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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. WELCOME TO OUR 18th YEAR OF PUBLICA-

<u>TION & THE "NEW" LIFO LOOKOUT</u>. This is the first issue or edition of the *LIFO Lookout* under our new schedule for providing you with reliable, practical information concerning major LIFO developments on a need-to-know basis.

Whenever a major tax case is decided or the IRS issues a major ruling or other guidance that significantly affects our practices, that development will become the basis for a "Special Edition" of the *LIFO Lookout*.

There also will be a *LIFO Lookout* "Year-End" major update and planning issue (as there has been in the past). The Year-End issue will also include all of the detailed annual inflation rate information that you can use for dealership LIFO reserve change projections and financial statement conformity estimates.

There may be a mid-summer issue or an autumn issue, if there are other LIFO developments of significance to report. However, that will depend on the nature and significance of the events that present themselves, rather than on the regularity of the passage of time in quarterly intervals.

Within each issue of the *Lookout*, there will be the usual *"LIFO Update"* section with my signature bulletpoint update on new recent developments. In addition, a new section - the *"LIFO Bulletin Board"* - will summarize selected other LIFO developments. You can check out these *Bulletin Board* developments since our last issue on pages 2-3.

(By the way, one of these may shock you ... if you recently terminated a dealership's LIFO election and thought it could be done by filing Form 3115 and treating the termination as an automatic change in method.)

I hope you'll like this new approach and welcome your feedback on it.

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## #2. AUTOMOBILE DEALERSHIPS CAN NOW USE A SINGLE, COMBINED LIFO POOL FOR ALL

**NEW VEHICLES.** This is the major development featured in this Special Edition of the *LIFO Lookout*. We've covered all of the nitty-gritty details, including how you can help your dealership clients understand and make these changes ... when the time is right.

Don't jump to the conclusion (or assume) that a dealership should automatically make the change for 2007 ... or that it should wait until 2008. The change for 2007 can be made either on the calendar year 2007 income tax return when it is filed ... or on an amended return for 2007.

What you need to know right now, along with all the details, is inside.

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# DE FILIPPS<sup>®</sup> LIFO BULLETIN BOARD

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#### 1. Inflation Indexes for 2007 Under the Alternative LIFO Method Again Beat IPIC/BLS Deflation

Last year, two full issues of the *LIFO Lookout* were devoted to explaining why it would be inadvisable for an auto dealership electing LIFO to give up almost all of its LIFO benefits by electing to use the IPIC/BLS Method.

The June 2007 issues of the *Lookout* demonstrated conclusively that *the Alternative LIFO Method would result in higher cumulative inflation indexes* ... *and considerably greater LIFO reserves* for an auto dealership than if the IPIC/BLS Method indexes, in whatever variation, had been used.

For Dec. 31, 2007 inventories, we've seen relatively modest amounts of inflation in our LIFO computations ... Chrysler inventories reflecting 1-2% inflation and most of the other makes somewhat less. Although these results may not be much on an absolute scale, as shown below, they are certainly preferable to the deflationary results that dealerships using the IPIC method would have to use for 2007.

Source: Bureau of Labor Statistics (www.bls.gov)	2003	2004	2005	2006	2007
PPI Indexes (Table 6)					
Passenger Cars (New) (141101)	2.0%	1.7%	-3.4%	-0.3%	-0.2%
Trucks (New) <= 14,000 lbs. (141105)	2.3%	1.0%	-5.9%	1.5%	-1.6%
CPI Indexes (Table 3)					
New cars (45011)	-2.1%	0.5%	0.8%	0.2%	-0.4%
New trucks (45021)	-1.5%	0.5%	-1.9%	-2.0%	-0.2%
Used cars & trucks (Seta02)	-11.8%	4.8%	1.4%	-2.2%	0.5%

#### 2. Appeals Court Affirms LIFO Calculation Disaster for Huffman Automobile Dealerships

**Background.** The June 2006 issue of the *LIFO Lookout* was devoted to analyzing what was a real disaster for an auto dealership when its accountant did not properly do the LIFO computations. In *Dow A. and Sandra E. Huffman, et al. v. Commissioner* (126 T.C. No. 17), filed May 16, 2006, the Tax Court reviewed the LIFO computations made over long periods of time by four automobile dealerships doing business in Kentucky. These computations were supposedly made using the link-chain, dollar-value LIFO method. In auditing the dealerships, the IRS refused to accept their calculations because the CPA had consistently omitted the critical step of properly valuing inventory increments in all of the computations for periods ranging from 11 to 21 years.

The CPA/accountant responsible for the LIFO calculations for the Huffman dealerships was consistent, without exception, in applying his method of making the link-chain computations each year, for each member, beginning with the year that the member initially elected the link-chain method and continuing thereafter. (He was just consistently wrong.)

The Tax Court permitted the IRS to adjust the first open year of each of the dealerships and to properly revalue the dealership's inventory because the adjustments constituted a change in the method of (LIFO) accounting. The IRS was permitted to make these adjustments by Section 481(a). There was no statute of limitations preventing the adjustments, despite several prior IRS audits which apparently "looked at" these calculations.

**Recent development.** On March 4, 2008, the U.S. Court of Appeals for the 6<sup>th</sup> Circuit affirmed the Tax Court holding in this case. The opinion of the 6<sup>th</sup> Circuit state: "It cannot seriously be argued that the consistent correction in this case to the repeated identical error in calculating yearly carryover inventory values is not a 'change in method of accounting,' in the plain English sense of the words." The Court said, "We are fully satisfied that the Regulation precludes application of either the 'mathematical error' or the 'computational error' exception on the facts of this case."

In referring to a prior Tax Court opinion, emphasis was placed on the fact that "systemic flaws" in a taxpayer's method of accounting cannot be described as mere mathematical or posting errors. While the lawyers ... and the judges ... were parsing legal technicalities and interpretations, no one noticed that even the Tax Court had incorrectly applied the link-chain method to the facts in this case in trying to explain it.

What is clear from *Huffman* is that if the proof and reconciliation techniques that we have so often illustrated in the *LIFO Lookout* had been applied to the LIFO computations, it would have been readily evident that they were clearly erroneous.

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# DE FILIPPS' LIFO BULLETIN BOARD

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# 3. Would You Believe ??? ...

### Dealerships that Terminated Their LIFO Elections ... May Actually Still Be on LIFO!

**Background ... Flashback #1.** In the September 2005 issue of the *LIFO Lookout*, Update #7 brought to your attention the following ... "Catch-22" ... Dealer LIFO Election Termination Problems. There, we noted that when the IRS liberalized its procedures for the termination of LIFO elections in Rev. Proc. 2002-9, the wording was such that significant problems could emerge in the future ... if the IRS ever became very picky ... over whether the method of accounting employed by the taxpayer after terminating its LIFO election was a "permitted method."

We noted that for several years, there seemed to be no problems, but that recently (i.e., circa Sept. 2005), the National Office had been rejecting Forms 3115 that were being filed for automatic terminations of LIFO elections under Rev. Proc. 2002-9. It appeared that the IRS was taking the position that dealerships could not use the automatic change provisions to go off of LIFO because they are using different methods of accounting for their non-LIFO inventories (i.e., if they are not using the same method for all of their non-LIFO inventories).

The technical language gave no consideration to the acceptability of the use of the replacement cost method for parts inventories in Revenue Procedure 2002-17.

**Background ... Flashback #2.** In the March 2006 issue of the *Lookout*, we again repeated these concerns in connection with the sample proforma Form 3115 for LIFO terminations. See Update #6, page 3 of the March 2006 *LIFO Lookout*.

**Recent development.** This position of the IRS creates significant problems for CPAs who thought they had terminated their dealers' LIFO elections when they filed Form 3115 (automatic change) and never heard back from the IRS. At some future date, they might find out that they should have filed Form 3115 before the end of the year under Rev. Proc. 97-27. Talk about a "Catch-22."

Just recently, I have experienced this situation again with the National Office and discussed it with the IRS Motor Vehicle Technical Advisor. It seems that the IRS' position all along has been that a dealership's automatic change request would be denied not because replacement cost for parts was a prohibited method, but because all non-LIFO inventory was not on the same method.

Apparently, there is nothing unusually difficult involved here. It's just a matter of the IRS requiring taxpayers to know before the year is over that they are going to terminate their LIFO election for the year so that they can file Form 3115 for permission to change before the end of the year of change. And, of course, pay the appropriate user fee.

Query: What should a dealership do if it previously (thought it) terminated its LIFO election, and since then, it has not been using the LIFO method? Should it file amended income tax returns for all of the intervening years? Should it apply for a Ruling and "confess" to a LIFO financial statement conformity violation? (Obviously, in this circumstance, the dealership would not have reflected LIFO on its year-end financial statements if it thought it was not on LIFO.)

In these gray area LIFO termination situations, is there still a 4-year spread period for the recapture of the dealership's LIFO reserve? ... Or, might the IRS insist on the full LIFO reserve being picked up in income 100% in the year? ... Or, is the dealership still on LIFO (if the IRS will waive its innocent violations of the financial statement conformity requirements)?

So, if you recently terminated a dealership's LIFO election by filing Form 3115 after the end of the year as an automatic (consent-granted) change ... Not so fast there, Big Fella.

The current position of the (National Office of the) IRS as it relates to auto dealerships and their use of the replacement cost method could be a big problem for you. And, by the way, this position of the IRS impacts not just auto dealerships, but all businesses if they use replacement cost to value their parts inventories and other accounting methods for valuing their other inventories.

I believe there is need for immediate guidance from the IRS and have passed along my concerns over this to NADA and to the IRS Motor Vehicle Technical Advisor. Readers' comments and suggestions are solicited.

A Periodic Update of LIFO - News, Views and Ideas

# EVALUATING THE "NEW & IMPROVED" SINGLE, COMBINED LIFO POOL METHOD FOR NEW VEHICLES

## INTRODUCTION

Good news for automobile dealerships using LIFO came from the IRS at a bad time. The good news is that in Revenue Procedure 2008-23, the IRS finally conceded that an auto dealership will be allowed to place all of its new vehicles in a single, combined pool for LIFO purposes.

The bad timing was that the release date of Rev. Proc. 2008-23 on March 7, 2008 could not have come at a worse time for many CPAs up to their eyeballs in doing LIFO calculations for 2007 and racing to meet the March 15 or April 15 filing deadlines for dealers who "under no circumstances" wanted the filing of their income tax returns extended.

But, after reflecting on this "good news" and thoroughly embracing it ... I couldn't help but wonder if, just perhaps, the IRS might be setting us up for some really, really bad news on the Section 263A side of the ledger. I don't mean to be cynical, but ... as long-time readers of this publication ... you know that the IRS moves in strange ways, often grossly overlooking the practical side of things in pursuit of technical perfection.

A word or two about terminology. Revenue Procedure 2008-23 uses the term "Vehicle-Pool" Method to refer to the new method which permits the combination of automobiles and light-duty trucks into a single pool. I prefer to use a slightly longer, but more descriptive term ... "single, combined LIFO pool" (method) and have done so in most of the writing in this issue of the *Lookout*.

This single-pool approach for new vehicles on LIFO is also available for used vehicles on LIFO. (More about that later.)

#### WHY THE SINGLE POOL METHOD IS ATTRACTIVE TO DEALERSHIPS

For LIFO purposes, the general rule has always been ... "The fewer (or smaller) the number of pools, the better." Four pools would be preferable to seven or eight; three pools would be preferable to five ... Better yet, one pool would be preferable to more than one.

The ability of a dealership (or any taxpayer, for that matter) to be able to use a smaller number of pools, rather than a larger number of pools, will have the effect of prolonging the LIFO reserve over time and comparatively mitigating the rate of payback of the LIFO reserves that have been built up during the years the LIFO election has been in place.

That's because under the dollar-value LIFO method, a dealership's year-end inventory is treated as an investment of dollars. Throughout the year and in reality, on a daily basis - a dealership's levels of inventory will fluctuate as sales occur and deliveries are received or leave the Factory destined for the dealership.

Although these inventory levels change every day and at every month-end, for LIFO purposes, the only thing that really matters is the inventory levels at the end of the year. For a number of reasons or factors, a dealership may find that its year-end level of inventory has significantly decreased, compared to the prior year-end level.

Some of these factors are within the dealer's control (i.e., inventory management decisions and/or negotiation with the manufacturer regarding the acceptance or non-acceptance of vehicles available for delivery). Other factors affecting year-end inventory levels are completely outside the dealer's control (i.e., decisions of the manufacturer to discontinue a model or a work-stoppage or strike that limits production and the availability of vehicles at yearend).

Although a dealership's total investment of dollars in its inventory might remain fairly constant over time, recent events and developments in both the U.S. and global economies have reflected themselves in significant patterns that, in some parts of the country, have resulted in significant shifts in the dealership's dollars in new car pools vis-à-vis the dollars in new light-duty truck pools.

Also, certain regional preferences for one type/ class of vehicle (i.e., trucks over cars) have long been evident.

However, as buyer preferences become more significantly influenced by fuel economy considerations and other environmental concerns - not to mention (state) regulatory restrictions - a dealership's investment in its "car" inventory versus its "truck" inventory levels can be expected to be affected by and follow these shifts in customer demand.

In some cases, the dealership may experience a shift from a higher level of dollar investment in its lightduty truck pool to a higher investment of dollars in its

> see COMBINED LIFO POOL METHOD, page 6 A Periodic Update of LIFO - News, Views and Ideas

# *Rev. Proc.* 2008-23

## THE VEHICLE-POOL (SINGLE, COMBINED POOL) LIFO METHOD FOR AUTOMOBILE DEALERSHIPS & ALTERNATIVE RULES FOR CLASSIFYING "CROSSOVER" VEHICLES

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#### Combined LIFO Pool Method

car/automobile pool. In these circumstances, assuming the dealership is using separate pools for cars and for trucks (as required by the Alternative LIFO Method for New Vehicles), the dealership could expect to have its previously built-up LIFO reserves decreased by the impact of these changes in inventory levels.

Therefore, the dealership's ability to combine all new vehicles in a single LIFO pools means that if, at yearend, the dealership's investment in new cars were to (significantly) decrease while its investment in new light-duty trucks were to(significantly) increase, then that dealership would experience less recapture of the LIFO reserve (if any at all) in that year.

This result would happen because (1) all of the vehicles were in the same pool and (2) the *increase* in the dealership's investment of dollars in one class of goods on LIFO *would offset the decrease* of the investment of dollars in the other class of goods on LIFO in that same pool.

In other words, as long as the dealership's total investment of dollars in new vehicles did not decrease, the dealership would experience little, if any, payback (of the LIFO reserve it has built up) due to a decrease in one of its classes of new vehicle inventory. The "ups and downs" would offset each other ... increases in cars offsetting decreases in trucks or vice-versa.

Across the board impact. A dealership's yearend inventory levels of both new vehicles and used vehicles are affected by these changes in the patterns of customer preferences and resulting supply and demand.

**Used vehicle LIFO.** In my experience, many dealerships still are using the LIFO method for their used vehicle inventories. These dealerships adopted the LIFO method decades ago and have built up significant LIFO reserves. They elected to use the Alternative LIFO Method for Used Vehicles when it became available in 2001 and have more recently weathered the impact of deflation and declining inventory levels on their LIFO reserves.

The bottom line is that these dealerships are still far ahead on the game, having elected LIFO for their used vehicles, and staying with it over the years. As a result, for these dealerships, this change/opportunity presented by Rev. Proc. 2008-23 for their used vehicle inventories on LIFO is far from an academic or theoretical consideration. It is an important new development.

#### (Continued from page 4)

#### **ARE THERE ANY DISADVANTAGES?**

Yes, there are a few. One disadvantage would relate to the potential combination of different rates of inflation or deflation in two pools interacting differently than if a single pool were used. I'll leave that for others to explore further. (However, this is evident in one of the case studies!)

There's another potential disadvantage... In our experience, some dealers have told us that they are concerned about how large their LIFO reserves have become. These dealers now are actively trying to not increase their LIFO reserves any more. In fact, these dealers would like to deliberately reduce their LIFO reserves - while staying on LIFO - because they see the eventual repayment of the LIFO reserves as a significant burden which they are facing with some degree of dread.

For these dealerships, making the change to the Vehicle-Pool (single, combined pool) Method might be inadvisable until such time as they have "managed their reserves" by managing their year-end inventory investment levels. In this case, don't overlook the concern described in the next section.

#### TIMING THE CHANGE ... WHEN SHOULD IT BE MADE?

Finally, there is definitely one potentially significant concern for some dealerships. Note: This is not a disadvantage of the single pool versus two pool category; rather, it is a disadvantage in terms of thinking about the timing for making the change to the single pool method. It's not about **whether** to make the change; it's about **when** to make the change.

If a dealership analyzes the potential benefit of using the Vehicle-Pool (single, combined pool) Method for 2007, it may find that it is definitely not to its advantage to make the change for 2007. In this case, the dealership may decide to make the change in 2008.

The concern in this instance is that for this dealership, the change for 2008 may not be an automatic change. Instead, the dealership may have to request advance permission from the IRS to make the change. This is explored more fully in several accompanying discussions, and it has to be carefully evaluated because it may hinge on technical wording that IRS technicians may interpret differently.

#### WHAT'S INVOLVED WITH MAKING THE CHANGE?

**Special calculations are required.** These are not really difficult, but they do require careful attention. The new automobile and the new light-duty truck pools must be combined in accordance with rules found in the Regulations.

see COMBINED LIFO POOL METHOD, page 8 A Periodic Update of LIFO - News, Views and Ideas

Executive Summary	Dealerships May Now Use a Single, Combined LIFO Pool For All New (or for All Used) Vehicle Inventories
What's the Bottom Line?	<ul> <li>In Revenue Procedure 2008-23, the IRS finally concedes that an automobile dealership will be allowed to pool all new vehicles in a single, combined pool for LIFO purposes.</li> <li>This can be accomplished by electing/adopting/choosing to use the <i>"Vehicle-Pool" Method</i>.</li> <li>This single-pool approach for vehicles on LIFO is also available for used vehicles.</li> </ul>
Effective Date	• Generally, applies to taxable years ending on or after December 31, 2007.
Advantages	<ul> <li>For taxpayers, the general rule has always been that, for LIFO purposes, the fewer the number of pools, the better.</li> <li>Therefore, purely from a LIFO standpoint, the ability of a dealership (or any taxpayer, for that matter) to be able to use a smaller number of pools, rather than a larger number of pools, over time, will have the effect of prolonging the LIFO reserve and comparatively mitigating the payback of LIFO reserves that have been previously built up.</li> <li>In other words, as long as the dealership's total investment of dollars in new vehicles does not decrease, the dealership should experience little, if any, payback (of the LIFO reserve it has built up) due to a decrease in one of its classes of new vehicle inventory.</li> <li>Using the single, combined LIFO pool method completely eliminates all of the (past and future) questions or debates with the IRS over whether a particular "crossover" vehicle should have been put in one pool or the other for LIFO purposes.</li> </ul>
Disadvantages	<ul> <li>Hard to think of any, offhand But, theoretically, there are a few.</li> <li>One concern: If a dealership analyzes the potential benefit of using a single pool for 2007 and finds that it is definitely not to its advantage to do so, and therefore, it decides to make the change in 2008 The change for 2008 may not be automatic. That has to be carefully evaluated.</li> <li>For some dealerships, changing to a single, combined pool might be inadvisable until such time as they have "managed their reserves" by managing their year-end inventory investment levels.</li> </ul>
Recommendation	<ul> <li>Generally, dealers should embrace the opportunity to change to a single pool for LIFO purposes.</li> <li>Because of the concern mentioned above, in some cases, it may be better to make the change effective for calendar year 2007 (than to wait until 2008 and have to get IRS permission in advance).</li> </ul>
Form 3115 Filings to Make Changes	<ul> <li>Generally, change to the Vehicle-Pool (single, combined pool) Method is an automatic change if made for 2007. Advance approval from the IRS to make the change is not required.</li> <li>No filing fee is required.</li> <li>There is no Section 481(a) adjustment because use of the cut-off method is required.</li> <li>Careful attention must be given to procedural aspects of filing Form 3115 if the change is to be made on an amended return filed for calendar year 2007.</li> <li>The change may not be automatic if it is made for 2008.</li> </ul>
Special Calculations Required	<ul> <li>The new automobile and light-duty truck pools must be properly combined.</li> <li>Special adjustments are required if the base years (i.e., the origins of the LIFO computations in the two pools) are different.</li> <li>After the LIFO pools are combined, the indexes (i.e., the valuation factors) for the layers in the resulting single pool must be rebased to 1.0000.</li> </ul>
What About "Crossover" Vehicles?	<ul> <li>Is it fish or fowl? Is "crossover vehicle X" an automobile? Or, is it a (light-duty) truck?</li> <li>The question of what LIFO pool to put a "crossover" vehicle in becomes academic if the dealership elects the Vehicle-Pool (single, combined pool) Method.</li> <li>If a dealership, for whatever reason, does not change to the Vehicle-Pool (single, combined pool) Method</li> <li>The new rule is that the crossover vehicle must be assigned to whichever pool "is more reasonable under all the facts and circumstances."</li> <li>This rule is applicable to both new vehicles and to used vehicles on LIFO.</li> <li>This rule could have change in (LIFO) accounting method implications depending on how the dealership previously pooled "crossover" vehicles.</li> </ul>
Citation	• Revenue Procedure 2008-23, published March 7, 2008 (2008-12 I.R.B. 1)

#### **Combined LIFO Pool Method**

These rules require further special computations if the base years (origins of the LIFO computations in the two pools) are different. For example, a Pontiac dealer might have elected LIFO for new vehicles in 1985. However, it might not have had its first lightduty truck or crossover vehicle until 1993. In these instances, one cannot simply combine the LIFO layer histories for the dealership's two pools. It is necessary to make an adjustment to reduce the amount of base dollars in the later LIFO pool to reflect its cheaper dollars.

Also, after the LIFO pools for new automobiles and new light-duty trucks are combined, the indexes/ valuation factors for the resulting single pool must be rebased to 1.000.

The step-by-step analyses and our sample worksheets and case studies clearly illustrate the care and attention to detail that should be exercised so that no amount of the dealership's LIFO reserve is lost in making the required computations.

#### FORM 3115 FILINGS TO MAKE CHANGES

Generally, the dealership's change to the Vehicle-Pool (single, combined pool) Method is an automatic change ... if is being made for 2007. Advance approval from the IRS to make the change is not required. No user filing fee is required, and there is no Section 481(a) adjustment because Rev. Proc. 2008-23 permits - it actually requires - use of the cut-off method.

*Caution.* If the change to the single pool method is to be made on an amended return filed for calendar year 2007, careful attention must be given to procedural aspects of filing Form 3115. All of this is thoroughly detailed in the accompanying discussions.

A second reminder/alert. If it is intended or planned that the change to the single pool method will not be made until 2008, complications could arise the change may not be automatic - if the dealership has made another LIFO change in the preceding 5 years. So, watch out for this.

#### WHAT ABOUT "CROSSOVER" VEHICLES

The question of what LIFO pool to put a "crossover" vehicle in will become academic if the dealership elects the Vehicle-Pool (single, combined LIFO pool) Method.

However, some dealerships, for whatever reason, may not (1) want to use or (2) properly change to the Vehicle-Pool (single, combined LIFO pool) Method. They certainly are not required by the IRS to make this change in pooling.

#### (Continued from page 6)

So, if a dealership does not make the change, then Rev. Proc. 2008-23 introduces a new rule for classifying crossover vehicles for LIFO pooling purposes. It does not mandate that all crossover vehicles will be placed in the same pool year after year. Instead, each year, a facts and circumstances determination must be applied on a case-by-case basis. This new rule will apply to both new crossover vehicles and to used crossover vehicles on LIFO.

There is a hidden trap lurking in here, but it may be so technical that it doesn't even show up on many radar screens. But, for the record, here it is ... For these dealerships (i.e., those that are not changing to the single, combined LIFO pool method), there could be other change in (LIFO) accounting method implications depending on how they previously determined the pool in which to place "crossover" vehicles.

#### **CASE STUDIES & PROFORMAS**

As Warren Buffett often says ... "We eat our own cooking." For dealers who now want to change over to the 2008-23 single pool method, I have included proforma information for Form 970 (for initial LIFO elections) and Form 3115 (for changing existing two-pool methods) filings with the IRS.

I've also included a sample letter to auto dealerships who are currently using the two-pool approach (one for new autos and one for new lightduty trucks) required by the Alternative LIFO Method.

It is my intention that these sample worksheets, proformas and case studies will help you avoid having to "reinvent the wheel" by giving you a head-start in dealing with these situations. However, they have to be modified to fit your exact situation. So, please be sure to read the forms, instructions and our proforma supplementary responses carefully. Be sure to tailor your responses on the Forms that you are preparing to the specific facts and circumstances of the dealership you are preparing them for.

#### CONCLUSION

For the average closely-held dealership, Rev. Proc. 2008-23 harkens back to where I was 35 years ago, putting all of a dealership's new vehicles (including demonstrators) into a single pool.

Overall, it seems that dealers should embrace the opportunity to change to a single pool for LIFO purposes that is now permitted in Revenue Procedure 2008-23. Because of the concerns mentioned above, it may be better for some dealerships to make the change effective for calendar year 2007, rather than to wait until 2008.

IRS NOW APPROVES A SINGLE LIFO POOL FOR ALL NEW VEHICLES

Sample Letter

April \_\_\_\_, 2008

Mr./Ms. Dealer and/or CFO XYZ Dealership Group

Dear \_\_\_\_:

In Revenue Procedure 2008-23, the IRS recently announced that it would permit automobile dealerships to use a single, combined pool for their new vehicle LIFO calculations. The IRS will permit this change to be made as early as for your calendar year 2007 LIFO calculations.

Generally, a dealership will be better off with one LIFO pool than two for its new vehicles. With one pool, a dealership will be able to preserve the benefits of its LIFO election for a longer period of time, even though that dealership may experience a reduction of dollars invested in one class of goods (new automobiles) compared to another (new light-duty trucks). Since most dealers want to defer the repayment of their LIFO reserves for as long as possible, this recent change by the IRS is very good news.

It is advisable to compare the results of your 2007 LIFO calculations which were made using two separate pools with the result that you would have if a single new vehicle LIFO pool were used for your 2007 calculations. This comparison will indicate whether there is a compelling reason to make the change for 2007 in order to avoid any immediate significant repayment of your LIFO reserve. (In some instances, based on this comparison, a single LIFO pool for 2007 might not produce a more beneficial result.)

The mechanics of making the change (filing Form 3115) and following the computational requirements do not affect the amount of the LIFO reserve previously built up by your dealership before 2007.

It is possible to make the change for calendar year 2007 by filing an amended return for 2007 if the income tax return has already been filed. However, in order to make this change effective for 2007, the amended return would have to be filed on or before either September 15, 2008 (if the original due date of the dealership's 2007 tax return was March 15) or October 15, 2008 (if the original due date of the dealership's 2007 tax return was March 15).

Some dealers have indicated that since their LIFO calculations for 2007 have already been completed, they would prefer to wait and consider making the change in connection with their 2008 LIFO computations. This is a logical response, and for most dealers, it would be the way to proceed.

*Potential "trap" to be avoided.* The new rules permit a dealership to make the change from two separate LIFO pools (for new vehicles) to a single, combined LIFO pool without first obtaining advance consent from the IRS. However, this automatic IRS consent only applies if the dealership makes the change effective for its first year ending on or after December 31, 2007.

If a dealership waits until 2008 (or a later year) to make the change, that dealership will be permitted to make the change as an automatic change only if, within the past 5 years (counting the year of change), that dealership has not previously made a change in its LIFO methodology. If within the past 5 years the dealership has made a different or another change in its LIFO methodology, it may be required to obtain advance permission from the IRS in order to change to the single, combined pool method.

Although obtaining advance permission from the IRS to make the change should not be difficult, this "non-automatic" procedure is decidedly more problematic. The dealership will be required to pay a user fee for the privilege of making the change. In addition, the Form 3115 requesting permission to make the change must be filed before the end of the year of change.

For these reasons, dealers seeking the course of least resistance in dealing with the IRS on LIFO matters may want to make the change to the single, combined LIFO pool method for 2007 ... rather than waiting until a later year.

As part of the Revenue Procedure, the IRS provides a similar opportunity to use a single, combined pool for all used vehicles on LIFO. There is no requirement that a dealership change to the single, combined pool method, and if it does not, there is now a new, clear-cut rule for determining how crossover vehicles should be assigned to the appropriate LIFO pool.

