

Application To Use LIFO Inventory Method

▶ **Attach to your tax return.**

Name	Identifying number
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Check one: First election Subsequent election

Part I Statement of Election

	Yes	No
A The taxpayer elects to adopt and use the LIFO inventory method provided by section 472. The taxpayer will use (or expand) the LIFO inventory method for the first tax year ending (month, day, year) ▶ for the following goods (see instructions):.....		
B The taxpayer agrees, as required by Regulations section 1.472-4, to make any adjustments that the IRS may require, on the examination of the taxpayer's income tax return, to clearly reflect income for the years involved in the change to or from the LIFO inventory method or due to the use of the LIFO inventory method.		
C Was the beginning inventory for the items specified in Item A above valued at cost (as required by section 472(d)) for the first tax year this application applies? If "No," attach an explanation		
D Will inventory be taken at actual cost regardless of market value? If "No," attach an explanation		

Part II Other Information

1 Nature of business ▶		
2 Inventory method used until now ▶		
3 Will any adjustment that resulted from the change to the LIFO method be included in income over a 3-year period? If "No," attach an explanation		
4 List goods subject to inventory that will not be inventoried under the LIFO method ▶		
5 Were the goods specified in Part I, Item A treated as acquired at the same time and at a unit cost equal to the actual cost of the total divided by the number of goods on hand? If "No," attach an explanation		
6a Did you issue credit statements or reports to shareholders, partners, other proprietors, or beneficiaries covering the first tax year to which this application relates?		
b If "Yes," state to whom and on what dates ▶		
c Show the inventory method used to determine income, profit, or loss in those statements ▶		
7a Check method used to figure the cost of the goods in the closing inventory over those in the opening inventory (see instructions): <input type="checkbox"/> Most recent purchases <input type="checkbox"/> Earliest acquisitions during the year <input type="checkbox"/> Average cost of purchases during the year <input type="checkbox"/> Other (attach explanation)		
7b The taxpayer selects the month of as the representative month used in selecting the index or indexes used to determine the current-year cost of the taxpayer's inventory pool(s) under Regulations section 1.472-8(e)(2)(ii) (see instructions). This applies only to taxpayers using the inventory price index computation method.		
8 Method used in valuing LIFO inventories: <input type="checkbox"/> Unit method <input type="checkbox"/> Dollar-value method (see instructions)		
9 If you use pools, check the box that indicates the pooling method. List and describe the contents of each pool in an attached statement. <input type="checkbox"/> By line, type, or class of goods authorized by Regulations section 1.472-8(c) (retailer, wholesaler, jobber, or distributor) <input type="checkbox"/> Pooling method authorized by Regulations section 1.472-8(e)(3)(iv) (retailer, wholesaler, jobber, or distributor) <input type="checkbox"/> Natural business unit authorized by Regulations section 1.472-8(b)(1) (manufacturer or processor) <input type="checkbox"/> Multiple pools authorized by Regulations section 1.472-8(b)(3)(i) (manufacturer or processor) <input type="checkbox"/> Raw material-content authorized by Regulations section 1.472-8(b)(3)(ii) (manufacturer or processor) <input type="checkbox"/> Simplified dollar-value method under section 474 (see instructions) <input type="checkbox"/> Other (describe and justify)		
10 Method used in computing LIFO value of dollar-value pools (see instructions and attach required information): <input type="checkbox"/> Double-extension (describe) <input type="checkbox"/> New Vehicle Alternative LIFO <input type="checkbox"/> Index (describe and justify) <input type="checkbox"/> Link-chain (describe and justify) <input type="checkbox"/> Used Vehicle Alternative LIFO <input type="checkbox"/> Other method (describe and justify) <input type="checkbox"/> Published price index (describe)		
11 Attach a statement briefly describing the cost system used.		
12 Did you receive IRS consent to change your method of valuing inventories for this tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No		
13 Did you ever use the LIFO inventory method before? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach a statement listing the tax years you used LIFO and explain why you discontinued it.		

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of form. Form 970 is filed with your income tax return to adopt or expand the last-in, first-out (LIFO) inventory method described in section 472. If you prefer, you may file a statement that gives the same information requested on Form 970.

When to file. File Form 970 (or a similar statement) with your tax return for the first tax year you intend to use or expand the LIFO method.

If you filed your return for the tax year in which you wish to adopt and use the LIFO inventory method described in section 472 without making the election, you may make the election by filing an amended return within 12 months of the date you filed your original return. Attach Form 970 to the amended return and write "Filed pursuant to section 301.9100-2" at the top of Form 970. File the amended return at the same address the original return was filed.

Change from LIFO method. Once you adopt the LIFO method, it is irrevocable unless the IRS allows you to change to another method.

LIFO recapture amount. A C corporation must include in gross income the LIFO recapture amount (defined below) if:

1. It uses the LIFO method for its last tax year before the first tax year for which an election to be taxed as an S corporation becomes effective or
2. It transferred LIFO inventory assets to an S corporation in a nonrecognition transaction (within the meaning of section 7701(a)(45)) in which transferred assets constitute transferred basis property (within the meaning of section 7701(a)(43)).

