginning-of-the-year inventory stated in base dollars to determine whether there is an increment or a decrement projected for the year,

(4) ***Value*** the projected increment under the method already selected for valuing increments on Form 970, item 6(a). Alternatively, if a decrement is projected for the year, carry back the decrement (expressed in base dollars) against prior years' increments (also expressed in base dollars) on a LIFO or reverse-chronological-order basis.

(5) ***Add*** all the resulting layers of inventory at their respective LIFO valuations to get the end-of-the-year inventory stated at its LIFO valuation,

(6) ***Subtract*** the ending inventory at its LIFO valuation from the ending inventory at its actual or estimated current non-LIFO cost to determine the projected LIFO reserve as of the end-of-the-year,

(7) Finally, ***Subtract*** the *actual* LIFO reserve as of the beginning-of-the-year from the *projected* LIFO reserve as of the end-of-the-year. The result determined in this final step is the estimate of the change in the LIFO reserve for the year.

WHY LIFO RESERVES GO UP OR DOWN. Taxpayers using LIFO are often surprised when they find out that even though their year-end inventory levels are projected to be lower than they were at the beginning-of-the-year, their LIFO reserves are expected to increase. And often these increases are very large.

In many instances, the net change in the LIFO reserve for a year is the result of complementing or offsetting price and inventory investment payback factors.

CHANGE FACTORS

Upward influences...causing increases
- Price increases ...inflation.
- Quantity increases, if a dual index methodology/approach is used.

Downward influences...causing decreases
- Price decreases ...deflation.
- Decreases in inventory investment levels—i.e., pay-backs of previously built-up LIFO reserves to the extent necessitated by the carryback of a current year quantity decrease (referred to as "decrements") against increases ("increments") built up in prior years. But see the qualification below where negative LIFO reserves are involved.

If year-end LIFO projections show that the dollar amount of the ending inventory (expressed in terms of base dollars) is projected to be lower than the beginning-of-the-year inventory amount (also expressed in base dollars), that means there is going to be a liquidation or decrement in a technical LIFO sense.

However, that liquidation or decrement may not necessarily cause, or result in, any pay-back of some or any of the LIFO reserve at the beginning-of-the-year. Whether or not there is a "pay-back" depends on how the prior year layers were built up over time and how they were valued for LIFO purposes.

CARRYBACK OF CURRENT YEAR DECREMENT. The LIFO liquidation or decrement for a given year is carried back against layers built up in prior years on a LIFO or reverse-chronological sequence. This means that the most recent/last layer built up is the first one eliminated, and then prior years' layers are eliminated in reverse-chronological order.

In other words, a decrement in 1998 is carried back first against any 1997 increment, then against 1996, then against 1995, then against 1994, etc. until the entire amount of the 1998 decrement (expressed in base dollars) has been fully accounted for. In some instances, a decrement may end up being carried all the way back to the original first LIFO year base layer.

As the article on page 14 discusses, projections often reflect other unanticipated results, especially where negative LIFO reserves are involved. This even qualifies the general indication above that decreases in inventory investment levels cause or result in decreases in LIFO reserves.

CONCLUSION

The IRS position is that there is no limit on its ability to go back to ***any*** prior year...no matter how far distant...to terminate a LIFO election because of a violation of any one of the financial statement conformity requirements.

The IRS supports its argument by reminding taxpayers that they have explicitly agreed to this result right on the Form 970 in Part 1 that they included in their tax returns when they elected LIFO!

The only exception to this is the IRS' recently self-imposed limitation for retail automobile and light, medium, and heavy-duty truck dealers. Consequently, one cannot be too cautious, careful or deferential to that potential power. *

STRANGE...*BUT EXPLAINABLE*...RESULTS FROM THE WACKY WORLD OF NEGATIVE LIFO RESERVES

In years when prices are going up, LIFO is comparatively simple to work with as the inflation factors produce results that are easier–and fun–to understand. Businesses using LIFO are, essentially, deducting a portion of their inventory costs (the portion attributable to inflation) before they actually sell the inventory goods. Not a bad deal! And, everybody knows a day of reckoning will come sometime when the LIFO reserve will have to be repaid.

Now alter the scenario somewhat. Substitute price deflation for the anticipated inflation, and businesses and accountants using LIFO often become confused by what appear to be strange results. Actually, LIFO is simply a double-edged sword: inflation helps and deflation hurts. Over the years, many callers have asked whether there can even be such a thing as a "negative" LIFO reserve...and, indeed there can. We have begun to see a lot more negative LIFO reserves lately. See the December 1997 *LIFO Lookout* for a set of projections and calculations based upon a realistic fact pattern anticipating a few consecutive years of price deflation.

Here's another relatively simple fact pattern that unavoidably draws one into the unusual world of negative LIFO reserves. Assume a taxpayer elected LIFO a few years ago, say in 1992, and experienced price inflation for five years through 1996. In 1997, prices went down, and the taxpayer experienced deflation. Throughout this six-year period, year-end inventory levels randomly jumped around as they typically do. By the end of 1997, the LIFO reserve went ***negative***.

At the end of 1997, with the LIFO reserve at negative $1,936, it would appear that the LIFO deferral game was pretty much over for the taxpayer. Right? Well, as one great (or at least oft-quoted) *philosopher* once uttered for posterity... "It ain't over...'till it's over!"

Let's take this fact pattern one step further through 1998, and introduce a significant drop in year-end inventory level, such that a sizable decrement is created. What this will illustrate is that the introduction of some deflation into a string of prior LIFO years will result in altering the composition of the LIFO reserve (i.e., or the amount which each LIFO layer contributes to the net LIFO reserve at the end of the year). In the year when the deflation is experienced, the contribution of prior year LIFO layers to the LIFO reserve for the pool is inherently recomputed. As a result of the mathematics, some of these layers actually have assigned to them negative amounts of "contribution to the LIFO reserve." Note: The LIFO valuations of each respective years' layers are not changed, rather what is changed is their respective "contributions to the LIFO reserve." It's almost like squeezing a long thin party balloon somewhere near the end: the shape of the balloon is altered, and it bulges in places, even though it does not get much longer.

All of this is illustrated in the accompanying schedules. For your convenience, all of the relevant facts are summarized in ***Schedule A*** at the bottom of the next page. All of the detailed computations of the LIFO reserves are shown in ***Schedule B*** for the years 1996 (the last inflationary year), 1997 (the year deflation occurred), and 1998 (the subsequent year when inventory levels dropped). Schedule B shows that the taxpayer actually restored most of the LIFO reserve it had at the end of 1996 as a result of the drop in its inventory at the end of 1998...so if you thought the LIFO game was pretty much over at the end of 1997, it really wasn't.

