

2021 LIFO Lookout & Top LIFO Candidates Guide



LIFOPro

Software & Turnkey Outsourcing Solutions

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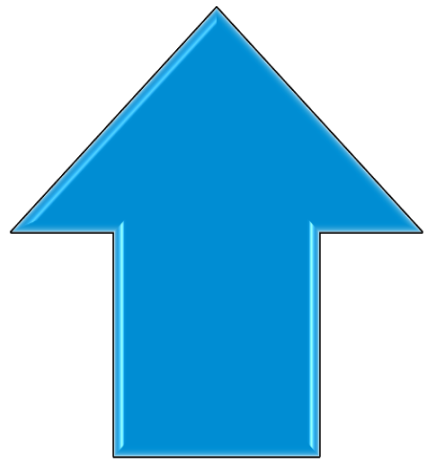
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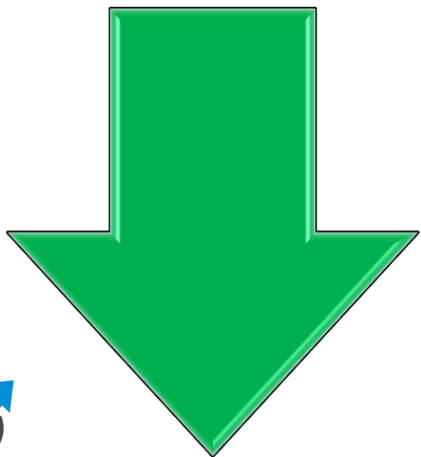


Effect of Inflation on Financial Statements & Tax Return

On LIFO

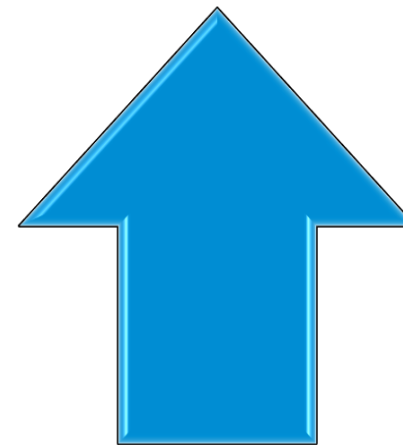


Cost of Goods Sold

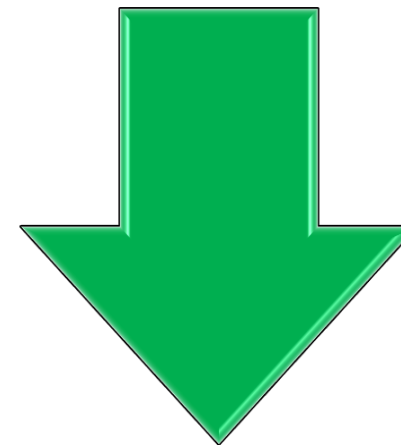


Ending Inventory
Pre-tax Income
Tax Liability

Not on LIFO



Ending Inventory
Pre-tax Income
Tax Liability



Cost of Goods Sold



Quick LIFO 101 Refresher

- LIFO is the biggest inventory-related tax savings tool
- Creates material long-term tax savings because benefits grow annually when there's inflation
- **Under dollar-value LIFO method**, tax savings are preserved even when goods responsible for building that reserve are discontinued or sold as long as the dollar value of those goods are replaced with other goods (unlike specific goods or "unit" LIFO or a lower of cost or market reserve)
- **Minimal administrative burden under dollar value LIFO** - No changes required to accounting system & items continue to be tracked using same cost flow method historically used prior to going on LIFO.
- **Current year (CY) tax savings from LIFO formula**
 - Calculate CY LIFO expense (Δ in LIFO reserve) = Prior year ending inventory balance @ cost (FIFO/average cost) * Current year inflation rate
 - Calculate CY tax savings from LIFO = Current year LIFO expense * Current year tax rate
- **Current year after-tax cash savings from LIFO example**
 - **Inputs**
 - Prior year end inventory balance at cost: \$10M
 - Current year inflation rate: 5%
 - Tax rate: 30%
 - **Outputs**
 - CY LIFO expense: $\$10M * 5\% = \$500K$
 - CY tax cash savings from LIFO: $\$500K * 30\% = \$150K$
- Learn more at LIFOPro's website: [How LIFO Works](#)



