



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. CHANGES IN ACCOUNTING METHODS FOR TRADE DISCOUNTS & FOR CERTAIN ADVERTISING FEES & EXPENSES. This issue of the *LIFO Lookout* contains Part II of our continuing coverage of this subject. Part I can be found in the September 2003 issue.

For a look at how the publicly-held dealership groups have handled the underlying change in GAAP effective for 2003, see page 14. We have included the results of our analysis of the consent letters received from the IRS by dealers who have requested permission to change their accounting method for advertising fees and expenses. Ordinarily, dealers have requested permission to make these changes at the same time as they have automatically changed (or more technically, "*corrected*") their methods of accounting for trade discounts ... floorplan assistance payments.

Our opinion is that CPAs are doing a disservice to their dealer clients if they have not encouraged and assisted them in complying with the Code and with GAAP on these matters.

We'd be happy to print rebuttals from CPAs who feel otherwise.

#2. LIFO RECAPTURE POTENTIAL IN PARTNERSHIP EXCHANGES WILL BE INCREASED BY CHANGES IN 1363(d) REGULATIONS. On August 13, 2004, the IRS published proposed changes that will extend certain rules involving the recapture of LIFO reserves in special situations involving C corporations converting to S corporations.

In part, these proposed changes are motivated by the IRS' dissatisfaction with the final outcome—which was its defeat upon appeal—in the *Coggin Automotive Corp. v. Comm.* case. Somehow or other, seeing a clever taxpayer avoid, escape or otherwise successfully dance around \$4.8 million of LIFO recapture was just too much for the IRS. The

LOOKOUT LOOKS INTO

LIFO UPDATE	1
CHANGES IN ACCOUNTING METHODS TO ELIMINATE TRADE DISCOUNTS (FLOORPLAN ASSISTANCE PAYMENTS) & CERTAIN ADVERTISING FEES & EXPENSES FROM INVENTORY COSTS ... PART II	3
IRS NATIONAL OFFICE LETTERS APPROVING CAMs ... FOR ADVERTISING FEES & EXPENSES	
TYPICAL EXAMPLE OF IRS CHANGE LETTER	6
COMMENTS, EXPLANATIONS & VARIATIONS	9
LTR 9243010 ... RE: ADVERTISING FEES	12
GAAP REPORTING CHANGES FOR TRADE DISCOUNTS BY PUBLICLY-HELD DEALERSHIP GROUPS	14
LIFO RESERVE RECAPTURE IN CERTAIN TRANSACTIONS WILL BE EXTENDED BY PROPOSED CHANGES TO SEC. 1363(d) REGULATIONS	16
PROPOSED CHANGES TEXT & EXAMPLES	20
GENERAL RULES FOR MORE TYPICAL C TO S CHANGES ...	23
USING BLS INDEXES FOR LIFO CALCULATIONS ...	
<i>IPIC LIFO RESOURCE GUIDE FOR CPAs</i>	
BY LEE RICHARDSON, CPA	24
COMMON LIFO MISCONCEPTIONS	26
OPPORTUNITIES FOR IMPROVEMENT	27
ADVANTAGES OF USING THE IPIC METHOD	28
IPIC LIFO SUCCESS STORIES	29

Coggin case and its reversal upon appeal were discussed in previous issues of the *LIFO Lookout*.

These changes will set forth the LIFO recapture requirements when a C corporation holds inventory accounted for under the Last-In, First-Out method indirectly through a partnership. The end result is that a C corporation holding an interest in a partnership that owns LIFO inventory must include the **lookthrough LIFO recapture amount** in its gross income if the corporation either elects to be an S corporation or transfers its interest in the partnership to an S corporation in a nonrecognition transaction. The proposed Regulations also prescribe corresponding basis adjustments under certain circumstances.

see LIFO UPDATE, page 2