Please call at your convenience so that we can discuss this further and determine how to proceed for 2007.

A Periodic Update of LIFO - News, Views and Ideas

Quick Anst Guide	ver Dealerships May Now Use a Single, Combined LIFO Pool For All New (or for All Used) Vehicle Inventories Page 1 of 2
In general, isn Answer	<i>'t it always advisable to have only 1 LIFO pool instead of 2?</i> <ul> <li>Generally, yes.</li> </ul>
Answer	<ul> <li>Most dealerships have 2 pools for LIFO purposes?</li> <li>Most dealerships have two pools because they are using one of the IRS-approved safe-harbor methods for their LIFO calculations. Both methods require that the dealership have separate pools for automobiles and light-duty trucks.</li> <li>Rev. Proc. 97-36 The Alternative LIFO Method for New Vehicles</li> <li>Rev. Proc. 2001-23 The Alternative LIFO Method for Used Vehicles</li> </ul>
What started a	ll of this?
Answer	<ul> <li>Uncertainty over how to assign "crossover" vehicles to LIFO pools.</li> <li>There were differences in opinion and no clear rules for new crossover vehicles.</li> <li>Formal guidance from the IRS on this matter was needed.</li> </ul>
Is it always adv	isable to change to a single, combined LIFO pool for 2007?
Answer	<ul> <li>Not always. You need to "run the numbers" comparing a single pool versus two LIFO pools and analyze the results.</li> <li>In some cases, the change, if made for 2007, could actually cause the LIFO reserve to be smaller than it would be if separate pools were used.</li> <li>Another situation might be where the dealership actually wants to reduce its LIFO reserve and combining the pools for 2007 could have the opposite effect.</li> </ul>
When might it	be inadvisable to wait until 2008 to make the change?
Answer	• If the dealership has made LIFO changes within the last 5 years, then the "scope limitation" provision in Rev. Proc. 2002-9 very likely will apply and prevent the change (to the single, combined pool LIFO method) for 2008 from being an automatic change.
Can the change	e be made on an extended return for 2007?
Answer	• Yes But, watch the September 15 (or October 15) deadlines if the change is made on an amended return.
Can the change	be made on an amended return for 2007?
Answer	• Yes But, watch the September 15 (or October 15) deadlines if the change is made on an amended return.
Are there any d	eadlines for making these changes for 2007?
Answer	• Yes. See the "Deadlines" table on the facing page.
If a dealership	doesn't want to make the change, what happens?
Answer	• The dealership will be subject to the new pooling rule for crossover vehicles. This may or may not have potential change in accounting method implications for the dealership.
What is your re	commendation?
Answer	<ul> <li>Make the change for 2007 if there is a benefit in doing so.</li> <li>Otherwise, plan to make the change for 2008 But only if the dealership will be able to make the change as an automatic change. (This is discussed elsewhere.)</li> </ul>
Are there any s	pecial technical problems or requirements for combining the pools?
Answer	<ul> <li>Not really. There is no Section 481(a) adjustment required.</li> <li>The LIFO pools have to be combined and rebased, with appropriate attention given to the Regulations cited in Rev. Proc. 2008-23.</li> <li>Watch out for situations where the pools have different base years (i.e., origins for their base dollars). This will require special calculations and result in "disappearing base dollars" from the pool with the later starting date.</li> </ul>

Quick Answ Guide	er Dealerships May Now Use a Single, Combined LIFO Pool For All New (or for All Used) Vehicle Inventories Page 2 of 2
Should we attac	h the LIFO pool combination and rebasing calculations to Form 3115?
Answer	<ul> <li>No. Rev. Proc. 2008-23 requires that the LIFO pools be combined (as of the beginning of the year of change) and rebased to 1.000.</li> <li>There is no requirement that these computations be submitted with the Form 3115. These computations should be saved as permanent LIFO-related taxpayer records.</li> </ul>
Does this poolin	ng change have any effect on dealerships that changed from C to S status in prior years?
Answer	<ul> <li>No. The LIFO election for those dealerships was continued All that happened was that they</li> <li>Repaid their LIFO reserves as of the end of the last C Corp. year, and</li> <li>Created a special collapsed layer for all LIFO layers for pre-S Corp. years.</li> </ul>
What should a d	lealership do if it is electing LIFO for 2007?
Answer	• The dealership will file Form 970 ( not Form 3115) and indicate on page 2 of Form 970 (in response to the pooling question) that the dealership will be using the Vehicle-Pool Method prescribed by Rev. Proc. 2008-23.
Any "tips" in lo	ooking for potential change candidates?
Answer	<ul> <li>Look for situations in your 2007 LIFO calculations where one or both of the LIFO pools had decrements. Analyze the carryback of those decrements and the resulting "paybacks" of the LIFO reserves.</li> <li>In these instances, the key question is Would combining the pools for 2007 alter (i.e., reduce) the amount of the payback by creating a layer (or layers) with lower payback potential to absorb a decrement carried back from 2007?</li> <li>The inflation rate for the single, combined LIFO pool will have to be recomputed.</li> <li>The inflation rate for the new single pool will be between the rates computed for the separate pools, weighted more heavily toward the inflation rate for the pool with the larger current-year dollar amounts.</li> </ul>

Deadlines	Deadlines for Changing to Single, Combined LIFO Pool Effective for Calendar Year 2007	
September 15, 2008	<ul> <li>For calendar year entities with a March 15 initial due date for the filing of the 2007 income tax return, the deadline for the filing of the amended return for 2007 (with the Form 3115 attached) is September 15, 2008.</li> <li>Form 1120-X would be filed by</li> <li>C Corporations</li> <li>LLCs electing to be taxed as corporations</li> <li>S Corporations would <i>re-file</i> Form 1120-S checking Box H(4) on page 1.</li> </ul>	
Or		
October 15, 2008	<ul> <li>For calendar year entities with an April 15 initial due date for the filing of the 2007 income tax return, the deadline for the filing of the amended return for 2007 (with the Form 3115 attached) is October 15, 2008.</li> <li>Form 1065 would be <i>re-filed</i> by checking Box G(5) on page 1</li> <li>Partnerships</li> <li>LLCs electing to be taxed as partnerships</li> </ul>	
Five Co	onditions that Must Be Met When Changing on an Amended Tax Return for 2007	
Five Conditions to Be Met	<ul> <li>The Federal income tax return for the year of change must be timely filed (including extensions).</li> <li>The amended income tax return for the year of change must be filed within the 6-month extension period, reflecting the change in accounting method (i.e., using the single, combined LIFO pool method).</li> <li>The original Form 3115 must be attached to the amended income tax return when it is filed.</li> <li>At the top of the Form 3115, write the following words "Filed pursuant to Section 301.9100-2."</li> <li>A copy of the Form 3115 must be filed with the IRS National Office in Washington, D.C.</li> <li>This copy of Form 3115 must be filed no later than when the original Form 3115 is filed with the amended income tax return for the year of change.</li> </ul>	
As a	practical matter, it is almost impossible to obtain an extension of time by any other means.	

	THE VEHICLE DOOL (QUICE D. CONTRACT, DOOL) LIED MAN		
	The Vehicle-Pool (Single, Combined Pool) LIFO Method		
Rev. Proc.	FOR AUTOMOBILE DEALERSHIPS		
2008-23	& Alternative Rules for Classifying "Crossover" Vehicles		
	Technical Requirements: Analysis & Comment		
	Page 1 of 6		
	• IRS announces an alternative dollar-value Last-In, First-Out (LIFO) pooling method, for retail		
	dealers and wholesale distributors (collectively, "resellers") of cars and light-duty trucks.		
Summary	• <i>"Vehicle-Pool Method"</i> This is the name given to the new pooling method by the IRS.		
Guidance	<ul> <li>Exclusive procedures are also provided for obtaining automatic consent for a dealership to change to the Vehicle-Pool Method.</li> </ul>		
Provided	<ul> <li>If a dealership does not want to elect the single, combined pool method, new requirements are</li> </ul>		
	set forth for a permissible method of pooling for crossover vehicles.		
	<ul> <li>We shall refer to the new method as the "single, combined pool method."</li> </ul>		
	Sec. 1 Purpose See Summary above		
	• Sec. 2 Background		
	• Sec. 3 Scope		
Contents	• Sec. 4 Application		
of Day Droc	• Sec. 5 Audit Protection		
Rev. Proc.	• Sec. 6 Effect on Other Documents 5 of 6		
	• Sec. 7 Effective Date		
	Sec. 8 Drafting Information Omitted		
	• In this analysis, we have edited Rev. Proc. 2008-23 to eliminate some wording and citations		
	in order to make it easier to understand or follow.		
	• We have added, and clearly noted as "commentary," three sections to elaborate on		
	• The distinction between the old methods of treating crossover vehicles and the new rule for		
Added	classifying crossovers which integrates the rationale for the treatment of new vehicles and used vehicles.		
Commentary	<ul> <li>The potential change in LIFO method implications that are inherent in the new requirement</li> </ul>		
	for classifying crossover vehicles.		
	• The authority for concluding that an automobile dealership should be permitted to make		
	the change to use the Vehicle-Pool (single, combined pool) Method by filing an amended		
	return for 2007.		
	• Revenue Procedure 2008-23 is relatively short (as Revenue Procedures go), and this Section,		
Background	devoted to providing background information, accounts for 50% of the text.		
Section 2	• This Section discusses the Regulation framework, the case law and the circumstances		
Section 2	resulting in the issuance of the Revenue Procedure.		
	<ul> <li>For the details on this Section, see pages 18-19.</li> <li>This Pay, Prog. applies to any reseller of cars or light duty trucks.</li> </ul>		
	<ul> <li>This Rev. Proc. applies to any reseller of cars or light-duty trucks.</li> <li>These resellers may use the Vehicle-Pool (single, combined pool) Method if they are subject</li> </ul>		
	• These resellers may use the Vehicle-Pool (single, combined pool) Method if they are subject to the dollar-value LIFO pooling rules (in Reg. Sec. 1.472-8(c)(1)).		
	<ul> <li>This choice (or election) to use a single LIFO pool applies to dealership inventories of</li> </ul>		
	<ul> <li>New vehicles (if the Alternative LIFO Method in Rev. Proc. 97-36 is being used), or</li> </ul>		
	• Used vehicles (if the Alternative LIFO Method in Rev. Proc. 2001-23 is being used).		
Scope	• If a reseller does not want to (i.e., chooses not to) use the single, combined pool method		
-	• Specific rules are provided for the manner in which crossover vehicles must be classified		
Section 3	for LIFO pooling purposes.		
	<ul> <li>These pooling rules for classifying crossover vehicles are set forth in Section 4.02(1).</li> <li>These rules are heift the resultant.</li> </ul>		
	<ul> <li>These rules apply if the reseller</li> <li>Does not choose to use the Vehicle-Pool (single, combined pool) Method, and</li> </ul>		
	<ul> <li>Does not choose to use the Venicle-Pool (single, comomed pool) Method, and</li> <li>Is using either</li> </ul>		
	<ul> <li>The Alternative LIFO Method under Rev. Proc. 97-36 for new vehicles, or</li> </ul>		
	• The Alternative LIFO Method under Rev. Proc. 2001-23 for used vehicles.		
	<ul> <li>The Alternative LIFO Method under Rev. Proc. 97-36 for new vehicles, or</li> <li>The Alternative LIFO Method under Rev. Proc. 2001-23 for used vehicles.</li> </ul>		

Rev. Proc. 2008-23	The Vehicle-Pool (Single, Combined Pool) LIFO Method for Automobile Dealerships & Alternative Rules for Classifying "Crossover" Vehicles Technical Requirements: Analysis & Comment
Description of the Vehicle-Pool Method Section 4.01(1)	<ul> <li>Page 2 of 6</li> <li>Under the Vehicle-Pool Method, a reseller with new vehicles may establish a single, combined New Vehicle pool for all new vehicles</li> <li><i>"New vehicles"</i> includes new cars, new light-duty trucks and new crossover vehicles.</li> <li><i>"Crossover vehicles"</i> includes SUVs, vans, minivans, and other similar vehicles.</li> <li>In addition, a reseller with used vehicles may establish a Used Vehicle pool for all used vehicles.</li> <li><i>"Used vehicles"</i> includes used cars, used light-duty trucks, and used crossover vehicles.</li> <li>Any vehicle with a gross vehicle weight that exceeds 14,000 pounds may not be included in a pool established under the Vehicle-Pool Method.</li> </ul>
Change to the Vehicle-Pool Method Is Automatic (Section 4.01(2))	<ul> <li>Resellers are granted the Commissioner's consent to change to the Vehicle-Pool Method</li> <li>Automatic change. This permission to change pooling methods is automatic under Section 6.01 of Rev. Proc. 2002-9, which is modified in the following respects.</li> <li>The scope limitation in Section 4.02(6) of Rev. Proc. 2002-9 does not apply for the reseller's first taxable year ending on or after December 31, 2007, and</li> <li>The designated automatic accounting method change number for a change in method of accounting to the Vehicle-Pool Method is "112."</li> <li>Comment: This scope limitation (if it were not waved) would prevent the change in method from being an automatic change if the taxpayer - within the last five taxable years (including the year of change) - (1) had made a change in the same method of accounting, or (2) had applied to the IRS to change the same method of accounting without effecting the change.</li> <li>Comment: If a dealership waits until 2008 to make the change may not be automatic.</li> <li>A reseller also concurrently changing to the Alternative LIFO Method under Rev. Proc. 97-36 or the Used Vehicle Alternative LIFO Method under Rev. Proc. 201-23 should file a single Form 3115, Application for Change in Accounting Method, for both changes and enter both designated numbers on its Form 3115.</li> <li>For example, a reseller concurrently changing to the Alternative LIFO Method and the</li> </ul>
Other Technical Requirements in Connection with Making the Automatic Change to the Vehicle-Pool Method Section 4.01(2)	<ul> <li>Vehicle-Pool Method should enter both "58 and 112" on its Form 3115.</li> <li><i>Cut-off method.</i> The change must be made on a cut-off basis (Sec. 2.06 of Rev. Proc. 2002-9).</li> <li>Under a cut-off method, only the items arising on or after the beginning of the year of change are accounted for under the new method of accounting.</li> <li>Any items arising before the year of change continue to be accounted for under the taxpayer's former method of accounting.</li> <li>Because no items are duplicated or omitted from income when the cut-off method is used to effect a change in accounting method, no Section 481(a) adjustment is necessary.</li> <li>This means that there will be no recapture of any portion of the LIFO reserves of either pool.</li> <li><i>Combination of pools.</i> The requirements of Reg. Sec. 1.472-8(g) concerning the combination of LIFO pools must be complied with.</li> <li>For some dealerships, the LIFO pools will both have the same starting date in which case the combination of the pools will be relatively simple.</li> <li>For other dealerships, the LIFO pools will not have the same starting dates in which case the combination of the pools will require appropriate adjustments to reflect the difference in the timing of the starting of the LIFO computations for each pool.</li> <li><i>Rebasing of indexes to 1.000.</i> The indexes (i.e., valuation factors applied to the respective LIFO layers) must be restated with 1.000 as the index for the beginning-of-the-year-of-change.</li> <li>Instead of using the earliest taxable year for which the reseller adopted the LIFO method for any items in a pool, the reseller must use the year of change and subsequent taxable years (i.e., the cumulative index at the beginning of the year of change and subsequent taxable years (i.e., the cumulative index at the beginning of the year of change and subsequent taxable years (i.e., the cumulative index at the beginning of the year of change at base year when determining the LIFO value of that pool for the yea</li></ul>

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A Periodic Update of LIFO - News, Views and Ideas

Rev. Proc. 2008-23	THE VEHICLE-POOL (SINGLE, COMBINED POOL) LIFO METHOD FOR AUTOMOBILE DEALERSHIPS & Alternative Rules for Classifying "Crossover" Vehicles Technical Requirements: Analysis & Comment Page 3 of 6
Method of Pooling for Crossover Vehicles (if the Single-Pool Method Is Not Elected) Section 4.02(1)	<ul> <li>This method of pooling for crossover vehicles applies to dealerships using the IRS safe-harbor LIFO methodologies for new vehicles under Rev. Proc. 97-36 and/or for used vehicles under Rev. Proc. 2001-23.</li> <li>These dealerships are required to maintain separate pools for <i>new</i> cars/automobiles and for <i>new</i> (light-duty) trucks.</li> <li>Or, alternatively, if they are using the LIFO methodology under Rev. Proc. 2001-23 for <i>used</i> vehicles, they are required to maintain separate pools for <i>used</i> car/automobiles and for <i>used</i> (light-duty) trucks.</li> <li>If these dealerships do not adopt the Vehicle Pool (single, combined pool) Method described in Section 4.01(1), then they must assign new crossover vehicles to either the new car pool or the new truck pool, whichever is more reasonable under all the facts and circumstances.</li> <li>Or, alternatively, if they are using the LIFO methodology under Rev. Proc. 2001-23 for <i>used</i> vehicles, they are required to complete the reasonable under all the facts and circumstances.</li> <li>Or, alternatively, if they are using the LIFO methodology under Rev. Proc. 2001-23 for <i>used</i> vehicles, they are using the LIFO methodology under Rev. Proc. 2001-23 for used vehicles, they must assign used crossover vehicles to either the new car pool or the new truck pool, whichever is more reasonable under all the facts and circumstances.</li> <li>Or, alternatively, if they are using the LIFO methodology under Rev. Proc. 2001-23 for used vehicles, they must assign used crossover vehicles to either the used car pool or the used truck pool, whichever is more reasonable under all the facts and circumstances.</li> </ul>
Commentary on the New Method of Pooling for Crossover Vehicles (if the Single-Pool Method Is Not Elected)	<ul> <li>Note: in both cases, the criteria for the classification for the crossover vehicle is that it is to be assigned to "whichever [pool] is more reasonable under all the facts and circumstances."</li> <li>The distinction between the new "rule" in Rev. Proc. 2008-23 and the prior (old) pooling criteria is that</li> <li>For new vehicles (under the Rev. Proc. 97-36), the assignment of a new crossover vehicle to a particular pool was not necessarily binding on the assignment of another type of new crossover vehicle in a later year to that same new vehicle LIFO pool. Rev. Proc. 97-36 is/was silent on this.</li> <li>For used vehicles (under the Rev. Proc. 2001-23), the assignment of a used crossover vehicle to a particular pool was binding on the assignment of another type of used crossover vehicle that appeared in a later year.</li> <li>That crossover vehicle (which appeared in inventory in a yearend after the appearance of the first crossover vehicle) was required to be placed in the same pool that received the assignment of the first crossover vehicle in the earlier year.</li> <li>In other words, once the taxpayer had assigned one used crossover vehicle to a particular pool, that taxpayer - in all future years - was always required to assign all used crossover vehicles to that same pool.</li> <li>The exact wording of this requirement is in Section 4.02(3) of Rev. Proc. 2001-23 "Used sport utility vehicles and used hybrid vehicles (e.g., vans and mini-vans) may be included initially in either the used automobile or the used light-duty truck dollar-value LIFO pool; however, once a choice is made, all like vehicles must be similarly treated in subsequent years."</li> </ul>

Rev. Proc. 2008-23	THE VEHICLE-POOL (SINGLE, CON FOR AUTOMOBILE & ALTERNATIVE RULES FOR CLASS TECHNICAL REQUIREMENTS	Dealerships "Ifying "Crossover" Vehicles
Commentary on Potential Change in LIFO Method Implications that Are Inherent in the New Requirement For Classifying Crossover Vehicles (if the Single-Pool Method Is Not Elected) Section 4.02(1)	<ul> <li>The basic change in this regard made by classification of a crossover vehicle to a particulation of a crossover vehicle to a particulation of a crossover vehicle to the elassification requirement for result in a change in method for the new vehice Alternative LIFO Method under Rev. Proc. 97-3</li> <li>No potential change in method. There new reception of a crossover vehicle to a particular new car or reference to) which pool a crossover vehicle in a crossover vehicle to a particular new car or reference to) which pool a crossover vehicle in a for example If in Year 1, "crossover vehict then in Year 2 (or Year 3), the assignment of be made to either the new car pool or the method if these dealerships, on a year-by-year crossover vehicle to a particular new car or new specific reference to) which pool the first crossover vehicle to a particular new car or new specific reference to) which pool the first crossover vehicle to a particular new car or new crossover vehicle to a particular new car or new crossover vehicle to a particular new car or new specific reference to) which pool the first crossover vehicle to a particular new car or new crossover vehicle to a particular new car or new crossover vehicle to a particular new car or new specific reference to) which pool the first crossover vehicle to a particular new car or new crossover vehicle to the new car pool would be 2008-23. This is because the new rule requirement car or new crossover vehicle must be dependent of under all the facts and circumstances."</li> <li>For dealerships (previously) making crossover as prior year" basis, the new "rule" of R implications.</li> </ul>	ular pool in a later year will not be dependent a particular pool in an earlier year. is more reasonable under all the facts and or crossover vehicles may or may not cle LIFO inventories of dealerships using the 36. quirement would not impose a change in LIFO by-year basis, had been making the assignment or new truck pool independent of (i.e., without a prior year had been assigned to. cle A" were assigned to the new car pool, another new "crossover vehicle B" could new light-duty truck pool, depending on all the facts and circumstances." ons on this basis, the new "rule" of Rev. Proc. ions. ment would impose a change in LIFO pooling basis, had been making the assignment of a ew truck pool based entirely upon (i.e., with rer vehicle in a prior year had been assigned to. cle A" were assigned to the new car pool, igning another new "crossover vehicle B" contrary to the new "rule" of Rev. Proc. tires that the assignment of a subsequent on "whichever [pool] is more reasonable
Section 4.02(2) Change to the "New" Method of Pooling for Crossover Vehicles Is Not Automatic	<ul> <li>For this change, IRS permission must be secchange. A reseller using the overall LIFO m vehicles (or using the LIFO methodology under wants to change to the (sub-) method of pooling Procedures must apply to the IRS for advance p</li> <li>Taxpayers must use the provisions of Rev. Proc. 9</li> <li>This is a more complex requirement because o</li> <li>Generally, a Section 481(a) adjustment is not LIFO inventories and it is being made voluntarilie. Use of the cut-off method is permitted.</li> <li>LIFO indexes (usually) are required to be rebained of the year of change.</li> <li>Payment of a user fee is required with the filing of the year of change is required to be filed.</li> <li>If a Section 481(a) adjustment is required, there adjustments if less than \$25,000, they can be</li> <li>Rev. Proc. 2002-19 permits a negative Section the year of change.</li> </ul>	hethodology under Rev. Proc. 97-36 for new ber Rev. Proc. 2001-23 for used vehicles) that g for crossover vehicles under these Revenue bermission to make the change. 97-27, as subsequently modified and amplified. f many changes to Rev. Proc. 97-27 over time. required where the method change involves y by the taxpayer. ased. RS, the taxpayer must file Form 3115 before of the application. grant or deny approval) before the tax return e is a four (4)-year spread period for positive fully absorbed in the year of change.
A Periodic Update of LIFO - Nev	ws, Views and Ideas	Photocopying or Reprinting Without Permission Is Prohibited

Rev. Proc. 2008-23	THE VEHICLE-POOL (SINGLE, COMBINED POOL) LIFO METHOD FOR AUTOMOBILE DEALERSHIPS & ALTERNATIVE RULES FOR CLASSIFYING "CROSSOVER" VEHICLES TECHNICAL REQUIREMENTS: ANALYSIS & COMMENT Page 5 of 6
Section 5 Audit Protection	<ul> <li>A reseller's use of the Vehicle-Pool (single, combined pool) Method on a Federal income tax return filed before March 7, 2008, will not be raised as an issue by the Service.</li> <li>[Comment: This seems to mean that, if a dealership had elected to use the Alternative LIFO Method, but deliberately ignored the 2-pool requirement that is part of the methodology, the taxpayer is now rewarded for failing to comply with this requirement.]</li> <li>In addition, if a reseller's use of the Vehicle-Pool Method on a Federal income tax return filed before March 7, 2008, is an issue under consideration in an examination, in an appeals office, or before the Tax Court, the issue will not be further pursued by the Service.</li> <li>However, this audit protection extends only to the question of whether the reseller has established the appropriate number of pools under Reg. Sec. 1.472-8(c)(1).</li> <li>This (limited) audit protection does not prohibit the Service from raising or pursuing other inventory-related issues in an examination, in an Appeals Office and before the Tax Court.</li> </ul>
Section 6 Effect on Other Documents	<ul> <li>Changes to Rev. Proc. 97-36</li> <li>Rev. Proc. 97-36 is modified to permit an automobile dealer to establish a New Vehicle pool for inventories of new cars, new crossover vehicles and new light-duty trucks.</li> <li>Rev. Proc. 97-36 is modified to require an automobile dealer that maintains separate new car and new truck pools (under Section 4.02(1) of Rev. Proc. 97-36) to assign new crossover vehicles to either the new car pool or the new truck pool, whichever is more reasonable under all the facts and circumstances.</li> <li>Changes to Rev. Proc. 2001-23</li> <li>Rev. Proc. 2001-23 is modified to permit a used vehicle dealer to establish a Used Vehicle pool for inventories of used cars, used crossover vehicles and used light-duty trucks.</li> <li>Section 4.02(3) of Rev. Proc. 2001-23 is modified to require a used vehicle dealer that maintains separate used car and used truck pools to assign used crossover vehicles to either the used car pool or the used truck pool, whichever is more reasonable under all the facts and circumstances.</li> </ul>
Section 7 Effective Date	<ul> <li>In general, Revenue Procedure 2008-23 is effective for taxable years ending on or after December 31, 2007.</li> <li>This means that dealerships may elect to use the Vehicle-Pool (single, combined pool) Method for their calendar year 2007 LIFO computations.</li> <li>However, the provisions relating to the new requirements for the pool classification of crossover vehicles are effective for taxable years ending on or after March 7, 2008.</li> <li>These rules are set forth in Sections 4.02, 6.01(2) and 6.02(2) of Rev. Proc. 2008-23.</li> </ul>
Commentary on Effective Date & Implementing Change	<ul> <li>The change to the Vehicle-Pool (single, combined pool) Method can be made on an amended return for 2007.</li> <li>However, special procedural rules must be followed in this case.</li> <li>The IRS should permit an automobile dealership to make the change to use the Vehicle-Pool (single, combined pool) Method by filing an amended return for 2007.</li> <li>For discussion, see page 6 of 6.</li> </ul>
Citation	• Revenue Procedure 2008-23, published March 7, 2008 (2008-12 I.R.B. 1)

*Rev. Proc.* 2008-23

## THE VEHICLE-POOL (SINGLE, COMBINED POOL) LIFO METHOD FOR AUTOMOBILE DEALERSHIPS & ALTERNATIVE RULES FOR CLASSIFYING "CROSSOVER" VEHICLES ... TECHNICAL REQUIREMENTS: ANALYSIS & COMMENT Page 6 of 6

