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A Quarterly Update of LIFO - News, Views and Ideas

LIFO LOOKOUT

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LIFO UPDATE

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

With this issue, we conclude our 12th year of publication. Thank you for your continuing interest in what we have to say about LIFO each quarter.

#1. TRADE DISCOUNT & ADVERTISING EXPENSE CAMs MAY BE THE ANSWER FOR DEALERS LOOKING FOR BIG, ONE-TIME TAX WRITE-OFFS. The biggest, single tax topic discussed at the AICPA Dealership Conference in Orlando was the popularity of changes in accounting methods that dealers can now make to reduce inventory costs by Factory incentive payments, trade discounts and advertising charges.

The big attraction is that these method changes, like the initial adoption of LIFO, result in the largest part of the benefit being deductible in the year of change. Then, like LIFO, although continuous monitoring at subsequent years-end is required, the net changes are usually not too significant. And finally, like LIFO, it's really only a *timing difference*.

For the CPA or the controller trying to contend with all the detail alone, the work can be both tedious and overwhelming. Not only do year-end invoices for several years have to be analyzed, but other dealership information including floorplan and other reports must be reviewed in the course of making these determinations. Incentive programs vary by manufacturer and, in some cases, by year. If the inventory is on LIFO, all prior year LIFO layers need to be recomputed. Since these changes cannot be made using the cut-off method, Section 481(a) adjustments are required.

What some CPAs and dealers may not be aware of is that, despite the underlying technicalities, ***these overall changes in accounting methods can be made on a cost effective, turn-key basis.***

We have many dealer clients who are in the process of making these changes right now. We have been extremely busy in assisting them in this process. If you have any questions on this or if we can be of any assistance to you in this regard, please contact us immediately at (847) 577-3977 or by e-mail (cpawjd@aol.com).

LOOKOUT LOOKS INTO

#2. A LITTLE MORE BACKGROUND ON THESE CHANGES. Over the past few years, many CPA firms have been filing Forms 3115 for their auto dealer clients in connection with changing the treatment of certain Factory trade discounts and other finance credits. This is all in accordance with Reg. Sec. 1.471-3(b). Previously, making changes for *trade discounts* required advance permission from the IRS under Rev. Proc. 99-49. However, now this change has been elevated to "automatic change after year-end" status in Revenue Procedure 2002-9.

The main reason for making these changes ... to remove Factory incentive payments as well as advertising charges from inventory cost ... is that these changes reduce the invoice price of the vehicles (i.e., inventory at actual cost) and at the same time reduce current income.

Note that changes involving reducing inventory costs for advertising expenses are not "automatic"

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and require filing before year-end, the payment of a user fee and the long-wait to hear for approval from the IRS.

Changes of this nature require corresponding Section 481(a) adjustments. Therefore, prior years' invoices and manufacturer programs must also be analyzed.

The biggest selling point in making these changes in accounting method is that ... the negative adjustment under Sec. 481(a) is taxpayer-favorable since it results in a net reduction of income. Originally, under Revenue Procedure 2002-9, the spread period for recording this benefit was 4 years. This meant that only 25% of the net adjustment was allowed as a deduction in the year of change, and subsequently 25% was allowed in each of the 3 succeeding years. However, shortly after its issuance, Rev. Proc. 2002-9 was superseded in this respect by Rev. Proc. 2002-19 which provided that a ***negative adjustment resulting from a voluntary change in accounting method can be deducted from income 100% in the year of change.***

Section 9.05 of Rev. Proc. 2002-9 provides that the net Section 481(a) adjustment attributable to a change in method of accounting related to qualified volume-related trade discounts "is computed in a manner similar to the computation of a net Section 481(a) adjustment in the case of a change to the net invoice method of accounting for cash discounts." Section 9.01(2) of the Appendix provides an example; ... also see page 26 of *LIFO Lookout*, March 2002.

The Section 481(a) adjustment really contains three components:

3 COMPONENTS

- the net effect of the reduction of the costs from inventory over all the years involved;
- if the inventories are on LIFO, the recomputation of all prior year LIFO layer increments and/or decrements based on the reduced year-end inventory levels; and
- any corresponding Section 263A adjustments arising from the recomputations.

There are other technical questions arising where LIFO inventories are involved. For example, does the Section 481(a) adjustment require a specific recomputation for all prior years on LIFO or can a "short-cut" method 3-year lookback approach be adopted?

We have requested clarification from the IRS through the office of the Motor Vehicle Technical Advisor on whether or not a specific year-by-year LIFO recalculation is required (or whether an average based on 3 prior years is sufficient). We have also suggested that confirmation, one way or the other, be provided on this question by the IRS through its *Automotive Alert!* publication.

#3. USING COGGIN'S VICTORY IN AVOIDING LIFO RECAPTURE IN YOUR DEALER'S RESTRUCTURING. In the September 2002 *Lookout*, we discussed at length the victory that Coggin Automotive Corporation ended up with when it appealed the Tax Court's decision to the U.S. Court of Appeals for the 11th Circuit.

This case involved almost $5 million worth of LIFO recapture and very complex facts and restructurings, all of which occurred prior to a change in the Regulations.

The IRS won in the Tax Court, however, the Appeals Court upheld the taxpayer. In overturning the IRS, the Appeals Court simply said that Coggin was a holding company. It only held the stock of the other C corporations. It was not engaged in the sale of automobiles. Under plain language of the statute, it had no LIFO inventory requiring recapture when it elected to become an S corporation. Therefore, it was not necessary to resort to legislative history. Any potential windfall to holding companies must be cured by Congress, not by the judiciary or by the IRS. ...End of story ...End of case.

In our previous commentary in Update #2 in that issue, we observed that there might be at least one fly in the ointment ... in the form of the so-called anti-abuse partnership Regulation added shortly after Coggin made its S election.

Since writing the article, I've heard two prominent attorneys discuss *Coggin* and its implications for LIFO taxpayers and for auto dealers. These attorneys feel that as long as there are good business motives for the restructurings, there shouldn't be concern over the Regulation.

At a *2002 Federal Tax Update* seminar that I recently attended in the Chicago area, Albert L. Grasso of Chuhak & Tecson, P.C. discussed *Coggin* at length as an excellent tax planning opportunity and strategy. He believes that the change in the Regulation doesn't diminish the attractiveness of the Coggin strategy overall.

Mr. Grasso indicated that he is presently using "the Coggin technique" as the main strategy in reorganizing a very large dealership group in the Chicago area. If any of you have (LIFO dealership) clients that are contemplating restructuring and are wondering just exactly how to go about the process, you might want to give Mr. Grasso a call at (312) 444-9300.

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#4. HIGHLIGHTS OF THE FINAL IPIC REGULATIONS ENHANCE THAT METHOD'S ATTRACTIVENESS. A few years ago, the IRS issued more guidance for taxpayers using Bureau of Labor Statistics indexes in connection with their LIFO calculations. For these IPIC users, that guidance was in the form of proposed Regulations. At that time, Lee Richardson summarized the proposals in the September 2000 *LIFO Lookout*.

These IPIC Regulations were finalized earlier this year. The biggest change and the best news was that IPIC users no longer have to take a "20% haircut." They can now use 100% of the appropriate index instead of 80% of it.

We have again prevailed on Lee to summarize the more important changes. In his article beginning on page 8, he has organized his comments along the lines of those changes which are most taxpayer-friendly, least taxpayer-friendly, most likely to be confusing and finally, some of the ambiguities in the old Regulations which are clarified in the final Regulations.

Lee is an expert in the IPIC area. We recently referred a CPA to Lee who did several IPIC calculations for two truck and implement dealers, and did the Forms 3115 required for adoption of the new IPIC Regulation methods. Lee continues to be a valuable consulting resource. For more about Lee, see page 10.

#5. WATCH OUT IF YOU'RE TERMINATING LIFO FOR USED VEHICLES. Many dealers are facing another year-end of ***significant deflation*** in their used vehicle inventories. This is not good news!

There is some fine print you don't want to overlook if your dealer wants to terminate his LIFO election for used vehicles (while staying on LIFO for new vehicles) if that dealer recently elected to use the Alternative LIFO Method for Used Vehicles. Termination of the Used Vehicle LIFO Election cannot be made after the end of the year Under Rev. Proc. 2002-9. Instead, permission to make that change must be requested before the end of the year by the filing of Form 3115 and the payment of a user fee.

The problem lies in the limitations to the application of Rev. Proc. 2002-9 in certain situations. If the overall LIFO election were made within the last 5 years, 2002-9 would not apply and the requirements of Revenue Procedure 97-27 would have to be followed.

Here's another situation: If the dealer has been on used vehicle LIFO for more than 5 years, but the dealer recently changed to the Alternative Used Vehicle Method (say, in 2001), it appears that the termination of the used vehicle LIFO election desired for the year 2002 cannot be made as an automatic change without advance approval ***after*** year-end. Instead, it would have to be applied for ***before*** December 31 under Revenue Procedure 97-27.

