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## **President Obama's budget includes a repeal of LIFO for Dealers**

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Auto dealers have been delivered another blow with the President's proposal in the fiscal 2010 budget to eliminate the use of the Last in First Out method, "LIFO", in valuing inventories. Approximately two thirds of new vehicle dealers currently use LIFO in valuing their new vehicle inventories. This proposal would take effect starting in 2012.

The average dealership carries approximately \$5,000,000 of new vehicle inventory and if they have been using LIFO for twenty years they would carry a LIFO reserve of approximately \$2,000,000. The repeal of LIFO would result in approximately \$800,000 of income tax due. Dealers that survive the current economic crisis could be faced with this untimely burden.

It is important for dealers to educate their Congressional representatives on the devastating financial impact this move will have on their companies. The financial implications of this change could result in the closure of additional stores. Lobbying efforts have been strong from many industry groups but more work needs to be done.

### **Other LIFO tidbits considering current economic and Chrysler/GM issues:**

Dealerships that are terminated by Chrysler/GM that do not have other new vehicle lines in their Corporation or LLC will have to relinquish their LIFO reserve. This will be reflected as significant income on their tax returns in 2009.

Dealerships that have their Chrysler/ GM franchises terminated and have other brands dueled in the same entity may have an "income pickup" on their 2009 tax returns as a result of lower inventory levels. For example, a dealership corporation has two brands, Toyota and Dodge, and the entity uses LIFO. The dealership typically carries 150 Toyotas and 50 Dodges in its new vehicle inventory. If the Dodge franchise is terminated in 2009, the 2009 year end inventory will be significantly lower than 2008. This will most likely result in an income pickup when calculating the LIFO reserve at year end.

The effect of this will be compounded if the President's proposal to increase the top income tax rate from 35 percent to 39.6 percent is passed.

If you have any LIFO tax planning questions, please call Paul McGovern at 781.849.3100 or email him at [pmcgovern@downeycocpa.com](mailto:pmcgovern@downeycocpa.com).

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