

810-3-161-.02 LIFO Recapture.

(1) Definitions. For purposes of this regulation, the following definitions shall apply:

(a) "LIFO recapture amount" means the excess of the inventory's value using the FIFO method over its value using the LIFO method.

1. For purposes of subparagraph (a), the inventory value means the aggregate amount of the inventory assets determined as of the end of the last tax year before the corporation converts to S status.

2. For purposes of subparagraph (a), the FIFO amount shall be determined by using the retail method if the corporation uses the retail method to determine the LIFO amount. If the corporation does not use the retail method to determine the LIFO amount, then the lower of cost or market method must be used to determine the FIFO amount.

(b) "LIFO method" means the method authorized by 26 U.S.C. § 472. For interpretation of federal statutes adopted by the Alabama legislature, see Rule 810-3-1.1-.01, Operating Rules.

(c) "Inventory assets" means property which would normally be included in inventory of the corporation at the close of the taxable year.

(2) LIFO Recapture Amount.

(a) Any C corporation which converts to S corporation status, and which used the LIFO inventory method for its last C corporation tax year, must include the LIFO recapture amount in gross income for the last taxable year for which it was a C corporation.

(b) Any amount included in gross income under paragraph (a) shall be included in the value of inventory by making the appropriate adjustments to basis.

(3) Payment of Tax. The tax attributable to the inclusion in income of the LIFO recapture amount is payable in four equal installments.

(a) The first installment must be paid on or before the unextended due date for filing the C corporation return for the last tax year before conversion to S corporation status.

(b) The three remaining installments are due on or before the unextended due dates of the corporation's tax returns for the three succeeding tax years.

(c) No interest will be charged if the installments are paid on or before their respective due dates.

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