



Tax Reduction Letter

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Revenue Ruling 87-12

January 1987

LIFO; price indexes; department stores. The August 1986 Bureau of Labor Statistics price indexes are accepted for use by department stores employing the retail inventory and last-in, first-out inventory methods for valuing inventories for tax years ended on, or with reference to, August 31, 1986.

The following price indexes for August 1986 were issued by the Bureau of Labor Statistics on September 25, 1986, for use by department stores, and are accepted by the Internal Revenue Service, under section 1.472-1 (k) of the Income tax Regulations and Rev. Proc. 72-21, 1972-1 C.B. 745, for appropriate application to inventories of department stores employing the retail inventory and last-in, first-out inventory methods for tax years ended on, or with reference to, August 31, 1986.

Indexes are prepared on a national basis for the store total, for 23 major groups of departments, and for three special combinations-soft goods, durable goods and miscellaneous goods. The store total index covers all departments, including some not listed separately, with the following exceptions: candy, foods, liquor, tobacco, as well as contract departments.

The major groups of departments for which indexes are prepared have been expanded from 20 to 23. These new groups are: (1) Group 21-Recreation and Education; (2) Group 22-Home Improvements; and (3) Group 23-Auto Accessories. A Miscellaneous Goods index is also introduced to reflect the aggregate movement of these three new groups. See Rev. Proc. 86-46, 1986-2 C.B. 739.

Although the new indexes were introduced in the February 1986 Department Store Inventory Price Indexes, January 1987 will be the first month for which there will be a percent change based on a 12-month period. The January 1986 indexes for the new groups are all 100. Rev. Proc. 86-46 modifies and supersedes Rev. Proc. 72-21.

Rev. Proc. 86-47, 1986-2 C.B. 741, sets forth the procedures required of tax payers to change their method of accounting from that of using the 20 groups set forth in Rev. Proc. 72-21 to the method of using the 23 groups set forth in Rev. Proc. 86-46.

**BUREAU OF LABOR STATISTICS, DEPARTMENT STORE
INVENTORY PRICE INDEXES BY DEPARTMENT GROUPS**

(January
1941 = 100
unless
otherwise
noted)

	Groups	August 1985	August 1986	Percent Change from August 1985 to August 1986n1
1.	Piece Goods	393.6	409.0	3.9
2.	Domestics and Draperies	538.7	545.3	1.2
3.	Women's and Children's Shoes	539.0	522.2	-3.1
4.	Men's Shoes	712.6	729.7	2.4
5.	Infants' Wear	493.3	528.3	7.1
6.	Women's Underwear	432.7	433.3	0.1
7.	Women's and Girls' Hosiery	235.2	237.5	1.0
8.	Women's and Girls' Accessories	448.1	448.5	0.1
9.	Women's Outerwear and Girls' Wear	338.1	337.4	-0.2
10.	Men's Clothing	469.9	471.3	0.3
11.	Men's Furnishings	478.6	478.3	-0.1
12.	Boys' Clothing and Furnishings	438.7	431.9	-1.6
13.	Jewelry	692.1	694.0	0.3
14.	Notions	487.4	441.1	-9.5
15.	Toilet Articles and Drugs	643.6	664.4	3.2
16.	Furniture and Bedding	534.5	542.2	1.4
17.	Floor Coverings	461.6	465.8	0.9
18.	Housewares	719.7	718.6	-0.2
19.	Major Appliances	244.0	251.6	3.1
20.	Radio and	103.3	98.9	-4.3

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	Groups	August 1985	August 1986	Percent Change from August 1985 to August 1986n1
21.	Television Recreation and Education	N/A	100.3	N/A
22.	Home Improvement s	N/A	99.1	N/A
23.	Auto Accessories	N/A	99.4	N/A
	Groups 1-15: Soft Goods	474.8	477.6	0.6
	Groups 16- 20: Durable Goods	445.7	447.1	0.3
	Groups 21- 23: Misc. Goods	N/A	99.9	N/A
	Store Total	467.0	468.9	0.4