



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. THE IRS OPENS ITS TRAINING CONFERENCE IN DALLAS TO SOME CPAs.

The Internal Revenue Service held its *Joint Technical Advisor Conference* in Dallas on November 13-17. This *Motor Vehicle and Inventory Technical Advisor Conference* included Section 263A and Change in Method of Accounting Technical Advisers.

For the first time, the IRS invited a small number of CPAs and other industry specialists to attend the first 2½ days of its 5 day Conference. I was pleased to be one of the invitees and was given the opportunity to present a discussion of the problems practitioners have encountered in applying the Alternative LIFO Method to automobile dealers.

Other topics discussed at the Conference included many aspects of taxpayers' changes in methods of accounting, the importance of appropriate recordkeeping (especially for large taxpayers), the use of replacement cost for valuing parts inventories and the inventory cost capitalization requirements under Section 263A.

One development (#2 below) and one non-development (#3 below) are of special interest to auto dealers and their CPAs.

#2. IRS COMMITS TO ISSUE A SAFE HARBOR APPROACH FOR USED VEHICLE LIFO COMPUTATIONS.

At the IRS Conference in Dallas two speakers indicated that a Revenue Procedure was expected to be issued before the end of the year that would provide a standardized methodology for an automobile dealer's used vehicle LIFO computations.

It would appear that this safe harbor procedure would be patterned somewhat after the methodology in Rev. Proc. 97-36 for new vehicles, with necessary differences to reflect the nature of used vehicles. What seemed to be most favorable in the discussion was that the so-called "52-week" method described in LTR TAM 9853003 would not be required...nor

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would the use of separate data bases to determine prices for used vehicles acquired at auction vs. those acquired by trade-in from customers.

Incidentally, if you're involved in projecting changes in LIFO reserves for used vehicle inventories, all indications are that... **LIFO inflation indexes for used vehicles are expected to be flat for this year.** In fact, in many instances, these inventories may reflect negative inflation (i.e., deflation).

Our projections for used vehicles reflect a range of three estimates: one-half percent **deflation** (-.5%), **no** inflation (.0%) and one-half percent **inflation** (.5%) for used automobile pools and for used light-duty truck pools.

#3. MOUNTAIN STATE FORD TRUCK SALES & THE USE OF REPLACEMENT COST FOR VALUING PARTS INVENTORIES.

As for the "non-development," at the IRS Conference in Dallas, some time was devoted to discussing various *Mountain State* computational alternatives under consid-

see LIFO UPDATE, page 2

eration to arrive at acceptable adjustments. These would be based on approximated inventory turnover. However, nothing definite or binding seems to be in the works at this time.

What did surface in some of the comments was the feeling by certain personnel that the IRS really shouldn't be attempting to solve a taxpayer problem right now in light of the favorable holding by the Tax Court.

In response to one agent's question, the statement was made that if the agent raises the use of replacement cost issue on audit, in light of the Tax Court's holding, the agent's primary position should be to terminate the taxpayer's LIFO election.

#4. BE CAREFUL WHEN TERMINATING USED VEHICLE LIFO ELECTION IF YOU DON'T WANT TO TERMINATE THE NEW VEHICLE ELECTION AT THE SAME TIME. Don't make the same mistake one CPA firm made. A reader called indicating that their dealer had new and used vehicles on LIFO for several years and during 1999, they decided that they wanted to terminate the used vehicle LIFO election. They did not want to terminate the new vehicle LIFO election.

The taxpayer filed Form 3115 with its 1999 income tax return and sent a copy of the Form 3115 to the National Office in Washington, D.C.

To its dismay, the taxpayer received a call from the examiner in the National Office indicating that, unfortunately, they had to take both the new and the used vehicle inventories off of LIFO.

The filing requirements which the taxpayer satisfied were the filing requirements set forth in Revenue Procedure 98-60 (see Section 6.02(2)). This filing requirement is coordinated with Section 10.01 in the Appendix dealing with changes from the LIFO inventory method under Section 472, relating to a "change from the LIFO inventory method for *all* its LIFO inventory." Thus, under Revenue Procedure 98-60, when its filing requirements are satisfied, the Service concludes that the taxpayer wanted to terminate *all* of its LIFO inventory elections.

Had the taxpayer properly terminated its used vehicle LIFO election *only*, it would have filed Form 3115 with the National Office before the end of its taxable year (i.e., before December 31, 1999) in accordance with Section 10 of Revenue Procedure 97-27.

In discussing this situation with the reader, I suggested that she call the individual reviewer in the National Office and ask if it would be possible to obtain an extension or waiver under Section 10 of Rev. Proc. 97-27 since they had filed the tax return

and the copy of the 3115 with the National Office in early February of the year 2000...a period of time not too far beyond the end of the taxable year. What we were hoping for, of course, was that the "kinder and gentler" nature of the IRS would surface.

No such luck! In talking with the National Office, the CPA was told that there was nothing that the IRS could do about the mistaken intention to file under Rev. Proc. 97-27 instead of Rev. Proc. 98-60. The National Office suggested that a request be filed under Reg. Sec. 300.9100 for an extension of time to rectify the erroneous filing. This is a very complicated and messy filing to undertake.

The key point here is that when terminating only a used vehicle LIFO election under Revenue Procedure 97-27, that requires an affirmative response from the National Office and the Form 3115 must be filed **before the end of the year of change**. When both the used and new LIFO elections are being terminated at the same time, these changes do not require advance permission from the National Office and therefore, the Form 3115 is not required to be filed with the National Office until the original is filed with the tax return for the year of change.

#5. TAX COURT UPHOLDS BIG LIFO RESERVE RECAPTURE IN DEALERSHIP RESTRUCTURING ... In a recent Tax Court decision, *Coggin Automotive Corporation* dated October 18, 2000, the Tax Court held that after a rather complicated restructuring involving a consolidated group of dealership corporations...there would be a LIFO reserve recapture of roughly \$4.8 million.

In *Coggin Automotive Corporation*, the IRS threw two arguments at the taxpayer. The IRS' first attack was to challenge the overall corporate group restructuring as a sham. This attack failed.

However, the IRS's second attack was successful. This attack was based on the direct application of Section 1363(d).

Coverage of this case begins on page 6. For a diagram of the transactions that precipitated the LIFO reserve recapture, see page 9. If you want to do more research on your own, there is a listing of selected references on page 23.

#6. YEAR-END LIFO REPORTING REQUIREMENTS & TRAPS TO CONSIDER BEFORE ISSUING YEAR-END FINANCIAL STATEMENTS: Be Sure Year-End Financial Statements Satisfy All of the LIFO Conformity Requirements. There is no reason to expect the IRS to be lenient if it finds any violations of the LIFO conformity requirements on year-end financial statements. Such violations most likely will →



result in the IRS taking the position that the LIFO election must be terminated, although that penalty is discretionary with the IRS Commissioner.

With this in mind, it's appropriate to review our annual reminders about year-end projections, estimates and the importance of placing proper LIFO inventory disclosures in the year-end financial statements. Last year we included a comprehensive discussion of these matters in the *LIFO Lookout*. Our conclusion this year was that there was no point in reinventing the wheel. So, we have reproduced last year's article beginning on page 11 and urge you to read or re-read it as the case may be.

Document Your Year-End LIFO Projections.

For businesses that find it necessary to estimate LIFO reserve changes before the final amounts can be calculated, the article includes sections on how to project LIFO reserve changes quickly and effectively. This portion of the article begins on page 18.

#7. YEAR-END PROJECTIONS BASED ON "ONE-OF-EACH" MIX ASSUMPTION FOR DEALERS.

Continuing another annual tradition, this issue includes a listing useful for auto dealer new vehicle LIFO reserve projections. This listing shows weighted average information for each make and model. It compares everything in our *SUPERLIFO* database as of December 1, 1999 (i.e., the beginning of the year) ... with intro-2001 model prices, unless the 2001 intro price was subsequently updated and that information is also in our database for the end of the year.

For more background on this, see page 4. The summary table by make appears on page 5. It indicates that the overall price increases for most new vehicles are expected to be small again this year, except for minivans and SUVs which, since they seem to be selling well, reflect some serious inflation. For a more detailed analysis of each make, see the listings on pages 24-31.

Also, note that one small element for Chrysler dealer LIFO calculations is how to classify the PT Cruiser. For more, see below.

#8. PT CRUISER FOLLOW-UP.

IS IT A CAR OR A TRUCK? For dealers using the Alternative LIFO method, we previously called attention in the *Lookout Update* Item #9, March 2000, to the question of whether DaimlerChrysler's new PT Cruiser should be treated as a car or a truck for pooling purposes.

The U.S. Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) have issued conflicting opinions/rulings on whether the PT Cruiser is a car or a truck.

According to the EPA, which is responsible for certifying that new vehicles are not going to pollute the atmosphere too much, the PT Cruiser is a car.

According to the NHTSA, which is responsible for overseeing the CAFE (Corporate Average Fuel Economy) rules, the PT Cruiser is a truck. Apparently, the NHTSA takes this view because the PT Cruiser has a flat rear load floor and removable rear seats. DaimlerChrysler has indicated that the durability of the PT Cruiser was tested by using truck standards (which are tougher) rather than using the standards for passenger car development.

There's a lot at stake in this because DaimlerChrysler is hopeful that its relatively fuel-efficient PT Cruiser will help it meet the minimum 20.7 miles per gallon requirement for its overall truck line. If D/C is allowed to treat the PT Cruiser as a truck for CAFE MPG computation purposes, the Cruiser's estimated 20-26 MPG would significantly off-set the far lower fuel-(in)efficiency of D/C's other trucks.

These conflicting classifications by the EPA and the NHTSA may also create some confusion for LIFO computations under the Alternative LIFO Method. The PT Cruiser either goes into the new autos pool or it goes into the new light-duty truck pool.

As we previously stated, we believe that the determination for Alternative LIFO Method pooling purposes of whether the PT Cruiser is classified as a car or a truck should follow the standard industry classification, rather than that made by special Federal agencies.

Based on our understanding that the PT Cruiser is derived from the small Neon (automobile) platform, we would believe that it should be classified as an automobile. In March, we concluded: "Our feeling is that D/C's Neon-based PT Cruiser belongs in the new automobiles pool for LIFO purposes... but, stay tuned...we're flexible."

Information now available reflects that all of the major industry classification guides (*Black Book New Car Guide, Kelley, NADA and Edmunds*) do not classify the PT Cruiser as an automobile. Instead, it is classified either as a minivan or as a Sport Utility Vehicle...in either instance, a classification placing the PT Cruiser in the light-duty truck pool for LIFO purposes.

In October, the *Automotive News* published its 2001 Model **CAR** Specifications in which it included the PT Cruiser 4-door hatchback. Notwithstanding this classification by the *Automotive News* and our original "feeling," we are now ready to go along with the industry guidebooks and will be treating the PT Cruiser as a light-duty truck in our *SuperLIFO* data base. *



QUICK YEAR-END INFLATION ESTIMATES FOR AUTOMOBILE DEALERS

2000-2001 NEW VEHICLE INFLATION SURVEY

ASSUMING ENDING INVENTORY MIX OF ONE-OF-EACH ITEM CATEGORY

Most auto dealers are under great pressure to release their year-end financial statements before their actual LIFO calculations can be completed. Each year we provide a listing for auto dealer *new* vehicle LIFO reserve projection purposes showing weighted average information for each model.

Our information compares everything in our *SUPERLIFO* database as of December 1, 1999...with intro-2001 model prices, unless the 2001 intro price was subsequently updated, and that information is also in our database for the end of the year. December 1, 1999 is the reference date for the equivalent of the calendar year 2000 beginning of the year date; i.e., December 31, 1999/January 1, 2000.

The summary on the facing page shows that for new vehicles the overall price increases are small again this year. This is due to competitive pressures among the manufacturers and currency pressures. Also, some manufacturers changed option packages either to or from standard base vehicles.

There is some subjective language built into the tests under the Alternative LIFO Method for determining whether or not a vehicle is a "new" item or a "continuing" item. The one-of-each inflation indexes shown for various manufacturers also reflect some of these quirks.

Last year, vehicles posing interpretive problems included: Dodge Avengers and Intrepids, Ford Contours, Ford F-Series Super-Duty Trucks, Infinities, Jeeps, Mercuries and Mitsubishis.

This year, some of the Ford light-duty truck line pose most of the interpretative problems. The Ford Ranger, in particular, is troublesome. For the calendar year/model year 2000, there were 12 Ranger models. For 2001, the Factory price list shows 38 models of which we were only able to match only a few of the models' package contents. Several of the models added a new trim called the "Edge," and all models for 2001 include a Series Code which must be used when an order is placed. Those vehicles which we could not match were treated as *new*, and accordingly, the computed one-of-each index for Ford light-duty trucks is almost zero.

The Ford Explorer *Sport* also posed a special problem of its own, not worth going into detail about here.

The weighted averages we have computed are determined by taking all of the underlying item categories (for which information is currently available) and simplistically assuming that a dealer at year-end would have an inventory mix of one-of-each. These simplified, one-of-each inflation indexes may be used in year-end projections as a substitute for some other arbitrary or assumed inflation rate (like 1%, 2% or 3%) or coming up with a guesstimate by some other method.

