

THE LIFO COALITION

1725 K Street N.W., Suite 300, Washington, DC 20006 • TEL: 202-872-0885

June 26, 2006

The Honorable Charles E. Grassley
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Max Baucus
Ranking Member
Senate Committee on Finance
511 Hart Senate Office Building
Washington, D.C. 20510

Re: *Last-In, First-Out (LIFO) Inventory Method*

Dear Chairman Grassley and Senator Baucus:

On behalf of the LIFO Coalition, an *ad hoc* group of over 50 trade associations representing hundreds of thousands of separate businesses, we are pleased to offer a memorandum, addressed to the Coalition and in response to the testimony of Professor George A. Plesko, University of Connecticut School of Business, concerning the last-in, first-out (“LIFO”) inventory method, presented at a hearing before the Senate Finance Committee on June 13, 2006. We request that this memorandum, as our statement on the issue, be made a part of the official record of that hearing.

We respectfully submit that the testimony by Professor Plesko was seriously inaccurate. To this effect:

- Professor Plesko’s testimony significantly understates the use of LIFO by the U.S. business community and the very substantial adverse effect of repeal on the U.S. economy, with such inaccuracies based in part on inclusion of irrelevant data and failure to recognize accounting protocols that create differences between statements of book and tax LIFO reserves;
- The testimony fails to recognize the efficacy of the LIFO method in measuring financial condition and in calculating tax liability for a wide variety of industries that experience perennial increases in costs of inventory and production;
- The testimony greatly exaggerates the potential for manipulation of taxable income under the LIFO method, and fails to recognize rulings of the Internal Revenue Service and case law endorsed by the U.S. Supreme Court that specifically address any such potential abuses; and,
- The testimony asserts that businesses would not use LIFO for financial accounting purposes but for the tax savings and the conformity requirement, thus begging the tax policy question of LIFO accounting as an appropriate means of measuring economic income for both book and tax purposes (and further failing to acknowledge that repeal of LIFO and forced adoption of “FIFO” would misstate book and tax earnings for businesses subject to rising inventory costs, and moreover, that the FIFO method provides an advantageous tax outcome for those businesses with declining costs of inventory and production).

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The memorandum to the LIFO Coalition is provided by Leslie J. Schneider. Mr. Schneider is a senior member of a Washington law firm that specializes in tax issues. He is author of a standard treatise on income tax accounting, published since 1979 by Matthew Bender/Lexis-Nexis. He has taught income tax accounting as adjunct professor in the graduate tax program at Georgetown University Law Center. Mr. Schneider earlier served in the Treasury Department with duties in the offices of Tax Policy and Tax Legislative Counsel. In addition to membership in the Bars of the District of Columbia and Maryland, Mr. Schneider is a licensed certified public accountant.

A list with membership in the LIFO Coalition appears below.

Sincerely,



Jade West, Executive Secretariat, The LIFO Coalition
Senior Vice President-Government Relations, National Association of Wholesaler-Distributors

cc: Members of the Finance Committee
Tax Policy Head, Treasury
Chief of Staff, Joint Tax Committee

MEMBERSHIP OF THE LIFO COALITION:

American Chemistry Council
American Forest & Paper Association
American Gas Association
American Institute of Certified Public Accountants
American International Automobile Dealers Association
American Supply Association
American Wholesale Marketers Association
Americans for Tax Reform
API
Associated Equipment Distributors
Association for Hose & Accessories Distribution
Association of Equipment Manufacturers
Business Roundtable
Copper & Brass Servicenter Association
Far West Equipment Dealer's Association
Food Marketing Institute
FreedomWorks
Gases & Welding Distributors Association
Healthcare Distribution Management Association
Heating, Airconditioning & Refrigeration Distributors International
Independent Lubricant Manufacturers Association
Independent Sealing Distributors
Industrial Supply Association
International Foodservice Distributors Association
International Franchise Association
International Sanitary Supply Association

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Iowa Nebraska Equipment Dealers Association
Iowa Nebraska Equipment Distributors
Metals Service Center Institute
National Association of Manufacturers
National Association of Sporting Goods Wholesalers
National Association of Wholesaler-Distributors
National Automobile Dealers Association
National Beer Wholesalers Association
National Federation of Independent Business
National Grocers Association
National Marine Manufacturers Association
National Petrochemical & Refiners Association
National Retail Federation
National Roofing Contractors Association
National RV Dealers Association
National Truck Equipment Association
North American Equipment Dealers Association
Outdoor Power Equipment Aftermarket Association
Petroleum Equipment Institute
Printing Industries of America, Inc.
Retail Industry Leaders Association
S Corporation Association
Small Business & Entrepreneurship Council
SouthWestern Association
Southeastern Equipment Dealers Association
The State Chamber-Oklahoma's Association of Business and Industry
Textile Care Allied Trades Association
U.S. Chamber of Commerce
Wholesale Florist & Florist Supplier Association
Wine & Spirits Wholesalers of America
Wood Machinery Manufacturers of America