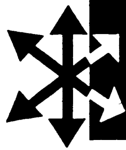
Willard J. De Filipps, CPA, PC

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A Periodic Update of LIFO - News, Views and Ideas

LIFO LOOKOUT

Volume 22, Number 1 Publisher: Willard J. De Filipps, C.P.A. Mid-Year 2012

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. AS FAR AS LIFO MATTERS GO, IT'S BEEN A QUIET YEAR SO FAR. There's not much in the way of new guidance on LIFO matters to date. But, that's not to say there aren't some very interesting developments coming down the road with major consequences for year-end planning.

Timelines. Most of what is included in the 2012 year-to-date Timeline (on page 5) relates to actions in connection with positioning to either advance or defend against the repeal of LIFO. The Timeline of 2011 developments (on page 4) provides one year's continuity.

#2. De FILIPPS' LIFO *BULLETIN BOARD*. Beginning on page 6, the *Bulletin Board* items are ... (1) Inflation indexes for year-end 2011 new vehicle inventories reflected in our dealerships' LIFO calculations, and (2) the discussion of a Letter Ruling issued in late 2011 which surfaced in early 2012. In this ruling, the IRS granted extensions of time to file Forms 970 to the parent of a consolidated group that went through an extensive restructuring in order to acquire a new business ... but failed to timely file the necessary Forms 970 in the process.

Also on the *Bulletin Board* is a follow-up to the discussions in the Year-End Edition of the *LIFO Lookout* regarding possible relief for dealerships that had inventory shortages at the end of 2011 because of the natural disasters that occurred in Southeast Asia earlier in the year. This includes the letter sent by the National Automobile Dealers Association requesting the IRS/Treasury to grant dealerships some relief (under Section 473) from the LIFO reserve recapture they experienced.

The IRS turned a deaf ear on NADA's request.

#3. WILL LIFO BE AROUND NEXT YEAR? The answer is that no one can really be sure.

Earlier this year, the Obama Administration again included a proposal to eliminate the use of LIFO as part of its 2013 Revenue Proposals. The Administration's proposal - if it were to come to pass - at least would provide a 2-year stay of execution if broad repeal were to be the fate of LIFO.

Also, in the meantime, there has been one bill introduced to immediately repeal the use of LIFO by certain major integrated oil companies.

There has been a lot of speculation over the possibility that the blending of International Financial Reporting Standards (IFRS) and U.S. Generally Ac-

see **LIFO UPDATE**, page 2

LOOKOUT LOOKS INTO

LIFO Update ... 1
Timelines ... 4
De Filipps' LIFO Bulletin Board ... 6
LIFO ... To Be? ... or, Not To Be? An Update on Proposals to Repeal LIFO ... 10
- Related Dangerous Proposals ... Repeal of LCM Methods ... 13
- Revenue Proposals & Correspondence ... 14
- IFRS vs. U.S. GAAP ... 22

Our Survey of 2008-2011 Dealers' LIFO Reserve Changes
- Survey Comments & Discussion ... 24
- Exhibits ... 26

Revisions to Form 3115 Instructions ... 30
Revaluing LIFO Inventories When Accounting Method Changes Require Section 481(a) Adjustments ... 31
- Procedures & Rules ... 34
- Analysis of Regulation Example ... 36
- Case Study ... 40
  - Summary of CAM, Procedures & Benefits ... 41
  - Supporting Schedules ... 46
  - Sample Form 3115 Narrative ... 51

Alternative LIFO Method for New Vehicles Comparison Of *SuperLIFO* & IRS New Item Determinations for New Vehicles in Year-End 2011 Inventories
- Overview & Comments ... 53
- Comparative List Statistics ... 56

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(Continued from page 1)

cepted Accounting Principles (GAAP) would automatically result in the "effective repeal" of the use of the LIFO method for U.S. businesses. Many who lobbied Congress to repeal LIFO have argued that, as a practical matter, the repeal of LIFO was inevitable as soon as U.S. GAAP reporting standards (which permit LIFO) were absorbed and eliminated via "convergence" with global or European-style IFRS.

The "inevitability" of the demise of LIFO based on this assumption is now in considerable doubt. This doubt has arisen because of recent expressions of interest by the SEC in evaluating a new approach for the more gradual, and less all-inclusive, integration of U.S. GAAP and IFRS. This new approach would not, per se, either directly or indirectly prohibit the use of LIFO by U.S. companies reporting to the SEC.

Accordingly, there are several factors bearing on the retention - repeal status of LIFO, and these factors change in ways that no one can really measure.

This Edition of the *Lookout* updates the recent developments that might affect the status of LIFO. By the time the Year-End Edition is out (in early December), it's reasonable to anticipate that we'll know who the next President will be (but, do you remember, *Gore vs. Bush*?). If so, knowing who is the President-Elect may possibly narrow the range of speculation about the future for LIFO.

#4. RELATED DANGEROUS PROPOSALS ... REPEAL OF LCM METHODS. Many discussions (pro or con) of the repeal of LIFO by Congress to "cure" the "deficit problem" seem to consistently minimize or entirely overlook one important fact. That fact is that whenever legislative proposals have been set forth to eliminate LIFO, these proposals also include - almost as a "throw-away" - the elimination of two other significant inventory methods of accounting ... namely the use of the lower-of-cost-or-market (LCM) method and the subnormal goods method.

For more on these proposals, see page 13.

#5. OUR SURVEY OF DEALERS' LIFO RESERVE CHANGES OVER THE LAST 4 YEARS. Many articles and speeches by academics favoring the repeal of LIFO have presented statistics and other alleged abuses regarding the use of LIFO. However, this information has been based upon studies of filings by publicly-held companies reporting to the SEC.

My experience has been limited to applying LIFO to closely-held businesses. In my own practice, and as a consultant, I've seen many LIFO applications over almost 50 years.

In the Mid-Year 2010 *LIFO Lookout*, I included the results of a survey on the size of LIFO reserves for some of the auto dealerships for whom we prepared new vehicle LIFO calculations.

This survey showed the dealerships' ending inventory levels and corresponding LIFO reserves at the end of 2008 and 2009. At that time, the focus was on trying to observe the effect or impact of manufacturer bankruptcy filings and major contractions experienced in the industry on dealerships having their 2009 year-end inventory levels significantly decreased. (See pages 15-21 of the Mid-Year 2010 Edition for survey details and my observations on the results.)

I recently updated this survey by expanding the frame of reference to the 4-year period 2008 - 2011 (i.e., looking at dealership LIFO reserves as of Dec. 31, 2007, 2008, etc.).

This current information as of Dec. 31, 2011 shows how heavily these dealerships not only use LIFO but rely on LIFO for increased cash flow (as generated by the reduction of their income tax liabilities) to replace their inventories so that they can stay in business and finance other pressing obligations and challenges.

The 90 dealerships included in this survey/sample are a diverse bunch. However, in my opinion, those differences are what make the overall, or collective, results a useful composite that is somewhat representative of many other dealers using LIFO. I also believe that the results shown by our survey/sample are typical of what other CPA firms would find if they took the time to conduct similar surveys.

If our results are representative, then you could extrapolate the results to many other dealerships in the country who are still using LIFO to great advantage. You're free to draw whatever conclusions you wish from the experience of these dealerships.

You'll find more discussion and detail schedules beginning on page 24.

#6. IRS UPDATES INSTRUCTIONS FOR FORM 3115 FOR AUTOMATIC ACCOUNTING METHOD CHANGES. Form 3115 is the form that taxpayers must file when they are changing most LIFO accounting methods. The IRS recently updated the Instructions for this Form by a revision dated March 2012. This supersedes the previous revision of the Instructions dated December 2009.

This revision essentially updates all references relating to automatic changes to refer to Revenue Procedure 2011-14 (which superseded Rev. Proc. 2008-52) as the controlling document. It also in-

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cludes many new changes which may be made in connection with the Temporary Regulations under Section 263(a) which concern the proper treatment of expenditures for repairs and improvements to tangible property.

The total of the Automatic Changes that do not require advance permission from the IRS is now 180. (But that includes several "automatics" that are now obsolete.) The Automatic Change list will continue to grow over time.

For a summary of this update, see page 30.

#7. REVALUING LIFO INVENTORIES WHEN ACCOUNTING METHOD CHANGES REQUIRE SECTION 481(a) ADJUSTMENTS. There are principles and computational techniques that must be followed when taxpayers using LIFO to value their inventories make changes in accounting methods (CAMs) ***and*** an adjustment is required to be made by Section 481(a). These principles and techniques must be followed regardless of whether the CAMs are initiated voluntarily by the taxpayer or are required by the IRS as audit adjustments.

These procedures involve making adjustments to the underlying LIFO layers in order to revalue the LIFO inventory (layers) as of the beginning of the year of change.

The article beginning on page 31 examines and discusses these principles and computational techniques. It also includes a detailed analysis of the example which is included in the Regulations for revaluing dollar-value LIFO inventories.

To illustrate these procedures in a practical setting, I've included a case study where a revaluation of a dollar-value LIFO inventory was required when an automobile dealership elected to make an automatic change in accounting method to remove certain advertising costs from inventory.

A word of caution: If you are going to compare the "flow" of numbers in the example in the Regulations with the "flow" of the computations in the case study, you need to be careful. The impact of the adjustments in one is exactly the opposite of the impact of the adjustments in the other. This is because the facts in the Regulation example add costs to inventory via a ***positive*** Section 481(a) adjustment. In contrast, the facts in the case study remove costs from inventory via a ***negative*** Section 481(a) adjustment.

#8. COMPARISON OF IRS & *SuperLIFO™* "UNOFFICIAL" NEW ITEM DETERMINATIONS. We have always compared our *SuperLIFO™* new item determinations with those published by the Office of the IRS Motor Vehicle Technical Advisor (MVTA).

The last comparison, involving manufacturer model years 2010-2011, appeared in the Mid-Year 2011 Edition of the *LIFO Lookout*.

In this Edition, we have summarized our current comparison for manufacturer model years 2011-2012 new items with respect to Dec. 31, 2011 year-end inventories for auto dealers. This is based on the new items list that the IRS MVTA released in an e-mail dated July 1, 2012.

Our comparison schedules are set up so that you can see all of the vehicles which were treated as new items by the IRS, even if you don't care about how the IRS list compares with ours.

In listing the results of our comparisons, we have continued to use the two separate classifications for new automobiles and new light-duty trucks. Some dealerships do not care about this distinction because they have changed to the single, combined (Vehicle-Pool) method for all new vehicles.

However, a significant number of dealers (at least many of those we are doing LIFO calculations for) have not changed to the Vehicle-Pool Method, for one reason or another. Therefore, this classification distinction is still relevant for them.

Many CPAs and/or dealers are using service bureaus for their LIFO calculations. To this extent, they are relying on the new item determinations made by their service bureaus. Other CPA firms and dealerships still do their own new vehicle LIFO calculations on spreadsheets of their own creation, so they must be making these new item determinations each year for themselves.

A glance at the IRS lists (and ours) makes it clear that item category determinations are required to be detailed down to the most precise levels of vehicle description and differentiation. Calculations cannot be based on rough averages of models or on other more generalized groupings.

Our overview, with related statistics, begins on page 53. The full Lists are available upon request.

#9. UPDATED INDEX OF *LOOKOUT* ARTICLES ... 21 YEARS. We have updated our Index of all articles appearing in the *LIFO Lookout* from our first issue, March 1991, through December 2011.

This electronically searchable and user-friendly Index is available on our web site (www.defilipps.com) for your reference purposes. You can search the Index by keyword(s), and you can also save the 51-page Index on your computer for handy reference and printing.

The nineteen sections of our Index of Articles are shown on the last page (page 60 of this Edition).

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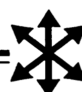
LIFO Lookout Timeline	CALENDAR YEAR 2011 ... THE YEAR IN REVIEW
Jan. 2011	• ***Revenue Procedure 2011-14*** revised and updated the procedures for taxpayers making designated ***automatic*** changes in (LIFO and other) accounting methods and filing Forms 3115. ◆ This Revenue Procedure included the Section 263A safe harbor elections for motor vehicle dealerships that can be made as automatic changes #150 and #151. ◆ This Revenue Procedure supersedes Rev. Procs. 2008-52 and 2009-39. ◆ Effective for the filing of Forms 3115 on or after January 10, 2011.
March 2011	• In ***TAM 201111004***, the IRS held that a taxpayer may defer the gain on an involuntary conversion of inventory if the business is located in a Federally-declared disaster area. • This guidance emphasizes to practitioners that the provisions of Code Section 1033(h)(2) should not be overlooked by dealerships located in disaster areas. • The broader application of this TAM is that Section 1033(h)(2) could allow a dealership (in a Federally-designated disaster area) to defer reporting gain if (or when) it reinvests insurance or salvage proceeds in other assets used in the business.
May 2011	• IRS released its ***Audit Technique Guide (ATG) for Wineries.*** • This *ATG* sets forth the criteria that wineries should use to define their wine items and to value their LIFO inventories. • Essentially, the *ATG* requires that the winery must define items of wine in a way that subdivides bulk wine and bottled wines into inventory items based on factors such as type of wine, source of grapes, process recipe or formula used, length of aging time, type of container, length of time wine has been stored after bottling, etc. • This *Audit Technique Guide* basically follows the IRS holdings in ILM 201043029 (July 2010).
May 2011	• In ***FAA 20114702F***, the IRS concluded that the absence of proper disclosures related to the use of the LIFO method in financial statements prepared using IFRS (International Financial Reporting Standards) resulted in violations of several LIFO conformity requirements. • IFRS standards do not permit the use of LIFO for valuing inventories, and the financial statements did not comply with various exceptions that are available in the Regulations. • What this FAA does suggest is that the LIFO financial statement conformity requirements would not be violated if proper supplementary disclosures accompany financial statements issued under IFRS. • This appears to be the first published IRS guidance involving IFRS-prepared statements.
April - June 2011	• In ***LTRs 201130001*** and ***201136006***, the IRS granted taxpayers extensions of time to file Form 970. ◆ In one instance, the taxpayer failed to file Form 970 after a Section 351(a) exchange. ◆ In the other case, a parent corporation overlooked filing 14 LIFO elections forms for various subsidiaries over a long period of time. • In both cases, the oversight by the taxpayer was called to its attention when a pair of "fresh eyes" reviewed their LIFO situations and caught the omissions.
June 2011	• ***President Obama's Administration*** included the repeal of LIFO as a tax break to be eliminated as part of the negotiations to reach a deal on the debt limit increase impasse. • Apparently, this is a follow-up to the President's proposal at the beginning of this year - as part of his "Greenbook" proposals - when he had included the repeal of LIFO after the year 2012 ... with a 10-year spread period for the recapture of the LIFO reserve into taxable income.
August 2011	• In ***Rev. Proc. 2011-42***, the IRS provided general guidance regarding its requirements concerning the use and evaluation of statistical samples and sampling estimates. • There is no specific discussion in the Revenue Procedure that relates to LIFO inventory application situations. • Accordingly, the general principles and guidance in the Rev. Proc. will have to be adapted to LIFO situations on a case-by-case basis, depending on the facts and circumstances.
October 2011	• The Treasury published ***Final Regulations under Section 381*** relating to the carryover / combination of inventory methods, including LIFO inventory methods, in reorganizations or tax-free liquidations. • Under the Final Regulations, the determination of which inventory accounting method will carry over is to be made on the basis of considering ***only the inventories of the trades or businesses that are going to be integrated*** after the (tax-free) transaction/acquisition takes place.

LIFO Lookout Timeline	**CALENDAR YEAR 2012 ... YEAR TO DATE**
	• In ***LTR 201150025*** (released Dec. 16, 2011), the IRS granted extensions of time to file Forms 970 to the parent of a consolidated group that went through an extensive restructuring in order to acquire a new business. • This LTR involved interpretations requiring the filing of Forms 970 for transactions involving disregarded and entities and LLCs (i.e., Reg. Sec. 301.7701-3(g)(1)(iv)) and transfers to a controlled corporation (i.e., Section 351(a)).
January	• ***Request for relief from LIFO recapture due to natural disasters in 2011.*** On January 13, 2012, NADA sent a letter to the Treasury/IRS requesting expedited Section 473 relief for certain franchised auto and truck dealers (Honda, Subaru and Toyota/Scion). • These dealers experienced significant decreases in their new vehicle year-end Dec. 31, 2011 LIFO inventories as a result of the earthquake and tsunami that occurred in Japan in march 2011 and/or the flooding that occurred in Thailand in July 2011. • In March, the Treasury's Office of Tax Policy responded by stating its position that ... ◆ Section 473 cannot be used to provide relief in situations that do not involve a "politically motivated" inventory disruption. ◆ The inventory disruptions caused by (these) natural disasters do not rise to the level of urgency that would justify granting relief under Section 473.
February	• ***Repeal of LIFO and other inventory accounting methods.*** President Obama's Administration again included the repeal of the use of the LIFO method as a tax break to be eliminated as part of the fiscal year 2013 revenue proposals. • The repeal of LIFO would start in the first taxable year beginning after the December 31, 2013. ◆ This, in effect, is a 2-year postponement of the repeal advocated by the Administration in prior years' revenue proposals. ◆ The recapture of the LIFO reserve into taxable income would occur ratably over a 10-year spread period. • The Administration's revenue proposals for 2013 would also prohibit the use of (1) the lower-of-cost-or-market method and (2) the subnormal goods method for valuing inventories. ◆ The repeal of these methods would start in the first taxable year beginning after the December 31, 2013. ◆ The Section 481(a) adjustments would be taken into income ratably over a 4-year spread period.
April	• ***OMB defends Administration's proposal to repeal LIFO.*** On April 2, 2012, the acting Director of the Office of Management and Budget (OMB) defended the proposal to eliminate the LIFO method. • This defense was in response to a letter (dated January 27, 2012) signed by 22 members of Congress that had requested removal of the LIFO repeal provision from the revenue proposals for 2013.
June	• ***LIFO Coalition response activity.*** On June 6, 2012, the LIFO Coalition (www.saveLIFO.org) submitted an extensive rebuttal/ response to the letter written by the Office of Management and Budget in which the OMB defended the proposal to eliminate the LIFO method.
June	• ***Bill introduced to repeal LIFO for integrated oil companies.*** On June 7, 2012, a bill was introduced in the House of Representatives (H.R. 5906) that would repeal the use of the LIFO inventory method by integrated oil companies (as defined in Section 167(h)(5)(B)). • The repeal of LIFO for these companies would be effective for taxable years beginning after December 31, 2011. ◆ The Section 481(a) adjustment to recapture the LIFO reserve into the income must be taken into account ratably over a period not greater than 8 taxable years, beginning with the first such year.



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De Filipps' LIFO Bulletin Board

1. Dealership New Vehicle Inflation Indexes for 2011 under the Alternative LIFO Method

In general, modest rates of inflation for 2011 helped to increase LIFO reserves at year-end.

The results for year-end 2011 inventories are summarized below.

Year-End 2011

- BMW ... Lexus ... Lincoln ... Nissan ... Toyota .... 2.5% to 3.0%
- Chevrolet ... GMC Trucks ... Kia .... 2.0% to 2.5%
- Buick ... Dodge ... Ford ... Hyundai .... 1.5% to 2.0%
- Cadillac ... Jeep ... Mazda ... Mercedes ... Mitsubishi ... Suzuki ... Volvo .... 1.0% to 1.5%
- All Others .... 0.0% to 1.0%

Comparative Inflation Ranges for 2010 & 2009

Similar summaries show year-end 2010 and 2009 inflation ranges for comparison.

It is interesting to note that the franchises with the highest range of inflation were different over all three years.

Year-End 2010

- Ford .... 3 %
- Lincoln ...Mercedes ... Jeep Trucks .... 1¾ - 2¼ %
- Lexus ... Nissan ... Toyota ... Mazda ... VW ... Mercury .... 1¼ - 1¾ %
- Chrysler ... Chevrolet ... Dodge Trucks ... Buick ... Honda ... BMW ... Mitsubishi .. ½ - 1 %
- Cadillac ... GMC Trucks ... Volvo ....No inflation or slight deflation

Year-End 2009

- Chrysler (Dodge) Trucks ... GMC .... 4½ - 5½ %
- General Motors ... Chevrolet .... 3½ - 4 %
- Chrysler ... Ford ... Lincoln-Mercury .... 2½ - 3½ %
- Lexus ... Toyota .... 1½ - 2½ %
- Nissan ... Honda ... Mitsubishi ... BMW ... Volvo .... 1 - 1½ %

Other Observations Re: 2011 LIFO Calculations

- Judging from the dealerships for whom we do new vehicle LIFO calculations under the Alternative LIFO Method, by December 31, 2011, many dealerships had restored their inventory levels back up to December 31, 2009 levels.
  - However, in many instances, dealers were not able to recover the LIFO reserve recaptures that had to be taken into income at the end of December 2009 and/or 2010 because of the significant decreases in inventory levels.
  - On January 13, 2012, the National Automobile Dealers Association (NADA) sent a letter to the Treasury/IRS requesting relief under Section 473 for certain franchised auto and truck dealers (Honda, Subaru and Toyota/Scion) that suffered significant inventory reductions at the end of 2011 as a result of several natural disasters ... See *Bulletin Board* #3 & #4.
- For dealerships that lost franchises in 2011, some were able to replace the elimination of new vehicles in inventory for the lost franchises with other new vehicles for franchises which they still retained. Accordingly, the repayment of a LIFO reserve "attributable to the lost franchise" was negligible ... if there was any repayment at all.
- In 2011, only a few more dealers converted to the single, combined (Vehicle) LIFO pool method (Rev. Proc. 2008-23).
  - This is because many of them had already converted in prior years.
  - Those who had not changed by the end of 2010 were pretty much set in their ways.
  - There were, however, a few situations where the argument for change for 2011 became too compelling to dismiss.

2. Relief Granted for the Filing of Forms 970 for Restructuring Involving New Single Member Limited Liability Company (SMLLC) Entity.

In ***LTR 201150025*** (released Dec. 16, 2011), the IRS granted extensions of time to file Forms 970 to the parent of a consolidated group that went through an extensive restructuring in order to acquire a new business.

This Letter Ruling involved a consolidated group that went through a rather complex restructuring which included the acquisition of a new business which was merged into a newly created entity. The activities of the entities included the wholesale and retail sales and distribution of various products.

The newly-created entity (which ended up with the LIFO inventory) was originally a third-tier subsidiary (i.e., Taxpayer #1) which subsequently converted to Single Member Limited Liability Company (SMLLC) status (i.e., Taxpayer #2).

Thereafter, at a still later date, Taxpayer #2 elected to be treated as a corporation under Reg. Sec. 301.7701-3(a).

All of this involved two events ... (1) the transfer of the target corporation's inventory to Taxpayer #1 pursuant to the merger and (2) the later election of the SMLLC to be treated as a regular corporation.

Both events required the transferees (or technically, the parent of the consolidated group of corporations on behalf of the transferees) to file Forms 970 in order to formalize and notify the IRS of the use of the LIFO method to value the underlying inventories.

In both cases, the parent corporation neglected to file the requisite Forms 970 to elect the LIFO method for the entities and transactions involved in the restructuring. These Form 970 filings are required under various interpretations for transactions involving disregarded and entities and LLCs (i.e., Reg. Sec. 301.7701-3(g)(1)(iv)) and transfers to a controlled corporation (i.e., Section 351(a)).

These oversights by the parent corporation were not caught by the parent's original CPA firm. Instead, they were discovered when the parent corporation engaged a new CPA firm to review the group's inventory methods.

When the parent was told by the new CPA firm that Forms 970 should have been filed, the parent corporation requested extensions of time to file the Forms 970. The IRS held that the interests of the Government would not be prejudiced if extensions of time were granted to the taxpayer to file Form 970 to perfect the LIFO elections.

This is just one of several recent Letter Rulings issued by the IRS allowing extensions in situations where oversights of this nature were eventually discovered.

3. Relief for Dec. 31, 2011 LIFO Reserve Recapture Due to Inventory Shortages Caused by Natural Disasters ... Not Likely to Happen.

As mentioned in *Bulletin Board* #1, in January, NADA sent a letter to the Treasury/IRS requesting relief under Section 473 for certain franchised auto and truck dealers (Honda, Subaru and Toyota/Scion) that suffered significant inventory reductions at the end of 2011 as a result of several natural disasters.

NADA's letter indicated that these dealers experienced significant decreases in their new vehicle year-end inventories as a result of the earthquake and tsunami that occurred in Japan in march 2011 and/or the flooding that occurred in Thailand in July 2011.

The letter included detailed exhibits in support of NADA's assertion and the draft of a proposed Notice that the IRS could issue if it were to grant relief under Section 473. ***[NADA's letter appears as*** **Bulletin Board *#4 on the following pages.]***

In March 2012, the Treasury's Office of Tax Policy responded by stating its position that ... (1) Section 473 cannot be used to provide relief in situations that do not involve a "politically motivated" inventory disruption, and (2) the inventory disruptions caused by (these) natural disasters do not rise to the level of urgency that would justify granting relief under Section 473.

For more background on how Section 473 might afford relief to LIFO taxpayers in these disaster (and other) situations, see *"Earthquakes + Tsunamis = Lower Year-End Inventories ... Section 473 Relief for Recaptured LIFO Reserves?"* on pages 18-21 in the Year-End 2011 *LIFO Lookout.* I concluded this article by expressing my opinion that "The likelihood of Federal officials doing anything constructive to help dealers in this regard is, in my opinion, extremely remote."

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4. NADA's Letter to IRS/Treasury Requesting Expedited LIFO Recapture Relief Under Section 473 for Certain Dealerships.*

NATIONAL AUTOMOBILE DEALERS ASSOCIATION
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Legal & Regulatory Group

January 13, 2012

Via E-Mail

Hon. Emily S. McMahon
Acting Assistant Secretary for Tax Policy
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Hon. William J. Wilkins
Chief Counsel
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20220

Re: Request for Expedited Section 473 Relief for Certain Franchised Car and Truck Dealers

Dear Assistant Secretary McMahon and Chief Counsel Wilkins:

On behalf of the National Automobile Dealers Association (NADA),[1] we are writing to request that the Secretary of the Treasury provide expedited relief under section 473 of the Internal Revenue Code to franchised new car and truck dealers who (i) inventory their new vehicles under the Last-In, First-Out (LIFO) accounting method, and (ii) experienced a decrease in their new vehicle closing inventories as a result of the earthquake and tsunami that occurred in Japan in March 2011 and/or the flooding that has occurred in Thailand since July 2011.

These natural disasters and their damaging impact on persons and property in the affected regions and on international commerce are well known. The 9.0 magnitude earthquake that occurred off the northeast coast of Japan on March 11, 2011 was the largest ever recorded in Japan and one of the largest anywhere in recorded history. The earthquake and the 23-foot tsunami that it triggered left 26,000 people dead or missing, 450,000 people homeless, and caused property damage in the amount of 4.5% of Japan's GDP. These events resulted in extensive port closures, supply disruptions, and suspension of production at manufacturing plants. The flooding that has occurred in Thailand since July 2011 has also had a widespread and devastating impact on persons, property, and commerce, with the most significant economic harm being inflicted on the manufacturing sector.

These disasters have had a very negative impact on several automobile manufacturers and parts suppliers that operate in these areas and on the retailers who sell their products. They also have occurred at a time when the auto industry has otherwise shown signs of resilience and has begun to return to a sustainable sales climate. Although the disasters' negative impact on the auto industry has been widely reported in the media, it is most apparent in data that (i) compares changes in dealers' inventories of vehicles produced by various manufacturers, and (ii) reflects estimated decrements in the new vehicle LIFO calculations of dealers who sell vehicles produced by manufacturers affected by the natural disasters.

With regard to the former and as illustrated in the first attachment, as of November 30, 2011, dealers' new vehicles inventory units produced by Japanese manufacturers collectively fell by over 25% from November 30, 2010 levels despite sales that remained virtually unchanged. (The stability in sales indicates that the decrease in inventory levels is not the product of a change in demand.) These decreases have been particularly severe for Honda dealers (49% inventory reduction v. 5% sales reduction), Subaru dealers (43% inventory reduction v. 2% sales reduction), and Toyota/Scion dealers (33% inventory reduction v. 7% sales reduction).

(continued)

1 *[The text of all footnotes included in this letter has been deleted.]*

4. NADA's Letter to IRS/Treasury Requesting Expedited LIFO Recapture Relief Under Section 473 for Certain Dealerships. *(continued...)*

With regard to the latter data, these dramatic inventory reductions have, not surprisingly, resulted in a decrement in the LIFO calculations of many dealers who sell the new vehicle brands whose production has been adversely affected by the natural disasters. Although comprehensive data is not available to measure the full extent of the decrements, the reports and supporting data we have received from accountants that represent these franchised dealers indicate that many of them will experience significant LIFO recapture which, in turn, will force them to incur a substantial and unexpected income tax liability for the tax year in which these events occurred.