Schedule C shows the analysis of the LIFO layers, their LIFO valuations and the amounts each net LIFO layer contributed to the composition of the LIFO reserve at December 31, 1996 when the LIFO reserve was $15,379.

Schedule D shows the comparable analyses at December 31, 1997 when the LIFO reserve was a negative $1,936. In Schedule D, note how the composition of the LIFO reserve at the end of 1997 becomes negative for the LIFO layer increments built up in 1995 (-$4,769) and in 1996 (-$7,676). At the end of 1996, these layers had contributed only $145 to the LIFO reserve.

As the decrement at December 31, 1998 is carried back (through 1997), it erases the negative contributions to the LIFO reserve at year-end 1997 associated with the LIFO layers for the increments built up in 1995 and 1996. All of this is illustrating that the amounts of the increments, expressed in base dollars, are not changing...it is their "contribution to the size of the LIFO reserve" that is changing.

The bottom of Schedule D includes a proof or reconciliation of the net decrease in the LIFO reserve at December 31, 1997. There it is calculated as the amount of base dollars that remained intact throughout the year ($193,335) multiplied by the change in the cumulative inflation indexes at the beginning and

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at the end of the year (-.08956 = 1.25593 - 1.34549). That change in inflation indexes is negative, so it produces a net decrease in the LIFO reserve of $17,315 ($193,335 x -.08956).

Another way of arriving at the net decrease in the LIFO reserve for 1997 is by looking at it simply as the difference between the LIFO valuation of the 1997 increment ($46,041) minus the drop in year-end inventory levels expressed in actual dollars ($288,856 - 260,130). However, if at this point one simply stops and does not focus on the simultaneous recharacterizations of the contributions of the layers to the net LIFO reserve of -$1,936, all of the dynamics of what may happen in later years (if there is a decrement) become obscured.

At the end of the next year, 1998, with the inventory level significantly lower and a modest 1% inflation, the LIFO reserve goes up! A paradox? Not really. ***Schedule E*** shows the analysis of the LIFO layers, their LIFO valuations and the amounts each LIFO layer contributed to the composition of the LIFO reserve at December 31, 1998 when the LIFO reserve was "restored" all the way up to $10,875. The proof/reconciliation at the bottom of Schedule E shows that the change in the LIFO reserve of $12, 811 was actually the net result of two "factors." One factor was the 1% inflation for 1998 which contributed $713 of the increase. The other factor was the carry-back of the 1998 decrement of $173,234 (expressed in base dollars) through 1997 back against 1996 and 1995 "wiping-out" or "freeing-up" the negative contributions that the increments for these years were making to the LIFO reserve at the end of 1997.

In the actual case where this situation came to our attention, we were projecting LIFO reserve changes before the end of the year, and the taxpayer was having difficulty believing that the LIFO reserve was really going to go up. As a result of these detailed analyses, the taxpayer was advised ***not*** to try to increase the inventory level in this pool any further. The taxpayer was also advised that it would be unable to generate any significant additional deductions/increase in this pool's LIFO reserve by further dropping this pool's inventory level. This advice was based on the analysis of the composition of the LIFO layers which showed that there was only a comparatively small amount ($4,011) of base dollars left (once the year-end inventory dropped to the projected low level of $72,000). It simply wasn't worth the effort to try to refine the year-end inventory level any further.

Prior articles and examples in the *LIFO Lookout* have often explained (*ad nauseum*) why LIFO reserves may go up even though inventory levels may go down. The situation discussed here, although an aberration, really fits comfortably within the overall theoretical structure of LIFO. It is our intention that this discussion and these schedules will help you understand another of the many seeming paradoxes found in the wacky world of negative LIFO reserves. Furthermore, the schedule formats should enable you to set up your own prior calculations in comparable formats so you can work your way forward to mathematically-sound explanations you can readily pass along to your clients... or to the IRS.

Amended returns, anyone?

SCHEDULE A SUMMARY OF FACTS		***Inflation Index Amount***		***Ending Inventory***	***LIFO Reserve***		
		Annual	***Cumulative***	***Actual Cost***	***Current Year Increase***	***Cumulative Balance***	
12/31/91	(Base)	-	1.00000	$ 55,322	-	-	
12/31/92	(1st Year)	1.06010	1.06010	$ 38,112	$ 2,161	$ 2,161	
12/31/93	(2nd Year)	1.11119	1.17797	$ 135,966	4,237	6,398	
12/31/94	(3rd Year)	1.07369	1.26477	$ 66,715	4,578	10,976	
12/31/95	(4th Year)	1.06173	1.34284	$ 144,519	4,118	15,094	
12/31/96	(5th Year)	1.00197	1.34549	$ 260,130	285	15,379	Sch C
12/31/97	(6th Year)	0.93344	1.25593	$ 288,856	(17,315)	(1,936)	Sch D
12/31/98	(7th Year)	1.00000	1.26849	$ 72,000	12,811	10,875	Sch E

SCHEDULE B

CALCULATION OF ANNUAL LIFO INVENTORY & RESERVE CHANGES

	1996	1997	1998
A. BEGINNING OF YEAR INVENTORY AT BASE DATE COST	$ 107,622	$ 193,335	$ 229,994
B. END OF YEAR INVENTORY AT END OF YEAR (CURRENT) PRICES	$ 260,130	288,856	72,000
C. END OF YEAR INVENTORY AT BEGINNING OF YEAR (BASE) PRICES	NOT FULLY REPRICED	NOT FULLY REPRICED	NOT FULLY REPRICED
D. CURRENT YEAR PRICE INDEX: RATIO OF: END OF YEAR INVENTORY PRICED AT END OF YEAR PRICES (DIVIDED BY) ---------- END OF YEAR INVENTORY PRICED AT BEGINNING OF YEAR PRICES	1.00197	0.93344	1.01000
E. CUMULATIVE LINK-CHAIN INDEX: CURRENT YEAR PRICE INDEX (LINE D) MULTIPLIED BY (X) PRIOR YEAR'S CUMULATIVE INDEX (LINE E OF PRIOR YEAR)	1.34549	1.25593	1.26849
F. END OF YEAR INVENTORY AT BASE DATE COST (LINE B DIVIDED BY LINE E)	$ 193,335	229,994	56,760
G. CURRENT YEAR INVENTORY INCREASE (DECREASE) - EXPRESSED IN BASE DOLLARS			
1. END OF YEAR INVENTORY AT BASE DATE COST (LINE F)	$ 193,335	229,994	56,760
2. BEGINNING OF YEAR INVENTORY AT BASE DATE COST (LINE A)	$ (107,622)	(193,335)	(229,994)
3. CURRENT YEAR INCREMENT (G(1) EXCEEDS G(2)) OR DECREASE (IF G(2) EXCEEDS G(1))	$ 85,713	36,659	(173,234)
	x 1.34549	x 1.25593	-
4. LIFO VALUATION OF CURRENT YEAR INCREMENT (IF G(1) EXCEEDS G(2), MULTIPLY LINE G(3) BY LINE E)	$ 115,326	46,041	N/A

