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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. INADEQUATE BOOKS AND RECORDS CONTINUE TO BLIND-SIDE

LIFO TAXPAYERS. In a recently issued Field Service Advice, the IRS held that a jewelry retailer's LIFO election could be terminated if the jeweler failed to maintain adequate books and records. According to FSA 199920002, this could happen if the taxpayer failed to maintain sufficient accounting data to support its LIFO calculations.

The Field Service Division said that whether records are deemed to be adequate has to be determined on a case-by-case basis. Furthermore, it believed that adequate records pertaining to LIFO calculations requires that supporting accounting data, invoices and records should be kept as appropriate.

Failure to maintain all invoices since the first year of the LIFO election may not, by itself, be sufficient to terminate an election. However, failure to maintain original inventory records sufficient to enable the IRS to verify LIFO calculations could be fatal to the LIFO election.

A few Letter Rulings/TAMs have touched on the "adequate books and records" requirements. More recently, *Mountain State Ford Truck Sales* has cast that dealer as the unenviable "everyman" who failed to meet the requirement.

For a discussion of the jewelry retailer's LIFO controversies, see page 3, and if you are interested in the specifics of the jeweler's detailed computations, see page 8. For more on the "adequate books and records" issue, see page 10.

#2. ANOTHER TAXPAYER CAUGHT CHANGING LIFO METHOD WITHOUT OBTAINING IRS PERMISSION FIRST.

In FSA 1999-1215, the LIFO issue under the microscope was whether the taxpayer should have first requested permission before changing the way it estimated certain inventories. The taxpayer had

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said it didn't need permission because there was a change in *the underlying facts*... and, for those changes, advance IRS approval is not required. "Not so," said the IRS Field Service Division. Form 3115 should have been filed first.

This defense was also argued by the jewelry retailer in #1 above...but, also with no success.

Field Service Advice 1999-1215 typifies the dispute between the IRS and LIFO taxpayers who want to change what they are doing without first getting permission to do so from the IRS.

#3. MOUNTAIN STATE FORD TRUCK SALES & REPLACEMENT COST FOR VALUING PARTS.

The National Automobile Dealers Association recently reported that it has proposed several alternatives to the IRS for settling the growing quandary the IRS and the entire industry was placed in by the Tax Court's opinion in this case.

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Automotive Executive (August 1999) reported that NADA is starting to look more like Don Quixote. It really didn't say that in those words.

NADA has proposed that dealers be given one of four choices:

**PROPOSED
ALTERNATIVES**

1. Value the parts inventory based on actual cost of most recent purchases,
2. Adjust year-end value based on the number of inventory turns for the year,
3. Use some mid-year price benchmark (like automakers' mid-year prices) as the basis for pricing current parts inventories, or
4. Price the year-end inventories simply against prices at the beginning-of-the-year.

It seems that all four of NADA's proposals would be illegal if Judge Chiechi is correct and her clear admonition stands that the requirements of the Code are to be followed regardless of whomever they might impose administrative burdens upon.

The Judge, in referring to the IRS Commissioner, said "Respondent has no discretion to deviate from the requirements of the Code and the Regulations even if such requirements were to impose administrative burdens on Mountain State Ford."

Well, as we suggested in our last issue, if that's really "**the law**," then the IRS/Commissioner clearly would be disobeying the Judge if it were to accept any one of these four proposals by NADA. This has to work both ways, doesn't it?

NADA and everybody else has asked why the IRS got so excited over this in the first place, since it's a "no harm, no foul" situation. In justifying its decision to go to Court over this issue, the IRS lamely insists that it's simply seeking the "right answer"...even though most dealers using replacement cost have overpaid their taxes.

Somebody needs to ask the Judge to reconsider her decision. Isn't it time to go to Congress or to bring in Commissioner Rossotti? Telling an entire industry to change its computer programs on the basis of a case having a very poor fact pattern is really absurd.

#4. THE LACROSSE GAME INVOLVING BARGAIN PURCHASE LIFO BENEFITS IS ALL OVER...

AND THE TAXPAYER LOST! In the June 1998, *LIFO Lookout*, we reported that the taxpayer in *LaCrosse Footwear* received an "unexpected wind-

fall" as a result of its victory over the IRS on Appeal. This victory in the U.S. Court of Claims in 1998 was short-lived when it was recently reversed by the Federal Circuit.

Our observation in June of 1998 was that "LaCrosse (the taxpayer) and other bargain purchase taxpayers like it have been handed an astounding result." Anyway, on September 14, 1999, the Circuit Judges reversed and remanded the decision for correction. We will discuss this more in a future *LIFO Lookout*.

#5. WE'RE STILL OPTIMISTIC THAT THE IRS & THE TAX COURT WILL BE FORCED TO BACK OFF THEIR OPPOSITION TO REPLACEMENT COST. Consider the *LaCrosse Footwear* reversal reported above: The lower Court was wrong! We have a timely illustration of common sense prevailing when a higher Court reverses the error in a lower Court's decision.

In discussing *LaCrosse* (June 1998, *LIFO Lookout*, page 9), we asked: "Has the Court entirely missed the point in wallowing in its concern over the technicalities of **on**, **at** and **after** with reference to the base date or the beginning of the year in this bargain-purchase situation?" "Do we have another classic example of missing the big picture...rearranging the deck chairs on the sinking *Titanic*?"

Although somewhat alone in our position, we still believe that its not too late for the IRS and the Tax Court to be forced to back away from the foolish implications their **replacement cost is illegal** position creates for many industries, not the least of which include auto and truck dealers.

#6. SUPERLIFO-IRS NEW ITEMS LIST FOR 1998 YEAR-END LIFO COMPUTATIONS. With more practice, you'd think it would be getting easier... But it ain't...for either of us...but we're both still trying.

We just received the IRS Motor Vehicle Industry Specialist's listings of new item categories for new vehicles under Rev. Proc. 97-36 for the Alternative LIFO Method for Automobile Dealers.

We have compared everyone of our determinations with those made by the IRS. Our comments on the impact of new industry jargon (*Carryover*, *Freshen*, *Reskin*, *Restyle*, and *Redesign*) and decontinging begin on page 15, along with some of the major differences in Acuras, Ford Mustangs, Chevy Blazers and GMC Trucks, to name a few.

The side-by-side comparison report begins on page 20. *

JEWELRY RETAILER'S LIFO CALCULATIONS LOSE THEIR GLITTER... POOR BOOKS AND RECORDS TURN PRECIOUS GEM INVENTORY TO PASTE

A Field Service Advice memo issued earlier this year involves the problems one jewelry business ran into because it could not justify its LIFO calculations to the IRS. Complicating matters further—and placing the jeweler's LIFO election at risk of termination—was the fact that over the years, the jeweler had converted from a manual recordkeeping system to a computerized accounting system, and it didn't keep all the inventory records for all the years involved with its LIFO election.

The jeweler had elected the double-extension method, and experienced problems caused by a ten-fold increase in items over the years. Eventually this seemed to make it "impossible" to go back and reconstruct—to the satisfaction of the IRS—the base-year costs for all of those items. There's always the IRS solution: Use 1.000 as the price index for the new items by setting base cost to equal current-year cost, and the IRS should be satisfied.

In FSA 199920002, the Field Service Division (FSD) held that the IRS may terminate the taxpayer's LIFO election if the District Director determines that the taxpayer failed to maintain sufficient **accounting data** to support its LIFO calculations. The FSD also held that the taxpayer had changed its method of accounting when it began using a new and more narrow definition of the jewelry "items" in its LIFO pool. Because the taxpayer did not receive advance permission from the IRS to make the change in method, it had improperly changed its method of accounting.

The holding regarding the improper change in method made certain other issues involving base-year cost reconstruction of the alleged new "items" less important. However, the FSD said that even if some of the newer jewelry "items" were in fact new items, the taxpayer had failed to make a reasonable reconstruction of base-year costs for all of those "items" except one (pearls).

BACKGROUND FACTS

The retail jewelry business operated showrooms in which it sold precious and semi-precious stones (diamonds, rubies, sapphire, emeralds), pearls, and gold. These gems were sold in various forms such as rings, pendants, necklaces, earrings, brooches, and other jewelry pieces. The taxpayer's inventory repre-

sented a midrange of stones and jewelry in terms of quality and price.

Precious and semi-precious stones were generally purchased in lots from wholesale dealers. Fashion mountings were purchased from manufacturers. Each precious and semi-precious stone was weighed and graded before it was displayed in a showroom. Stones were transferred to the manufacturer for mounting in a fashion jewelry piece, such as a ring, pendant, or necklace, in which case the entire piece was purchased by a customer with the stone included. Other customers might select a stone individually, or a stone and a setting, and have the stone mounted in the chosen setting by the one of the store employees.

The taxpayer initially elected LIFO using multiple pools for its inventory. In a later year, the taxpayer received permission from the IRS to change to the use of double-extension method and to have a single pool. From that point forward for several years, the taxpayer consistently used a single pool (with "x" number of items), and with the LIFO value computed by using the double-extension method.

The taxpayer's LIFO inventory method was not examined by the IRS until several years later. During the interim years (after permission to make the LIFO changes described above was received and before the current IRS audit), the items in the taxpayer's single pool were generally composed of finished goods inventory, such as ladies' rings. However, diamonds and semi-precious stones were treated as items in the pool, with a weight classification.

In the second year under IRS audit, the taxpayer began accounting for its LIFO jewelry items using a different approach. The number of items in the (single) pool had increased ten-fold from the number of items that had been in that pool when it was originally set up. The cost of each piece of jewelry in ending inventory was accounted for by using three component parts: (1) The type of stone in the merchandise, (2) The amount of gold in the merchandise, and (3) All other costs. For further details, see the "components" box on page 8.

In connection with this change, the taxpayer had not submitted Form 3115, nor had it received any other IRS approval to make such changes. When

see **JEWELRY RETAILER'S LIFO CALCULATIONS LOSE THEIR GLITTER**, page 4



caught on audit, the taxpayer claimed that the changes it had made in items were the result in a change in its product mix (i.e., different types of merchandise were added to its inventory). Therefore, these changes resulted from "a change in facts," and it is not necessary to file Form 3115 with the IRS to get advance approval when changing a method because of a change in the underlying facts.

HOW THE TAXPAYER KEPT ITS BOOKS

For the first 10 years of the LIFO election, the taxpayer's accounting records were manually prepared. Inventory records were kept by item purchased, date of purchase, and cost. Invoices were received for stones. Although the taxpayer maintained its inventory records contemporaneously during the years it was on a manual system, it no longer had the inventory listings, cards, or invoices from this period available when the IRS came in to audit the later years.

The taxpayer's new computerized accounting system included an inventory function which was able to track the same inventory lines it had previously set up. Although the taxpayer no longer retained inventory purchase invoices from the time it set up the computerized system to the first year of the IRS audit, it did have computerized inventory records from this period.

In addition, the taxpayer had workpapers contemporaneously prepared by its CPAs for use in preparing financial statements for the business. These workpapers consisted of schedules of (1) the unit cost of ending inventory in the base-year and (2) the total cost of ending inventory in the base-year. These workpapers showing base-year cost information had been prepared in that far distant earlier year when the taxpayer had first received IRS permission to change its methods to combine its multiple LIFO pools into one pool and recalculate base-year costs.

To help keep track of all this background data, see "At A Glance" on page 5.

COMPLICATIONS ARISE

In the years now under audit, because of the ten-fold increase in items in its single inventory pool, the taxpayer believed that it had so many new items entering its LIFO computations that the increase justified a change in its approach to the LIFO calculations (i.e., a change in the definition of "items" within the pool).

Accordingly, the taxpayer reconstructed the cost of these new items by going back to the first year on LIFO (i.e., the base-year) and comparing the base-year cost of the redefined items to current-year

costs. For specifics on how this jeweler constructed its new indexes, see page 8.

Except for the index developed for pearls, the IRS agent said that the indexes could not be verified because there wasn't sufficient information presented to repeat the taxpayer's calculations and arrive at the same index values. Therefore, the agent came up with his own recomputed base-year cost for the new items.

For diamonds, the agent determined an index by relying on two industry sources that tracked the cost of diamonds: DeBeers and the *Rappaport Diamond Report*. For colored stones, the agent relied on several published industry sources that tracked the prices of colored stones separately and determined separate indexes for emeralds, rubies and sapphires, respectively. For gold, the agent relied on published prices for refined gold, and the agent did not include any adjustment for labor or vendor margin.

LAW & CASE PRECEDENT

In its analysis, the FSA said that (1) the Commissioner's determination with respect to clear reflection of income is entitled to more than the usual presumption of correctness, and (2) the taxpayer bears a heavy burden of overcoming the Commissioner's determination that a method of accounting does not clearly reflect income. Whether a particular method of accounting clearly reflects income is a question of fact which must be decided on a case-by-case basis, and the Commissioner's determination as to the proper method of accounting for inventory must be upheld unless it is shown to be plainly erroneous.

The term "method of accounting" is very broad. It includes not only the overall method of accounting of the taxpayer, but also **the accounting treatment of any item**. A change in the method of accounting includes a change in the overall plan of accounting for gross income or deductions or a change in the treatment of any material item used in such overall plan. A material item is any item which involves the proper time for the inclusion of the item in income or the taking of a deduction.

A taxpayer changing a method of accounting must, prior to changing to a different method, secure the consent of the Commissioner. Consent must be secured regardless of whether the method being changed is proper or permitted. However, a change in method of accounting does not include a change in treatment resulting (solely) from a change in the underlying facts. Notwithstanding that qualification, a change in the overall plan or system of identifying

see **JEWELRY RETAILER'S LIFO CALCULATIONS LOSE THEIR GLITTER**, page 6



AT A GLANCE	JEWELER'S LIFO CALCULATIONS LOSE THEIR GLITTER FIELD SERVICE ADVICE 199920002
IRS HOLDINGS	#1 The change to the use of a new and more narrow definition of jewelry "items" within the taxpayer's LIFO pool (in Year #4) was a <i>change in accounting method</i> .
	#2 The change (in Year #4) was not properly made by the taxpayer. The taxpayer should have asked the IRS for permission to make the change before it made the change.
	#3 The taxpayer's books and records were not adequate ... and the IRS (agent) may terminate the LIFO election if the District Director determines that the business failed to maintain " <i>sufficient accounting data</i> " to support the LIFO calculations.
	<u>MOOT ISSUE</u> Did the taxpayer properly reconstruct its base-year costs for the redefined "items" in inventory at the end of Year #4? Although moot, the FSA said that the taxpayer's reconstruction of base-year costs for all the items (except pearls) " <i>appears unreasonable</i> ."
TIME FRAME	
YEAR #1	Initial LIFO election year. Multiple pools were originally elected.
YEAR #2	Year of first change. Taxpayer filed Form 3115 (Request For Permission To Change Method) with the IRS and received permission from the IRS to use a single pool and to use the dollar-value, double-extension method. CPA prepared schedules showing unit cost and total cost of ending inventory in this year.*
Interim Years Exact number of interim Years is not specified	From Year #2 through Year #3, the items in the taxpayer's single pool were generally composed of finished goods inventory, such as ladies rings. However, diamonds and semi-precious stones were treated as items in the pool, with a " <i>weight classification</i> ." The taxpayer was not actually audited by the IRS in the interim. During this period, taxpayer was using a single pool, double-extension method.
Conversion from Manual Recordkeeping to Computerized System	From Year 1 to 19xx: Taxpayer used a manual system " <i>for about a decade</i> ." The taxpayer kept inventory records by item purchased, date of purchase and cost. Invoices were received for stones. Although the taxpayer maintained its inventory records contemporaneously during the years it was using a manual system, it no longer has available the inventory listings, cards or invoices from this period. Year 19xx: The year of change from manual recordkeeping to a computerized system. From 19xx to Year #4: Taxpayer used a computerized system.
CPA's Workpapers*	Certain workpapers prepared by the CPA are available. These workpapers consist of prepared schedules of (1) <i>unit</i> cost of ending inventory in the base year and (2) the <i>total cost</i> of ending inventory in the base year. These workpapers had been prepared in Year #2.*
YEAR #3	Year when IRS terminates LIFO election for failure to maintain adequate books and records. As of Year #3, inventory listings, cards and invoices for the "Manual System" years are no longer available. As of Year #3, computerized inventory records for the years forward from 19xx (change to using the Computer System) are available. <i>Invoices are not available</i> .
YEAR #4	Year when taxpayer improperly reconstructed base-year costs for redefined (using a narrower definition) items in ending inventory. Taxpayer experienced a <i>ten-fold increase in items in the pool</i> . Because of this increase, the taxpayer began accounting for its items in a different fashion. Instead of using the " <i>weight classification</i> " approach used through Year #3, the taxpayer accounted for the cost of each piece of jewelry in ending inventory by breaking it down into three component parts. The taxpayer tried to justify this change for its new items as resulting from a change in its product mix (i.e., different types of merchandise were added to its inventory). Thus, the taxpayer claimed the change was made because of a change in the underlying facts.



or valuing items in inventory is considered to be a change in method of accounting.

