

CPA Firm Partnership Playbook

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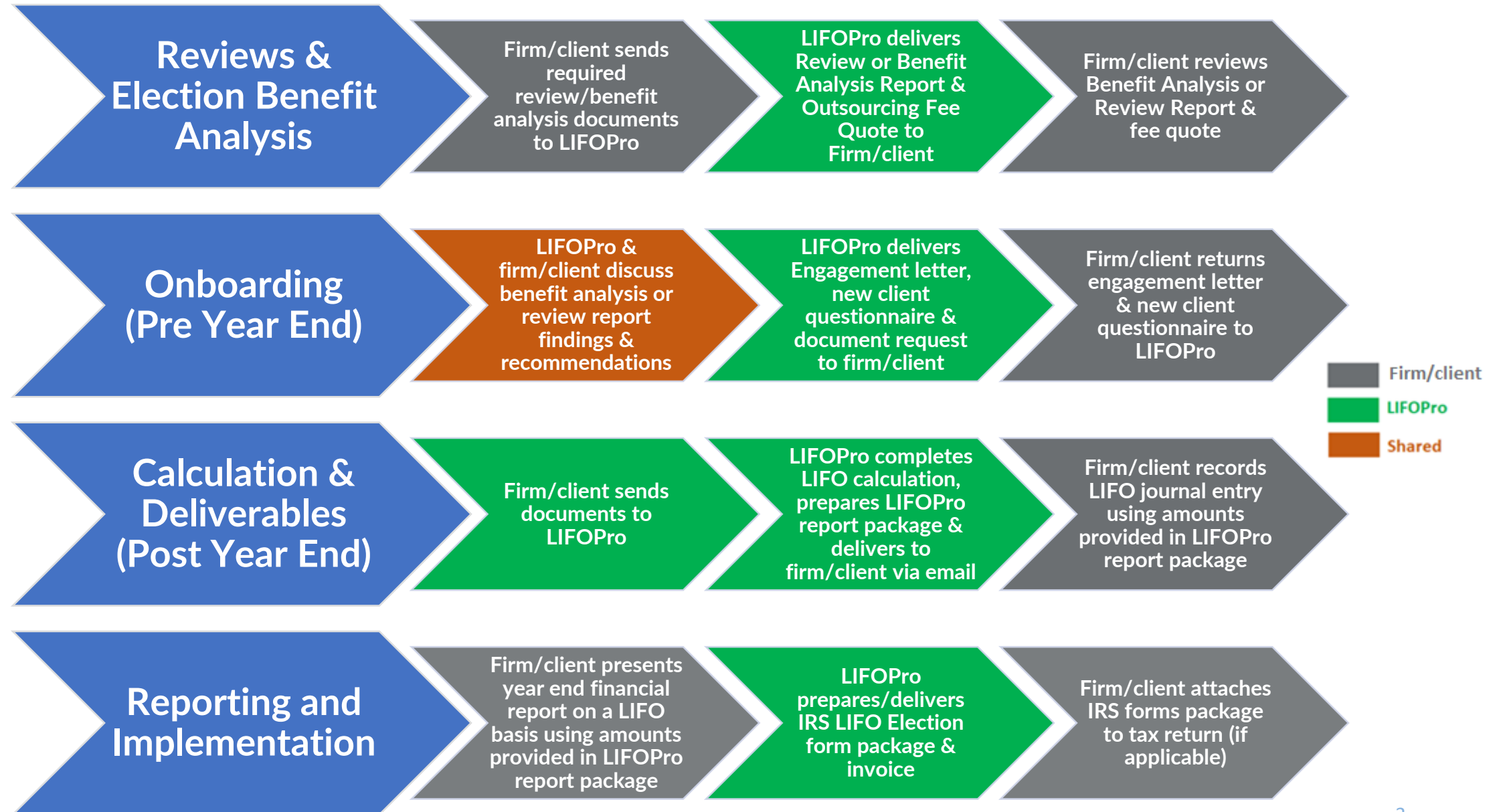


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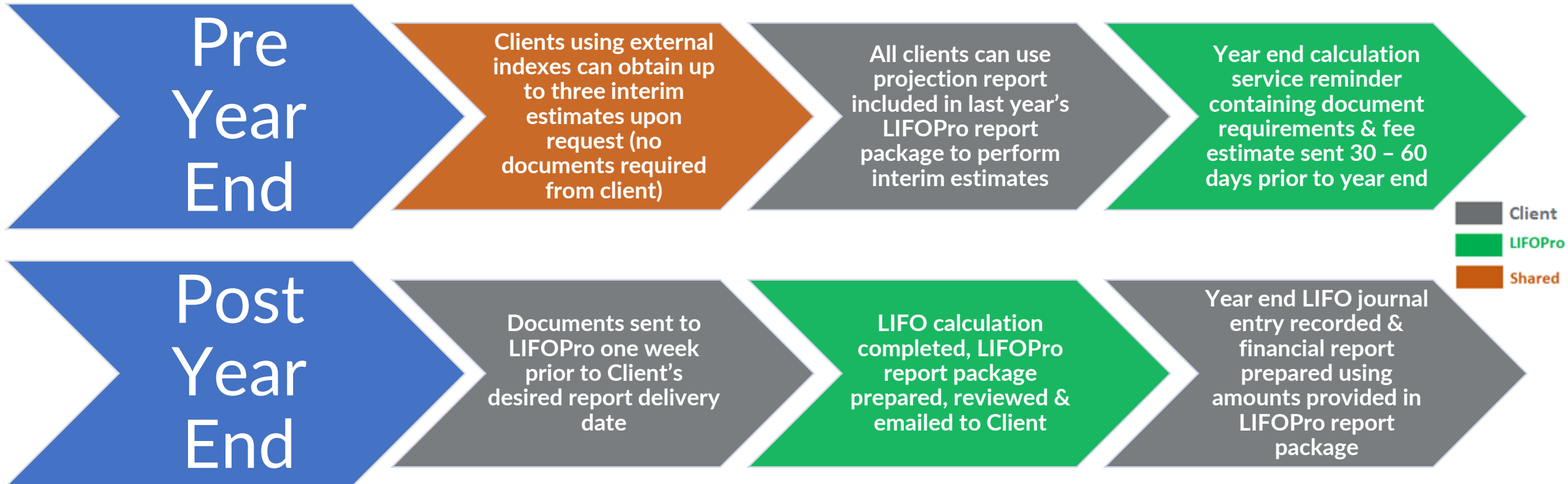
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Turnkey Outsourcing Solutions Process Flow: First Year



