



National Automobile Dealers Association



NADA Supports Preservation of the LIFO Method of Accounting

Issue Summary

LIFO (which stands for “Last In, First Out”) is an inventory accounting method used by companies throughout the U.S. economy to help mitigate the impact of inflation. The accounting practice allows companies to show smaller incomes by basing sales on the newest inventory.

Background

Some Members of Congress are attracted to the idea of LIFO repeal as a revenue raiser to offset other tax priorities. Other Members of Congress have targeted LIFO because of its prevalent use by the oil industry, especially when gas prices were higher. However, LIFO repeal would cause massive collateral damage to other sectors of the economy, including small business automobile dealers.

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.
- Over 75 percent of automobile dealerships currently use the LIFO accounting method for their new vehicle inventory. Repealing LIFO would force dealers currently using the accounting method to report their LIFO reserves as income, resulting in a **massive tax increase**. Repeal of LIFO is tantamount to the government changing the rules in the middle of the game to the detriment of America’s car dealers.
- Repealing LIFO would mean potentially higher future tax bills and would make it harder for dealers to manage inventory inflation, particularly during this difficult economic time.

Status

In February 2009, President Obama’s proposed budget included the repeal of LIFO. This repeal language was not included in the House or Senate-passed versions of the federal budget. NADA will continue working with the LIFO Coalition to oppose any changes to current law.

September 2009