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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:

### #1. A LOOK AT THE IPIC METHOD ... WITH SPECIAL EMPHASIS ON THE PRACTICALITY OF THAT METHOD FOR AUTO DEALERSHIPS.

This issue of the *LIFO Lookout* is devoted entirely to the subject of the Inventory Price Index Computation (IPIC) Method ... in general, and in its particular application to automobile dealerships.

The IPIC Method allows taxpayers to elect to use price indexes published by Bureau of Labor Statistics ... instead of computing their own internal indexes of inflation ... for their dollar-value LIFO calculations.

Many of our *LIFO Lookout* readers are dealership controllers or CPAs who have many auto dealership clients. In view of some of the recent comments by some CPAs about the advisability of dealerships using or changing to the IPIC Method for their LIFO calculations, the material in this issue of the *Lookout* should answer many of your questions about whether you've missed the boat if you didn't elect, or change to, the IPIC Method. (You didn't miss anything!)

On the other hand, many *Lookout* readers are CPAs and others in industry who are not necessarily interested in special applications for auto dealerships. For these readers, the broader coverage of the IPIC Method will allow you to ignore the dealership-specific coverage and, hopefully, come away with a better understanding of the complexities of the IPIC Method.

If properly handled, IPIC is, by no means, simple or easy. Especially, if you have (tried to) read the Regulations. Just take a look at the outline on page 36 to see what I mean.

There are several excellent treatises that discuss the IPIC LIFO Method, and particularly, its special refinements for manufacturers, processors and a broader array of wholesalers and retailers. What I've attempted to do is to present material that you can use to further your study of the IPIC Regulations if your application needs involve businesses others than automobile dealerships.

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### #2. AUTO DEALERS USING LIFO TO REDUCE TAXES DEFINITELY SHOULD NOT USE THE IPIC METHOD ... THEY SHOULD USE, OR STAY ON, THE ALTERNATIVE LIFO METHOD.

In this coverage of the IPIC Method, I've included the results of our comparison of the inflation indexes derived from the application of the Alternative LIFO Method for New Vehicles with the results from using either the Consumer Price Index (CPI) or the Producer Price Index (PPI) that might have been used by dealers electing the IPIC Method.

The study results are included on pages 32-36.

I've never been a fan of the IPIC Method for use by auto dealers on LIFO ... for a lot of reasons. Those of you who have attended my LIFO seminars in the past are well aware of them.

Egged on by my own dissatisfaction with the feeble reasoning that I was hearing from those who were advocating using the IPIC Method for their auto dealer LIFO calculations, I decided to assemble as much information as I could in order to demonstrate ... at least as far as "pure inflation numbers" are concerned ... that any dealer who is/was using the

see **LIFO UPDATE**, page 2

IPIC Method for LIFO purposes was leaving a lot of money on the table.

Our analysis indicates that the inflation indexes computed and compared in our study show that dealers would be significantly disadvantaged if they were using the IPIC Method.

By "disadvantaged" I mean that, assuming relatively stable inventory levels over the years, their LIFO reserves would have been significantly lower as a result of applying the IPIC inflation factors instead of those available under the Alternative LIFO Method. How big the differences are depends on what "time slice," or period of years, is selected for review.

So, the next time you hear someone talking about using the IPIC Method for auto dealers, tell them about our study. And, you might add that we think the IPIC Method would be a good intellectual exercise for CPAs who like working with negative LIFO reserves.

### #3. HYBRID IPIC - ALT. LIFO CALCULATIONS

**FOR SOME DEALERSHIPS.** In the course of our discussions and research, we've learned that some (many?) dealerships have strayed somewhat from the specific IPIC methodology. Instead, they've found it convenient to use the Alt. LIFO pooling arrangement (i.e., new autos in one pool and new light-duty trucks in a second pool) while using the BLS indexes (Some use the CPI ... others use the PPI.) for these respective pools.

At best, this practice might be justified by a favorable interpretation of the Regulations ... but only if the proper IPIC sub-elections were made on the Form 970 (or Form 3115) that was filed. If you inherit a dealership that is (still) using the IPIC Method, the checklist on page 26 might be useful.

### #4. DEALERSHIPS NEED IRS CLARIFICATION OR GUIDANCE ON CERTAIN IPIC MATTERS.

There are no answers for a number of technical questions that CPAs might ask about applying IPIC to

auto dealerships. In practice, the methods that some use in applying IPIC reflect matters of judgment or convenience, rather than what is required by the IPIC Regulations.

We've observed a number of important variations in how different CPAs are applying the IPIC Method to auto dealership inventories. We've included on page 30 a summary of the issues that we believe require some clarification in the form of published guidance from the IRS as part of its Industry Issue Resolution (IIR) Program. Alternatively, guidance from the IRS could possibly be provided in a Motor Vehicle Technical Advisor (MVTA) *Auto Alert!*

At the present time, clarification of these issues would hardly seem to be a top priority because of the very modest levels of inflation computed under internal indexes (Alt. LIFO) and the near-deflation computed under external indexes (IPIC).

In the future, however, should inflation become a significantly greater influence in our economy, clarifying these matters now would benefit both the IRS and automobile dealerships.

### #5. CORRECTION re: *What's in the PPI Table 6 Indexes.*

In the December 2006 issue of the *LIFO Lookout*, Update #4 and the material included on pages 3 and 4 barely scratched the surface of the application issues involved when CPAs used the IPIC method as part of their LIFO calculations.

Unfortunately, the discussion on page 4 of the December 2006 *LIFO Lookout*, in several places incorrectly stated that the Table 6 PPI Index categories (141101 and 141105) include or reflect both new and used vehicles. In fact, used vehicles are not included or reflected in the PPI Indexes.

If you save back-issues of the *LIFO Lookout*, you might want to make this correction on those pages. I'm sorry for this error and for any inconvenience it may have caused.

✱

**PRODUCER PRICE (PPI) & CONSUMER PRICE (CPI) INFLATION / DEFLATION INDEX RATES**  
FOR USE WITH THE INVENTORY PRICE INDEX COMPUTATION (IPIC) LIFO METHOD ... FOR THE CALENDAR YEARS 2000 - 2006

Description	2000 *	2001	2002	2003	2004	2005	2006	Cumulative 7 Years (2000-2006)	Cumulative 5 Years (2002-2006)	Cumulative 3 Years (2004-2006)
<b>PPI Indexes (Table 6)</b>										
Passenger Cars (New) (141101)	-0.7%	-1.6%	-2.6%	2.0%	1.7%	-3.4%	-0.3%	-4.86%	-2.64%	-1.97%
Trucks (New) <= 14,000 lbs. (141105)	1.8%	-3.3%	-3.6%	2.3%	1.0%	-5.9%	1.5%	-6.31%	-4.80%	-3.44%
Trucks (New) > 14,000 lbs. (141106)	0.7%	0.3%	4.3%	-1.9%	3.4%	5.3%	4.7%	17.79%	16.60%	13.99%
<b>CPI Indexes (Table 3)</b>										
New cars (45011)	0.3%	0.0%	-2.0%	-2.1%	0.5%	0.8%	0.2%	-2.28%	-2.56%	1.56%
New trucks (45021)	-0.6%	-0.1%	-2.2%	-1.5%	0.5%	-1.9%	-2.0%	-7.58%	-6.91%	-3.35%
Used cars & trucks (Seta02)	3.4%	-1.9%	-5.5%	-11.8%	4.8%	1.4%	-2.2%	-12.13%	-13.36%	3.97%

Source: Bureau of Labor Statistics (www.bls.gov) ... Note: The indexes for 2000 have not been adjusted for the 20% IPIC Method reduction required for years prior to 2001. \*



# A LOOK AT THE IPIC METHOD ... WITH SPECIAL EMPHASIS ON ITS PRACTICALITY FOR AUTO DEALERSHIPS

**Background.** The Dollar-Value LIFO Method Regulations allow taxpayers to elect to use inflation indexes that are computed based on either (1) the actual prices/costs of goods in their ending inventory or (2) the price/cost experience of other taxpayers. The LIFO methods that employ index computations based on a taxpayer's actual inventory costs are essentially the double-extension method, the link-chain method, the index method and the link-chain index method. All of these methods rely on what are called "internal indexes."

The IPIC LIFO Method and certain retail (department store index) LIFO methods rely upon the use of price change indexes that are based on the inventory experiences of other businesses. In these situations, these indexes are referred to as "external indexes" (i.e., they are computed externally from the taxpayer using them).

Because of the complexity of dollar-value LIFO computations, and no doubt, based on IRS audit experiences with LIFO taxpayers, the IRS prefers LIFO calculations that use external indexes because the computation of these indexes cannot be manipulated by taxpayers to reflect their own biases or desires to end up with "favorable" results.

The Inventory Price Index Computation (IPIC) method is an elective method of determining the LIFO value of a dollar-value pool using either Consumer Price Indexes (CPI) or Producer Price Indexes (PPI) published monthly in a multiplicity of categories by the U. S. Bureau of Labor Statistics (BLS).

**IPIC is often attractive as a practical matter.** For many businesses using LIFO, the IPIC Method suddenly becomes attractive if their CPAs bring to their attention the fact that their LIFO reserves cannot be justified or supported by their books and records and/or by their calculation methods. In many of these situations, a change to the IPIC Method is desirable in order to secure "audit protection" for the taxpayers' LIFO calculations.

A change to the IPIC Method can be made voluntarily by the taxpayers who are not under audit at the time by filing a Form 3115 to automatically change to the IPIC Method. In addition, this change can be made after year-end (but before the tax return is filed), and advance permission from the IRS to make this change is not required. In these situations, the use of the cut-off method eliminates the need for a Section 481(a) positive adjustment, thus allowing

the taxpayer to retain all of its valuations for prior years' LIFO layers.

**Major IPIC changes beginning in 2001.** Some taxpayers elected to use the IPIC method in years before 2001. Others elected to use the method in later years. It is important to understand that major changes were made to the IPIC Regulations effective for years ending on or after December 31, 2001. As a result, certain elections and practices in connection with the use of the IPIC Method that were made prior to these changes in 2001 are, or may be, no longer necessary.

These "new" IPIC Method LIFO Regulations (Reg. Sec. 1.472-8(e)(3)) were issued in January 2002 as Treasury Decision 8976. These final Regulations superseded (1) the original Regulations issued as Treasury Decision 7814 on March 15, 1982, (2) the IPIC Regulations that had been proposed and issued in May of 2000 and (3) Revenue Procedure 84-57.

For an overview of the important changes made by these "new"/finalized Regulations, see the December 2002 *LIFO Lookout*, pages 8-10. And, for an overview of the changes originally proposed in May of 2000, see the September 2000 *LIFO Lookout*, pages 11-23.

**No more "20% haircuts" after 2000.** As stated above, taxpayers using the IPIC Method may elect to apply indexes derived from either the CPI or the PPI. However, in years prior to 2001, most taxpayers had to pay a price for the convenience of being able to borrow external indexes (i.e., for being able to avoid the work involved in computing their own internal indexes). The price of this convenience was that the Regulations required most IPIC users to use only 80% of the appropriate CPI or PPI indexes. This was commonly referred to as the "20% haircut," and for many taxpayers, this limitation was a deterrent from their adopting the IPIC Method as an alternative to computing their own (internal) indexes.

Effective beginning with 2001, the final IPIC Regulations eliminated this 20% haircut requirement. As a result, starting in 2001, taxpayers were no longer penalized for using the BLS indexes in connection with their LIFO calculations. At that time, it was thought that allowing taxpayers to use 100% of the indexes (instead of only 80%) would/should encourage greater use of the IPIC Method and of LIFO, in general.

**Our IPIC coverage in this issue.** The coverage of the IPIC Method in this issue of the *LIFO Lookout* includes a summary of how the IPIC Method works

see **A LOOK AT THE IPIC METHOD**, page 4

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## A Look at the IPIC Method

and the broad range of alternatives for pooling LIFO inventories under that method. It also looks at the IPIC Method with a special emphasis on the applicability and practicability of that method for auto dealerships because some CPAs have recently (for example, at the 2006 AICPA Conference for Auto Dealerships) suggested that for automobile dealers on LIFO, the IPIC Method might be preferable or better to use than the Alternative LIFO Method.

**The Alternative LIFO Method for New Vehicles.** This method was originally published in Revenue Procedure 92-79 and restated in Revenue Procedure 97-36. It applies only to auto dealers' new vehicle inventories, and it became very popular because it eliminated many of the controversies that previously would arise when IRS agents were examining an auto dealership's new vehicle LIFO calculations.

However, the Alternative LIFO Method requires the computation of internal indexes and it includes a number of compensating sub-methods, special rules and a computational methodology that must be strictly followed. (Note: In Rev. Proc. 2001-23, the IRS issued a similar/safe harbor Alternative LIFO Method for used vehicle inventories ... This method for used vehicles will not be discussed here.)

**Our study comparing inflation indexes.** We've always believed that dealers were better off computing their own inflation indexes. We've run some numbers to show in a general way just how significantly disadvantaged dealers would be if they were using the IPIC Method. By "disadvantaged" we mean that, assuming relatively stable inventory levels over the years, their LIFO reserves would have been significantly lower as a result of applying the IPIC inflation factors instead of those available under the Alternative LIFO Method. How big the differences are depends on what "time slice," or period of years, is selected for review.

**SuperLIFO™ database as basis for comparison with IPIC results.** Integral to the validity of the study and the findings therefrom is the integrity of the SuperLIFO™ database from which the Alt. LIFO inflation indexes were derived.

The methodology set forth in the Alternative LIFO Method permits automobile dealers to calculate price changes reflecting inflation or deflation by reference to year-end to year-end dealer base prices as shown on new vehicle invoices received from the manufacturer.

These price changes, on a year-to-year basis, have been tracked for all years since 1992 (since the Alternative LIFO Method became available), and they are included in our comprehensive SuperLIFO™ database which has been used in thousands of auto

(Continued from page 3)

dealership calculations over the years. This database has been commercially available since 1992. (It was not retroactively assembled for purposes of this study!)

At different times, and to different degrees, the SuperLIFO™ database has been subject to several informal and formal reviews by IRS personnel in connection with various dealership audits and in connection with other activities.

In addition, every year, the LIFO Lookout has published the results of our detailed comparisons between the IRS New Items Lists (as published by the IRS Motor Vehicle Technical Advisor) and the New Items Lists for the corresponding time period as determined in the compilation of the SuperLIFO™ database. These comparisons show that there is substantive agreement in the compilation of these periodic New Items Lists as to the detailed nature of the analysis required to determine item categories when dealerships are using the Alternative LIFO Method.

The information gathered from the Bureau of Labor Statistics web site ([www.bls.gov](http://www.bls.gov)) and used in our comparison reflects the final (as opposed to the preliminary) indexes issued for the month of December for all years. This information is included as part of the supplementary materials and schedules.

**Conclusions from our study ... IPIC is not advisable for dealers.** We concluded from our study that the cumulative inflation rates and indexes computed under the approach permitted by the Alternative LIFO Method would greatly exceed the inflation indexes computed for the corresponding periods under the IPIC Method. This conclusion holds true regardless of whether the dealer were using indexes from Table 3 of the Consumer Price Index (CPI) Reports or from Table 6 of the Producer Price Index (PPI) Reports.

In fact, the indexes from both the CPI and the PPI reflect **cumulative deflation**, rather than inflation, over the 3, 5 and 7-year time periods analyzed.

Our discussions with many practitioners who say they're using the IPIC Method lead us to conclude that there are no definitive answers to a number of technical questions involving pooling alternatives and some of the calculation alternatives.

To highlight some of the variations in how IPIC is applied in dealership situations ... (1) the checklist and worksheets included as part of this material may be useful and (2) several of the areas where clarification and/or guidance from the IRS would be helpful have been identified and discussed. ✱



# A LOOK AT THE IPIC METHOD ... WITH SPECIAL EMPHASIS ON THE PRACTICALITY OF THE IPIC METHOD FOR AUTO DEALERSHIPS

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THE IPIC METHOD IS NOT AS "SIMPLE" AS SOME WOULD HAVE YOU BELIEVE ...

- **IPIC involves numerous binding sub-elections.** The IPIC Method is one of several alternatives available to taxpayers under the Dollar-Value LIFO Method. The IPIC Method requires many choices, each with its own particular consequences and each constituting a method of accounting which cannot be changed without first obtaining permission from the IRS.
- **Pooling alternatives raise difficult choices.** IPIC taxpayers are required to make binding elections in setting up pooling arrangements for their inventories. Pooling rules involve either (1) the specific rules contained in the IPIC portion of the Regulations or (2) the more general pooling rules that apply to all Dollar-Value LIFO Methods.
- **Link-Chain vs. Double-Extension IPIC Methods.** As part of an overall IPIC election, taxpayers must decide whether the computations will be made using (1) a double-extension methodology, referring back to base-year, or (2) a link-chain methodology, which updates the calculations on a year-to-year basis. In most circumstances, electing to use the link-chain method would be the better choice, and this can be done without justifying why the double-extension method was not selected.
- **Major changes to the IPIC Regulations in 2001 may have required the filing of Form 3115 by IPIC users at that time.** Substantive changes were made to the IPIC Regulations for years after 2000. The most significant change for many IPIC users was the elimination of the requirement that IPIC taxpayers had to reduce their BLS indexes by 20%. Other technical changes also were made, and some of these changes might have affected pre-2001 IPIC elections and necessitated the filing of Form 3115 by IPIC users at that time.
- **Initial elections to use the IPIC Method by filing Form 970 require the submission of special information.** If you are making a first-time election to use the IPIC Method, the filing of Form 970 must include additional information with that election. This information is not described or referred to in the Form 970 Instructions. You will find this information at Reg. Sec. 1.472-8(e)(3)(iv)(A).
- **It is harder to change "to" the IPIC Method ... than to change "from" the IPIC Method.** For taxpayers already on LIFO, changing to the IPIC Method is far easier ... Form 3115 filing, with IRS approval being automatic ... than is changing from the IPIC Method ... Form 3115 filing, but advance permission from the IRS is required.

FOR AUTO DEALERSHIPS CONSIDERING USING THE IPIC METHOD ...

- **Deflation under BLS indexes offsets the advantage of a single, broader pool under IPIC.** Auto dealerships using the IPIC Method would have one pool (in which at least new automobiles and new light-duty trucks would be combined). This is in contrast with dealerships using the Alternative LIFO Method which would divide their new vehicles into two pools ... one pool for new automobiles and a separate pool for new light-duty trucks.

The ability to have a single pool for new vehicles under the IPIC Method is an advantage because fluctuations in different segments of the new vehicle inventory (i.e., new automobiles vs. new light-duty trucks) do not affect the overall total dollar level for that pool and this tends to mitigate the recapture of LIFO reserves if separate pools had been maintained instead.

In recent years, this theoretical advantage of using a single pool has been significantly, if not totally, offset by the fact that price change indexes under either the CPI or the PPI for these inventories reflect cumulative deflation.

- **Alternative LIFO inflation indexes are much higher than IPIC indexes.** We have made a study of the differences in cumulative inflation indexes from both the CPI and the PPI over the 3, 5 and 7-year time periods ending with 2006. Our analysis shows that dealerships using the Alternative LIFO Method would have reflected significantly more inflation in their LIFO reserves by computing their indexes internally over the period from 2000 through 2006 than if the IPIC Method had been used.
- **Pooling.** Many dealerships using the IPIC Method do not include (1) used vehicles or (2) parts and accessories inventories in their LIFO pool. Whether this omission or exclusion is permitted by the Regulations is uncertain, especially in light of a more recent IRS Letter Ruling (200603027).
- **CPI vs. PPI ... Which Table should dealers select? Not an obvious choice.** Dealerships electing the IPIC Method are permitted to elect to use either (1) Table 3 of the CPI or (2) Table 6 of the PPI. These tables produce different results because they have significantly different components, and each includes, excludes or treats differently certain transactions. The IRS has issued no guidance as to which table is more appropriate for automobile dealerships in their IPIC calculations.



# A SUMMARY OF THE IPIC METHOD ... WHAT IT IS & HOW IT WORKS

## IPIC BASICS

### IN GENERAL

The Inventory Price Index Computation (IPIC) method is an elective method of determining the LIFO value of a dollar-value pool using consumer or producer price indexes published by the United States Bureau of Labor Statistics (BLS). A taxpayer using the IPIC method must compute a separate Inventory Price Index (IPI) for each dollar-value pool.

This IPI is used to convert the total current-year cost of the items in a dollar-value pool to base-year cost in order to determine whether there has been an increment or a liquidation in terms of base-year cost. If there has been an increment, that Inventory Price Index is also used for that year to determine the LIFO inventory value of the current year's layer of increment.

The IPIC Method will be accepted by the IRS as an appropriate method of computing an index, and the use of that index to compute the LIFO value of a dollar-value pool will be accepted as accurate, reliable and suitable ... unless an examination of the tax return by the IRS finds otherwise.

#### **"Separate trade or business" considerations.**

A taxpayer that elects to use the IPIC Method may use the IPIC Method for a specific trade or business; however, it must use the IPIC Method to account for all items of dollar-value LIFO inventory in that trade or business.

**Pooling.** Taxpayers using the IPIC Method may elect to establish dollar-value pools in accordance with one of three sets of special rules. The **first** set of special rules is contained in the general principles for establishing pools of manufacturers and processors at Reg. Sec. 1.472-8(b)(4). The **second** set of special rules is contained in the general principles for establishing pools for wholesalers, retailers and distributors at Reg. Sec. 1.472-8(c)(2). The **third** set of special rules is contained in the portion of the Regulations specifically addressed to IPIC taxpayers involving the assignment of items to inventory pools at Reg. Sec. 1.472-8(e)(3)(iii)(B) and (C).

**IPIC Users cannot employ a dual index approach.** Under the IPIC Method, taxpayers are not permitted to use one IPI to compute the base-year cost of a dollar-value pool for the current taxable year and a different IPI to compute the LIFO inventory value of the current taxable year's layer. In other words, the use of dual index method is not permitted if the taxpayer uses the IPIC Method.

### COMPUTING AN INVENTORY PRICE INDEX

The computation of an Inventory Price Index (IPI) for a dollar-value pool requires four steps.

#### 4 STEPS

1. The selection of a BLS table and an appropriate month,
2. The assignment of inventory items in a dollar-value pool to selected BLS categories,
3. The computation of category inflation indexes for selected BLS categories, and
4. The computation of the IPI.

The computations in Steps 3 and 4 both depend on whether the taxpayer has elected to use either (1) the Double-Extension IPIC Method or (2) the Link-Chain IPIC Method. The choice made in this election is a method of accounting, and the elected method must be applied consistently to all dollar-value pools within a trade or business accounted for under the IPIC Method. Any change from one method to the other requires the advance consent of the IRS Commissioner (i.e., it requires a Form 3115 filing), and a new base year must be established in connection with the change.

#### STEP 1 ... SELECTION OF BLS TABLE & AN APPROPRIATE MONTH

Under the IPIC method, an IPI is computed using the Consumer or Producer Price Indexes for certain categories (BLS price indexes and BLS categories, respectively) listed in the selected BLS table of the "CPI Detailed Report" or the "PPI Detailed Report" for the appropriate month.

**Manufacturers, processors, wholesalers and distributors** using the IPIC Method must select BLS price indexes from Table 6 (Producer Price Indexes and percent changes for commodity groupings and individual items, not seasonally adjusted) of the "PPI Detailed Report." Another table of the "PPI Detailed Report" can be used, however, if the taxpayer can demonstrate that selecting BLS price indexes from that Table is more appropriate than using Table 6 of the PPI.

**Retailers** are given a greater choice. Retailers may select BLS price indexes from either ... **Table 3** (Consumer Price Index for all Urban Consumers (CPI-U): U.S. city average, detailed expenditure categories) of the "CPI Detailed Report" ... or from **Table 6** (or another more appropriate table) of the

see **A SUMMARY OF THE IPIC METHOD**, page 8

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## A Summary of the IPIC Method

"PPI Detailed Report." It appears that retailers also are permitted to select "another more appropriate table" if they can demonstrate the use of that table as being more appropriate. To date, the IRS has not provided any specific guidance to clarify what is meant by the use of the words "more appropriate," nor are there any examples to clarify other selection criteria.

The selection of a BLS table is a method of accounting that must be followed consistently from year to year unless the taxpayer obtains the Commissioner's consent to change.

**Appropriate month.** In the case of all retailers (other than those using the retail method), the appropriate month is the month most consistent with the method used by the taxpayer to determine the current-year cost of the dollar-value pool and the taxpayer's history of inventory production or purchases during the taxable year.

A taxpayer not using the retail method may annually select an appropriate month for each dollar-value pool or make an election on the initial Form 970 filed to use a **representative** appropriate month. An election to use a representative month is also a method of accounting that must be followed consistently from year to year, unless permission to change is received from the IRS.

Examples are contained in the Regulations illustrating the difference between the selection of an "appropriate" month versus a "representative" month.

### STEP 2 ... ASSIGNMENT OF INVENTORY ITEMS TO BLS CATEGORIES

In the interest of brevity, this summary of Step 2 excludes a discussion of the so-called *10 Percent Method* rules for assigning inventory items and discussions particular to taxpayers other than retailers (i.e., for example, manufacturers ... for whom special rules are provided for raw materials, work-in-process and finished goods assignments).

Generally, a taxpayer must assign each item in a dollar-value pool to the most-detailed BLS category of the selected BLS table that contains that item. For example, in Table 6 of the *PPI Detailed Report* for a given month, the commodity codes for the various BLS categories run from 2 to 8 digits, with the least-detailed BLS categories having a 2-digit code and the most-detailed BLS categories usually (but not always) having an 8-digit code.

These rules for the assignment of inventory items to BLS categories create special problems for manufacturers using various components-of-cost methods, and these problems could result in the taxpayer having to discontinue using a components-of-cost

(Continued from page 7)

method in order to be able to elect the IPIC Method. Also, for manufacturers with (substantial) work-in-process inventories, these assignment rules provide significant challenges.

### STEP 3 ... COMPUTATION OF A CATEGORY INFLATION INDEX

A category inflation index reflects the inflation (or deflation) that occurs in the BLS price indexes for a selected BLS category during the relevant measurement period. The BLS price indexes are the cumulative indexes published in the selected BLS table for the appropriate month.

**Preliminary vs. final BLS indexes.** A taxpayer may elect to use either the preliminary or the final BLS price indexes for the appropriate month. The selected BLS price indexes must be used consistently. However, a taxpayer that elects to use final BLS price indexes for the appropriate month must use preliminary BLS price indexes for any taxable year for which the taxpayer files its original federal income tax return before the BLS publishes final BLS price indexes for the appropriate month.

Many taxpayers elect to use the preliminary indexes from the PPI because they cannot wait until the BLS later releases the final indexes for their reference month. This practice could create a documentation or substantiation problem for taxpayers using PPI preliminary indexes because the BLS replaces (i.e., overrides) the preliminary index figures with final index figures on its web site once the final index figures become available. The BLS web site retains preliminary data for the PPI indexes, but only for years beginning with 2005. The preliminary data for years prior to 2005 is available from print copies of the BLS monthly publication of the PPI tables. Accordingly, taxpayers should retain hard copies of the PPI preliminary indexes that are used because they may have difficulty in going back to retrieve that information if the IRS asks them to do so. Note: This problem/situation does not arise in connection with the CPI because the CPI does not publish preliminary data.

If a BLS price index for a most-detailed BLS category is not otherwise available for the appropriate or representative month (but not because the BLS categories in the BLS table have been revised), the taxpayer must use the BLS price index for the next most-detailed BLS category that includes the specific item(s) in the most-detailed BLS category.

If a BLS price index is not otherwise available for the appropriate or representative month because the BLS categories in the BLS table have been revised, special rules apply for the selection of an appropriate substitute.

→





## A Summary of the IPIC Method

**Computation of category inflation index depends on another election.** The computation of a category inflation index depends upon whether the taxpayer has elected to use the Double-Extension IPIC Method or the Link-Chain IPIC Method.