Simple LIFO Tax Savings Examples

Assuming \$20M inventory balance for all Periods

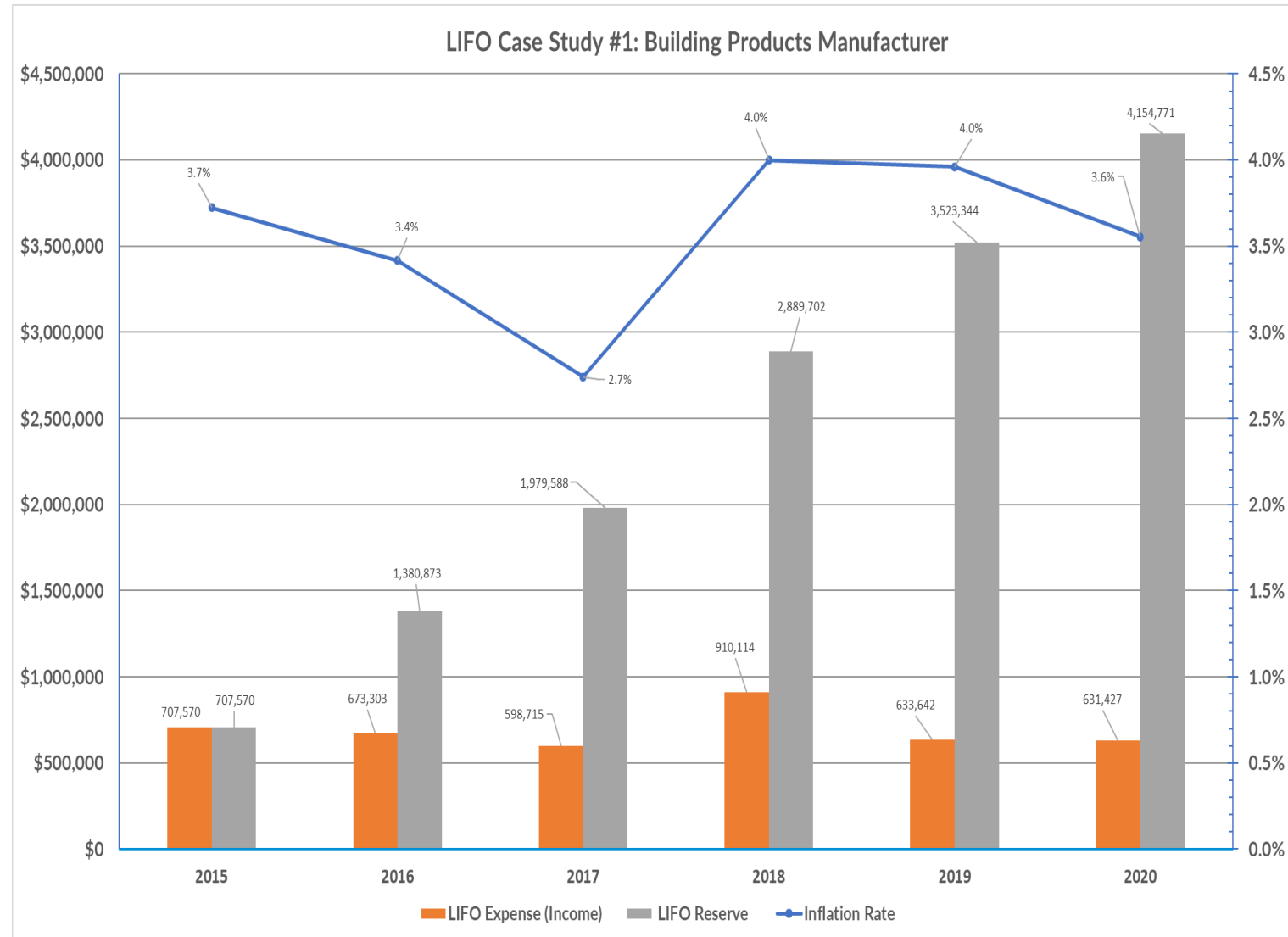
Year on LIFO	Inflation Rate	Annual & Cumulative Taxable Income Reduction LIFO		After-tax Cash Savings (Liability)					
		Expense (Income)	LIFO Reserve	30% Tax Rate		35% Tax Rate		40% Tax Rate	
				Current Period	All Periods	Current Period	All Periods	Current Period	All Periods
1	0.5%	\$105,240	\$105,240	\$31,572	\$31,572	\$36,834	\$36,834	\$42,096	\$42,096
2	1.0%	192,280	297,520	57,684	89,256	67,298	104,132	76,912	119,008
3	5.4%	1,089,320	1,386,840	326,796	416,052	381,262	485,394	435,728	554,736
4	5.4%	1,076,960	2,463,800	323,088	739,140	376,936	862,330	430,784	985,520
5	6.3%	1,255,520	3,719,320	376,656	1,115,796	439,432	1,301,762	502,208	1,487,728
6	3.0%	599,160	4,318,480	179,748	1,295,544	209,706	1,511,468	239,664	1,727,392
7	9.7%	1,947,660	6,266,140	584,298	1,879,842	681,681	2,193,149	779,064	2,506,456
8	-0.8%	-150,540	6,115,600	(45,162)	1,834,680	(52,689)	2,140,460	(60,216)	2,446,240
9	2.0%	403,160	6,518,760	120,948	1,955,628	141,106	2,281,566	161,264	2,607,504
10	5.3%	1,060,880	7,579,640	318,264	2,273,892	371,308	2,652,874	424,352	3,031,856
11	1.2%	232,320	7,811,960	69,696	2,343,588	81,312	2,734,186	92,928	3,124,784
12	0.9%	178,100	7,990,060	53,430	2,397,018	62,335	2,796,521	71,240	3,196,024
13	1.6%	312,360	8,302,420	93,708	2,490,726	109,326	2,905,847	124,944	3,320,968
14	-0.2%	-40,860	8,261,560	(12,258)	2,478,468	(14,301)	2,891,546	(16,344)	3,304,624
15	0.1%	14,560	8,276,120	4,368	2,482,836	5,096	2,896,642	5,824	3,310,448
16	0.8%	155,400	8,431,520	46,620	2,529,456	54,390	2,951,032	62,160	3,372,608
17	4.0%	804,060	9,235,580	241,218	2,770,674	281,421	3,232,453	321,624	3,694,232
18	2.2%	431,120	9,666,700	129,336	2,900,010	150,892	3,383,345	172,448	3,866,680
19	1.0%	198,980	9,865,680	59,694	2,959,704	69,643	3,452,988	79,592	3,946,272
20	9.7%	\$1,946,980	\$11,812,660	\$584,094	\$3,543,798	\$681,443	\$4,134,431	\$778,792	\$4,725,064