H. ANALYSIS OF YEAR-END INVENTORY LIFO "LAYERS"

	BASE DOLLARS		VALUATION FACTOR	1996	1997	1998
Base 12/31/91 Inventory	$ 35,951	X	1.00000	$ 35,951	35,951	35,951
Calendar Year 1993 Increment	16,798	X	1.17797	$ 19,788	19,788	19,788
Calendar Year 1995 Increment	54,873	X	1.34284	$ 73,686	73,686	5,386
Calendar Year 1996 Increment	85,713	X	1.34549	$ 115,326	115,326	-
Calendar Year 1997 Increment	36,659	X	1.25593	-	46,041	-
	$229,994					

	1996	1997	1998
ENDING INVENTORY AT LIFO VALUATION, PER ABOVE	$ 244,751	290,792	61,125
LESS: ENDING INVENTORY AT END OF YEAR PRICES (LINE B)	$ 260,130	288,856	72,000
LIFO RESERVE AT END OF CURRENT YEAR	$ 15,379	(1,936)	10,875
LIFO RESERVE AT END OF PREVIOUS YEAR	$ 15,094	15,379	(1,936)
INCREASE (DECREASE) IN LIFO RESERVE AT END OF CURRENT YEAR	$ 285	(17,315)	12,811

SCHEDULE C

COMPOSITION OF LIFO LAYERS & LIFO RESERVE

AS OF DECEMBER 31, 1996

LAYER ANALYSIS	Base Dollars		Valuation Factor	LIFO Valuation	Base Dollars (Composition of LIFO Reserve)		Index Factor		Amount By Layer
Base 12/31/91 Inventory	$ 35,951	x	1.00000	$ 35,951	$ 35,951	x	0.34549	(1.34549 - 1.00000) =	$ 12,421
Calendar Year 1993 Increment	16,798	x	1.17797	19,788	16,798	x	0.16752	(1.34549 - 1.17797) =	2,814
Calendar Year 1995 Increment	54,873	x	1.34284	73,686	54,873	x	0.00265	(1.34549 - 1.34284) =	145
Calendar Year 1996 Increment	85,713	x	1.34549	115,326	85,713	x	0.00000	(1.34549 - 1.34549) =	0
								Rounding	(1)
Total Base Dollars	$ 193,335				$ 193,335				
Ending Inventory at LIFO Valuation, Total Per Above				$ 244,751					
Less: Ending Inventory at End of Year Prices				$ 260,130					
LIFO Reserve at End of Current Year				$ 15,379					$ 15,379
Less: LIFO Reserve at End of Previous Year				$ 15,094					
Increase (Decrease) in LIFO Reserve at End of Current Year				$ 285 *					

PROOF / RECONCILIATION OF INCREASE IN LIFO RESERVE AS OF DECEMBER 31, 1996

Amount of Base Dollars that Remained Intact Through Year Ended December 31, 1996	$ 107,622
(x) Multiplied By Current Year Inflation (1.34549 - 1.34284)	x 0.00265
Increase (Decrease) in LIFO Reserve Due to Inflation (Deflation) Factor	$ 285*

SCHEDULE D

COMPOSITION OF LIFO LAYERS & LIFO RESERVE

AS OF DECEMBER 31, 1997

					COMPOSITION OF LIFO RESERVE					
LAYER ANALYSIS	***Base Dollars***		***Valuation Factor***	***LIFO Valuation***	***Base Dollars***		***Index Factor***			***Amount By Layer***
Base 12/31/91 Inventory	$ 35,951	x	1.00000	$ 35,951	$ 35,951	x	0.25593	(1.25593 - 1.00000)	=	$ 9,201
Calendar Year 1993 Increment	16,798	x	1.17797	19,788	16,798	x	0.07796	(1.25593 - 1.17797)	=	1,310
Calendar Year 1995 Increment	54,873	x	1.34284	73,686	54,873	x	(0.08691)	(1.25593 - 1.34284)	=	(4,769)
Calendar Year 1996 Increment	85,713	x	1.34549	115,326	85,713	x	(0.08956)	(1.25593 - 1.34549)	=	(7,676)
Calendar Year 1997 Increment	36,659	x	1.25593	46,041	36,659	x	0.00000	(1.25593 - 1.25593)	=	0
								Rounding		(2)
Total Base Dollars	$ 229,994				$ 229,994					
Ending Inventory at LIFO Valuation, Total Per Above				$ 290,792						
Less: Ending Inventory at End of Year Prices				$ 288,856						
LIFO Reserve at End of Current Year				$ (1,936)						$ (1,936)
Less: LIFO Reserve at End of Previous Year				$ 15,379						
Increase (Decrease) in LIFO Reserve at End of Current Year				$ (17,315) *						

PROOF / RECONCILIATION OF INCREASE (DECREASE) IN LIFO RESERVE AS OF DECEMBER 31, 1997

Amount of Base Dollars that Remained Intact Through Year Ended December 31, 1997	$ 193,335
(x) Multiplied By Current Year Inflation / Deflation (1.25593 - 1.34549)	x (0.08956)
Increase (Decrease) in LIFO Reserve Due to Inflation (Deflation) Factor	$ (17,315)*