The **LIFO recapture amount** is the amount by which the C corporation's inventory under the FIFO method (determined by using cost or market, whichever is lower) authorized by section 471 exceeds the inventory amount under the LIFO method at the close of the C corporation's last tax year as a C corporation (or for the year of the transfer, if 2 above applies).

For additional information on LIFO recapture, see Regulations section 1.1363-2 and Rev. Proc. 94-61, 1994-2 C.B. 775. Also see the instructions for Forms 1120 and 1120-A and the instructions for Form 1120S.

Specific Instructions

Identifying number. An individual's identifying number is his or her social security number. For all others, it is the entity's employer identification number.

First election or subsequent election. If this is your first election to use the LIFO method, check the box for first election. If you are expanding a prior LIFO election, check the box for subsequent election.

Part I—Statement of Election

Item A. Enter the tax year the LIFO inventory method will first be used (or expanded) and list the inventory items for which you will use this method. If this is a subsequent election, list the inventory items for which you will use this method but only for those items that are not covered under a previous LIFO election.

Attach a detailed analysis of all of your inventories as of the beginning and end of the first tax year the LIFO method will be used (or expanded) and the beginning inventory of the preceding tax year. Also, include the ending inventory reported on your tax return for the preceding tax year. See Regulations sections 1.472-2 and 1.472-3 for more details on preparing this analysis.

Part II—Other Information

Line 7a. See Regulations sections 1.472-2 and 1.472-8(e) for more information.

Line 7b. See Regulations section 1.472-8(e)(3)(iii)(C) before completing line 7b. If you do not use the retail inventory method, also see Rev. Rul. 89-29, 1989-1 C.B. 168.

Line 8. You may use the dollar-value LIFO method to determine the cost of LIFO inventories as long as you use it consistently and it clearly reflects income. Regulations section 1.472-8 gives details about this method.

Line 9. Please provide sufficient information to justify the pooling method. If you select indexes from the CPI Detailed Report, you may establish inventory pools for any group of goods included within each of the general categories of producer goods described in Table 3 of the CPI Detailed Report. Likewise, if you select indexes from the

Producer Price Indexes, you may establish inventory pools for any group of goods included within each of the general categories of producer goods described in Table 6 of the Producer Price Indexes. See Rev. Proc. 84-57, 1984-2 C.B. 496.

Simplified dollar-value LIFO method under section 474. Only small businesses whose average annual gross receipts for the 3 preceding tax years did not exceed \$5 million may elect to use the simplified dollar-value LIFO method. If the taxpayer is a member of a controlled group, the gross receipts of the group are used to determine if the taxpayer qualifies. This method requires that the taxpayer maintain a separate inventory pool for items in each major category in the applicable Government price index, and that the taxpayer make adjustments to each separate pool based on changes from the preceding tax year in the component of such index for the major category. A qualified taxpayer does not need IRS consent to elect these provisions. The election is in effect for the first year the election is made and for each succeeding year the taxpayer qualifies as an eligible small business. The election may be revoked only with IRS consent.

The simplified dollar-value method requires that general categories of inventory pools be established. The general categories are based on categories of inventory items contained in the PPI Detailed Report or the CPI Detailed Report published by the U.S. Department of Labor, Bureau of Labor Statistics. See section 474 and Regulations section 1.472-8 for more details.

Line 10. Select a LIFO computation method for the dollar-value pooling. This is not applicable to taxpayers using the specific goods (unit) method. To compute the LIFO value of a dollar-value pool, use a method described in Regulations section 1.472-8(e)(2). If you use a published price index method, indicate the specific consumer or producer price index(es) selected for each inventory pool. Generally, you must use 80% of the change in price indexes, unless you are an eligible small business, as defined in section 474(c). Provide a detailed description of the LIFO computation method you will use. If you use the link-chain, index, or "other" method, attach a detailed statement explaining how the method is justified under Regulations section 1.472-8(e)(1). In addition, if you use a link-chain method, your statement should explain why the nature of the pool makes the double-extension or index method impractical or unsuitable.

Automobile dealers engaged in the trade or business of retail sales of new automobiles or new light-duty trucks may adopt or use the New Vehicle Alternative LIFO Inventory Method under Rev. Proc. 97-36, 1997-2 C.B. 450. A new automobile dealer who previously elected this method under Rev. Proc. 92-79, 1992-2 C.B. 457 is not required to change its method of accounting to comply with Rev. Proc. 97-36. For more information, see Rev. Proc. 97-36.

Automobile dealers engaged in the trade or business of retail sales of used automobiles or used light-duty trucks may adopt or use the Used Vehicle Alternative LIFO Inventory Method under Rev. Proc. 2001-23, 2001-10 I.R.B. 784. You can find Rev. Proc. 2001-23 on page 784 of Internal Revenue Bulletin 2001-10 at www.irs.gov.

Line 12. If you filed Form 3115, Application for Change in Accounting Method, and received IRS consent to change your method of valuing inventories for this tax year, **do not** attach a copy of the approval (grant) letter. Retain a copy of the letter for your records.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their content may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

- Recordkeeping** 8 hr., 7 min.
- Learning about the law or the form** 2 hr., 47 min.
- Preparing and sending the form to the IRS** 3 hr., 2 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