Ch	anging to the Vehicle-Pool Method on an Amended Return for 2007
Background	<ul> <li>The timing of the issuance of Rev. Proc. 2008-23 on March 7, 2008 resulted in a number of questions.</li> <li>One of the most significant of these questions was whether a dealership that had already filed its income tax return for 2007 could go back and choose/adopt/elect to use the new Vehicle-Pool (single, combined pool) Method by filing an amended return for 2007.</li> <li>Immediately after the release of Rev. Proc. 2008-23, the National Office informally indicated that the change could not be made by filing an amended return It could only be made on a return for 2007 that either had not been filed yet or that was on extension.</li> <li>Subsequent discussion reversed this preliminary guidance.</li> </ul>
General Rule for Timely Filing Form 3115	<ul> <li>The general rule is that a change in accounting method (Form 3115 filing) cannot be made on an amended income tax return Section 6.02 of Rev. Proc. 2002-9.</li> <li>The general requirements are that</li> <li>A taxpayer filing for a change in method of accounting under this Rev. Proc. must complete and file an application (Form 3115) <i>in duplicate</i>.</li> <li>The original of Form 3115 must be attached to the taxpayer's timely filed (including extensions) original Federal income tax return for the year of change.</li> <li>A duplicate/copy (with signature) of the application must be filed with the IRS National Office.</li> <li>The duplicate/copy must be filed no earlier than the first day of the year of change and no later than when the original is filed with the Federal income tax return for the year of change.</li> <li>However, there is an exception to this general rule, and this would permit <i>the change to be made on an amended return for 2007.</i></li> </ul>
However The Change Can Be Made on an Amended Return But, Be Careful	<ul> <li>The authority for this answer is found in Section 6.02(3)(b)(i) of Rev. Proc. 2002-9.</li> <li>This Section provides "<i>limited relief for late application</i> [i.e., for the filing of Form 3115 for the year of change]" in the form of an "<i>automatic extension</i>."</li> <li>However, two strict procedural rules must be followed.</li> <li><i>First</i>, an automatic extension of 6 months from the due date of the income tax return for the year of change (<i>excluding</i> extensions) is granted to file an application Form 3115.</li> <li>Note: For calendar year taxpayers, this extension is for 6 months from either March 15 or from April 15 (the initial due dates, depending on the nature of the entity) This extension is not for 6 months from the extended due date for the filing of the tax return for the year of change.</li> <li>For calendar entities (corporations) with a March 15 initial due date, the date for filing the amended return and the Form 3115 to make the change would be September 15.</li> <li>For calendar entities (partnerships or LLCs electing to be taxed as partnerships) with an April 15 initial due date, the date for filing the amended return and the Form 3115 to make the change would be October 15.</li> <li>Second, there are five additional conditions to be satisfied (see below).</li> </ul>
Five (5) Conditions that Must Be Satisfied	<ul> <li>This automatic extension (of time to file Form 3115) is allowed provided that the taxpayer</li> <li>Timely filed (including extensions) its Federal income tax return for the year of change,</li> <li>Files an amended income tax return within the 6-month extension period in a manner that is consistent with the new method of accounting (i.e., using the Vehicle-Pool (single, combined pool) Method for valuing its ending [new vehicle/used vehicle] inventory under the LIFO Method),</li> <li>Attaches the original application (of Form 3115) to the amended income tax return,</li> <li>Files a copy of the Form 3115 application with the IRS National Office no later than when the original Form 3115 is filed with the amended income tax return for the year of change, and</li> <li>Writes at the top of the Form 3115 "Filed Pursuant To Section 301.9100-2."</li> </ul>
Realistically, Only this Waiver Will Apply	<ul> <li>Further limited relief (other than as described above), as a practical matter, is usually unobtainable.</li> <li>The IRS will permit other extensions to file Form 3115 only in situations involving "unusual and compelling circumstances."</li> <li>This further provision is found in Section 6.02(3)(b)(ii) of Rev. Proc. 2002-9.</li> <li>This involves the compliance with the severe restrictions in Section 301.9100-3(c)(2).</li> <li>The filing fee for a request for consideration under this Subsection of 301.9100 is prohibitive.</li> </ul>

<b>R</b> ev. <b>P</b> roc. 2008-23	BACKGROUND ON THE NEED FOR GUIDANCE FROM THE IRS ON HOW DEALERSHIPS SHOULD ASSIGN "CROSSOVER" VEHICLES TO LIFO POOLS Page 1 of 2
LIFO Pooling Requirements in the Code & Regulations (Section 2.01) & Changing LIFO (Pooling) Methods (Section 2.05)	<ul> <li>This portion of the Revenue Procedure provides the general rules for pooling by taxpayers.</li> <li>A reseller is required to establish dollar-value pools based on major lines, types, or classes of goods. (Reg. Sec. 1.472-8(c)(1))</li> <li>Any change in method of pooling used in computing the taxpayer's LIFO inventories under the dollar-value LIFO method shall be treated as a change in method of accounting. (Reg. Sec. 1.472-8(g)(1))</li> <li>Any method of pooling shall be used for the year of adoption and for all subsequent taxable years unless a change is required by the Commissioner in order to clearly reflect income, or unless permission to change is granted by the Commissioner.</li> <li>If the taxpayer changes from one method of pooling to another method of pooling, the ending LIFO inventory for the taxable year preceding the year of change shall be restated under the new method of pooling.</li> <li>A taxpayer who has been using the dollar-value LIFO method and who is permitted or required to change its method of pooling shall combine or separate the LIFO value of its inventory for the base year and each yearly layer of increment in order to conform to the new pool or pools. (Reg. Sec. 1.472-8(g)(2)(i))</li> <li>The combination or separation of the LIFO value of the taxpayer's inventory for the base year and each yearly layer of increment shall be made in accordance with the appropriate method in Reg. Sec. 1.472-8(g)(2), unless the use of a different method is approved by the Commissioner.</li> <li>The rules to be applied when combining LIFO pools are at Reg. Sec. 1.472-8(g)(2)(ii).</li> <li>The sections also contain examples showing the application of the rules.</li> <li>A taxpayer generally may obtain automatic consent under Section 446(e) and Reg. Sec. 1.446-1 (e)(2)(i) to change to a method of accounting listed in the Appendix of Rev. Proc. 2002-9, 2002-1 C.B. 327 as subsequently modified and clarified by several</li> </ul>
New Vehicles Alternative LIFO Method Rev. Proc. 97-36 (Section 2.08) Used Vehicles Alternative LIFO Method Rev. Proc. 2001-23 (Section 2.09)	<ul> <li>pronouncements.</li> <li>Under the "Alternative LIFO Method" for new vehicles provided in Rev. Proc. 97-36 and listed in Section 10.03 of the Appendix of Rev. Proc. 2002-9, a retail dealer of new cars or new trucks ("automobile dealer") must establish one pool for all new cars and a separate pool for all new light-duty trucks.</li> <li>This requirement is sometimes referred to as the "two-pools rule."</li> <li>"Light-duty truck" means a truck with a gross vehicle weight that does not exceed 14,000 pounds.</li> <li>These trucks sometimes are referred to as "Class 1," "Class 2" and "Class 3" trucks.</li> <li>Under the "Used Vehicle Alternative LIFO Method" provided in Rev. Proc. 2001-23, and listed in Section 10.04 of the Appendix of Rev. Proc. 2002-9, a reseller of used cars or used light-duty trucks must establish one pool for all used cars and a separate pool for all used light-duty trucks (two-pools rule).</li> <li>The definition of a "light-duty truck" is the same as above.</li> <li>"Used car" and "used light-duty truck" mean previously titled vehicles, excluding demonstrator vehicles.</li> <li>A taxpayer may choose to assign a used sport-utility vehicle ("SUV") or a used "hybrid" vehicle (e.g., van and minivan) to either its used car pool or its used light-duty truck pool.</li> <li>However, once the taxpayer has assigned one used SUV or one used hybrid vehicle to a pool, the taxpayer must assign all used SUVs and all used hybrid vehicles to that same pool in subsequent years.</li> <li>The exact wording of this requirement is "used sport utility vehicles and used hybrid vehicles in subsequent years." (Section 4.02(3) of Rev. Proc. 2001-23)</li> </ul>

Rev. Proc. 2008-23	BACKGROUND ON THE NEED FOR GUIDANCE FROM THE IRS ON HOW DEALERSHIPS SHOULD ASSIGN "CROSSOVER" VEHICLES TO LIFO POOLS
2000-25	The "two-pools rule" embodied in both Rev. Proc. 97-36 for new vehicles and Rev. Proc.
	<ul> <li>2001-23 for used vehicles is based on established case law.</li> <li>Fox Chevrolet, Inc. Maryland v. Commissioner, 76 T.C. 708 (1981), acq., 1984-2 C. B. 1.</li> <li>Years at issue 1972 through 1974</li> <li>Richardson Investments, Inc., and Subsidiaries v. Commissioner, 76 T.C. 736 (1981)</li> </ul>
	<ul> <li>Years at issue 1971, 1972, and 1974</li> <li>The Tax Court in <i>Fox Chevrolet</i> acknowledged the similarities of cars and trucks, but it also focused on the differences between cars and trucks.</li> </ul>
Case Law	• Tax Court observation #1 Cars and trucks appeal to different types of purchasers. "The market for [cars] is comprised in the main of persons among the general public who desire to acquire a means of transporting themselves between locations, usually within their community and occasionally on extended outings to more distant locales. Trucks, on the other hand, are more often bought for business use. They are used principally for transporting property." 76 T.C. at 725."
on the "Two Pools" Rule for Dealerships	• <b>Tax Court observation #2</b> The nature of the operation of trucks is different from that of cars. "Due to their size, weight, and in some instances mechanical complexity, greater experience or training is occasionally required to operate trucks designed to haul property. Furthermore, the evidence in this case reveals that trucks are a more expensive investment than is the average [car]. The registration and other legal requirements for the operation of trucks also tend to be much more stringent than those for [cars]." 76 T.C. at 725."
(Section 2.10)	<ul> <li>Tax Court observation #3 The Court rejected the argument that light-duty trucks are acquired by the same class of consumers and are used interchangeably for the same purposes as cars.</li> <li>"While economy and light-duty trucks are certainly closer to automobiles than are heavy-duty trucks, and it is always difficult to draw a fine line, we believe that smaller trucks have more in common with other types of trucks than they do with [cars]. In any event, if light-duty trucks are a hybrid, they are far from fully interchangeable with [cars]. The line is difficult to draw, but is more appropriately drawn between trucks and cars than between different classes of trucks." 76 T.C. at 726."</li> </ul>
	<ul> <li>Tax Court conclusion Cars and trucks do not constitute a single class of goods under Reg. Sec. 1.472-8(c)(1).</li> <li>In Richardson Investments, the Tax Court cited Fox Chevrolet as the controlling authority. The Court rejected a Ford dealer's argument that it could assign cars and trucks to a single "transportation" pool. Factors that contributed to the Court's rejection of the argument were:</li> <li>The auto dealer did not include used vehicles and recreational vehicles in the same pool.</li> <li>Ford Motor Co.'s advertising campaign distinguished between the commercial nature of Ford trucks ("built tough") and the personal nature of Ford Granadas ("look and ride like a Mercedes").</li> </ul>
"Crossover" Vehicles	<ul> <li>The Treasury and the IRS recognized that the distinctions between cars and light-duty trucks had diminished significantly since the <i>Fox Chevrolet</i> and <i>Richardson Investments</i> cases were decided.</li> <li>The argument has been made that during the 1970s, most cars were purchased to transport people for personal purposes, and most trucks were purchased to transport property for business purposes.</li> <li>Many manufacturers now advertise that their light-duty trucks offer the ride, handling, and</li> </ul>
Blur Previously Clear Distinctions Between Cars & Trucks	<ul> <li>Many manufacturers now advertise that their light-duty trucks offer the ride, handling, and amenities of cars plus the additional seating and cargo capacity that larger families need to transport themselves and their personal-use property.</li> <li>People do not need a special operator's license to drive light-duty trucks on highways.</li> <li>The distinctions between cars and light-duty trucks that existed during the 1970s have been reduced significantly by the creation of "crossover" vehicles, which share some characteristics of both cars and light-duty trucks (<i>e.g.</i>, SUVs, minivans, and similar vehicles, formerly denoted as "hybrid").</li> </ul>
(Section 2.11)	<ul> <li>Because of these and other changes, sales of light-duty trucks have greatly increased relative to sales of cars.</li> <li>Federal regulators treat cars and light-duty trucks with greater similarity in their regulations</li> <li>Energy Policy and Conservation Act of 1975 which sets fuel economy standards, and</li> <li>Clean Air Act which sets emissions standards.</li> </ul>

Rev. Proc. 2008-23	COMBINING & REBASING INVENTORIES & INDEXES Page 1 of 3
Section 481(a) Adjustments	<ul> <li>The general rule is that an adjustment is required under Sec. 481(a) when methods of accounting are changed.</li> <li>Usually, IRS does not require a Sec. 481(a) adjustment when a taxpayer is voluntarily changing its LIFO methods (i.e., cut-off method is used).</li> <li>Rev. Proc. 2008-23 requires that the cut-off method be used in making the change to the Vehicle-Pool Method.</li> <li>This means that there will be no recapture of any portion of the LIFO reserve built up in either of the new vehicle pools when the dealership changes to the single, combined LIFO pool method under R.P. 2008-23.</li> <li>Cut-off Method</li> <li>Only the items arising on or after the beginning of the year of change are accounted for under the new (LIFO) method of accounting.</li> <li>Any items arising before the year of change continue to be accounted for under the former (LIFO) method of accounting.</li> <li>Therefore, because no items are duplicated or omitted from income when the cut-off method is used to effect a change in accounting method, no Section 481(a) adjustment is necessary.</li> </ul>
Required Calculations	<ul> <li>Rev. Proc. 2008-23 requires dealerships that change to the Vehicle-Pool Method to</li> <li>Combine LIFO pools, and</li> <li>Rebase LIFO pools.</li> <li>Therefore, two out of three situations will have to be dealt with</li> <li><i>Either</i></li> <li>Combining LIFO pools with the same base date</li> <li>Combining LIFO pools with different base dates</li> <li><i>Always</i> rebasing indexes to 1.0000 after the two LIFO pools have been combined</li> <li>In all cases, the total LIFO reserve <i>after</i> these calculations are completed should <i>always</i> be the same amount as it was <i>before</i> the calculations were made.</li> <li>Review and reconciliation proof techniques can be applied to demonstrate the correctness of the LIFO reserves after the changes (i.e., after the combining of the pools and the rebasing to 1.0000) have occurred.</li> </ul>
Combining LIFO Pools With the Same Base Date	<ul> <li>In many dealership situations, the LIFO pools that are being combined have had vehicles in them starting in the same year.</li> <li>The indexes for both pools originate in the same year and start at 1.0000.</li> <li>These pools have the same base year and base date.</li> <li>The LIFO valuations for each layer (i.e., the base layer, the increment [if any] for the base year and any subsequent year's net increment) in each pool do not change their respective dollar amounts.</li> <li>These combinations are fairly straight-forward.</li> <li>No amount of LIFO reserve is lost from either of the pools that is being combined.</li> <li>The total LIFO reserve after combination is (should be) the sum of the LIFO reserves for the two pools being combined.</li> <li>After the pools have been combined, it is advisable to apply "appropriate proof and reconciliation techniques."</li> <li>This will assure that the continuity of the contribution of each year's layer to the overall LIFO reserve has not been changed by the combination process.</li> <li>Reg. Sec. 1.472-8(g) includes an example.</li> <li>For a detailed computation and analysis, see the Sept. 2006 LIFO Lookout.</li> <li>"Combining Dollar-Value LIFO Pools that Have the Same Base Years"</li> <li>This incorporates the appropriate reconciliations and proofs.</li> </ul>

Rev. Proc.	COMPANING & DEPARTYCE INVENTORIES & INDEVES
2008-23	COMBINING & REBASING INVENTORIES & INDEXES Page 2 of 3
<u>```</u>	• In some dealership situations, the LIFO pools to be combined will have vehicles in them
	starting in different years.
	<ul> <li>These LIFO pools do not have the same base year or the same base date.</li> </ul>
	• Although the inflation (valuation) indexes for both pools start at 1.0000, the LIFO layers
	for these pools cannot be combined because the purchasing power of the dollar represented
	by the 1.0000 beginning index is not the same.
	It is necessary to make an adjustment (to the more recent pool) to reflect the passage of time (i.e. the number of super) between the different starting data for the LEO
	time (i.e., the number of years) between the different starting dates for the LIFO calculations for the vehicles in each pool.
	The older LIFO pool determines the reference date.
	• The restatement of the more recent pool's base dollars is required to be made in terms of
	the earlier pool's base dollars.
	• The Regulations do not provide much guidance on this restatement process. The example
	given in the Regulations includes (as facts) all of the information that would need to be
	known.
	• In practice, difficulties are often encountered in attempting to restate later years in terms of
	<ul> <li>the earlier or earliest base year.</li> <li>Often it is necessary to use reasonable assumptions and estimates to fill in the gaps where</li> </ul>
	needed information is missing or unavailable.
	• In some dealership situations, the position may be taken that the inflation index for the
	earlier pool is (substantially) representative of the adjustment that needs to be made to the
	later pool.
	• In this case, the inflation for the number of years (passage of time) from the later
	starting date of the second pool may be determined as the difference between the
Combining	cumulative inflation rate in <i>the earlier/older pool</i> as of the date when the later pool began and the initial inflation rate shown for the earlier/older pool.
LIFO Pools	<ul> <li>This revaluation/conversion factor is applied to the base dollars for each layer in the</li> </ul>
	pool with the later starting date.
With	• Note: In some instances, further adjustments may be necessary. Also, the beginning
Different	inflation rate in the earlier pool may not be 1.0000 if the indexes in that pool were
Starting Dates	rebased as some later date. All of this requires careful analysis.
	• Bottom line "disappearing" base dollars. The adjustment that is required to reflect the
	passage of time will result in there being fewer base dollars in the (later, more recently
	established) pool because newer dollars in the later pool have less purchasing power than the dollars in the older pool.
	• <i>LIFO valuations.</i> The LIFO valuations for each year's layer (i.e., the base layer, the
	increment [if any] for the base year and any subsequent year's net increment) in each pool do
	not change their respective dollar amounts.
	• Where layers of increment occurred in both pools in the same year, the layers are to be
	blended or redetermined.
	• This is done by changing the valuation factor or index that is applied to that year's (new,
	<ul> <li>combined) base dollars.</li> <li>No amount of LIFO reserve is lost from either of the pools that is being combined.</li> </ul>
	<ul> <li>No amount of LIFO reserve is lost from enter of the pools that is being combined.</li> <li>The total LIFO reserve after combination is (should be) the sum of the LIFO reserves for</li> </ul>
	the two pools being combined.
	• After the pools have been combined, it is advisable to apply appropriate proof/reconciliation
	techniques.
, ,	• This will assure that the continuity of the contribution of each year's layer to the overall
	LIFO reserve has not been changed by the combination process.
	• These computations are somewhat more complicated because these pools <u>cannot</u> be
	combined in a simple, straight-forward arithmetic process.
	<ul> <li>Reg. Sec. 1.472-8(g)(2)(iv) includes an example.</li> <li>For a detailed computation and analysis, see the March 2005 <i>LIFO Lookout</i>.</li> </ul>
	<ul> <li>For a detailed computation and analysis, see the March 2005 EIFO Ebokout.</li> <li>"Combining LIFO Pools with Different Base Years in Merger, Q-Sub &amp; Other Situations"</li> </ul>
	<ul> <li>This incorporates the appropriate reconciliations and proofs.</li> </ul>
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Rev. Proc. 2008-23	Combining & Rebasing Inventories & Indexes Page 3 of 3
Rebasing Indexes to 1.0000	<ul> <li>Rebasing of indexes is generally required when there are changes in LIFO methods of accounting.</li> <li>Sec. 4.02(b) of Rev. Proc. 2008-23 requires the rebasing of indexes to 1.0000 as of the beginning of the year of change to the single, combined LIFO pool method.</li> <li>A new base year (i.e., the first year for which the new LIFO Method will be used) is created solely for computational purposes.</li> <li>The "new" amount of base dollars in the single, combined LIFO pool as of the beginning of the year of change is equal to the cost of the inventory in that pool as of that date.</li> <li>The original or oldest base year and all of the subsequent layer increments experienced before the year of change (i.e., before the new or substitute base year) are restated in terms of the new base year levels.</li> <li>The cumulative index as of the end of the last year before the year of change becomes the conversion factor by which the base dollars for each layer in the pool are multiplied.</li> <li>The LIFO valuation of each year's inventory layer does not change in the process.</li> <li>The LIFO reserve for the pool does not change in the process.</li> <li>The LIFO reserve after rebasing is the same amount as it was before the rebasing calculation was made.</li> <li>What changes is the valuation factor (i.e., the "index") that is applied to each year's new amount of base dollars.</li> <li>After the pools have been combined, it is advisable to apply appropriate proof/reconciliation techniques.</li> <li>This will assure that the continuity of the contribution of each year's layer to the overall LIFO reserve has not been changed by the rebasing process.</li> </ul>
Rebasing Example & Format	<ul> <li>Rev. Proc. 2008-23 specifically refers to the rebasing example found at Reg. Sec. 1.472-8(e)(3)(iv)(B)(1).</li> <li>This example found in the IPIC Regulations, and it is analyzed on the following pages (23-27). We have added our "appropriate" proof /reconciliation techniques to show how all of the numbers would tie-out to a real world example.</li> <li>The same result reflected in the IPIC Regulation example can be obtained by multiplying the conversion factor (i.e., the cumulative rate of inflation in the pool as of the rebasing date) by the amount of base dollars in each layer of the pool to be rebased.</li> <li>This format has been used to rebase the indexes (i.e., valuation factors) for the single, combined LIFO pools in our analyses and case studies.</li> </ul>

#### IPIC Example Reg. Sec. 1.472-8(e)(3)(iv)(B)(1)

#### Rebasing of Single LIFO Pool & Indexes to 1.000 as of Dec. 31, 2000

	Single Pool			Composition & Proof of LIFO Reserve as of Dec. 31, 2000			
Before Rebasing Indexes	<u>Base</u> Dollars	<u>Valuation</u> <u>Factor</u>	<u>LIFO</u> Valuation	<u>Base</u> Dollars	<u>Proof</u> Factor	<u>Composition</u> of LIFO <u>Reserve</u>	
Analysis of Year-End LIFO Inventory Layers							
Base Layer	135,000	1.000000	135,000	135,000	0.700000	94,500	
Calendar Year 1991	20,000	1.430000	28,600	20,000	0.270000	5,400	
Calendar Year 1994	60,000	1.550000	93,000	60,000	0.150000	9,000	
Calendar Year 1995	13,000	1.590000	20,670	13,000	0.110000	1,430	
Calendar Year 1997	2,000	1.610000	3,220	2,000	0.090000	180	
Cumulative Index as of Dec. 31, 2000	-	1.700000					
Totals	230,000		280,490	230,000		110,510	
Ending Inventory at LIFO Valuation			280,490				
Less: Ending Inventory at Current Cost			391,000				
LIFO Reserve at End of Year		:	110,510				

	Single Pool			Composition & Proof of LIFO Reserve as of Dec. 31, 2000			
After Rebasing Indexes	<u>Base</u> Dollars	<u>Valuation</u> <u>Factor</u>	<u>LIFO</u> <u>Valuation</u>	<u>Base</u> Dollars	<u>Proof</u> Factor	<u>Composition</u> of LIFO <u>Reserve</u>	
Analysis of Year-End LIFO Inventory Layers							
Base Layer	229,500	0.588235	135,000	229,500	0.411765	94,500	
Calendar Year 1991	34,000	0.841176	28,600	34,000	0.158824	5,400	
Calendar Year 1994	102,000	0.911765	93,000	102,000	0.088235	9,000	
Calendar Year 1995	22,100	0.935294	20,670	22,100	0.064706	1,430	
Calendar Year 1997	3,400	0.947059	3,220	3,400	0.052941	180	
Cumulative Index as of Dec. 31, 2000	-	1.000000	-	-	-	-	
Totals	391,000		280,490	391,000		110,510	
Ending Inventory at LIFO Valuation			280,490	-			
Less: Ending Inventory at Current Cost			391,000				
LIFO Reserve at End of Year			110,510				
Base Layer	135,000	1.700000	229,500				
Calendar Year 1991	20.000	1.700000	34,000				
Calendar Year 1994	60,000	1.700000	102,000				
Calendar Year 1995	13,000	1.700000	22,100				
Calendar Year 1997	2,000	1.700000	3,400				
Cumulative Index as of Dec. 31, 2000	•	1.700000	-				
	230,000		391,000				
	Old Base	Conversion	New Base				
	Dollars	Factor	Dollars				
	(Before)	1 40101	(After)				

De Filipps' LIFO LOOKOUT Vol. 18, No. 1 A Periodic Update of LIFO - News, Views and Ideas

IPIC Rebasing	New Base Year Voluntary Change							
Examples	Reg. Sec. 1.472-8(e)(3)(iv)(B)(1) New Base Year - Voluntary Change Page 1 of 5							
(i) In General Recomputing (Rebasing) LIFO Indexes to 1.000	<ul> <li>In the case of a taxpayer using a non-IPIC method to determine the LIFO value of inventory, the layers previously determined under that method, if any, and the LIFO values of those layers are retained if the taxpayer voluntarily changes to the IPIC method.</li> <li>Instead of using the earliest taxable year for which the taxpayer adopted the LIFO method for any items in the dollar-value pool, the year of change is used as the new base year for the purpose of determining the amount of increments and liquidations, if any, for the year of change and subsequent taxable years.</li> <li>The base- year cost of the layers in a dollar-value pool at the beginning of the year of change must be restated in terms of new base-year cost using the year of change as the new base year and, if applicable, the indexes for the previously determined layers must be recomputed accordingly.</li> <li>The recomputed indexes will be used to determine the LIFO value of subsequent liquidations.</li> <li>For computation purposes in this case, the IPI for the immediately preceding year is 1.0000.</li> <li>The new total base-year cost of the items in a dollar-value pool for the purpose of determining future increments and liquidations is equal to the total current-year cost of the items in the dollar-value pool under paragraph (e)(2)(ii) of this section).</li> <li>A taxpayer must allocate this new total base-year cost to each layer based on the ratio of the old base-year cost of the layer to the old total base-year cost of the dollar-value pool.</li> </ul>							
(ii) Example, Part (i) Facts & LIFO Valuation as of Dec. 31, 2000	<ul> <li>Taxpayer X elected to use a dollar-value LIFO method (other than the IPIC method) for its single dollar-value pool in 1990.</li> <li>X is granted permission to change to the link-chain IPIC method, beginning with the taxable year ending December 31, 2001, and it will continue using a single dollar-value pool.</li> <li>X's beginning inventory as of January 1, 2001, under its former inventory method, is as follows:         <ul> <li>(I)</li> <li>(II)</li> <li>(II)</li></ul></li></ul>							
Addit	ional Information Demystifying LIFO Using Proofs & Reconciliations							
Proof of LIFO Reserve as of Dec. 31, 2000 (Before Rebasing)	• The LIFO reserve as of Dec. 31, 2000 is \$110,510 (\$391,000 cost - 280,490 LIFO value).• The cumulative inflation index is 1.70 as of Dec. 31, 2000 (\$391,000 cost / 230,000 base dollars).• For purposes of "proving" the composition of the LIFO reserve, 1.7 is the key factor.As of Dec. 31, 2000Proof Factor (1.7 - Valuation Factor)LayerBase DollarsProof Factor (1.7 - Valuation Factor)Base Layer\$ 135,000 x $0.70 = (1.70 - 1.00) = $ 94,500$ 1991 Layer $20,000 x$ $0.27 = (1.70 - 1.43) = $ 5,400$ 1994 Layer $60,000 x$ $0.15 = (1.70 - 1.55) = $ 9,000$ 1995 Layer $13,000 x$ $0.09 = (1.70 - 1.61) = $ 180$ $\frac{$ 230,000}{$ 230,000}$ $2,000 x$ $0.09 = (1.70 - 1.61) = $ 110,510$ Total Base Dollars $100 = (1.70 - 1.61) = $ 100 = $$							

IPIC Rebasing Examples	NEW Reg. Sec. 1.472-8(e,		OLUNTARY CHANG ew Base Year - Vo				
(ii) Example, Part (ii) Rebasing Indexes to 1.000	<ul> <li>Under X's method of det current-year cost of the be</li> <li>This fact was used in pr</li> <li>Thus, X's new base-year cost</li> <li>X allocates this new base-layer to the total old base-se</li> <li>For example, for the base</li> <li>To recompute the inflation remains unchanged) is dive</li> <li>For example, the inflation unchanged LIFO value 229,500).</li> <li>The new base-year cost, January 1, 2001, are as following the second s</li></ul>	ginning inventory is \$3 oving the LIFO reserved ost as of January 1, 200 year cost to each layer year cost of the dollar-ve layer, the new base year on indexes for each of ided by the new base-y on index (i.e., the value ation of \$135,000 div recomputed inflation lows:	191,000. e as of Dec. 31, 2000 o D1, is \$391,000. based on the ratio of value pool. r cost is 229,500 (\$135,0 T the layers, LIFO value ear cost attributable to ation factor) for the ba ided by the new amount indexes, and LIFO value	a dollar-value pool, the on the previous page. old base-year cost of the 000 / 230,000 x 391,000). ue of each layer (which that layer. se layer is 0.588235 (the bunt of base year cost alue of X's layers as of			
as of		(I) New Base-Year	(II) Inflation L	(III) IFO Value:			
Dec. 31, 2000	Layer	Cost	Index	(I) * (II)			
	Base Layer	\$ 229,500	0.588235 \$	135,000			
	1991 Layer	34,000	0.841176	28,600			
	1994 Layer	102,000	0.911765	93,000			
	1995 Layer	22,100	0.935294	20,670			
	1997 Layer	3,400	0.947059	3,220			
	Total Base Dollars	\$ 391,000					
	LIFO Valuation of Invent		\$	280,490			
Additi	ional Information Demy	stifying LIFO Usin	ng Proofs & Recom	ciliations			
<ul> <li>The LIFO reserve as of Dec. 31, 2000 is \$110,510 (\$391,000 cost - 280,490 LIFO value).</li> <li>The cumulative inflation index is 1.70 as of Dec. 31, 2000 (\$391,000 cost / 230,000 base dollars).</li> <li>The total amount of the new base year dollars is the same as the actual cost (\$391,000).</li> <li>For purposes of "proving" the composition of the LIFO reserve, after rebasing, 1.000 becomes the key factor.         <ul> <li>As of</li> <li>As of</li> <li>As of</li> <li>Contributed to</li> </ul> </li> </ul>							
as of	Layer Base Dolla		(1.00 - Valuation Factor				
Dec. 31, 2000	•	•	1.0000 - 0.588235				
	•	•	1.0000 - 0.841176				
(After		$00 \times 0.088235 = ($		) = 9,000			
Rebasing)	•	00  x  0.064706 = (		) = 1,430			
				) = 180			
	2000 Layer		1.0000 - 1.000000	) =			
	\$ 391,00	00		<u>\$ 110,510</u>			
	Total Base Do	ollars		Total LIFO Reserve			

