Just the FACTS...

... last-in, first-out (LIFO) accounting

Last-in, first-out (LIFO) is an inventory accounting scheme for estimating the value of a company's inventory against the value of goods sold in a given year. A company using the LIFO method assumes that every good sold is the most recent (last) one added to its inventory. Proponents of LIFO argue that it is a way for taxpayers to defer inflation-related increases in inventory values. In reality, LIFO is a form of tax subsidy to a select group of taxpayers.

1 **Fact:** LIFO is not widely used outside the U.S., as it conflicts with the International Financial Reporting Standards (IFRS) used to harmonize accounting practices worldwide.

2 **Fact:** LIFO effectively allows a specific group of companies to exaggerate their costs of producing goods in any given tax year, in order to lower the income they report to the government (not their actual income), and in turn, the taxes they owe.

3 **Fact:** LIFO favors some taxpayers over others; service industries and other industries without large physical inventories are excluded.

4 **Fact:** One of the major beneficiaries of LIFO are oil and gas companies. They are able to tell the IRS that oil in inventory is decades old which keeps today's more expensive oil off their books, reducing their tax liability since oil prices have increased far faster than general inflation.

The Joint Committee on Taxation (JCT) estimates the federal government would save $26.5 billion from 2013-2017 by repealing LIFO. JCT also estimates the government would save $18.3 billion 2012-2017 if it repealed LIFO for just oil, natural gas, and coal companies.

Our Take: LIFO inventory method allows oil refiners to maintain very favorable treatment of their costs. It is not widely accepted because it is an inaccurate method for estimating the value of a company's inventory against the value of goods sold in a given year. Congress should repeal it.

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