



May 21, 2018

Mr. Scott Dinwiddie
Associate Chief Counsel
Income Tax & Accounting
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Re: REG-125946-10 – Dollar-Value LIFO Regulations: Inventory Price Index Computation (IPIC) Method Pool

Dear Mr. Dinwiddie:

The American Institute of CPAs (AICPA) is pleased to submit comments as requested by the Internal Revenue Service (IRS) notice of proposed rulemaking, REG-125946-10 (11/28/16), regarding the Dollar-Value Last-In, First-Out (LIFO) Regulations: Inventory Price Index Computation (IPIC) Method Pools. The proposed regulations amend the IPIC method pooling rules to clarify that those rules are applied consistently with the general LIFO pooling rule that manufactured or processed goods and resale goods are not included in the same dollar-value LIFO pool.

The AICPA recommends that the Department of the Treasury (“Treasury”) and the IRS make the following changes to the proposed regulations to reduce the compliance burden on taxpayers and IRS exam controversy:

- Allow the inclusion of resale goods in the same LIFO IPIC pool with manufactured or processed goods under the IPIC pooling rules;
- Provide test year, qualifying period, retest year, and extended qualifying period rules similar to the rules provided in Treas. Reg. §§ 1.263A-2(b)(4) and -3(d)(4) for using the historic absorption ratio; and
- Provide an exception from the requirement to change pools as a result of the application of the 5-percent rules.

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We appreciate your consideration of our recommendations and welcome the opportunity to further discuss our comments. If you have any questions, please contact me at (408) 924-3508 or annette.nellen@sjsu.edu; Jennifer Kennedy, Chair, AICPA Tax Methods and Periods Technical Resource Panel, at (703) 918-6951, or jennifer.kennedy@pwc.com; or Ogochukwu Eke-Okoro, Senior Manager – AICPA Tax Policy & Advocacy, at (202) 434-9231, or ogo.eke-okoro@aicpa-cima.com.

Sincerely,



Annette Nellen, CPA, CGMA, Esq.
Chair, AICPA Tax Executive Committee

cc: Mr. Christopher Call, Attorney-Advisor, Office of Tax Legislative Counsel,
Department of the Treasury
Ms. Ellen Martin, Tax Policy Advisor, Office of Tax Legislative Counsel, Department
of the Treasury
John Moriarty, Deputy Associate Chief Counsel, Income Tax & Accounting, Internal
Revenue Service

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Comments on REG-125946-10

**Developed by the AICPA Tax Methods and Periods Technical Resource Panel
LIFO IPIC Pooling Working Group**

Sharon Kay, Working Group Chair

Carol Conjura

Christine Turgeon

James Martin

Peter Pentland

Scott Garrison

Tom Stockdale

Leslie Schneider

David Strong

Jennifer Kennedy, Chair, AICPA Tax Methods and Periods Technical Resource Panel

Ogochukwu Eke-Okoro, Senior Manager – AICPA Tax Policy & Advocacy

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I. Overview of Dollar-Value LIFO IPIC Pooling Rules

A. Last-in First-out Method

Internal Revenue Code (IRC or “Code”) section 472(a)¹ allows taxpayers to use the LIFO method in identifying inventory at year-end. When using the LIFO method to identify ending inventory, taxpayers must treat inventory items remaining on hand at the close of the taxable year as first included in the opening inventory of the next tax year and second, the inventory acquired during the tax year. Generally, if the LIFO method is used to identify inventory, it is required in all subsequent tax years, unless a taxpayer obtains the approval of the IRS to change to a different method of accounting.

B. Dollar-Value Method of Pricing LIFO Inventories

Treasury Reg. § 1.472-8 provides rules covering the use of the dollar-value method when determining the value of LIFO inventories. Taxpayers may elect to determine the cost of LIFO inventories under the dollar-value LIFO method to the extent such method is used consistently and clearly reflects income. The dollar-value method of valuing LIFO inventories is a method of determining cost by using a base-year cost expressed in terms of total dollars rather than the quantity and the price of specific goods as the unit of measurement.

