

Must LIFO Go to Make Way for IFRS?

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The Internal Revenue Code has rarely linked itself to financial reporting. One significant instance in which such a link does exist is Sec. 472(c), the LIFO conformity requirement. Interestingly, as financial reporting standard setters around the globe work toward one high-quality set of standards, the use of LIFO for financial reporting purposes may be in jeopardy, at least for U.S. entities required to issue financial statements in accordance with generally accepted accounting principles (GAAP). This article examines whether the time has come for Congress to sever that link between tax and financial reporting of inventory.

According to the Code, inventories must be accounted for if such accounting “is necessary in order clearly to determine the income of any taxpayer.”¹ Further, the basis on which inventories are valued must “[conform] as nearly as may be to the best accounting practice . . . and as most clearly reflecting the income.”² To bolster this conformity, the Revenue Act of 1939 included the requirement that taxpayers electing to use LIFO for income tax purposes must also use it for financial accounting purposes.³ Thus, the LIFO conformity requirement has been in place for as long as LIFO has been allowed for income tax purposes.⁴

From the financial reporting perspective, companies publicly traded in the United States must follow the will of the Securities and Exchange Commission (SEC), which has delegated standard-setting authority to the Financial Accounting Standards Board (FASB) in determining GAAP. However, there is a strong movement toward international convergence of accounting standards—that is, to bring GAAP under one set of international standards (iGAAP).

For most developed nations outside the United States, the source of GAAP has become the International Accounting Standards Board (IASB).⁵ Under the

1 Sec. 471(a).

2 *Id.*

3 *Report of Proceedings: Hearings Held Before the S. Comm. on Finance on H.R. 6851, Executive Session, 76th Cong., 96–97 (1939)*, as reported in Lessard, “Giving Life to LIFO: Adoption of the LIFO Method of Inventory Valuation by the Income Tax Code,” 60 *Tax Law.* 781 (Spring 2007). The Lessard article provides a detailed history of the LIFO method, with particular attention to the period leading to the

Revenue Acts of 1938 and 1939.

4 Sec. 472(a) provides the authorization for the LIFO method, and the LIFO conformity requirement is articulated in Sec. 472(c).

5 In several convergence-related releases, the SEC notes that the number of countries adopting IFRS is around 100 and growing. See, for example, the executive summary of SEC Release Nos. 33-8831 (cited in note 10) and 33-8879 (cited in note 9).

international financial reporting standards (IFRS), the LIFO method is not allowed.⁶ So, taken at face value, if the international convergence of GAAP results in LIFO's no longer being an accepted accounting practice, compliance with the LIFO conformity requirement of Sec. 472(c) becomes problematic. If companies cannot use LIFO for U.S. income tax purposes, they may incur a potentially staggering cost upon the change from LIFO to, presumably, FIFO.⁷

The question that must be addressed, however, is whether international convergence of GAAP necessarily leads to the end of LIFO for U.S. income tax purposes. A careful reading of the statute and regulations bearing on LIFO conformity clearly indicates that little of substance remains in the requirement. The following sections of this article examine the LIFO conformity requirement in order to provide a clear understanding of what this requirement does (and does not) allow in terms of reporting alternate inventory valuations (e.g., FIFO). If internationally converged GAAP does not allow the use of LIFO, can the Treasury resolve the conflict administratively? Or will Congress have to act to remove this conflict? Before turning to LIFO conformity, the article reviews some of the indicators that international convergence of GAAP is all but inevitable.

International Convergence of GAAP—When, Not If

On November 21, 2008, the SEC published a roadmap toward the mandatory use of IFRS by U.S. issuers that could lead to IFRS use among U.S. filers by the year 2014.⁸ And much has already occurred that suggests U.S. GAAP and iGAAP will ultimately converge. The SEC recently finalized rules allowing the submission by foreign firms of financial statements prepared in compliance with

IFRS, without reconciliation to U.S. GAAP. In numerous places in this release, the SEC made clear its support for the international convergence of GAAP. For example, the following appears in the executive summary:

The Commission has long viewed reducing the disparity between the accounting and disclosure practices of the United States and other countries as an important objective both for the protection of investors and the efficiency of capital markets. The use of a single set of high-quality globally accepted accounting standards by issuers will help investors understand investment opportunities outside the United States more clearly and with greater comparability than if those issuers disclosed their financial results under a multiplicity of national accounting standards, and it will enable issuers to access capital markets worldwide at a lower cost.