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IPIC Rebasing Examples	NEW . Reg. Sec. 1.472-8(e)(	BASE YEAR V (3)(iv)(B)(1) No		Voluntary Change			
(ii) Example, Part (iii) Facts & LIFO Valuation as of Dec. 31, 2001 Additi	<ul> <li>Page 3 of 5</li> <li>In 2001, the current-year cost of the ending inventory is \$430,139.</li> <li>The weighted harmonic mean of the category inflation indexes applicable to the ending inventory is 1.075347 and the inflation index for the immediately preceding year is 1.000.</li> <li>Thus, the IPI (inflation index) for 2001 is 1.075347 (1.000 multiplied by 1.075347).</li> <li>The total base-year cost of the ending inventory is \$400,000 (\$430,139 divided by 1.075347).</li> <li>The total base-year cost of the ending inventory is \$400,000 (\$430,139 divided by 1.075347).</li> <li>The base-year cost, IPI, and LIFO value of the layers as of December 31, 2001, are as follows:         <ul> <li>(I)</li> <li>(II)</li> <li>(III)</li> <li>(III)</li> <li>(III)</li> <li>(III)</li> <li>(III)</li> <li>(III)</li> <li>(III)</li> <li>(III)</li> <li>(II)</li> <li>(III)</li> <li>(II)</li> <li>(II)</li> <li>(II)</li> <li>(II)</li> <li>(III)</li> <li>(II)</li> <li>(II)</li> <li>(III)</li> <li>(III)</li></ul></li></ul>						
Proof of LIFO Reserve as of Dec. 31, 2001	1991 Layer         34,000           1994 Layer         102,000           1995 Layer         22,100           1997 Layer         3,400	$\begin{array}{c} Proof Factor (1) \\ 0 & x & 0.487112 & = (\\ 0 & x & 0.234171 & = (\\ 0 & x & 0.163582 & = (\\ 0 & x & 0.140053 & = (\\ 0 & x & 0.128288 & = (\\ - & x & 0.075347 & = (\\ 0 \\ 0 \\ 0 \\ 0 \\ 0 \\ \end{array}$	.075347 - Valuation 1.075347 - 0.58 1.075347 - 0.84 1.075347 - 0.91 1.075347 - 0.93 1.075347 - 0.94	Amount Contributed to LIFO Reserve8235) =\$111,792\$111,7921176) =7,9621765) =16,68535294) =3,09517059) =43600000) =-			
Proof of Change in LIFO Reserve for 2001	End of the Year Inventory at Co End of the Year Inventory at Ll End of Year LIFO Reserve Beginning of Year LIFO Reser Net Increase in L/R for the Ye Proof of Change in LIFO Reser Base dollars that remained in * The lower of (1) beginning in or (2) ending inventory expr	IFO Valuation 139 110 ear 29 120		$\frac{68)}{71}$ 47 = <u>\$ 29,461</u>			

IPIC Rebasing Examples	NEW Reg. Sec. 1.472-8(e			OLUNTARY CH. ew Base Year ·		untary Chang	<i>3C</i> Page 4 of 5
(ii) Example, Part (iv) Facts & LIFO Valuation as of	<ul> <li>In 2002, the current-year of</li> <li>The weighted harmon inventory is 1.0229256</li> <li>Thus, the IPI (inflation in 1.10 (1.075347 multiplied</li> <li>The total base-year cost of</li> <li>This results in a liquid year cost.</li> <li>This liquidation/decren (\$3,400 base-year cost)</li> <li>The base-year cost, indexed</li> </ul>	ic mean 2, and th dex) for by 1.02 f the end lation/de nent elin b, and pates, and L	of the catego ine IPI for the ir 2002 <i>[note: th</i> 292562). ing inventory in crement of \$2 minates the 200 rt of the 1995 I	bry inflation indem mediately preced is \$380,000 (\$418, 0,000 (\$400,000 11 layer (\$9,000 b layer (\$7,600 base	ling ye neous 000 d \$380 ase-ye -year c c. 31, 2 LI	ar is 1.075347. <i>ly states "for 20</i> ivided by 1.10). ,000) in terms ar cost), the 199 cost).	001"] is of base- 97 layer
Dec. 31, 2002	Base Layer 1991 Layer 1994 Layer 1995 Layer	\$	229,500 34,000 102,000 14,500	0.588235 0.841176 0.911765 0.935294	\$	135,000 28,600 93,000 13,562	
	Total Base Dollars LIFO Valuation of Inven or proofs and reconciliations o	-	380,000	& changes — See	<u>\$</u>	270,162	

A Per

IPIC Rebasing Examples	NEW BASE YEAR VOLUNTARY CHANGE Reg. Sec. 1.472-8(e)(3)(iv)(B)(1) New Base Year - Voluntary Change Page 5 of 5								
Additional Information Demystifying LIFO Using Proofs & Reconciliations									
Proof of LIFO Reserve as of Dec. 31, 2002	• The LIFO reserve as of Dec. 31, 2002 is \$147,838 (\$418,000 cost - 270,162 LIFO value).         • The cumulative inflation index is 1.10 as of Dec. 31, 2002.         As of       Amount         Dec. 31, 2001       Proof Factor (1.10000 - Valuation Factor)       LIFO Reserve         Base Layer       \$ 229,500 x 0.511765 = (1.100000 - 0.588235) = \$ 117,450       117,450         1991 Layer       34,000 x 0.258824 = (1.100000 - 0.841176) = 8,800       102,000 x 0.188235 = (1.100000 - 0.911765) = 19,200         1995 Layer       14,500 x 0.164706 = (1.100000 - 0.935294) = 2,388       \$ 147,838         Total Base Dollars       Total Base Dollars       Total LIFO Reserve								
Proof of Change in LIFO Reserve for 2002	End of the Year Inventory at Cost418,000End of the Year Inventory at LIFO Valuation(270,162)End of Year LIFO Reserve147,838147,838Beginning of Year LIFO Reserve139,971Net Increase in L/R for the Year7,867Proof of Change in LIFO Reserve Due to InflationBase dollars that remained intact *=Base dollars that remained intact *=380,000x0.024653 ** =\$* The lower of (1) beginning inventory expressed in base dollars [\$380,000]**0.024653 =\$9,368** 0.024653 = (1.100 - 1.075347)Repayment of LIFO Reserve Due to Carryback of Decrement to Prior Years 								

Step-By-Step Practice Guide	Evaluation Approach for Analyzing Whether A Dealership Should Change to the Vehicle-Pool (Single, Combined Pool) LIFO Method for 2007 Page 1 of 4
	Overview
9-Step Approach	<ul> <li>Step 1 - Collect the basic information</li> <li>Step 2 - Analyze the results for 2007 for the calculations made using separate LIFO pools</li> <li>Step 3 - Combine the two separate new vehicle LIFO pools, as computed under the Alternative LIFO Method, as of Dec. 31, 2006 <ul> <li>Pool #1 - New Automobiles</li> <li>Pool #2 - New Light-Duty Trucks</li> </ul> </li> <li>Step 4 - Rebase the single, combined pool results to 1.0000</li> <li>Step 5 - Compute the LIFO reserve for 2007 using a single, combined LIFO pool for all new vehicles</li> <li>Step 6 - Analyze and understand the differences in results under both approaches</li> <li>Step 7 - Discuss the results with the dealer or with other appropriate dealership personnel</li> <li>Step 8 - Prepare Form 3115 if the change to the single, combined LIFO pool method will be implemented for 2007</li> <li>Step 9 - If the change to a single, combined LIFO pool is not advisable, or is not being made for 2007 prepare to repeat the analysis after the LIFO calculations for 2008 have been completed (or projected)</li> </ul>
Prerequisites	<ul> <li>These steps require an understanding of</li> <li>The mathematical relationships that underlie LIFO calculations from year-to-year.</li> <li>How to apply "appropriate proof &amp; reconciliation techniques" to LIFO valuations and LIFO reserve computations.</li> <li>Why LIFO reserves change the way they do. (See page 35.)</li> </ul>
	Collect the Basic Information
Step 1	<ul> <li>Review the LIFO layer histories for both pools as of Dec. 31, 2006 and 2007.</li> <li>Be sure that composition of the LIFO reserves for both pools for both years has been reconciled in terms of the contribution of each year's remaining layer to the LIFO reserve for that pool.</li> <li>Review reconciliations of the changes in LIFO reserves for both pools for both years.</li> <li>The increase (or decrease) resulting from inflation (or deflation) experienced for the year.</li> <li>The amount of LIFO reserve that has been paid back because of the decrement experienced in 2007 being carried back against LIFO layers for years prior to 2006.</li> </ul>
Analyz	e the Results for 2007 for the Calculations Made Using Separate LIFO Pools
Step 2	<ul> <li>Analyze the calculations of the LIFO reserve changes to determine <ul> <li>If either or both pools experienced decrements and</li> <li>Against which prior year's layers the decrements in those pools were applied.</li> </ul> </li> <li>Be careful to note the differences in payback rates for the layers in the respective pools <ul> <li>Consider the possibility that by combining the pools as of December 31, 2006, it may be possible to interpose a layer with a smaller "LIFO reserve payback potential" ahead of a layer for that pool that would otherwise be invaded by the carryback of a decrement in that pool.</li> </ul> </li> <li>In certain circumstances, the LIFO layers in a pool may reflect "negative contributions to the LIFO reserve." <ul> <li>As a result, the invasion of those layers (because of the carryback of a decrement experienced in 2007) will result in an increase in the LIFO reserve to the extent that layer is invaded by the decrement.</li> <li>This may be a situation where combining the pools as of December 31, 2006 (under Revenue Procedure 2008-23) is not advisable, based solely on this consideration.</li> </ul> </li> </ul>

Step-By-Step	EVALUATION APPROACH FOR ANALYZING
Practice	Whether A Dealership Should Change to the
Guide	Vehicle-Pool (Single, Combined Pool) LIFO Method for 2007
Ginne	Page 2 of 4
	Combing the Two Severate LIEO Books as of Day 31, 2006
· ·	Combine the Two Separate LIFO Pools as of Dec. 31, 2006
	• The first observation to make is whether or not both LIFO pools started in the same year (i.e.,
	have the same base date).
Step 3	• In many situations, the dealership's LIFO pools may have different starting dates because the LIFO election was made very early (i.e., 1970's - or 1980's) before the manufacturers
Observations	produced vehicles that would be classified as (light-duty) trucks for computation purposes.
	• The second observation is that the Amount of the LIFO reserves should not change in the
	process of combining the pools.
	• Both pools have same base date. If both LIFO pools have the same LIFO starting date
	• The respective year's layers can simply be combined by adding (1) the respective base
	dollar amounts and (2) the respective LIFO valuations for that year's layer.
	• The valuation factor for each year's layer is determined by dividing (1) the total LIFO
	valuation for that year by (2) the total base dollar amount for that year.
Step 3	• This process is continued until all layers have been accounted for.
Pools	• There are several ways to check your work.
Have Same	• <i>First</i> , the total base dollars for the single, combined pool <u>should</u> be the sum of the base dollars for the two separate pools.
Starting Date	• Second, the total LIFO valuation for the single, combined pool should be the sum of the
	LIFO valuations for the two separate pools.
	• Third, the LIFO reserve for the single, combined pool should be (i.e., equal) the sum of the
	LIFO reserves for the two pools (before combination).
	• Fourth, every year represented in the LIFO layer history for each separate pool should be
	represented in the LIFO layer history for the single, combined pool.
	• Both pools have <u>different</u> (starting) base dates. If the LIFO pools do not have the same
	starting dates
	<ul> <li>The base dollars in the two separate pools cannot be added or combined until an adjustment has been made for the difference in pools' starting dates.</li> </ul>
	<ul> <li>This involves adjusting the pool with the later starting date by removing some of the base</li> </ul>
	dollars.
	• Reg. Sec. 1.472-8(g)(2) contains an example describing the process.
	• This adjustment to "equalize the base dollars" will result in some "disappearing base dollars"
	from the LIFO pool with the later starting date.
	• However, to assure that this combination process has been correctly followed, it is
	advisable to reconcile the amount of LIFO reserve attributable to each layer after the adjustment has been made in order to be sure that no amount of LIFO reserve has been
Step 3	inadvertently "lost" in the process.
Pools	<ul> <li>In other words, the LIFO reserve for both pools being combined should be the same before</li> </ul>
Have Different	and after the timing-difference adjustment is made.
Starting Date	• The valuation factor (i.e., the index) for each layer will reflect the effect of the base dollars
	that have been removed in order to account for the passage of time between the earlier
	starting date of the first pool and the later starting date of the second pool.
	• There are several ways to check your work.
	• <i>First</i> , the total base dollars for the single, combined pool <u>should not</u> be the sum of the base dollars for the two separate pools.
	<ul> <li>Second, the total LIFO valuation for the single, combined pool should be the sum of the</li> </ul>
	LIFO valuations for the two separate pools.
	• Third, the LIFO reserve for the single, combined pool should be (i.e., equal) the sum of the
	LIFO reserves for the two pools (before combination).
	• Fourth, every year represented in the LIFO layer history for each separate pool should be
	represented in the LIFO layer history for the single, combined pool.

Step-By-Step Practice Guide	Evaluation Approach for Analyzing Whether A Dealership Should Change to the Vehicle-Pool (Single, Combined Pool) LIFO Method for 2007 Page 3 of 4								
Rebase the Combined Pool Results as of Dec. 31, 2006									
Step 4	<ul> <li>After the pools have been combined (appropriately reflecting the difference in starting base dates, if there should be any), the next step is to rebase all of the layers so that the cumulative index as of Dec. 31, 2006 is 1.000.</li> <li>This should be a familiar process to CPAs involved with auto dealership LIFO computations.</li> <li>The effect of the rebasing is that <ul> <li>The total base dollars as of Dec. 31, 2006 will equal the actual cost of the dollars in that single, combined pool and</li> <li>The "original" valuation factor for each year's layer will be reduced in proportion to the ratio that (1) the valuation factor for that layer (2) bears to the "original" valuation factor as of Dec. 31, 2006.</li> </ul> </li> <li>After the rebasing has been completed, it is our practice to again "prove" the composition of the LIFO reserve as of Dec. 31, 2006.</li> <li>This assures that no errors have occurred in the rebasing process and that none of the LIFO reserve has been lost in the process.</li> </ul>								
Comp	nute the LIFO Reserve for 2007 under the Single, Combined Pool Approach								
Step 5	<ul> <li>This is a relatively straight forward computation.</li> <li>Our practice is to prepare a columnar worksheet/spreadsheet <ul> <li>The first column shows the computation of the LIFO reserve for Pool #1 (new automobiles) as a separate pool,</li> <li>The second column shows the computation of the LIFO reserve for Pool #2 (new light-duty trucks) as a separate pool, and</li> <li>The third column shows the computation of the LIFO reserve for the single, combined pool consisting of all new vehicles.</li> </ul> </li> <li>See page 32 for the sample of our worksheet format.</li> <li>After these computations, our practice is to</li> <li>Prove the composition of the LIFO reserve of the single, combined pool as of Dec. 31, 2007.</li> <li>Reconcile the net change in the LIFO reserve in terms of the two factors (inflation and quantity increases / decreases) that influence that change.</li> </ul>								
	Understand the Results of the Difference in the Two Calculations								
Step 6	<ul> <li>Our practice is to prepare a schedule that analyzes and compares the changes.</li> <li>This schedule enables us to explain exactly the amount of the change in the LIFO reserve, and it accounts for the factors resulting in that net change.</li> <li>See pages 33-34 for the sample of our analysis format.</li> <li>By simply adding the changes in Pool #1 and Pool #2 and comparing the sum of that net change with the change computed for the single pool, the benefit / advantage or determent / disadvantage of changing to a single pool calculation for 2007 is evident.</li> <li>In some instances, the amount difference between the two-pool approach (as already calculated for 2007) and the amount of change under the single, combined pool calculation may be relatively small and make it not feasible to consider the change for 2007.</li> </ul>								

Step-By-Step Practice Guide	Evaluation Approach for Analyzing Whether A Dealership Should Change to the Vehicle-Pool (Single, Combined Pool) LIFO Method for 2007 Page 4 of 4				
Disc	cuss the Results with the Appropriate Dealership Personnel or the Dealer				
Step 7	<ul> <li>Discuss advantages and disadvantages of the single, combined LIFO pool method.</li> <li>Review results of changing to the single, combined LIFO pool method is made for 2007.</li> <li>Will there be an increase in the LIFO reserve for 2007, or a lesser reduction in the decrease in the LIFO reserve for 2007?</li> <li>This answer is based on the calculations in Steps #1-6.</li> <li>If there is no "advantage" to making the change for 2007, does the dealership want to make the change for 2007 anyway?</li> <li>Evaluate and discuss the possibility that if the dealerships desires to change to the single, combined LIFO pool for 2008, that change may not be an automatic change (i.e., advance permission from the IRS to make the change will be required) if the "scope limitation" in Revenue Procedure 2002-9 applies.</li> <li>The scope limitation is expressly waived by Rev. Proc. 2008-23 only for "the reseller's first taxable year ending on or after Dec. 31, 2007."</li> <li>The scope limitation in Rev. Proc. 2002-9 (if it were not waived) would prevent the change in method from being an automatic change if the taxpayer</li> <li>Within the last 5 taxable years (including the year of change)</li> <li>Had made a change in the same method of accounting or</li> <li>Had applied to the IRS to change the same method of accounting without effecting the change.</li> </ul>				
Prepare Form 3115 if the Change to the Single, Combined LIFO Pool Method Will Be Made for 2007					
Step 8	<ul> <li>Filing of Form 3115 is done <i>after</i> the end of the year of change.</li> <li>The original Form 3115 is to be included as part of the income tax return being filed for the year of change.</li> <li>As explained elsewhere, the change in method can be made in connection with the filing of an amended return for 2007 if the amended return is timely filed.</li> <li>The designated automatic accounting method change number for this is 112.</li> <li>Payment of a user fee is not required.</li> <li>A copy of the Form 3115 must be filed with the IRS National Office in Washington, D.C.</li> <li>There is no Section 481(a) adjustment because the cut-off method is permitted.</li> <li>Sample or proforma language for the narrative attachment to the Form 3115 is on pages 56-58.</li> </ul>				
	the Change for 2007 Is Not Advisable or Will Not Be Made Until 2008, to Repeat the Analysis After the LIFO Calculations for 2008 Are Completed				
Step 9	<ul> <li>In this situation, the combination of the LIFO pools (as described above) will be made as of December 31, 2007, since Jan. 1, 2008 would be the beginning of the year of change (i.e., 2008).</li> <li>Be sure to caution the dealership that, as discussed above, it might be preferable to <i>not</i> postpone making the change. A dealership might want to make the change for 2007 even though it might prefer to wait until 2008 in order to avoid being required to obtain advance approval from the IRS to make the change.</li> <li>Extra cost payment of a user fee is required.</li> <li>Uncertainty in potential interpretations by the IRS.</li> </ul>				

#### XYZ Dealership - Illustrative Formats Calculation of LIFO Inventory Valuations & LIFO Reserves For the Year Ended December 31, 2007

				Page 1 of 5
		Pool #1 New Autos	Pool #2 New L/D Trucks	Single Pool All New Vehicles Combined As Rebased
A. BEGINNING OF YEAR INVENTO	RY AT BASE DATE COST	1	1	1,000,000
B. END OF YEAR INVENTORY AT I	END OF YEAR (CURRENT) PRICES	1	1	2
C. END OF YEAR INVENTORY AT I (BASE) PRICES	BEGINNING OF YEAR	NOT FULLY REPRICED	NOT FULLY REPRICED	NOT FULLY REPRICED
D. <u>CURRENT YEAR PRICE INDEX:</u> END OF YEAR INVEN AT END OF YEAR PRI RATIO OF: <u>END OF YEAR INVEN</u> AT BEGINNING OF YE	TORY PRICED CES (DIVIDED BY) divide TORY PRICED	2 2 1.00000 2	1.00000	1.00000
E. <u>CUMULATIVE LINK-CHAIN INDI</u> CURRENT YEAR PRICE INDEX ( PRIOR YEAR'S CUMULATIVE IN	(LINE D) MULTIPLIED BY (X)	1.00000	1.00000	1.00000
F. END OF YEAR INVENTORY AT B (LINE B DIVIDED BY LINE E)	ASE DATE COST	1	1	2
<ul> <li>G. <u>CURRENT YEAR INVENTORY IN</u> <u>EXPRESSED IN BASE DOLLARS</u></li> <li>I. END OF YEAR INVENTORY A</li> <li>2. BEGINNING OF YEAR INVEN</li> <li>3. CURRENT YEAR INCREMENT OR DECREASE (IF G(2) EXCENT</li> </ul>	T BASE DATE COST (LINE F) IORY AT BASE DATE COST (LINE A) " (G(1) EXCEEDS G(2))	1 (1)	1 (1) -	2 (1,000,000) (999,998)
4. LIFO VALUATION OF CURREN (IF G(1) EXCEEDS G(2), MULTI		N/A	<u>N/A</u>	<u>N/A</u>
H. ANALYSIS OF YEAR-END INVE	NTORY LIFO "LAYERS"			
<u>New Automobiles</u> Calendar Year 1991 Calendar Year 2004 Calendar Year 2005 Calendar Year 2006	BASE         VALUATION           DOLLARS         FACTOR           2         x           1.000000         x           2         x           1.000000         x	2 2 2 2 2 8		
<u>New Light-Duty Trucks</u> Calendar Year 1999 Calendar Year 2001 Calendar Year 2004	BASE         VALUATION           DOLLARS         FACTOR           2         x           1.000000         1.000000           2         x           2         x           1.000000         1.000000           2         x           6         1.000000		2 2 2 6	
Single Combined Pool Calendar Year 1991 Calendar Year 1999 Calendar Year 2001 Calendar Year 2004 Calendar Year 2005	BASE         VALUATION           DOLLARS         FACTOR           2         x         1.000000           2         x         1.000000			2 2 2 2 2 2 10
ENDING INVENTORY AT LIFO LESS: ENDING INVENTORY AT E	VALUATION, PER ABOVE	8	6	10 2
LIFO RESERVE AT END OF CUP LIFO RESERVE AT END OF PREVI		(7)	(5)	(8) 6
·	D RESERVE AT END OF CURRENT YE.	AR (10)	<u>(8)</u> (10)	(14)
Total Change in LIFO Reserves	s at Dec. 31, 2007 Using Two Separate Po	ools	(10)	18
Net Greater LIFO Reserve From	n Using a Single, Combined Pool for All	New Vehicles for 2007		4

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A Periodic Update of LIFO - News, Views and Ideas

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×1×

XYZ Dealership - Illustrative Formats Proof of Calculation of LIFO Inventory Valuations & LIFO Reserves For the Year Ended December 31, 2007

I. Proof of Increase (Decrease) in LIFO Reserve for I	Pool #1 New Au	tomobiles		Page 2 of 3
Increase due to inflation Base dollars that remained in tact throughout year 2007	50	x 0.01083 =	(1.27464 - 1.26381)	1
Less: Decrease or payback due to decrement carried	back against pri	or year layers		
Decrease due to invading Jan. 200_ (base)	1	0.26381 o	r (1.26381 - 1.0000) =	(0
Decrease due to invading 200 layer	10	x 0.00000 o	r  (1.26381 - 1.26381) =	<u>0</u>
Net Increase (Decrease) in LIFO Reserve for		New Automobiles		1
· · · · ·				
II. Proof of Increase (Decrease) in LIFO Reserve for	Pool #2 New Lig	<u>zht-Duty Trucks</u>		
Increase due to inflation Base dollars that				
remained in tact throughout year 2007	60	x 0.02245 =	(1.10478 - 1.08233)	1
Less: Decrease or payback due to decrement carried	back against pric	or year layers		
Decrease due to invading Jan. 200 (base)	2	x 0.08233 or	(1.08233 - 1.00000) =	(0)
Decrease due to invading 200 layer	4	x 0.07801 or		(0)
Decrease due to invading 200layer		x (0.01002) or		0
Decrease due to invading 200 layer	820	x (0.01002) or	(1.08233 - 1.09235) =	0
Total Reduction in LIFO Reserve Due to Decre				(0)
Net Increase (Decrease) in LIFO Reserve for	2007 000142	New Links Dester 7	Rounding	(1)
	2007 - 1001 #21	iven Light-Duty I	1 4 C N S	0
III. Proof of Increase (Decrease) in LIFO Reserve for	Single, Combin	ed LIFO Pool for	All New Vehicles	
Increase due to inflation Base dollars that remained in tact throughout year 2007	70	x 1.00000 =		69
Less: Decrease or payback due to decrement carried b	oack against prio	or year layers		
Decrease due to invading Jan. 200(base)	_	x 0.188135 or	(1.00000 - 0.811865) =	(1)
Decrease due to invading 200_ layer	-	x 0.184628 or		(1)
Decrease due to invading 200 layer	9	x 0.113159 or	(1.00000 - 0.886841) =	(1)
Decrease due to invading 200 layer	11		(1.00000 - 0.886841) =	(1)
Decrease due to invading 200layer	13	x (0.02604) or	(1.00000 - 1.026043) =	0
Total Reduction in LIFO Reserve Due to Decre	45 			(4)
Net Increase (Decrease) in LIFO Reserve for	2007 - Single P	aal		65
	2007 - Bingle I C	<i>701</i>	:	05
IV. Proof of Composition of LIFO Reserve for Single,	Combined LIFC	Pool as of Dec. 3	<u>1, 2007</u>	
Calendar Year 1991 2	0.414837	(1.00210 - 0.587	7263)	1
Calendar Year 1999 2	0.414837	(1.00210 - 0.587	•	1
Calendar Year 2001 2	0.414837	(1.00210 - 0.587		1
Calendar Year 2004 2	0.414837	(1.00210 - 0.587	7263)	1
Calendar Year 2005 2 10	0.414837	(1.00210 - 0.587	7263) Rounding	- 1
			<u> </u>	
Composition of the LIFO Reserve for the Single, Con	moined Pool for	All New Vehicles	as of Dec. 31, 2007	4

Composition of the LIFO Reserve for the Single, Combined Pool for All New Vehicles as of Dec. 31, 2007

A Periodic Update of LIFO - News, Views and Ideas

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#### <u>Comparison of Results - Single, Combined LIFO Pool vs. Two Separate LIFO Pools</u> <u>For the Year Ended December 31, 2007</u>

Page 3 of 3

Difference in LIFO Reserve Recapture Due to Carrybacks of Decrements		
Total Reduction in LIFO Reserve Due to Decrement - Single Pool, Per Page 2 of 2		4,000
Total Reduction in LIFO Reserve Due to Decrement - Separate Pools - Pool #1 New Autor	3	7,000
Total Reduction in LIFO Reserve Due to Decrement - Separate Pools - Pool #2 New Light	-Duty Trucks	10,000
Total Reduction in LIFO Reserves Due to Decrements - Separate Pools		17,000
Combined Pool Results in Smaller Payback in LIFO Reserve Due to Decrement Carrybac	ks (17-4)	13,000
Difference in LIFO Reserve Increase or Decrease Due to Inflation (or Deflation)		
Increase in LIFO Reserve Due to Inflation - Separate Pools - Pool #1 New Autos	2,000	
Increase in LIFO Reserve Due to Inflation - Separate Pools - Pool #2 New L/D Trucks	1,000	
Subtotal	3,000	
Increase in LIFO Reserve Due to Inflation - Single Pool - All New Vehicles (Pg 2 of 3)	5,000	
Combined Pool Results in a Greater Increase in the LIFO Reserve Due to Inflation	2,000	2,000
Net Greater LIFO Reserve From Using a Single, Combined LIFO Pool for All New Vehicles for 2007		

• See facing page for a more detailed explanation of *Why LIFO Reserves Change the Way They Do*. This includes a listing of articles for supplementary reading or further study on this subject.