Under the dollar-value method, goods contained in ending inventory are grouped into pools. The base-year cost is the aggregate of the cost of all items in a pool and is determined as of the beginning of the taxable year for which the LIFO method is first adopted. Liquidations and increments of items contained in a pool are reflected only in terms of a net liquidation or increment for the pool as a whole. To determine whether there is an increment or liquidation in a pool for a tax year, ending inventory of the pool expressed in terms of base-year cost is compared with the beginning of the year inventory of the pool expressed in terms of base-year cost.

In general, any taxpayer that elects to use the dollar-value LIFO method to value LIFO inventories may elect to use the IPIC method to compute the base-year cost and determine the LIFO value of a dollar-value pool for a trade or business. A taxpayer using the IPIC method must base its inventory price indexes on the consumer price indexes or producer price indexes published by the United States Bureau of Labor Statistics (BLS). The IPIC method was intended to simplify the use of the dollar-value LIFO method to allow its use by more taxpayers. The IPIC method was also intended to provide a simpler alternative method for taxpayers already using the dollar-value LIFO method to compute an index for a dollar-value pool.

¹ All references herein to “section” or “§” are to the Internal Revenue Code of 1986, as amended, or the Treasury regulations promulgated thereunder.

II. Pooling Rules

The rules for determining how to group inventory items into dollar-value LIFO pools are provided in Treas. Reg. §§ 1.472-8(b) and (c).

A. General Pooling Rules

Under Treas. Reg. § 1.472-8(b)(1), manufacturers or processors are required to establish one pool for each natural business unit (NBU) unless the manufacturer or processor elects under Treas. Reg. § 1.472-8(b)(3) to establish multiple pools. Whether a business is composed of more than one NBU is determined based on all of the facts and circumstances, including, for example, whether:

- the natural business divisions are adopted for internal management purposes;
- there are separate and distinct production facilities and processes; and
- separate profit and loss records are maintained with respect to separate operations.

In the case of manufacturers or processors, an NBU ordinarily consists of the entire productive activity or enterprise within one product line or within two or more related product lines.²

Under Treas. Reg. § 1.472-8(b)(2)(i), where a manufacturer or processor is also engaged in the wholesaling or retailing of goods purchased from others, the wholesaling or retailing operations with respect to such purchased goods are not considered a part of any manufacturing or processing unit. In such cases, any pooling of the LIFO inventory of purchased goods for wholesaling and retailing operations is determined under Treas. Reg. § 1.472-8(c). Generally, inventory of wholesalers, retailers, jobbers, and distributors are pooled by major lines, types, or classes of goods. In determining such groupings, customary business classifications of the particular trade in which the taxpayer is engaged is an important consideration. Treasury Reg. § 1.472-8(c)(1) requires that where a wholesaler or retailer is also engaged in the manufacturing or processing of goods, the pooling of the LIFO inventory for the manufacturing or processing operations is determined in accordance with Treas. Reg. § 1.472-8(b).

A manufacturer or processor using the NBU pooling method may elect to use the multiple pooling method described in Treas. Reg. § 1.472-8(b)(3) for inventory items that are not within a NBU. Additionally, a manufacturer or processor that does not use the NBU pooling method may elect to use the multiple pooling method. Under the multiple pooling method, each pool must consist of a group of inventory items that are substantially similar, which is determined based on all of the facts and circumstances. Raw materials that are substantially similar are pooled together, and finished goods and goods-in-process are placed in pools classified by major classes or types of goods.

Determining whether a group of inventory items is substantially similar should take in to account the nature of the items and significance of such items to the taxpayer's business operations, as well as whether:

² Including the obtaining of materials, the processing of materials, and the selling of manufactured or processed goods.