Simple LIFO Tax Savings Examples

LIFO Benefit Case Study: Building Products Manufacturer

- Years on LIFO: 6 (2015 = 1st year on LIFO)
- 2020 y/e inventory balance @ cost: \$26M
- Average annual inflation rate: 3.2%
- 2020 y/e LIFO reserve: \$4.5M
- Average tax rate: 30%
- Average prime rate + 1%: 5%
- Cumulative after-tax cash savings: \$1.3M
- Cumulative after-tax interest savings: \$67K
- Annual LIFO calculation cost: \$3,500
- Cumulative LIFO calculation cost: \$21,000
- ROI excluding after-tax interest savings:
 - $\frac{\text{Cumulative after-tax cash savings} - \text{Cumulative cost}}{\text{Cumulative cost}}$
 - $= (\$1.3\text{M} - \$21\text{K}) \div \$21\text{K} = 62.9 * 100 = 6289\%$
- Cost as a percentage of after-tax cash savings:
 - $\$21,000 \div \$1.3\text{M} = 1.6\%$



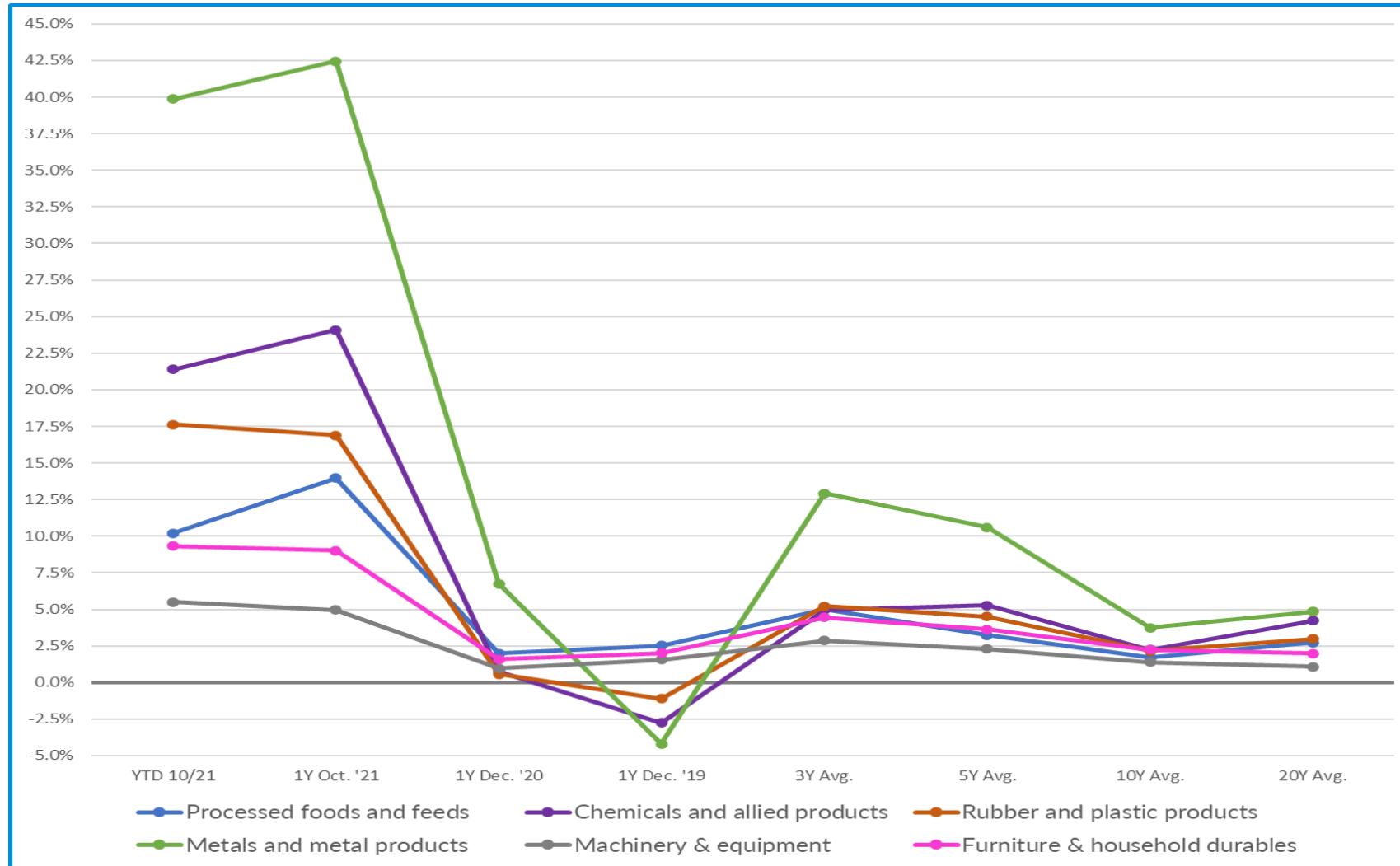
2021 LIFO Lookout

- LIFO continues to be the biggest inventory-related tax savings tool
- Unprecedented inflation has occurred this year, creating widespread once in a lifetime tax saving opportunities from electing LIFO in 2021
- Top LIFO candidates & 10 months ended Oct. '21 year to date inflation are as follows (includes all manufacturers, wholesalers & retailers):
 - Processed foods & feeds – 10%
 - Chemicals and allied products – 24%
 - Plastics & rubber products – 17%
 - Metal & metal products – 42%
 - Machinery & equipment, including farm/ag & construction machinery – 5%
 - Furniture & household goods – 9%
 - Auto dealers – 9% new vehicles & 29% used vehicles
- LIFO's here to stay
 - Threat of LIFO repeal is minimal according to LIFO lobbying group
 - All spending bills currently working through Congress exclude LIFO repeal
 - Potential for higher tax rates on the horizon will create higher tax savings from LIFO
- IRS Concept Unit
 - IRS released 21 page slide deck outlining road map for auditing LIFO calculations: [LIFO Records \(irs.gov\)](#)
 - Concept Unit stresses LIFO books & records adequacy & emphasizes the need to maintain detailed documentation for each year's calculation since the first year on LIFO
 - Also emphasizes the fact that the service may terminate a taxpayers LIFO election & force them to take 100% of LIFO reserve into income if LIFO books & records are deemed inadequate
 - See LIFOPro's blog for more details on this development: [IRS Releases Roadmap for Auditors to use on LIFO Taxpayers](#)