WARNING: Our database is not entirely complete at this time because not all manufacturers have made their information available as we go to press. Notwithstanding this limitation, some readers have found our one-of-each results to be useful in estimating LIFO reserve changes or in comparing their results with ours. The detailed analyses for each make start on page 24.

REASONABLE ESTIMATES

If a dealer is going to reflect an *estimate* of the LIFO change for the year in a year-end Income Statement, that *estimate* should be a *reasonable* estimate in order to satisfy the IRS.

Caution in this area is advisable. No one really has any idea of what the IRS will accept as reasonable...or reject as unreasonable. So be careful, and save your projection calculations.

THE BEST WAY

When the year-end LIFO computations are made using all the actual year-end invoices, the results based on detailed item categories may be significantly different from the projections based on one-of-each weighted averages. Also, a dealer's beginning-of-the-year average cost for an item category may be considerably lower than the intro dealer cost used in compiling the intro-to-intro averages, and this could result in a slightly higher inflation index.

A more accurate way to project LIFO changes is to input all of the dealer's invoices on hand as of a date close to the end of the year. By doing this, a more accurate weighted model mix is factored into the year-end LIFO reserve change projection. In addition, this process also factors in the actual average beginning-of-the-year item category costs for all of the continuing models.

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MODEL/ITEM CATEGORY INFLATION SURVEY
 FOR QUICK, ONE-OF-EACH, LIFO ESTIMATES
 DEALER COST FOR THE YEAR ENDED 12/31/00

INFLATION ESTIMATE REPORT BY MAKE
 BASED ON INFORMATION AVAILABLE

	POOL #1 NEW AUTOMOBILES	POOL #2 NEW L-D TRUCKS
ACURA	0.29%	0.00%
AM GENERAL	0.00%	3.50%
AUDI	1.30%	0.00%
BMW	(0.29)%	0.00%
BUICK	3.15%	0.00%
CADILLAC	1.08%	0.00%
CHEVROLET	1.19%	0.75%
CHRYSLER	0.65%	0.00%
DAEWOO	4.63%	0.00%
DODGE	2.32%	2.33%
FERRARI	0.00%	0.00%
FORD	2.02%	3.75%
GMC TRUCKS	0.00%	1.22%
HONDA	0.77%	0.98%
HYUNDAI	0.41%	0.00%
INFINITI	1.31%	0.00%
ISUZU	0.00%	1.45%
JAGUAR	6.46%	0.00%
JEEP	0.00%	2.68%
KIA	(0.50)%	3.89%
LAND ROVER/RANGE ROVER	0.00%	0.65%
LEXUS	0.52%	4.43%
LINCOLN	2.77%	5.06%
MAZDA	0.92%	1.78%
MERCEDES	0.57%	1.35%
MERCURY	2.97%	2.46%
MINI	(0.05)%	1.41%
NISSAN	0.25%	1.54%
OLDSMOBILE	3.09%	2.56%
PLYMOUTH	3.15%	2.44%
PONTIAC	1.97%	0.92%
PORSCHE	1.00%	0.00%
ROLLS ROYCE	0.00%	0.00%
SAAB	1.90%	0.00%
SATURN	(0.12)%	0.00%
SUBARU	0.55%	0.73%
SUZUKI	1.40%	1.21%
TOYOTA	1.83%	3.42%
VOLKSWAGEN	(0.04)%	0.00%
VOLVO	1.51%	0.00%

Complete 2001 intro price information is not currently available for all models.
 Accordingly, some inflation indexes exclude certain item(s) for which 2001 information is missing.
 New items are repriced at current cost - i.e., no inflation

Source: W. J. De Filippis' Make / Model Analysis Data Base Report, Preliminary Edition (Copyright 2000)



TAX COURT UPHOLDS BIG LIFO RESERVE RECAPTURE IN *COGGIN AUTOMOTIVE CORPORATION* DEALERSHIP RESTRUCTURING

SEC.
1363(d)

In October, the Tax Court held in *Coggin Automotive Corporation* that after a rather complicated restructuring involving a consolidated group of dealership corporations...there would be a LIFO reserve recapture of roughly \$4.8 million.

DUAL ATTACKS BY THE IRS

In *Coggin*, the IRS raised two arguments intended to result in the recapture of the LIFO reserves. The IRS first attacked the overall corporate group restructuring as a sham. This attack failed.

The IRS's second attack, based on the direct application of Section 1363(d), was successful.

APPLICABLE CODE SECTIONS

Coggin and the LIFO recapture issue involve several sections of the Internal Revenue Code. First, there is Section 1363(d). Next, there is Section 1374, which had resulted in the enactment of Section 1363(d) to create more LIFO recaptures. Finally, there is all of Subchapter K which addresses partnership taxation issues, and the underlying rationale for this Subchapter in terms of whether an aggregate or an entity approach should be applied in settling this case.

Section 1363(d)(1) provides that if (1) an S corporation was a C corporation for the last taxable year before the first taxable year for which the S election was effective and (2) the corporation used the LIFO inventory method, then the LIFO recapture amount must be included in the gross income of the C corporation for its last taxable year.

Section 1363(d)(3) defines the LIFO recapture amount as the amount by which the C corporation's inventory under the First-in, First-out (FIFO) method exceeds the inventory amount under the LIFO method. The LIFO recapture amount is determined at the close of the C corporation's last taxable year before the first taxable year for which the S election is effective.

In general, under Section 1374 a corporate-level tax is imposed on built-in gains recognized by former C corporations within 10 years of the first day of the first taxable year for which the corporation was an S corporation.

APPROPRIATE PARTNERSHIP BASIS ADJUSTMENTS ARE NECESSARY

The partnerships involved in the restructuring are entitled to make appropriate adjustments to the

basis of their inventories to take into account the amount included in the parent's gross income. These adjustments would be made following the guidelines provided in Revenue Procedure 94-61 for special collapsed layers.

COGGIN WAS THE TAXPAYER IN LTR 9716003

Coggin Automotive had previously taken the LIFO recapture issues to the National Office and was the subject of an IRS Letter Ruling / Technical Advice Memorandum (LTR 9716003).

The taxpayer in Letter Ruling 9716003 was identified as a *diversified holding company* subject to tax as a regular C corporation. In our article, we had guessed that although the nature of the business activities was not specified, one possibility was that these were six different automobile dealerships.

See *Corporate Group Restructuring Creating S Corps & Limited Partnerships Triggers LIFO Recapture*, in the *LIFO Lookout*, June 1997. This article thoroughly analyzes LTR 9716003 and includes related discussions of the mechanics of the special collapsed layer computations required by Revenue Procedure 94-61 when Section 1363(d) applies. The article also discusses how to report the LIFO recapture tax in the income tax returns when they are filed.

In Letter Ruling 9716003, the IRS looked through the form of a series of corporate restructuring transactions involving S corporations and limited partnerships and held that the parent corporation was liable for the LIFO recapture tax under Section 1363(d). Although not referring specifically to the "substance vs. form" doctrine, the IRS held that allowing the parent to avoid the tax would circumvent the purpose of the statute.

The National Office was asked to rule on only the LIFO recapture issues arising under the potential application of Section 1363(d). However, when the taxpayer decided to contest the LIFO recapture, the IRS threw it a curve and challenged the *bona fides* of the restructuring arrangement as its primary disagreement with the taxpayer in the Tax Court.

LETTER RULING 9644027

Letter Ruling 9644027 in July of 1996 should also be compared with the Tax Court's decision in *Coggin Automotive Corporation*.

see **TAX COURT**, page 23



<p>The Consolidated Group</p>	<ul style="list-style-type: none"> • The taxpayer, Coggin Automotive Corp. initially was a C corp. d/b/a Coggin O'Steen Investment Corp. • This corporation was a holding company that owned the stock of 5 subsidiary auto dealership corporations operating 6 dealerships in Florida. <ul style="list-style-type: none"> ◆ Coggin Pontiac-GMC ◆ Coggin Nissan ◆ Coggin Acura (initially d/b/a Coggin Imports) ◆ Coggin Motor Mall (initially Coggin-O'Steen Motors) ◆ Coggin-Andrews Honda
<p>Ownership</p>	<ul style="list-style-type: none"> • For almost 20 years through early June 1993, Luther Coggin had a 55% ownership interest and a 78% voting interest in Coggin Automotive, the holding company. • Harold O'Steen and Howard O'Steen each owned a 22.5% ownership interest and an 11% voting interest in the holding company throughout the same period. • General managers of certain of the dealerships were given the opportunity to buy stock in the dealerships over a period of time. Usually, the price paid for a dealership's stock was based on the corporation's book value, with little or no value being assigned to the franchise rights.
<p>Consolidated Return Status</p>	<ul style="list-style-type: none"> • The parent/holding company and subsidiaries/operating companies filed consolidated returns for almost 20 years through early June 1993.
<p>Benefits Sought By Change in Structure</p>	<ul style="list-style-type: none"> • After 20 years, the corporations underwent a restructuring resulting in new S corporations and assorted limited partnerships operating the 6 dealerships. • To facilitate sale of stock through buy-sells to various managers...some of whom were frustrated by their inability to acquire more stock. • To assist in the principal owners' estate planning by introducing more flexible entities. • Legal counsel for one of the buy-in parties suggested that the overall arrangement resulting from creation of limited partnerships would provide several advantages: <ul style="list-style-type: none"> ◆ Limited liability protection ◆ Ability to make disproportionate distributions ◆ Single level of taxation ◆ Lower Federal income tax rate ◆ Ability to avoid Florida State income tax on distributive share of profits ◆ Ability to exercise greater control over the potential sale or liquidation of partnership assets • Mr. Coggin agreed to have dealership assets held by a limited partnership.
<p>Factory Approval</p>	<ul style="list-style-type: none"> • The approval of manufacturers was required and was received before the restructuring transactions were initiated.



COGGIN AUTOMOTIVE CORP.

SECTION 1363(d) LIFO RECAPTURE ON RESTRUCTURING

**Restructuring
Steps
(In General)**

- **First:** Establishment of 6 new corporations, with each new corporation electing S corporation status. Corporations were incorporated for the purpose of being general partners in limited partnerships that would operate the dealerships.
- **Second:** Creation of Florida limited partnerships, resulting in permitting entry of several dealerships' general managers.
- **Third:** Assorted redemptions of general managers' stock with payment in the form of promissory notes.
- **Fourth:** Simultaneous (1) cash contributions to limited partnerships by newly formed S corporations, (2) contributions of operating assets and liabilities by dealerships and (3) contribution of promissory notes by general managers for partnership interests after which notes were cancelled.
- **Fifth:** Old subsidiaries were liquidated after transfer of assets to the partnerships so that taxpayer/parent/holding company obtained the limited partnership interests.
- **Sixth:** S corporation status elected by taxpayer/parent/holding company. Note: this entity had not undergone any changes in capital structure nor any changes in ownership interests in its stock.
- The foregoing is slightly generalized and certain other subsequent transactions have been omitted.
- See diagram of *Before, During & After* restructuring.