In the case of a taxpayer using the **Double-Extension IPIC Method**, the category inflation index for a BLS category is the quotient of the BLS price index for the appropriate or representative month of the current year divided by the BLS price index for the appropriate month of the taxable year preceding the base year (base month). Note: This is a fixed month base date.

If a double-extension taxpayer did not have an opening inventory in the year that its election became effective, the category inflation index for a BLS category is the quotient of the BLS price index for the appropriate or representative month of the current year divided by the BLS price index for the month immediately preceding the month of the taxpayer's first inventory production or purchase.

In the case of a taxpayer using the **Link-Chain IPIC Method**, the category inflation index for a BLS category is the quotient of the BLS price index for the appropriate or representative month of the current year divided by the BLS price index for the appropriate month used for the immediately preceding taxable year. Note: This comparison month "rolls forward" from year to year; hence, its link-chain nature.

If a link-chain taxpayer did not have an opening inventory in the year that its election became effective, the category inflation index for a BLS category for the year of election is the quotient of the BLS price index for the appropriate or representative month of the current year divided by the BLS price index for the month immediately preceding the month of the taxpayer's first inventory production or purchase.

The Regulations contain extremely complicated rules dealing with a variety of other situations including (1) substitute representative months, (2) compound category inflation indexes and (3) taxpayers who have elected to use the so-called *10 Percent Method*.

### STEP 4 ... COMPUTATION OF INVENTORY PRICE INDEX (IPI)

The computation of the Inventory Price Index in this Step also depends (as it does in Step 3) upon whether the taxpayer has elected to use the Double-Extension IPIC Method or the Link-Chain IPIC Method.

**Caution.** All versions of Form 970 prior to the current revision dated December 2005 did not provide taxpayers with a box to check to indicate which

(Continued)

of these 2 methods was being elected. The current version of Form 970 highlights the need to make this election by providing taxpayers with appropriate boxes to mark to indicate which election is being made.

**Under the Double-Extension IPIC Method**, the IPI for a dollar-value pool is the weighted harmonic mean of the category inflation indexes for each selected BLS category represented in the taxpayer's dollar-value pool at the end of the taxable year.

The formula for computing the weighted harmonic mean of the category inflation indexes is: [Sum of Weights / Sum of (Weight / Category Inflation Index)]. The weights to be used when computing this weighted harmonic mean are the current-year costs in each selected BLS category represented in the dollar-value pool at the end of the taxable year.

**Under the Link-Chain IPIC Method**, the IPI for a dollar-value pool is the product of the weighted harmonic mean of the category inflation indexes for each selected BLS category represented in the taxpayer's dollar-value pool at the end of the taxable year multiplied by the IPI for the immediately preceding taxable year.

The formula for computing the weighted harmonic mean of the category inflation indexes is: [Sum of Weights / Sum of (Weight / Category Inflation Index)]. The weights to be used when computing this weighted harmonic mean are the current-year costs in each selected BLS category represented in the dollar-value pool at the end of the taxable year.

**Examples of IPIC Method calculations.** The Regulations contain examples of the computations of the IPIs under both methods. These examples are analyzed on pages 18-23.

### FILING FORM 970 TO ELECT THE IPIC METHOD

The use of the IPIC Method is a method of accounting. A taxpayer permitted to adopt the Dollar-Value LIFO Method without first securing the Commissioner's consent also may adopt the IPIC Method without first securing the Commissioner's consent.

The IPIC Method may be adopted and used, however, only if the taxpayer provides detailed information on a Form 970, *Application to Use LIFO Inventory Method*. If Form 970 is not filed, the taxpayer must submit this information in another manner that is acceptable to the Commissioner.

The most recent revision of Form 970 (Dec. 2005) contains a special section (Part V, on Page 2) in which taxpayers mark certain boxes to indicate some of the BLS elections that need to be made. In

see **A SUMMARY OF THE IPIC METHOD**, page 17



**IPIC  
Pooling**

**POOLING RULES FOR TAXPAYERS USING THE IPIC METHOD**  
... Many, many choices

Page 1 of 2

**Overview**

- Taxpayers using the IPIC LIFO Method can choose from several pooling alternatives.
  - ♦ The Regulations specifically covering IPIC elections contain one set of rules at 1.472-8(e)(3).
  - ♦ The other set of rules is found in the general dollar-value LIFO Regulations at 1.472-8(b) and (c) which apply to LIFO taxpayers who are using internal indexing methods.
    - See Page 2 of 2 (facing page) for these pooling rules.
- Different kinds of taxpayers have different pooling options.
- **Special elective pool combination rules.** Each set of pooling rules contains additional special elective rules for combining pools of lesser size.
  - ♦ IPIC Regs. allow larger pool combinations ... i.e., 10% is the cut-off point for combinations.
  - ♦ General DVM LIFO Regs. allow combinations to a lesser extent ... i.e., 5% is the cut-off point.

**Pooling Rules Specifically Covering IPIC Elections ... Reg. Sec. 1.472-8(c)(3)**

**In General**

- Within the "IPIC portion" of the Regulations, the pooling alternatives are derived from the provisions dealing with the selection of BLS tables (Reg. Sec. 1.472-8(e)(3)(iii)(B) and the assignment of inventory items to BLS categories (Reg. Sec. 1.472-8(e)(3)(iii)(C).
- These rules are summarized below... (See page 36 for an outline of all the IPIC Regulations.)

**Taxpayers  
Other than  
Retailers ...**

(i.e.,  
**Manufacturers,  
Wholesalers, etc.)**

- Manufacturers, processors, wholesalers, jobbers and distributors can elect to establish their LIFO pools based on the 2-digit commodity codes in Table 6 of the Producer Price Index (PPI) Detailed Report.
  - ♦ The above statement is not found explicitly in the Regulations; it appears in the Instructions to Form 970 for Part IV.
- **Special elective 10% rule.** In connection with this rule, these IPIC taxpayers may further elect to use a special procedure (the "10 percent method") to configure their pools so long as that configuration does not assign items in that pool to a BLS category that is less detailed than the major commodity groups of producer goods described in Table 6 of the PPI.
  - ♦ The "10 percent method" involves a 3-step procedure which is described in detail at Reg. Sec. 1.472-8(e)(3)(iii)(C)(2).

**Retailers**

- Retailers have a greater choice. They can elect to establish their LIFO pools based on either...
  - ♦ The general expenditure categories in Table 3 of the Consumer Price Index (CPI) Detailed Report, or
  - ♦ The 2-digit commodity codes in Table 6 of the Producer Price Index (PPI) Detailed Report.
- The above statement is not found explicitly in the Regulations; it appears in the Instructions to Form 970 for Part IV.
- **Special elective 10% rule.** In connection with this rule, IPIC retailers may further elect to use a special procedure (the "10 percent method") to configure their pools so long as that configuration does not assign items in that pool to a BLS category that is less detailed than **either (1)** the major groups of consumer goods described in Table 3 of the monthly CPI Detailed Report **or (2)** the major commodity groups of producer goods described in Table 6 of the PPI.
  - ♦ The "10 percent method" involves a 3-step procedure which is described in detail at Reg. Sec. 1.472-8(e)(3)(iii)(C)(2).

**Caution**

- Instead of using the above pooling rules, IPIC users may use the rules on the facing page.
- These rules are found outside of the "IPIC portion" of the Regulations. This is evidenced by the Regulation designations "(b)" and "(c)" ... as distinguished from "(e)(3)" which specifically discusses the IPIC Method (which relies upon externally computed indexes).
- The Instructions for Form 970 do not discuss ...
  - ♦ The "10 percent method" special elective pooling rules available under -(8)(e)(3)
  - ♦ The complex rules available as alternatives under -(8)(b)(4) & (c)(2). These rules are only mentioned (cryptically) by referring to their Regulation citations and "See ... for more information."
- Full disclosure of the pooling methods elected must be made with the filing of the Form 970 ... i.e., include a complete list of dollar-value pools, including a description of the items in each pool.



**Pooling Rules for IPIC Users Found in the General Dollar-Value Regs ... Reg. Sec. 1.472-8(b) & (c)**

<p><b>Regulation Structure</b></p>	<ul style="list-style-type: none"> <li>• 1.472-8(a) ... Election to use Dollar-Value Method</li> <li>• 1.472-8(b) ... Principles for establishing pools of manufacturers &amp; processors</li> <li>• 1.472-8(b)(1) ... Natural business unit pools</li> <li>• 1.472-8(b)(2) ... Definition of natural business unit</li> <li>• 1.472-8(b)(3) ... Multiple pools - Principles for establishing multiple pools</li> <li>• 1.472-8(b)(4) ... <b>IPIC Method pools ... manufacturers or processors *</b></li> <li>• 1.472-8(c) ... Principles for establishing pools for wholesalers, retailers, etc.</li> <li>• 1.472-8(c)(1) ... In general</li> <li>• 1.472-8(c)(2) ... <b>IPIC Method pools ... retailers, etc. **</b></li> </ul>
<p><b>* Manufacturers &amp; Processors (PPI only)</b></p>	<ul style="list-style-type: none"> <li>• <b>IPIC Method pools under (b)(4).</b> A manufacturer or processor that elects to use the IPIC Method for a trade or business may elect to establish dollar-value pools for its inventory items based on the 2-digit commodity codes (i.e., major commodity groups) in Table 6 (Producer Price Indexes and percent changes for commodity groupings and individual items, not seasonally adjusted) of the "PPI Detailed Report."</li> <li>• <b>Special elective 5% rule.</b> A taxpayer electing to establish dollar-value pools under the above rule may combine IPIC pools that comprise less than 5% of the total current-year cost of all dollar-value pools to form a single miscellaneous IPIC pool. <ul style="list-style-type: none"> <li>♦ Furthermore, a taxpayer using these rules may combine a miscellaneous IPIC pool that comprises less than 5% of the total current-year cost of all dollar-value pools with the largest IPIC pool.</li> <li>♦ Each of these 5% rules is a method of accounting.</li> <li>♦ A taxpayer may not change to, or stop using, either 5% rule without obtaining the Commissioner's prior consent.</li> <li>♦ <b>Redetermination every third year.</b> Whether a specific IPIC pool or the miscellaneous IPIC pool satisfies the applicable 5% rule must be determined in the year of adoption or year of change (whichever is applicable) and redetermined every third taxable year.</li> </ul> </li> </ul>
<p><b>** Retailers (CPI or PPI)</b></p>	<ul style="list-style-type: none"> <li>• <b>General rule under (c)(1).</b> Items of inventory in the hands of wholesalers, retailers, jobbers, and distributors shall be placed into pools by major lines, types, or classes of goods. <ul style="list-style-type: none"> <li>♦ In determining such groupings, customary business classifications of the particular trade in which the taxpayer is engaged is an important consideration.</li> </ul> </li> <li>• <b>IPIC Method pools under (c)(2).</b> A retailer that elects to use the IPIC Method for a trade or business may elect to establish dollar-value pools for its inventory items based on <b>either</b> <ul style="list-style-type: none"> <li>♦ The general expenditure categories (i.e., major groups) in Table 3 (Consumer Price Index for all Urban Consumers (CPI-U): U.S. city average, detailed expenditure categories) of the "CPI Detailed Report" <b>or</b></li> <li>♦ The 2-digit commodity codes (i.e., major commodity groups) in Table 6 (Producer Price indexes and percent changes for commodity groupings and individual items, not seasonally adjusted) of the "PPI Detailed Report."</li> </ul> </li> <li>• <b>Special elective 5% rule.</b> A taxpayer electing to establish dollar-value pools under the above rule may combine IPIC pools that comprise less than 5% of the total current-year cost of all dollar-value pools to form a single miscellaneous IPIC pool. <ul style="list-style-type: none"> <li>♦ Furthermore, a taxpayer using these rules may combine a miscellaneous IPIC pool that comprises less than 5% of the total current-year cost of all dollar-value pools with the largest IPIC pool.</li> <li>♦ Each of these 5% rules is a method of accounting.</li> <li>♦ A taxpayer may not change to, or stop using, either 5% rule without obtaining the Commissioner's prior consent.</li> <li>♦ <b>Redetermination every third year.</b> Whether a specific IPIC pool or the miscellaneous IPIC pool satisfies the applicable 5% rule must be determined in the year of adoption or year of change (whichever is applicable) and redetermined every third taxable year.</li> </ul> </li> </ul>
<p><b>Wholesalers, Jobbers &amp; Distributors (PPI only)</b></p>	<ul style="list-style-type: none"> <li>• A <b>wholesaler, jobber, or distributor</b> that elects to use the IPIC Method for a trade or business may elect to establish dollar-value pools for any group of goods accounted for using the IPIC Method and included within one of the 2-digit commodity codes (i.e., major commodity groups) in Table 6 (Producer Price Indexes and percent changes for commodity groupings and individual items, not seasonally adjusted) of the "PPI Detailed Report."</li> <li>• <b>Special elective 5% rule.</b> These elections, discussed above, also apply to these taxpayers.</li> </ul>



## CPI ... PPI TABLES

### What Do They Include? ... How Are They Different?

#### CPI ... In General

- The Consumer Price Index (CPI) represents all goods and services purchased for consumption by the population measured.
- The CPI measures price change from the perspective of the purchaser.
  - ♦ Purchasers' and sellers' prices may differ due to distribution costs, sales and excise taxes, government subsidies and other factors.
- All expenditure items measured by the CPI are classified into more than 200 categories, and these categories are arranged into **8 major groups** ...
  - ♦ Food and beverage
  - ♦ Housing
  - ♦ Apparel
  - ♦ **TRANSPORTATION**
  - ♦ Medical care
  - ♦ Recreation
  - ♦ Education and communication
  - ♦ Other goods and services
- Included within these major groups are various government-charged user fees, taxes (such as sales and excise taxes) that are directly associated with the prices of specific goods and services.
- For each of the more 200 item categories, using scientific statistical procedures, the BLS has chosen samples of several hundred specific items within selected business establishments to represent the thousands of varieties available in the marketplace.
  - ♦ **CPI-U** reflects price change experience of various **urban** consumer groups and households.
    - Covers approximately 87% of the total population.
  - ♦ **CPI-W** reflects price change experience for the households of urban **wage earners**.
    - Covers approximately 32% of the total population.
    - Generally, for these wage earners, more than half of the household's income comes from clerical or wage occupations and at least one of the household's earners must have been employed for at least 37 weeks during the previous 12 months.
- Although the CPI is frequently referred to as a "cost of living" index, it differs in several important ways from a comprehensive or complete cost of living measure.

#### PPI ... In General

- The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by **domestic producers** of goods and services.
- The PPI measures price change from the perspective of the seller.
- Three main PPI publication structures...
  - ♦ **Industry-based** ... over 600 industry price indexes in combination with over 5,000 specific product line and product category sub-indexes.
  - ♦ **Commodity-based** ... over 2,000 commodity price indexes organized by type of product and end use.
  - ♦ **Stage-of-processing-based** ... These are aggregate price indexes organized by commodity-based processing stage ... (1) finished goods, (2) intermediate materials, supplies and components, and (3) crude materials for further processing.
- Data source
  - ♦ The PPI sample includes over 25,000 establishments that provide approximately 100,000 price quotations per month.
    - PPIs are based on selling prices reported by establishments of all sizes that are selected by probability sampling, with the probability of selection proportionate to size.
    - Price data are provided on a voluntary and confidential basis.
  - ♦ Participating establishments report price data primarily through the mail.
  - ♦ Goods and services included in the PPI are weighted by value-of-shipsments data contained in 1997 economic censuses.
  - ♦ Industries and products are systematically resampled as needed.
- PPIs are usually made available during the second full week of the month following the reference date.
- All PPIs are subject to revision for months after original publication to reflect the availability of late reports and corrections by respondents.
- **Seasonally adjusted data** more clearly reveal underlying cyclical trends, and therefore, are preferable (to seasonally unadjusted data) for analyzing general price trends in the economy.
  - ♦ An "s" added to the end of the commodity code indicates the data is seasonally adjusted.
  - ♦ A "u" added to the end of the commodity code indicates the data is not seasonally adjusted.



<b>CPI &amp; PPI</b>	<p align="center"><b>HOW DOES THE PRODUCER PRICE INDEX DIFFER FROM THE CONSUMER PRICE INDEX?*</b></p> <p align="right">Page 2 of 2</p>
<b>Overview</b>	<ul style="list-style-type: none"> <li>While both the PPI and the CPI measure price change over time for a fixed set of goods and services, they differ in two critical areas.               <ul style="list-style-type: none"> <li>The composition of the set of goods and services, and</li> <li>The types of prices collected for the included goods and services.</li> </ul> </li> <li>The distinctions between the PPI and CPI are consistent with how they are used as economic indicators.               <ul style="list-style-type: none"> <li>The PPI is used to deflate revenue to measure real growth in output.</li> <li>The CPI is used to adjust income and expenditures for changes in the cost of living.</li> </ul> </li> </ul>
<b>Differences in Goods &amp; Services Included</b>	<ul style="list-style-type: none"> <li>The target set of goods and services included in the PPI is the entire marketed output of U.S. producers.               <ul style="list-style-type: none"> <li>The set includes both goods and services purchased by other producers as inputs to their operations or as capital investment, as well as goods and services purchased by consumers either directly from the producer or indirectly through a retailer.</li> </ul> </li> <li><b>Imports</b> are excluded from the PPI because the PPI target is U.S. production.               <ul style="list-style-type: none"> <li>Imports are included in the CPI because the CPI is the set of goods and services purchased for personal consumption by urban U.S. households.</li> </ul> </li> <li><b>Producers' durable/capital equipment</b> is included in the PPI finished goods index. Since this equipment is not purchased by typical consumers, it is not included in the CPI.</li> <li>The "all items CPI" includes services which are not reflected in the finished goods price index.</li> </ul>
<b>Differences in Type of Prices Collected</b>	<ul style="list-style-type: none"> <li><b>Sales and excise taxes</b> are included in the CPI... but they are not included in the PPI.</li> <li><b>Distribution costs</b> are included in the CPI ... but they are not included in the PPI.               <ul style="list-style-type: none"> <li>The price paid by consumers for products likely reflects intermediate markups to cover the costs of shipping the goods from one party to another, as well as the costs of doing business by both the wholesaler and retailer. These prices are included in the CPI.</li> </ul> </li> <li><b>Services</b> are included in the CPI ... but they are not included in the PPI.</li> </ul>
<b>New Models of Priced Goods</b>	<ul style="list-style-type: none"> <li>In the PPI, a new model is priced when the producer stops selling the previous model.</li> <li>Most items in the CPI are priced at the outlet until they are no longer available for sale, although for some items, such as new cars and trucks, the new model is first priced when it out-sells the previous model.</li> <li>In some cases, a new model might be priced in the PPI well before it shows up in the CPI.               <ul style="list-style-type: none"> <li>In the PPI most new passenger cars are introduced in October.</li> <li>For the CPI, new models are introduced over a longer period (4 to 6 months beginning in September), as dealers close out old inventory and begin selling the newer models.</li> </ul> </li> </ul>
<b>"Pass Through" of Price Change from the PPI to the CPI</b>	<ul style="list-style-type: none"> <li>Some assume that a price change recorded in a particular component of the PPI will eventually and directly be seen in the same or most similar component of the CPI.               <ul style="list-style-type: none"> <li>In reality, it is difficult to project whether, in what magnitude, or when an increase in the PPI will "pass through" to the CPI.</li> <li>An increase in the price paid to a producer for a good may not be passed on by a retailer if, for example, competitive conditions in the retail market preclude such an action.</li> </ul> </li> <li>Alternatively, the retailer may increase the selling price for the good in question, but not by the full extent of the increase in the price paid to the producer. This could happen, for example, if the retailer is realizing efficiencies in operations which allow a shrinkage in its markup.               <ul style="list-style-type: none"> <li>This illustrates that, because of the possibility of change in the costs to transport wholesale or retail products, <b>the CPI for a given component may change even though there has been no change in the PPI for the same component.</b></li> </ul> </li> <li>Should retailers pass on all or part of an increase in producer prices, the time lag between changes in the PPI and CPI for comparable products can vary considerably.               <ul style="list-style-type: none"> <li>For some products, such as gasoline, where producers own or franchise many of the retail outlets, there could be a fairly immediate price pass-through from the PPI to the CPI as producers pass their cost increases directly on to consumers.</li> <li>For other products, such as pharmaceuticals, which are usually distributed through wholesalers, there is an expected time lag for price transmission.</li> <li>While the PPI will change when the new drugs are produced, the corresponding CPI will not show the change until those pharmaceuticals reach the stores.</li> </ul> </li> </ul>
<b>* Source</b>	<ul style="list-style-type: none"> <li>BLS Publication 98-3 - <i>PPI Program Spotlight</i> ... Available from the BLS web site, <a href="http://www.bls.gov">http://www.bls.gov</a>.</li> </ul>



# **WHICH BLS TABLE SHOULD AUTO DEALERS CHOOSE (ELECT) FOR THEIR IPIC CALCULATIONS?**

Page 1 of 2

**The Choice  
for Dealers...**

**CPI vs. PPI**

- The IPIC Regulations permit *retailers* to elect to use either...
  - ♦ The CPI (Consumer Price Index) ... Table 3
  - ♦ The PPI (Producer Price Index) ... Table 6
- Dealers must use one of the above unless they can show that another PPI table is more appropriate.
  - ♦ A few CPAs believe that Table 5 of the PPI may be used ... But, this may be hard to justify.
- The IRS has not issued any guidance on whether one BLS table is more appropriate than any other.

**CPI  
Table 3**

- For dealerships, **Transportation** is the applicable CPI general expense category.
- **Indexes ... Separate indexes for ...**
  - ♦ New cars ... Item 45011.
  - ♦ New trucks ... Item 45021.
  - ♦ Used cars and trucks ... Item seta02.
  - ♦ Vehicle parts and equipment other than tires ... Item 48021.

**PPI  
Table 6**

- For dealerships, **Transportation Equipment** is the applicable PPI category.
- **Indexes ... Separate indexes for ...**
  - ♦ New passenger cars ... Item 141101.
  - ♦ New trucks are subdivided into two separate indexes ...
    - Trucks, 14,000 pounds and under GVW ... Item 141105.
    - Trucks over 14,000 pounds GVW ... Item 141106.
  - ♦ Motor vehicle parts ... Item 1412.

**Major  
Differences  
in  
CPI & PPI  
Tables**

- **Different treatment of certain factors and/or transactions.**
  - ♦ "Imports": PPI excludes ... CPI includes
  - ♦ Distribution costs: PPI excludes ... CPI includes
  - ♦ Sales taxes and excise taxes: PPI excludes ... CPI includes
  - ♦ Adjustments for quality changes in model vehicles: PPI includes ... CPI excludes
    - Summary of adjustments made by PPI for quality changes appears below.
- Impact of introduction of new models on year-end (December) indexes
  - ♦ In general, the PPI is more likely to reflect the impact of new model prices
  - ♦ In general, the CPI is less likely to reflect the impact of new model prices in December indexes because it "takes longer for many new items to get *mainstreamed*" into the CPI indexes ... sometimes as long as 4-6 months.

**Adjustments  
for Quality  
Changes  
in Models \***

Value of Quality Changes - Domestically Produced Vehicles By Model Year								
	2000	2001	2002	2003	2004	2005	2006	2007
<b>Passenger Cars</b>								
Safety improvements	\$ 5.39	25.16			37.16	193.11		56.57
Emission improvements	\$ 9.87	67.65					26.24	
Powertrain improvements	\$ -				24.00			
Other quality changes	\$ 153.79	119.86	68.30	25.08	21.80	117.39	2.45	94.34
Subtotal	\$ 169.05	\$ 212.67	\$ 68.30	\$ 25.08	\$ 82.96	\$ 310.50	\$ 28.69	\$ 150.91
<b>Light Trucks</b>								
Safety improvements				126.80	90.17		112.81	160.09
Federally mandated	\$ 3.38	9.42				18.30		
Non-mandated	\$ -					120.43		
Powertrain improvements	\$ -							58.01
Emission improvements	\$ 33.31	90.78			38.21			
Other quality changes	\$ 3.87	198.42	16.02	105.85	16.67	206.65	53.72	174.00
Subtotal	\$ 40.56	\$ 298.62	\$ 16.02	\$ 232.65	\$ 145.05	\$ 345.38	\$ 166.53	\$ 392.10
<b>Total Quality Changes</b>	<b>\$ 209.61</b>	<b>\$ 511.29</b>	<b>\$ 84.32</b>	<b>\$ 257.73</b>	<b>\$ 228.01</b>	<b>\$ 655.88</b>	<b>\$ 195.22</b>	<b>\$ 543.01</b>
# of Vehicles sampled								
Cars/Trucks	14 / 19	18 / 20	18 / 16	15 / 17	15 / 18	13 / 18	11 / 20	12 / 20

\* Source: Annual reports entitled, *Report on Quality Changes for \_\_\_\_\_ Model Vehicles* (Issued by Bureau of Labor Statistics ... available at [www.bls.gov/schedule/archives/all\\_nr.htm#CAR](http://www.bls.gov/schedule/archives/all_nr.htm#CAR)).



## **HOW BLS MEASURES PRICE CHANGE FOR NEW VEHICLES IN THE CONSUMER PRICE INDEX\***

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<b>CPI ... Content &amp; Process</b>	<ul style="list-style-type: none"> <li>In the CPI, <i>new vehicles</i> is a subcomponent of the <i>New and Used Motor Vehicles</i> component. <ul style="list-style-type: none"> <li>The New Car index includes ... subcompact, compact or sporty, intermediate, full, luxury or status cars.</li> <li>The New Truck index includes ... pickup trucks, vans, and specialty vehicles (including sport/cross utility vehicles).</li> </ul> </li> <li>Estimated transaction price and price adjustments <ul style="list-style-type: none"> <li>The price used in the index is an estimated transaction price based on sales for the model over the past 30 days. Prices are collected for the base price, destination charge, options, dealer preparation charges and applicable taxes. Averages are then estimated (based on respondent feedback) to adjust the price for markups, dealer concession or discounts, and consumer rebates.</li> </ul> </li> </ul>
<b>CPI ... Model Year Change-Over</b>	<ul style="list-style-type: none"> <li>Model year change-over, when the new model replaces the old model occur in the index each year. The substitution to the new model is done when the dollar sales of the new model are 50% or more of the total sales for the vehicle over the past 30 days.</li> <li>While new models are most often introduced in the fall; they can be introduced anytime during the year, and are generally are reflected in the CPI beginning in September and continuing through February.</li> </ul>
<b>CPI ... Quality Adjustments</b>	<ul style="list-style-type: none"> <li>Quality adjustments are based on resource cost provided by manufacturers in categories such as: reliability, durability, safety, fuel economy, maneuverability, speed, acceleration/ deceleration, carrying capacity, and comfort or convenience. Adjustments are also made when equipment is added or deleted from the tracked model. Adjustments are not made for switches in gasoline content due to mandated air quality requirements.</li> <li>Reports on Quality Changes Each year, the BLS publishes a report on the quality changes to new models. The report is based on the Producer Price Index. It provides the average model year changes in invoice price and a retail equivalent price, as well as the estimated value of quality changes. <ul style="list-style-type: none"> <li>These press releases are available at <a href="http://www.bls.gov/schedule/archives/all_nr.htm#CAR">www.bls.gov/schedule/archives/all_nr.htm#CAR</a>.</li> </ul> </li> </ul>
<b>Why CPI - PPI Indexes for New Vehicles Show Different Results</b>	<ul style="list-style-type: none"> <li>PPI captures the price from manufacturer to dealer, while CPI captures the price from dealer to consumer, so a trend toward increasing or decreasing dealer profits may cause some differences in the indexes. <ul style="list-style-type: none"> <li>There may be a time lag in reflecting price changes from the manufacturer that are being passed on to the consumer.</li> </ul> </li> <li>The pricing date for the PPI is on one specific day in the middle of the month. The CPI covers the entire month, and it is based on estimated transaction prices over the past 30 days. A possible lag in price change may appear. <ul style="list-style-type: none"> <li>For example, the PPI September index may use the price as of September 14, while the CPI September index will estimate a transaction price based on sales over the past 30 days prior the day pricing. A new discount announced on September 10 would show up in the September PPI but may miss most sales used in the September CPI.</li> </ul> </li> <li>Prices of <i>imported cars</i> may have different movement than domestically produced cars (exchange rate, high demand for some models, etc.). <ul style="list-style-type: none"> <li>Prices for <i>imported cars</i> affect the CPI but not PPI.</li> </ul> </li> <li>Model year changeover for PPI shows up almost entirely in October, but the CPI spreads this change over several months.</li> <li>Changes in low financing rate programs are captured in PPI but not CPI.</li> <li>Some dealer incentives may not be passed on to consumers.</li> <li>Quality adjustment for emissions is captured in the PPI but not CPI.</li> <li>CPI resamples 25% of the vehicles each year, while PPI does a complete resample every 5 years, so the mix of vehicles may be different.</li> <li>Changes in sales taxes and other taxes on cars would cause the CPI to change, but these taxes would not affect the PPI.</li> </ul>
<b>* Source</b>	<ul style="list-style-type: none"> <li>BLS publication of the same name*, last modified - July 2007 ... Available from the BLS web site ... <a href="http://www.bls.gov/cpi/cpifacnv.htm">http://www.bls.gov/cpi/cpifacnv.htm</a>.</li> </ul>





**POSSIBLE CAUSES OF CONFUSION OVER HOW DEALERSHIPS  
COULD, SHOULD OR MUST SET UP THEIR LIFO POOLS UNDER THE IPIC METHOD**

**Let's start with an example.** One example of the possibly confusing generalizations one might read regarding the use of the IPIC Method for an auto dealership's calculations appeared in the Sept./Oct. 2006 RSM McGladrey newsletter.