Top LIFO Candidates by Industry

Bureau of Labor Statistics Producer Price Indexes



Uses Commodity-based Table 9 Producer Price Indexes

YTD 10M 10/21 inflation rates shown above use 10 months PPI inflation ended October '21 (October '21 ÷ December '20 PPI)

1Y inflation rates use 12 months PPI inflation (i.e. 1Y Oct. '21 = Oct. '21 ÷ Oct. '20 PPI)

3/5/10/20 Year Averages are the average annual inflation rates using compound inflation formula (not simple average inflation rates; 3Y average = ((Oct. '21 ÷ Dec. '18 PPI)^(1/3)-1))



Top LIFO Candidates by Good/Product Type

BLS PPI Category Description	YTD 10/21	1Y Oct. '21	1Y Dec. '20	1Y Dec. '19	3Y Avg.	5Y Avg.	10Y Avg.	20Y Avg.	# Yrs w Infl.	# Yrs Index Publ.	# Yrs. w/ Infl. Freq.	Hist. Avg. Infl. Freq.
Commercial furniture & fixtures, n.e.c.	11.9%	10.9%	2.4%	5.3%	6.4%	4.0%	3.1%	2.6%	18	20	90%	100%
Floor coverings	6.1%	5.3%	0.3%	-0.1%	2.1%	2.5%	1.5%	2.4%	17	20	85%	100%
Household appliances	6.9%	5.6%	1.9%	2.9%	4.0%	3.1%	1.8%	1.3%	12	20	60%	100%
Other household durable goods	8.6%	9.8%	2.6%	1.3%	4.2%	3.0%	2.0%	1.7%	20	20	100%	100%
Vitreous china, fine earthenware & pottery	5.7%	6.3%	3.8%	1.8%	3.7%	3.5%	2.9%	2.3%	20	20	100%	100%
Lawn/garden equipment	4.0%	3.5%	0.7%	1.6%	2.3%	1.8%	1.1%	0.9%	15	20	75%	100%
Cutlery, flatware, razors & razor blades	2.6%	3.0%	2.0%	0.3%	1.3%	0.6%	1.1%	1.7%	18	20	90%	100%
Glass	6.3%	6.6%	3.3%	1.4%	3.6%	3.0%	2.7%	1.5%	15	20	75%	100%
Concrete ingredients & related products	4.4%	4.1%	3.8%	3.3%	3.9%	3.7%	3.8%	3.8%	19	20	95%	100%
Construction sand, gravel & crushed stone	4.2%	4.0%	4.4%	3.8%	4.3%	3.9%	3.7%	4.1%	20	20	100%	100%
Concrete products	6.5%	5.3%	2.7%	2.7%	4.1%	3.8%	3.5%	3.4%	17	20	85%	100%
Precast concrete products	9.4%	10.9%	4.7%	2.6%	6.2%	5.2%	3.9%	3.6%	19	20	95%	100%
Prestressed concrete products	12.5%	11.9%	-0.6%	2.3%	4.5%	3.9%	3.6%	3.1%	13	19	68%	100%
Clay construction products ex. refractories	5.2%	4.6%	2.0%	1.3%	2.8%	2.0%	1.5%	1.3%	15	20	75%	100%
Refractories	6.5%	5.8%	0.5%	5.3%	3.6%	3.8%	2.7%	3.5%	18	20	90%	100%
Gypsum products	20.2%	22.2%	3.7%	-4.2%	5.3%	6.0%	7.0%	5.2%	15	20	75%	100%
