



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 LOOKOUT ARTICLES THROUGH DECEMBER 31, 2002 IS NOW AVAILABLE.

We have updated and expanded our previous index of all articles appearing in the *LIFO Lookout* from our first issue, over 12 years ago (March, 1991) through December, 2002.

You can see and print the entire *Index of Articles* on our web site, www.defilippis.com. A limited number of printed copies is available upon request.

#2. PROPOSAL FOR SEPARATE POOL TREATMENT FOR "CROSSOVER" VEHICLES.

We recently submitted our thoughts to the IRS on the advisability of creating a third pool for LIFO purposes for crossover vehicles for dealers using the Alternative LIFO Methods for new and/or for used vehicles. See pages 3-5 for the details.

#3. IRS ISSUES SAFE HARBOR ALTERNATIVE VALUATION METHOD FOR CORE INVENTORIES.

For several years, we have followed *Consolidated Manufacturing, Inc.* through the Tax Court and the Appeals Court as it unsuccessfully tried to save its LIFO election. In a related development, the IRS recently issued Revenue Procedure 2003-20. This provides a safe harbor method for core inventory valuations for those who are using the lower-of-cost-or-market inventory valuation method.

However, this method will not apply to taxpayers who are currently valuing their inventories of cores at LIFO cost unless they concurrently make certain other changes in their accounting methods. Revenue Procedure 2003-20 is summarized on pages 6-7.

#4. IRS CLARIFIES APPLICATION OF CONFORMITY REQUIREMENT TO CONSOLIDATED GROUP MEMBERS.

Every year, we remind our readers of the importance of complying with the various financial statement LIFO conformity requirements in issuing their year-end reports. These

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requirements increase when a parent corporation is issuing financial statements that include the members of its consolidated parent-subsidary group.

If subsidiaries use the LIFO method, then their parent also must use LIFO on the financial statements.

The IRS was recently asked whether these requirements should be applied to a consolidated group of corporations at the individual group member level ... or should it be applied to the group as a whole?

Letter Ruling 200239032 involved this fact pattern: A parent corporation has 4 subsidiaries ... 3 of the subsidiaries use LIFO for valuing their inventories, the 4th subsidiary previously used LIFO but has changed from LIFO to FIFO ... the parent corporation maintains no inventories of its own, and reports the inventory of its affiliated corporations in its consolidated financial statements under the LIFO method. In its consolidated financial statements for the current year, the parent corporation proposes to use the FIFO method of accounting for the inventory of the subsidiary that went off of LIFO during the year.

The IRS said this financial statement treatment would not be in violation of the LIFO conformity requirement(s).

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