Towards this end, the Commission has undertaken several measures to foster the use of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and fully supports the efforts of the IASB and the Financial Accounting Standards Board ("FASB") to converge their accounting standards.⁹ [Emphasis added.]

Consistent with this theme of convergence for global comparability, in 2007 the SEC issued a concept release that solicited comments on allowing U.S. firms to file financial statements prepared in compliance with IFRS.¹⁰ In addition, the SEC has held several roundtable discussions on key issues of concern to SEC filers. Further, recent recommendations made by the SEC's Advisory Committee on Improvements to Financial Reporting

EXECUTIVE SUMMARY

- Based on recent statements and actions on the part of the SEC and FASB, it is virtually certain that some form of international financial reporting standards will be adopted in the United States.
- Currently, IFRS do not allow for the use of the LIFO inventory method, jeopardizing its use for U.S. tax purposes due to the LIFO conformity requirement in Sec. 472. The disallowance of the use of LIFO for tax purposes would result in a large current tax bill for many of the companies that use the method.
- Although Sec. 472 clearly could be interpreted to require strict LIFO conformity, the statute has been interpreted in such a way that many exceptions to strict conformity are allowed.
- Because LIFO conformity is a tax rule and not a financial accounting rule, the possible problems that the adoption of IFRS could cause for taxpayers using the LIFO method could be eliminated if Congress modified or eliminated the LIFO conformity requirement.

6 International Accounting Standards Board, International Accounting Standard (IAS) No. 2, *Inventories* (rev. 2003). Note that in 2002 the restructured IASB announced that the term "international financial reporting standard (IFRS)" would replace the term "international accounting standard (IAS)." Although previously issued standards would continue to be referred to as IAS, future standards would use the new name, IFRS.

7 IAS 2 allows either FIFO or average cost.

8 RIN 3235-AJ93, 73 *Fed. Reg.* 70816 (November 21, 2008), available at

www.sec.gov/rules/proposed/2008/33-8982.pdf.

9 SEC Release No. 33-8879, "Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP," p. 6, www.sec.gov/rules/final/2007/33-8879.pdf.

10 SEC Release No. 33-8831, "Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards," <http://sec.gov/rules/concept/2007/33-8831.pdf>.

include the desire to reduce the options available to companies in accounting for the same issue (e.g., inventory methods), again in the name of comparability.¹¹

FASB is a willing participant in the process of GAAP convergence. In his 2007 testimony before the Senate Subcommittee on Securities, Insurance and Investment, FASB chair Robert Herz stated:

[I]n light of the growing use of IFRS in many other parts of the world, we believe that now may be the appropriate time to consider ways to accelerate the convergence effort and the movement in the U.S. toward IFRS. For to be truly international, any set of standards would need to be adopted and used in the world's largest capital market, the United States. . . . We are firmly committed to continuing to work with the IASB, the SEC, and others to achieve a single set of high-quality international accounting standards that benefit investors and the capital markets domestically and across the world.¹²

With the SEC and FASB both committed to convergence, there can be little doubt that in the not-too-distant future there will be a single set of international financial reporting standards. What is less clear is what this converged iGAAP will look like. Unlike the international standards adoption process in most other countries, FASB is negotiating with the IASB on an issue-by-issue basis. Accordingly, the convergence process likely will result in changes to both U.S. GAAP and IFRS.

