

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** 8 hr., 37 min.
- Learning about the law or the form** 1 hr., 35 min.
- Preparing and sending the form to the IRS** 1 hr., 48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the Internal Revenue Service and the Office of Management and Budget at the addresses listed in the instructions of 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 an optional form that you may file with your income tax return to adopt or expand the 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 the application 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 Index and Consumer Price Index published by the 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.

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, 89-1 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.—Indicate the number of pools and the type of goods included in each pool in an attached statement.

To adopt and use the inventory price index computation method provided by Regulations section 1.472-8(e)(3)(iv), you must list each inventory pool, indicate the type of goods included in each pool, and indicate the consumer or producer price index or indexes selected for each inventory pool.

If you have made the section 474 election to use the Simplified Dollar-Value LIFO method, see section 474 for additional details.

If you are a wholesaler, retailer, jobber, or distributor, see Regulations section 1.472-8(e) for guidelines on establishing dollar-value LIFO pools.

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). If you do not use the “double-extension” or “published price index” method, attach a detailed statement to explain the method used and how it is justified under Regulations section 1.472-8(e)(1). For example, if you should use a “link-chain” method, your statement should explain why the nature of the pool makes the other two methods impractical or unsuitable.

Signature.—Form 970 must be signed. If you are filing for a corporation, the form must be signed by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or other corporate officer (such as tax officer) authorized to sign.