

# LIFO and Its Importance to Pharmaceutical Distributors

## What Is LIFO and Why Does it Matter?

Pharmaceutical distributors ensure the safe, reliable and efficient delivery of prescription medications and healthcare products. The Last-In, First-Out (LIFO) accounting method helps high-value, low-margin sectors like the distribution industry manage rising costs and maintain supply chain stability.<sup>1</sup>

Pharmaceutical distributors operate on razor-thin margins (0.3 percent after taxes) and rely on inventory reserves to handle inflation, supply chain disruptions and operational costs. More than 90 percent of the pharmaceutical distribution market depends on LIFO to control costs while ensuring 95 percent of all prescription medications reach patients efficiently across the United States.<sup>2</sup>

Pharmaceutical distributors connect over [1,200 manufacturers with more than 330,000 sites of care](#), ensuring millions receive lifesaving medications each day. By consolidating orders from multiple manufacturers, providing operational efficiency, leveraging the industry's logistics expertise and deploying advanced technology, distributors save the U.S. healthcare system up to \$63 billion annually. What sets pharmaceutical distribution apart from other wholesaling sectors is the industry's ability to provide critical healthcare infrastructure during public health events and other emergencies.

The last-in, first-out (LIFO) accounting method assumes the most recently purchased products are sold first. The cost of goods sold reflects current prices. Therefore, LIFO is a tool that helps distributors avoid paying higher taxes on inflation-driven price increases tied to their inventory.

## What Would a LIFO Repeal Do to the Healthcare Supply Chain?

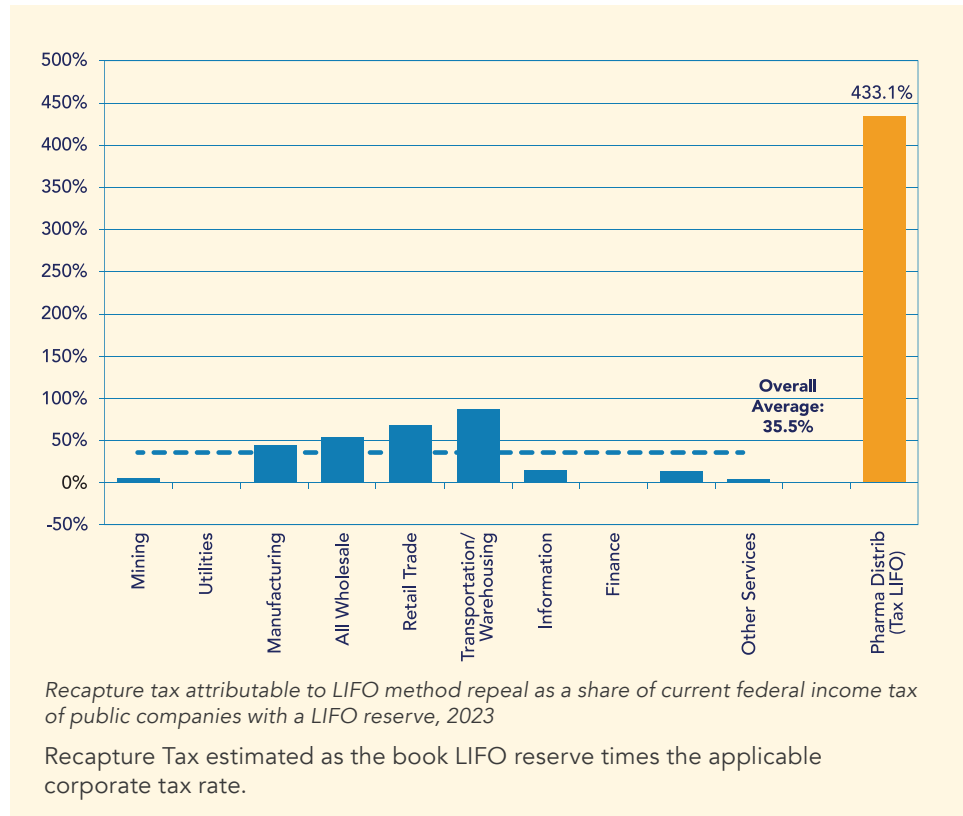
Repealing LIFO would lead to severe financial and operational consequences for distributors. Further, it would weaken [supply chain resilience](#). Because LIFO accounts for nearly 100 percent of inventory and net sales in pharmaceutical distribution,<sup>1</sup> repealing this accounting method would drastically increase tax liabilities, forcing distributors to pay a one-time recapture tax estimated at over 400 percent of the industry's current federal tax liability — a burden far greater than that faced by other industries.

### Did You Know?

Pharmaceutical distributors rely on LIFO more than most industries, like manufacturing (20 percent of inventories), transportation and warehousing (11 percent of inventories), making repeal especially damaging to their operations.<sup>1</sup>

<sup>1</sup>PwC, "Tax Accounting for Inventories and the Pharmaceutical Distribution Industry, Prepared for the Healthcare Distribution Alliance, National Economics and Statistics," February 2025.  
<sup>2</sup>HDA Research Foundation, "95th Edition HDA Factbook: The Facts, Figures and Trends in Healthcare (2024–2025)," 2024 <https://hda.org/publications/95th-edition-hda-factbook-the-facts-figures-and-trends/>

The recapture tax is estimated to equal nearly five years' worth of tax liability. Higher taxes would disrupt inventory and cash, making it harder to absorb inflation and meet surges in demand. While repeal might generate short-term federal revenue, the consequences are significant. Distributors would face extreme cost-cutting measures, and the industry would need to reduce its ongoing investments to ensure a stable supply chain. The supply chain would face instability, healthcare costs would increase and patient access to medications would be compromised.



**LIFO is not just an accounting method — it is a financial tool that ensures stability in pharmaceutical distribution.**

- 1 It preserves cash flow, allowing distributors to invest in infrastructure, innovation and workforce development while keeping products accessible.
- 2 It supports inventory stability by funding investments in technology and operations across more than 100 distribution centers, ensuring medications remain available even during supply chain disruptions.
- 3 It absorbs financial pressures, allowing distributors to sustain inventory levels and keep the supply chain running smoothly. Because distributors operate under multi-year contracts, the industry is not able to adjust prices immediately.

Repealing the LIFO accounting method would be catastrophic for pharmaceutical distributors. Visit [HDA.org/taxes](https://HDA.org/taxes) to learn more about the importance of LIFO for safe and reliable healthcare distribution.

**About the Healthcare Distribution Alliance**

The Healthcare Distribution Alliance (HDA) represents primary pharmaceutical distributors — the vital link between the nation’s pharmaceutical manufacturers and pharmacies, hospitals, long-term care facilities, clinics and others nationwide. Since 1876, HDA has helped members navigate regulations and innovations to get the right medicines to the right patients at the right time, safely and efficiently. The HDA Research Foundation, HDA’s nonprofit charitable foundation, serves the healthcare industry by providing research and education focused on priority healthcare supply chain issues.