It is against this backdrop that NADA seeks relief for affected dealers under section 473 of the Internal Revenue Code. Section 473 authorizes the Secretary of the Treasury to issue in the Federal Register a determination that a qualified liquidation of LIFO inventories has occurred and to permit affected taxpayers who elect the relief provided by section 473 to replace their depleted inventories over a period of up to three years. The Secretary may determine that a "qualified liquidation" has occurred when the taxpayer establishes that there has been a decrease in its closing inventory which is directly and primarily attributable to a "qualified inventory interruption." Among the bases for determining that a "qualified inventory interruption" has occurred is when a "major foreign trade interruption... has made difficult or impossible the replacement during the liquidation year of any class of goods for any class of taxpayers...."

We believe the circumstances highlighted above fit squarely into those that section 473 was designed to address. The earthquake and tsunami in Japan and the flooding in Thailand, representing the first and fourth most costly natural disasters on record respectively, caused a major foreign trade interruption that significantly depleted dealers' inventories of several brands of vehicles and made it difficult or impossible for many of those dealers to replace these inventories during the tax year in which the natural disasters occurred. The Secretary's exercise of authority under section 473 to provide an extended period for affected franchised dealers to replenish these inventory levels would fulfill the purpose of this provision and allow these businesses to forego a substantial and unexpected financial burden.

To facilitate your consideration of our request, we have set forth in the second attachment a draft Federal Register Notice that would provide the requested relief and in a manner that would closely tailor the relief to the taxpayers for whom it is intended. Section 5 of the draft Notice delineates the procedures taxpayers must follow to make the required section 473(a) election. It includes, in part, (i) a taxpayer certification that the decrease in closing inventory is directly and primarily attributable to the difficulty or impossibility of purchasing inventory items as a result of the major foreign trade interruption caused by the natural disasters, and (ii) in the case of dealer taxpayers, a safe harbor that the dealer has satisfied the requirements for making the Section 473(a) election if the manufacturer or distributor of the vehicles for which the dealer makes the election certifies to the IRS under penalties of perjury that it suffered a major foreign trade interruption as a result of the natural disasters.

In addition to granting section 473 relief to affected dealers, we urge you to provide the relief as expeditiously as possible. The income tax return filing deadline for many dealer taxpayers is March 15, 2012 and affected dealers would need to make the Section 473(a) election with their tax return. In order to (i) enable these businesses to engage in accurate business and tax planning, and (ii) reduce the taxpayer and IRS burden associated with taxpayers having to file an extension to their original tax return or an amended tax return to make the Section 473(a) election, we request that forthcoming Section 473 relief be provided at least 30 days in advance of the March 15, 2012 filing deadline. To assist your offices in developing the required Federal Register notice, we have provided each with information that may be useful during this process.

We appreciate the opportunity to submit this request and thank you for your forthcoming consideration.

Sincerely,

[Original Signed]	[Original Signed]
Andrew D. Koblenz Vice President Legal and Regulatory Affairs	Paul D. Metrey Chief Regulatory Counsel Financial Services, Privacy, and Tax

* This is only the text of NADA's letter. All footnotes included in this letter, the draft of the proposed Notice and the attachment showing the comparative analysis of inventory levels and sales as of November 30, 2010 and 2011 have not been reproduced.

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THE FUTURE OF LIFO ... TO BE? OR, NOT TO BE? ... AN UPDATE ON PROPOSALS TO REPEAL LIFO

About 6 years ago (mid-2006), the first serious cautions or warning signs were raised regarding the possibility that the use of the Last-In, First-Out (LIFO) method for valuing inventory might be repealed.

At first, the general arguments advanced to challenge the use of LIFO were more "academic" and oriented toward financial statement reporting considerations. In other words, arguments supporting the repeal of LIFO related to the even earlier efforts and discussions (which started in 2002) for merging or blending International Financial Reporting Standards (IFRS) with U.S.-based Generally Accepted Accounting Principles (GAAP).

Since mid-2006, I've included two lengthy updates on the "status of LIFO" in the *LIFO Lookout*. The first article - *"What's Going to Happen to LIFO?"* - was in the Mid-Year 2009 Edition (on pages 6-11). The second article - *"Status of LIFO ... What's New?"* - was in the Mid-Year 2010 Edition (pages 9-15).

Since that last update, things have been pretty quiet in terms of events that might affect the long-term status of LIFO. However, earlier this year, several developments indicate considerably more than a just a slight stirring of interest on the subject.

Unfortunately, the focus of the more recent discussions advanced in favor of repealing LIFO has shifted to emphasize the U.S. Government's need for revenue, and the desire by some to do away with LIFO because it is perceived to be an undeserved tax benefit or gimmick. The sentiment, held by some, is that the use of LIFO should be sacrificed as part of some broader, more comprehensive tax reform program ... Especially if income tax rates are to be lowered.

This article and the attachments are intended to bring you up-to-date on the status of LIFO repeal proposals at this time.

For perspective, I have summarized these developments in the Timeline/chronology included on pages 14-15. See, *"A Brief History of the Movement to Repeal the LIFO Inventory Method ... 2006-2012."*

Several of the other attachments provide more detail on the developments during the first 6 months of this year. Unfortunately, there is no way one can quantitatively measure whether these developments tip the scales for or against the repeal/retention of LIFO. Clearly, they suggest that both proponents for and advocates against the repeal of LIFO are ratcheting up their efforts for a showdown.

MOMENTUM SHIFTS TO A SLOWER GEAR FOR IFRS - U.S. GAAP CONVERGENCE

In recent years, many who lobbied Congress or advised the Administration to repeal LIFO have argued that, as a practical matter, the repeal of LIFO was inevitable as soon as U.S. GAAP reporting standards (which permit LIFO) were absorbed and eliminated via "Convergence" with European-style IFRS (which prohibit LIFO).

The "inevitability" of the demise of LIFO, based on this assumption, has recently become far less certain. In late 2010 and mid-2011, the Securities and Exchange Commission (SEC) signaled that it would be willing to accept an approach that was less than "all

The Unclear Future of LIFO

AN UPDATE ON PROPOSALS TO REPEAL LIFO

- *An Update on the Status of Proposals to Repeal LIFO* 10
- *Related Dangerous Proposals ... Repeal of Lower-of-Cost-or-Market Methods* 13
- *A Brief History of the Movement to Repeal the LIFO Inventory Method ... 2006-2012* 14
- *Administration Revenue Proposals for 2013* 16
- *Letter (from 22 Members of Congress) Urging President Obama Not to Repeal LIFO* 17
- *Letter from OMB Responding to Congress' Letter to President Obama* 18
- *Response by LIFO Coalition to OMB Defense of Administration Proposal to Repeal LIFO* 19
- *IFRS vs. U.S. GAAP: Convergence ... Endorsement ... Condorsement* 22

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or nothing" for merging or converging IFRS and U.S. GAAP.

In other words, these recent developments (starting in 2010) now reflect the possibility that a more moderate approach for blending U.S. GAAP and IFRS would not include an ultimatum that the use of LIFO would have to be eliminated if the company were to adopt IFRS. This more moderate approach (referred to by many as a "Condorsement" approach) would involve a more gradual and less all-inclusive assimilation of U.S. GAAP and IFRS.

More important to our discussion here, this Condorsement approach will not, per se, either directly or indirectly prohibit the use of LIFO by U.S. companies reporting to the SEC. After all, the use of the LIFO method for valuing inventory is just one of many major areas for which significant study, modeling and compromise is required. Other major projects which are integral to merging IFRS and U.S. GAAP reporting standards include revenue recognition (i.e., variable consideration, performance obligations, etc.), financial instruments (i.e., measurement, derivatives, impairment, etc.) and leases. Not to mention significant transitional issues.

For a summary of the evolution of the SEC's introduction of the Condorsement approach in the process of working toward a single set of global International Financial Reporting Standards, see the accompanying attachment on pages 22-23 entitled *"IFRS vs. U.S. GAAP: Convergence... Endorsement ... Condorsement."*

ADMINISTRATION'S PROPOSAL TO REPEAL LIFO INVENTORY METHOD

In February of 2012, President Obama's Administration again included the repeal of the use of the LIFO method as a tax break to be eliminated from the Internal Revenue Code.

This was done by including the repeal of LIFO as part of the Administration's fiscal year 2013 revenue proposals. The repeal is "scored" or estimated to result in between $73 and $74 billion in revenue. This roughly translates into an estimate of $210 billion in LIFO reserves (assuming a tax rate of 35% and ignoring the time value of money).

The repeal of LIFO would start in the first taxable year beginning after the December 31, 2013. This, in effect, is a 2-year postponement of the date of repeal that was called for in the Administration's prior years' revenue proposals. The recapture of the LIFO reserve into taxable income would occur ratably over a 10-year spread period.

It seems that proponents for the repeal of LIFO are responding directly to the fact that many oil companies are enjoying both great profits and extremely large LIFO reserves. Also, those who oppose the use of LIFO seem to dwell upon isolated reports exposing a few publicly-held companies who were manipulating their LIFO reserves as a way of managing earnings (and, perhaps, maximizing bonus payments), as if these abuses were regularly employed by the vast majority of businesses using LIFO.

Going hand-in-hand with the repeal of LIFO would be the prohibition of the use of the lower-of-cost-or-market and subnormal goods methods for valuing inventories. (See discussion of this aspect on page 13.)

Another wrinkle for some taxpayers who are forced off of LIFO. The Administration's proposal to repeal LIFO states that taxpayers "would be required to write up their beginning LIFO inventory to its FIFO ***value***..." This requirement may create problems for businesses (for example, automobile, truck, heavy equipment and implement dealers) who use the specific identification method for identifying inventory in their LIFO pools. These businesses are not using FIFO.

Methods for ***identifying goods in inventory*** include the specific identification method, FIFO (i.e., the First-In, First-Out assumption) and LIFO (i.e., the Last-In, First-Out assumption). In contrast, methods for ***valuing goods in inventory*** include cost, lower-of-cost-or-market, etc.

The burdens and problems would arise in situations where taxpayers using LIFO do not keep track of their inventory costs on a FIFO basis, but instead use specific identification for that purpose.

Most likely, on the termination of LIFO, the amount to be taken into income would have to be determined by using an "order of acquisition" approach for identifying the goods on hand - and their aggregate cost - at the end of the last year on LIFO. Under this approach (which would approximate FIFO), the resulting aggregate cost for these goods would not necessarily be the same as the aggregate cost that would be obtained if the inventory on hand at year-end had been determined by specifically identifying those goods on hand at the end of the year (i.e., using a specific identification basis). In some instances, the difference could be substantial.

On another point related to automobile dealerships, it is common knowledge in the industry that auto dealers are under tremendous pressure from the manufacturers whose products they sell to

see **THE FUTURE OF LIFO...**, page 12

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upgrade their facilities. Manufacturer demands involve either the expansion, modernization or standardization of dealership facilities, or in many cases, some combination of the three to a lesser or greater extent. If these dealers are required to discontinue using LIFO and to repay their LIFO reserves, this would most likely cause many of them to reconsider entirely or significantly cut back on improvements under these dealer facility upgrade programs.

OMB'S DEFENSE OF PROPOSAL TO REPEAL LIFO & RELATED CORRESPONDENCE

On April 2, 2012, the acting Director of the Office of Management and Budget (OMB) defended the Administration's proposal to eliminate the LIFO method. This defense was in response to a letter (dated January 27, 2012) that was signed by 22 members of Congress in which they urged the President not to include the repeal of LIFO in the revenue proposals for 2013.

It is interesting to note that the OMB's so-called "defense" of the LIFO repeal provision is nothing more than a word-for-word repetition of the statements included in the Treasury's *General Explanations of the Administration's Fiscal Year 2013 Revenue Proposals.*

The OMB's lame "defense" clearly ignores the more recent developments which suggest that the SEC is currently considering the convergence of IFRS and U.S. GAAP in a different light. So much for up-to-date or original thinking by the OMB (or the Administration's advisors) on this matter.

LIFO COALITION'S RESPONSE TO THE OMB

As a follow-up to the above exchanges of correspondence, on June 6, 2012, the LIFO Coalition (www.saveLIFO.org) submitted its own rebuttal/response to the letter written by the OMB in which the OMB defended the Administration's proposal to eliminate the LIFO method.

The response by the LIFO Coalition took the form of 2-page Executive Summary followed by a 4½ page detailed rebuttal. This response also included a list of all of the associations that are members of the LIFO Coalition.

After rebutting each of the four reasons that the OMB gave for supporting the LIFO repeal proposal, the LIFO Coalition concluded with the following... *"The LIFO Coalition believes that the Administration has failed to make an effective case for LIFO repeal, and that the additional Federal revenue that repeal would generate would be more than offset by the economic harm that repeal would cause.*

"The negative impact of LIFO repeal would be felt by companies of all sizes and in a wide range of industries. The prospective and retroactive tax increases imposed by LIFO repeal will take valuable resources away from business operations, investment and job creation and can be expected to result in the decline or failure of many currently viable companies...."

It is too early to evaluate the extent of the impact of the Coalition's reply. For more on these matters, see the related attachments on pages 16-21.

H.R. BILL TO REPEAL LIFO FOR CERTAIN OIL COMPANIES

One of the flashpoints for LIFO repeal advocates has been their displeasure that many oil companies have accumulated enormous LIFO reserves over the years. Perhaps one way to address this displeasure recently surfaced in the House of Representatives.

On June 7, 2012, a bill was introduced in the House (H.R. 5906) that would repeal the use of the LIFO inventory method by major integrated oil companies. This would become effective immediately, i.e., for taxable years beginning after December 31, 2011. The Section 481(a) adjustment to recapture a company's LIFO reserve into income would be taken into account ratably over a period not greater than 8 taxable years.

The purpose of H.R. 5906 is to repeal the excise tax on medical devices and provide for the offset of the revenue lost by raising revenue from other sources. This repeal of the use of LIFO and the repeal of the Section 199 deduction ... both provisions applicable only to major integrated oil companies (as defined in Section 167(h)(5)(B)) ... are intended to finance the revenue that would be lost as a result of repealing the excise tax on medical devices.

CONCLUSION

As I have stated over the years in this publication ... and in many other presentations and venues ..., I feel confident that "LIFO for our closely-held businesses will survive all efforts to make it extinct - whether these efforts might come from Congress by legislation to repeal LIFO, or indirectly from the much-discussed and anticipated adoption of International Financial Reporting Standards by U.S. companies."

Obviously ... I could be wrong. Who knows what Congress may (be forced to) do? Perhaps we'll know more by the end of this year.

But ... let's not overlook another change dangerous for businesses that is hiding along with the Administration's proposal to repeal LIFO. And, that's the potential repeal of lower-of-cost-or-market writedown methods. ✻

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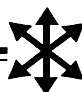

REPEAL OF LOWER-OF-COST-OR-MARKET METHODS WILL BE JUST AS ONEROUS FOR MANY BUSINESSES AS THE REPEAL OF LIFO

Many discussions (pro or con) of the repeal of the LIFO method by Congress to "cure" the "deficit problem" seem to consistently minimize or entirely overlook one important fact.

That important fact is that whenever legislative proposals have been made to eliminate the use of LIFO, these proposals also include - almost as a "throw-away" - the elimination of two other significant inventory methods of accounting ... namely the use of the lower-of-cost-or-market (LCM) method and the subnormal goods method.

It seems that these proposals are assumed - by some faulty logic - to be automatically connected to the proposals to repeal LIFO in order to achieve a more complete package to eliminate or reform inventory accounting method "gimmicks."

These methods allow writedowns at year-end from cost in order to reflect market or salable values of inventory. Both LCM and subnormal goods writedown methods are used extensively by businesses (if they are not using the LIFO method) to reduce their inventory amounts at year-end from cost and to charge those losses in value against income for the year.

Repeal of these writedown methods would hurt all businesses who are not using LIFO. Repeal would hurt businesses using LIFO ***even more*** to the extent that these LIFO users were using non-LIFO methods to account for their other inventory goods.

This clear and present danger can be found in the Administration's Revenue Proposals for 2013. The prohibition of the use of the lower-of-cost-or-market and subnormal goods methods for valuing inventories would start in the first taxable year beginning after December 31, 2013.

The Section 481(a) adjustments resulting from these changes would be taken into income ratably over a 4-year spread period.

The prohibition of these methods would automatically force businesses into having differences for book and for tax purposes. These differences would occur because these methods are not merely "acceptable" under U.S. Generally Accepted Accounting Principles; they are ***required*** under GAAP. Thus, all businesses would be required to make adjustments to reconcile these differences in Schedules M-1 or M-3 of their income tax returns.

CONFLICTING REPORTING STANDARDS

IFRS requires inventory to be carried at the lower of cost or net realizable value.

U.S. GAAP requires inventory to be carried at the lower of cost or market (with market defined as current replacement cost, provided market is not greater than net realizable value and is not less than net realizable value reduced by a normal sales margin).

Accordingly, requirements for inventory writedowns may involve slightly different amounts under U.S. GAAP compared to IFRS. Nevertheless, writedowns are required under both sets of financial reporting standards.

Writedown reversals. In addition, ***IFRS*** requires the reversal of prior inventory impairments in the period in which an impairment condition reverses (with the reversal limited to the amount of the original writedown).

U.S. GAAP precludes a reversal of previous inventory writedowns (unless the recovery of inventory occurs within the same annual reporting period in which the writedown occurred).

IS THERE A DOUBLE STANDARD? WHERE'S THE LOGIC?

Many who attempt to justify their rationale for the repeal of LIFO base their position (at least, in part) on the fact that LIFO is not accepted under IFRS. These proponents for LIFO repeal overlook the inconsistency in their position that, when they argue for the repeal of the lower-of-cost-or-market and the writedown for subnormal goods methods *along with* the repeal of LIFO, they are arguing for the repeal of two methods (i.e., the LCM methods) that businesses are ***required*** to use under IFRS.

These businesses would be required to use the lower-of-cost-or-market and/or subnormal goods method(s) in their financial reporting in order to comply with IFRS. However, they would not be able to use these methods on their income tax returns.

Doesn't this contradict the rationale of the "incompatibility-with-IFRS" argument that some advocates raise for the repeal of LIFO? Why is "incompatibility with IFRS" significant in arguing for the repeal of LIFO, but not significant in arguing for the repeal of these LCM methods? ✻

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LIFO Lookout Timeline	**2006 - 2012 ... A Brief History of the Movement to Repeal the LIFO Inventory Method** Page 1 of 2
June 2006 ***(Background)***	• A proposal to repeal the LIFO method on a limited basis was included in proposed legislation ... *Gas Price Relief and Rebate Act of 2006.* This proposal was withdrawn by Senator Frist, after strong opposition by business, so Congress might have more time to study viability of LIFO method. • The Staff of the Joint Committee on Taxation submitted a memo dated ***June 12, 2006*** re: *Present Law & Background Related to LIFO Method* in response to U.S. Senate Committee on Finance (SFC) request for background information in advance of SFC hearing on corporate tax issues. ◆ This memo provides a general description and comparison of various inventory accounting methods and discusses the present law governing inventory accounting for tax purposes.
It All Started with the SFC Hearings... ***Professor Plesko's Testimony*** ***(Excerpts)***	• The SFC (Senator Chuck Grassley of Iowa, Chairman) held a hearing on ***June 13, 2006.*** ◆ *"A Tune-Up on Corporate Tax Issues ... What's Going on Under the Hood."* ◆ Witnesses included IRS Commissioner Mark Everson and Dr. George A. Plesko, University of Connecticut School of Business. • "...Firms have a greater opportunity to manage the earnings they report to their shareholders. If a firm wants to report higher earnings, it can choose to sell from existing (lower cost) inventory rather than acquire or produce new inventory." • "...The use of LIFO has raised concerns that firms may have an incentive to hold more inventory than is optimal because of the tax costs of reducing their inventory levels. Firms may have incentive to purchase unneeded inventory to avoid recognizing the additional taxable income that would result from selling inventories valued at less than the current market price." • "Since many companies that use LIFO for external reporting purposes do not use it for internal decision making (such as pricing or compensation), allowing LIFO for tax purposes in the absence of LIFO-conformity would appear to generate no benefit other than the deferral of income taxes by LIFO firms." • "Given that few firms might use LIFO in the absence of the tax benefit, the economic benefits of LIFO need to be very large to justify its presence in the tax code. The additional conformity requirement only increases the distortions that LIFO may cause."
June 2006 ***LIFO Coalition Memo to SFC***	• On ***June 28, 2006***, the LIFO Coalition submitted its response to Prof. Plesko's comments. • The response takes the position that Prof. Plesko's testimony ... ◆ Significantly understates (1) the use of LIFO by the U.S. business community and (2) the very substantial adverse effect of repeal on the U.S. economy, with such inaccuracies based in part on inclusion of irrelevant data and failure to recognize accounting protocols that create differences between statements of book and tax LIFO reserves. ◆ Fails to recognize the efficacy of the LIFO method in measuring financial condition and in calculating tax liability for a wide variety of industries that experience perennial increases in cost of inventory and production. ◆ Greatly exaggerates the potential for manipulation of taxable income under the LIFO method, and fails to recognize rulings of the IRS and case law endorsed by the U.S. Supreme Court that specifically addresses any such potential abuses. ◆ Begs the tax policy question of LIFO accounting as an appropriate means of measuring economic income for both book and tax purposes in his (Plesko's) assertion that businesses would not use LIFO for financial accounting purposes but for the tax savings and conformity requirement. • LIFO Coalition website: www.SaveLIFO.org.
October 2007 ***H.R. 3970***	• House Committee Ways and Means Chair Charles Rangel (D-NY) introduced H.R. 3970. This proposed legislation had the short title: *Tax Reduction and Reform Act of 2007.* • This Bill contained general tax reductions to provide relief for individuals, including the full repeal of the Alternative Minimum Tax, a number of other individual income tax reforms and the extension of many favorable tax credits. ◆ Several corporate tax reforms included the reduction of the top corporate marginal tax rate from 35% to 30.5%. • The Bill proposed to finance many of these basically by repealing ... ◆ The use of the LIFO inventory method, allowing taxpayers a spread period of 8 years for taking their LIFO reserves into income. ◆ The use of the lower-of-cost-or-market inventory method. ◆ The Section 199 domestic production deduction.

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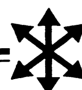
LIFO Lookout Timeline	**2006 - 2012 ... A BRIEF HISTORY OF THE MOVEMENT TO REPEAL THE LIFO INVENTORY METHOD** Page 2 of 2
Mid-Year 2009	• Not much activity ... H.R. 3970 went nowhere. • *LIFO Lookout comment:* "... No one really knows [if LIFO will still be around at the end of the year]. Right now, our focus is on the belief that it is in the taxpayer's best interest to maximize its LIFO reserves until such time as political and legislative forces ... all well beyond our control ... dictate what is really going to happen." [*Update #1, Mid-Year 2009]*
February 2010	• On Feb. 1, 2010, President Obama released the proposed Federal Budget for Fiscal Year 2011. • To address the huge projected revenue shortfall, part of the budget proposal included (1) the expectation that, most, if not all, of the "Bush tax cuts" would be allowed to expire, and (2) a proposal to repeal the use of LIFO by all taxpayers. • The Administration's 2010 proposal to eliminate LIFO would have allowed the use of LIFO through the end of 2011. ◆ LIFO would be repealed effective for taxable years beginning on or after January 1, 2012. ◆ Taxpayers would have been permitted to repay of the tax on the recaptured LIFO reserves pro-rata over a period of 10 years. • At the same time, the Treasury issued its *General Explanations of the Administration's Fiscal Year 2011 Revenue Proposals* (i.e., the "Green Book").
December 2010	• First mention of "Condorsement" by SEC suggests the LIFO method may continue to be acceptable under global International Financial Reporting Standards. This signals a potential weakening in arguments for the repeal of LIFO based on its incompatibility with IFRS. • See discussion under *"IFRS vs. GAAP: Convergence ... Endorsement ... Condorsement."*
May 2011	• More comprehensive discussion of the "Condorsement" alternative for merging IFRS and U.S. GAAP appears in an SEC Staff Paper.
June 2011	• On June 24, 2011, President Obama's Administration included the repeal of LIFO as a tax break to be eliminated as part of a compromise agreement between representatives of the Administration and Congress in the negotiations to resolve the impasse over how to respond to the need to increase the National debt limit (i.e., debt ceiling). • This was a follow-up to the President's proposal at the beginning of 2011 - as part of his "Green Book" proposals - in which he had included the repeal of LIFO after the year 2012 ... with a 10-year spread period for the recapture of the LIFO reserve into taxable income.
February 2012	• ***Repeal of LIFO and other inventory accounting methods.*** President Obama's Administration again included the repeal of the use of the LIFO method as a tax break to be eliminated as part of the fiscal year 2013 revenue proposals. • The repeal of LIFO would start in the first taxable year beginning after the December 31, 2013. ◆ This, in effect, is a 2-year postponement of the repeal advocated by the Administration in prior years' revenue proposals. ◆ The recapture of the LIFO reserve into taxable income would occur ratably over a 10-year spread period. • The Administration's revenue proposals for 2013 would also prohibit the use of (1) the lower-of-cost-or-market method and (2) the subnormal goods method for valuing inventories. ◆ The repeal of these methods would start in the first taxable year beginning after the Dec. 31, 2013. ◆ The Section 481(a) adjustments would be taken into income ratably over a 4-year spread period.
April 2012	• ***OMB defends Administration's proposal to repeal LIFO.*** On April 2, 2012, the acting Director of the Office of Management and Budget (OMB) defended the proposal to eliminate the LIFO method. • This defense was in response to a letter (dated January 27, 2012) signed by 22 members of Congress that had requested removal of the LIFO repeal provision from the revenue proposals for 2013.
June 2012	• ***LIFO Coalition response activity.*** On June 6, 2012, the LIFO Coalition (www.saveLIFO.org) submitted an extensive rebuttal/ response to the letter written by the Office of Management and Budget in which the OMB defended the proposal to eliminate the LIFO method.
June 2012	• ***Bill introduced to repeal LIFO for integrated oil companies.*** On June 7, 2012, a bill was introduced in the House of Representatives (H.R. 5906) that would repeal the use of the LIFO inventory method by integrated oil companies (as defined in Section 167(h)(5)(B)). • The repeal of LIFO for these companies would be effective for taxable years beginning after December 31, 2011. ◆ The Section 481(a) adjustment to recapture the LIFO reserve into the income must be taken into account ratably over a period not greater than 8 taxable years, beginning with the first such year.



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Obama Administration's Fiscal Year 2013 Revenue Proposals to Prohibit the Use of Certain Accounting Methods for Inventories

Repeal of the Last-In, First-Out (LIFO) Method of Accounting for Inventories

Current Law. Brief general discussion of "current law." *[... Text omitted]*

Three Reasons for Change

The repeal of the LIFO method would eliminate a tax deferral opportunity available to taxpayers that hold inventories, the costs of which increase over time.

In addition, LIFO repeal would simplify the Code by removing a complex and burdensome accounting method that has been the source of controversy between taxpayers and the Internal Revenue Service.

International Financial Reporting Standards do not permit the use of the LIFO method, and their adoption by the Securities and Exchange Commission would cause violations of the current LIFO book/tax conformity requirement. Repealing LIFO would remove this possible impediment to the implementation of these standards in the United States.

The Proposal Would Repeal the Use of the LIFO Inventory Method for Federal Income Tax Purposes.

Taxpayers that currently use the LIFO method would be required to write up their beginning LIFO inventory to its FIFO value in the first taxable year beginning after December 31, 2013.

However, this one-time increase in gross income would be taken into account ratably over ten years, beginning with the first taxable year beginning after December 31, 2013.

Repeal of the Lower-of-Cost-or-Market (LCM) & Subnormal Goods Inventory Accounting Methods

Current Law

Taxpayers required to maintain inventories are permitted to use a variety of methods to determine the cost of their ending inventories, including methods such as the Last-In, First-Out (LIFO) method, the First-In, First-Out method, and the retail method.

Taxpayers not using a LIFO method may: (1) write down the carrying values of their inventories by applying the LCM method instead of the cost method; and (2) write down the cost of "subnormal" goods (i.e., those that are unsalable at normal prices or unusable in the normal way because of damage, imperfection, or other similar causes).

Reasons for Change

The allowance of inventory write-downs under the LCM and subnormal goods provisions is an exception from the realization principle, and is essentially a one-way mark-to-market regime that understates taxable income. Thus, a taxpayer is able to obtain a larger cost-of-goods-sold deduction by writing down an item of inventory if its replacement cost falls below historical cost, but need not increase an item's inventory value if its replacement cost increases above historical cost. This asymmetric treatment is unwarranted.

Also, the market value used under LCM for tax purposes generally is the replacement or reproduction cost of an item of inventory, not the item's net realizable value, as is required under generally accepted financial accounting rules. While the operation of the retail method is technically symmetric, it also allows retailers to obtain deductions for write-downs below inventory cost because of normal and anticipated declines in retail prices.