The second sentence of Sec. 4.02(6) of Rev. Proc. 2002-9 states that "a change in method ... does not include the adoption of a method of accounting ... in the first year in which the taxpayer has the *item* to which the method of accounting relates." Although the term *item* has a whole lot of meanings, and some of them are pretty broad or seem strange, it may be difficult (or impossible) to interpret the term ***item*** under these circumstances in a way that would permit the dealer to automatically terminate the used vehicle LIFO election for the year 2002 under Rev. Proc. 2002-9 (i.e., without the advance filing before year-end and waiting for IRS approval).

It would appear that the dealer is now being "penalized" (when he wants to get off of used vehicle LIFO) for having changed to the safe-harbor calculation method in 2001. The "penalty" is that the dealer is being required to comply with the more cumbersome filing requirements of 97-27, not to mention the delay in getting a response from the IRS and the payment of a filing fee.

This seems a bit harsh. If the Service is trying to simplify its own workload in handling increasing numbers of Forms 3115, this would hardly seem to be a good way of going about doing it.

#6. LIFO CONFORMITY: WATCH THOSE YEAR-END FINANCIAL STATEMENTS. 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 allow the IRS to take the position that the LIFO election must be terminated, although asserting 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. To this end, 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.

#7. DOCUMENT YOUR YEAR-END LIFO PROJECTIONS. Many businesses find it necessary to estimate LIFO reserve changes before the final amounts can be calculated, especially for income tax planning purposes. Knowing what is expected to happen before year-end is very important because these projected changes affect fourth quar-

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ter installments of estimated tax due Dec. 15 of this year or Jan. 15 of next year.

The conformity article discusses how to project LIFO reserve changes quickly and effectively. This begins on page 18. It also discusses strategies for managing year-end inventory levels beginning on page 20.

#8. YEAR-END PROJECTIONS FOR AUTO DEALERS BASED ON "ONE-OF-EACH" MIX ASSUMPTION. Most auto dealers are under great pressure to release their year-end financial statements before their actual LIFO calculations can be completed. To assist in making year-end projections, each year we provide a listing for *new* vehicle LIFO inventories showing weighted average inflation (deflation) information for each model.

Our report compares everything in our *SUPERLIFO* database as of December 20, 2002...with intro-2003 model prices, unless the 2003 intro price was subsequently updated, and that information is also in our database for the end of the year. December 1, 2001 is the reference date for the equivalent of the calendar year 2002 beginning of the year date; i.e., December 31, 2001/January 1, 2002.

The summaries on pages 5-6-7 show that for most 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. Our one-of-each inflation indexes for each manufacturer reflect all of these factors.

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 by some other guesswork.

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 are on pages 24 to 31.

Reasonable Estimates. If you're 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 guidance found in Revenue Ruling 97-42.

Unfortunately, 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.

When the year-end LIFO computations are made using all of 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.

The Best Way. 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.

MODEL/ITEM CATEGORY INFLATION SURVEY
FOR QUICK, ONE-OF-EACH, LIFO ESTIMATES
DEALER COST FOR THE YEAR ENDED 12/31/02

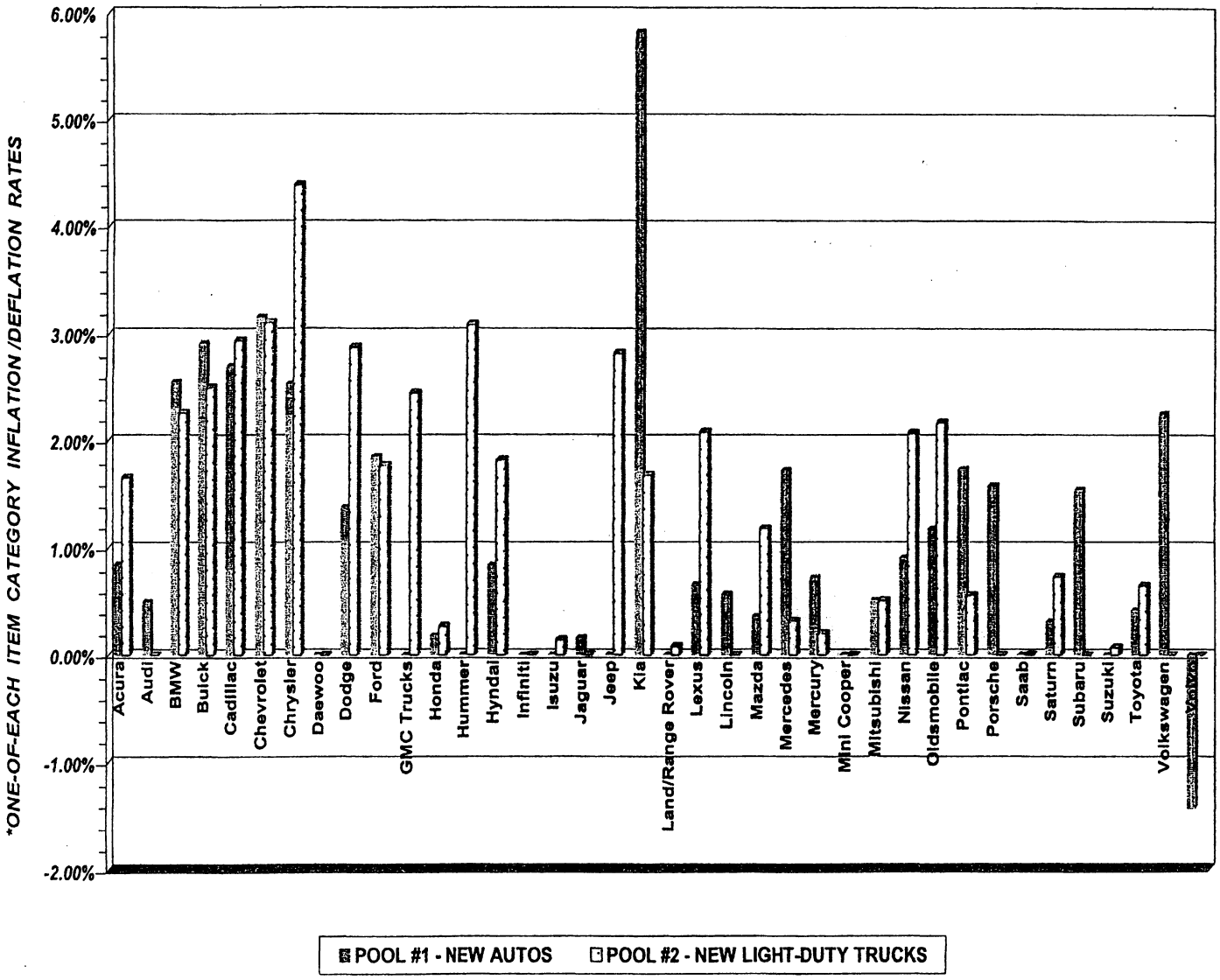
INFLATION ESTIMATE REPORT BY MAKE
BASED ON INFORMATION AVAILABLE

	POOL #1 NEW AUTOMOBILES	POOL #2 NEW L-D TRUCKS
ACURA	0.85%	1.66%
AUDI	0.50%	0.00%
BMW	2.55%	2.26%
BUICK	2.91%	2.50%
CADILLAC	2.70%	2.94%
CHEVROLET	3.16%	3.11%
CHRYSLER	2.53%	4.39%
DAEWOO	0.00%	0.00%
DODGE	1.38%	2.88%
FORD	1.85%	1.77%
GMC TRUCKS	0.00%	2.45%
HONDA	0.18%	0.27%
HUMMER	0.00%	3.09%
HYUNDAI	0.84%	1.82%
INFINITI	0.00%	0.00%
ISUZU	0.00%	0.14%
JAGUAR	0.16%	0.00%
JEEP	0.00%	2.82%
KIA	5.83%	1.68%
LAND ROVER/RANGE ROVER	0.00%	0.08%
LEXUS	0.66%	2.08%
LINCOLN	0.57%	0.00%
MAZDA	0.36%	1.18%
MERCEDES	1.72%	0.32%
MERCURY	0.72%	0.20%
MINI	0.00%	0.00%
MITSUBISHI	0.51%	0.51%
NISSAN	0.91%	2.07%
OLDSMOBILE	1.18%	2.17%
PONTIAC	1.73%	0.56%
PORSCHE	1.58%	0.00%
SAAB	0.00%	0.00%
SATURN	0.31%	0.73%
SUBARU	1.54%	0.00%
SUZUKI	0.00%	0.07%
TOYOTA	0.42%	0.65%
VOLKSWAGEN	2.25%	0.00%
VOLVO	(1.43)%	0.00%

Complete 2003 intro price information is not currently available for all models.
Accordingly, some inflation indexes exclude certain item(s) for which 2003 information is missing.
New items are repriced at current cost – i.e., no inflation.