SCHEDULE E

COMPOSITION OF LIFO LAYERS & LIFO RESERVE

AS OF DECEMBER 31, 1998

							COMPOSITION OF LIFO RESERVE				
LAYER ANALYSIS	Base Dollars		Valuation Factor	LIFO Valuation	Base Dollars		Index Factor				Amount By Layer
Base 12/31/91 Inventory	$ 35,951	x	1.00000	$ 35,951	$ 35,951	x	0.26849	(1.26849 - 1.00000) =			$ 9,652
Calendar Year 1993 Increment	16,798	x	1.17797	19,788	16,798	x	0.09052	(1.26849 - 1.17797) =			1,521
Calendar Year 1995 Increment	4,011	x	1.34284	5,386	4,011	x	(0.07435)	(1.26849 - 1.34284) =			(298)
Total Base Dollars	$ 56,760				$ 56,760						
Ending Inventory at LIFO Valuation, Total Per Above				$ 61,125							
Less: Ending Inventory at End of Year Prices				$ 72,000							
LIFO Reserve at End of Current Year				$ 10,875							$ 10,875
Less: LIFO Reserve at End of Previous Year				$ (1,936)							
Increase (Decrease) in LIFO Reserve at End of Current Year				$ 12,811 *							

PROOF / RECONCILIATION OF INCREASE IN LIFO RESERVE AS OF DECEMBER 31, 1998

Amount of Base Dollars that Remained Intact Through Year Ended December 31, 1998	$ 56,760
(x) Multiplied By Current Year Inflation (1.26849 - 1.25593)	x 0.01256
Increase (Decrease) in LIFO Reserve Due to Inflation (Deflation) Factor	$ 713

Less "Payback" Due to Carry Back of 1998 Decrement Against Prior Year Increment Layer(s)

	Base Dollars					
1995	$ 50,862	x	(0.08691)	(1.25593 - 1.34284) =	$(4,420)	
1996	85,713	x	(0.08956)	(1.25593 - 1.34549) =	(7,676)	
1997	36,659	x	(0)	(1.25593 - 1.25593) =	0	
Total 1998 Decrement	$ 173,234					
					$ (12,096)	12,096 *NOTE*
Rounding						2
Increase (Decrease) in LIFO Reserve						$ 12,811*

NOTE: The carry back is removing prior years' layers which have a negative effect on the LIFO Reserve (see the December 31, 1997 layer analysis in ***Schedule D***). Therefore, the carry back/ "payback" due to the 1998 decrement actually increases the LIFO Reserve for 1998 by $12,096.

MODEL / ITEM CATEGORY INFLATION SURVEY FOR QUICK, ONE-OF-EACH, LIFO ESTIMATES DEALER COST FOR THE YEAR ENDED 12/31/98

INFLATION ESTIMATE REPORT BY MAKE BASED ON INFORMATION AVAILABLE

	POOL #1 NEW AUTOMOBILES	POOL #2 NEW L-D TRUCKS
ACURA	(0.00)%	0.00%
AUDI	1.68%	0.00%
BMW	0.91%	0.00%
BUICK	1.96%	0.00%
CADILLAC	2.18%	0.00%
CHEVROLET	1.96%	1.18%
CHRYSLER	3.39%	1.13%
DODGE	2.67%	0.84%
EAGLE	0.00%	0.00%
FERRARI	0.58%	0.00%
FORD	0.69%	1.70%
GMC TRUCKS	0.00%	0.87%
HONDA	1.12%	0.45%
HYUNDAI	0.58%	0.00%
INFINITI	0.26%	0.98%
ISUZU	0.00%	(0.01)%
JAGUAR	0.86%	0.00%
JEEP	0.00%	2.00%
KIA	1.37%	0.00%
LAND ROVER/RANGE ROVER	0.00%	0.65%
LEXUS	2.53%	0.00%
LINCOLN	1.23%	0.82%
MAZDA	(3.88)%	3.28%
MERCEDES	1.01%	1.29%
MERCURY	(1.46)%	0.93%
MITSUBISHI	3.09%	0.03%
NISSAN	(1.67)%	(1.97)%
OLDSMOBILE	0.79%	1.55%
PLYMOUTH	1.99%	2.82%
PONTIAC	0.87%	2.28%
PORSCHE	0.00%	0.00%
ROLLS ROYCE	0.00%	0.00%
SAAB	0.00%	0.00%
SATURN	(0.00)%	0.00%
SUBARU	0.59%	1.67%
SUZUKI	1.29%	0.00%
TOYOTA	1.15%	1.21%
VOLKSWAGEN	0.71%	0.00%
VOLVO	(0.30)%	0.00%

Complete 1999 intro price information is not currently available for all models.
Accordingly, some inflation indexes exclude certain item(s) for which 1999 information is missing.
New items are repriced at current cost - i.e., no inflation.

Source: W. J. De Filipps' Make / Model Analysis Data Base Report, Preliminary Edition (Copyright 1999)

