

Internal Revenue Service

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his delegate that he has used no procedure other than the LIFO method for purposes of an annual report to shareholders, partners, other proprietors, beneficiaries, or for credit purposes. These provisions also provide that such requirements shall apply to the continued use of the LIFO method. Thus, where there is a variance between the LIFO procedures used for Federal income tax purposes and for financial accounting purposes, the Secretary or his delegate may terminate the LIFO election of a taxpayer for a violation of the above requirements.

.02 The SEC is charged with the responsibility of administering the disclosure and reporting requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934. The SEC requires that material information affecting a company's earnings and its earnings per share be disclosed to avoid giving public investors a misleading impression of such earnings and earnings per share.

.03 The unusually sharp increase in the BLS index figures for January 1974 has resulted in high cost of sales for those taxpayers using the LIFO inventory method and a fiscal year ended on or about January 31, 1974, as compared with prior taxable years.

SEC. 4. APPLICATION.

In the examination of returns, if a corporation using the LIFO inventory method in conjunction with the BLS index figures is required by the SEC to make the following type of disclosure statements in its annual report, news releases, or other published reports for its fiscal year ending on or about January 31, 1974, its LIFO election under section 472 of the Code will not be terminated solely because of the use of such statements in published reports:

.01 Type of disclosure statements to be used in portions of the annual reports, etc., other than in the financial statements section:

Inflation in the cost of goods sold reduced earnings by _____¢ per share in

1973 as compared with _____¢ per share in 1972. These amounts were calculated from the increase in the appropriate BLS index used in determining the value of our year-end LIFO inventory.

The LIFO (last in, first out) method, used by _____ and some other retailers, has the effect of eliminating inflationary effects from earnings and from inventory value. Thus, profits and balance sheet inventory values are stated on a conservative basis, both for financial and tax reporting purposes.

.02 Type of disclosure statements to be used as a footnote in the financial statements section of the annual reports, etc.:

Inflation in the cost of goods sold reduced net earnings by \$_____ in 1973 and \$_____ in 1972. These amounts were calculated from the increase in the appropriate BLS index used in determining the value of the year-end LIFO inventory.

Statement of Organization and Functions¹

This material supersedes the statements on organization and functions published at 37 F.R. 20961-20990 [1972-2 C.B. 836], 38 F.R. 23341 and 23342 [1973-2 C.B. 503], and 38 F.R. 30011 and 30012 [1973-2 C.B. 504].

DONALD C. ALEXANDER,
*Commissioner of
Internal Revenue.*

Dated March 25, 1974.

1100 Organization and Staffing

1110 Organization and Functions of the Internal Revenue Service

1111 Establishment of the Internal Revenue Service

1111.1 Mission

The mission of the Service is to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to maintain the highest degree of

¹ 39 F.R. 11572.

public confidence in the integrity and efficiency of the Service. This includes communicating the requirements of the law to the public, determining the extent of compliance and causes of non-compliance, and doing all things needful to a proper enforcement of the law.

1111.2 Organic Act

(1) The Office of the Commissioner of Internal Revenue was established by an act of Congress (12 Stat. 432) on July 1, 1862, and the first Commissioner of Internal Revenue took office on July 17, 1862.

(2) The act of July 1 provided:

"... That, for the purpose of superintending the collection of internal duties, stamp duties, licenses, or taxes imposed by this Act, or which may be hereafter imposed, and of assessing the same, an office is hereby created in the Treasury Department to be called the Office of the Commissioner of the Internal Revenue; . . . Commissioner of Internal Revenue, . . . shall be charged, and hereby is charged, under the direction of the Secretary of the Treasury, with preparing all the instructions, regulations, directions, forms, blanks, stamps, and licenses, and distributing the same or any part thereof, and all other matters pertaining to the assessment and collection of the duties, stamp duties, licenses, and taxes, which may be necessary to carry this Act into effect, and with the general superintendence of his office, as aforesaid, and shall have authority, and hereby is authorized and required, to provide proper and sufficient stamps or dies for expressing and denoting the several stamp duties, or the amount thereof in the case of percentage duties, imposed by this Act, and to alter and renew or replace such stamps from time to time, as occasion shall require; . . ."

(3) By common parlance and understanding of the time, an office of the importance of the Office of Commissioner of Internal Revenue was a