



Urgent Action Needed: Help Prevent LIFO Repeal

As you may have heard, President Obama's revenue plan for the coming fiscal years includes elimination of last-in, first-out (LIFO) accounting for inventories. By abolishing LIFO, the administration immediately can tax LIFO reserves to fund health care reform. The administration estimates that this will raise more than \$60 billion to support federal programs.

This is not some theoretical assault on LIFO. The Senate Finance Committee is moving quickly to enact the president's plan for health care reform with legislative markup sessions planned for early next week. Markup sessions write into legislation all proposals that have been accepted by the primary sponsors, committee chairmen and others with a direct role in passage of legislation. LIFO repeal will be a part of these markup proposals. Once the markup session is concluded and a proposal appears in legislation it is difficult if not impossible to remove.

Because many MSCI members use LIFO accounting, we're writing with two purposes in mind.

First, our ally in defense of LIFO, the LIFO Coalition, has asked its members to submit to Senate Finance Committee members a strongly worded educational letter that clarifies what LIFO accounting is and how its repeal will do great damage to important economic sectors. We strongly encourage MSCI members to participate in this letter. To make it easier, the National Association of Wholesaler Distributors (NAW), who manages the LIFO Coalition, suggests the use of their computerized letter preparation and delivery system. You may access it by clicking here: <http://www.naw.org/govrelations/grtools.php>. Input your name and each company location, and then select **Contact your Senators**.

Using this web site, you can draft a letter and send it to every Senate Finance Committee member who represents a state where your company has a facility.

The letter should include this information:

- A brief description of your company that specifies that it is an employer in the senator's state,
- Your opposition to LIFO repeal and its retroactive tax impact and
- A specific fact that illustrates the impact of LIFO repeal on your company, examples include:
 - The percentage of increase in your tax liability if LIFO is repealed
 - The relationship between your LIFO tax liability and your net worth and/or working capital
 - A statement of the percentage by which the LIFO-related tax liability would reduce profits and/or free cash flow
 - Whether the new taxes related to LIFO's repeal would force postponement of capital spending, layoffs or have other adverse affects on your business
 - Whether the new taxes would limit your ability to contribute to your 401k plan
 - Whether the new taxes might endanger the business as a whole
 - Any other comment you may choose to make about LIFO and the consequences of its repeal on your workforce, business, community and economic well being

It is increasingly clear that LIFO repeal is about money; it is equally clear the senators and their staffers have little to no understanding of LIFO and its usage. The Senate needs new tax revenue to offset health care spending plans and the huge deficits that are now certain for the coming years. LIFO repeal is seen by senators as an easy source of this revenue with little or no impact. Our only defense is to persuade

members of the Senate Finance Committee that LIFO repeal will do substantial damage to employment and the well-being of businesses in their states and the country.

Second, we encourage you to send those same details about your own company's situation to NAW for inclusion in its Congress-wide communications and education programs. NAW and others, including MSCI, have argued that LIFO is an appropriate inventory valuation method that has been in use for many years; LIFO repeal amounts to an unfair, retroactive tax increase that punishes companies that have done nothing wrong; there is no actual pot of money available for taxation of a LIFO reserve, because the reserve is simply a valuation calculated as part of an earnings statement; permitting FIFO accounting to continue while repealing LIFO would unfairly advantage some companies over others. Send a copy of your letter to Jade West at jwest@nawd.org.

Below is a list of Senate Finance Committee members, by state. If your state has a senator who sits on this committee, I strongly encourage you to write them immediately using NAW's web site. By all indications, there is very little time before the Finance Committee acts. Don't let that happen without making it clear to your elected representatives just how damaging LIFO repeal will be.

Please contact me if you have any questions at 847/485-3007 or 773/835-6108 (cell) or jkalkwarf@msci.org.

Sincerely,
Jon

Jonathan Kalkwarf
Vice President, Finance and Administration

Senate Finance Committee Members:

Democrats

Max Baucus, MT, Chair
Jeff Bingaman, NM
Maria Cantwell, WA
Tom Carper, DE
Kent Conrad, ND
John F. Kerry, MA
Blanche Lincoln, AR
Robert Menendez, NJ
Bill Nelson, FL
John D. Rockefeller, IV, WV
Charles E. Schumer, NY
Debbie Stabenow, MI
Ron Wyden, OR

Republicans

Jim Bunning, KY
John Cornyn, TX
Mike Crapo, ID
John Ensign, NV
Mike Enzi, WY
Chuck Grassley, IA, Ranking Member
Orrin G. Hatch, UT
Jon Kyl, AZ
Pat Roberts, KS
Olympia Snowe, ME
