



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. POSSIBLE REPEAL OF LIFO ... REP. RANGEL PROPOSES LIFO REPEAL AS A KEY "REVENUE RAISING" COMPONENT.

Over a year ago, we reported that in June 2006, the Senate Finance Committee held a hearing on the viability (i.e., possible repeal) of the use of the LIFO inventory method.

Since then, things had been pretty quiet until late October 2007 when House Committee Ways and Means Chair Charles Rangel (D-NY) introduced H.R. 3970. Officially, this proposed legislation has the short title: *Tax Reduction and Reform Act of 2007*. Unofficially, it has been dubbed the "Mother-of-All-Tax-Reform-Bills" or the "Trillion Dollar Tax Bill."

Rep. Rangel's comprehensive bill contains 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.

H.R. 3970 also includes several corporate tax reforms, one of which would be the reduction of the top corporate marginal tax rate from 35% to 30.5%.

How would all of these wonderful things be paid for? Rep. Rangel's bill proposes to finance many of these basically by (1) repealing the use of the LIFO inventory method and the use of the lower-of-cost-or-market inventory method (projected to result in \$114 billion in increased revenues) and by (2) repealing the Section 199 domestic production deduction (projected to result in \$115 billion in increased revenues).

In H.R. 3970, the section containing the repeal of LIFO would allow taxpayers a spread period of 8 years for taking their LIFO reserves into income.

You've probably already seen details on the proposed rate reductions, etc., and we won't go into all of that here. It is unlikely that any significant action will be taken on this bill before year-end, or even in 2008.

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What is important is that the repeal of LIFO has finally made it to the top of the list of revenue-raisers that Congress will consider when it decides, probably in 2009, to make major tax reforms and needs to find a way to pay for them.

#2. WHAT'S GOING TO HAPPEN TO DEALERS' LIFO RESERVES AT YEAR-END? A glance at our "One-of-Each" summary of inflation indexes for 2007 on page 21 shows that we can pretty much expect modest inflation across the board for nearly all new automobiles and new light-duty truck pools.

Accordingly, if a dealership's LIFO pools are about the same in dollar size as last year's, then there should be modest increases in the LIFO reserves for both pools this year.

#3. YEAR-END PROJECTIONS FOR AUTO DEALERS BASED ON "ONE-OF-EACH" MIX ASSUMPTION. As we do every year at this time, we've included detailed information to help you estimate changes in your dealers' LIFO reserves before you do the final calculations after year-end.

To assist in making year-end projections, each year we provide a listing for *new vehicle* LIFO inventories showing weighted average inflation (or deflation)

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