HUTCHISON INCORPORATED

April 1, 2013

Mr. Vern Buchanan, Chairman
Small Business/Pass Through Tax Reform Working Group
U.S. House of Representatives Ways and Means Committee
Washington, DC

Re: Opposition to Repeal of LIFO being considered as part of Tax Reform in 2013

Dear Chairman Buchanan:

Our company opposes any effort to repeal the last-in, first-out (LIFO) inventory method as part of any legislation to address the U.S. deficit and/or tax reform.

LIFO is not a "tax expenditure" or "tax preference "item. LIFO is an inventory accounting method that has been in the tax code for 70 years which assumes the inventory used to establish a value for "Cost of Goods Sold" is from the last inventory acquired. The corollary of this statement is that the inventory indentified on the balance sheet is the oldest inventory acquired. The balance sheet valuation is achieved by establishing a contra account on the balance sheet called a "LIFO Reserve". Our company has used this method of inventory accounting for over 40 years. The LIFO Reserve is the untaxed gains resulting from inflation in holding inventory. Taxing the LIFO Reserves would be the functional equalivant of taxing the unrealized gains on holding real estate or taxing the unrealized gains from holding securities.

Who uses LIFO? Substantially, all family owned small businesses use LIFO to value inventories. This allows those businesses to exclude inflationary gains from holding inventories from taxable income. The repeal of LIFO would drain these family owned businesses of a substantial amount of their accumulated net worth. This business would struggle to maintain employment and investment for an extensive period of time following a repeal of LIFO. This diminution of net worth would occur from taxes being due on those inflation gains over an undetermined period. During that phase out period, small, family owned businesses would be either unable or extremely cautious about making investments in new equipment, new plants or new technology.

Hutchison, Inc is family-owned pass-thru entity with more than 160 employees in Iowa, Colorado, Nebraska, Montana, Idaho, Washington, and Texas. Since its beginnings in Iowa as a lumber distribution business in the 1950's, the company has expanded to multiple manufacturing plants and distribution facilities. The company's business model today is providing agricultural supplies into the Western and Midwestern US. A substantial amount of the company's growth capital came from the funds provided using the LIFO inventory method. A repeal of the LIFO provision will reduce growth, reduce investment in property, plant & equipment, and will curtail employment.

Sincerely,

George G Hutchison,
President/CEO

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