

## The LIFO, IFRS Conversion: An Explosive Concoction

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### Introduction: The Fragile History of LIFO

Some acronym cocktails make for an explosive combination. As the world's capital markets trend toward convergence to a single set of accounting standards, U.S. firms may soon be required to use international financial reporting standards rather than generally accepted accounting principles. As this report will illustrate, with billions of corporate dollars at issue, the last-in, first-out inventory accounting method may be the last formidable obstacle in the path of outright conversion by U.S. firms.<sup>1</sup>

The adoption of LIFO by firms as a permitted inventory accounting method for federal tax purposes dates all the way back to the 1930s, and further in history under a substantially similar method known as the base-stock method.<sup>2</sup> After several years of protracted arm-twisting by the manufacturing and oil and gas industries (with the assistance of the accounting profession and the Securities and Exchange Commission), the inventory accounting method of LIFO was reluctantly codified.<sup>3</sup> Initially, Con-

gress enacted section 22(d) of the Revenue Act of 1938, making LIFO available only to the leather hides and nonferrous metals industries.<sup>4</sup> Not more than one year later, however, amid an inflationary environment, Congress expanded the availability of LIFO to all taxpayers with the passage of the Revenue Act of 1939.<sup>5</sup> Under current law, LIFO is available to most taxpayers, except taxpayers reporting income derived from long-term contracts.<sup>6</sup>

Since its historical codification in 1938, as later amended, LIFO has received a lukewarm reception by many in Congress and the accounting industry. It has been criticized by its opponents as having no financial reporting benefit, yet a significant tax benefit, namely, a tax holiday or permanent deferral of the taxes on the LIFO reserve amount.<sup>7</sup> As a result, LIFO has been in the

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The propriety of a LIFO convention has attracted vigorous public debate since the decision was made, early in the last century, to utilize inventory accounting in the determination of taxable income. Why the tax law first embraced LIFO has been buried in archived Treasury documents, and the legislative history reveals little of the story. Commentators have written extensively about the mechanics and effects of LIFO but not about how the method came into existence. A look beyond conventional sources of legislative history, however, reveals that adoption of the LIFO method was initiated by big business' interests, impacted by the economic realities of the Depression and New Deal tax policy, and mediated through the professional aspirations of accountants and policy experts within Congress and the Treasury Department. That the Securities and Exchange Commission (SEC) collaborated with the accounting profession from the Commission's earliest years is well known.

<sup>4</sup>*Id.*

<sup>5</sup>*Id.* ("With almost no discussion on the floor of either chamber of Congress, the authorization to use the LIFO method was extended to every taxpayer with the passage of the Revenue Act of 1939.")

<sup>6</sup>Section 460(a). ("In the case of any long-term contract, the taxable income from such contract shall be determined under the percentage of completion method.")

<sup>7</sup>Testimony of George A. Plesko, University of Connecticut School of Business, Before the Senate Committee on Finance, United States Senate, June 13, 2006, 110th Congress (2006), *Doc 2006-11441*, 2006 TNT 114-40. ("The primary advantage of LIFO, however, is the tax benefit that LIFO provides firms experiencing increasing input prices. By allowing firms to deduct current rather than historic costs to determine their profits, firms that benefit will elect to use LIFO, while others will use another inventory method. For electing firms, LIFO provides an indefinite deferral of profits that would otherwise be reported."); see also Edward D. Kleinbard, George A. Plesko, and Corey M. Goodman, "Is It Time to Liquidate LIFO?" *Tax Notes*, Oct. 16, 2006, p. 237, *Doc 2006-20617*, or 2006 TNT 200-29:

LIFO fails another fundamental principle of a well-designed income tax in that it is not available to all taxpayers in all industries, but rather only to those that maintain physical inventories and are not required to use another accounting method for those inventories. Thus, the services industries are almost entirely excluded from LIFO's tax holiday. Finally, LIFO serves no independent business or commercial purpose: As demonstrated below, companies that employ LIFO for tax purposes go to great

