Congress of the United States
Washington, DC 20515

April 10, 2014

Dear Chairman Camp:

As we share your desire for comprehensive tax reform, we commend you for putting forth a proposal and for continuing to advance the discussions on tax reform. Like you, we believe that reforms are key to our long-term economic growth and global competiveness.

After reviewing the proposal in more detail, we would like to take this opportunity to share our concerns with the proposed repeal of "last-in, first-out" (LIFO) accounting and the negative impacts it will have on the businesses in our districts and, consequently, the local, regional and U.S. economy. LIFO is a legitimate and longstanding accounting methodology. It is not a "loophole," "subsidy," or tax expenditure; rather, LIFO is a widely accepted and utilized inventory accounting method that has been part of the U.S. tax code for more than 70 years.

A wide array of businesses, both small and large, use LIFO because they sell products produced from raw materials or feedstock that generally rise in price over time and because it best matches the replacement cost of goods with the revenue from inventory that is sold. This helps businesses such as manufacturers, retailers, wholesale distributors, and car and equipment dealers generate after-tax income that is reinvested in the purchase of replacement inventory, a cycle that is necessary for the company to remain in business.

We also have deep concerns with the retroactive nature of your repeal proposal and the adverse economic impact this will have on LIFO users, even with the applied transition rules and the proposed lower corporate rate. As you know, companies that use LIFO have a "reserve" that reflects the difference between current values of inventories and their historic costs, which for many companies has been accumulated over several decades. Under the proposal, these reserves would be recaptured and taxes would be owed and paid over a four year period, which -- in substance and in form -- is an unprecedented retroactive tax increase.

While the proposed transition rule and lower statutory rates attempt to lessen the economic and administrative burden of reserve recapture, they do not sufficiently mitigate the measureable harm that would be caused by repeal. LIFO reserves are not cash accounts or liquid assets. In fact, the savings generated from using LIFO are reinvested in replacement inventory. Therefore, repealing LIFO and retroactively taxing the reserves will divert operating cash flows away from productive operations and investments and result in negative economic consequences on jobs and economic growth, especially for small and mid-size businesses. No contemplated transition or reduction in rates would be sufficient to offset the overall economic and administrative cost of repeal.

We applaud your efforts to improve our tax system to spur job creation and economic growth. However, as stated above, repealing LIFO runs counter to these central tax reform goals. We therefore urge you to remove LIFO repeal from the tax reform proposal.

We thank you for considering our request and look forward to working with you and the Committee to advance a tax proposal that is fair, simple, and promotes economic growth and competiveness.

Sincerely,

JAMES LANKFORD MEMBER OF CONGRESS	MIKE THOMPSON MEMBER OF CONGRESS