



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 year-end closes in, TRADE DISCOUNTS & ADVERTISING EXPENSE CHANGES IN ACCOUNTING METHOD ARE STILL THE RIGHT ANSWER FOR DEALERS LOOKING FOR BIG, ONE-TIME TAX DEDUCTIONS. As we pointed out in our year-end update last year, the big attraction is that these method changes, like the initial adoption of LIFO, result in the largest part of the benefit being deductible in the year of change. Like LIFO, it's one big beneficial *timing difference*.

The entire last issue of the *LIFO Lookout* discussed and illustrated many of the details. For auto dealers using LIFO, the benefits of making these changes can be significant. The Section 481(a) adjustments required to implement these changes will be *negative* adjustments. The great news is that the entire amount of the adjustment is 100% deductible in the year of change.

Even better is the fact that these deductions (i.e., the reductions of LIFO valuation of opening inventory in the year of change) are permanent deductions. They are locked into, or embedded, in the LIFO layer valuations. As a result, the amount of the Section 481(a) deduction for a LIFO taxpayer will only be paid back or offset in the future under certain circumstances, and then only to a limited degree.

Once the change has been made, only minor calculations need to be made at each year-end to determine the amount of cost reduction for trade discounts and advertising fees to be pulled out of ending inventory cost.

During 2003, we have already made these changes in accounting methods on a cost effective, turn-key basis for many of our clients.

We also felt this was important enough to contact all of our dealer clients and/or their CPAs to alert them in writing to this development/tax strategy. If

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you'd like to see how we worded our letter to our clients on this subject, see page 4.

Some dealers have indicated that they prefer to wait until next year to make the change. Their basic reason for putting off making the change was because their tax reduction strategies for 2003 are already in place ...and they don't need more deductions right now. However, they are planning to make the change next year, with 2004 as the year-of-change.

In some cases, the CPAs who we've spoken with about this just don't seem to get it. They think that it's foolish (some say even "unnecessary") to make the change because they can't "sell it" to their dealers. Is that stupid, or what? These CPAs are adamantly willing to continue to use an accounting method for trade discounts that is *illegal*. They see nothing wrong with continuing to use a method that is not authorized by the Income Tax Regulations.

Our questions to them are: "What else are you avoiding or letting your dealer avoid because you don't like what the Regulations say?" Reminding them that they should be putting a Form 8275-R in the income tax returns falls on deaf ears.

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