"...Also, the IPIC Method allows virtually all of your inventories - not just new cars - to be grouped together (pooled). So, declines in new car sales can be offset by increases in, say, used car sales, or even parts and accessories, to avoid recapture of deferred LIFO income."

Can it be inferred from the above that this firm, in IPIC applications for its automobile dealerships, follows the practice of pooling together all of the auto dealer's inventories, including used vehicles and parts and accessories inventories? It is quite possible that a dealer could make this election, but would it really make sense to do so?

**Looking for answers.** In the last 10 years or so, it is possible that one might have looked at the Revenue Procedure for the Alternative LIFO Method for New Vehicles (Rev. Proc. 97-36) in search of some ... any ... guidance on the pooling question. Keep in mind that this Rev. Proc. was issued almost 5 years before the final IPIC Regulations were issued. Therefore, what Rev. Proc. 97-36 says about IPIC pooling does not reflect the wording in the final IPIC Regulations, which are effective for years after 2000.

In referring to auto dealership pooling under the IPIC Method, Rev. Proc. 97-36 states the following in Section 2.04(2)(a):

"...Under the IPIC method, special inventory pooling rules permit an automobile dealer to establish a *single inventory pool for new automobiles and new trucks* under the major category of the applicable Government price index published by the BLS. See Sec. 1.472-8(e)(3)(iv) and Rev. Proc. 84-57, 1984-2 C.B. 496."

Note that no mention is made in this discussion of how a dealership's other inventories (used vehicles, parts, etc.) would be treated for IPIC pooling purposes. The above text could also lead one astray if one looked up the authorities in the citations.

In the final Regulations for years after 2000, the specific citation in the text above is to the section of the Regulations that deals with requirements in connection with the adoption of, or change to, the IPIC Method. (See outline of the IPIC Regs. on page 36.)

Also, the Revenue Procedure referred to (Rev. Proc. 84-57) was obsoleted/superseded by Treasury Decision 8976, which introduced the final IPIC Regulations. Revenue Procedure 84-57 contained language stating that ... "*A retailer ... may establish an inventory pool or pools for any group of goods included within one of 11 categories of consumer goods described in the CPI Detailed Report.* The 11 categories are: ... (6) *Private transportation (including gasoline)*, ... ." [Section 3.04(a) ... Emphasis added, descriptions of categories (1)-(5) & (7)-(11) omitted.]

Similarly, Rev. Proc. 84-57 stated, "*An inventory pool or pools may be established for any group of goods included within one of the 15 general categories of producer goods described in Table 6 of the Producer Prices and Price Indexes.* The 15 categories are: ... (14) *Transportation equipment*, ... ." [Section 3.04(b) ... Emphasis added, descriptions of categories (1)-(13) & (15) omitted.]

**Possible causes for confusion.** Undoubtedly, this guidance in Rev. Proc. 84-57 has been relied upon by IPIC users in the past. But, to what extent does this guidance for the old (pre-2001) IPIC Regulations apply to years after 2000 which are subject to the "final" IPIC Regulations? It is possible for one dealer on IPIC to properly elect a pooling arrangement that would be different from that of another dealer on IPIC. But, it is not clear whether the pooling rules under the old Regs. are *identical* to those under the new Regs.

**"Separate trades or businesses."** The final IPIC Regulations permit taxpayers to apply the IPIC Method to separate trades or businesses. Query: How does this relate to a similar statement in Section 4.02(1) of Revenue Procedure 97-36 which says that an automobile dealer is required to use two separate pools under the Alternative LIFO Method "*for each separate trade or business*"?

There seems to be no clear answer to the question of whether a dealership electing IPIC would be permitted to use LIFO for only its new vehicles, leaving its used vehicles and parts and accessories inventories off of LIFO. The final IPIC Regulations place an emphasis on pooling for "separate trades or businesses." In this regard, in some respects, a dealership is often treated in its entirety as a single trade or business. In other situations, the separate departments and operations within a dealership (the used vehicle department, the service department, the parts department, leasing and the new vehicle department) are each regarded or treated as separate trades or businesses.

Carrying this analysis even further, the IRS has even debated whether separate franchises should be considered as separate trades or businesses within a dealership. In LTR 199911044, the IRS elaborated on this. The IRS permitted an automobile dealership with multiple franchises and locations to combine all new automobiles in one pool and all new light-duty trucks in a separate pool. (For a discussion of this LTR, see *LIFO Lookout*, June 1999, page 8.)

Finally, what is more troubling is the IRS' conclusion in LTR 200603027 that, "... [T]he scope of a taxpayer's LIFO election must include all items that fall within its pools. Though Reg. Sec. 1.472-8 does not explicitly link the scope of the taxpayer's LIFO election and the method of pooling selected by the taxpayer ('linkage'), *we believe that the LIFO method will not clearly reflect income without this linkage.*" (For a discussion of this LTR, see *LIFO Lookout*, September 2006, page 12.)

LTR 200603027 concluded, "... [W]e believe that a taxpayer using the dollar-value LIFO method elects to use the method for a pool of items rather than for the individual items assigned to that pool. Thus, for the dollar-value LIFO method to clearly reflect income, the method must be used for all items that fall within a taxpayer's dollar-value pools."

**Query:** What impact will "separate trades or businesses" and "linkage" interpretations have on dealerships using IPIC only for new vehicles?



## A Summary of the IPIC Method

Part V, IPIC taxpayers indicate (1) whether they are using the Double-Extension IPIC Method or the Link-Chain IPIC Method, (2) which BLS table they are electing to use, (3) whether they are electing to use "the 10 percent method" and (4) the representative month selected. However, the Regulations require that additional information in connection with an IPIC election must be submitted.

The IPIC Regulations require that the information shown in the box (see *IPIC Info Required*) must be submitted, and not all of this is included on the face of Form 970 (or referred to in the Instructions to Form 970):

The Form 970 must be attached to the taxpayer's income tax return for the taxable year when the IPIC Method is first adopted. This applies in the case of a taxpayer who is permitted to adopt the IPIC Method without first requesting the IRS Commissioner's consent.

A taxpayer may change to the IPIC Method, typically without first securing the Commissioner's consent, by filing Form 3115... *Application for Change in Accounting Method* ... and attaching a copy of the information required by Form 970.

(Continued from page 9)

### IPIC INFO REQUIRED

- **A complete list of dollar-value pools (including a description of the items in each dollar-value pool),**
- The BLS table (i.e., CPI or PPI) selected for each dollar-value pool,
- The representative month, if applicable, elected for each dollar-value pool,
- **The BLS categories to which the items in each dollar-value pool will be assigned,**
- **The method of assigning items to BLS categories for each dollar-value pool, and**
- The method of computing the IPI (i.e., Double-Extension IPIC Method or Link-Chain IPIC Method) for each dollar-value pool.

Finally, as is the case with other LIFO methods, taxpayers electing to use the IPIC Method must maintain adequate books and records. These records should include all calculations and information supporting the taxpayer's valuation of its inventory under the IPIC Method, including the BLS CPI or PPI table data that was used in computing the inventory price change index for each pool. \*

## EXAMPLES IN THE IPIC REGULATIONS ... & SOME EMBELLISHMENTS OF OUR OWN

The IPIC Regulations contain examples of IPIC computations under the two alternative methods: (1) the Double-Extension IPIC Method for the first and the second year and (2) the Link-Chain IPIC Method, also for the first and the second years.

**First year - Same result under both methods.** Regarding the first year under the IPIC Method, the Link-Chain IPIC Method and the Double-Extension IPIC Method yield the same results for the first taxable year. Therefore, for the link-chain method, only the second year (2002) calculations are shown. These examples from the Regulations are presented on the following pages (with minor editing and/or deletions only for clarification purposes).

**Making the Examples a little more user-friendly.** We have added sections to each of the examples included in the Regulations to show (1) the computation of the LIFO reserve for the year and (2) the proof/reconciliation of the change in the LIFO reserve for that year. These computations do not appear in the Regulation examples. They have been added to show that the general proof and reconciliation techniques illustrated over the years in various articles in the *LIFO Lookout* can be applied just as readily to LIFO calculations under the IPIC Method.

- **Double-Extension IPIC Method ... first year (2001).....** Pages 18-19
- **Double-Extension IPIC Method ... second year (2002).....** Pages 20-21
- **Link-Chain IPIC Method ... second year (2002).....** Pages 22-23
- **Auto Dealership Calculation under the Link-Chain IPIC Method .....** Pages 24-25

Difference in LIFO Reserves at End of Second Year	Differences in Methods at End of Second Year	LIFO Reserves	Cumulative Indexes
	Link-Chain IPIC Method... (Page 23)	35,315.45	1.03979956
	Double-Extension IPIC Method ... (Page 21)	34,153.44	1.03852044
	Excess of LIFO reserve using link-chain	<u>1,162.01</u>	
	Difference in cumulative indexes	(A)	0.00127912
	Beginning-of-year inventory in second year, expressed in base dollars	(B)	<u>908,355.80</u>
	Difference in LIFO reserves	(AxB)	<u>1,161.90</u>

**IPIC  
Example #1**

**DOUBLE-EXTENSION IPIC METHOD ... FIRST YEAR (2001)**

**Reg. Sec. 1.472-8(e)(3)(iii)(E)(3) ... Example 1(i)-(vi)**

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**First Year**

**Facts**

- **(i) Introduction...** R is a retail furniture merchant that does not use the retail method.
- For the taxable year ending December 31, 2000, R used the First-In, First-Out method of identifying inventory and valued its inventory at cost.
- The total cost of R's inventory on December 31, 2000 was \$850,000.
- R elected to use the dollar-value LIFO and the **double-extension IPIC** methods for 2001.
  - ♦ R does not elect to use the "10 percent method." [Reg. Sec. 1.472-8(e)(3)(iii)(C)(2)]
  - ♦ R determines the current-year cost of the items using the actual cost of the most recently purchased goods.
- R elected to pool its inventory based on the major groups in Table 6 of the monthly "PPI Detailed Report." All items in R's inventory fall within the 2-digit commodity code in Table 6 of the monthly "PPI Detailed Report" for "furniture and household durables."
  - ♦ Therefore, R will maintain a single dollar-value LIFO pool.

**Selection of  
Month & Table**

**(Step 1)**

- **(ii) Select a BLS table and an appropriate month for 2001...** R determines that the appropriate month for 2001 is October.
  - ♦ R also determines that the appropriate month for 2000 would have been December if R had used the IPIC method for that year.
    - This makes the December 2000 index data the data against which all future years' indexes will be compared and derived.
    - As such, December 2000 would be the equivalent of the base date (i.e., the first day of the first LIFO year) under a double-extension, non-IPIC method.
  - ♦ Note: In the second year part of this example, at (vii), the appropriate month for the second year is November.

**Assign Inventory  
Items to BLS  
Categories for  
2001**

**(Step 2)**

- **(iii)...** For 2001, R assigns all items in the dollar-value pool to the most-detailed BLS categories listed in Table 6 of the October 2001 "PPI Detailed Report" that contain those items, as follows:

Commodity Code	Category	Current-Year Cost
12120101	Living Room Table	\$ 111,924.00
12120211	Dining Room Table	159,578.00
12120216	Dining Room Chairs	98,639.00
12130101	Upholstered Sofas	332,488.00
12130111	Upholstered Chairs	218,751.00
Total		<u>\$ 921,380.00</u>

**Compute  
Category  
Inflation Indexes  
for 2001**

**(Step 3)**

- **(iv)...** Because R elected to use the double-extension IPIC method, and because R did not elect the 10 percent method, the category inflation indexes are computed in accordance with Reg. Sec. 1.472-8(e)(3)(iii)(D)(3)(ii)... as follows:

Category	(III) Category Inflation Index:		
	(I) Oct. 2001 Index	(II) Dec. 2000 Index	(I) / (II)
Living Room Table	172.4	169.2	1.018913
Dining Room Table	171.9	168.1	1.022606
Dining Room Chairs	172.8	169.7	1.018268
Upholstered Sofas	142.2	140.9	1.009226
Upholstered Chairs	134.1	132.5	1.012075



**IPIC  
Example #1**

**DOUBLE-EXTENSION IPIC METHOD ... FIRST YEAR (2001)**  
**Reg. Sec. 1.472-8(e)(3)(iii)(E)(3) ... Example 1(i)-(vi)**

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**Compute IPI  
for 2001  
(Step 4)**

- (v)... R must compute the IPI for 2001, which is the weighted harmonic mean of the category inflation indexes for 2001.
  - ♦ The formula for the weighted harmonic mean is computed in accordance with Reg. Sec. 1.472-8(e)(3)(iii)(E)(1) ... as follows:
  - ♦ [Sum of Weights/Sum of (Weight/Category Inflation Index)]

Category	(I) Weight	(II) Category Inflation Index	(III) Quotient: (I) / (II)
Living Room Table	\$ 111,924.00	1.018913	\$ 109,846.47
Dining Room Table	159,578.00	1.022606	156,050.33
Dining Room Chairs	98,639.00	1.018268	96,869.39
Upholstered Sofas	332,488.00	1.009226	329,448.51
Upholstered Chairs	218,751.00	1.012075	216,141.10
Total	<u>\$ 921,380.00 *</u>		<u>\$ 908,355.80 **</u>

(IV) Sum of Weights	(V) Sum of (Weight / Category Inflation Index)	(VI) Inventory Price Index: (IV) / (V)
<u>\$ 921,380.00 *</u>	<u>\$ 908,355.80 **</u>	<u>1.01433821</u>

**Determine the  
LIFO Value of  
the Dollar-Value  
Pool for 2001**

- (vi) **Determine the LIFO value of the dollar-value pool for 2001** ... The example describes this calculation in a narrative text. This narrative text translates into the computational format below:

(A) End-of-year inventory at current cost	921,380.00		
(B) Inventory Price Index (IPI) for 2001	<u>1.01433821</u>		
(C) End-of-year inventory at base year cost	<u>908,355.80</u>	(A/B)	908,355.80
(D) Beginning-of-year inventory at base year cost		(D)	<u>850,000.00</u>
(E) Increment (Layer) for the current year (i.e., the base year cost of the 2001 increment)		(C-D)	58,355.80
(F) Inventory Price Index (IPI) for 2001		(B)	<u>1.01433821</u>
(G) LIFO value of the 2001 layer		(ExB)	<u>59,192.52</u>
(H) LIFO valuation of end of year inventory		(D+G)	<u>909,192.52</u>

**Additional Information ... Demystifying LIFO ... Proofs & Reconciliations**

**LIFO  
Reserve**

(I) End-of-year inventory at current cost	(A)	921,380.00
(H) LIFO valuation of end-of-year inventory	(H)	<u>909,192.52</u>
(K) LIFO reserve at end of year		<u>12,187.48</u>

**Change in  
LIFO Reserve  
for the Year**

Beginning-of-year inventory at base year cost	(D)	850,000.00
Inflation rate for current year [(B) - 1.0000]	(B)	<u>0.01433821</u>
Change in LIFO reserve for current year	(DxB)	<u>12,187.48 *</u>

- \* **Composition of the LIFO Reserve at year end.** Since this is the first year of the IPIC LIFO election, the composition of the LIFO reserve at the end of the year is the same as the change in the LIFO reserve for the year. (Base inventory of \$850,000 multiplied by the current-year inflation rate.)



**IPIC  
Example #2**

**DOUBLE-EXTENSION IPIC METHOD ... SECOND YEAR (2002)**

**Reg. Sec. 1.472-8(e)(3)(iii)(E)(3) ... Example 1(vii)-(xi)**

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**Second Year**

**Selection of  
Month & Table**

**(Step 1)**

- This example of the calculations for 2002 continues the fact pattern from the previous example.
- **(vii) Select a BLS table and appropriate month for 2002...**
  - ♦ For 2002, R must compute a new IPI under the double-extension IPIC method to determine the LIFO value of its dollar-value pool.
  - ♦ R determines that the appropriate month for 2002 is November.
    - The appropriate month selected for this year (November) is different from the appropriate month selected for the previous year (October).
- The time span over which inflation is initially computed/measured in the second year under this double-extension example is 23 months (From December 2000 through November 2002).

**Assign Inventory  
Items to BLS  
Categories for  
2002**

**(Step 2)**

Commodity Code	Category	Current-Year Cost
12120103	Living Room Desks	\$ 125,008.00
12120211	Dining Room Table	136,216.00
12120216	Dining Room Chairs	113,569.00
12130101	Upholstered Sofas	343,900.00
12130111	Upholstered Chairs	233,050.00
Total		<u>\$ 951,743.00</u>

**Compute  
Category  
Inflation Indexes  
for 2002**

**(Step 3)**

- **(ix)...** Because R uses the double-extension IPIC method and because R did not elect the 10 percent method, the category inflation indexes are computed in accordance with Reg. Sec. 1.472-8(e)(3)(iii)(D)(3)(ii) ... as follows:

- ♦ BLS price indexes for **November 2002** divided by BLS price indexes for **December 2000**.

Category	(I) Nov. 2002 Index	(II) Dec. 2000 Index	(III) Category Inflation Index: (I) / (II)
Living Room Desks	172.6	160.3	1.076731
Dining Room Table	174.8	168.1 *	1.039857
Dining Room Chairs	177.0	169.7 *	1.043017
Upholstered Sofas	144.9	140.9 *	1.028389
Upholstered Chairs	136.6	132.5 *	1.030943

\* Note: These are the same figures from the first year data for these categories.

**Compute IPI  
for 2002**

**(Step 4)**

- **(x)...** R must compute the IPI for 2002, which is the weighted harmonic mean of the category inflation indexes for 2002.
  - ♦ The formula for the weighted harmonic mean is computed as follows ...
  - ♦ Sum of Weights/Sum of (Weight/Category Inflation Index)

Category	(I) Weight	(II) Category Inflation Index	(III) Quotient: (I) / (II)
Living Room Desks	\$ 125,008.00	1.076731	\$ 116,099.56
Dining Room Table	136,216.00	1.039857	130,994.93
Dining Room Chairs	113,569.00	1.043017	108,885.09
Upholstered Sofas	343,900.00	1.028389	334,406.53
Upholstered Chairs	233,050.00	1.030943	226,055.17
Total	<u>\$ 951,743.00 *</u>		<u>\$ 916,441.28 **</u>

Note: Calculation of IPI for 2002 continues at the top of Page 2 of 2



IPIC Example #2		DOUBLE-EXTENSION IPIC METHOD ... SECOND YEAR (2002) Reg. Sec. 1.472-8(e)(3)(iii)(E)(3) ... Example 1(vii)-(xi)				Page 2 of 2
Compute IPI for 2002  (continued)	Continuation of calculation of IPI for 2002 ...					
	(IV) Sum of Weights \$ 951,743.00 *	(V) Sum of (Weight / Category Inflation Index) \$ 916,441.28 **	(VI) Inventory Price Index: (IV) / (V) 1.03852044			
Determine the LIFO Value of the Dollar-Value Pool for 2002	(xi) Determine the LIFO value of the dollar-value pool for 2002 ... The example describes this calculation in a narrative text. This narrative text translates into the computational format below:					
	(A) End-of-year inventory at current cost	951,743.00				
	(B) Inventory Price Index (IPI) for 2002	1.03852044				
	(C) End-of-year inventory at base year cost	916,441.28	(A/B)	916,441.28		
	(D) Beginning-of-year inventory at base year cost		(D)	908,355.80		
	(E) Increment (Layer) for the current year (i.e., the base year cost of the 2002 increment)		(C-D)	8,085.48		
	(F) Inventory Price Index (IPI) for 2002		(B)	1.03852044		
	(G) LIFO value of the 2002 layer		(ExB)	8,396.94		
	(H) LIFO valuation of 2002 end of year inventory					
	Base date inventory (2001 beginning of year)			850,000.00		
	2001 layer - at LIFO value			59,192.52		
	2002 layer - at LIFO value			8,396.94		
	Total			917,589.46		
Additional Information ... Demystifying LIFO ... Proofs & Reconciliations						
LIFO Reserve	(I) End-of-year inventory at current cost		(A)	951,743.00		
	(H) LIFO valuation of end-of-year inventory		(H)	917,589.46		
	(K) LIFO reserve at end of second year (2002)			34,153.54		
	(L) LIFO reserve at end of first year (2001)			12,187.48		
	(M) Increase in LIFO reserve for current year (2002)		(K-L)	21,966.06		
Change in LIFO Reserve for the Year	Proof of change/increase in LIFO reserve for calendar year 2002					
	Beginning-of-year inventory at base year cost		(D)	908,355.80		
	Inflation rate (IPI for 2002) [(B) - 1.0000]	0.03852044	(B)			
	Inflation rate for 2001 [(prior year) - 1.0000]	0.01433821				
	(N) Effective inflation rate for current year	0.02418223		0.02418223		
	Change in LIFO reserve for current year		(DxN)	21,966.07		
Composition of the LIFO Reserve at year end	Composition of the LIFO reserve at December 31, 2002					
	Base date inventory (2001 beginning of year)	850,000.00 *				
	Inflation rate (IPI for 2002) [(B) - 1.0000]	0.03852044				
	LIFO reserve attributable to base inventory	32,742.37	(O)	32,742.37		
	2001 layer/increment at base year cost	58,355.80 *				
	Effective inflation rate for current year	0.02418223	(N)			
	LIFO reserve attributable to 2001 layer	1,411.17	(P)	1,411.17		
	LIFO reserve at end of current year (2002)		(O+P)	34,153.54		
* Note: In this reconciliation, the layers of ending inventory at Dec. 31, 2002 are expressed in base dollar equivalents, not at their LIFO valuations. The 2002 layer of increment (\$8,085.48) does not contribute to the LIFO reserve because its LIFO valuation is determined by the cumulative index at the end of the year.						



IPIC Example #3	LINK-CHAIN IPIC METHOD ... SECOND YEAR (2002) Reg. Sec. 1.472-8(e)(3)(iii)(E)(3) ... Example 2(i)-(vi)			Page 1 of 2																												
Second Year  Selection of Month & Table  (Step 1)	<ul style="list-style-type: none"><li><b>Facts are identical.</b> Except that the taxpayer has elected to use the <i>Link-Chain IPIC Method</i>, all of the facts are identical to the facts in the example of the first year calculations under the double-extension IPIC method.</li><li><b>First year results are identical under both methods.</b> For the first year under the link-chain method, the computations under the link-chain method would produce the same result as those under the double-extension IPIC method.<ul style="list-style-type: none"><li>See detail computations for Example #1 on pages 18-19.</li><li>Therefore, only the second year (2002) computations under the link-chain method are provided.</li></ul></li><li><b>(ii) Select a BLS table and appropriate month for 2002.</b><ul style="list-style-type: none"><li>The taxpayer determines that <i>November</i> is the appropriate month for 2002.</li></ul></li></ul>																															
Assign Inventory Items to BLS Categories for 2002  (Step 2)	<ul style="list-style-type: none"><li><b>(iii)...</b> For 2002, R assigns all items in the dollar-value pool to the most-detailed BLS categories listed in Table 6 of the November 2002 "PPI Detailed Report" that contain those items. The BLS categories and the current-year cost of the items assigned to them are ...</li></ul> <table><thead><tr><th>Commodity Code</th><th>Category</th><th>Current-Year Cost</th></tr></thead><tbody><tr><td>12120103</td><td>Living Room Desks</td><td>\$ 125,008.00</td></tr><tr><td>12120211</td><td>Dining Room Table</td><td>136,216.00</td></tr><tr><td>12120216</td><td>Dining Room Chairs</td><td>113,569.00</td></tr><tr><td>12130101</td><td>Upholstered Sofas</td><td>343,900.00</td></tr><tr><td>12130111</td><td>Upholstered Chairs</td><td>233,050.00</td></tr><tr><td>Total</td><td></td><td><u>\$ 951,743.00</u></td></tr></tbody></table>				Commodity Code	Category	Current-Year Cost	12120103	Living Room Desks	\$ 125,008.00	12120211	Dining Room Table	136,216.00	12120216	Dining Room Chairs	113,569.00	12130101	Upholstered Sofas	343,900.00	12130111	Upholstered Chairs	233,050.00	Total		<u>\$ 951,743.00</u>							
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Compute Category Inflation Indexes for 2002  (Step 3)	<ul style="list-style-type: none"><li><b>(iv)...</b> Because R uses the link-chain IPIC method and did not elect the 10 percent method, the category inflation indexes are computed in accordance with Reg. Sec. 1.482-8(e)(3)(iii)(D)(3)(iii) ... as follows:<ul style="list-style-type: none"><li>BLS price indexes for November 2002 divided by BLS price indexes for October 2001.</li></ul></li></ul> <table><thead><tr><th>Category</th><th>(I) Nov. 2002 Index</th><th>(II) Oct. 2001 Index</th><th>(III) Category Inflation Index: (I) / (II)</th></tr></thead><tbody><tr><td>Living Room Desks</td><td>172.6</td><td>162.0</td><td>1.065432</td></tr><tr><td>Dining Room Table</td><td>174.8</td><td>171.9</td><td>1.016870</td></tr><tr><td>Dining Room Chairs</td><td>177.0</td><td>172.8</td><td>1.024306</td></tr><tr><td>Upholstered Sofas</td><td>144.9</td><td>142.2</td><td>1.018987</td></tr><tr><td>Upholstered Chairs</td><td>136.6</td><td>134.1</td><td>1.018643</td></tr></tbody></table>				Category	(I) Nov. 2002 Index	(II) Oct. 2001 Index	(III) Category Inflation Index: (I) / (II)	Living Room Desks	172.6	162.0	1.065432	Dining Room Table	174.8	171.9	1.016870	Dining Room Chairs	177.0	172.8	1.024306	Upholstered Sofas	144.9	142.2	1.018987	Upholstered Chairs	136.6	134.1	1.018643				
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Compute IPI for 2002  (Step 4)	<ul style="list-style-type: none"><li><b>(v)...</b> R must compute the IPI for 2002 by multiplying the weighted harmonic mean of the category inflation indexes for 2002 by the IPI for 2001 ... as follows:</li></ul> <table><thead><tr><th>Category</th><th>(I) Weight</th><th>(II) Category Inflation Index</th><th>(III) Quotient: (I) / (II)</th></tr></thead><tbody><tr><td>Living Room Desks</td><td>\$ 125,008.00</td><td>1.065432</td><td>\$ 117,330.81</td></tr><tr><td>Dining Room Table</td><td>136,216.00</td><td>1.016870</td><td>133,956.16</td></tr><tr><td>Dining Room Chairs</td><td>113,569.00</td><td>1.024306</td><td>110,874.09</td></tr><tr><td>Upholstered Sofas</td><td>343,900.00</td><td>1.018987</td><td>337,492.04</td></tr><tr><td>Upholstered Chairs</td><td>233,050.00</td><td>1.018643</td><td>228,784.77</td></tr><tr><td>Total</td><td><u>\$ 951,743.00</u></td><td></td><td><u>\$ 928,437.87</u></td></tr></tbody></table>				Category	(I) Weight	(II) Category Inflation Index	(III) Quotient: (I) / (II)	Living Room Desks	\$ 125,008.00	1.065432	\$ 117,330.81	Dining Room Table	136,216.00	1.016870	133,956.16	Dining Room Chairs	113,569.00	1.024306	110,874.09	Upholstered Sofas	343,900.00	1.018987	337,492.04	Upholstered Chairs	233,050.00	1.018643	228,784.77	Total	<u>\$ 951,743.00</u>		<u>\$ 928,437.87</u>
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Note: Calculation of IPI for 2002 continues at the top of Page 2 of 2																																





