

## **POSITION PAPER: TAX ISSUES**

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### **LIFO TAX ISSUE**

**The American Supply Association opposes repeal of the last-in, first-out (LIFO) method of accounting for inventory.**

- What is LIFO? LIFO is an inventory accounting method used by companies throughout the U.S. economy to determine both book income and tax liability. In determining the value of their inventory under LIFO, a company records the last units purchased as the first units sold.
- Why do businesses use LIFO? If inventory costs are rising (i.e., there is inflation), LIFO is a more accurate way of measuring financial performance and calculating tax.
- Is the use of LIFO limited to a certain sector of the economy? No. Literally hundreds of thousands of large and small American companies use LIFO to account for the value of their inventory.
- What would be the impact of LIFO repeal? Repealing LIFO would force companies currently using the accounting method to report their LIFO reserves as income, resulting in a massive tax increase on "phantom" income for large and small businesses spread across the economy. Additionally, repealing LIFO would mean potentially higher future tax bills and would make it harder for companies to manage inflation.
- Congress should reject any effort to repeal LIFO.
- LIFO repeal will create serious tax liabilities for many ASA wholesalers and manufacturers.

### **DEATH TAX ISSUE**

**The American Supply Association supports permanent repeal of the death tax.**

- ASA urges Congress to continue its efforts to permanently repeal the death tax.
- Unless Congress takes action, beginning in 2011:
  - The death tax will rise from zero to 55 percent, and
  - The size of estates exempt from taxation will fall to its 2002 level of one million dollars.
- ASA recognizes that a compromise may be necessary. One example -- estates worth as much as \$5 million (\$10 million for couples) would be exempt from taxation; the tax rate on estates worth more than the exemption level up to \$25 million would be set at the same tax rates that apply to capital gains -- now 15 percent but scheduled to rise to 20 percent in 2011. The rate for estates worth more than \$25 million would be twice the capital gains rate.

*ASA is a member of the LIFO Reform, Family Business Estate Tax, and [Tax Relief](#) coalitions.*