Glass containers	5.4%	5.2%	1.7%	2.7%	3.3%	2.5%	2.0%	2.6%	20	20	100%	100%
Insulation materials	15.4%	18.8%	1.5%	-2.9%	4.1%	4.0%	3.7%	3.0%	16	20	80%	100%
Paving mixtures & blocks	7.7%	5.7%	-3.7%	-1.0%	0.3%	2.4%	0.7%	4.5%	14	20	70%	100%
Gaskets, packing & sealing devices	4.6%	5.3%	1.7%	0.8%	2.3%	2.0%	1.7%	2.0%	19	20	95%	100%
Nonmetallic minerals & products, n.e.c.	2.8%	2.1%	-0.7%	1.9%	1.2%	0.9%	2.0%	3.0%	18	20	90%	100%
Motor vehicles & equipment	3.8%	4.3%	0.7%	-0.1%	1.5%	1.3%	1.2%	1.0%	16	20	80%	100%
Motor vehicles parts	4.5%	4.1%	0.8%	-0.9%	1.6%	1.3%	0.7%	0.8%	14	20	70%	100%
Truck trailers	19.8%	12.7%	0.0%	2.9%	7.5%	6.2%	3.6%	3.4%	17	20	85%	100%
Travel trailers & campers	18.0%	17.5%	3.9%	2.6%	8.0%	6.3%	4.4%	3.5%	19	20	95%	100%
Transportation equipment, n.e.c.	6.8%	6.3%	0.5%	0.6%	2.9%	2.6%	1.7%	1.5%	16	20	80%	100%
Automobile & light truck trailers	21.4%	20.2%	1.2%	1.3%	8.4%	6.9%	3.8%	3.4%	19	20	95%	100%
Toys, sporting goods, small arms, etc.	8.3%	7.9%	0.3%	4.6%	4.1%	2.6%	1.8%	1.6%	16	20	80%	100%
Toys, games & children's vehicles	5.7%	5.8%	1.7%	0.4%	2.6%	2.0%	1.6%	1.6%	17	20	85%	100%
Sporting & athletic goods	12.6%	11.8%	-0.7%	8.3%	6.0%	3.4%	2.1%	1.3%	14	20	70%	100%
Playground equipment	22.6%	23.5%	4.3%	4.6%	10.2%	7.8%	5.6%	5.8%	12	14	86%	100%
Small arms & ammunition	3.0%	3.1%	1.4%	0.7%	1.9%	1.7%	1.5%	2.7%	18	20	90%	100%
Tobacco products, incl. stemmed & redried	7.0%	8.7%	6.4%	6.2%	6.6%	6.5%	5.6%	4.4%	18	20	90%	100%
Photographic equipment & supplies	7.4%	4.9%	-0.1%	7.1%	4.7%	3.4%	3.0%	1.5%	12	20	60%	100%
Manufactured homes (mobile homes)	25.0%	20.1%	8.6%	8.7%	13.5%	10.1%	6.3%	5.0%	20	20	100%	100%
Medical, surgical & personal aid devices	1.2%	0.5%	1.1%	1.4%	1.3%	1.1%	0.9%	1.2%	20	20	100%	100%
Medical & surgical appliances & supplies	2.9%	2.9%	0.4%	1.7%	1.7%	1.4%	0.9%	1.2%	18	20	90%	100%
Ophthalmic goods	2.6%	2.3%	1.5%	1.4%	2.1%	1.8%	1.3%	1.4%	17	20	85%	100%
Other industrial safety equipment	5.3%	5.6%	2.9%	-0.9%	3.6%	1.7%	1.9%	1.8%	18	20	90%	100%
Brooms, brushes & mops	4.2%	3.4%	0.2%	2.9%	2.5%	1.9%	1.4%	1.7%	19	20	95%	100%