Turnkey Outsourcing Solutions Process Flow: Recurring



Step 1: Choose Partnership Format

- Standard turnkey outsourcing solution engagement assumes LIFOPro will manage all aspects of the LIFO calculation
- LIFOPro offers a variety of partnership formats to best suit each CPA firm's desired goals and their client's wants/needs
- **Most common partnership formats include:**
 - **Direct partnership: CPA firm directly engages with LIFOPro (wholesale – retail model)**
 - Designed for CPA firms seeking to generate or maximize revenues by building/enhancing a turnkey outsourcing solution LIFO service line
 - CPA firm engages with LIFOPro to obtain turnkey LIFO solution on behalf of their client at a wholesale or discounted fee
 - CPA firm resells LIFO solution to their client at a retail rate (typically between 2x – 4x the cost charged by LIFOPro to CPA firm)
 - Communication, document receivables/deliverables & billing occurs primarily or exclusively between CPA firm & LIFOPro
 - Typically involves a consulting agreement or formal statement of work
 - **Indirect format: Client directly engages with LIFOPro, but provides free resources/support to CPA firm**
 - Designed for CPA firms seeking to offer or enhance their ability to provide LIFO as a tax planning strategy without incurring costs to do so
 - Allows CPA firms to partner with a LIFO subject matter expert and resource who can also serve as their client's 3rd party LIFO service provider
 - CPA firm typically provides an introduction or referral to LIFOPro, recurring involvement is based on the client & firms wants/needs
 - CPA firm & clients can place reliance on LIFOPro's expertise to provide best practices feedback, training & support on all issues related to LIFO
 - LIFOPro engages directly with client regarding document receivables/deliverables & billing
 - **Referral format: CPA firm is reimbursed for consulting services related to introducing client to LIFOPro**
 - Designed for CPA firms who lack LIFO expertise/resources, but has clients with LIFO needs
 - Precludes CPA firm clients from seeking a LIFO solution from a competing firm, and ensures clients aren't lost to competing firms who offer LIFO solutions
 - Can also be formatted where LIFOPro pays CPA firm a consulting fee to compensate firms for time spent on introductions/referrals
 - CPA firm typically provides an introduction or referral to LIFOPro, but has minimal amount of involvement on a recurring basis
- LIFOPro allows flexibility in the design of the partnership format to include a hybrid of the above formats
- Multiple partnership formats can be used within a single firm to best suit needs of each client or firm location




Step 2: Client Targeting & Outreach Overview

- LIFOPro offers complimentary resources to all prospective clients
- Most prospective clients receive a complimentary review or benefit analysis report & fee quote prior to becoming a client
- Those already on LIFO are provided reviews, which includes:
 - Confirm LIFO calculation accuracy (or identify errors when detected)
 - Confirm methods compliance (or identify compliance issues when detected)
 - Identify tax deferral maximization strategies or risk mitigation opportunities (best practices)
 - If applicable, recommendations are provided regarding implementing proposed changes
- Those not on LIFO are provided election benefit analysis, which includes:
 - Establish if LIFO has historically been a preferable method (via pro forma calculations)
 - Estimate the election year LIFO tax benefits, adoption timing & submethods recommendations
 - Appendix explaining how LIFO works, election requirements, rules and other essential information
- LIFOPro often meets with the CPA firm or prospective client after delivering the review/analysis report & fee quote to discuss findings, recommendations & engagement onboarding process



Step 2.1: Client Targeting & Outreach – Clients Using LIFO

- Identify firm clients that are already using the LIFO method
 - The following outreach steps should be performed:
 - Client should be informed that your firm has partnered with a LIFO service provider that provides a turnkey outsourcing solution (or your firm has enhanced the LIFO service offerings to include a turnkey outsourcing solution)
 - Client should be informed that the LIFO service provider or your firm's new service offerings makes LIFO as simple as possible
 - Client should be informed that they can obtain a complimentary best LIFO practices & calculation review & turnkey outsourcing solutions fee quote
 - **Outreach/analysis sequence is flexible to best suit the wants/needs of your firm/client**
 - LIFOPro offers to host a complimentary discovery call with the client and/or CPA firm (presentation can be tailored to exclude any discussion regarding fees if CPA firm is engaging LIFOPro directly & using wholesale-retail model)
 - Some firms/clients may prefer to obtain the LIFO election benefit analysis prior to having discovery call or may opt out of having a discovery call altogether
 - Firms are welcome to host their own discovery calls with clients without LIFOPro present
 - LIFOPro's discovery call presentation slide deck: [LIFOPro's Offering Presentation Slide Deck](#)
 - **Outreach steps will likely depend on the CPA firm's partnership format with LIFO**
 - Firms directly engaging with LIFOPro (wholesale-retail model) may internally manage the outreach/analysis process to preclude the need for LIFOPro to communicate with their clients
 - Firms indirectly partnering with LIFOPro will likely connect their client with LIFOPro so the firm or LIFOPro can coordinate scheduling/hosting a discovery call and remain involved/aware regarding the progress of the LIFO analysis process
-  Other firms may prefer for LIFOPro to manage all aspects of the outreach/review process and will only need to provide an introduction or referral to their client/LIFOPro

Step 2.21: Client Targeting – Clients Not on LIFO

- Create a list of firm clients with inventory that are not already using the LIFO method
- Add primary business activity or industry description to above client list
- Take one of the following steps to identify the top LIFO tax savings opportunities
 - Option #1
 - Use LIFOPro's complimentary resources to identify the best LIFO election candidates for the upcoming year end:
 - [2024 Top LIFO Election Candidate List & Client Identification Tool](#)
 - [2024 Top LIFO Election Candidates Guide](#)
 - Option #2
 - Send list to LIFOPro with primary business activity or industry for each client (can provide ID# in lieu of client name)
 - LIFOPro will return a prioritized list of the clients who are top LIFO election candidates that includes key metrics & amounts required to estimate election year tax benefits
- Proceed with client outreach for clients who are top LIFO election candidates or provide introduction to LIFOPro for purposes of client obtaining complimentary LIFO election benefit analysis



Step 2.22: Client Outreach – Clients Not on LIFO

- **The following outreach steps should be performed for clients who are Top LIFO Election Candidates:**
 - Client should be informed that meaningful tax savings could be obtained from electing LIFO (may be useful to include their estimated taxable income reduction or tax savings from LIFO calculated using LIFOPro's Top LIFO Candidate List)
 - Clients should also be advised they can obtain a complimentary LIFO election benefit analysis
 - Client can optionally be advised they can attend a complimentary discovery call to learn more about LIFO and the opportunity
- **Outreach/analysis sequence is flexible to best suit your firm/client**
 - LIFOPro offers to host a complimentary discovery call with the client and/or CPA firm (presentation can be tailored to exclude any discussion regarding fees if CPA firm is engaging LIFOPro directly & using wholesale-retail model)
 - Some firms/clients may prefer to obtain the LIFO election benefit analysis prior to having discovery call or may opt out of having a discovery call altogether
 - Firms are welcome to host their own discovery calls with clients without LIFOPro present
 - LIFOPro's discovery call presentation slide deck: [How LIFO Works & LIFOPro's Offerings](#)
- **Outreach steps will likely depend on the CPA firm's partnership format with LIFO**
 - Firms directly engaging with LIFOPro (wholesale-retail model) may internally manage the outreach/analysis process to preclude the need for LIFOPro to communicate with their clients
 - Firms indirectly partnering with LIFOPro will likely connect their client with LIFOPro so the firm or LIFOPro can coordinate scheduling/hosting a discovery call and remain involved/aware regarding the progress of the LIFO analysis process
 - Other firms may prefer for LIFOPro to manage all aspects of the outreach/analysis process and will only need to provide an introduction or referral to their client/LIFOPro