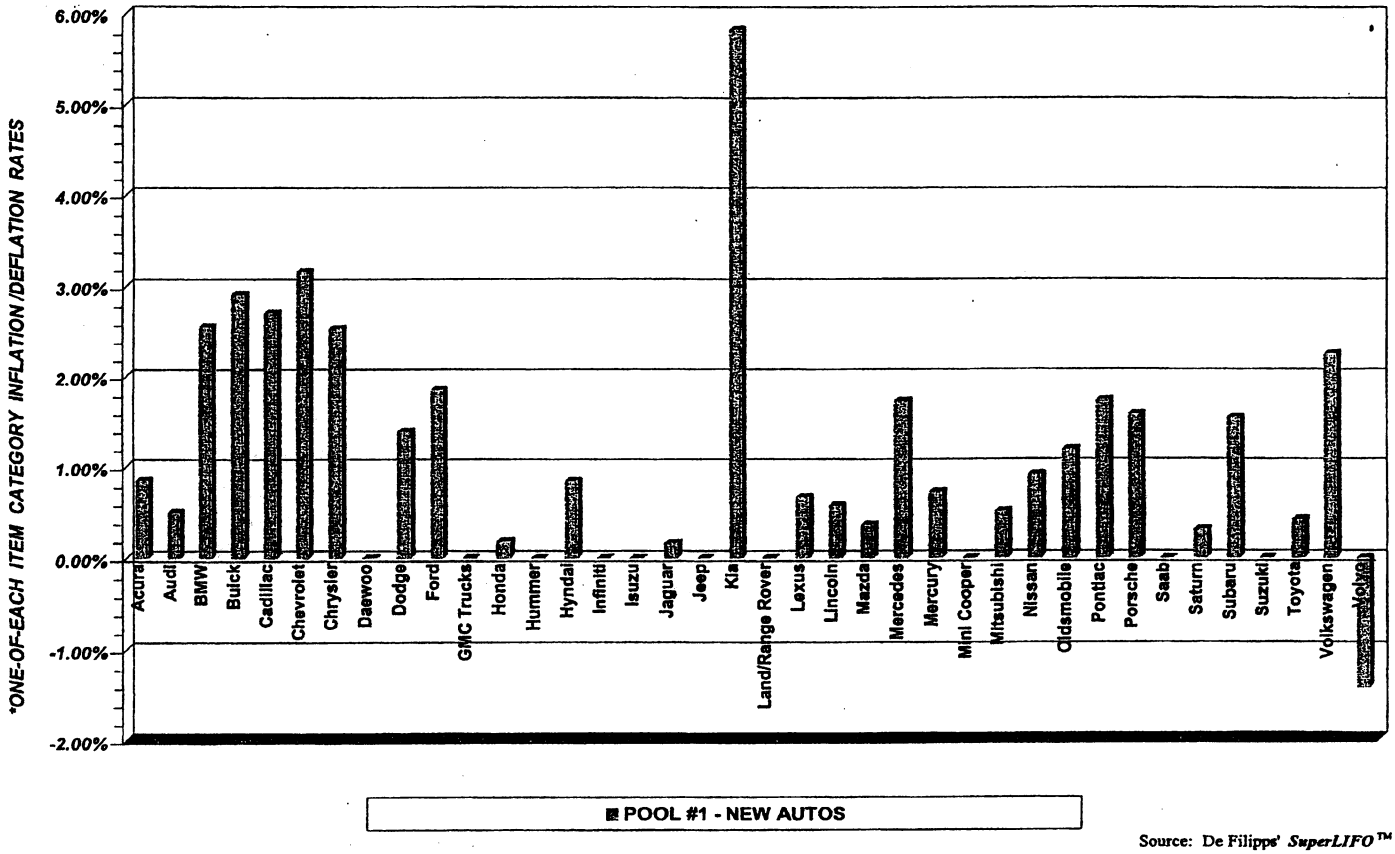
Source: W. J. De Filipps' Make /Model Analysis Data Base Report, Preliminary Edition (Copyright 2002)

WEIGHTED AVERAGE* INFLATION FOR THE YEAR ENDED 12/31/02



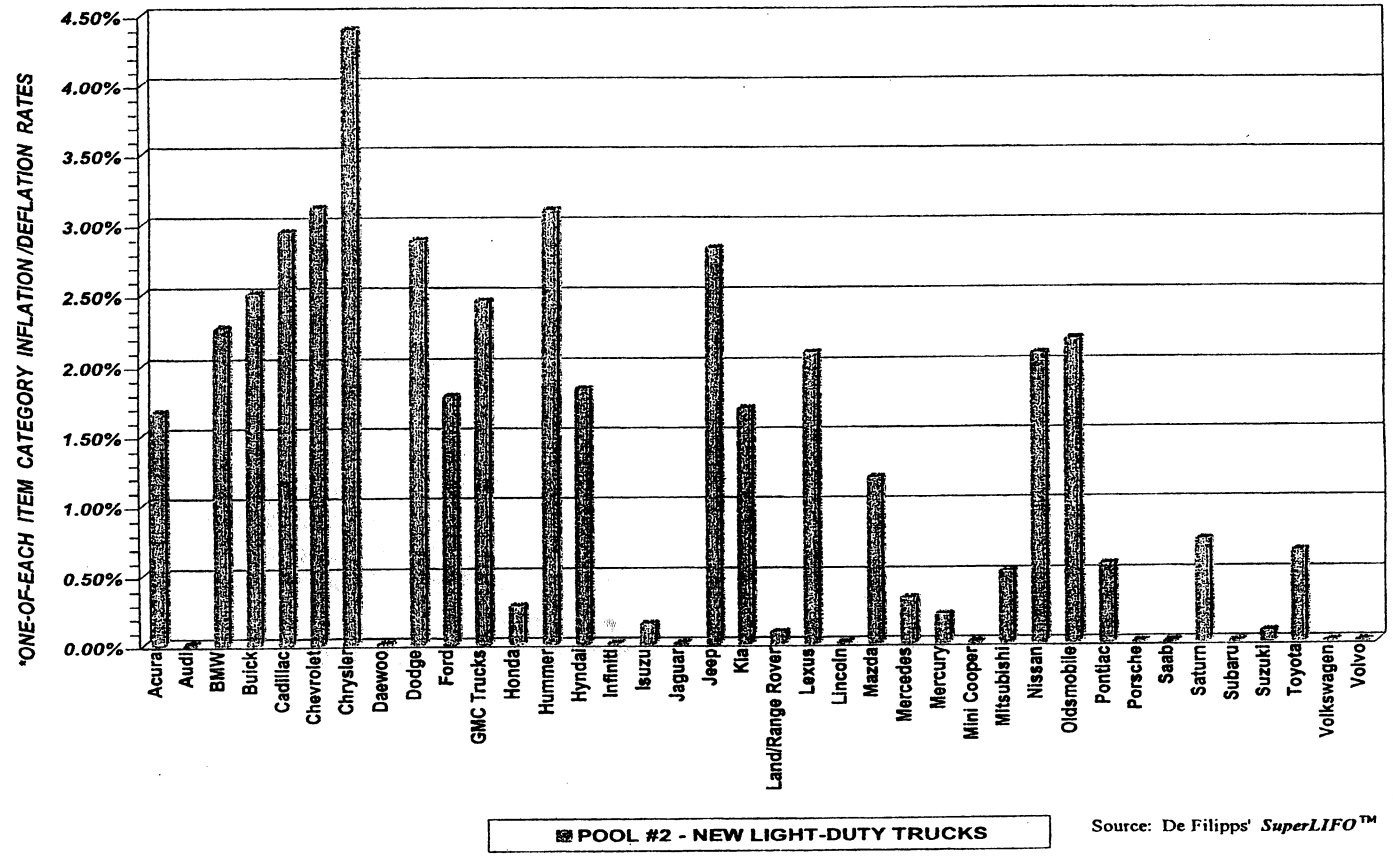
Source: De Filipps' *SuperLIFO*™

WEIGHTED AVERAGE* INFLATION FOR THE YEAR ENDED 12/31/02



Source: De Filipps' *SuperLIFO*™

WEIGHTED AVERAGE* INFLATION FOR THE YEAR ENDED 12/31/02



Source: De Filipps' *SuperLIFO*™

HIGHLIGHTS OF THE FINAL IPIC LIFO REGULATIONS

BY LEE RICHARDSON, CPA

IPIC GUEST AUTHOR

New IPIC Method LIFO Regulations (Reg. Sec. 1.472-8(e)(3)) were issued in January 2002 as Treasury Decision 8976 superseding the original Regulations for this method which were issued March 15, 1982 as Treasury Decision 7814. These finalized Regulations supercede the proposed IPIC Regulations which had been issued in May of 2000 to provide additional or interim further guidance. For an overview of the proposed changes, see the September 2000 *LIFO Lookout*, pages 11-23.

This article highlights the most important changes made by the final Regulations. These changes are summarized in terms of those which are more favorable and less favorable to taxpayers and those which are more likely to be confusing. Also, the final Regulations contain certain important clarifications.

These extensive changes to the IPIC (Inventory Price Index Computation) LIFO method are effective for taxable years ending on or after December 31, 2001. As discussed below, under certain circumstances, taxpayers may elect to defer implementation of these changes.

