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A Quarterly Update of LIFO - News, Views and Ideas

LIFO LOOKOUT

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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. "IF IT AIN'T BROKE, DON'T FIX IT." The 4th Quarter Issues of the *LIFO Lookout* have always emphasized two topics ... (1) the importance of paying close attention to the LIFO conformity requirements for year-end financial statements, and (2) the need for adequate projections of the anticipated changes in the LIFO reserves.

Several years ago, I wrote a comprehensive article combining both topics. Every year I review that article to see how it should be updated or expanded. For many years, including this one, I've concluded that there's not much point in trying to "reinvent the wheel." It's not that I'm lazy, mind you. It's just that all the material you need to know is there, and I still can't think of a better way to explain it to you.

There is, however, one slight exception. In the 2nd Quarter *LIFO Lookout* this year, I wrote an article on the changes in LIFO reserves for auto dealers applying LIFO to their used vehicle inventories. In that article, I expanded a previous summary on the factors that cause LIFO reserves to go up or down. On page 23, you'll find the upgraded version of the previous summary.

#2. CHANGES IN ACCOUNTING METHOD FOR TRADE DISCOUNTS & FOR CERTAIN ADVERTISING FEES & EXPENSES. This is the 3rd year that we've really harped on the benefits of these method changes. At this point, you're either a "believer" or you're not. These changes in method are still the right answer for dealers looking for big, one-time tax deductions. We've devoted significant portions of several issues of the *LIFO Lookout* to discussing and illustrating many of the details.

As we've pointed out previously, the big attraction is that these method changes result in the largest part of the benefit being deductible in the year of change. Like LIFO, it's one big beneficial *timing difference.* And, for auto dealers using LIFO, the Section 481(a) adjustment required to implement these changes will be a ***negative*** adjustment that 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 essentially 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, calculations need to be made at each subsequent year-end to determine the amount of cost reduction for trade discounts and advertising fees to be pulled out of ending inventory cost. But that is no big deal.

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