Step 3.1: LIFO Reviews – Clients Using LIFO

- LIFOPro will prepare a report summarizing our findings on the following areas:
 - LIFO calculation accuracy
 - Client's historical documentation through the last period closed will be imported into LIFOPro's software to confirm it is free of errors
 - Any errors found are documented, and a comparison of the as corrected vs. as presented LIFO reserves are provided
 - LIFO methods review
 - The LIFO methods elected by the client are reviewed, and LIFOPro confirms that the methods used comply with regulations
 - Any compliance issues are documented, and a comparison of the as corrected vs. as presented LIFO reserves are provided
 - Best LIFO practices feedback
 - LIFOPro review's the client's present methods and uses our knowledgebase to determine if there alternatives that the client could be using to provide a more beneficial/simplified approach could be used. Examples include:
 - Using the IPIC method for companies presently using an internal index
 - Expanding LIFO election scope to include additional inventories presently valued using a non-LIFO method
 - Using an alternative approach that would maximize tax deferral from LIFO, minimize administrative burden or eliminate/reduce IRS audit risk
 - Includes pro forma LIFO calculations for any proposed alternatives & comparisons of the proposed vs. present methods
 - Recommendations & action items
- Documentation requirements – All LIFO calculation documents for the most recent two periods closed
- LIFOPro will deliver the following within one week of receipt of the required documents:
 - Best LIFO Practices & Review Report
 - LIFOPro report package for the most recent period closed (using client's actual historical documentation)
 - LIFOPro's turnkey outsourcing solutions fee quote
- If desired, LIFOPro will host or attend a call to discuss report findings, recommendations & next steps



Step 3.21: LIFO Benefit Analysis – Clients Not on LIFO

- Clients who are 2024 Top LIFO Election Candidates & interested in exploring a LIFO adoption should obtain a complimentary LIFO Election Benefit Analysis
- LIFOPro will deliver the client's analysis report & fee quote to the firm and/or client within 1 week or receipt of required documents
- **Analysis & fee quote documentation requirements**
 - **Non-dealerships**
 - **Current period & prior year end's item detail or stock status report containing the following fields:**
 - Item number (UPC/SKU) and description
 - Stages of production and/or hierarchies (if applicable; hierarchy examples include categories/class/type/line etc.)
 - Quantity on hand or weight
 - Current period item/unit cost
 - Completed benefit analysis questionnaire (enclosed in benefit analysis document request list)
 - **Download our Non-dealer document request list here : [LIFO Election Benefit Analysis Document Request List](#)**
 - **Dealerships: Download, complete & return the applicable questionnaire to LIFOPro**
 - [Auto dealer LIFO Election Benefit Analysis Questionnaire](#)
 - [Machinery & equipment dealer LIFO Election Benefit Analysis Questionnaire](#) (ag/farm & construction machinery)
 - **Other dealerships (RV, powersports etc.):** Contact LIFOPro for document requirements OR IF AVAILABLE, provide the same documentation listed above for non-dealerships



Step 3.22: LIFO Benefit Analysis – Clients Not on LIFO, Continued

• Benefit Analysis Report Overview

- Comprehensive case study delivered as PDF report to assist CPA firm & client with the LIFO due diligence process
- Series of historical calculations made to forecast company-specific long-term LIFO tax benefits
- LIFOPro's proprietary inflation scoring system used to model company-specific expected risks vs. rewards of LIFO
- Election year LIFO tax benefit & estimated amounts included for booking a LIFO journal entry (if applicable, journal entry using benefit analysis amounts should be made so financial reports can be issued on a LIFO basis & LIFO conformity rule compliance is met)
- Includes LIFOPro's findings & recommendations regarding whether a LIFO election should be made/deferred, and the most beneficial submethods to use if a LIFO election recommendation is made
- Also includes a comprehensive Appendix containing LIFO election essentials, accounting for LIFO & FAQs

• Fee Quote Overview

- Provided at the same time the client's benefit analysis report is delivered
- Includes services to be provided, deliverables timing, document requirements & detailed fee quote breakdown
- Provides separate breakdowns for the election year vs. recurring fee amounts
- Provides separate breakdowns for the various LIFO submethod alternatives (if applicable; i.e., internal vs. external indexes)
- Also provides separate line items for optional services



Step 4.1: Onboarding Overview

- LIFOPro offers to schedule & host a meeting or call with the firm and/or client to discuss the benefit analysis/review report results, fee quote and implementation/onboarding steps following the delivery of the client's report and fee quote
- LIFOPro will collaborate as needed with client and/or CPA firm to provide additional best practices feedback, training & additional resources prior to entering into a formal engagement
- Firms directly engaging LIFOPro may choose to discuss results & fees with client directly and are not required to share benefit analysis/review reports and fee quotes with clients
- Firms with an indirect relationship with LIFOPro often elect to introduce the client to LIFOPro to facilitate direct communication between the client & LIFOPro



Step 4.2: Onboarding & Engagement, Deliverables & Reporting/Implementation

- **Onboarding:** LIFOPro will deliver the following items within 3 business days of request to proceed with an engagement:
 - Engagement letter (fillable PDF form)
 - **Year end calculation document request (Excel file)**
 - Includes separate first year & recurring annual calculation document request lists
 - Year end document request will typically include the following items (dependent on type of business and whether year end or interim documents were provided):
 - Year end inventory report from accounting system (aka item detail, stock status or inventory valuation report)
 - Year end balance sheet or summarized trial balance schedule listing year end balances of all inventory-related subledger accounts
 - Sample templates or previously provided documents included in reference to requested items to assist firm/client in preparing the requested items
 - **New Client Questionnaire** - Sheet included in document request Excel file. One-time onboarding form used to confirm delivery timing, contact information & IRS forms preparation
- **Engagement Performance**
 - Performance of the engagement typically begins after the year end has been closed, after the required documents to complete the calculation are available & as soon as the firm or client delivers the required documents to LIFOPro
 - Some firms/clients will send preliminary or unaudited documents to LIFOPro to expedite LIFO report delivery & facilitate quick closes. When this occurs, LIFOPro will revise and deliver updated or final LIFO reports at no additional cost if changes exist between the preliminary/unaudited and final/audited information provided to us.
- **Deliverables:** LIFOPro guarantees to deliver the following by or before firm/client's required report delivery date):
 - **LIFO report package (PDF and/or Excel reports)** – Contains all information required for financial reporting, audit/review & tax purposes (including all LIFO-related amounts required to book journal entries & prepare year end financial reports and tax returns)
 - **IRS forms package** – If applicable; for companies making accounting method changes or first-time LIFO elections
- **Reporting/Implementation:** Client can complete all remaining LIFO-related tasks upon receiving the deliverables listed above, including:
 - Client records LIFO journal entry using amounts provided in LIFO report package
 - Client prepares year end financial report using amounts provided in LIFO report package
 - Client/CPA firm prepares LIFO-related entries on tax return using amounts provided in LIFO report package (and attaches IRS forms package to tax return if accounting method changes are being made)



