

February 18, 2022

The Honorable Janet Yellen
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Yellen:

The global pandemic has brought with it significant challenges for American families and businesses. Not only is inflation non-transitory and hitting record highs, but also our economy continues to suffer from disrupted global supply chains. These problems are cutting deeply into the pocketbooks of consumers and workers, making it harder and harder for middle-class Americans to put food on the table.

As the country continues to confront severe supply-chain disruptions, we write to express strong concerns that the Treasury Department has yet to use its existing authority to provide timely relief to auto retailers using the last-in, first-out (LIFO) method of inventory accounting. Treasury's inaction comes despite the unprecedented pandemic-related interruption of global supply chains that is severely curtailing vehicle production due to the ongoing shortage of semiconductors.

The Treasury Department received a number of requests to use existing authority under Section 473 of the Internal Revenue Code to provide temporary and targeted LIFO relief to address the "major foreign trade interruption" caused by the pandemic and related government intervention.¹ This should not come as a surprise. According to the American Institute of Certified Public Accountants, "government restrictions ... are likely to result in significant tax costs to taxpayers with LIFO inventories due to artificial and permanent increases in income through an involuntary liquidation of LIFO layers."² Recently, the Alliance for Automotive Innovation provided evidence to the Treasury Department demonstrating that auto retailers' inability to replenish inventory and the current threat of LIFO recapture is directly and primarily a result of the foreign disruption in the global supply chain caused by action related to the pandemic, especially with respect to semiconductor shortages.³

¹ Under Section 473, the Secretary may provide relief for LIFO taxpayers if a "major foreign trade interruption has made difficult or impossible the replacement during the liquidation year of any class of goods for any class of taxpayers."

² <https://us.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/aicpa-comment-letter-requesting-section-473-relief.pdf>.

³ The Alliance for Automotive Innovation (Auto Innovators) represents auto manufacturers that produce 99% of the cars and light trucks sold in the U.S. Auto retailers are independent businesses that are completely dependent on their respective manufacturers to obtain new vehicle inventory. The Auto Innovators' letter verifies the impact of pandemic-related trade disruptions on the auto industry, including relevant statistics, demonstrating why auto

Further, the auto industry is not alone in recognizing this significant and growing issue. The White House stated in its own January 20 Fact Sheet that pandemic-related disruptions to foreign semiconductor factories have resulted in the reduced production of autos.⁴ Based on the admission of this administration and the facts delivered to Treasury by stakeholders, we believe we are clearly facing a “major foreign trade interruption” within the plain meaning of Section 473.

However, under Treasury’s current interpretation, the supply chain shortage of an essential component of a larger product does not satisfy the “major foreign trade interruption” requirement. We strongly urge you to reconsider this interpretation. To require absolute sourcing to a single origin is inconsistent with modern commerce, in particular modern automobile production.

We share the same goal of a strong economic recovery and look forward to working with you to help resolve the LIFO recapture problem. However, without prompt regulatory action, we fear significant harms for auto retailers, auto jobs and auto communities. We must work to alleviate the harmful impact of pandemic-related global supply-chain disruptions and to ensure the strength of the auto industry that is so critical to the economic health of our nation.

Sincerely,



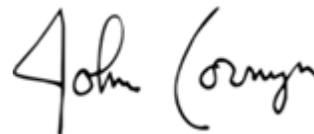
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United States Senator



Mike Crapo
United States Senator



John Thune
United States Senator



John Cornyn
United States Senator

retailers have found it difficult or impossible to replenish vehicle inventory. The letter states, “The well-documented global shortage of semiconductors—which are heavily dependent on international supply chains—has been the primary driver of a unique but prolonged disruption in auto manufacturing.”

⁴ White House fact sheet published January 20, 2022. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/01/20/fact-sheet-biden-harris-administration-bringing-semiconductor-manufacturing-back-to-america/>.



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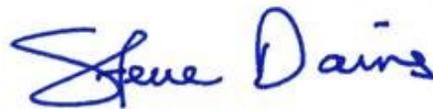
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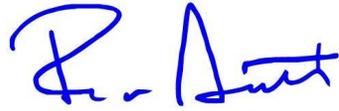
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