Uses Commodity-based Table 9 Producer Price Indexes

YTD 9M 9/21 inflation rates shown above use 9 months PPI inflation ended September '21 (September '21 ÷ December '20 PPI)

1Y inflation rates use 12 months PPI inflation (i.e. 1Y Sep. '21 = Sep. '21 ÷ Sep. '20 PPI)

3/5/10/20 Year Averages are the average annual inflation rates using compound inflation formula (not simple average inflation rates; 3Y average = ((Dec. '20 ÷ Dec. '17 PPI)^(1/3)-1))



LIFO Election Benefit Analysis Report

- **How it Works & What's Included**

- Companies & CPA firms can get a complimentary PDF report detailing LIFOPro's election benefit analysis results, which includes the following:
 - Projected after-tax cash savings that would occur if LIFO were elected this year
 - Pro forma calculation results showing the after-tax cash savings that would have accrued if LIFO were to have been elected 20 years ago
 - Historical inflation trends
 - LIFOPro's recommendations regarding the following:
 - If LIFO should or shouldn't be elected
 - The most optimal & compliant submethods to use
 - How LIFO works Appendix detailing the mechanics of LIFO, steps for first-time LIFO users & detailed examples of how to record GL journal entries to adjust inventories from cost to LIFO
 - Turnkey outsourcing solutions and software license quotes