Sample Best LIFO Practices & Review Report Excerpts

LIFO Calculation Review

- **Inflation Index Calculation**
 - LIFOPro reviewed Sample Company's 2019 & 2020 year end Index Excel sheets to verify the accuracy of the Domestic & Imported pool's inflation index calculations
 - No errors were detected in the current year inflation indexes calculated by Sample Company.
- **LIFO Reserve Calculation**
 - LIFOPro reviewed Sample Company's Carryforward & LIFO Calc Excel sheets to verify the accuracy of the cumulative inflation indexes, LIFO layers, increments/decrements & LIFO reserve calculations
 - The following errors were detected:
 - **Cumulative Inflation Index Errors**
 - For the 2019 & 2020 year ends, Sample Company calculated current year indexes of 1.0035 & 1.0002 for the imported/purchased pool. See Cell S21 values of index Excel sheets of 2019 & 2020 year end Excel LIFO work files.
 - For the 12/31/15 – 12/31/20 year ends, Sample Company used the same 0.9943 current year index to calculate the cumulative indexes for the last six years for the imported/purchased pool when the current year indexes of 1.0035 & 1.0002 should have been used, which understated Sample Company's cumulative indexes for each of those periods. See Current Year Index values shown in cells Z11:AE11 & AG18:AL18 of PurPool & Imported Excel sheets of 2020 year end Excel LIFO work file.
 - For 2019 & 2020 year ends, cumulative index calculation error created a net LIFO reserve understatement of approximately \$65K
 - **LIFO Layer History Errors**
 - **Book LIFO**
 - **Manufacturing Pool (Domestic)**
 - Starting in 2010, the sum of the layers at base year costs by year used to calculate the LIFO reserve does not tie to the correct current year inventory at base year cost amounts. See Cells AH23:AR23 & AH54:AR54 of the Dom Excel sheet of the 2020 year end Excel LIFO work file.
 - The cumulative effect of the above errors caused the Manufacturing pool's book LIFO reserve to be understated by about \$1.8 million as of the 2020 year end
 - **Purchased Pool (Imported)**
 - Starting in 2005, the sum of the layers at base year costs by year used to calculate the LIFO reserve does not tie to the correct current year inventory at base year cost amounts. See Cells W24:AL24 & W55:AL55 of the Imported Excel sheet of the 2020 year end Excel LIFO work file.
 - The cumulative effect of the above errors caused the Manufacturing pool's book LIFO reserve to be overstated by about \$1.4 million as of the 2020 year end
 - Combined: on a combined basis, the book LIFO layer history errors resulted in a cumulative book LIFO reserve understatement of \$400K as of the 2020 year end. See Figure 1 on Page 4 for comparative details of the error.
 - **Tax LIFO**
 - Sec. 263A UNICAP costs were applied & integrated into the calculation of the layers at base year cost
 - UNICAP costs are only to be applied to the layers at LIFO cost
 - Subsequent layers at base year cost & layers at LIFO cost calculations made by Sample Company were erroneously made due to including UNICAP costs in the base year cost computation
 - The cumulative effect of the error caused the Manufacturing pool's tax LIFO reserve to be overstated by about \$890K as of the 2020 year end. See Figure 2 on Page 4 for comparative details of the error.

Methods Compliance Review

- Sample Company did not provide copies of their IRS LIFO Election Form 970 & LIFO-related accounting method change Form 3115s. Accordingly, LIFOPro can not confirm whether Sample Company is in compliance with the LIFO Submethods elected in prior IRS filings.
- Based on reviewing Sample Company's 2018 – 2021 year end LIFO calculation documentation, LIFOPro confirmed the same LIFO Submethodologies have been consistently applied for periods reviewed.

Best LIFO Practices Review

- **Inflation Measurement Source**
 - Present method: Sample Company presently uses an internal inflation measurement source to calculate their current year inflation index (internal indexes).
 - Proposed method:
 - Many companies use external indexes for the following reasons (IPIC PPI):
 - Often provides more inflation & tax savings compared to internal indexes
 - New items are given the same inflation index as preexisting items, which will provide for more inflation to be calculated in periods of inflation compared to internally calculated inflation indexes that set new item prior year item cost equal to the current year item cost
 - IRS safe harbor method that provides audit protection from prior period errors
 - Pro forma external vs. internal index calculation comparison
 - LIFOPro assigned Bureau of Labor Statistics Producer Price Index categories to Sample Company's items on hand for the 2021 year end to compare the external index inflation results to Sample Company's internal indexes
 - Using the IPIC method & PPI, the 2021 calculation resulted in 16% inflation that created \$1.2M of LIFO expense. Compared to the 2% internal index deflation that created \$110K of LIFO expense, the IPIC method results created 13% more inflation & \$1.1M more LIFO expense than Sample Company's internal index for the 2021 year end. See Figures 3 – 4 on Page 5 below.

Recommendations

- **Switch to IPIC method**
 - For the 2021 year end, a change to the IPIC method would create \$1.1M more LIFO expense. Using a 30% combined federal & state tax rate, this represents \$340K in after-tax cash savings from applying a switch to the IPIC method.
 - Change to IPIC method is automatic approval & is attached to 2021 year end Form 1120
 - Change to IPIC method would provide Sample Company audit protection from prior period's LIFO calculation errors since IPIC method is an IRS safe harbor method
- **Obtain turnkey outsourcing solutions**
 - Avoid all the hassles of LIFO while preserving tax deferral/savings
 - Avoid the need to maintain in-house LIFO expertise and/or resources & reduce administrative/IT burden by partnering with the LIFO experts
 - Eliminate error-prone spreadsheet formulas & Excel schedules & replace them with standardized, user-friendly reports
 - Guarantee calculation accuracy, eliminate errors & audit risk
 - Increase reporting transparency & understandability
 - Simplify calculation policies/procedures & reporting
- **Implement recommended changes**
 - LIFOPro would manage all aspects related to switch to IPIC method, including LIFO calculation, report delivery & IRS Forms preparation required to apply changes in accounting method
 - See turnkey outsourcing solutions fee quote for details of engagement scope, documentation requirements, deliverables timing & outsourcing costs