The Proposal Would Statutorily Prohibit the Use of the LCM and the Subnormal Goods Methods.

Appropriate wash-sale rules also would be included to prevent taxpayers from circumventing the prohibition. The proposal would result in a change in the method of accounting for inventories for taxpayers currently using the LCM and subnormal goods methods, and any resulting Section 481(a) adjustment generally would be included in income ratably over a four-year period beginning with the year of change.

The proposal would be effective for taxable years beginning after December 31, 2013.

Source: *General Explanations of the Administration's Fiscal Year 2013 Revenue Proposals.*
Department of the Treasury, February 2012 ... Pages 130 (LIFO) & 131 (LCM & Subnormal Goods)

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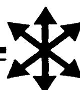

Congress of the United States

Washington, DC 20515

January 27, 2012

President Barack Obama
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. President:

As you draft your Fiscal Year 2013 Budget Proposal, we urge you not to include the repeal of the Last In, First Out (LIFO) accounting method. Repealing LIFO is more likely to exacerbate than solve our fiscal problems.

The well-established LIFO method of accounting has been expressly permitted by the tax code for more than seventy years. It is widely used by thousands of both public and privately- held businesses. LIFO allows a business to track their costs, minimize artificial inflation gains, accurately reflect replacement costs, and more precisely measure their income for tax and financial reporting purposes. According to a 2008 study by Georgia Tech, "approximately 36% of U.S. companies use LIFO for at least a portion of their inventories."

The repeal of LIFO and resulting retroactive tax increase would have a devastating impact on businesses that rely on this accounting method. The overall taxes owed by companies would increase by billions of dollars. For many businesses, this would significantly reduce available capital for investments in equipment or the hiring of new employees. In some cases it could even threaten the job security of current employees. While our economy is still recovering from a very severe economic recession, it would be unwise to significantly impair the cash flow of many businesses.

Businesses that rely on LIFO include hundreds of publicly-traded companies in the US and countless privately-owned businesses. Industries affected range from metals, paper, chemicals, and petroleum refining to auto parts, beverages, distilleries, groceries, textiles, building materials and industrial equipment. Repeal would impact manufacturers, wholesaler-distributors, and retailers; makers and sellers of virtually all products produced, sold and consumed in the United States. The impact of LIFO repeal would surely be felt in our Congressional Districts and every corner of America.

We hope that the Fiscal Year 2013 Budget will not include LIFO repeal. We believe that retaining LIFO will help struggling companies and small businesses across the nation remain valuable assets to our economy and globally competitive.

Again, thank you for listening to our concerns about these issues as you work on drafting your budget.

Sincerely,

Member of Congress*

* This letter was signed by the following 22 Members of Congress:

Rep. Geoff Davis
Rep. Peter Roskam
Rep. Erik Paulsen
Rep. Mike McIntyre
Rep. Cynthia Lummis
Rep. Cedric Richmond
Rep. Mike Thompson
Rep. Ron Kind
Rep. Aaron Schock
Rep. Mike Michaud
Rep. Randy Neugebauer
Rep. John Yarmuth
Rep. Pat Tiberi
Rep. Vern Buchanan
Rep. Ben Chandler
Rep. Jim Costa
Rep. Colin Peterson
Rep. Richard Neal
Rep. Bill Pascrell
Rep. Jim Matheson
Rep. Dan Boren
Rep. Reid Ribble

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LETTER FROM OMB RESPONDING TO CONGRESS' LETTER TO PRESIDENT OBAMA

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

April 2, 2012

The Honorable
U.S. House of Representatives
Washington, DC 20515

Dear Representative

Thank you for your letter to the President concerning the Fiscal Year 2013 Budget proposal to repeal the Last-In, First-Out (LIFO) accounting method. I am responding on his behalf. The Administration is committed to a balanced approach to deficit reduction, and proposed in the Budget a number of measures to close special tax provisions such as LIFO accounting.

In the Administration's view, the repeal of the LIFO method of accounting would eliminate a tax deferral opportunity available to taxpayers that hold inventories with increasing costs. In addition, LIFO repeal would simplify the Internal Revenue Code by removing a complex and burdensome accounting method that has been the source of controversy between taxpayers and the Internal Revenue Service.

International Financial Reporting Standards do not permit the use of the LIFO method, and their adoption by the Securities and Exchange Commission would cause violations of the current LIFO book/tax conformity requirement Repealing LIFO would remove this possible impediment to the implementation of these standards in the United States.

The Administration's proposal *would* repeal the use of the LIFO inventory accounting method for Federal income tax purposes. Taxpayers that currently use the LIFO method would be required to write up their beginning LIFO inventory to its First-In, First-Out value in the first taxable year beginning after December 31, 2013. However, this one-time increase in gross income would be taken into account ratably over 10 years, beginning with the first taxable year beginning after December 31,2013.

Thank you again for expressing your concerns about the UFO proposal in the FY 2013 Budget.

Sincerely,

Jeffrey D. Zients
Acting Director

Response Summary

Response by the LIFO Coalition to the OMB Defense of President Obama's Proposal to Repeal the Use of the LIFO Method

- The response by the LIFO Coalition (to the reply by the OMB to the letter sent to President Obama by 22 Members of Congress) took the form of 2-page Executive Summary followed by a 4½ page detailed rebuttal.
- For the Administration proposals, see page 16 of this Edition of the *Lookout*. For the letter from some Representatives in Congress to the President, see page 17, and for the OMB's reply letter, see page 18.
- The full text of the LIFO Coalition response to the OMB is available at www.saveLIFO.org.
- Also included below are a few observations regarding the Coalition's responses.

OMB's Argument #1 ... The LIFO Method as an Unwarranted Deferral of Taxes

LIFO Coalition Response

- *"The LIFO method simply recognizes the reality that inflationary gains should not be taxed until the benefits from those gains are permanently withdrawn from the business. In order for a business selling merchandise to remain in operation, that business must consistently reinvest the profits that it earns from the sale of merchandise in order to replenish the merchandise that has been sold.*
- *"When costs increase due to inflation, the business must invest an ever increasing amount of capital simply to maintain the status quo. If the business must pay taxes currently on that inflationary income, it would have to either acquire additional capital in order to maintain existing inventory levels, or shrink the level of operations and thereby reduce employment, so as to be able to afford the additional taxes."*

***LIFO Lookout* Comments & Observations**

- Although the more detailed discussion expands on the summary above, the summary might be more effective if it were to state that the "business must consistently reinvest" the cash/funds it receives from selling its inventory, rather than "... the profits that it earns from the sale."
- The reference to "profit" may be misleading. Many businesses have managed to survive so far despite significant "losses" over the years. "Profit" or net income is simply the function of a combination of alternative accounting methods and estimates (many of which may be conservative or optimistic, depending on management's point of view). Some would say that profit is simply a matter of opinion.

OMB's Argument #2 ... The Repeal of LIFO Would Facilitate Simplification of the Tax Law

LIFO Coalition Response

- *"Any complexities or burdens under the LIFO method have generally been eliminated. When LIFO was initially adopted by Congress over 70 years ago, there were a number of complexities and uncertainties about the way that the LIFO method operated.*
- *"However, approximately 30 years ago, the IRS made a concerted effort to simplify the most complicated aspect of LIFO usage, permitting taxpayers to use standardized industry-wide statistics to compute the inflation in their inventories. The adoption of this method transformed the LIFO calculation process into a relatively formulaic process.*
- *"In fact, the Administration's default method, First-In, First-Out (FIFO), is the basis for LIFO calculations. Moreover, FIFO and LIFO serve the same function - most closely matching the cost of goods sold with the cost of replacement inventory - so eliminating LIFO would force companies which use it into a disadvantaged position vis-à-vis companies for which FIFO is the more economically appropriate method."*

***LIFO Lookout* Comments & Observations**

- In this section, the Coalition is referring to the "Inventory Price Index Computation (IPIC) Method." Many closely-held businesses using LIFO do not use the IPIC method. They use other variations which the IRS also permits under the broad "dollar-value" method principles.
- It might have helped to strengthen the comment that LIFO has been made less complex over the years by referring to the fact that the Internal Revenue Service permits automobile dealers to elect to use safe harbor LIFO computation methods for their new vehicle and/or their used vehicle inventories. These are the Alternative LIFO Methods for new vehicles and for used vehicles available under Rev. Procs. 97-36 and 2001-23, respectively. These Alternative Methods used by many (probably a majority of all) dealers have now eliminated virtually all computational disputes between the IRS and auto dealers using these LIFO methods.

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Response Summary

RESPONSE BY THE LIFO COALITION TO THE OMB DEFENSE OF PRESIDENT OBAMA'S PROPOSAL TO REPEAL THE USE OF THE LIFO METHOD

OMB's Argument #3 ... The LIFO Method Is an Impediment to the Adoption of IFRS in the U.S.

LIFO Coalition Response

- *"The presence of LIFO as a proper method of inventory valuation is not having the slightest effect on the adoption of IFRS in the U.S. All recent news reports indicate that the SEC is leaning towards an "endorsement" model under which the U.S. would continue to evaluate what accounting principles would be acceptable for use in the financial statements of U.S. issuers.*
- *"Moreover, numerous articles in the financial press have highlighted far more serious differences between IFRS and U.S. GAAP than the treatment of the LIFO method.*
- *"Finally, if an initial decision is made by the SEC to require or permit IFRS to be used by U.S. issuers of financial statements, such a decision will simply be the beginning of a long process whereby the two sets of accounting rules will be brought into closer alignment, and that evolutionary process does not mean that the LIFO method will necessarily be prohibited for financial reporting purposes in the U.S."*

***LIFO Lookout* Comments & Observations**

- The Coalition's focus is sharply on retaining LIFO. However, its overall attempt to refute the OMB's position could have been strengthened by stating that the OMB's position that the sanctity of IFRS should be paramount is inconsistent with its revenue proposals which simultaneously call for the repeal LIFO (because LIFO is not acceptable under IFRS) and for the repeal of Lower-of-Cost-or-Market inventory methods (which methods are required under IFRS). See page 13.
- See the attachment *"IFRS vs. U.S. GAAP: Convergence ... Endorsement ... Condorsement"* included with this article and the discussion in the lead article in this Edition of the *Lookout.*

OMB's Argument #4 ... 2-Year Delay in Repeal & 10-Year Spread Period "Seems Reasonable"

LIFO Coalition Response

Repeal of LIFO Would Be an Unwarranted Retroactive Tax Increase

- *" ... The Coalition does not agree with the Administration that a ten-year amortization period for the recovery of the effects of discontinuing the LIFO method in any sense makes the LIFO repeal proposal acceptable.*
- *"It is important to note that the impact of LIFO repeal is not prospective only. Under the proposal, taxpayers also would be required to recapture into taxable income the entire benefit that a taxpayer received from the use of the LIFO method over the taxpayer's entire lifetime, i.e., the LIFO reserve. In fact, most of the revenue generated by this proposal comes from its retroactive effect.*
- *"... While a ten-year amortization of the effect of repeal of the LIFO method might otherwise seem reasonable, it in no way compensates for the double-barreled effect of repeal of LIFO for the future combined with repayment of the benefits of LIFO from the past."*

***LIFO Lookout* Comments & Observations**

- The Coalition response expands its discussion of the adverse retroactive effect of repealing LIFO by comparing it to the elimination of the research credit, the mortgage interest deduction or lower capital gains rates. One might argue that the use of the examples cited weakens the Coalition's position because these are simply examples of favorable tax provisions that reduce taxes, but they are not "timing differences." In other words, over the lifetime of the entity, these examples/provisions result in an absolute reduction of the amount of tax paid.
  - Conversely, the use of LIFO results in a timing difference only; it does not alter the lifetime income of the entity. The weakness of this portion of the Coalition response, which does not mention the constraints of Section 446, might be used by critics to suggest that the Coalition's defense loses validity upon a closer analysis.
  - LIFO only provides tax savings when one factors in the time value of money not paid in taxes over a period of years and by making various assumptions regarding the (effective) rates of tax that would be involved in the years while LIFO is being used. This becomes such a hypothetical argument that reducing it to numbers is simply an exercise in mathematics.

[illegible] LIFO Lookout Comments & Observations are continued on Page 3 of 3)

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Response Summary	**_RESPONSE BY THE LIFO COALITION TO THE OMB DEFENSE OF PRESIDENT OBAMA'S PROPOSAL TO REPEAL THE USE OF THE LIFO METHOD_**

OMB's Argument #4 ... 2-Year Delay in Repeal & 10-Year Spread Period "Seems Reasonable"

(continued)

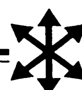
***LIFO Lookout* Comments & Observations** *(continued)*

- ***If LIFO must go...*** If the LIFO Coalition is willing to concede in any way that, "a ten-year amortization of the effect of repeal of the LIFO method might otherwise seem reasonable," then, in my opinion, if one is willing to make the concession that LIFO must go, it should be argued that recapturing the LIFO Reserves into income should not be made using a pro rata spread period.
- Instead, it would be far more fair to allow businesses to use LIFO during that 10-year spread period, but require them to pay back a portion of their LIFO Reserve at the end of each year.
- For example, accepting 10 years as the period over which the use of LIFO would be phased-out, ***at the end of each year***, the amount of the LIFO Reserve to be taken into income would be one-tenth of the balance at the end of the first year, one-ninth at the end of the second year, one-eighth at the end of the third year, one-seventh at the end of the fourth year, etc.
  - By the end of the second to the last year (i.e., the ninth year), one-half of the LIFO Reserve balance would be taken into income ... and in the last year, all of the remaining LIFO Reserve balance would be taken into income.
  - One might make the analogy that this is very similar to the computational approach that individuals with Individual Retirement Accounts (IRAs) are allowed to use in computing their annual Minimum Required Distributions (MRDs), except that the "life expectancy" of the ongoing LIFO Reserve would be 10 years at the start. One difference, of course, is that MRDs are calculated based on the account balance at the beginning of each year.
- Under this - or a similar - approach, at the end of 10 years, affected businesses would have no remaining LIFO Reserves, but the rate of recapture or repayments of the LIFO Reserves over the years would vary in a less severe way.

OBAMA ADMINISTRATION'S FISCAL YEAR 2013 REVENUE PROPOSALS TO PROHIBIT THE USE OF CERTAIN ACCOUNTING METHODS FOR INVENTORIES

Methods (Down) *Elements (Across)*	*Effective Date* *(assuming calendar year taxpayer)*	*Section 481(a) Adjustment Amount*	*Spread Period*
LIFO Method	Starting 2014	LIFO reserve balance as of Dec. 31, 2013	10 years ... ratably
Lower-of-Cost-or-Market Writedowns	Starting 2014	Writedowns from cost to LCM as of Dec. 31, 2013	4 years ... ratably
Subnormal Goods Writedowns	Starting 2014	Writedowns from cost to subnormal goods amount as of Dec. 31, 2013	4 years ... ratably

Source: *General Explanations of the Administration's Fiscal Year 2013 Revenue Proposals.* Department of the Treasury, February 2012 ... Pages 130 (LIFO) & 131 (LCM & Subnormal Goods)



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IFRS vs. U.S. GAAP

Convergence ... Endorsement ... Condorsement

Background	• One of the three basic arguments advocated by proponents of repeal of the LIFO method is that LIFO is not acceptable under International Financial Reporting Standards (IFRS). They then leap to the conclusion that, since LIFO is not acceptable under IFRS, it should be repealed. • The most recent Administration Proposal states the following... *"International Financial Reporting Standards do not permit the use of the LIFO method, and their adoption by the Securities and Exchange Commission (SEC) would cause violations of the current LIFO book/tax conformity requirement. Repealing LIFO would remove this possible impediment to the implementation of these standards in the United States."* • Recently, the SEC has indicated that there is more than a remote possibility that LIFO may be retained under IFRS if the approach for merging IFRS and U.S. GAAP involves "Condorsement."
December 2010	• SEC Deputy Chief Accountant Paul Beswick, in a speech to the AICPA, indicated that as an alternative to either a "Convergence" Approach or an "Endorsement" Approach for merging IFRS and U.S. GAAP reporting principles, another approach - referred to as "Condorsement" - might be considered by the SEC for publicly-held companies. • Under this "Condorsement" approach, U.S. GAAP would continue to exist, and a new set of priorities would be established where the FASB would work to converge existing U.S. GAAP with IFRS over a period of time for standards that were not on the agenda of the International Accounting Standards Board (IASB). ◆ This would entail making sure that existing IFRS standards were suitable for U.S. capital markets on a standard-by-standard basis. ◆ At the same time, the Financial Accounting Standards Board (FASB) would have a process where they would consider new standards issued by the IASB for incorporation into U.S. GAAP and then integrate such standards into the U.S. codification. ◆ One of many significant questions if this approach were adopted is: Should the largest companies reporting to the SEC be required or allowed to move to IFRS prior to the FASB completing its "Condorsement" efforts? • Source: *Speech by SEC Staff: Remarks before the 2010 AICPA National Conference on Current SEC and PCAOB Developments*, by Paul A. Beswick, Deputy Chief Accountant, U.S. Securities and Exchange Commission. ◆ Text of speech is available at http://www.sec.gov/news/speech/2010/spch120610pab.htm.
May 2011	• In a document/whitepaper dated May 26, 2011, an SEC Staff Paper discussed, at length, the "Condorsement" (i.e., the third) Approach for incorporating IFRS into the U.S. Financial Reporting System. • This approach is in essence an "Endorsement" Approach that would share characteristics of the incorporation approaches with other jurisdictions (i.e., non-U.S./SEC jurisdictions) that have incorporated or are incorporating IFRS into their financial reporting systems. ◆ However, during the transitional period, the framework would employ aspects of the "Convergence" Approach to address existing differences between IFRS and U.S. GAAP. ◆ The framework would retain a U.S. standard setter and would facilitate the transition process by incorporating IFRSs into U.S. GAAP over some defined period of time (e.g., five to seven years). • Source: *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers ... Exploring a Possible Method of Incorporation ... A Securities and Exchange Commission Staff Paper - May 26, 2011.*
December 2011	• Further (informal) comments referencing this paper are included in the *Prepared Remarks for the 2011 AICPA National Conference on Current SEC and PCAOB Developments* by Paul A. Beswick, Deputy Chief Accountant of the U.S. Securities and Exchange Commission. December 5, 2011.

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IFRS vs. U.S. GAAP

Convergence ... Endorsement ... Condorsement

#1 ... Convergence Approach

- Under the Convergence Approach, jurisdictions do not directly adopt IFRS as issued by the IASB or incorporate IFRSs into their accounting standards.
- Instead, these jurisdictions maintain their local standards, while at the same time they make efforts to converge those bodies of standards with IFRS over time.
- One example of a country using the Convergence Approach is the People's Republic of China, which is moving its standards closer to IFRS without incorporating IFRS fully into its national financial reporting framework.

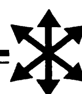
#2 ... Endorsement Approach

- Under the Endorsement approach, jurisdictions incorporate individual IFRSs into their local body of standards.
  - A large number of countries (e.g., countries within the European Union) appear to follow a form of the Endorsement Approach.
- Many of these jurisdictions use stated criteria for endorsement, which are designed to protect stakeholders in these jurisdictions.
  - The degree of deviation from IFRS as issued by the IASB can vary under this approach.
  - In some cases, countries appear to adopt standards exactly as issued by the IASB with a high threshold for any country-specific deviation.
  - In other cases, countries translate IFRS as issued by the IASB into their local language.
- Because words or expressions may not have direct equivalents in some languages, translated versions of IFRS may be understood and applied differently from IFRS as issued by the IASB in English.
- In still other cases, countries make modifications or additions to individual IFRSs upon incorporation for various reasons (e.g., to address the perceived need for country - or industry-specific guidance or to incorporate interpretative guidance previously issued by a jurisdiction's regulator).

#3 ... Condorsement Approach

- This "Condorsement" approach is in essence an Endorsement Approach that would share characteristics of the incorporation approaches with other jurisdictions that have incorporated or are incorporating IFRS into their financial reporting systems.
  - Condorsement was discussed in December 2010 by a member of the SEC Staff at the *2010 AICPA National Conference on Current SEC and PCAOB Developments*.
- However, during the transitional period for blending IFRS and U.S. GAAP, this framework would employ aspects of the Convergence Approach to address existing differences between IFRS and U.S. GAAP.
  - The framework would retain a U.S. standard setter (i.e., the FASB) and would facilitate the transition process by incorporating IFRSs into U.S. GAAP over some defined period of time (e.g., five to seven years).
  - Currently, the SEC recognizes the financial accounting and reporting standards of the FASB as generally accepted for purposes of U.S. financial reporting under Section 19(b) of the *Securities Act of 1933*.
  - At the end of this period, the objective would be that a U.S. issuer compliant with U.S. GAAP should also be able to represent that it is compliant with IFRS as issued by the IASB.
- Incorporation of IFRS through this framework would have the objective of achieving the goal of having a single set of high-quality, globally accepted accounting standards, while doing so in a practical manner that could minimize both the cost and effort needed to incorporate IFRS into the financial reporting system for U.S. issuers.
  - It also would align the United States with other jurisdictions by retaining the authority of the respective National standard setter to establish accounting standards in the United States.
- Some discussions in the SEC *Staff Paper* that have been omitted from this summary are ...
  - Further explanation of the framework and how it may be employed in the United States on an ongoing, "steady state" basis through an explanation of the roles of some of the important groups and organizations that would be involved.
  - Transition framework for incorporating existing IFRSs into U.S. GAAP.
  - Outline of certain benefits and risks that could be associated with the framework.

Source: *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers ... Exploring a Possible Method of Incorporation ... A Securities and Exchange Commission Staff Paper - May 26, 2011.*



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How Big Are Auto Dealers' LIFO Reserves for New Vehicles? ... Our Survey of Inventory & LIFO Reserve Balances

We have updated the survey we conducted 2 years ago which looked at the LIFO reserves for automobile dealerships for whom we had actual LIFO computation information. This time, there are 90 dealerships included in our survey ... and we have broadened frame of reference from 2 years to the 4 years ending December 31, 2011. This look provides some interesting insights as to the impact of the meltdown and financial recession which began in 2008 and from which many dealerships and other businesses have yet to recover.

In other words, this gives a good look at the range of changes in inventory levels and LIFO reserves for these dealerships at the years ended Dec. 31, 2008 - 2009 - 2010 - 2011. Hopefully, this information also provides some insight as to how the repeal of LIFO might affect some auto dealerships, virtually all of whom are under significant pressure from their manufacturers to upgrade, modernize or expand their facilities if they have not already done so.

Statistical sampling procedures were not employed in the selection of the 90 dealerships included in this updated survey. These dealerships were included simply because comparative data is available for all years. These dealerships are located all over the country, and collectively, they sell (not in any proportion) all manufacturers' makes and models.

The data collected in our survey only includes the dealerships' new vehicle ending inventory at cost as of Dec. 31, 2007 through 2011, and the LIFO reserve balances as of those dates. From this, we have computed the increases/decreases (absolute and percentage), comparing year-end inventory levels and LIFO reserves.

Our survey of these closely-held dealerships is based on the LIFO computations we have done for their new vehicle inventories in accordance with the Alternative LIFO Method for New Vehicles. In other words, the LIFO computations for these dealerships are all consistent in the respect that they have all been done in accordance with the requirements set forth in Revenue Procedure 97-36.

Some of the dealerships have elected to use the Vehicle-Pool Method (under Rev. Proc. 2008-23) which permits them to combine what were previously two, separate LIFO pools - one for new automobiles and the other for new light-duty trucks - into a single, combined pool for all new vehicles. Other dealerships, for one reason or another, have not elected to combine their LIFO pools.

As of Dec. 31, 2011, almost two-thirds of the dealerships (i.e., 59) had changed to the single, combined Vehicle-Pool Method. The other 31 dealerships had not elected to change to the Vehicle-Pool Method (i.e., these dealerships maintained two separate LIFO pools ... Pool #1 for new automobiles and Pool #2 for new light-duty trucks). Whether or not these dealerships changed to the single, combined pool method is not relevant to this survey.

For those 31 dealerships that had not elected to change to the Vehicle-Pool Method as of Dec. 31, 2011, the LIFO inventory cost amounts for both pools were added together, and the LIFO reserve amounts for both pools were added together. Therefore, as stated above, the difference in pooling method for the dealerships is not relevant to the information collected in this survey, nor does it impact the computation of the ratio of the LIFO reserve to the inventory cost at the end of the year. (However, the difference in pooling does affect the underlying LIFO layer history structure and the rate of LIFO recapture potential associated with each layer.)

Inconsistency of dealerships in eliminating trade discounts, etc., from inventory cost. There is also a slight inconsistency in the overall comparability for the information presented for the dealerships. Some of the dealerships have reduced their ending inventory amounts to eliminate trade discounts, floorplan assistance payments and certain (local or regional) advertising payments. Other dealerships have not, and the ending inventory amounts for these dealerships have not been adjusted (by a reduction of approximately 2%) to reflect an estimate to make the inventory amounts and the percentage calculations slightly more comparable.

Since we are not the accountants for these dealerships - we provide only LIFO calculations - we are unable to provide information relating the absolute amounts of the LIFO reserves to other financial statement information for the dealerships. This other information could include the relationships of the LIFO reserves at year-end to each dealership's (1) net income, (2) total assets, (3) cash flow, and/or (4) other selected operating ratios.

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How Big Are Auto Dealers' LIFO Reserves for New Vehicles? ... Our Survey of Inventory & LIFO Reserve Balances

Most Important Difference Among the Dealerships

The single most important difference affecting comparability observations for these dealerships is that they have elected LIFO at different points in time. Technically speaking, they have different base years, and their LIFO elections have not all been in effect for the same number of years. Some dealerships have been on LIFO since the early '70s ... some have elected LIFO in the '80s ... some in the '90s, etc.

Furthermore, some dealerships that elected LIFO many years ago when they were operating for tax purposes as C corporations changed to operate as S corporations - either in 1986 or shortly thereafter. Other dealerships that elected LIFO when they were C corporations did not make the change to S status shortly after 1986, but they held off until some later year when changes in their size, scope, and/or methods of operation made it more practical for tax purposes to elect S status in order to obtain other, more significant tax benefits ... even though that change to S status was made at the cost of recapturing their entire LIFO reserves as of the end of their last C corporation year. Then they started building up LIFO reserves all over again, at that time, from zero.

Most of these dealerships continued on LIFO with their first S corporation year. Therefore, their LIFO reserve balances reflect a much, later start on LIFO. What is important to recognize here is that the use of the LIFO method (by these dealerships converting to S status at later dates) provided enormous cash flow benefits in previous years, even though these LIFO reserves had to be repaid in order for the dealership to elect S status.

What Can Be Said About the Results?

The dissimilarities, including the difference in periods of time that these dealerships have been on LIFO, coupled with the diversity of manufacturers new vehicles sold by the dealerships, could be argued to support the conclusion that this sample is representative of a far larger number of dealerships. The greater diversity of the individual dealerships is what strengthens its representativeness of a larger number of dealerships.

After analyzing these dealerships and their data included in our survey, I am reasonably confident that, despite the disparity of the dealerships (and their respective LIFO histories) reflected in our survey, if any other CPA firm were to draw a comparable composite of 50, 100, 250 or more of their dealerships on LIFO ... the overall results would not be significantly different from the results of our survey.

These are the same conclusions what were drawn from our survey 2 years ago which involved 2008-2009.

On the following pages, ***Exhibit 1*** presents the dealership listing ranked by size of the Dec. 31, 2011 ending inventory levels ... i.e., the levels at the end of the 4-year period under review. ***Exhibit 2*** presents the same data for the same dealerships, this time ranked by size of the Dec. 31, 2007 ending inventory levels ... i.e., as of Dec. 31, 2007 / Jan. 1, 2008 - the levels at the beginning of the 4-year period under review. Totals appear at the bottom of each Exhibit.

Conclusions ... 2007 - 2011 Survey & Observations

(1) At Dec. 31, 2011, the ***end*** of the 4-year period under review, LIFO reserves for new vehicle inventories averaged 18.7% of ending inventory cost (on a collective, weighted-average basis).

(2) At Dec. 31, 2007, the ***beginning*** of the 4-year period under review, LIFO reserves for new vehicle inventories averaged 13.1% of ending inventory cost (on a collective, weighted-average basis).

(3) Collectively, inventory levels as of Dec. 31, 2011 were almost 17% lower than inventory levels at the beginning of 2008. The table shows 16.88% ($92,077,585 ÷ 545,391,606).

(4) However, the overall effective rate of net increase in LIFO reserve balances (expressed as a percentage of inventory levels at the beginning of 2008) was 19% ... even though the overall effective rate of net decline in inventory levels was 17%.