- there is substantial similarity in the types of raw materials used or in the processing operations applied;
- the raw materials used are readily interchangeable;
- there is similarity in the use of the products;
- the groupings are consistently followed for purposes of internal accounting and management; and
- the groupings follow customary business practice in the taxpayer's industry.

B. IPIC Pooling Rules

General IPIC Pooling Rules

A taxpayer that elects to use the IPIC method of determining the value of a dollar-value LIFO pool for a trade or business may also elect the IPIC pooling method provided in Treas. Reg. §§ 1.472-8(b)(4) and (c)(2) to establish dollar-value pools for those items accounted for using the IPIC method. Treasury Reg. § 1.472-8(b)(4) governs the application of the IPIC pooling method for manufacturers and processors that elect to use the IPIC method for a trade or business. Treasury Reg. § 1.472-8(c)(2) governs the application of the IPIC pooling method for wholesalers, retailers, jobbers, and distributors that elect to use the IPIC method for a trade or business.

Pooling Rules for Manufacturers

For manufacturers and processors using the IPIC pooling method, pools are established for those items accounted for using the IPIC method based on the 2-digit commodity codes (that is, major commodity groups) in Table 9 (formerly Table 6) of the Producer Price Index Detailed Report (PPI Detailed Report), which is published monthly by the BLS. A taxpayer establishing IPIC pools under Treas. Reg. § 1.472-8(b)(4) may elect to combine IPIC pools that comprise less than 5-percent of the total inventory value of all dollar-value pools to form a single miscellaneous IPIC pool. If the resulting miscellaneous IPIC pool is less than 5-percent of the total inventory value of all dollar-value pools, the taxpayer may elect to combine the miscellaneous IPIC pool with its largest IPIC pool.

Pooling Rules for Retailers

For retailers, wholesalers, jobbers, or distributors using the IPIC pooling method under Treas. Reg. § 1.472-8(c)(2), pools are established for those purchased items accounted for using the IPIC method, based on either the general expenditure categories (that is, major groups) in Table 3 of the Consumer Price Index Detailed Report (CPI Detailed Report), published monthly by BLS, or the 2-digit commodity codes (that is, major commodity groups) in Table 9 of the PPI Detailed Report. A taxpayer establishing IPIC pools under Treas. Reg. § 1.472-8(c)(2) may elect to combine pools that comprise less than 5-percent of the total inventory value of all dollar-value pools to form a single miscellaneous IPIC pool. If the resulting miscellaneous IPIC pool is less than 5-percent of the total inventory value of all dollar-value pools, the taxpayer may elect to combine the miscellaneous IPIC pool with its largest IPIC pool.

5-Percent Miscellaneous Pools

Each of the 5-percent rules provided in Treas. Reg. § 1.472-8(b)(4) or (c)(2) is a method of accounting. Thus, a taxpayer may not change to, or cease using, either 5-percent rule without obtaining the prior consent of the IRS. Whether a specific IPIC pool or the miscellaneous IPIC pool satisfies the applicable 5-percent rule is determined in the year of adoption or year of change (whichever is applicable), and redetermined every third taxable year. Any change in pooling required or permitted under a 5-percent rule is also a change in method of accounting. A taxpayer must secure the consent of the IRS before combining or separating pools.

III. 2016 Proposed Regulations

On November 28, 2016, the IRS and Treasury proposed regulations, in REG-125946-10, to amend the IPIC pooling rules. The proposed regulations provide that a manufacturer or processor using the IPIC pooling method under Treas. Reg. § 1.472-8(b)(4) may elect to establish dollar-value pools for the manufactured or processed items accounted for using the IPIC method based on the 2-digit commodity codes in Table 9 of the PPI Detailed Report. If the manufacturer or processor is also engaged, within the same trade or business, in wholesaling or retailing goods purchased from others, it must establish separate pools for its resale goods in accordance with Treas. Reg. § 1.472-8(c)(2).³