Sample Best LIFO Practices & Review Report Excerpts

Figure 1. 2005 – 2020 Year End Book LIFO Reserve Comparison: As Filed vs. Corrected

Year	As Filed				As Corrected			Difference	
	FIFO Inventory Balance	LIFO Inventory Balance	LIFO Reserve	LIFO Expense (Income)	LIFO Inventory Balance	Corrected LIFO Reserve	LIFO Expense (Income)	LIFO Reserve	LIFO Expense
2004	\$ 13,123,246	\$ 7,083,962	\$ 6,039,284		\$ 7,084,527	\$ 6,038,719		\$ 565	\$ 565
2005	12,902,043	6,149,994	6,752,049	712,765	6,405,408	6,496,635	457,916	255,414	254,849
2006	15,607,872	7,930,227	7,677,645	925,596	8,269,950	7,337,922	841,287	339,723	84,309
2007	13,652,867	5,411,760	8,241,107	563,462	5,732,553	7,920,314	582,392	320,793	(18,930)
2008	16,442,226	7,872,035	8,570,191	329,084	8,194,996	8,247,230	326,916	322,961	2,168
2009	16,260,696	7,590,216	8,670,480	100,290	7,883,732	8,376,964	129,734	293,516	(29,444)
2010	20,536,315	11,313,377	9,222,938	552,457	11,419,259	9,117,056	740,092	105,882	(187,635)
2011	21,591,820	12,214,584	9,377,237	154,299	12,320,464	9,271,356	154,300	105,881	(1)
2012	19,658,616	9,530,712	10,127,905	750,668	9,516,818	10,141,798	870,442	(13,894)	(119,774)
2013	21,363,368	11,434,757	9,928,610	(199,294)	11,420,865	9,942,503	(199,296)	(13,892)	1
2014	19,417,264	9,294,732	10,122,533	193,922	9,280,711	10,136,553	194,050	(14,021)	(128)
2015	15,588,404	6,447,998	9,140,406	(982,127)	6,319,899	9,268,505	(868,049)	(128,099)	(114,078)
2016	16,687,116	6,462,840	10,224,276	1,083,870	6,677,184	10,009,932	741,428	214,344	342,442
2017	14,551,338	6,462,352	8,088,986	(2,135,289)	5,416,786	9,134,552	(875,380)	(1,045,566)	(1,259,909)
2018	14,340,408	6,516,860	8,034,479	(54,508)	4,861,062	9,479,346	344,793	(1,444,867)	(399,301)
2019	13,918,765	6,519,440	8,436,212	401,734	4,730,430	9,188,335	(291,011)	(752,122)	692,745
2020	\$ 15,154,218	\$ 6,558,305	\$ 8,595,914	\$ 159,701	\$ 6,151,855	\$ 9,002,363	\$ (185,971)	\$ (406,450)	\$ 345,673

Figure 2. Tax LIFO Reserve Comparison: As Filed vs. Corrected

Year	As Filed				As Corrected			Difference	
	FIFO Inventory Balance	LIFO Inventory Balance	LIFO Reserve	LIFO Expense (Income)	LIFO Inventory Balance	LIFO Reserve	LIFO Expense (Income)	LIFO Reserve	LIFO Expense
1992	\$ 11,411,029	\$ 9,710,849	\$ 1,700,180	\$ 1,700,180	\$ 10,858,428	\$ 552,601	\$ 552,601	\$ 1,147,579	\$ 1,147,579
1993	11,232,391	9,398,465	1,833,926	133,746	10,560,450	671,941	119,340	1,161,985	14,406
1994	12,218,333	9,930,675	2,287,658	453,731	11,072,696	1,145,637	473,696	1,142,021	(19,965)
1995	11,848,621	8,989,424	2,859,197	571,539	10,170,686	1,677,935	532,298	1,181,262	39,241
1996	12,587,500	9,204,605	3,382,895	523,698	10,376,181	2,211,319	533,384	1,171,576	(9,686)
1997	15,707,730	12,595,418	3,112,312	(270,582)	13,196,038	2,511,692	300,373	600,620	(570,955)
1998	14,126,846	10,485,661	3,641,185	528,873	11,599,210	2,527,636	15,944	1,113,549	512,929
1999	19,458,536	16,448,986	3,009,550	(631,635)	16,344,028	3,114,508	586,872	(104,958)	(1,218,507)
2000	17,727,515	13,599,922	4,127,593	1,118,043	14,512,281	3,215,234	100,726	912,359	1,017,317
2001	15,311,691	11,468,674	3,843,017	(284,577)	12,464,586	2,847,105	(368,129)	995,912	83,552
2002	13,318,190	9,679,330	3,638,860	(204,157)	10,541,726	2,776,464	(70,641)	862,396	(133,516)
2003	13,454,148	9,694,546	3,759,602	120,743	10,292,204	3,161,944	385,480	597,658	(264,737)
2004	13,123,246	7,840,115	5,283,131	1,523,528	8,684,764	4,438,482	1,276,538	844,649	246,990
2005	12,902,043	7,200,435	5,701,608	418,477	7,801,834	5,100,209	661,727	601,399	(243,250)
2006	15,607,872	9,862,967	5,744,905	43,297	10,021,824	5,586,048	485,839	158,857	(442,542)
2007	13,652,867	6,643,922	7,008,945	1,264,040	7,196,006	6,456,861	870,813	552,084	393,227
2008	16,442,226	9,820,354	6,621,872	(387,073)	9,930,286	6,511,940	55,079	109,932	(442,152)
2009	16,260,696	10,301,689	5,959,007	(662,865)	9,762,166	6,498,530	(13,410)	(539,523)	(649,455)
2010	20,536,315	15,092,108	5,444,207	(514,800)	13,865,314	6,671,001	172,471	(1,226,794)	(687,271)
2011	21,591,820	15,622,868	5,968,952	524,745	14,391,884	7,199,936	528,935	(1,230,984)	(4,190)
2012	19,658,616	13,145,909	6,512,707	543,755	11,840,773	7,817,843	617,907	(1,305,136)	(74,152)
2013	21,363,368	15,046,443	6,316,925	(195,782)	13,372,698	7,990,670	172,827	(1,673,745)	(368,609)
2014	19,417,264	12,314,761	7,102,503	785,578	11,214,374	8,202,890	212,220	(1,100,387)	573,358
2015	15,588,404	8,020,929	7,567,475	464,972	7,687,108	7,901,296	(301,594)	(333,821)	766,566
2016	16,687,116	9,363,181	7,323,935	(243,540)	8,731,020	7,956,096	54,800	(632,161)	(298,340)
2017	14,551,338	6,970,786	7,580,552	256,617	7,231,972	7,319,366	(636,730)	261,186	893,347
2018	14,551,338	6,666,825	7,884,513	303,961	6,975,558	7,575,780	256,414	308,733	47,547
2019	14,551,338	6,676,172	7,875,166	(9,347)	6,984,038	7,567,300	(8,480)	307,866	(867)
2020	\$ 15,154,218	\$ 6,778,294	\$ 8,375,924	\$ 500,758	\$ 7,666,103	\$ 7,488,115	\$ (79,185)	\$ 887,809	\$ 579,943

Figure 3. 12/31/21 LIFO Calculation Inflation Measurement Source Comparison: External vs. Internal Indexes

Description	Proposed External Indexes	Present Internal Indexes	Difference: Proposed vs. Present
2021 Year End Inflation Rate	15.5%	2.1%	13.4%
2021 Year End LIFO Reserve	\$9,837,497	\$8,709,116	\$1,128,381
2020 Year End LIFO Reserve	\$8,595,914	\$8,595,914	\$0
2021 Year End LIFO Expense (Income)	\$1,241,583	\$113,202	\$1,128,381

Note: LIFO reserve & expense amounts are estimates as the projected LIFO reserve is calculated using the As Filed LIFO layer history schedule. Accordingly, above amounts are subject to change.