- **Benefit Analysis Documentation Requirements**

- You choose what level of analysis that you'd like us to perform & we'll do the rest. Many companies will initially request a high-level analysis to determine whether the potential after-tax cash savings is worth the time & effort required to prior to getting a low-level or detailed benefit analysis. The documentation required for each level of analysis is as follows:
 - **High-level analysis:**
 - Industry type, for example steel wholesaler or furniture manufacturer
 - Company name and/or URL (optional)
 - **Mid-level analysis:**
 - Same information required for high-level analysis, plus:
 - Current & prior year end inventory balances at cost (FIFO, average cost etc.)
 - Tax rate
 - **Low-level analysis:**
 - Same information required for mid-level analysis, plus:
 - Current & prior year end inventory item detail report(s): Raw item cost data containing applicable fields such as:
 - Unique identifier such as a SKU/UPC/part number/code etc.
 - Item description
 - Current period quantity on hand
 - Unit of measure (if applicable)
 - Current period item/unit cost
 - Provides more accurate after-tax cash savings estimate & turnkey outsourcing solution & software license price quote



LIFO Election Requirements

Requirement	Financial Reporting	Tax
Inventories must be valued under LIFO on financial statements beginning in year of election	✓	✓
Financial reporting LIFO election scope must be equal to or greater than Tax scope (i.e. goods on LIFO for tax purposes can not be greater than what is on LIFO for financial reporting)	✓	✓
Opening (beginning) & ending inventories must be valued at cost in the year of LIFO election		✓
IRS Form 970 Application to Use LIFO Inventory Method & statement must be filed with federal tax return in year of adoption		✓
Goods on LIFO with preexisting writedowns such as LCM reserve must be restored into income over a three-year period via §481a adjustment (goods excluded from LIFO election scope are allowed to have reserves)		✓
Must remain on LIFO for five years to receive automatic approval to terminate LIFO election		✓
Must wait five years to reelect LIFO after terminating LIFO election		✓



Turnkey Outsourcing Solutions

- Maintain the benefits of LIFO while avoiding all the hassle
- Reduce LIFO-related tasks to the following:
 - Sending inventory documentation to LIFO-PRO
 - Review LIFOPro reports PDF/Excel file delivered to client
 - Using LIFOPro report amounts to record financial reporting adjusting journal entries & enter appropriate tax return entries (all amounts provided in LIFOPro reports)
- Includes all work required to adopt LIFO
- Comes with assurance of a Service Organization Control Report (SOC 1 Type II Report)
- Lower control risk, minimize substantive procedures & simplify auditing your LIFO calculation
- Avoid big surprises at year end by receiving up to three interim estimates using most recently released BLS inflation indexes (no inventory documentation required)
- Eliminate complicated LIFO layer history Excel schedules
- Free up time to focus on forecasting & planning
- Increase reporting transparency & eliminate confusion
- Also includes unlimited training & 40 hours of IRS audit support



Software

- Guarantee LIFO calculation accuracy & eliminate IRS audit risk
- Minimize time spent performing LIFO calculations in-house
- Automates the following aspects of IPIC CPI/PPI inflation calculations:
 - Download of LIFOPro software data files containing BLS price indexes for all periods
 - BLS price index lookup for all published CPI/PPI categories
 - Category inflation indexes by BLS category
 - Application of the BLS weights of relative importance (for 10% method users)
 - Substitute indexes for current BLS categories with unpublished price indexes
 - Replacement BLS categories for discontinued & deleted categories
 - IPIC pooling method pool number assignment
 - IPIC pooling method 5% test
- Automates the following aspects of internal index inflation calculations:
 - Calculating current year index by item
 - Identifying & applying appropriate treatment to new items
 - Identifying & applying appropriate treatment to exceptions/outlier items
- Completely automates LIFO layer, inventory & reserve calculation
- Provides comprehensive calculation documentation & reporting features
- Quickly performs interim estimates, ad-hoc projections & sensitivity analysis



Pricing & Terms: Turnkey Outsourcing Solutions

- Pricing is based on company size & engagement scope; recurring annual fees start as low as \$500/year
- Terms are for a one-year period & are free of multi-year commitments
- Fixed annual cost that's guaranteed to remain the same amount for at least 4 years
- LIFO-PRO reports delivered electronically including comprehensive documentation of all LIFO amounts required to record adjusting general ledger & tax return entries
- All reports can be delivered as either Excel/PDF files
- Also includes:
 - Up to three interim LIFO estimates using most recently published BLS inflation indexes & prior year end product mix & inventory balances
 - Unlimited report revisions
 - Up to 40 hours of GAAP & IRS audit support