IPIC Example #3		LINK-CHAIN IPIC METHOD ... SECOND YEAR (2002) Reg. Sec. 1.472-8(e)(3)(iii)(E)(3) ... Example 2(i)-(vi)				Page 2 of 2																																																											
Compute IPI for 2002  (Step 4)  (continued)	<table><thead><tr><th>(IV) Sum of Weights</th><th>(V) Sum of (Weight / Category Inflation Index)</th><th>(VI) Weighted Harmonic Mean of Category Inflation Indexes for 2002: (IV) / (V)</th><th>(VII) Inventory Price Index for 2001</th><th>(VIII) Inventory Price Index for 2002: (VI) x (VII)</th></tr></thead><tbody><tr><td>\$ 951,743.00</td><td>\$ 928,437.87</td><td>1.02510144</td><td>1.01433821</td><td>1.03979956</td></tr></tbody></table>					(IV) Sum of Weights	(V) Sum of (Weight / Category Inflation Index)	(VI) Weighted Harmonic Mean of Category Inflation Indexes for 2002: (IV) / (V)	(VII) Inventory Price Index for 2001	(VIII) Inventory Price Index for 2002: (VI) x (VII)	\$ 951,743.00	\$ 928,437.87	1.02510144	1.01433821	1.03979956																																																		
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\$ 951,743.00	\$ 928,437.87	1.02510144	1.01433821	1.03979956																																																													
Determine the LIFO Value of the Dollar-Value Pool for 2002	<ul style="list-style-type: none"><li>(vi) Determine the LIFO value of the dollar-value pool for 2002 ... The example describes this calculation in a narrative text. This narrative text translates into the computational format below:<table><tbody><tr><td>(A) End-of-year inventory at current cost</td><td>951,743.00</td><td></td><td></td><td></td></tr><tr><td>(B) Inventory Price Index (IPI) for 2002</td><td>1.03979956</td><td></td><td></td><td></td></tr><tr><td>(C) End-of-year inventory at base year cost</td><td>915,313.91</td><td>(A/B)</td><td></td><td>915,313.91</td></tr><tr><td>(D) Beginning-of-year inventory at base year cost</td><td></td><td>(D)</td><td></td><td>908,355.80</td></tr><tr><td>(E) Increment (Layer) for the current year (i.e., the base year cost of the 2002 increment)</td><td></td><td>(C-D)</td><td></td><td>6,958.11</td></tr><tr><td>(F) Inventory Price Index (IPI) for 2002</td><td></td><td>(B)</td><td></td><td>1.03979956</td></tr><tr><td>(G) LIFO value of the 2002 layer</td><td></td><td>(ExB)</td><td></td><td>7,235.04</td></tr><tr><td>(H) LIFO valuation of 2002 end of year inventory</td><td></td><td></td><td></td><td></td></tr><tr><td>Base date inventory (2001 beginning of year)</td><td></td><td></td><td></td><td>850,000.00</td></tr><tr><td>2001 layer - at LIFO value</td><td></td><td></td><td></td><td>59,192.52</td></tr><tr><td>2002 layer - at LIFO value</td><td></td><td></td><td></td><td>7,235.04</td></tr><tr><td>Total</td><td></td><td></td><td></td><td>916,427.56</td></tr></tbody></table></li></ul>					(A) End-of-year inventory at current cost	951,743.00				(B) Inventory Price Index (IPI) for 2002	1.03979956				(C) End-of-year inventory at base year cost	915,313.91	(A/B)		915,313.91	(D) Beginning-of-year inventory at base year cost		(D)		908,355.80	(E) Increment (Layer) for the current year (i.e., the base year cost of the 2002 increment)		(C-D)		6,958.11	(F) Inventory Price Index (IPI) for 2002		(B)		1.03979956	(G) LIFO value of the 2002 layer		(ExB)		7,235.04	(H) LIFO valuation of 2002 end of year inventory					Base date inventory (2001 beginning of year)				850,000.00	2001 layer - at LIFO value				59,192.52	2002 layer - at LIFO value				7,235.04	Total				916,427.56
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LIFO Reserve	<table><tbody><tr><td>(I) End-of-year inventory at current cost</td><td>(A)</td><td>951,743.00</td></tr><tr><td>(H) LIFO valuation of end-of-year inventory</td><td>(H)</td><td>916,427.56</td></tr><tr><td>(K) LIFO reserve at end of second year (2002)</td><td></td><td>35,315.44</td></tr><tr><td>(L) LIFO reserve at end of first year (2001)</td><td></td><td>12,187.48</td></tr><tr><td>(M) Increase in LIFO reserve for current year (2002)</td><td>(K-L)</td><td>23,127.96</td></tr></tbody></table>					(I) End-of-year inventory at current cost	(A)	951,743.00	(H) LIFO valuation of end-of-year inventory	(H)	916,427.56	(K) LIFO reserve at end of second year (2002)		35,315.44	(L) LIFO reserve at end of first year (2001)		12,187.48	(M) Increase in LIFO reserve for current year (2002)	(K-L)	23,127.96																																													
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Change in LIFO Reserve for the Year	<ul style="list-style-type: none"><li>Proof of change/increase in LIFO reserve for calendar year 2002<table><tbody><tr><td>Beginning-of-year inventory at base year cost</td><td>(D)</td><td>908,355.80</td></tr><tr><td>Inflation rate (IPI for 2002) [(B) - 1.0000]</td><td>(B)</td><td></td></tr><tr><td>Inflation rate for 2001 [(prior year) - 1.0000]</td><td></td><td></td></tr><tr><td>(N) Effective inflation rate for current year</td><td></td><td>0.02546135</td></tr><tr><td>Change in LIFO reserve for current year</td><td>(DxN)</td><td>23,127.96</td></tr></tbody></table></li></ul>					Beginning-of-year inventory at base year cost	(D)	908,355.80	Inflation rate (IPI for 2002) [(B) - 1.0000]	(B)		Inflation rate for 2001 [(prior year) - 1.0000]			(N) Effective inflation rate for current year		0.02546135	Change in LIFO reserve for current year	(DxN)	23,127.96																																													
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Composition of the LIFO Reserve at year end	<ul style="list-style-type: none"><li>Composition of the LIFO reserve at December 31, 2002<table><tbody><tr><td>Base date inventory (2001 beginning of year)</td><td>850,000.00</td><td>*</td><td></td></tr><tr><td>Inflation rate (IPI for 2002) [(B) - 1.0000]</td><td>0.03979956</td><td></td><td></td></tr><tr><td>LIFO reserve attributable to base inventory</td><td>33,829.63</td><td>(O)</td><td>33,829.63</td></tr><tr><td>2001 layer/increment at base year cost</td><td>58,355.80</td><td>*</td><td></td></tr><tr><td>Effective inflation rate for current year</td><td>0.02546135</td><td>(N)</td><td></td></tr><tr><td>LIFO reserve attributable to 2001 layer</td><td>1,485.82</td><td>(P)</td><td>1,485.82</td></tr><tr><td>LIFO reserve at end of current year (2002)</td><td>(O+P)</td><td></td><td>35,315.45</td></tr></tbody></table></li></ul>					Base date inventory (2001 beginning of year)	850,000.00	*		Inflation rate (IPI for 2002) [(B) - 1.0000]	0.03979956			LIFO reserve attributable to base inventory	33,829.63	(O)	33,829.63	2001 layer/increment at base year cost	58,355.80	*		Effective inflation rate for current year	0.02546135	(N)		LIFO reserve attributable to 2001 layer	1,485.82	(P)	1,485.82	LIFO reserve at end of current year (2002)	(O+P)		35,315.45																																
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<p>* Note: In this reconciliation, the layers of ending inventory at Dec. 31, 2002 are expressed in base dollar equivalents, not at their LIFO valuations. The 2002 layer of increment (\$6,958.11) does not contribute to the LIFO reserve because its LIFO valuation is determined by the cumulative index at the end of the year.</p>																																																																	



**Overview**

- **Example of IPIC calculation format for an auto dealership.** This example is entirely of our own making. It is intended to show the format for a dealership using the *Link-Chain* IPIC Method. The first year (2001) is the first year of the IPIC LIFO election.
- **Inflation rates** reflected for the category indexes have not been taken from any real BLS tables. They have been made up simply for illustrative purposes. A discussion of whether these BLS categories and corresponding indexes should be selected from the CPI or from the PPI is not relevant to the objective of this example (i.e., illustration of the computational format).
- **Pooling.** Do not infer from the composition of the LIFO pool in this example that the IRS agrees with the inclusion of only new vehicles in the IPIC LIFO pool. There are many possible combinations of dealership inventories for pooling purposes, as discussed in the accompanying articles.
- **Sample calculation format** is based on Reg. Sec. 1.472-8(e)(3)(iii)(E)(3) ... (See pages 22-23).
  - ♦ The step-by-step analyses have been consolidated for easier reference.
  - ♦ Proofs and reconciliations have been included for both years' calculations.

**Facts**

Commodity Code	Category	First Year - 2001			Second Year - 2002	
		Inventory Costs		Category Inflation Index *	Inventory Costs	
		Beginning of Year	End of Year		End of Year	Category Inflation Index *
141101	Passenger Cars (New)	\$ 1,500,000	\$ 2,000,000	1.02000000	\$ 2,200,000	1.01500000
141105	Trucks under 14,000 lbs (New)	2,500,000	2,750,000	1.03000000	3,000,000	1.02500000
		<u>4,000,000</u>	<u>4,750,000</u>		<u>5,200,000</u>	

\* **Category inflation index** represents inflation for the year determined by dividing the index for the appropriate month at year end by the corresponding index for the appropriate (same) month in the prior year. Assume December-to-December comparison here.

**Computation of Category Inflation Indexes for First Year ... 2001**

First Year - 2001				Computation of Inventory Price Index (IPI) Step 4	
Commodity Code	Category	Current Cost - End of Year	Category Inflation Index *	Weight Same as (A)	Quotient (A / B)
		(A)	(B)		
141101	Passenger Cars (New)	\$ 2,000,000	1.02000000	\$ 2,000,000	\$ 1,960,784
141105	Trucks under 14,000 lbs (New)	2,750,000	1.03000000	2,750,000	2,669,903
		<u>4,750,000</u>		<u>4,750,000</u>	<u>4,630,687</u>
				**	***

\* This is Step 3 ... **Category inflation index** represents inflation for the year determined by dividing the index for the appropriate month at year end by the corresponding index for the appropriate (same) month in the prior year. Assume December-to-December comparisons here.

\*\* Sum of Weights

\*\*\* Sum of (Weight divided by category inflation index)

Weighted harmonic mean of category inflation indexes for 2001 (\$4,750,000 / 4,630,687) equals	1.02576567	(C)
Inventory Price Index (IPI) for prior year. (2001 is initial LIFO year ... BOY index is 1.0000)	1.00000000	(D)
Inventory Price Index (IPI) for 2001. (Weighted inflation rate for 2001 = approx. 2.5+%)	1.02576567	(E = C x D)



**IPIC  
Example #4**

**AUTO DEALERSHIP SAMPLE LINK-CHAIN IPIC METHOD CALCULATION**

Page 2 of 3

**Determination  
of the  
LIFO Value of  
the Pool for  
First Year -  
2001**

(A) End-of-year inventory at current cost	4,750,000.00		
(B) Inventory Price Index (IPI) for 2001	<u>1.02576567</u>		
(C) End-of-year inventory at base year cost	<u>4,630,687.24</u>	(A/B)	4,630,687.24
(D) Beginning-of-year inventory at base year cost		(D)	<u>4,000,000.00</u>
(E) Increment (Layer) for the current year (i.e., the base year cost of the 2001 increment)		(C-D)	630,687.24
(F) Inventory Price Index (IPI) for 2001		(B)	<u>1.02576567</u>
(G) LIFO value of the 2001 layer		(ExB)	<u>646,937.32</u>
(H) LIFO valuation of end of year inventory		(D+G)	<u>4,646,937.32</u>

**Computation of Category Inflation Indexes for Second Year ... 2002**

Second Year - 2002				Computation of Inventory Price Index (IPI) Step 4	
Commodity Code	Category	Current Cost - End of Year	Category Inflation Index *	Weight Same as (A)	Quotient (A / B)
		(A)	(B)		
141101	Passenger Cars (New)	\$ 2,200,000	1.01500000	\$ 2,200,000	\$ 2,167,488
141105	Trucks under 14,000 lbs (New)	<u>3,000,000</u>	1.02500000	<u>3,000,000</u>	<u>2,926,829</u>
		<u>5,200,000</u>		<u>5,200,000</u>	<u>5,094,317</u>
				**	***

\* This is Step 3 ... **Category inflation index** represents inflation for the year determined by dividing the index for the appropriate month at year end by the corresponding index for the appropriate (same) month in the prior year. Assume December-to-December comparisons here.

\*\* Sum of Weights

\*\*\* Sum of (Weight divided by category inflation index)

Weighted harmonic mean of category inflation indexes for 2002 (\$5,200,000 / 5,094,317) equals	1.02074528	(C)
Inventory Price Index (IPI) for prior year. (2001 IPI, per 2001 computation)	1.02576567	(D)
Inventory Price Index (IPI) for 2002. (Weighted inflation rate for 2001 = approx. 2.5+%)	1.04704547	(E = C x D)

**Determination  
of the  
LIFO Value of  
the Pool for  
Second Year -  
2002**

(A) End-of-year inventory at current cost	5,200,000.00		
(B) Inventory Price Index (IPI) for 2002	<u>1.04704547</u>		
(C) End-of-year inventory at base year cost	<u>4,966,355.47</u>	(A/B)	4,966,355.47
(D) Beginning-of-year inventory at base year cost		(D)	<u>4,630,687.24</u>
(E) Increment (Layer) for the current year (i.e., the base year cost of the 2002 increment)		(C-D)	335,668.23
(F) Inventory Price Index (IPI) for 2002		(B)	<u>1.04704547</u>
(G) LIFO value of the 2002 layer		(ExB)	<u>351,459.90</u>
(H) LIFO valuation of 2002 end of year inventory			
Base date inventory (2001 beginning of year)			4,000,000.00
2001 layer - at LIFO value			646,937.32
2002 layer - at LIFO value			<u>351,459.90</u>
Total			<u>4,998,397.22</u>

**See Page 56 for Proofs & Reconciliations of LIFO Reserves & Annual Changes for Both Years**



**Practice  
Guide  
Checklist**

**CONSIDERATIONS IN EVALUATING THE  
USE OF THE IPIC (INVENTORY PRICE INDEX COMPUTATION) METHOD  
IN AUTO DEALERSHIP LIFO CALCULATIONS**

Page 1 of 4

<p><b>What Inventories Are on IPIC?</b></p> <p><b>What Inventories Are Not?</b></p>	<ul style="list-style-type: none"> <li>• Which of the dealership's inventories are on IPIC LIFO? <table border="0"> <tr> <td></td> <td align="center"><u>On IPIC</u></td> <td align="center"><u>Not On IPIC</u></td> </tr> <tr> <td>♦ New vehicles _____</td> <td align="center"><input type="checkbox"/></td> <td align="center"><input type="checkbox"/></td> </tr> <tr> <td>♦ Used vehicles _____</td> <td align="center"><input type="checkbox"/></td> <td align="center"><input type="checkbox"/></td> </tr> <tr> <td>♦ Parts &amp; Accessories _____</td> <td align="center"><input type="checkbox"/></td> <td align="center"><input type="checkbox"/></td> </tr> <tr> <td>♦ Tires _____</td> <td align="center"><input type="checkbox"/></td> <td align="center"><input type="checkbox"/></td> </tr> <tr> <td>♦ Other _____</td> <td align="center"><input type="checkbox"/></td> <td align="center"><input type="checkbox"/></td> </tr> </table> </li> </ul>		<u>On IPIC</u>	<u>Not On IPIC</u>	♦ New vehicles _____	<input type="checkbox"/>	<input type="checkbox"/>	♦ Used vehicles _____	<input type="checkbox"/>	<input type="checkbox"/>	♦ Parts & Accessories _____	<input type="checkbox"/>	<input type="checkbox"/>	♦ Tires _____	<input type="checkbox"/>	<input type="checkbox"/>	♦ Other _____	<input type="checkbox"/>	<input type="checkbox"/>
	<u>On IPIC</u>	<u>Not On IPIC</u>																	
♦ New vehicles _____	<input type="checkbox"/>	<input type="checkbox"/>																	
♦ Used vehicles _____	<input type="checkbox"/>	<input type="checkbox"/>																	
♦ Parts & Accessories _____	<input type="checkbox"/>	<input type="checkbox"/>																	
♦ Tires _____	<input type="checkbox"/>	<input type="checkbox"/>																	
♦ Other _____	<input type="checkbox"/>	<input type="checkbox"/>																	
<p align="center"><b>Pooling</b></p>	<ul style="list-style-type: none"> <li>• What pooling arrangement has been elected in connection with the IPIC Method? <ul style="list-style-type: none"> <li>♦ Single pool for new vehicles combining new cars and new light-duty trucks</li> <li>♦ Two pools ... one for new cars and one for new light-duty trucks (under 14,000 lbs.)</li> <li>♦ Single pool for all transportation inventories (new, used and parts)</li> <li>♦ Other _____</li> </ul> </li> <li>• Is the pooling method being used the one that the dealership actually elected to use on the Form 970?</li> <li>• Are the dealership's LIFO pools consistent with the IRS holding in LTR 200603027?</li> </ul>																		
<p align="center"><b>BLS Index Selection ... CPI vs. PPI</b></p>	<ul style="list-style-type: none"> <li>• Which BLS index ... and index categories ... has the dealership elected to use? <table border="0"> <tr> <td>♦ PPI Table 6 _____</td> <td>Index categories _____</td> </tr> <tr> <td>♦ CPI Table 3 _____</td> <td>Index categories _____</td> </tr> <tr> <td>♦ PPI Table 5 _____</td> <td>Index categories _____</td> </tr> <tr> <td>♦ Other _____</td> <td>Index categories _____</td> </tr> </table> </li> <li>• For the index categories being used for IPIC purposes, why was that specific index category selected? _____</li> <li>• Are any adjustments (arbitrary or judgmental) being made to these BLS indexes to reflect difference between the mix of goods in the IPIC pools and the mix of goods reflected in the specific index category selected? If "Yes," describe: _____</li> <li>• <b>Seasonally adjusted vs. Not seasonally adjusted indexes</b> <ul style="list-style-type: none"> <li>▪ Which data set is being used? _____</li> <li>▪ Why? _____</li> </ul> </li> <li>♦ <b>Preliminary vs. Final indexes</b></li> <li>♦ Which data set is being used? Why? _____</li> <li>♦ If the preliminary indexes are being used ... <ul style="list-style-type: none"> <li>▪ Are the LIFO indexes ever adjusted to reflect the final figures?</li> <li>▪ Have copies of the preliminary indexes been retained as part of the taxpayer's books and records?</li> </ul> </li> <li>♦ <b>Note:</b> Many taxpayers elect to use the preliminary indexes from the PPI because they cannot wait until the BLS later releases the final indexes for their reference month. This could create a documentation or substantiation problem because the BLS replaces preliminary index figures with final index figures once these final figures become available. (See discussion on page 8.)</li> <li>• <b>Reference month</b> ... What month was selected as the reference month used in connection with pulling off the data from the BLS table elected? _____ <ul style="list-style-type: none"> <li>♦ Alternatively, was an election made to designate an "appropriate" reference month? If "Yes," what month was designated? _____</li> </ul> </li> <li>• <b>Consistency in pulling off BLS indexes from year-to-year</b> <ul style="list-style-type: none"> <li>♦ Have we determined that all of the above selections have been consistently followed from year-to-year?</li> <li>♦ How has this consistency in application been documented?</li> </ul> </li> </ul>	♦ PPI Table 6 _____	Index categories _____	♦ CPI Table 3 _____	Index categories _____	♦ PPI Table 5 _____	Index categories _____	♦ Other _____	Index categories _____										
♦ PPI Table 6 _____	Index categories _____																		
♦ CPI Table 3 _____	Index categories _____																		
♦ PPI Table 5 _____	Index categories _____																		
♦ Other _____	Index categories _____																		
<p align="center"><b>Link-Chain vs. Double- Extension</b></p>	<ul style="list-style-type: none"> <li>• Which computation methodology below has the taxpayer elected? <table border="0"> <tr> <td><input type="checkbox"/> the <i>Link-Chain</i> IPIC Method</td> <td><input type="checkbox"/> the <i>Double-Extension</i> IPIC Method</td> </tr> </table> </li> <li>• How was this election made? When was it made? _____</li> <li>• Is the IPIC Method that was elected the same as the method that the dealership is currently using?</li> <li>• Have the inventory dollar amounts and category indexes been properly weighted each year?</li> <li>• Does the calculation of the pool index follow the format (requirements) of the example(s) in the Regs.?</li> <li>• For each year, do we have a reconciliation or proof of ... <ul style="list-style-type: none"> <li>♦ The composition of the LIFO reserve (by layer of increment) at the end of the year, and</li> <li>♦ The current-year change in the LIFO reserve?</li> </ul> </li> <li>• If the <i>Double-Extension</i> IPIC Method was elected (or is currently being used), has consideration been given to changing to the <i>Link-Chain</i> IPIC Method? _____ <ul style="list-style-type: none"> <li>♦ Generally, the Link-Chain IPIC Method would be the preferable method.</li> </ul> </li> </ul>	<input type="checkbox"/> the <i>Link-Chain</i> IPIC Method	<input type="checkbox"/> the <i>Double-Extension</i> IPIC Method																
<input type="checkbox"/> the <i>Link-Chain</i> IPIC Method	<input type="checkbox"/> the <i>Double-Extension</i> IPIC Method																		



**CONSIDERATIONS IN EVALUATING THE  
USE OF THE IPIC (INVENTORY PRICE INDEX COMPUTATION) METHOD  
IN AUTO DEALERSHIP LIFO CALCULATIONS**

Page 2 of 4

**Rates  
of  
Inflation  
or  
Deflation**

- For the IPIC LIFO pools, summarize below the inflation/deflation rates used.
  - ♦ The worksheets included with this checklist should be completed so that the inflation/deflation rates actually used in the calculations can be compared with the appropriate table amounts.
  - ♦ If PPI was selected, complete the *Worksheet for Comparison of Table 6 PPI Rates* ... Page 3 of 4.
  - ♦ If CPI was selected, complete the *Worksheet for Comparison of Table 3 CPI Rates* ... Page 4 of 4.
  - ♦ The accompanying worksheets may be used as summaries of the rates of inflation/deflation as calculated under the Inventory Price Index Computation (IPIC) LIFO Method by automobile dealerships per Reg. Sec. 1.472-8(e)(3). These worksheets reflect the final (as distinguished from preliminary) December data for the 15-year period from 1992 through 2006 corresponding to the years during which an election has been available to use the Alternative LIFO Method for new vehicles.
- Alternatively, summarize the data below...
 

*Pool #1 ... 2006* \_\_\_\_\_ *%*, *2005* \_\_\_\_\_ *%*, *2004* \_\_\_\_\_ *%*, *2003* \_\_\_\_\_ *%*, *2002* \_\_\_\_\_ *%*

*Pool #2 ... 2006* \_\_\_\_\_ *%*, *2005* \_\_\_\_\_ *%*, *2004* \_\_\_\_\_ *%*, *2003* \_\_\_\_\_ *%*, *2002* \_\_\_\_\_ *%*
- What years show significantly different results from the IPIC tables selected? \_\_\_\_\_

**20% Haircut  
... Pre-2001**

- Were the inflation (or deflation) rates from the BLS table selected reduced each year by 20% for all years prior to 2001? \_\_\_\_\_
  - ♦ This so-called 20% "haircut" was eliminated by the final Regulations effective for the years ending on or after December 31, 2001.

**Form 970  
and/or  
Form 3115 ...  
  
General  
Considerations**

- In what year was the election (or change) to use the IPIC method made? \_\_\_\_\_
- Was Form 970 and/or Form 3115 filed?
- Do we have copies of all Forms 970 and/or 3115 related to these IPIC elections?
- **IPIC elections made before 2001** ... If the dealership elected to use the IPIC Method before 2001, was Form 3115 filed when the IPIC Regulations were finalized in 2002 (effective for years after 2000)?
  - ♦ If so, for what year was Form 3115 filed? \_\_\_\_\_
  - ♦ What changes in IPIC LIFO methods were made by this filing? \_\_\_\_\_
- Has consideration been given to "separate trades or business" treatment to exclude certain inventories from IPIC? \_\_\_\_\_
- Are the elections with respect to each of these items (which are methods of accounting) clearly indicated on either the Form 970 or applicable Form 3115?
- **Inflationary/deflationary trends.** If the CPI or PPI indexes reflect deflationary trends, has consideration been given to either changing from the IPIC Method or terminating the LIFO election?

**Form 970 ...  
  
Information  
to Be Included  
with Form 970  
When Electing  
the IPIC Method**

- The most recent revision of Form 970 (Dec. 2005) contains a special section (Part V, on Page 2) in which taxpayers mark certain boxes to indicate some of the BLS elections that need to be made.
- In Part V of Form 970, IPIC taxpayers make four (4) elections ...
  1. Whether they are using the Double-Extension IPIC Method or the Link-Chain IPIC Method,
  2. Which BLS table they are electing to use,
  3. Whether they are electing to use "the 10 percent method" and
  4. The representative month selected.
- However, the Regulations require that additional information in connection with an IPIC election must be submitted ... And, not all of this information (see \* below) is included on the face of Form 970 (or referred to in the Instructions to Form 970) ... See Reg. Sec. 1.472-8(e)(3)(iv)(A).
  - ♦ **A complete list of dollar-value pools (including a description of the items in each dollar-value pool),\***
  - ♦ The BLS table (i.e., CPI or PPI) selected for each dollar-value pool,
  - ♦ The representative month, if applicable, elected for each dollar-value pool,
  - ♦ **The BLS categories to which the items in each dollar-value pool will be assigned,\***
  - ♦ **The method of assigning items to BLS categories for each dollar-value pool,\* and**
  - ♦ The method of computing the IPI (i.e., Double-Extension or Link-Chain).
- Has all of the required information concerning the IPIC sub-elections and pooling been submitted to the IRS? If not, have we considered the consequences? \_\_\_\_\_



**Pool #1  
New  
Automobiles**

Year	Passenger Cars PPI ... Table 6 Item 141101	
	Inflation (Deflation) Rate *	
	Current Year	Cumulative
1992*	0.6%	0.6%
1993*	3.3%	3.9%
1994*	2.1%	6.1%
1995*	1.7%	7.9%
1996*	-0.8%	7.0%
1997*	-2.6%	4.3%
1998*	0.5%	4.8%
1999*	1.2%	6.1%
2000*	-0.7%	5.4%
2001	-1.6%	3.7%
2002	-2.6%	0.9%
2003	2.0%	3.0%
2004	1.7%	4.8%
2005	-3.4%	1.3%
2006	-0.3%	0.9%
2007		

Insert Actual Rates Used & Compare Them with the PPI Results	
Inflation (Deflation) Rate	
Current Year	Cumulative

**Pool #2  
New  
Light-Duty  
Trucks**

Year	Trucks, 14,000 lbs & Under PPI ... Table 6 Item 141105	
	Inflation (Deflation) Rate *	
	Current Year	Cumulative
1992*	4.8%	4.8%
1993*	4.2%	9.2%
1994*	3.3%	12.8%
1995*	1.5%	14.5%
1996*	0.2%	14.8%
1997*	-3.6%	10.7%
1998*	1.0%	11.7%
1999*	0.3%	12.1%
2000*	1.8%	14.1%
2001	-3.3%	10.3%
2002	-3.6%	6.4%
2003	2.3%	8.8%
2004	1.0%	9.9%
2005	-5.9%	3.5%
2006	1.5%	5.0%
2007		

Insert Actual Rates Used & Compare Them with the PPI Results	
Inflation (Deflation) Rate	
Current Year	Cumulative

\* Rate shown is the rate before the 20% reduction required (by IPIC Regulations) for all years before 2000.







