AICPA

April 14, 2022

The Honorable Dan Kildee
200 Cannon House Office Building
Washington, DC 20515

The Honorable Jodey Arrington
1107 Longworth House Office Building
Washington, DC 20515

RE: Supply Chain Disruptions Relief Act

Dear Representative Kildee and Representative Arrington:

The American Institute of CPAs (AICPA) thanks you for your continued efforts to provide tax relief to automobile dealers who use the Last-In First-Out (LIFO) accounting method and are struggling to replace inventories in the wake of various COVID-19-related government restrictions that caused disruptions in foreign trade and the global supply chain. Specifically, we support the Supply Chain Disruptions Relief Act, which would allow dealerships to choose to wait until as late as 2025 for their inventory to be replaced in order to determine the income attributable to the sale of inventory during 2020 or 2021.

The AICPA has been vocal about the need for the U.S. Treasury Department to offer Section 473 relief to eligible taxpayers.[1] Section 473 authorizes Treasury and the IRS to permit taxpayers to reduce the unanticipated income from a qualified liquidation of LIFO inventories by replacing the inventory over a three-year period. The various government restrictions implemented in response to the COVID-19 pandemic severely limited manufacturing capacity and caused major interruptions in foreign trade and the global supply chain. These restrictions made it extremely difficult for U.S. companies to replace their inventories in 2020 and 2021, resulting in a significant reduction to inventory levels, and the difficulties have continued. As a result of these circumstances, many companies will realize additional taxable income and unexpected tax liabilities, which may continue to hamper their recovery, as they may not have the cash readily available to pay taxes on the additional income.

Unfortunately, as Treasury has responded that it does not have the authority to grant section 473 relief specifically under current circumstances, the AICPA now strongly supports this legislation that also mirrors the advocacy efforts we have been undertaking for the last several months related to pursuing LIFO relief for impacted taxpayers. In particular, we appreciate that the bill also leverages principles of the AICPA safe harbor method.

This problem is currently most acute for automobile dealers who use the Last-in First-Out (LIFO) inventory method, who have clearly documented how pandemic-related global supply chain disruptions have made it extremely difficult to restock inventory. The AICPA continues to also support broader relief if it becomes feasible, such as if other stakeholders and industries are able to

[1] See AICPA Comment Letter, "Request for Relief under Section 473," (April 27, 2021).

1455 Pennsylvania Ave. NW, Washington, DC 20004-1081
T: +1 202.737.6600 F: +1 202.638.4512
aicpaglobal.com | cimaglobal.com | aicpa.org | cgma.org

come forth with additional data. However, we would like to endorse this bill in order to support the ability to obtain any measure of relief possible, and we also appreciate the vast amount of data and metrics that the auto industry has been able to present that clearly demonstrates the impact. We believe that the chip shortage has negatively impacted dealerships and ultimately vehicle production. Many dealerships operate as small businesses, and would struggle with large unanticipated tax liabilities, which could directly lead to harmful results such as employee layoffs, and the reduction of payroll and related benefits.

We appreciate your work on this matter and welcome the opportunity to discuss this issue further. If you have any questions, please contact Elizabeth Young, AICPA Senior Manager – Tax Policy & Advocacy, at Elizabeth.Young@aicpa-cima.com; Lauren Pfingstag, AICPA Director – Congressional and Political Affairs, at Lauren.Pfingstag@aicpa-cima.com; or me at (601) 326-7119 or JanLewis@HaddoxReid.com.

Sincerely,

Jan F. Lewis, CPA
Chair, AICPA Tax Executive Committee

cc: The Honorable Janet Yellen, Secretary of the Treasury
The Honorable Lily Batchelder, Assistant Secretary for Tax Policy, Department of the Treasury
The Honorable Charles P. Rettig, Commissioner, Internal Revenue Service
Mr. William Paul, Acting Chief Counsel, Internal Revenue Service