



BDO Seidman, LLP
Accountants and Consultants

January 2005

Subject:

**Inventory Methods &
Inflation Statistics-
Related Planning
Opportunities**

Federal Tax Alert

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| Jim Blinka | Milwaukee |
| Mike Collins | Detroit |
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| Bill Kingsley | Grand Rapids |
| Don Kossow | Milwaukee |

BDO Seidman's LIFO leaders are:

| | |
|-------------|--------------|
| Matt Becker | Grand Rapids |
| Dan Fuller | Grand Rapids |
| Dave Strong | Grand Rapids |

Summary:

On January 19th 2005 the Bureau of Labor Statistics ("BLS") published the annual producer inflation statistics for 2004 and certain sectors of the economy have seen significant inflation. Not surprisingly, 2004 saw the highest inflation rates in several years. Below is a chart showing the industries that have experienced inflation exceeding 10 percent over the past 12 months. One way many companies have dealt with these increases is to review their inventory valuation method to maximize deductions.

Opportunity:

The BLS publishes the Consumer Price Indexes (CPI) and Producer Price Indexes (PPI) on a monthly basis as a measure of inflation in the domestic economy. One use of the published indexes is to determine inflation for computing inventory valuation under the Inventory Price Index Computation (IPIC) method of LIFO accounting. For some businesses, the published indexes provide more tax benefits than an internally generated index. The major benefits to adopting IPIC LIFO are the simplified approach to the computation and the reduced controversy with the Internal Revenue Service.

Timing:

This opportunity, if not taken in on the 2004 tax return, is lost. To apply the benefit on the company's 2004 timely filed return you cannot have issued your 2004 financial statements on a different method of accounting (e.g. FIFO). It is important to meet this conformity requirement. If not, the company would jeopardize its election to change inventory valuation methods. Due to this fact, time is of the essence to implement the change prior to issuing your financial statements.

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Recommended Action:

We strongly encourage you to review the information provided below and contact Gary Mescher who will put you in touch with a BDO Seidman tax professional who can analyze the potential tax benefit to your company.

| | | |
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| Metal Products (manufacturer, wholesaler, retailer) | Metal Scrap Dealers | Fuel Products (manufacturer, wholesaler, retailer) |
| Lumber Products (produced, used, or sold) | Construction Equipment (manufacturer, wholesaler, retailer) | Chemicals Products (manufacturer, wholesaler, retailer) |
| Paper Products (produced or used as raw materials) | Construction Materials (manufacturer, wholesaler, retailer) | Mobile Home (manufacturer and reseller) |
| Farm Products (growers and resellers) | Food retailers and wholesalers | Wire and Wiring devices (manufacturer, wholesaler, retailer) |

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