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<sup>1</sup>Chester Abell, "International Financial Reporting Standards: Tax Must Be Involved," *Tax Notes*, Sept. 15, 2008, p. 1057, *Doc 2008-17765*, 2008 TNT 180-38. ("More than 100 countries use IFRS, or some variation of it, and that number continues to rise. The SEC is moving forward to support a common international standard. Many believe it is a matter of when, not if, the SEC allows for, and may mandate, the use of IFRS by all SEC registrants. . . . Conversion to IFRS will have tax effects that go far beyond changes to accounting results.")

<sup>2</sup>Stephen C. Lessard, "Giving Life to LIFO: Adoption of the LIFO Method of Inventory Valuation by the Income Tax Code," 60 *The Tax Lawyer* 781 (2007):

The LIFO method was derived from the "base-stock" method of inventory accounting, which had been in use in England as early as the middle of the nineteenth century. The base-stock method was premised on the theory that certain businesses must maintain a constant inventory level in order to carry out normal operations. This constant inventory level was carved out of the company's total inventory and made a "permanent" asset, much like a piece of equipment. The inventory level required was determined by the length of the manufacturing process, taking into account factors such as transit, storage, processing, and normal customer demand. Companies maintained an inventory level of materials sufficient to meet the company's needs in the ordinary course of business. Inventories were analogized to water in the pipes of a system, which could not "be drawn off and consumed without stopping the operation of the system."

<sup>3</sup>*Id.*, Lessard:

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congressional cross hairs for some time now, as its repeal and the resulting recognition of gain on the LIFO reserves would generate billions of dollars in additional Treasury revenues.<sup>8</sup> The manufacturing and oil and gas industries, acutely aware of this particular tax vulnerability, have been lobbying aggressively to preserve LIFO as a legitimate method of tax and book accounting. In fact, there is even an organization, the LIFO Coalition, and a SaveLIFO.org Web site devoted exclusively to LIFO's preservation.<sup>9</sup> The most recent legislative repeal measure, H.B. 3970 under the Tax Reduction and Reform Act of 2007, never made it out of the House Ways and Means Committee, yet the threat of repeal lingers, as the revenue generated would offset revenue-reducing legislation (for example, proposed legislation lowering the highest corporate marginal tax bracket of 35 percent).<sup>10</sup>

Most recently, the LIFO debate has returned to the forefront of discussion with the SEC pushing toward a single set of global accounting standards to be used by all SEC registrants. In December 2007 the SEC instituted a monumental regulatory shift in its long-standing policy by eliminating the requirement that foreign private issuers using IFRS reconcile with U.S. GAAP.<sup>11</sup> In August 2007 the SEC issued a concept release to obtain public

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lengths not to use LIFO for any observable nontax business purpose, such as capital budgeting or management compensation. The avowed purpose of LIFO is to permit taxpayers to defer inflation-related increases in inventory values.

But see Alan D. Viard, "Why LIFO Repeal Is Not the Way to Go," *Tax Notes*, Nov. 6, 2006, p. 574, *Doc 2006-21987*, or 2006 TNT 215-30:

In view of the tax relief given to other types of capital, it is difficult to understand the authors' complaint that LIFO is an "underinclusive" inflation-immunization program that applies to "only one class of assets," "an ad hoc and selective solution," and an "ersatz basis indexation scheme available only to some taxpayers in some businesses."

<sup>8</sup>H.R. 3970, 110th Cong., section 3301 (2007).

<sup>9</sup>Available at <http://www.savelifo.org/>.