In a major Tax Court decision in 1991, a change in the value of closing inventory, including a change in the treatment of "items" within a LIFO pool, was held to constitute a change in method of accounting (*Hamilton Industries, Inc.*).

In grouping like inventory items into pools, the pool or pools selected must be used for the year of adoption and for all subsequent years unless a change is required by the Commissioner in order to clearly reflect income. Whether the number and composition of the pools selected is appropriate, as well as the propriety of all computations incidental to the use of such pools, will be determined in connection with the examination of the taxpayer's income tax return. Adequate records must be maintained to support the base-year costs as well as the current-year unit cost for all items.

Under the double-extension method (which the jeweler in FSA 199920002 elected), a base-year cost must be ascertained for each item entering a pool for the first time subsequent to the beginning of the base-year. And, in such a case, *the base-year unit cost shall be the current-year cost of that item unless the taxpayer is able to reconstruct or otherwise establish a different cost.* A new item not in existence on the base date may be reconstructed by using reasonable means. A cost for a new item in existence but not stocked by the taxpayer on the base date may be reconstructed by using available data or records; however, the reconstructed cost of a new item must be established to the satisfaction of the Commissioner.

ADEQUATE RECORDKEEPING FOR LIFO PURPOSES

Reg. Sec. 1.472-2(h) provides that supplemental and detailed inventory records shall be maintained as will enable the District Director to readily verify the taxpayer's inventory computations as well as his compliance with the requirements of LIFO. Subsequently, in Revenue Procedure 79-23, the IRS included a list of some of the situations that warrant the disallowance or termination of a LIFO election. This list includes failure by the taxpayer to maintain adequate books and records with respect to its LIFO inventory and all supporting computations. However, termination in these situations is not automatic due to the discretionary authority granted to the Commissioner by Section 472(e)(2) and the underlying regulations.

Whether records are adequate for LIFO purposes has to be determined on a case-by-case basis.

One case where a taxpayer did lose its LIFO election on this account is *Boecking v. Commissioner*, T.C. Memo. 1993-497, and this case is cited by the FSA in the dispute over the adequacy of the jeweler's recordkeeping.

The jeweler argued that the accounting workpapers it had maintained were sufficient to satisfy the LIFO recordkeeping requirements described above. It argued that since its CPAs had access to the original books and records (way back when) and had used them to verify the original LIFO computations, the CPAs' workpapers should be sufficient to "verify" the LIFO computations. The IRS agent disagreed and said that the taxpayer should have retained invoices to verify its inventory and that the taxpayer's failure to do so left the agent unable to verify the LIFO calculations and computations because of the lack of original inventory records.

The Field Service Division in FSA 199920002 said ... "We believe that adequate records pertaining to LIFO calculations requires that supporting accounting data, invoices and records, should be kept as appropriate. Failure to maintain all invoices since the first year of the LIFO election is not, by itself, sufficient to terminate an election. But failure to maintain original inventory records sufficient to enable the Service to verify LIFO calculations could fail the recordkeeping requirement and permit termination. See *Boecking v. Commissioner*, T.C. Memo. 1993-497."

For more on (in)adequate books and records for LIFO purposes, see page 10.

CHANGE IN UNDERLYING FACTS VS. CHANGE IN (LIFO) ACCOUNTING METHOD

The jeweler argued that its change in item definition for LIFO purposes resulted from a change in underlying facts. Therefore, per Reg. Sec. 1.446-1(e)(2)(ii)(b), it was not an unauthorized accounting change. According to the taxpayer, this change in facts was the substantial change in its product mix as it introduced less-expensive rings and diamonds into its inventory.

The IRS agent argued that what really had occurred was merely a change in the degree to which certain items were carried in inventory, and that no new items were introduced into inventory. This, the agent argued, was not a factual change related to the taxpayer's existing item definition. (For a good example of how intricate the "change in underlying facts" issue can become, see the discussion on page 13 of FSA 1999-1215.)

The agent also believed that the jeweler's previous definition of *items* was overly broad. Therefore,

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when the taxpayer allegedly substituted less-expensive for more-expensive products, that reduction in cost appeared as deflation. If the taxpayer's alleged change in mix had gone the other way (i.e., if more-expensive products had been substituted for less-expensive items), the LIFO result would have appeared as inflation, to the taxpayer's advantage. (Note: In the latter case, surely the IRS would have challenged the result as not clearly reflecting income under *Hamilton Industries*, *Amity Leather* and many other cases on point.)

The Field Service Division agreed with the agent. It held that the taxpayer's increase in the number of items to a number ten times larger than the original number of items was not merely the result of a change in inventory mix. The taxpayer had added more quantity of less-expensive jewelry vis-à-vis more-expensive jewelry, but it carried both items in the year of change/current-year (Year #4), and in the earlier year (Year #2), when, by its own choice and with IRS consent, it had changed to the single pool, double-extension method. The FSD said that the taxpayer probably chose too few items in that earlier year, but it nonetheless had to abide by its choice (and did so for some years until the year when it finally made the change).

CHANGE IN "ITEM" DEFINITION EQUALS CHANGE IN ACCOUNTING METHOD

The FSD reasoned that the jeweler broke out the components of its finished products, and then broke down the quality of the gold and the quality of the diamonds, pearls, or colored stones. But it always had high-end and low-end men's rings, for example.

By changing its definition of items within its pool, the taxpayer had changed the treatment of inventory, which affected the timing of income ... and a change in the overall plan or system of identifying or valuing items in inventory is considered a change in method of accounting.

Therefore, the jeweler's new approach involved a change in method of accounting, and the taxpayer was required to receive the Commissioner's permission before making the change. Because the taxpayer failed to secure that consent, it was required to continue to use the original number of items within its pool. Accordingly, the jeweler would not have any new "items" entering its pool in the current year, and the other issues over the reasonableness of the reconstruction of the new "items" were rendered moot.

BASE-YEAR RECONSTRUCTION: A MOOT ISSUE

Although under no obligation to do so, the FSA added that if the taxpayer had been permitted to redefine its "items" in the current year, then a base-

year cost would have to be computed for each new item. Further, in that case, the taxpayer would have to reconstruct such cost to the satisfaction of the Commissioner. Alternatively, the taxpayer could use a subsequent year's cost or, if unavailable, then it would have to use the current-year's cost as the equivalent base-year cost. If current-year cost were used, a price index of 1.000 would be produced and no inflation would be eliminated from the taxpayer's inventory.

The FSD held that the taxpayer's base-year price reconstruction was unreasonable and inappropriate. It reached this conclusion because the taxpayer's results were substantially inconsistent with published industry reports and indexes. (If you're interested in these reconstructions, see page 8.)

CLOSING OBSERVATIONS

FIRST, one can't be too careful in determining the definition of an "item" in the first year of the LIFO election. As this case shows, changes in later years often reveal the (adverse) consequences of not trying to anticipate how future changes in the inventory mix might affect the LIFO calculations.

SECOND, unrecognized issues involving unauthorized changes in accounting methods may be created when computer/accounting systems are altered or upgraded (or streamlined, too). Since electing LIFO, many businesses have changed their recordkeeping systems (or had major overhauls in their computer systems). Often these changes are made on the basis of some consultant's advice on operational changes or on minimizing data storage requirements.

Where these kind of changes have occurred since electing LIFO, was any consideration given to whether these computer changes resulted in altered *item* definitions for LIFO purposes?

If changes have been made, have they weakened the taxpayer's defenses against the "Books and Records" attack now surfacing more frequently in IRS audits?

FINALLY, there's even more evidence that the IRS is beginning to realize the power of attacking LIFO calculations that are not supported by "Adequate Books and Records." Agents seem more ready to raise this challenge. And if they are successful, there may be devastating results...as in *Mountain State Ford* where the dealer was unable to provide the IRS with any alternative calculations.

Jerry Maguire's star client said, "Show me the money!" More IRS agents today are saying, "Show me the invoices and the accounting records...or we're taking you off LIFO!" *



HOW ONE JEWELER APPLIED LIFO TO ITS INVENTORIES

THREE COMPONENT APPROACH

The jewelry retailer in FSA 199920002 had been using a single-pool, double-extension approach for its LIFO calculations for many years. Then, in one year, the number of items in the pool increased ten-fold from the number of items that had been in that pool when it was originally set up.

Because of this huge increase, the jeweler believed that it had so many new items entering its LIFO computations in the year that it had to change the item definition for the pool. Under its new approach, the jeweler accounted more precisely for the cost of each piece of jewelry in ending inventory. It did so by identifying three component parts:

COMPONENTS

1. **The type of stone in the merchandise** (diamonds, pearls or colored stones such as rubies, sapphires and emeralds),
2. **The amount of gold in the merchandise,** and
3. **The difference of the first two over total costs** of the merchandise (labor costs and vendor profits).

INDEX DEVELOPED FOR EACH COMPONENT

The jeweler reconstructed the cost of these new items by going back to the first year on LIFO (the base-year) and comparing the base-year cost of the redefined items to current-year costs. The taxpayer used third-party pricing information to create an index for gold and for pearls. For diamonds and for the colored stones, it developed an index using a combination of external and internal pricing information.

DIAMONDS: The taxpayer computed base-year costs for its redefined inventory of diamonds by comparing the base-year (i.e., first LIFO year) **weighted average cost** of diamonds to the current-year **weighted average cost** to determine an index. From this index, a base-year cost for each new item of diamonds was developed, using this index and the current-year cost of each item.

COLORED STONES: A similar weighted average index was developed for colored stones by comparing base-year prices to current-year prices. With this index, base-year costs for new colored stone items was developed, based on current-year costs reduced by this index.

PEARLS: The base-year costs of pearls was determined using external pricing information from industry sources, and the IRS agent did not challenge this index approach for pearls.

GOLD: For the gold component in the inventory, the jeweler constructed an index using the price of gold by weight for the base-year and comparing it to the price of gold by weight in the current-year. With this index, it determined the base-year cost of its gold items, reducing current-year costs by the index.

OTHER-LABOR & VENDOR MARKUP: For this third component, the jeweler determined an index by using the Bureau of Labor Statistics Producer Price Index for jewelry covering the period from the year in which it received permission to use a single pool, double-extension method to the current-year. From this index, an amount was subtracted for the gold component of jewelry, using the gold index that had been developed. The remaining or derivative amount was then used as the net labor and vendor markup index, and this was then applied to current-year costs in order to create a base-year cost component.

HOW THE IRS AGENT THOUGHT IT SHOULD BE DONE

The agent determined that the taxpayer's new indexes (except for pearls) could not be verified because there was insufficient information presented to repeat the taxpayer's calculations and arrive at the same index values. The agent thus recomputed base-year cost for diamonds by determining an index from two industry sources that tracked the cost of diamonds: DeBeers and the *Rappaport Diamond Report*.

For colored stones, the agent relied on several published industry sources tracking prices of colored stones separately. A separate index was determined for emeralds, rubies and sapphire, respectively. The agent relied on published prices for refined gold in determining an index for gold, and did not include any labor and vendor margin.

WHAT THE FIELD SERVICE ADVICE SAID ABOUT THE CALCULATIONS

DIAMONDS & COLORED STONES: For the type of stone component, especially diamonds and colored stones, the type of reconstruction used by the jeweler appeared unreasonable. The Field Service Division said that the taxpayer is determining an aggregate diamond index (weighted average), using

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How One Jeweler Applied LIFO To Its Inventories

prices in the current year and comparing to the original LIFO base-year. From this aggregate inflation index, the taxpayer is applying that index to each type of diamond "item" in its inventory.

The FSA said: ***"The taxpayer must calculate a separate index for each 'item' of inventory; it cannot use an aggregated index for diamonds to apply to multiple diamond 'items'."***

"Likewise, and perhaps worse, the taxpayer is apparently using an aggregate (weighted average) inflation index for colored stones, and applying them to each colored stone 'item' in its inventory.

"An aggregate index based on costs of sapphires, rubies, and emeralds cannot be used to determine the base year cost of a specific type of emerald, or a specific type and/or quality of sapphire."

"The taxpayer must calculate a separate index for each 'item' of inventory, each sapphire 'item,' each ruby and emerald 'item.'"

"The Taxpayer cannot use an aggregated index for colored stones and apply that index to various 'items' of sapphires, rubies, and emeralds."

GOLD: For the gold component in inventory, the taxpayer constructed an index using the price of gold by weight for its original LIFO year and comparing it to the price of gold by weight in the current year. With this index, it determined the base year cost of its gold "items", reducing current-year costs by the index. The agent relied on published prices for refined gold in determining an index for gold, which also appears reasonable.

(Continued)

The taxpayer's reconstruction for gold is unreasonable because, assuming its index is adequate, it is using that index for all its "items" of gold. Again, each "item" must have a specific base-year cost determined for it; using an aggregate index for individual "items" is improper.

OTHER COMPONENT: In determining an index for labor costs and vendor profits, the taxpayer used the Bureau of Labor Statistics Producer Price Index for jewelry from Date 2 (an earlier date) to Fiscal Year 4 (the current-year). From this index, an amount was subtracted for the gold component of jewelry, using the gold index developed. The remaining amount was then used as the net labor and vendor markup index, applied to current-year costs to create a base year.

Such an index is too derivative, determined after washing out the costs of the stone and the gold in each piece of merchandise, and then being aggregated for all merchandise. As such, the index ... does not appear reasonable.

CONCLUSION

In general, the Field Service Division did not accept the taxpayer's use of aggregate indexes. Instead, it said that specific indexes should be calculated for individual items. Furthermore, the indexes—especially for the "other/labor and vendor margins"—were too derivative.

Because the taxpayer had not established that the reconstruction of its items of inventory in the current year was reasonable, the new "items" entering the inventory in the current year should have an index of 1.000. *



De Filippis' LIFO LOOKOUT

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WHEN ARE BOOKS & RECORDS (IN)ADEQUATE TO SUPPORT LIFO CALCULATIONS?

