NATIONAL ASSOCIATION OF
WHOLESALER-DISTRIBUTORS

October 7, 2024

The Honorable Carol Miller
Chair, Supply Chain Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

The Honorable David Kustoff
Vice Chair, Supply Chain Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chair Miller, Vice Chair Kustoff, and members of the Supply Chain Tax Team:

On behalf of the National Association of Wholesaler-Distributors (NAW), I urge you to reject tax increases that will harm businesses in the supply chain. While supply chain issues became prominent during the COVID 19 pandemic, they have long been important for wholesaler-distributors.

Depending on their line of trade, wholesaler-distributors turn over inventory anywhere from five to 15 times a year. They devote significant resources to maintain and replenish inventory in order to keep costs low and ensure a wide range of products are readily available.

Congress must ensure we have tax policy that helps, not hinders businesses in keeping supply chains stable.

Lawmakers should preserve the LIFO (last in, first out) deduction, which helps businesses replenish inventory when prices are rising. LIFO is utilized by small and large businesses across many industries and helps mitigate inflation. Repealing this provision would threaten the ability of businesses to maintain supply chains and mitigate inflation and will cause businesses to forgo new investment, take out costly loans, or shutter operations.

In addition, Congress should maintain the current, 21% corporate tax rate. The corporate tax rate has helped businesses reinvest in their workforce, in local communities, and in the economy. In addition to raising taxes directly on wholesaler-distributors, a higher corporate tax rate will raise costs and reduce investment in businesses at every level of the supply chain, including manufacturers, suppliers, retailers, and contractors.

About NAW & The Wholesale Distribution Industry

NAW is one of America's leading trade associations, representing the $8 trillion wholesale distribution industry. Founded in 1946, NAW comprises national, regional, and state employers of all sizes, industry trade associations, partners, and stakeholders spanning all distribution sectors.

There are more than 250,000 wholesale distribution companies that operate across North America, including all 50 states. These businesses collectively employ over 6.1 million workers, ranging in size from small, closely held family businesses to Fortune 500 companies. The majority are small or medium sized businesses and 81% of companies in the industry have less than 20 employees.

Wholesale distribution is a business-to-business industry: wholesaler-distributors purchase inventory, generally from manufacturers, and sell it to their customers, which include retailers, consumers, contractors, and small businesses.

Wholesaler-distributors are typically high tax, low margin businesses. The industry pays one of the highest effective income tax rates of all industries, with many businesses paying an average effective rate of 30% in combined federal and state taxes. Although the data varies among distributors of different product lines, a significant number of companies report after-tax profit margins of less than 1%, with the average margin of about 2%.

Wholesaler-distributors also offer well-paying, skilled jobs with a culture of living in and giving back to the communities they serve. Employee costs including wages, benefits, and taxes make up half to three-fourths of total expenses for wholesaler-distributors. As of August 2024, the average hourly wage for production and nonsupervisory workers in the industry of $31.28 per hour, higher than the typical private sector non-supervisory wage.[1] 89% of wholesaler-distributors offer healthcare, 89% offer paid sick leave and 84% offer retirement benefit plans.[2]

LIFO Helps Businesses Maintain Supply Chains and Mitigate Inflation

LIFO is an inventory accounting method that has existed since 1939 and used by many companies across multiple industries in the U.S. to determine both book income and tax liability. This system is used by businesses with heavy inventory turnover and helps protect the company and the end consumer from inflation by allowing them to replenish inventory at a cost closest to the current replacement cost.

Repeal of LIFO has been proposed and rejected in previous tax reform debates and should again be retained in law. Repeal of LIFO would cause businesses to reduce employee benefits, would destabilize supply chains leading to shortages and greater inflation, and would cause businesses to forgo new investment, downsize or even go out of business.

LIFO allows businesses to take a tax deduction when prices are increasing based on the difference between tax owed under LIFO and the FIFO (First in, first out) inventory system. The difference between LIFO and FIFO must be recorded by the taxpayer on their balance statements each year and is known as the LIFO reserve.

Under this system businesses are required to continually replenish their inventory and if the value of inventory is reduced, the business is hit with a recapture tax which claws back the LIFO tax deferral. This toggle switch ensures that businesses only see a benefit from LIFO if prices are increasing and inventory is constantly being replenished.

LIFO is particularly relevant today because of high inflation. In recent years we have seen inflation at higher rates than we have in decades. Businesses have seen the cost of energy, labor, inputs and inventories increase significantly. LIFO has been successful in helping businesses mitigate these rising costs – with a temporary tax deferral when prices rise, allowing them to replenish inventories and act as a buffer on consumer prices, the tax deferral is paid back as prices drop.

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[1] U.S. Bureau of Labor Statistics. (2024, September 6). *Table B-8. average hourly and weekly earnings of production and nonsupervisory employees on private nonfarm payrolls by industry sector, seasonally adjusted(1) - 2024 M08 results*. U.S. Bureau of Labor Statistics. https://www.bls.gov/news.release/empsit.t24.htm

[2] U.S. Bureau of Labor Statistics. (n.d.). *Industries at a glance: Wholesale trade: NAICS 42*. U.S. Bureau of Labor Statistics. https://www.bls.gov/iag/tgs/iag42.htm

This system particularly benefits small businesses and businesses with thin capitalization, small profit margins, and those sensitive to rising material or input costs. In addition, LIFO does not benefit certain industries, as some have claimed. Instead, LIFO is utilized by a wide range of businesses in multiple industries and by businesses of all sizes.