(5) Notwithstanding the considerable LIFO recapture of some dealerships' LIFO reserves during the period under review, the overall net increase in the LIFO reserves expressed as a percent of ending inventory cost at the end of 2011 (i.e., 19%) is what one would expect because inventory levels at Dec. 31, 2011 (i.e., $453 million) were lower than they were at Dec. 31, 2007 (i.e., $545 million), the beginning of the period under review.

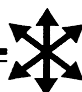

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EXHIBIT I Page 1 of 2

LIFO Reserves for Automobile Dealership New Vehicle Inventories

Based on a Sample of 90 Dealerships (* Indicates Vehicle-Pool Method ... † Indicates Addition of Two Separate Pools)

For the 4-Year Period 2008 - 2009 - 2010 - 2011 ... Ranked by Size of Dec. 31, 2011 Ending Inventory ... Exhibit I

	Dec. 31, 2007 / Jan 1, 2008			Dec. 31, 2008			Dec. 31, 2009			Dec. 31, 2010			Dec. 31, 2011			Net Change in Ending Inventory 12/31/07 - 12/31/11		Net Change in LIFO Reserve 12/31/07 - 12/31/11	
	Single, Combined Pool - All New Vehicles			Single, Combined Pool - All New Vehicles			Single, Combined Pool - All New Vehicles			Single, Combined Pool - All New Vehicles			Single, Combined Pool - All New Vehicles						
#	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Amount	%	Amount	%
27	25,932,924	4,234,154 †	16.33%	26,558,800	4,934,140 *	18.58%	20,018,749	4,547,992 *	22.72%	29,282,725	4,839,571 *	16.53%	41,437,286	5,324,488 *	12.85%	15,504,362	59.79%	1,090,334	25.75%
52	20,770,632	3,105,528 *	14.95%	19,466,053	3,884,508 *	19.96%	10,557,251	3,517,706 *	33.32%	15,142,729	3,667,007 *	24.22%	19,800,588	3,852,604 *	19.46%	(970,044)	-4.67%	747,076	24.06%
37	20,473,653	816,052 *	3.99%	22,132,739	1,297,788 *	5.86%	14,857,949	1,429,233 *	9.62%	19,413,499	1,742,769 *	8.98%	15,081,941	1,990,642 *	13.20%	(5,391,712)	-26.33%	1,174,590	143.94%
8	12,982,769	1,984,264 †	15.28%	18,589,045	2,272,573 †	12.23%	16,830,086	2,357,557 *	14.01%	20,369,485	2,586,333 *	12.70%	13,161,691	2,800,861 *	21.28%	178,922	1.38%	816,597	41.15%
75	10,258,617	3,308,210 *	32.25%	15,366,379	3,625,302 *	23.59%	14,398,969	3,774,858 *	26.22%	14,562,604	3,826,414 *	26.28%	12,815,110	3,924,330 *	30.62%	2,556,493	24.92%	616,120	18.62%
90	16,518,723	963,954 †	5.84%	21,379,740	1,264,680 †	5.92%	15,492,052	1,369,006 *	8.84%	14,816,860	1,326,677 *	8.95%	12,554,146	1,358,852 *	10.82%	(3,964,577)	-24.00%	394,898	40.97%
16	13,829,794	1,858,895 *	13.44%	14,396,129	2,161,630 *	15.02%	12,411,785	2,393,889 *	19.29%	13,284,423	2,504,353 *	18.85%	11,972,909	2,564,206 *	21.42%	(1,856,885)	-13.43%	705,311	37.94%
73	15,048,975	1,397,185 †	9.28%	17,438,539	2,070,628 *	11.87%	9,347,754	2,225,543 *	23.81%	11,824,212	2,275,907 *	19.25%	11,424,989	2,500,693 *	21.89%	(3,623,986)	-24.08%	1,103,508	78.98%
38	9,862,327	2,220,784 †	22.52%	12,004,988	2,558,642 †	21.31%	8,399,154	2,261,736 †	26.93%	7,592,548	2,317,227 *	30.52%	10,168,846	2,451,427 *	24.11%	306,519	3.11%	230,643	10.39%
15	6,980,122	917,211 *	13.14%	5,671,226	971,300 *	17.13%	3,230,522	705,611 *	21.84%	4,861,964	754,330 *	15.51%	9,968,670	824,531 *	8.27%	2,988,548	42.82%	(92,680)	-10.10%
81	5,286,366	257,085 †	4.86%	8,931,779	357,064 †	4.00%	10,448,997	385,378 †	3.69%	8,695,980	454,671 *	5.23%	9,342,353	623,692 *	6.68%	4,055,987	76.73%	366,607	142.60%
13	6,835,991	709,280 †	10.38%	10,414,193	846,785 †	8.13%	6,097,629	939,819 *	15.41%	13,276,002	1,019,228 *	7.68%	8,468,103	1,243,573 *	14.69%	1,632,112	23.88%	534,293	75.33%
76	14,774,920	579,510 †	3.92%	15,741,658	849,128 †	5.39%	9,263,007	880,719 *	9.51%	12,882,815	1,001,525 *	7.77%	8,436,652	1,166,674 *	13.83%	(6,338,268)	-42.90%	587,164	101.32%
18	7,434,147	1,221,900 *	16.44%	6,372,364	1,331,029 *	20.89%	3,376,999	1,092,581 *	32.35%	4,546,743	1,124,676 *	24.74%	8,251,056	1,195,636 *	14.49%	816,909	10.99%	(26,264)	-2.15%
71	5,889,913	457,361 †	7.77%	6,200,220	579,048 †	9.34%	4,106,535	608,132 †	14.81%	7,121,345	664,445 †	9.33%	8,155,856	874,018 †	10.72%	2,265,943	38.47%	416,657	91.10%
24	14,133,039	1,761,394 †	12.46%	13,033,828	2,022,807 †	15.52%	5,904,856	1,621,540 *	27.46%	8,523,079	1,685,817 *	19.78%	7,494,730	1,817,493 *	24.25%	(6,638,309)	-46.97%	56,099	3.18%
69	8,699,307	216,846 †	2.49%	8,524,059	392,441 †	4.60%	8,255,841	391,311 *	4.74%	6,806,130	438,468 *	6.44%	7,344,511	669,191 *	9.11%	(1,354,796)	-15.57%	452,345	208.60%
45	12,195,276	1,300,210 †	10.66%	8,344,735	1,439,471 *	17.25%	6,329,266	1,371,880 *	21.68%	5,553,606	1,377,439 *	24.80%	7,002,119	1,512,118 *	21.60%	(5,193,157)	-42.58%	211.908	16.30%
3	6,949,226	2,142,905 †	30.84%	6,527,547	2,312,980 †	35.43%	4,252,441	2,047,741 †	48.15%	4,813,848	2,094,609 *	43.51%	6,781,084	2,147,270 *	31.67%	(168,142)	-2.42%	4,365	0.20%
28	12,864,003	1,041,684 †	8.10%	12,538,181	1,254,159 †	10.00%	8,139,036	1,312,764 *	16.13%	10,441,049	1,439,964 *	13.79%	6,778,638	1,522,168 *	22.46%	(6,085,365)	-47.31%	480,484	46.13%
6	2,161,608	308,509 *	14.27%	3,406,508	403,117 *	11.83%	4,665,505	589,346 *	12.63%	4,682,785	631,358 *	13.48%	6,476,335	691,941 *	10.68%	4,314,727	199.61%	383,432	124.29%
41	9,601,127	3,572 †	0.04%	5,347,675	221,767 †	4.15%	2,001,120	165,488 †	8.27%	6,721,145	172,706 †	2.57%	6,246,981	306,547 *	4.91%	(3,354,146)	-34.93%	302.975	8481.94%
2	13,574,896	2,755,861 *	20.30%	12,394,509	3,231,323 *	26.07%	6,116,665	3,063,230 *	50.08%	8,169,378	3,146,541 *	38.52%	6,134,144	3,242,279 *	52.86%	(7,440,752)	-54.81%	486,418	17.65%
34	3,650,948	1,141,716 †	31.27%	3,921,133	1,304,503 †	33.27%	1,120,306	716,680 *	63.97%	3,989,762	723,065 *	18.12%	6,065,376	808,541 *	13.33%	2,414,428	66.13%	(333,175)	-29.18%
54	12,076,440	944,533 †	7.82%	14,836,727	1,174,971 †	7.92%	9,314,324	1,217,941 *	13.08%	12,878,717	1,320,235 *	10.25%	5,699,738	1,187,834 *	20.84%	(6,376,702)	-52.80%	243,301	25.76%
57	6,580,684	262,142 *	3.98%	5,763,131	399,384 *	6.93%	6,196,245	514,134 *	8.30%	6,478,169	655,268 *	10.12%	5,613,374	696,288 *	12.40%	(967,310)	-14.70%	434,146	165.61%
4	6,078,140	224,258 †	3.69%	7,294,521	406,472 †	5.57%	3,263,340	292,294 †	8.96%	3,157,460	322,746 †	10.22%	5,559,145	412,624 †	7.42%	(518,995)	-8.54%	188,366	84.00%
19	5,889,883	328,217 *	5.57%	4,488,052	410,413 *	9.14%	3,882,248	510,663 *	13.15%	3,181,648	547,902 *	17.22%	5,485,491	612,234 *	11.16%	(404,392)	-6.87%	284,017	86.53%
61	4,735,313	676,854 †	14.29%	5,685,394	815,893 †	14.35%	5,759,469	989,490 †	17.18%	4,695,715	1,038,032 †	22.11%	5,177,072	1,134,024 †	21.90%	441,759	9.33%	457,170	67.54%
17	5,085,837	718,209 *	14.12%	3,709,253	722,627 *	19.48%	4,020,193	842,926 *	20.97%	5,166,671	894,162 *	17.31%	5,137,162	958,425 *	18.66%	51,325	1.01%	240,216	33.45%
33	5,753,912	85,506 †	1.49%	7,670,583	260,259 †	3.39%	4,428,286	383,696 †	8.66%	4,401,681	409,319 †	9.30%	4,977,041	513,372 †	10.31%	(776,871)	-13.50%	427,866	500.39%
88	10,600,931	606,018 †	5.72%	8,291,183	775,027 †	9.35%	4,989,073	799,147 †	16.02%	6,728,237	886,350 †	13.17%	4,859,491	958,705 †	19.73%	(5,741,440)	-54.16%	352,687	58.20%
9	8,308,169	117,287 †	1.41%	11,395,246	248,047 †	2.18%	9,780,357	368,451 *	3.77%	7,504,530	374,403 *	4.99%	4,828,490	280,365 *	5.81%	(3,479,679)	-41.88%	163,078	139.04%
85	3,630,152	8,164 †	0.22%	3,259,358	87,985 †	2.70%	1,381,698	76,310 †	5.52%	3,202,762	110,359 †	3.45%	4,565,908	178,220 †	3.90%	935,756	25.78%	170,056	2083.00%
83	6,411,336	212,867 †	3.32%	6,763,631	324,961 †	4.80%	3,826,348	307,788 †	8.04%	7,810,499	352,519 *	4.51%	4,559,664	494,352 *	10.84%	(1,851,672)	-28.88%	281,485	132.24%
1	5,038,281	1,037,274 †	20.59%	4,457,247	1,203,833 *	27.01%	2,841,031	1,170,462 *	41.20%	3,614,553	1,188,775 *	32.89%	4,456,161	1,256,122 *	28.19%	(582,120)	-11.55%	218,848	21.10%
60	3,094,272	747,983 †	24.17%	2,030,289	514,155 †	25.32%	2,107,610	565,433 †	26.83%	2,416,109	633,041 †	26.20%	4,318,463	678,235 †	15.71%	1,224,191	39.56%	(69,748)	-9.32%
21	5,833,602	332,362 †	5.70%	5,206,045	396,273 †	7.61%	3,957,768	713,930 *	18.04%	2,788,893	606,799 *	21.76%	4,315,530	638,265 *	14.79%	(1,518,072)	-26.02%	305,903	92.04%
43	6,877,625	102,835 †	1.50%	7,496,475	235,193 †	3.14%	6,942,457	361,509 †	5.21%	10,092,902	450,338 †	4.46%	4,296,071	446,474 *	10.39%	(2,581,554)	-37.54%	343,639	334.17%
65	6,733,971	2,736,385 †	40.64%	3,957,457	2,282,186 †	57.67%	3,735,055	2,321,240 †	62.15%	4,366,156	2,427,224 †	55.59%	4,271,147	2,478,325 †	58.02%	(2,462,824)	-36.57%	(258,060)	-9.43%
26	3,678,525	958,220 *	26.05%	4,805,242	1,196,382 *	24.90%	2,906,428	1,174,939 *	40.43%	5,201,919	1,177,190 *	22.63%	3,990,636	1,246,406 *	31.23%	312,111	8.48%	288,186	30.08%
23	3,504,188	1,356,462 †	38.71%	2,352,795	1,191,367 †	50.64%	1,371,179	773,885 †	56.44%	2,114,929	819,505 †	38.75%	3,863,999	851,886 †	22.05%	359,811	10.27%	(504,576)	-37.20%
7	4,057,559	1,855,596 †	45.73%	3,210,901	1,479,689 †	46.08%	2,666,278	1,514,721 †	56.81%	3,354,984	1,532,423 †	45.68%	3,720,282	1,613,762 †	43.38%	(337,277)	-8.31%	(241,834)	-13.03%
87	8,106,341	257,302 †	3.17%	6,392,181	397,862 †	6.22%	2,817,638	357,043 †	12.67%	4,533,873	403,749 †	8.91%	3,689,091	498,486 †	13.51%	(4,417,250)	-54.49%	241.184	93.74%
11	2,079,781	490,660 †	23.59%	2,575,693	572,761 †	22.24%	3,011,263	629,061 *	20.89%	3,254,956	739,156 *	22.71%	3,640,291	800,123 *	21.98%	1,560,510	75.03%	309.463	63.07%
39	6,601,607	1,853,675 †	28.08%	3,874,109	1,660,008 †	42.85%	3,503,764	1,671,703 †	47.71%	2,511,750	1,290,278 †	51.37%	3,585,413	1,341,933 †	37.43%	(3,016,194)	-45.69%	(511,742)	-27.61%
44	1,271,750	166,086 *	13.06%	1,426,181	250,721 *	17.58%	1087099	247993 *	22.81%	2,407,768	251,462 *	10.44%	3,577,356	305,966 *	8.55%	2,305,606	181.29%	139,880	84.22%
82	4,255,303	134,075 †	3.15%	6,313,887	187,844 †	2.98%	4,300,270	241,314 †	5.61%	3,714,761	297,900 *	8.02%	3,505,688	382,822 *	10.92%	(749,615)	-17.62%	248,747	185.53%
25	5,304,279	1,698,642 *	32.02%	5,265,406	1,833,003 *	34.81%	4,182,902	1,864,716 *	44.58%	5,048,336	1,874,518 *	37.13%	3,401,395	1,785,181 *	52.48%	(1,902,884)	-35.87%	86.539	5.09%
49	1,040,300	59,892 †	5.76%	1,976,227	85,703 †	4.34%	3,423,840	98,043 †	2.86%	2,906,123	138,995 †	4.78%	3,307,749	217,790 †	6.58%	2,267,449	217.96%	157.898	263.64%
77	4,131,965	137,888 †	3.34%	6,653,252	186,459 †	2.80%	1,924,832	172,382 *	8.96%	4,493,399	208,171 *	4.63%	3,176,240	235,188 *	7.40%	(955,725)	-23.13%	97,300	70.56%
32	5,440,463	2,288,756 †	42.07%	12,288,218	2,398,089 †	19.52%	5,662,262	2,422,733 †	42.79%	4,575,254	1,378,036 †	30.12%	3,150,707	960,359 †	30.48%	(2,289,756)	-42.09%	(1,328,397)	-58.04%
Forward to Page 2	428,909,912	55,102,218		454,140,711	63,284,380		318,905,731	62,373,687		389,977,470	64,143,955		382,092,909	68,577,541		(46,817,003)		13,475,323	

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LIFO Reserves for Automobile Dealership New Vehicle Inventories

Based on a Sample of 90 Dealerships (* Indicates Vehicle-Pool Method ... † Indicates Addition of Two Separate Pools)

For the 4-Year Period 2008 - 2009 - 2010 - 2011 ... Ranked by Size of Dec. 31, 2011 Ending Inventory ... Exhibit I

EXHIBIT I

#	Dec. 31, 2007 / Jan 1, 2008 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Dec. 31, 2008 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Dec. 31, 2009 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Dec. 31, 2010 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Dec. 31, 2011 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Net Change in Ending Inventory 12/31/07 - 12/31/11: Amount	%	Net Change in LIFO Reserve 12/31/07 - 12/31/11: Amount	%
Carried from Page 1	428,909,912	55,102,218		454,140,711	63,284,380		318,905,731	62,373,687		389,977,470	64,143,955		382,092,909	68,577,541		(46,817,003)		13,475,323	
20	4,471,181	510,158 *	11.41%	1,970,313	447,625 *	22.72%	2,039,269	500,521 *	24.54%	2,364,596	566,513 *	23.96%	2,941,344	612,225 *	20.81%	(1,529,837)	-34.22%	102,067	20.01%
30	2,947,287	421,245 *	14.29%	3,197,333	535,837 *	16.76%	2,926,299	602,063 *	20.57%	3,444,874	665,189 *	19.31%	2,751,291	689,782 *	25.07%	(195,996)	-6.65%	268,537	63.75%
14	5,209,435	752,074 †	14.44%	3,275,219	827,600 †	25.27%	4,542,014	963,630 †	21.22%	2,730,442	956,655 †	35.04%	2,683,840	994,027 *	37.04%	(2,525,595)	-48.48%	241,953	32.17%
56	4,067,616	759,422 †	18.67%	3,162,365	755,103 †	23.88%	1,567,920	468,334 †	29.87%	1,551,366	444,338 †	28.64%	2,681,702	474,357 †	17.69%	(1,385,914)	-34.07%	(285,065)	-37.54%
84	2,685,775	598,986 *	22.30%	2,218,863	609,322 *	27.46%	2,142,115	658,069 *	30.72%	2,084,758	680,980 *	32.66%	2,616,177	698,908 *	26.71%	(69,598)	-2.59%	99,922	16.68%
72	4,767,943	180,497 †	3.79%	3,513,415	294,044 †	8.37%	3,645,284	294,155 †	8.07%	4,415,198	287,216 †	6.51%	2,466,433	258,312 †	10.47%	(2,301,510)	-48.27%	77,815	43.11%
80	3,639,644	1,228,160 †	33.74%	2,694,945	1,244,724 †	46.19%	2,064,768	1,092,545 †	52.91%	2,432,161	1,098,572 †	45.17%	2,434,733	1,046,900 †	43.00%	(1,204,911)	-33.11%	(181,260)	-14.76%
68	2,857,429	1,664,749 †	58.26%	2,242,034	1,593,341 *	71.07%	1,599,901	1,159,174 *	72.45%	1,446,810	1,050,775 *	72.63%	2,404,598	1,081,070 *	44.96%	(452,831)	-15.85%	(583,679)	-35.06%
47	1,711,094	152,647 †	8.92%	1,582,182	202,649 †	12.81%	1,841,817	226,396 †	12.29%	1,962,345	290,930 †	14.83%	2,372,127	325,981 †	13.74%	661,033	38.63%	173,334	113.55%
50	1,737,457	963,540 †	55.46%	2,079,708	1,020,967 †	49.09%	1,902,713	1,049,256 *	55.15%	1,648,072	1,081,867 *	65.64%	2,275,179	1,121,352 *	49.29%	537,722	30.95%	157,812	16.38%
67	2,661,237	631,466 †	23.73%	2,450,711	717,578 †	29.28%	1,062,715	445,543 *	41.92%	2,305,420	455,095 *	19.74%	2,208,894	472,095 *	21.37%	(452,343)	-17.00%	(159,371)	-25.24%
31	3,943,229	787,092 †	19.96%	5,404,438	930,367 †	17.21%	1,895,465	596,021 †	31.44%	2,033,656	611,874 †	30.09%	2,100,507	637,898 †	30.37%	(1,842,722)	-46.73%	(149,194)	-18.96%
58	5,300,355	568,499 †	10.73%	2,267,602	523,232 †	23.07%	3,046,147	531,665 †	17.45%	2,427,953	506,521 †	20.86%	2,093,040	514,949 *	24.60%	(3,207,315)	-60.51%	(53,550)	-9.42%
48	4,184,855	504,914 †	12.07%	5,511,399	559,988 †	10.16%	5,703,891	682,501 †	11.97%	4,963,817	716,933 *	14.44%	2,060,751	454,942 *	22.08%	(2,124,104)	-50.76%	(49,972)	-9.90%
64	3,120,626	714,579 †	22.90%	1,942,228	656,434 †	33.80%	1,239,591	517,647 †	41.76%	1,895,075	525,365 †	27.72%	1,996,693	525,339 †	26.31%	(1,123,933)	-36.02%	(189,240)	-26.48%
22	2,866,476	751,250 †	26.21%	3,294,021	908,775 †	27.59%	1,314,380	701,481 *	53.37%	1,780,635	702,569 *	39.46%	1,994,304	749,621 *	37.59%	(872,172)	-30.43%	(1,629)	-0.22%
36	5,562,106	167,725 *	3.02%	7,486,306	260,989 *	3.49%	2,344,496	209,898 *	8.95%	2,740,101	223,662 *	8.16%	1,950,054	212,446 *	10.89%	(3,612,052)	-64.94%	44,721	26.66%
40	3,781,311	583,290 †	15.43%	6,408,579	645,766 *	10.08%	6,045,786	721,355 *	11.93%	5,351,055	752,963 *	14.07%	1,948,373	641,423 *	32.92%	(1,832,938)	-48.47%	58,133	9.97%
51	4,623,232	38,258 †	0.83%	5,702,068	105,711 †	1.85%	2,662,536	92,595 †	3.48%	3,428,173	111,315 †	3.25%	1,904,332	89,493 †	4.70%	(2,718,900)	-58.81%	51,235	133.92%
12	2,296,653	155,331 †	6.76%	2,454,310	184,469 †	7.52%	987,452	181,838 *	18.41%	2,563,830	197,362 *	7.70%	1,854,503	252,089 *	13.59%	(442,150)	-19.25%	96,758	62.29%
86	5,538,725	357,810 †	6.46%	6,788,401	481,756 †	7.10%	2,498,063	434,044 †	17.38%	3,910,119	480,007 †	12.28%	1,819,759	470,451 †	25.85%	(3,718,966)	-67.14%	112,641	31.48%
35	1,927,362	838,894 †	43.53%	1,622,796	773,793 *	47.68%	1,156,309	635,025 *	54.92%	1,727,066	652,257 *	37.77%	1,804,547	681,350 *	37.76%	(122,815)	-6.37%	(157,544)	-18.78%
70	1,203,643	180,707 †	15.01%	2,008,393	189,189 †	9.42%	2,609,296	217,748 †	8.35%	1,712,533	208,671 †	12.18%	1,712,734	228,129 †	13.32%	509,091	42.30%	47,422	26.24%
78	1,608,918	32,413 †	2.01%	1,393,554	44,424 †	3.19%	1,158,259	40,208 †	3.47%	1,942,099	50,305 †	2.59%	1,635,923	65,166 †	3.98%	27,005	1.68%	32,753	101.05%
29	1,814,830	302,142 †	16.65%	2,036,186	341,418 †	16.77%	1,336,819	333,368 †	24.94%	1,361,477	350,229 †	25.72%	1,611,544	385,232 †	23.90%	(203,286)	-11.20%	83,090	27.50%
5	3,495,492	202,604 †	5.80%	1,976,284	178,928 †	9.05%	1,645,403	192,932 †	11.73%	1,602,993	258,301 †	16.11%	1,601,209	253,566 †	15.84%	(1,894,283)	-54.19%	50,962	25.15%
10	2,786,731	132,766 †	4.76%	3,483,649	187,543 †	5.38%	1,899,944	168,980 *	8.89%	1,737,735	170,666 *	9.82%	1,599,991	215,045 *	13.44%	(1,186,740)	-42.59%	82,279	61.97%
66	2,305,223	110,779 †	4.81%	1,335,982	118,124 †	8.84%	1,206,753	115,790 †	9.60%	1,177,390	121,801 †	10.35%	1,515,843	145,151 †	9.58%	(789,380)	-34.24%	34,372	31.03%
89	1,996,221	167,082 *	8.37%	2,524,019	205,451 *	8.14%	1,597,591	218,444 *	13.67%	2,579,612	228,593 *	8.86%	1,467,264	233,027 *	15.88%	(528,957)	-26.50%	65,945	39.47%
53	1,475,632	49,330 †	3.34%	1,330,645	83,101 †	6.25%	475,397	45,866 †	9.65%	1,159,632	58,587 †	5.05%	1,443,320	75,859 †	5.26%	(32,312)	-2.19%	26,529	53.78%
59	2,733,202	115,780 *	4.24%	2,275,742	179,348 *	7.88%	1,483,063	179,059 *	12.07%	2,061,537	197,731 *	9.59%	1,425,647	226,146 *	15.86%	(1,307,555)	-47.84%	110,366	95.32%
55	2,228,230	423,581 †	19.01%	2,174,014	448,067 †	20.61%	1,311,088	365,532 †	27.88%	763,819	243,435 †	31.87%	1,372,416	246,709 †	17.98%	(855,814)	-38.41%	(176,872)	-41.76%
74	4,353,725	274,067 †	6.30%	4,438,870	427,410 *	9.63%	2,933,232	326,184 *	11.12%	2,311,618	276,191 *	11.95%	1,331,035	178,429 *	13.41%	(3,022,690)	-69.43%	(95,638)	-34.90%
42	3,472,961	55,423 †	1.60%	1,257,506	35,863 †	2.85%	1,672,567	31,715 †	1.90%	1,516,857	48,508 †	3.20%	1,208,889	62,474 *	5.17%	(2,264,072)	-65.19%	7,051	12.72%
63	3,354,270	328,828 †	9.80%	1,579,347	368,309 †	23.32%	2,120,424	427,515 †	20.16%	1,344,036	432,329 †	32.17%	1,141,938	448,938 *	39.31%	(2,212,332)	-65.96%	120,110	36.53%
79	1,286,199	88,370 †	6.87%	1,841,521	105,691 †	5.74%	1,748,770	122,272 †	6.99%	1,795,389	134,361 †	7.48%	1,116,407	119,872 †	10.74%	(169,792)	-13.20%	31,502	35.65%
62	1,085,211	48,443 †	4.46%	1,701,332	52,101 *	3.06%	845,671	54,544 *	6.45%	1,064,289	62,958 *	5.92%	857,913	67,478 *	7.87%	(227,298)	-20.95%	19,035	39.29%
46	1,380,178	297,148 †	21.53%	866,373	264,216 †	30.50%	993,981	268,670 †	27.03%	657,270	238,780 †	36.33%	815,858	249,517 †	30.58%	(564,320)	-40.89%	(47,631)	-16.03%
	545,391,606	71,242,267	13.06%	563,633,364	80,793,633	14.33%	398,172,920	78,246,270	19.65%	473,973,278	80,284,359	16.94%	453,314,021	84,783,289	18.70%	(92,077,585)	-16.88%	13,541,022	19.01%
			(2)												(1)		(3)		(4)

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LIFO Reserves for Automobile Dealership New Vehicle Inventories

Based on a Sample of 90 Dealerships (* Indicates Vehicle-Pool Method ... † Indicates Addition of Two Separate Pools)

For the 4-Year Period 2008 - 2009 - 2010 - 2011 ... Ranked by Size of Dec. 31, 2007 Ending Inventory ... Exhibit II