<sup>10</sup>Jeremy A. Leonard, "A Closer Look at the U.S. Corporate Tax Burden," *Tax Notes*, Nov. 17, 2008, p. 849, *Doc 2008-22936*, 2008 TNT 223-38, at p. 854:

The most prominent example of the base-broadening approach is H.R. 3970, introduced in October 2007 by Rangel. . . . On the corporate side, the centerpiece proposal would reduce the statutory federal corporate tax rate from 35 percent to 30.5 percent. At the same time, the proposal would significantly broaden the corporate tax base. The largest base broadeners are the repeal of the section 199 deduction for domestic production activities (requiring the deferral of expenses attributable to foreign operations until associated income is repatriated) and elimination of the LIFO inventory accounting method. . . . as a result the aggregate tax bill of manufacturers would increase by an estimated \$57.9 billion from 2008 to 2017. In absolute dollar terms, the petroleum and coal products industry would be hit the hardest, largely due to the phaseout of LIFO. However, several other industries — notably primary metals and machinery — would see an increase in tax liability of 10 percent or more.

<sup>11</sup>"Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial

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comment concerning allowing U.S. issuers to prepare their financial statements in accordance with IFRS rather than U.S. GAAP.<sup>12</sup> The SEC also recently issued a proposed rule setting forth a road map for the potential use of IFRS by U.S. issuers as soon as 2014 and some eligible firms as early as 2010.<sup>13</sup> Following up on the IFRS discussion, the Financial Accounting Standards Board and the Financial Accounting Foundation sent out a survey to firms, testing the waters about FASB's role in the future direction of IFRS.<sup>14</sup> In the survey, FASB indicated its informal position that U.S. issuers should move to a single set of international accounting standards and firms should not be permitted to "pick and choose" whether to use IFRS or U.S. GAAP.<sup>15</sup>

If, as suggested by the SEC, all U.S. issuers are required to report under IFRS, firms using LIFO will be forced to abandon it, as IFRS does not recognize LIFO as a legitimate inventory accounting method. It is ironic the SEC is considering a principles-based system of financial accounting (that is, IFRS) rather than retaining the rules-based system of U.S. GAAP in light of the credit crisis, yet the SEC continues to move forward. One would have thought political demand for increased regulation, accountability, and shareholder disclosure would warrant further detailed rules, not less. Nevertheless, former SEC Chair Christopher Cox has reiterated his perspective that

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Reporting Standards Without Reconciliation to U.S. GAAP," Securities Act Release No. 33-8879, Exchange Act Release No. 34-57026 (Dec. 21, 2007), available at <http://www.sec.gov/rules/final/2007/33-8879.pdf>.

<sup>12</sup>"Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance With International Financial Reporting Standards," Securities Act Release No. 33-8831, Exchange Act Release No. 34-56217 (Aug. 7, 2007), available at <http://www.sec.gov/rules/concept/2007/33-8831.pdf>.

<sup>13</sup>"Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers," Securities Act Release No. 33-8982, Exchange Act Release No. 34-58960 (Nov. 14, 2008):

This Roadmap sets forth several milestones that, if achieved, could lead to the required use of IFRS by U.S. issuers in 2014 if the Commission believes it to be in the public interest and for the protection of investors. This Roadmap also includes discussion of various areas of consideration for market participants related to the eventual use of IFRS in the United States. As part of the Roadmap, the Commission is proposing amendments to various regulations, rules and forms that would permit early use of IFRS by a limited number of U.S. issuers where this would enhance the comparability of financial information to investors. Only an issuer whose industry uses IFRS as the basis of financial reporting more than any other set of standards would be eligible to elect to use IFRS, beginning with filings in 2010.

Available at <http://www.sec.gov/rules/proposed/2008/33-8982.pdf>.

<sup>14</sup>"2008 Survey on the Priorities of FASB," Financial Accounting Standards Advisory Council (Feb. 2008), available at <http://www.fasb.org/fasac/surveyypg2008.shtml>.

