

# Application To Use LIFO Inventory Method

Department of the Treasury  
Internal Revenue Service

▶ **Attach to your tax return.**

▶ **Information about Form 970 and its instructions is at [www.irs.gov/form970](http://www.irs.gov/form970).**

Attachment  
Sequence No. **122**

Name of filer (name of parent corporation if a consolidated group) (see instructions)

Filer's identification number (see instructions)

Name of applicant(s) (if different from filer) and identification number(s)

<b>Part I Statement of Election under Section 472</b>	<b>Yes</b>	<b>No</b>
<p><b>1</b> The applicant elects to use the LIFO inventory method for the tax year ending (enter month, day, year) ▶ _____ _____ for the following goods (enter here): _____ See instructions and attach a statement if necessary.</p>		
<p><b>2</b> In an attached statement, identify and describe the inventory method(s) used by the applicant in the prior tax year for the goods covered by this election.</p>		
<p><b>3a</b> Is the applicant already using the LIFO inventory method for any other goods? . . . . .</p>		
<p><b>b</b> If "Yes" to line 3a, attach a statement identifying and describing the goods and the LIFO methods used.</p>		
<p><b>4a</b> Has the applicant ever used the LIFO inventory method for the goods covered by this election? . . . . .</p>		
<p><b>b</b> If "Yes" to line 4a, attach a statement listing the tax years for which the LIFO inventory method was used and explaining why the LIFO inventory method was discontinued.</p>		
<p><b>5</b> The applicant will not use the LIFO inventory method to account for the following goods (enter here): ▶ _____ _____ Attach a statement if necessary.</p>		

<b>Part II LIFO Inventory Requirements</b>	<b>Yes</b>	<b>No</b>
<p><b>6a</b> Did the applicant value the closing inventories of goods covered by this election at cost for the tax year immediately preceding the tax year specified on line 1? . . . . .</p>		
<p><b>b</b> If "No" to line 6a, did the applicant value the beginning inventories of goods covered by this election at cost for the tax year specified on line 1 as required by section 472(d)? . . . . . If "No" to line 6b, attach an explanation.</p>		
<p><b>c</b> If "Yes" to line 6b, will the applicant account for the adjustment required by section 472(d) over a 3-year period? If "No" to line 6c, attach an explanation.</p>		
<p><b>7a</b> When determining the beginning inventories of goods covered by this election, did the applicant treat those goods as being acquired for a unit cost that is equal to the total cost of those goods divided by the total number of units on hand? . . . . .</p>		
<p><b>b</b> If "No" to line 7a, attach an explanation.</p>		
<p><b>8a</b> Did the applicant (or any member of the same group of financially related corporations as defined in section 472(g)) issue credit statements or reports to shareholders, partners, other proprietors, or beneficiaries covering the tax year specified on line 1? . . . . .</p>		
<p><b>b</b> If "Yes" to line 8a, attach a statement describing the recipient(s), the date(s) of issuance, and the inventory method(s) used to determine income, profit, or loss in those statements.</p>		
<p><b>9a</b> Will the applicant determine beginning and ending inventories at cost regardless of market value? . . . . .</p>		
<p><b>b</b> If "No" to line 9a, attach an explanation.</p>		
<p><b>10a</b> As a condition of adopting the LIFO inventory method, Regulations section 1.472-4 requires a taxpayer to agree to make any adjustments incident to the change to, the change from, or the use of, the LIFO inventory method that, upon the examination of the taxpayer's income tax return, the IRS determines are necessary to clearly reflect income. Does the applicant agree to this condition? . . . . .</p>		
<p><b>b</b> If "No" to line 10a, the applicant is not eligible to use the LIFO inventory method and does not need to file Form 970.</p>		

<b>Part III Specific Goods (Unit) Method</b>
<p><b>11</b> Under Regulations section 1.472-1, the types of goods in the opening inventory must be compared with similar types of goods in the closing inventories. Attach a list of the types or categories of goods that will be compared, describe the goods that will be included in each type or category, and identify the unit of measure (pounds, barrels, feet, etc.) used for each type or category.</p>

**Part III Specific Goods (Unit) Method (Continued)**

- 12** Check the box corresponding to the method that the applicant will use to determine the cost of the goods in the closing inventories in excess of the cost of the goods in the opening inventories (see instructions):
  - Actual cost of goods most recently purchased or produced
  - Average cost of goods purchased or produced during the tax year
  - Actual cost of goods purchased or produced in the order of acquisition
  - Other (attach explanation)

