

## ***BNA's Daily Tax Report***

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### **Coalition Disputes LIFO Testimony, Saying Use of Method Understated**

A coalition of trade associations representing numerous types of businesses told the Senate Finance Committee in a June 26 letter that recent testimony by an accounting professor understated the use of the last-in, first-out accounting method and exaggerated LIFO's role in manipulating taxable income.

The LIFO Coalition, which includes the National Association of Manufacturers and National Association of Wholesaler-Distributors, submitted a memorandum intended to refute the testimony of George Plesko, a professor at the University of Connecticut School of Business who testified before the Finance Committee June 13<sup>th</sup>.

The wide-ranging hearing included discussion of the LIFO method, which assumes that the most recent purchases are sold first in order to mitigate the effects of inflation and which senators have proposed sacrificing to apply the revenue toward more populist priorities.

Plesko explained the role of LIFO during periods of high inflation, saying its use increased dramatically during the 1970s before peaking in the 1980s and declining since then. At the end of 2004, only about 20 percent of firms used LIFO for a majority of their inventories, he said. Going beyond the largest firms, analysis of all publicly traded firms found fewer than 10 percent with LIFO reserves, he reported.

Plesko said that, absent the tax benefit of LIFO, no one would use it, adding that financial reporting and other benefits in favor of using LIFO are not there.

The coalition memorandum, prepared by Leslie Schneider of Ivins, Phillips & Barker, said that Plesko's statistics made selective use of data and therefore understated the prevalence of LIFO. Whereas Plesko estimated that the aggregate LIFO reserve for businesses using the method is \$60 billion, Schneider said it is many times that amount.

Whereas Plesko questioned how many businesses would use LIFO absent its tax benefits, Schneider said the more appropriate question to ask is how many businesses would use for financial reporting purposes any of the provisions of tax law if the use of such provisions for tax purposes were contingent on their use for financial reporting purposes.

*By Kurt Ritterpusch*