

# ManuFACTS

## LIFO (Last-In, First Out)

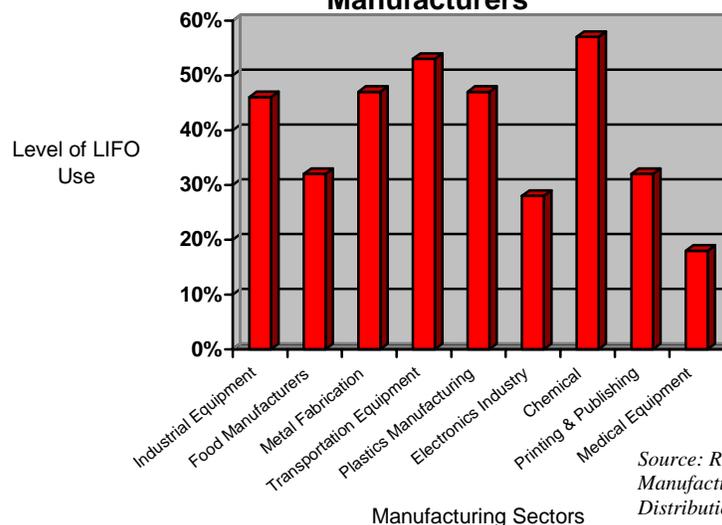
### An Established Inventory Accounting Method Used by Manufacturers of All Sizes

- The LIFO method of accounting allows manufacturers to match their current sales revenues with current inventory replacement costs. By taking into account the cost of replacing inventory, LIFO results in a more accurate measure both of the financial condition of the business and the amount of economic income that can be taxed.
- LIFO has been used by companies for almost 70 years. In addition to manufacturers, a wide range of businesses use the LIFO method including energy producers, retailers, wholesalers and mining companies.
- LIFO repeal would increase tax bills for thousands of U.S. manufacturers. Companies currently using the accounting method would be subject to a one-time tax on their LIFO reserves and higher tax bills in the future.
- The business community has been successful in recent months in opposing Senate proposals to restrict or repeal LIFO. Nonetheless, there is continuing discussions in Congress about repealing LIFO.

#### HOW CONGRESS CAN HELP:

- Legislators should strongly oppose any efforts to repeal or restrict the use of LIFO.

#### Widespread Use of LIFO Among Manufacturers

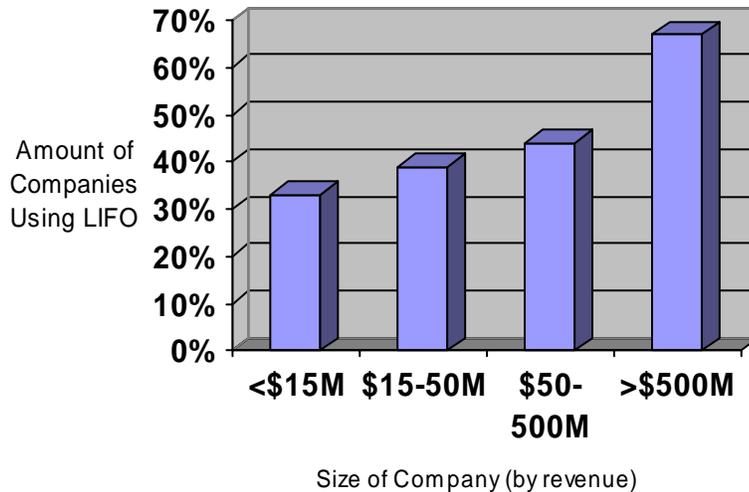


Source: RSM McGladrey 2006 Manufacturing and Wholesale Distribution National Survey

**Fact:**

In a recent survey of NAM's small and medium size members, about 80% of respondents use LIFO. Problems caused by LIFO repeal cited by respondents would include higher taxes, decreases in working capital, inaccurate inventory valuation, cash flow problems and a drag on competitiveness.

**Manufacturers of All Sizes Use LIFO**



*Source: RSM McGladrey 2006 Manufacturing and Wholesale Distribution National Survey*

**Bottom Line:**

If Congress repeals this accounting method, a wide range of businesses would be hit by a significant tax increase, making it even more difficult for U.S. businesses to compete in the global marketplace. The NAM is working with others in the business community to lobby against any effort to repeal or restrict this important and long-standing tax policy.

**NAM Resources**

For more information on the NAM and this issue, please go to: [www.nam.org/lifo](http://www.nam.org/lifo)

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