# NEED FOR IRS GUIDANCE TO REDUCE VARIATIONS IN LIFO COMPUTATIONS BY AUTO DEALERS ELECTING TO USE THE IPIC METHOD

WHAT  
DO YOU  
THINK?

To date, the IRS has provided no guidance on several critical technical interpretative issues involving auto dealerships electing to use the IPIC method.

At the present time, clarification of these issues would hardly seem to be a top priority because of the very modest levels of inflation computed under internal indexes (Alt. LIFO) and the near-deflation computed under external indexes (IPIC). However, in the future, should inflation become a significantly greater influence in our economy, clarifying these matters now would benefit both the IRS and automobile dealerships.

Some of these issues include ...

- May automobile dealerships use a hybrid approach that reflects (1) IPIC Method indexes taken from the BLS tables with (2) separate LIFO pools for new automobiles and for new light-duty trucks?
- Do the "separate trades or businesses" boundaries permit dealers that have elected to use the CPI or the PPI in connection with their IPIC calculations to exclude their used vehicles and/or parts and accessories inventories from LIFO?
- Should dealerships be required to use only the Producer Price Index results in their IPIC LIFO calculations?

**Under IPIC, there should be only one pool.** It is clear from the Regulations that, for automobile dealerships using the IPIC Method, there will be only one pool for new vehicles and that the index for that pool should be weighted by the respective carrying (actual) costs of the category indexes (i.e., new cars and new light-duty trucks). Currently, dealerships may derive their indexes from either the CPI or the PPI.

In practice, some dealerships using IPIC have more than one pool for new vehicles. They have adopted the pooling method permitted by the Alternative LIFO Method for New Vehicles (under Rev. Procs. 92-79 and 97-36) and before that by earlier Tax Court cases (*Fox Chevrolet*, etc.). In other words, in their IPIC calculations, these dealerships use two pools ... one pool for new automobiles (which may or may not include demonstrator vehicles) and a second, separate pool for new (light-duty) trucks.

The inflation indexes for each pool are then selected from either the CPI or the PPI and applied to

the respective pool dollar amounts. This hybrid IPIC variation is clearly not what is intended by the IPIC Regulations. In many instances, the IRS is totally unaware of this practice because the taxpayers or their tax returns have indicated that they are "using the IPIC Method," and the IRS agents typically make no further inquiries into whether or not the IPIC rules are being correctly applied.

In some auto dealer IPIC applications, used vehicle and parts and accessories inventories are not included on LIFO. If the dealership's IPIC election has been made using the Consumer Price Index Detailed Reports, the broad "transportation" category **might be** interpreted to require the inclusion of all inventories. If used vehicles can be excluded from the LIFO pool under these circumstances, that would permit dealers to use the lower-of-cost-or-market rules, and that would result in writedowns below cost at year-end for many used vehicles.

In this regard, several points should be noted. First, the IPIC Regulations anticipate and discuss that the IPIC Method may be applied to the inventories in "separate trades or businesses." But, exactly what this means or how it should be interpreted in an automobile dealership situation is debatable. Second, the discussion in Revenue Procedure 84-97 (that seems to suggest to some practitioners that a single pool could be used for all of the dealerships' inventory) was obsoleted when the final Regulations were enacted by Treasury Decision 8976.

Third, it appears from the discussion in Revenue Procedure 97-36 (referring to auto dealership pooling under the IPIC Method in Section 2.04(2)) that a single pool could be established "for new automobiles and new trucks under the major category of the applicable Government price index published by the BLS," (citing Reg. Sec. 1.472-8(e)(3)(iv) and Rev. Proc. 84-57) ... however, no mention is made in this discussion of how the dealership's other inventories would be treated for pooling purposes. Also note that Rev. Proc. 84-57 was made obsolete when the Regulations were finalized.

Is this two-pool approach for new vehicles under the IPIC Method used by auto dealers acceptable to the IRS? In TAM 200603027, the IRS expressed a position which could be interpreted to prohibit selective LIFO elections, and this could prohibit the two

→



## Need for IRS Guidance

pool approach mentioned above for dealerships and/or the exclusion of other dealership inventories. (See *LIFO Lookout*, Sept. 2006, page 12).

### CPI vs. PPI

As retailers, auto dealerships that elect to use the IPIC Method are currently permitted to (elect to) use either Table 3 of the Consumer Price Index (CPI) Detailed Report or Table 6 of the Producer Price Index (PPI) Detailed Report.

There are significant differences between how data is collected and what data is included in the formulation of each of these BLS reports. It is true that the effect of imported goods on price/cost changes is excluded from the PPI (and it is included in the CPI). However, over the past decade or so, the increasing globalization and international operations of the major manufacturers have tended to make this difference (i.e., the exclusion of "imports") between the PPI and the CPI less significant than it might have been many years ago.

In the context of auto dealership LIFO calculations, the factors that the BLS considers in the compilation of the Producer Price Index appear to be more closely aligned to the factors that affect the inflation

(Continued)

(or deflation) experienced by automobile dealerships in the cost of their new vehicle inventories.

Although selecting between the PPI and the CPI indexes may have been appropriate in previous years, it is our opinion that, at the present time and under current circumstances, the use of the PPI Detailed Reports would result in price change indexes that come closer to satisfying the standard in the Regulations that indexes used and the corresponding inventory valuations should be those which more "clearly reflect income."

Accordingly, we believe that the present option to use the CPI indexes should be withdrawn from auto dealers who would elect to use the IPIC Method.

Finally, in the interest of reducing variations in practice by auto dealerships using the IPIC Method for their LIFO calculations, we believe that the IRS should publish a safe harbor "Alternative LIFO/IPIC Method for New Vehicles." This new Method could combine (1) the features of the Alternative LIFO Method in connection with the use of two pools and (2) the use of external indexes derived only from the appropriate PPI classifications. In addition, as part of its methodology, it could answer the other questions, as well. \*

Form **970**  
(Rev. December 2005)  
Department of the Treasury  
Internal Revenue Service

## Application To Use LIFO Inventory Method

► Attach to your tax return.

OMB No. 1545-0042

Attachment  
Sequence No. **122**

Name of filer (name of parent corporation if a consolidated group) (see instructions)

Filer's identification number (see instructions)

### Part V Inventory Price Index Computation (IPIC) Method

- 18** Check the box corresponding to the method the applicant will use to compute the LIFO value of each dollar-value pool containing goods covered by this election (see instructions).
- ☐ Double-extension IPIC method
- ☐ Link-chain IPIC method
- 19** Check the box corresponding to the table from which the applicant will select Bureau of Labor Statistics (BLS) price indexes (see instructions).
- ☐ Table 3 of the Consumer Price Index (CPI) Detailed Report
- ☐ Table 6 of the Producer Price Index (PPI) Detailed Report
- ☐ Other table of the PPI Detailed Report
- If the applicant will use "Other table of the PPI Detailed Report," attach a statement explaining why the other table is more appropriate than Table 6.
- 20** Will the applicant use the 10 percent method (see instructions)? . . . . . ☐ Yes ☐ No
- 21** If the applicant elects to use a representative month for selecting BLS price indexes from the applicable Detailed Report, enter the representative month elected for each dollar-value pool. ....  
See instructions and attach a statement if necessary.



# ALTERNATIVE LIFO vs. IPIC INFLATION INDEXES

## ... STUDY FINDINGS

**ALT. LIFO  
vs. BLS**

Tables A, B, C and D summarize the data collected for use in the time periods selected for comparing the inflation indexes under various IPIC LIFO Methods with "one-of-each-item-category" inflation indexes which have been computed under the Alternative LIFO Method approach which compares dealer base costs on corresponding year-end new vehicle invoices.

Tables E and F display the data for the most recent 7-year period which has been selected as the best means of conveying these findings. This data is summarized in the bar charts on the following pages.

Tables G, H and I show the results for the 7, 5 and 3-year time periods, respectively.

### ALT. LIFO BEATS IPIC ... HANDS DOWN

*These results of this study show that the cumulative inflation rates and indexes computed under the approach permitted by the Alternative LIFO Method greatly exceed the inflation indexes computed for the corresponding periods which would be derived from either Table 6 of the Producer Price Index (PPI) Reports or from Table 3 of the Consumer Price Index (CPI) Reports.*

In fact, the BLS indexes reflect **cumulative deflation** over almost all of the time periods analyzed.

Assuming relatively constant levels of inventory investment, these tables clearly show that dealerships using the Alternative LIFO Method (instead of IPIC) for their new vehicle inventories would be significantly better off in all cases. The cumulative inflation indexes ... and most LIFO reserves ... for dealerships computed under the Alternative LIFO Method would be materially and significantly greater than those computed by dealerships using either the PPI or the CPI.

There are a number of different ways that a dealership using the IPIC LIFO Method might pool its new vehicle inventory and select (and possibly weigh) the applicable indexes. As a result, a more generalized comparison of the differences under these methods (for example, in terms of hypothetical dollar amounts of LIFO reserves) would seem to be too speculative to pursue.

In recent years, dealerships that might have elected to use the IPIC method (in all likelihood) might have been strongly tempted to terminate their LIFO elections ... because of the deflationary and/or very low inflation indexes that they would have to use under either the PPI or the CPI. Saturn in 2005 would be the only exception that comes readily to mind.

### HOW TO READ THE RESULTS FOR ANY SPECIFIC MAKE

**Chevrolet ... Pool #1.** Using **Chevrolet** as an example, Table G shows that, for the 7-year period ending with 2006, the cumulative inflation index under the one-of-each-item-category **SuperLIFO™** database used in connection with the Alternative LIFO Method for Pool #1, New Automobiles, would have reflected **inflation** of almost 13% (12.63%).

For the corresponding 7-year time period, the applicable PPI Table 6 would have reflected cumulative **deflation** of slightly less than 5% (-4.86%) ... a difference of 18 percentage points. Alternatively, for the same 7-year period, the applicable CPI Table 3 would have reflected cumulative **deflation** of slightly more than 2% (-2.28%) ... a difference of 15 percentage points.

**Chevrolet ... Pool #2.** Similarly, over the same 7-year time period, the cumulative index under the one-of-each-item-category **SuperLIFO™** database used in connection with the Alternative LIFO Method for Chevrolet's Pool #2, New Light-Duty Trucks, would have reflected **inflation** of 12% (11.99%).

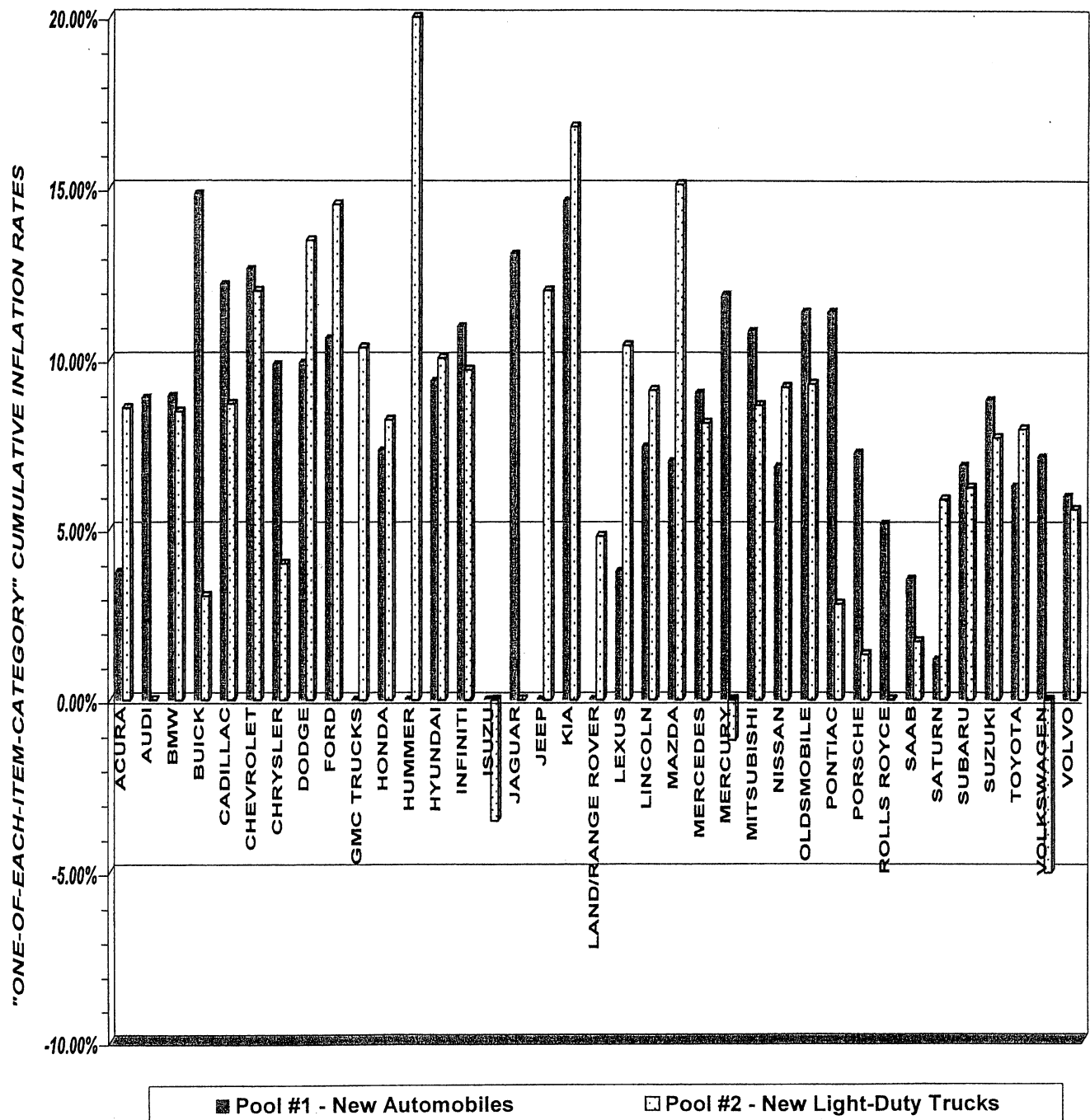
Correspondingly, the applicable PPI Table 6 would have reflected cumulative **deflation** of slightly more than 6% (-6.31%) ... a difference of 18 percentage points for that pool. Alternatively, for that same period, the applicable CPI Table 3 would have reflected cumulative **deflation** of almost 8% (-7.58%) ... a difference of almost 20 percentage points.

Table H shows the corresponding figures for all makes for the 5-year period 2002 through 2006, and Table I shows the corresponding figures for all makes for the 3-year period 2004-2006. Again, using **Chevrolet** as a reference, over the 5-year period indicated for Pool #1, New Automobiles, there is a difference of almost 10 percentage points between Alt. LIFO and PPI Table 6 (cumulative **inflation** of 7.05% versus cumulative **deflation** of -2.64%) and a difference of 10 percentage points between Alt. LIFO and CPI Table 3 (7.05% versus -2.56%).

Note that in the case of Chevrolet in the 5-year comparison, the differences are significantly greater in Pool #2, New Light-Duty Trucks ... in which case Alt. LIFO vs. PPI Table 6 shows a difference of 11 percentage points (cumulative **inflation** of 6.32% vs. cumulative **deflation** of -4.80%) and a difference of 13 percentage points in the case of comparing Alt. LIFO with CPI Table 3 results (cumulative **inflation** of 6.32% vs. cumulative **deflation** of -6.91%). ✱



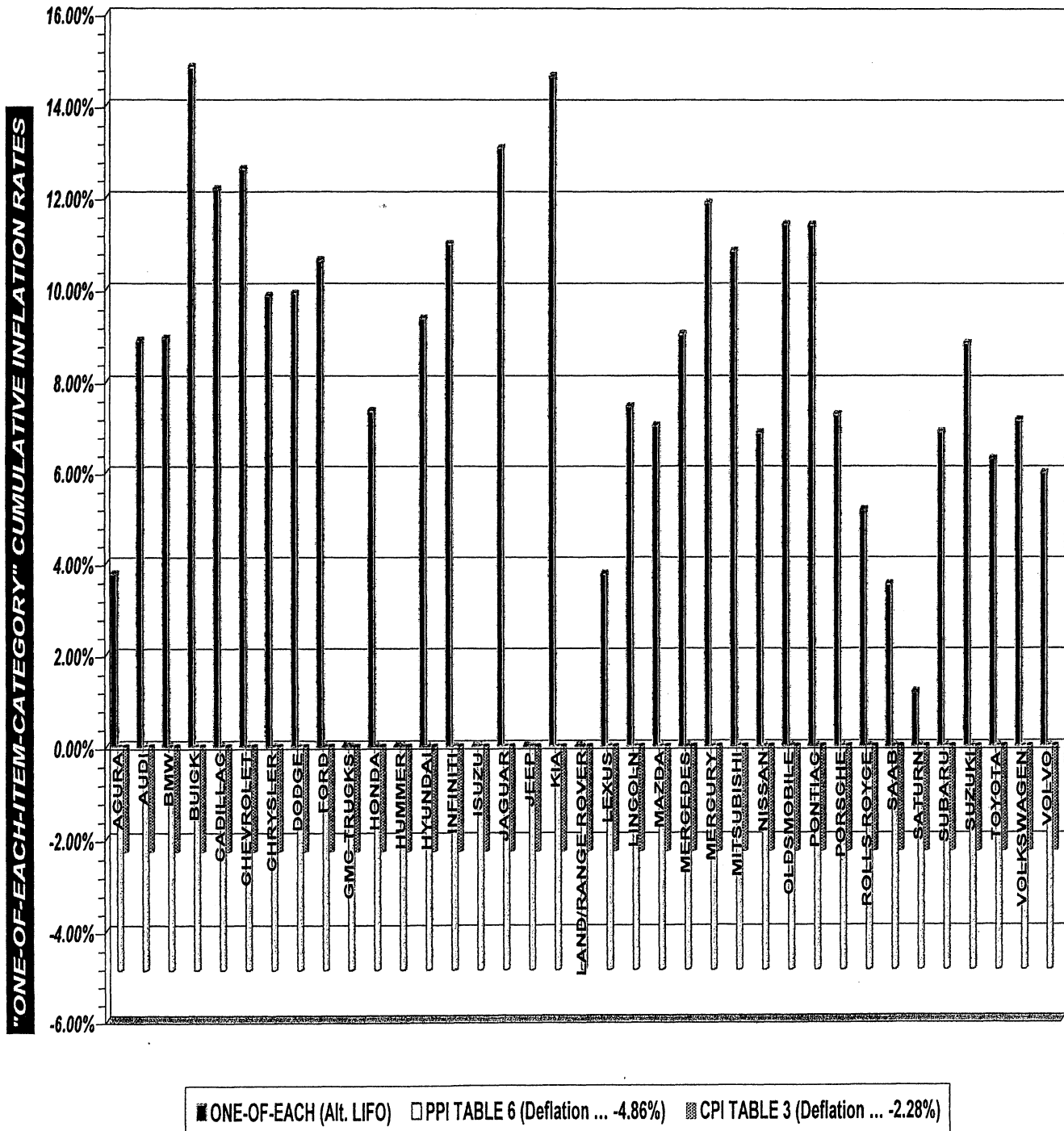
**POOL #1 ... NEW AUTOMOBILES & POOL #2 ... NEW LIGHT-DUTY TRUCKS**  
**CUMULATIVE INFLATION INDEXES FOR THE 7-YEAR PERIOD 2000 - 2006**



Source: De Filippis' *SuperLIFO*™



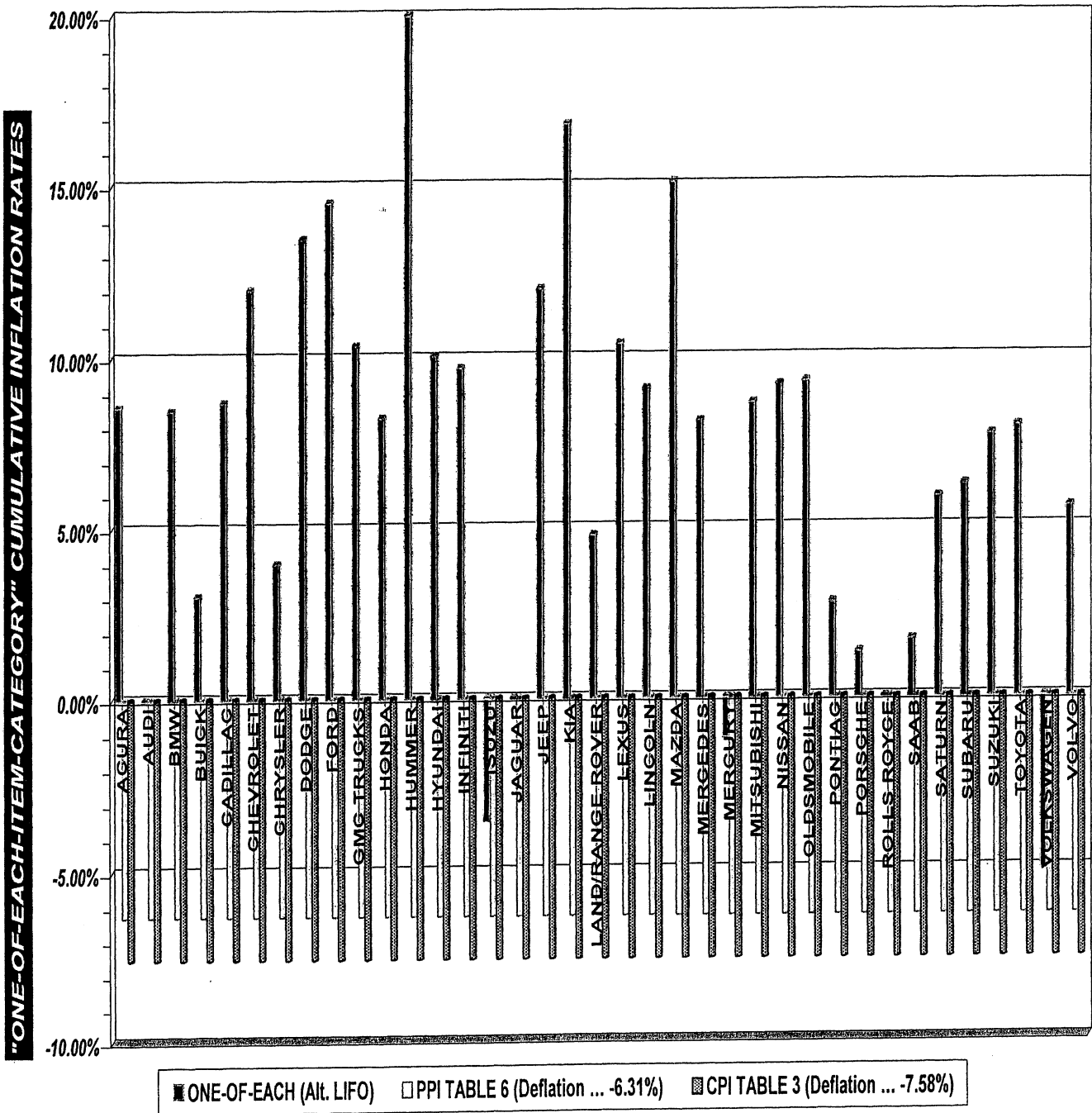
**POOL #1 ... NEW AUTOMOBILES**  
**CUMULATIVE INFLATION INDEXES FOR THE 7-YEAR PERIOD 2000 - 2006**



Source: De Filippis' *SuperLIFO*™



# POOL #2 ... NEW LIGHT-DUTY TRUCKS CUMULATIVE INFLATION INDEXES FOR THE 7-YEAR PERIOD 2000 - 2006



Source: De Filippis' *SuperLIFO*™



<i>Outline</i>	<i>REG. SEC. 1.472-8(e)(3) ... THE IPIC METHOD REGULATIONS</i>
<i>Reg. Sec. 1.472-8(e)(3)...</i>	<i>Inventory Price Index Computation (IPIC) Method</i>
<i>...(i)</i>	<i>In general</i>
<i>...(ii)</i>	<i>Eligibility</i>
<i>...(iii)</i>	<i>Computation of an inventory price index</i>
<i>...(iii) (A)</i>	• <i>In general</i>
<i>...(iii) (B)</i>	• <i>Selection of BLS table and appropriate month</i>
<i>...(iii) (B) (1)</i>	♦ <i>In general</i>
<i>...(iii) (B) (2)</i>	♦ <i>BLS table selection</i>
<i>...(iii) (B) (3)</i>	♦ <i>Appropriate month</i>
<i>...(iii) (B) (4)</i>	♦ <i>Examples</i> <ul style="list-style-type: none"> <li>▪ #1 ... <i>Determining an appropriate month</i></li> <li>▪ #2 ... <i>Electing a representative month</i></li> <li>▪ #3 ... <i>Changing representative month</i></li> <li>▪ #4 ... <i>Changing representative month</i></li> <li>▪ #5 ... <i>Changing representative month</i></li> </ul>
<i>...(iii) (C)</i>	• <i>Assignment of inventory items to BLS categories</i>
<i>...(iii) (C) (1)</i>	♦ <i>In general</i>
<i>...(iii) (C) (2)</i>	♦ <i>10 percent method</i>
<i>...(iii) (C) (3)</i>	♦ <i>Change in method of accounting</i>
<i>...(iii) (D)</i>	• <i>Computation of a category inflation index</i>
<i>...(iii) (D) (1)</i>	♦ <i>In general</i>
<i>...(iii) (D) (2)</i>	♦ <i>BLS price indexes</i>
<i>...(iii) (D) (3)</i>	♦ <i>Category inflation index</i>
<i>...(iii) (D) (3) (i)</i>	▪ <i>In general</i>
<i>...(iii) (D) (3) (ii)</i>	▪ <i>Double-extension IPIC method</i>
<i>...(iii) (D) (3) (iii)</i>	▪ <i>Link-chain IPIC method</i>
<i>...(iii) (D) (3) (iv)</i>	▪ <i>Special rules concerning representative months</i>
<i>...(iii) (D) (4)</i>	♦ <i>Compound category inflation index for revised BLS categories or price indexes</i>
<i>...(iii) (D) (4) (i)</i>	▪ <i>In general</i>
<i>...(iii) (D) (4) (ii)</i>	▪ <i>Computation of compound category inflation index</i>
<i>...(iii) (D) (4) (iii)</i>	▪ <i>New base year</i>
<i>...(iii) (D) (4) (iv)</i>	▪ <i>Examples</i> <ul style="list-style-type: none"> <li>... #1 ... <i>BLS categories eliminated ... parts (i)-(viii)</i></li> <li>... #2 ... <i>BLS categories separated ... parts (i)-(vi)</i></li> </ul>
<i>...(iii) (D) (5)</i>	♦ <i>10 percent method</i>
<i>...(iii) (D) (5) (i)</i>	▪ <i>Applicability</i>
<i>...(iii) (D) (5) (ii)</i>	▪ <i>Determination of category inflation index</i>
<i>...(iii) (E)</i>	• <i>Computation of Inventory Price Index (IPI)</i>
<i>...(iii) (E) (1)</i>	♦ <i>Double-extension IPIC method</i>
<i>...(iii) (E) (2)</i>	♦ <i>Link-chain IPIC method</i>
<i>...(iii) (E) (3)</i>	♦ <i>Examples</i> <ul style="list-style-type: none"> <li>▪ #1 ... <i>Double-extension method ... parts (i)-(xi)</i></li> <li>▪ #2 ... <i>Link-chain method ... parts (i)-(vi)</i></li> </ul>
<i>...(iv)</i>	<i>Adoption or change of method</i>
<i>...(iv) (A)</i>	• <i>Adoption or change to IPIC method</i>
<i>...(iv) (B)</i>	• <i>New base year</i>
<i>...(iv) (B) (1)</i>	♦ <i>Voluntary change</i>
<i>...(iv) (B) (1) (i)</i>	▪ <i>In general</i>
<i>...(iv) (B) (1) (ii)</i>	▪ <i>Example ... parts (i)-(iv)</i>
<i>...(iv) (B) (2)</i>	♦ <i>Involuntary change</i>
<i>...(iv) (B) (2) (i)</i>	▪ <i>In general</i>
<i>...(iv) (B) (2) (ii)</i>	▪ <i>Simplified Transition Method</i>
<i>...(iv) (B) (2) (iii)</i>	▪ <i>Example ... parts (i)-(ix)</i>
<i>...(v)</i>	<i>Effective date</i>
<i>...(v) (A)</i>	• <i>In general</i>
<i>...(v) (B)</i>	• <i>Change in method of accounting</i>





