AMERICAN TRUCK DEALERS
A DIVISION OF NADA

Congress Must Ensure That Any Changes to LIFO and Like-Kind Exchanges (LKE) in Tax Reform Do Not Negatively Impact Small Business

Issue

Limiting the use of LIFO and like-kind exchanges would take working capital away from truck dealerships that could be used to maintain or create jobs. Previous tax reform proposals would repeal LIFO, and significantly restrict the amount and type of business property that would qualify for LKE treatment. The House Republican Tax Blueprint is the basis for tax reform legislation expected later this year. The Blueprint maintains LIFO but does not specify how inventory or LIFO reserves will be treated. The Blueprint is also silent on the tax treatment of LKEs.

Background

LIFO —LIFO (last in, first out) is a longstanding inventory accounting method used by businesses to help mitigate rising inventory costs. It allows companies to calculate their income by basing sales on the newest inventory for goods, such as vehicles and parts, which increase in price over time. As costs rise, LIFO is a more accurate way of measuring financial performance. Dealerships use LIFO to better match the cost of goods sold to the cost of replacing inventory, and its preservation is critical for inventory management to manage price increases.

In the 113th Congress, a Senate proposal would have required recapture of LIFO reserves in income evenly over eight years, and under a House bill (H.R. 1), LIFO reserves would have been recaptured in income over four years. The Blueprint maintains the LIFO accounting method but is silent on how inventory and LIFO reserves will be treated.

Like-Kind Exchanges—Truck dealers and their customers utilize LKEs to defer the recognition of gain on the exchange of existing business assets (i.e. older leased trucks) when replacing them with new products (i.e. new leased trucks). This allows businesses to maintain their reinvestments in their operations and minimize borrowing. The House Tax Blueprint does not address how LKEs would be treated. However, restricting or eliminating LKEs will likely decrease the purchase of new trucks and result in increased taxes on lessors with subsequent higher lease payments for customers.

Key Points

- **Restricting the use of LIFO would have a significant effect on small business dealerships**, as a majority of dealers use LIFO.
- For many small-business dealers**, limiting the use of LIFO would diminish their ability to maintain and create jobs.** In a recent survey, 39 percent of dealers stated that they “would have to lay off workers or eliminate positions” if LIFO were repealed.
- **LKEs have been in the tax code since 1921** as a way to encourage capital investment. Restricting or eliminating LKEs will likely decrease the purchase of new trucks and result in increased taxes on lessors with subsequent higher lease payments for customers. The use of LKEs for truck dealers is an integral part of long term capital investment that helps the American economy; and the policy should be allowed to continue under any tax reform plan.

Status

Tax reform legislation from the Trump Administration, the House and Senate is expected to be released in September. ***NADA urges Congress to ensure that any changes to LIFO and LKEs do not negatively impact small businesses.***

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