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New LIFO Inventory Pooling Method Will Benefit Auto Dealers

On March 7, 2008, the IRS issued new guidelines regarding the proper pooling treatment of automobiles, light trucks, and crossover vehicles. This new treatment no longer requires the distinction between cars and light duty trucks and the categorization of crossover vehicles, such as SUV's, vans and minivans to those pools. Dealers can now establish one pool, a New Vehicle Pool, for all vehicles.

We have all seen and experienced the shift of consumer buying patterns from cars to SUV's and light trucks. This has resulted in many dealerships recognizing income due to the erosion of LIFO layers in the car pool. The new guidelines acknowledge that the past differences between cars and trucks have been significantly reduced by the new crossover vehicles and light trucks that offer the ride, handling and amenities that consumers demand.

This change will benefit dealerships in the following ways:

- One pool will reduce or eliminate the close examination of specific models or pools, ensuring that inventory levels are maintained with no triggering of LIFO income.
- It will enable dealers to concentrate on getting the proper mix of vehicles for the geographic area in which they operate versus the proper mix of vehicles to minimize the negative effects of reduced inventories by category.
- It will enable dealers to have the proper mix of vehicles and inventory levels that will be key in maintaining profitability, particularly in the current economic environment.
- In the long run, it will create greater LIFO tax benefits, as the negative impact of fluctuations in the inventory mix will no longer erode the inventory layer.

The ability to use this new Vehicle-Pool method is effective for tax years ending on or after December 31, 2007. Downey & Company can assist you in taking advantage of this new procedure, and can advise you on the steps required to adopt this new method.

For more insights on the state of the dealer industry, e-mail Paul McGovern at pmcgovern@downeycocpa.com or call 781.849.3100.

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