MOST TAXPAYER-FRIENDLY CHANGES

100% Inflation. The final Regulations eliminated the previous requirement that inventory price IPIC indexes published by the BLS were required to be reduced by 20% by most taxpayers. In other words, taxpayers are no longer penalized for using the BLS indexes in connection with their LIFO calculations.

I don't believe anyone realistically expected the allowable percentage of CPI or PPI inflation to increase from 80% to 100% although everyone favored this. This should encourage greater use of the IPIC method and LIFO in general.

Use of 10% Categories and BLS Weights. The use of this method was mandatory under the old Regulations but is now optional. Taxpayers now have the option of using only their actual FIFO inventory balances to calculate weighted average pool indexes. Having this option provides for simplification of pool index calculations for companies that can sort their inventories into the Most Detailed CPI or PPI categories the new Regulations require. Taxpayers for whom sorting their inventory in greater detail would be burdensome or impossible can still use the IPIC method. The proposed new Regulations required taxpayers to use the Most Detailed method, so having the *option* to use the 10% method that the final new Regulations provide (rather than making its use mandatory) will be very beneficial for many retailers.

Use of CPI or PPI Categories by Retailers. Many retailers who use CPI categories who do not use Retail Inventory Method LIFO would have been forced to use only PPI categories under the proposed Regulations. Those retailers using the Retail Inventory Method LIFO would have been forced to use only the CPI categories under the proposed new Regulations. Under the final new Regulations, retailers can use either CPI or PPI categories without making cost complement adjustments that the old Regulations required. Taxpayers other than retailers must use PPI indexes.

Elimination of Requirement to Use Cost Complements. This is a change greatly welcomed by most companies to whom this requirement applied under the old Regulations. Some companies however may wish to defer implementation of the new Regulations for a year if using cost complements this year would produce a higher LIFO charge than the net positive effect of using the new Regulations (100% inflation in particular). We believe this change may prompt many companies using Retail LIFO to switch to Cost LIFO so that margin changes do not significantly increase or decrease LIFO charges.

IPIC Method Can Now Be Used by Retailers Eligible to Use Department Store Inventory Price Indexes. These companies can now use the IPIC method for either their entire inventory or just for those inventories for which there are no Department Store Inventory Price Indexes. This change will result in very few taxpayers using Department Store Indexes after 2002 because these companies have found that use of PPI indexes and the IPIC Method produced significantly more inflation than the Department Stores Indexes.

Effective Date & Taxpayer Option to Defer Implementation. Taxpayers have the option to defer implementation of the changes required by the new IPIC Regulations for one year. Companies having December 2001 through November 2002 year-ends can implement the required changes for

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this year end or wait one year to do so. This two year window allows companies to continue using the old Regulations' methods if they produce greater tax savings (for taxpayers with deflation or higher than prior year cost complements, if applicable) and new Regulations methods if not.

Method Changes Made Simpler. Revenue Procedure 2002-9 was issued at almost the same time as the new LIFO Regulations and it describes the new requirements for automatic approval changes in tax accounting methods, including LIFO method changes. Many more LIFO methods are now defined as being automatic approval changes which previously were not. This allows most taxpayers to file the necessary Form 3115 with the Form 1120. Taxpayers are required to file a Form 3115, Application for Change in Accounting Method, in the year in which they adopt the provisions of the new LIFO Regulations.

LEAST TAXPAYER-FRIENDLY CHANGES

Weighted Harmonic Mean. Since the great majority of taxpayers have used the Weighted Arithmetic Mean in the past, this will require a change for most taxpayers. The new method always produces less inflation or greater deflation than using the Weighted Arithmetic Mean method.

The decrease in LIFO benefits this produces is relatively small for most taxpayers (much less than extra benefit using 100% rather than 80% produces). However, this difference will be significant for some.

A likely source of confusion will be the requirement that the Weighted Harmonic Mean is to be used only for pool index FIFO dollars weighting calculations and not for the Category Index BLS weighting calculations required for calculations using the 10 percent categories and BLS Weights method.

Change in Definition of 10% Categories. Most taxpayers who continue to use the 10% categories and BLS Weights method under the new Regulations will need to sort their inventories in greater detail. This is because the new Regulations definition of the 10% categories threshold is the sum of each pool's FIFO inventory values. The old Regulations specified that the denominator for the 10% categories was "total inventory value" which almost all taxpayers took to mean either (1) the sum of their FIFO inventory values, (2) the sum of their FIFO inventory values on LIFO or (3) the sum of their FIFO inventory values for which the IPIC method was used. A small minority of taxpayers used the sum of each pool's FIFO inventory values as the 10% categories threshold.

Not only does the new definition of 10% categories require more detailed sorting, it makes this process more complicated because instead of there being one threshold amount for all inventories, there will now be as many different 10% thresholds as there are pools.

An example of the increased record keeping burden this will impose is the change required for retail grocers. Under the old Regulations, there was a standard list of 21 less detailed CPI categories these companies could sort their inventories into that satisfied the 10% Method requirements. This list has increased to 33 under the new Regulations. This is still considerably fewer than using the Most Detailed method would entail because there are over 100 most detailed CPI categories applicable for these companies.

MOST CONFUSING CHANGES

Earliest Acquisitions Method. The new Regulations specify that this method is still available to taxpayers but they also say that the Dual Index method is no longer acceptable when the IPIC method is used. This along with other guidance provided regarding the use of Appropriate or Representative index months effectively eliminates the ability for taxpayers to use different deflator and inflator indexes.

Rebasing Requirement. The requirement to rebase or establish a new base year is ambiguous in the new Regulations. There is no reason this should be required for Link-Chain method taxpayers and the rebasing will not affect the LIFO reserve amounts, i.e., LIFO reserves in years subsequent to a rebasing will be no different than if no rebasing had occurred.

Definition of LIFO Methods. The new Regulations and Revenue Procedure 2002-9 specify a number of alternative IPIC LIFO methods and sub-methods which should be included in filings of Forms 970 and 3115 and for which a Form 3115 is required if changes are made in these methods. However, the Forms 970 and 3115 have not been changed to reflect all the newly defined LIFO methods and sub-methods. The IRS intends to change these forms to reflect these alternative IPIC LIFO methods and sub-methods, but it has not yet done so.

OLD REGULATIONS AMBIGUITIES CLARIFIED

Option to Use Either Preliminary or Final PPI Indexes. Although this eliminates confusion, it might have been better to specify that only preliminary indexes should be used since this is the only practical option for most taxpayers wishing to make their LIFO calculations sooner than five months after year-end.

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(Continued from page 9)

5% Pooling Method Changes. The old Regulations were silent with regard to whether the optional 5% IPIC pooling method pools should be changed when inventory mix changes resulted in different pools CPI or PPI major groups' inventory balances exceeding 5% of total inventory.

The new Regulations specify that any changes necessary should be made upon adoption of the new Regulations provisions and every three years thereafter.

Missing PPI Index Treatment. The new Regulations specify that what we call the *Index Substitution method* (i.e., the use of indexes for the next less-detailed category containing the missing index category) may be used when indexes are not published for PPI categories for which inventory balances have been assigned. However, this may only be done for cases in which such categories have not been officially discontinued by the Bureau of Labor Statistics.

The new Regulations further specify that a reasonable method be used for situations in which such categories have been officially discontinued by the Bureau of Labor Statistics and then provide an example of a method they consider to be a safe harbor method. This safe harbor method is the *Compound Inflation method.* This method is somewhat complicated and, in our opinion, not a practical method for most taxpayers. We have advised companies that **the *Index Substitution method* is, in our opinion, a "reasonable method" and is much more practical to use for all situations involving missing PPI indexes.**

IPIC Methods. The new Regulations and Revenue Procedure 2002-9 (in Section 10.06(1) of the Appendix) have clarified specifically what are to be considered IPIC LIFO methods.

Double-Extension or Link-Chain Method of Index Computation. The old Regulations did not indicate whether IPIC indexes should be computed using link-chain or double-extension methodologies. In the past, some IPIC method taxpayers used double-extension methodology but the majority of IPIC method users used the link-chain methodology. ***The new Regulations specifically permit either method.***

Under the old Regulations, some taxpayers thought the only way they would be able to switch to a link-chain method was to elect the IPIC method because securing permission for a change from the double-extension method from the IRS was difficult for some taxpayers whose turnover of new inventory items was relatively low. Because this ambiguity has been removed, this specific strategy is no longer available. However, changes from double-extension to link-chain and vice versa are now included in Revenue Procedure 2002-9 as automatic approval changes.

CONCLUSION

Although the new Regulations will still be confusing to most taxpayers and CPAs that don't have extensive LIFO experience, we believe the IRS has taken an important step in providing better guidance for taxpayers using the IPIC LIFO method.

For selected references on the IPIC method, see page 23.