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Dealership Considerations in Evaluating Alt. LIFO Method vs. the IPIC/BLS Method .....	<b>PG</b> ... December, 2006 ....	pg. 3
IRS Surprises & Disappoints IPIC Users Filing Consolidated Returns ... TAM 200603027 .....	September, 2006 ....	pg. 12
<i>IPIC LIFO Resource Guide for CPAs</i> ** .....	September, 2004 ....	pg. 24
Common LIFO Misconceptions .....	September, 2004 ....	pg. 26
Opportunities for CPAs to Improve Clients' LIFO Situations .....	<b>PG</b> ... September, 2004 ....	pg. 27
Advantages of Using the IPIC Method .....	<b>PG</b> ... September, 2004 ....	pg. 28
IPIC LIFO Success Stories .....	September, 2004 ....	pg. 29
Comparison of Current-Year LIFO Inflation Indexes Between Double-Extension and Link-Chain Methods .....	September, 2004 ....	pg. 31
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Evaluation of the Proposed Changes .....	September, 2000 ...	pg. 15
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**ALT. LIFO VS. IPIC RESULTS COMPARISON STUDY**  
**LISTING OF TABLES INCLUDED FOR SELECTED TIME PERIODS**

<b>Table</b>	<b>Page</b>	<b>Description</b>
<b>A</b>	<b>39</b>	<ul style="list-style-type: none"> <li>This table lists all makes and all <i>one-of-each-item-category</i> data (as updated through August 2007) from our SuperLIFO™ database for the 7-year period years ending December 31, 2000 through 2006.</li> <li>This table shows (in the 6 columns at the far right) the cumulative inflation factors for Pool #1 (New Automobiles) and Pool #2 (New Light-duty Trucks) over the 3, 5 and 7-year time periods.</li> </ul>
<b>B</b>	<b>40</b>	<ul style="list-style-type: none"> <li><b>Pool #1 ... New Autos ...</b> This table lists each make alphabetically, and shows only the information for Pool #1 (Autos) data taken from Table A. (10-column detail)</li> </ul>
<b>C</b>	<b>41</b>	<ul style="list-style-type: none"> <li><b>Pool #2 ... New Light-Duty Trucks ...</b> This table lists each make alphabetically and shows only the information for Pool #2 (Light-duty trucks) data taken from Table A. (10-column detail)</li> </ul>
<b>D</b>	<b>42</b>	<ul style="list-style-type: none"> <li><b>BLS Indexes ...</b> This summary table shows the relevant inflation/deflation rates for the 7-year time period 2000-2006 (from www.bls.gov) that would have been used if the IPIC Method application were elected.</li> <li>Since the IRS Regulations permit the use of data from either Table 6 of the PPI or Table 3 of the CPI, data from both BLS indexes have been reflected.</li> <li>This table also shows the cumulative inflation/deflation rates computed over the same 3, 5 and 7-year time periods.</li> <li>Since some readers may have elected LIFO for heavy-duty trucks, used vehicles and/or parts and accessories, data from Table 6 of the PPI and Table 3 of the CPI for these categories has also been included for reference purposes. However, none of this data is further commented on in this analysis.</li> </ul>
<b>E</b>	<b>43</b>	<ul style="list-style-type: none"> <li><b>Pool #1 ... New Autos ...</b> This table shows only the information for this pool that is shown in Table B. (10-column detail)</li> <li>In this table (E), the listing of makes is presented to reflect (in descending order) the various makes with the higher rates of inflation listed first, based on the cumulative inflation rate shown in the column headed "Cumulative 7 Years ... 2000-2006." In other words, Buick is listed first because it had the highest cumulative inflation rate (14.83%) for this time period.</li> <li>At the bottom of this table, the relevant 2 lines of data (from Table D pertaining to these cars from the PPI and the CPI Index tables) have been added for ease of comparison and reference.</li> </ul>
<b>F</b>	<b>44</b>	<ul style="list-style-type: none"> <li><b>Pool #2 ... New Light-Duty Trucks ...</b> This table shows only the information for this pool that is shown in Table C. (10-column detail)</li> <li>In this table (F), the listing of makes is presented to reflect (in descending order) the various makes with the higher rates of inflation listed first, based on the cumulative inflation rate shown in the column headed "Cumulative 7 Years ... 2000-2006." In other words, Hummer is listed first because it had the highest cumulative inflation rate (46.69%) for this time period.</li> <li>At the bottom of this table, the relevant 2 lines of data (from Table D pertaining to these trucks from the PPI and the CPI Index tables) have been added for ease of comparison and reference.</li> </ul>
<b>G</b>	<b>45</b>	<ul style="list-style-type: none"> <li><b>For the 7-Year Period 2000 - 2006 ... Side-by-Side Comparison of Cumulative Inflation.</b></li> <li>This table lists all makes (in alphabetical order) and, for Pools #1 and #2, permits comparison of their respective cumulative inflation rates as computed over 7 years ... <ul style="list-style-type: none"> <li>As computed under the one-of-each item category SuperLIFO™ database used in connection with the Alternative LIFO Method,</li> <li>As per Producer Price Index (PPI) Table 6 data (which might alternatively be used in connection with the IPIC Method), and/or</li> <li>As per Consumer Price Index (CPI) Table 3 data (which might alternatively be used in connection with the IPIC Method).</li> </ul> </li> </ul>
<b>H</b>	<b>46</b>	<ul style="list-style-type: none"> <li><b>For the 5-Year Period 2002 - 2006 ... Side-by-Side Comparison of Cumulative Inflation.</b></li> <li>This table is formatted identically with Table G, but it looks, instead, at the 5 consecutive years ending with 2006.</li> </ul>
<b>I</b>	<b>47</b>	<ul style="list-style-type: none"> <li><b>For the 3-Year Period 2004 - 2006 ... Side-by-Side Comparison of Cumulative Inflation.</b></li> <li>This table is formatted identically with Table G, but it looks, instead, at the 3 consecutive years ending with 2006.</li> </ul>



Table A

# **ALT. LIFO VS. IPIC RESULTS COMPARISON STUDY** *All Makes ... One-of-Each-Item-Category, as Determined under the Alternative LIFO Methodology*

**SUMMARY OF NEW VEHICLE INFLATION (DEFLATION) INDEXES BY MAKE - AS DETERMINED BY SUPERLIFO™**  
**MODEL / ITEM CATEGORY INFLATION SURVEY FOR QUICK, ONE-OF-EACH, YEAR-END LIFO RESERVE CHANGE ESTIMATES**  
**DEALER COST FOR THE CALENDAR YEARS-END INDICATED BELOW**

Description	2000		2001		2002		2003		2004		2005		2006	
	Model Years 2000-2001		Model Years 2001-2002		Model Years 2002-2003		Model Years 2003-2004		Model Years 2004-2005		Model Years 2005-2006		Model Years 2006-2007	
	Pool #1 New Autos	Pool #2 New Light-Duty Trucks	Pool #1 New Autos	Pool #2 New Light-Duty Trucks	Pool #1 New Autos	Pool #2 New Light-Duty Trucks	Pool #1 New Autos	Pool #2 New Light-Duty Trucks	Pool #1 New Autos	Pool #2 New Light-Duty Trucks	Pool #1 New Autos	Pool #2 New Light-Duty Trucks	Pool #1 New Autos	Pool #2 New Light-Duty Trucks
													%	%
ACURA	0.35%	0.00%	0.99%	2.03%	0.94%	1.68%	0.12%	1.78%	0.68%	1.75%	1.66%	1.08%	-1.02%	0.00%
AUDI	1.25%	0.00%	0.49%	0.00%	0.51%	0.00%	1.29%	0.00%	1.90%	0.00%	1.42%	0.00%	1.72%	0.00%
BMW	-0.28%	0.00%	0.93%	0.00%	2.63%	2.26%	0.39%	1.87%	2.62%	1.36%	0.90%	1.54%	1.46%	1.17%
BUICK	3.17%	0.00%	2.70%	0.00%	2.91%	2.50%	2.87%	0.94%	1.21%	1.08%	0.15%	-0.45%	1.00%	-1.04%
CADILLAC	1.08%	0.00%	3.01%	2.31%	2.70%	2.94%	2.13%	2.28%	0.94%	2.03%	0.67%	0.60%	1.09%	-1.69%
CHEVROLET	1.70%	1.32%	3.45%	3.96%	3.16%	3.12%	1.33%	2.43%	1.75%	1.85%	0.40%	1.07%	0.25%	-2.22%
CHRYSLER	1.83%	0.00%	-0.88%	1.02%	2.98%	4.47%	0.97%	1.47%	1.33%	-3.92%	1.28%	1.62%	2.00%	-0.55%
DODGE	2.90%	3.19%	1.69%	0.90%	1.56%	2.95%	1.72%	1.83%	0.67%	1.18%	-0.12%	1.24%	1.12%	1.48%
FORD	2.17%	3.99%	1.24%	1.90%	2.10%	2.13%	1.39%	1.90%	0.88%	2.36%	1.65%	2.10%	0.75%	-0.64%
GMC TRUCKS	0.00%	1.07%	0.00%	2.49%	0.00%	2.76%	0.00%	3.81%	0.00%	1.70%	0.00%	0.55%	0.00%	-2.34%
HONDA	0.88%	1.04%	1.59%	1.64%	0.19%	0.27%	1.09%	0.46%	0.89%	1.59%	1.39%	1.78%	1.10%	1.19%
HUMMER	0.00%	8.80%	0.00%	15.79%	0.00%	5.83%	0.00%	3.00%	0.00%	2.00%	0.00%	1.92%	0.00%	2.75%
HYUNDAI	0.76%	0.00%	1.52%	3.75%	0.68%	1.82%	3.54%	1.98%	-0.50%	1.01%	0.77%	0.89%	2.30%	0.24%
INFINITI	1.31%	0.00%	0.00%	0.00%	0.51%	1.71%	2.12%	0.00%	4.49%	0.98%	0.81%	1.92%	1.32%	4.80%
ISUZU	0.00%	1.47%	0.00%	4.22%	0.00%	-6.05%	0.00%	-3.58%	0.00%	0.53%	0.00%	-0.32%	0.00%	0.50%
JAGUAR	6.46%	0.00%	0.73%	0.00%	0.72%	0.00%	-0.12%	0.00%	0.69%	0.00%	2.13%	0.00%	1.83%	0.00%
JEEP	0.00%	4.05%	0.00%	-1.72%	0.00%	3.15%	0.00%	2.49%	0.00%	1.27%	0.00%	1.25%	0.00%	1.05%
KIA	0.02%	2.24%	0.61%	4.01%	5.83%	1.68%	2.36%	4.24%	0.78%	1.42%	2.41%	1.08%	1.89%	1.08%
LAND / RANGE ROVER	0.00%	0.65%	0.00%	0.36%	0.00%	0.01%	0.00%	-1.83%	0.00%	1.15%	0.00%	1.22%	0.00%	3.20%
LEXUS	0.52%	4.43%	0.85%	1.75%	0.66%	2.08%	-0.20%	0.66%	0.52%	1.57%	1.00%	1.60%	0.34%	-2.01%
LINCOLN	2.77%	5.06%	1.13%	1.45%	0.83%	0.00%	-0.32%	1.63%	1.48%	2.01%	0.78%	0.90%	0.58%	-2.15%
MAZDA	1.12%	2.22%	1.40%	3.61%	1.72%	1.61%	0.44%	4.35%	1.00%	1.28%	1.37%	0.91%	0.77%	0.29%
MERCEDES	0.57%	1.35%	1.34%	0.34%	1.47%	0.20%	1.59%	2.48%	1.38%	3.99%	1.85%	0.73%	0.50%	-1.14%
MERCURY	3.34%	1.27%	0.92%	-4.36%	1.53%	0.22%	1.75%	2.83%	1.33%	0.96%	1.31%	-0.38%	1.16%	-1.55%
MINI	0.47%	1.68%	2.09%	2.55%	0.51%	0.51%	0.71%	-1.06%	5.06%	2.70%	1.46%	0.72%	0.14%	1.31%
NISSAN	0.32%	2.14%	1.59%	0.01%	0.97%	1.88%	1.44%	1.62%	0.42%	0.71%	1.59%	1.52%	0.35%	0.99%
OLDSMOBILE	3.09%	3.86%	3.25%	0.59%	1.18%	2.17%	3.03%	1.99%	0.40%	0.39%	0.00%	0.00%	0.00%	0.00%
PONTIAC	1.97%	2.47%	3.63%	-0.65%	1.73%	0.63%	1.45%	-1.39%	2.07%	1.03%	-0.96%	1.63%	1.04%	-0.90%
PORSCHE	1.00%	0.00%	1.37%	0.00%	1.86%	0.00%	0.87%	0.00%	0.00%	0.88%	1.11%	0.44%	0.85%	0.00%
ROLLS ROYCE	0.28%	0.00%	2.08%	0.00%	0.00%	0.00%	0.00%	0.00%	2.73%	0.00%	0.00%	0.00%	0.00%	0.00%
SAAB	1.90%	0.00%	0.10%	0.00%	0.00%	0.00%	-0.14%	0.00%	1.57%	0.00%	-0.92%	0.00%	1.00%	1.70%
SATURN	-0.11%	0.00%	8.32%	0.00%	0.52%	1.20%	0.26%	3.88%	2.52%	2.35%	-11.48%	-3.31%	2.23%	1.78%
SUBARU	0.61%	0.73%	0.13%	0.01%	1.73%	0.00%	2.37%	1.92%	0.62%	1.73%	0.74%	1.23%	0.51%	0.48%
SUZUKI	1.17%	1.03%	1.59%	0.33%	0.00%	-2.01%	1.43%	2.57%	3.07%	5.20%	0.36%	-0.28%	0.92%	0.78%
TOYOTA	1.83%	3.42%	0.20%	0.32%	0.42%	0.64%	0.08%	0.43%	0.93%	1.09%	1.64%	1.32%	1.04%	0.52%
VOLKSWAGEN	-0.43%	0.00%	0.65%	-9.31%	2.17%	0.00%	2.51%	0.00%	1.75%	5.06%	1.07%	0.39%	-0.74%	-0.71%
VOLVO	1.28%	0.00%	2.06%	0.00%	-1.61%	0.00%	-0.22%	2.32%	0.30%	0.07%	1.99%	2.79%	2.09%	0.32%

Cumulative 7 Years (2000-2006)		Cumulative 5 Years (2002-2006)		Cumulative 3 Years (2004-2005-2006)	
Pool #1 New Autos	Pool #2 New Light-Duty Trucks	Pool #1 New Autos	Pool #2 New Light-Duty Trucks	Pool #1 New Autos	Pool #2 New Light-Duty Trucks
3.76%	8.58%	2.38%	6.42%	1.31%	2.85%
8.89%	0.00%	7.02%	0.00%	5.12%	0.00%
8.94%	8.47%	8.24%	8.47%	5.06%	4.13%
14.83%	3.03%	8.38%	3.03%	2.38%	-0.42%
12.19%	8.70%	7.74%	6.24%	2.72%	0.91%
12.63%	11.99%	7.05%	6.32%	2.41%	0.65%
9.86%	3.98%	8.84%	2.93%	4.68%	-2.90%
9.91%	13.46%	5.04%	8.98%	1.68%	3.95%
10.63%	14.51%	6.95%	8.07%	3.31%	3.84%
0.00%	10.35%	0.00%	6.53%	0.00%	-0.13%
7.35%	8.24%	4.74%	5.39%	3.42%	4.63%
0.00%	46.69%	0.00%	16.44%	0.00%	6.82%
9.38%	10.05%	6.93%	6.07%	2.57%	2.15%
10.98%	9.70%	9.55%	9.70%	6.73%	7.86%
0.00%	-3.52%	0.00%	-8.77%	0.00%	0.71%
13.08%	0.00%	5.45%	0.00%	4.82%	0.00%
0.00%	12.01%	0.00%	9.54%	0.00%	3.61%
14.63%	16.79%	13.92%	9.83%	5.16%	3.62%
0.00%	4.79%	0.00%	3.74%	0.00%	5.66%
3.74%	10.41%	2.34%	3.91%	1.87%	1.12%
7.45%	9.10%	3.39%	2.36%	2.86%	0.72%
7.02%	15.10%	4.37%	8.68%	3.17%	2.50%
9.02%	8.14%	6.97%	6.34%	3.77%	3.55%
11.89%	-1.17%	7.28%	2.04%	3.85%	-0.98%
10.83%	8.67%	8.05%	4.21%	6.74%	4.79%
6.86%	9.20%	4.86%	6.90%	2.37%	3.25%
11.40%	9.29%	4.66%	4.61%	0.40%	0.39%
11.39%	2.79%	5.42%	0.97%	2.14%	1.75%
7.27%	1.32%	4.77%	1.32%	1.97%	1.32%
5.16%	0.00%	2.73%	0.00%	2.73%	0.00%
3.53%	1.70%	1.50%	1.70%	1.64%	1.70%
1.17%	5.89%	-6.50%	5.89%	-7.23%	0.72%
6.89%	6.24%	6.10%	5.46%	1.88%	3.48%
8.83%	7.71%	5.89%	6.26%	4.39%	5.72%
6.29%	7.96%	4.17%	4.06%	3.65%	2.96%
7.14%	-5.03%	6.91%	4.72%	2.08%	4.72%
5.98%	5.59%	2.53%	5.59%	4.43%	3.19%

Source: De Filippi's SuperLIFO™

Table B

**ALT. LIFO vs. IPIC RESULTS COMPARISON STUDY**  
**Pool #1 - New Automobiles ... Each Make Listed Alphabetically**

**Pool #1 - New Automobiles**

SUMMARY OF NEW VEHICLE INFLATION (DEFLATION) INDEXES BY MAKE - AS DETERMINED BY SUPERLIFO™  
 MODEL / ITEM CATEGORY INFLATION SURVEY FOR QUICK, ONE-OF-EACH, YEAR-END LIFO RESERVE CHANGE ESTIMATES  
 DEALER COST FOR THE CALENDAR YEARS-END INDICATED BELOW

	2000	2001	2002	2003	2004	2005	2006	Cumulative 7 Years	Cumulative 5 Years	Cumulative 3 Years
Description	Model Years 2000-2001	Model Years 2001-2002	Model Years 2002-2003	Model Years 2003-2004	Model Years 2004-2005	Model Years 2005-2006	Model Years 2006-2007	(2000-2006)	(2002-2006)	(2004-2005- 2006)
							%			
ACURA	0.35%	0.99%	0.94%	0.12%	0.68%	1.66%	-1.02%	3.76%	2.38%	1.31%
AUDI	1.25%	0.49%	0.51%	1.29%	1.90%	1.42%	1.72%	8.89%	7.02%	5.12%
BMW	-0.28%	0.93%	2.63%	0.39%	2.62%	0.90%	1.46%	8.94%	8.24%	5.06%
BUICK	3.17%	2.70%	2.91%	2.87%	1.21%	0.15%	1.00%	14.83%	8.38%	2.38%
CADILLAC	1.08%	3.01%	2.70%	2.13%	0.94%	0.67%	1.09%	12.19%	7.74%	2.72%
CHEVROLET	1.70%	3.45%	3.16%	1.33%	1.75%	0.40%	0.25%	12.63%	7.05%	2.41%
CHRYSLER	1.83%	-0.88%	2.98%	0.97%	1.33%	1.28%	2.00%	9.86%	8.84%	4.68%
DODGE	2.90%	1.69%	1.56%	1.72%	0.67%	-0.12%	1.12%	9.91%	5.04%	1.68%
FORD	2.17%	1.24%	2.10%	1.39%	0.88%	1.65%	0.75%	10.63%	6.95%	3.31%
GMC TRUCKS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
HONDA	0.88%	1.59%	0.19%	1.09%	0.89%	1.39%	1.10%	7.35%	4.74%	3.42%
HUMMER	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
HYUNDAI	0.76%	1.52%	0.68%	3.54%	-0.50%	0.77%	2.30%	9.38%	6.93%	2.57%
INFINITI	1.31%	0.00%	0.51%	2.12%	4.49%	0.81%	1.32%	10.98%	9.55%	6.73%
ISUZU	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
JAGUAR	6.46%	0.73%	0.72%	-0.12%	0.69%	2.13%	1.93%	13.08%	5.45%	4.82%
JEEP	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
KIA	0.02%	0.61%	5.83%	2.36%	0.78%	2.41%	1.89%	14.63%	13.92%	5.16%
LAND / RANGE ROVER	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LEXUS	0.52%	0.85%	0.66%	-0.20%	0.52%	1.00%	0.34%	3.74%	2.34%	1.87%
LINCOLN	2.77%	1.13%	0.83%	-0.32%	1.48%	0.78%	0.58%	7.45%	3.39%	2.86%
MAZDA	1.12%	1.40%	0.72%	0.44%	1.00%	1.37%	0.77%	7.02%	4.37%	3.17%
MERCEDES	0.57%	1.34%	1.47%	1.59%	1.38%	1.85%	0.50%	9.02%	6.97%	3.77%
MERCURY	3.34%	0.92%	1.53%	1.75%	1.33%	1.31%	1.16%	11.89%	7.28%	3.85%
MITSUBISHI	0.47%	2.09%	0.51%	0.71%	5.06%	1.46%	0.14%	10.83%	8.05%	6.74%
NISSAN	0.32%	1.59%	0.97%	1.44%	0.42%	1.59%	0.35%	6.86%	4.86%	2.37%
OLDSMOBILE	3.09%	3.25%	1.18%	3.03%	0.40%	0.00%	0.00%	11.40%	4.66%	0.40%
PONTIAC	1.97%	3.63%	1.73%	1.45%	2.07%	-0.96%	1.04%	11.39%	5.42%	2.14%
PORSCHE	1.00%	1.37%	1.86%	0.87%	0.00%	1.11%	0.85%	7.27%	4.77%	1.97%
ROLLS ROYCE	0.28%	2.08%	0.00%	0.00%	2.73%	0.00%	0.00%	5.16%	2.73%	2.73%
SAAB	1.90%	0.10%	0.00%	-0.14%	1.57%	-0.92%	1.00%	3.53%	1.50%	1.64%
SATURN	-0.11%	8.32%	0.52%	0.26%	2.52%	-11.48%	2.23%	1.17%	-6.50%	-7.23%
SUBARU	0.61%	0.13%	1.73%	2.37%	0.62%	0.74%	0.51%	6.89%	6.10%	1.88%
SUZUKI	1.17%	1.59%	0.00%	1.43%	3.07%	0.36%	0.92%	8.83%	5.89%	4.39%
TOYOTA	1.83%	0.20%	0.42%	0.08%	0.93%	1.64%	1.04%	6.29%	4.17%	3.65%
VOLKSWAGEN	-0.43%	0.65%	2.17%	2.51%	1.75%	1.07%	-0.74%	7.14%	6.91%	2.08%
VOLVO	1.28%	2.06%	-1.61%	-0.22%	0.30%	1.99%	2.09%	5.98%	2.53%	4.43%

Source: De Filippis' SuperLIFO™



Table C

# **ALT. LIFO VS. IPIC RESULTS COMPARISON STUDY** **Pool #2 - New Light-Duty Trucks ... Each Make Listed Alphabetically**

## **Pool #2 - New Light-Duty Trucks**

SUMMARY OF NEW VEHICLE INFLATION (DEFLATION) INDEXES BY MAKE - AS DETERMINED BY SUPERLIFO™  
 MODEL / ITEM CATEGORY INFLATION SURVEY FOR QUICK, ONE-OF-EACH, YEAR-END LIFO RESERVE CHANGE ESTIMATES  
 DEALER COST FOR THE CALENDAR YEARS-END INDICATED BELOW

