

Dealer Analysis and Support for the Supply Chain Disruptions Relief Act (H.R. 700/S. 443)

Congress should pass bipartisan legislation, the Supply Chain Disruptions Relief Act, H.R. 700/S. 443, to provide additional time for businesses unable to replace vehicle inventory due to a major foreign trade interruption in the auto industry.

Key Provisions of H.R. 700/S. 443:

In general, the bill would allow new vehicle dealers to delay the recognition of income triggered by LIFO recapture for tax years 2020 and 2021 when dealers faced uncontrollable, pandemic-driven inventory shortfalls of new vehicles.

In particular, the bill would:

- provide a statutory determination that the requirements for a qualified liquidation (a decrease in inventory) under Section 473 of the Internal Revenue Code have been satisfied for new motor vehicle dealers that have had a reduction of new vehicles held in LIFO inventory;
- expand the period to replenish inventory and compute LIFO reserve/LIFO recapture until the tax year ending before January 1, 2026;
- permit taxpayers to file amended returns or offset tax liability on future returns to claim relief; and
- direct Treasury to provide regulatory guidance to enable dealers to calculate LIFO during the expanded replacement period.

Need for H.R. 700/S. 443. Congress has acknowledged that vehicle assembly plants and suppliers across the globe ceased or slowed production during the pandemic, drastically curtailing inventory for new vehicle dealers. The shortfall worsened with the worldwide shortage of microchips, which are essential to complete every vehicle manufactured today.

These dramatic supply constraints and the continued U.S. consumer demand for vehicles have created the lowest level of dealer inventories in 50 years. With no way to replenish inventory in 2020 and 2021 due to circumstances beyond their control, dealers using LIFO face major unanticipated tax liability due to LIFO recapture that would strip much needed working capital from closely held dealerships, particularly small family-owned dealerships.

The Treasury Department has existing authority (Sec. 473) to allow LIFO relief to businesses if a “major foreign trade interruption” makes inventory replacement difficult, however, Treasury believes additional legislation is required to act.

The bipartisan “Supply Chain Disruptions Relief Act” (H.R. 700/S. 443) introduced by Reps. Kildee (D-MI) and Arrington (R-TX) , and Sens. Sherrod Brown (D-OH) and Tim Scott (R-SC), explicitly provides Treasury such legislative authority.

Please contact your Members of Congress and urge support and passage of H.R. 700/S. 443, The Supply Chain Disruptions Relief Act.

February 16, 2023