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
ACURA						
NEW AUTOS - POOL #1						
CL	3		66,098	66,098	0	0.00%
INTEGRA	10	188,173		188,170	(3)	(0.00)%
NSX	0				0	N/A%
NSX-T	0				0	N/A%
RL	2		74,929	74,929	0	0.00%
TL	2		51,733	51,733	0	0.00%
TOTAL NEW AUTOS	17	188,173	192,760	380,930	(3)	(0.00)%
NEW LIGHT-DUTY TRUCKS - POOL #2						
SLX SPORT UTILITY	0				0	N/A%
TOTAL NEW L-D TRUCKS	0				0	N/A%
TOTAL ACURA	17	188,173	192,760	380,930	(3)	(0.00)%
AUDI						
NEW AUTOS - POOL #1						
A4 SERIES	12	243,597	47,949	298,146	6,600	2.26%
A6 SERIES	3	59,394	32,391	93,435	1,650	1.80%
A8 SERIES	2	106,978		106,978	0	0.00%
CABRIOLET SERIES	0				0	N/A%
TOTAL NEW AUTOS	17	409,969	80,340		8,250	1.68%
TOTAL AUDI	17	409,969	80,340	498,559	8,250	1.68%
BMW						
NEW AUTOS - POOL #1						
3 SERIES	16	314,610	146,585	466,490	5,295	1.15%
5 SERIES	6	159,640	83,140	244,525	1,745	0.72%
7 SERIES	3	192,270		194,390	2,120	1.10%
Z3	5	31,395	132,580	164,415	440	0.27%
TOTAL NEW AUTOS	30	697,915	362,305	1,069,820	9,600	0.91%
TOTAL BMW	30	697,915	362,305	1,069,820	9,600	0.91%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
BUICK						
NEW AUTOS - POOL #1						
CENTURY	2	35,334		35,988	654	1.85%
LESABRE	2	44,153		44,574	421	0.95%
PARK AVENUE	2	59,934		60,776	842	1.40%
REGAL	2	40,841		42,172	1,331	3.26%
RIVIERA	1	29,413		30,269	856	2.91%
TOTAL NEW AUTOS	9	209,675		213,779	4,104	1.96%
TOTAL BUICK	9	209,675		213,779	4,104	1.96%
CADILLAC						
NEW AUTOS - POOL #1						
CATERA	1	31,244		31,772	528	1.69%
DE VILLE	3	111,441		114,464	3,023	2.71%
ELDORADO	2	74,599		76,008	1,409	1.89%
SEVILLE	2	82,193		83,763	1,570	1.91%
TOTAL NEW AUTOS	8	299,477		306,007	6,530	2.18%
NEW LIGHT-DUTY TRUCKS - POOL #2						
ESCALADE	1		42,131	42,131	0	0.00%
TOTAL NEW L-D TRUCKS	1		42,131	42,131	0	0.00%
TOTAL CADILLAC	9	299,477	42,131	348,138	6,530	1.91%
CHEVROLET						
NEW AUTOS - POOL #1						
CAMARO	4	79,303		80,035	732	0.92%
CAVALIER	6	80,091		81,275	1,184	1.48%
CORVETTE	3	71,680	33,422	106,563	1,461	1.39%
LUMINA	3	51,455		53,500	2,045	3.97%
MALIBU	2	31,238		31,897	659	2.11%
METRO	3	26,336		27,290	954	3.62%
MONTE CARLO	2	34,852		35,727	875	2.51%
PRIZM	2	24,939		25,541	602	2.41%
TOTAL NEW AUTOS	25	399,894	33,422	441,828	8,512	1.96%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
CHEVROLET (cont.)						
NEW LIGHT-DUTY TRUCKS - POOL #2						
ASTRO VAN	8	133,088	22,832	159,140	3,220	2.07%
BLAZER	10	43,769	198,790	242,990	431	0.18%
C-K CHASSIS CAB	13	241,566		246,207	4,641	1.92%
C-K PICKUP	19	282,158	86,731	379,999	11,110	3.01%
CHEVY VAN	10	194,416		197,946	3,530	1.82%
COMMERCIAL CUTAWAY VAN	8	143,378		146,008	2,630	1.83%
EXPRESS VAN	5	110,403		111,362	959	0.87%
F.C. CHASSIS	0				0	N/A%
S10 PICKUP	14	204,057		205,970	1,913	0.94%
SILVERADO	38		801,997	801,997	0	0.00%
SUBURBAN	0				0	N/A%
TAHOE	2	56,739		57,289	550	0.97%
TRACKER	4		55,710	55,710	0	0.00%
VENTURE	5	96,259		98,689	2,430	2.52%
TOTAL NEW L-D TRUCKS	136	1,505,833	1,166,060	2,703,307	31,414	1.18%
TOTAL CHEVROLET	161	1,905,727	1,199,482	3,145,135	39,926	1.29%
CHRYSLER						
NEW AUTOS - POOL #1						
300M	1		26,442	26,442	0	0.00%
CIRRUS	1	17,794		17,799	5	0.03%
CONCORDE	0				0	N/A%
LHS	1		26,432	26,432	0	0.00%
SEBRING	4	76,256		81,236	4,980	6.53%
TOTAL NEW AUTOS	7	94,050	52,874	151,909	4,985	3.39%
NEW LIGHT-DUTY TRUCKS - POOL #2						
TOWN & COUNTRY	7	135,494	63,016	200,749	2,239	1.13%
TOTAL NEW L-D TRUCKS	7	135,494	63,016	200,749	2,239	1.13%
TOTAL CHRYSLER	14	229,544	115,890	352,658	7,224	2.09%
DODGE						
NEW AUTOS - POOL #1						
AVENGER	2	29,594		30,293	699	2.36%
INTREPID	2	38,574		38,912	338	0.88%
NEON	4	41,640		42,894	1,254	3.01%
STRATUS	2	29,790		31,229	1,439	4.83%
VIPER	0				0	N/A%
TOTAL NEW AUTOS	10	139,598			3,730	2.67%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
DODGE (cont.)						
NEW LIGHT-DUTY TRUCKS - POOL #2						
CARAVAN	11	168,937	66,256	239,207	4,014	1.71%
DAKOTA	5	71,915		72,067	152	0.21%
DURANGO	2	23,318	22,833	47,451	1,300	2.82%
RAM CAB & CHASSIS	6	109,895		111,366	1,471	1.34%
RAM PICKUP	28	521,774		523,046	1,272	0.24%
RAM VANS	7	122,374		123,445	1,071	0.88%
RAM WAGON	3	60,816		61,381	565	0.93%
TOTAL NEW L-D TRUCKS	62	1,079,029	89,089	1,177,963	9,845	0.84%
TOTAL DODGE	72	1,218,627	89,089	1,321,291	13,575	1.04%
EAGLE						
NEW AUTOS - POOL #1						
TALON	0				0	N/A%
VISION	0				0	N/A%
TOTAL NEW AUTOS	0				0	N/A%
TOTAL EAGLE	0				0	0.00%
FERRARI						
NEW AUTOS - POOL #1						
456 GT	1	195,140		195,140	0	0.00%
550 MARANELLO	1	172,304		175,824	3,520	2.04%
F355	2	115,293	122,773	238,066	0	0.00%
TOTAL NEW AUTOS	4	482,737	122,773	609,030	3,520	0.58%
TOTAL FERRARI	4	482,737	122,773	609,030	3,520	0.58%
FORD						
NEW AUTOS - POOL #1						
CONTOUR	3	48,248		48,464	216	0.45%
CROWN VICTORIA	3	61,582		63,481	1,899	3.08%
ESCORT	5	58,289		59,217	928	1.59%
MUSTANG	6	122,321		125,044	2,723	2.23%
TAURUS	4	80,069		76,872	(3,197)	(3.99)%
TOTAL NEW AUTOS	21	370,509		373,078	2,569	0.69%