	2000	2001	2002	2003	2004	2005	2006	Cumulative 7 Years	Cumulative 5 Years	Cumulative 3 Years
Description	Model Years 2000-2001	Model Years 2001-2002	Model Years 2002-2003	Model Years 2003-2004	Model Years 2004-2005	Model Years 2005-2006	Model Years 2006-2007	(2000-2006)	(2002-2006)	(2004-2005- 2006)
							%			
ACURA	0.00%	2.03%	1.66%	1.78%	1.75%	1.08%	0.00%	8.58%	6.42%	2.85%
AUDI	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BMW	0.00%	0.00%	2.26%	1.87%	1.36%	1.54%	1.17%	8.47%	8.47%	4.13%
BUICK	0.00%	0.00%	2.50%	0.94%	1.08%	-0.45%	-1.04%	3.03%	3.03%	-0.42%
CADILLAC	0.00%	2.31%	2.94%	2.28%	2.03%	0.60%	-1.69%	8.70%	6.24%	0.91%
CHEVROLET	1.32%	3.96%	3.12%	2.43%	1.85%	1.07%	-2.22%	11.99%	6.32%	0.65%
CHRYSLER	0.00%	1.02%	4.47%	1.47%	-3.92%	1.62%	-0.55%	3.98%	2.93%	-2.90%
DODGE	3.19%	0.90%	2.95%	1.83%	1.18%	1.24%	1.48%	13.46%	8.98%	3.95%
FORD	3.99%	1.90%	2.13%	1.90%	2.36%	2.10%	-0.64%	14.51%	8.07%	3.84%
GMC TRUCKS	1.07%	2.49%	2.76%	3.81%	1.70%	0.55%	-2.34%	10.35%	6.53%	-0.13%
HONDA	1.04%	1.64%	0.27%	0.46%	1.59%	1.78%	1.19%	8.24%	5.39%	4.63%
HUMMER	8.80%	15.79%	5.83%	3.00%	2.00%	1.92%	2.75%	46.69%	16.44%	6.82%
HYUNDAI	0.00%	3.75%	1.82%	1.98%	1.01%	0.89%	0.24%	10.05%	6.07%	2.15%
INFINITI	0.00%	0.00%	1.71%	0.00%	0.98%	1.92%	4.80%	9.70%	9.70%	7.86%
ISUZU	1.47%	4.22%	-6.05%	-3.58%	0.53%	-0.32%	0.50%	-3.52%	-8.77%	0.71%
JAGUAR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
JEEP	4.05%	-1.72%	3.15%	2.49%	1.27%	1.25%	1.05%	12.01%	9.54%	3.61%
KIA	2.24%	4.01%	1.68%	4.24%	1.42%	1.08%	1.08%	16.79%	9.83%	3.62%
LAND / RANGE ROVER	0.65%	0.36%	0.01%	-1.83%	1.15%	1.22%	3.20%	4.79%	3.74%	5.66%
LEXUS	4.43%	1.75%	2.08%	0.66%	1.57%	1.60%	-2.01%	10.41%	3.91%	1.12%
LINCOLN	5.06%	1.45%	0.00%	1.63%	2.01%	0.90%	-2.15%	9.10%	2.36%	0.72%
MAZDA	2.22%	3.61%	1.61%	4.35%	1.28%	0.91%	0.29%	15.10%	8.68%	2.50%
MERCEDES	1.35%	0.34%	0.20%	2.48%	3.99%	0.73%	-1.14%	8.14%	6.34%	3.55%
MERCURY	1.27%	-4.36%	0.22%	2.83%	0.96%	-0.38%	-1.55%	-1.17%	2.04%	-0.98%
MITSUBISHI	1.68%	2.55%	0.51%	-1.06%	2.70%	0.72%	1.31%	8.67%	4.21%	4.79%
NISSAN	2.14%	0.01%	1.88%	1.62%	0.71%	1.52%	0.99%	9.20%	6.90%	3.25%
OLDSMOBILE	3.86%	0.59%	2.17%	1.99%	0.39%	0.00%	0.00%	9.29%	4.61%	0.39%
PONTIAC	2.47%	-0.65%	0.63%	-1.39%	1.03%	1.63%	-0.90%	2.79%	0.97%	1.75%
PORSCHE	0.00%	0.00%	0.00%	0.00%	0.88%	0.44%	0.00%	1.32%	1.32%	1.32%
ROLLS ROYCE	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SAAB	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.70%	1.70%	1.70%	1.70%
SATURN	0.00%	0.00%	1.20%	3.88%	2.35%	-3.31%	1.78%	5.89%	5.89%	0.72%
SUBARU	0.73%	0.01%	0.00%	1.92%	1.73%	1.23%	0.48%	6.24%	5.46%	3.48%
SUZUKI	1.03%	0.33%	-2.01%	2.57%	5.20%	-0.28%	0.78%	7.71%	6.26%	5.72%
TOYOTA	3.42%	0.32%	0.64%	0.43%	1.09%	1.32%	0.52%	7.96%	4.06%	2.96%
VOLKSWAGEN	0.00%	-9.31%	0.00%	0.00%	5.06%	0.39%	-0.71%	-5.03%	4.72%	4.72%
VOLVO	0.00%	0.00%	0.00%	2.32%	0.07%	2.79%	0.32%	5.59%	5.59%	3.19%

Source: De Filippis SuperLIFO™



Table D

# ALT. LIFO VS. IPIC RESULTS COMPARISON STUDY

## BLS Indexes

PRODUCER PRICE (PPI) & CONSUMER PRICE (CPI) INFLATION / DEFLATION INDEX RATES  
FOR USE WITH THE INVENTORY PRICE INDEX COMPUTATION (IPIC) LIFO METHOD  
BY AUTOMOBILE DEALERSHIPS ... PER REG. SEC. 1.472-8(e)(3)  
FOR THE CALENDAR YEARS 2000 - 2006

Description	2000 *	2001	2002	2003	2004	2005	2006	Cumulative 7 Years (2000-2006)	Cumulative 5 Years (2002-2006)	Cumulative 3 Years (2004-2006)
<b>PPI Indexes (Table 6)</b>										
Passenger Cars (New)	-0.7%	-1.6%	-2.6%	2.0%	1.7%	-3.4%	-0.3%	-4.86%	-2.64%	-1.97%
(141101)	0.9934	0.9837	0.9736	1.0201	1.0175	0.9664	0.9969	0.9514	0.9736	0.9803
Trucks (New) <= 14,000 lbs.	1.8%	-3.3%	-3.6%	2.3%	1.0%	-5.9%	1.5%	-6.31%	-4.80%	-3.44%
(141105)	1.0177	0.9672	0.9641	1.0226	1.0104	0.9415	1.0150	0.9369	0.9520	0.9656
Trucks (New) > 14,000 lbs.	0.7%	0.3%	4.3%	-1.9%	3.4%	5.3%	4.7%	17.79%	16.60%	13.99%
(141106)	1.0068	1.0034	1.0430	0.9807	1.0342	1.0527	1.0471	1.1779	1.1660	1.1399
Motor vehicle parts	-0.5%	-0.1%	-0.6%	-0.8%	0.9%	1.2%	3.0%	2.99%	3.62%	5.11%
(1412)	0.9947	0.9991	0.9938	0.9920	1.0090	1.0115	1.0299	1.0299	1.0362	1.0511
<b>CPI Indexes (Table 3)</b>										
New cars (45011)	0.3%	0.0%	-2.0%	-2.1%	0.5%	0.8%	0.2%	-2.28%	-2.56%	1.56%
	1.0029	1.0000	0.9801	0.9789	1.0052	1.0081	1.0022	0.9772	0.9744	1.0156
New trucks (45021)	-0.6%	-0.1%	-2.2%	-1.5%	0.5%	-1.9%	-2.0%	-7.58%	-6.91%	-3.35%
	0.9941	0.9987	0.9776	0.9852	1.0055	0.9810	0.9799	0.9242	0.9309	0.9665
Used cars & trucks (Seta02)	3.4%	-1.9%	-5.5%	-11.8%	4.8%	1.4%	-2.2%	-12.13%	-13.36%	3.97%
	1.0335	0.9813	0.9447	0.8822	1.0481	1.0138	0.9784	0.8787	0.8664	1.0397
Car & truck parts (48021)	1.4%	1.1%	2.3%	1.4%	0.4%	3.4%	4.8%	15.65%	12.85%	8.74%
	1.0138	1.0109	1.0234	1.0140	1.0043	1.0336	1.0475	1.1565	1.1285	1.0874

Source: Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)) ... Note: The indexes for 2000 have not been adjusted for the 20% IPIC Method reduction required for years prior to 2001. \*



Table E

# **ALT. LIFO VS. IPIC RESULTS COMPARISON STUDY** **Pool #1 - New Automobiles ... Makes Ranked by 7-Year Cumulative Inflation**

## **Pool #1 - New Automobiles**

SUMMARY OF NEW VEHICLE INFLATION (DEFLATION) INDEXES BY MAKE - AS DETERMINED BY SUPERLIFO™  
 MODEL / ITEM CATEGORY INFLATION SURVEY FOR QUICK, ONE-OF-EACH, YEAR-END LIFO RESERVE CHANGE ESTIMATES  
 DEALER COST FOR THE CALENDAR YEARS-END INDICATED BELOW

	2000	2001	2002	2003	2004	2005	2006	Cumulative 7 Years	Cumulative 5 Years	Cumulative 3 Years
Description	Model Years 2000-2001	Model Years 2001-2002	Model Years 2002-2003	Model Years 2003-2004	Model Years 2004-2005	Model Years 2005-2006	Model Years 2006-2007	(2000-2006)	(2002-2006)	(2004-2005- 2006)
							%			
BUICK	3.17%	2.70%	2.91%	2.87%	1.21%	0.15%	1.00%	14.83%	8.38%	2.38%
KIA	0.02%	0.61%	5.83%	2.36%	0.78%	2.41%	1.89%	14.63%	13.92%	5.16%
JAGUAR	6.46%	0.73%	0.72%	-0.12%	0.69%	2.13%	1.93%	13.08%	5.45%	4.82%
CHEVROLET	1.70%	3.45%	3.16%	1.33%	1.75%	0.40%	0.25%	12.63%	7.05%	2.41%
CADILLAC	1.08%	3.01%	2.70%	2.13%	0.94%	0.67%	1.09%	12.19%	7.74%	2.72%
MERCURY	3.34%	0.92%	1.53%	1.75%	1.33%	1.31%	1.16%	11.89%	7.28%	3.85%
OLDSMOBILE	3.09%	3.25%	1.18%	3.03%	0.40%	0.00%	0.00%	11.40%	4.66%	0.40%
PONTIAC	1.97%	3.63%	1.73%	1.45%	2.07%	-0.96%	1.04%	11.39%	5.42%	2.14%
INFINITI	1.31%	0.00%	0.51%	2.12%	4.49%	0.81%	1.32%	10.98%	9.55%	6.73%
MINI	0.47%	2.09%	0.51%	0.71%	5.06%	1.46%	0.14%	10.83%	8.05%	6.74%
FORD	2.17%	1.24%	2.10%	1.39%	0.88%	1.65%	0.75%	10.63%	6.95%	3.31%
DODGE	2.90%	1.69%	1.58%	1.72%	0.67%	-0.12%	1.12%	9.91%	5.04%	1.68%
CHRYSLER	1.83%	-0.88%	2.98%	0.97%	1.33%	1.28%	2.00%	9.86%	8.84%	4.68%
HYUNDAI	0.76%	1.52%	0.68%	3.54%	-0.50%	0.77%	2.30%	9.38%	6.93%	2.57%
MERCEDES	0.57%	1.34%	1.47%	1.59%	1.38%	1.85%	0.50%	9.02%	6.97%	3.77%
BMW	-0.28%	0.93%	2.63%	0.39%	2.62%	0.90%	1.46%	8.94%	8.24%	5.06%
AUDI	1.25%	0.48%	0.51%	1.29%	1.90%	1.42%	1.72%	8.89%	7.02%	5.12%
SUZUKI	1.17%	1.59%	0.00%	1.43%	3.07%	0.36%	0.92%	8.83%	5.89%	4.39%
LINCOLN	2.77%	1.13%	0.83%	-0.32%	1.48%	0.78%	0.58%	7.45%	3.39%	2.86%
HONDA	0.88%	1.59%	0.19%	1.09%	0.89%	1.39%	1.10%	7.35%	4.74%	3.42%
PORSCHE	1.00%	1.37%	1.86%	0.87%	0.00%	1.11%	0.85%	7.27%	4.77%	1.97%
VOLKSWAGEN	-0.43%	0.65%	2.17%	2.51%	1.75%	1.07%	-0.74%	7.14%	6.91%	2.08%
MAZDA	1.12%	1.40%	0.72%	0.44%	1.00%	1.37%	0.77%	7.02%	4.37%	3.17%
SUBARU	0.61%	0.13%	1.73%	2.37%	0.62%	0.74%	0.51%	6.89%	6.10%	1.88%
NISSAN	0.32%	1.59%	0.97%	1.44%	0.42%	1.59%	0.35%	6.86%	4.86%	2.37%
TOYOTA	1.83%	0.20%	0.42%	0.08%	0.93%	1.64%	1.04%	6.29%	4.17%	3.65%
VOLVO	1.28%	2.06%	-1.61%	-0.22%	0.30%	1.99%	2.09%	5.98%	2.53%	4.43%
ROLLS ROYCE	0.28%	2.08%	0.00%	0.00%	2.73%	0.00%	0.00%	5.16%	2.73%	2.73%
ACURA	0.35%	0.99%	0.94%	0.12%	0.68%	1.66%	-1.02%	3.76%	2.38%	1.31%
LEXUS	0.52%	0.85%	0.66%	-0.20%	0.52%	1.00%	0.34%	3.74%	2.34%	1.87%
SAAB	1.90%	0.10%	0.00%	-0.14%	1.57%	-0.92%	1.00%	3.53%	1.50%	1.64%
SATURN	-0.11%	8.32%	0.52%	0.26%	2.52%	-11.48%	2.23%	1.17%	-6.50%	-7.23%
GMC TRUCKS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
HUMMER	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ISUZU	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
JEEP	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LAND / RANGE ROVER	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

	2000	2001	2002	2003	2004	2005	2006
PPI INDEXES (Table 6)							
Passenger Cars (New) - 141101	-0.7%	-1.6%	-2.6%	2.0%	1.7%	-3.4%	-0.3%
CPI INDEXES (Table 3)							
New Cars - 45011	0.3%	0.0%	-2.0%	-2.1%	0.5%	0.8%	0.2%

	Cumulative 7 Years (2000-2006)	Cumulative 5 Years (2002-2006)	Cumulative 3 Years (2004-2006)
	-4.86%	-2.64%	-1.97%
	-2.28%	-2.56%	1.56%

Source: De Filippis' SuperLIFO™



Table F

# **ALT. LIFO VS. IPIC RESULTS COMPARISON STUDY** **Pool #2 - New Light-Duty Trucks ... Makes Ranked by 7-Year Cumulative Inflation**

## **Pool #2 - New Light-Duty Trucks**

SUMMARY OF NEW VEHICLE INFLATION (DEFLATION) INDEXES BY MAKE - AS DETERMINED BY SUPERLIFO™  
 MODEL / ITEM CATEGORY INFLATION SURVEY FOR QUICK, ONE-OF-EACH, YEAR-END LIFO RESERVE CHANGE ESTIMATES  
 DEALER COST FOR THE CALENDAR YEARS-END INDICATED BELOW

	2000	2001	2002	2003	2004	2005	2006	Cumulative 7 Years (2000-2006)	Cumulative 5 Years (2002-2006)	Cumulative 3 Years (2004-2006)
Description	Model Years 2000-2001	Model Years 2001-2002	Model Years 2002-2003	Model Years 2003-2004	Model Years 2004-2005	Model Years 2005-2006	Model Years 2006-2007			
							%			
HUMMER	8.80%	15.79%	5.83%	3.00%	2.00%	1.92%	2.75%	46.69%	16.44%	6.82%
KIA	2.24%	4.01%	1.68%	4.24%	1.42%	1.08%	1.08%	16.79%	9.83%	3.62%
MAZDA	2.22%	3.61%	1.61%	4.35%	1.28%	0.91%	0.29%	15.10%	8.68%	2.50%
FORD	3.99%	1.90%	2.13%	1.90%	2.36%	2.10%	-0.64%	14.51%	8.07%	3.84%
DODGE	3.19%	0.90%	2.95%	1.83%	1.18%	1.24%	1.48%	13.46%	8.98%	3.95%
JEEP	4.05%	-1.72%	3.15%	2.49%	1.27%	1.25%	1.05%	12.01%	9.54%	3.61%
CHEVROLET	1.32%	3.96%	3.12%	2.43%	1.85%	1.07%	-2.22%	11.99%	6.32%	0.65%
LEXUS	4.43%	1.75%	2.08%	0.66%	1.57%	1.80%	-2.01%	10.41%	3.91%	1.12%
GMC TRUCKS	1.07%	2.49%	2.76%	3.81%	1.70%	0.55%	-2.34%	10.35%	6.53%	-0.13%
HYUNDAI	0.00%	3.75%	1.82%	1.98%	1.01%	0.89%	0.24%	10.05%	6.07%	2.15%
INFINITI	0.00%	0.00%	1.71%	0.00%	0.98%	1.92%	4.80%	9.70%	9.70%	7.86%
OLDSMOBILE	3.86%	0.59%	2.17%	1.99%	0.39%	0.00%	0.00%	9.29%	4.61%	0.39%
NISSAN	2.14%	0.01%	1.88%	1.62%	0.71%	1.52%	0.99%	9.20%	6.90%	3.25%
LINCOLN	5.06%	1.45%	0.00%	1.63%	2.01%	0.90%	-2.15%	9.10%	2.36%	0.72%
CADILLAC	0.00%	2.31%	2.94%	2.28%	2.03%	0.60%	-1.69%	8.70%	6.24%	0.91%
MITSUBISHI	1.68%	2.55%	0.51%	-1.06%	2.70%	0.72%	1.31%	8.67%	4.21%	4.79%
ACURA	0.00%	2.03%	1.66%	1.78%	1.75%	1.08%	0.00%	8.58%	6.42%	2.85%
BMW	0.00%	0.00%	2.26%	1.87%	1.36%	1.54%	1.17%	8.47%	8.47%	4.13%
HONDA	1.04%	1.64%	0.27%	0.46%	1.59%	1.78%	1.19%	8.24%	5.39%	4.63%
MERCEDES	1.35%	0.34%	0.20%	2.48%	3.99%	0.73%	-1.14%	8.14%	6.34%	3.55%
TOYOTA	3.42%	0.32%	0.64%	0.43%	1.09%	1.32%	0.52%	7.96%	4.06%	2.96%
SUZUKI	1.03%	0.33%	-2.01%	2.57%	5.20%	-0.28%	0.78%	7.71%	6.26%	5.72%
SUBARU	0.73%	0.01%	0.00%	1.92%	1.73%	1.23%	0.48%	6.24%	5.46%	3.48%
SATURN	0.00%	0.00%	1.20%	3.88%	2.35%	-3.31%	1.78%	5.89%	5.89%	0.72%
VOLVO	0.00%	0.00%	0.00%	2.32%	0.07%	2.79%	0.32%	5.59%	5.59%	3.19%
LAND / RANGE ROVER	0.65%	0.36%	0.01%	-1.83%	1.15%	1.22%	3.20%	4.79%	3.74%	5.66%
CHRYSLER	0.00%	1.02%	4.47%	1.47%	-3.92%	1.62%	-0.55%	3.98%	2.93%	-2.90%
BUICK	0.00%	0.00%	2.50%	0.94%	1.08%	-0.45%	-1.04%	3.03%	3.03%	-0.42%
PONTIAC	2.47%	-0.65%	0.63%	-1.39%	1.03%	1.63%	-0.90%	2.79%	0.97%	1.75%
SAAB	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.70%	1.70%	1.70%	1.70%
PORSCHE	0.00%	0.00%	0.00%	0.00%	0.88%	0.44%	0.00%	1.32%	1.32%	1.32%
AUDI	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
JAGUAR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ROLLS ROYCE	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
MERCURY	1.27%	-4.36%	0.22%	2.83%	0.96%	-0.38%	-1.55%	-1.17%	2.04%	-0.98%
ISUZU	1.47%	4.22%	-6.05%	-3.58%	0.53%	-0.32%	0.50%	-3.52%	-8.77%	0.71%
VOLKSWAGEN	0.00%	-9.31%	0.00%	0.00%	5.06%	0.39%	-0.71%	-5.03%	4.72%	4.72%

	2000	2001	2002	2003	2004	2005	2006	Cumulative 7 Years (2000-2006)	Cumulative 5 Years (2002-2006)	Cumulative 3 Years (2004-2006)
PPI INDEXES (Table 6)										
Trucks (New) Under 14,000 lbs - 141105	1.8%	-3.3%	-3.6%	2.3%	1.0%	-5.9%	1.5%	-6.31%	-4.80%	-3.44%
CPI INDEXES (Table 3)										
New Trucks - 45021	-0.6%	-0.1%	-2.2%	-1.5%	0.5%	-1.9%	-2.0%	-7.58%	-6.91%	-3.35%

Source: De Filippis' SuperLIFO™





Table G

**ALT. LIFO VS. IPIC RESULTS COMPARISON STUDY**  
**Pools #1 & 2 ... 7-Year Summary Listed Alphabetically by Make**

SUMMARY OF COMPARISON OF CUMULATIVE INFLATION / DEFLATION RATES  
**SUPERLIFO™ ONE-OF-EACH INDEXES FOR USE WITH THE ALTERNATIVE LIFO METHOD FOR NEW VEHICLES**  
**vs. BLS PPI TABLE 6 & CPI TABLE 3 FOR USE WITH THE IPIC METHOD**  
**FOR THE 7-YEAR PERIOD 2000 THROUGH 2006**

	Pool #1 New Automobiles Cumulative 7 Years ... 2000-2006			Pool #2 New Light-Duty Trucks Cumulative 7 Years ... 2000-2006		
	Alt. LIFO	BLS - IPIC Method		Alt. LIFO	BLS - IPIC Method	
	SuperLIFO™	PPI Table 6	CPI Table 3	SuperLIFO™	PPI Table 6	CPI Table 3
ACURA	3.76%	-4.86%	-2.28%	8.58%	-6.31%	-7.58%
AUDI	8.89%	-4.86%	-2.28%	0.00%	-6.31%	-7.58%
BMW	8.94%	-4.86%	-2.28%	8.47%	-6.31%	-7.58%
BUICK	14.83%	-4.86%	-2.28%	3.03%	-6.31%	-7.58%
CADILLAC	12.19%	-4.86%	-2.28%	8.70%	-6.31%	-7.58%
CHEVROLET	12.63%	-4.86%	-2.28%	11.99%	-6.31%	-7.58%
CHRYSLER	9.86%	-4.86%	-2.28%	3.98%	-6.31%	-7.58%
DODGE	9.91%	-4.86%	-2.28%	13.46%	-6.31%	-7.58%
FORD	10.63%	-4.86%	-2.28%	14.51%	-6.31%	-7.58%
GMC TRUCKS	0.00%	-4.86%	-2.28%	10.35%	-6.31%	-7.58%
HONDA	7.35%	-4.86%	-2.28%	8.24%	-6.31%	-7.58%
HUMMER	0.00%	-4.86%	-2.28%	46.69%	-6.31%	-7.58%
HYUNDAI	9.38%	-4.86%	-2.28%	10.05%	-6.31%	-7.58%
INFINITI	10.98%	-4.86%	-2.28%	9.70%	-6.31%	-7.58%
ISUZU	0.00%	-4.86%	-2.28%	-3.52%	-6.31%	-7.58%
JAGUAR	13.08%	-4.86%	-2.28%	0.00%	-6.31%	-7.58%
JEEP	0.00%	-4.86%	-2.28%	12.01%	-6.31%	-7.58%
KIA	14.63%	-4.86%	-2.28%	16.79%	-6.31%	-7.58%
LAND / RANGE ROVER	0.00%	-4.86%	-2.28%	4.79%	-6.31%	-7.58%
LEXUS	3.74%	-4.86%	-2.28%	10.41%	-6.31%	-7.58%
LINCOLN	7.45%	-4.86%	-2.28%	9.10%	-6.31%	-7.58%
MAZDA	7.02%	-4.86%	-2.28%	15.10%	-6.31%	-7.58%
MERCEDES	9.02%	-4.86%	-2.28%	8.14%	-6.31%	-7.58%
MERCURY	11.89%	-4.86%	-2.28%	-1.17%	-6.31%	-7.58%
MINI	10.83%	-4.86%	-2.28%	8.67%	-6.31%	-7.58%
NISSAN	6.86%	-4.86%	-2.28%	9.20%	-6.31%	-7.58%
OLDSMOBILE	11.40%	-4.86%	-2.28%	9.29%	-6.31%	-7.58%
PONTIAC	11.39%	-4.86%	-2.28%	2.79%	-6.31%	-7.58%
PORSCHE	7.27%	-4.86%	-2.28%	1.32%	-6.31%	-7.58%
ROLLS ROYCE	5.16%	-4.86%	-2.28%	0.00%	-6.31%	-7.58%
SAAB	3.53%	-4.86%	-2.28%	1.70%	-6.31%	-7.58%
SATURN	1.17%	-4.86%	-2.28%	5.89%	-6.31%	-7.58%
SUBARU	6.89%	-4.86%	-2.28%	6.24%	-6.31%	-7.58%
SUZUKI	8.83%	-4.86%	-2.28%	7.71%	-6.31%	-7.58%
TOYOTA	6.29%	-4.86%	-2.28%	7.96%	-6.31%	-7.58%
VOLKSWAGEN	7.14%	-4.86%	-2.28%	-5.03%	-6.31%	-7.58%
VOLVO	5.98%	-4.86%	-2.28%	5.59%	-6.31%	-7.58%

**Table H**

**ALT. LIFO vs. IPIC RESULTS COMPARISON STUDY**  
**Pools #1 & 2 ... 5-Year Summary Listed Alphabetically by Make**

SUMMARY OF COMPARISON OF CUMULATIVE INFLATION / DEFLATION RATES  
**SUPERLIFO™ ONE-OF-EACH INDEXES FOR USE WITH THE ALTERNATIVE LIFO METHOD FOR NEW VEHICLES**  
**vs. BLS PPI TABLE 6 & CPI TABLE 3 FOR USE WITH THE IPIC METHOD**  
**FOR THE 5-YEAR PERIOD 2002 THROUGH 2006**

Description	Pool #1 New Automobiles Cumulative 5 Years ... 2002-2006			Pool #2 New Light-Duty Trucks Cumulative 5 Years ... 2002-2006		
	Alt. LIFO	BLS - IPIC Method		Alt. LIFO	BLS - IPIC Method	
	SuperLIFO™	PPI Table 6	CPI Table 3	SuperLIFO™	PPI Table 6	CPI Table 3
ACURA	2.38%	-2.64%	-2.56%	6.42%	-4.80%	-6.91%
AUDI	7.02%	-2.64%	-2.56%	0.00%	-4.80%	-6.91%
BMW	8.24%	-2.64%	-2.56%	8.47%	-4.80%	-6.91%
BUICK	8.38%	-2.64%	-2.56%	3.03%	-4.80%	-6.91%
CADILLAC	7.74%	-2.64%	-2.56%	6.24%	-4.80%	-6.91%
CHEVROLET	7.05%	-2.64%	-2.56%	6.32%	-4.80%	-6.91%
CHRYSLER	8.84%	-2.64%	-2.56%	2.93%	-4.80%	-6.91%
DODGE	5.04%	-2.64%	-2.56%	8.98%	-4.80%	-6.91%
FORD	6.95%	-2.64%	-2.56%	8.07%	-4.80%	-6.91%
GMC TRUCKS	0.00%	-2.64%	-2.56%	6.53%	-4.80%	-6.91%
HONDA	4.74%	-2.64%	-2.56%	5.39%	-4.80%	-6.91%
HUMMER	0.00%	-2.64%	-2.56%	16.44%	-4.80%	-6.91%
HYUNDAI	6.93%	-2.64%	-2.56%	6.07%	-4.80%	-6.91%
INFINITI	9.55%	-2.64%	-2.56%	9.70%	-4.80%	-6.91%
ISUZU	0.00%	-2.64%	-2.56%	-8.77%	-4.80%	-6.91%
JAGUAR	5.45%	-2.64%	-2.56%	0.00%	-4.80%	-6.91%
JEEP	0.00%	-2.64%	-2.56%	9.54%	-4.80%	-6.91%
KIA	13.92%	-2.64%	-2.56%	9.83%	-4.80%	-6.91%
LAND / RANGE ROVER	0.00%	-2.64%	-2.56%	3.74%	-4.80%	-6.91%
LEXUS	2.34%	-2.64%	-2.56%	3.91%	-4.80%	-6.91%
LINCOLN	3.39%	-2.64%	-2.56%	2.36%	-4.80%	-6.91%
MAZDA	4.37%	-2.64%	-2.56%	8.68%	-4.80%	-6.91%
MERCEDES	6.97%	-2.64%	-2.56%	6.34%	-4.80%	-6.91%
MERCURY	7.28%	-2.64%	-2.56%	2.04%	-4.80%	-6.91%
MITSUBISHI	8.05%	-2.64%	-2.56%	4.21%	-4.80%	-6.91%
NISSAN	4.86%	-2.64%	-2.56%	6.90%	-4.80%	-6.91%
OLDSMOBILE	4.66%	-2.64%	-2.56%	4.61%	-4.80%	-6.91%
PONTIAC	5.42%	-2.64%	-2.56%	0.97%	-4.80%	-6.91%
PORSCHE	4.77%	-2.64%	-2.56%	1.32%	-4.80%	-6.91%
ROLLS ROYCE	2.73%	-2.64%	-2.56%	0.00%	-4.80%	-6.91%
SAAB	1.50%	-2.64%	-2.56%	1.70%	-4.80%	-6.91%
SATURN	-6.50%	-2.64%	-2.56%	5.89%	-4.80%	-6.91%
SUBARU	6.10%	-2.64%	-2.56%	5.46%	-4.80%	-6.91%
SUZUKI	5.89%	-2.64%	-2.56%	6.26%	-4.80%	-6.91%
TOYOTA	4.17%	-2.64%	-2.56%	4.06%	-4.80%	-6.91%
VOLKSWAGEN	6.91%	-2.64%	-2.56%	4.72%	-4.80%	-6.91%
VOLVO	2.53%	-2.64%	-2.56%	5.59%	-4.80%	-6.91%