MORE ABOUT LEE RICHARDSON

Mr. Richardson's company, Legend Software, Inc., d.b.a. LIFO-PRO, Inc. provides LIFO calculation software, LIFO calculation and consulting services to companies in businesses other than automobile dealers. Its clientele includes manufacturing, food processing, wholesale distribution and retail companies. Department and discount chain retailers and grocery retailers and wholesalers constitute the majority of their clients. Grocery retailers are their largest clientele for which the IPIC LIFO method is widely used.

The combined sales of companies using the LIFO-PRO software exceeds $500 billion and almost half of this total is grocery retailer sales. The LIFO-PRO software is used for LIFO inventory calculations for approximately 40% of the retail and wholesale grocery inventory dollars in the U.S. with the majority of these companies using the IPIC LIFO method. Although LIFO-PRO's clients include a number of the largest retailers and wholesalers in the U.S., LIFO-PRO's software is also used by over 300 small retail grocery companies who operate no more than several stores each.

LIFO-PRO is the only comprehensive (handles all LIFO method variations) non-auto dealer LIFO program commercially available and the company is headed by the only CPA in the U.S. whose entire practice is devoted to non-auto dealer LIFO.

The LIFO-PRO Web site is www.lifopro.com. The company's email address is lifopro@aol.com and phone number is (402) 330-8573. The company is located in Omaha, Nebraska.

For selected references on the IPIC method, see page 23.

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

CONFORMITY REPORTING REQUIREMENTS

YEAR-END PROJECTIONS FOR PLANNING PURPOSES

 (Continued from page 11)

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

TRADITIONAL FINANCIAL STATEMENTS IN ANNUAL REPORTS ISSUED BY CPAs

This section deals with reports issued by CPAs, where the CPA controls the release, content and format of the financial statements, notes and supplementary information. These are unlike monthly statements which may be prepared internally by the taxpayer's accounting department or controller and sent out to 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

(Continued from page 13)

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 completed 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

(Continued from page 15)

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 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.

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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.

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.

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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

(Continued from page 19)

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

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

Downward influences...causing decreases

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

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

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

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 Rebasing 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.

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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 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

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.

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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. ✻

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - LE, NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
ACURA								
NEW AUTOS - POOL #1								
CL	4	2	6	111,366	58,298	170,566	902	0.53%
NSX-T	2	0	2	155,064		158,426	3,362	2.17%
RL	2	0	2	78,621		78,621	0	0.00%
RSX	5	0	5	97,354		97,672	318	0.33%
TL	4	0	4	113,210		113,847	637	0.56%
TOTAL NEW AUTOS	17	2	19	555,615	58,298	619,132	5,219	0.85%
NEW LIGHT-DUTY TRUCKS - POOL #2								
MDX	3	2	5	100,266	73,684	176,830	2,880	1.66%
TOTAL NEW L-D TRUCKS	3	2	5	100,266	73,684	176,830	2,880	1.66%
TOTAL ACURA	20	4	24	655,881	131,982	795,962	8,099	1.03%
AUDI								
NEW AUTOS - POOL #1								
A4 SERIES	11	1	12	295,768	37,368	334,291	1,155	0.35%
A6 SERIES	6	0	6	217,271		218,383	1,112	0.51%
A8 SERIES	2	0	2	115,856		115,856	0	0.00%
ALLROAD	2	0	2	73,120		73,208	88	0.12%
S4	0	0	0				0	N/A%
S6	1	0	1	52,879		52,879	0	0.00%
S8	1	0	1	64,870		64,870	0	0.00%
TT	4	1	5	125,832	35,782	164,314	2,700	1.67%
TOTAL NEW AUTOS	27	2	29	945,596	73,150	1,023,801	5,055	0.50%
TOTAL AUDI	27	2	29	945,596	73,150	1,023,801	5,055	0.50%
BMW								
NEW AUTOS - POOL #1								
3 SERIES	11	0	11	320,505		330,100	9,595	2.99%
5 SERIES	9	1	10	346,500	49,050	410,960	15,410	3.90%
7 SERIES	0	2	2		128,310	128,310	0	0.00%
M SERIES	5	0	5	234,250		238,765	4,515	1.93%
Z4	0	2	2		66,750	66,750	0	0.00%
Z8	1	0	1	117,000		119,665	2,665	2.28%
TOTAL NEW AUTOS	26	5	31	1,018,255	244,110	1,294,550	32,185	2.55%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - LE, NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
NEW LIGHT-DUTY TRUCKS - POOL #2								
X5	3	0	3	139,050		142,190	3,140	2.26%
TOTAL NEW L-D TRUCKS	3	0	3	139,050		142,190	3,140	2.26%
TOTAL BMW	29	5	34	1,157,305	244,110	1,436,740	35,325	2.52%
BUICK								
NEW AUTOS - POOL #1								
CENTURY	1	0	1	18,561		19,087	526	2.83%
LESABRE	2	0	2	49,666		51,487	1,821	3.67%
PARK AVENUE	2	0	2	64,572		66,337	1,765	2.73%
REGAL	2	0	2	46,221		47,324	1,103	2.39%
TOTAL NEW AUTOS	7	0	7	179,020		184,235	5,215	2.91%
NEW LIGHT-DUTY TRUCKS - POOL #2								
RENDEZVOUS	2	0	2	47,582		48,770	1,188	2.50%
TOTAL NEW L-D TRUCKS	2	0	2	47,582		48,770	1,188	2.50%
TOTAL BUICK	9	0	9	226,602		233,005	6,403	2.83%
CADILLAC								
NEW AUTOS - POOL #1								
CTS	0	1	1		27,149	27,149	0	0.00%
DE VILLE	3	0	3	125,203		128,580	3,377	2.70%
SEVILLE	2	0	2	84,732		87,748	3,016	3.56%
TOTAL NEW AUTOS	5	1	6	209,935	27,149	243,477	6,393	2.70%
NEW LIGHT-DUTY TRUCKS - POOL #2								
ESCALADE	3	1	4	135,621	50,664	191,771	5,486	2.94%
TOTAL NEW L-D TRUCKS	3	1	4	135,621	50,664	191,771	5,486	2.94%
TOTAL CADILLAC	8	2	10	345,556	77,813	435,248	11,879	2.81%
CHEVROLET								
NEW AUTOS - POOL #1								
CAVALIER	5	1	6	70,583	14,474	86,890	1,833	2.16%
CORVETTE	3	0	3	120,960		126,617	5,657	4.68%
IMPALA	2	0	2	39,912		40,873	961	2.41%

DECEMBER 20, 2002

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - LE., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
MALIBU	2	0	2	34,107		34,834	727	2.13%
MONTE CARLO	2	0	2	39,272		40,186	914	2.33%
PRIZM	0	0	0				0	N/A%
TOTAL NEW AUTOS	14	1	15	304,834	14,474		10,092	3.16%
NEW LIGHT-DUTY TRUCKS - POOL #2								
3500 CHASSIS-CABS	12	0	12	277,495		286,029	8,534	3.08%
ASTRO VAN	6	0	6	127,336		128,872	1,536	1.21%
AVALANCHE	4	0	4	114,432		119,542	5,110	4.47%
BLAZER	5	0	5	101,370		105,410	4,040	3.99%
EXPRESS CARGO VAN	0	13	13		296,939	296,939	0	0.00%
EXPRESS CUTAWAY VAN	0	6	6		123,631	123,631	0	0.00%
EXPRESS PASSENGER VAN	0	6	6		144,883	144,883	0	0.00%
S10 PICKUP	9	0	9	139,603		148,943	9,340	6.69%
SILVERADO 1500	24	1	25	551,254	34,304	613,153	27,595	4.71%
SILVERADO 2500	33	0	33	849,065		885,472	36,407	4.29%
SILVERADO 3500	14	0	14	381,243		396,007	14,764	3.87%
SUBURBAN	4	0	4	131,017		135,555	4,538	3.46%
TAHOE	2	0	2	59,276		61,522	2,246	3.79%
TRACKER	8	0	8	140,777		144,795	4,018	2.85%
TRAILBLAZER	6	0	6	161,176		165,528	4,352	2.70%
VENTURE	9	3	12	227,412	68,957	295,938	(431)	(0.15)%
TOTAL NEW L-D TRUCKS	136	29	165	3,261,456	668,714	4,052,219	122,049	3.11%
TOTAL CHEVROLET	150	30	180	3,566,290	683,188	4,381,619	132,141	3.11%
CHRYSLER								
NEW AUTOS - POOL #1								
300M	2	0	2	55,952		56,601	649	1.16%
CONCORDE	3	0	3	69,704		71,846	2,142	3.07%
SEBRING	8	0	8	162,897		167,393	4,496	2.76%
TOTAL NEW AUTOS	13	0	13	288,553		295,840	7,287	2.53%
NEW LIGHT-DUTY TRUCKS - POOL #2								
PT CRUISER	3	1	4	50,986	20,898	73,595	1,711	2.38%
TOWN & COUNTRY	8	0	8	222,364		233,901	11,537	5.19%
VOYAGER	2	0	2	39,687		41,108	1,421	3.58%
TOTAL NEW L-D TRUCKS	13	1	14	313,037	20,898	348,604	14,669	4.39%
TOTAL CHRYSLER	26	1	27	601,590	20,898	644,444	21,956	3.53%