The Fate of LIFO

Although the process of converging U.S. GAAP with iGAAP has made a great deal of progress to date, there are still many issues yet to be addressed, including the fate of the LIFO method. For over a decade, FASB and the IASB have had an ongoing agenda of projects, the objective of which is to move the process of convergence forward. For the period 2006–2008, numerous convergence-related issues were identified as either being on an active agenda or on a research agenda prior to being added to an active agenda. However, the issues of LIFO and inventory valuation in general are not included on the active or the research agenda of either board.

Eventually FASB and the IASB will have to address the fate of LIFO. With any agenda issue, each organization relies on a problem-solving framework of concepts. Each board also includes comparability as an important characteristic of useful accounting information. The IASB's most recent views may be found in the following passage: "Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability and, therefore, may be undesirable."¹³ FASB has also stated that it would "strongly oppose" creating a U.S. variant of iGAAP.¹⁴

As nations work toward international convergence, most have modified IFRS to accommodate their country-specific needs. Regardless of intent, each modification detracts from iGAAP's primary

objective: comparability. So while one answer to the conformity/convergence dilemma might be a U.S. GAAP modification to IFRS, loss of comparability is not necessary. Solutions are possible via the Code.

To firms using LIFO, whether they may continue to use LIFO for U.S. income tax purposes is critically important. For an assessment of general impact, see the 2007 tax reform proposal, H.R. 3970. In the scoring of H.R. 3970, the House Ways and Means Committee estimated that the provision to repeal LIFO for U.S. income tax purposes would raise approximately \$106 billion over ten years.¹⁵ By way of a specific example, United Technologies, a firm that has been active in the discussions on the convergence of GAAP, would have to "write . . . a very big check" if LIFO were repealed for U.S. income tax purposes.¹⁶

Just how big a check? United Technologies' 2007 annual report disclosed a LIFO reserve of \$170 million as of December 31, 2007.¹⁷ Applying a 35% marginal tax rate results in a tax cost of nearly \$60 million if United Technologies has to change its inventory valuations from LIFO to FIFO. The impact on LIFO users in the more politically charged oil and gas industry is significantly more severe. For example, the LIFO reserve for Exxon Mobil was \$25.4 billion in 2007, up from \$15.9 billion in 2006.¹⁸ Applying a 35% marginal tax rate would increase Exxon Mobil's 2007 tax by almost \$9 billion.

In considering the fate of LIFO, it is important to remember that the objectives of the Code and the objectives of financial reporting (GAAP or iGAAP) are not

11 Securities and Exchange Commission, "SEC Advisory Committee Makes Recommendations to Improve Financial Reporting for Investors" (August 1, 2008), <http://sec.gov/news/press/2008/2008-166.htm>.

12 "Statement [by] Robert H. Herz, Chairman, Financial Accounting Standards Board, Before the Subcommittee on Securities, Insurance and Investment, Committee on Banking, Housing, and Urban Affairs, United States Senate, on International Accounting Standards: Opportunities, Challenges, and Global Convergence Issues," October 24, 2007, www.fasb.org/testimony/10-24-07_prepared_statement.pdf.

13 IASB, QC19 of Exposure Draft, "An Improved Conceptual Framework for Financial Reporting. Chapter 1: The Objective of Financial Reporting; Chapter 2: Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information" (May 2008). The FASB's SFAC No. 2, "Qualitative Characteristics of Accounting Information," discusses the importance of comparability in U.S. GAAP.

14 Letter from Robert Denham, chairman of the Financial Accounting Foundation, and Robert Herz, FASB chairman, to the SEC (November 7, 2007),

available at <http://www.sec.gov/comments/s7-20-07/s72007-20.pdf>.

15 See House Ways and Means Committee, "H.R. 3970, Tax Reduction and Reform Act of 2007 (October 29, 2007)," <http://waysandmeans.house.gov/media/pdf/110/Summary%20for%20Distribution.pdf>.

16 See transcript of SEC roundtable, "Practical Issues Surrounding the Use of IFRS in the U.S. in Recent Years and Its Potential Expanded Use in Future Years," p. 19 (December 17, 2007), www.sec.gov/spotlight/ifrsroadmap/ifrsround121707-transcript.pdf.

