



National Automobile Dealers Association



NADA OPPOSES LIFO REPEAL

Issue Summary

LIFO is an inventory accounting method used by companies throughout the U.S. economy. The accounting practice, which allows companies to show smaller incomes by basing sales on the newest inventory, benefits oil companies and others when their commodities increase in price.

Background

On April 26, 2006, then-Senate Majority Leader Bill Frist (R-TN) proposed a \$100-per-family gas tax rebate to be paid for by repeal of the LIFO (which stands for “last in, first out”) accounting method for all businesses. Frist’s proposal expanded on a provision in a Senate-passed tax bill that only targeted oil companies. The proposal was met with swift opposition by NADA and the business community and was quickly dropped. However, LIFO repeal remains an option for Congress to raise revenue.

Key Points

- LIFO is a legitimate accounting method that has been in place for over 60 years. Taxpayers may not change between LIFO and FIFO (“first in, first out”) without approval of the Internal Revenue Service (IRS). Taxpayers assume the risk of artificially increased tax liability if inventory costs should fall once they elect to use the LIFO method.
- A majority of automobile dealerships currently use the LIFO accounting method. Repealing LIFO would force dealers currently using the accounting method to report their LIFO reserves as income, resulting in a **massive tax increase**.
- Repealing LIFO would mean potentially higher future tax bills and would make it harder for dealers to manage inventory inflation.

Status

NADA continues to work with the LIFO Coalition to prevent any changes to current law. To date in this Congress, there have been no proposals to use LIFO repeal as a “pay-for”.

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