EXHIBIT II

#	Dec. 31, 2007 / Jan 1, 2008 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Dec. 31, 2008 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Dec. 31, 2009 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost
27	25,932,924	4,234,154 †	16.33%	26,558,800	4,934,140 *	18.58%	20,018,749	4,547,992 *	22.72%
52	20,770,632	3,105,528 *	14.95%	19,466,053	3,884,508 *	19.96%	10,557,251	3,517,706 *	33.32%
37	20,473,653	816,052 *	3.99%	22,132,739	1,297,788 *	5.86%	14,857,949	1,429,233 *	9.62%
90	16,518,723	963,954 †	5.84%	21,379,740	1,264,680 †	5.92%	15,492,052	1,369,006 *	8.84%
73	15,048,975	1,397,185 †	9.28%	17,438,539	2,070,628 *	11.87%	9,347,754	2,225,543 *	23.81%
76	14,774,920	579,510 †	3.92%	15,741,658	849,128 †	5.39%	9,263,007	880,719 *	9.51%
24	14,133,039	1,761,394 †	12.46%	13,033,828	2,022,807 †	15.52%	5,904,856	1,621,540 *	27.46%
16	13,829,794	1,858,895 *	13.44%	14,396,129	2,161,630 *	15.02%	12,411,785	2,393,889 *	19.29%
2	13,574,896	2,755,861 *	20.30%	12,394,509	3,231,323 *	26.07%	6,116,665	3,063,230 *	50.08%
8	12,982,769	1,984,264 †	15.28%	18,589,045	2,272,573 †	12.23%	16,830,086	2,357,557 *	14.01%
28	12,864,003	1,041,684 †	8.10%	12,538,181	1,254,159 †	10.00%	8,139,036	1,312,764 *	16.13%
45	12,195,276	1,300,210 †	10.66%	8,344,735	1,439,471 *	17.25%	6,329,266	1,371,880 *	21.68%
54	12,076,440	944,533 †	7.82%	14,836,727	1,174,971 †	7.92%	9,314,324	1,217,941 *	13.08%
88	10,600,931	606,018 †	5.72%	8,291,183	775,027 †	9.35%	4,989,073	799,147 †	16.02%
75	10,258,617	3,308,210 *	32.25%	15,366,379	3,625,302 *	23.59%	14,398,969	3,774,858 *	26.22%
38	9,862,327	2,220,784 †	22.52%	12,004,988	2,558,642 †	21.31%	8,399,154	2,261,736 †	26.93%
41	9,601,127	3,572 †	0.04%	5,347,675	221,767 †	4.15%	2,001,120	165,488 †	8.27%
69	8,699,307	216,846 †	2.49%	8,524,059	392,441 †	4.60%	8,255,841	391,311 *	4.74%
9	8,308,169	117,287 †	1.41%	11,395,246	248,047 †	2.18%	9,780,357	368,451 *	3.77%
87	8,106,341	257,302 †	3.17%	6,392,181	397,862 †	6.22%	2,817,638	357,043 †	12.67%
18	7,434,147	1,221,900 *	16.44%	6,372,364	1,331,029 *	20.89%	3,376,999	1,092,581 *	32.35%
15	6,980,122	917,211 *	13.14%	5,671,226	971,300 *	17.13%	3,230,522	705,611 *	21.84%
3	6,949,226	2,142,905 †	30.84%	6,527,547	2,312,980 †	35.43%	4,252,441	2,047,741 †	48.15%
43	6,877,625	102,835 †	1.50%	7,496,475	235,193 †	3.14%	6,942,457	361,509 †	5.21%
13	6,835,991	709,280 †	10.38%	10,414,193	846,785 †	8.13%	6,097,629	939,819 *	15.41%
65	6,733,971	2,736,385 †	40.64%	3,957,457	2,282,186 †	57.67%	3,735,055	2,321,240 †	62.15%
39	6,601,607	1,853,675 †	28.08%	3,874,109	1,660,008 †	42.85%	3,503,764	1,671,703 †	47.71%
57	6,580,684	262,142 *	3.98%	5,763,131	399,384 *	6.93%	6,196,245	514,134 *	8.30%
83	6,411,336	212,867 †	3.32%	6,763,631	324,961 †	4.80%	3,826,348	307,788 †	8.04%
4	6,078,140	224,258 †	3.69%	7,294,521	406,472 †	5.57%	3,263,340	292,294 †	8.96%
71	5,889,913	457,361 †	7.77%	6,200,220	579,048 †	9.34%	4,106,535	608,132 †	14.81%
19	5,889,883	328,217 *	5.57%	4,488,052	410,413 *	9.14%	3,882,248	510,663 *	13.15%
21	5,833,602	332,362 †	5.70%	5,206,045	396,273 †	7.61%	3,957,768	713,930 *	18.04%
33	5,753,912	85,506 †	1.49%	7,670,583	260,259 †	3.39%	4,428,286	383,696 †	8.66%
36	5,562,106	167,725 *	3.02%	7,486,306	260,989 *	3.49%	2,344,496	209,898 *	8.95%
86	5,538,725	357,810 †	6.46%	6,788,401	481,756 †	7.10%	2,498,063	434,044 †	17.38%
32	5,440,463	2,288,756 †	42.07%	12,288,218	2,398,089 †	19.52%	5,662,262	2,422,733 †	42.79%
25	5,304,279	1,698,642 *	32.02%	5,265,406	1,833,003 *	34.81%	4,182,902	1,864,716 *	44.58%
58	5,300,355	568,499 †	10.73%	2,267,602	523,232 †	23.07%	3,046,147	531,665 †	17.45%
81	5,286,366	257,085 †	4.86%	8,931,779	357,064 †	4.00%	10,448,997	385,378 †	3.69%
14	5,209,435	752,074 †	14.44%	3,275,219	827,600 †	25.27%	4,542,014	963,630 †	21.22%
17	5,085,837	718,209 *	14.12%	3,709,253	722,627 *	19.48%	4,020,193	842,926 *	20.97%
1	5,038,281	1,037,274 †	20.59%	4,457,247	1,203,833 *	27.01%	2,841,031	1,170,462 *	41.20%
72	4,767,943	180,497 †	3.79%	3,513,415	294,044 †	8.37%	3,645,284	294,155 †	8.07%
61	4,735,313	676,854 †	14.29%	5,685,394	815,893 †	14.35%	5,759,469	989,490 †	17.18%
51	4,623,232	38,258 †	0.83%	5,702,068	105,711 †	1.85%	2,662,536	92,595 †	3.48%
20	4,471,181	510,158 *	11.41%	1,970,313	447,625 *	22.72%	2,039,269	500,521 *	24.54%
74	4,353,725	274,067 †	6.30%	4,438,870	427,410 *	9.63%	2,933,232	326,184 *	11.12%
82	4,255,303	134,075 †	3.15%	6,313,887	187,844 †	2.98%	4,300,270	241,314 †	5.61%
48	4,184,855	504,914 †	12.07%	5,511,399	559,988 †	10.16%	5,703,891	682,501 †	11.97%
77	4,131,965	137,888 †	3.34%	6,653,252	186,459 †	2.80%	1,924,832	172,382 *	8.96%
56	4,067,616	759,422 †	18.67%	3,162,365	755,103 †	23.88%	1,567,920	468,334 †	29.87%
Forward to Page 2	448,820,002	52,122,354		469,292,342	60,881,455		326,147,377	60,490,803	

#	Dec. 31, 2010 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Dec. 31, 2011 — Single, Combined Pool - All New Vehicles: Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Net Change in Ending Inventory 12/31/07 - 12/31/11: Amount	%	Net Change in LIFO Reserve 12/31/07 - 12/31/11: Amount	%
27	29,282,725	4,839,571 *	16.53%	41,437,286	5,324,488 *	12.85%	15,504,362	59.79%	1,090,334	25.75%
52	15,142,729	3,667,007 *	24.22%	19,800,588	3,852,604 *	19.46%	(970,044)	-4.67%	747,076	24.06%
37	19,413,499	1,742,769 *	8.98%	15,081,941	1,990,642 *	13.20%	(5,391,712)	-26.33%	1,174,590	143.94%
90	14,816,860	1,326,677 *	8.95%	12,554,146	1,358,852 *	10.82%	(3,964,577)	-24.00%	394,898	40.97%
73	11,824,212	2,275,907 *	19.25%	11,424,989	2,500,693 *	21.89%	(3,623,986)	-24.08%	1,103,508	78.98%
76	12,882,815	1,001,525 *	7.77%	8,436,652	1,166,674 *	13.83%	(6,338,268)	-42.90%	587,164	101.32%
24	8,523,079	1,685,817 *	19.78%	7,494,730	1,817,493 *	24.25%	(6,638,309)	-46.97%	56,099	3.18%
16	13,284,423	2,504,353 *	18.85%	11,972,909	2,564,206 *	21.42%	(1,856,885)	-13.43%	705,311	37.94%
2	8,169,378	3,146,541 *	38.52%	6,134,144	3,242,279 *	52.86%	(7,440,752)	-54.81%	486,418	17.65%
8	20,369,485	2,586,333 *	12.70%	13,161,691	2,800,861 *	21.28%	178,922	1.38%	816,597	41.15%
28	10,441,049	1,439,964 *	13.79%	6,778,638	1,522,168 *	22.46%	(6,085,365)	-47.31%	480,484	46.13%
45	5,553,606	1,377,439 *	24.80%	7,002,119	1,512,118 *	21.60%	(5,193,157)	-42.58%	211,908	16.30%
54	12,878,717	1,320,235 *	10.25%	5,699,738	1,187,834 *	20.84%	(6,376,702)	-52.80%	243,301	25.76%
88	6,728,237	886,350 †	13.17%	4,859,491	958,705 †	19.73%	(5,741,440)	-54.16%	352,687	58.20%
75	14,562,604	3,826,414 *	26.28%	12,815,110	3,924,330 *	30.62%	2,556,493	24.92%	616,120	18.62%
38	7,592,548	2,317,227 *	30.52%	10,168,846	2,451,427 *	24.11%	306,519	3.11%	230,643	10.39%
41	6,721,145	172,706 †	2.57%	6,246,981	306,547 *	4.91%	(3,354,146)	-34.93%	302,975	8481.94%
69	6,806,130	438,468 *	6.44%	7,344,511	669,191 *	9.11%	(1,354,796)	-15.57%	452,345	208.60%
9	7,504,530	374,403 *	4.99%	4,828,490	280,365 *	5.81%	(3,479,679)	-41.88%	163,078	139.04%
87	4,533,873	403,749 †	8.91%	3,689,091	498,486 †	13.51%	(4,417,250)	-54.49%	241,184	93.74%
18	4,546,743	1,124,676 *	24.74%	8,251,056	1,195,636 *	14.49%	816,909	10.99%	(26,264)	-2.15%
15	4,861,964	754,330 *	15.51%	9,968,670	824,531 *	8.27%	2,988,548	42.82%	(92,680)	-10.10%
3	4,813,848	2,094,609 *	43.51%	6,781,084	2,147,270 *	31.67%	(168,142)	-2.42%	4,365	0.20%
43	10,092,902	450,338 †	4.46%	4,296,071	446,474 *	10.39%	(2,581,554)	-37.54%	343,639	334.17%
13	13,276,002	1,019,228 *	7.68%	8,468,103	1,243,573 *	14.69%	1,632,112	23.88%	534,293	75.33%
65	4,366,156	2,427,224 †	55.59%	4,271,147	2,478,325 †	58.02%	(2,462,824)	-36.57%	(258,060)	-9.43%
39	2,511,750	1,290,278 †	51.37%	3,585,413	1,341,933 †	37.43%	(3,016,194)	-45.69%	(511,742)	-27.61%
57	6,478,169	655,268 *	10.12%	5,613,374	696,288 *	12.40%	(967,310)	-14.70%	434,146	165.61%
83	7,810,499	352,519 *	4.51%	4,559,664	494,352 *	10.84%	(1,851,672)	-28.88%	281,485	132.24%
4	3,157,460	322,746 †	10.22%	5,559,145	412,624 †	7.42%	(518,995)	-8.54%	188,366	84.00%
71	7,121,345	664,445 †	9.33%	8,155,856	874,018 †	10.72%	2,265,943	38.47%	416,657	91.10%
19	3,181,648	547,902 *	17.22%	5,485,491	612,234 *	11.16%	(404,392)	-6.87%	284,017	86.53%
21	2,788,893	606,799 *	21.76%	4,315,530	638,265 *	14.79%	(1,518,072)	-26.02%	305,903	92.04%
33	4,401,681	409,319 †	9.30%	4,977,041	513,372 †	10.31%	(776,871)	-13.50%	427,866	500.39%
36	2,740,101	223,662 *	8.16%	1,950,054	212,446 *	10.89%	(3,612,052)	-64.94%	44,721	26.66%
86	3,910,119	480,007 †	12.28%	1,819,759	470,451 †	25.85%	(3,718,966)	-67.14%	112,641	31.48%
32	4,575,254	1,378,036 †	30.12%	3,150,707	960,359 †	30.48%	(2,289,756)	-42.09%	(1,328,397)	-58.04%
25	5,048,336	1,874,518 *	37.13%	3,401,395	1,785,181 *	52.48%	(1,902,884)	-35.87%	86,539	5.09%
58	2,427,953	506,521 †	20.86%	2,093,040	514,949 *	24.60%	(3,207,315)	-60.51%	(53,550)	-9.42%
81	8,695,980	454,671 *	5.23%	9,342,353	623,692 *	6.68%	4,055,987	76.73%	366,607	142.60%
14	2,730,442	956,655 †	35.04%	2,683,840	994,027 *	37.04%	(2,525,595)	-48.48%	241,953	32.17%
17	5,166,671	894,162 *	17.31%	5,137,162	958,425 *	18.66%	51,325	1.01%	240,216	33.45%
1	3,614,553	1,188,775 *	32.89%	4,456,161	1,256,122 *	28.19%	(582,120)	-11.55%	218,848	21.10%
72	4,415,198	287,216 †	6.51%	2,466,433	258,312 †	10.47%	(2,301,510)	-48.27%	77,815	43.11%
61	4,695,715	1,038,032 †	22.11%	5,177,072	1,134,024 †	21.90%	441,759	9.33%	457,170	67.54%
51	3,428,173	111,315 †	3.25%	1,904,332	89,493 †	4.70%	(2,718,900)	-58.81%	51,235	133.92%
20	2,364,596	566,513 *	23.96%	2,941,344	612,225 *	20.81%	(1,529,837)	-34.22%	102,067	20.01%
74	2,311,618	276,191 *	11.95%	1,331,035	178,429 *	13.41%	(3,022,690)	-69.43%	(95,638)	-34.90%
82	3,714,761	297,900 *	8.02%	3,505,688	382,822 *	10.92%	(749,615)	-17.62%	248,747	185.53%
48	4,963,817	716,933 *	14.44%	2,060,751	454,942 *	22.08%	(2,124,104)	-50.76%	(49,972)	-9.90%
77	4,493,399	208,171 *	4.63%	3,176,240	235,188 *	7.40%	(955,725)	-23.13%	97,300	70.56%
56	1,551,366	444,338 †	28.64%	2,681,702	474,357 †	17.69%	(1,385,914)	-34.07%	(285,065)	-37.54%
Forward to Page 2	387,288,756	61,956,752		360,498,804	65,444,302		(88,321,198)		13,321,948	

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EXHIBIT II

LIFO Reserves for Automobile Dealership New Vehicle Inventories

Based on a Sample of 90 Dealerships (* Indicates Vehicle-Pool Method ... † Indicates Addition of Two Separate Pools)

For the 4-Year Period 2008 - 2009 - 2010 - 2011 ... Ranked by Size of Dec. 31, 2007 Ending Inventory ... Exhibit II

	Dec. 31, 2007 / Jan 1, 2008			Dec. 31, 2008			Dec. 31, 2009			Dec. 31, 2010			Dec. 31, 2011			Net Change in Ending Inventory 12/31/07 - 12/31/11		Net Change in LIFO Reserve 12/31/07 - 12/31/11	
	Single, Combined Pool - All New Vehicles			Single, Combined Pool - All New Vehicles			Single, Combined Pool - All New Vehicles			Single, Combined Pool - All New Vehicles			Single, Combined Pool - All New Vehicles						
#	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Ending Inventory at Cost	LIFO Reserve	LIFO Reserve as a % of Ending Inventory at Cost	Amount	%	Amount	%
Carried from Page 1	448,820,002	52,122,354		469,292,342	60,881,455		326,147,377	60,490,803		387,288,756	61,956,752		360,498,804	65,444,302		(88,321,198)		13,321,948	
7	4,057,559	1,855,596 †	45.73%	3,210,901	1,479,689 †	46.08%	2,666,278	1,514,721 †	56.81%	3,354,984	1,532,423 †	45.68%	3,720,282	1,613,762 †	43.38%	(337,277)	-8.31%	(241,834)	-13.03%
31	3,943,229	787,092 †	19.96%	5,404,438	930,367 †	17.21%	1,895,465	596,021 †	31.44%	2,033,656	611,874 †	30.09%	2,100,507	637,898 †	30.37%	(1,842,722)	-46.73%	(149,194)	-18.96%
40	3,781,311	583,290 †	15.43%	6,408,579	645,766 *	10.08%	6,045,786	721,355 *	11.93%	5,351,055	752,963 *	14.07%	1,948,373	641,423 *	32.92%	(1,832,938)	-48.47%	58,133	9.97%
26	3,678,525	958,220 *	26.05%	4,805,242	1,196,382 *	24.90%	2,906,428	1,174,939 *	40.43%	5,201,919	1,177,190 *	22.63%	3,990,636	1,246,406 *	31.23%	312,111	8.48%	288,186	30.08%
34	3,650,948	1,141,716 †	31.27%	3,921,133	1,304,503 †	33.27%	1,120,306	716,680 *	63.97%	3,989,762	723,065 *	18.12%	6,065,376	808,541 *	13.33%	2,414,428	66.13%	(333,175)	-29.18%
80	3,639,644	1,228,160 †	33.74%	2,694,945	1,244,724 †	46.19%	2,064,768	1,092,545 †	52.91%	2,432,161	1,098,572 †	45.17%	2,434,733	1,046,900 †	43.00%	(1,204,911)	-33.11%	(181,260)	-14.76%
85	3,630,152	8,164 †	0.22%	3,259,358	87,985 †	2.70%	1,381,698	76,310 †	5.52%	3,202,762	110,359 †	3.45%	4,565,908	178,220 †	3.90%	935,756	25.78%	170,056	2083.00%
23	3,504,188	1,356,462 †	38.71%	2,352,795	1,191,367 †	50.64%	1,371,179	773,885 †	56.44%	2,114,929	819,505 †	38.75%	3,863,999	851,886 †	22.05%	359,811	10.27%	(504,576)	-37.20%
5	3,495,492	202,604 †	5.80%	1,976,284	178,928 †	9.05%	1,645,403	192,932 †	11.73%	1,602,993	258,301 †	16.11%	1,601,209	253,566 †	15.84%	(1,894,283)	-54.19%	50,962	25.15%
42	3,472,961	55,423 †	1.60%	1,257,506	35,863 †	2.85%	1,672,567	31,715 †	1.90%	1,516,857	48,508 †	3.20%	1,208,889	62,474 *	5.17%	(2,264,072)	-65.19%	7,051	12.72%
63	3,354,270	328,828 †	9.80%	1,579,347	368,309 †	23.32%	2,120,424	427,515 †	20.16%	1,344,036	432,329 †	32.17%	1,141,938	448,938 *	39.31%	(2,212,332)	-65.96%	120,110	36.53%
64	3,120,626	714,579 †	22.90%	1,942,228	656,434 †	33.80%	1,239,591	517,647 †	41.76%	1,895,075	525,365 †	27.72%	1,996,693	525,339 †	26.31%	(1,123,933)	-36.02%	(189,240)	-26.48%
60	3,094,272	747,983 †	24.17%	2,030,289	514,155 †	25.32%	2,107,610	565,433 †	26.83%	2,416,109	633,041 †	26.20%	4,318,463	678,235 †	15.71%	1,224,191	39.56%	(69,748)	-9.32%
30	2,947,287	421,245 *	14.29%	3,197,333	535,837 *	16.76%	2,926,299	602,063 *	20.57%	3,444,874	665,189 *	19.31%	2,751,291	689,782 *	25.07%	(195,996)	-6.65%	268,537	63.75%
22	2,866,476	751,250 †	26.21%	3,294,021	908,775 †	27.59%	1,314,380	701,481 *	53.37%	1,780,635	702,569 *	39.46%	1,994,304	749,621 *	37.59%	(872,172)	-30.43%	(1,629)	-0.22%
68	2,857,429	1,664,749 †	58.26%	2,242,034	1,593,341 *	71.07%	1,599,901	1,159,174 *	72.45%	1,446,810	1,050,775 *	72.63%	2,404,598	1,081,070 *	44.96%	(452,831)	-15.85%	(583,679)	-35.06%
10	2,786,731	132,766 †	4.76%	3,483,649	187,543 †	5.38%	1,899,944	168,980 *	8.89%	1,737,735	170,666 *	9.82%	1,599,991	215,045 *	13.44%	(1,186,740)	-42.59%	82,279	61.97%
59	2,733,202	115,780 *	4.24%	2,275,742	179,348 *	7.88%	1,483,063	179,059 *	12.07%	2,061,537	197,731 *	9.59%	1,425,647	226,146 *	15.86%	(1,307,555)	-47.84%	110,366	95.32%
84	2,685,775	598,986 *	22.30%	2,218,863	609,322 *	27.46%	2,142,115	658,069 *	30.72%	2,084,758	680,980 *	32.66%	2,616,177	698,908 *	26.71%	(69,598)	-2.59%	99,922	16.68%
67	2,661,237	631,466 †	23.73%	2,450,711	717,578 †	29.28%	1,062,715	445,543 *	41.92%	2,305,420	455,095 *	19.74%	2,208,894	472,095 *	21.37%	(452,343)	-17.00%	(159,371)	-25.24%
66	2,305,223	110,779 †	4.81%	1,335,982	118,124 †	8.84%	1,206,753	115,790 †	9.60%	1,177,390	121,801 †	10.35%	1,515,843	145,151 †	9.58%	(789,380)	-34.24%	34,372	31.03%
12	2,296,653	155,331 †	6.76%	2,454,310	184,469 †	7.52%	987,452	181,838 *	18.41%	2,563,830	197,362 *	7.70%	1,854,503	252,089 *	13.59%	(442,150)	-19.25%	96,758	62.29%
55	2,228,230	423,581 †	19.01%	2,174,014	448,067 †	20.61%	1,311,088	365,532 †	27.88%	763,819	243,435 †	31.87%	1,372,416	246,709 †	17.98%	(855,814)	-38.41%	(176,872)	-41.76%
6	2,161,608	308,509 *	14.27%	3,406,508	403,117 *	11.83%	4,665,505	589,346 *	12.63%	4,682,785	631,358 *	13.48%	6,476,335	691,941 *	10.68%	4,314,727	199.61%	383,432	124.29%
11	2,079,781	490,660 †	23.59%	2,575,693	572,761 †	22.24%	3,011,263	629,061 *	20.89%	3,254,956	739,156 *	22.71%	3,640,291	800,123 *	21.98%	1,560,510	75.03%	309,463	63.07%
89	1,996,221	167,082 *	8.37%	2,524,019	205,451 *	8.14%	1,597,591	218,444 *	13.67%	2,579,612	228,593 *	8.86%	1,467,264	233,027 *	15.88%	(528,957)	-26.50%	65,945	39.47%
35	1,927,362	838,894 †	43.53%	1,622,796	773,793 *	47.68%	1,156,309	635,025 *	54.92%	1,727,066	652,257 *	37.77%	1,804,547	681,350 *	37.76%	(122,815)	-6.37%	(157,544)	-18.78%
29	1,814,830	302,142 †	16.65%	2,036,186	341,418 †	16.77%	1,336,819	333,368 †	24.94%	1,361,477	350,229 †	25.72%	1,611,544	385,232 †	23.90%	(203,286)	-11.20%	83,090	27.50%
50	1,737,457	963,540 †	55.46%	2,079,708	1,020,967 †	49.09%	1,902,713	1,049,256 *	55.15%	1,648,072	1,081,867 *	65.64%	2,275,179	1,121,352 *	49.29%	537,722	30.95%	157,812	16.38%
47	1,711,094	152,647 †	8.92%	1,582,182	202,649 †	12.81%	1,841,817	226,396 †	12.29%	1,962,345	290,930 †	14.83%	2,372,127	325,981 †	13.74%	661,033	38.63%	173,334	113.55%
78	1,608,918	32,413 †	2.01%	1,393,554	44,424 †	3.19%	1,158,259	40,208 †	3.47%	1,942,099	50,305 †	2.59%	1,635,923	65,166 †	3.98%	27,005	1.68%	32,753	101.05%
53	1,475,632	49,330 †	3.34%	1,330,645	83,101 †	6.25%	475,397	45,866 †	9.65%	1,159,632	58,587 †	5.05%	1,443,320	75,859 †	5.26%	(32,312)	-2.19%	26,529	53.78%
46	1,380,178	297,148 †	21.53%	866,373	264,216 †	30.50%	993,981	268,670 †	27.03%	657,270	238,780 †	36.33%	815,858	249,517 †	30.58%	(564,320)	-40.89%	(47,631)	-16.03%
79	1,286,199	88,370 †	6.87%	1,841,521	105,691 †	5.74%	1,748,770	122,272 †	6.99%	1,795,389	134,361 †	7.48%	1,116,407	119,872 †	10.74%	(169,792)	-13.20%	31,502	35.65%
44	1,271,750	166,086 *	13.06%	1,426,181	250,721 *	17.58%	1087099	247993 *	22.81%	2,407,768	251,462 *	10.44%	3,577,356	305,966 *	8.55%	2,305,606	181.29%	139,880	84.22%
70	1,203,643	180,707 †	15.01%	2,008,393	189,189 †	9.42%	2,609,296	217,748 †	8.35%	1,712,533	208,671 †	12.18%	1,712,734	228,129 †	13.32%	509,091	42.30%	47,422	26.24%
62	1,085,211	48,443 †	4.46%	1,701,332	52,101 *	3.06%	845,671	54,544 *	6.45%	1,064,289	62,958 *	5.92%	857,913	67,478 *	7.87%	(227,298)	-20.95%	19,035	39.29%
49	1,040,300	59,892 †	5.76%	1,976,227	85,703 †	4.34%	3,423,840	98,043 †	2.86%	2,906,123	138,995 †	4.78%	3,307,749	217,790 †	6.58%	2,267,449	217.96%	157,898	263.64%
	545,391,606	71,242,267	13.06%	563,633,364	80,793,633	14.33%	398,172,920	78,246,270	19.65%	473,973,278	80,284,359	16.94%	453,314,021	84,783,289	18.70%	(92,077,585)	-16.88%	13,541,022	19.01%
			(2)												(1)		(3)		(4)

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March 2012 Revision

FORM 3115 APPLICATION FOR CHANGE IN ACCOUNTING METHOD REVISIONS TO FORM 3115 INSTRUCTIONS

- The IRS recently updated the Instructions for Form 3115 ... Form 3115 is the form that taxpayers must file when they are changing most LIFO accounting methods.
- This revision is dated March 2012, and it supersedes the previous revision of the Instructions which was dated December 2009.
- This revision updates all references relating to automatic changes to refer to Revenue Procedure 2011-14 (which superseded Rev. Proc. 2008-52) as the controlling document.
  - It reflects new automatic changes which may be made in connection with the Temporary Regulations under Section 263(a) which concern the proper treatment of expenditures for repairs and improvements to tangible property. It also clarifies that certain automatic changes in method ... relating to materials and supplies and repair and maintenance costs (#143 and #144) ... are only available for amounts paid or incurred in taxable years beginning before January 1, 2012.
  - The total of the Automatic Changes that do not require advance permission from the IRS is now 180. (But that includes several "automatics" that are now obsolete.)
- Taxpayers filing Schedule M-3 are asked to indicate whether the proposed change in method is related to the adoption of International Financial Reporting Standards (IFRS).
- With respect to Section 481(a) adjustment computations, page 8 of the revised Instructions now contains ...
  - Revised wording which describes information to be attached in connection with the computation.
  - A second example (below) to show an acceptable reporting format describing the computation of a Section 481(a) adjustment.

Example #1 - Retained in the Revision - Shows Another Acceptable Format Related to Change in Method For Capitalized Inventory Costs Under Section 263A

Beginning inventory for year of change under proposed method	$ 120,000
Beginning inventory for year of change under present method	100,000
Section 481(a) adjustment (positive)	$ 20,000

Example #2 - Description of Section 481(a) Adjustment

- WXY Corporation, a calendar year taxpayer, is a producer and capitalizes costs that are required to be capitalized into inventory under Section 263A.
- Each February, WXY Corporation pays a salary bonus to each employee who remains in its employment as of January 31 for the employee's services provided in the prior calendar year.
- Under its present method, WXY Corporation treats these salary bonuses as incurred in the tax year the employee provides the related services.
- For 2011, WXY Corporation proposes to change its method of accounting to treat salary bonuses as incurred in the tax year in which all events have occurred that establish the fact of the liability to pay the salary bonuses and the amount of the liability can be determined with reasonable accuracy....
- The computation of WXY Corporation's net Section 481(a) adjustment for the change in method of accounting for salary bonuses is demonstrated as follows:

Salary bonuses treated as incurred under the present method, but not incurred under the proposed method		$ 40,000
Beginning inventory as of Jan. 1, 2011, with capitalized salary bonuses computed under the present method	$ 100,000	
Beginning inventory as of Jan. 1, 2011, with capitalized salary bonuses, computed under the proposed method	92,000	
Decrease in beginning inventory as of Jan. 1, 2011	(8,000)	(8,000)
Net Section 481(a) adjustment (positive)		$ 32,000

REVALUING LIFO INVENTORIES WHEN ACCOUNTING METHOD CHANGES REQUIRE SECTION 481(a) ADJUSTMENTS

BACKGROUND

Over the years, many articles in the *LIFO Lookout* have discussed the implications of changing methods of accounting for LIFO inventories. It is well known that some changes in accounting methods (CAMs) for LIFO inventories require advance permission from the IRS, while other changes may be made simply by notifying the IRS - following very specific notification procedures - that the taxpayer has made a change.