If the manufacturer or processor chooses to use the first 5-percent rule, it may combine manufactured or processed IPIC pools⁴ of less than 5-percent of the total current year cost of all dollar-value pools to form a single miscellaneous IPIC pool of manufactured or processed goods. The manufacturer or processor may also combine resale IPIC pools⁵ of less than 5-percent of the total current year cost of all dollar-value pools to form a single miscellaneous IPIC pool of resale goods. If the miscellaneous IPIC pool of manufactured or processed goods is less than 5-percent of the total current year cost of all dollar-value pools, the manufacturer or processor may elect the second 5-percent rule and combine the pool with its largest manufactured or processed IPIC pool. The miscellaneous IPIC pool of resale goods are not combinable with any other IPIC pool.

The 2016 proposed regulations also provide that a wholesaler, retailer, jobber, or distributor using the IPIC pooling method under Treas. Reg. § 1.472-8(c)(2) may elect to establish dollar-value pools for the resale goods accounted for using the IPIC method in accordance with Treas. Reg. § 1.472-8(c)(2). If the wholesaler, retailer, jobber, or distributor is also engaged, within the same trade or business, in manufacturing or processing activities, it must establish separate pools for its manufactured or processed goods based on the 2-digit commodity codes in Table 9 of the PPI Detailed Report.

If the wholesaler, retailer, jobber, or distributor chooses to use the first 5-percent rule, it may combine resale IPIC pools of less than 5-percent of the total current year cost of all dollar-value pools to form a single miscellaneous IPIC pool of resale goods. The wholesaler, retailer,

³ That is, based on the general expenditure categories in Table 3 of the CPI Detailed Report in the case of a retailer or the 2-digit commodity codes in Table 9 of the PPI Detailed Report in the case of a retailer, wholesaler, jobber, or distributor.

⁴ IPIC pools consisting of manufactured or processed goods.

⁵ IPIC pools consisting of resale goods.

jobber, or distributor may also combine manufactured or processed IPIC pools of less than 5-percent of the total current year cost of all dollar-value pools, to form a single miscellaneous IPIC pool of manufactured or processed goods. If the miscellaneous IPIC pool of resale goods is less than 5-percent of the total current-year cost of all dollar-value pools, the wholesaler, retailer, jobber, or distributor may elect the second 5-percent rule and combine the pool with its largest resale IPIC pool. The miscellaneous IPIC pool of manufactured or processed goods is not combinable with any other IPIC pool.

IV. Recommendations and Comments on Specific Provisions of the Proposed Regulations

A. Separate Pools for Manufactured and Resale Goods

Recommendations

The AICPA recommends that the IRS and Treasury provide guidance, in the final regulations, that allows the inclusion of resale goods in the same LIFO IPIC pool with manufactured or processed goods under the IPIC pooling rules. The AICPA also recommends that the IRS and Treasury provide an automatic accounting method change under Rev. Proc. 2015-13 and Rev. Proc. 2018-31 (or its successor) for the commingling of such goods.

Background and Analysis

The proposed regulations require taxpayers using the IPIC pooling method to establish separate pools for manufactured and resale goods. Many taxpayers currently include both manufactured and resale goods in the same pools under the IPIC pooling method, thus making compliance with the proposed regulations burdensome. Manufacturers have parts and components that are purchased and resold as a part of their operations which is often difficult to track. Sometimes, the same part is used for further manufacturing or resold. Thus, complex allocation calculations are necessary to track the part through the use of separate pools. The proposed regulations are further burdensome due to the addition of unnecessary, complex calculations.

The proposed establishment of separate pools appears inconsistent with the congressional intent behind the IPIC method of having a simplified method of dollar-value LIFO, as well as the policy intent behind the current IPIC pooling methods.