DECEMBER 29, 1998

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
FORD (cont.)						
NEW LIGHT-DUTY TRUCKS - POOL #2						
CUTAWAY VAN	15	257,271		260,905	3,634	1.41%
ECONOLINE VAN/WAGON	11	221,771		224,500	2,729	1.23%
EXPEDITION	4	109,332		116,879	7,547	6.90%
EXPLORER	13	319,225		335,999	16,774	5.25%
F150 PICKUP	44	810,974		843,918	32,944	4.06%
F250 PICKUP	16	309,014		322,603	13,589	4.40%
F250 SUPER DUTY PICKUP	30		634,977	634,977	0	0.00%
F350 SUPER DUTY PICKUP	54		1,216,724	1,216,724	0	0.00%
RANGER	12	168,201		171,837	3,636	2.16%
SUPER DUTY CAB/CHASSIS	28		590,335	590,335	0	0.00%
WINDSTAR	5		108,850	108,850	0	0.00%
TOTAL NEW L-D TRUCKS	232	2,195,788	2,550,886	4,827,527	80,853	1.70%
TOTAL FORD	253	2,566,297	2,550,886	5,200,605	83,422	1.63%
GMC TRUCKS						
NEW LIGHT-DUTY TRUCKS - POOL #2						
C-K CAB & CHASSIS	13	241,567		245,962	4,395	1.82%
C-K SIERRA PICKUP	15	214,588	88,272	306,015	3,155	1.04%
CHASSIS LO-PRO	3	43,512		45,026	1,514	3.48%
JIMMY	11	86,230	171,631	258,590	729	0.28%
S15 SONOMA	14	206,344		207,752	1,408	0.68%
SAFARI	6	113,105		115,900	2,795	2.47%
SAVANA	18	359,606		364,633	5,027	1.40%
SIERRA CLASSIC	2		42,650	42,650	0	0.00%
SIERRA PICKUP	30		618,844	618,844	0	0.00%
SUBURBAN	0				0	N/A%
YUKON	0				0	N/A%
TOTAL NEW L-D TRUCKS	112	1,264,952	921,397		19,023	0.87%
TOTAL GMC TRUCKS	112	1,264,952	921,397	2,205,372	19,023	0.87%
HONDA						
NEW AUTOS - POOL #1						
ACCORD	26	423,926	51,752	480,751	5,073	1.07%
CIVIC	18	215,156	13,219	231,097	2,722	1.19%
PRELUDE	3	65,106		65,933	827	1.27%
TOTAL NEW AUTOS	47	704,188	64,971	777,781	8,622	1.12%