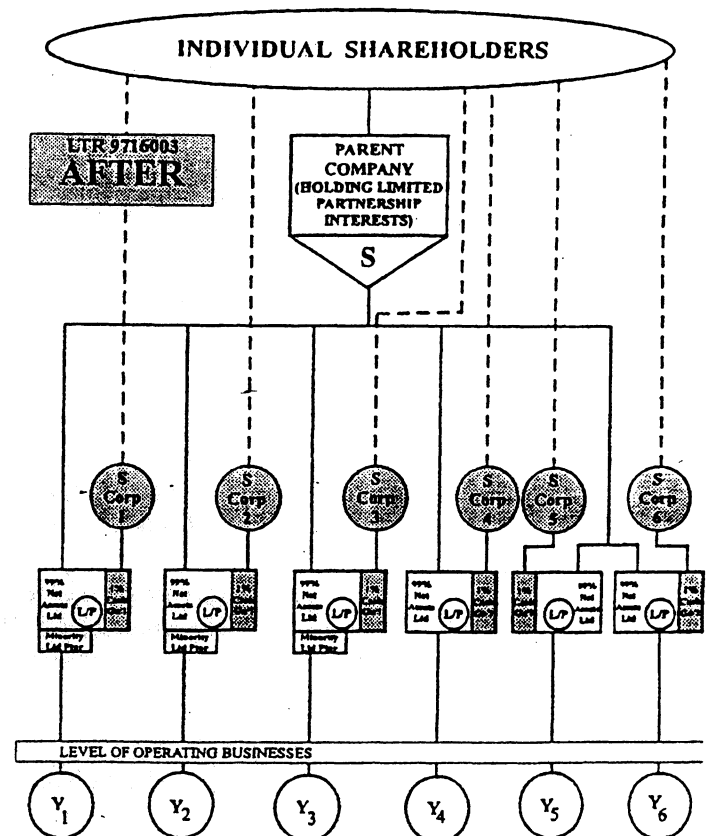
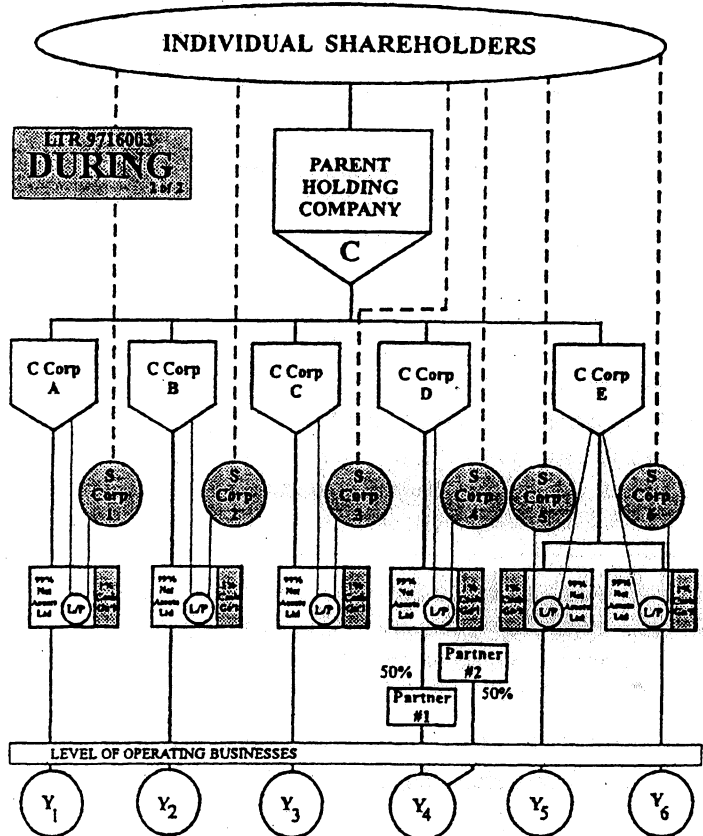
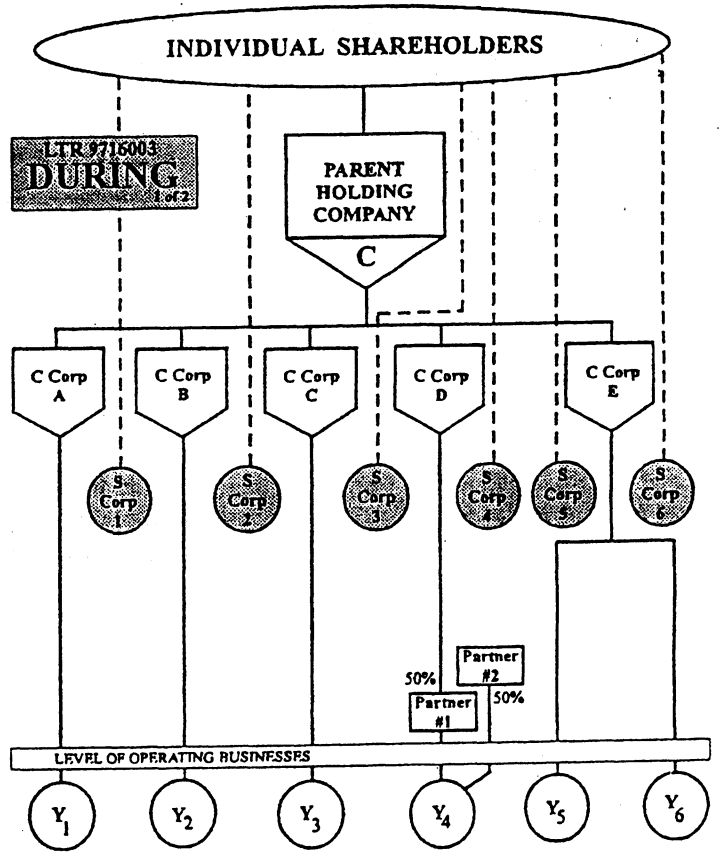
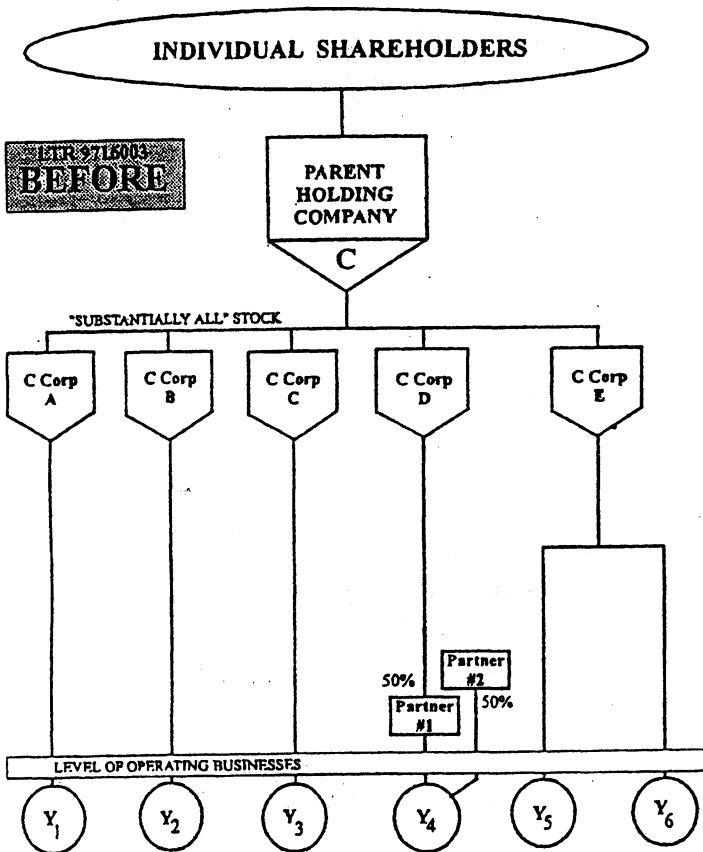
IRS Primary Attack

- The "restructuring should be disregarded because it had no tax-independent purpose." It was essentially a sham, motivated by tax avoidance.
- "The 1993 restructuring was conceived and executed for the principal purpose of permanently escaping corporate level taxes on the LIFO reserves built into the LIFO inventories of petitioner's former consolidated subsidiaries.
- IRS cited *Frank Lyon Co. v. U.S.*, 435 U.S. 561 (1978).

**Tax Court
Agreed With Taxpayer
That Its Restructuring
Was Bona Fide**

- Taxpayer proved for the record the following:
 - ◆ General managers were vital to the successful operation of the automobile dealerships.
 - ◆ Providing incentives to attract and retain quality general managers was essential in the success of the automobile dealerships.
 - ◆ Operating the automobile dealerships in stand-alone partnership form afforded the general managers flexibility greater than that offered by operating the dealerships in corporate form.
 - ◆ Mr. Coggin and the general managers never discussed recapture of the LIFO reserves.
- The Tax Court said, "It is axiomatic that (1) tax considerations play a legitimate role in shaping a business transaction, and (2) tax planning does not necessarily transform an event otherwise non-taxable into one that is taxable."
- The Tax Court held that the overall restructuring was a "genuine multi-party transaction with economic substance, compelled by business realities, imbued with tax-independent considerations and not shaped solely by tax avoidance features."





(LIMITED PARTNERSHIPS IN PLACE & ALL OLD C CORP SUBS LIQUIDATED)



COGGIN AUTOMOTIVE CORP.

SECTION 1363(d) LIFO RECAPTURE ON RESTRUCTURING

<p>IRS Secondary Attack ... Sec. 1363(d) Requires Recapture of LIFO Reserves</p>	<ul style="list-style-type: none"> • Secondary Attack: Section 1363(d) requires inclusions of pre-S election LIFO reserves in the amount of either \$5,077,808 or \$4,792,372. • IRS' secondary attack was based on applying the <u>aggregate</u> (rather than the <u>entity</u>) approach/concept or concept in partnership taxation to the pre-S election LIFO reserves attributable to the taxpayer. • Subchapter K of the Code contains the partnership income tax provisions. For income tax purposes, a partnership may be viewed either (1) as an aggregate of its partners, each of whom directly owns an interest in the partnership's assets and operations, or (2) as a separate entity, in which separate interests are owned by the partners. The provisions of Subchapter K in some instances apply the aggregate approach and in other instances apply the entity approach. • The position of the IRS is that outside of Subchapter K (i.e., in a situation involving Section 1363(d)), the approach to be applied depends upon whether the aggregate or the entity approach "more appropriately serves the Code provision in issue." • According to the IRS, the legislative intent underlying the enactment of Section 1363(d) requires the application of the aggregate theory... "in order to ensure that the corporate level of taxation be preserved on built-in gain assets (such as LIFO reserves) that might fall outside the ambit of Section 1374." • Failure to apply the aggregate approach to Section 1363(d) would allow the taxpayer to completely escape the corporate level of tax on a C corporation's election of S corporation status and would eviscerate Congress' suppression of the General Utilities doctrine.
<p>Tax Court Agrees With IRS... Recapture Applies</p>	<ul style="list-style-type: none"> • Section 1363(d) LIFO recapture applies. • Citing the Tax Court Memo decision <i>Rondy Inc. v. Commissioner</i> (T.C. Memo 1995-372), the Tax Court agreed with the IRS analysis of the legislative histories of Sections 1363(d) and 1374 that "the application of the aggregate approach (as opposed to the entity approach) of partnerships in this case better serves Congress' intent." • The Tax Court also held that Section 1363(d)(4)(D) does not prohibit attribution of the inventory and LIFO reserves to the taxpayer in this case. • Accordingly, the taxpayer/holding company, upon its election to change from C status to S status, was required to pay tax of \$1,633,200 on \$4,792,372 (pro rata share of recapture). This tax is paid, according to statute, in four equal installments.
<p>LTR 9716003 Involved This Taxpayer</p>	<ul style="list-style-type: none"> • Taxpayer's LIFO recapture issue was previously the subject of National Office Technical Advice LTR 9716003 dated September 30, 1996, in which the IRS held that the subsidiaries' LIFO reserves should be recaptured by the parent. • See <i>LIFO Lookout</i>, June 1997, pages 7-13. • IRS challenge to restructuring as tax-motivated was not in issue in this LTR. • See also Letter Ruling 9644027 for a contrasting result.
<p>Citation</p>	<ul style="list-style-type: none"> • 115 T.C. No. 28, date of decision Oct. 18, 2000 • Docket No. 1684-99



SPECIAL LIFO CHALLENGES: CONFORMITY REPORTING REQUIREMENTS AND PROJECTIONS FOR YEAR-END PLANNING

**YEAR
END
ALERT**

Taxpayers using Last-In, First-Out (LIFO) for valuing their inventories are often under great pressure to issue their financial statements as quickly after the year-end as possible. Whether under great time pressure or not, any taxpayer using LIFO must be sure that all year-end statements satisfy all of the LIFO conformity requirements. If they do not, the taxpayer risks the loss of its LIFO election.

There are many year-end LIFO conformity requirements, and there are many kinds of businesses using LIFO. All taxpayers using LIFO must comply with all of the year-end financial statement conformity reporting requirements in order to remain eligible to use the method.

As emphasized throughout the discussions on pages 14-16 of the special rules and IRS guidance for auto dealerships, taxpayers outside the scope of that guidance should be careful *not* to rely on that guidance as if the IRS had generalized or intended it to be applicable in their own different situations or industries. Similarly, auto dealerships—although benefiting from some clarification by the IRS on certain reporting issues—should be careful *not* to rely on that guidance as if the IRS had generalized or intended it to be applicable beyond the carefully worded "scope" sections in Revenue Ruling 97-42 and in Revenue Procedure 97-44.

see SPECIAL LIFO CHALLENGES, page 12

SPECIAL YEAR-END CHALLENGES FOR LIFO USERS

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**BASIC LIFO ELIGIBILITY REQUIREMENTS:
"CONFORMITY" IS ONLY ONE**

First: the bigger picture, of which conformity is only a part. The IRS can disallow a taxpayer's LIFO election if it finds a violation of any one of four eligibility requirements. The four requirements involve cost, conformity, consent, and the maintenance of adequate books and records.

TERMINATION SITUATIONS

1. Failure to value LIFO inventory at cost for tax purposes for the year preceding the year of LIFO election, the election year, and in all subsequent years (**Cost**).
2. Violation of the financial statement reporting conformity requirements for the election year and all subsequent years (**Conformity**).
3. Failure to properly elect LIFO, including the failure to file Form 970 (**Consent**).
4. Failure to maintain adequate books and records with respect to the LIFO inventory and all computations related to it (**Adequate Books & Records**).

During 1999, probably the most startling development involving these eligibility requirements came out of the Tax Court in *Mountain State Ford Truck Sales v. Commissioner*. In this case, the Tax Court held that the use of replacement cost for valuing parts inventories could not be employed as a substitute for actual cost in connection with LIFO inventories... nor for any other non-LIFO inventories.

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

Revenue Procedure 79-23 (1979-1 C.B. 564) states that in other circumstances where disputes with the IRS arise over computational errors, incorrect pool selection or item determination, or differences in the levels of costing inventories between financial statements and tax returns - the IRS is not authorized to terminate the taxpayer's LIFO election.

However, where the LIFO violations involve cost, conformity, Form 970 consent matters or "inadequate books and records," the Service usually looks to invoke this more dramatic measure.

