POSITION STATEMENT

LIFO Repeal

HDA'S POSITION

The Healthcare Distribution Alliance 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.

- HDA member companies distribute 91 percent of all prescription medicines dispensed in the U.S. Repealing the LIFO election would significantly impact the viability of these companies and would likely result in an increase in prescription drug costs for Americans.
- According to a 2015 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 45 percent — or nearly eight 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 1.2 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.
- HDA distributor members use LIFO because it provides an ideal way 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.

Eliminating the LIFO method would have a grossly disproportionate impact upon pharmaceutical distributors with inventories of high-volume, high-value medications. Its repeal would unfairly reverse long-standing tax policy and result in an unprecedented tax increase for these companies. HDA was pleased that the Tax Cuts and Jobs Act (PL 115-97) preserved the use of LIFO and protected this important accounting methodology.

ISSUE

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. Eliminating LIFO would be particularly punitive on distributors of such high-value products as pharmaceuticals. Repealing 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, compared 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 45 percent, an increase in excess of eight times more than the average industry.

HDA is the national association representing primary healthcare distributors, the vital link between the nation's pharmaceutical manufacturers and healthcare providers. Each business day, HDA member companies ensure that over 15 million prescription medicines and healthcare products are delivered safely and efficiently to more than 200,000 pharmacies, hospitals, long-term care facilities, clinics and others nationwide. HDA and its members work daily to provide value and achieve cost savings, an estimated $42 billion each year to our nation's healthcare system.

901 North Glebe Road, Suite 1000, Arlington, VA 22203 • **Main** (703) 787-0000 • **Web** www.hda.org