Separate Pool vs. Single, Combined Pool LIFO Results Comparison of (Net) Changes in LIFO Reserves for 2007					Case Studies	
	Total /Net Single Pool Pool #2 Change All New Pool #1 New Sum of Vehicles New Light-Duty Separate Combined Dealership Automobiles Trucks Pools (As Rebased)					LIFO Reserve for Single Pool Greater than Sum of Separate Pools
1.	ABC pages 36-39	(515,283)	37,601	(477,682)	26,272	503,954
2.	EFG pages 40-41	(297,992)	(1,368)	(299,360)	(44,722)	254,638
3.	JKL pages 42-43	(108,548)	1,325	(107,223)	(50,512)	56,711
4.	MNO pages 44-45	(21,037)	474	(20,563)	(44,625)	(24,062)
5.	QRS pages 46-47	(123,951)	(152,880)	(276,831)	(241,887)	34,944
6.	XYZ pages 48-49	(22,247)	34,182	11,935	39,935	28,000

These case studies illustrate different combinations of layer histories and inflation mixes. In Case Study #4 (MNO), the result for a single LIFO pool is a smaller LIFO reserve than if the two separate pools are maintained. This is due, in part, to the significantly different rates of inflation experienced in the two pools over the same period of time.

Practice Guide	WHY LIFO RESERVES CHANGE THE WAY THEY DO
Background	<ul> <li>Taxpayers using LIFO are often surprised when they find out that even though their year-end inventory levels are (<i>projected to be</i>) lower than they were at the beginning-of-the-year, their LIFO reserves (<i>are expected to</i>) increase.</li> <li>Often these (<i>projected</i>) increases in LIFO reserves are very large.</li> </ul>
Change Factors	<ul> <li>Oten these (projected) increases in EIPO reserves are very targe.</li> <li>The net amount of change in the LIFO reserve for any year is the result of two complementing and/or offsetting factors.</li> <li>This variation analysis simply involves</li> <li>Price changes, i.e., inflation or deflation prices either increased or decreased, and</li> <li>Quantity changes, i.e., changes in the dollar amount of the inventory investment levels.</li> </ul>
Upward Increases	<ul> <li><i>Price increases</i> inflation.</li> <li><i>Quantity increases</i> inflation.</li> <li><i>Quantity increases</i>, if a dual index LIFO methodology/approach is used for valuing increments.</li> <li><i>Certain decreases in inventory investment levels</i> - To the extent that a current-year quantity decrease (referred to as a "decrement") is carried back against an increment built up in a prior year or years, any pay-back of the previously built-up LIFO increment and its related contribution to the LIFO reserve will <i>increase</i> the current year's LIFO reserve if</li> <li>There was deflation in the prior year(s)'s layers that are now being invaded, and</li> <li>The layers being invaded are/were contributing "negatively" or negative amounts to the LIFO reserve at the end of the preceding year.</li> <li><i>Stated another way</i> The layers of inventory being invaded by the carryback of a decrement (expressed in base dollars) are contributing negative amounts toward the overall LIFO reserve balance; Accordingly, to the extent that any carryback of the current-year's decrement eliminates these negative effects, that leaves only inventory layers still contributing negatively toward the overall LIFO reserve balance.</li> </ul>
Downwa	and influences causing decreases (i.e., factors causing the LIFO reserve to go down)
Downward Decreases	<ul> <li>Price decreasesdeflation.</li> <li>Decreases in inventory investment levels - i.e., pay-backs of previously built-up LIFO reserves to the extent resulting from the carryback of a current-year inventory quantity decrease (referred to as "decrements") against increases ("increments") built up in prior years.</li> <li>Decreases in inventory investment levels But not always Sometimes no payback.</li> <li>An inventory decrease/decrement may not necessarily cause, or result in, any pay-back of some or any of the LIFO reserve at the beginning of the year. Whether or not there is a "pay-back" depends the order in which the prior year layers were built up over time and how they were valued for LIFO purposes.</li> </ul>
No Effect	<ul> <li>If the decrement in the current year is less than the amount of the increment in the immediately preceding year, there will be no dollar change in the LIFO reserve due to the carryback of that decrement against that prior year's increment.</li> <li>This result will occur under any LIFO method that values a current-year increment by using the cumulative inflation index (factor) at the end of the year.</li> <li>Alternative LIFO Methods for New and/or Used Vehicles</li> </ul>
Articles Analyzing Changes in LIFO Reserves	<ul> <li>"Why Do Some LIFO Reserves Go Up Even Though Inventory Levels Go Down?" in the March 1992 LIFO Lookout</li> <li>"Another Rebasing Example - With Proofs: Why LIFO Reserves Go Up Even Though Inventory Levels Go Down and Despite Rebasing Indexes to 1.000 in Between" in the June 1993 LIFO Lookout.</li> <li>"Strange But Explainable Results from the Wacky World of Negative LIFO Reserves," in the December 1998 LIFO Lookout. This article, with supporting schedules, analyzes pay-back mechanics where negative LIFO reserves are involved.</li> <li>"Dealers Who've Remained on LIFO Through a Few Years of Deflation Are Finally Rewarded by Inflation &amp; Big LIFO Reserve Increases" in the June 2004 LIFO Lookout.</li> <li>This article, with supporting schedules, analyzes LIFO reserve changes where some of the more recent years' LIFO layers reflect general price deflation, but not to the point where overall negative LIFO reserve balances have been created.</li> </ul>

## <u>ABC Dealership</u> <u>Calculation of LIFO Inventory Valuations & LIFO Reserves</u> <u>For the Year Ended December 31, 2007</u>

	Pool #1 New Autos	Pool #2 New L/D Trucks	Single Pool All New Vehicles Combined As Rebased
A. BEGINNING OF YEAR INVENTORY AT BASE DATE COST	2,791,537	4,091,574	7,047,573
B. END OF YEAR INVENTORY AT END OF YEAR (CURRENT) PRICES	1,643,274	4,340,766	5,984,040
C. END OF YEAR INVENTORY AT BEGINNING OF YEAR (BASE) PRICES	NOT FULLY REPRICED	NOT FULLY REPRICED	NOT FULLY REPRICED
RATIO OF: divide	3,618 d by 1.01921 8,732	1.00900	1.01184
E. <u>CUMULATIVE LINK-CHAIN INDEX:</u> CURRENT YEAR PRICE INDEX (LINE D) MULTIPLIED BY (X) PRIOR YEAR'S CUMULATIVE INDEX (LINE E OF PRIOR YEAR)	1.04851	1.02977	, 1.01184
F. END OF YEAR INVENTORY AT BASE DATE COST (LINE B DIVIDED BY LINE E)	1,567,247	4,215,277	5,913,999
<ul> <li>G. <u>CURRENT YEAR INVENTORY INCREASE (DECREASE) -</u> <u>EXPRESSED IN BASE DOLLARS</u></li> <li>1. END OF YEAR INVENTORY AT BASE DATE COST (LINE F)</li> <li>2. BEGINNING OF YEAR INVENTORY AT BASE DATE COST (LINE A)</li> <li>3. CURRENT YEAR INCREMENT (G(1) EXCEEDS G(2)) OR DECREASE (IF G(2) EXCEEDS G(1))</li> <li>4. LIFO VALUATION OF CURRENT YEAR INCREMENT</li> </ul>	1,567,247 (2,791,537) (1,224,290)	4,215,277 (4,091,574) 123,703 1.02977	5,913,999 (7,047,573) (1,133,574)
(IF G(1) EXCEEDS G(2), MULTIPLY LINE G(3) BY LINE E) <u>H. ANALYSIS OF YEAR-END INVENTORY LIFO "LAYERS"</u> <u>New Automobiles</u> <u>BASE</u> <u>DOLLARS</u> <u>Calendar Year 1984</u> <u>J.567,247</u> x <u>FACTOR</u> <u>1,567,247</u> x <u>0,470840</u>	<u>N/A</u> 737,923	127,386_	<u>N/A</u>
I,567,247           New Light-Duty Trucks         BASE         VALUATION           DOLLARS         FACTOR           Calendar Year 1984         63,332         x           Calendar Year 1992         49,125         x         0.526500           Calendar Year 1997         285,645         x         0.914220           Calendar Year 1998         2,467,459         x         0.924580           Calendar Year 1999         653,512         x         0.937040           Calendar Year 2003         572,501         x         1.028550           Calendar Year 2007         123,703         x         1.029770	737,923	33,344 40,674 261,142 2,281,363 612,367 588,846 127,386 3,945,122	
Single Combined Pool         BASE         VALUATION           DOLLARS         FACTOR           Calendar Year 1984         2,412,579         x         0.461314           Calendar Year 1992         560,802         x         0.735060           Calendar Year 1997         292,470         x         0.892886           Calendar Year 1998         2,526,415         x         0.903004           Calendar Year 1999         121,733         x         0.915173			1,112,955 412,223 261,142 2,281,363 111,407 4,179,091
ENDING INVENTORY AT LIFO VALUATION, PER ABOVE LESS: ENDING INVENTORY AT END OF YEAR PRICES (LINE B)	737,923 1,643,274	3,945,122 4,340,766	4,179,091 5,984,040
LIFO RESERVE AT END OF CURRENT YEAR LIFO RESERVE AT END OF PREVIOUS YEAR	905,351 1,420,634	395,644 358,043	1,804,949 1,778,677
INCREASE (DECREASE) IN LIFO RESERVE AT END OF CURRENT YEA		37,601 (515,283)	26,272
Total Change in LIFO Reserve at Dec. 31, 2007 Using Two Sepa Net Greater LIFO Reserve From Using a Single, Combined Poo	:	(477,682) • 2007	<u>477,682</u> 503,954

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## <u>ABC Dealership</u> <u>Proof of Calculation of LIFO Inventory Valuations & LIFO Reserves</u> <u>For the Year Ended December 31, 2007</u>

I. Proof of Increase (Decrease) in LIFO Reserve for Pool #1 New Automobiles	
Increase due to inflation Base dollars that remained in tact throughout year 2007 <u>1,567,247</u> x 0.01976 = (1.04851 - 1.02875)	30,968
Less: Decrease or payback due to decrement carried back against prior year layers Decrease due to invading 1984 layer 725,700 x 0.55791 or (1.02875 - 0.47084) = Decrease due to invading 1992 layer 498,590 x 0.28355 or (1.02875 - 0.74520) = 1,224,290	(404,875) (141,375) (546,250)
Net Increase (Decrease) in LIFO Reserve for 2007 - Pool #1 New Automobiles	(515,283)
II. Proof of Increase (Decrease) in LIFO Reserve for Pool #2 New Light-Duty Trucks	
Increase due to inflation Base dollars that remained in tact throughout year 2007 $4,091,574 \times 0.00919 = (1.02977 - 1.02058)$	37,601
Net Increase in LIFO Reserve for 2007 - Pool #2 New Light-Duty Trucks	37,601
III. Proof of Increase in LIFO Reserve for Single Combined Pool for All New Vehicles         Increase due to inflation Base dollars that remained in tact throughout year 2007         5,913,999       x       0.01184 = (1.01184 - 1.00000)	70,021
Less: Decrease or payback due to decrement carried back against prior year layers Decrease due to invading 1999 layer 547,394 x 0.084827 or (1.00000 - 0.915173) = Decrease due to invading 1999 layer 586,180 x (0.004548) or (1.00000 - 1.004548) = 1,133,574	(46,434) 2,666
Total Reduction in LIFO Reserve Due to Decrement Rounding	(43,768)
Net Increase in LIFO Reserve for 2007 - Single Pool	26,272
IV. Proof of Composition of LIFO Reserve for Single, Combined LIFO Pool as of Dec. 31, 2007           Calendar Year 1984         2,412,579         0.550526 or (1.01184 - 0.461314)           Calendar Year 1992         560,802         0.276780 or (1.01184 - 0.735060)           Calendar Year 1997         292,470         0.118954 or (1.01184 - 0.892886)           Calendar Year 1998         2,526,415         0.108836 or (1.01184 - 0.903004)           Calendar Year 1999         121,733         0.096667 or (1.01184 - 0.915173)	1,328,187 155,219 34,790 274,965 11,768 20
Composition of the LIFO Reserve for the Single, Combined Pool for All New Vehicles as of Dec. 31, 2007	1,804,949
V. Comparison of Results - Single, Combined LIFO Pool vs. Two Separate LIFO Pools Difference in LIFO Reserve Recapture Due to Carrybacks of Decrements	
Total Reduction in LIFO Reserve Due to Decrement - Single Pool, Per Above	43,768
Total Reduction in LIFO Reserve Due to Decrement - Separate Pools - Pool #1 New Autos Total Reduction in LIFO Reserve Due to Decrement - Separate Pools - Pool #2 New Light-Duty Trucks	546,250 n/a
Total Reduction in LIFO Reserve Due to Decrement - Separate Pools - Pool #2 New Eight-Duty Hucks	546,250
Combined Pool Results in Smaller Payback in LIFO Reserve Due to Decrement Carryback (546,250 - 43,768)	502,483
Difference in LIFO Reserve Increase or Decrease Due to Inflation	
Increase in LIFO Reserve Due to Inflation - Separate Pools - Pool #1 New Autos 30,968	
Increase in LIFO Reserve Due to Inflation - Separate Pools - Pool #2 New L/D Trucks 37,601	
Subtotal68,568	
Increase in LIFO Reserve Due to Inflation - Single Pool - All New Vehicles, Per Above 70,021	
Combined Pool Results in a Greater Increase in the LIFO Reserve Due to Inflation 1,452	1,452
Rounding Net Greater LIFO Reserve From Using a Single, Combined Pool for All New Vehicles for 2007	<u>19</u> 503,954

A Periodic Update of LIFO - News, Views and Ideas

## New Vehicle LIFO Inventory Layer History - Worksheet to Combine LIFO Pools

r

## As of December 31, 2006

					n & Proof of L s of Dec. 31, 20	
Pool #1 New Automobiles	<u>Base Dollars</u>	<u>Valuation</u> <u>Factor</u>	<u>LIFO</u> <u>Valuation</u>	<u>Base</u> Dollars	<u>Proof</u> Factor	<u>Composition</u> <u>of LIFO</u> <u>Reserve</u>
Analysis of Year-End LIFO Inventory Layers			· · · · · · · · · · · · · · · · · · ·		l- <i></i>	
Calendar Year 1984 Calendar Year 1992 Calendar Year 1997 Calendar Year 1998 Calendar Year 1999 Calendar Year 2003 Cumulative Index as of Dec. 31, 2006	2,292,947 498,590 - - - - -	0.470840 0.745200 - - - 1.028750	1,079,611 371,549 - - - - - -	2,292,947 498,590 - - - -	0.557910 0.283550 - - - - Rounding	1,279,258 141,375 - - - - -
Totals	2,791,537		1,451,160	2,791,537	Rounding	1,420,633
Ending Inventory at LIFO Valuation			1,451,160			
Less: Ending Inventory at Current Cost			2,871,794			
LIFO Reserve at End of Year			1,420,634			
Pool #2 New L/D Trucks	<u>Base Dollars</u>	<u>Valuation</u> <u>Factor</u>	LIFO Valuation		n & Proof of L. s of Dec. 31, 20 <u>Proof</u> <u>Factor</u>	
Analysis of Year-End LIFO Inventory Layers	I					
Calendar Year 1984 Calendar Year 1992 Calendar Year 1997 Calendar Year 1998 Calendar Year 1999 Calendar Year 2003 Cumulative Index as of Dec. 31, 2006 Totals Ending Inventory at LIFO Valuation Less: Ending Inventory at Current Cost LIFO Reserve at End of Year	63,332 49,125 285,645 2,467,459 653,512 572,501 4,091,574	0.526500 0.827970 0.914220 0.924580 0.937040 1.028550 1.020580	33,344 40,674 261,142 2,281,363 612,367 588,846  3,817,737 3,817,737 4,175,779 358,042	63,332 49,125 285,645 2,467,459 653,512 572,501 - 4,091,574	0.494080 0.192610 0.106360 0.096000 0.083540 (0.007970)	31,291 9,462 30,381 236,876 54,594 (4,563) - 358,042
					a & Proof of Ll	

Single Bool				a	of Dec. 31, 20	06
<u>Single Pool</u> All New Vehicles Combined	<u>Base Dollars</u>	<u>Valuation</u> <u>Factor</u>	<u>LIFO</u> <u>Valuation</u>	<u>Base</u> Dollars	<u>Proof</u> Factor	<u>Composition</u> of LIFO <u>Reserve</u>
Analysis of Year-End LIFO Inventory Layers						
Calendar Year 1984	2,356,279	0.472336	1,112,955	2,356,279	0.551558	1,299,623
Calendar Year 1992	547,715	0.752624	412,223	547,715	0.271270	148,579
Calendar Year 1997	285,645	0.914220	261,142	285,645	0.109674	31,328
Calendar Year 1998	2,467,459	0.924580	2,281,363	2,467,459	0.099314	245,052
Calendar Year 1999	653,512	0.937040	612,367	653,512	0.086854	56,760
Calendar Year 2003	572,501	1.028550	588,846	572,501	(0.004656)	(2,666)
* Cumulative Index as of Dec. 31, 2006	-	1.023894		-	-	-
Totals	6,883,111	•	5,268,897	6,883,111	-	1,778,676
Ending Inventory at LIFO Valuation			5,268,897			
Less: Ending Inventory at Current Cost		-	7,047,573			
LIFO Reserve at End of Year		· •	1,778,676			
* 1.023894 = 7,047,573 / 6,883,111						

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De Filipps' LIFO LOOKOUT Vol. 18, No. 1

## ABC Dealership

## Rebasing of Single Combined LIFO Pool Inventory & Indexes to 1.000

## As of December 31, 2006

	<u>All Nev</u>	<u>Single Pool</u> v Vehicles Ca		Composition & Proof of LIFO Reserve as of Dec. 31, 2006		
Before Rebasing Indexes	<u>Base</u> Dollars	<u>Valuation</u> <u>Factor</u>	<u>LIFO</u> Valuation	<u>Base</u> Dollars	<u>Proof</u> Factor	<u>Composition</u> <u>of LIFO</u> <u>Reserve</u>
Analysis of Year-End LIFO Inventory Layers						
Calendar Year 1984	2,356,279	0.472336	1,112,955	2,356,279	0.551558	1,299,623
Calendar Year 1992	547,715	0.752624	412,223	547,715	0.271270	148,579
Calendar Year 1997	285,645	0.914220	261,142	285,645	0.109674	31,328
Calendar Year 1998	2,467,459	0.924580	2,281,363	2,467,459	0.099314	245,052
Calendar Year 1999	653,512	0.937040	612,367	653,512	0.086854	56,760
Calendar Year 2003	572,501	1.028550	588,846	572,501	(0.004656)	(2,666)
Cumulative Index as of Dec. 31, 2006	-	1.023894				
Totals	6,883,111		5,268,897	6,883,111		1,778,676
Ending Inventory at LIFO Valuation			5,268,897			
Less: Ending Inventory at Current Cost		-	7,047,573			
LIFO Reserve at End of Year		-	1,778,676			

		Single Pool		Composition	1 & Proof of 1	IFO Reserve	
	All New Vehicles Combined			as	as of Dec. 31, 2006		
After Rebasing Indexes	<u>Base</u> Dollars	<u>Valuation</u> <u>Factor</u>	<u>LIFO</u> <u>Valuation</u>	<u>Base</u> Dollars	<u>Proof</u> <u>Factor</u>	<u>Composition</u> of LIFO <u>Reserve</u>	
Analysis of Year-End LIFO Inventory Layers					<b></b>		
Calendar Year 1984	2,412,579	0.461314	1,112,955	2,412,579	0.538686	1,299,623	
Calendar Year 1992	560,802	0.735060	412,223	560,802	0.264940	148,579	
Calendar Year 1997	292,470	0.892886	261,142	292,470	0.107114	31,328	
Calendar Year 1998	2,526,415	0.903004	2,281,363	2,526,415	0.096996	245,052	
Calendar Year 1999	669,127	0.915173	612,367	669,127	0.084827	56,760	
Calendar Year 2003	586,180	1.004548	588,846	586,180	(0.004548)	(2,666)	
Cumulative Index as of Dec. 31, 2006	-	1.000000	-	-	-	-	
· · · · · ·							
Totals	7,047,573		5,268,897	7,047,573	;	1,778,676	
Ending Inventory at LIFO Valuation			5,268,897				
Less: Ending Inventory at Current Cost			7,047,573				
LIFO Reserve at End of Year			1,778,676				
Online Jac Ware 1094	2 256 270	1.023894	2,412,579				
Calendar Year 1984 Calendar Year 1992	2,356,279 547,715	1.023894	2,412,379 560,802				
Calendar Year 1992 Calendar Year 1997	285,645	1.023894	292,470				
Calendar Year 1998	2,467,459	1.023894	2,526,415				
Calendar Year 1999	653,512	1.023894	669,127	••			
Calendar Year 2003	572,501	1.023894	586,180				
Cumulative Index as of Dec. 31, 2006		1.023894	· · · · ·				
	6,883,111	•••••••••••••••••••••••••••••••••••••••	7,047,573				
	Old Base		New Base				
	Dollars	Conversion	Dollars				
	(Before)	Factor	(After)				

## <u>EFG Dealership</u> <u>Calculation of LIFO Inventory Valuations & LIFO Reserves</u> <u>For the Year Ended December 31, 2007</u>

	<u>For the Year Ended De</u>	<u>cember 3</u>	<u>1, 2007</u> Pool #1 New <u>Autos</u>	Pool #2 New L/D Trucks	Single Pool All New Vehicles Combined As Rebased
A. BEGINNING OF YEAR INVENTO	DRY AT BASE DATE COST		955,303	2,533,057	4,902,878
B. END OF YEAR INVENTORY AT	END OF YEAR (CURRENT) PRICES		830,811	3,226,748	4,057,559
C. END OF YEAR INVENTORY AT (BASE) PRICES	BEGINNING OF YEAR		NOT FULLY REPRICED	NOT FULLY REPRICED	NOT FULLY REPRICED
D. <u>CURRENT YEAR PRICE INDEX;</u> END OF YEAR INVEI AT END OF YEAR PR RATIO OF; <u>END OF YEAR INVEI</u> AT BEGINNING OF Y	NTORY PRICED JCES (DIVIDED BY) 	3,653,059 livided by 3,611,663	1.01460	1.01065	1.01146
E. <u>CUMULATIVE LINK-CHAIN IND</u> CURRENT YEAR PRICE INDEX PRIOR YEAR'S CUMULATIVE I			1.43725	1.41624	1.01146
F. END OF YEAR INVENTORY AT (LINE B DIVIDED BY LINE E)	BASE DATE COST		578,056	2,278,391	4,011,582
<ul> <li>G. <u>CURRENT YEAR INVENTORY II</u> <u>EXPRESSED IN BASE DOLLARS</u></li> <li>1. END OF YEAR INVENTORY A</li> <li>2. BEGINNING OF YEAR INVEN</li> <li>3. CURRENT YEAR INCREMENTOR DECREASE (IF G(2) EXCENTION OF CURREN (IF G(1) EXCEEDS G(2), MULT</li> </ul>	AT BASE DATE COST (LINE F) TORY AT BASE DATE COST (LINE / T (G(1) EXCEEDS G(2)) EDS G(1)) IT YEAR INCREMENT	<b>4</b> )	578,056 (955,303) (377,247)	2,278,391 (2,533,057) (254,666)	4,011,582 (4,902,878) (891,296)
H. ANALYSIS OF YEAR-END INV					
<u>New Automobiles</u> Calendar Year 1986	BASE         VALUATION           DOLLARS         FACTOR           578,056         X           578,056         X		<u>343,926</u> 343,926		
<u>New Light-Duty Trucks</u> Calendar Year 1986 Calendar Year 1998 Calendar Year 1999	BASE         VALUATION           DOLLARS         FACTOR           1,603,720         X         0.627760           61,247         X         1.254870           613,424         X         1.262470           2,278,391         X         1.262470			1,006,751 76,857 774,429 1,858,038	
<u>Single Combined Pool</u> Calendar Year 1986 Calendar Year 1998 Calendar Year 1999	BASE         VALUATION           DOLLARS         FACTOR           3,596,698         X           0.437937           86,082         X           328,802         X           4,011,582				1,575,127 76,857 <u>295,342</u> 1,947,326
ENDING INVENTORY AT LIFO LESS: ENDING INVENTORY AT			343,926 830,811	1,858,038 3,226,748	1,947,326 4,057,559
LIFO RESERVE AT END OF CU LIFO RESERVE AT END OF PREV			486,885 784,877	1,368,710 1,370,078	2,110,233 2,154,955
INCREASE (DECREASE) IN LIF	O RESERVE AT END OF CURREN	Г YEAR	(297,992)	(1,368)	(44,722)
	O Reserve at Dec. 31, 2007 Using Tw erve From Using a Single, Combined P			(299,360)	299,360 254,638

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<u>EFG Dealership</u>						
Proof of Calculation of LIFO Inventory Valuations & LIFO Reserves						
For the Year Ended December 31, 2007						

I. Proof of Increase (Decrease) in LIFO Reserve for Pool #1 New Automobiles				
Increase due to inflation Base dollars that remained in tact throughout year 2007 $578.056 \times 0.02068 = (1.473725 - 1.41657)$	11,954			
Less: Decrease or payback due to decrement carried back against prior year layers Decrease due to invading December 31, 1986 (base) <u>377,247</u> 0.82160 or (1.41657 - 0.59497) =	(309,946)			
Net Increase (Decrease) in LIFO Reserve for 2007 - Pool #1 New Automobiles	(297,992)			
II. Proof of Increase (Decrease) in LIFO Reserve for Pool #2 New Light-Duty Trucks				
Increase due to inflation Base dollars that remained in tact throughout year 2007 $2,278,391 \times 0.01492 = (1.41624 - 1.40132)$	33,992			
Less: Decrease or payback due to decrement carried back against prior year layers				
Decrease due to invading Dec. 31, 1999 (base) $254,666 \times 0.13885$ or $(1.40132 - 1.26247) =$	(35,360)			
Net Increase (Decrease) in LIFO Reserve for 2007 - Pool #2 New Light-Duty Trucks	(1,368)			
111. Proof of Increase (Decrease) in LIFO Reserve for Single, Combined Pool for All New Vehicles				
Increase due to inflation Base dollars that remained in tact throughout year 2007 $4,011,582 \times 0.01146 = (1.01146-1.00000)$	45,973			
Less: Decrease or payback due to decrement carried back against prior year layers Decrease due to invading year 1999 <u>891,296</u> x 0.101762 or (1.00000 - 0.898238) =	(90,700)			
Rounding Net Increase (Decrease) in LIFO Reserve for 2007 - Single Pool				
IV. Proof of Composition of LIFO Reserve for Single, Combined Pool as of Dec. 31, 2007				
Calendar Year 19863,596,6980.573523(1.01146 - 0.437937)Calendar Year 199886,0820.118630(1.01146 - 0.892830)	2,062,789			
Calendar Year 1998 $328,802 0.113030 (1.01140 - 0.892330)$	10,212 37,228			
4,011,582				
Composition of the LIFO Reserve for the Single Pool for All New Vehicles as of Dec. 31, 2007	2,110,233			
V. Comparison of Results - Single, Combined LIFO Pool vs. Two Separate LIFO Pools				
Difference in LIFO Reserve Recapture Due to Carrybacks of Decrement				
Total Reduction in LIFO Reserve Due to Decrement - Single Pool, Per Above	90,700			
Total Reduction in LIFO Reserve Due to Decrement - Separate Pools - Pool #1 New Autos	309,946			
Total Reduction in LIFO Reserve Due to Decrement - Separate Pools - Pool #2 New Light-Duty Trucks	35,360			
Total Reduction in LIFO Reserve Due to Decrement - Separate Pools	345,306			
Combined Pool Results in Smaller Payback in LIFO Reserve Due to Decrement Carryback (345,306 - 90,700)	254,606			
Difference in LIFO Reserve Increase or Decrease Due to Inflation				
Increase in LIFO Reserve Due to Inflation - Separate Pools - Pool #1 New Autos 11,954				
Increase in LIFO Reserve Due to Inflation - Separate Pools - Pool #2 New L/D Trucks 33,992				
Subtotal 45,946				
Increase in LIFO Reserve Due to Inflation - Single Pool - All New Vehicles, Per Above 45,973				
Combined Pool Results in a Greater Increase in the LIFO Reserve Due to Inflation 27	27			
Net Greater LIFO Reserve From Using a Single, Combined Pool for All New Vehicles for 2007	5 254,638			

