THE LIFO COALITION

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March 31, 2015

Senate Committee on Finance Attn. Editorial and Document Section Rm. SD-219 Dirksen Senate Office Bldg. Washington, DC 20510-6200

To The Finance Committee:

I am writing on behalf of the LIFO Coalition in response to testimony provided to the Committee at its March 17th hearing.

The LIFO Coalition (the Coalition), organized in April 2006, has more than 125 members including trade associations representing hundreds of thousands of American employers in the manufacturing, wholesale distribution, and retail sectors, as well as companies of every size and industry sector that use the LIFO method. A list of the LIFO Coalition members is enclosed.

The last-in, first-out (LIFO) method of inventory is used by a diverse array of American companies, including hundreds of thousands of pass-through businesses, to most accurately record inventories and measure income. Despite the widespread use of LIFO, LIFO repeal has been considered several times in recent years as a way to raise revenues to offset various spending initiatives or to pay for certain tax reform objectives.

An executive of a multi-national corporation testified before the Finance Committee on March 17th, at the Committee hearing on international tax. In his testimony, the executive made recommendations on tax reform, among them a suggestion that LIFO repeal "could be an acceptable trade-off for longer term permanent rate reduction . . ."

LIFO Coalition members were both surprised and disturbed to read that testimony because for the overwhelming majority of LIFO users, a reduction in income tax rates would not in any way offset the repeal of LIFO. The situation facing pass-through companies on LIFO is even worse inasmuch as, based on the current debate, they could lose the use of LIFO without a reduction in the individual tax rates that they pay.

Because the testimony of this witness was so inconsistent with the position of the LIFO users who comprise the LIFO Coalition, the Coalition counsel reviewed the Form 10K filed by the executive's corporation to better understand its LIFO usage. Our review determined that less than 15 percent of the company's inventory is on LIFO, and that its LIFO reserve is very small.

With so little of its inventory on LIFO and such a small LIFO reserve, repeal of LIFO may well not be burdensome for this company. However, these are both unrepresentative statistics in comparison to most companies on LIFO.

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To demonstrate that point, following the Finance Committee hearing, we quickly surveyed the members of the National Association of Wholesaler-Distributors (NAW) which are LIFO companies to determine the percentage of their inventories that are on LIFO. Of the 86 companies that responded to the survey, more than half (44 of 86) have 100 percent of their inventory on LIFO. And for more than 72 percent of the companies (62 of the 86), more than 70 percent of their inventory is on LIFO.

Further, a tax firm which specializes in LIFO systems advised the Coalition that, "of the hundreds of LIFO calculations we prepare annually for manufacturers, wholesalers and retailers... the vast majority, over 80%, use LIFO for all of their inventory."

This data and that of the NAW members is consistent with that of the diverse cross-section of industries that comprise the LIFO Coalition. The Coalition would be happy to substantiate that observation and provide additional data if the Committee requests that we do so.

The LIFO Coalition would ask the members of the Finance Committee to bear in mind the very different circumstances of the witness who testified that repeal of LIFO would be acceptable as they consider his recommendation on LIFO repeal.

For the overwhelming majority of the LIFO companies which have most or all of their inventory on LIFO and which have significant LIFO reserves, the repeal of LIFO is not only an unacceptable component of tax reform, it would both impose a punitive retroactive tax increase on them and force them to use an inventory accounting method prospectively that is totally inconsistent with their business models. For many of those companies, particularly thinly capitalized companies with small profit margins, repeal of LIFO would simply force them out of business.

The LIFO Coalition urges the Finance Committee to oppose LIFO repeal, as a separate measure or as part of a comprehensive tax reform effort.