**Part IV Dollar-Value Method**

- 13** Attach a statement describing the applicant’s method of defining “items.”
- 14a** Did the applicant acquire any of the goods covered by this election at below-market prices? . . . . .  **Yes**  **No**
  - b** If “Yes” to line 14a, attach a statement explaining whether the applicant did, or will, account for the goods purchased at below-market prices and similar goods produced or acquired at market prices as separate items. If the applicant did, or will, account for both types of goods as the same item, explain and justify.
- 15** Attach a statement describing the method of pooling the applicant will use for the goods covered by this election. If the applicant will use more than one dollar-value pool, list and describe the contents of each dollar-value pool (see instructions).
- 16** Identify or describe the method the applicant will use to compute the LIFO value of each dollar-value pool containing goods covered by this election (for example, double-extension method, link-chain method, or index method). \_\_\_\_\_  
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 If the applicant’s method is neither the double-extension method nor the Inventory Price Index Computation method, attach a statement describing the method in detail and justifying the applicant’s use of the selected method (see instructions).
- 17** Check the box corresponding to the method the applicant will use to determine the current-year cost of goods in the closing inventories and to value the LIFO increments of the dollar-value pool(s) (see instructions).
  - Actual cost of goods most recently purchased or produced
  - Average cost of goods purchased or produced during the tax year
  - Actual cost of goods purchased or produced in the order of acquisition
  - Other (attach explanation)

**Part V Inventory Price Index Computation (IPIC) Method**

- 18** Check the box corresponding to the method the applicant will use to compute the LIFO value of each dollar-value pool containing goods covered by this election (see instructions).
  - Double-extension IPIC method
  - Link-chain IPIC method
- 19** Check the box corresponding to the table from which the applicant will select Bureau of Labor Statistics (BLS) price indexes (see instructions).
  - Table 3 of the Consumer Price Index (CPI) Detailed Report
  - Table 6 of the Producer Price Index (PPI) Detailed Report
  - Other table of the PPI Detailed Report
 If the applicant will use “Other table of the PPI Detailed Report,” attach a statement explaining why the other table is more appropriate than Table 6.
- 20** Will the applicant use the 10 percent method (see instructions)? . . . . .  **Yes**  **No**
- 21** If the applicant elects to use a representative month for selecting BLS price indexes from the applicable Detailed Report, enter the representative month elected for each dollar-value pool. \_\_\_\_\_  
 See instructions and attach a statement if necessary.

**Part VI Other Information**

- 22** Attach a statement describing the applicant’s method of determining the cost of inventory items (for example, standard cost method, actual invoice cost, joint product cost method, or retail inventory method).
- 23** Did the applicant receive IRS consent to change the method of valuing inventories for the tax year specified on line 1 (see instructions)? . . . . .  **Yes**  **No**

## General Instructions

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

### Future Developments

For the latest information about developments related to Form 970 and its instructions, such as legislation enacted after they were published, go to [www.irs.gov/form970](http://www.irs.gov/form970).

### Purpose of Form

Form 970 is filed with your income tax return to elect to use the last-in, first-out (LIFO) inventory method described in section 472. If you prefer, you can file an election statement that gives the same information requested on Form 970.

### How To Use Form 970

You must complete Parts I, II, and VI. In addition, complete Parts III, IV, and V, as applicable.

### When To File

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

If you filed your return for the tax year in which you wish to use the LIFO inventory method described in section 472 without making the election, you can make the election by filing an amended return within 12 months of the date you filed your original return. Attach Form 970 (or similar statement) 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. To request approval to change from the LIFO inventory method, you can use the automatic change request procedures or the advance consent request procedures. For details about these two procedures under which an applicant can request a change in accounting method, see *Purpose of Form* under *General Instructions* in the Instructions for Form 3115, Application for Change in Accounting Method. For more information, also see the *List of Automatic Accounting Method Changes* in the Instructions for Form 3115.

### LIFO Recapture Amount

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

1. Used 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. Transferred LIFO inventory assets to an S corporation in a nonrecognition transaction in which those assets constitute transferred basis property.

The LIFO recapture amount is the amount by which the C corporation's inventory amount of the inventory assets using the first-in, first-out (FIFO) method exceeds the inventory amount of such assets 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 Form 1120 and the Instructions for Form 1120S.

## Specific Instructions

### Name and Identification Number

Enter the name of the filer on the first line of page 1 of Form 970. In general, the filer of the Form 970 is the applicant. However, if Form 970 is filed on behalf of the applicant, enter the filer's name and identification number on the first line of Form 970 and enter the applicant's name and identification number on the second line. An individual's identifying number is his or her social security number. For all others, it is the entity's employer identification number.