Figure 4. Bureau of Labor Statistics Producer Price Indexes for Most Predominant Goods

PPI Code	1015	1063	1141	114902	1149805
BLS PPI Category Description	Foundry And Forge Shop Products	Other Heating Equipment, Non-Electric, Including Parts	Pumps, Compressors, And Equipment	Metal Valves, Except Fluid Power	Filters And Strainers, Except Fluid Power
12 Months Ended Dec. '21	12.2%	17.4%	7.6%	4.9%	8.4%
12 Months Ended Dec. '20	3.0%	0.9%	0.7%	2.8%	-1.6%
12 Months Ended Dec '19	-0.8%	4.1%	1.0%	1.8%	3.6%
12 Months Ended Dec '18	2.3%	4.3%	4.4%	5.7%	1.1%
12 Months Ended Dec '17	0.3%	1.4%	2.5%	2.7%	1.3%
12 Months Ended Dec '16	-0.9%	3.0%	0.8%	2.1%	3.7%
12 Months Ended Dec '15	-1.5%	1.8%	1.3%	1.0%	0.6%
12 Months Ended Dec '14	1.3%	1.6%	2.8%	2.9%	1.6%
12 Months Ended Dec '13	-0.3%	1.5%	2.9%	3.3%	1.9%
12 Months Ended Dec '12	2.8%	2.2%	1.8%	3.3%	2.4%
12 Months Ended Dec '11	4.0%	3.1%	4.5%	7.7%	4.4%
12 Months Ended Dec '10	5.3%	1.0%	1.3%	2.3%	2.2%
12 Months Ended Dec '09	-2.3%	1.9%	0.7%	0.5%	5.0%
12 Months Ended Dec '08	10.5%	5.9%	7.0%	5.6%	3.2%
12 Months Ended Dec '07	4.0%	3.4%	4.2%	6.0%	5.3%
12 Months Ended Dec '06	5.0%	5.1%	4.1%	13.2%	4.9%
12 Months Ended Dec '05	4.7%	1.3%	6.5%	6.3%	2.3%
12 Months Ended Dec '04	8.8%	4.1%	4.8%	5.6%	3.7%
12 Months Ended Dec '03	0.7%	2.2%	1.0%	1.1%	0.0%
12 Months Ended Dec '02	0.1%	-0.4%	2.0%	2.1%	2.1%
3 Year Annual Average	4.7%	7.2%	3.1%	3.2%	3.4%
5 Year Annual Average	3.3%	5.5%	3.2%	3.6%	2.5%
10 Year Annual Average	1.8%	3.7%	2.6%	3.2%	2.3%
20 Year Annual Average	2.9%	3.2%	3.1%	4.1%	2.8%
Years with Inflation: '02 - '21	15 of 20	19 of 20	20 of 20	20 of 20	18 of 20
Percent of Total Inv. Bal.	22%	11%	7%	12%	11%

Note: Percentage of Total Inventory Balance figures shown above equal less than 100% because only the most predominantly-used BLS categories are listed above. Accordingly, other less predominant BLS categories used in the pro forma LIFO calculations are not shown above. Approximately 30 BLS PPI categories were assigned to Sample Company's 2021 year end product mix & used for the inflation calculation.

Source: Bureau of Labor Statistics (BLS) - Table 9 Producer Price Indexes (PPI)



Sample LIFO Election Benefit Analysis Report Excerpts

Pro Forma LIFO Calculation Results

Figure 1. Sample Company 20 Year Pro Forma LIFO Calculation Summary: External Index (IPIC Method)

Description	Result	Good LIFO Candidate Criteria	Good LIFO Candidate Criteria Met
Cumulative Inflation: 2005 - 2024	133%		
3 Year Average Annual Inflation Rate	14.9%		
5 Year Average Annual Inflation Rate	13.7%		
10 Year Average Annual Inflation Rate	6.3%		
20 Year Average Annual Inflation Rate	4.3%	≥ 1%	Yes
Inflation Frequency	70% (14 of 20)	≥ 50%	Yes
All Good LIFO Candidate Criteria Met?	Yes		
20 Year LIFO Reserve	\$21,110,880		
Average Annual LIFO Expense	\$1,055,544		
Combined Federal & State Tax Rate	30%		
20 Year LIFO Tax Benefit	\$6,333,264		
Average Annual LIFO Tax Benefit	\$316,663		
Estimated Recurring Annual Outsourcing Fee	\$2,500		
Cost as % of Avg. Annual LIFO Tax Benefit	0.8%		

Note: For tax purposes, LIFO is applied prospectively beginning in the year of election. Estimated 20 year LIFO reserve and 20 year tax liability reduction amounts are forecasts of the future LIFO tax benefit and are for analysis purposes only.

Figure 2. Sample Company 2024 Year End LIFO Calculation Estimate Comparison Summary

Description	External Indexes (IPIC Method)	Internal Indexes	Difference: External vs. Internal
2024 Year End Inventory Balance at Cost	\$31,972,730	\$31,972,730	-
2023 Year End Inventory Balance at Cost	\$35,613,933	\$35,613,933	-
2024 Year End Inflation Rate	23.4%	2.9%	20.5%
2024 Year End Inventory Balance at LIFO	\$25,912,644	\$31,073,512	-\$5,160,868
2024 Year End LIFO Expense/Reserve	\$6,060,086	\$899,218	\$5,160,868
Combined Federal & State Tax Rate	30%	30%	
2024 Year End LIFO Tax Benefit	\$1,818,026	\$269,765	\$1,548,260
2024 vs. 20Y Average Inflation Multiplier	5.4	0.7	
Election Recommendation Criteria	Inflation Multiplier ≥ 1		
LIFO Election Recommendation Criteria Met?	Yes		

Preferability Scoring Results & Recommendations

Criteria Type	Criteria Description	Criteria Requirement	Result	Criteria Met?
Good LIFO Candidate	20 Year Average Annual Inflation Rate	Greater than or Equal to 1%	4.3%	Yes
Good LIFO Candidate	20 Year Inflation Frequency	> 50% (11 or more of 20 Years)	70% (14 of 20)	Yes
Election Recommendation	2024 vs. 20Y Average Inflation Multiplier	Greater than or Equal to 1	0.2 - 5.7	Yes
All Good LIFO Candidate Criteria Met?				Yes
2024 Year End LIFO Election Recommended?				Yes

Preferability Statement

Upon our evaluation of Sample Company's current and historical inventory costs, it is our opinion that the LIFO method of inventory costing is preferable over Sample Company's present method and other alternatives available because it allows for better matching of costs and revenues, as historical inflationary inventory acquisition prices are expected to continue in the future and the LIFO method uses the current acquisition prices to value cost of goods sold.