A Periodic Update of LIFO - News, Views and Ideas

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De Filipps' LIFO LOOKOUT Vol. 18, No. 1

## JKL Dealership Calculation of LIFO Inventory Valuations & LIFO Reserves For the Year Ended December 31, 2007

	<u></u>	<u>.</u>	Pool #1 New Autos	Pool #2 New L/D Trucks	Single Pool All New Vehicles Combined As Rebased
A. BEGINNING OF YEAR INV	ENTORY AT BASE DATE COST		2,322,728	830,720	3,585,969
B. END OF YEAR INVENTOR	Y AT END OF YEAR (CURRENT) PRI	CES	2,008,358	849,071	2,857,429
C. END OF YEAR INVENTOR (BASE) PRICES	Y AT BEGINNING OF YEAR		NOT FULLY REPRICED	NOT FULLY REPRICED	NOT FULLY REPRICED
AT END OF YEA RATIO OF: END OF YEAR I	NVENTORY PRICED AR PRICES (DIVIDED BY)	2,582,674 divided by 2,569,102	1.00584	1.00392	1.00528
	<u>V INDEX:</u> IDEX (LINE D) MULTIPLIED BY (X) IVE INDEX (LINE E OF PRIOR YEAR)	)	1.14512	1.13793	1.00528
F. END OF YEAR INVENTOR (LINE B DIVIDED BY LINE			1,753,841	746,154	2,842,413
EXPRESSED IN BASE DOL 1. END OF YEAR INVENT 2. BEGINNING OF YEAR I	DRY AT BASE DATE COST (LINE F) NVENTORY AT BASE DATE COST (L MENT (G(1) EXCEEDS G(2))	INE A)	1,753,841 (2,322,728) (568,887)	746,154 (830,720) (84,566)	2,842,413 (3,585,969) (743,556)
	RRENT YEAR INCREMENT MULTIPLY LINE G(3) BY LINE E)		N/A	<u>N/A</u>	N/A
<u>New Automobiles</u> Calendar Year 1989 Calendar Year 1990	BASE         VALUATIO           DOLLARS         FACTOR           1,460,189         x         0.330660           293,651         x         0.395610           1,753,840		482,826 116,171 598,997		
New Light-Duty Trucks	BASE VALUATIO DOLLARS FACTOR				
Calendar Year 1989 Calendar Year 1990 Calendar Year 1991 Calendar Year 1993 Calendar Year 1995 Calendar Year 1996 Calendar Year 1997 Calendar Year 2002	203,383 x 0.330660 45,405 x 0.395610 2,748 x 0.512830 29,738 x 0.939600 158,047 x 1.00000 90,962 x 1.021630 123,799 x 1.017310 92,072 x 1.109990 746,154	_		67,251 17,963 1,409 27,942 158,047 92,930 125,942 102,199 593,682	
Single Combined Pool	BASE VALUATIO				
Calendar Year 1989 Calendar Year 1990 Calendar Year 1991 Calendar Year 1993 Calendar Year 1995	DOLLARS         FACTOR           1,891,745         x         0.290777           422,334         x         0.347893           25,564         x         0.450975           276,607         x         0.826270           226,163         x         0.879385           2,842,413          0.879385				550,077 146,927 11,529 228,552 198,884 1,135,969
	LIFO VALUATION, PER ABOVE ( AT END OF YEAR PRICES (LINE B)	-	598,997 2,008,358	593,682 849,071	1,135,969 2,857,429
LIFO RESERVE AT END OF		-	1,409,361 1,517,909	255,389 254,063	1,721,460 1,771,972
INCREASE (DECREASE) IN	LIFO RESERVE AT END OF CURF	RENT YEAR =	(108,548)	1,325	(50,512)
Total Change in	LIFO Reserve at Dec. 31, 2007 Usin	g Two Separate P	ools	(108,548) (107,223)	107,223

Net Greater LIFO Reserve From Using a Single, Combined Pool for All New Vehicles for 2007

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56,711

<u>JKL Dealership</u>					
Proof of Calculation of LIFO Inventory Valuations & LIFO Reserves					
For the Year Ended December 31, 2007					

I. Proof of Increase (Decrease) in LIFO Reserve for Pool #1 New Automobiles

Increase due to inflation ... Base dollars that remained in tact throughout year 200 1,753,841 × 0.00665 = (1.14512 - 1.13847)11,664 Less: Decrease or payback due to decrement carried back against prior year layers Decrease due to invading Dec. 31,1990 (base) 32,338 0.74286 or (1.13847 - 0.39561) =(24.023)Decrease due to invading Dec. 31, 1991 layer 19,733 0.62564 or (1.13847 - 0.51283) = (12.346)Decrease due to invading Dec. 31, 1993 layer 213,506 x 0.19887 or (1.13847 - 0.93960) (42,460) 0.13847 or Decrease due to invading Dec. 31, 1995 layer 273,525 (1.13847 - 1.000000) (37,875) x Decrease due to invading Dec. 31, 1998 layer 29,785 0.11779 or (1.13847 - 1.02068) (3,508) x 568,887 (120,212) Net Increase (Decrease) in LIFO Reserve for 2007 - Pool #1 New Automobiles (108,548) 11. Proof of Increase (Decrease) in LIF() Reserve for Pool #2 New Light-Duty Trucks Increase due to inflation ... Base dollars that remained in tact throughout year 2007 0.00444 = (1.13793 - 1.13349)746.154 x 3.312 Less: Decrease or payback due to decrement carried back against prior year layers Decrease due to invading Dec 31, 2002 (base) <u>84,566</u> x 0.02350 or (1.13349 - 1.10999) =(1,987) Net Increase in LIFO Reserve for 2007 - Pool #2 New Light-Duty Trucks 1,325 III. Proof of Increase (Decrease) in LIFO Reserve for Single, Combined LIFO Pool for All New Vehicles Increase due to inflation ... Base dollars that remained in tact throughout year 2007 2,842,413 x 0.00528 = (1.00528 - 1.00000)15,008 Less: Decrease or payback due to decrement carried back against prior year layers Decrease due to invading 1995 (base) (1.00000 - 0.879385) =264.604 x 0.120615 or (31, 915)Decrease due to invading 1996 layer 103,438 0.101594 or (1.00000 - 0.898406) =(10,509) х 0.105393 or (1.00000 - 0.894607) = Decrease due to invading 1997 layer 140,779 (14,837) x (1.00000-0.897571) = Decrease due to invading 1998 layer 33,870 0.102429 or (3,469) Decrease due to invading 2002 layer 200,865 х 0.023892 or (1.00000 - 0.976108) =(4,799)743,556 Total Reduction in LIFO Reserve Due to Decrement (65,529) Rounding Net Increase (Decrease) in LIFO Reserve for 2007 - Single Pool (50,512)VI. Proof of Composition of LIFO Reserve for Single, Combined LIFO Pool as of Dec. 31, 2007 Calendar Year 1989 1,891,745 0.714503 (1.00528 - 0.290777) 1.351.657 (1.00528 - 0.347893)Calendar Year 1990 422.334 0.657387 277,637 0.554305 (1.00528 - 0.450975)14,171 Calendar Year 1991 25.564 Calendar Year 1993 276,607 0.179010 (1.00528 - 0.826270)49,515 226,163 2,842,413 0.125895 (1.00528 - 0.879385) Calendar Year 1995 28,473 Rounding Composition of the LIFO Reserve for the Single Pool for All New Vehicles as of Dec. 31, 2007 1,721,460 V. Comparison of Results - Single, Combined LIFO Pool vs. Two Separate LIFO Pools Difference in LIFO Reserve Recupture Due to Carrybacks of Decrements 65,529 Total Reduction in LIFO Reserve Due to Decrement - Single Pool, Per Above Total Reduction in LIFO Reserve Due to Decrement - Separate Pools - Pool #1 New Autos 120,212 Total Reduction in LIFO Reserve Due to Decrement - Separate Pools - Pool #2 New Light-Duty Trucks 1,987 Total Reduction in LIFO Reserve Due to Decrement - Separate Pools 122,199 Combined Pool Results in Smaller Payback in LIFO Reserve Due to Decrement Carryback (122,199 - 65,529) 56.670 Difference in LIFO Reserve Increase or Decrease Due to Inflation Increase in LIFO Reserve Due to Inflation - Separate Pools - Pool #1 New Autos 11.664 Increase in LIFO Reserve Due to Inflation - Separate Pools - Pool #2 New L/D Trucks 3,312 14,976 Subtotal Increase in LIFO Reserve Due to Inflation - Single Pool - All New Vehicles, Per Above 15,008 Combined Pool Results in a Greater Increase in the LIFO Reserve Due to Inflation 32 Rounding Net Greater LIFO Reserve From Using a Single Pool for All New Vehicles for 2007

A Periodic Update of LIFO - News, Views and Ideas

## <u>MNO Dealership</u> <u>Calculation of LIFO Inventory Valuations & LIFO Reserves</u> <u>For the Year Ended December 31, 2007</u>

		2000.000	Pool #1 New Autos	Pool #2 New L/D Trucks	Single Pool All New Vehicles Combined As Rebased
A. BEGINNING OF YEAR INVE	ENTORY AT BASE DATE COST		1,812,276	389,113	2,711,521
B. END OF YEAR INVENTORY	AT END OF YEAR (CURRENT) PRIC	ES	1,626,159	83,796	1,709,955
C. END OF YEAR INVENTORY (BASE) PRICES	AT BEGINNING OF YEAR		NOT FULLY REPRICED	NOT FULLY REPRICED	NOT FULLY REPRICED
AT END OF YEAR RATIO OF:	VENTORY PRICED & PRICES (DIVIDED BY) 	1,512,941 divided by 1,499,250	1.00857	1.02074	1.00913
	<u>INDEX:</u> DEX (LINE D) MULTIPLIED BY (X) VE INDEX (LINE E OF PRIOR YEAR)		1.27464	1.10478	1.00913
F. END OF YEAR INVENTORY (LINE B DIVIDED BY LINE)			1,275,779	75,849	1,694,481
<ol> <li>2. BEGINNING OF YEAR IN</li> <li>3. CURRENT YEAR INCREM OR DECREASE (IF G(2) E2</li> <li>4. LIFO VALUATION OF CUR</li> </ol>	ARS RY AT BASE DATE COST (LINE F) VENTORY AT BASE DATE COST (LIN (ENT (G(1) EXCEEDS G(2)) XCEEDS G(1)) RENT YEAR INCREMENT	VE A)	1,275,779 (1,812,276) (536,497)	75,849 (389,113) (313,264)	1,694,481 (2,711,521) (1,017,040)
H. ANALYSIS OF YEAR-END		NI.	<u>N/A</u>	<u> </u>	<u>N/A</u>
<u>New Automobiles</u> January 1, 1995	BASE         VALUATION           DOLLARS         FACTOR           1,275,779         X           1,275,779         X		1,275,779 1,275,779		
<u>New Light-Duty Trucks</u> January 1, 1995	BASE         VALUATION           DOLLARS         FACTOR           75,849         X           75,849         X	N		75,849 75,849	
Single Combined Pool January 1, 1995	BASE         VALUATION           DOLLARS         FACTOR           1,694,481         X         0.811865           1,694,481         X         0.811865	Ń			1,375,690 1,375,690
	IFO VALUATION, PER ABOVE AT END OF YEAR PRICES (LINE B)		1,275,779 1,626,159	75,849 83,796	1,375,690 1,709,955
LIFO RESERVE AT END OF LIFO RESERVE AT END OF P			350,380 371,417	7,947 7,473	334,265 378,890
INCREASE (DECREASE) IN	LIFO RESERVE AT END OF CURRI	ENT YEAR	(21,037)	474 (21,037)	(44,625)
Total Change in J	LIFO Reserve at Dec. 31, 2007 Using	Two Separate Po	ools	(20,563)	20,563
Net <u>Smaller</u> LIF	O Reserve From Using a Single, Com	bined Pool for A	ll New Vehicles f	or 2007	(24,062)

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<u>MNO</u> Dealership					
Proof of Calculation of LIFO Inventory Valuations & LIFO Reserves					
For the Year Ended December 31, 2007					

I. Proof of Increase (Decrease) in LIFO Reserve for Pool #1 New Automobiles

Increase due to inflation Base dollars that remained in tact throughout year 2007	<u>1,275,779</u> x	0.01083 =	(1.27464 - 1.26381)	13,817
Less: Decrease or payback due to decrement carr Decrease due to invading Jan. 1995 (base)	ied back against prior year 132,119	layers 0.26381 or	(1.26381 - 1.00000)	= (34,854)
Decrease due to invading 2006 layer	404,378 x	0.00000 or	(1.26381 - 1.26381)	= 0
	536,497			(34,854)
Net Increase (Decrease) in LIFO Reserve	for 2007 - Pool #1 New A	utomobiles		(21,037)
II. Proof of Increase (Decrease) in LIFO Reserve	for Pool #2 New Light-Dui	ty Trucks		
Increase due to inflation Base dollars that				
remained in tact throughout year 2007	<u>75,849</u> x	0.02245 =	(1.10478 - 1.08233)	1,702
Less: Decrease or payback due to decrement carr		•	(1.00000	(2, (22))
Decrease due to invading Jan. 1995 (base) Decrease due to invading 1995 layer	32,572 x 15,438 x	0.08233 or 0.07801 or	(1.08233 - 1.00000) (1.08233 - 1.00432)	= (2,682) = (1,204)
Decrease due to invading 2004 layer		(0.01002) or	(1.08233 - 1.09235)	= 495
Decrease due to invading 2005 layer			(1.08233 - 1.09235)	= 2,163
	313,264			
Total Reduction in LIFO Reserve Due to De	ecrement			(1,228)
Net Increase (Decrease) in LIFO Reserve	for 2007 - Pool #2 New Li	ght-Duty True	ks	474
		•		2010 District Development
<u>III. Proof of Increase (Decrease) in LIFO Reserve</u>	for Single, Combined LIF	O Pool for Al	New Vehicles	
Increase due to inflation Base dollars that			(1.00010 1.00000)	
remained in tact throughout year 2007	<u>1,694,481</u> x	0.00913 =	(1.00913 - 1.00000)	15,471
	- 4 1 1			
Less: Decrease or payback due to decrement carri Decrease due to invading Jan. 1995 (base)		ayers 0.188135 or	(1.00000 - 0.811865)	= (32,588)
Decrease due to invading 1995 layer		0.184628 or	(1.00000 - 0.815372)	
Decrease due to invading 2004 layer	60,876 × 0	0.113159 or	(1.00000 - 0.886841)	= (6,889)
Decrease due to invading 2005 layer		0.113159 or	(1.00000 - 0.886841)	
Decrease due to invading 2006 layer		(0.02604) or	(1.00000 - 1.026043)	= 12,972
	1,017,040			
Total Reduction in LIFO Reserve Due to De	ecrement		Rounding	(60,099)
Net Increase (Decrease) in LIFO Reserve	for 2007 - Single Pool		Rounding	(44,625)
IV. Proof of Composition of LIFO Reserve for Sing	ele, Combined LIFO Pool	as of Dec. 31,	2007	
January 1, 1995 Base layer 1,694,48	1 0.197265 or (1.00	913 - 0.81186	5)	334,262
			Rounding	And in case of the second s
Composition of the LIFO Reserve for the Single,	Combined Pool for All Ne	ew Vehicles as	of Dec. 31, 2007	334,265
V. Comparison of Results - Single, Combined LIFC	) Pool vs. Two Separate Ll	FO Pools	,	
Difference in LIFO Reserve Recapture Due to Carr	vbacks of Decrements			
Total Reduction in LIFO Reserve Due to Decrement	nt - Single Pool, Per Above			60,099
Total Reduction in LIFO Reserve Due to Decrement	nt - Separate Pools - Pool #	1 New Autos		34,854
Total Reduction in LIFO Reserve Due to Decrement	nt - Separate Pools - Pool #	2 New Light-E	Outy Trucks	1,228
Total Reduction in LIFO Reserve Due to Decrement	nt - Separate Pools			36,082
Combined Pool Results in Greater Payback in LIF	O Reserve Due to Decreme	ent Carryback	(60,099 - 36,082)	24,017
Difference in LIFO Reserve Increase or Decrease L	ue to Inflation			
Increase in LIFO Reserve Due to Inflation - Separa	te Pools - Pool #1 New Au	tos	13,817	,
Increase in LIFO Reserve Due to Inflation - Separa			1,702	
	Subto		15,519	
Increase in LIFO Reserve Due to Inflation - Single		-	15.471	

 Increase in LIFO Reserve Due to Inflation - Single Pool - All New Vehicles, Per Above
 15,471

 Combined Pool Results in a Smaller Increase in the LIFO Reserve Due to Inflation
 48

 Net Smaller LIFO Reserve From Using a Single Pool for All New Vehicles for 2007
 Rounding

A Periodic Update of LIFO - News, Views and Ideas

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De Filipps' LIFO LOOKOUT Vol. 18, No. 1

48 (3) 24,062

# <u>ORS Dealership</u> Calculation of LIFO Inventory Valuations & LIFO Reserves For the Year Ended December 31, 2007

	For the	Year Ended	<u>December</u> 3	<u>81, 2007</u>		
				Pool #1 New Autor	Pool #2 New L/D Trucks	Single Pool All New Vehicles Combined <u>As Rebased</u>
A. BEGINNING OF YEAR INVENTO	DRY AT BASE D	ATE COST		980,504	3,589,523	6,545,732
B. END OF YEAR INVENTORY AT	END OF YEAR	(CURRENT) PRIC	ES	458,854	4,118,354	4,577,208
C. END OF YEAR INVENTORY AT (BASE) PRICES	BEGINNING OF	YEAR		NOT FULLY REPRICED	NOT FULLY REPRICED	NOT FULLY REPRICED
D. <u>CURRENT YEAR PRICE INDEX:</u> END OF YEAR INVEN AT END OF YEAR PR	ITORY PRICED	BY)	4,189,246			
RATIO OF: END OF YEAR INVEN AT BEGINNING OF Y	TORY PRICED		divided by 4,116,957	1.00950	1.01848	1.01756
E. <u>CUMULATIVE LINK-CHAIN IND</u> CURRENT YEAR PRICE INDEX PRIOR YEAR'S CUMULATIVE IN	(LINE D) MULT	IPLIED BY (X) OF PRIOR YEAR)		1,39525	1.47275	1.01756
F. END OF YEAR INVENTORY AT E (LINE B DIVIDED BY LINE E)	ASE DATE CO	<u>st</u>		328,869	2,796,370	4,498,228
G. CURRENT YEAR INVENTORY IN		REASE) -				
EXPRESSED IN BASE DOLLARS 1. END OF YEAR INVENTORY A 2. BEGINNING OF YEAR INVEN 3. CURRENT YEAR INCREMENT	T BASE DATE	DATE COST (LI	NE A)	328,869 (980,504)	2,796,370 (3,589,523)	4,498,228 (6,545,732)
OR DECREASE (IF G(2) EXCE		S G(2))		(651,635)	(793,153)	(2,047,504)
4. LIFO VALUATION OF CURREN (IF G(1) EXCEEDS G(2), MULT				<u>N/A</u>	<u>N/A</u>	N/A
H. ANALYSIS OF YEAR-END INVE	NTORY LIFO	"LAYERS"				
New Automobiles	BASE	VALUATION				
Calendar Year 1974	DOLLARS 38,022	X 0.423860		16,116		
Calendar Year 1976 Calendar Year 1979	9,307	X 0.523350 X 0.659620		4,871		
Calendar Year 1979	28,715 116,174	X 0.659620 X 0.616650		18,941 71,639		
Calendar Year 1982	107,855	X 0.869930		93,826		
Calendar Year 1983	28,796 328,869	X 0.817250		23,534 228,926		
New Light-Duty Trucks	BASE DOLLARS	VALUATION				
Calendar Year 1974	112,702	X 0,390800			44,044	
Calendar Year 1976 Calendar Year 1977	65,033 19,381	X 0.471840 X 0.579180			30,685	
Calendar Year 1978	18,659	X 0.494990			9,236	
Calendar Year 1980	55,977	X 0.577070			32,303	
Calendar Year 1981 Calendar Year 1982	151,571 89,772	X 0.390800 X 0.706330			59,234 63,409	
Calendar Year 1983	124,536	X 0.780110			97,152	
Calendar Year 1984 Calendar Year 1985	34,552 315,577	X 0.414710 X 0.430730			14,329	
Calendar Year 1985 Calendar Year 1986	172,760	X 0.430730 X 0.385420			135,928 66,585	
Calendar Year 1987	454,712	X 0.648270			294,776	
Calendar Year 1988 Calendar Year 1994	475,434 358,090	X 0.790140 X 1.071710			375,659 383,769	
Calendar Year 1995	<u>347,614</u> 2,796,370				<u>390,517</u> 2,008,851	
Single Combined Pool	BASE DOLLARS	VALUATION FACTOR				
Calendar Year 1974	215,885	X 0.278667				60,160
Calendar Year 1976 Calendar Year 1977	106,479 27,760	X 0.333926 X 0.404366				35,556 11,225
Calendar Year 1978	26,726	X 0.345587				9,236
Calendar Year 1979 Calendar Year 1980	41,129 80,177	X 0.460526 X 0.402892				18,941
Calendar Year 1980	383,496	X 0.341262				32,303 130,873
Calendar Year 1982	283,065	X 0.555474				157,235
Calendar Year 1983 Calendar Year 1984	414,510 49,489	X 0.559420 X 0.289538				231,885 14,329
Calendar Year 1985	452,007	X 0.300722				135,928
Calendar Year 1986 Calendar Year 1987	247,447 651,292	X 0.269088				66,585
Calendar Year 1987	680,973	X 0.452602 X 0.551651				294,776 375,659
Calendar Year 1993	226,750	X 0.738230				167,394
Calendar Year 1994 Calendar Year 1995	512,899 98,144	X 0.748235 X 0.784337				383,769
	4,498,228	X 0.784337				2,202,833
ENDING INVENTORY AT LIFO V LESS: ENDING INVENTORY AT E	ND OF YEAR P		-	228,926 458,854	2,008,851 4,118,354	2,202,833 4,577,208
LIFO RESERVE AT END OF CUR LIFO RESERVE AT END OF PREVI			-	229,928 353,879	2,109,503 2,262,383	2,374,375 2,616,262
INCREASE (DECREASE) IN LIFO			-	(123,951)	(152,880) (123,951)	(241,887)
Total Change in LIFO Net Greater LIFO Reser			-		(276,831)	276,831 34,944

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A Periodic Update of LIFO - News, Views and Ideas

De Filipps' LIFO LOOKOUT Vol. 18, No. 1

ORS Dealership Proof of Calculation of LIFO Inventory Valuations & LIFO Reserves For the Year Ended December 31, 2007

I. Proof of Increase (Decrease) in LIFO Reserve for Pool #1 New Automobiles

Increase due to inflation Base dollars remained in tact throughout year 2007	that328,869 x 0.01313 = (1.39525 - 1.38212)	4,319
Less: Decrease or payback due to decr	ement carried back against prior year layers	
Decrease due to invading Dec 19		(76,860)
Decrease due to invading Dec. 19		(51,410)
Decrease due to invading Dec. 20		0
	651,635	(128,270)
Iver Increase (Decrease) in LIF	) Reserve for 2007 - Pool #1 New Automobiles	(123,951)
<u>[]. Proof of Increase (Decrease) in LIF()</u>	Reserve for Pool #2 New Light-Duty Trucks	
Increase due to inflation Base dollars	that	
remained in tact throughout year 2007	$2,796,370 \times 0.02672 = (1.47275 - 1.44603)$	74,718
Less: Decrease or payback due to decre	ement carried back against prior year layers	
Decrease due to invading Dec. 19		(149,630)
Decrease due to invading Dec. 19		(77,968)
	793,153	
Total Reduction in LIFO Reserve	Due to Decrement	(227,598)
Net Increase (Decrease) in LIF(	Reserve for 2007 - Pool #2 New Light-Duty Trucks	(152,880)
III. Proof of Increase (Decrease) in LIF(	) Reserve for Single, Combined LIF() Pool for All New Vehicles	
Increase due to inflation Base dollars	that	
remained in tact throughout year 2007	$4,498,228 \times 0.01756 = (1.01756-1.00000)$	78,988
Less: Decrease or payback due to decre	ment carried back against prior year layers	
Decrease due to invading Year 19		(229,481)
Decrease due to invading 1998 la		(73,452)
Decrease due to invading 2006 la		(17,934)
	2,047,504	
Total Reduction in LIFO Reserve	Due to Decrement	(320,867)
Net Increuse (Decreuse) in LIF(	Reserve for 2007 - Single Pool	(8) (241,887)
IV Proof of Composition of LIFO Reserv	e for Single, Combined LIFO Pool as of Dec. 31, 2007	
Calendar Year 1974	215,885 0.738893 or (1.01756 - 0.278667)	159,516
Calendar Year 1976 Calendar Year 1977	106,479 0.683634 or (1.01756 - 0.333926) 27,760 0.613194 or (1.01756 - 0.404366)	72,793 17,022
Calendar Year 1977 Calendar Year 1978	26,726 0.671973 or (1.01756 - 0.345587)	17,959
Calendar Year 1979	41,129 0.557034 or (1.01756 - 0.460526)	22,910
Calendar Year 1980	80,177 0.614668 or (1.01756 - 0.402892)	49,282
Calendar Year 1981	383,496 0.676298 or (1.01756 - 0.341262)	259,358
Calendar Year 1982	283,065 0.462086 or (1.01756 - 0.555474)	130,800
Calendar Year 1983	414,510 0.458140 or (1.01756 - 0.559420)	189,904
Calendar Year 1984	49,489 0.728022 or (1.01756 - 0.289538)	36,029 324,016
Calendar Year 1985 Calendar Year 1986	452,007 0.716838 or (1.01756 - 0.300722) 247,447 0.748472 or (1.01756 - 0.269088)	185,207
Calendar Year 1980 Calendar Year 1987	651,292 0.564958 or (1.01756 - 0.452602)	367,953
Calendar Year 1988	680,973 0.465909 or (1.01756 - 0.551651)	317,271
Calendar Year 1993	226,750 0.279330 or (1.01756 - 0.738230)	63,338
Calendar Year 1994	512,899 0.269325 or (1.01756 - 0.748235)	138,137
Calendar Year 1995	<u>98,144</u> 0.233223 or (1.01756 - 0.784337)	22,889
	4,498,228 Rounding	(9)
Composition of the LIFO Reserve for the	he Single, Combined Pool for All New Vehicles as of Dec. 31, 2007	2,374,375
V. Comparison of Results - Single Comb	ned LIFO Pool vs. Two Separate LIFO Pools	
Difference in LIFO Reserve Recapture Du		
Total Reduction in LIFO Reserve Due to		320,867
	Decrement - Separate Pools - Pool #1 New Autos	128,270
Total Reduction in LIFO Reserve Due to	Decrement - Separate Pools - Pool #2 New Light-Duty Trucks	227,598
Total Reduction in LIFO Reserve Due to	Decrement - Separate Pools	355,868
Combined Pool Results in Smaller Paybac	k in LIFO Reserve Due to Decrement Curryback (355,868 - 320,867)	35,001
Difference in LIFO Reserve Increuse or Decre	use Due to Inflation	
Increase in LIFO Reserve Due to Inflatio		
increase in LIFO Reserve Due to Inflatic	n - Separate Pools - Pool #2 New L/D Trucks 74,718	
to the time Description of Inflation	Subtotal 79,037	
Increase in LIFO Reserve Due to Inflatic	Subtotal <u>79,037</u> n - Single Pool - All New Vehicles, Per Above <u>78,988</u>	
Combined Pool Results in a Smaller Incre	n - Single Pool - All New Vehicles, Per Above	(49)
Combined Pool Results in a Smaller Incre	n - Single Pool - All New Vehicles, Per Above78,988	(49) (8) 34,944