Revenue Procedure 97-44, which allowed certain taxpayers with conformity violations to avoid termination of their LIFO elections by paying a 4.7% penalty amount, should be regarded as a very limited exception to the IRS general approach of terminating a LIFO election whenever it uncovers an eligibility violation.

**FORM 970 QUESTIONS
REGARDING CONFORMITY**

Form 970 is the LIFO election form which is required to be included with the tax return for the first LIFO year. One of the significant traps for the unwary is that Form 970 asks only whether the year-end financial statements *for the election year* have satisfied certain conformity requirements.

Question 5 on Form 970 does not warn taxpayers that these conformity requirements must be satisfied for every year-end statement for as long as the LIFO method is being used. This requirement is spelled out in Reg. Sec. 1.472-2(e)(1).

Worse yet, the relatively limited Form 970 instructions give no hint of the many troublesome interpretations that can arise under the regulations. As evidenced by the debacle that auto dealers and their CPAs floundered through for nearly a decade (and that resulted in Rev. Proc. 97-44), it would seem that many practitioners have never even looked at, much less attempted to study in detail, the regulations dealing with this critical issue.

**CONFORMITY REQUIREMENTS...
THERE ARE MANY**

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

It is often stated that LIFO must be used to compute income in the year-end financial statements. However, it is more technically correct to state that the IRS only requires LIFO to be used in the primary presentation of income (i.e., in the Income Statement). For most taxpayers, the LIFO confor-

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mity requirements pose at least two general sets of requirements:

TWO SETS OF REQUIREMENTS

FIRST, they require that any year-end financial statements *issued in the traditional report form* by the business to creditors, shareholders, partners or other users must reflect the year-end results on LIFO.

SECOND, they also require all year-end *manufacturer-formatted financial statements* sent by certain dealers to a manufacturer/supplier/creditor (12th, 13th and any other fiscal year-end statements) to reflect LIFO results.

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

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

EVERY YEAR, ALL OF THE CONFORMITY REQUIREMENTS MUST BE MET

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

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

Also, the expansion of the conformity requirements to other classes of goods should not be overlooked if a taxpayer is already on LIFO for one class of inventory (such as new vehicles or equip-

ment) and is considering extending LIFO to another class of inventory (such as used vehicles, equipment or parts). In this situation, the year-end Income Statements should also reflect an estimate of the LIFO reserve expected to be produced by extending the LIFO election(s) to the additional classes of goods under consideration.

TRADITIONAL FINANCIAL STATEMENTS IN ANNUAL REPORTS ISSUED BY CPAs

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

The LIFO conformity requirement as it relates to reports issued by CPAs requires that in the primary presentation of income (i.e., the Income Statement), the results disclosed must only be the net-of-LIFO results. The primary Income Statement *cannot* show results before LIFO, followed by either an addition or subtraction for the net LIFO change, coming down to a final net income or loss after-LIFO figure. This means that during a period of rising prices, a business using LIFO will usually be reporting lower operating results in order to comply with the conformity requirements. Very strict disclosure limitations existed with no room for deviation for many years.

The Regulations were liberalized in 1981 and they now allow LIFO taxpayers to disclose non-LIFO operating results in *supplementary financial statements*, as long as those supplementary non-LIFO financial statements satisfy two tests: **First**, they must be issued as part of a report which includes the primary presentation of income on a LIFO basis. **Second**, each non-LIFO financial statement must contain on its face a warning or statement to the reader that the non-LIFO results are supplementary to the primary presentation of income which is on a LIFO basis. Accordingly, in CPA-prepared year-end financial statements, a LIFO taxpayer's results on a non-LIFO basis can be fully disclosed as supplementary information if both of these requirements are met.

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

see **SPECIAL LIFO CHALLENGES**, page 14



Special LIFO Challenges

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

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

Many CPAs serving automobile dealerships are now aware that the Regulations contain several year-end LIFO reporting restrictions which apply to the specially formatted financial statements sent by auto dealerships and other businesses immediately after year-end to the Manufacturer/Supplier/Creditors. Some of those CPAs who were not had a rude awakening when their (former) dealer clients—through their attorneys—asked them to reimburse the dealers for their payments of the 4.7% penalty "settlement amounts" due under Revenue Procedure 97-44.

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

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

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

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

(Continued from page 13)

pleted within the tight time frame for the issuance of the December or 12th statement (usually by the 10th day of the following month).

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

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

IRS TESTS

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

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

In a companion letter ruling, LTR 9535009, the IRS "officially" restated its position with respect to a dealer who reported for tax purposes using a fiscal year. The IRS employed the same four-step analysis as above to determine whether the fiscal year dealership had violated the LIFO conformity requirements. In connection with the second "test" related

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to whether the dealership's financial statement to the Factory ascertained the taxpayer's income for the taxable year, the IRS noted that the year-to-date column information readily provides this computation for the reader. Even without year-to-date accumulations on the face of the monthly Income Statement, any series of months could simply be added together to reflect a complete 12-month period of anyone's choice.

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

Warning. This would seem to be the position of the IRS for all taxpayers whose fact patterns fall under the Regulation. Only the special and limited relief afforded to certain dealers in Revenue Ruling 97-42 and Revenue Procedure 97-44 (discussed next) saved some taxpayers from the consequences of this narrow and harsh interpretation.

REVENUE RULING 97-42: DISCLOSURE GUIDELINES FOR CERTAIN DEALERS

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

Placement in the Income Statement. LIFO adjustments must appear in the twelfth month Income Statement. However, they do not have to be reflected in the Cost of Goods Sold section through the inventory valuation accounts. As long as the LIFO adjustments are reflected somewhere in the determination of net income on the Income Statement, that conformity requirement will be satisfied.

Revenue Ruling 97-42 makes it clear that if a LIFO reserve adjustment is posted directly to the retained earnings account and reflected on the dealership's Balance Sheet, that treatment of the LIFO reserve change will not satisfy the conformity requirement. For years ending after October 14, 1997, it is thus imperative that the LIFO adjustment

be properly reflected in the Income Statement prepared for the last month of the year.

Use of estimates. A "reasonable estimate" of the change in the LIFO reserve for the year may be reflected instead of the actual change..., as long as that "reasonable estimate" is reflected somewhere in the year-end Statement of Income.

No one knows what the IRS will accept as a "reasonable estimate." Similarly, no one knows what procedures the IRS will accept as being "reasonable" in the preparation of an estimate of the change of the LIFO reserve for the year.

Fiscal year taxpayers. If an auto dealer employs a fiscal taxable year, and reflects the LIFO change in Cost of Goods Sold or anywhere else in the Income Statement, the LIFO conformity requirements can be satisfied in either of two ways: **First**, the dealer may make an adjustment for the change in the LIFO reserve that occurred during the calendar year in the month and year-to-date column of the **December** Income Statement.

Alternatively, the dealer may make an adjustment for the change in the LIFO reserve that occurred during the fiscal year in the month and year-to-date columns of the Income Statements provided for the **last month of the fiscal year**.

In other words, the IRS does not require the change in the LIFO reserve to be updated twice in the fiscal year-end... calendar year-end sequence. The IRS will permit a timing mismatch under these limited circumstances. For example, in a situation where a dealer has a September fiscal year-end and December (calendar) reporting year to the manufacturer: If the dealer reflects the (reasonable estimate) change in the LIFO reserve in the September monthly and year-end statement, that dealer does not need to recompute and update a LIFO change for the three month period from October 1 through December 31 and reflect a 3-month change in the December statement.

The dealer may simply carry through the annual LIFO reserve change effect reflected in the September fiscal year-end Income Statement without modification in the December Income Statement. Note that the December Income Statement must reflect the charge against income for the prior fiscal year-end LIFO reserve change and that prior September fiscal year-end LIFO reserve change should not be reversed so that the December Statement of Income does not reflect any LIFO reserve charge for the twelve month period ending December 31.

see **SPECIAL LIFO CHALLENGES**, page 16



Special LIFO Challenges

REVENUE PROCEDURE 97-44: LIMITED RELIEF FOR CERTAIN DEALERS

Revenue Procedure 97-44 provided "relief" to auto dealers whose year-end Factory statements failed to satisfy the conformity requirements at any time during a six-year "look-back" period. These dealers were allowed to keep their LIFO elections if they paid a 4.7% penalty/settlement tax based on the amount of their LIFO reserves as of the last taxable year ended on or before October 14, 1997 (i.e., as of December 31, 1996 for most calendar-year auto dealers). These dealers were also required to satisfy certain other conditions as terms of the settlement.

In Revenue Procedure 98-46, the IRS extended this relief for similar conformity violations to all medium and heavy-duty truck dealers, providing them with a slightly different series of payments dates.

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

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

SPECIAL INTERPRETATIONS CLARIFIED ONLY FOR AUTO DEALERS... ALL OTHER LIFO USERS BEWARE

Different year-ends for book and tax purposes (fiscal years). LIFO conformity problems are multiplied where a taxpayer has a different year-end for reporting to a manufacturer, supplier, or creditor (calendar year-Dec. 31) than the fiscal year it uses to report for income tax return purposes and for other financial statement reporting purposes.

For these fiscal year taxpayers... other than auto dealers and light, medium & heavy-duty truck dealers... in order to satisfy another strict conformity requirement, the full-year Income Statements must reflect LIFO at the end of *both* twelve month annual reporting periods or years (Reg. Sec. 1.472-2(e)(2)).

This regulation states that the conformity rules also apply to (1) the determination of income, profit, or loss for a one-year period other than a taxable year, and to (2) credit statements or financial reports

(Continued from page 15)

that cover a one-year period other than a taxable year, but only if the one-year period both begins and ends in a taxable year or years for which the taxpayer uses the LIFO method for Federal income tax purposes. For example,...in the case of a calendar year taxpayer, the requirements...apply to the taxpayer's determination of income for purposes of a credit statement that covers the period October 1, 1981, through September 30, 1982, if the taxpayer uses the LIFO method for Federal income tax purposes in taxable years 1981 and 1982.

Placement of LIFO change in the year-end Statement of Income. In fighting with auto dealers over conformity, in 1994 the IRS informally indicated that on the last monthly (i.e., twelfth) statement, the LIFO adjustment had to be run through the Cost of Goods Sold section (via the beginning-of-the-year and the end-of-the-year inventory valuations), rather than through an other income/deductions account...or else dealers would not be in compliance with the LIFO year-end conformity requirement. The IRS subsequently retreated on this "placement" issue in Revenue Ruling 97-42.

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

Unfortunately, the IRS "guidance" for franchised auto dealers in Revenue Ruling 97-42 and the "relief" for prior conformity violations under Revenue Procedures 97-44 and 98-46 do not apply to any other types of taxpayers issuing what might be "similar" statements under "similar circumstances" to other manufacturers, suppliers or credit sources. No one can be sure what these other businesses with LIFO violations should do in light of what is now understood to be the IRS interpretation of these regulations.

WARNING

All taxpayers...other than auto and truck dealers...using LIFO who issue monthly statements to manufacturers, suppliers or creditors are not protected by the special rules in Revenue Ruling 97-42 which modify the Regulations only for special reporting situations faced by auto dealers.



What should these businesses/taxpayers be told about their LIFO elections? Are they subject to retroactive termination of their LIFO elections at any time, literally at will, by the IRS? What responsibility does the CPA practitioner have as preparer of the tax return now that the IRS position has been more clearly set forth in Revenue Ruling 97-42? These are the questions that (should) haunt practitioners and their clients today.

CONFORMITY VIOLATIONS CANNOT BE CORRECTED ONCE THE YEAR-END FINANCIAL STATEMENTS HAVE BEEN RELEASED

What if year-end financial statements are issued (in a hurry) and the conformity requirements have been overlooked?

The position of the IRS is that once a year-end Income Statement has been issued or released on a non-LIFO basis, that statement cannot be recalled and corrected to reflect LIFO by the re-issuance of statements satisfying the conformity requirement. Furthermore, it then becomes discretionary with the IRS Commissioner as to whether or not the Commissioner chooses to terminate the taxpayer's LIFO election as a penalty for the violation.

The *William Powell Company* decision (81-1 USTC ¶ 9449) illustrates one taxpayer's success (or possibly good fortune) in avoiding termination of its LIFO election when it came down to "all-or-nothing" on this issue. This case, decided in 1981, involved what would have been the termination of a LIFO election made in 1973 because at the end of the first LIFO year, the taxpayer had issued non-LIFO statements and then later made a LIFO election when it filed its tax return.

In that case, the taxpayer recalled its previous non-LIFO statements and replaced/reissued LIFO statements to all the banks, creditors and shareholders before the income tax return for the first year was filed. The taxpayer probably would have lost its LIFO election if it had litigated the issue in the Tax Court, but the taxpayer chose to litigate this issue in the District Court in Ohio.

The taxpayer took the position that it had not "used" FIFO within the meaning of Section 472(c). Its position with respect to Section 472(c)(2) was that non-LIFO "worksheets" were not used for "credit purposes," since the credit had been extended prior to the delivery of the worksheets. The District Court accepted the taxpayer's arguments. With respect to Section 472(c)(1), Powell contended that *use* is determined at the time of the LIFO election and that

this election need not be made until the taxpayer files its return. At the time Powell elected LIFO, it was no longer *using* the FIFO statements, inasmuch as they had been recalled prior to the election and LIFO statements had been reissued.