Table 1

**ALT. LIFO VS. IPIC RESULTS COMPARISON STUDY**  
**Pools #1 & 2 ... 3-Year Summary Listed Alphabetically by Make**

SUMMARY OF COMPARISON OF CUMULATIVE INFLATION / DEFLATION RATES  
**SUPERLIFO™ ONE-OF-EACH INDEXES FOR USE WITH THE ALTERNATIVE LIFO METHOD FOR NEW VEHICLES**  
**vs. BLS PPI TABLE 6 & CPI TABLE 3 FOR USE WITH THE IPIC METHOD**  
**FOR THE 3-YEAR PERIOD 2004 THROUGH 2006**

Description	Pool #1 New Automobiles Cumulative 3 Years ... 2004-2006			Pool #2 New Light-Duty Trucks Cumulative 3 Years ... 2004-2006		
	Alt. LIFO	BLS - IPIC Method		Alt. LIFO	BLS - IPIC Method	
	SuperLIFO™	PPI Table 6	CPI Table 3	SuperLIFO™	PPI Table 6	CPI Table 3
ACURA	1.31%	-1.97%	1.56%	2.85%	-3.44%	-3.35%
AUDI	5.12%	-1.97%	1.56%	0.00%	-3.44%	-3.35%
BMW	5.06%	-1.97%	1.56%	4.13%	-3.44%	-3.35%
BUICK	2.38%	-1.97%	1.56%	-0.42%	-3.44%	-3.35%
CADILLAC	2.72%	-1.97%	1.56%	0.91%	-3.44%	-3.35%
CHEVROLET	2.41%	-1.97%	1.56%	0.65%	-3.44%	-3.35%
CHRYSLER	4.68%	-1.97%	1.56%	-2.90%	-3.44%	-3.35%
DODGE	1.68%	-1.97%	1.56%	3.95%	-3.44%	-3.35%
FORD	3.31%	-1.97%	1.56%	3.84%	-3.44%	-3.35%
GMC TRUCKS	0.00%	-1.97%	1.56%	-0.13%	-3.44%	-3.35%
HONDA	3.42%	-1.97%	1.56%	4.63%	-3.44%	-3.35%
HUMMER	0.00%	-1.97%	1.56%	6.82%	-3.44%	-3.35%
HYUNDAI	2.57%	-1.97%	1.56%	2.15%	-3.44%	-3.35%
INFINITI	6.73%	-1.97%	1.56%	7.86%	-3.44%	-3.35%
ISUZU	0.00%	-1.97%	1.56%	0.71%	-3.44%	-3.35%
JAGUAR	4.82%	-1.97%	1.56%	0.00%	-3.44%	-3.35%
JEEP	0.00%	-1.97%	1.56%	3.61%	-3.44%	-3.35%
KIA	5.16%	-1.97%	1.56%	3.62%	-3.44%	-3.35%
LAND / RANGE ROVER	0.00%	-1.97%	1.56%	5.66%	-3.44%	-3.35%
LEXUS	1.87%	-1.97%	1.56%	1.12%	-3.44%	-3.35%
LINCOLN	2.86%	-1.97%	1.56%	0.72%	-3.44%	-3.35%
MAZDA	3.17%	-1.97%	1.56%	2.50%	-3.44%	-3.35%
MERCEDES	3.77%	-1.97%	1.56%	3.55%	-3.44%	-3.35%
MERCURY	3.85%	-1.97%	1.56%	-0.98%	-3.44%	-3.35%
MINI	6.74%	-1.97%	1.56%	4.79%	-3.44%	-3.35%
NISSAN	2.37%	-1.97%	1.56%	3.25%	-3.44%	-3.35%
OLDSMOBILE	0.40%	-1.97%	1.56%	0.39%	-3.44%	-3.35%
PONTIAC	2.14%	-1.97%	1.56%	1.75%	-3.44%	-3.35%
PORSCHE	1.97%	-1.97%	1.56%	1.32%	-3.44%	-3.35%
ROLLS ROYCE	2.73%	-1.97%	1.56%	0.00%	-3.44%	-3.35%
SAAB	1.64%	-1.97%	1.56%	1.70%	-3.44%	-3.35%
SATURN	-7.23%	-1.97%	1.56%	0.72%	-3.44%	-3.35%
SUBARU	1.88%	-1.97%	1.56%	3.48%	-3.44%	-3.35%
SUZUKI	4.39%	-1.97%	1.56%	5.72%	-3.44%	-3.35%
TOYOTA	3.65%	-1.97%	1.56%	2.96%	-3.44%	-3.35%
VOLKSWAGEN	2.08%	-1.97%	1.56%	4.72%	-3.44%	-3.35%
VOLVO	4.43%	-1.97%	1.56%	3.19%	-3.44%	-3.35%



# **Producer Price Indexes (PPI) - Table 6 - Passenger Cars - Item 141101**

Series ID : wpu141101

Not Seasonally Adjusted

Group : Transportation equipment

Item : Passenger cars

Base Date : 8200

**Computation of Cumulative Rates of Inflation or Deflation  
For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006  
Using December to December Column Data  
From PPI Table 6 for Item 141101 (Passenger Cars)**

Year	Dec	Current Year Rate	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1999	135.7					
2000	134.8	-0.7%	0.99337	0.99337		
2001	132.6	-1.6%	0.98368	0.97716		
2002	129.1	-2.6%	0.97360	0.95136	0.97360	
2003	131.7	2.0%	1.02014	0.97052	0.99321	
2004	134	1.7%	1.01746	0.98747	1.01056	1.01746
2005	129.5	-3.4%	0.96642	0.95431	0.97662	0.98330
2006	129.1	-0.3%	0.99691	0.95136	0.97360	0.98026
				-4.86%	-2.64%	-1.97%

# **Producer Price Indexes (PPI) - Table 6 - Trucks 14,000 lbs or Less - Item 141105**

Series ID : wpu141105

Not Seasonally Adjusted

Group : Transportation equipment

Item : Trucks, 14,000 lbs. and under

Base Date : 8200

**Computation of Cumulative Rates of Inflation or Deflation  
For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006  
Using December to December Column Data  
From PPI Table 6 for Item 141105 (Trucks <= 14,000 lbs)**

Year	Dec	Current Year Rate	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1999	158.6					
2000	161.4	1.8%	1.01765	1.01765		
2001	156.1	-3.3%	0.96716	0.98424		
2002	150.5	-3.6%	0.96413	0.94893	0.96413	
2003	153.9	2.3%	1.02259	0.97037	0.98591	
2004	155.5	1.0%	1.01040	0.98045	0.99616	1.01040
2005	146.4	-5.9%	0.94148	0.92308	0.93786	0.95127
2006	148.6	1.5%	1.01503	0.93695	0.95195	0.96556
				-6.31%	-4.80%	-3.44%



## Producer Price Indexes (PPI) - Table 6 - Trucks Over 14,000 lbs - Item 141106

Series ID : wpu141106

Not Seasonally Adjusted

Group : Transportation equipment

Item : Trucks, over 14,000 lbs. GVW

Base Date : 8200

**Computation of Cumulative Rates of Inflation or Deflation**  
**For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006**  
**Using December to December Column Data**  
**From PPI Table 6 for Item 141106 (Trucks >14,000 lbs)**

Year	Dec	Current Year Rate	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1999	147.3					
2000	148.3	0.7%	1.00679	1.00679		
2001	148.8	0.3%	1.00337	1.01018		
2002	155.2	4.3%	1.04301	1.05363	1.04301	
2003	152.2	-1.9%	0.98067	1.03327	1.02285	
2004	157.4	3.4%	1.03417	1.06857	1.05780	1.03417
2005	165.7	5.3%	1.05273	1.12492	1.11358	1.08870
2006	173.5	4.7%	1.04707	1.17787	1.16599	1.13995
				<u>17.79%</u>	<u>16.60%</u>	<u>13.99%</u>

## Producer Price Indexes (PPI) - Table 6 - Vehicle Parts - Item 1412

Series ID : wpu1412

Not Seasonally Adjusted

Group : Transportation equipment

Item : Motor vehicle parts

Base Date : 8200

**Computation of Cumulative Rates of Inflation or Deflation**  
**For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006**  
**Using December to December Column Data**  
**From PPI Table 6 for Item 1412 (Motor Vehicle Parts)**

Year	Dec	Current Year Rate	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1999	113.9					
2000	113.3	-0.5%	0.99473	0.99473		
2001	113.2	-0.1%	0.99912	0.99385		
2002	112.5	-0.6%	0.99382	0.98771	0.99382	
2003	111.6	-0.8%	0.99200	0.97981	0.98587	
2004	112.6	0.9%	1.00896	0.98859	0.99470	1.00896
2005	113.9	1.2%	1.01155	1.00000	1.00618	1.02061
2006	117.3	3.0%	1.02985	1.02985	1.03622	1.05108
				<u>2.99%</u>	<u>3.62%</u>	<u>5.11%</u>



## PPI Indexes - Table 6 - Passenger Cars - Item 141101

## Producer Price Index Commodity Data

Series ID : wpu141101

Not Seasonally Adjusted  
 Group : Transportation equipment  
 Item : Passenger cars  
 Base Date : 8200



## U.S. Department of Labor

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Computation of Cumulative Rates of Inflation or Deflation  
 For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006  
 Using December to December Column Data  
 From PPI Table 6 for Item 141101 (Passenger Cars)

Data:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1991	124.2	125.3	125	124.2	122.3	121.5	121.2	120.8	118.6	129.8	128.9	127.9	124.1				
1992	127.8	127.3	127.9	127.3	126.9	126.1	126.2	125.4	120.7	129.2	129.2	128.7	126.9				
1993	129	129.6	129.6	129.8	129.3	129.6	129.6	129.1	124.5	131.6	132.7	132.9	129.8				
1994	133.7	133.7	133.6	133.3	134.1	133.8	134.1	134	129.2	135.8	135.6	135.7	133.9				
1995	135.8	135.4	134.5	134	133.3	132.3	132.3	131.3	127.2	137.4	138.2	138	134.1				
1996	136.2	136.1	136.1	135.2	135.4	135.9	134.1	133.9	130.4	137.3	137.3	136.9	135.4				
1997	136.5	136.7	136.3	135.2	133	132.7	130.2	130	127.7	136.4	134.8	133.4	133.6				
1998	133.3	133.6	133.2	132.2	130.4	129.3	130.1	128.4	127	135.4	135.6	134.1	131.9				
1999	132	132.6	131.3	131.4	130.2	128.7	127.4	127.4	127	136.5	135.7	135.7	131.3				
2000	134.9	133.8	133.2	133.3	133	131.1	130.6	129.2	128.9	135	135.6	134.8	132.8	0.99337	0.99337		
2001	134.3	132.8	133.5	133.8	132.2	131.2	130.7	130	130.1	131.4	132	132.6	132	0.98368	0.97716		
2002	132.2	132.1	130.2	130.3	129.9	128.9	126	125.3	125.2	134.3	130.8	129.1	129.5	0.97360	0.95136	0.97360	
2003	130	129.7	132.8	129.4	129.1	127.4	126.8	126.6	125.2	133.6	131.9	131.7	129.5	1.02014	0.97052	0.99321	
2004	131.7	131.8	131.8	131.5	132.4	132.4	128.6	128.6	128.6	135.2	134.4	134	131.7	1.01746	0.98747	1.01056	1.01746
2005	135.3	133.8	133.1	133.6	133.3	130.6	130.8	129	129.4	132.5	130.5	129.5	131.8	0.96642	0.95431	0.97662	0.98330
2006	130.7	130.2	130	129.2	128.7	127.9	123	123.6	125.5	128.6	129.9	129.1	128	0.99691	0.95136	0.97360	0.98026

-4.86%

-2.64%

-1.97%





## PPI Indexes - Table 6 - Trucks, 14,000 lbs. &amp; Under - Item 141105

## Producer Price Index Commodity Data

Series ID : wpu141105

Not Seasonally Adjusted  
 Group : Transportation equipment  
 Item : Trucks, 14,000 lbs. and under  
 Base Date : 8200



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Computation of Cumulative Rates of Inflation or Deflation  
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 Using December to December Column Data  
 From PPI Table 6 for Item 141105 (Trucks <= 14,000 lbs)

Data:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1991	135.3	135.7	135.5	132.4	132.1	132.8	133.1	133	129.3	142.5	142.3	141.5	135.5				
1992	141.4	141.7	141.3	141.1	141	140.8	141.1	139.5	135.5	148.3	148.3	148.3	142.4				
1993	148.4	150.1	150.2	149.1	149.3	149.5	149.6	149.5	143.4	155.2	154.3	154.5	150.3				
1994	155.9	156.3	156.3	156.4	157.7	157.7	157.3	157.4	152.3	160.5	158	159.6	157.1				
1995	160	159.5	159.1	159.5	159.5	158.2	158	158.1	151.5	160.9	161.7	162	159				
1996	161.2	160.8	160.6	160.4	159.8	160.1	159.3	158.9	154.1	163.2	162.7	162.4	160.3				
1997	163	162	161.6	161	158.8	158.7	155.7	156.5	154	160.4	159.2	156.6	158.9				
1998	156.3	156.4	156	156	153.7	151.8	152	152.4	150.3	160.1	159.3	158.1	155.2				
1999	158.2	158.7	157.8	158.8	158.2	156.9	155	154.4	151.8	162.4	159.5	158.6	157.5	1.01765	1.01765		
2000	157.4	157.8	157.5	157.1	157.8	156.3	155.1	154.6	153.9	161.4	160.8	161.4	157.6	0.96716	0.98424		
2001	159.7	154.6	154.5	156.6	152.9	151.3	154.1	153.5	152.8	158.5	155.7	156.1	155	0.96413	0.94893	0.96413	
2002	152.8	155	153.7	152.6	150.4	150	145.6	143.7	144.1	155	152.2	150.5	150.5	1.02259	0.97037	0.98591	
2003	151	151.6	155	147.5	147.1	145	145	146	143.7	158.9	157.1	153.9	150.2	1.01040	0.98045	0.99616	1.01040
2004	153.3	152	152.6	150.4	150.1	150	146.7	145.7	143.9	159.6	156	155.5	151.3	0.94148	0.92308	0.93786	0.95127
2005	154.9	151.1	150.6	149.5	148.2	144.2	144.4	144	143.9	153.7	149.4	146.4	148.4	1.01503	0.93695	0.95195	0.96556
2006	146.8	147.3	146.8	145.3	145.2	143.1	133.2	136.9	136.7	139.9	150.4	148.6	143.3				

-6.31%      -4.80%      -3.44%

## Consumer Price Indexes (CPI) - Table 3 - New Cars - Item 45011

Series ID : cuur0000ss45011

Not Seasonally Adjusted

Area : U.S. city average

Item : New cars

Base Period : 1982-84=100

**Computation of Cumulative Rates of Inflation or Deflation  
For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006  
Using December to December Column Data  
From CPI Table 3 for Item 45011 (New Cars)**

Year	Dec	Current Year Rate	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1999	140.1					
2000	140.5	0.3%	1.00286	1.00286		
2001	140.5	0.0%	1.00000	1.00286		
2002	137.7	-2.0%	0.98007	0.98287	0.98007	
2003	134.8	-2.1%	0.97894	0.96217	0.95943	
2004	135.5	0.5%	1.00519	0.96717	0.96441	1.00519
2005	136.6	0.8%	1.00812	0.97502	0.97224	1.01335
2006	136.9	0.2%	1.00220	0.97716	0.97438	1.01558
				-2.28%	-2.56%	1.56%

## Consumer Price Indexes (CPI) - Table 3 - New Trucks - Item 45021

Series ID : cuur0000ss45021

Not Seasonally Adjusted

Area : U.S. city average

Item : New trucks

Base Period : DECEMBER 1983=100

**Computation of Cumulative Rates of Inflation or Deflation  
For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006  
Using December to December Column Data  
From CPI Table 3 for Item 45021 (New Trucks)**

Year	Dec	Current Year Rate	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1999	153.1					
2000	152.2	-0.6%	0.99412	0.99412		
2001	152	-0.1%	0.99869	0.99282		
2002	148.6	-2.2%	0.97763	0.97061	0.97763	
2003	146.4	-1.5%	0.98520	0.95624	0.96316	
2004	147.2	0.5%	1.00546	0.96146	0.96842	1.00546
2005	144.4	-1.9%	0.98098	0.94317	0.95000	0.98634
2006	141.5	-2.0%	0.97992	0.92423	0.93092	0.96653
				-7.58%	-6.91%	-3.35%





## Consumer Price Indexes (CPI) - Table 3 - Used Cars & Trucks - Item Seta02

Series ID : cuur0000seta02

Not Seasonally Adjusted  
Area : U.S. city average  
Item : Used cars and trucks  
Base Period : 1982-84=100

**Computation of Cumulative Rates of Inflation or Deflation**  
For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006  
Using December to December Column Data  
From CPI Table 3 for Item Seta02 (Used Cars & Trucks)

Year	Dec	Current Year Rate	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1999	155					
2000	160.2	3.4%	1.03355	1.03355		
2001	157.2	-1.9%	0.98127	1.01419		
2002	148.5	-5.5%	0.94466	0.95806	0.94466	
2003	131	-11.8%	0.88215	0.84516	0.83333	
2004	137.3	4.8%	1.04809	0.88581	0.87341	1.04809
2005	139.2	1.4%	1.01384	0.89806	0.88550	1.06260
2006	136.2	-2.2%	0.97845	0.87871	0.86641	1.03969
				-12.13%	-13.36%	3.97%

## Consumer Price Indexes (CPI) - Table 3 - Vehicle Parts - Item 48021

Series ID : cuur0000ss48021

Not Seasonally Adjusted  
Area : U.S. city average  
Item : Vehicle parts ... Other than tires  
Base Period : 1982-84=100

**Computation of Cumulative Rates of Inflation or Deflation**  
For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006  
Using December to December Column Data  
From CPI Table 3 for Item 48021 (Parts)

Year	Dec	Current Year Rate	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1999	108.6					
2000	110.1	1.4%	1.01381	1.01381		
2001	111.3	1.1%	1.01090	1.02486		
2002	113.9	2.3%	1.02336	1.04880	1.02336	
2003	115.5	1.4%	1.01405	1.06354	1.03774	
2004	116	0.4%	1.00433	1.06814	1.04223	1.00433
2005	119.9	3.4%	1.03362	1.10405	1.07727	1.03810
2006	125.6	4.8%	1.04754	1.15654	1.12848	1.08745
				15.65%	12.85%	8.74%



## CPI Indexes - Table 3 - New Cars - Item 45011

## Consumer Price Index-All Urban Consumers

Series ID : cuur0000ss45011

Not Seasonally Adjusted

Area : U.S. city average

Item : New cars

Base Period : 1982-84=100



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Computation of Cumulative Rates of Inflation or Deflation  
For the 3, 5 & 7 Year Periods Ending Dec. 31, 2006  
Using December to December Column Data  
Extracted From CPI Table 3 for Item 45011 (New Cars)

Data:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1991	124.6	125.3	125.4	125.3	125.4	125.3	124.9	124.4	124.1	125	126.6	127.6	125.3				
1992	128	128.1	128.2	128.2	128.4	128.2	127.8	127.6	127.4	128.2	129.7	130.5	128.4				
1993	130.9	130.9	130.9	131.1	131.3	131	130.9	130.8	130.6	131.9	133.4	134.2	131.5				
1994	134.7	135	135.3	135.4	135.7	135.8	135.8	135.6	135.7	136.6	137.7	138.5	136				
1995	139	139.1	139	139.3	139.3	139.1	138.3	137.9	137.8	138.6	140.1	140.7	139				
1996	141.1	141.3	141.5	141.3	141.2	141.3	141	140.7	141	141.5	142.3	143	141.4				
1997	143	142.9	142.9	142.6	142.1	141.7	141.1	140.4	140	140.6	141.3	141.5	141.7				
1998	141.8	141.7	141.7	141.5	140.6	140	140.1	140	139.4	139.7	140.6	141.3	140.7				
1999	141.4	140.8	140.3	140.1	139.6	139.1	138.6	138	138.2	138.8	139.6	140.1	139.6	1.00286	1.00286		
2000	140	139.8	140	140.2	140	139.6	139.3	138.7	138.3	138.6	139.6	140.5	139.6	1.00000	1.00286		
2001	140.4	139.9	139.5	139.6	139.2	138.5	138.1	137.2	137.1	137.7	139.4	140.5	138.9	0.98007	0.98287	0.98007	
2002	139.7	138.6	138.2	137.8	137.2	136.6	136.1	135.4	135.8	136.7	137.6	137.7	137.3	0.97894	0.96217	0.95943	
2003	136.7	136	136.1	135.5	134.9	134.2	133.5	133.6	133.1	133.5	134.3	134.8	134.7	1.00519	0.96717	0.96441	1.00519
2004	134.7	134.8	134.6	134.3	134.4	134.2	133	132	131.9	133	134.9	135.5	133.9	1.00812	0.97502	0.97224	1.01335
2005	136.4	136.4	135.7	135.6	135.5	135.1	133.9	132.7	133.6	135.1	136.1	136.6	135.2	1.00220	0.97716	0.97438	1.01558
2006	137.7	137.5	136.9	136.5	136.2	135.8	135.6	135.4	135.7	136.3	136.6	136.9	136.4				

-2.28%

-2.56%

1.56%





## CPI Indexes - Table 3 - New Trucks - Item 45021

## Consumer Price Index-All Urban Consumers

Series ID : cuur0000ss45021

Not Seasonally Adjusted

Area : U.S. city average

Item : New trucks

Base Period : DECEMBER 1983=100



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Computation of Cumulative Rates of Inflation or Deflation  
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Using December to December Column Data  
Extracted From CPI Table 3 for Item 45021 (New Trucks)

Data:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann	Current Year Inflation Rate	Cumulative 7 Years 2000-2006	Cumulative 5 Years 2002-2006	Cumulative 3 Years 2004-2006
1991	126.5	126.9	127.1	126.9	126.3	126.2	126.7	126.1	126.1	127	128.5	129.6	127				
1992	129.9	130.4	130.9	131	131	130.8	130.3	130.5	130.2	131	132.1	132.9	130.9				
1993	133.3	134.5	134.6	134.8	135	135.2	135.5	135.8	136	137	138.2	139	135.7				
1994	139.4	140.1	140.7	140.7	141.2	141.6	141.7	141.8	142.3	143	143.5	144.1	141.7				
1995	144.4	144.7	144.9	145.4	145.7	145.8	145.6	145.4	146.2	147.3	147.5	148.2	145.9				
1996	148.9	149.1	148.7	149.2	149.2	149	148.7	149.1	150	151.6	151.5	149.5					
1997	152	152.7	152.6	152.3	151.5	151	150.8	150.2	150.2	151.1	151.3	151.4	151.4				
1998	151.8	151.9	151.9	152	150.8	149.7	150.1	150.4	150.2	150.2	151.5	152.1	151.1				
1999	152.6	152.4	152	152.2	151.9	151.9	151.5	150.9	151	151.8	152.7	153.1	152				
2000	152.4	151.9	152.3	152.8	152.6	152.1	151.4	150.8	150	150.1	151.2	152.2	151.7	0.99412	0.99412		
2001	152.6	152.2	151.6	151.4	150.9	150.3	149.7	148.7	148.4	149.6	151.3	152	150.7	0.99869	0.99282		
2002	150.9	148.9	148.2	147.9	147.3	146.7	146.4	145.8	146.7	147.5	148.3	148.6	147.8	0.97763	0.97061	0.97763	
2003	147.9	147.5	147.6	146.9	146.2	145.3	144.8	144.9	144.8	144.6	145.9	146.4	146.1	0.98520	0.95624	0.96316	
2004	146.5	146.9	146.2	146	145.3	144.9	143.6	142.4	142.4	143.1	145.5	147.2	145	1.00546	0.96146	0.96842	1.00546
2005	148.4	148.5	147.4	146.9	146.8	145.9	143.3	141.7	142.4	143.6	144.3	144.4	145.3	0.98098	0.94317	0.95000	0.98634
2006	145.2	145.4	145	144.4	143.4	142.7	142.2	141.4	140.9	141.4	141.1	141.5	142.9	0.97992	0.92423	0.93092	0.96653
															-7.58%	-6.91%	-3.35%

IPIC Example #4		AUTO DEALERSHIP SAMPLE LINK-CHAIN IPIC METHOD CALCULATION				Page 3 of 3
First Year ... Proofs & Reconciliations of LIFO Reserve & LIFO Reserve Changes for 2001						
LIFO Reserve ... End of First Year	(I) End-of-year inventory at current cost		(A)	4,750,000.00		
	(H) LIFO valuation of end-of-year inventory		(H)	4,646,937.32		
	(K) LIFO reserve at end of year			<u>103,062.68</u>		
Change in LIFO Reserve for the Year	Beginning-of-year inventory at base year cost		(D)	4,000,000.00		
	Inflation rate for current year [(B) - 1.0000]		(B)	0.02576567		
	Change in LIFO reserve for current year		(DxB)	<u>103,062.68</u>	*	
	• <i>*Composition of the LIFO Reserve at year end.</i> Since this is the first year of the IPIC LIFO election, the composition of the LIFO reserve at the end of the year is the same as the change in the LIFO reserve for the year. (Base inventory of \$4,000,000 multiplied by the current-year inflation rate.)					
	• The inflation rate (IPI) for this pool for 2001 of 2.58% reflects the weighting of the category inflation indexes of 2% for cars and of 3% for light-duty trucks by their respective end-of-the-year amounts of current cost (i.e., \$2,000,000 and \$2,750,000, respectively).					
Second Year ... Proofs & Reconciliations of LIFO Reserve & LIFO Reserve Changes for 2002						
LIFO Reserve	(I) End-of-year inventory at current cost		(A)	5,200,000.00		
	(H) LIFO valuation of end-of-year inventory		(H)	4,998,397.22		
	(K) LIFO reserve at end of second year (2002)			<u>201,602.78</u>		
	(L) LIFO reserve at end of first year (2001)			103,062.68		
	(M) Increase in LIFO reserve for current year (2002)		(K-L)	<u>98,540.10</u>		
Change in LIFO Reserve for the Year	• <i>Proof of change/increase in LIFO reserve for calendar year 2002</i>					
	Beginning-of-year inventory at base year cost		(D)	4,630,687.24		
	Inflation rate (IPI for 2002) [(B) - 1.0000]	0.04704547	(B)			
	Inflation rate for 2001 [(prior year) - 1.0000]	0.02576567				
	(N) Effective inflation rate for current year	<u>0.02127980</u>		0.02127980		
	Change in LIFO reserve for current year		(DxN)	<u>98,540.10</u>		
Composition of the LIFO Reserve at year end	• <i>Composition of the LIFO reserve at December 31, 2002</i>					
	Base date inventory (2001 beginning of year)	4,000,000.00	*			
	Inflation rate (IPI for 2002) [(B) - 1.0000]	0.04704547				
	LIFO reserve attributable to base inventory	<u>188,181.88</u>	(O)	188,181.88		
	2001 layer/increment at base year cost	630,687.24	*			
	Effective inflation rate for current year	0.02127980	(N)			
	LIFO reserve attributable to 2001 layer	<u>13,420.90</u>	(P)	13,420.90		
	LIFO reserve at end of current year (2002)		(O+P)	<u>201,602.78</u>		
* Note: In this reconciliation, the layers of ending inventory at Dec. 31, 2002 are expressed in base dollar equivalents, not at their LIFO valuations. The 2002 layer of increment (\$335,668.23) does not contribute to the LIFO reserve because its LIFO valuation is determined by the cumulative index at the end of the year.						

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