A Periodic Update of LIFO - News, Views and Ideas

# <u>XYZ Dealership</u> Calculation of LIFO Inventory Valuations & LIFO Reserves For the Year Ended December 31, 2007

	<u>For the Teur Entied De</u>	cember 5	Pool #1 New Autos	Pool #2 New L/D Trucks	Single Pool All New Vehicles Combined As Rebased
A. BEGINNING OF YEAR INVENTO	DRY AT BASE DATE COST		666,770	3,036,880	4,342,190
B. END OF YEAR INVENTORY AT	END OF YEAR (CURRENT) PRICES		565,191	3,074,453	3,639,644
C. END OF YEAR INVENTORY AT (BASE) PRICES	BEGINNING OF YEAR		NOT FULLY REPRICED	NOT FULLY REPRICED	NOT FULLY REPRICED
D. <u>CURRENT YEAR PRICE INDEX:</u> END OF YEAR INVEN AT END OF YEAR PR RATIO OF: <u>END OF YEAR INVEN</u> AT BEGINNING OF Y	VTORÝ PRICED ICES (DIVIDED BY) d JTORY PRICED	3,293,482 livided by 3,254,160	1.01261	1.01199	1.01208
E. <u>CUMULATIVE LINK-CHAIN IND</u> CURRENT YEAR PRICE INDEX PRIOR YEAR'S CUMULATIVE II			1.22934	1.17722	1.01208
F. END OF YEAR INVENTORY AT I (LINE B DIVIDED BY LINE E)	BASE DATE COST		459,752	2,611,621	3,596,191
<ul> <li>G. <u>CURRENT YEAR INVENTORY IN</u> <u>EXPRESSED IN BASE DOLLARS</u></li> <li>1. END OF YEAR INVENTORY A</li> <li>2. BEGINNING OF YEAR INVEN</li> <li>3. CURRENT YEAR INCREMENT</li> </ul>	AT BASE DATE COST (LINE F) TORY AT BASE DATE COST (LINE A	.)	459,752 (666,770)	2,611,621 (3,036,880)	3,596,191 (4,342,190)
OR DECREASE (IF G(2) EXCE	EDS G(1))		(207,018)	(425,259)	(745,999)
4. LIFO VALUATION OF CURREN (IF G(1) EXCEEDS G(2), MULT			<u>N/A</u>	N/A	N/A
H. ANALYSIS OF YEAR-END INV	ENTORY LIFO "LAYERS"				
<u>New Automobiles</u> Calendar Year 1986	BASE         VALUATION           DOLLARS         FACTOR           459,752         X           459,752         X		<u> </u>		÷
New Light-Duty Trucks Calendar Year 1986 Calendar Year 1987 Calendar Year 1996 Calendar Year 1999 Calendar Year 2000 Calendar Year 2002 Calendar Year 2003	BASE         VALUATION           DOLLARS         FACTOR           1,329,929         X         0.598440           225,503         X         0.649230           53,699         X         1.025250           135,687         X         1.067150           28,074         X         1.079160           606,069         X         1.116560           232,660         X         1.155370           2,611,621         X         X			795,883 146,403 55,055 144,798 30,296 676,712 <u>268,808</u> 2,117,956	
Single Combined Pool Calendar Year 1986 Calendar Year 1987 Calendar Year 1996 Calendar Year 2000 Calendar Year 2002 Calendar Year 2003	BASE         VALUATION           DOLLARS         FACTOR           2,153,514         X         0.519854           264,382         X         0.53758           62,957         X         0.874482           159,081         X         0.910220           32,914         X         0.920464           710,560         X         0.952364           212,783         X         0.990243           3,596,191          0.990243				1,119,513 146,404 55,055 144,799 30,296 676,712 210,707 2,383,485
ENDING INVENTORY AT LIFO LESS: ENDING INVENTORY AT I			293,529 565,191	2,117,956 3,074,453	2,383,485 3,639,644
LIFO RESERVE AT END OF CUI LIFO RESERVE AT END OF PREV			271,662 293,909	956,497 922,315	1,256,159 1,216,224
INCREASE (DECREASE) IN LIF	O RESERVE AT END OF CURRENT	YEAR	(22,247)	34,182	39,935
	TO Reserve at Dec. 31, 2007 Using T			11,935	(11,935)
Net Greater LIFO R	eserve From Using a Single, Combi	ned Pool fo	r All New Vehicl	es for 2007	28,000

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<u>XYZ_Dealership</u>
Proof of Calculation of LIFO Inventory Valuations & LIFO Reserves
For the Year Ended December 31, 2007

I. Proof of Increase (Decrease) in LIFO Reserve for Pool #1 New Automobiles

1. Froof of increase (Decrease) in LIF O Reserve for Pr	ol #1 New Automobiles	
Increase due to inflation Base dollars that remained in tact throughout year 2007	$459,752 \times 0.01531 = (1.22934 - 1.21403) 7,03$	10
	$\frac{433,732}{1,03} \times 0.01331 = (1.22934 + 1.21403) - \frac{7,03}{1,03}$	
Less: Decrease or payback due to decrement carried I	tale against prior year layers	
Decrease due to invading Dec 1986 (base)		7
Decrease due to invading Dec 2003 layer	$47,148 \times 0.57558 \text{ or } (1.21403 - 0.63845) = (27,13)$ 95,090 x 0.02258 or $(1.21403 - 1.19145) = (2,14)$	
Decrease due to invading Dec 2006 layer	$64,780 \times 0.00000 \text{ or } (1.21403 - 1.21403) =$	-
	207,018 (29,28	(4)
Net Increase (Decrease) in LIFO Reserve for	2007 - Pool #1 New Automobiles (22,24	7)
II. Proof of Increase (Decrease) in LIFO Reserve for H	ool #2 New Light-Duty Trucks	
	INTER TOP DEPRESENT TREAS	
Increase due to inflation Base dollars that		
remained in tact throughout year 2007	$2,611,621 \times 0.01395 = (1.17722 - 1.16327) 36,43$	3
Less: Decrease or payback due to decrement carried b	ack against prior year layers	
Decrease due to invading Dec 2003 (base)	$284,942 \times 0.00790 \text{ or } (1.16327 - 1.15537) = (2.25)$	1)
Decrease due to invading 2006 layer	$\frac{140,317}{100000} \times 0.00000 \text{ or } (1.16327 - 1.16327) = $	<u> </u>
	425,259	
Total Reduction in LIFO Reserve Due to Decre	nent (2,25	1)
Net Increase (Decrease) in LIFO Reserve for	2007 Bush H2 New Kinks Dute Tours	2
wei mereuse (Decreuse) in Liro Keserve jor	2007 - Pool #2 New Light-Duty Trucks 34,18	<u></u>
III. Proof of Increase (Decrease) in LIFO Reserve for .	Single, Comhined LIFO Pool for All New Vehicles	
Increase due to inflation Base dollars that		
remained in tact throughout year 2007	$3,596,191 \times 0.01208 = (1.01208 - 1.00000) \qquad 43,44$	2
Less: Decrease or payback due to decrement carried t		•
Decrease due to invading 2003 Decrease due to invading 2006 layer	$505,542 \times 0.009757$ or $(1.00000 - 0.990243) = (4,93)$ 240,457 x $(0.00588)$ or $(1.00000 - 1.005880) = 1.41$	
Decrease due to invading 2000 layer	$\frac{240,437}{745,999} \times (0.00388) \text{ Of } (1.00000 - 1.003880) = \frac{1,41}{1,41}$	<b>-</b>
Total Reduction in LIFO Reserve Due to Decre	nent (3.51	<u>م</u>
Total Reduction in LIFO Reserve Due to Decre		
Total Reduction in LIFO Reserve Due to Decre Net Increase (Decrease) in LIFO Reserve for	Rounding 1	2
	Rounding 1	2
Net Increase (Decrease) in LIFO Reserve for .	2007 - Single Pool Rounding 1 39,93	2
	2007 - Single Pool Rounding 1 39,93	2
Net Increase (Decrease) in LIFO Reserve for . <u>IV. Proof of Composition of LIFO Reserve for Single,</u> Calendar Year 1986 2,153,514	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01	2 5 6
Net Increase (Decrease) in LIFO Reserve for . <u>IV. Proof of Composition of LIFO Reserve for Single.</u> Calendar Year 1986 2,153,514 Calendar Year 1987 264,382	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17	2 5 6 2
Net Increase (Decrease) in LIFO Reserve for . IV. Proof of Composition of LIFO Reserve for Single, Calendar Year 1986 2,153,514 Calendar Year 1987 264,382 Calendar Year 1996 62,957	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.533758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66	2 5 6 2 3
Net Increase (Decrease) in LIFO Reserve for . IV. Proof of Composition of LIFO Reserve for Single, Calendar Year 1986 2,153,514 Calendar Year 1987 264,382 Calendar Year 1996 62,957 Calendar Year 1999 159,081	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66           0.101860 or (1.01208 - 0.910220)         16,20	2 5 6 2 3 4
Net Increase (Decrease) in LIFO Reserve for . IV. Proof of Composition of LIFO Reserve for Single, Calendar Year 1986 2,153,514 Calendar Year 1987 264,382 Calendar Year 1996 62,957	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.533758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66	6 2 3 4 5
Net Increase (Decrease) in LIFO Reserve for .IV. Proof of Composition of LIFO Reserve for Single.Calendar Year 19862,153,514Calendar Year 1987264,382Calendar Year 199662,957Calendar Year 1999159,081Calendar Year 200032,914	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         39,93           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64	6 2 3 4 5 2
Net Increase (Decrease) in LIFO Reserve for Single,IV. Proof of Composition of LIFO Reserve for Single,Calendar Year 1986Calendar Year 1987Calendar Year 1996Calendar Year 1999159,081Calendar Year 200032,914Calendar Year 2002710,560	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         39,93           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43	6 2 3 4 5 2 7
Net Increase (Decrease) in LIFO Reserve for .IV. Proof of Composition of LIFO Reserve for Single.Calendar Year 1986Calendar Year 1987Calendar Year 1996Calendar Year 1999159,081Calendar Year 200032,914Calendar Year 2002Calendar Year 2003212,7833,596,191	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         39,93           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66           0.01860 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         4,2,43           0.021837 or (1.01208 - 0.990243)         4,64	6 2 3 4 5 2 7 1
Net Increase (Decrease) in LIFO Reserve for Single,IV. Proof of Composition of LIFO Reserve for Single,Calendar Year 1986Calendar Year 1987264,382Calendar Year 199662,957Calendar Year 1999159,081Calendar Year 200032,914Calendar Year 2002710,560Calendar Year 2003212,783	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         39,93           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66           0.01860 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         4,2,43           0.021837 or (1.01208 - 0.990243)         4,64	6 2 3 4 5 2 7 1
Net Increase (Decrease) in LIFO Reserve for IV. Proof of Composition of LIFO Reserve for Single, Calendar Year 1986 2,153,514 Calendar Year 1987 264,382 Calendar Year 1996 62,957 Calendar Year 1999 159,081 Calendar Year 2000 32,914 Calendar Year 2002 710,560 Calendar Year 2003 212,783 3,596,191 Composition of the LIFO Reserve for the Single Pool	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         39,93           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66           0.091616 or (1.01208 - 0.910220)         16,20           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           1 for All New Vehicles as of Dec. 31, 2007         1,256,15	6 2 3 4 5 2 7 1
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single, Combined LIFO Pol	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         39,93           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66           0.101860 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.952364)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           Ifor All New Vehicles as of Dec. 31, 2007         1,256,15           ol vs. Two Separate LIFO Pools         1	6 2 3 4 5 2 7 1
Net Increase (Decrease) in LIFO Reserve for IV. Proof of Composition of LIFO Reserve for Single, Calendar Year 1986 2,153,514 Calendar Year 1987 264,382 Calendar Year 1996 62,957 Calendar Year 1999 159,081 Calendar Year 2000 32,914 Calendar Year 2002 710,560 Calendar Year 2003 212,783 3,596,191 Composition of the LIFO Reserve for the Single Pool	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         39,93           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66           0.101860 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.952364)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           Ifor All New Vehicles as of Dec. 31, 2007         1,256,15           ol vs. Two Separate LIFO Pools         1	6 2 3 4 5 2 7 1
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single, Combined LIFO Pol	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         39,93           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66           0.101860 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           Ifor All New Vehicles as of Dec. 31, 2007         1,256,15           ol vs. Two Separate LIFO Pools         ks of Decrements	2 5 6 2 3 4 5 5 2 7 1 9
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2003       212,783         Sp6,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single. Combined LIFO Poil         Difference in LIFO Reserve Recapture Due to Carrybace         Total Reduction in LIFO Reserve Due to Decrement -	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           1         1,256,15           ol vs. Two Separate LIFO Pools         5           ks of Decrements         3,51	2 5 6 2 3 4 5 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         Safo(191)       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single, Combined LIFO Pool         Difference in LIFO Reserve Recapture Due to Carrybace         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -	Rounding       1         2007 - Single Pool       39,93         Combined LIFO Pool as of Dec. 31, 2007       39,93         0.492226 or (1.01208 - 0.519854)       1,060,01         0.458322 or (1.01208 - 0.553758)       121,17         0.137598 or (1.01208 - 0.874482)       8,66         0.091616 or (1.01208 - 0.920464)       3,01         0.059716 or (1.01208 - 0.920464)       3,01         0.021837 or (1.01208 - 0.952364)       4,243         0.021837 or (1.01208 - 0.990243)       Rounding         Ifor All New Vehicles as of Dec. 31, 2007       1,256,15         ol vs. Two Separate LIFO Pools       3,51         Ks of Decrements       3,51         Single Pool, Per Above       3,51         Separate Pools - Pool #1 New Autos       29,28	2 5 6 2 3 4 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single,         IV. Proof of Composition of LIFO Reserve for Single,         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Poor         V. Comparison of Results - Single, Combined LIFO Point         Difference in LIFO Reserve Recapture Due to Carrybace         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           1 for All New Vehicles as of Dec. 31, 2007         1,256,15           ol vs. Two Separate LIFO Pools         3,51           ks of Decrements         3,51           Single Pool, Per Above         3,51           Separate Pools - Pool #1 New Autos         29,28           Separate Pools - Pool #2 New Light-Duty Trucks         2,25	2 5 6 2 3 4 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         Safo(191)       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single, Combined LIFO Pool         Difference in LIFO Reserve Recapture Due to Carrybace         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           1 for All New Vehicles as of Dec. 31, 2007         1,256,15           ol vs. Two Separate LIFO Pools         3,51           ks of Decrements         3,51           Single Pool, Per Above         3,51           Separate Pools - Pool #1 New Autos         29,28           Separate Pools - Pool #2 New Light-Duty Trucks         2,25	2 5 6 2 3 4 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single,         IV. Proof of Composition of LIFO Reserve for Single,         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Poor         V. Comparison of Results - Single, Combined LIFO Point         Difference in LIFO Reserve Recapture Due to Carrybace         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.874482)         8,66           0.101860 or (1.01208 - 0.910220)         16,20           0.091616 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           1 for All New Vehicles as of Dec. 31, 2007         1,256,15           ol vs. Two Separate LIFO Pools         531, 2007           Ks of Decrements         3,51           Single Pool, Per Above         3,51           Separate Pools - Pool #1 New Autos         29,28           Separate Pools - Pool #2 New Light-Duty Trucks         2,25           Separate Pools         31,53	2 5 6 2 3 4 5 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2003       212,783	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.97020)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           1         1,256,15           ol vs. Two Separate LIFO Pools         3,51           ks of Decrements         3,51           Single Pool, Per Above         3,51           Separate Pools - Pool #1 New Autos         29,28           Separate Pools - Pool #2 New Light-Dury Trucks         2,25           Separate Pools         31,53           serve Due to Decrement Carryback (31,535 - 3,519)         28,01	2 5 6 2 3 4 5 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single, Combined LIFO Po         Difference in LIFO Reserve Recapture Due to Carrybac         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.97020)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           1         1,256,15           ol vs. Two Separate LIFO Pools         3,51           ks of Decrements         3,51           Single Pool, Per Above         3,51           Separate Pools - Pool #1 New Autos         29,28           Separate Pools - Pool #2 New Light-Dury Trucks         2,25           Separate Pools         31,53           serve Due to Decrement Carryback (31,535 - 3,519)         28,01	2 5 6 2 3 4 5 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2003       212,783	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.9523758)         121,17           0.137598 or (1.01208 - 0.970220)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           1 for All New Vehicles as of Dec. 31, 2007         1,256,15           ol vs. Two Separate LIFO Pools         5           ks of Decrements         3,51           Single Pool, Per Above         3,51           Separate Pools - Pool #1 New Autos         29,28           Separate Pools - Pool #2 New Light-Duty Trucks         2,25           Separate Pools         31,53           serve Due to Decrement Carryback (31,535 - 3,519)         28,01           o Inflation         28,01	2 5 6 2 3 4 5 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single. Combined LIFO Pool         Difference in LIFO Reserve Recapture Due to Carryback         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Red	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.970220)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         4,64           Rounding         1           1 for All New Vehicles as of Dec. 31, 2007         1,256,15           ol vs. Two Separate LIFO Pools         3,51           ks of Decrements         31,53           Separate Pools - Pool #1 New Autos         29,28           Separate Pools - Pool #2 New Light-Duty Trucks         2,25           Separate Pools - Pool #1 New Autos         29,28           Serve Due to Decrement Carryback (31,535 - 3,519)         28,01           o Inflation         31,53           ools - Pool #1 New Autos         7,039	2 5 6 2 3 4 5 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2003       212,783         Sp6,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single. Combined LIFO Pool         Difference in LIFO Reserve Recapture Due to Carrybace         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Combined Po	Rounding         1           2007 - Single Pool         39,93           Combined LIFO Pool as of Dec. 31, 2007         1,060,01           0.492226 or (1.01208 - 0.519854)         1,060,01           0.458322 or (1.01208 - 0.553758)         121,17           0.137598 or (1.01208 - 0.970420)         16,20           0.091616 or (1.01208 - 0.920464)         3,01           0.059716 or (1.01208 - 0.952364)         42,43           0.021837 or (1.01208 - 0.990243)         Rounding           If for All New Vehicles as of Dec. 31, 2007         1,256,15           ol vs. Two Separate LIFO Pools         Single Pool, Per Above           Separate Pools - Pool #1 New Autos         29,28           Separate Pools - Pool #2 New Light-Duty Trucks         2,25           Separate Pools - Pool #1 New Autos         29,28           Serve Due to Decrement Carryback (31,535 - 3,519)         28,01           o Inflation         7,039           ools - Pool #1 New Autos         7,039           ools - Pool #2 New L/D Trucks         36,433	2 5 6 2 3 4 5 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single,         IV. Proof of Composition of LIFO Reserve for Single,         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single, Combined LIFO Pool         Difference in LIFO Reserve Recapture Due to Carrybac         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Increase	Rounding       1         2007 - Single Pool       39,93         Combined LIFO Pool as of Dec. 31, 2007       1,060,01         0.492226 or (1.01208 - 0.519854)       1,060,01         0.458322 or (1.01208 - 0.553758)       121,17         0.137598 or (1.01208 - 0.952464)       8,66         0.091616 or (1.01208 - 0.920464)       3,01         0.059716 or (1.01208 - 0.952364)       4,2,43         0.021837 or (1.01208 - 0.990243)       Rounding         1       1,256,15         ol vs. Two Separate LIFO Pools       8         ks of Decrements       29,28         Single Pool, Per Above       3,51         Separate Pools - Pool #1 New Autos       29,28         Separate Pools - Pool #2 New Light-Duty Trucks       2,25         Separate Pools - Pool #1 New Autos       31,53         serve Due to Decrement Carryback (31,535 - 3,519)       28,01         o Inflation       7,039         ools - Pool #1 New Autos       7,039         ools - Pool #2 New L/D Trucks       36,433         Subtotal       43,472	2 5 6 2 3 4 5 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single. Combined LIFO Pool         Difference in LIFO Reserve Recapture Due to Carryback         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Red	Rounding       1         2007 - Single Pool       39,93         Combined LIFO Pool as of Dec. 31, 2007       1,060,01         0.492226 or (1.01208 - 0.519854)       1,060,01         0.458322 or (1.01208 - 0.553758)       121,17         0.137598 or (1.01208 - 0.952464)       8,66         0.091616 or (1.01208 - 0.920464)       3,01         0.059716 or (1.01208 - 0.952364)       4,2,43         0.021837 or (1.01208 - 0.990243)       Rounding         1       1,256,15         ol vs. Two Separate LIFO Pools       8         ks of Decrements       29,28         Single Pool, Per Above       3,51         Separate Pools - Pool #1 New Autos       29,28         Separate Pools - Pool #2 New Light-Duty Trucks       2,25         Separate Pools - Pool #1 New Autos       31,53         serve Due to Decrement Carryback (31,535 - 3,519)       28,01         o Inflation       7,039         ools - Pool #1 New Autos       7,039         ools - Pool #2 New L/D Trucks       36,433         Subtotal       43,472	2 5 6 2 3 4 5 5 2 7 1 9 9
Net Increase (Decrease) in LIFO Reserve for Single,         IV. Proof of Composition of LIFO Reserve for Single,         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single, Combined LIFO Pool         Difference in LIFO Reserve Recapture Due to Carrybac         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Increase	Rounding       1         2007 - Single Pool       39,93         2007 - Single Pool       39,93         2007 - Single Pool       39,93         2007 - Single Pool       30,02         2007 - Single Pool       30,02         0.492226       or       (1.01208 - 0.519854)       1,060,01         0.458322       or       (1.01208 - 0.553758)       121,17         0.137598       or       (1.01208 - 0.910220)       16,20         0.091616       or       (1.01208 - 0.920464)       3,01         0.059716       or       (1.01208 - 0.920464)       3,01         0.059716       or       (1.01208 - 0.920464)       3,01         0.021837       or       (1.01208 - 0.990243)       Rounding       1         Ifor All New Vehicles as of Dec. 31, 2007       1,256,15       1,256,15         ol vs. Two Separate LIFO Pools       Single Pool, Per Above       3,51         Separate Pools - Pool #1 New Autos       29,28       31,53         Separate Pools - Pool #2 New Light-Duty Trucks       2,25       31,53         serve Due to Decrement Carryback (31,535 - 3,519)       28,01       28,01         of Inflation       0018 - Pool #1 New Autos       7,039       0018 - Pool #2 New L/D Trucks <t< td=""><td><math>2 \\ 5 \\ 6 \\ 2 \\ 3 \\ 4 \\ 5 \\ 2 \\ 7 \\ 1 \\ 9 \\ 9 \\ 4 \\ 1 \\ 5 \\ 6 \\ 0)</math></td></t<>	$2 \\ 5 \\ 6 \\ 2 \\ 3 \\ 4 \\ 5 \\ 2 \\ 7 \\ 1 \\ 9 \\ 9 \\ 4 \\ 1 \\ 5 \\ 6 \\ 0)$
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2003       212,783	Rounding       1         2007 - Single Pool       39,93         Combined LIFO Pool as of Dec. 31, 2007       1,060,01         0.492226 or (1.01208 - 0.519854)       1,060,01         0.458322 or (1.01208 - 0.553758)       121,17         0.137598 or (1.01208 - 0.57378)       121,17         0.137598 or (1.01208 - 0.53758)       121,17         0.137598 or (1.01208 - 0.910220)       16,20         0.091616 or (1.01208 - 0.920464)       3,01         0.059716 or (1.01208 - 0.920464)       3,01         0.021837 or (1.01208 - 0.990243)       Rounding         1       for All New Vehicles as of Dec. 31, 2007       1,256,15         ol vs. Two Separate LIFO Pools       Separate Pools - Pool #1 New Autos       29,28         Separate Pools - Pool #1 New Autos       29,28       31,53         Separate Pools - Pool #2 New Light-Duty Trucks       2,25         Separate Pools - Pool #2 New Light-Duty Trucks       31,53         serve Due to Decrement Carryback (31,535 - 3,519)       28,01         o Inflation       500/s - Pool #1 New Autos       7,039         ools - Pool #1 New Autos       7,039       28,01         ools - Pool #2 New L/D Trucks       36,433       30         Subtotal       43,442       43,442         To R	25 623 45271 9 4 1 5 6 0) 4
Net Increase (Decrease) in LIFO Reserve for Single.         IV. Proof of Composition of LIFO Reserve for Single.         Calendar Year 1986       2,153,514         Calendar Year 1987       264,382         Calendar Year 1996       62,957         Calendar Year 1999       159,081         Calendar Year 2000       32,914         Calendar Year 2000       32,914         Calendar Year 2002       710,560         Calendar Year 2003       212,783         3,596,191       3,596,191         Composition of the LIFO Reserve for the Single Pool         V. Comparison of Results - Single, Combined LIFO Pool         Difference in LIFO Reserve Recapture Due to Carrybac         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Total Reduction in LIFO Reserve Due to Decrement -         Combined Pool Results in Smaller Payback in LIFO Reserve         Difference in LIFO Reserve Increase or Decrease Due to         Increase in LIFO Reserve Due to Inflation - Separate F         Increase in LIFO Reserve Due to Inflation - Separate F         Increase in LIFO Reserve Due to Inflation - Separate F <td>Rounding       1         2007 - Single Pool       39,93         Combined LIFO Pool as of Dec. 31, 2007       1,060,01         0.492226 or (1.01208 - 0.519854)       1,060,01         0.458322 or (1.01208 - 0.553758)       121,17         0.137598 or (1.01208 - 0.57378)       121,17         0.137598 or (1.01208 - 0.53758)       121,17         0.137598 or (1.01208 - 0.910220)       16,20         0.091616 or (1.01208 - 0.920464)       3,01         0.059716 or (1.01208 - 0.920464)       3,01         0.021837 or (1.01208 - 0.990243)       Rounding         1       for All New Vehicles as of Dec. 31, 2007       1,256,15         ol vs. Two Separate LIFO Pools       Separate Pools - Pool #1 New Autos       29,28         Separate Pools - Pool #1 New Autos       29,28       31,53         Separate Pools - Pool #2 New Light-Duty Trucks       2,25         Separate Pools - Pool #2 New Light-Duty Trucks       31,53         serve Due to Decrement Carryback (31,535 - 3,519)       28,01         o Inflation       500/s - Pool #1 New Autos       7,039         ools - Pool #1 New Autos       7,039       28,01         ools - Pool #2 New L/D Trucks       36,433       30         Subtotal       43,442       43,442         To R</td> <td>25 623 45271 9 4 1 5 6 0) 4</td>	Rounding       1         2007 - Single Pool       39,93         Combined LIFO Pool as of Dec. 31, 2007       1,060,01         0.492226 or (1.01208 - 0.519854)       1,060,01         0.458322 or (1.01208 - 0.553758)       121,17         0.137598 or (1.01208 - 0.57378)       121,17         0.137598 or (1.01208 - 0.53758)       121,17         0.137598 or (1.01208 - 0.910220)       16,20         0.091616 or (1.01208 - 0.920464)       3,01         0.059716 or (1.01208 - 0.920464)       3,01         0.021837 or (1.01208 - 0.990243)       Rounding         1       for All New Vehicles as of Dec. 31, 2007       1,256,15         ol vs. Two Separate LIFO Pools       Separate Pools - Pool #1 New Autos       29,28         Separate Pools - Pool #1 New Autos       29,28       31,53         Separate Pools - Pool #2 New Light-Duty Trucks       2,25         Separate Pools - Pool #2 New Light-Duty Trucks       31,53         serve Due to Decrement Carryback (31,535 - 3,519)       28,01         o Inflation       500/s - Pool #1 New Autos       7,039         ools - Pool #1 New Autos       7,039       28,01         ools - Pool #2 New L/D Trucks       36,433       30         Subtotal       43,442       43,442         To R	25 623 45271 9 4 1 5 6 0) 4

A Periodic Update of LIFO - News, Views and Ideas

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De Filipps' LIFO LOOKOUT Vol. 18, No. 1

	<i>Form</i>	970 for I	nitial LIF	O Filings			
For Sub-Election to	Use the	Vehicle-Pool	l (Single,	Combined	LIFO	Pool)	Method

Page 1 of 4

(Rev.	December 2005)		Applica	tion To Use	LIFO Inve	ntory Method	1	OMB No. 1545-0042 Attachment
	rtment of the Trea nal Revenue Servic			<ul> <li>Attach</li> </ul>	to your tax return	•		Sequence No. 122
Nam	e of filer (name	of parent corpo	ration if a consolidat	ed group) (see instruc	tions)	Filer's identifica	tion number (see i	nstructions)
Nam	e of applicant(s	(if different from	m filer) and identifica	tion number(s)				
Pa	rt I Sta	tement of	Election unde	er Section 472				Yes N
~								an a
(1)	Decembe	31, 2007		ollowing goods (e		ending (enter month ew vehicles, includ		
2			nt, identify and on by this election.		ntory method(s) u	ised by the applicar	it in the prior ta	x year
		•			• •	oods?		
						overed by this elect		
b				listing the tax ye hod was disconti		e LIFO inventory m	ethod was use	d and
5	Used vehi		and accessorie			following goods (er wentories.		
	970 (Rev. 12-20				· · · · · · · · · · · · · · · · · · ·			Page
Par	t IV Doll	ar-Value N		cant's method of	defining "items."			Page 2
Par 13 14a	t IV Doll Attach a sta Did the app	ar-Value N tement desc licant acquir	cribing the appli	ods covered by t	nis election at be	low-market prices?		Yes 🛛 No
Par 13 14a	t IV Doll Attach a sta Did the app If "Yes" to below-mark	ar-Value M tement desc licant acquir ine 14a, atta et prices and	cribing the appli re any of the goo ach a statement d similar goods	ods covered by t	his election at be her the applican uired at market p		int for the good	] Yes 🛛 No
Par 13 14a . b	t IV Doll Attach a sta Did the app If "Yes" to below-mark account for Attach a sta applicant wi	ar-Value N tement desc licant acquir ine 14a, atta et prices and both types o atement des Il use more t	cribing the appli- e any of the good ach a statement d similar goods   of goods as the cribing the metti than one dollar	ods covered by t t explaining whet produced or acqu same item, explain nod of pooling the value pool, list ar	his election at be her the applican lired at market p ain and justify. The applicant will d describe the c	low-market prices? t did, or will, accou rices as separate ite use for the goods ontents of each doll	int for the good ems. If the appl covered by thi ar-value pool (s	ds purchased a licant did, or will s election. If the see instructions)
Par 13 14a b 15 16	t IV Doll Attach a sta Did the app If "Yes" to below-mark account for Attach a sta applicant wi Single Poo Identify or c covered by	ar-Value N tement desc licant acquir ine 14a, atta et prices and both types o atement des Il use more t I for All Nev escribe the this election	cribing the appli- re any of the good ach a statement d similar goods   of goods as the cribing the meti than one dollar v Vehicles Ve method the app (for example, d	bds covered by t t explaining whet produced or acquisame item, explaining add of pooling the value pool, list ar encle-Pool Meth licant will use to ouble-extension	his election at be her the applican lired at market p in and justify. The applicant will d describe the c od per Section 4 compute the LIF4 method, link-chai	low-market prices? t did, or will, accou rices as separate its use for the goods ontents of each doll <b>1.01 of Rev. Proc. 2</b> D value of each doll in method, or index	int for the good ems. If the appl covered by thi ar-value pool (s 008-23 - State ar-value pool of method).	Yes No ds purchased a licant did, or will s election. If the see instructions) ment attached containing goods
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## Form 970 ... for Initial LIFO Filings For Sub-Election to Use the Vehicle-Pool (Single, Combined LIFO Pool) Method

#### **DEALERSHIP NAME**

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EI#

## FORM 970, PART I, LINE 2 & PART IV, LINE 22

## STATEMENT OF INVENTORY VALUATION METHODS & THREE-YEAR INVENTORY ANALYSIS

#### New Vehicles

New vehicle inventories are valued at actual cost based on specific identification by invoice.