Revenue Procedure 2011-14 contains the procedural rules to be followed in filing Forms 3115 when taxpayers are making voluntary, automatic changes in accounting methods. Revenue Procedure 97-27 contains the procedural rules to be followed in all other CAM filing situations.

Changes in accounting methods involving LIFO inventories will either (1) require specific computations and adjustments under Section 481(a), or (2) be permitted to be made using the "cut-off" method (i.e., without adjustments under Section 481(a).

Section 481(a) ... transitional adjustments. Basically, when a change in accounting method occurs, Section 481(a) requires the taxpayer to take into account any adjustments necessary to prevent amounts from being duplicated or omitted when the taxpayer's taxable income for the year of change is computed under the new method (i.e., under a method of accounting that is different from the method that was used to compute taxable income for the year preceding the year of change).

In other words, when there is a change in method of accounting to which Section 481(a) applies, income for the taxable year preceding the year of change must be determined under the method of accounting that was then employed. The computation of (taxable) income for the year of change ***and*** for the following taxable years must be determined under the new method of accounting.

Section 481(a) adjustments are required notwithstanding the fact that the statute of limitations on assessment and collection of tax may have closed on previous years.

Examples of CAMs that require a Section 481(a) adjustment include (1) changes to eliminate qualifying volume-related trade discounts from inventory costs (automatic change #53), and (2) changes to eliminate certain advertising costs from inventory costs (automatic change #139).

Also, Section 481(a) adjustments are required in connection with changes in Section 263A methods of accounting. Recent examples include changes in Section 263A methods made by motor vehicle dealerships electing the safe harbor provisions made available under Rev. Proc. 2010-44. These changes allow dealerships to avoid ... or significantly minimize ... capitalizing certain costs to inventory (automatic changes #150, #151 and - in some cases - #23).

Cut-off method in lieu of Sec. 481(a) adjustment. When a change in method of accounting is made on a cut-off basis, in general, only the items arising on or after the beginning of the year of change are accounted for under the new method of accounting. Any items arising before the year of change continue to be accounted for under the taxpayer's

see **REVALUING LIFO INVENTORIES...**, page 32

CAMs & Sec. 481(a)

REVALUING LIFO INVENTORIES WHEN ACCOUNTING METHOD CHANGES REQUIRE SECTION 481(a) ADJUSTMENTS

- ***Overview*** 31
- ***Procedures & Rules for Revaluing Dollar-Value (Opening) LIFO Inventories*** 34
- ***Analysis of Reg. Sec. 1.263A-7 Computation Example*** 36
- ***Case Study Applying Revaluation Requirements*** 40
  - Discussion of Change in Accounting Method, Procedures & Benefits 41
  - Supporting Schedules 46
  - Sample Form 3115 Narrative 51

(Continued from page 31)

former method of accounting. Because no amounts are duplicated or omitted when a change in method of accounting is made on a cut-off basis, no Section 481(a) adjustment is necessary.

In essence, this means that the company making the change in method of accounting does not have to go back and compute an adjustment for the year-of-change in order to reflect the effect of using the new method as if that new method had been used in all prior years.

Examples of CAMs that permit the use of the cut-off method include (1) changes by automobile dealerships to the Alternative LIFO Methods for new and/or used vehicles (automatic changes #58 and/or #59), (2) changes to the Vehicle-Pool Method (automatic change #112) and (3) most changes involving the IPIC Inventory Method (automatic changes #61 and #62).

REVALUING DOLLAR-VALUE LIFO INVENTORIES

When dollar-value LIFO taxpayers make changes in accounting methods, they are required to follow the principles and computational techniques prescribed in Regulation Section 1.263A-7 in order to reflect the corresponding positive or negative adjustments required by Section 481(a) in the LIFO layers which comprise the beginning or opening inventory for the year of change.

These procedures for revaluing the LIFO inventory (layers) as of the beginning of the year of change must be followed regardless of whether the CAMs are initiated voluntarily by the taxpayer or are required by the IRS as audit adjustments.

Some of the general implications of this Regulation were discussed in the Mid-Year 2011 Edition of the *LIFO Lookout* in an article on page 8 entitled, *"Section 263A CAMs & Section 481(a) Adjustments for LIFO Inventory Restatements."* That article focused on the implications for automobile dealerships making elections in order to be protected by the "safe harbors" for certain Section 263A inventory costs that the IRS set forth in Revenue Procedure 2010-44.

In the more narrow context of the article last year, it was observed that some dealerships each year had followed the practice of embedding the amounts of their Section 263A adjustments in each of the annual LIFO layers that are added to compute the overall LIFO valuation of the inventory. However, since most dealerships did not follow this practice (i.e., they did not embed Section 263A costs in their LIFO layers), the article in the Mid-Year 2011 *LIFO Lookout* did not include a discussion of the computational requirements and details.

Accordingly, the article in this (2012) Edition of the *Lookout* more specifically addresses these computational matters.

REVALUATION TECHNIQUES

There are essentially three different opening inventory revaluation procedures, only one of which will be used:

1. Facts and circumstances.
2. Weighted average method.
3. Three-year average method, which may only be used for dollar-value LIFO inventories.

Generally, the determination or revaluation of inventory must be based on ***all of the facts and circumstances*** of the direct and indirect costs which are to be assigned to each item of inventory under the Section 263A capitalization rules. This "facts and circumstances" revaluation is required for every prior period or year relevant in determining the total restated balance as of the year of change - unless a permissible variation or sub-variation is used.

THREE-YEAR AVERAGE METHOD

Congress anticipated that information might be lost or unavailable for prior years and that taxpayers - by default - might have to use reasonable estimates from existing data in order to make Section 481(a) adjustments.

Accordingly, dollar-value LIFO inventories are permitted to be revalued or restated by either (1) an actual "facts and circumstances recomputation applying the more detailed and specific rules to all years or (2) estimating restatement amounts under a ***three-year average*** method.

The three-year average method is more commonly used by dollar-value LIFO taxpayers, and this method is available as an alternative regardless of whether sufficient data exists from which a full "facts and circumstances" revaluation could be made.

The taxpayer must use the three most recent taxable years for which there is sufficient information to calculate the revaluation factor, regardless of whether increments in the LIFO inventories were incurred in those years.

Under the three-year average method, the revaluation factor is based on the weighted average percentage change in the current costs of inventory for each LIFO pool based on the three most recent years for which the taxpayer has sufficient information.

Generally, the three-year revaluation factor is applied to all LIFO layers for each pool in the beginning inventory of the year of change.

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If a taxpayer lacks sufficient information to otherwise apply the three-year average method, it may use reasonable estimates and procedures to apply the three-year average method.

Taxpayers get a break. Under the three-year average method, if sufficient data is available to calculate the revaluation factor for more than three years, then data from the additional years may be included and used in determining the average percentage increase. However, this data may be used only if the additional years are consecutive years prior to the year of change.

The requirement to use data from consecutive years may result in using information from a year in which no LIFO increment occurred (i.e., data may be used from a year in which the taxpayer experienced a decrement in its LIFO inventory).

REBASING LIFO INDEXES TO 1.000

In order to have the proper correspondence with the revised carrying value of the inventory at cost, one further computation either must be made - or usually is made (even though it may not be required) - in order to simplify LIFO calculations in subsequent years. This relates to the rebasing or restating of cumulative indexes to 1.0000 as of the beginning of the year of change.

For purposes of determining future indexes, generally the year of change becomes a new base year, and all costs are to be restated in terms of new base year costs for purposes of extending such costs in future years.

The Regulations provide that costs associated with old layers retain their separate identity with respect to the base year, with such layers being merely restated in terms of the new base year index.

As a result of this computational step, the revised total amount of the inventory (as expressed in "new" base dollars) as of the beginning of the year of change must equal the corrected actual cost of the inventory for the pool as of that date.

For more specifics on the three-year average method, see pages 34-35.

REGULATION COMPUTATION EXAMPLE FOR DOLLAR-VALUE LIFO INVENTORIES

The Regulations include an example which is analyzed in detail, with some additional comments, on pages 36-38.

I have also provided a more useful format that can be converted for practical use.

This one-page format shown on page 39, (1) condenses all of the computations in the Regulation example, and (2) reconciles or "proves" the composition of the LIFO Reserve both before and after the Section 481(a) adjustment is reflected.

CASE STUDY APPLYING REVALUATION REQUIREMENTS

Accompanying this article (pages 40-52), I have included a case study that follows the thread of the calculations necessary to revalue the opening LIFO inventory for a dealership that automatically changed its accounting method in order to eliminate certain costs (such as trade discounts or advertising fees) from inventory costs.

This change in method afforded the dealership a valuable tax deferral because the Section 481(a) adjustment to make this change is a ***negative*** Section 481(a) adjustment.

This case study updates the discussions and case studies on CAMs to eliminate costs from inventory that previously appeared in the articles in the Sept. 2003 and Sept. 2004 *LIFO Lookout* as *Parts I* and *II*, respectively. At that time, CAMs involving advertising costs could not be made as automatic changes.

You'll find (pages 41-45) a memorandum summarizing the change in method, procedures and benefits and (pages 46-50) revised presentations of the calculations to revalue the opening inventory.

On pages 51-52, I've included sample wording for the Narrative Statement that would be attached to Form 3115 when it is filed with the IRS in connection with this change in method.

Caution. If you are going to compare the "flow" of the numbers in the example in the Regulations with the "flow" of the numbers in the computations in the case study, you need to be careful. The impact of the adjustments in one is exactly the opposite of the impact of the adjustments in the other. This is because the facts in the Regulation example add costs to inventory via a positive Section 481(a) adjustment. In contrast, the facts in the case study remove costs from inventory via a negative Section 481(a) adjustment. ✻

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Procedures & Rules	*REVALUING DOLLAR-VALUE (OPENING) LIFO INVENTORIES UNDER REG. SEC. 1.263A-7*
	Page 1 of 2
In General -7(a)(1)	• Taxpayers changing their method of accounting for costs subject to Section 263A are subject to the revaluation and other provisions of Reg. Sec. 1.263A-7. • The principal purpose of these Regulations is to provide guidance regarding how taxpayers are to revalue property on hand at the beginning of the taxable year in which they change their method of accounting for costs subject to Section 263A. • Changes in method of accounting are subject to these provisions irrespective of whether the taxpayer's previous method of accounting resulted in the capitalization of more (or fewer) costs than the costs required to be capitalized under Section 263A, and irrespective of whether the previous method of accounting was a permissible method.
Exceptions... CAMs Not Subject to Revaluation -7(a)(5)	• Changes from one inventory valuation method to another inventory valuation method under Section 471, such as a change from valuing inventory at cost to valuing the inventory at cost-or-market, whichever is lower, or vice versa. • Changes from one inventory identification method to another inventory identification method, such as a change from the Last-In, First-Out (LIFO) method to the First-In, First-Out (FIFO) method, or vice versa. • Changes within the LIFO inventory method, such as a change from the double-extension method to the link-chain method, or a change in the method used for determining the number of pools.
Need to Establish a New Base Year -7(b)(2)(iii)(A)	• Dollar-value LIFO taxpayers using the 3-year average method... ◆ ***But not using*** the simplified production method or the simplified resale method to revalue their inventories ***are required to establish a new base year.*** ◆ ***And using*** either the simplified production method or the simplified resale method to revalue their inventories ***are permitted, but not required, to establish a new base year.*** • Dollar-value LIFO taxpayers that use the facts and circumstances revaluation method ***are permitted, but not required, to establish a new base year.***
Computing a New Base Year -7(b)(2)(iii)(B)	• For purposes of determining future indexes, the year of change becomes the new base year (that is, the index at the beginning of the year of change generally must be 1.000) and all costs are restated in new base year costs for purposes of extending such costs in future years. • However, when a new base year is established, costs associated with old layers retain their separate identity within the base year, with such layers being restated in terms of the new base year index. ◆ For example, for purposes of determining whether a particular layer has been invaded, each layer must retain its separate identity. ◆ Thus, if a decrement in an inventory pool occurs, layers accumulated in more recent years must be viewed as invaded first, in order of priority (i.e., the carryback of the amount of the decrement is required to be made against prior years' increments in reverse chronological order).
Inventory Adjustments -7(c)(1) & (2)(i)	• The taxpayer generally must, in computing its taxable income for the year of change, take into account the adjustments required by Section 481(a). These adjustments relate to revaluations of inventory property, whether the taxpayer produces the inventory or acquires it for resale. • The taxpayer must revalue the items or costs included in its beginning inventory in the year of change as if the new method (that is, the method to which the taxpayer is changing) had been in effect during all prior years. • The difference between the inventory as originally valued using the former method (that is, the method from which the taxpayer is changing) and the inventory as revalued using the new method is equal to the amount of the adjustment required under Section 481(a).
Three (3) Methods to Revalue Inventory -7(c)(2)(ii)	• ***The facts and circumstances revaluation method.*** This method may be used by all taxpayers. • ***The weighted average method.*** This method is available only in certain situations to taxpayers using the FIFO inventory method or the specific goods LIFO inventory method. • ***The 3-year average method.*** This method is available to all taxpayers using the dollar-value LIFO inventory method of accounting. ◆ The 3-year average method (and the weighted average method) revalue inventory through processes of estimation and extrapolation, rather than based on the facts and circumstances of a particular year's data.

REVALUING DOLLAR-VALUE (OPENING) LIFO INVENTORIES UNDER REG. SEC. 1.263A-7

3-Year Average Method for Revaluing Inventory

-7(c)(2)(v)(A)

- A taxpayer using the dollar-value LIFO method of accounting for inventories may revalue all existing LIFO layers of a trade or business based on a 3-year average method.
  - The 3-year average method is available to any dollar-value taxpayer (who complies with this Regulation) regardless of whether such taxpayer lacks sufficient data to revalue its inventory costs under the facts and circumstances revaluation method.
- The 3-year average method is based on the ***average percentage change*** (the *3-year revaluation factor*) ***in the current costs*** of inventory for each LIFO pool based on the three most recent taxable years for which the taxpayer has sufficient information.
  - Typically, this 3-year period will be the three most recent taxable years.
- The 3-year revaluation factor is applied to all layers for each pool in beginning inventory in the year of change.
- The 3-year average method must be applied with respect to all inventory in a taxpayer's trade or business.
  - A taxpayer is not permitted to apply the method for the revaluation of some, but not all, inventory costs on the basis of pools, business units, or other measures of inventory amounts that do not constitute a separate trade or business.
- Generally, a taxpayer revaluing its inventory using the 3-year average method must establish a new base year.
  - However, a dollar-value LIFO taxpayer using the 3-year average method and either the simplified production method or the simplified resale method to revalue its inventory is permitted, but not required, to establish a new base year.

Insufficient Information

-7(c)(2)(v)(A)

- In some instances, a taxpayer may lack sufficient information to otherwise apply the 3-year average method in order to revalue the costs of its LIFO pools.
- In these cases, the taxpayer must use reasonable estimates and procedures to whatever extent is necessary to allow the taxpayer to apply the 3-year average method.
  - The reasonable estimates and procedures to be used are described in the Regulations which discuss the facts and circumstances revaluation method.

Consecutive Year Requirement

-7(c)(2)(v)(B)

- ***Information for more than 3 years may be used.*** Under the 3-year average method, if sufficient data is available to calculate the revaluation factor for more than three years, the taxpayer may use data from such additional years in determining the average percentage increase or decrease only if the additional years are consecutive to and prior to the year of change.
  - This requirement is applicable regardless of whether any inventory costs in beginning inventory as of the year of change are viewed as incurred in, or attributable to, those consecutive years under the LIFO inventory method.
  - Therefore, the requirement to use data from consecutive years may result in using information from a year in which no LIFO increment occurred.
- ***Example...*** If a taxpayer is changing its method of accounting in 1997 and has sufficient data to revalue its inventory for the years 1991 through 1996, the taxpayer may calculate the revaluation factor using all six years.
  - If, however, the taxpayer has sufficient data to revalue its inventory for the years 1990 through 1992, and 1994 through 1996 (i.e., if information for 1993 is missing), then only the three years consecutive to the year of change (i.e., 1994, 1995 and 1996) may be used in determining the revaluation factor.
  - Similarly, a taxpayer with LIFO increments in 1995, 1993, and 1992 may not calculate the revaluation factor based on the data from those years alone, but instead must use the data from consecutive years for which the taxpayer has information.

Comprehensive Example

-7(c)(2)(v)(C)

- A comprehensive example of the 3-year average method is included in the Regulations.
  - The principles set forth in this example are applicable both to production and resale activities.
- This example is included and analyzed on pages 36-38.
- A more useful one-page format that can be converted for practical use is on page 39. This format (1) condenses all of the computations in the Regulation example, and (2) reconciles or "proves" the composition of the LIFO Reserve both before and after the Section 481(a) adjustment is reflected.

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REVALUING DOLLAR-VALUE (OPENING) LIFO INVENTORIES UNDER REG. SEC. 1.263A-7

Facts

- This calendar year taxpayer, is changing its method of accounting effective for 1997.
- The dollar-value LIFO inventory method was adopted in 1991, using a single pool and the double-extension method.

Beginning Inventory (Jan. 1, 1997) Under the Old Method

	Base Year Costs	Inflation Index	LIFO Carrying Value
Base Layer	$ 14,000	1.00	$ 14,000
1991 Layer	4,000	1.20	4,800
1992 Layer	5,000	1.30	6,500
1993 Layer	2,000	1.35	2,700
1994 Layer	-	1.40	-
1995 Layer	4,000	1.50	6,000
1996 Layer	5,000	1.60	8,000
Total	$ 34,000		$ 42,000

Recomputation of Total Inventoriable Costs Under the New Method for the 3 Preceding Years

- Taxpayer's recomputation of the total inventoriable costs incurred under its new method for the three preceding taxable years (preceding the year of change)...

	Current Cost as Recorded (Former Method)	Current Cost as Adjusted (New Method)	Percentage Change
1994	$ 35,000	$ 45,150	0.29
1995	43,500	54,375	0.25
1996	54,400	70,720	0.30
Total	$ 132,900	$ 170,245	0.28

- *Comment:* The revaluation factor is determined to be 1.28.

Restatement of Dec. 31, 1996 Inventory Based on Revaluation Factor

- Applying the average revaluation factor of 0.28 to each layer, the taxpayer's inventory (as of Dec. 31, 1996) is restated as follows...

	Restated Base Year Costs	Inflation Index	Restated LIFO Carrying Value
Base Layer	$ 17,920 *	1.00	$ 17,920
1991 Layer	5,120 **	1.20	6,144
1992 Layer	6,400	1.30	8,320
1993 Layer	2,560	1.35	3,456
1994 Layer	-	1.40	-
1995 Layer	5,120	1.50	7,680
1996 Layer	6,400	1.60	10,240
Total	$ 43,520		$ 53,760

* $14,000 x 1.28 = $17,920 ... The increase is $3,920.
** $4,000 x 1.28 = $5,128 ... The increase is $1,120 ... etc., for the other layers.

- *Comment:* This step first multiplies the original base dollars ($34,000) by the revaluation factor of 1.28. Then, each new amount of restated base year cost is multiplied by the inflation index for that layer in order to compute the restated LIFO carrying value for each layer (totaling $53,760).

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Example

REVALUING DOLLAR-VALUE (OPENING) LIFO INVENTORIES UNDER REG. SEC. 1.263A-7

Sec. 481(a) Adjustment

- The adjustment required by Section 481(a) is $11,760 ... ($53,760 - 42,000).
- This amount may be computed by multiplying the average percentage of 0.28 by the LIFO carrying value of the inventory valued using its former method ($42,000).
  - Alternatively, it may be computed by the difference between ...
    - The revalued costs of the taxpayer's inventory under its new method ($53,760), and
    - The costs of the taxpayer's inventory using its former method ($42,000).

Computation of New Base Year Costs

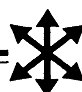
(Rebasing Indexes to 1.0000 as of Dec. 31, 1996)

- The inventory as of the first day of the year of change (January 1, 1997) becomes the new base year cost for purposes of determining the LIFO index in future years.
  - This requires that layers in years prior to the base year be restated in terms of the new base year index.
  - As a result, the current year cost of the Dec. 31, 1996 inventory, as adjusted, is $70,720.
- Such cost (i.e., the increase in cost) must be apportioned to each layer in proportion to the restated base year cost of that layer to total restated base year costs ($43,520), as follows...

	Restated Base Year Costs	Restated Inflation Index	Restated LIFO Carrying Value
Old Base Layer	$ 29,120	0.615	$ 17,920
1991 Layer	8,320	0.738	6,144
1992 Layer	10,400	0.800	8,320
1993 Layer	4,160	0.831	3,456
1994 Layer	-	-	-
1995 Layer	8,320	0.923	7,680
1996 Layer	10,400	0.985	10,240
Total	$ 70,720		$ 53,760

Comments

- Note that the restated LIFO carrying value ($53,760) reflects the original LIFO cost of $42,000 plus the amount of the Section 481(a) adjustment of $13,760.
- In the table showing the computation of the new base year costs, the amounts computed for the "restated index" column are determined by dividing the restated LIFO carrying value for each layer by the corresponding restated base year cost for that layer (i.e., $17,920 ÷ 29,120 = 0.615 ... $6,144 ÷ 8,320 = 0.738 ... etc.).
- The restated indexes in the example in the Regulations (above) are carried to only 3 decimal places. However, when these indexes are carried to 6 decimal places, the amounts shown above for each layer are the correct amounts.
- The factor to rebase the indexes to 1.0000 as of Dec. 31, 1996 is 1.62500 ($70,720 ÷ 43,520).
  - The increase in the base dollars due to rebasing the indexes to 1.0000 as of Dec. 31, 1996 is $27,200 ($43,520 x 0.625).
- Alternative calculation for the restated base year cost for each layer ...
  - Base layer ... $29,120 = [17,920 ÷ 43,520] or 0.411765 ... $70,720 x 0.411765 = 29,120
  - 1991 layer ... $8,320 = [5,120 ÷ 43,520] or 0.117647 ... $70,720 x 0.117647 = 8,320
  - 1992 layer ... $10,400 = [6,400 ÷ 43,520] or 0.147059 ... $70,720 x 0.147059 = 10,400
  - 1993 layer ... $4,160 = [2,560 ÷ 43,520] or 0.058824 ... $70,720 x 0.058824 = 4,160
  - 1995 layer ... $8,320 = [5,120 ÷ 43,520] or 0.117647 ... $70,720 x 0.117647 = 8,320
  - 1996 layer ... $10,400 = [6,400 ÷ 43,520] or 0.147059 ... $70,720 x 0.147059 = 10,400
- Page 38 includes two other analyses related to the example in the Regulations.
- The example does not show that the LIFO reserve before the change in method is $12,400. Similarly, it does not show that the LIFO reserve after the change has become $16,960.
  - Page 39 reformats the entire example in the Regulations, with proofs of the LIFO reserves before and after the change in method.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Regulation Example

REVALUING DOLLAR-VALUE (OPENING) LIFO INVENTORIES UNDER REG. SEC. 1.263A-7

Analysis of the Components of the LIFO Reserve Before & After the Change in Accounting Method

Analysis of Change in the LIFO Reserve

	As of Dec. 31, 1996 / Jan. 1, 1997 Beginning of Year-of-Change†		
	Inventory at Cost	**LIFO Valuation**	**LIFO Reserve**
LIFO Reserve ***Before*** CAM	$ 54,400	(42,000)	12,400
Increase in LIFO Valuation of LIFO Layers	-	(11,760)	(11,760)
Additional Costs Added to Inventory Cost	16,320 **	-	16,320
Net Change	16,320	(11,760)	4,560
LIFO Reserve ***After*** CAM	$ 70,720		$ 16,960

* LIFO reserve decrease factor ... The increase in the LIFO valuation of the BOY inventory as a result of applying the revaluation factor causes the LIFO reserve to decrease.

** LIFO reserve increase factor ... The increase in the BOY inventory as a result of adding additional costs causes the LIFO reserve to increase.

† The change in method of accounting is effective for calendar year 1997.

Analysis of Changes in the Inventory Amounts Expressed in Base Dollar Equivalents

Analysis of Change in "Old" & "New" Base Dollar Amounts

Analysis of Change in "Old" & "New" Base Dollar Amounts	Inventory Expressed in Base Dollars		
Base Dollars (in LIFO pool) Before CAM	$ 34,000		34,000
Base Dollars (in LIFO pool) as Revised (After Application of Reduction Factor)	43,520		
Net Increase in Base Dollars	9,520	9,520	
Dec. 31, 1996 Inventory at Current Cost (as Adjusted)	70,720 *		
Base Dollars (in LIFO Pool) as Revised	43,520		
Net Increase in Base Dollars Due to Rebasing Indexes to 1.0000 as of Dec. 31, 1996	27,200	27,200	
Net Increase in New, Rebased Base Dollar Amount		36,720	36,720
"New" & Rebased Base Dollars as of Dec. 31, 1996 (Dec. 31, 1996 Inventory at Current Cost (as Adjusted)			70,720 *

* This amount of $70,720 is given as a fact ... See Reg. Sec. 1.263A-7(c)(2)(v)(C), Example (v).

REG. SEC. 1.263A-7(c)(2)(v)(C) EXAMPLE

RECOMPUTATION OF LIFO VALUATION & LIFO RESERVE TO REFLECT CHANGE IN ACCOUNTING METHOD

DOLLAR-VALUE POOL AS OF BEGINNING OF YEAR OF CHANGE: DEC. 31, 1996 / JAN. 1, 1997

	Before Change in Method			To Reflect Change in Accounting Method for the Year Beginning January 1, 1997							
					Sec. 481(a) Adjustment						
Analysis of Year-End LIFO Inventory Layers	Base Dollars	Valuation Factor	LIFO Valuation	Increase Factor	Increase in LIFO Valuation	Valuation of LIFO Layers ... as Revised	Valuation Factor (Unchanged)	Base Dollars ... as Revised*	Ratio of Revised Base Dollars	Original Base Dollars	Increase in Base Dollars
Base Layer	14,000	1.00000	14,000	0.28000	3,920	17,920	1.00000	17,920	0.411765	14,000	3,920
1991 Layer	4,000	1.20000	4,800	0.28000	1,344	6,144	1.20000	5,120	0.117647	4,000	1,120
1992 Layer	5,000	1.30000	6,500	0.28000	1,820	8,320	1.30000	6,400	0.147059	5,000	1,400
1993 Layer	2,000	1.35000	2,700	0.28000	756	3,456	1.35000	2,560	0.058824	2,000	560
1994 Layer	-	1.40000	-	0.28000	-	-	1.40000	-	0.000000	-	-
1995 Layer	4,000	1.50000	6,000	0.28000	1,680	7,680	1.50000	5,120	0.117647	4,000	1,120
1996 Layer	5,000	1.60000	8,000	0.28000	2,240	10,240	1.60000	6,400	0.147059	5,000	1,400
Totals	34,000		42,000		11,760	53,760		43,520 *	1.000000	34,000	9,520
Ending Inventory at LIFO Valuation			42,000			53,760					
Less: Ending Inventory at Current Cost			54,400	16,320		70,720					
LIFO Reserve at End of Year			12,400			16,960					

Rebasing/Restatement of Adjusted Base Dollars as of Dec. 31, 1996 and Composition & Proof of LIFO Reserve Before and After Rebasing/Restatement

				A	B	C	D = C/B	E	F = D	G=(E-F)	H = B	I=(G x H)
	Base Dollars	Proof Factor	Composition of LIFO Reserve by Layer	Ratio of Revised Base Dollars ... Per Above	Current Cost (New Method) Dec. 31, 1996	Valuation of LIFO Layers ... as Revised	Valuation Factor ... as Recomputed	LIFO Reserve Layer Proof Factor (1.0000 - Revised Valuation Factor)			Restated Base Year Costs	Composition of LIFO Reserve by Layer
Base Layer	14,000	0.60000	8,400	0.411765	**29,120**	17,920	0.615385	1.000000	0.615385	0.384615	29,120	11,200
1991 Layer	4,000	0.40000	1,600	0.117647	**8,320**	6,144	0.738462	1.000000	0.738462	0.261538	8,320	2,176
1992 Layer	5,000	0.30000	1,500	0.147059	**10,400**	8,320	0.800000	1.000000	0.800000	0.200000	10,400	2,080
1993 Layer	2,000	0.25000	500	0.058824	**4,160**	3,456	0.830769	1.000000	0.830769	0.169231	4,160	704
1994 Layer	-	0.20000	-	0.000000	**-**	-		1.000000	-	1.000000	-	-
1995 Layer	4,000	0.10000	400	0.117647	**8,320**	7,680	0.923077	1.000000	0.923077	0.076923	8,320	640
1996 Layer	5,000	-	-	0.147059	**10,400**	10,240	0.984615	1.000000	0.984615	0.015385	10,400	160
Totals	34,000		12,400	1.000000	**70,720**	53,760					70,720	**16,960**

Current cost of Pool #1 inventory as adjusted (New Method) as of Dec. 31, 1996 is $70,720. This amount ($70,720) becomes restated base year cost as of December 31, 1996.