Past repeal proposals have called for retroactively taxing the LIFO reserve. The LIFO reserve is not a pot of money that a company has in reserve but is the accumulated benefit of LIFO over the life of the company. The tax savings from a company's LIFO reserve have already been spent because any savings are reinvested into replacing inventory and investing in their workforce.

Because LIFO has been in law for more than 80 years, many companies have accumulated extraordinarily large reserves over time so the tax liability associated with recapturing the LIFO reserve into taxable income would severely harm most companies and potentially bankrupt many of them.

Taxing LIFO reserves would force businesses to take on loans and defer new hiring and investment to pay the tax, disproportionately harming small businesses that would not be able to secure loans at favorable rates compared to bigger businesses and undoubtedly lead to business closures and acquisitions.

According to a 2016 study by the Tax Foundation, prospective repeal of LIFO would reduce GDP by $11.66 billion, resulting in 7,700 fewer full-time jobs and a $53.3 billion smaller capital stock in the long run.[3]

The 21% Corporate Rate Helps Businesses Invest in Workers & the Economy

The 2017 Tax Cuts and Jobs Act reduced the corporate tax rate from 35% to 21% and significantly broadened the tax base by repealing many unnecessary credits and deductions. The corporate tax rate is not just paid by large, publicly traded companies – there are also many smaller, privately owned C-corporations including wholesale distribution businesses across the country. The 2017 tax cuts helped these low-margin small and medium sized businesses hire, raise wages and employee benefits, expand, and invest in their growth, and reinvest in their local communities.

NAW members invest heavily in their workforce by providing extensive benefits and career development programs including health and retirement benefits, formal profit-sharing, quarterly cash bonuses and personal benefits such as financial workshops and volunteer paid time off. If the corporate tax rate is raised, it will threaten the ability of these businesses to continue investing in workers and the economy, which will be passed on to consumers through fewer job opportunities and higher prices. In fact, recent economic studies have found that consumers and workers bear an estimated 70%[4] to 80%[5]of the cost of

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[3] Pomerleau, K. (2016, February). *The Tax Treatment of Inventories and the Economic and Budgetary Impact of LIFO Repeal*. Tax Foundation. https://files.taxfoundation.org/legacy/docs/TaxFoundation-FF501.pdf

[4] Entin, S. J. (2017, October 24*). Labor Bears Much of the Cost of the Corporate Tax*. Tax Foundation. https://taxfoundation.org/research/all/federal/labor-bears-corporate-tax/

[5] Bradley, N., & McLeish, W. M. (2024, August 26). *How Pro-Growth Tax Policy Raises Wages, Improves the Economy*. U.S. Chamber of Commerce. https://www.uschamber.com/taxes/how-pro-growth-tax-policy-raises-wages-improves-the-economy

the corporate tax rate. Raising the corporate tax rate to 28% would reduce GDP by $1.84 for every $1 of higher revenue.[6]

Wholesaler-distributors are already facing significant challenges including rising costs and shortages which have destabilized supply chains in recent years. In addition, raising the corporate tax rate will harm other businesses in the supply chain including manufacturers and suppliers that wholesaler-distributors purchase from, and retailers and contractors, which wholesaler-distributors sell to.

When the corporate rate was cut in 2017, it contributed to the creation of one of the strongest economies in modern history. The unemployment rate hit 3.5% in 2019, a 50-year low and there were more job openings than job seekers for 24 consecutive months.[7] Real median household income increased by $4,400 in 2019, or nearly 7% , which exceeded gains during the entire eight years of the Obama presidency, where wages grew just $3,000 or 5%. According to the Atlanta Fed, the bottom 25% of wage earners experienced wage growth faster than the top 25% of wage earners, and the poverty rate declined to 10.5%, the lowest rate in decades.[8]

The 21% corporate tax rate also helped the U.S. become globally competitive. Prior to the 2017 tax cuts, the U.S. had one of the highest corporate tax rates in the developed world. Today, the U.S. has a combined state and federal rate of 25.7%, a rate competitive to the global average of 23.5% and the OECD average of 23.7%. These economic gains should be preserved, and the corporate tax rate should be retained at 21%.

Conclusion

Thank you for the opportunity to comment on tax policies that maintain and strengthen the supply chain. Lawmakers should preserve key tax policies like the LIFO deduction and the 21% corporate rate in tax reform so that businesses can continue reinvesting in their workers & communities and keep the supply chain strong.

If you or your staff have any questions, please reach out directly to me or to Alex Hendrie, Associate Vice President, Government Relations at 202-872-0885.

Sincerely,

Brian Wild
Chief Government Relations Officer
National Association of Wholesaler-Distributors

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[6] York, E. (2024, August 26). *The Corporate Tax Rate Tug-of-War*. Tax Foundation. https://taxfoundation.org/blog/trump-harris-corporate-tax-proposals/
[7] Steigrad, A. (2019, October 4). *US unemployment rate falls to five-decade low of 3.5%*. New York Post. https://nypost.com/2019/10/04/us-unemployment-rate-falls-to-3-5-a-50-year-low/
[8] Picchi, A. (2019, December 27). *Low-wage workers are getting bigger raises than bosses*. CBS News. https://www.cbsnews.com/news/low-wage-workers-are-getting-bigger-raises-than-bosses/