

# THE LIFO COALITION

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March 31, 2015

Senate Committee on Finance  
Attn. Editorial and Document Section  
Rm. SD-219  
Dirksen Senate Office Bldg.  
Washington, DC 20510-6200

To The Finance Committee:

I am writing on behalf of the LIFO Coalition in response to testimony provided to the Committee at its March 17<sup>th</sup> hearing.

The LIFO Coalition (the Coalition), organized in April 2006, has more than 125 members including trade associations representing hundreds of thousands of American employers in the manufacturing, wholesale distribution, and retail sectors, as well as companies of every size and industry sector that use the LIFO method. A list of the LIFO Coalition members is enclosed.

The last-in, first-out (LIFO) method of inventory is used by a diverse array of American companies, including hundreds of thousands of pass-through businesses, to most accurately record inventories and measure income. Despite the widespread use of LIFO, LIFO repeal has been considered several times in recent years as a way to raise revenues to offset various spending initiatives or to pay for certain tax reform objectives.

An executive of a multi-national corporation testified before the Finance Committee on March 17<sup>th</sup>, at the Committee hearing on international tax. In his testimony, the executive made recommendations on tax reform, among them a suggestion that LIFO repeal “could be an acceptable trade-off for longer term permanent rate reduction . . .”

LIFO Coalition members were both surprised and disturbed to read that testimony because for the overwhelming majority of LIFO users, a reduction in income tax rates would not in any way offset the repeal of LIFO. The situation facing pass-through companies on LIFO is even worse inasmuch as, based on the current debate, they could lose the use of LIFO without a reduction in the individual tax rates that they pay.

Because the testimony of this witness was so inconsistent with the position of the LIFO users who comprise the LIFO Coalition, the Coalition counsel reviewed the Form 10K filed by the executive’s corporation to better understand its LIFO usage. Our review determined that less than 15 percent of the company’s inventory is on LIFO, and that its LIFO reserve is very small.

With so little of its inventory on LIFO and such a small LIFO reserve, repeal of LIFO may well not be burdensome for this company. However, these are both unrepresentative statistics in comparison to most companies on LIFO.

To demonstrate that point, following the Finance Committee hearing, we quickly surveyed the members of the National Association of Wholesaler-Distributors (NAW) which are LIFO companies to determine the percentage of their inventories that are on LIFO. Of the 86 companies that responded to the survey, more than half (44 of 86) have 100 percent of their inventory on LIFO. And for more than 72 percent of the companies (62 of the 86), more than 70 percent of their inventory is on LIFO.

Further, a tax firm which specializes in LIFO systems advised the Coalition that, “of the hundreds of LIFO calculations we prepare annually for manufacturers, wholesalers and retailers... the vast majority, over 80%, use LIFO for all of their inventory.”

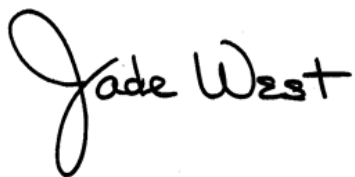
This data and that of the NAW members is consistent with that of the diverse cross-section of industries that comprise the LIFO Coalition. The Coalition would be happy to substantiate that observation and provide additional data if the Committee requests that we do so.

The LIFO Coalition would ask the members of the Finance Committee to bear in mind the very different circumstances of the witness who testified that repeal of LIFO would be acceptable as they consider his recommendation on LIFO repeal.

For the overwhelming majority of the LIFO companies which have most or all of their inventory on LIFO and which have significant LIFO reserves, the repeal of LIFO is not only an unacceptable component of tax reform, it would both impose a punitive retroactive tax increase on them and force them to use an inventory accounting method prospectively that is totally inconsistent with their business models. For many of those companies, particularly thinly capitalized companies with small profit margins, repeal of LIFO would simply force them out of business.

The LIFO Coalition urges the Finance Committee to oppose LIFO repeal, as a separate measure or as part of a comprehensive tax reform effort.

Respectfully,

A handwritten signature in black ink that reads "Jade West". The signature is written in a cursive, flowing style.

