



Support Pandemic-Related “Supply Chain Disruptions Relief Act” (H.R. 7382/S. 4105) *Bipartisan LIFO Relief Needed Due to a Major Foreign Trade Interruption of Auto Production*

ISSUE

Vehicle assembly plants and suppliers around the globe ceased or slowed production during the pandemic, drastically reducing new vehicle inventory. The shortfall worsened with the worldwide shortage of semiconductors, which are essential to complete vehicles manufactured today. With no way to replenish vehicle inventory, dealers using the last-in, first-out (LIFO) method of accounting face major unanticipated tax liability due to circumstances beyond their control. The Treasury Department has existing authority (Sec. 473 of the Internal Revenue Code) to allow LIFO relief to businesses if a “major foreign trade interruption” makes inventory replacement difficult. Despite NADA’s [petition](#) and [broad bipartisan support](#) for Treasury’s use of Sec. 473, Treasury has declined as it believes additional legislative authority is needed. The “Supply Chain Disruptions Relief Act” ([H.R. 7382/S. 4105](#)) explicitly provides Treasury such legislative authority. On Dec. 22, the Senate passed S. 4105 by unanimous consent. **The House should pass H.R. 7382 this year to allow businesses on LIFO extended time to replace vehicle inventories as pandemic-related global disruptions and reduced auto production have made it nearly impossible to replenish new vehicle supply.**

BACKGROUND

In 1980, Congress provided the Treasury Department [authority](#) to grant temporary LIFO relief to businesses if a “major foreign trade interruption” makes inventory replacement difficult or impossible (Sec. 473). As the pandemic slowed or stopped production at vehicle assembly plants and suppliers across the globe, dramatic supply constraints helped create the lowest dealer inventory levels in 50 years.

New car dealers have been unable to sufficiently replace inventory due to foreign trade interruptions, including a severe shortage of critical semiconductor chips caused by the pandemic. To reduce LIFO recapture tax liability, dealers must generally restock inventory by year’s end as shortfalls can be taxed as ordinary income. Dealers on LIFO, however, have been powerless to replenish inventories, resulting in large, unanticipated tax liabilities for many small business dealers.

The Supply Chain Disruptions Relief Act, introduced by Reps. Dan Kildee (D-Mich.) and Jodey Arrington (R-Texas) in the House and Sens. Sherrod Brown (D-Ohio) and Tim Scott (R-S.C.) in the Senate, would determine that the requirements of Sec. 473 have been met in the auto sector due to pandemic-related foreign trade interruptions that created inventory shortfalls of new vehicles. The bill would allow dealers to delay the recognition of income triggered by LIFO recapture for tax years 2020 and 2021. Given the ongoing supply chain disruptions, the bill extends the period to replenish inventory and compute LIFO reserve/recapture until the end of 2025 to allow vehicle production to normalize.

H.R. 7382/S. 4105 currently has more than 170 [cosponsors](#) in the House and 59 [cosponsors](#) in the Senate, including Senate Majority Leader Chuck Schumer (D-N.Y.). The American Institute of Certified Public Accountants, American International Automobile Dealers Association, and National Association of Minority Automobile Dealers also support H.R. 7382/S. 4105.

KEY POINTS

- The [Alliance for Automotive Innovation](#) and a White House [Fact Sheet](#) have documented that automakers could not complete the final assembly of sufficient vehicles due to the inability to obtain foreign-made semiconductors.
- As a result of supply chain disruptions beyond the dealers’ control, LIFO recapture will trigger significant, unexpected tax liability, imposing massive tax bills on small businesses that could otherwise be used to invest in EV infrastructure, employee training and replenishing inventory as it becomes available.
- There is overwhelming industry and bipartisan congressional support to address the unprecedented and dire supply chain crisis which is severely impacting the auto industry that is so important to our national economy.

STATUS

On Dec. 22, S. 4105 passed the Senate without opposition. For LIFO relief to become law, the House companion bill, H.R. 7382, must pass the House before the end of its legislative session. The Treasury Department recently indicated its [support](#) for a legislative solution to this issue and that they will work cooperatively with Congress to that end. **Members of the House are urged to pass H.R. 7382 to provide relief this year to businesses facing difficulty replacing vehicle inventory due to unprecedented supply chain shortages.**

December 23, 2022