American International Automobile Dealers Association

POSITION PAPER

LAST IN – FIRST OUT ACCOUNTING METHOD
Protect LIFO

BACKGROUND

LIFO is an accounting method used to record the value of inventory which allows dealerships and other businesses to record the last units purchased as the first units sold. LIFO is a textbook accounting method used by businesses which maintain inventory to clearly determine both 'book" income and tax liability and has been an accepted and established accounting method in the United States for 70 years. President Obama's Budget FY 2017 targets LIFO for repeal – there are those who believe changes to inventory accounting rules would not be detrimental to businesses, would close a loop hole, and would be a good avenue to generate revenue to offset other tax priorities. However, dealers and small business owners realize inventory accounting changes would have a huge impact on tax liability and fear collateral damage to other sectors of the economy.

POSITION

On behalf of its nearly 10,000 dealer members, the American International Automobile Dealers Association opposes the repeal of LIFO. Overhauling the rules would create further economic turmoil when dealerships, and other businesses, around the country are struggling to make ends meet – even in a good economy, LIFO repeal would result in job losses and decreased capital spending and investment.

MORE ABOUT THE ISSUE

- Repeal of LIFO would create a punitive tax on business that would force them to generate sufficient cash to pay tax on deemed income, and would prevent companies from being properly taxed on their real income.
- Repeal of LIFO would cause employers to lay off workers or postpone hiring; postpone or cancel a planned investment or expansion; terminate contributions to employee health care or retirement plans; reduce operations or even go out of business; increase prices to customers to raise the funds to pay the tax.
- LIFO is used by a wide range of businesses including automobile dealers, publicly-traded and privately-held companies, manufacturers, extractive industries, wholesaler-distributors, retailers, newspapers, and equipment dealers.
- LIFO is considered a more accurate accounting method for industries that often experience rising inventory costs – such as dealerships – because it allows them to avoid the realization of phantom profits caused by inflation.
- LIFO is particularly important to businesses which have thin capitalization, small profit margins, and/or particular sensitivity to rising materials costs. Many of these companies have been on LIFO for decades, creating many years of LIFO reserves.
- While repeal of LIFO might generate short-term revenue for the Federal treasury, the long-term damage to the economy that would result would far out-weigh any short term increase in revenue. For some dealerships, repeal would force them out of business entirely – the LIFO reserve could exceed retained earnings or net worth, in which case the dealer would have to liquidate, and also might still owe tax.

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