United States Senate
WASHINGTON, DC 20510

October 21, 2014

The Honorable Jacob J. Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

We write to express our concerns with recent proposals to repeal the "last-in, first-out" (LIFO) accounting method. As Congress considers ways to reform our tax code, some have suggested eliminating this important provision. Although we share the goal of creating a simple and efficient tax code that allows American businesses to compete, we do not believe the elimination of LIFO would accomplish such a goal.

LIFO is a widely accepted inventory accounting method, and has been recognized in the U.S. tax code for more than 70 years. By allowing businesses to qualify their inventory under the LIFO standards, businesses report a fair tax liability that is both realistic and unoppressive to growth.

As you know, one of the most troubling effects of the proposed reform is the retroactive tax. If this reform is passed, the penalty to the businesses that used LIFO could extend decades into the past, forcing companies to pay off the "reserve" to which they had legally been entitled. This retroactive tax would place undue burden on companies that abided by an accepted standard. Furthermore, in many cases these deductions have long been reinvested or are in the form of illiquid assets. For companies with low levels of capitalization, repealing LIFO would divert funds from reinvestment toward paying taxes from which they had previously been exempt. At worst, repeal could force cuts to employment or drive companies out of business altogether. Clearly, repealing LIFO and enacting this retroactive tax would disrupt cash flow, investment, and result in negative economic consequences to small businesses, jobs, and growth.

Undoubtedly, comprehensive tax reform is needed, but it should not include LIFO repeal. A repeal of LIFO runs counter to the goals of tax reform: we should empower businesses to be even more competitive, not saddle them with new tax burdens; we should incentivize the creation of jobs, not institute changes that threaten to leave Americans without employment.

We are prepared to face the hard work of reforming an antiquated tax code, but we do not believe that should include repeal of LIFO.

Sincerely,

Joe Donnelly
Joe Donnelly
U.S. Senator

Michael B. Enzi
Michael B. Enzi
U.S. Senator

Jerry Moran

Mike Johanns

[illegible]

Roy Blunt

Rand Paul

Mark Begich

John Barrasso

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