Oppose Repeal of Last-In, First-Out (LIFO) Inventory Valuation

No Legislation Introduced

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WHY IS REPEAL BAD FOR OUR INDUSTRY?

- We estimate half of NAED member companies use LIFO inventory valuation. The marginal increase in their tax liabilities will damage growth prospects.
- Distributors would be forced to pay a tax on unrecognized "phantom profits" caused by swings in commodity prices.
- A "drop in the bucket" in increased federal revenue is an existential threat to family businesses who have counted on LIFO for decades.

MORE DETAIL

Revenue raised by repealing LIFO would only be a tiny fraction of the federal budget: some estimates call for an additional $112 billion in revenue over the next decade, but this amounts to a drop in the bucket of the projected $43.5 trillion in projected federal revenues over the same period. And once the LIFO reserves are no longer available to tax, the revenue to the treasury would be diminished further, and Congress will be coming back to business for a way to make up for the lost revenue, making this essentially a short-term revenue raiser with no other justifications for repeal. LIFO repeal will do more harm than good.

If repealed, companies using LIFO would be forced to report their reserves as income, resulting in a massive incremental tax liability. Additionally, repealing LIFO would mean potentially higher future tax bills and would make it harder for companies to manage inflation.

Support Fairness for Pass-Through Entities in Tax Reform

No bills introduced

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WHAT DOES IT MEAN FOR OUR INDUSTRY?

- Cuts to corporate tax rates will not help the more than 60% of NAED member companies that function as pass-through entities. Lawmakers must remember that addressing corporate tax rates without protecting pass-through entities will place many small businesses at an even greater competitive disadvantage.

- Tax reform is badly needed. There is a growing disparity between domestic firms like most NAED companies that pay at the corporate income tax rate and the multi-national firms which can significantly reduce their US tax liability through use of preferences in the US and foreign tax codes or can defer taxes on their foreign income.

- NAED supports lowering corporate tax rates while also addressing individual rates and deductions to ensure fairness for pass-through entities.

MORE DETAIL:

The business community, Congress, and the Obama Administration have all voiced support for a tax overhaul. The desire is there, but compromises will have to be made from all sides in order for actual reform to take place, so it may take years.

Then House Ways and Means Committee Chair, Dave Camp, introduced a tax reform proposal early in 2014 which called for surtaxes on higher income individuals which would amount to very little change in individual business owners' tax rates, while dropping the corporate rate to 20%. Central to the tax reform debate is the treatment of pass-through entities (like subchapter S corporations, partnerships, sole proprietorships, and LLCs) which pass their company's profits through to the owners' tax returns. Pass-through entities comprise 94% of American businesses and over 60% of NAED members' businesses. Camp's proposal failed in this regard.

After the fiscal cliff deal of 2013, many pass-throughs are now facing effective tax rates well over 40%, since the deal raised top income earners' tax rates and limited their exemptions. Meanwhile the corporate rate has remained steady, and may eventually be lowered if tax reform legislation is enacted. Any discussion of corporate tax reform MUST consider allowable expense deductions and individual rates to ensure fairness for pass-throughs.