BOOKS & RECORDS

Anyone who has worked with LIFO knows that LIFO is not a single, cut and dried calculation. Detailed records which should already exist in the business must be analyzed and summarized, and various alternative sub-procedures and sub-elections must be interpreted and evaluated. All of these records must be saved indefinitely because the IRS may want to see the detail records to verify the underlying reasoning, assumptions, procedures and methods. A taxpayer who can't produce this information can be at the mercy of the examining agent.

Section 3.01(d) of Revenue Procedure 79-23 lists the following as a situation that will warrant the disallowance or termination of a LIFO election: "... failure by the taxpayer to maintain adequate books and records with respect to its LIFO inventory and all supporting computations."

No one knows exactly what these words mean. And, note that they set up a three-part requirement for the retention of (1) books and records, (2) all supporting computations, and (3) the suitability of what is retained as being **adequate**.

At least five situations have presented this issue, and two of them went well for the taxpayers in LTRs 8851001 and 9343001. However, one case directly on point, (*Boecking v. Commissioner*) did not go well for the taxpayer, and the current controversy over the use of replacement cost for parts inventories (*Mountain State Ford Truck Sales*) indirectly presents this issue as an inescapable "catch-22" for all parts inventories.

The more recent FSA 199920002 (separately discussed on page 3) did not go well for the taxpayer either. As *Boecking* and *Mountain State Ford* illustrate, the failure to save or maintain all necessary LIFO-related information can be used on audit against the taxpayer in a variety of painful ways.

LETTER RULING 8851001

In Letter Ruling 8851001, the National Office held that a taxpayer's LIFO election would not be terminated under Section 3.01(d) of Rev. Proc. 79-23. In this situation, the books and records supported the taxpayer's current LIFO computations, but the records were not adequate to allow the IRS agent to compute the LIFO valuation under an alternative method that the agent thought would be more appropriate.

Letter Ruling 8851001 concluded that Rev. Proc. 79-23 contemplates "that the taxpayer's books and

records need not substantiate any computation other than the taxpayer's **current** method of inventory valuation." The fact that the taxpayer's records were inadequate to value the inventory in any other manner that the examining agent may consider appropriate did not change the result since the taxpayer's books and records were adequate to support its own original LIFO computations.

LETTER RULING 9343001

Letter Ruling 9343001 involved a case where the examining agent threatened to terminate the taxpayer's LIFO election after disagreeing with the means by which the taxpayer sampled its inventory to calculate a price index, the number of pools used, and the use of a fixed cost complement in reducing inventory from retail to cost. Because of these problems, the agent wanted the taxpayer to recompute the valuation of its ending inventory.

The taxpayer said it was unable to recalculate its inventory in the manner proposed by the agent because it had not maintained the detailed records necessary for it to redetermine its sample and to make the other inventory calculations. The agent proposed to terminate the taxpayer's LIFO election because of the lack of records to support alternative LIFO calculations that the agent asserted were more appropriate.

In LTR 9343001, the taxpayer's LIFO election was not terminated. The National Office said that "even if the District Director determines that the taxpayer's sample is inadequate, **an inadequate sample is a computational error** within the meaning of Section 3.02(a)." Similarly, the selection by the taxpayer of not enough inventory pools and the use of a fixed cost complement which the examining agent didn't like did not warrant termination of the LIFO election.

In addressing the "books and records" requirement in Rev. Proc. 79-23, the National Office said that the taxpayer's LIFO election should not be terminated because the issue was not the adequacy of the taxpayer's records, but rather the means by which the taxpayer computed its price index. Even collectively, all of the taxpayer's errors in computing the LIFO price indexes were not interpreted as warranting termination of the LIFO election. They were probably required to be adjusted to reflect the IRS' computational interpretations. But at least the LIFO inventory election was not lost.

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Inadequate Books & Records

BOECKING V. COMMISSIONER

Tax Court Memo Decision (1993-497) involves Boecking Machinery, Inc., a Caterpillar machinery and equipment dealer who elected LIFO in 1970 and lost its election in 1980 because it failed to maintain adequate books and records in support of its LIFO computations.

When the Company filed its Form 970 in 1970, it elected to use the dollar-value, double-extension and earliest acquisitions methods. It also used one pool for all Caterpillar and Towmotor Parts and one pool for all Caterpillar and Towmotor Machines, Engines and Equipment.

In trying to defend its LIFO election, the taxpayer argued: **First**, its method clearly reflected income. **Second**, its method of calculating the LIFO reserves had been tacitly approved by the IRS because the IRS had made no adjustments during earlier tax audits, and thus the IRS was estopped from subsequently terminating the Company's LIFO election. **Third**, the IRS' termination of the Company's LIFO method as of January 1, 1980...the earliest open year on this issue...was arbitrary, unreasonable and an abuse of discretion.

IRS REBUTS TAXPAYER'S ARGUMENTS

The IRS position was that it had the authority to terminate the Company's LIFO election as early as January 1, 1980. The IRS asserted that due to the Company's failure to maintain certain required books and records, the Company's method of valuing its inventory did not comport with the method it had elected in 1970. Accordingly, the IRS said the method used by the taxpayer did not clearly reflect its income.

The Company's expert witness had relied **only** on the CPA's workpapers and the Company's inventory account sheets and extensions of physical inventory at replacement cost. What the expert had not done was to go beyond the workpapers to test invoices and the Tax Court noted that **"it is beyond those workpapers where the errors are present."**

The Court said that when the Company elected LIFO, it had agreed to keep detailed inventory records which would comply with the Section 472 regulations. It had further agreed to compute its inventory utilizing the specific LIFO method originally elected on Form 970 (i.e., the dollar-value, double-extension, earliest acquisitions cost methods). The Company, however, did not keep detailed inventory records as contemplated by Section 472 and the regulations. Nor did the Company compute its inventory utilizing the specific LIFO methods it had originally elected on

(Continued)

Form 970. It did not determine the value of the current quantities in ending inventories in the manner required by the election it had made. Instead, it had used each prior year's ending inventory value and each prior year's corresponding base-year cost in developing its index percentage. ***The use of prior year ending inventory values resulted in an inaccurate cost calculation of the current year ending inventory which caused a distortion of income.***

Because the Company failed to keep adequate books and records relating to its LIFO inventory method and failed to properly develop its index percentage, the result did not clearly reflect its income. Because the LIFO method employed by the Company did not clearly reflect income, such method fell short of being an acceptable adaptation of the LIFO method originally elected by the Company in 1970. Accordingly, the IRS did have the authority to terminate the Company's LIFO method as of 1980.

The Court also said that there was no tacit approval of the taxpayer's use of LIFO in prior IRS audits. The IRS was not estopped from terminating the Company's LIFO election on the ground that no adjustments had been proposed to the LIFO valuations during earlier IRS examinations of the Company's tax returns for the years in issue and in prior years. The Company did not establish that the scope of the prior examinations included any analysis of the company's LIFO methods. ***The Tax Court said: We have consistently held that the IRS' mere acquiescence in the treatment of an item in prior years does not preclude future adjustment in later years.***

Finally, the Tax Court found no abuse of discretion by the IRS. The Court found no merit in the Company's assertion that the IRS' termination of the LIFO method constituted an abuse of administrative discretion and was arbitrary and unreasonable. The Tax Court said that Boecking did not offer a shred of evidence to support this accusation. It also said that when the taxpayer's inventory accounting method does not clearly reflect income, the IRS may require the taxpayer to use a method that clearly reflects income even without a showing of bad faith on the part of the taxpayer.

SPECIAL FACTS WARRANT SPECIAL ATTENTION

The taxpayer elected to use the dollar-value, double-extension method. Boecking would have been far better off if it had originally elected to use a link-chain, index method for valuing its dollar-value LIFO pools. The double-extension method (which compares current year costs to base date costs) caused the taxpayer great difficulty in repricing its

see **INADEQUATE BOOKS & RECORDS**, page 12



Inadequate Books & Records

parts and machinery and equipment as those inventories changed over the years due to technological advancements.

The brief filed with the Tax Court contains extensive stipulations of which 11 through 133 point out the need for retaining invoices (which seems to be possible) and for making accurate computations. It does not seem to be possible to make accurate calculations in situations like this where technologically changing inventories are involved and the double-extension method has been elected on Form 970. Clearly from a technical standpoint, the link-chain, index LIFO method would have been preferable to the double-extension method. However, from a practical standpoint within the context of certain other facts, one wonders whether that would have made any real difference in the outcome.

As a Caterpillar dealer, the taxpayer had in its hands, at one time or another, all the information it might have needed, as well as detailed monthly records which might have been of some use. Couldn't some of this information have been reasonably reconstructed or documented?

Another unusual fact was that the taxpayer had pleaded guilty to a conspiracy to defraud the United States and certain counties in Oklahoma. Is it possible that these charges may have stimulated the Internal Revenue Service to take the most adverse positions wherever possible? The contrast between the somewhat more understanding/lenient attitude expressed in LTRs 8851001 and 9343001, and the hard-line position in *Boecking*, is chilling.

Finally, the entire deficiency in tax arising from the termination of the LIFO election was subject to an additional 50% fraud penalty.

The applicable code section provides that "if **any part** of the underpayment... of the tax required to be shown on a return is due to fraud, there shall be added to the tax an amount equal to 50% of the underpayment." After examining various indicia (or badges) of fraud, the Tax Court found enough of them present to sustain the fraud penalty.

Because the year the IRS "chose" to terminate the LIFO election in was one of the fraud years, **all** (100%) of the deficiency due to the recapture of the LIFO reserves in the year of termination was also subject to the fraud penalty. The kickbacks deducted over 1979-1980-1981 for all three years were comparatively small amounts (\$85,000)—yet, the claiming of these deductions for illegal payments ended up exposing all of the LIFO reserve recapture in 1980 to the 50% fraud penalty! Wow!

(Continued from page 11)

FSA 199920002

Earlier this year, in Field Service Advice 199920002, the IRS reaffirmed that where a taxpayer went from a manual accounting system to a computerized system for its inventory of jewelry, it could lose its LIFO election if it failed to maintain adequate books and records covering all the years before and after the change. (See coverage in this issue.)

MOUNTAIN STATE FORD TRUCK SALES

The recent Tax Court decision prohibiting the use of replacement cost in valuing parts LIFO calculations also involves the "books and records" issue. Interestingly, what the IRS did—and what the Tax Court upheld—was to "simply" add back to the taxpayer's ordinary income for 1991 the entire amount of the LIFO reserve that had been calculated over 11 years during the period 1980-1991.

In justifying that result, the Tax Court said that the IRS was merely requiring Mountain State Ford to conform to the LIFO elections made on the Form 970 which it filed with its 1980 income tax return. The IRS had determined that the LIFO reserve for its parts inventory was incorrectly calculated because replacement cost was used. Furthermore, the taxpayer did not attempt to reconstruct or recalculate the correct LIFO reserve amount or to otherwise provide the IRS with evidence (i.e., books and records or other accounting data) from which an estimate could be made. Therefore, according to the Court, the IRS was unable to determine the amount of a correctly computed LIFO reserve, and it simply had no other choice than to restore the entire LIFO reserve to income.

The Tax Court said that Mountain State Ford had failed to comply with the requirements of Reg. Sec. 1.472-2(h) to maintain detailed inventory records "as will enable the District Director readily to verify ... (Mountain State Ford's) inventory computations as well as ... (its) compliance with the requirements under Section 472" and the regulations thereunder. The Tax Court further said: "Consequently, Mountain State Ford did not have, and did not provide to Respondent, the records that were necessary in order to calculate for the period from 1980 through 1991 (1) the LIFO and non-LIFO value of its parts inventory, and (2) its LIFO reserve on the basis of invoice prices or a cost other than replacement cost."

It should be obvious to everyone—including the IRS, NADA and every CPA signing a tax return with parts inventories—that ***it is impossible for most, if not all, taxpayers with parts inventories to comply with this requirement.***

see **INADEQUATE BOOKS & RECORDS**, page 14



CHANGE IN UNDERLYING FACTS VS. CHANGE IN ACCOUNTING METHOD

FSA
1999-1215

In FSA 1999-1215, the issue was whether the taxpayer should have first requested permission to change before changing the way it estimated certain inventories. The taxpayer had said it didn't need advance permission because what was involved was really a change in *the underlying facts*. For those changes, advance IRS approval is not required.

This FSA shows how intricate the analysis really becomes before anyone can answer the seemingly simple question of whether a change in method resulted from a change in the underlying facts.

The regulations allow an exception for a change in underlying facts, notwithstanding a change in timing caused by the change in facts. A change in method of accounting does not include adjustment of any item which does not involve the timing for the item. A change in method of accounting does not include adjustment of any item of income or deduction which does not involve the proper time for the inclusion of the item of income or the taking of a deduction. Assuming a timing question is involved, the regulations specify various inventory changes which are changes in methods of accounting. The change in underlying facts exception of Reg. Sec. 1.446-1(e)(2)(ii)(b) may involve a timing change. The analysis required, therefore, is first to determine whether a timing change is involved and if so, to determine whether the change in underlying facts exception applies.

When an accounting practice postpones or accelerates the reporting of income or the taking of a deduction, rather than permanently avoiding the income or the deduction over the taxpayer's lifetime, it involves timing and is a change in method of accounting. Because one year's closing inventory becomes the next year's opening inventory, such postponement of income involves a timing question and is a change in the method of accounting.

IS REFINEMENT OF AN ESTIMATE A CHANGE?

The taxpayer involved in FSA 1999-1215 had initially used estimates of ...*(x)*... in inventory which were based on information supplied by the previous owner upon acquisition of the storage reservoirs. Subsequently, the taxpayer used revised estimates based upon a new computer simulation along with other evidence of the characteristics of the (geologic) field when used as a storage facility.

The computer simulations generated data which served as measurement devices for estimating ...*(x)*...

volumes. This more accurate simulation data was used to refine the taxpayer's estimates.

According to the taxpayer, this new data produced by the computer simulations more accurately predicted field operations, and its inventory reclassifications resulting therefrom were due to changes in underlying facts. It argued that in circumstances like this, Reg. Sec. 1.446-1(e)(2)(ii)(b) provides an exception to the general rule which is that advance IRS approval must be obtained before making a change. The taxpayer's argument was that its refinement of an estimate constituted a change in the estimate of value, and therefore, was a change in underlying facts, and not a change in method of accounting. The taxpayer stated that it had never changed the method by which it determined allocations of gas in its storage field; it had simply **improved its prediction** of the volume of certain elements in inventory.

The examining agent disagreed. He said the taxpayer's inventory reclassifications deferred the inclusion of costs into cost of goods sold, and because all such items would be sold eventually, the reclassification does not permanently change income.

INVENTORY RECLASSIFICATION IS A CHANGE

The Field Service Division held that the taxpayer's reclassification of inventory constituted a change in accounting method, rather than a change in underlying facts. The reclassification was held to be a change in the system of identifying or valuing items in inventory, as well as a change in the treatment of a material item used in the plan for identifying or valuing items in inventory.

According to this FSA, the "change in accounting method" versus "change in facts" argument is important because "the change in underlying facts exception does not preclude the existence of a timing change." So, if both are present, permission from the IRS to change must be secured in advance.