DECEMBER 29, 1998

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
HONDA (cont.)						
NEW LIGHT-DUTY TRUCKS - POOL #2						
CR-V	5	17,513	71,141	88,881	227	0.26%
ODYSSEY	3		64,042	64,042	0	0.00%
PASSPORT	10	234,480		235,998	1,518	0.65%
TOTAL NEW L-D TRUCKS	18	251,993	135,183	388,921	1,745	0.45%
TOTAL HONDA	65	956,181	200,154	1,166,702	10,367	0.90%
HYUNDAI						
NEW AUTOS - POOL #1						
ACCENT	5	47,436		47,154	(282)	(0.59)%
ELANTRA	7	81,024		82,188	1,164	1.44%
SONATA	4		59,640	59,640	0	0.00%
TIBURON	4	52,498		53,008	510	0.97%
TOTAL NEW AUTOS	20	180,958	59,640	241,990	1,392	0.58%
TOTAL HYUNDAI	20	180,958	59,640	241,990	1,392	0.58%
INFINITI						
NEW AUTOS - POOL #1						
G20	4		79,930	79,930	0	0.00%
I30	3	81,914		82,184	270	0.33%
Q45	4	86,915	89,311	176,837	611	0.35%
TOTAL NEW AUTOS	11	168,829	169,241	338,951	881	0.26%
NEW LIGHT-DUTY TRUCKS - POOL #2						
QX4	1	31,666		31,976	310	0.98%
TOTAL NEW L-D TRUCKS	1	31,666		31,976	310	0.98%
TOTAL INFINITI	12	200,495	169,241	370,927	1,191	0.32%
ISUZU						
NEW LIGHT-DUTY TRUCKS - POOL #2						
AMIGO	3		46,389	46,389	0	0.00%
HOMBRE	0				0	N/A%
OASIS	0				0	N/A%
RODEO	11	164,087	70,518	233,232	(1,373)	(0.59)%
TROOPER	2	46,313		47,667	1,354	2.92%
TOTAL NEW L-D TRUCKS	16	210,400	116,907	327,288	(19)	(0.01)%
TOTAL ISUZU	16	210,400	116,907	327,288	(19)	(0.01)%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
JAGUAR						
NEW AUTOS - POOL #1						
XJ8	4	214,645		216,826	2,181	1.02%
XK8	2	118,576		119,248	672	0.57%
TOTAL NEW AUTOS	6	333,221		336,074	2,853	0.86%
TOTAL JAGUAR	6	333,221		336,074	2,853	0.86%
JEEP						
NEW LIGHT-DUTY TRUCKS - POOL #2						
CHEROKEE	12	209,435		215,990	6,555	3.13%
GRAND CHEROKEE	4		107,685	107,685	0	0.00%
WRANGLER	3	46,969		47,692	723	1.54%
TOTAL NEW L-D TRUCKS	19	256,404	107,685	371,367	7,278	2.00%
TOTAL JEEP	19	256,404	107,685	371,367	7,278	2.00%
KIA						
NEW AUTOS - POOL #1						
SEPHIA	6	62,776		63,636	860	1.37%
TOTAL NEW AUTOS	6	62,776		63,636	860	1.37%
NEW LIGHT-DUTY TRUCKS - POOL #2						
SPORTAGE	10	124,422	25,782	150,204	0	0.00%
TOTAL NEW L-D TRUCKS	10	124,422	25,782	150,204	0	0.00%
TOTAL KIA	16	187,198	25,782	213,840	860	0.40%
LAND ROVER/RANGE ROVER						
NEW LIGHT-DUTY TRUCKS - POOL #2						
LAND ROVER DISCOVERY	1	30,705		31,150	445	1.45%
RANGE ROVER	4	105,751	109,740	216,648	1,157	0.54%
TOTAL NEW L-D TRUCKS	5	136,456	109,740	247,798	1,602	0.65%
TOTAL LAND ROVER/RANGE ROVER	5	136,456	109,740	247,798	1,602	0.65%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
LEXUS						
NEW AUTOS - POOL #1						
ES 300 SEDAN	1	26,745		26,844	99	0.37%
GS 300 SEDAN	1	31,964		32,403	439	1.37%
GS 400 SEDAN	1	38,461		39,066	605	1.57%
LS 400 SEDAN	1	44,880		45,478	598	1.33%
SC 300 COUPE	1	35,526		37,267	1,741	4.90%
SC 400 COUPE	1	45,243		47,393	2,150	4.75%
TOTAL NEW AUTOS	6	222,819		228,451	5,632	2.53%
NEW LIGHT-DUTY TRUCKS - POOL #2						
LX 470	2		95,169	95,169	0	0.00%
RX 300	2		56,468	56,468	0	0.00%
TOTAL NEW L-D TRUCKS	4		151,637	151,637	0	0.00%
TOTAL LEXUS	10	222,819	151,637	380,088	5,632	1.50%
LINCOLN						
NEW AUTOS - POOL #1						
CONTINENTAL	1	34,524		34,955	431	1.25%
TOWN CAR	3	109,312		110,650	1,338	1.22%
TOTAL NEW AUTOS	4	143,836		145,605	1,769	1.23%
NEW LIGHT-DUTY TRUCKS - POOL #2						
NAVIGATOR	2	71,514		72,099	585	0.82%
TOTAL NEW L-D TRUCKS	2	71,514		72,099	585	0.82%
TOTAL LINCOLN	6	215,350		217,704	2,354	1.09%
MAZDA						
NEW AUTOS - POOL #1						
626	4	55,461	17,654	70,924	(2,191)	(3.00)%
MILLENIA	2	57,114		52,103	(5,011)	(8.77)%
MX-5 MIATA	1		18,009	18,009	0	0.00%
MX-6	0				0	N/A%
PROTEGE	3		37,168	37,168	0	0.00%
TOTAL NEW AUTOS	10	112,575	72,831	178,204	(7,202)	(3.88)%
NEW LIGHT-DUTY TRUCKS - POOL #2						
B SERIES PICKUP	16	141,821	101,035	250,818	7,962	3.28%
MPV	0				0	N/A%
TOTAL NEW L-D TRUCKS	16	141,821	101,035		7,962	3.28%
TOTAL MAZDA	26	254,396	173,866	429,022	760	0.18%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
MERCEDES						
NEW AUTOS - POOL #1						
C CLASS	3	56,960	45,945	103,725	820	0.80%
CL CLASS	2	197,330		199,070	1,740	0.88%
CLK	3	34,505	82,400	117,555	650	0.56%
E CLASS	6	244,260		247,890	3,630	1.49%
S CLASS	5	368,875		371,875	3,000	0.81%
SL CLASS	2	177,930		180,630	2,700	1.52%
SLK	1		34,635	34,635	0	0.00%
TOTAL NEW AUTOS	22	1,079,860	162,980	1,255,380	12,540	1.01%
NEW LIGHT-DUTY TRUCKS - POOL #2						
M CLASS	2	29,375	37,895	68,140	870	1.29%
TOTAL NEW L-D TRUCKS	2	29,375	37,895	68,140	870	1.29%
TOTAL MERCEDES	24	1,109,235	200,875	1,323,520	13,410	1.02%
MERCURY						
NEW AUTOS - POOL #1						
COUGAR	2		30,053	30,053	0	0.00%
GRAND MARQUIS	2	43,826		43,221	(605)	(1.38)%
INTRIGUE	1		22,061	22,061	0	0.00%
MYSTIQUE	2	30,943		31,150	207	0.67%
SABLE	3	56,761		53,475	(3,286)	(5.79)%
TRACER	3	35,785		36,276	491	1.37%
TOTAL NEW AUTOS	13	167,315	52,114	216,236	(3,193)	(1.46)%
NEW LIGHT-DUTY TRUCKS - POOL #2						
MOUNTAINEER	3	75,874		77,181	1,307	1.72%
VILLAGER	3		65,326	65,326	0	0.00%
TOTAL NEW L-D TRUCKS	6	75,874	65,326	142,507	1,307	0.93%
TOTAL MERCURY	19	243,189	117,440	358,743	(1,886)	(0.52)%
MITSUBISHI						
NEW AUTOS - POOL #1						
3000GT	5	144,306		144,422	116	0.08%
DIAMANTE	1	23,776		24,205	429	1.80%
ECLIPSE	12	227,455		241,478	14,023	6.17%
GALANT	5		92,898	92,898	0	0.00%
MIRAGE	8	93,275		96,700	3,425	3.67%
TOTAL NEW AUTOS	31	488,812	92,898	599,703	17,993	3.09%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
MITSUBISHI (cont.)						
NEW LIGHT-DUTY TRUCKS - POOL #2						
MONTERO	1	28,663		27,916	(747)	(2.61)%