Turnkey Outsourcing Solutions Recurring Annual Fee Range

Inventory Balance at Cost on LIFO	Internal Indexes		External Indexes (IPIC CPI/PPI)	
	Annual Calculation Only	Including Quarterly Estimates	Annual Calculation Only	Including Quarterly Estimates
< \$1 million	\$500	\$1,000	\$500	\$1,000
\$1M - \$19M	\$500 - \$1,500	\$1,000 - \$2,500	\$1,000 - \$5,000	\$1,500 - \$7,500
\$20M - \$99M	\$1,500 - \$3,500	\$2,500 - \$4,500	\$2,500 - \$7,500	\$3,500 - \$10,000
\$100M - \$499M	\$3,500 - \$5,000	\$4,500 - \$6,000	\$4,000 - \$10,000	\$5,000 - \$12,500
\$500M - \$999M	\$5,000 - \$7,500	\$6,000 - \$10,000	\$5,000 - \$20,000	\$7,500 - \$15,000
\$1B or more	\$7,500 - \$15,000	\$10,000 - \$20,000	\$10,000 - \$50,000	\$12,500 - \$75,000



Pricing & Terms: Software

- Software license leased for a one year period with optional annual renewal
- Price based on value in-use, calculation modules enabled (internal index, external index or both) & annual license costs starts at \$250/year
- Includes LIFOPro building your company's software database file containing historical LIFO calculation documentation
- Includes the option to outsource your next LIFO calculation to LIFOPro at no additional cost in the first year of your software license to provide users extra time to do any the following:
 - Complete current period calculations ahead of reporting/filing deadline without having to rely on manual procedures presently employed in-house
 - Make parallel calculations to compare your company's in-house vs. LIFOPro software's results
 - Allow IT department time to test and/or approve software usage
 - Become familiarized with LIFOPro software's reports
 - Implement new procedures related to using the software to complete LIFO calculations
 - Install the software on user's PCs
 - Learn usage steps & receive any training needed from LIFOPro
- Comes with the assurance of a Service Organization Control Report (SOC) issued to LIFOPro by independent CPA firm
- Includes unlimited phone, email or in-person support & training
- Includes LIFOPro reviewing calculations for reasonableness
- Can be installed on-premise or accessed on LIFOPro's private cloud
- **Operating System Requirements:**
 - Both on-premise & cloud versions work on all PCs with Windows 7/10/11
 - Minimal operating system requirements for both versions & minimal storage space requirements for on-premise (no storage requirements for private cloud)

LIFOPro Software License Annual Fee Range

Inventory Balance at Cost on LIFO	Internal Indexes		External Indexes (IPIC Method Using CPI/PPI)
	Excluding Internal Index Module	Including Internal Index Module	
< \$1 million	\$250	\$500	\$500
\$1M - \$19M	\$250 - \$1,500	\$500 - \$2,500	\$500 - \$3,000
\$20M - \$99M	\$500 - \$2,000	\$1,500 - \$4,000	\$1,500 - \$5,000
\$100M - \$499M	\$1,500 - \$3,000	\$2,500 - \$5,000	\$2,500 - \$5,000
\$500M - \$999M	\$2,500 - \$4,000	\$3,000 - \$6,500	\$3,000 - \$7,500
\$1B or more	\$3,000 - \$7,500	\$4,000 - \$15,000	\$4,000 - \$15,000



LIFO Resources

- Top LIFO Candidate List Excel File: <https://www.lifopro.com/publicdownloads/LIFOPros-Top-LIFO-Candidates-List-for-CPA-Firms.xlsx>
- Sample LIFO Election Benefit Analysis Report: <https://www.lifopro.com/publicdownloads/Sample-LIFO-Election-Benefit-Analysis-Report.pdf>
- Sample LIFO Review Report: <https://www.lifopro.com/publicdownloads/Sample-LIFO-Review-Report.pdf>
- LIFOPro's Resources Pages:
 - How LIFO Works: <https://www.lifopro.com/resources/how-lifo-works/>
 - LIFO Rules & Regulations: <https://www.lifopro.com/resources/lifo-methods/>
 - Good LIFO Candidates: <https://www.lifopro.com/resources/good-lifo-candidates/>
 - LIFO Glossary: <https://www.lifopro.com/resources/lifo-glossary/>
 - FAQ's: <https://www.lifopro.com/resources/faqs/>
 - Success Stories: <https://www.lifopro.com/resources/lifo-success-stories/>