Both *Wayne Bolt & Nut Co.* and *Hamilton Industries, Inc.* held that a change in timing for inventory costs from one period to another due to a change in inventory valuation methods is a change in method of accounting. ***The presence of a timing change along with a change in valuation methods is important because a change in underlying facts is inapplicable when a change has been made in the method used in the valuation of inventories.***

Hamilton Industries, Inc. dealt with adjustments to correct inventory value where inventories were

see **CHANGE IN FACTS VS. CHANGE IN METHOD**, page 14



Change in Facts vs. Change in Method

acquired at bargain purchase prices. In *Hamilton*, the Tax Court held that such corrections were changes in accounting methods where the effect of the correction was not a permanent change in lifetime income but rather caused a timing change.

Wayne Bolt & Nut Co. involved changes from a seriously flawed and disorganized method of determining inventory (index cards and statistical samples) to a method of determining both opening and ending inventory through a complete physical inventory. The Tax Court said that this was a change in the treatment of a material item, and therefore it constituted a change in the method of accounting.

Similarly, the taxpayer involved in FSA 1999-1215 changed from an inventory system based on models and assumptions to a system based on empirical data and revised computer simulations. "The essential characteristic of a material item is that it determines the timing of income or deductions ... When an accounting practice ... postpones the reporting of income, rather than permanently avoiding the reporting of income over the taxpayer's lifetime, it involves the proper time for reporting income."

One case taxpayers often cite in connection with the issue of what constitutes a change in facts is *Decision, Inc. v. Commissioner*, 47 T.C. 58 (1966). In this case, the taxpayer changed a business policy; it changed its advertising contract terms and its billing procedures. These changes resulted in a deferral of income when compared to its previous contractual terms with its customers. The Court stated that the change in customer contracts and billing terms, which affected income recognition, was not a change of accounting method. The Court said, "Although the

(Continued from page 13)

change had consequences in the annual determination of income, such consequences were not produced by the accounting system. In essence, this kind of business policy change was no different from a decision to lower prices or halt production for a year."

In contrast, the taxpayer in FSA 1999-1215 had not changed an underlying fact of its operations which had impacted its inventory valuation, nor had its inventory valuation been affected by a change in facts (such as a change in a law or a change in market prices). Rather, the taxpayer had changed its method of valuing its inventory and "reduced the volume of (x)... attributed to ... inventory".

This taxpayer also cited *Esco Corp. v. United States*, 750 F. 2d 1466 (9th Cir. 1985) and *Baltimore and Ohio Railroad Co. v. United States*, 603 F. 2d 165 (Ct. Cl. 1979). In *Esco*, the Court held that the taxpayer's adoption of a more sophisticated technique to estimate the amount of its accrued workmen's compensation claims was a "change in fact."

In *Baltimore and Ohio Railroad*, the Court held that a change in the taxpayer's formula for estimating the fair market value of track was a change in facts. The Court reasoned that if the underlying fact of value is shown to be wrong, then a change "to the correct factual value" is a change in underlying facts, rather than a change in method of accounting.

The FSA distinguished the *Esco* and *B&O* cases as non-applicable because neither involved inventory estimates or valuations. This was the critical distinction because the regulations contain specific provisions regarding changes in methods of accounting that are related to inventory. *

Inadequate Books & Records

DAMAGE CONTROL

A taxpayer facing a "books and records" issue may attempt to raise technical defenses under Section 481 or under the statute of limitations. Such defenses are not likely to prevail. However, it is always advisable to look for more reasonable and practical ways to compromise the issue with the IRS.

If a taxpayer has not retained detailed information for all its prior years on LIFO, it would be advisable to (1) immediately start saving all of the information for current year computations, (2) immediately attempt to save or acquire information relative to prior years, starting with the most recent years and moving back in time as far as possible, and, (3) attempt to develop an information sharing capability

(Continued from page 12)

through a trade association or peer group in order to reconstruct or fill in product and/or price information for prior years. This information may be available from several sources, and it should be documented as thoroughly as possible—sooner rather than later. If these efforts are not met with success, consideration should be given to pursuing more drastic measures.

The Tax Court has signaled its willingness to support the IRS in *Boecking* in 1993 and *Mountain State Ford Truck Sales* in 1999. Accordingly, the earlier Letter Rulings would seem to have little persuasive effect today. Any agent bent on terminating a LIFO election...or on getting the same result without technically calling it a *termination* (à la *Mountain State Ford*)...could have a field day. *



COMPARISON OF *SUPERLIFO* & IRS NEW ITEMS LISTS FOR NEW VEHICLES IN CALENDAR 1998 YEAR-END INVENTORIES

NEW
ITEMS
LISTS

We are pleased to present our updated **SUPERLIFO** 1999 New Items List and a Report comparing our "unofficial" determinations of new items side-by-side with those made by the IRS Motor Vehicle Industry Specialist in Grand Rapids, MI.

The IRS list dated August 9, 1999 was recently received with the following disclaimer: "This list is similar to the guidance I provide to examiners who audit automobile dealers' tax returns and is the result of research by my staff of the best information available to us. Since the list is not an *Official List*, it does not reflect *Service Position* and examiners are not required to follow it."

Caution: The interpretations reflected in this IRS "unofficial list" are not made by the same IRS (National) Office individuals who wrote Revenue Procedure 97-36 and former Rev. Proc. 92-79.

HOW TO INTERPRET OUR **SUPERLIFO-IRS COMPARATIVE REPORT**

Our Comparative New Items Report covers 15 pages. New automobiles are on pages 1 through 6; new light-duty trucks (including sport utility vehicles, minivans and off-roads) are on pages 7 through 15. The Report shows complete make, model, body style, model code and item category information.

The left-hand side of each Report page shows our **SUPERLIFO** New Items List which has been updated for new information since the compilation of the List published in the March, 1999 *LIFO Lookout*. This List also reflects updating for the '99 **SATURN** SC1 and SC2 2-door coupe models that were continuing models when they were first introduced in mid-1998. (Production of the 2-door models stopped on October 30 and was replaced by a 3-door model as of November 1, 1998, and the 3-door models are new items because Saturn did change the model code number.) This List also now reflects updated **VOLKSWAGEN** Golf model, body style and code numbers for the 1999 model vehicles. This information was not available earlier.

The right-hand side of the Report (including the "Yes" column) shows the IRS' Motor Vehicle Industry Specialist's new item listing. This IRS list was also distributed to industry organizations, state and national auto dealer associations, Factories and other interested parties.

To make it easier to identify the differences in our respective new items listings, where a *new* item on our List also appears on the IRS' list, that detailed item category has not been listed again on the right-hand side.

The "Yes/No" columns should be read as follows: If an "X" appears in the "Yes" column, that item category has been determined by the Internal Revenue Service to be a *new* item category. Thus, every item category listed on the left-hand side of the page with a corresponding "X" in the "Yes" column indicates an item category where we are in agreement with the IRS.

Where there are blank spaces on the left-hand side of the page, but item category entries on the corresponding right-hand side of the page, you can clearly see those item categories (with model numbers) which the IRS concluded were new items, but which we concluded were not.

If an "X" appears in the "No" column, that item category is listed on the left-hand (i.e., **SUPERLIFO**) side, and that "X" indicates an item category that we treated as *new*, but which the IRS did not.

We carefully reviewed our new item determinations and compared them with the IRS lists. The IRS also used a calendar year cut-off, rather than a model year cut-off, in compiling its list. This eliminated many items that otherwise might have been differences resulting from overlapping time periods. But in some instances, varying introduction dates created differences in our respective determinations.

In some instances, we understand why we disagree with the IRS; in other situations, we're not quite sure why we don't agree—other than because of conflicting information or timing differences in our respective resources...or, some of the new industry jargon or the decontenting between models hindered the analysis. The legend on the cover page of the Report explains the abbreviations in the "comment code" column.

IN SUMMARY: Everything listed on the left-hand (our) side with an "X" in the "Yes" column is an item category where we agree with the IRS that it is a *new* item. Everything with an "X" in the "Yes" column is on the IRS' new item list. Everything listed on the right-hand (IRS) side of the page is an item

see **COMPARISON OF *SUPERLIFO* & IRS NEW ITEMS LISTS...**, page 16



category that the IRS considers to be *new*...and we do not. Finally, everything with an "X" in the "No" column is something that we conclude should be a *new* item category, but the IRS does not.

With respect to December 31, 1998 year-end, we identified 500 new item categories (172 autos and 328 light-duty trucks) whereas the IRS identified 471 (186 autos and 285 light-duty trucks). We both reached the same conclusion on 359 new items.

We identified 141 item categories as *new* but the IRS determined were *continuing*. The IRS identified 112 items as *new* which we determined were *continuing*.

For reference purposes, in last year's comparative Report of December 31, 1997 inventories we identified 352 new item categories (200 autos and 152 light-duty trucks), and the IRS identified 493 (291 autos and 202 light-duty trucks).

NEW ITEM: SO WHAT?

New item categories are required to be included in the annual computation of inflation (or deflation) at a 1.000 factor. This is accomplished by using the same dollar amount for the end-of-the-year base cost and for the beginning-of-the-year base cost. Since any number divided by itself equals 1.000, a new item contributes no inflation (or deflation) to the annual index.

However, the inclusion of the same dollar amount in both the numerator and in the denominator of the same fraction will reduce the overall weighted index result (i.e., it depresses the index computed) if there is overall inflation for the year. Alternatively, this new item treatment will increase the overall result (i.e., it increases the index computed) if there would otherwise be overall deflation for the year.

DECONTENTING DROPS SOME INDEXES

This year, Toyota and Mazda are two good examples of how the **decontenting** practices of certain manufacturers caused significant drops in their respective inflation indexes.

The 1999 Camry LE sedan and Corolla CE sedan models underwent some decontenting, under which some equipment that was standard on the 1998 models (Camry LE sedan, anti-lock brakes and Corolla CE sedan, air conditioners) was taken off of the 1999 models and became available only as optional equipment. In both instances, the dealer base price of the vehicles decreased significantly. Toyota did not (for whatever reason) change the model code numbers, reassign previous model codes, nor create new model codes for these '99 vehicles. Nor did the platforms change. Accordingly, these are continuing items—rather than new items—for 1999.

Similar decontenting occurred in certain 1999 Mazda models and resulted in a deflationary impact on the indexes. These Toyota and Mazda models are examples of vehicles that were subject to significant qualitative reductions, but which should not be treated as *new* items under any of the Alternative LIFO Method's three tests. The temptation must be resisted to avoid a deflationary index by treating these item categories as *new* instead of *continuing*. These '99 item categories will reflect "deflation" for LIFO computation purposes even though most, if not all, of their price decreases are due to the manufacturer's removing equipment from the vehicle and requiring the customer to purchase that equipment separately.

NEW INDUSTRY JARGON ADDS TO THE CONFUSION

All manufacturers realize that no one wants to buy a car that is just like last year's...even though often all the manufacturer has to offer is a warmed-over version of last year's model. The industry would be pretty boring without all the exotic model names, fancy color designations and extravagant claims made anew each time prices are raised. Accordingly, industry image enhancers and publicists work overtime to manufacture distinctions by making mountains out of molehills where differences in vehicles between model years are almost imperceptible.

This activity has introduced new industry jargon and at least five differentiating terms. These new terms hinder—rather than help—the analysis required by Section 4.02(5) to determine what vehicle item categories are to be treated as *new* item categories for purposes of the year-to-year link-chain LIFO calculations.

NEW JARGON	CARRY-OVER	Identical to the model sold the previous year; new colors, seating fabric may be offered.
	FRESHEN	Sheet metal untouched; may include new grille, fascia or headlight/taillight treatments.
	RESKIN	Minor styling changes to sheet metal; front and/or rear styling changed from previous year.
	RESTYLE	Same platform as previous year, but extensive changes to exterior and interior design; looks totally different from previous year's model.
	REDESIGN	New platform; new interior and exterior styling; however, engine and transmission could be carryover from previous model year.



At least five new terms seem to be gaining acceptance in the industry. Note that only one ("redesign") involves a new platform. The others would require an accompanying change in the model code, the reassignment of an old model code number, or a new model code before they would be *new*. Absent one of these, the next year's model would be a *continuing* item under the Section 4.02(5) definitions.

The 1999 **FORD** Mustang best illustrates this confusion and the resulting difference in our comparative **SUPERLIFO**-IRS analyses. The 1999 Ford Mustang was extensively restyled, reengineered and qualitatively improved from the 1998 model. This vehicle was variously described in *Automotive News* on July 7, 1998 ("Redesigned Mustang Has More Horses, Keeps Strong Link to Pony-Car Tradition"); August 31, 1998 ("More Muscle for Mustang"); October 12, 1998 ("Mustang Gets Edgy Look, More Horses for '99"); and June 6, 1999 ("Nostalgia Corals Mustang Buyers"). Whoa, baby!

Although the 1999 Mustang was slightly longer and wider, the wheelbase (platform) remained constant at 101.3 inches for both '98 and '99 models. The above articles as well as Factory literature/brochures and sources other than these *Automotive News* articles enthusiastically expound on the changes in the 1999 Mustang.

Despite all of the hype over all of these changes, these changes technically do not make it a *new* item because they do not fall under any of the Section 4.02(5) new item definitions. The 1999 Ford Mustang did not undergo any platform change, nor did Ford (for whatever reason) change the model

code number, reassign a previous model code, or create a new model code for it.

Accordingly, it is our opinion that the 1999 Ford Mustang should be a *continuing* item, notwithstanding its extensive revision. This is a classic case of a vehicle undergoing significant change, with qualitative improvement, but not being treated as a *new* item category under any one of the Alternative Method's three tests.

But... the IRS Motor Vehicle Specialist thinks otherwise. How do you think the people in the IRS National Tax Office who wrote Rev. Proc. 97-36 and its predecessor (92-79) would rule on this?

CERTAIN OTHER DIFFERENCES

Differences in LIFO inflation indexes and LIFO reserve changes can be significant depending on how certain vehicles are treated in the computations. Last year, major differences occurred in new item determinations for **SUBARU** (Impreza and Legacy), **FORD** (Contour, Escort and Taurus), **MERCURY** (Mystique and Sable), **VOLKSWAGEN** (Cabrio, Golf, GTI and Jetta), and **VOLVO** (70 and 90 Series).

This year, in addition to the '99 **FORD** Mustang situation mentioned above, some of the other differences in our analyses involve: **ACURA**, **CHEVY** (Blazer Trucks), **GMC TRUCKS**, **MAZDA** (Protégé) and certain **MITSUBISHI** Montero Sport item categories. These are discussed briefly below.

ACURA: For '98, some Acura item categories were designated as having "Premium Packages," and others were designated as not. For '99, Acura discontinued the "with Premium Package" designations, and offered most of the equipment which was part of the Premium Package as standard on the 1999 models.

For '99, Acura used the model code numbers which had previously been assigned to the 1998 models having Premium Packages, as the model code numbers for the 1999 vehicles on which it had incorporated these package features as standard.

We determined these Acura CL & RL models to be *new* items for 1999 because the equipment levels on the '99's had been changed (i.e., there was a change in the vehicle) and the manufacturer re-assigned to those vehicles the model numbers of the item categories which it had discontinued. The IRS did not treat these as new items.

CHEVY BLAZER TRUCKS: For 1999 models, there were 10 Blazer item categories sharing four basic model codes. For 1998, there had been only 4 "comparable" 1998 model codes. (CS10506, CS10516, CT10506 and CT10516.)