DECEMBER 20, 2002

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - LE., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
DAEWOO								
NEW AUTOS - POOL #1								
LANOS	0	0	0				0	N/A%
LEGANZA	0	0	0				0	N/A%
NUBIRA	0	0	0				0	N/A%
TOTAL NEW AUTOS	0	0	0				0	N/A%
TOTAL DAEWOO	0	0	0				0	0.00%
DODGE								
NEW AUTOS - POOL #1								
INTREPID	3	1	4	64,379	22,543	89,596	2,674	3.08%
NEON	2	1	3	28,207	9,633	37,316	(524)	(1.38)%
STRATUS	3	3	6	54,690	55,510	112,297	2,097	1.90%
VIPER	0	1	1		72,471	72,471	0	0.00%
TOTAL NEW AUTOS	8	6	14	147,276	160,157	311,680	4,247	1.38%
NEW LIGHT-DUTY TRUCKS - POOL #2								
CARAVAN	9	0	9	213,369		225,737	12,368	5.80%
DAKOTA	16	2	18	285,368	43,199	342,992	14,425	4.39%
DURANGO	7	0	7	195,520		208,432	10,912	5.58%
RAM PICKUP	8	33	41	153,404	807,687	968,807	8,516	0.89%
RAM VAN	12	0	12	223,275		232,388	9,113	4.08%
TOTAL NEW L-D TRUCKS	52	35	87	1,070,936	850,886	1,977,156	55,334	2.88%
TOTAL DODGE	60	41	101	1,218,212	1,011,043	2,288,836	59,581	2.67%
FORD								
NEW AUTOS - POOL #1								
CROWN VICTORIA	4	3	7	94,276	74,996	171,709	2,437	1.44%
FOCUS	11	4	15	148,960	63,945	215,988	3,083	1.45%
MUSTANG	9	3	12	188,257	91,171	283,253	3,825	1.37%
TAURUS	15	0	15	290,895		295,834	4,939	1.70%
THUNDERBIRD	4	0	4	134,996		139,826	4,830	3.58%
ZX2	3	0	3	37,636		39,339	1,703	4.52%
TOTAL NEW AUTOS	46	10	56	895,020	230,112	1,145,949	20,817	1.85%
NEW LIGHT-DUTY TRUCKS - POOL #2								
CUTAWAY VAN	8	0	8	146,764		148,306	1,542	1.05%
E-SERIES	16	0	16	355,606		361,190	5,584	1.57%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
ESCAPE	12	6	18	241,538	132,754	377,836	3,544	0.95%
EXCURSION	28	5	33	975,299	189,461	1,185,625	20,865	1.79%
EXPEDITION	0	14	14		446,336	446,336	0	0.00%
EXPLORER	8	26	34	219,154	757,026	984,496	8,316	0.85%
EXPLORER SPORT	12	4	16	270,997	87,381	362,847	4,469	1.25%
F150 PICKUP	40	2	42	911,904	57,578	991,731	22,249	2.29%
F250 SUPER DUTY PICKUP	28	0	28	689,900		705,748	15,848	2.30%
F350 SUPER DUTY PICKUP	50	0	50	1,290,674		1,319,520	28,846	2.23%
RANGER	26	5	31	432,494	93,123	535,031	9,414	1.79%
SUPER DUTY CAB/CHASSIS	36	0	36	876,540		901,214	24,674	2.81%
WINDSTAR	7	0	7	173,322		176,062	2,740	1.58%
TOTAL NEW L-D TRUCKS	271	62	333	6,584,192	1,763,659	8,495,942	148,091	1.77%
TOTAL FORD	317	72	389	7,479,212	1,993,771	9,641,891	168,908	1.78%
GMC TRUCKS								
NEW LIGHT-DUTY TRUCKS - POOL #2								
ENVOY	4	0	4	113,903		114,600	697	0.61%
ENVOY XL	0	4	4		122,021	122,021	0	0.00%
SAFARI	6	0	6	127,336		128,872	1,536	1.21%
SAVANA CARGO VAN	0	13	13		296,939	296,939	0	0.00%
SAVANA CUTAWAY VAN	0	6	6		123,797	123,797	0	0.00%
SAVANA PASSENGER VAN	0	6	6		144,883	144,883	0	0.00%
SIERRA 3500 CHASSIS-CABS	12	0	12	280,316		290,818	10,502	3.75%
SIERRA HEAVY-DUTY PICKUP	22	2	24	564,294	43,278	624,632	17,060	2.81%
SIERRA PICKUP	30	6	36	722,309	125,706	874,473	26,458	3.12%
SONOMA	9	0	9	140,446		149,670	9,224	6.57%
YUKON	8	0	8	277,426		287,341	9,915	3.57%
TOTAL NEW L-D TRUCKS	91	37	128	2,226,030	856,624	3,158,046	75,392	2.45%
TOTAL GMC TRUCKS	91	37	128	2,226,030	856,624	3,158,046	75,392	2.45%
HONDA								
NEW AUTOS - POOL #1								
ACCORD	0	43	43		900,777	900,777	0	0.00%
CIVIC	28	4	32	390,329	71,592	464,294	2,373	0.51%
INSIGHT	3	0	3	56,643		56,647	4	0.01%
S2000	1	0	1	29,146		29,325	179	0.61%
TOTAL NEW AUTOS	32	47	79	476,118	972,369	1,451,043	2,556	0.18%
NEW LIGHT-DUTY TRUCKS - POOL #2								
CR-V	8	0	8	148,333		149,069	736	0.50%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
ELEMENT	0	6	6		101,876	101,876	0	0.00%
ODYSSEY	5	0	5	125,284		125,948	664	0.53%
PILOT	0	5	5		136,050	136,050	0	0.00%
TOTAL NEW L-D TRUCKS	13	11	24	273,617	237,926	512,943	1,400	0.27%
TOTAL HONDA	45	58	103	749,735	1,210,295	1,963,986	3,956	0.20%
HUMMER								
NEW LIGHT-DUTY TRUCKS - POOL #2								
HUMMER	2	1	3	188,857	44,336	240,403	7,210	3.09%
TOTAL NEW L-D TRUCKS	2	1	3	188,857	44,336	240,403	7,210	3.09%
TOTAL HUMMER	2	1	3	188,857	44,336	240,403	7,210	3.09%
HYUNDAI								
NEW AUTOS - POOL #1								
ACCENT	5	0	5	48,854		50,923	2,069	4.24%
ELANTRA	4	2	6	50,242	26,778	77,296	276	0.36%
G35	0	2	2		51,057	51,057	0	0.00%
SONATA	8	0	8	122,142		122,322	180	0.15%
XG350	0	0	0				0	N/A%
TOTAL NEW AUTOS	17	4	21	221,238	77,835		2,525	0.84%
NEW LIGHT-DUTY TRUCKS - POOL #2								
SANTA FE	6	0	6	113,025		115,079	2,054	1.82%
TOTAL NEW L-D TRUCKS	6	0	6	113,025		115,079	2,054	1.82%
TOTAL HYUNDAI	23	4	27	334,263	77,835	416,677	4,579	1.11%
INFINITI								
NEW AUTOS - POOL #1								
G20	0	0	0				0	N/A%
G35	0	5	5		132,072	132,072	0	0.00%
I35	0	0	0				0	N/A%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
Q45	0	0	0				0	N/A%
TOTAL NEW AUTOS	0	5	5		132,072		0	0.00%
NEW LIGHT-DUTY TRUCKS - POOL #2								
QX4	0	0	0				0	N/A%
TOTAL NEW L-D TRUCKS	0	0	0				0	N/A%
TOTAL INFINITI	0	5	5		132,072	132,072	0	0.00%
ISUZU								
NEW LIGHT-DUTY TRUCKS - POOL #2								
ASCENDER	0	2	2		53,951	53,951	0	0.00%
AXIOM	4	0	4	103,610		103,750	140	0.14%
RODEO	10	0	10	219,020		219,370	350	0.16%
RODEO SPORT	7	0	7	120,841		121,086	245	0.20%
TROOPER	7	0	7	194,230		194,475	245	0.13%
TOTAL NEW L-D TRUCKS	28	2	30	637,701	53,951	692,632	980	0.14%
TOTAL ISUZU	28	2	30	637,701	53,951	692,632	980	0.14%
JAGUAR								
NEW AUTOS - POOL #1								
JAGUAR	0	2	2		99,977	99,977	0	0.00%
S-TYPE	1	0	1	39,307		37,665	(1,642)	(4.18)%
X-TYPE	2	0	2	59,310		59,050	(260)	(0.44)%
XJ SERIES	5	0	5	301,635		301,635	0	0.00%
XK SERIES	4	0	4	280,188		283,304	3,116	1.11%
TOTAL NEW AUTOS	12	2	14	680,440	99,977	781,631	1,214	0.16%
TOTAL JAGUAR	12	2	14	680,440	99,977	781,631	1,214	0.16%
JEEP								
NEW LIGHT-DUTY TRUCKS - POOL #2								
GRAND CHEROKEE	7	0	7	188,775		194,481	5,706	3.02%
LIBERTY	4	2	6	74,124	43,341	120,811	3,346	2.85%