17 See United Technologies Corporation, "Note 1. Summary of Accounting Principles," 2007 Annual Report, p. 35, www.utc.com/utc/Static%20files/Company%20Reports/Annual%20Reports/2007/2007_utc_annual_report.pdf. The LIFO reserve is the difference between ending inventory reported in the financial statements and the number that would be reported if, in this case, FIFO had been used.

18 See Exxon Mobil Corp., "Note 3. Miscellaneous Financial Information," 2007 Annual Report, p. 58, available at <http://tinyurl.com/3gbanw>.

necessarily aligned. More importantly, GAAP (or iGAAP) does not have authority over U.S. income tax law. That is, taxable income need not be determined in accordance with GAAP. It is the LIFO conformity requirement, a U.S. tax law provision, that threatens the continued use of LIFO for U.S. income tax purposes. Thus, the next section presents a careful analysis of the LIFO conformity regulations.

LIFO Conformity Requirement Internal Revenue Code

Taken at face value, the LIFO conformity requirement would seem to be straightforward. Sec. 472(c) articulates this requirement as follows:

(c) **CONDITION.**—Subsection (a) [allowing the use of LIFO] shall apply only if the taxpayer establishes to the satisfaction of the Secretary that the taxpayer has used no procedure other than [LIFO] in inventorying such goods to ascertain the income, profit, or loss of the first taxable year for which [LIFO] is to be used, for the purpose of a report or statement covering such taxable year—

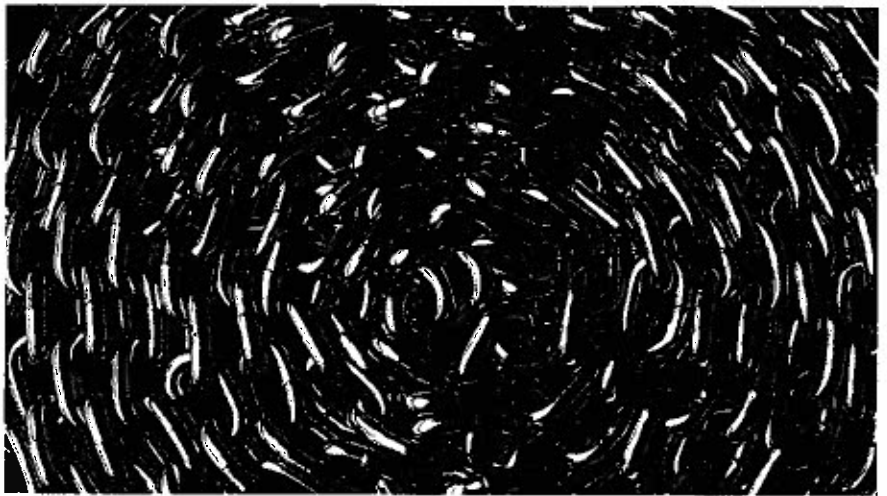
- (1) to shareholders, partners, or other proprietors, or to beneficiaries, or
- (2) for credit purposes.

Many accountants' understanding of the LIFO conformity requirement stops here, with the statute. However, the regulations under Sec. 472 have more to contribute to our understanding of LIFO conformity.

Regulatory Interpretation of LIFO Conformity

In 1981, Regs. Sec. 1.472-2(e) was substantially revised to allow various presentations of inventory valuations based on a method other than LIFO. The first two sanctioned presentations of non-LIFO inventory valuations are of particular interest.

Supplemental information: First, the presentation of non-LIFO inventory valuations will not violate the LIFO conformity requirement if such information is included



in “a supplement to or explanation of the taxpayer’s primary presentation of the taxpayer’s income, profit, or loss.”¹⁹ The regulation goes on to make a clear distinction between disclosures on the face of the income statement and notes, appendices, or supplements to the income statement.²⁰ Presentation of non-LIFO inventory valuations on the face of the income statement would violate the LIFO conformity requirement.