HERE'S WHAT FORD SAID

Ford's 1999 Mustang intro pricing announcement (dated October 27, 1998) said: "Major changes to the styling, performance, and handling enhance the value created by the 1998-Model realignment. All 1999 Mustangs will feature new exterior and revised interior *styling*, improved steering and road feel, smoother and quieter ride, and improved braking. The optional All Speed Traction Control...is a new safety feature, while the V-6 engine produces 190 horsepower to turn the new 15 inch cast aluminum wheels....The V-6 convertible offers all of the enhancements of the Coupe, plus improved rigidity as a result of a new box section brace....In addition to the improvements listed above, the GT offers standard Anti-Lock Brakes, new 16 inch forged aluminum wheels, and a 260 horsepower engine."

see **COMPARISON OF SUPERLIFO & IRS NEW ITEMS LISTS...**, page 18



In eight instances, the 1999 Factory price information was more detailed than was the 1998 Factory price information. In six of these eight cases, the more detailed 1999 item category descriptions differentiated both as to body code and trim level. For these vehicles, the 1998 models had included the trim package as optional equipment, but on the 1999 vehicles, the trim package was standard. These four item categories are listed separately on the manufacturer's '99 price list (the most detailed description provided by the manufacturer), but they had **not** been separately listed on the '98 price lists. Therefore, these six item categories are new items because the manufacturer created a new level of differentiation for 1999.

Note: These determinations should be distinguished from situations where an item category was listed in both years' price lists, and in the current year, the manufacturer either added or removed (1) optional equipment, (2) a changed trim level or (3) some other package of accessories...to or from the standard vehicle.

In the other two instances, the item categories appearing on the 1999 price lists are new items for 1999 because the vehicles did not exist or appear in 1998, but they did appear on the manufacturer's price list in 1999. These two item categories have a lesser or lower trim level than was offered on the 1998's. These are designated as the 2-door, 2WD and on the 2-door, 4WD models.

For 2 of the 4 model codes (listed in the first paragraph, i.e., CS10506 and CT10506) appearing on the manufacturer's 1999 price information, the last '99 item category listed is the continuing item category comparable to the 1998 item category for inflation or deflation index purposes.

Ironically, these vehicles are not treated as new items on the IRS list, and this seems to be inconsistent with the IRS' determination in connection with the GMC Jimmys (discussed next) which the IRS treated as new items. (After all, despite the difference in name, aren't these really the same vehicles?)

GMC JIMMY TRUCKS: For 1999 models, there were 10 Jimmy item categories sharing four basic model codes. For 1998, there had been only 4 "comparable" 1998 model codes. (TS10506, TS10516, TT10506 and TT10516.)

In six instances, the 1999 Factory price information was more detailed than was the 1998 Factory price information. In four of these six cases, the more detailed 1999 item category descriptions differentiated both as to body code and trim level. For these vehicles, the 1998 models had included the trim

package as optional equipment, but on the 1999 vehicles, the trim package was standard. These four item categories are listed separately on the manufacturer's '99 price list (the most detailed description provided by the manufacturer), but they had not been separately listed on the '98 price lists. Therefore, these four item categories are new items because the manufacturer created a new level of differentiation for 1999.

As with the Chevy Blazers, these determinations should be distinguished from situations where an item category was listed in both years' price lists, and in the current year, the manufacturer either added or removed (1) optional equipment, (2) a changed trim level or (3) some other package of accessories ... to or from the standard vehicle.

In the other two instances, the item categories appearing on the 1999 price lists are new items for 1999 because the vehicles did not exist or appear in 1998, but they did appear on the manufacturer's price list in 1999. These two item categories have a lesser or lower trim level than was offered on the 1998's. These are designated as the trim levels R9S on the 2-door, 2WD and on the 2-door, 4WD models.

For each of the 4 model codes listed above (i.e., TS10506, TS10516, TT10506 and TT10516) appearing on the manufacturer's 1999 price information, the first '99 item category listed is the continuing item category comparable to the 1998 item category for inflation or deflation index purposes.

In connection with these GMC Jimmy trucks, the IRS treated all of the item categories as *new* items. Apparently, it did not agree that one can look through all of the detail and pick out from it certain *continuing* items.

MAZDA: According to our information, Mazda Protégés did undergo a platform change, with the wheelbase extended from 102.6 to 102.8 inches on the 1999 models. In our opinion, this should result in *new* item treatment. Apparently, the IRS did not think so.

MITSUBISHI: Item Category(ies) Questioned & SUPERLIFO Conclusion: Montero Sport - 7 new item categories; 1 continuing item category.

For 1998 models, XLS was the top of the line. For 1999 models, LTD, which included leather, was the top of the line. For 1999, the XLS became the "middle of the line" and was similar to the LS last year. What used to be sold on the '98's as an Appearance Package is no longer separately available; if a purchaser wants the Appearance Package features, he or she must purchase the separately designated 1999 item category on which the features are included as standard.

→



For the 1999 models, on the Factory price information there was a model code change: Mitsubishi changed the fifth digit in its 1999 model codes for these item categories ... and this digit change was not a change to designate model year status.

Based on the above (i.e., a change in the model code and a change in the vehicle represented by that

model code), five of the '99 Montero Sport item categories are new items and the corresponding 1998 models were discontinued.

Two item categories that are new in 1999, that did not exist in 1998, are obviously new item categories, also. This brings the total of new item categories for 1999 to seven. *

MAJOR NEW ITEM DIFFERENCES SUPERLIFO VS IRS LISTS

<u>DECEMBER 31, 1996</u>	<u>DECEMBER 31, 1997</u>	<u>DECEMBER 31, 1998</u>
<ul style="list-style-type: none"> Oldsmobiles Plymouth Breezes Ford F150 Pickups Subarus Chevrolet Full-Size Vans GMC Full-Size Vans 	<ul style="list-style-type: none"> Ford Contour, Escort & Taurus Mercury Mystique & Sable Subaru Impreza & Legacy Volkswagen Cabrio, Golf, GTI & Jetta Volvo 70 & 90 Series 	<ul style="list-style-type: none"> Acura Chevy Blazer Trucks Ford Mustang GMC Jimmy Trucks Mazda Protege Mitsubishi Montero Sport

DEFINITION OF A NEW ITEM CATEGORY SEC. 4.02(5)

- Any new or reassigned manufacturer's model code that was caused by a change in an existing vehicle,
- A manufacturer's model code created or reassigned because the classified vehicle did not previously exist, or
- If there is no change in a manufacturer's model code, but there has been a change to the platform (i.e., the piece of metal at the bottom of the chassis that determines the length and width of the vehicle and the structural set-up of the vehicle) that results in a change in track width or wheel base, whether or not the same model name was previously used by the manufacturer, a new item category is created.

REASONS FOR DIFFERENCES IN NEW ITEM LISTS

- Often, where a name change or a code number change occurred, a comparison of the content of the '98 and the '99 models showed no content change in the vehicle. In these cases, we treated the vehicles as continuing items and resisted the temptation to call them new items ... even though the IRS did not.
- Variations in item category breakdown, including situations involving special editions, such as California, Washington, Oregon and Idaho, Massachusetts and New York special values.
- Minor variations in item category breakdowns (i.e., method of listing automatic and 5-speed item categories with the same base price or the extent of recording regionally specific market or value-priced editions).
- Differences in information available at release dates: In some cases, the IRS did not include 1998 models introduced after January 1, 1998, whereas on our list, we included these 1998 models, where appropriate, as *new* items.
- In past years, a major difference between our lists related to the treatment of engine changes: The IRS treated any engine change as automatically resulting in a *new* item, whereas we did not unless one of the other Section 4.02(5) conditions was met. This difference in our prior years' lists was not a major factor this year.



SUPERLIFO™**VS.****IRS****NEW ITEMS
LISTS**

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COMPARISON OF "UNOFFICIAL" NEW ITEM CATEGORY LISTS
SUPERLIFO™ AND INTERNAL REVENUE SERVICE / MOTOR VEHICLE INDUSTRY SPECIALIST

NEW AUTOMOBILES AND LIGHT-DUTY TRUCKS
 INVOLVING MANUFACTURER MODEL YEARS 1998-1999

**SUPERLIFO™ - NEW ITEMS LIST
 FOR CALENDAR YEAR 1998 DEALERS**

**& IRS MOTOR VEHICLE INDUSTRY SPECIALIST
 (DECEMBER, 1998 CALENDAR YEAR)**

LEGEND / COMMENT CODE

E = DIFFERENCE IN ENGINE / MOST DETAILED DESCRIPTION
 OP = OPTION PACKAGES / MOST DETAILED DESCRIPTION

 CA/NY= CALIFORNIA / NEW YORK
 CNYN= CALIFORNIA, NEW YORK, MASSACHUSETTS
 CWOI = CALIFORNIA, WASHINGTON, OREGON, IDAHO

 TIMING = TIMING DIFFERENCE: IRS RECEIVED INFO EARLIER OR LATER

 DIFSC = DIFFERENT INFORMATION SOURCES AVAILABLE TO
 IRS AND / OR TO **SUPERLIFO™**

NUMBER OF NEW ITEMS

	<u>SUPERLIFO™ CATEGORY</u>	<u>IRS CATEGORY</u>
AUTOMOBILES	172	186
LIGHT-DUTY TRUCKS	328	285
TOTAL NEW ITEM CATEGORIES	500	471





**COMPARISON OF "UNOFFICIAL" NEW ITEM CATEGORY LISTS
SUPERLIFO™ AND INTERNAL REVENUE SERVICE / MOTOR VEHICLE INDUSTRY SPECIALIST**

**NEW AUTOMOBILES AND LIGHT-DUTY TRUCKS
FOR CALENDAR YEAR DEALERS - DECEMBER 31, 1998**

SUPERLIFO™ - NEW ITEMS LIST FOR CALENDAR YEAR 1998 DEALERS				IRS MOTOR VEHICLE INDUSTRY (DECEMBER, 1998 CALENDAR YEAR)			PAGE 1 OF 15	
MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
		NEW AUTOMOBILES				NEW AUTOMOBILES		
ACURA	CL	2-DR COUPE 2.3 5-SP	YA315		X		DIFSC	
		2-DR COUPE 2.3 AUTO	YA325		X		DIFSC	
		2-DR COUPE 3.0 AUTO	YA225		X		DIFSC	
	RL	4-DR SEDAN	KA965		X		DIFSC	
		4-DR SEDAN W/NAV PKG	KA966		X			
	TL	4-DR SEDAN 3.2 AUTO	KA968WJW	X		4-DR SEDAN SPECIAL EDITION	DIFSC	98 MODEL
		4-DR SEDAN 3.2 AUTO W/NAV SYS	UA564	X				
			UA565	X				
AUDI	A4 SERIES	4-DR WGN AVANT QUATTRO 1.8T 5-SP	8D55I5	X				
		4-DR WGN AVANT QUATTRO 1.8T AUTO	8D55IZ		X		OP	
	A6 SERIES	4-DR WGN AVANT QUATTRO AUTO	4B54VZ	X				
	A8 SERIES		4B24VK	X		4-DR SEDAN		6TH DIGIT CHANGED
			4D22UK	X		4-DR SEDAN		6TH DIGIT CHANGED
			4D228Z	X		4-DR SEDAN QUATTRO		6TH DIGIT CHANGED
BMW	3 SERIES	323I 4-DR SEDAN 5-SP	44	X				
		323IA 4-DR SEDAN AUTO	49		X		OP	
		328I 4-DR SEDAN 5-SP	42		X		DIFSC	
		328IA 4-DR SEDAN AUTO	47		X		DIFSC	
		M3 2-DR CONVERTIBLE AUTO	37	X				98 MODEL
			32	X		M3 2-DR CONVERTIBLE 5-SP	OP	98 MODEL
	5 SERIES	528IT SPORT WAGON	54	X				
		528ITA SPORT WAGON AUTO	59		X		OP	
		540ITA SPORT WAGON	69	X				
			59	X		540IP 4-DR PROTECTION SEDAN	DIFSC	98 MODEL
	Z3	2-DR COUPE 2.8L 5-SP	29	X				
		2-DR COUPE M	26	X				
		2-DR ROADSTER 2.3L 5-SP	23		X		DIFSC	
		2-DR ROADSTER M	24	X				98 MODEL
	CADILLAC	DE VILLE	4-DR SEDAN GOLDEN ANNIV ED	6KD69 ANN		X		DIFSC
SEVILLE			6KS69	X		4-DR SEDAN SLS	TIMING	98 MODEL 11/97 INTRO
				6KY69	X		4-DR SEDAN STS	TIMING



SUPERLIFO™ - NEW ITEMS LIST FOR CALENDAR YEAR 1998 DEALERS				IRS MOTOR VEHICLE INDUSTRY (DECEMBER, 1998 CALENDAR YEAR)			PAGE 2 OF 15	
MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
CHEVROLET/GEO	CORVETTE	2-DR HARDTOP	1YY37	X				
CHRYSLER	300M CONCORDE LHS	4-DR SEDAN	LHYS41	X				
			LHCH41	X		4-DR SEDAN	TIMING	98 MODEL 12/97 INTRO
		4-DR SEDAN	LHCP41	X				
FERRARI	F355	2-DR SPIDER CONVERTIBLE FSP	F355 FSP		X		DIFSC	
FORD	MUSTANG		P40	X		2-DR COUPE V6 5-SP	DIFSC	
			P44	X		2-DR CONVERTIBLE V6	DIFSC	
			P42	X		2-DR COUPE GT V8	DIFSC	
			P45	X		2-DR CONVERTIBLE GT V8	DIFSC	
			P47	X		2-DR COUPE COBRA V8	DIFSC	
			P48	X		2-DR CONVERTIBLE COBRA V8	DIFSC	
HONDA	ACCORD		CG327 WJW	X		2-DR COUPE ULEV EX AUTO W/CLOTH INT.	TIMING	98 MODEL 10/97 INTRO
			CG327 WJNW	X		2-DR COUPE ULEV EX AUTO W/LEATHER INT.	TIMING	98 MODEL 10/97 INTRO
			CG667 WJW	X		2-DR COUPE ULEV EX AUTO W/CLOTH INT.	TIMING	98 MODEL 10/97 INTRO
			CG667 WJNW	X		2-DR COUPE ULEV EX AUTO W/LEATHER INT.	TIMING	98 MODEL 10/97 INTRO
			CG326	X				
	CIVIC	2-DR COUPE ULEV LX AUTO	CG665	X				
		4-DR SEDAN ULEV LX AUTO	CG665 ABS	X				
		4-DR SEDAN ULEV LX AUTO W/ABS	CG665 ABS	X				
		4-DR SEDAN VALUE PACKAGE AUTO	EJ661	X				
			EM115	X		2-DR COUPE Si 5-SP	TIMING	
HYUNDAI	SONATA	4-DR SEDAN 5-SP	23403	X				
		4-DR SEDAN AUTO	23402	X				
		4-DR SEDAN GLS V6 5-SP	23453	X				
		4-DR SEDAN GLS V6 AUTO	23452	X				
INFINITI	Q20	4-DR SEDAN 5-SP	9205	X				
		4-DR SEDAN AUTO	9201	X				
		4-DR TOURING SEDAN 5-SP	9275	X				
		4-DR TOURING SEDAN AUTO	9271	X				
	Q45	4-DR SEDAN TOURING W/COMMUN	9491		X		DIFSC	98 MODEL
		4-DR SEDAN W/ COMMUN	9441		X		DIFSC	98 MODEL
MAZDA	626 MX-6 MIATA PROTEGE	4-DR SEDAN ES AUTO	626ES AUTO	X				
		2-DR CONVERTIBLE 5-SP	MIA		X		DIFSC	
		4-DR SEDAN DX	PRODX		X		DIFSC	
		4-DR SEDAN ES	PROES		X		DIFSC	
		4-DR SEDAN LX	PROLX		X		DIFSC	
MERCEDES-BENZ	C CLASS CLK	C43 4-DR SEDAN AUTO	C43	X				
		CLK320 2-DR CABRIOLET AUTO	CLK320 A	X				
		CLK430 2-DR COUPE AUTO	CLK430		X		DIFSC	
	E CLASS	4-DR SEDAN AUTO	E55	X				
		E430 4-DR SEDAN AUTO	E430	X				
	SLK	SLK230 2-DR COUPE/ROAD KOMP 5-SP	SLK230		X		DIFSC	98 MODEL