The requirement to maintain separate pools for manufactured and resale items increases the bookkeeping efforts necessary to comply with the proposed rules. For taxpayers with multiple pools, this requirement represents a sizeable increase in the cost of compliance. The requirement also increases the burden and cost to the government for IRS examiners required to review additional books and records.

For taxpayers with fungible manufactured and resale goods, the requirement to maintain the manufactured goods separately from the resale goods often prevented the use of the LIFO method because, for some taxpayers, it is impossible to identify and segregate the manufactured and resale goods. However, these taxpayers are now able to use the LIFO method by including manufactured and resale goods in the same IPIC pools under the current IPIC pooling method rules.

The IPIC method has a long history rooted in providing simplification for the dollar-value LIFO method. In 1981, Congress passed section 472(f), which directed the IRS and Treasury to provide for the simplification of LIFO inventory accounting through the publication of regulations that allow the use of published government indices. Since that time, Congress and the IRS have taken several steps toward simplifying the IPIC method. In 1981, the IRS and Treasury issued proposed regulations “to simplify the use of the dollar-value LIFO method so that the LIFO method could be used by more taxpayers and would be easier to use by taxpayers currently using the method.”⁶ In early 1982, Treasury and the IRS issued final regulations in T.D. 7814, which substantially revised the earlier version. Those final regulations were substantially revised and simplified by T.D. 8976 in 2002, which finalized regulations that were proposed in 2000⁷ (“the 2000 proposed regulations”).

The 2000 proposed regulations provide the special IPIC pooling method rules that currently exist, today. In the 2000 proposed regulations, the explanation of the provisions states that “[t]he special, elective pooling rules provided in the proposed regulations correspond with the pooling rules found in section 474(b) so that a taxpayer may change from the simplified dollar-value LIFO method of section 474 to the IPIC method without changing its pooling structure.”⁸

Note that an important policy goal of the 2000 proposed regulations was to allow taxpayers to seamlessly change from section 474(b) pooling to the IPIC pooling rules once the taxpayer no longer satisfied the small business gross receipts test required to use section 474 LIFO. The section 474 LIFO pooling rules do not require separate pooling of manufactured goods and resale goods. Section 474(b) simply provides that retailers must maintain separate pools by the major categories within the CPI, and all others must maintain separate pools based on the 2-digit categories within the standard industrial classifications of the PPI.

The recent 2016 proposed regulations represent a significant reversal of the simplification policy behind the existing regulations. The preamble to the 2016 proposed regulations states that the reason for requiring separate pools for manufactured and resale goods is “to limit cost transference, an inherent problem with pooling. Cost transference may occur, among other circumstances, when inventory items from separate economic activities (for example, manufacturing and resale activities) are placed in the same pool and may cause misallocation of cost or distortion of income.”⁹

The term “cost transference” under the IPIC method is unclear. Under the general natural business unit pooling rules, manufactured goods are maintained in a separate pool from resale goods because the two may have different rates of inflation, which could distort income if used to compute the same pool index. No concern should exist regarding the different inflation rates under the IPIC method because the manufactured goods and resale goods (of the same item) will have the same external index. Therefore, any potential increase in accuracy that may result by requiring separate pools for manufactured goods and resale goods, under a method that relies on external inflation indexes, is outweighed by the increased burden and complexity of the additional computations.

⁶ [Income Tax; Dollar-Value LIFO Inventory - Notice of proposed rulemaking](#), 46 Federal Register 11 (16 January 1981), pp. 3912 - 3916.

⁷ Dollar-Value LIFO Regulations; Inventory Price Index Computation Method [REG-107644-98](#) (5/19/00).

⁸ See REG-107644-98, Explanation of Provisions, #8 - Relocation and Clarification of Special Pooling Rules.

⁹ See REG-125946-10, Explanation of Provisions.

Allowing the continued combination of manufactured and resale goods in the same pool under the IPIC pooling rules retains the simplicity sought by Congress and the 2002 proposed regulations. Reversing this simplicity would increase burden and complexity and would create a significant barrier that could prevent many taxpayers with fungible items from using the LIFO method.