Figure 3. LIFO Submethods Recommendations

Description	Recommendation
Index Computation Method	Dollar-value
Inflation Comparison Period Method	Link-chain
LIFO Election Scope	All inventories
Inflation Measurement Source	External Indexes (IPIC method)
Item Definition Method	Applicable BLS categories
LIFO Pooling Method	IPIC Pooling Method
Number of LIFO Pools	1
IPIC Submethods	
BLS Index Type	Producer Price Index (PPI)
10% or non-10% Method	Non 10% method
Appropriate Month	TBD
Appropriate Month Selection Type	Annual Selection
Preliminary or Final Indexes	Preliminary
Preliminary Index Release Version	1st Release



Sample LIFO Election Benefit Analysis Report Excerpts

20 Year Pro Forma IPIC LIFO Taxable Income & Tax Liability Reduction Schedule

Period	Inflation Rate	Taxable Income Reduction (Increase)		Tax Liability Reduction (Increase)					
				25% Tax Rate		30% Tax Rate		35% Tax Rate	
		Current Period	All Periods	Current Period	All Periods	Current Period	All Periods	Current Period	All Periods
12/31/2005	10.3%	\$2,997,620	\$2,997,620	\$749,405	\$749,405	\$899,286	\$899,286	\$1,049,167	\$1,049,167
12/31/2006	37.3%	7,874,143	10,871,763	1,968,536	2,717,941	2,362,243	3,261,529	2,755,950	3,805,117
12/31/2007	-15.4%	-4,936,557	5,935,206	-1,234,139	1,483,802	-1,480,967	1,780,562	-1,727,795	2,077,322
12/31/2008	-24.0%	-7,688,003	-1,752,797	-1,922,001	-438,199	-2,306,401	-525,839	-2,690,801	-613,479
12/31/2009	18.7%	5,039,254	3,286,457	1,259,814	821,614	1,511,776	985,937	1,763,739	1,150,260
12/31/2010	6.0%	1,530,144	4,816,601	382,536	1,204,150	459,043	1,444,980	535,550	1,685,810
12/31/2011	14.9%	3,972,776	8,789,377	993,194	2,197,344	1,191,833	2,636,813	1,390,472	3,076,282
12/31/2012	-10.8%	-3,444,934	5,344,443	-861,234	1,336,111	-1,033,480	1,603,333	-1,205,727	1,870,555
12/31/2013	-0.4%	-117,532	5,226,911	-29,383	1,306,728	-35,260	1,568,073	-41,136	1,829,419
12/31/2014	9.8%	2,851,461	8,078,372	712,865	2,019,593	855,438	2,423,512	998,011	2,827,430
12/31/2015	-2.9%	-921,838	7,156,534	-230,460	1,789,134	-276,551	2,146,960	-322,643	2,504,787
12/31/2016	12.0%	3,312,748	10,469,282	828,187	2,617,321	993,824	3,140,785	1,159,462	3,664,249
12/31/2017	5.0%	1,105,266	11,574,548	276,317	2,893,637	331,580	3,472,364	386,843	4,051,092
12/31/2018	4.0%	783,169	12,357,717	195,792	3,089,429	234,951	3,707,315	274,109	4,325,201
12/31/2019	-24.0%	-7,677,196	4,680,521	-1,919,299	1,170,130	-2,303,159	1,404,156	-2,687,019	1,638,182
12/31/2020	7.4%	2,196,669	6,877,190	549,167	1,719,298	659,001	2,063,157	768,834	2,407,017
12/31/2021	16.6%	4,250,033	11,127,223	1,062,508	2,781,806	1,275,010	3,338,167	1,487,512	3,894,528
12/31/2022	2.6%	654,519	11,781,742	163,630	2,945,436	196,356	3,534,523	229,082	4,123,610
12/31/2023	18.7%	3,269,052	15,050,794	817,263	3,762,699	980,716	4,515,238	1,144,168	5,267,778
12/31/2024	23.4%	\$6,060,086	\$21,110,880	\$1,515,022	\$5,277,720	\$1,818,026	\$6,333,264	\$2,121,030	\$7,388,808

2024 amounts shown above are estimates and are not final figures.

Using Sample Company's 2024 product mix & inventory balance of \$31.9M for all prior periods, pro forma LIFO calculations were made for each of the past 20 years using external inflation indexes published in the Producer Price Index division of the Bureau of Labor Statistics (BLS PPI). These results are a conservative estimate of the potential taxable income reduction & tax liability reduction from LIFO that could occur over the next 20 years by using the current year end inventory balance at cost, product mix & the weighted average BLS PPI inflation rates calculated for the 2005 – 2024 year ends.

Note 1: 20 year projection is for analysis purposes only to illustrate the potential tax liability reduction from LIFO that could occur over the next 20 years. LIFO adoption is treated prospectively, and change is applied beginning in the year of change. Accordingly, only the 2024 year end tax liability reduction from LIFO shown above would be obtained by electing LIFO this year.

Note 2: 2024 year end calculation assumes a base year of 2023, and accordingly, the 2024 LIFO expense is built off the prior year end inventory balance. All other periods shown above use current period's inventory balance to calculate LIFO expense.



Sample LIFOPro Fee Quote Excerpts

LIFO-PRO, Inc.

