

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 17th 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 17th, 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.”

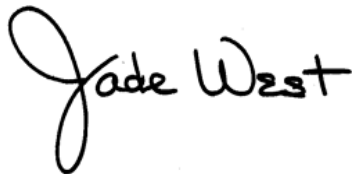
This data and that of the NAW members is consistent with that of the diverse cross-section of industries that comprise the LIFO Coalition. The Coalition would be happy to substantiate that observation and provide additional data if the Committee requests that we do so.

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