



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. INDEX OF LIFO LOOKOUT ARTICLES

THROUGH DEC. 31, 2005. We have expanded and updated our *Index* of all articles appearing in the *LIFO Lookout* from our first issue, March, 1991, through December, 2005.

This *Index of Articles* is available for your review on our web site, www.defilippis.com. You can print the *Index* out on your own or, if you prefer, contact us for a printed copy.

This *Index of Articles* is divided into seventeen sections which list all articles by key topic or subject. It also includes *Finding Lists* for all tax cases, Revenue Rulings and Procedures, Letter Rulings (including TAMs), IRS Coordinated Issue Papers, Field Service Advice Memoranda, Motor Vehicle Technical Advisor *Automotive Alerts*, and *Practice Guides*.

Typo correction. In the course of updating our compilation, I noticed that in Update #6 on page 2 of the September 2005 *LIFO Lookout*, the reference to the IRS Ruling on financial statement conformity should have been to LTR 200540005.

#2. DID YOUR DEALERS' LIFO RESERVES GET WHACKED?

In our last issue, (Update #2) we asked whether you thought your dealers' LIFO reserves were going to get "whacked" ... by which we meant: were they going to be severely reduced at Dec. 31, 2005?

Reviewing our own recent experience on this, and reflecting on conversations with several other CPAs, here's the way things turned out.

For new vehicles ... overall inventory levels were considerably lower at year-end 2005 than they were at the end of 2004.

As a result, decrements of various sizes were carried back against prior years' increments. The extent to which any dealer's LIFO reserve was reduced by this process depended on which years' layers were being invaded. As we've generalized

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about this before, whether a dealer has a large repayment, a small repayment, or no repayment at all of the LIFO reserve depends on the specific LIFO layer structure and valuations for those layers.

All Saturn dealers using the Alternative LIFO Method ... were burned severely by major **deflation** in new vehicle prices.

This result had nothing to do with the levels of their year-end inventories. As discussed more fully in Update #3, many Saturn dealers felt they had virtually no choice but to go off LIFO, rather than face the consequences of staying on.

For used vehicles on LIFO ... the results for 2005 were more favorable than in prior years. In looking at the used vehicle LIFO calculations for 20 dealerships (selected at random from all over the country, rather than concentrated in one area), here's what we found.

Pool #1 - Used automobiles ... in 19 out of 20 calculations for this pool, there was inflation rather than deflation. The inflation rates ranged from just slightly over ½% to as high as 9%. The used vehicle inventories showing the inflation percentages at the high end of the range were located in the Southwest.

Pool #2 - Used light-duty trucks ... only 5 out of 20 used truck pools showed inflation, meaning that 15 see **LIFO UPDATE**, page 2