11620 Arbor St Suite 100
Omaha, NE 68144

Tel 402-330-8573 www.lifopro.com
Fax 877-848-6583 lifopro@lifopro.com



November 8, 2023

Mr. John Doe
ABC CPA Firm
1234 Anywhere Lane
Sometown, NE 68144

Turnkey Outsourcing Solutions Fee Quote: Sample Company

• Services Included:

- Current year inflation index calculation Excel work file preparation using Client-provided documentation
- Bureau of Labor Statistics (BLS) Producer Price Index (PPI) category assignment to all inventory items present at year-end for Client's current year inflation index calculation (if applicable)
- Current year inflation index calculation preparation
- Year end LIFO reserve calculation preparation
- LIFO layer history maintenance & update
- LIFOPro report package preparation & delivery containing current year inflation index calculation documentation, current year LIFO reserve documentation & LIFO layer history
- Sec. 263A UNICAP costs using company-provided absorption ratio (if applicable)
- IRS Form 970 Application to Use LIFO Inventory Method & statement preparation (first year only)
- Preparation of up to three interim LIFO estimates (for client's using external indexes or IPIC method)
- Any LIFO calculation and/or report revisions requested by client
- Unlimited training, support & best LIFO practices feedback
- Up to 40 hours of IRS audit support
- LIFOPro's Service Organization Control Report (SOC 1 Type 2 report; formerly SAS70 report)

• Deliverables Timing:

- LIFOPro report package: Earlier of the following two dates:
 - 1 week of receipt of client documentation
 - Client-requested delivery date
- IRS Form 970 & statement: 3 days of receipt of completed New Client Questionnaire

• Estimated Service Costs

- First year estimated cost:
 - LIFO calculation services \$1,950
 - IRS Form 970 preparation \$ 600
 - Total first year services cost \$2,550
- Recurring annual calculation services cost:
 - Using external indexes
 - Year end LIFO calculation \$ 950
 - BLS PPI category assignment (optional) \$ 250
 - Total recurring service cost \$1,200
 - Using internal indexes
 - Year end LIFO calculation \$1,200
 - Interim estimate (per estimate) \$ 400

• Terms

- Engagement Period: 1 year with optional annual renewal
- Recurring annual calculation service fee lock period: 3 years

• Client Documentation Requirements

- Current & prior period's item detail reports
- Trial balance or balance sheet schedule for each of the past three year ends showing all inventory-related subledger accounts
- Completed new client questionnaire



Sample LIFO PDF Report Package Excerpts

Sample Company

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LIFO CALCULATION HISTORY FOR 12/31/2022 BASE YEAR THROUGH 12/31/2023 REPORT 16

Pool: 1 All inventories

PERIOD	CURRENT YEAR COST	CUR. YR. DEFLATOR INDEX	CUMLTV. DEFLATOR INDEX	INVENTORY AT BASE PRICES	INC(DEC) AT BASE PRICES	CUMLTV. INFLATOR INDEX	PRICED INC(DEC)	LIFO INVENTORY	LIFO RESERVE	LIFO EXPENSE	LAYER AT BASE	LAYER AT COST
12/31/2022	8,904,459		1.000000	8,904,459	8,904,459	1.000000	8,904,459	8,904,459	0	0	8,642,823	8,642,823
12/31/2023	9,356,684	1.082596	1.082596	8,642,823	-261,636	1.000000	-261,636	8,642,823	713,862	713,862	0	0
					8,642,823	1.000000	8,642,823			713,862	8,642,823	8,642,823

Sample Company

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LIFO RESERVE CALCULATION PROOF REPORT 18a

12/31/2023

Pool number			1
Pool name	Row	Formula/Source	All inventories
Current-year cost	7	Inventory total	9,356,684
Current year deflator index	8	Pool index calculated	1.082596
Prior year cumulative deflator index	9	Layer history Report 16	1.000000
Current year cumulative deflator index	10	Row 8 times Row 9	1.082596
Current year inventory at base	11	Row 7 divided by Row 10	8,642,823
Prior year inventory at base	12	Layer history Report 16	8,904,459
Increase(decrease) at base	13	Row 11 minus Row 12	-261,636
Current year cumulative inflator index	14	Same as Row 10 for increment	n/a
Increase(decrease) in LIFO cost	15	Row 28	-261,636
Prior year LIFO inventory	16	Layer history Report 16	8,904,459
Current year LIFO inventory	17	Row 15 plus Row 16	8,642,823
Current year LIFO reserve	18	Row 7 minus Row 17	713,862
Prior year LIFO reserve	19	Layer history Report 16	0
Current year LIFO expense(income)	20	Row 18 minus Row 19	713,862
Detail of decrements calculation:			
Decrease at base by year:	23		
	24	Report 16a	-261,636 22
Cumulative inflator indexes for decrements:	25		
	26	Report 16a	1.000000 22
Decrease at LIFO cost by year:	27		
	28	Report 16a	-261,636 22
Proof of current year LIFO expense(income):			
Current year inflation(deflation)	30	Row 8 minus one as a percentage	8.26%
Prior year current-year cost	31	Layer history Report 16	8,904,459
C/Y expense(income) due to inflation	32	Row 30 times Row 31	735,472
C/Y cum. def. index minus avg. index of layers eroded	33	Row 10 - Row 26	.082596
Expense(income) due to layer erosions	34	Row 13 * Row 33	-21,610
Total current year LIFO expense(income)	35	Row 32 plus Row 34(ties to Row 20)	713,862



Frequently Asked Questions

- **What are LIFOPro's turnkey outsourcing solutions costs?**
 - First year including IRS LIFO election forms preparation – Fees start as low as \$1K
 - Recurring (optional) – Fees start as low as \$500/year
- **What is LIFOPro's standard turnaround time?**
 - LIFO election benefit analysis report & fee quote: 1 week or less upon receipt of the required documents, but can be expedited as needed
 - Engagement letter & document request: 2 – 3 business days of receiving engagement request, but can be expedited as needed
 - LIFO report delivery: 1 week or less of receipt of year end document request list items, but same-day turnaround time available if needed
- **Does LIFOPro have a Service Organization Control (SOC) Report?**
 - An independent accounting firm annually audits our LIFO calculation service policies, procedures & systems for the period beginning January 1st and ending Dec. 31st
 - The accounting firm issues a SOC 1 Type II report which opines on LIFOPro's calculation system, design & operating effectiveness of controls
 - A copy of LIFOPro's SOC report is made available to all CPA firm partners & their clients (bridge letter can be provided for companies with fiscal year ends)
- **What are LIFOPro's billing/payment policies?**
 - **Billing**
 - LIFOPro email a PDF invoice 1 – 3 business days after delivering their LIFO report package
 - Standard payment term is due upon receipt, but can be modified to your firm or client's needs
 - LIFOPro's engagements are for a one-year period, but allow for optional annual renewal
 - LIFOPro's recurring fee stated in the engagement is guaranteed to remain the same for a 3-year period, meaning the engagement letter is designed to survive for the first four years of the engagement (one year for first year fees stated in engagement & 3 years for the recurring fees)
 - **Payment:**
 - Physical check & electronic check: E-check offered at no additional charge (via CPACharge)
 - Credit card: 2.95% processing fee applies (via CPACharge)



Resources

- [LIFOPro's Offerings Overview \(1-page summary\)](#)
- [2024 Top LIFO Election Candidates Guide](#)
- [2024 Top LIFO Election Candidate List & Client Identification Tool](#)
- [2024 LIFO Opportunities & Strategies Guide](#)
- [Sample LIFO Election Benefit Analysis Report](#)
- [Sample Best LIFO Practices & Methods Review Report](#)
- [Sample LIFOPro Report Package](#)
- **Contact Bob Richardson for business development questions and requests**
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