SUPERLIFO™ - NEW ITEMS LIST FOR CALENDAR YEAR 1998 DEALERS				IRS MOTOR VEHICLE INDUSTRY (DECEMBER, 1998 CALENDAR YEAR)			PAGE 3 OF 15	
MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
MERCURY	COUGAR	2-DR COUPE I-4 2-DR COUPE V-6 5-SP	T60 T61	X X				
MITSUBISHI	3000GT GALANT	3-DR SPORT COUPE VR-4 4-DR SEDAN DE AUTO 4-DR SEDAN ES AUTO 4-DR SEDAN ES V-6 AUTO 4-DR SEDAN GTZ V-6 AUTO 4-DR SEDAN LS V-6 AUTO	GT24-T GA41-B AUTO GA41-G AUTO GA41-K AUTO GA41-P AUTO GA41-X AUTO		X X X X X		DIFSC DIFSC DIFSC	
OLDSMOBILE	ALERO	2-DR COUPE GL 2-DR COUPE GLS 2-DR COUPE GX 4-DR SEDAN GL 4-DR SEDAN GLS 4-DR SEDAN GX 4-DR SEDAN 50TH ANNIV ED 4-DR SEDAN GLS	3NL37 3NF37 3NK37 3NL69 3NF69 3NK69 3HC69 3WX69	X X X X X X X				
PLYMOUTH	PROWLER	2-SEAT ROADSTER	PRPS27		X		TIMING	98 MODEL 99 MODEL 1/98 INTRO
PONTIAC	GRAND AM	2-DR COUPE GT 2-DR COUPE GT1 2-DR COUPE SE 2-DR COUPE SE1 2-DR COUPE SE2 4-DR SEDAN GT 4-DR SEDAN GT1 4-DR SEDAN SE 4-DR SEDAN SE1 4-DR SEDAN SE2 2-DR COUPE GTP 4-DR SEDAN GTP 2-DR CONVERTIBLE GT	2NW37 2NW37 GT1 2NE37 2NE37 SE1 2NE37 SE2 2NW69 2NW69 GT1 2NE69 2NE69 SE1 2NE69 SE2 2WR37 GTP 2WR69 GTP 2JB67	X X X X X X X X X X X X				
PORSCHE	911 CARRERA	2-DR CABRIOLET 6-SP 2-DR CABRIOLET TIP 2-DR COUPE 2-DR COUPE TIP-S	996310 993630 996110 996110 TIP	X X X X				
	911 CARRERA 4		996410 996410 996610 996610	X X X X		2-DR COUPE 6-SP 2-DR COUPE TIP 2-DR CABRIOLET 6-SP 2-DR CABRIOLET TIP	TIMING TIMING TIMING TIMING	
ROLLS ROYCE	BENTLEY	ARNAGE CONTINENTAL SC CONTINENTAL SC MULLINER CONTINENTAL T CONTINENTAL T MULLINER	BENTLEY BAR BENTLEY BCSC BENTLEY BCSCM BENTLEY BCT BENTLEY BCTM		X X X X X		DIFSC DIFSC DIFSC DIFSC DIFSC	

A Quarterly Update of LIFO - News, Views and Ideas



SUPERLIFO™ - NEW ITEMS LIST FOR CALENDAR YEAR 1998 DEALERS				IRS MOTOR VEHICLE INDUSTRY (DECEMBER, 1998 CALENDAR YEAR)			PAGE 5 OF 15	
MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
SUBARU	LEGACY	4-DR WGN SSV AWD AUTO	BS		X		DIFSC	
		4-DR WGN OUTBACK LTD ANN W/DUAL SR AUTO	DZ	X				98 MODEL
		4-DR WGN OUTBACK LTD AWD 30 ANN 5-SP	BX		X		DIFSC	98 MODEL
		4-DR WGN OUTBACK LTD AWD 30 ANN AUTO	BY		X		DIFSC	98 MODEL
		4-DR WGN OUTBACK LTD AWD W/MR 30 ANN AUTO	BZ		X		DIFSC	98 MODEL
			BA	X		5-DR WAGON BRIGHTON AWD	DIFSC	
			AL	X		4-DR SEDAN L AWD	DIFSC	2ND DIGIT CHANGED
			BH	X		5-DR WAGON L AWD	DIFSC	2ND DIGIT CHANGED
			BT	X		5-DR WAGON OUTBACK AWD	DIFSC	2ND DIGIT CHANGED
			AC	X		4-DR SEDAN GT AWD	DIFSC	2ND DIGIT CHANGED
			BE	X		5-DR WAGON GT AWD	DIFSC	2ND DIGIT CHANGED
SUZUKI	ESTEEM		WGN64CW	X		4-DR WAGON GL SE AUTO	DIFSC	98 - 6TH DIGIT CHANGED
			WGN64DW	X		4-DR WAGON GLX SE AUTO	DIFSC	98 - 6TH DIGIT CHANGED
			SGL63CX	X		4-DR SEDAN GL 5-SP	DIFSC	6TH DIGIT CHANGED
			SGL64CX	X		4-DR SEDAN GL AUTO	DIFSC	6TH DIGIT CHANGED
			WGN63CX	X		4-DR WAGON 5-SP	DIFSC	6TH DIGIT CHANGED
			WGN64CX	X		4-DR WAGON AUTO	DIFSC	6TH DIGIT CHANGED
TOYOTA	CAMRY	2-DR COUPE SOLARA 4CYL SE 5-SP	2731	X				
		2-DR COUPE SOLARA 4CYL SE AUTO	2732	X				
		2-DR COUPE SOLARA V6 SE 5-SP	2733	X				
		2-DR COUPE SOLARA V6 SE AUTO	2734	X				
		2-DR COUPE SOLARA V6 SLE AUTO	2744	X				
		4-DR SEDAN LE V6 5-SP	2533	X				
	CELICA		2175	X		2-DR SPORT COUPE 5-SP		98 MODEL 1/98 INTRO
			2172	X		2-DR SPORT COUPE AUTO		98 MODEL 1/98 INTRO
VOLKSWAGEN	BEETLE	2-DR GLS 2.0 5-SP	1C15K4		X		DIFSC	
		2-DR GLS 2.0 AUTO	1C15K3		X		DIFSC	
		2-DR GLS 2.0 CNYM 5-SP	1C15M4		X		CNYM	
		2-DR GLS 2.0 CNYM AUTO	1C15M3		X		CNYM	
			1C13L4	X		2-DR HATCHBACK 5-SP	TIMING	98 MODEL 11/97 INTRO
			1C13M4	X		2-DR HATCHBACK 5-SP CNYM	TIMING	98 MODEL 11/97 INTRO
			1C13L3	X		2-DR HATCHBACK AUTO	TIMING	98 MODEL 11/97 INTRO
			1C13M3	X		2-DR HATCHBACK AUTO CNYM	TIMING	98 MODEL 11/97 INTRO
			1C1354	X		2-DR HATCHBACK TDI 5-SP	TIMING	98 MODEL 11/97 INTRO
			1C1353	X		2-DR HATCHBACK TDI AUTO	TIMING	98 MODEL 11/97 INTRO
	GOLF		1C1554	X		2-DR HATCHBACK GLS TDI	DIFSC	2ND & 4TH DIGIT CHANGED
			1C15T4	X		2-DR HATCHBACK GLS	DIFSC	
			1C17T4	X		2-DR HATCHBACK GLX	DIFSC	
		2-DR HATCHBACK GL 5-SP	1J13L4		X		TIMING	99 MODEL 12/98 INTRO
		2-DR HATCHBACK GL AUTO	1J13L3		X		TIMING	99 MODEL 12/98 INTRO
		2-DR HATCHBACK GL TDI 5-SP	1J1334		X		TIMING	99 MODEL 12/98 INTRO



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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
VOLKSWAGEN	GOLF	2-DR HATCHBACK GL TDI AUTO	1J1333		X		TIMING	99 MODEL 12/98 INTRO
		2-DR HATCHBACK GTI GLS 5-SP	1J16L4	X				
		2-DR HATCHBACK GTI GLS AUTO	1J16L3		X		TIMING	99 MODEL 12/98 INTRO
		2-DR HATCHBACK GTI GLX VR6 5-SP	1J16X4	X				
		4-DR HATCHBACK GLS 5-SP	1J1CL4		X		TIMING	99 MODEL 12/98 INTRO
		4-DR HATCHBACK GLS AUTO	1J1CL3		X		TIMING	99 MODEL 12/98 INTRO
		4-DR HATCHBACK GLS TDI 5-SP	1J1C34		X		TIMING	99 MODEL 12/98 INTRO
		4-DR HATCHBACK GLS TDI AUTO	1J1C33		X		TIMING	99 MODEL 12/98 INTRO
	JETTA	4-DR SEDAN GL 2.0 5-SP	9M22K4	X				
		4-DR SEDAN GL 2.0 AUTO	9M22K3	X				
		4-DR SEDAN GL 2.0 CNYM 5-SP	9M22M4	X				
		4-DR SEDAN GL 2.0 CNYM AUTO	9M22M3	X				
		4-DR SEDAN GL TDI 1.9 5-SP	9M2254	X				
		4-DR SEDAN GL TDI 1.9 AUTO	9M2253	X				
		4-DR SEDAN GLS 2.0 5-SP	9M28K4	X				
		4-DR SEDAN GLS 2.0 AUTO	9M28K3	X				
		4-DR SEDAN GLS 2.0 CNYM 5-SP	9M28M4	X				
		4-DR SEDAN GLS 2.0 CNYM AUTO	9M28M3	X				
		4-DR SEDAN GLS TDI 1.9 5-SP	9M2854	X				
		4-DR SEDAN GLS TDI 1.9 AUTO	9M2853	X				
			9M28W4	X		4-DR SEDAN GLS VR6	DIFSC	
			9M26W4	X		4-DR SEDAN GLX VR6	DIFSC	
		4-DR SEDAN WOLFSBURG 5-SP	1W2WQ4	X				98 MODEL
			1W2WM4	X		4-DR SEDAN WOLFSBURG 5-SP CNYM	TIMING	98 MODEL 8/97 INTRO
		4-DR SEDAN WOLFSBURG AUTO	1W2WQ3	X				98 MODEL
	PASSAT		1W2WM3	X		4-DR SEDAN WOLFSBURG AUTO CNYM	TIMING	98 MODEL 8/97 INTRO
			3B25S5	X		4-DR SEDAN GLX 5-SP	TIMING	98 MODEL 9/97 INTRO
			3B25S9	X		4-DR SEDAN GLX AUTO	TIMING	98 MODEL 9/97 INTRO
		4-DR SEDAN GLX SYNCRO AUTO	3B25S6		X		DIFSC	
		5-DR WAGON GLS 5-SP	3B54K5	X				
		5-DR WAGON GLS AUTO	3B54K9	X				
		5-DR WAGON GLS V6 5-SP	3B54S5	X				
		5-DR WAGON GLS V6 AUTO	3B54S9	X				
		5-DR WAGON GLX SYNCRO AUTO	3B54S6		X		DIFSC	
			3B54S6	X		5-DR WAGON GLX SYNCRO 5-SP	DIFSC	
			3B54S9	X		5-DR WAGON GLX SYNCRO AUTO	DIFSC	
			3B24S5	X		4-DR SEDAN GLS V6 5-SP	TIMING	98 MODEL 9/97 INTRO
			3B24S9	X		4-DR SEDAN GLS V6 AUTO	TIMING	98 MODEL 9/97 INTRO
VOLVO	70 SERIES		C70M	X		C70 2-DR COUPE 5-SP	TIMING	98 MODEL 4/97 INTRO
			C70A	X		C70 2-DR COUPE AUTO	TIMING	98 MODEL 4/97 INTRO
			C70HT	X		C70 2-DR COUPE HT 5-SP	DIFSC	
			C70HT	X		C70 2-DR COUPE HT AUTO	DIFSC	
		C70 2-DR CONVERTIBLE AUTO	C70LTACV	X				
		C70 2-DR COUPE LT W/SR AUTO	C70LTASR	X				
	80 SERIES	S70 4-DR SEDAN AWD AUTO	S70AWDA		X		DIFSC	
		4-DR SEDAN 2.9 AUTO	S80 2.9	X				
		4-DR SEDAN T-6 AUTO	S80 T-6	X				



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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS		
		NEW LIGHT DUTY TRUCKS				NEW LIGHT DUTY TRUCKS				
CADILLAC	ESCALADE	4-DR SPORT UTILITY	6K10706		X		DIFSC			
CHEVROLET / GEO	ASTRO VAN BLAZER	PASSENGER VAN AWD CWOI	CL11006 CWOI		X		CWOI			
		2-DR 2WD BASE	CS10516		X		DIFSC			
		2-DR 2WD LS	CS10516 LS		X		DIFSC			
		2-DR 4WD BASE	CT10516		X		DIFSC			
		2-DR 4WD LS	CT10516 LS		X		DIFSC			
		4-DR 2WD LS	CS10506 LS		X		DIFSC			
		4-DR 2WD LT	CS10506 LT		X		DIFSC			
		4-DR 2WD TRAILBLAZER	CS10506 TB		X		DIFSC			
		4-DR 4WD LS	CT10506 LS		X		DIFSC			
		4-DR 4WD LT	CT10506 LT		X		DIFSC			
		4-DR 4WD TRAILBLAZER	CT10506 TB		X		DIFSC			
		C-K PICKUP		CC10753		X		2WD 1500 F/S EXT CAB 141.5WB	DIFSC	
				CK10753		X		4WD K1500 F/S EXT CAB 141.5	DIFSC	
			CC20743			X		DIFSC		
			CC30743			X		DIFSC		
			CK20743			X		DIFSC		
			CK30743			X		DIFSC		
	SILVERADO		2WD C1500 EXT CAB LS LWB	CC15953 LS		X				
			2WD C1500 EXT CAB LS SWB	CC15753 LS		X				
			2WD C1500 EXT CAB LT LWB	CC15953 LT		X				
			2WD C1500 EXT CAB LT SWB	CC15753 LT		X				
		2WD C1500 EXT CAB LWB	CC15953		X					
		2WD C1500 EXT CAB SWB	CC15753		X					
		2WD C1500 REG CAB LS LWB	CC15903 LS		X					
		2WD C1500 REG CAB LS SWB	CC15703 LS		X					
		2WD C1500 REG CAB LWB	CC15903		X					
		2WD C1500 REG CAB SWB	CC15703		X					
		2WD C2500 EXT CAB LS LWB	CC25953 LS		X					
		2WD C2500 EXT CAB LT LWB	CC25953 LT		X					
		2WD C2500 EXT CAB LT SWB	CC25753 LT		X					
		2WD C2500 EXT CAB LWB	CC25953		X					
		2WD C2500 EXT CAB SWB	CC25753		X					
		2WD C2500 EXT CAB LS SWB	CC25753 LS		X					
2WD C2500 REG CAB H/D		CC25903 HD		X						
2WD C2500 REG CAB H/D LS		CC25903 HDLS		X						
2WD C2500 REG CAB L/D		CC25903 LD		X						
2WD C2500 REG CAB L/D LS	CC25903 LDLS		X							
4WD K1500 EXT CAB LS LWB	CK15953 LS		X							
4WD K1500 EXT CAB LS SWB	CK15753 LS		X							
4WD K1500 EXT CAB LT LWB	CK15953 LT		X							
4WD K1500 EXT CAB LT SWB	CK15753 LT		X							
4WD K1500 EXT CAB LWB	CK15953		X							
4WD K1500 EXT CAB SWB	CK15753		X							
4WD K1500 REG CAB LS LWB	CK15903 LS		X							