Invoices are received from the manufacturer(s) or from other dealers in dealer trades. Each vehicle invoice consists of the aggregate of differing combinations of capitalizable costs including the vehicle base price which is the principal component, and other lesser sub-components such as destination charges, factory-installed options (both individual as well as in package combinations), options and accessories installed by the dealer, and other capitalizable charges.

Cost reduction for trade discounts. For the purpose of determining the amount of new vehicles at actual cost, cost has [has not] been reduced by trade discounts (floorplan assistance payments) in accordance with Reg. Sec. 1.471-3(b) and Revenue Ruling 84-41.

Cost reduction for advertising fees & expenses. Also, for the purpose of determining the amount of new vehicles at actual cost, cost has [has not] been reduced by advertising fees and expenses.

## Used Vehicles

Some used vehicles are acquired by purchase (at auctions or from other dealers) and some used vehicles are acquired by trade from retail customers. Used vehicles are valued at the lower of cost or market, with market considered to be lower of wholesale, "as is" value, less estimated reconditioning cost, or estimated current wholesale market value.

#### Parts & Accessories

Pursuant to accepted industry-wide practice, cost of parts and accessories inventories is determined at year-end by reference to manufacturer current price lists in effect at year-end. As a result, the ending parts and accessories inventory is valued at higher replacement costs instead of at actual cost. This practice results in an overall valuation for parts and accessories inventories that closely approximates, but usually is slightly in excess of, cost.

This method for valuing parts inventories is permitted by Revenue Procedure 2002-17 which allows automobile dealers to approximate the actual cost of parts and accessories inventory items by reference to end-of-the-year prices taken from manufacturers' price lists.

#### Miscellaneous Other Inventories

Gas, oil, grease, work in process, body shop supplies, sublet and other inventories are valued at cost.

## Three-Year Inventory Analysis - By Class of Goods

		Year Ended		
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007 at LIFO</u>
All New Vehicles (including Demonstrators)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
All Used Vehicles	\$			
Parts and Accessories	<u>\$</u>			
Gas, Oil, Grease, WIP, Other	<u>\$</u>			
Total *	<u>\$</u>	\$	<u>\$</u>	<u>\$</u>
* Amounts before Section 263A Inventory Co	ost Capitalization A	djustments		
Ending Inventory Amount Reported on Incon	ne Tax Return for F	Preceding Year	<u>\$</u> ;	

A Periodic Update of LIFO - News, Views and Ideas

Form 970 ... for Initial LIFO Filings For Sub-Election to Use the Vehicle-Pool (Single, Combined LIFO Pool) Method

#### **DEALERSHIP NAME**

Page 3 of 4

EI#

#### FORM 1120: U.S. CORPORATION INCOME TAX RETURN

FOR THE CALENDAR YEAR 2007

Form 970, Part IV, Lines 13-17 ... Dollar-Value LIFO Method Information & Statement Required by Regulation Section 1.472-8 Re: Use of Link-Chain, Index Method For New Vehicle LIFO Inventory Automobile Dealership Electing Alternative LIFO Method under Revenue Procedure 97-36

**Part IV, Line 13 ... Method of Defining "Items.**" "Item categories" will be determined by using the entire manufacturer's base model code number that represents the most detailed description of the base vehicle's characteristics, such as model line, body style, trim level, etc.

Part IV, Line 14a ... Taxpayer did not acquire any of the goods covered by the LIFO election at below-market prices.

Part IV, Line 15 ... Pooling - Taxpayer will use bot pools. Taxpayer will use a single pool for all new vehicles, including demonstrator vehicles, in accordance with the "Vehicle-Pool Method" permitted by Section 4.01 of Revenue Procedure 2008-23.

This single, combined LIFO pool will include all new automobiles and all new light-duty trucks (i.e., a truck with a gross vehicle weight that does not exceed 14,000 pounds, commonly referred to as Class 1, Class 2 or Class 3 trucks). This single new Vehicle Pool will also include all demonstrator vehicles and all new crossover vehicles, sport utility vehicles (SUVs), vans, minivans and any other similar vehicles (i.e., hybrids, etc.).

**Part IV, Line 16 ... Method to Compute the LIFO Value of Each Dollar-Value Pool.** Taxpayer elects not to use the socalled "double extension" method for computing the LIFO value of its dollar value inventory pools. Instead, taxpayer elects and will use a dollar value, link-chain, index method for each pool as required by, and in accordance with, Revenue Procedure 97-36. This approach has been selected because of anticipated future technological changes in the stock of inventory, the extensive variety of items, and the changes in the items which are combined into and make up the vehicles sold by the taxpayer at retail. It has also been selected because of its availability and acceptability under Section 4.01 of Revenue Procedure 97-36.

The index to be applied to each LIFO pool of inventory investment is determined in accordance with the fourteen (14) step methodology of Section 4.03 of Revenue Procedure 97-36. (Note: The only exception Taxpayer will make in this regard is to use the single, combined pool for new vehicles instead of the separate pools for new automobiles and for new light-duty trucks.)

Taxpayer is a franchised automobile dealer and the indexes it will develop will reflect its own ending inventory invoices and specific price data and inventory quantities and mix. Accordingly, its procedures are consistent with the intent of Reg. Sec. 1.472-8 and will demonstrate the accuracy, reliability, and suitability of its index computations.

Under the link-chain, index method as provided in Revenue Procedure 97-36, the change in cost levels will be measured first on an annual basis, and then the cumulative change (forward from the base date) will be determined by multiplying the current annual index by the last previously determined cumulative index (i.e., by the cumulative index at the beginning of the year).

Part IV, Line 17 ... "Other" Method (to Determine the Current-Year Cost in the Closing Inventories and to Value the LIFO Increments of the Dollar-Value Pools). Taxpayer has also elected to value any future annual inventory increments (as determined under the link-chain, index method described above) by applying an index developed with reference to the specific identification of items (new vehicles, including demonstrators) in inventory at year-end. This is described as the "specific identification increment method" in Section 4.02(2) of Revenue Procedure 97-36. This method is expected to approximate (although it will not be exactly the same as) the "most recent purchases" method. This approach for valuing increments will simplify the computations because the same index that is used in converting (deflating) the ending inventory from actual cost to a base dollar equivalent will also be used for valuing any increments that are computed at year-end.

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For Sub-Election	Form 970 for Initial LIFO Filings to Use the Vehicle-Pool (Single, Combined LIFO Pool) Method Page 4 of 4
- -	(DEALERSHIP LETTERHEAD)
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Commissioner of Internal I 1111 Constitution Ave., N. Washington, D.C. 20025 Attention: T:R	
Re:	Dealership Name
	<b>EI #</b>
	Form 1120: Year Ending December 31, 200
	Adoption of LIFO Inventory Method Statement Required by Regulations Section 1.472-8(e)(1) <u>Use of Link-Chain, Index Method</u>
Dear Sir or Madam:	
Pursuant to the requir above-identified taxpayer's In, First-Out) inventory me	ements of Regulations Section 1.472-8(e)(1), attached is a statement concerning the use of a link-chain, index method in connection with its election to use the LIFO (Last-thod.
inventories in accordance w	to use the Alternative LIFO Method for Automobile Dealers for its new vehicle with Revenue Procedure 97-36. In connection therewith, Taxpayer has also elected to use ermitted by Section 4.01 of Revenue Procedure 2008-23.
A copy of the attached with the corporate income t	statement was also included as part of the Form 970 attachments filed by the taxpayer ax return for the year of election.
If you have any questio	ns, please call or write the undersigned.
	Sincerely,
	/S/ .

A Periodic Update of LIFO - News, Views and Ideas

## SAMPLE FORM 3115 MATERIALS FOR AUTOMOBILE DEALERSHIP THAT IS CHANGING TO THE VEHICLE POOL METHOD (Rev. Proc. 2008-23)

Departs	December 2003) Applica nent of the Treasury Revenue Service	tion for Change in Ac	counting Method	OMB No. 1545-0152
Name	of filer (name of parent corporation if a consol	lidated group) (see instructions)	Identification number (see instructions)	
			Principal business activity code number (s	see instructions)
dmuk	ar, street, and room or suite no. If a P.O. box,	see the instructions.	Tax year of change begins (MM/DD/YYYY) Tax year of change ends (MM/DD/YYYY)	?
City o	town, state, and ZIP code		Name of contact person (see instructions)	
Name	of applicant(a) (if different than filer) and identi	fication number(s) (see instructions)	Contact p	person's telephone number
f the	applicant is a member of a consolid	dated group, check this box		
f Fo	rm 2848, Power of Attorney and Dec	claration of Representative, is atta	ached, check this box	► 🗆
Chec	k the box to indicate the applican	it.	Check the appropriate box to in	
⊐c	dividual orporation	Cooperative (Sec. 1381)	of accounting method change b (see instructions)	eing requested.
	ontrolled foreign corporation	S corporation	Depreciation or Amortization	
_ '	Sec. 957)		Financial Products and/or Fin	ancial Activities of
	0/50 corporation (Sec. 904(d)(2)(E))	Insurance co. (Sec. 831)	Financial Institutions	
			Cher (specify)	
	ualified personal service prporation (Sec. 448(d)(2)) xempt organization. Enter Code sect	□ Other (specify) ►	Other (specify)	
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**Proforma** Materials

These proforma materials are for an auto dealership that has already elected to use the Alternative LIFO Method for New Vehicles, but that now wants to change (for calendar year 2007) to the Vehicle-Pool Method for New Vehicles provided in Revenue Procedure 2008-23. This is automatic Change #112. Because of the length of Form 3115 (8 pages), a complete, filled-in sample of Form 3115 is not included.

The original of Form 3115 must be filed with the income tax return for the year of change (or with the amended income tax return for the year of change). A copy of the Form 3115 must be filed with the IRS National Office.

- General Instructions for Completing Form 3115, tailored to changing to the Vehicle-Pool Method
- Form 3115: Narrative Statements & Other Information ... 3 pages to be attached to Form 3115
- Letter to IRS National Office, Washington, D.C. Transmitting Copy of Form 3115

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## General Instructions for Completing Form 3115 For Automobile Dealership Changing to the Vehicle-Pool Method

This change in LIFO pooling method for new vehicles does *not* require permission in advance from the IRS.

The current Form 3115, *Application for Change in Accounting Method*, is dated December 2003 and consists of 8 pages. Basically, only Pages 1, 2, 3 and 5 need to be completed. The most recent revision of the Instructions for Form 3115 is dated May 2006 and should be referred to when completing Form 3115.

Page 1 ... Part I, Line 1(a) ... Identify as Change #112 on Line (a). Do not make any other entries on (b). It is not necessary to include any information in the top right hand section where appropriate box is asked to be checked. For automatic change requests, this informational change requirement is satisfied by properly completing Part I, Line 1.

## Applicant/Filer/Taxpayer and Form 3115 Preparer must sign and date at bottom of Page 1.

Page 2 ... Enter all information, answer all questions.

**Part II, Line 9**... This question concerning whether there have been changes in accounting method within the past 5 years may be tricky because of its broad language, including its reference to taxpayers other than the Applicant. This question also ties in with the "scope limitation" which may prevent a change in method from being automatic if certain method changes were made within the past 5 years.

Page 3 ... Part II, Lines 13-17 ... Enter all information, answer all questions.

Part III ... Not required to be completed.

Part IV, Line 24 ... The answer should be ... "Yes" ... because the cut-off method is applicable.

- Page 4... Schedules A & B ... Include this page, but leave it blank or else in white space portion at bottom of page 4, enter the following: "This page not applicable."
- Page 5... Schedule C ... Either leave blank or in the white space portion at bottom of page 5, enter the following: "Change is to the Vehicle-Pool Method in accordance with Revenue Procedure 2008-23 ... Automatic Change No. 112. See statement attached."
- Page 6 ... Schedule D, Parts I & II ... Include this page, but leave it blank or else in the white space portion at bottom of page 6, enter the following: "This page not applicable."
- Page 7... Schedule D, Part III ... Include this page, but leave it blank or else in the white space portion at bottom of page 7, enter the following: "This page not applicable."
- Page 8 ... Schedule E ... Include this page, but leave it blank or else in the white space portion at bottom of page 8, enter the following: "This page not applicable."

"Narrative Statements & Other Information" ... Consists of 3 pages to be attached to Form 3115, following page 8.

- **Reminders** ... 1. Taxpayer name and employer ID number need to be inserted at the top of each page.
  - 2. Be sure to confirm correctness and/or applicability of the statements on page 3 of 3 regarding the use of a *simplified resale method* in connection with Section 263A Inventory Cost Capitalization Rules and the timeliness of the Form 3115.
  - 3. Copies of original Forms 970 and any subsequent 3115s should be attached. If you are unable to attach a copy of Form(s) 970, the statement at the bottom of page 3 of 3 of the narrative statement should be completed and signed.

## Narrative Statement Attachment for Form 3115 ... Changing to the Vehicle-Pool (Single, Combined LIFO Pool) Method for 2007

Page 1 of 3

## ABC DEALERSHIP

EI#

FORM 3115: APPLICATION FOR CHANGE IN ACCOUNTING METHOD

W/R/T TAXABLE YEAR ENDING DECEMBER 31, 2007

## NARRATIVE STATEMENTS & OTHER INFORMATION

#### **General Information**

This request is for *Change No. 112* ... Change to the Vehicle-Pool Method prescribed in Revenue Procedure 2008-23 from Taxpayer's existing LIFO pooling method under the Alternative LIFO Method for New Vehicles, as described in Revenue Procedure 97-36.

No user fee is required. Applicants filing under a designated automatic change procedure are not required to pay a user fee.

This change in LIFO pooling method is being made for the calendar year ending December 31, 2007.

Taxpayer *is [is not]* under IRS audit examination at the time of filing this Form 3115. Revenue Procedure 2008-23 expressly waives the scope limitation in Section 4.02(6) of Rev. Proc. 2002-9 for the first taxable year ending on or after Dec. 31, 2007.

Taxpayer's business code for principal business activity is 441110. Taxpayer is a franchised automobile dealer engaged in the purchase and retail sale of new automobiles and light-duty trucks. Taxpayer also buys and sells used vehicles, and it provides parts, repair and maintenance services on the vehicles it sells, as well as on vehicles customers have purchased from other dealers. Taxpayer reports on the basis of a calendar year-end and it employs the accrual method of accounting for maintaining its records and for filing its Federal and State income tax returns.

#### <u>Page 2, Part II, Line 12 and Page 5, Schedule C, Part 1:</u> <u>Description of Changes within the LIFO Inventory Method</u>

Taxpayer previously elected to use the "safe harbor" LIFO methodology set forth in Revenue Procedure 97-36 for retail automobile dealers. This election was made in order to significantly reduce expensive and time-consuming disagreements that might otherwise arise between automobile dealerships and the IRS over the acceptability of various LIFO computation methodologies that dealerships might apply.

Under Revenue Procedure 97-36, Taxpayer is required to comply with the LIFO pooling criteria described in Section 4.02(1). Accordingly, for LIFO purposes, Taxpayer has previously used two pools:

Old Pool #1: All new *automobiles* (regardless of manufacturer), including demonstrators.

Old Pool #2: All new *light-duty trucks* (regardless of manufacturer), including demonstrators.

On March 7, 2008, the IRS issued Revenue Procedure 2008-23 in which it provided an alternative LIFO pooling method, the Vehicle-Pool Method, which automobile dealers may automatically elect to use.

Accordingly, effective for calendar year 2007, Taxpayer will use a single pool for all new vehicles, including demonstrator vehicles, in accordance with the "Vehicle-Pool Method" permitted by Section 4.01 of Revenue Procedure 2008-23. This single or combined vehicle pool will include all new automobiles and all new light-duty trucks (i.e., a truck with a gross vehicle weight that does not exceed 14,000 pounds, commonly referred to as Class 1, Class 2 or Class 3 trucks). This Vehicle Pool will also include all new crossover vehicles, sport utility vehicles (SUVs), vans, minivans and other similar vehicles (i.e., hybrids, etc.) and all demonstrator vehicles.

New Pool #1: All new <u>vehicles</u> (regardless of manufacturer), including demonstrator vehicles, as described above.

(Continued)

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## Narrative Statement Attachment for Form 3115 ... Changing to the Vehicle-Pool (Single, Combined LIFO Pool) Method for 2007

Page 2 of 3

EI#

## ABC DEALERSHIP

FORM 3115: APPLICATION FOR CHANGE IN ACCOUNTING METHOD

Ceconning memor

<u>W/R/T TAXABLE YEAR ENDING DECEMBER 31, 2007</u>

NARRATIVE STATEMENTS & OTHER INFORMATION

## Consent Statements ... Required by Section 10.03(2)(c)(ii) in the Appendix of Rev. Proc. 2002-9

Under penalties of perjury, taxpayer agrees to all of the conditions of consent and to all of the terms and conditions in Revenue Procedures 2002-9 and 2008-23. In this regard, Taxpayer will ...

- Maintain and retain complete records of the computations of the LIFO inventory under the Alternative LIFO Method for New Vehicles. In addition, Taxpayer will retain copies of the actual purchase invoices for all vehicles used in the computation.
- (2) Make such adjustments to the base dollar amounts in its annual LIFO layers as may be required under Reg. Sec. 1.472-8-(g)(2)(iii) and (iv) in order to combine its LIFO pools as of the end of the year before the year of change.
- (3) In effecting the change for 2007 in its LIFO pooling methodology, retain any layers of inventory increments previously determined (as modified by such adjustments described in (2) above), and retain the corresponding LIFO value of such increments.
- (4) Rebase the layer valuation indexes in its single LIFO pool to 1.0000 as of the beginning of the year of change (i.e., as of January 1, 2007).

Instead of using the earliest taxable year for which Taxpayer adopted the LIFO method for any items in the inventory pool or pools, Taxpayer will use the year of change (2007) as the base year in determining the LIFO value of the inventory pool for the year of change and later taxable years.

The base year costs of the layers of increments in the LIFO pool at the beginning of the year of change will be restated so that they are expressed in terms of the new base year costs, using the year of change (2007) as the new base year. The cumulative index at the beginning of the year of change (i.e., as for January 1, 2007) will be adjusted to be 1.0000. The new total base year cost of the items in the dollar value pool for the purpose of determining future increments and liquidations is equal to the total current year cost of the items in the dollar value pool (determined using the taxpayer's method of determining the total current year cost of the items in the dollar value pool). As required by Section 4.01(2)(b) of Rev. Proc. 2008-23, this rebasing of indexes will comply with the principles and example described in Reg. Sec. 1.472-8(e)(3)(iv)(b)(1)(i) and (ii).

Taxpayer will retain (for subsequent review by the Internal Revenue Service) copies of all computations incident to the rebasing of its LIFO inventory indexes to 1.000 as of December 31, 2006.

(5) Use the cut-off method in effecting the change in its pooling method under the Alternative LIFO Method for New Vehicles.

No Section 481(a) is required because the values (i.e., the LIFO valuations) of the respective new vehicle pools that are being combined into a single pool at the beginning of the year of change must be kept the same as their respective values (i.e., LIFO valuations) at the end of the preceding taxable year.

## Page 3, Part IV - Section 481(a) Adjustment ... This change requires use of the cut-off method ... See Above

(Continued)

A Periodic Update of LIFO - News, Views and Ideas

## Narrative Statement Attachment for Form 3115 ... Changing to the Vehicle-Pool (Single, Combined LIFO Pool) Method for 2007

## <u>ABC DEALERSHIP</u>

Page 3 of 3

EI#

## FORM 3115: APPLICATION FOR CHANGE IN ACCOUNTING METHOD

W/R/T TAXABLE YEAR ENDING DECEMBER 31, 2007

#### NARRATIVE STATEMENTS & OTHER INFORMATION

#### Section 263A Inventory Cost Capitalization Matters

- □ Taxpayer is subject to the Section 263A Inventory Cost Capitalization Rules, and no changes are contemplated in connection with its method of accounting for capitalizing inventory costs under Section 263A. Taxpayer has elected to determine the capitalization and inclusion in inventory costs of certain expenses in accordance with:
  - □ The Simplified Resale Method Without Historic Absorption Ratio Election (Reg. Sec. 1.263A-3(d)(3))
  - □ The Simplified Resale Method With Historic Absorption Ratio Election (Reg. Sec. 1.263A-3(d)(4))
  - □ A method other than either of the Simplified Resale Methods indicated above (Reg. Sec. 1.263A-3(d)(5))
- □ Taxpayer is not subject to the Section 263A Inventory Cost Capitalization Rules because it has gross receipts of less than \$10 million over the past three years.

#### Form 3115 Filings

- □ *Timely filing.* This Form 3115 is attached to the Taxpayer's timely filed (including extension of time) income tax return for the year of change. A duplicate copy of this Form 3115 has been sent to the IRS National Office in Washington, D.C.
- □ Amended Return filing. This Form 3115 is attached to the Taxpayer's amended income tax return for the year of change. Taxpayer is filing this Form 3115 pursuant to the "limited relief for late application automatic extension" available under Section 6.02(3)(b)(1) of Revenue Procedure 2002-9. Under this provision, an automatic extension of six months from the due date of the income tax return for the year of change (excluding extensions) is granted to file Form 3115 provided that the Taxpayer ...
  - (A) Timely filed (including extensions) its Federal income tax return for the year of change,
  - (B) Files an amended return within the 6-month extension period in a manner that is consistent with the new method of accounting,
  - (C) Attaches the original application (Form 3115) to the amended return,
  - (D) Files a copy of the application (Form 3115) with the National Office no later than when the original Form 3115 is filed with the amended income tax return, and
  - (E) Writes legibly at the top (of page 1) of the application (Form 3115) "Filed Pursuant to § 301.9100-2."

#### Previously Filed Forms 970 and 3115

- □ A copy of the original Form 970 LIFO election for new vehicle inventories is attached.
- □ A copy of the original Form 3115 to change to the Alternative LIFO Method for New Vehicles is attached.
- □ A copy of the original Form 970 LIFO election for new vehicle inventories and/or a copy of Form 3115 (if applicable) to elect to use the Alternative LIFO Method for New Vehicles is not attached.

I certify that to the best of my knowledge and belief (\_\_\_\_\_\_Dealership) properly elected the LIFO inventory method by filing Form 970 with its return for the tax year(s) ended (\_\_\_\_\_\_\_), and otherwise complied with the provisions of Section 472(d) and Reg. Sec. 1.472-3, and with the provisions of Revenue Procedure 97-36 (formerly Revenue Procedure 92-79).

/S/ \_\_\_\_\_

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## Letter to IRS National Office, Washington, D.C. Transmitting Copy of Form 3115 To Be Prepared on Dealership Letterhead & Mailed When the Original Form 3115 Is Included in the Income Tax Return for the Year of Change

Date\_\_\_\_, 200\_

Internal Revenue Service Attn: CC:PA:LPD:DRU (Automatic Rulings Branch) P. O. Box 7604 Ben Franklin Station Washington, DC 20044

Re: Dealership Name EI No.

Form 3115: Change in LIFO Accounting Method under Automatic Change Procedure to the Vehicle-Pool Method (as per Section 4.01 of Rev. Proc. 2008-23) in Connection with Taxpayer's Previous Election to Use the Alternative LIFO Method for New Vehicles under Rev. Proc. 97-36 Effective for The Calendar Year Ending December 31, 2007

Dear Sir or Madam:

Enclosed is a copy of the Form 3115 for the automobile dealership identified above reflecting the dealership's request for permission to change to the Vehicle-Pool Method (as per Section 4.01 of Rev. Proc. 2008-23) in connection with its previously elected use of the Alternative LIFO Method for New Vehicles provided by Revenue Procedure 97-36 for the Last-In, First-Out (LIFO) inventory valuation of its new vehicle inventories.

This change is to be effective for the calendar year ending December 31, 2007. This change is being made under Section 4.01(2) of Revenue Procedure 2008-23, and it is designated change #112 of the published automatic change procedures. Accordingly, no user fee is required in connection with this change.

Taxpayer will not make any Section 481(a) adjustment because of the availability of the cut-off method in connection with making this pooling change for its LIFO inventory.

The original Form 3115 will be attached to Taxpayer's timely filed (including extensions) original Federal income tax return for 2007, the year of change. This copy of Form 3115 is also being filed at this time with the IRS National Office in Washington, D.C.

As of the dates of these filings, Taxpayer is not under audit examination and Taxpayer does not have any Federal income tax return(s) under consideration by any IRS Appeals Officer or by any Federal Court.

Respectfully submitted,

(Authorized Officer), Title

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