Reconciliation of Net Change in LIFO Reserve

LIFO Reserve at Dec. 31, 1996 before Change in Method	12,400
Less: Sec. 481(a) Positive Adjustment	(11,760)
Add: Additional Sec. 263A Costs Required to be capitalized ($70,720 - 54,400)	16,320
LIFO Reserve at Dec. 31, 1996 after Change in Method	**16,960**

* Base Dollars as Revised: Determined by multiplying each base dollar layer before change (totaling $34,000 times (x) 1.2800 revaluation factor.

** Per Reg. Sec. 1.263A-7(c)(2)(v) ... "The current year cost of [the taxpayer's] inventory, as adjusted is $70,720. Such cost must be apportioned to each layer in proportion to the restated base year cost of that layer to total restated base year costs ($43,520).

XYZ MOTORS

CHANGE IN METHOD OF ACCOUNTING (CAM)

To Eliminate Certain Advertising Costs

from Cost in the New Vehicle LIFO Inventory Pool

*CAM Effective for the Calendar Year 2011**

CONTENTS

- Transmittal Letter Summarizing Change in Method & Benefits
- ***Schedule #1*** ... Inventory Information w/r/t Certain Advertising Costs in the LIFO Pool for All New Vehicles
- Supporting Schedules Showing Changes Before and After Adjustments to Reflect the Change in Method of Accounting

Schedule #2 ... Composition of LIFO Inventory Layers (2003 through 2010)

Schedule #3 ... Recomputation of LIFO Valuations and LIFO Reserve as of Dec. 31, 2010 to Reflect the Change in Method of Accounting (Effective for Calendar Year 2011). This also includes the computations to rebase the LIFO layers to 1.0000 as of Dec. 31, 2010.

Note: Schedule #3 is to be attached to the Form 3115 filed with the Internal Revenue Service to show the computation of the Section 481(a) adjustment

Schedule #4 ... Analysis of the Components of the LIFO Reserve Before & After the Change in Accounting Method as of Dec. 31, 2010 & Dec. 31, 2011

Schedule #5 ... Analysis of Changes in the Inventory Amounts Expressed in Base Dollar Equivalents for the New Vehicle Pool as of Dec. 31, 2010

* *This change in Method of Accounting is being made effective for the year 2011 to eliminate certain advertising costs from year-end inventory costs. (Trade discounts have always been removed from ending inventory costs and are not involved with this change in accounting method for calendar year 2011.)*

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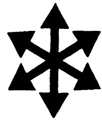

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cpawjd@aol.com

Date _______________

Mr./Mrs. Dealer CPA / Controller
Company / XYZ Motors
Address
City, State, Zip

Re: ***XYZ Motors***
New Vehicle LIFO Inventories - Change in Method of Accounting
Effective for the Calendar Year 2011

Dear __________:

This will summarize the results of the change in method of accounting that ***XYZ Motors*** has made effective for calendar year 2011 for its new vehicle LIFO inventory. This change is being made only to eliminate from inventory cost the reductions for certain dealer advertising costs that are shown on the invoices for new vehicles (including demonstrators) included in the ending inventory.

The dealership has always eliminated trade discounts (i.e., floorplan assistance payments, etc.) from ending inventory costs, so these charges are not involved in this change in accounting method for 2011.

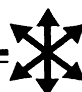
Benefits from Making the Change in Accounting Method for 2011

As a result of the change in the method of accounting for advertising expense charges, the dealership will have an additional net deduction in its 2011 income tax return in the amount of $287,439.

This summary and related computations are based on the information provided by the dealership with respect to these advertising charges.

Additional Deductions in 2011	Negative Sec. 481(a) Adjustment	2011 Adjustments	Combined
(1) Section 481(a) Negative Adjustment to Reduce the Valuation of the LIFO Inventory as of the Beginning of the Year (i.e., as of Dec. 31, 2010/Jan. 1, 2011)	193,676		193,676
(2) Additional Increase in the LIFO Reserve in the Year of Change (2011)	-	352	352
(3) Decrease in Ending Inventory Cost Due to the Elimination of Certain Advertising Costs	-	93,411	93,411
Net Adjustment (Before Section 263A Effect, if any)	193,676	93,763	287,439

(continued)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Discussion of Benefits from Making the Change

The ***first component*** of benefit in the summary is described as the *"Section 481(a) Negative Adjustment to Reduce the Valuation of the LIFO Inventory as of the Beginning of the Year (i.e., as of Dec. 31, 2010/Jan. 1, 2011)."* This amount ($193,676) represents the reduction in the LIFO valuation of the 2011 beginning-of-the-year inventory (i.e., the inventory as of Dec. 31, 2010) to remove the impact of certain advertising costs from the LIFO layers which comprise the LIFO layer valuation history for the dealership.

This computation is derived from Schedules #1 and #3 which show the computation of the so-called "reduction factor" based upon an analysis of the history of these items over the last 3 years and the application of that "reduction factor" to the LIFO layer history of the dealership as of the beginning of the year-of-change.

Revaluing the inventory using the 3-year average method. The Regulations under Reg. Sec. 1.263A-7 provide that a taxpayer using the dollar-value LIFO method of accounting for inventories may revalue all existing LIFO layers based on a 3-year average method. The 3-year average method is available to any dollar-value LIFO taxpayer regardless of whether the taxpayer lacks sufficient data to revalue its inventory costs under the more specific facts and circumstances revaluation method described elsewhere in the Regulations.

This 3-year average method is based on the average percentage change (the 3-year revaluation factor) in the current costs of inventory in the LIFO pool based on the three most recent taxable years for which the taxpayer has sufficient information (typically, the three most recent taxable years of the business). The 3-year revaluation factor is applied to all LIFO layers in the beginning inventory in the year-of-change.

If a taxpayer lacks sufficient information to otherwise apply the 3-year average method (for example, the taxpayer is unable to revalue the costs of any of its LIFO pools for three years due to a lack of information), then the taxpayer must use reasonable estimates and procedures to whatever extent is necessary to allow the taxpayer to apply the 3-year average method.

The application of the reduction factor (computed under the 3-year average method) to the Dec. 31, 2010 LIFO layers creates a reduction in the amount of $193,676 which correspondingly decreases the LIFO valuation of the inventory and increases the LIFO reserve by the same amount. Technically, this is the "Section 481(a) adjustment" ... and it is a negative amount. Negative Section 481(a) adjustments may be deducted in full in the income tax return filed for the year-of-change.

Schedule #3 shows these computations, and it should be attached to Form 3115 when Form 3115 is filed with the Internal Revenue Service by the dealership.

The ***second component*** of benefit is described as the *"Additional Increase in the LIFO Reserve in the Year of Change (2011)."* Before the change in method of accounting for 2011 was considered, the net change in the LIFO reserve for 2011 would have been a reduction/decrease in the LIFO reserve in the amount of $132,753. However, as a result of making the change in accounting for 2011, the net change/reduction in the LIFO reserve for 2011 is computed to be a reduction/decrease of $132,401.

Since making the change results in a smaller or lesser decrease in the LIFO reserve for 2011 of $352 ($132,753 - 132,401) than it would have been if the change had not been made, it is reasonable to describe this "increase" in the LIFO reserve as a benefit resulting from making the change.

The ***third component*** of benefit is described in the summary as the *"Decrease in Ending Inventory Cost Due to the Elimination of Certain Advertising Costs."* The advertising amounts included in the vehicle invoice costs that would have been included in the December 31, 2011 inventory if no change had been made total $93,411 ($5,793,149 - 5,699,738). See Schedule #1.

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This amount will also be deducted in the tax return for calendar year 2011.

This third component is obviously more of a timing difference, or a "switch between years." At the end of each year, the net effect of this timing difference (for removing certain advertising costs from inventory costs) will be the difference in the total amount of certain advertising costs for vehicles in the beginning inventory minus the total amount of certain advertising costs for vehicles in the ending inventory.

Accordingly, the $93,411 "benefit" included in the summary should be considered as a transitory or "timing difference" benefit that will fluctuate over the years, rather than as a more permanent benefit that is embedded in the LIFO layer valuations of the inventory.

Adjustments for Section 263A Capitalization of Certain Inventory Costs as of December 31, 2010

The summary of benefits relates only to the LIFO inventory valuation adjustment with respect to 2011. A separate Section 481(a) adjustment is/may be required to correspondingly reduce inventory costs previously required to be capitalized under Section 263A.

This adjustment is/would be based on a proportional reduction of the amounts previously capitalized under Section 263A. The net change in Section 263A capitalized costs must be computed separately as an element or component of the net Section 481(a) adjustment as of the beginning of the year-of-change and reported as such on Form 3115.

Change in the LIFO Reserve for New Vehicle Inventory as of Dec. 31, 2010

The valuation of the LIFO inventory and the corresponding LIFO reserve as of December 31, 2010 have been recomputed to reflect the necessary transitional adjustments as of January 1, 2011 (the beginning of the year-of-change). The more detailed computations of these adjustments are reflected in the schedules attached, and they are summarized in Schedule #2.

The recomputed LIFO reserve at December 31, 2010 reflects the effects of (1) the negative Section 481(a) adjustment and (2) the adjustment to the year-end inventory to reflect the dollar amount of certain advertising costs in inventory as of that date. The change or net reduction in the LIFO reserve as of Dec. 31, 2010 is $18,547, as computed below.

LIFO Reserve at Dec. 31, 2010 ***Before*** Change in Method			1,338,772
Add:	Sec. 481(a) Negative Adjustment (i.e., reduction in LIFO valuation of LIFO layers)	193,676	
Less:	Certain Advertising Costs Included in Dec. 31, 2010 Inventory Before Change in Method	(212,223)	
		(18,547)	(18,547)
LIFO Reserve at Dec. 31, 2010 ***After*** Change in Method			1,320,225

A more detailed analysis of the change in the components of the LIFO reserve as of Dec. 31, 2010 is shown in Schedule #4.

Rebasing of Indexes to 1.0000 as of Dec. 31, 2010

When a change in method of accounting is made which involve (1) dollar-value LIFO inventories and/or (2) Section 263A inventory revaluations, the IRS generally requires the "rebasing" of the LIFO layer indexes to 1.0000 as of the beginning of the year-of-change. Accordingly, in the attached schedules for ***XYZ Motors***, the cumulative index as of Dec. 31, 2010 is shown to be 1.0000.

As a result of the rebasing procedure, a new base year (i.e., Calendar Year 2011, the first year for which the dealership will use the new accounting method) is created solely for computation purposes. Under this procedure, the original or oldest base year (i.e., 2003) and the 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.

The cumulative index as of the end of the last year before the year of change (i.e., the cumulative index as of December 31, 2010) becomes the conversion factor by which the base dollars for each layer are multiplied. The LIFO valuation for each layer of inventory does not change in the process. Therefore, the integrity of the contribution to the LIFO reserve for each layer in the pool remains unchanged. In other words, the contribution to the LIFO reserve attributable to each annual layer is the same dollar amount before and after the indexes are rebased to 1.0000.

The ***general principle*** underlying the rebasing requirement appears to be that the index for each year's increment is restated by creating a fraction, the numerator of which is the cumulative index for valuing that year's increment and the denominator of which is the cumulative index as of the end of the last year before the year-of-change. Then each year's LIFO valuation index or factor is multiplied by that fraction to reduce it to a decimal that is less than 1.0000.

Since all prior year increments retain their same LIFO valuations in the rebasing process, this simply "forces" all of the prior indexes or valuation factors to be changed to become the quotients produced by dividing (A) the fixed/unchanged LIFO valuation amount for that year's layer by (B) the corresponding "grossed up" or "new" base dollar amount. This "new" base dollar amount, in turn, is determined as the product of multiplying (1) the "old" base dollar inventory amount for that year by (2) the deflator index that was used at the end of the last year under the old method to reduce that ending inventory at cost to its equivalent amount expressed in original base dollars.

In the LIFO computations for ***XYZ Motors***, the inflation rate for the first year after the rebasing (i.e., for Calendar Year 2011) is 3.000%. Since the cumulative inflation rate as of Dec. 31, 2010/Jan. 1, 2011 has been rebased to 1.0000, the cumulative inflation rate as of December 31, 2011 is 1.03000 [1.0000 x 1.03000]. This is the proof factor you will find in our LIFO Inventory Report for 2011 which analyzes the composition of the LIFO reserve and the proof/reconciliation of the net change in the LIFO reserve as of Dec. 31, 2011.

Computation of LIFO Inventory Valuation for the Year of Change (i.e., as of Dec. 31, 2011)

As a result of this change for 2011, the related transition adjustments that apply to the beginning-of-the-year (i.e., Dec. 31, 2010) inventory have resulted in corresponding changes in the amounts that are considered to be "base dollars" (i.e., "new" base dollars). ***Before*** the change in method, the amount of base dollars was $12,748,887. ***After*** the change in method and the required rebasing of the indexes to 1.0000, the "new" rebased base dollars amount to $12,878,717.

Mr./Mrs. Dealer CPA / Controller
Company / XYZ Motors

This increase of $129,830 is analyzed in Schedule #5.

Therefore, the revised new base dollar amounts and related valuation factors for each layer are reflected in the recomputation of the LIFO reserve as of Dec. 31, 2010.

Correspondingly, the amount that has been determined by analyzing the ending inventory invoices as the total inventory cost reductions for certain advertising costs (i.e., $93,411) has been removed from the "inventory at cost" amount at Dec. 31, 2011. Therefore, $5,699,738 is the amount to which the LIFO cumulative inflation index as of Dec. 31, 2011 has been applied in order to compute the LIFO reserve balance for the pool as of the end of the year.

Notifying the IRS of the Change in Method of Accounting (Form 3115)

Revenue Procedure 2011-14 is the IRS guidance document that contains the procedural rules to be followed when a taxpayer files Form 3115 with the IRS to make a voluntary, automatic change in accounting method under the IRS' "automatic consent procedures."

Section 21 of the *Appendix* to Revenue Procedure 2011-14 describes changes in accounting method for inventories under Section 471. Section 21.13 describes the change in accounting method for "invoiced advertising association costs for new vehicle retail dealerships." This change is described as "designated automatic accounting method change number 139."

It is important to note that ***XYZ Motors*** is not making any changes in its LIFO methodology for valuing inventories (under Code Section 472) in connection with making this change in accounting method under Section 471 to eliminate advertising association costs from inventory costs.

Attached is a sample Narrative Statement to be included with Form 3115. This provides the more technical explanations and other supporting information. Also, Schedule #3 should be attached to Form 3115 when it is filed in order to show how the Section 481(a) adjustment was computed.

Sincerely,

/S/____________________

Encl. - *Schedules #1-5*

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XYZ MOTORS

Information w/r/t LIFO Pool for All New Vehicles

for the Years Ended Dec. 31, 2008 - 2011

(Year of Change in Method of Accounting Is Calendar Year 2011)

	Pool #1 - All New Vehicles (Including Demonstrators)				
	2008	**2009**	**2010**	**Total**	**2011**
Units in Ending Inventory	647	424	507		229
Adjustment of Inventory Cost					
End-of-Year Inventory at Cost, Before Change in Accounting Method (CAM) (A)	14,836,727	9,314,324	13,090,940	37,241,991	5,793,149
Less: Reduction for Certain Advertising Costs Shown on Invoices (B)	(244,805)	(156,813)	(212,223)	(613,841)	(93,411)
End-of Year Inventory at Cost, As Adjusted for CAM (C)	14,591,922	9,157,511	12,878,717	36,628,150	5,699,738
Ratio of A to B (D)	0.01650	0.01684	0.01621	0.01648	0.01612
Ratio of C to A -- Adj. % Adjustment Percentage (E)	0.98350	0.98316	0.98379	0.98352	0.98388
Change in LIFO Valuation of Year-End Inventory					
LIFO Valuation at 12/31/2010 Before CAM Adjustment (F)			11,752,168		
LIFO Valuation at 12/31/2010 After CAM Adjustment (G)			11,558,492		
Net Change in LIFO Valuation Due to CAM Adjustment (H)	-	-	193,676	-	-
Alternative Calculation (Line F x Line D: 3-year avg.)			193,705		

Notes

(1) This Change in Accounting Method is being made effective for the year 2011 to eliminate certain advertising costs from year-end inventory costs. Taxpayer elected the LIFO Inventory Method in 2003.

(2) Trade discounts have always been removed from ending inventory costs and are not involved with this change in accounting method for calendar year 2011. Accordingly, ending inventory costs reflected in (A) above are cost amounts which are net of trade discounts (i.e., floorplan assistance payments).

(3) The average of the reductions for these advertising costs for the 3 years above is $204,614 ($613,841 ÷ 3).

(4) The 3-year average reduction factor for this Pool is 0.98352 (as computed per Reg. Sec. 1.263A-7(c)(2)(v)).

SCHEDULE #1

XYZ MOTORS

Composition of New Vehicle LIFO Inventory Pool as of Dec. 31, 2010

Before & After Change in Method of Accounting (Effective for Calendar Year 2011)

Before Change

	"Old" Base Dollars	Valuation Factor	LIFO Valuation	Composition & Proof of LIFO Reserve as of Dec. 31, 2010		
				"Old" Base Dollars	Proof Factor	Composition of LIFO Reserve
Analysis of Year-End LIFO Inventory Layers						
Calendar Year 2003 Increment	6,152,957	0.839820	5,167,376	6,152,957	0.187010	1,150,664
Calendar Year 2004 Increment	1,857,984	0.962630	1,788,551	1,857,984	0.064200	119,283
Calendar Year 2006 Increment	1,177,683	0.968390	1,140,456	1,177,683	0.058440	68,824
Rebased 12/31/08	-	1.000000	-	-	-	-
Calendar Year 2010 Increment	3,560,263	1.026830	3,655,784	3,560,263	-	-
Cumulative Index as of Dec. 31, 2010		1.026830	-	-	-	-
			-			1
Totals	12,748,887		11,752,168	12,748,887		1,338,772
Ending Inventory at LIFO Valuation			11,752,168			
Less: Ending Inventory at Current Cost			13,090,940			
LIFO Reserve at End of Year			1,338,772			

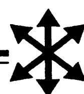
After Change in Method & Rebasing to 1.0000

	"New" & Rebased Base Dollars	Valuation Factor	LIFO Valuation	Composition & Proof of LIFO Reserve as of Dec. 31, 2010		
				"New" & Rebased Base Dollars	Proof Factor	Composition of LIFO Reserve
Analysis of Year-End LIFO Inventory Layers						
Calendar Year 2003 Increment	6,215,617	0.817653	5,082,218	6,215,617	0.182347	1,133,399
Calendar Year 2004 Increment	1,876,905	0.937222	1,759,076	1,876,905	0.062778	117,829
Calendar Year 2006 Increment	1,189,676	0.942830	1,121,662	1,189,676	0.057170	68,014
Rebased 12/31/08	-	-	-	-	1.000000	-
Calendar Year 2010 Increment	3,596,519	0.999727	3,595,536	3,596,519	0.000273	983
Cumulative Index as of Dec. 31, 2010		1.000000	-	-	-	-
Totals	12,878,717		11,558,492	12,878,717		1,320,225
Ending Inventory at LIFO Valuation			11,558,492			
Less: Ending Inventory at Current Cost			12,878,717			
LIFO Reserve at End of Year			1,320,225			

Note: The change in accounting method is effective for calendar year 2011 and is being made to eliminate certain advertising costs from year-end inventory costs.

The LIFO layer history ***after change in method*** is rebased to 1.000 as of Dec. 31, 2010 / January 1, 2011 to reflect the change in accounting method, including the effect of the Section 481(a) adjustment as of Dec. 31, 2010.

SCHEDULE #2



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XYZ MOTORS

Recomputation of LIFO Valuation & LIFO Reserve for All New Vehicles to Reflect Change in Accounting Method*

As of Dec. 31, 2010 / Jan. 1, 2011

All New Vehicles

	Before Change in Method			To Reflect Change in Accounting Method for the Year Beginning January 1, 2011							
					Sec. 481(a) Adj. Due to						
	Base Dollars	Valuation Factor	LIFO Valuation	Reduction Factor	Reduction in LIFO Valuation	Valuation of LIFO Layers ... as Revised	Valuation Factor (Unchanged)	Base Dollars ... as Revised**	Ratio of Revised Base Dollars	Original Base Dollars	Reduction in Base Dollars
Analysis of Year-End LIFO Inventory Layers											
Calendar Year 2003 Increment	6,152,957	0.839820	5,167,376	0.016480	85,158	5,082,218	0.839820	6,051,556	0.482627	6,152,957	101,401
Calendar Year 2004 Increment	1,857,984	0.962630	1,788,551	0.016480	29,475	1,759,076	0.962630	1,827,364	0.145737	1,857,984	30,620
Calendar Year 2006 Increment	1,177,683	0.968390	1,140,456	0.016480	18,795	1,121,662	0.968390	1,158,275	0.092375	1,177,683	19,408
Calendar Year 2010 Increment	3,560,263	1.026830	3,655,784	0.016480	60,247	3,595,537	1.026830	3,501,589	0.279261	3,560,263	58,674
Cumulative Index as of Dec. 31, 2010		1.026830									
Totals	12,748,887		11,752,168		193,676	11,558,492		12,538,784 **	1.000000	12,748,887	210,103
Ending Inventory at LIFO Valuation			11,752,168			11,558,492					
Less: Ending Inventory at Current Cost			13,090,940	(212,223)		12,878,717					
LIFO Reserve at End of Year			1,338,772			1,320,225					

Rebasing/Restatement of Adjusted Base Dollars as of Dec. 31, 2010 and Composition & Proof of LIFO Reserve Before and After Rebasing/Restatement

				A	B	C	D = C/B	E	F = D	G=(E-F)	H = B	I=(G x H)
	Base Dollars	Proof Factor	Composition of LIFO Reserve by Layer	Ratio of Revised Base Dollars ... Per Above	Current Cost (New Method) Dec. 31, 2010	Valuation of LIFO Layers ... as Revised	Valuation Factor ... as Recomputed	LIFO Reserve Layer Proof Factor (1.0000 - Revised Valuation Factor)			Restated Base Year Costs	Composition of LIFO Reserve by Layer
Calendar Year 2003 Increment	6,152,957	0.187010	1,150,664	0.482627	**6,215,617**	5,082,218	0.817653	1.000000	0.817653	0.182347	6,215,617	1,133,399
Calendar Year 2004 Increment	1,857,984	0.064200	119,283	0.145737	**1,876,905**	1,759,076	0.937221	1.000000	0.937221	0.062779	1,876,905	117,829
Calendar Year 2006 Increment	1,177,683	0.058440	68,824	0.092375	**1,189,676**	1,121,662	0.942829	1.000000	0.942829	0.057171	1,189,676	68,014
Calendar Year 2010 Increment	3,560,263	-	-	0.279261	**3,596,519**	3,595,537	0.999727	1.000000	0.999727	0.000273	3,596,519	982
Cumulative Index as of Dec. 31, 2010		-	1									
Totals	12,748,887		1,338,772	1.000000	12,878,717	11,558,492					12,878,717	1,320,225

Current cost of Pool #1 inventory as adjusted (New Method) as of Dec. 31, 2010 is $12,878,717. This amount ($12,878,717) becomes restated base year cost as of December 31, 2010.

Reconciliation of Net Change in LIFO Reserve

LIFO Reserve at Dec. 31, 2010 before Change in Method	1,338,772
Add: Reduction of LIFO Valuation of LIFO Layers (per above) (i.e., Net Section 481(a) Negative Adjustment)	193,676
Less: Certain Advertising Costs in 12/31/2010 Inventory before Change in Method	(212,223)
LIFO Reserve at Dec. 31, 2010 after Change in Method	**1,320,225**
Net Change (Decrease) in LIFO Reserve	(18,547)

** Base Dollars as Revised: Determined by multiplying each base dollar layer before change (totaling $12,748,887) times (x) [1-0.016480 = 0.983520] adjustment percentage.

12,748,887 x 0.983520 = 12,538,784

* *Calendar Year 2011 is the Year of Change in Method of Accounting*

SCHEDULE #3

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XYZ MOTORS

Analysis of the Composition of the New Vehicle LIFO Reserve Before & After Change in Method of Accounting

As of Dec. 31, 2010 & 2011 †

Analysis of Change in the LIFO Reserve for the New Vehicle Inventory Pool	As of Dec. 31, 2010 Beginning of Year-of-Change		
	Inventory at Cost	LIFO Valuation	LIFO Reserve
LIFO Reserve *Before* CAM	13,090,940	11,752,168	1,338,772
Reduction in LIFO Valuation of LIFO Layers	-	(193,676) *	193,676
Certain Adv. Costs Removed from Inventory Cost	(212,223) **	-	(212,223)
			(18,547)
LIFO Reserve *After* CAM	12,878,717	11,558,492	1,320,225

Analysis of Change in the LIFO Reserve for the New Vehicle Inventory Pool	As of Dec. 31, 2011 (End of Year-of-Change)			Differences	
	Inventory at Cost	LIFO Valuation	LIFO Reserve		
LIFO Reserve *Before* CAM	5,793,149	4,587,130	1,206,019		(132,753)
Reduction in LIFO Valuation of LIFO Layers	-	(75,226)	75,226	118,450	
Certain Adv. Costs Removed from Inventory Cost	(93,411)	-	(93,411)	(118,812)	
			(18,185)	(362)	362
LIFO Reserve *After* CAM	5,699,738	4,511,904	1,187,834	(362)	(132,391)
			rounding	10	
				(352)	

* LIFO reserve ***increase*** factor ... The decrease in the LIFO valuation of the BOY inventory as a result of applying the reduction factor causes the LIFO reserve to increase.

** LIFO reserve ***decrease*** factor ... The decrease in the BOY inventory as a result of removing certain advertising costs causes the LIFO reserve to decrease.

† The change in method of accounting is effective for calendar year 2011.

SCHEDULE #4

XYZ MOTORS

New Vehicle LIFO Inventory Pool

Analysis of Change in Base Dollar Amounts as of Dec. 31, 2010†

Analysis of Change in "Old" & "New" Base Dollar Amounts	Inventory Expressed in Base Dollars		
Base Dollars (in LIFO pool) Before Change in Method	12,748,887		12,748,887
Base Dollars (in LIFO Pool) as Revised (After Application of Reduction Factor)	12,538,784		
Net Decrease in Base Dollars	210,103	(210,103)	
Dec. 31, 2010 Inventory at Current Cost (Net of Certain Advertising Costs)	12,878,717		
Base Dollars (in LIFO Pool) as Revised	12,538,784		
Net Increase in Base Dollars Due to Rebasing Indexes to 1.0000 as of Dec. 31, 2010	339,933	339,933	
Net Increase in New, Rebased Base Dollar Amount		129,830	129,830
"New" & Rebased Base Dollars as of Dec. 31, 2010 (Dec. 31, 2010 Inventory at Current Cost - Net of Certain Advertising Costs)			12,878,717

† The change in method of accounting is effective for calendar year 2011.

SCHEDULE #5

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3115 Narrative Proforma

DEALERSHIP NAME **EI #** ______

FORM 3115: APPLICATION FOR CHANGE IN ACCOUNTING METHOD

FOR THE CALENDAR YEAR ENDING DECEMBER 31, 2011

NARRATIVE STATEMENTS & OTHER INFORMATION

General Information

This change is designated change #139 of the published automatic change procedures ... for *Invoiced Advertising Association Costs for New Vehicle Retail Dealerships.*

Taxpayer wants to discontinue capitalizing certain advertising costs as acquisition costs under Regulation Section 1.471-3(b) which are advertising costs that meet the criteria set forth in Section 21.13(1) of the *Appendix* to Revenue Procedure 2011-14. Under the new method of accounting, Taxpayer will exclude advertising costs that meet the criteria from the cost of new vehicles and deduct the advertising costs under Section 162 as the advertising services are provided to Taxpayer.

[Additional text omitted.]

Methods for Valuing Inventories

New Vehicle Inventory Valued Using LIFO. Taxpayer has previously elected to use the Alternative LIFO Method for New Vehicles, as described under Revenue Procedure 97-36. In connection with its use of the LIFO Method for valuing its new vehicle inventories, Taxpayer uses the Vehicle-Pool Method (as more fully described in Section 4.01 of Revenue Procedure 2008-23).

New vehicle inventories are identified by using actual cost (as discussed below) based on specific identification by invoice.

Invoices for new vehicles 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 is reduced by trade discounts (floorplan assistance payments) in accordance with Reg. Sec. 1.471-3(b).