Respectfully,

Jade West, Executive Secretariat

The LIFO Coalition

Enclosure

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Aeronautical Repair Station Association

Alabama Grocers Association

American Apparel & Footwear Association

American Chemistry Council American Foundry Society

American Fuel & Petrochemical Manufacturers

American Gas Association

American International Automobile Dealers Association

American Iron & Steel Institute American Petroleum Institute

American Road & Transportation Builders Association

American Supply Association

American Veterinary Distributors Association

American Watch Association

American Wholesale Marketers Association

Americans for Tax Reform

AMT-The Association for Manufacturing Technology

Associated Equipment Distributors

Association for High Technology Distribution
Association for Hose & Accessories Distribution

Association of Equipment Manufacturers

Auto Care Association

Automobile Dealers Association of Alabama

Brown Forman Corporation Business Roundtable

Business Solutions Association

California Independent Grocers Association

Cardinal Health Caterpillar Inc

Ceramic Tile Distributors Association

Connecticut Food Association

Copper & Brass Fabricators Council Copper & Brass Servicenter Association

Deep South Equipment Dealers Association

Deere & Company

East Central Ohio Food Dealers Association Equipment Marketing & Distribution Association

Far West Equipment Dealers Association Farm Equipment Manufacturers Association

Financial Executives International

Food Industry Alliance of New York State

Food Marketing Institute Forging Industry Association

Gases and Welding Distributors Association

Greater Boston Chamber of Commerce Health Industry Distributors Association

Healthcare Distribution Management Association

Heating, Airconditioning & Refrigeration Distributors

International

Illinois Food Retailers Association

Independent Lubricant Manufacturers Association

Industrial Fasteners Institute Industrial Supply Association

International Foodservice Distributors Association

International Franchise Association
International Sanitary Supply Association
International Sealing Distribution Association
International Wood Products Association
Iowa Grocers Industry Association

Iowa Nebraska Equipment Dealers Association

Jewelers of America

Kansas Food Dealers Association

Kentucky Association of Convenience Stores

Kentucky Grocers Association Louisiana Retailers Association

Marine Retailers Association of the Americas

Maryland Retailers Association

McKesson Corporation
MDU Resources Group
Metals Service Center Institute

Metals Service Center Institute

Mid-America Equipment Retailers Association Midwest Equipment Dealers Association

Minnesota Grocers Association

Minnesota-South Dakota Equipment Dealers Association

Missouri Grocers Association Missouri Retailers Association

Montana Equipment Dealers Association

Moss Adams LLP

NAMM-The International Music Products Association

National Association of Chemical Distributors National Association of Convenience Stores National Association of Electrical Distributors

National Association of Manufacturers National Association of Shell Marketers

National Association of Sign Supply Distributors National Association of Sporting Goods Wholesalers National Association of Wholesaler-Distributors

National Automobile Dealers Association National Beer Wholesalers Association National Electrical Manufacturers Association National Federation of Independent Business

National Grocers Association

National Lumber and Building Material Dealers Association

National Marine Manufacturers Association

National Paper Trade Alliance

National Roofing Contractors Association

National RV Dealers Association

National Stone Sand & Gravel Association

Nebraska Grocery Industry Association

New Hampshire Grocers Association

New Jersey Food Council

North American Equipment Dealers Association

North American Wholesale Lumber Association

Ohio Equipment Distributors Association

Ohio Grocers Association

Ohio-Michigan Equipment Dealers Association

Paperboard Packaging Council

Pet Industry Distributors Association

Petroleum Equipment Institute

Petroleum Marketers Association of America

Power Transmission Distributors Association

Printing Industries of America

Professional Beauty Association

Retail Grocers Association of Greater Kansas City

Retail Industry Leaders Association

SBE Council

Security Hardware Distributors Association

Service Station Dealers of America and Allied Trades

Society of Independent Gasoline Marketers of America

SouthEastern Equipment Dealers Association

Southern Equipment Dealers Association

SouthWestern Association

Souvenir Wholesale Distributors Association

SPI: The Plastics Industry Trade Association

State Chamber of Oklahoma

Textile Care Allied Trades Association

Tire Industry Association

U.S. Chamber of Commerce

Washington Food Industry Association

Wholesale Florist & Florist Supplier Association

Wine & Spirits Wholesalers of America

Wine Institute

Wisconsin Grocers Association, Inc.

Wood Machinery Manufacturers of America