DECEMBER 20, 2002

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
WRANGLER	4	1	5	71,387	22,287	95,887	2,213	2.36%
TOTAL NEW L-D TRUCKS	15	3	18	334,286	65,628	411,179	11,265	2.82%
TOTAL JEEP	15	3	18	334,286	65,628	411,179	11,265	2.82%
KIA								
NEW AUTOS - POOL #1								
OPTIMA	5	0	5	75,190		80,285	5,095	6.78%
RIO	4	0	4	37,775		39,935	2,160	5.72%
SPECTRA	8	0	8	91,732		96,410	4,678	5.10%
TOTAL NEW AUTOS	17	0	17	204,697		216,630	11,933	5.83%
NEW LIGHT-DUTY TRUCKS - POOL #2								
SEDONA	2	0	2	36,020		38,000	1,980	5.50%
SORENTO	0	4	4		81,530	81,530	0	0.00%
TOTAL NEW L-D TRUCKS	2	4	6	36,020	81,530	119,530	1,980	1.68%
TOTAL KIA	19	4	23	240,717	81,530	336,160	13,913	4.32%
LAND ROVER/RANGE ROVER								
NEW LIGHT-DUTY TRUCKS - POOL #2								
LAND ROVER DISCOVERY	0	3	3		130,950	130,950	0	0.00%
LAND ROVER FREELANDER	3	0	3	77,553		77,760	207	0.27%
RANGE ROVER	0	1	1		63,090	63,090	0	0.00%
TOTAL NEW L-D TRUCKS	3	4	7	77,553	194,040	271,800	207	0.08%
TOTAL LAND ROVER/RANGE ROVER	3	4	7	77,553	194,040	271,800	207	0.08%
LEXUS								
NEW AUTOS - POOL #1								
ES 300	1	0	1	27,935		28,041	106	0.38%
GS 300	1	0	1	33,972		34,077	105	0.31%
GS 430	1	0	1	41,242		41,607	365	0.89%
IS 300	3	0	3	81,437		81,437	0	0.00%
LS 430	1	0	1	47,332		47,784	452	0.95%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
SC 430	1	0	1	53,117		53,961	844	1.59%
TOTAL NEW AUTOS	8	0	8	285,035		286,907	1,872	0.66%
NEW LIGHT-DUTY TRUCKS - POOL #2								
GX 470	0	1	1		39,084	39,084	0	0.00%
LX 470	1	0	1	53,813		54,918	1,105	2.05%
RX 300	2	0	2	61,299		63,402	2,103	3.43%
TOTAL NEW L-D TRUCKS	3	1	4	115,112	39,084	157,404	3,208	2.08%
TOTAL LEXUS	11	1	12	400,147	39,084	444,311	5,080	1.16%
LINCOLN								
NEW AUTOS - POOL #1								
LS	8	4	12	265,268	146,463	416,124	4,393	1.07%
TOWN CAR	0	9	9		364,401	364,401	0	0.00%
TOTAL NEW AUTOS	8	13	21	265,268	510,864	780,525	4,393	0.57%
NEW LIGHT-DUTY TRUCKS - POOL #2								
AVIATOR	0	4	4		154,883	154,883	0	0.00%
BLACKWOOD	0	0	0				0	N/A%
NAVIGATOR	0	6	6		267,569	267,569	0	0.00%
TOTAL NEW L-D TRUCKS	0	10	10		422,452	422,452	0	0.00%
TOTAL LINCOLN	8	23	31	265,268	933,316	1,202,977	4,393	0.37%
MAZDA								
NEW AUTOS - POOL #1								
MAZDA 6	0	2	2		36,553	36,553	0	0.00%
MX-5 MIATA	4	0	4	83,720		84,880	1,160	1.39%
PROTEGE	3	1	4	41,267	18,466	59,302	(431)	(0.72)%
PROTEGE 5	1	0	1	15,318		15,287	(31)	(0.20)%
TOTAL NEW AUTOS	8	3	11	140,305	55,019	196,022	698	0.36%
NEW LIGHT-DUTY TRUCKS - POOL #2								
MPV	2	0	2	45,347		44,912	(435)	(0.96)%
TRIBUTE	6	0	6	120,356		121,433	1,077	0.89%

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
TRUCK	9	5	14	149,361	88,521	242,011	4,129	1.74%
TOTAL NEW L-D TRUCKS	17	5	22	315,064	88,521	408,356	4,771	1.18%
TOTAL MAZDA	25	8	33	455,369	143,540	604,378	5,469	0.91%
MERCEDES								
NEW AUTOS - POOL #1								
C CLASS	5	5	10	168,146	159,774	324,524	(3,396)	(1.04)%
CL CLASS	3	0	3	291,277		307,970	16,693	5.73%
CLK CLASS	2	2	4	99,417	89,373	189,442	652	0.35%
E CLASS	2	2	4	93,696	94,675	188,931	558	0.30%
S CLASS	4	0	4	341,078		353,995	12,917	3.79%
SL CLASS	0	2	2		185,294	185,294	0	0.00%
SLK CLASS	3	0	3	129,363		130,294	931	0.72%
TOTAL NEW AUTOS	19	11	30	1,122,979	529,116	1,680,450	28,355	1.72%
NEW LIGHT-DUTY TRUCKS - POOL #2								
G CLASS	0	1	1		68,448	68,448	0	0.00%
M CLASS	3	0	3	136,850		137,501	651	0.48%
TOTAL NEW L-D TRUCKS	3	1	4	136,850	68,448	205,949	651	0.32%
TOTAL MERCEDES	22	12	34	1,259,829	597,564	1,886,399	29,006	1.56%
MERCURY								
NEW AUTOS - POOL #1								
GRAND MARQUIS	0	8	8		202,402	202,402	0	0.00%
MARAUDER	0	1	1		30,876	30,876	0	0.00%
SABLE	6	0	6	118,728		121,259	2,531	2.13%
TOTAL NEW AUTOS	6	9	15	118,728	233,278	354,537	2,531	0.72%
NEW LIGHT-DUTY TRUCKS - POOL #2								
MOUNTAINEER	2	10	12	54,231	305,216	360,164	717	0.20%
TOTAL NEW L-D TRUCKS	2	10	12	54,231	305,216	360,164	717	0.20%
TOTAL MERCURY	8	19	27	172,959	538,494	714,701	3,248	0.46%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
MINI								
NEW AUTOS - POOL #1								
COOPER	0	2	2		32,434	32,434	0	0.00%
TOTAL NEW AUTOS	0	2	2		32,434	32,434	0	0.00%
TOTAL MINI	0	2	2		32,434	32,434	0	0.00%
MITSUBISHI								
NEW AUTOS - POOL #1								
DIAMANTE	2	1	3	50,207	25,138	75,614	269	0.36%
ECLIPSE	10	4	14	204,789	100,239	306,387	1,359	0.45%
GALANT	6	0	6	115,884		116,274	390	0.34%
LANCER	5	0	5	71,519		72,380	861	1.20%
TOTAL NEW AUTOS	23	5	28	442,399	125,377	570,655	2,879	0.51%
NEW LIGHT-DUTY TRUCKS - POOL #2								
MONTERO	2	0	2	62,593		64,089	1,496	2.39%
MONTERO SPORT	8	0	8	206,519		206,760	241	0.12%
OUTLANDER	0	4	4		71,965	71,965	0	0.00%
TOTAL NEW L-D TRUCKS	10	4	14	269,112	71,965	342,814	1,737	0.51%
TOTAL MITSUBISHI	33	9	42	711,511	197,342	913,469	4,616	0.51%
NISSAN								
NEW AUTOS - POOL #1								
350Z	0	7	7		193,233	193,233	0	0.00%
ALTIMA	8	0	8	148,002		150,158	2,156	1.46%
MAXIMA	4	0	4	92,422		93,367	945	1.02%
SENTRA	8	1	9	108,554	15,178	125,677	1,945	1.57%
TOTAL NEW AUTOS	20	8	28	348,978	208,411	562,435	5,046	0.91%
NEW LIGHT-DUTY TRUCKS - POOL #2								
FRONTIER PICKUP	31	4	35	596,252	85,759	693,822	11,811	1.73%
MURANO	0	4	4		106,298	106,298	0	0.00%
PATHFINDER	4	0	4	105,277		109,549	4,272	4.06%
QUEST	0	0	0				0	N/A%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
XTERRA	9	0	9	188,827		195,129	6,302	3.34%
TOTAL NEW L-D TRUCKS	44	8	52	890,356	192,057	1,104,798	22,385	2.07%
TOTAL NISSAN	64	16	80	1,239,334	400,468	1,667,233	27,431	1.67%
OLDSMOBILE								
NEW AUTOS - POOL #1								
ALERO	8	0	8	146,325		149,069	2,744	1.88%
AURORA	1	0	1	32,016		31,385	(631)	(1.97)%
TOTAL NEW AUTOS	9	0	9	178,341		180,454	2,113	1.18%
NEW LIGHT-DUTY TRUCKS - POOL #2								
BRAVADA	2	0	2	59,913		61,214	1,301	2.17%
SILHOUETTE	5	0	5	144,587		147,718	3,131	2.17%
TOTAL NEW L-D TRUCKS	7	0	7	204,500		208,932	4,432	2.17%
TOTAL OLDSMOBILE	16	0	16	382,841		389,386	6,545	1.71%
PONTIAC								
NEW AUTOS - POOL #1								
BONNEVILLE	3	0	3	79,788		81,613	1,825	2.29%
GRAND AM	6	1	7	110,660	19,201	131,801	1,940	1.49%
GRAND PRIX	3	0	3	63,918		65,678	1,760	2.75%
SUNFIRE	1	0	1	13,450		13,792	342	2.54%
VIBE	0	3	3		51,944	51,944	0	0.00%
TOTAL NEW AUTOS	13	4	17	267,816	71,145	344,828	5,867	1.73%
NEW LIGHT-DUTY TRUCKS - POOL #2								
AZTEK	2	0	2	39,335		40,297	962	2.45%
MONTANA	6	1	7	154,439	23,498	178,199	262	0.15%
TOTAL NEW L-D TRUCKS	8	1	9	193,774	23,498	218,496	1,224	0.56%
TOTAL PONTIAC	21	5	26	461,590	94,643	563,324	7,091	1.27%
PORSCHE								
NEW AUTOS - POOL #1								
911	1	0	1	169,641		171,495	1,854	1.09%
BOXSTER	4	0	4	164,244		164,244	0	0.00%
CARRERA	6	0	6	430,783		441,037	10,254	2.38%
TOTAL NEW AUTOS	11	0	11	764,668		776,776	12,108	1.58%