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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS	
CHEVROLET / GEO	SILVERADO	4WD K1500 REG CAB LS SWB	CK15703 LS	X					
		4WD K1500 REG CAB LWB	CK15903	X					
		4WD K1500 REG CAB SWB	CK15703	X					
		4WD K2500 EXT CAB LS LWB	CK25953 LS	X					
		4WD K2500 EXT CAB LS SWB	CK25753 LS	X					
		4WD K2500 EXT CAB LT LWB	CK25953 LT	X					
		4WD K2500 EXT CAB LT SWB	CK25753 LT	X					
		4WD K2500 EXT CAB LWB	CK25953	X					
		4WD K2500 EXT CAB SWB	CK25753	X					
		4WD K2500 REG CAB	CK25903	X					
		4WD K2500 REG CAB LS	CK25903 LS	X					
	SILVERADO CHASSIS CAB	2WD C2500 FS CHASSIS CAB	CC25903 CC		X		DIFSC		
		2WD C2500 FS CHASSIS CAB LS	CC25903 CCLS		X		DIFSC		
		4WD K2500 FS CHASSIS CAB	CK25903 CC		X		DIFSC		
		4WD K2500 FS CHASSIS CAB LS	CK25903 CCLS		X		DIFSC		
	TRACKER	2-DR 2WD CONVERTIBLE	CE10367		X		TIMING	99 MODEL 11/98 INTRO	
		2-DR 4WD CONVERTIBLE	CJ10367		X		TIMING	99 MODEL 11/98 INTRO	
		4-DR 2WD HARDTOP	CE10305		X		TIMING	99 MODEL 11/98 INTRO	
		4-DR 4WD HARDTOP	CJ10305		X		TIMING	99 MODEL 11/98 INTRO	
CHRYSLER	TOWN & COUNTRY	MPV LTD AWD	NSCS53 LTD		X		TIMING	99 MODEL 1/98 INTRO	
		MPV LTD FWD	NSYS53 LTD		X		TIMING	99 MODEL 1/98 INTRO	
DODGE	CARAVAN	CARAVAN SPORT	NSKH52 SP		X		DIFSC	98 MODEL	
		GRAND CARAVAN ES	NSKX53 ES		X		DIFSC		
		GRAND CARAVAN ES AWD	NSDX53 ES		X		DIFSC		
		GRAND CARAVAN SPORT	NSKH53 SP		X		DIFSC	98 MODEL	
	DURANGO	4-DR 2WD WAGON V8	DN1L74	X					
	RAM PICKUP		DN1L74	X		4-DR 2WD SPORT UTILITY V6	E		
			BR1E61 WS	X		2WD REG CAB WS SWEPTLINE 119WB	DIFSC	4TH DIGIT CHANGED	
	RAM VAN		BR1E62	X		2WD REG CAB WS SWEPTLINE 135WB	DIFSC	4TH DIGIT CHANGED	
			AB1L11	X		1500 CARGO VAN V6 109WB	DIFSC	98 MODEL	
			AB1X11	X		1500 CONVERSION VAN V6 109WB	DIFSC	98 MODEL	
		1500 CONVERSION VAN 109WB	AB1X11		X		TIMING	99 MODEL 7/98 INTRO	
			AB1L12	X		1500 CARGO VAN V6 127WB	DIFSC	98 MODEL	
			AB1L13	X		1500 MAXI VAN V6 127WB	TIMING	98 MODEL 9/97 INTRO	
			AB1X12	X		1500 CONVERSION VAN V8 127WB	DIFSC	98 MODEL	
		1500 CONVERSION VAN 127WB	AB1X12		X		TIMING	99 MODEL 7/98 INTRO	
			AB2L12	X		2500 CARGO VAN	DIFSC	98 MODEL	
			AB2X12	X		2500 CONVERSION VAN	DIFSC	98 MODEL	
			AB2L13	X		2500 MAXI VAN	DIFSC	98 MODEL	
			AB3L12	X		3500 NON-MAXI CARGO VAN	DIFSC	98 MODEL	
			AB3X13	X		3500 MAXI CONVERSION VAN	DIFSC	98 MODEL	



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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
FORD	F250 SUPER DUTY PICKUP	2WD CREW CAB LARIAT LWB	W20 LARLWB	X				
		2WD CREW CAB LARIAT SWB	W20 LARSWB	X				
		2WD CREW CAB XL LWB	W20 XLLWB	X				
		2WD CREW CAB XL SWB	W20 XLSWB	X				
		2WD CREW CAB XLT LWB	W20 XLTLWB	X				
		2WD CREW CAB XLT SWB	W20 XLTSWB	X				
		2WD REG CAB LARIAT	F20 LAR	X				
		2WD REG CAB XL	F20 XL	X				
		2WD REG CAB XLT	F20 XLT	X				
		2WD SUPERCAB LARIAT LWB	X20 LARLWB	X				
		2WD SUPERCAB LARIAT SWB	X20 LARSWB	X				
		2WD SUPERCAB XL LWB	X20 XLLWB	X				
		2WD SUPERCAB XL SWB	X20 XLSWB	X				
		2WD SUPERCAB XLT LWB	X20 XLTLWB	X				
		2WD SUPERCAB XLT SWB	X20 XLTSWB	X				
		4WD CREW CAB LARIAT LWB	W21 LARLWB	X				
		4WD CREW CAB LARIAT SWB	W21 LARSWB	X				
		4WD CREW CAB XL LWB	W21 XLLWB	X				
		4WD CREW CAB XL SWB	W21 XLSWB	X				
		4WD CREW CAB XLT LWB	W21 XLTLWB	X				
		4WD CREW CAB XLT SWB	W21 XLTSWB	X				
		4WD REG CAB LARIAT	F21 LAR	X				
		4WD REG CAB XL	F21 XL	X				
		4WD REG CAB XLT	F21 XLT	X				
		4WD SUPERCAB LARIAT LWB	X21 LARLWB	X				
		4WD SUPERCAB LARIAT SWB	X21 LARSWB	X				
		4WD SUPERCAB XL LWB	X21 XLLWB	X				
		4WD SUPERCAB XL SWB	X21 XLSWB	X				
		4WD SUPERCAB XLT LWB	X21 XLTLWB	X				
		4WD SUPERCAB XLT SWB	X21 XLTSWB	X				
	F350 SUPER DUTY PICKUP	2WD CREW CAB LARIAT DRW LWB	W32 LARLWB	X				
		2WD CREW CAB LARIAT DRW SWB	W32 LARSWB	X				
		2WD CREW CAB LARIAT SRW LWB	W30 LARLWB	X				
		2WD CREW CAB LARIAT SRW SWB	W30 LARSWB	X				
		2WD CREW CAB XL DRW LWB	W32 XLLWB	X				
		2WD CREW CAB XL DRW SWB	W32 XLSWB	X				
		2WD CREW CAB XL SRW LWB	W30 XLLWB	X				
		2WD CREW CAB XL SRW SWB	W30 XLSWB	X				
		2WD CREW CAB XLT DRW LWB	W32 XLTLWB	X				
		2WD CREW CAB XLT DRW SWB	W32 XLTSWB	X				
		2WD CREW CAB XLT SRW LWB	W30 XLTLWB	X				
		2WD CREW CAB XLT SRW SWB	W30 XLTSWB	X				
		2WD REG CAB LARIAT DRW	F32 LAR	X				
		2WD REG CAB LARIAT SRW	F30 LAR	X				
		2WD REG CAB XL DRW	F32 XL	X				
		2WD REG CAB XL SRW	F30 XL	X				



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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
FORD	F250 SUPER DUTY PICKUP	2WD REG CAB XLT DRW	F32 XLT	X				
		2WD REG CAB XLT SRW	F30 XLT	X				
		2WD SUPERCAB LARIAT DRW	X32 LAR	X				
		2WD SUPERCAB LARIAT SRW LWB	X30 LARLWB	X				
		2WD SUPERCAB LARIAT SRW SWB	X30 LARSWB	X				
		2WD SUPERCAB XL DRW	X32 XL	X				
		2WD SUPERCAB XL SRW LWB	X30 XLLWB	X				
		2WD SUPERCAB XL SRW SWB	X30 XLSWB	X				
		2WD SUPERCAB XLT DRW	X32 XLT	X				
		2WD SUPERCAB XLT SRW LWB	X30 XLTLWB	X				
		2WD SUPERCAB XLT SRW SWB	X30 XLTSWB	X				
		4WD CREW CAB LARIAT DRW LWB	W33 LARLWB	X				
		4WD CREW CAB LARIAT DRW SWB	W33 LARSWB	X				
		4WD CREW CAB LARIAT SRW LWB	W31 LARLWB	X				
		4WD CREW CAB LARIAT SRW SWB	W31 LARSWB	X				
		4WD CREW CAB XL DRW LWB	W33 XLLWB	X				
		4WD CREW CAB XL DRW SWB	W33 XLSWB	X				
		4WD CREW CAB XL SRW LWB	W31 XLLWB	X				
		4WD CREW CAB XL SRW SWB	W31 XLSWB	X				
		4WD CREW CAB XLT DRW LWB	W33 XLTLWB	X				
		4WD CREW CAB XLT DRW SWB	W33 XLTSWB	X				
		4WD CREW CAB XLT SRW LWB	W31 XLTLWB	X				
		4WD CREW CAB XLT SRW SWB	W31 XLTSWB	X				
		4WD REG CAB LARIAT DRW	F33 LAR	X				
		4WD REG CAB LARIAT SRW	F31 LAR	X				
		4WD REG CAB XL DRW	F33 XL	X				
		4WD REG CAB XL SRW	F31 XL	X				
		4WD REG CAB XLT DRW	F33 XLT	X				
		4WD REG CAB XLT SRW	F31 XLT	X				
		4WD SUPERCAB LARIAT DRW	X33 LAR	X				
		4WD SUPERCAB LARIAT SRW LWB	X31 LARLWB	X				
		4WD SUPERCAB LARIAT SRW SWB	X31 LARSWB	X				
		4WD SUPERCAB XL DRW	X33 XL	X				
		4WD SUPERCAB XL SRW LWB	X31 XLLWB	X				
		4WD SUPERCAB XL SRW SWB	X31 XLSWB	X				
		4WD SUPERCAB XLT DRW	X33 XLT	X				
		4WD SUPERCAB XLT SRW LWB	X31 XLTLWB	X				
		4WD SUPERCAB XLT SRW SWB	X31 XLTSWB	X				
	SUPER DUTY CAB CHASSIS	2WD F350 CREW CAB DRW XL	W36 XL	X				
		2WD F350 CREW CAB DRW XLT	W36 XLT	X				
		2WD F350 CREW CAB LARIAT DRW	W36 LAR		X		TIMING	99 MODEL 12/98 INTRO
		2WD F350 CREW CAB LARIAT SRW	W34 LAR		X		TIMING	99 MODEL 12/98 INTRO
		2WD F350 CREW CAB SRW XL	W34 XL	X				
		2WD F350 CREW CAB SRW XLT	W34 XLT	X				
		2WD F350 REG CAB DRW XL LWB	F36 XLLWB	X				
		2WD F350 REG CAB DRW XL SWB	F36 XLSWB	X				

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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
FORD	SUPER DUTY CAB/CHASSIS	2WD F350 REG CAB DRW XLT LWB	F36 XLT LWB	X				
		2WD F350 REG CAB DRW XLT SWB	F36 XLT SWB	X				
		2WD F350 REG CAB LARIAT DRW LWB	F36 LAR LWB		X		TIMING	99 MODEL 12/98 INTRO
		2WD F350 REG CAB LARIAT DRW SWB	F36 LSR SWB		X		TIMING	99 MODEL 12/98 INTRO
		2WD F350 REG CAB LARIAT SRW	F34 LAR		X		TIMING	99 MODEL 12/98 INTRO
		2WD F350 REG CAB SRW XL	F34 XL	X				
		2WD F350 REG CAB SRW XLT	F34 XLT	X				
		2WD F350 SUPERCAB DRW XL	X36 XL	X				
		2WD F350 SUPERCAB DRW XLT	X36 XLT	X				
		2WD F350 SUPERCAB LARIAT DRW	X36 LAR		X		TIMING	99 MODEL 12/98 INTRO
		2WD F350 SUPERCAB LARIAT SRW	X34 LAR		X		TIMING	99 MODEL 12/98 INTRO
		2WD F350 SUPERCAB SRW XL	X34 XL	X				
		2WD F350 SUPERCAB SRW XLT	X34 XLT	X				
		4WD F350 CREW CAB DRW XL	W37 XL	X				
		4WD F350 CREW CAB DRW XLT	W37 XLT	X				
		4WD F350 CREW CAB LARIAT DRW	W37 LAR		X		TIMING	99 MODEL 12/98 INTRO
		4WD F350 CREW CAB LARIAT SRW	W35 LAR		X		TIMING	99 MODEL 12/98 INTRO
		4WD F350 CREW CAB SRW XL	W35 XL	X				
		4WD F350 CREW CAB SRW XLT	W35 XLT	X				
		4WD F350 REG CAB DRW XL LWB	F37 XLLWB	X				
		4WD F350 REG CAB DRW XL SWB	F37 XLSWB	X				
		4WD F350 REG CAB DRW XLT LWB	F37 XLT LWB	X				
		4WD F350 REG CAB DRW XLT SWB	F37 XLT SWB	X				
		4WD F350 REG CAB LARIAT DRW LWB	F37 LAR LWB		X		TIMING	99 MODEL 12/98 INTRO
		4WD F350 REG CAB LARIAT DRW SWB	F37 LAR SWB		X		TIMING	99 MODEL 12/98 INTRO
		4WD F350 REG CAB LARIAT SRW	F35 LAR		X		TIMING	99 MODEL 12/98 INTRO
		4WD F350 REG CAB SRW XL	F35 XL	X				
		4WD F350 REG CAB SRW XLT	F35 XLT	X				
		4WD F350 SUPERCAB DRW XL	X37 XL	X				
		4WD F350 SUPERCAB DRW XLT	X37 XLT	X				
		4WD F350 SUPERCAB LARIAT DRW	X37 LAR		X		TIMING	99 MODEL 12/98 INTRO
		4WD F350 SUPERCAB LARIAT SRW	X35 LAR		X		TIMING	99 MODEL 12/98 INTRO
		4WD F350 SUPERCAB SRW XL	X35 XL	X				
		4WD F350 SUPERCAB SRW XLT	X35 XLT	X				
	WINDSTAR	3/4-DR WAGON 3.0L	A51	X				
		3/4-DR WAGON LX	A51 LX	X				
		4-DR WAGON SE	A52	X				
		4-DR WAGON SEL	A53	X				
		VAN	A54	X				
GMC TRUCKS	C-K SIERRA PICKUP	2WD 2500 CREW CAB 154.5	TC20743		X		DIFSC	
		4WD 2500 CREW CAB 154.5	TK20743		X		DIFSC	
		2WD 3500 CREW CAB 154.5	TC30743		X		DIFSC	
		4WD 3500 CREW CAB 154.5	TK30743		X		DIFSC	
	JIMMY	2WD 2-DR WAGON R9S	TS10516 R9S	X				
		2WD 4-DR WAGON YC5	TS10506 YC5	X				



