



MANUFACTURING & DISTRIBUTION

LIFO Advantages in Central & Eastern PA

Leverage Tax Savings Using the IPIC LIFO Method.

Central and Eastern Pennsylvania's distinct economic climate, conservative financial environment and geographic proximity to major markets have fostered a healthy and thriving manufacturing sector. These characteristics are also important factors for why area manufacturers could reap major tax savings by leveraging nationwide inventory inflation rates via the Inventory Price Index Computation (IPIC) LIFO methodology.

The Inventory Price Index Computation.

At one time, LIFO was generally considered too cumbersome to make the tax savings worth the effort for some companies. Under the "Last-In-First-Out" methodology, companies calculate the cost of goods sold based on the price of the most recently purchased inventory – the "last in." While companies with inflating inventory costs stood to benefit from lower taxable income, the calculations were often viewed as too tedious, even for middle-market manufacturers.

The Inventory Price Index Computation (IPIC) method allows companies to use 100% of the PPI or CPI indices produced by the Bureau of Labor and Statistics to calculate their LIFO layers. It's a simpler alternative that allows you to easily outsource the difficult and time-consuming calculations required.

Unique Tax-Savings Advantages for Central and Eastern PA Manufacturers.

In a geographic environment where conservative purchasing agents prevail, access to rail, highways and water routes eases transportation and negotiating for competitive pricing is commonplace, Central and Eastern PA manufacturers have a unique opportunity. Utilizing the IPIC LIFO methodology, companies can take advantage of nationwide industry inflation instead of relying on their own internal inflation rate – which tends to be lower than those of our peers nationwide.

Some select examples of commodity inflation follow:

Commodity Description	5Year Inflation*	10Year Inflation*
Processed young chickens	27%	61%
Processed eggs	22%	127%
Prepared animal feeds	51%	118%
Synthetic rubber	40%	98%
Steel mill products	10%	81%
Nonferrous metal ores	39%	426%
Concrete products	6%	42%

RKL's MANUFACTURING & DISTRIBUTION SERVICES GROUP

RKL provides a portfolio of accounting, tax planning and compliance and specialized consulting services aimed directly at the challenges and opportunities facing Central and Eastern PA manufacturers. Comprised of leaders from RKL's Audit, Tax and Business Consulting Services, the group brings unmatched experience serving manufacturing and distribution companies and draws on that experience and their discipline-specific expertise to serve you. To learn more, visit www.RKLcpa.com.



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* through December 2012

LIFO Advantages in Central & Eastern PA (continued)

In the simplest example, if a taxpayer with prepared animal feed inventory had a \$10,000,000 inventory level in 2007 and maintained generally the same types of inventory items and quantities year after year, that taxpayer would have inventory valued at approximately \$15,100,000 at the end of 2012, due to the inflation of the cost of the inventory. However, if they were using IPIC LIFO, they would still be reporting the inventory at its \$10,000,000 2007 value, because LIFO lets you assume that you've sold your most recent (and appreciated) purchases first. IPIC LIFO, in this case, results in a taxable income deferral of \$5,100,000.

What to Expect

With any tax planning tool, there are some concerns, costs, limitations and risks to keep in mind. If you are utilizing LIFO methodology for tax purposes, it will need to be utilized for your financial statement reporting as well. This may result in the appearance of a depressed profit; however, a tax advisor experienced in LIFO will help clarify the reason for this to your financial statement users. Additionally, LIFO is only beneficial if there is cost inflation in the inventory components. If there is deflation in a given year, LIFO can cause inventory values to increase when compared to a FIFO methodology, resulting in an increase in taxable income.

While the LIFO calculations have been simplified using the IPIC methodology, the process still requires experience, knowledge and expertise. It's important to have a thorough conversation with your tax services provider to gain a complete understanding of the benefits and risks involved and develop the right strategy for your company.

For more information about tax, accounting and business consulting services for the Manufacturing & Distribution Industry, contact:

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