Cost reduction for certain advertising costs. For the purpose of determining the amount of new vehicles at actual cost, for years prior to calendar year 2011, new vehicle inventory cost has not been reduced by certain advertising costs. Effective beginning with calendar year 2011, Taxpayer's method of accounting for these costs will be to reduce new vehicle cost by the amount of these advertising costs.

Used Vehicles & Other Inventories. *[Additional text omitted.]*

Page 2, Part II, Item 9:
Changes in Accounting Methods Filed Within the Past 5 Years *[Additional text omitted.]*

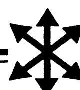
Page 3, Part II, Item 12(a): Item Being Changed

Taxpayer is requesting permission to change its method of accounting for all present and future advertising costs and/or association-type advertising costs (i.e., for certain invoiced advertising costs) that are incurred in connection with the purchase of a new vehicle for resale. When Taxpayer purchases new automobiles and light-duty trucks from the manufacturer(s), these advertising costs are incurred in the year the vehicle is purchased.

On a per-vehicle basis, Taxpayer pays a pre-determined advertising cost amount determined by the manufacturer. Currently, these amounts are identified by the manufacturer on the new vehicle invoice as "______________ costs," although these designations may change in the future or if new vehicles are purchased from other manufacturers.

Page 3, Part II, Item 12(b): Present Method

For the advertising costs described above, Taxpayer presently capitalizes those costs as part of the dealer cost of the vehicle purchased.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DEALERSHIP NAME **EI #** ______

FORM 3115: APPLICATION FOR CHANGE IN ACCOUNTING METHOD

FOR THE CALENDAR YEAR ENDING DECEMBER 31, 2011

NARRATIVE STATEMENTS & OTHER INFORMATION

Page 3, Part II, Item 12(c): Proposed Method

Under the (proposed) method to which Taxpayer is changing effective for 2011, Taxpayer will no longer include certain advertising costs as part of the inventory cost of the vehicle. Instead, Taxpayer will identify the advertising costs (based on the information included by the manufacturer on the purchase invoice) and record the base cost of the vehicle net of the advertising costs paid to the manufacturer upon purchase of the vehicle.

Taxpayer will deduct the advertising costs under Section 162 as the advertising services are provided to Taxpayer.

Page 3, Part IV, Item 25: Section 481(a) Adjustment

Taxpayer is not making any changes *within* its use of the LIFO inventory method as part of this automatic change #139.

In determining the amount of the Section 481(a) adjustment to implement its change in accounting method for 2011 for advertising costs, Taxpayer has revalued and rebased its beginning-of-the-year inventory for the year-of-change (i.e., it has changed the LIFO valuation of its inventory as of December 31, 2010 / January 1, 2011) in accordance with the Regulations under Section 263A.

Taxpayer has revalued its existing LIFO layers based on the 3-year average method set forth in Regulation Section 1.263A-7. This 3-year average method is based on the average percentage change (the 3-year revaluation factor) in the current costs of inventory in the LIFO pool based on the three most recent taxable years for which Taxpayer has sufficient information (in this case, the three most recent taxable years of the business).

Taxpayer computed the "reduction factor" to be applied to the opening inventory for the year of change based upon an analysis of the history of these advertising costs over the last 3 years and applied that a "reduction factor" to the LIFO layer history of the dealership as of the beginning of the year-of-change.

The application of that reduction factor represents the reduction in the LIFO valuation of the 2011 beginning-of-the-year inventory (i.e., the inventory as of Dec. 31, 2010) to remove the impact of "______________ advertising costs" from the LIFO layers which comprise the LIFO layer valuation history for Taxpayer.

The net result of applying the reduction factor (computed under the 3-year average method) to the LIFO valuation of the inventory at the beginning of the year-of-change is a reduction in the amount of ***[$193,676]***. This is Taxpayer's negative "Section 481(a) adjustment."

LIFO Indexes Rebased to 1.0000 as of the Beginning of the Year-of-Change

After reflecting this Section 481(a) adjustment in the LIFO layers of the inventory as of Dec. 31, 2010, the LIFO layers for the single pool consisting of all new vehicles have been rebased to 1.0000 for computational purposes only. The LIFO valuations of the base year inventory and any subsequent annual increments (expressed in base dollars) do not change as a result of the rebasing process: these layers retain their same LIFO valuations both before and after the indexes are rebased to 1.0000.

As a result of the rebasing procedure, a new base year (i.e., Calendar Year 2011, the first year for which the dealership will use the new accounting method) is created solely for computation purposes. Under this procedure, the original or oldest base year and the 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.

[Additional text omitted.] ... Accordingly, the total of the revised and rebased base dollars as of the beginning of the year-of-change (i.e., as of Dec. 31, 2010) equals the amount of the ending inventory cost as of that date, net of the advertising costs shown on the invoices for the vehicles in ending inventory as of that date.

Section 263A Inventory Cost Capitalization Matters *[Additional text omitted.]*

Previously Filed Form 970 ... Check Appropriate Responses *[Additional text omitted.]*

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COMPARISON OF *SuperLIFO*™ & IRS NEW ITEM DETERMINATIONS FOR NEW VEHICLES IN YEAR-END 2011 INVENTORIES

We are pleased to present our *SuperLIFO*™ 2011 New Items Lists in a Report comparing our determinations of new items with those recently made available by the office of the IRS Motor Vehicle Technical Advisor (MVTA) in Grand Rapids, Michigan.

The IRS New Items List was distributed as an attachment to an e-mail dated July 1, 2012. In the attachment, the IRS Motor Vehicle Technical Advisor stated the following ... "This list is similar to the guidance I provide to examiners who audit automobile dealers' tax returns."

"The list is not an 'Official List;' it does not reflect 'Service Position' and examiners are not required to follow it."

Consistent with prior releases of its new items lists, there is no indication of what sources the Office of the MVTA has used in compiling its current new items list. The following statement appears in the IRS transmittal...

"The Revenue Procedure [i.e., Rev. Proc. 97-36] requires that dealers obtain invoices for each vehicle in ending inventory, group the invoices into item categories and compute an average base cost for each category. ***Because the Motor Vehicle Technical Advisor program does not have access to all vehicle invoices, the new items list provided by the program uses the best available public information.*** Dealers, however, must use actual invoices in their computation."

WILL THERE BE FUTURE "LISTS" FROM THE IRS?

There seems to be some question over whether the IRS will provide new items lists in the future. In that regard, the transmittal e-mail from the MVTA includes the following...

"Due to some organizational and management changes, it is unclear at this time whether we will be able to continue with the new items list in its current format. As the situation develops, I will let you know what the future holds. I do appreciate your interest in this list."

HOW TO INTERPRET OUR *SuperLIFO*™ - IRS COMPARATIVE REPORT

Our Comparative New Item Report covers 16 pages ... New automobiles on pages 1-11 and new light-duty trucks (including sport utility vehicles, minivans and off-roads) on pages 12-16.

Our Comparative New Item Report shows complete make, model, body style, model code and item category information.

The left-hand side of each Report page shows our *SuperLIFO*™ New Items List.

The right-hand side of the Report (including the "Yes" column) shows the IRS' Motor Vehicle Industry Specialist's new item listing.

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

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

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

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

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

In summary: Everything listed on the left-hand (our) side with an "X" in the "Yes" column is an item category where we agree with the IRS that it is a new item. Everything with an "X" in the "Yes" column is on the IRS' new item list. Everything listed on the right-hand (IRS) side of the page is an item category that the IRS considers to be new ... and we do not. Finally, everything with an "X" in the "No" column is something that we conclude should be a new item category, but the IRS does not.

see **NEW ITEM DETERMINATIONS...**, page 54

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New Item Determinations...

(Continued from page 53)

With respect to the December 31, 2011 year-end vehicles in inventory, we identified a total of 507 new item categories (386 automobiles and 121 light-duty trucks) whereas the IRS identified a total of only 403 (269 automobiles and 134 light-duty trucks). We both reached the same conclusion with respect to 230 new item categories.

In this year's list of new items, the IRS again provided only one list in which it combined all new vehicles. This was explained in the MVTA's transmittal cover letter last year as follows:

"As you will see, the format of the lists has changed. Although the list was never intended for pooling purposes, for years prior to 2010, separate lists were provided for cars and trucks. **Starting with the 2010 lists, we will provide one combined list of all vehicles.** In Revenue Procedure 2008-23, the IRS acknowledged that the line between cars and trucks had become blurred and provided a safe harbor pooling method that allowed dealers that properly change their method of accounting to combine new cars and new trucks into one pool. Taxpayers that did not adopt the single pool method should carefully consider the placement of individual vehicles into the proper pool."

We have continued to use the two separate classifications for automobiles and light-duty trucks. As indicated above, now many dealerships don't care about this distinction anymore because they have changed to the single, combined (Vehicle-Pool) method for all new vehicles. However, a significant number of dealers (at least many of those we are doing LIFO calculations for) have not changed to the Vehicle-Pool Method, for one reason or another. Therefore, this classification distinction for LIFO pooling purposes is still relevant for them.

This year, there were no significant differences between our determinations of new items and the IRS' ... and vice versa. We identified 277 item categories as "new, but the IRS determined them to be continuing. The IRS identified 173 items as new, but we concluded that they should be treated as continuing items.

A table summarizing the details of these differences in treatment appears on page 57.

WHY OUR LISTS DIFFER ... IN GENERAL

In some instances, we understand why we disagree with the IRS; in other situations, we're not quite sure why we don't agree - other than possibly because of conflicting information or timing differences in our respective resources.

In prior years' comparative lists, because of the format limitations involved in this side-by-side presentation, some of the new item vs. continuing item differences described as "due to timing" are not purely due to timing differences. Because we (i.e., *SuperLIFO™*) received the information sooner or more directly, some item categories were treated as new on an earlier compilation of new items ... and the IRS was simply catching up with treating them as new items on its "later" compilation.

There are other instances involving models/vehicles that did not exist in the prior year where (1) we received information that the IRS did not, (2) we determined the item to be a new item, (3) the IRS did not even list that item (because the IRS did not have any information on it) and (4) that item appears in the "No" column and is "x'd" in the "No" column. The reason that these are not considered as timing differences between our respective lists is that the IRS had no information to evaluate. Therefore, that item will not result in a timing difference until, at some later date, the IRS receives information on the vehicle and then makes its determination as to its status.

WHY OUR LISTS DIFFER ... SPECIFICS

BMW 1 Series. In our analysis, we concluded that item categories in the *BMW 1 Series* should be treated as continuing items, but the IRS reached the opposite conclusion (i.e., the IRS concluded that these should be treated as new items).

Accounting for this difference was the fact that these vehicles did not undergo any changes to their platforms (or wheelbases). However, the manufacturer (BMW) simply changed the model codes for all of these 2012 model year vehicles.

Duplicate items listed by the IRS. We have included a new legend entry on the cover page for item categories that were previously included in our Year-End 2010 Comparative Listings. These duplicate items are referenced by the letter "D" in the legend. This relates to 29 listings for 2011 model year items (10 for automobiles and 19 for light-duty trucks) that had been included previously by the IRS in its December 31, 2010 list.

We had both agreed on 18 of these duplicate items (7 for automobiles and 11 for light-duty trucks). These are referenced in our Comment Column as "*D-11 Model Both Agreed on 12/31/10 List.*"

With respect to 11 of these duplicate items (3 automobiles and 8 light-duty trucks), we did not agree with the IRS previously, but the IRS listed these items again on its current December 31, 2011 list. These

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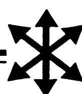

items are referenced in our Comment Column as "*D-11 Model on IRS 12/31/10 List.*"

DEFINITION OF A "NEW" ITEM

A new item category is defined as an item category not considered to be in existence in the prior taxable year.

Under Section 4.02(5) of Rev. Proc. 97-36, a new item category results from any one of the following:

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

NEW ITEM: WHAT DIFFERENCE DOES IT MAKE?

New item categories are required to be included at a 1.000 factor in the annual computation of the index of inflation or deflation. This is accomplished by using the same dollar amount for the end-of-the-year base cost as for the beginning-of-the-year base cost.

Since any number divided by itself equals 1.000, this new item treatment will contribute no inflation (or deflation) for that item to the annual index.

However, if there is overall inflation for the year in the dollar-value LIFO pool in which the new item is included, the inclusion of the same dollar amount for that new item in both the numerator and the denominator of the fraction will reduce the overall weighted index result (i.e., it will cause the index computed for the pool to be lower than it would be if the new item(s) were not included in the repricings).

The opposite result will occur in a year where there is overall deflation in the dollar-value pool. New item treatment (at 1.000) will raise or increase the overall weighted index result if there would otherwise be overall deflation for the year in the pool.

DETAIL LISTINGS

We have included the first page of the New Automobiles Report (Page 1 of 11) on page 58 and the first page of the New Light-Duty Truck Report (Page 12 of 16) on page 59. If you would like to receive a copy of the entire Report, please write or e-mail us with your request.

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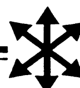

SUPERLIFO™ vs. IRS 2012 NEW ITEMS LISTS

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COMPARISON OF "UNOFFICIAL" NEW ITEM CATEGORY LISTS
SUPERLIFO™ AND IRS MOTOR VEHICLE TECHNICAL ADVISOR PROGRAM

NEW AUTOMOBILES AND LIGHT-DUTY TRUCKS
INVOLVING MANUFACTURER MODEL YEARS 2011 & 2012

SUPERLIFO™ - NEW ITEMS LIST FOR CALENDAR YEAR 2011 DEALERS & IRS MOTOR VEHICLE TECHNICAL ADVISOR PROGRAM (DECEMBER, 2011 CALENDAR YEAR)

LEGEND / COMMENT CODE

D =	PREVIOUSLY INCLUDED IN 12/31/10 LIST
OPTION =	OPTION PACKAGES / MOST DETAILED DESCRIPTION
REGION =	DIFFERENT PRODUCT REQUIREMENTS OR OPTION PACKAGES WHICH VARY DEPENDING ON REGIONAL CONSIDERATIONS
TIMING =	TIMING DIFFERENCE: IRS RECEIVED INFO EARLIER OR LATER
DIFSC =	DIFFERENT INFORMATION SOURCES AVAILABLE TO IRS AND / OR TO *SUPERLIFO™*

NUMBER OF NEW ITEMS

	SUPERLIFO™ CATEGORY	IRS CATEGORY
AUTOMOBILES	386	269
LIGHT-DUTY TRUCKS	121	134
TOTAL NEW ITEM CATEGORIES	507	403

COMPARISON OF "UNOFFICIAL" NEW ITEM CATEGORY LISTS

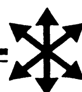
SUPERLIFO™ AND IRS / MOTOR VEHICLE TECHNICAL ADVISOR PROGRAM
NEW AUTOMOBILES AND LIGHT-DUTY TRUCKS
FOR CALENDAR YEAR DEALERS - DECEMBER 31, 2011

	LEFT-HAND COLUMN					RIGHT-HAND COLUMN
	SUPERLIFO SAID NEW (A)	IRS SAID NEW (B)	*SUPERLIFO* & IRS BOTH AGREE (A - C)	(B - D)	*SUPERLIFO* SAID NEW, IRS SAID CONTINUING (C)	IRS SAID NEW, *SUPERLIFO* SAID CONTINUING (D)
AUTOS						
Page 1	19	26	10	10	9	16
Page 2	25	37	19	19	6	18
Page 3	35	39	31	31	4	8
Page 4	43	38	37	37	6	1
Page 5	22	34	16	16	6	18
Page 6	38	31	26	26	12	5
Page 7	30	20	6	6	24	14
Page 8	38	12	8	8	30	4
Page 9	44	11	11	11	33	0
Page 10	47	5	5	5	42	0
Page 11	45	16	14	14	31	2
TOTAL AUTOS	386	269	183	183	203	86
TRUCKS						
Page 12	13	33	4	4	9	29
Page 13	31	31	17	17	14	14
Page 14	25	41	24	24	1	17
Page 15	16	25	0	0	16	25
Page 16	36	4	2	2	34	2
TOTAL TRUCKS	121	134	47	47	74	87
TOTAL AUTOS & TRUCKS	507	403	230	230	277	173

Out of the differences in Columns C & D, 36 cars and 30 truck differences were not "interpretive" differences. Rather, these 66 differences were solely due to timing in the sense that S/L and the IRS obtained the vehicle data in different time periods and therefore the vehicles did (or did not) appear on one list, but not on the other. In other words, these 66 "timing" differences would not exist if the comparison of lists were made over a 2 year period.

TIMING DIFFERENCES

IRS RECEIVED INFO EARLIER OR LATER				**SUPERLIFO** RECEIVED INFO EARLIER OR LATER			
CARS - EARLIER	0	TRUCKS - EARLIEF	0	CARS - EARLIER	36	TRUCKS - EARLIER	30
CARS - LATER	36	TRUCKS - LATER	30	CARS - LATER	0	TRUCKS - LATER	0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COMPARISON OF "UNOFFICIAL" NEW ITEM CATEGORY LISTS
SUPERLIFO™ AND IRS MOTOR VEHICLE TECHNICAL ADVISOR PROGRAM

NEW AUTOMOBILES AND LIGHT-DUTY TRUCKS
FOR CALENDAR YEAR DEALERS - DECEMBER 31, 2011

		SUPERLIFO™ - NEW ITEMS LIST FOR CALENDAR YEAR 2011 DEALERS				*IRS MOTOR VEHICLE INDUSTRY (DECEMBER, 2011 CALENDAR YEAR)*		*PAGE 1 OF 16*
MAKE	*MODEL*	*BODY STYLE*	*MODEL CODE*	*YES*	*NO*	*BODY STYLE*	*COMMENT CODE*	*COMMENTS*
		NEW AUTOMOBILES				NEW AUTOMOBILES		
ACURA	RL			X		4D SEDAN W/ADVANCE	DIFSC	12 MODEL IRS INTRO 4TH Q 2011
	TL	4-DR SEDAN V6 3.5 AUTO W/ADVANCE	UA8F7 ADV	X				12 MODEL
		4-DR SH-AWD SEDAN V6 3.7 AUTO W/ADVANCE	UA9F7 ADV	X				12 MODEL
	TSX	4-DR SEDAN L4 2.4 6-SP W/SPECIAL EDITION	CU2E8		X		DIFSC	12 MODEL WJD INTRO 8/1/11
		4-DR SEDAN L4 2.4 AUTO	CU2F4		X		DIFSC	12 MODEL WJD INTRO 8/1/11
		4-DR SEDAN L4 2.4 AUTO W/SPECIAL EDITION	CU2F8		X		DIFSC	12 MODEL WJD INTRO 8/1/11
			CW2H5BJW	X		4D WAGON	TIMING	11 MODEL WJD INTRO 12/15/10
			CW2H6BKWX	X		4D WAGON W/TECH PKG	TIMING	11 MODEL WJD INTRO 12/15/10
AUDI	A6	4-DR SEDAN PREM 4CYL 2.0 TFSI FT MTRONIC CVT	4G25MH	X				12 MODEL
			4G25MH	X		4D SEDAN DVT FRONT TRAK 2.0T PREMIUM PLUS	OPTION	12 MODEL IRS INTRO 4TH Q 2011
		4-DR SEDAN PREM 6CYL 3.0 TFSI TIP QUATTRO AUTO	4G251A	X				12 MODEL
			4G251A	X		4D SEDAN TIP QUATTRO 3.0 PREMIUM PLUS	OPTION	12 MODEL IRS INTRO 4TH Q 2011
			4G251A	X		4D SEDAN TIP QUATTRO 3.0 PRESTIGE	OPTION	12 MODEL IRS INTRO 4TH Q 2011
	A7	4-DR SEDAN PREM 6 CYL 3.0 TFSI TIP QUATTRO AUTO	4GA51A	X				12 MODEL
			4GA51A	X		5D COUPE QTTRO PREMIUM PLUS	OPTION	12 MODEL IRS INTRO 3RD Q 2011
			4GA51A	X		5D COUPE QTTRO PRESTIGE	OPTION	12 MODEL IRS INTRO 3RD Q 2011
	A8	4-DR AWD SEDAN L W12 12CYL 6.3 FSI QUATTRO TIP	4H85GA	X				12 MODEL
	R8	2-DR AWD COUPE GT V10 5.2 FSI RT QUATTRO	42253B	X				12 MODEL
	S5	2-DR COUPE V8 4.2 SPEC ED QUATTRO TIP	8T3XBL		X		DIFSC	12 MODEL WJD INTRO 6/17/11
	TT	2-DR COUPE 5CYL 2.5 FSI QUATTRO 6-SP	8J35R9	X				12 MODEL
BENTLEY	CONTINENTAL	2-DR AWD CONVERT SUPERSPORT W12 6.0 AUTO	3W787A		X			12 MODEL IRS DOES NOT LIST MFR
		2-DR AWD CONVERT GTC W12 6.0 6-SP	39411A		X			12 MODEL IRS DOES NOT LIST MFR
		2-DR AWD COUPE GT W12 6.0 AUTO	39311A		X			12 MODEL IRS DOES NOT LIST MFR
BMW	1 SERIES		121A	X		128I SERIES 2D COUPE		12 MODEL - MFRS CODE CHANGE
			121D	X		128I SERIES 2D CONVERTIBLE		12 MODEL - MFRS CODE CHANGE
			121C	X		135I SERIES 2D COUPE		12 MODEL - MFRS CODE CHANGE
			121F	X		135I 2D CONVERTIBLE		12 MODEL - MFRS CODE CHANGE
	ALPINA		1191	X		B7 SERIES 4D SEDAN	TIMING	11 MODEL WJD INTRO 3/1/10
			1193	X		B7 SERIES 4D SEDAN LWB	TIMING	11 MODEL WJD INTRO 3/1/10
			1192	X		4D SEDAN X	TIMING	11 MODEL WJD INTRO 3/1/10
			1194	X		4D SEDAN X LWB	TIMING	11 MODEL WJD INTRO 3/1/10
	5 SERIES	528I XDRIVE 4-DR AWD SEDAN I-4 2.0T	5B	X				12 MODEL
	6 SERIES	640I 2-DR CONVERTIBLE I-6 3.0T AUTO	6D		X		DIFSC	12 MODEL WJD INTRO 2/8/11
		640I 2-DR COUPE I-6 3.0T AUTO	6A		X		DIFSC	12 MODEL WJD INTRO 2/8/11
		650I 2-DR CONVERTIBLE V8 4.4TT	6E	X				12 MODEL

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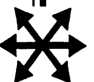

MAKE	MODEL	SUPERLIFO™ - NEW ITEMS LIST FOR CALENDAR YEAR 2011 DEALERS BODY STYLE	MODEL CODE	YES	NO	IRS MOTOR VEHICLE INDUSTRY (DECEMBER, 2011 CALENDAR YEAR) BODY STYLE	COMMENT CODE	PAGE 12 OF 16 COMMENTS
		LIGHT-DUTY TRUCKS				**LGHT-DUTY TRUCKS**		
BUICK	**ENCLAVE**	4-DR AWD UTILITY V6 3.6 1SD CONVENIENCE	4V14526 CONV		X		DIFSC	12 MODEL WJD INTRO 6/17/11
		4-DR FWD UTILITY V6 3.6 1SD CONVENIENCE	4R14526 CONV		X		DIFSC	12 MODEL WJD INTRO 6/17/11
			4R14526	X		4D UTILITY FWD LEATHER	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
			4V14526	X		4D UTILITY FWD LEATHER	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
			4R14526	X		4D UTILITY PREMIUM	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
			4V14526	X		4D UTILITY AWD PREMIUM	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
CADILLAC	**ESCALADE**		6K10936	X		LUXURY 4D UTILITY AWD EXT	D	11 MODEL IRS ON 12/31/10 LIST
			6C10906	X		ESV LUXURY 4D UTILITY 2WS	D	11 MODEL IRS ON 12/31/10 LIST
			6K10906	X		ESV LUXURY 4D UTILITY AWD	D	11 MODEL IRS ON 12/31/10 LIST
			6C10706	X		PREMIUM 4D UTILITY 2WD	D	11 MODEL IRS ON 12/31/10 LIST
			6K10706	X		PREMIUM 4D UTILITY AWD	D	11 MODEL IRS ON 12/31/10 LIST
			6K10936	X		PREMIUM 4D UTILITY AWD EXT	D	11 MODEL IRS ON 12/31/10 LIST
			6C10906	X		ESV PREMIUM 4D UTILITY 2WD	D	11 MODEL IRS ON 12/31/10 LIST
			6K10906	X		ESV PREMIUM 4D UTILITY AWD	D	11 MODEL IRS ON 12/31/10 LIST
CHEVROLET	**CAPTIVA**		1LD26	X		4D UTILITY FWD LS (Fleet)	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
			1LE26	X		4D UTILITY FWD LT (Fleet)	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
			1LW26	X		4D UTILITY AWD LTZ (Fleet)	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
	EQUINOX		1LH26	X		2LT 4D UTILITY FWD	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
			1LK26	X		2LT 4D UTILITY AWD	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
	EXPRESS		CG33406	X		G3500 WAGON SWB W/DIESEL	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
			CG33706	X		G3500 WAGON LWB W/DIESEL	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
	SILVERADO		CC10543	X		XFE CREW CAB 2WD	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
	TRAVERSE		CR14526	X		2LT 4D UTILITY FWD	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
			CV14526	X		2LT 4D UTILITY AWD	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
DODGE	**DURANGO**		WDDM75	X		HEAT 4D UTILITY	TIMING	11 MODEL WJD INTRO 11/1/10
			WDEM75	X		HEAT 4D UTILITY AWD	TIMING	11 MODEL WJD INTRO 11/1/10
			WDDS75	X		R/T 4D UTILITY	TIMING	11 MODEL WJD INTRO 11/1/10
			WDES75	X		R/T 4D UTILITY AWD	TIMING	11 MODEL WJD INTRO 11/1/10
	GRAND CARAVAN		RTKX53	X		4D WAGON FWD R/T	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
		4-DR VAN V6 3.6 AUTO	RTKH53		X		DIFSC	12 MODEL WJD INTRO 7/1/11
		4-DR VAN SE V6 3.6 AUTO W/29E	RTKH53 29E		X		OPTION	12 MODEL WJD INTRO 7/1/11
	JOURNEY	4-DR FWD SPORT WGN SE 4CYL 2.4	JCDH49		X		DIFSC	12 MODEL WJD INTRO 7/1/11
		4-DR FWD SPORT WGN SE 4CYL 2.4 AUTO W/22F	JCDH49 22F		X		OPTION	12 MODEL WJD INTRO 7/1/11
	RAM CHASSIS CAB	3500 2WD REG CAB SLT 187.5WB	DD3L64		X		DIFSC	12 MODEL IRS DOES NOT LIST MODEL
		3500 4WD CREW CAB SLT/LARAMIE 172.4WB	DD8L93		X		DIFSC	12 MODEL IRS DOES NOT LIST MODEL
		3500 4WD REG CAB I6 6.7 AUTO	DD8L64 REG		X		DIFSC	12 MODEL IRS DOES NOT LIST MODEL
	RAM PICKUP		DS1R98	X		LARAMIE LONGHORN CREW CAN 2WD	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
			DS6R98	X		LARAMIE LONGHORN CREW CAN 4WD	DIFSC	12 MODEL IRS INTRO 3RD Q 2011
		2500 2WD CC LARAMIE LONGHORN V8 HEMI 5.4 SWB	DJ2R91	X				12 MODEL
		2500 2WD CC LARAMIE LONGHORN V8 HEMI 5.4 LWB	DJ2R92	X				12 MODEL
		2500 2WD MEGA CAB LARAMIE LONGHORN V8 HEMI 5.7	DJ2R81	X				12 MODEL
		2500 4WD CC LARAMIE LONGHORN V8 HEMI 5.7 SWB	DJ7R91	X				12 MODEL

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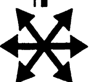

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www.defilipps.com

A Periodic Update of LIFO - News, Views and Ideas

LIFO LOOKOUT

INDEX OF ARTICLES

MARCH, 1991 - DECEMBER, 2011

I. Cost Eligibility Requirement

II. Financial Statement Reporting Conformity Requirements

III. Consent Requirement ... Form 970 & LIFO Election Considerations

IV. Books & Records; Accuracy-Related Penalties, etc.

V. Calculations

VI. *Item* Definition & Pooling

VII. Increment Valuation Methods

VIII. Automobile Dealer LIFO Applications

IX. Replacement Cost Method for Valuing Parts Inventories

X. Manufacturers & Components-of-Cost Methods

XI. Other Specific Businesses

XII. IPIC (Inventory Price Index Computation) Method

XIII. Planning, Projecting & Managing Year-End Inventory Levels

XIV. LIFO Recapture Tax & Entity Changes: Section 1363(d), C to S, LLC, etc.

XV. Changing Methods of Accounting for LIFO Inventories

XVI. Terminating LIFO Elections

XVII. Timelines & *Practice Guides*

XVIII. Other ... Historical Development of LIFO, Repeal Proposals, etc.

XIX. Finding Lists

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