



National Automobile Dealers Association



NADA SUPPORTS PRESERVATION OF THE LIFO ACCOUNTING METHOD

Issue

LIFO (which stands for “last in, first out”) is an inventory accounting method used by companies to help mitigate the impact of inflation. This longstanding accounting practice 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. Over the past several years, Congress has been considering repealing LIFO as a one-time revenue raiser. NADA opposes repealing LIFO, which could be devastating to dealerships and their employees.

Background

A significant percentage of automobile dealerships currently use the LIFO accounting method for their new vehicle inventory. LIFO is a legitimate accounting method that has been in place for over 70 years. Dealerships may not change between LIFO and FIFO (“first in, first out”) without approval of the Internal Revenue Service (IRS). Dealerships assume the risk of artificially increased tax liability if inventory costs should fall once they elect to use the LIFO method.

Some Members of Congress are attracted to the idea of LIFO repeal as a revenue raiser to offset the cost of other tax priorities. Other Members of Congress have targeted LIFO because of its prevalent use by the oil industry. However, LIFO repeal would cause massive collateral damage to other sectors of the economy, including small business automobile dealers.

Key Points

- Repealing LIFO would force dealers currently using the accounting method to report their LIFO reserves as ordinary income, resulting in a **massive tax increase**.
- Repeal of LIFO is tantamount to the government changing the rules in the middle of the game to the detriment of America’s car dealers, and countless other small businesses.
- Repealing LIFO could threaten the viability of many dealers, reducing jobs and overall economic activity.
- LIFO repeal is only about raising revenue; the underlying tax policy is not flawed.

Status

In February 2011, President Obama’s proposed budget included the repeal of LIFO for the third year in a row. In June 2011, the Obama Administration has targeted the repeal of LIFO as a potential revenue increase to be included in a debt ceiling deficit reduction deal. In February 2012, the Obama Administration again proposed LIFO repeal as part of its framework for business tax reform. NADA will continue working with the LIFO Coalition to oppose any changes to current law.

September 2012