### Part I—Statement of Election under Section 472

**Line 1.** Enter the tax year the LIFO inventory method will first be used and list the inventory items for which you will use this method. Include only inventory items that are not already 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 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 III—Specific Goods (Unit) Method

**Line 12.** See Regulations section 1.472-2 for more information.

### Part IV—Dollar-Value Method

**Line 15.** Provide sufficient information to justify the pooling method you are using. Retailers, wholesalers, jobbers, and distributors are required to pool their goods by major lines, types, or classes, as authorized under Regulations section 1.472-8(c). Manufacturers or processors can use the natural business unit pooling method, as authorized by Regulations section 1.472-8(b)(1), or can establish multiple pools of similar items in lieu of natural business unit pools, under Regulations section 1.472-8(b)(3)(i). Multiple pools include raw materials content pools authorized by Regulations section 1.472-8(b)(3)(ii).

Eligible small businesses can establish pools under the simplified dollar-value LIFO method (discussed below).

Manufacturers or processors using the inventory price index computation (IPIC) method can establish pools based on the 2-digit commodity codes in Table 6 of the Producer Price Index (PPI) Detailed Report. A retailer using the IPIC method can establish pools based on either the general expenditure categories in Table 3 of the Consumer Price Index (CPI) Detailed Report or on the 2-digit commodity codes in Table 6 of the PPI Detailed Report. A wholesaler, jobber, or distributor using the IPIC method can establish pools based on the 2-digit commodity codes in Table 6 of the PPI Detailed Report. The PPI and CPI Detailed Reports are published monthly by the U.S. Bureau of Labor Statistics (BLS). Under the IPIC method, you can also combine pools under special 5% rules. See Regulations sections 1.472-8(b)(4) and 1.472-8(c)(2) for more information.

Describe any other method of pooling used.

**Simplified dollar-value LIFO method.** If your average annual gross receipts for the 3 preceding tax years did not exceed \$5 million, you can 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 can 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. See section 474 and Regulations section 1.472-8 for more details.

**Line 16.** Generally, you can only use the double-extension method or the inventory price index computation method. See Regulations sections 1.472-8(e)(2) and 1.472-8(e)(3) for a description of these methods. However, 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.

**New Vehicle Alternative LIFO Inventory Method.** Automobile dealers engaged in the trade or business of retail sales of new automobiles or new light-duty trucks can adopt or use the New Vehicle Alternative LIFO Inventory Method under Rev. Proc. 97-36, 1997-2 C.B. 450, as modified by Rev. Proc. 2008-23, 2008-12 I.R.B. 664, or its successor. 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 information on accounting method changes to this method, see section 22.03 in the Appendix of Rev. Proc. 2011-14, 2011-4 I.R.B. 330, or its successor.

**Used Vehicle Alternative LIFO Inventory Method.** Automobile dealers engaged in the trade or business of retail sales of used automobiles or used light-duty trucks can adopt or use the Used Vehicle Alternative LIFO Inventory Method as described in Rev. Proc. 2001-23, 2001-10 I.R.B. 784, as modified by Announcement 2004-16, 2004-1 I.R.B. 668, and Rev. Proc. 2008-23, or its successor. For information on accounting method changes to this method, see section 22.04 in the Appendix of Rev. Proc. 2011-14, or its successor, and change number 59 in the *List of Automatic Accounting Method Changes* in the Instructions for Form 3115.

**Line 17.** See Regulations section 1.472-8(e)(2) for more information.

### Part V—Inventory Price Index Computation (IPIC) Method

**Line 18.** See Regulations section 1.472-8(e)(3)(iii)(E) for a description of the double-extension and link-chain IPIC methods, including examples. The use of either of these IPIC methods is a method of accounting. For information on accounting method changes to or within an IPIC method, see change numbers 61 and 62 in the *List of Automatic Accounting Method Changes* in the Instructions for Form 3115.

**Line 19.** Manufacturers, processors, wholesalers, jobbers, and distributors must select BLS price indexes from Table 6 of the PPI Detailed Report, unless the taxpayer can demonstrate that selecting BLS price indexes from another table of the PPI Detailed Report is more appropriate. Retailers can select BLS price indexes from either Table 3 of the CPI Detailed Report or from Table 6 (or another more appropriate table) of the PPI Detailed Report.

**Line 20.** See Regulations section 1.472-8(e)(3)(iii)(C)(2) for a description of the 10 percent method.

**Line 21.** See Regulations section 1.472-8(e)(3)(iii)(B)(3) before completing line 21.

### Part VI—Other Information

**Line 23.** If you filed Form 3115, Application for Change in Accounting Method, and received IRS consent to change your method of valuing inventories for the tax year specified on line 1, do not attach a copy of the approval letter (consent agreement). 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 contents 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 and related schedules will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

<b>Recordkeeping</b> . . . . .	8 hr., 36 min.
<b>Learning about the law or the form</b> . . . . .	1 hr., 47 min.
<b>Preparing and sending the form to the IRS</b> . . . . .	2 hr., 0 min.

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