On the other hand, the same non-LIFO valuations presented in either a supplement to or explanation of the income statement would not be considered a violation. Notes to the income statement that are presented on the same page as the income statement are not considered to be on the face of the income statement as long as all notes are presented together.²¹ Thus, a single note that includes non-LIFO inventory valuations cannot be placed on the same page as the income statement, but that same note, included in context with other notes, can be located on the same page as the income statement.

Similarly, alternate inventory valuations are permitted in appendices and supplements to the income statement.²² Appendices and supplements to the income statement must be clearly identified as “a supplement to or explanation of the taxpayer’s primary presentation of income, profit, or loss as reported on the face of the taxpayer’s income statement.”²³

Several sections of the annual report (e.g., president’s letter and management’s analysis) and other communications (e.g., oral statements at a press conference or letters to shareholders) are specifically identified as not meeting the definition of supplements or appendices. This is not to say that non-LIFO valuations cannot be made in such communications. Rather, the regulation requires that the supplemental or explanatory nature of these reports or communications must be made clear, and the item being supplemented or explained must be included in the report.²⁴ The regulations even provide examples of how to properly answer a question about the effect of a non-LIFO inventory method on earnings per share or net income at a security analysts’ or shareholders’ meeting.²⁵

Balance sheet information: In addition to supplemental or explanatory information, non-LIFO inventory valuations may be presented on the balance sheet. Consider the following passage from Regs. Sec. 1.472-2(e)(4):

[A] taxpayer may disclose the value of inventories on a balance sheet using a method other than LIFO to identify the inventories, and such a disclosure will not be considered at variance with [the LIFO conformity requirement].

However, if the taxpayer’s income is disclosed on the balance sheet and that

19 Regs. Sec. 1.472-2(e)(1)(i).

20 Regs. Sec. 1.472-2(e)(3).

21 Regs. Secs. 1.472-2(e)(3)(i), (ii).

22 Regs. Sec. 1.472-2(e)(3)(iii).

23 Id.

24 Regs. Sec. 1.472-2(e)(3)(iv).

25 Regs. Secs. 1.472-2(e)(3)(v), (vi).

income is based on a non-LIFO inventory valuation, a violation of the LIFO conformity requirement may occur.

[A] balance sheet that discloses the net worth of a taxpayer, determined as if income had been ascertained using an inventory method other than LIFO, may be at variance with the [LIFO conformity requirement] if the disclosure of net worth is made in a manner that also discloses income, profit, or loss for a taxable year.²⁶

Note: Using LIFO for income statement purposes and FIFO for balance sheet purposes would lead to a set of financial statements that does not articulate.²⁷ So these alternate inventory valuations are improbable in financial statements prepared in compliance with GAAP. However, such non-LIFO disclosures presented in a footnote or in a parenthetical comment do not violate LIFO conformity. Nor would the presentation of non-LIFO income be a violation if presented

on the face of a supplemental balance sheet labelled as a supplement to the taxpayer's primary presentation of financial position, but only if . . . clearly identified as a supplement to or explanation of the taxpayer's primary presentation of financial income as reported on the face of the taxpayer's income statement.²⁸

What the preceding paragraphs make quite clear is that the Code's LIFO conformity requirement is not the absolute barrier to non-LIFO disclosures that many may have thought. As long as non-LIFO disclosures are not presented on the face of the income statement and are clearly identified as being supplemental or explanatory in nature, disclosures based

on inventory methods other than LIFO (e.g., FIFO) are permitted by the LIFO conformity regulations. The regulations are not concerned with alternate presentations accompanying the LIFO-based determination of income. Indeed, the disclosure issue seems to be a much greater concern for the SEC and the AICPA.

The Financial Reporting Perspective

Released about six months after the 1981 revised LIFO conformity regulations took effect, Accounting Series Release 293 expressed the SEC's concern about the variety and possibly misleading nature of alternate inventory disclosures that resulted from the revised regulations.²⁹ The SEC noted that the AICPA had formed a task force to address some of the commission's concerns. The AICPA released its findings in a 1984 issues paper³⁰ that recommended the footnote disclosure of a "LIFO reserve" amount. The LIFO reserve is the difference between LIFO ending inventory and ending inventory computed using either FIFO or replacement cost. In Staff Accounting Bulletin (SAB) 58, the SEC endorsed this approach and accepted it as GAAP.

