New tax conformity rule article review samples

Business, Company

The article relates to as how entities both domestic and multinational, used the difference in valuation rules of LIFO and Non-LIFO Inventory Valuation methods for purpose of tax saving as LIFO was used solely for tax reporting purpose which increased their value of Cost of Goods Sold(COGS) and finally with low gross profits, entity had low tax liability and also comments on new tax conformity rule of IRS that puts a restriction of using two inventory methods while preparing financial statements if LIFO is used for tax reporting purpose.

IRS has determined that a taxpayer will not violate the rules under sec 472 relating to Last in First Out(LIFO) Method of reporting inventory where the tax payer earlier issued both LIFO and Non LIFO Financial Statements. However, IRS has provided exception to the regulation that the taxpayer could rely on valuing inventory as an asset and could use footnote for reporting adjustment. Earlier at times of inflation, taxpayers intended to issue consolidated financial statements to its parent company, minority shareholders and creditors and for the purpose of tax reporting, the tax payer’s wholly owned subsidiary used the LIFO method for inventory accounting while for Balance Sheet reporting they used Non-LIFO Basis. Thus, as a result their retained earnings reflected an amount based on LIFO, while for Balance Sheet taxpayers made adjustment in the section of other comprehensive income. As a result, the reported total owner’s equity on a Non-LIFO basis for both the Balance Sheet and the Statement of Owner’s Equity. The whole scenario is for the purpose of tax saving but since the tax saving from LIFO also comes at the cost, IRS has now produced a new tax conformity rule under section 472 which states that if any tax payer entity has used LIFO method for inventory reporting, in such case he cannot use any other method of inventory reporting in any of the financial statement for calculating profit, losses and income.

IRS though is strict in this concern but has provided an exception that if tax payer reports goods in hand as an asset and if he applies Non-LIFO methods for inventor reporting, he will be in comformity with tax rules if he used this valuation for preparing Balance Sheet.

As for the future reporting we should ensure every tax payer should confirm to new tax rules and should not repeat the mistakes which IRS cited in their legal advice memorandum and thus face legal/tax authority penal consequences. IRS cited that a US tax payer had violated the LIFO Conformity rule when it provided a banking institution with financial statements prepared under both IFRS and GAAP and when later the entity was bought by foreign entity, the borrowing company continued to use both US GAAP and IFRS for reporting purpose as it continued to use LIFO for taxation purpose but reported to its foreign parent on Non_LIFO basis.

Thus, analyzing these mistakes relating to comparison and understandibility of financial statements, IRS took the decision of using only LIFO method both for tax reporting and Balance Sheet Reporting purpose as it will help both domestic and multinational entities to have a better understanding of what is allowed under new conformity rule and will also be useful for the investors to understand and compare the financial statements under one uniform inventory reporting method.

Works Cited

CCN Group. (2010, September 9). IRS Green Light LIFO fo Income Statement . pp. 3-5.