B. Period for Redetermining IPIC Method Pools

Recommendations

The AICPA recommends that the IRS and Treasury include in the final regulations, test year, qualifying period, retest year, and extended qualifying period rules similar to the rules provided in Treas. Reg. §§ 1.263A-2(b)(4) and -3(d)(4) for using the historic absorption ratio. We recommend the following rules for determining and redetermining IPIC method pools:

Test year: Whether a specific IPIC pool or the miscellaneous IPIC pool satisfies the applicable 5-percent rule is determined in the year of adoption or the year of change (the test year), whichever is applicable.

Qualifying period: Generally, taxpayers are permitted to use the IPIC pools established in the test year (or retest year) for each taxable year within the qualifying period. A qualifying period includes the test year (or retest year) and the two taxable years following the test year (or retest year).

Retest year: The retest year is the first taxable year following the close of each qualifying period (e.g., the fourth taxable year following the test year). Whether a specific IPIC pool or the miscellaneous IPIC pool satisfies the applicable 5-percent rule is redetermined in the retest year.

Extension of qualifying period: If the taxpayer is not required to combine or separate pools as a result of the application of a 5-percent rule in the retest year, the qualifying period is extended to include the retest year and the two taxable years following the retest year. If the taxpayer is required to combine or separate pools as a result of the application of a 5-percent rule, the taxpayer must use the new pools for the qualifying period that includes the retest year and the two taxable years following the retest year.

Change in method: A change to use, or cease using, either 5-percent rule is a change in method of accounting, and any change in pooling required or permitted as a result of the application of a 5-percent rule is a change in method of accounting. A taxpayer must secure the consent of the Commissioner of Internal Revenue, pursuant to Treas. Reg. § 1.446-1(e), to change to, or cease using, either 5-percent rule, and before combining or separating pools as a result of the application of a 5-percent rule. A taxpayer must combine or separate its IPIC pools in accordance with paragraph (g)(2) of this section.

Background and Analysis

Under Treas. Reg. §§ 1.472-8(b)(4) and (c)(2), whether a specific IPIC pool or the miscellaneous IPIC pool satisfies the applicable 5-percent rule is determined in the year of adoption or year of change (whichever is applicable) and redetermined *every third taxable year*. Taxpayers and practitioners are confused by the phrase “every third taxable year.” Some believe this phrase requires the redetermination of the IPIC pools every third year *after* the first year in which the pools are determined. However, others believe this phrase requires redetermination of the IPIC pools every third year, *including* the first year in which the pools are determined.

Under the first interpretation, if the IPIC pools are determined in Year 1, then the pools are redetermined in Year 4, the third year after the pools are determined in Year 1. Under the second interpretation, if the IPIC pools are determined in Year 1, then the pools are used only for two years before redetermination in Year 3.

In order to eliminate this confusion, the IRS and Treasury should revise the regulations to provide rules similar to the rules provided in Treas. Reg. §§ 1.263A-2(b)(4) and -3(d)(4) for using the historic absorption ratio. The rules for applying and testing the historic absorption ratio are clear, and provide a model for drafting clear rules for determining and redetermining IPIC pools.

C. Exception from the Requirement to Combine or Separate Pools

Recommendations

The AICPA recommends that the IRS and Treasury revise the regulations to provide the following exception from the requirement to change pools as a result of the application of the 5-percent rules:

Exception from the Requirement to Combine or Separate Pools: If the current-year cost of a pool is within 0.5-percent (plus or minus) of 5-percent of the total current-year cost of all dollar-value pools in the test year or the most recent retest year, and the current-year cost of the pool remains within 0.5-percent (plus or minus) of 5-percent of the total current-year cost of all dollar-value pools in the next retest year, then the taxpayer is not required to combine or separate the pools as a result of the application of a 5-percent rule.