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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
GMC TRUCKS	JIMMY	2WD 4-DR WAGON YC6	TS10506 YC6	X				
		4WD 2-DR WAGON R9S	TT10516 R9S	X				
		4WD 4-DR WAGON ENVOY	TT10506 ENV	X				
		4WD 4-DR WAGON YC5	TT10506 YC5	X				
		4WD 4-DR WAGON YC6	TT10506 YC6	X				
	SIERRA CLASSIC							
		2WD 1500 W/S EXT CAB	TC10753		X		DIFSC	
	SIERRA PICKUP	4WD 1500 W/S EXT CAB	TK10753		X		DIFSC	
		2WD 1500 EXT CAB SL LWB	TC15953 SL	X				
		2WD 1500 EXT CAB SL SWB	TC15753 SL	X				
		2WD 1500 EXT CAB SLE LWB	TC15953 SLE	X				
		2WD 1500 EXT CAB SLE SWB	TC15953 SLT	X		2WD 1500 EXT CAB SLT LWB	OP	
		2WD 1500 EXT CAB SLE SWB	TC15753 SLE	X				
		2WD 1500 EXT CAB SLE SWB	TC15753 SLT	X		2WD 1500 EXT CAB SLT SWB	OP	
		2WD 1500 REG CAB SL LWB	TC15903 SL	X				
		2WD 1500 REG CAB SL SWB	TC15703 SL	X				
		2WD 1500 REG CAB SLE LWB	TC15903 SLE	X				
		2WD 1500 REG CAB SLE SWB	TC15703 SLE	X				
		2WD 2500 EXT CAB SL LWB	TC25953 SL	X				
		2WD 2500 EXT CAB SL SWB	TC25753 SL	X				
		2WD 2500 EXT CAB SLE LWB	TC25953 SLE	X				
		2WD 2500 EXT CAB SLE SWB	TC25953 SLT	X		2WD 2500 EXT CAB SLT LWB	OP	
		2WD 2500 EXT CAB SLE SWB	TC25753 SLE	X				
		2WD 2500 EXT CAB SLE SWB	TC25753 SLT	X		2WD 2500 EXT CAB SLT SWB	OP	
		2WD 2500 REG CAB SL H/D	TC25903 SLHD	X				
		2WD 2500 REG CAB SL L/D	TC25903 SL	X				
		2WD 2500 REG CAB SLE H/D	TC25903 SLEHD	X				
		2WD 2500 REG CAB SLE L/D	TC25903 SLE	X				
		4WD 1500 EXT CAB SL LWB	TK15953 SL	X				
		4WD 1500 EXT CAB SL SWB	TK15753 SL	X				
		4WD 1500 EXT CAB SLE LWB	TK15953 SLE	X				
		4WD 1500 EXT CAB SLE SWB	TK15753 SLE	X				
		4WD 1500 EXT CAB SLE SWB	TK15753 SLT	X		4WD 2500 EXT CAB SLT SWB	OP	
		4WD 1500 EXT CAB SLE SWB	TK15953 SLT	X		4WD 2500 EXT CAB SLT LWB	OP	
		4WD 1500 REG CAB SL LWB	TK15903 SL	X				
		4WD 1500 REG CAB SL SWB	TK15703 SL	X				
		4WD 1500 REG CAB SLE LWB	TK15903 SLE	X				
		4WD 1500 REG CAB SLE SWB	TK15703 SLE	X				
		4WD 2500 EXT CAB SL LWB	TK25953 SL	X				
		4WD 2500 EXT CAB SL SWB	TK25753 SL	X				
		4WD 2500 EXT CAB SLE LWB	TK25953 SLE	X				
		4WD 2500 EXT CAB SLE SWB	TK25753 SLE	X		4WD 2500 EXT CAB SLT LWB	OP	
		4WD 2500 EXT CAB SLE SWB	TK25753 SLT	X		4WD 2500 EXT CAB SLT SWB	OP	
		4WD 2500 REG CAB SL	TK25903 SL	X				
		4WD 2500 REG CAB SLE	TK25903 SLE	X				
	YUKON		TK10706	X		4-DR 4WD YUKON DENALI	TIMING	99 MODEL 12/97 INTRO



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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS
HONDA	CR-V	2WD 5-DR LX AUTO	RD284	X				98 MODEL
		4WD 5-DR EX 5-SP	RD176	X				98 MODEL
		4WD 5-DR EX AUTO	RD186		X		OP	
		4WD 5-DR LX 5-SP	RD174	X				98 MODEL
	ODYSSEY	5-DR EX W/2ND ROW BUCKET AUTO	RL186		X		TIMING	99 MODEL 10/98 INTRO
		5-DR LX W/2ND ROW BENCH AUTO	RL184		X		TIMING	99 MODEL 10/98 INTRO
		5-DR LX W/2ND ROW BUCKET AUTO	RL185		X		TIMING	99 MODEL 10/98 INTRO
ISUZU	AMIGO	2WD S 5-SP	B15	X				98 MODEL
		2WD S HARDTOP 5-SP	E15	X				
		2WD S HARDTOP V6 AUTO	F14	X				
		2WD S V6 AUTO	A14	X				
		4WD S 5-SP	C15	X				98 MODEL
		4WD S HARDTOP V6 AUTO	G14	X				
		4WD S V6 5-SP	D15	X				98 MODEL
		4WD S V6 AUTO	D14	X				
	HOMBRE		T35	X		4WD REG CAB S 5-SP	TIMING	98 MODEL 10/97 INTRO
			T65	X		4WD SPACECAB XS 5-SP	TIMING	98 MODEL 10/97 INTRO
			T64	X		4WD SPACECAB XS AUTO	TIMING	98 MODEL 10/97 INTRO
	RODEO	2WD 4-DR LS 5-SP	R55		X		DIFSC	
		2WD 4-DR LSE AUTO	R64		X		DIFSC	
		4WD 4-DR LSE AUTO	V64		X		DIFSC	
		4WD 4-DR LTD AUTO W/PERF PKG	M74		X		DIFSC	
	TROOPER	4WD LS AUTO W/PERF PKG	M64		X		DIFSC	
	JEEP	GRAND CHEROKEE	4-DR 2WD WAGON LAREDO	WJTL74 LAR	X			
4-DR 2WD WAGON LIMITED			WJTL74 LTD	X				
4-DR 4WD WAGON LAREDO			WJL74 LAR	X				
4-DR 4WD WAGON LIMITED			WJL74 LTD	X				
KIA	SPORTAGE	4X2 2-DR DOHC CONVERT AUTO	42212	X				
		4X4 2-DR DOHC CONVERT 5-SP	42411	X				
LAND ROVER / RANGE ROVER	LAND ROVER DISCOVERY	4-DR 4WD HARDTOP SD AUTO	SDVZ SD		X		DIFSC	
		SERIES II W/CLOTH	SDVC	X				
		SERIES II W/LEATHER	SDVL	X				
	RANGE ROVER	4-DR 4WD 4.0 SE	SXLD	X				
		4-DR 4WD 4.6 HSE	SXLQ	X				
LEXUS	LX470	LUXURY SPORT UTILITY AUTO	9600	X				98 MODEL
		LUXURY SPORT UTILITY AUTO	9620	X				99 MODEL 3RD DIGIT CHANGED
		LUXURY SPORT UTILITY AUTO CANY	9610	X				98 MODEL
	RX 300	4-DR FWD LUX SPORT UT AUTO	9400	X				99 MODEL
		4-DR FWD LUX SPORT UT AUTO	9420		X		DIFSC	99 MODEL 3RD DIGIT CHANGED
		4-DR 4WD LUX SPORT UT AUTO	9404	X				99 MODEL

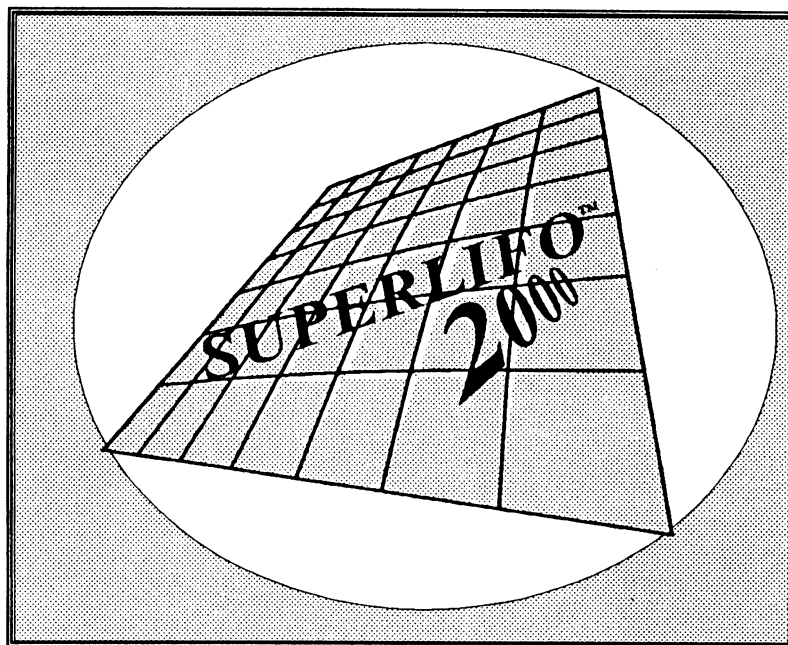


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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO	BODY STYLE	COMMENT CODE	COMMENTS	
LEXUS	RX 300	4-DR 4WD LUX SPORT UT AUTO	9424		X				
			9410	X		2WD 4-DR SPORT UT AUTO CANY	DIFSC	99 MODEL 3RD DIGIT CHANGED	
			9414	X		4-DR FWD LUX SPORT UT AUTO CANY	CANY	98 MODEL	
MAZDA	B SERIES PICKUP							99 MODEL	
		4X2 B2500 CAB PLUS 4 SE 5-SP	B254SE2P	X					
		4X2 B3000 CAB PLUS 4 SE 5-SP	B304SE2P	X					
		4X2 B3000 CAB PLUS 4 SE AUTO	B304SE2A		X		OP		
		4X2 B4000 CAB PLUS 4 SE AUTO	B404SE2A	X					
		4X2 B4000 REG CAB SE 5-SP	B40SSE2P	X					
		4X4 B3000 CAB PLUS 4 SE 5-SP	B3X4SEXP	X					
		4X4 B3000 CAB PLUS 4 SE AUTO	B3X4SEXA		X		OP		
		4X4 B4000 CAB PLUS 4 SE 5-SP	B4X4SEXP	X					
		4X4 B4000 CAB PLUS 4 SE AUTO	B4X4SEXA		X		OP		
MERCEDES	M CLASS	ML430 4-DR SPORT UTILITY	ML430		X		DIFSC		
MERCURY	VILLAGER	4-DR WAGON BASE	V11	X					
		4-DR WAGON ESTATE	V11 EST	X					
		4-DR WAGON SPORT	V11 SP	X					
MITSUBISHI	MONTERO SPORT								
		4-DR 2WD SPORT LS V6 AUTO	MT45-D AUTO		X		DIFSC		
		4-DR 2WD SPORT LTD AUTO	MT45-P LTD		X		DIFSC		
		4-DR 2WD SPORT XLS V6 AUTO	MT45-G AUTO	X					
		4-DR 4WD SPORT LS V6 5-SP	MT45-F 5-SP		X		DIFSC		
		4-DR 4WD SPORT LS V6 AUTO	MT45-F AUTO		X		DIFSC		
		4-DR 4WD SPORT LTD AUTO	MT45-X LTD		X		DIFSC		
		4-DR 4WD SPORT XLS V6 AUTO	MT45-K AUTO	X					
NISSAN	FRONTIER PICKUP								
		4WD KING CAB V6 SE 5-SP	6365		X		DIFSC		
		4WD KING CAB V6 SE AUTO	6361		X		DIFSC		
		4WD KING CAB V6 XE 5-SP	6375		X		DIFSC		
		4WD KING CAB V6 XE AUTO	6371		X		DIFSC		
	QUEST	WAGON GLE AUTO	1051	X					
		WAGON GXE AUTO	1031	X					
		WAGON SE AUTO	1041	X					
OLDSMOBILE	SILHOUETTE	4-DR MINIVAN PREMIER ED EXT	3UM16 PR		X		DIFSC		
SUZUKI	SIDEKICK								
			LPL69CW	X		4-DR 4WD HARDTOP JX FLT AUTO	DIFSC	98 MODEL	
			FAE62DW	X		2-DR 4WD SOFT TOP JX SE 5-SP	DIFSC	98 MODEL	
			FAE65DW	X		2-DR 4WD SOFT TOP JX SE AUTO	DIFSC	98 MODEL	
			LRL77DW	X		4-DR 4WD HARDTOP SPORT JX SE 5-SP	DIFSC	98 MODEL	
			LRL78DW	X		4-DR 4WD HARDTOP SPORT JX SE AUTO	DIFSC	98 MODEL	
			LAC66DW	X		2-DR 4WD COMPACT SPORT UT SE 5-SP	DIFSC	98 MODEL	
	X90		LAC69DW	X		2-DR 4WD COMPACT SPORT UT SE AUTO	DIFSC	98 MODEL	



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MAKE	MODEL	BODY STYLE	MODEL CODE	YES	NO		
SUZUKI	GRAND VITARA	4-DR 2WD HARDTOP JS 5-SP	LFN86F	X			
		4-DR 2WD HARDTOP JS AUTO	LFN89F	X			
		4-DR 2WD HARDTOP JS PLUS 5-SP	LFN86T	X			
		4-DR 2WD HARDTOP JS PLUS AUTO	LFN89T	X			
		4-DR 4WD HARDTOP JLX 5-SP	LJN86F	X			
		4-DR 4WD HARDTOP JLX AUTO	LJN89F	X			
		4-DR 4WD HARDTOP JLX PLUS 5-SP	LJN86T	X			
		4-DR 4WD HARDTOP JLX PLUS AUTO	LJN89T	X			
TOYOTA	LAND CRUISER	WAGON AUTO	6156	X			
	SIENNA	4-DR CARGO VAN AUTO	5362		X		DIFSC
		5-DR MINIVAN CE AUTO	5324	X			
	TACOMA PICKUP	2WD PRERUNNER REG CAB AUTO	7132	X			
		2WD PRERUNNER XTRACAB 4-CYL 5-SP	7162	X			
		2WD PRERUNNER XTRACAB V6 AUTO	7164	X			
VOLKSWAGEN	EUROVAN	CONVERSION VAN AUTO	7DH1L3	X			
		VAN GLS AUTO	7DC2L3	X			
		VAN MV AUTO	7DCML3	X			

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