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - LE., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
NEW LIGHT-DUTY TRUCKS - POOL #2								
CAYENNE	0	2	2		126,422	126,422	0	0.00%
TOTAL NEW L-D TRUCKS	0	2	2		126,422	126,422	0	0.00%
TOTAL PORSCHE	11	2	13	764,668	126,422	903,198	12,108	1.36%
SAAB								
NEW AUTOS - POOL #1								
9.3 SERIES	0	4	4		120,721	120,721	0	0.00%
9.5 SERIES	6	0	6	210,512		210,512	0	0.00%
TOTAL NEW AUTOS	6	4	10	210,512	120,721	331,233	0	0.00%
TOTAL SAAB	6	4	10	210,512	120,721	331,233	0	0.00%
SATURN								
NEW AUTOS - POOL #1								
ION 1	0	2	2		22,333	22,333	0	0.00%
ION 2	0	2	2		26,053	26,053	0	0.00%
ION 3	0	2	2		28,843	28,843	0	0.00%
L200	2	0	2	33,515		33,258	(257)	(0.77)%
L300	1	0	1	18,832		19,039	207	1.10%
LW200	2	0	2	36,129		36,541	412	1.14%
LW300	1	0	1	20,608		20,815	207	1.00%
TOTAL NEW AUTOS	6	6	12	109,084	77,229	186,882	569	0.31%
NEW LIGHT-DUTY TRUCKS - POOL #2								
VUE	4	0	4	69,957		70,470	513	0.73%
TOTAL NEW L-D TRUCKS	4	0	4	69,957		70,470	513	0.73%
TOTAL SATURN	10	6	16	179,041	77,229	257,352	1,082	0.42%
SUBARU								
NEW AUTOS - POOL #1								
IMPREZA	10	2	12	192,377	45,939	239,586	1,270	0.53%
LEGACY	19	4	23	424,854	76,186	511,163	10,123	2.02%
TOTAL NEW AUTOS	29	6	35	617,231	122,125	750,749	11,393	1.54%

DECEMBER 20, 2002

INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - LE., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
NEW LIGHT-DUTY TRUCKS - POOL #2								
BAJA	0	2	2		44,280	44,280	0	0.00%
FORESTER	0	7	7		147,586	147,586	0	0.00%
TOTAL NEW L-D TRUCKS	0	9	9		191,866	191,866	0	0.00%
TOTAL SUBARU	29	15	44	617,231	313,991	942,615	11,393	1.22%
SUZUKI								
NEW AUTOS - POOL #1								
AERIO	0	16	16		240,043	240,043	0	0.00%
TOTAL NEW AUTOS	0	16	16		240,043	240,043	0	0.00%
NEW LIGHT-DUTY TRUCKS - POOL #2								
GRAND VITARA	4	0	4	72,492		72,532	40	0.06%
VITARA	8	0	8	130,736		130,716	(20)	(0.02)%
XL-7	8	4	12	169,364	79,892	249,532	276	0.11%
TOTAL NEW L-D TRUCKS	20	4	24	372,592	79,892	452,780	296	0.07%
TOTAL SUZUKI	20	20	40	372,592	319,935	692,823	296	0.04%
TOYOTA								
NEW AUTOS - POOL #1								
AVALON	4	0	4	100,154		100,154	0	0.00%
CAMRY	15	0	15	308,695		308,695	0	0.00%
CELICA	4	0	4	71,070		72,218	1,148	1.62%
COROLLA	0	6	6		80,124	80,124	0	0.00%
ECHO	4	0	4	40,244		40,659	415	1.03%
MATRIX	0	8	8		124,864	124,864	0	0.00%
MR2 SPYDER	2	0	2	43,664		45,373	1,709	3.91%
PRIUS	1	0	1	18,793		18,793	0	0.00%
TOTAL NEW AUTOS	30	14	44	582,620	204,988	790,880	3,272	0.42%
NEW LIGHT-DUTY TRUCKS - POOL #2								
4RUNNER	0	11	11		310,365	310,365	0	0.00%
HIGHLANDER	6	0	6	143,874		143,874	0	0.00%
LAND CRUISER	1	0	1	46,018		46,729	711	1.55%
RAV4	4	0	4	65,116		65,116	0	0.00%
SEQUOIA	4	0	4	131,670		133,724	2,054	1.56%

A Quarterly Update of LIFO - News, Views and Ideas

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INFLATION ESTIMATE REPORT BY MAKE/MODEL/POOL
DEALER COST FOR THE YEAR ENDED 12/31/02
NEW ITEMS AT CURRENT COST - I.E., NO INFLATION

BODY STYLE	CONT. ITEMS	NEW ITEMS	TOTAL ITEMS	12/01/01 PRICE	NEW ITEMS	ENDING PRICE	DOLLAR CHANGE	PERCENT CHANGE
SIENNA	3	0	3	69,365		69,365	0	0.00%
TACOMA PICKUP	17	0	17	265,721		268,550	2,829	1.06%
TUNDRA	11	4	15	229,035	99,754	332,064	3,275	1.00%
TOTAL NEW L-D TRUCKS	46	15	61	950,799	410,119	1,369,787	8,869	0.65%
TOTAL TOYOTA	76	29	105	1,533,419	615,107	2,160,667	12,141	0.57%
VOLKSWAGEN								
NEW AUTOS - POOL #1								
GOLF	12	0	12	186,894		193,415	6,521	3.49%
GTI	2	1	3	35,523	20,012	55,815	280	0.50%
JETTA	21	2	23	378,081	35,233	425,215	11,901	2.88%
NEW BEETLE	10	13	23	175,138	268,012	448,516	5,366	1.21%
PASSAT	14	6	20	337,843	152,933	502,478	11,702	2.38%
TOTAL NEW AUTOS	59	22	81	1,113,479	476,190	1,625,439	35,770	2.25%
NEW LIGHT-DUTY TRUCKS - POOL #2								
EUROVAN	2	0	2	48,975		48,975	0	0.00%
TOTAL NEW L-D TRUCKS	2	0	2	48,975		48,975	0	0.00%
TOTAL VOLKSWAGEN	61	22	83	1,162,454	476,190	1,674,414	35,770	2.18%
VOLVO								
NEW AUTOS - POOL #1								
40 SERIES	2	0	2	45,872		45,872	0	0.00%
60 SERIES	4	1	5	116,538	30,244	145,857	(925)	(0.63)%
70 SERIES	6	2	8	213,282	62,499	268,200	(7,581)	(2.75)%
80 SERIES	3	0	3	122,432		122,518	86	0.07%
TOTAL NEW AUTOS	15	3	18	498,124	92,743	582,447	(8,420)	(1.43)%
NEW LIGHT-DUTY TRUCKS - POOL #2								
90 SERIES	0	2	2		68,925	68,925	0	0.00%
TOTAL NEW L-D TRUCKS	0	2	2		68,925	68,925	0	0.00%
TOTAL VOLVO	15	5	20	498,124	161,668	651,372	(8,420)	(1.28)%

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