<sup>15</sup>*Id.*

IFRS provides greater shareholder disclosure and accounting standardization across international borders.<sup>16</sup>

Although only a small fraction of U.S. firms in some industries, such as the manufacturing and oil and gas industries, are using LIFO, the stakes are high, as the tax cost of abandoning LIFO is significant, affecting approximately \$89.7 billion in LIFO reserves disclosed in the 2007 financial statements of publicly traded firms and an unknown amount of undisclosed LIFO reserves.<sup>17</sup>

### The Book/Tax Conformity Conundrum

Section 471(a) requires firms to adopt a method of inventory accounting “whenever in the opinion of the Secretary the use of inventories is necessary to determine the income of the taxpayer.”<sup>18</sup> Inventory accounting is always necessary when the “production, purchase, or sale of merchandise is an income-producing factor.”<sup>19</sup> Firms are to adopt a method of inventory accounting conforming to the “best accounting practices of the trade or business” and “most clearly reflecting the income” of the business as determined by the secretary.<sup>20</sup> It is at this point in section 471(a) in which tax principles defer, in part, to accounting principles for guidance in determining income — with the Treasury secretary having the last word, of course.

The rationale behind federal tax law requiring an adopted method of inventory accounting to accurately determine or clearly reflect income presumably stems from the difficulty many businesses have in keeping track of their actual items of inventory sold and the exact

cost attributable to the sold items. Inventory held by high-volume businesses is generally in a constant state of flux with old and new inventory items being manufactured, purchased, sold, and otherwise disposed of, and often with the commingling of old and new inventory items.

The “specific identification” method of inventory accounting arguably most clearly reflects a firm’s true income or profit, as under this method each item of inventory (purchased or manufactured) has a specific cost associated with it, and when the item is sold the exact cost reduces the income attributable to the item. The problem with this method, however, is most firms cannot assign an exact cost to each item of inventory, as it would be too impractical, and if items of inventory were identical, firms could manipulate the amount of income generated on each sale by cherry-picking which items were to be sold. Because of the inherent difficulties of monitoring the actual physical flow of goods and cost associated with such goods, U.S. GAAP permits some “cost-flow assumptions” to be made when determining income attributable to the sale of inventory. LIFO, first-in, first-out, and the average cost method are three inventory accounting methods that make assumptions regarding the actual cost of a firm’s inventory sold.

Firms particularly vulnerable to inflation, such as those in the manufacturing and oil and gas businesses, prefer adopting LIFO because it uses the most recently purchased or manufactured items of inventory to determine the cost of inventory sold and thereby generally results in less taxable income. Arguably, it also more accurately (or more clearly) reflects income during periods of inflation.<sup>21</sup> In contrast, those firms not as sensitive to inflation, such as those dealing in perishable goods, prefer FIFO as it uses the oldest item of inventory purchased or manufactured to determine the cost of inventory resulting in a higher profit on the financial statements (albeit higher taxes) and a higher value of ending inventory assets. The average cost method does exactly as its name implies; it calculates an average inventory cost, as opposed to LIFO and FIFO, which are each on the opposite end of the cost-flow assumption spectrum.

Under section 472(a) a firm is permitted to use LIFO for federal tax purposes in the year it makes an election by filing a Form 970 with the IRS, provided conditions are met.<sup>22</sup> One condition of using LIFO, distinguishing it

<sup>16</sup>Christopher Cox, “The Future of International Standards and Cooperation in Light of the Credit Crisis,” speech at FEI 2008 Current Financial Reporting Issues Conference, New York (Nov. 18, 2008):

The events of recent months have only underscored the importance of an international language of financial disclosure and transparency. Achieving this would significantly improve investor confidence in global capital markets. Investors could more easily compare issuers’ disclosures, regardless of what country or jurisdiction they came from. They could more easily weigh investment opportunities in their own countries against competing opportunities in other markets. And a single set of high-quality standards would be a great boon to emerging markets, because investors could have greater confidence in the transparency of financial reporting.

Available at <http://www.sec.gov/news/speech/2008/spch111808cc.htm>.