Should LIFO Conformity Be Repealed?

While there are certainly numerous paths available for convergence of the LIFO issues in the financial reporting realm of the SEC, FASB, and IASB, the continued viability of the LIFO inventory method for U.S. income tax purposes is in the hands of Congress. Treasury has pushed the envelope as far as it can with respect to interpreting the LIFO conformity requirement. A thoughtful reading of the LIFO conformity regulations leads to the inevitable conclusion that as a matter

of tax policy, LIFO conformity exists in form only. The LIFO conformity requirement was originally something of a "put your money where your mouth is" condition. If a firm was arguing that LIFO was a best practice for income tax purposes, it certainly must be a best practice for financial reporting purposes.

However, the 1981 revisions to the LIFO conformity regulations removed any vestiges of substance from the requirement. As long as the face of the income statement maintains the veneer of LIFO, a company can provide alternate inventory valuations elsewhere. Using the supplemental inventory information, as required by GAAP, a reasonably motivated reader of the financial statements can easily convert the LIFO-based income figure to a number at least approximating FIFO-based income, in keeping with the SAB 58's intent. Should a rule that is so thin on substance be allowed to stand in the way of the greater good—the international convergence of GAAP for global comparability in financial reporting?

The Politics of LIFO Repeal

Taking the steps needed to allow LIFO to continue in the United States without impeding the international convergence of GAAP is more an exercise in politics than standard setting. Keep in mind that Treasury is responsible for *administering* the U.S. tax laws, which are promulgated by Congress. While the standard-setting process in the United States does include a cost-benefit analysis, this analysis does not address collateral costs, such as the income tax cost associated with the effective repeal of LIFO for U.S. income tax purposes. The qualitative characteristic of neutrality puts the standard-setting process above such mundane and practical economic considerations.³¹

26 Regs. Sec. 1.472-2(e)(4).

27 Articulation among the financial statements refers to the logical flow of information on the statements. Net income as determined on the income statement is used to compute retained earnings (statement of retained earnings). Retained earnings, in turn, are included in the owners' equity on the balance sheet.

28 Regs. Sec. 1.472-2(e)(4).

29 SEC, Accounting Series Release 293, *The Last-In, First-Out Method of Accounting for Inventories*, 1981 SEC LEXIS 1151 (July 2, 1981). SEC pronouncements that were formerly identified as Accounting Series Releases are

now called Financial Reporting Releases.

30 The AICPA's issues paper was titled *Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories*. The SEC endorsed this publication as GAAP in SAB 58, Topic 5: "Miscellaneous Accounting," Item L: "LIFO Inventory Practices" (March 19, 1985), www.sec.gov/interps/account/sabcodet5.htm#51.

31 FASB, SFAC 2, "Qualitative Characteristics of Accounting Information" (1980). See also FASB's mission statement for discussion of the precepts followed in standard setting, www.fasb.org/facts/index.shtml#mission.

On occasion, one must be reminded that financial reporting objectives (the realm of the SEC, FASB, and IASB) and tax policy exist for different purposes. And while the concept of neutrality might keep financial reporting standards from being influenced by the economic impact of LIFO repeal on some entities, Congress is most definitely influenced. A strong case is being made that the negative economic impact of the \$106 billion price tag associated with LIFO repeal will be felt well beyond the firms directly affected. At best, cashflows will be negatively affected, and many firms will have to borrow to pay the additional tax. Very likely, businesses will reduce capital investment and jobs will be lost. Marginal firms will be driven out of business.³² With the U.S. economy arguably in the midst of the worst economic crisis since the Great Depression, LIFO repeal could only exacerbate an already bad economic situation.