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

HOW SOME BUSINESSES GET AROUND THE LIFO CONFORMITY LIMITATIONS

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

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

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

see **SPECIAL LIFO CHALLENGES**, page 18



Special LIFO Challenges

Based on the foregoing, we continue to question the wisdom of the *advice* given by Wall Street to dealer groups going public in connection with terminating their LIFO elections. How many millions of dollars of LIFO deferral tax savings have been thrown away needlessly in exchange for the perceived benefit of higher earnings per share and hopefully higher market valuations? The significant—if not Draconian—penalties the investing marketplace exacts from businesses that miss their earnings per share projections by even a penny suggest that sacrificing real millions of LIFO tax deferral dollars “just for show” can be costly, if not almost unnecessary.

INTERIM REPORTS

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

OTHER CONCERNS: *INSILCO* & SECTION 472(g)

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

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

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

(Continued from page 17)

CONCLUDING CONFORMITY WARNINGS

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

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

In these situations, the IRS asserts that there is no statute of limitations preventing it from inquiring as to a taxpayer's compliance with the conformity requirement ... and that the Service can look into this as far back as the initial LIFO election year. Furthermore, the burden of proof is on the taxpayer—not on the IRS—in these inquiries.

The IRS position is that there is no limit on its ability to go back to any prior year...no matter how far distant...to terminate a LIFO election because of a violation of any one of the many conformity requirements discussed above. The IRS supports its argument by reminding taxpayers that they have explicitly agreed to this result right on the Form 970 (in Part 1) that they included in their tax returns when they elected LIFO!

The only exception to this is the IRS' uncharacteristic and somewhat voluntary self-imposed limitation in 1997 for certain retail auto and truck dealers. Consequently, LIFO users cannot be too cautious or careful in dealing with conformity matters.

YEAR-END PROJECTIONS FOR STATEMENT CONFORMITY OR FOR INCOME TAX PLANNING PURPOSES

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



Special LIFO Challenges

Projections for income tax planning purposes. It is unrealistic to attempt any serious planning for a business that uses LIFO without first projecting the change in the LIFO reserves for year-end.

Make projections early. These projections should be made early enough so that management can consider not only the financial impact of what is likely to happen, but also whether legitimate steps, motivated by sound business reasons, can be undertaken to produce a result different from that shown by the projections.

One thing is certain: After year-end, it will be too late to change the results that might have been avoided by proper planning with adequate timing.

Even if it is concluded that nothing can be done to avoid the LIFO reserve payback consequences, it is far better to know the extent of the impending "hit" so that other buffering actions can be taken, than it is to be caught entirely off-guard or without any idea of how large the LIFO reserve recapture is going to be.

(Continued)

PROJECTION MECHANICS

Projecting year-end changes in LIFO reserves need not be too difficult nor time-consuming. Making these LIFO reserve change projections involves only two estimates: (1) the ending inventory level, and (2) the overall inflation percentage for the year.

All other necessary factors are known at the time the projections are made because they are "facts" related to the beginning of the year:

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

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

PROJECTION MECHANICS

- (1) **Determine** the cumulative index as of the end-of-the-year—this is the estimated current year inflation index times (i.e., multiplied by) the beginning-of-the-year cumulative index,
- (2) **Divide** the end-of-the-year estimated (or, if known, actual) inventory dollars by the year-end cumulative index—to determine the end-of-the-year inventory stated or expressed in base dollars,
- (3) **Compare** the end-of-the-year inventory expressed in base dollars with the beginning-of-the-year inventory stated in base dollars to determine whether there is an increment or a decrement projected for the year,
- (4) **Value** the projected increment under the method already selected for valuing increments on Form 970, item 6(a).

Alternatively, if a decrement is projected for the year, carry back the decrement (expressed in base dollars) against prior years' increments (also expressed in base dollars) on a LIFO or reverse-chronological-order basis. This means that the most recent/last layer built up is the first one eliminated, and then prior years' layers are eliminated in reverse-chronological order. In other words, a decrement in 1999 is carried back first against any 1998 increment, then against 1997, then against 1996, then against 1995, etc. until the entire amount of the 1999 decrement (expressed in base dollars) has been fully accounted for. In some instances, a decrement may end up being carried all the way back to the original first LIFO year base layer.

- (5) **Add** all the resulting layers of inventory at their respective LIFO valuations to get the end-of-the-year inventory stated at its LIFO valuation,
- (6) **Subtract** the ending inventory at its LIFO valuation from the ending inventory at its actual or estimated current non-LIFO cost to determine the projected LIFO reserve as of the end-of-the-year,
- (7) **Subtract** the *actual* LIFO reserve as of the beginning-of-the-year from the projected LIFO reserve as of the end-of-the-year. The result determined in this final step is the estimate of the change in the LIFO reserve for the year.
- (8) **Reconcile and prove out** the projected changes to understand why the reserve is going up or down.

see **SPECIAL LIFO CHALLENGES**, page 20



UNDERSTANDING WHY (PROJECTED) LIFO RESERVES GO UP OR DOWN

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

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

CHANGE FACTORS	Upward influences... causing increases
	<ul style="list-style-type: none"> • Price increases ...inflation. • Quantity increases, if a dual index method-ology/approach is used.
	Downward influences... causing decreases
	<ul style="list-style-type: none"> • Price decreases ...deflation. • Decreases in inventory investment levels— i.e., pay-backs of previously built-up LIFO reserves to the extent necessitated by the carryback of a current year quantity decrease (referred to as "decrements") against increases ("increments") built up in prior years. But see the qualification below where negative LIFO reserves are involved.

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

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

For those who want more mechanical analysis, see: "Why Do Some LIFO Reserves Go Up Even Though Inventory Levels Go Down?" in the March, 1992 LIFO Lookout and "Another Rebasing Example - With Proofs: Why LIFO Reserves Go Up Even Though Inventory Levels Go Down and Despite Rebasings Indexes to 1.000 in Between" in the June, 1993 LIFO Lookout.

Also, for those who are interested in pay-back mechanics where negative LIFO reserves are involved, see "Strange...But Explainable...Results from the Wacky World of Negative LIFO Reserves," in the December, 1998 LIFO Lookout. This article, with extensive supporting schedules, analyzes what might

otherwise be unanticipated results where negative LIFO reserves are involved, and even qualifies the generalization above that decreases in inventory investment levels cause or result in decreases in LIFO reserves.

WORKING OUT OF ANTICIPATED YEAR-END LIQUIDATION OR DECREMENT SITUATIONS

When a liquidation or decrement situation is anticipated, the starting point is to calculate the pay-back potential from a series of reduced inventory levels. In other words, as the year-end inventory drops, how much more (or less) is the LIFO reserve going to change? These calculations determine what the real LIFO recapture vulnerability will be as the anticipated current-year's decrement is carried-back on a LIFO basis against the prior LIFO layers that have been built up over the years.

This recapture potential will be different for every pool, since each pool has its own history and characteristics. For auto dealers, this recapture impact will be different for the new auto pool compared to what it will be for the new light-duty truck pool. The LIFO reserve repayment potential impact should be computed for each LIFO pool and expressed as a readily understandable dollar amount. For an example of this type of successive calculation, see "GM Dealers Low on LIFO Inventory May Face Stiff Recapture ... Planning May Lessen the Blow," in the June 1998 Dealer Tax Watch.

Armed with this diagnostic information, taxpayers anticipating a liquidation may be able to lessen the anticipated LIFO recapture in at least three ways. The second and third considerations below are discussed in the June 1998, Dealer Tax Watch article referenced above.

ALTERNATIVES	1. Manage inventory levels. Attempt to increase or "manage" the inventory level through transactions that might not otherwise have been considered, but which still have some degree of business justification (other than solely attempting to minimize the impact of LIFO layer liquidations).
	2. Year-end change. If eligible, change to a fiscal year-end that is prior to the year-end expected to be adversely affected by the significant inventory reduction.
	3. Switch to the BLS/IPIC method. Consider changing to the BLS/IPIC method under the recent changes...and expeditious consent procedure ... available in Section 10.04 of the Appendix to Revenue Procedure 98-60.



Special LIFO Challenges

If a business using LIFO is trying to avoid a significant year-end reserve reduction, steps to increase the inventory level should be completed and documented before year-end. These actions should be considered only if they make sense from a business standpoint, after considering carrying costs, insurance, expected ability to sell the additional inventory and the possibility of challenge by the IRS.

Despite cautions that inventory purchasing decisions should be based on sound business judgment and not solely on the desire to reduce projected LIFO pay-backs, some taxpayers may still wish to pursue more aggressive strategies and to take their chances in this regard.

As discussed in the next section, the IRS has been successful in challenging transactions that appeared to be motivated by the desire to avoid LIFO recapture impact. In these cases, the IRS ignored the last-ditch efforts that resulted in inventory on hand at year-end which was not "intended to be sold or placed in the normal inventory channels."

Ideas dealers might consider if faced with significant projected decrements. A dealer might attempt to increase or "manage" the year-end inventory level by considering some transactions that otherwise would not have entered his mind. These may be rationalized under the "Nothing ventured, nothing gained" generalization. However, they may not necessarily be justified if the IRS digs deeply into them and sees them as motivated solely by liquidation-avoidance. Therefore, these strategies should be regarded by dealers and their advisors as aggressive and not without the likelihood of challenge by the IRS. They are only generalized here, and they should be carefully and more fully evaluated by the dealer's advisors before any further action is taken.

1. After determining which pool (new automobiles or new light-duty trucks) has the greater LIFO repayment potential, a dealer may simply try to have more inventory dollars in the pool with the greater repayment potential.

In other words, if the dealer can have only \$1,000,000 worth of inventory, if the LIFO repayment payback potential is 30% on the dollar in the new automobile pool and 60% on the dollar in the new light-duty truck pool, the dealer should try to have more inventory dollars at year-end in the new light-duty truck pool than in the new automobile pool.

2. Attempt to purchase new vehicles of other makes (for resale to retail customers) to put into inventory.

Under the Alternative LIFO Method, all new automobiles, regardless of manufacturer, including those used as demonstrators, must be included in a

(Continued)

dollar-value LIFO pool, and all new light-duty trucks regardless of manufacturer, must be included in another separate LIFO pool. Thus, the Alternative LIFO Method would appear to contemplate all new automobiles being placed in one pool, regardless of manufacturer. Accordingly, a GM dealer who has other non-GM franchises in the same selling entity as the GM franchise(s) might try to stock up on the non-GM new vehicles to the extent possible.

3. Similarly, a dealer might simply attempt to purchase (for retail sale) some very expensive makes (Lamborghini or Rolls Royce) and put them in the new automobiles pool. ("A few will do.") Does a dealer have to have that franchise to sell those vehicles? What about creating a special joint venture, or flow-through type entity with another *franchised* dealer?

How far can the "retail resale" aspect be pushed? Will this pass muster with the IRS? One cannot be sure.

Caution: Section 4.02 of Revenue Procedure 97-36 does contain some troublesome language relating to LIFO pools. It states that "for each separate trade or business," all autos, regardless of manufacturer, must be placed in one pool. No one really knows what "for each separate trade or business" really means, and the IRS has yet to define or explain it. If these words don't mean anything, why are they there? Might the IRS assert some specialized interpretation for this term under these circumstances?

In TAM 199911044, the IRS gave some indication of its interpretation of the "for each separate trade or business" language. In this TAM, the National Office allowed an auto dealer to keep all new autos in one pool and all new light-duty trucks in a separate pool, even though that dealer was involved with two manufacturers, five franchises and three locations, all of which were in the same city. For more on this TAM, see "Automobile Dealer with Multiple Franchises & Locations Can Use One Pool for all New Cars," *LIFO Lookout*, June 1999.

4. A dealer might actively seek out another dealer with less of a LIFO recapture impact potential and attempt to purchase inventory from that dealer, perhaps paying a "premium" or offering that dealer some other considerations for that inventory that makes the transaction economically attractive to both parties.

5. Dealers with multiple franchises in different entities should make similar LIFO recapture impact calculations for all their LIFO pools in all entities... to determine whether a shifting of inventory from one entity to another, if feasible, might create a favorable recapture-avoidance result.

see **SPECIAL LIFO CHALLENGES**, page 22



Special LIFO Challenges

6. Finally, although it may seem heresy, a dealer might consider not closing sales until after the end of the year. For some dealers, what they hope to realize in gross profit and potential customer loyalty may be smaller than the real dollar outflow that *definitely* will result from the reduction of inventory by sales which will *definitely* trigger the LIFO recapture. Some dealers may simply be unable to make the right decision on this.

SOMETIMES THE EVER-VIGILANT IRS REVERSES YEAR-END LIQUIDATION AVOIDANCE MEASURES

In 1996, the Tax Court observed that taxpayers often "desire a higher base-year cost of ending inventory in a given year to avoid liquidating a LIFO layer, causing a match of historical costs against current revenues" (see *E. W. Richardson*, Tax Court Memo Decision 1996-368). The Court's observation was made in the context of three other cases and Revenue Ruling 79-188. All of these collectively stand for the proposition that the IRS may successfully overturn and even penalize year-end inventory transactions that are solely LIFO-benefit motivated.