<sup>17</sup>This number is based on data derived from publicly traded firms disclosing a LIFO reserve in their financial statements. The number does not include the LIFO reserves of privately held companies or the tax LIFO reserves, which may not be fully disclosed in a firm’s financial statements after a merger or acquisition.

<sup>18</sup>Section 471(a). (“Whenever in the opinion of the Secretary the use of inventories is necessary in order clearly to determine the income of any taxpayer, inventories shall be taken by such taxpayer on such basis as the Secretary may prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income.”)

<sup>19</sup>Reg. section 1.471-1.

<sup>20</sup>*Id.*, *supra* note 18.

<sup>21</sup>Leonard, *supra* note 10:

A second point, even admitted by critics, is that in periods of inflation, LIFO accounting provides a better matching of current costs with current revenues because the cost of goods sold is valued at current market prices rather than the original cost of acquisition. In this sense, LIFO allows indexing for firms whose inventory costs tend to rise in much the same way the personal income tax is indexed for inflation. Eliminating it would allow inflation to artificially increase corporate taxable income, essentially taxing income that is not real.

<sup>22</sup>Section 472(a):

A taxpayer may use the method provided in subsection (b) (whether or not such method has been prescribed

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from the other inventory accounting methods, is the "LIFO conformity requirement."<sup>23</sup> Under section 472(c) firms electing LIFO are required to use the same method of accounting for both book and tax purposes.<sup>24</sup> Firms are, however, permitted to use an inventory method other than LIFO for the limited purpose of providing supplemental or explanatory information to shareholders and creditors, as long as it does not detract from the taxpayer's primary presentation of income, profit, or loss for a tax year and specific rules are followed as set forth in the regulations.<sup>25</sup> Unlike other inventory accounting methods, once the LIFO election has been made, firms are to value inventory at cost regardless of market value.<sup>26</sup>

### Billions in LIFO Reserves Teetering on Recognition

If IFRS is ultimately adopted by the SEC as the required method of financial accounting by U.S. issuers, firms previously using LIFO will be taxed on their LIFO reserves. A firm's LIFO reserve is the difference between a firm's ending inventory value reported under the LIFO method and that of FIFO. Firms generally report LIFO reserves to provide shareholders and creditors with disclosure concerning the deferred tax liability and the inventory's ending value. Sophisticated investors, financial analysts, economists, and managers can easily convert a firm's LIFO inventory to FIFO based on the information disclosed on a firm's financial statements. The same does not hold true for the other way around, meaning converting a firm's FIFO inventory to LIFO based on financial statement disclosures is not possible. Some firms have LIFO reserves attributable to original

inventory purchased several decades ago and therefore as long as a firm retains its inventory at a constant level, the inflationary gain attributable to that historical inventory can be deferred indefinitely.

As previously stated, if LIFO reporting firms are required to change to another method of inventory accounting, whether voluntarily or involuntarily, that change will result in the recognition of taxable gain on the LIFO reserves.<sup>27</sup> Under section 481(a) taxpayers are taxed on their "section 481(a) adjustment," which is the cumulative difference in income under the old and new methods of accounting as of the beginning of the year of change.<sup>28</sup> The adjustment can be either a positive or negative adjustment. Rev. Proc. 2002-9,<sup>29</sup> as modified, provides a procedure for obtaining automatic consent from the IRS when a taxpayer decides to voluntarily change its method of accounting. Even with the IRS's automatic consent, however, the section 481(a) adjustment still applies and a positive adjustment is generally recognized over a period of four years.<sup>30</sup>

Figure 1 illustrates by industry sector (based on the Fama-French (1997) industry classification system) the billions of dollars in disclosed LIFO reserves at issue as reported by firms in their 2007 financial statements.<sup>31</sup> The figure also illustrates by industry sector the percentage of inventory reported by those firms under the LIFO method of accounting compared with other methods of inventory accounting used. Notice the significant amount of LIFO reserves (and the high percentage of LIFO method inventory adoption) in the petroleum and natural gas, machinery, chemicals, steelworks, and automobile industries. The petroleum and natural gas industry has the largest percentage of its inventory (approximately

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under section 471) in inventorying goods specified in an application to use such method filed at such time and in such manner as the Secretary may prescribe. The change to, and the use of, such method shall be in accordance with such regulations as the Secretary may prescribe as necessary in order that the use of such method may clearly reflect income.

