

# LIFO REPEAL

## HDMA's Position

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HDMA opposes the repeal of the last-in, first-out (LIFO) inventory accounting method. Eliminating the ability to elect the LIFO method would have a grossly disproportionate impact on pharmaceutical distributors due to their inventories of high-volume, high-value medications. Its repeal would reverse long-standing tax policy and result in an unprecedented tax increase for these companies.

- HDMA member companies distribute 87 percent of all prescription medicines dispensed in the U.S. Repealing the LIFO election would significantly impact their viability and would likely result in an increase in the cost of prescription drugs for Americans.
- According to a 2010 study on tax accounting for the pharmaceutical distribution industry, the ongoing tax increase resulting from repeal of the LIFO election would increase annual federal income tax liability within the pharmaceutical distribution industry by an estimated 51.8 percent—nearly three times more than the average industry. This is particularly challenging in an industry that, according to historical aggregated data, has an exceptionally low net-profit margin of only 1.1 percent.
- Repealing LIFO would force companies currently using this accounting method to report their LIFO reserves as income, resulting in a massive retroactive tax increase for companies without a corresponding economic benefit.
- HDMA distributor members use LIFO because it provides a better method to measure financial performance and calculate tax liability as inventory costs continue to rise. LIFO takes into account the greater costs of replacing inventory, thereby giving a more accurate measure of both the financial condition and the taxable income of a business.

## Issue

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LIFO has been an established and recognized accounting method in the U.S. since the 1930s and is used for tax-reporting purposes by a broad spectrum of business sectors that sell a wide range of products. Elimination of LIFO would be particularly punitive on distributors of high-value products such as pharmaceuticals. The repeal of LIFO would increase taxes for distributors in two ways:

1. **Recapture Tax:** This retroactive increase in taxable income is estimated to be the equivalent of four years of normal corporate tax payments for the pharmaceutical distribution industry, in comparison to an average of two years for other industries.
2. **Ongoing Tax:** The annual increase in taxable income liability for the pharmaceutical distribution industry is estimated to be 51.8 percent, an increase in excess of three times more than the average industry.

## Distributors Provide Savings to the Healthcare System

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Healthcare distributors ensure that nearly nine million prescription medicines and healthcare products are safely delivered to nearly 200,000 pharmacies, hospitals, nursing homes, physician offices, clinics and others nationwide. With nearly 170 distribution facilities across the country, our members provide jobs, significantly contributing to the local economy in which they are located.

The Healthcare Distribution Management Association (HDMA) is the national association representing primary healthcare distributors, the vital link between the nation's pharmaceutical manufacturers and healthcare providers. Each business day, HDMA member companies ensure that nearly nine million prescription medicines and healthcare products are delivered safely and efficiently to nearly 200,000 pharmacies, hospitals, long-term care facilities, clinics and others nationwide. HDMA and its members work daily to provide value and achieve cost savings, an estimated \$42 billion each year to our nation's healthcare system. For more information, visit [www.HealthcareDistribution.org](http://www.HealthcareDistribution.org).