1. **Ingredient Technology Corporation** (Su Crest Corporation, 83-1 USTC 9140, January 5, 1983). Tax fraud convictions by means of LIFO inventory overstatements.

2. **Illinois Cereal Mills**, (86-1 USTC 9371 affirming T.C. Memo 1983-469, Dec. 40,342(M), 46 TCM 1001, August, 1983). Legal ownership of the goods did not justify inclusion in the taxpayer's inventory because the taxpayer did not intend to use the corn in its milling business.

3. **Ballou and Company, Inc.**, (85-1 USTC 9290, U.S. Claims Court, No. 247-82T; March 29, 1985). The Court upheld the IRS' removal of year-end gold purchases from LIFO inventory calculations because the IRS adjustments removed only the amounts of gold that the taxpayer had purchased in order to temporarily inflate inventory levels solely for income tax/LIFO purposes at year end.

Revenue Ruling 79-188 can be given a positive spin and interpreted to indirectly suggest some planning considerations:

1. Attempt to document that sales during the year are at levels that justify the purchase of year-end inventory levels in the ordinary course of business.

2. It helps if the inventory acquired at year-end can be sold to regular customers in due course or to a third party, rather than back to original supplier. This helps to avoid the "cast" as a resale.

(Continued from page 21)

3. The inventory acquired at year-end should be paid for before its subsequent sale, again in an effort to demonstrate an intent to receive and use the goods in the ordinary course of the business.

4. The specific mechanics of taking possession and title prior to reselling the inventory should also be considered. But note, even doing all this legally did not stop the IRS in *Illinois Cereal Mills*.

TAM 9847003 provides more recent evidence of how closely the IRS scrutinizes year-end inventory levels and transactions. In this case, the IRS concluded that an affiliated group had engaged in inventory-level manipulation stating: "The Group simply used Y (one affiliated member) as a purchasing and holding company so that it could manipulate the quantity of goods in X's (another affiliated member) ending inventory, thereby artificially inflating X's cost of good sold ... This purchasing arrangement was designed to artificially reduce the Group's taxable income and avoid taxes; it had no independent purpose ... Although papers were drawn up to place formal ownership with Y, the objective economic realities indicate that X had effective command over the Y purchases." Accordingly, the IRS National Office concluded that X was the owner of the Y purchases and should have included them in its inventory.

In this TAM, the IRS pursued the adjustment to correct the year-end inventory levels through the Group's corporate restructuring, holding that (1) X's method of accounting for the Y purchases carried over to the taxpayer created in the merger process, (2) the treatment of the purchases in inventory constituted an unauthorized change in method of accounting, and (3) corrections could be made by changing the new taxpayer's method of accounting and making adjustments pursuant to Section 481(a).

A WARNING ABOUT AGGRESSIVE YEAR-END INVENTORY PLANNING

Any LIFO taxpayer aggressively planning to avoid year-end LIFO layer liquidations should realize that even satisfying the apparent "boundaries" set forth in Revenue Ruling 79-188 and these other cases may not be enough. Taxpayers' year-end transactions may not prevail if year-end purchases are structured to involve subsequent re-sales back to the same source shortly after year-end or just to otherwise look good on paper.

More recently, Letter Ruling 9847003 indicates that the IRS arguments are potentially more sophisticated and strengthened whenever the IRS brings Section 481(a) into the evaluation. The IRS' repeated use of the term *objective economic realities* may open the door to many subjective disputes. *



In LTR 9644027, the IRS held that there would be no LIFO recapture upon the conversion of several dealerships to limited liability company status. This involved Section 721 partnership contributions under which neither a partnership nor any of its partners recognize gain or loss when property is contributed to a partnership in exchange for a partnership interest.

In Letter Ruling 9644027, the taxpayers contributed assets to each LLC in exchange for a membership interest in that LLC. After the formation of the LLCs, the taxpayers who contributed the net assets of the dealerships remained in existence and maintained a majority ownership interest in the profits and capital of each LLC. Letter Ruling 9644027 is dis-

cussed at length in the December 1996 *LIFO Lookout*, and it identified the taxpayers involved there as automobile dealerships.

The IRS National Office, in LTR 9644027, seemed to place strong reliance on (1) the expectation that the success of the motor vehicle dealerships depended largely upon the effectiveness of the general manager and (2) the belief that vehicle manufacturers commonly insisted that general managers be allowed to acquire an incentive ownership interest in the dealerships they manage. The taxpayer's "need" to accommodate the manufacturers on this point may have been given more weight in Letter Ruling 9644027 than it might warrant elsewhere. *

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
 DEALER COST FOR THE YEAR ENDED 12/31/00
 NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
ACURA								
NEW AUTOS - POOL #1								
CL	0	4	4		109,955	109,955	0	0.00%
INTEGRA	11	0	11	212,725		213,770	1,045	0.49%
NSX	0	0	0				0	N/A%
NSX-T	0	0	0				0	N/A%
RL	2	0	2	75,704		75,704	0	0.00%
TL	2	0	2	52,993		53,273	280	0.53%
TOTAL NEW AUTOS	15	4	19	341,422	109,955	452,702	1,325	0.29%
NEW LIGHT-DUTY TRUCKS - POOL #2								
MDX	0	4	4		130,672	130,672	0	0.00%
TOTAL NEW L-D TRUCKS	0	4	4		130,672	130,672	0	0.00%
TOTAL ACURA	15	8	23	341,422	240,627	583,374	1,325	0.23%
AM GENERAL								
NEW LIGHT-DUTY TRUCKS - POOL #2								
HUMMER	5	0	5	367,742		380,614	12,872	3.50%
TOTAL NEW L-D TRUCKS	5	0	5	367,742		380,614	12,872	3.50%
TOTAL AM GENERAL	5	0	5	367,742		380,614	12,872	3.50%
AUDI								
NEW AUTOS - POOL #1								
A4 SERIES	12	0	12	298,418		303,848	5,430	1.82%
A6 SERIES	6	0	6	207,770		210,953	3,183	1.53%
A8 SERIES	1	1	2	54,805	59,997	114,978	176	0.15%
S4	2	0	2	67,816		69,582	1,766	2.60%
S8	0	1	1		64,045	64,045	0	0.00%
TT	2	3	5	55,920	96,371	153,522	1,231	0.81%
TOTAL NEW AUTOS	23	5	28	684,729	220,413	916,928	11,786	1.30%
TOTAL AUDI	23	5	28	684,729	220,413	916,928	11,786	1.30%
BMW								
NEW AUTOS - POOL #1								

NEW AUTOS - POOL #1

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
 DEALER COST FOR THE YEAR ENDED 12/31/00
 NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
BMW								
3 SERIES	6	3	9	165,380	97,010	264,350	1,960	0.75%
5 SERIES	6	3	9	275,110	98,820	374,830	900	0.24%
7 SERIES	5	0	5	410,025		401,130	(8,895)	(2.17)%
M SERIES	0	0	0				0	N/A%
Z3	3	0	3	94,275		96,660	2,385	2.53%
Z8	0	1	1		115,200	115,200	0	0.00%
TOTAL NEW AUTOS	20	7	27	944,790	311,030	1,252,170	(3,650)	(0.29)%
NEW LIGHT-DUTY TRUCKS - POOL #2								
X5	1	1	2	44,460	35,010	79,470	0	0.00%
TOTAL NEW L-D TRUCKS	1	1	2	44,460	35,010	79,470	0	0.00%
TOTAL BMW	21	8	29	989,250	346,040	1,331,640	(3,650)	(0.27)%
BUICK								
NEW AUTOS - POOL #1								
CENTURY	2	0	2	38,050		39,081	1,031	2.71%
LESABRE	2	0	2	46,445		48,406	1,961	4.22%
PARK AVENUE	2	0	2	62,083		63,775	1,692	2.73%
REGAL	2	0	2	43,485		44,780	1,295	2.96%
TOTAL NEW AUTOS	8	0	8	190,063		196,042	5,979	3.15%
TOTAL BUICK	8	0	8	190,063		196,042	5,979	3.15%
CADILLAC								
NEW AUTOS - POOL #1								
CATERA	1	0	1	28,701		29,112	411	1.43%
COACH/BUILDER LIMOUSINE	0	0	0				0	N/A%
DE VILLE	3	0	3	118,410		122,186	3,776	3.19%
ELDORADO	2	0	2	75,171		76,847	1,676	2.23%
FUNERAL COACH	0	0	0				0	N/A%
SEVILLE	2	0	2	85,185		82,642	(2,543)	(2.99)%
TOTAL NEW AUTOS	8	0	8	307,467		310,787	3,320	1.08%
NEW LIGHT-DUTY TRUCKS - POOL #2								

24 December 2000

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A Quarterly Update of LIFO - News, Views and Ideas
 De Filippis' LIFO LOOKOUT Vol. 10, No. 4



INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
ESCALADE	0	0	0				0	N/A%
TOTAL NEW L-D TRUCKS	0	0	0				0	N/A%
TOTAL CADILLAC	8	0	8	307,467		310,787	3,320	1.08%
CHEVROLET								
NEW AUTOS - POOL #1								
CAMARO	4	0	4	83,549		84,034	485	0.58%
CAVALIER	4	0	4	53,847		53,893	46	0.09%
CORVETTE	2	1	3	74,100	41,873	117,722	1,749	1.51%
IMPALA	2	0	2	37,863		38,772	909	2.40%
LUMINA	1	0	1	17,193		17,284	91	0.53%
MAJIBU	2	0	2	32,629		33,233	604	1.85%
METRO	1	0	1	9,889		9,935	46	0.47%
MONTE CARLO	2	0	2	37,538		38,403	865	2.30%
PRIZM	2	0	2	27,957		28,130	173	0.62%
TOTAL NEW AUTOS	20	1	21	374,565	41,873	421,406	4,968	1.19%
NEW LIGHT-DUTY TRUCKS - POOL #2								
3500 CHASSIS-CABS	0	19	19		431,086	431,086	0	0.00%
ASTRO VAN	6	0	6	119,460		124,243	4,783	4.00%
BLAZER	8	1	9	188,386	19,118	210,236	2,732	1.32%
C-K CHASSIS CAB	0	0	0				0	N/A%
C-K PICKUP	0	0	0				0	N/A%
COMMERCIAL CUTAWAY VAN	0	0	0				0	N/A%
EXPRESS CARGO VAN	10	0	10	206,208		209,738	3,530	1.71%
EXPRESS VAN	5	0	5	112,669		113,991	1,322	1.17%
S10 PICKUP	8	1	9	113,475	22,452	137,021	1,094	0.80%
SILVERADO 1500	20	4	24	409,628	107,572	520,723	3,523	0.68%
SILVERADO 2500	5	37	42	116,039	966,450	1,083,774	1,285	0.12%
SILVERADO 3500	0	20	20		532,152	532,152	0	0.00%
SILVERADO CHASSIS CAB	0	0	0				0	N/A%
SUBURBAN	4	0	4	98,463		99,152	689	0.70%
TAHOE	2	0	2	46,177		46,198	21	0.05%
TRACER	4	4	8	56,850	75,449	136,085	3,796	2.87%
VENTURE	8	0	8	179,192		185,026	5,834	3.26%
TOTAL NEW L-D TRUCKS	80	86	166	1,646,547	2,154,279	3,829,435	28,609	0.75%
TOTAL CHEVROLET	100	87	187	2,021,112	2,196,152	4,250,841	33,577	0.80%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE	
CHRYSLER									
NEW AUTOS - POOL #1									
300M	1	0	1	26,661		27,066	405	1.52%	
CONCORDE	2	0	2	44,070		44,818	748	1.70%	
LHS	1	0	1	25,775		26,211	436	1.69%	
SEBRING	0	7	7		146,545	146,545	0	0.00%	
TOTAL NEW AUTOS	4	7	11	96,506	146,545	244,640	1,589	0.65%	
NEW LIGHT-DUTY TRUCKS - POOL #2									
PT CRUISER	0	1	1		14,767	14,767	0	0.00%	
TOWN & COUNTRY	0	6	6		171,021	171,021	0	0.00%	
TOTAL NEW L-D TRUCKS	0	7	7		185,788	185,788	0	0.00%	
TOTAL CHRYSLER	4	14	18	96,506	332,333	430,428	1,589	0.37%	
DAEWOO									
NEW AUTOS - POOL #1									
LANOS	4	2	6	32,212		23,314	58,284	2,758	4.97%
LEGANZA	4	0	4	53,943		55,671	1,728	3.20%	
NUBIRA	6	0	6	67,848		71,570	3,722	5.49%	
TOTAL NEW AUTOS	14	2	16	154,003	23,314	185,525	8,208	4.63%	
TOTAL DAEWOO	14	2	16	154,003	23,314	185,525	8,208	4.63%	
DODGE									
NEW AUTOS - POOL #1									
INTREPID	2	0	2	38,863		40,224	1,361	3.50%	
NEON	1	0	1	11,499		11,856	357	3.10%	
STRATUS	0	4	4		71,030	71,030	0	0.00%	
VIPER	2	0	2	122,916		126,876	3,960	3.22%	
TOTAL NEW AUTOS	5	4	9	173,278	71,030	249,986	5,678	2.32%	
NEW LIGHT-DUTY TRUCKS - POOL #2									
CARAVAN	0	6	6		144,284	144,284	0	0.00%	
DAKOTA	6	0	6	97,709		100,663	2,974	3.04%	
DURANGO	2	0	2	48,731		50,015	1,284	2.63%	
RAM CAB & CHASSIS	6	0	6	114,353		118,797	4,444	3.89%	
RAM PICKUP	20	0	20	378,689		390,309	11,620	3.07%	
RAM VAN	12	0	12	214,363		217,874	3,511	1.64%	



INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
RAM WAGON	3	0	3	61,994		62,820	826	1.33%
TOTAL NEW L-D TRUCKS	49	6	55	915,839	144,284	1,084,782	24,659	2.33%
TOTAL DODGE	54	10	64	1,089,117	215,314	1,334,768	30,337	2.33%
FERRARI								
NEW AUTOS - POOL #1								
360 MODENA	0	0	0				0	N/A%
456 GT	0	0	0				0	N/A%
550 MARANELLO	0	0	0				0	N/A%
TOTAL NEW AUTOS	0	0	0				0	N/A%
TOTAL FERRARI	0	0	0				0	0.00%
FORD								
NEW AUTOS - POOL #1								
CONTOUR	3	0	3	51,118		51,625	507	0.99%
CROWN VICTORIA	4	0	4	84,720		86,713	1,993	2.35%
ESCORT	2	0	2	23,084		23,709	625	2.71%
FOCUS	5	0	5	63,395		66,317	2,922	4.61%
MUSTANG	1	8	9	15,123	169,351	184,995	521	0.28%
TAURUS	5	0	5	88,279		91,721	3,442	3.90%
TOTAL NEW AUTOS	20	8	28	325,719	169,351	505,080	10,010	2.02%
NEW LIGHT-DUTY TRUCKS - POOL #2								
CUTAWAY VAN	12	0	12	218,687		225,526	6,839	3.13%
ECONOLINE VAN/WAGON	16	0	16	339,122		349,736	10,614	3.13%
ESCAPE	0	4	4		72,046	72,046	0	0.00%
EXCURSION	4	0	4	128,456		133,302	4,846	3.77%
EXPEDITION	4	0	4	119,988		123,105	3,117	2.60%
EXPLORER	11	0	11	300,820		311,439	10,619	3.53%
EXPLORER SPORT	0	0	0				0	N/A%
F150 PICKUP	31	3	34	616,138	83,858	729,709	29,713	4.24%
F250 SUPER DUTY PICKUP	30	0	30	681,937		716,630	34,693	5.09%
F350 SUPER DUTY PICKUP	54	0	54	1,292,699		1,352,715	60,016	4.64%
RANGER	2	37	39	23,190	620,045	644,352	1,117	0.17%
SUPER DUTY CAB/CHASSIS	42	0	42	949,772		995,093	45,321	4.77%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
WINDSTAR	5	2	7	111,622	55,217	170,657	3,818	2.29%
TOTAL NEW L-D TRUCKS	211	46	257	4,782,431	831,166	5,824,310	210,713	3.75%
TOTAL FORD	231	54	285	5,108,150	1,000,517	6,329,390	220,723	3.61%
GMC TRUCKS								
NEW LIGHT-DUTY TRUCKS - POOL #2								
JIMMY	12	0	12	298,414		301,375	2,961	0.99%
SAFARI	6	0	6	119,808		124,513	4,705	3.93%
SAVANA	15	0	15	319,737		324,561	4,824	1.51%
SIERRA 2500 CHASSIS-CABS	0	0	0				0	N/A%
SIERRA 3500 CHASSIS-CABS	0	16	16		372,310	372,310	0	0.00%
SIERRA CLASSIC	2	0	2	44,341		44,515	174	0.39%
SIERRA CLASSIC CHASSIS-CABS	3	0	3	64,906		65,881	975	1.50%
SIERRA HD PICKUP	0	20	20		497,179	497,179	0	0.00%
SIERRA PICKUP	26	13	39	541,902	339,051	898,144	17,191	1.95%
SONOMA	10	1	11	146,455	22,700	170,336	1,181	0.70%
YUKON	6	1	7	186,446	41,519	232,598	4,633	2.03%
TOTAL NEW L-D TRUCKS	80	51	131	1,722,009	1,272,759	3,031,412	36,644	1.22%
TOTAL GMC TRUCKS	80	51	131	1,722,009	1,272,759	3,031,412	36,644	1.22%
HONDA								
NEW AUTOS - POOL #1								
ACCORD	32	13	45	595,226	224,907	829,518	9,395	1.14%
CIVIC	0	28	28		384,078	384,078	0	0.00%
INSIGHT	0	0	0				0	N/A%
PRELUDE	3	0	3	66,068		66,365	297	0.45%
S2000	1	0	1	28,456		28,733	277	0.97%
TOTAL NEW AUTOS	36	41	77	689,750	608,985	1,308,694	9,959	0.77%
NEW LIGHT-DUTY TRUCKS - POOL #2								
CR-V	5	1	6	90,838	20,833	112,359	688	0.62%
ODYSSEY	3	0	3	68,840		70,025	1,185	1.72%
PASSPORT	8	0	8	190,423		192,200	1,777	0.93%
TOTAL NEW L-D TRUCKS	16	1	17	350,101	20,833	374,584	3,650	0.98%
TOTAL HONDA	52	42	94	1,039,851	629,818	1,683,278	13,609	0.82%



INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
HYUNDAI								
NEW AUTOS - POOL #1								
ACCENT	5	0	5	45,860		45,858	(2)	0.00%
ELANTRA	0	2	2		23,740	23,740	0	0.00%
SONATA	4	2	6	58,840	33,067	91,927	0	0.00%
TIBURON	2	0	2	26,164		27,120	956	3.65%
XG300	0	2	2		43,377	43,377	0	0.00%
TOTAL NEW AUTOS	11	6	17	130,864	100,204	232,022	954	0.41%
NEW LIGHT-DUTY TRUCKS - POOL #2								
SANTA FE	0	8	8		144,605	144,605	0	0.00%
TOTAL NEW L-D TRUCKS	0	8	8		144,605	144,605	0	0.00%
TOTAL HYUNDAI	11	14	25	130,864	244,809	376,627	954	0.25%
INFINITI								
NEW AUTOS - POOL #1								
G20	4	0	4	81,416		83,972	2,556	3.14%
I30	2	0	2	54,814		55,014	200	0.36%
Q45	2	0	2	88,053		89,053	200	0.23%
TOTAL NEW AUTOS	8	0	8	225,083		228,039	2,956	1.31%
NEW LIGHT-DUTY TRUCKS - POOL #2								
QX4	0	2	2		63,240	63,240	0	0.00%
TOTAL NEW L-D TRUCKS	0	2	2		63,240	63,240	0	0.00%
TOTAL INFINITI	8	2	10	225,083	63,240	291,279	2,956	1.03%
ISUZU								
NEW LIGHT-DUTY TRUCKS - POOL #2								
HOMBRE	0	0	0				0	N/A%
RODEO	11	1	12	236,312	17,548	257,196	3,336	1.31%
RODEO SPORT	7	2	9	112,824	30,999	147,062	3,229	2.25%
TROOPER	7	0	7	180,192		181,155	963	0.53%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
VEHICROSS								
	1	0	1	24,710		25,949	1,239	5.01%
TOTAL NEW L-D TRUCKS	26	3	29	554,038	48,547	611,352	8,767	1.45%
TOTAL ISUZU	26	3	29	554,038	48,547	611,352	8,767	1.45%
JAGUAR								
NEW AUTOS - POOL #1								
S-TYPE	2	0	2	79,060		83,708	4,648	5.88%
XJB	5	0	5	288,552		305,165	16,613	5.76%
XKB	2	0	2	120,032		128,978	8,946	7.45%
XKR	2	0	2	138,552		148,778	10,226	7.38%
TOTAL NEW AUTOS	11	0	11	626,196		666,629	40,433	6.46%
TOTAL JAGUAR	11	0	11	626,196		666,629	40,433	6.46%
JEEP								
NEW LIGHT-DUTY TRUCKS - POOL #2								
CHEROKEE	6	2	8	112,926	42,672	158,238	2,640	1.70%
GRAND CHEROKEE	4	0	4	109,696		112,301	2,605	2.37%
WRANGLER	3	0	3	48,886		52,067	3,171	6.49%
TOTAL NEW L-D TRUCKS	13	2	15	271,518	42,672	322,606	8,416	2.68%
TOTAL JEEP	13	2	15	271,518	42,672	322,606	8,416	2.68%
KIA								
NEW AUTOS - POOL #1								
RIO	0	2	2		16,600	16,600	0	0.00%
SEPHIA	5	0	5	52,060		51,496	(564)	(1.08)%
SPECTRA	0	4	4		43,982	43,982	0	0.00%
TOTAL NEW AUTOS	5	6	11	52,060	60,582	112,078	(564)	(0.50)%
NEW LIGHT-DUTY TRUCKS - POOL #2								

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
SPORTAGE	10	4	14	146,564	70,300	225,304	8,440	3.89%
TOTAL NEW L-D TRUCKS	10	4	14	146,564	70,300	225,304	8,440	3.89%
TOTAL KIA	15	10	25	198,624	130,882	337,382	7,876	2.39%
LAND ROVER/RANGE ROVER								
NEW LIGHT-DUTY TRUCKS - POOL #2								
LAND ROVER DISCOVERY	3	0	3	91,893		92,605	712	0.77%
RANGE ROVER	1	1	2	59,551	54,870	115,050	619	0.54%
TOTAL NEW L-D TRUCKS	4	1	5	151,454	54,870	207,655	1,331	0.65%
TOTAL LAND ROVER/RANGE ROVER	4	1	5	151,454	54,870	207,655	1,331	0.65%
LEXUS								
NEW AUTOS - POOL #1								
ES 300 SEDAN	1	0	1	27,278		27,364	86	0.32%
GS 300 SEDAN	1	0	1	32,663		33,488	825	2.53%
GS 430 SEDAN	0	1	1		40,655	40,655	0	0.00%
IS 300	0	1	1		26,756	26,756	0	0.00%
LS 430 SEDAN	0	1	1		46,363	46,363	0	0.00%
TOTAL NEW AUTOS	2	3	5	59,941	113,774	174,626	911	0.52%
NEW LIGHT-DUTY TRUCKS - POOL #2								
LX 470	1	0	1	50,655		52,715	2,060	4.07%
RX 300	2	0	2	57,682		60,419	2,737	4.74%
TOTAL NEW L-D TRUCKS	3	0	3	108,337		113,134	4,797	4.43%
TOTAL LEXUS	5	3	8	168,278	113,774	287,760	5,708	2.02%
LINCOLN								
NEW AUTOS - POOL #1								
CONTINENTAL	1	0	1	35,408		36,412	1,004	2.84%
LS	3	0	3	88,864		93,380	4,516	5.08%
TOWN CAR	3	2	5	111,343	84,548	199,232	3,341	1.71%
TOTAL NEW AUTOS	7	2	9	235,615	84,548	329,024	8,861	2.77%
NEW LIGHT-DUTY TRUCKS - POOL #2								

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
NAVIGATOR	2	0	2	76,644		80,525	3,881	5.06%
TOTAL NEW L-D TRUCKS	2	0	2	76,644		80,525	3,881	5.06%
TOTAL LINCOLN	9	2	11	312,259	84,548	409,549	12,742	3.21%
MAZDA								
NEW AUTOS - POOL #1								
626	4	0	4	73,487		75,271	1,784	2.43%
MILLENNIA	1	1	2	27,400	25,604	53,944	940	1.77%
MX-5 MIATA	4	1	5	83,034	22,990	105,324	(700)	(0.66)%
PROTEGE	3	0	3	37,743		38,201	458	1.21%
TOTAL NEW AUTOS	12	2	14	221,664	48,594	272,740	2,482	0.92%
NEW LIGHT-DUTY TRUCKS - POOL #2								
B SERIES PICKUP	22	0	22	338,359		346,168	7,809	2.31%
MPV	3	0	3	61,873		63,847	1,974	3.19%
TRIBUTE	0	8	8		150,722	150,722	0	0.00%
TOTAL NEW L-D TRUCKS	25	8	33	400,232	150,722	560,737	9,783	1.78%
TOTAL MAZDA	37	10	47	621,896	199,316	833,477	12,265	1.49%
MERCEDES								
NEW AUTOS - POOL #1								
C CLASS	0	2	2		62,218	62,218	0	0.00%
CL CLASS	0	2	2		201,531	201,531	0	0.00%
CLK CLASS	4	1	5	180,792	62,682	245,893	2,419	0.99%
E CLASS	7	0	7	347,078		351,774	4,696	1.35%
S CLASS	2	2	4	137,221	197,160	336,428	2,047	0.61%
SL CLASS	2	0	2	196,742		197,859	1,116	0.57%
SLK CLASS	1	1	2	38,130	40,827	77,004	(1,953)	(2.47)%
TOTAL NEW AUTOS	16	8	24	899,963	564,418	1,472,706	8,325	0.57%
NEW LIGHT-DUTY TRUCKS - POOL #2								
M CLASS	3	0	3	133,874		135,687	1,813	1.35%
TOTAL NEW L-D TRUCKS	3	0	3	133,874		135,687	1,813	1.35%
TOTAL MERCEDES	19	8	27	1,033,837	564,418	1,608,393	10,138	0.63%



INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
 DEALER COST FOR THE YEAR ENDED 12/31/00
 NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
 DEALER COST FOR THE YEAR ENDED 12/31/00
 NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

A Quarterly Update of LIFO - News, Views and Ideas
 De Filippis' LIFO LOOKOUT Vol. 10, No. 4



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BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
MERCURY								
NEW AUTOS - POOL #1								
COUGAR	2	1	3	30,487	20,321	51,781	973	1.92%
GRAND MARQUIS	4	0	4	88,231		91,074	2,843	3.22%
SABLE	5	0	5	93,717		96,805	3,088	3.30%
TOTAL NEW AUTOS	11	1	12	212,435	20,321	239,660	6,904	2.97%
NEW LIGHT-DUTY TRUCKS - POOL #2								
MOUNTAINEER	3	0	3	78,048		80,081	2,033	2.60%
VILLAGER	3	0	3	67,466		69,016	1,550	2.30%
TOTAL NEW L-D TRUCKS	6	0	6	145,514		149,097	3,583	2.46%
TOTAL MERCURY	17	1	18	357,949	20,321	388,757	10,487	2.77%
MITSUBISHI								
NEW AUTOS - POOL #1								
DIAMANTE	2	0	2	48,111		45,945	(2,166)	(4.50)%
ECLIPSE	8	8	16	144,599	182,256	329,717	2,862	0.89%
GALANT	5	0	5	94,057		94,973	916	0.97%
MIRAGE	8	0	8	105,459		103,571	(1,888)	(1.79)%
TOTAL NEW AUTOS	23	8	31	392,226	182,256	574,206	(276)	(0.05)%
NEW LIGHT-DUTY TRUCKS - POOL #2								
MONTERO	0	2	2		60,630	60,630	0	0.00%
MONTERO SPORT	7	3	10	174,752	73,013	252,111	4,346	1.75%
TOTAL NEW L-D TRUCKS	7	5	12	174,752	133,643	312,741	4,346	1.41%
TOTAL MITSUBISHI	30	13	43	566,978	315,899	886,947	4,070	0.46%
NISSAN								
NEW AUTOS - POOL #1								
ALTIMA	7	0	7	113,751		113,751	0	0.00%
MAXIMA	5	2	7	106,356	49,133	156,392	903	0.58%
SENTRA	0	7	7		90,120	90,120	0	0.00%
TOTAL NEW AUTOS	12	9	21	220,107	139,253	360,263	903	0.25%
NEW LIGHT-DUTY TRUCKS - POOL #2								
FRONTIER PICKUP	20	12	32	331,306	251,090	583,036	10,640	1.83%
PATHFINDER	0	8	8		212,555	212,555	0	0.00%

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
QUEST XTERRA								
	3	0	3	65,888		66,637	749	1.14%
	9	0	9	178,997		183,673	4,676	2.61%
TOTAL NEW L-D TRUCKS	32	20	52	576,191	463,645	1,055,901	16,065	1.54%
TOTAL NISSAN	44	29	73	796,298	602,898	1,416,164	16,968	1.21%
OLDSMOBILE								
NEW AUTOS - POOL #1								
ALERO	8	0	8	134,970		141,946	6,976	5.17%
AURORA	0	2	2		59,578	59,578	0	0.00%
INTRIGUE	3	0	3	65,780		66,849	1,069	1.63%
TOTAL NEW AUTOS	11	2	13	200,750	59,578	268,373	8,045	3.09%
NEW LIGHT-DUTY TRUCKS - POOL #2								
BRAVADA	1	0	1	28,506		28,743	237	0.83%
SILHOUETTE	3	0	3	77,544		80,020	2,476	3.19%
TOTAL NEW L-D TRUCKS	4	0	4	106,050		108,763	2,713	2.56%
TOTAL OLDSMOBILE	15	2	17	306,800	59,578	377,136	10,758	2.94%
PLYMOUTH								
NEW AUTOS - POOL #1								
NEON	1	0	1	11,499		11,729	230	2.00%
PROMLER	1	0	1	39,882		41,270	1,388	3.48%
TOTAL NEW AUTOS	2	0	2	51,381		52,999	1,618	3.15%
NEW LIGHT-DUTY TRUCKS - POOL #2								
GRAND VOYAGER	2	0	2	41,515		42,290	775	1.87%
VOYAGER	2	0	2	37,828		38,989	1,161	3.07%
TOTAL NEW L-D TRUCKS	4	0	4	79,343		81,279	1,936	2.44%
TOTAL PLYMOUTH	6	0	6	130,724		134,278	3,554	2.72%
PONTIAC								
NEW AUTOS - POOL #1								
BONNEVILLE	3	0	3	75,666		78,265	2,599	3.43%
FIREBIRD	5	0	5	114,741		115,359	618	0.54%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

DECEMBER 19, 2000

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
GRAND AM	8	0	8	136,757		139,722	2,965	2.17%
GRAND PRIX	4	1	5	84,078	18,624	105,339	2,637	2.57%
SUNFIRE	3	0	3	41,075		41,533	458	1.12%
TOTAL NEW AUTOS	23	1	24	452,317	18,624	480,218	9,277	1.97%
NEW LIGHT-DUTY TRUCKS - POOL #2								
AZTEK	0	2	2		41,989	41,989	0	0.00%
MONTANA	2	8	10	42,572	210,952	256,252	2,728	1.08%
TOTAL NEW L/D TRUCKS	2	10	12	42,572	252,941	298,241	2,728	0.92%
TOTAL PONTIAC	25	11	36	494,889	271,565	778,459	12,005	1.57%
PORSCHE								
NEW AUTOS - POOL #1								
911 CARRERA	8	2	10	516,644	194,948	718,600	7,008	0.98%
BOXSTER	4	0	4	159,922		161,638	1,716	1.07%
TOTAL NEW AUTOS	12	2	14	676,566	194,948	880,238	8,724	1.00%
TOTAL PORSCHE	12	2	14	676,566	194,948	880,238	8,724	1.00%
ROLLS ROYCE								
NEW AUTOS - POOL #1								
BENTLEY	0	0	0				0	N/A%
ROLLS-ROYCE	0	0	0				0	N/A%
TOTAL NEW AUTOS	0	0	0				0	N/A%
TOTAL ROLLS ROYCE	0	0	0				0	0.00%
SAAB								
NEW AUTOS - POOL #1								
9.3 SERIES	6	1	7	188,333	36,955	227,498	2,210	0.98%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/00
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

DECEMBER 19, 2000

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
9.5 SERIES	5	1	6	167,220	37,809	211,002	5,973	2.91%
TOTAL NEW AUTOS	11	2	13	355,553	74,764	438,500	8,183	1.90%
TOTAL SAAB	11	2	13	355,553	74,764	438,500	8,183	1.90%
SATURN								
NEW AUTOS - POOL #1								
LS	2	0	2	27,483		26,567	(916)	(3.33)%
LS1	2	0	2	30,581		30,581	0	0.00%
LS2	1	0	1	17,920		17,351	(569)	(3.18)%
LW1	1	0	1	16,763		16,763	0	0.00%
LW2	1	0	1	19,010		19,010	0	0.00%
SC1	2	0	2	22,559		22,559	0	0.00%
SC2	2	0	2	27,100		27,970	870	3.21%
SL	1	0	1	9,296		9,619	323	3.47%
SL1	2	0	2	20,732		20,732	0	0.00%
SL2	2	0	2	23,186		23,186	0	0.00%
SW2	2	0	2	25,613		25,613	0	0.00%
SWP	0	0	0				0	N/A%
TOTAL NEW AUTOS	18	0	18	240,243			(232)	(0.12)%
TOTAL SATURN	18	0	18	240,243		239,951	(292)	(0.12)%
SUBARU								
NEW AUTOS - POOL #1								
IMPREZA	12	0	12	196,628		198,062	1,454	0.74%
LEGACY	16	6	22	339,726	134,498	476,459	2,235	0.47%
TOTAL NEW AUTOS	28	6	34	536,354	134,498	674,541	3,689	0.55%
NEW LIGHT-DUTY TRUCKS - POOL #2								
FORESTER	4	2	6	79,098	44,063	124,061	900	0.73%
TOTAL NEW L/D TRUCKS	4	2	6	79,098	44,063	124,061	900	0.73%
TOTAL SUBARU	32	8	40	615,452	178,561	798,602	4,589	0.58%
SUZUKI								
NEW AUTOS - POOL #1								
ESTEEM	10	0	10	139,478		141,206	1,728	1.24%



INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
 DEALER COST FOR THE YEAR ENDED 12/31/00
 NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

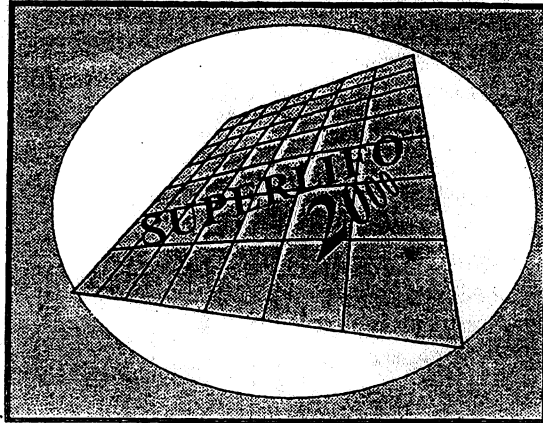
BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
SWIFT	4	0	4	37,314		38,065	751	2.01%
TOTAL NEW AUTOS	14	0	14	176,792		179,271	2,479	1.40%
NEW LIGHT-DUTY TRUCKS - POOL #2								
GRAND VITARA	10	0	10	187,302		188,614	1,312	0.70%
VITARA	20	0	20	313,709		318,436	4,727	1.51%
TOTAL NEW L-D TRUCKS	30	0	30	501,011		507,050	6,039	1.21%
TOTAL SUZUKI	44	0	44	677,803		686,321	8,518	1.26%
TOYOTA								
NEW AUTOS - POOL #1								
AVALON	4	0	4	96,233		100,154	3,921	4.07%
CAMRY	12	3	15	229,028	75,276	308,651	4,347	1.43%
CELICA	4	0	4	68,575		70,708	2,133	3.11%
COROLLA	0	6	6		72,206	72,206	0	0.00%
ECHO	4	0	4	39,098		40,076	978	2.50%
MR2 SPYDER	0	1	1		21,342	21,342	0	0.00%
PRIUS	0	1	1		18,793	18,793	0	0.00%
TOTAL NEW AUTOS	24	11	35	432,934	187,817	631,930	11,379	1.83%
NEW LIGHT-DUTY TRUCKS - POOL #2								
4RUNNER	4	0	4	108,910		113,750	4,840	4.44%
LAND CRUISER	1	0	1	43,713		46,280	2,567	5.87%
RAV4	0	4	4		63,982	63,982	0	0.00%
SEQUOIA	0	4	4		130,070	130,070	0	0.00%
SIENNA	3	0	3	65,623		69,744	4,121	6.28%
TACOMA PICKUP	13	4	17	186,800	69,665	263,946	7,481	2.92%
TUNDRA	11	0	11	215,944		227,233	11,289	5.23%
TOTAL NEW L-D TRUCKS	32	12	44	620,990	263,717	915,005	30,298	3.42%
TOTAL TOYOTA	56	23	79	1,053,924	451,334	1,546,935	41,677	2.77%
VOLKSWAGEN								
NEW AUTOS - POOL #1								
BEETLE	14	0	14	237,424		237,608	184	0.08%
CABRIO	4	2	6	80,948	41,664	116,998	(5,614)	(4.59)%
GOLF	13	4	17	204,982	70,186	275,421	253	0.09%
JETTA	16	3	19	280,808	53,549	335,165	808	0.24%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
 DEALER COST FOR THE YEAR ENDED 12/31/00
 NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/99 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
PASSAT	12	4	16	275,002	108,041	386,857	3,824	1.00%
TOTAL NEW AUTOS	59	13	72	1,079,164	273,440	1,352,059	(545)	(0.04)%
NEW LIGHT-DUTY TRUCKS - POOL #2								
EUROVAN	0	0	0				0	N/A%
TOTAL NEW L-D TRUCKS	0	0	0				0	N/A%
TOTAL VOLKSWAGEN	59	13	72	1,079,164	273,440	1,352,059	(545)	(0.04)%
VOLVO								
NEW AUTOS - POOL #1								
40 SERIES	2	0	2	43,668		45,120	1,452	3.33%
60 SERIES	0	3	3		82,814	82,814	0	0.00%
70 SERIES	2	4	6	81,290	127,485	211,155	2,370	1.14%
80 SERIES	2	1	3	70,165	43,522	116,654	2,957	2.61%
TOTAL NEW AUTOS	6	8	14	195,123	253,831	455,743	6,789	1.51%
TOTAL VOLVO	6	8	14	195,123	253,831	455,743	6,789	1.51%



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