<sup>23</sup>Section 446(a) provides that taxpayers are to compute taxable income under the same accounting method they use to compute their income for book purposes. This general rule applies not only to a taxpayer's overall method of accounting but also the accounting treatment of any specific item or items. Despite the expressed rule in section 446(a) and reg. section 1.446-1(a)(1), the IRS and courts have held that a taxpayer may use a different method of accounting for book purposes from that of tax as long as it clearly reflects income and the accounting records are sufficient to reconcile the differences between the books and the taxpayer's return. The LIFO conformity requirement is an exception to the general rule.

<sup>24</sup>Section 472(c):

Subsection (a) shall apply only if the taxpayer establishes to the satisfaction of the Secretary that the taxpayer has used no procedure other than that specified in paragraphs (1) and (3) of subsection (b) in inventorying such goods to ascertain the income, profit, or loss of the first taxable year for which the method described in subsection (b) is to be used, for the purpose of a report or statement covering such taxable year — (1) to shareholders, partners, or other proprietors, or to beneficiaries, or (2) for credit purposes.

<sup>25</sup>Reg. section 1.472-2(e)(1)(i).

<sup>26</sup>Section 472(b)(2).

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<sup>27</sup>Section 481(a).

<sup>28</sup>Dennis J. Gaffney et al., "Changing an Impermissible LIFO Method," 31 *The Tax Advisor* 242 (Apr. 2000):