MONTERO SPORT	8	16,219	177,106	194,129	804	0.42%
TOTAL NEW L-D TRUCKS	9	44,882	177,106	222,045	57	0.03%
TOTAL MITSUBISHI	40	533,694	270,004	821,748	18,050	2.25%
NISSAN						
NEW AUTOS - POOL #1						
ALTIMA	7	113,202		114,388	1,186	1.05%
MAXIMA	5	106,949		107,982	1,033	0.97%
SENTRA	6	85,039		77,730	(7,309)	(8.59)%
TOTAL NEW AUTOS	18	305,190		300,100	(5,090)	(1.67)%
NEW LIGHT-DUTY TRUCKS - POOL #2						
FRONTIER PICKUP	12	120,001	72,269	180,243	(12,027)	(6.26)%
PATHFINDER	8	202,144		205,100	2,956	1.46%
QUEST	3		65,258	65,258	0	0.00%
TOTAL NEW L-D TRUCKS	23	322,145	137,527	450,601	(9,071)	(1.97)%
TOTAL NISSAN	41	627,335	137,527	750,701	(14,161)	(1.85)%
OLDSMOBILE						
NEW AUTOS - POOL #1						
ALERO	6		101,554	101,554	0	0.00%
AURORA	1	32,544		32,787	243	0.75%
CUTLASS	2	34,061		34,614	553	1.62%
EIGHTY EIGHT	3	42,995	24,478	68,029	556	0.82%
INTRIGUE	3	39,163	22,825	62,856	868	1.40%
LSS	1	25,707		26,049	342	1.33%
REGENCY	0				0	N/A%
TOTAL NEW AUTOS	16	174,470	148,857		2,562	0.79%
NEW LIGHT-DUTY TRUCKS - POOL #2						
BRAVADA	1	27,734		28,094	360	1.30%
SILHOUETTE	4	68,381	28,055	97,998	1,562	1.62%
TOTAL NEW L-D TRUCKS	5	96,115	28,055	126,092	1,922	1.55%
TOTAL OLDSMOBILE	21	270,585	176,912	451,981	4,484	1.00%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
PLYMOUTH						
NEW AUTOS - POOL #1						
BREEZE	1	13,476		13,867	391	2.90%
NEON	4	41,640		43,074	1,434	3.44%
PROWLER	1		36,773	36,773	0	0.00%
TOTAL NEW AUTOS	6	55,116	36,773	93,714	1,825	1.99%
NEW LIGHT-DUTY TRUCKS - POOL #2						
GRAND VOYAGER	3	58,612		60,294	1,682	2.87%
VOYAGER	3	54,355		55,854	1,499	2.76%
TOTAL NEW L-D TRUCKS	6	112,967		116,148	3,181	2.82%
TOTAL PLYMOUTH	12	168,083	36,773	209,862	5,006	2.44%
PONTIAC						
NEW AUTOS - POOL #1						
BONNEVILLE	2	47,379		48,275	896	1.89%
FIREBIRD	5	110,600		112,027	1,427	1.29%
GRAND AM	10		170,099	170,099	0	0.00%
GRAND PRIX	4	36,105	43,618	80,731	1,008	1.26%
SUNFIRE	4	37,449	19,559	57,701	693	1.22%
TOTAL NEW AUTOS	25	231,533	233,276	468,833	4,024	0.87%
NEW LIGHT-DUTY TRUCKS - POOL #2						
MONTANA	3	60,011		61,382	1,371	2.28%
TOTAL NEW L-D TRUCKS	3	60,011		61,382	1,371	2.28%
TOTAL PONTIAC	28	291,544	233,276	530,215	5,395	1.03%
PORSCHE						
NEW AUTOS - POOL #1						
911 CARRERA SERIES	4		247,374	247,374	0	0.00%
BOXTER	2	74,447		74,447	0	0.00%
TOTAL NEW AUTOS	6	74,447	247,374	321,821	0	0.00%
TOTAL PORSCHE	6	74,447	247,374	321,821	0	0.00%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
ROLLS ROYCE						
NEW AUTOS - POOL #1						
BENTLEY	0				0	N/A%
ROLLS-ROYCE	0				0	N/A%
TOTAL NEW AUTOS	0				0	N/A%
TOTAL ROLLS ROYCE	0				0	0.00%
SAAB						
NEW AUTOS - POOL #1						
9.3 SERIES	9		295,282	295,282	0	0.00%
9.5 SERIES	4		125,132	125,132	0	0.00%
TOTAL NEW AUTOS	13		420,414	420,414	0	0.00%
TOTAL SAAB	13		420,414	420,414	0	0.00%
SATURN						
NEW AUTOS - POOL #1						
SC1	2	22,664		22,402	(262)	(1.16)%
SC2	2	26,596		26,856	260	.98%
SL	1	9,218		9,218	0	0.00%
SL1	2	20,402		20,402	0	0.00%
SL2	2	22,942		22,942	0	0.00%
SW1	2	22,142		22,142	0	0.00%
SW2	2	25,552		25,552	0	0.00%
TOTAL NEW AUTOS	13	149,516		149,514	(2)	(0)%
TOTAL SATURN	13	149,516		149,514	(2)	(0)%
SUBARU						
NEW AUTOS - POOL #1						
IMPREZA	10	158,423		160,169	1,746	1.10%
LEGACY	32	288,146	365,790	656,946	3,010	0.46%
TOTAL NEW AUTOS	42	446,569	365,790	817,115	4,756	0.59%
NEW LIGHT-DUTY TRUCKS - POOL #2						
FORESTER	5	94,794		96,379	1,585	1.67%
TOTAL NEW L-D TRUCKS	5	94,794		96,379	1,585	1.67%
TOTAL SUBARU	47	541,363	365,790	913,494	6,341	0.70%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
SUZUKI						
NEW AUTOS - POOL #1						
ESTEEM	10	130,045		131,945	1,900	1.46%
SWIFT	2	17,529		17,529	0	0.00%
TOTAL NEW AUTOS	12	147,574		149,474	1,900	1.29%
NEW LIGHT-DUTY TRUCKS - POOL #2						
GRAND VITARA	8		141,952	141,952	0	0.00%
TOTAL NEW L-D TRUCKS	8		141,952	141,952	0	0.00%
TOTAL SUZUKI	20	147,574	141,952	291,426	1,900	0.66%
TOYOTA						
NEW AUTOS - POOL #1						
AVALON	4	91,907		93,203	1,296	1.41%
CAMRY	12	109,743	113,268	223,161	150	0.07%
CELICA	4	77,780		83,334	5,554	7.14%
COROLLA	6	74,951		73,349	(1,602)	(2.14)%
TOTAL NEW AUTOS	26	354,381	113,268	473,047	5,398	1.15%
NEW LIGHT-DUTY TRUCKS - POOL #2						
4RUNNER	9	204,642		208,492	3,850	1.88%
LAND CRUISER	1		39,973	39,973	0	0.00%
RAV4	11	167,277		168,895	1,618	0.97%
SIENNA	6	83,800	37,932	123,153	1,421	1.17%
TACOMA PICKUP	17	228,001	46,206	277,123	2,916	1.06%
TOTAL NEW L-D TRUCKS	44	683,720	124,111	817,636	9,805	1.21%
TOTAL TOYOTA	70	1,038,101	237,379	1,290,683	15,203	1.19%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/98
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	TOTAL ITEMS	12/01/97 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
VOLKSWAGEN						
NEW AUTOS - POOL #1						
BEETLE	6	61,438	31,926	96,606	3,242	3.47%
CABRIO	4	74,770		74,770	0	0.00%
GOLF	10		147,792	147,792	0	0.00%
JETTA	12		187,706	187,706	0	0.00%
PASSAT	10	81,188	139,685	222,767	1,894	0.86%
TOTAL NEW AUTOS	42	217,396	507,109	729,641	5,136	0.71%
NEW LIGHT-DUTY TRUCKS - POOL #2						
EUROVAN	2		55,038	55,038	0	0.00%
TOTAL NEW L-D TRUCKS	2		55,038	55,038	0	0.00%
TOTAL VOLKSWAGEN	44	217,396	562,147	784,679	5,136	0.66%
VOLVO						
NEW AUTOS - POOL #1						
70 SERIES	17	466,410	72,844	537,438	(1,816)	(0.34)%
80 SERIES	2		69,867	69,867	0	0.00%
TOTAL NEW AUTOS	19	466,410	142,711	607,305	(1,816)	(0.30)%
TOTAL VOLVO	19	466,410	142,711	607,305	(1,816)	(0.30)%

Notes:

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