That Congress may be compelled to save LIFO would seem to run counter to recent behavior in both the House and the Senate. There have been several recent congressional attempts to repeal LIFO, but none of these received serious consideration. This suggests that there is an absence of broad support for the repeal of LIFO. As a political talking point, LIFO repeal sounds good. But the immediate, almost spontaneous formation of a coalition to save LIFO in response to Senator Bill Frist's 2006 proposal to repeal LIFO demonstrates how important the issue is to the business community.³³ Political posturing in Congress is one thing, but enduring the heat that a LIFO repeal would generate is another matter entirely.

Even if the likelihood of LIFO repeal through congressional action is remote, repeal through congressional inaction is still a possibility. As discussed above, if internationally converged GAAP does not permit the use of LIFO, the result will be the same as LIFO repeal. The LIFO conformity requirement will bar the use of LIFO by all firms complying with GAAP. Once again, the ball will be in Congress's court.

This time, however, the question will be whether Congress will act to save LIFO. And although the most recent congressional attempt to repeal LIFO was H.R. 3970 in the fall of 2007, the LIFO Coalition remains vigilant.³⁴

What Can CPAs Do?

Realistically, the decisions that will determine whether or not LIFO continues to be allowed in the United States are in the hands of policy makers, so there is little the individual CPA can do. However, since the process of international convergence is to a degree a political process, individuals can exert some influence. First, each practitioner must take steps to understand the issues relating to convergence. Next, whether acting in an external or an internal role, the CPA should help each U.S. firm understand how, or if, it would be affected by the elimination of LIFO for tax purposes.

Firms using LIFO whose financial reporting complies with GAAP (more specifically, SAB 58) already provide footnote disclosure of their LIFO reserve. If the LIFO reserve is determined with reference to an inventory valuation using FIFO, the amount of the LIFO reserve also represents the cumulative effect on income of changing from LIFO to FIFO. The application of the appropriate marginal tax rate(s) allows the determination of the additional income tax that would result from repeal of LIFO for U.S. income tax purposes. Even if the LIFO reserve is computed by comparing the LIFO valuation with the replacement cost of ending inventory, the LIFO reserve still provides a close approximation of the additional income that would be reported if LIFO were eliminated. The management of each firm can then decide to what extent it wishes to participate in the process of deliberation on LIFO.

CPAs can also participate in the LIFO debate through the various professional and service organizations to which they may belong. There is little doubt that the AICPA and other professional organiza-

tions will continue to be active participants in the debate over LIFO's fate. At a more grassroots level, organizations such as chambers of commerce, Rotary clubs, etc., may find a role to play on behalf of their business members.

Conclusion

International convergence of GAAP is coming—sooner rather than later. Right now, IFRS does not allow the use of LIFO. It is uncertain whether this ban will be included in converged GAAP. But the real wild card is Washington politics. Legislative action repealing the LIFO conformity requirement would clear the way for greater international comparability of financial reporting, which is a major objective of the international convergence of GAAP. LIFO could be used for U.S. income tax purposes, while FIFO is used for financial reporting.

When, or if, Congress will take up such a legislative resolution of the LIFO issue is hard to predict. Although there have been several recent runs at the repeal of LIFO for tax purposes, in both the House and the Senate, and the prospect of a \$106 billion revenue windfall is very attractive on both sides of the aisle, strong arguments are being made that saving LIFO for tax purposes is good for the economy. Again, communicating with one's legislators, either directly or via interested organizations, to make clear where one stands on the LIFO issue is important.

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EditorNotes

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32 National Association of Manufacturers, ManuFacts, "LIFO (Last-In, First Out): Real Impact on Manufacturers" (March 2008), www.nam.org/-/media/Files/s_nam/docs/238300/238228.pdf.ashx.

33 The LIFO Coalition is managed by the National Association of Wholesaler-

Distributors, and it claims to have had 122 members (mostly industry associations) as of November 30, 2006. See <http://savelifo.org>.

34 National Association of Wholesaler-Distributors, "NAW News" (June 2008), http://naw.org/nawnews/news_article.php?articleid=540.