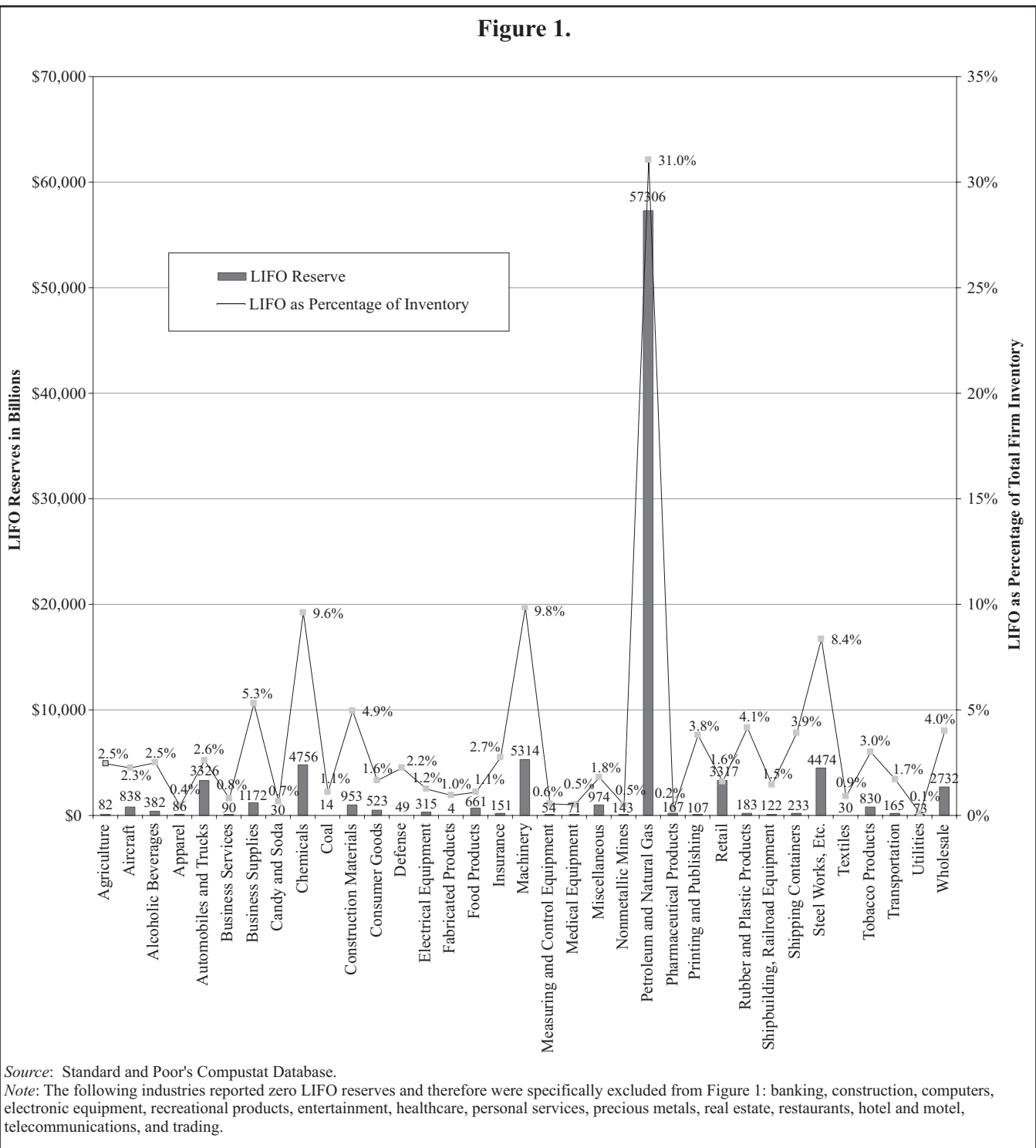
In most accounting method changes (voluntary or otherwise), the taxpayer must make a Sec. 481(a) adjustment. This adjustment prevents omissions or duplications of income and deductions occasioned by the method change. Basically, a "Sec. 481(a) adjustment" is the cumulative difference in income under the old and the new methods of accounting, as of the beginning of the year of change. A "positive Sec. 481(a) adjustment" is an increase in taxable income; a "negative Sec. 481(a) adjustment" is a decrease in taxable income. Under Rev. Proc. 97-27, Section 2.05(a), when Sec. 481(a) applies, income for the year preceding the year of change is determined under the old method of accounting; income for the year of change and the following years is determined under the new method of accounting as if that new method had always been employed.

<sup>29</sup>Rev. Proc. 2002-9, 2002-1 C.B. 327, *Doc 2002-555*, 2002 *TNT* 5-9.

<sup>30</sup>Rev. Proc. 2002-19, 2002-1 C.B. 696, *Doc 2002-6514*, 2002 *TNT* 51-9. ("The section 481(a) adjustment period is four taxable years for a net positive adjustment for an accounting method change, and one taxable year for a net negative adjustment for an accounting method change.")

<sup>31</sup>Eugene F. Fama and Kenneth R. French, 1997, "Industry Cost of Capital," *Journal of Financial Economics*, vol. 43, issue 2.

Figure 1.



31 percent) accounted for under the LIFO method with a total of \$57.3 billion in LIFO reserves reported.

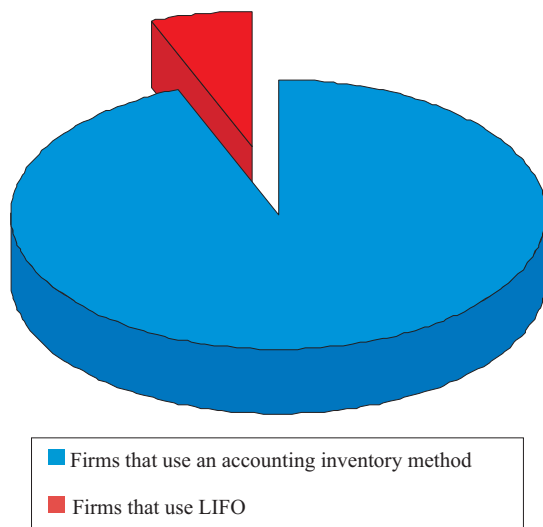
Figure 2 illustrates that out of 5,345 publicly traded firms using an inventory method of accounting, only 346 (or 6.47 percent) of those firms use LIFO as a method of inventory accounting. The 346 firms in Figure 2 report total inventories of approximately \$342.3 billion with LIFO reserves consisting of approximately 26.23 percent of their total inventories. As demonstrated in both figures

