

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 1.472-8: Dollar value method of pricing LIFO inventories.
(Also Part I, §§ 446; 1.446-1.)

Rev. Proc. 2003-45

SECTION 1. PURPOSE

For certain accounting method changes within the inventory price index computation (IPIC) method of accounting for last-in, first-out (LIFO) inventories, this revenue procedure waives the 5-year prior change scope limitation in section 4.02(6) of Rev. Proc. 2002-9, 2002-1 C.B. 327, as modified and clarified by Announcement 2002-17, 2002-1 C.B. 561, modified and amplified by Rev. Proc. 2002-19, 2002-1 C.B. 696, and amplified, clarified and modified by Rev. Proc. 2002-54, 2002-35 I.R.B. 432.

SECTION 2. BACKGROUND

.01 The regulations under § 472 of the Internal Revenue Code provide special, elective pooling rules for LIFO inventory items accounted for under the IPIC method. See §§ 1.472-8(b)(4) (manufacturers and processors) and 1.472-8(c)(2) (wholesalers, retailers, jobbers and distributors) of the Income Tax Regulations. The special IPIC pooling rules provide two optional 5 percent rules for pooling miscellaneous items. Any change in pooling required or permitted as a result of one of these 5 percent rules is a

change in method of accounting. The taxpayer must secure the consent of the Commissioner pursuant to § 446(e) and § 1.446-1(e) before combining or separating IPIC pools, and must combine or separate IPIC pools in accordance with the requirements of the applicable regulations. §§ 1.472-8(b)(4), 1.472-8(c)(2).

.02 A taxpayer using the IPIC method of accounting for a trade or business computes the inventory price index (IPI) for a pool using an appropriate price index for an appropriate month. § 1.472-8(e)(3)(iii)(B)(1). A taxpayer not using the retail method may elect to use a representative appropriate month (representative month). The election to use a representative month is a method of accounting, and the month elected must be used for the taxable year of the election and all subsequent taxable years, unless the electing taxpayer obtains the Commissioner's consent under §§ 446(e) and 1.446-1(e) to change or revoke its election. § 1.472-8(e)(3)(iii)(B)(3).

.03 Rev. Proc. 2002-9 applies to a taxpayer requesting the Commissioner's consent to change to a method of accounting described in the APPENDIX of that revenue procedure. Rev. Proc. 2002-9, section 4.01. Changes in method of accounting to: (1) combine or separate IPIC pools as a result of the application of a 5 percent pooling rule described in § 1.472-8(b)(4) or 1.472-8(c)(2); and (2) change the representative month when the change in representative month is necessitated by a change in taxable year, are described in sections 10.07(1)(d) and 10.07(1)(f), respectively, of the APPENDIX of Rev. Proc. 2002-9.

.04 Rev. Proc. 2002-9 is the exclusive procedure for a taxpayer within its scope to obtain the consent of the Commissioner under §§ 446(e) and 1.446-1(e). Rev. Proc. 2002-9, section 4.01. Section 4.02 of Rev. Proc. 2002-9 sets forth certain scope

limitations for the revenue procedure. The 5-year prior change scope limitation set forth in section 4.02(6) of Rev. Proc. 2002-9 provides that the automatic consent procedures of that revenue procedure may not be used if the taxpayer, within the last 5 taxable years (including the year of change) has made a change in the same method of accounting (with or without obtaining the Commissioner's consent) or has applied to change the same method of accounting without effecting the change.

SECTION 3. CHANGES RELATED TO 5 PERCENT RULES FOR IPIC POOLING

Every third year, taxpayers using the IPIC method for LIFO inventories are required to redetermine whether their IPIC pooling complies with the applicable 5 percent rules and to make any pooling changes that are necessary to achieve compliance. §§ 1.472-8(b)(4); 1.472-8(c)(2). As a result, taxpayers using the IPIC pooling method may be required to change their pooling as frequently as every three years. The Service believes that the 5-year prior change scope limitation in section 4.02(6) of Rev. Proc. 2002-9 should not apply to prevent taxpayers from using the automatic consent procedures of Rev. Proc. 2002-9 to obtain the consent of the Commissioner to make the periodic pooling changes required to comply with the 5 percent rules under §§ 1.472-8(b)(4) and 1.472-8(c)(2). Accordingly, the 5-year prior change scope limitation in section 4.02(6) does not apply to a change described in section 10.07(1)(d) of the APPENDIX of Rev. Proc. 2002-9.

SECTION 4. CHANGES OF REPRESENTATIVE MONTH FOR IPI CALCULATIONS

A taxpayer generally is required to change its representative month if the taxpayer changes its taxable year. A taxpayer may change its taxable year voluntarily or, in certain cases, may be required to change its taxable year under the Code or

regulations. The Service believes that the 5-year prior change scope limitation in section 4.02(6) of Rev. Proc. 2002-9 should not apply to prevent taxpayers from using the automatic consent procedures of Rev. Proc. 2002-9 to obtain the consent of the Commissioner to change their representative month as necessitated by a change in taxable year. Accordingly, the 5-year prior change scope limitation in section 4.02(6) of Rev. Proc. 2002-9 does not apply to a change described in section 10.07(1)(f) of the APPENDIX of Rev. Proc. 2002-9 if the change in representative month is necessitated by a change in the taxpayer's taxable year.

SECTION 5. EFFECTIVE DATE

.01 Except as otherwise provided in section 5.02 of this revenue procedure, this revenue procedure is effective for taxable years ending on or after December 31, 2002.

.02 If a taxpayer filed an application or ruling request with the national office under Rev. Proc. 97-27, 1997-1 C.B. 680, modified and amplified by Rev. Proc. 2002-19, to make a change in method of accounting described in sections 3 or 4 of this revenue procedure for a year of change for which this revenue procedure is effective (see section 5.01 of this revenue procedure), and the application or ruling request is pending with the national office on June 18, 2003, the national office will process the application or ruling request under the procedures of Rev. Proc. 97-27, unless prior to the later of September 17, 2003, or the issuance of the letter ruling granting or denying consent to the change, the taxpayer notifies the national office that it wants to make the method change under Rev. Proc. 2002-9. If the taxpayer timely notifies the national office that it wants to make the method change under Rev. Proc. 2002-9, the national office may require the taxpayer to make any appropriate modifications to the application

or ruling request to comply with the applicable provisions of this revenue procedure and Rev. Proc. 2002-9. The national office will notify the taxpayer if and when such adjustments are required. In addition, any user fee that was submitted with the application or ruling request will be returned to the taxpayer.

SECTION 6. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2002-9 is modified to include in section 10.07 of the APPENDIX thereof the scope limitation waivers provided in this revenue procedure.

DRAFTING INFORMATION

The principal author of this revenue procedure is Grant Anderson of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Anderson at (202) 622-4930 (not a toll free call).