



**Paperwork Reduction Act Notice.**—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

**Recordkeeping** . . . . . 9 hr., 20 min.  
**Learning about the law or the form.** . . . . . 2 hr., 17 min.  
**Preparing and sending the form to the IRS** . . . . . 2 hr., 32 min.

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

## General Instructions

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

**Purpose of Form.**—Form 970 is a form that you file with your income tax return to adopt or expand the last-in, first-out (LIFO) inventory method described in section 472. If you prefer, you may file a statement that gives the same information asked for on Form 970. (See Regulations section 1.472-3(a).) File Form 970 (or a similar statement) with your tax return for the first tax year you intend to use or expand the LIFO method.

**Simplified Dollar-Value LIFO Method Under Section 474 (Line 8).**—Only small businesses whose average annual gross receipts for the 3 preceding tax years did not exceed \$5 million may elect to use the Simplified Dollar-Value LIFO method. If the taxpayer is a member of a controlled group, the gross receipts of the group are used to determine if the taxpayer qualifies. This method requires that the taxpayer maintain a separate inventory pool for items in each major category in the applicable Government price index, and that the taxpayer make adjustments to each separate pool based on changes from the preceding tax year in the component of such index for the major category. A qualified taxpayer does not need the consent of the Secretary to elect these provisions. The election is in effect for the first year the election is made and for each succeeding year the taxpayer qualifies as an eligible small business. The election may be revoked only with the consent of the Secretary.

The Simplified Dollar-Value method requires that general categories of inventory pools be established. The general categories are based on categories of inventory items contained in the Producer Price Indexes or the CPI Detailed Report published by the U.S. Department of Labor, Bureau of Labor Statistics. See section 474 and Regulations section 1.472-8 for more details.

**Change From LIFO Method.**—Once you adopt the LIFO method, it is irrevocable unless the Secretary allows you to change to another method.

**LIFO Recapture Amount.**—A C corporation must include in gross income the LIFO recapture amount (defined below) if:

1. It uses the LIFO method for its last tax year before the first tax year for which an election to be taxed as an S corporation becomes effective, or
2. It transferred LIFO inventory assets to an S corporation in a nonrecognition transaction (within the meaning of section 7701(a)(45) in which transferred assets constitute transferred basis property (within the meaning of section 7701(a)(43)).

The LIFO recapture amount is the amount by which the C corporation's inventory under the FIFO method (determined by using cost or market, whichever is lower) authorized by section 471 exceeds the inventory amount under the LIFO method at the close of the C corporation's last tax year as a C corporation (or for the year of the transfer, if "2" above applies).

For additional information on the LIFO recapture, see Regulations section 1.1363-2 and Rev. Proc. 94-61, 1994-2 C.B.

775. Also see the instructions for Forms 1120 and 1120-A and the instructions for Form 1120S.

## Specific Instructions

**Identifying Number.**—An individual's identifying number is the social security number. For all others, it is the employer identification number.

**Address.**—Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and you have a P.O. box, show the box number instead of the street address.

**First Election or Subsequent Election.**—If this is your first election to use the LIFO method, check the box for First Election. If you are expanding a prior LIFO election, check the box for Subsequent Election.

### Part I—Statement of Election

**Item A.**—Enter the tax year the LIFO inventory method will first be used (or expanded) and list the inventory items for which you will use this method. If this is a subsequent election, list the inventory items for which you will use this method but only for those items that are not covered under a previous LIFO election.

Attach a detailed analysis of all of your inventories as of the beginning and end of the first tax year the LIFO method will be used (or expanded) and the beginning inventory of the preceding tax year. Also, include the ending inventory reported on your tax return for the preceding tax year. See Regulations sections 1.472-2 and 1.472-3 for more details on preparing this analysis.

### Part II—Other Information

**Line 6a.**—See Regulations sections 1.472-2 and 1.472-8(e) for more information.

**Line 6b.**—See Regulations section 1.472-8(e)(3)(iii)(C) before completing line 6b. If you do not use the Retail Inventory Method, also see Rev. Rul. 89-29, 1989-1 C.B. 168.

**Line 7.**—You may use the Dollar-Value LIFO method to determine the cost of LIFO inventories as long as you use it consistently and it clearly reflects income. Regulations section 1.472-8 gives details about this method.

**Line 8.**—Please provide sufficient information to justify the pooling method. If you select indexes from the CPI Detailed Report, you may establish inventory pools for any group of goods included within each of the general categories of producer goods described in Table 3 of the CPI Detailed Report. Likewise, if you select indexes from the Producer Price Indexes, you may establish inventory pools for any group of goods, included within each of the general categories of producer goods described in Table 6 of the Producer Price Indexes. See Rev. Proc. 84-57, 1984-2 C.B. 496.

**Line 9.**—Select a LIFO computation method for the dollar-value pooling. This is not applicable to taxpayers using the specific goods (unit) method. To figure the LIFO value of a dollar-value pool, use a method described in Regulations section 1.472-8(e)(2). If you use a published price index method, indicate the specific consumer or producer price index(es) selected for each inventory pool. Generally, you must use 80% of the change in price indexes, unless you are an eligible small business, as defined in section 474(c). Provide a detailed description of the LIFO computation method you will use. If you use the link-chain, index, or "other" method, attach a detailed statement explaining how the method is justified under Regulations section 1.472-8(e)(1). In addition, if you should use a link-chain method, your statement should explain why the nature of the pool makes the double-extension or index method impractical or unsuitable.

**Signature.**—Form 970 must be signed by or on behalf of the taxpayer electing the LIFO inventory method by an individual with the authority to bind the taxpayer in such matters. If the taxpayer is a member of a consolidated group, Form 970 must also be signed by a duly authorized officer of the common parent. See Regulations section 1.1502-77.

