



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. THIS ISSUE COMPLETES OUR 15th YEAR ... AND WE THANK YOU FOR YOUR INTEREST & SUPPORT.

A quick glance shows that this is Vol. 15, No. 4 of the *LIFO Lookout*. I can't believe how quickly the time has gone by, nor can I express how much I have enjoyed ... and continue to enjoy ... preparing each issue. We thank you for your continued interest and support and look forward to reporting LIFO news and developments in the future.

#2. ARE YOUR DEALERS' LIFO RESERVES GOING TO GET WHACKED?

In the last issue, we discussed a number of factors suggesting that dealers needed to be looking ahead to see how they might be impacted by either lower inventory levels or adverse price changes.

We have seen a number of situations where dealers facing significant decreases in their year-end inventory levels will experience virtually no repayment of their LIFO reserves. Why? Because their LIFO layer histories show that in 2004, they built up their inventory levels significantly and the anticipated (lower) inventory levels at the end of 2005 will simply return them to the approximate levels they were at at the end of 2003.

There have been a few instances, however, where dealers who have been on LIFO for many years will have significant repayments because the inventory drop at the end of 2005 will go all the way back to some very old layers which have very high repayment potential ... some as much as 65 to 70 cents on the dollar.

Hopefully, your LIFO layer histories and reconciliations make it easy for you to spot and diagnose these situations very quickly and accurately.

Our database of dealer price information shows very little inflation for most makes this year. Accordingly, LIFO reserves should not be jumping up or

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down significantly on account of inflation or deflation. (For more, see item #5 below.)

#3. FORM 970 IS ABOUT TO GET A REAL FACE-LIFT.

Form 970 is the form you include in the tax return when the taxpayer is electing LIFO. For longer than most of us can remember, it has been a relatively innocuous-looking 1-page form. It has been changed slightly over the years, but none of these revisions have been major. That's about to change.

The Service has not officially released the new Form 970. The draft dated October 24, 2005 is on pages 2-3, and it is significantly different from its predecessor. The Form expands to 2 pages. It introduces several new developments. And, it appears to reflect a significant policy change by the IRS towards the use of the dual-index method.

It's likely that the new Form will have to be used to make LIFO elections in calendar year 2005 tax returns. When the revised Form becomes "official" and related instructions for the Form are released, we will analyze them fully (most likely in the next / March 2006 issue of the *LIFO Lookout*).

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