Jade West, Executive Secretariat  
The LIFO Coalition

*Enclosure*

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Aeronautical Repair Station Association  
Alabama Grocers Association  
American Apparel & Footwear Association  
American Chemistry Council  
American Foundry Society  
American Fuel & Petrochemical Manufacturers  
American Gas Association  
American International Automobile Dealers Association  
American Iron & Steel Institute  
American Petroleum Institute  
American Road & Transportation Builders Association  
American Supply Association  
American Veterinary Distributors Association  
American Watch Association  
American Wholesale Marketers Association  
Americans for Tax Reform  
AMT-The Association for Manufacturing Technology  
Associated Equipment Distributors  
Association for High Technology Distribution  
Association for Hose & Accessories Distribution  
Association of Equipment Manufacturers  
Auto Care Association  
Automobile Dealers Association of Alabama  
Brown Forman Corporation  
Business Roundtable  
Business Solutions Association  
California Independent Grocers Association  
Cardinal Health  
Caterpillar Inc  
Ceramic Tile Distributors Association  
Connecticut Food Association  
Copper & Brass Fabricators Council  
Copper & Brass Servicenter Association  
Deep South Equipment Dealers Association  
Deere & Company  
East Central Ohio Food Dealers Association  
Equipment Marketing & Distribution Association  
Far West Equipment Dealers Association  
Farm Equipment Manufacturers Association  
Financial Executives International  
Food Industry Alliance of New York State  
Food Marketing Institute  
Forging Industry Association  
Gases and Welding Distributors Association  
Greater Boston Chamber of Commerce  
Health Industry Distributors Association  
Healthcare Distribution Management Association  
Heating, Airconditioning & Refrigeration Distributors International  
Illinois Food Retailers Association  
Independent Lubricant Manufacturers Association  
Industrial Fasteners Institute  
Industrial Supply Association  
International Foodservice Distributors Association  
International Franchise Association  
International Sanitary Supply Association  
International Sealing Distribution Association  
International Wood Products Association  
Iowa Grocers Industry Association  
Iowa Nebraska Equipment Dealers Association  
Jewelers of America  
Kansas Food Dealers Association  
Kentucky Association of Convenience Stores  
Kentucky Grocers Association  
Louisiana Retailers Association  
Marine Retailers Association of the Americas  
Maryland Retailers Association  
McKesson Corporation  
MDU Resources Group  
Metals Service Center Institute  
Mid-America Equipment Retailers Association  
Midwest Equipment Dealers Association  
Minnesota Grocers Association  
Minnesota-South Dakota Equipment Dealers Association  
Missouri Grocers Association  
Missouri Retailers Association  
Montana Equipment Dealers Association  
Moss Adams LLP  
NAMM-The International Music Products Association  
National Association of Chemical Distributors  
National Association of Convenience Stores  
National Association of Electrical Distributors  
National Association of Manufacturers  
National Association of Shell Marketers  
National Association of Sign Supply Distributors  
National Association of Sporting Goods Wholesalers  
National Association of Wholesaler-Distributors  
National Automobile Dealers Association  
National Beer Wholesalers Association  
National Electrical Manufacturers Association  
National Federation of Independent Business  
National Grocers Association  
National Lumber and Building Material Dealers Association  
National Marine Manufacturers Association

National Paper Trade Alliance  
National Roofing Contractors Association  
National RV Dealers Association  
National Stone Sand & Gravel Association  
Nebraska Grocery Industry Association  
New Hampshire Grocers Association  
New Jersey Food Council  
North American Equipment Dealers Association  
North American Wholesale Lumber Association  
Ohio Equipment Distributors Association  
Ohio Grocers Association  
Ohio-Michigan Equipment Dealers Association  
Paperboard Packaging Council  
Pet Industry Distributors Association  
Petroleum Equipment Institute  
Petroleum Marketers Association of America  
Power Transmission Distributors Association  
Printing Industries of America  
Professional Beauty Association  
Retail Grocers Association of Greater Kansas City  
Retail Industry Leaders Association  
SBE Council  
Security Hardware Distributors Association  
Service Station Dealers of America and Allied Trades  
Society of Independent Gasoline Marketers of America  
SouthEastern Equipment Dealers Association  
Southern Equipment Dealers Association  
SouthWestern Association  
Souvenir Wholesale Distributors Association  
SPI: The Plastics Industry Trade Association  
State Chamber of Oklahoma  
Textile Care Allied Trades Association  
Tire Industry Association  
U.S. Chamber of Commerce  
Washington Food Industry Association  
Wholesale Florist & Florist Supplier Association  
Wine & Spirits Wholesalers of America  
Wine Institute  
Wisconsin Grocers Association, Inc.  
Wood Machinery Manufacturers of America