Background and Analysis

Taxpayers often have a pool with a current-year cost that is slightly more than 5-percent (e.g., 5.1-percent) or slightly less than 5-percent (e.g., 4.6-percent) of the total current-year cost of all dollar-value pools in the test year. Under the first 5-percent rule, a pool with a current-year cost that is more than 5-percent of the total current-year cost of all dollar-value pools is a separate IPIC pool. However, a pool with a current-year cost that is less than 5-percent of the total current-year cost of all dollar-value pools is combined with other pools that comprise less than 5-percent of the total current-year cost of all dollar-value pools to form a single miscellaneous IPIC pool. Also, many taxpayers have a miscellaneous IPIC pool with a current-

year cost that is slightly more than 5-percent (e.g., 5.3-percent) or slightly less than 5-percent (e.g., 4.8-percent) of the total current-year cost of all dollar-value pools.

Under the second 5-percent rule, a miscellaneous IPIC pool with a current-year cost that is more than 5-percent of the total current-year cost of all dollar-value pools is a separate IPIC pool. However, a miscellaneous IPIC pool with a current-year cost that is less than 5-percent of the total current-year cost of all dollar-value pools is combined with the largest IPIC pool.

Under Treas. Reg. §§ 1.472-8(b)(4) and (c)(2), whether a specific IPIC pool or the miscellaneous IPIC pool satisfies the applicable 5-percent rule is determined in the year of adoption or year of change (whichever is applicable) and redetermined every third taxable year. In addition, Treas. Reg. §§ 1.472-8(b)(4) and (c)(2) provide that any change in pooling required or permitted as a result of a 5-percent rule is a change in method of accounting. When re-determining IPIC pools under the 5-percent rules, taxpayers frequently discover that an IPIC pool or a miscellaneous IPIC pool with a current-year cost that was slightly more than 5-percent of the total current-year cost of all dollar-value pools in the test year is now slightly less than 5-percent of the total current-year cost of all dollar-value pools, or vice versa. As a result, these taxpayers are required to combine or separate their pools and file a Form 3115, *Application for Change in Accounting Method*, to change the pools. Then, when redetermining IPIC pools under the 5-percent rules for the next redetermination year, the pool percentages may revert back to the percentages that existed in the original test year, forcing taxpayers to separate or combine their pools and file another Form 3115 to change the pools.

In order to reduce the burden on taxpayers that have IPIC pools with a current-year cost that fluctuates between slightly more than and slightly less than 5-percent of the total current-year cost of all dollar-value pools, the IRS and Treasury should provide an exception from the requirement to change pools as a result of the application of the 5-percent rules. Our recommendation is similar to the rule in Treas. Reg. §§ 1.263A-2(b)(4)(ii)(C)(2) and -3(d)(4)(ii)(C)(2) providing that, if the actual absorption ratio in a re-computation year is within .5-percent (plus or minus) of the historic absorption ratio, the taxpayer can continue to use the historic absorption ratio.

Under our proposed rule, if the current-year cost of an IPIC pool is greater than or equal to 4.5-percent, or less than or equal to 5.5-percent, of the total current-year cost of all dollar-value pools in the test year (or most recent retest year) the taxpayer can continue to use its current IPIC pools and is not required to combine or separate pools under the either 5-percent pooling method. This methodology would apply to both 5-percent IPIC pooling rules for establishing a miscellaneous IPIC pool and combining the miscellaneous pool with the largest IPIC inventory pool.

This exception from the requirement to combine or separate pools as a result of the application of the 5-percent rules would allow for minor fluctuations above or below the 5-percent thresholds under the 5-percent rules when taxpayers are redetermining the pools in a retest year, making compliance with the rules easier and reducing the number of accounting method changes that taxpayers must file. This exception will reduce the complexity of the LIFO calculations and provide for greater compliance with the IPIC pooling rules.