1 and 2, the petroleum and natural gas industry clearly is the largest user of LIFO as an inventory method of accounting, with 63.82 percent of the total LIFO reserves reported by those firms. Without this particular industry the LIFO reserves would naturally be significantly lower.

**Conclusion: Congress Must Weigh In on the Issue**

As this report illustrates, the conversion to IFRS will raise serious tax issues down the road to those firms with

Figure 2.



Source: Standard and Poor's Compustat Database.

significant LIFO reserves. Unfortunately, because the LIFO conformity requirement is codified in section 472(c), the IRS through administrative action cannot eliminate the conformity requirement, as it only has the authority to prescribe rules and regulations necessary to administer the code.<sup>32</sup> Section 472(c) may be amended or revoked only by Congress. At this point, Congress has been silent on the issue of eliminating the LIFO conformity requirement. If Congress does nothing and the SEC requires all U.S. issuers to adopt IFRS, firms will be disallowed from using LIFO as an accounting method for financial reporting purposes and thereby will be forced to abandon LIFO for tax purposes by 2014. Congress most likely will act beforehand by repealing LIFO all together as an inventory method of accounting and enacting quid pro quo or tax-neutral legislation because of its revenue pickup potential.<sup>33</sup>

<sup>32</sup>Section 7805(a). ("Except where such authority is expressly given by this title to any person other than an officer or employee of the Treasury Department, the Secretary shall prescribe all needful rules and regulations for the enforcement of this title, including all rules and regulations as may be necessary by reason of any alteration of law in relation to internal revenue.")

<sup>33</sup>George White, "LIFO on Life Support," *Journal of Accountancy*, July 13, 2006:

If a company were no longer permitted to use the LIFO method for its financial reports, the company would thereby be forced to go off LIFO for tax purposes because of section 472(c). If these twin events occurred, there would be *no* revenue increase that Congress could use for scoring the budget. That's because the increase in revenues would have come about as a consequence of *existing* law (section 472(c)), and not as a result of an

On the other hand, if Congress simply repeals the LIFO conformity requirement in the code, firms continuing to use LIFO for tax purposes will nevertheless be required to keep two sets of books to track inventory, one under IFRS using a permitted method such as FIFO, and one for tax purposes using LIFO.<sup>34</sup> This is unlikely to occur, however, as it would create further complexity for firms. The most probable way out of the explosive IFRS/LIFO concoction will be Congress extending the deferral on the recognition of taxable income attributable to the LIFO reserves beyond the present four-year deferral period — perhaps over an eight-year period as previously proposed in H.R. 3970. It is unlikely Congress will let the golden LIFO egg slip from its legislative clutches without acting first.

amendment to the Code. So, unless Congress acts affirmatively to repeal LIFO, it might lose the opportunity to count repeal as a revenue-raiser.

<sup>34</sup>Simon Brown and Jim Burns, "IFRS Transition Likely to Require Dual Records, Ng Says," *Tax Notes*, Dec. 22, 2008, p. 1339, *Doc 2008-26238*, 2008 TNT 241-1:

Notwithstanding the inventory cost flow assumption employed, most likely firms also will be required to keep dual reporting records, one set under IFRS and one under U.S. GAAP. The IRS has not yet taken a position as to whether or not it will develop two new Schedule M-3s (Net Income (Loss) Reconciliation) for tax reporting firms.

(Footnote continued in next column.)