SUMMER 2021

AUTO FOCUS

Quarterly Industry Newsletter

SUMMERTIME... *and the reading is easy.*

Read up on our quarterly updates for your industry.

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Executive Summary

Now that 2021 is more than half-way in the books, it's time to kick your tax planning into high gear! Below are several ideas to help you reduce your tax bill.

Contribute to retirement accounts. Tally up all your 2021 contributions to retirement accounts so far, and estimate how much more you can stash away between now and December 31. So consider investing in an IRA or increase your contributions to your employer-provided retirement plans. Remember, you can reduce your 2021 taxable income by as much as $19,500 by contributing to a retirement account such as a 401(k). If you're age 50 or older, you can reduce your taxable income by up to $26,000! Call us to discuss a Cash Balance Plan option to max out over $100,000 in deductible contributions.
Over the five years to 2026, industry revenue is projected to continue increasing. Gains in disposable income and an aging vehicle fleet are expected to fuel industry revenue growth throughout the period.

Contribute directly to a charity. If you don't have enough qualified expenses in order to itemize your deductions, you can still donate to your favorite charity and cut your tax bill. For 2021, you can reduce your taxable income by up to $300 if you're single and $600 if you're married by donating to your favorite charity.

Consider a donor-advised fund. With a 2021 standard deduction of $12,550 if you're single and $25,100 if you're married, you may not be able to claim your charitable donations as a tax deduction if the total of your annual donations is below these dollar amounts. As an alternative, consider donating multiple years-worth of contributions to a donor-advised fund if you have the available cash so you can exceed the standard deduction this year. Then make your cash contributions from the donor-advised fund to your favorite charities over the next three years.

Contribute to an FSA or an HSA. Interested in paying medical and dental expenses with pre-tax dollars? Then read on...If you have a flexible spending account (FSA), you can contribute up to $2,750 in 2021. This allows you to pay for medical expenses in pre-tax dollars! Even better, unspent funds in an FSA can now be rolled from 2021 to 2022. And if you have a health savings account (HSA), you can contribute up to $3,600 if you're single and $7,200 if you're married.

Please call to discuss these and other tax planning opportunities.
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HI-TECH TRAVEL

It's just around the corner...

Living in the information age, we are accustomed to new and innovative tools that change the way we live. We can control everything in our homes with our voice. We can talk face-to-face, albeit digitally, with anyone, anywhere in the world. We even carry supercomputers with all knowledge known to man in our pockets.
As we celebrate summer vacations, why not explore some hi-tech travel changes that could be coming over the next few years.

You might be trading in your vehicle for a self-driving car subscription. Autonomous cars have been around for a few years now. You can grab a self-driving Lyft in Las Vegas or utilize Telsa's autopilot software to allow your car to accelerate, steer and brake on its own while staying in its lane. While they're out there, autonomous cars are still considered somewhat of a novelty. According to intellectual property company GreyB, every car manufacturer is working to change that.

At some point soon, self-driving cars will be commonplace. And some time after that, they will be the standard. Once that happens, rideshare programs will offer subscriptions that guarantee a car will pick you up and get you where you need to be. Instead of buying and maintaining a vehicle, all you'll need is an app and a credit card to get around town.

Magnets and a large vacuum might be the preference over airplane travel. From the beginning of time, the force of friction has been the biggest puzzle to solve in order to move something from point A to point B. Enter the Hyperloop. Originally diagrammed by Tesla and SpaceX CEO Elon Musk, the idea is to build a pod in a tube that eliminates ground friction with the use of magnets and reduces air resistance by creating a vacuum.

The result? Ground travel at 700 miles per hour with very low operating costs. It could get someone from San Francisco to Los Angeles (380 miles) in 30 to 35 minutes for about $20 according to Discover Magazine! The first test drive involving passengers was successful at the end of 2020. The hope is the first one will be fully operational within the next five years.

More hospitality services will be performed by robots. In many hotels around the world, everything from front desk support and luggage assistance to room cleaning is being handled by artificial intelligence. In China, you can check into FlyZoo hotels with facial recognition, according to CNBC. In San Jose, you can order snacks or blankets to be delivered by a robot right to your room. In New York, a Yobot will collect your things and deliver it to your room when you check in. Hotels that utilize this technology are considered early adopters, but it won't be long before it's mainstream.

Good Debt Vs. Bad Debt:
how to tell the difference

Good debt adds value

Good debt often leads to financial growth, because the product or service being purchased adds more value than the debt that comes with it. Student loans are usually an example of good debt because the related education allows you to earn more income.

Some purchases result in value more directly. Taking on a mortgage, for example, can be valuable simply by giving you access to a place to live all while building equity. Additionally, a mortgage is often considered good debt because your property can be used as collateral for other debt once you've made some payments on it, or your home has gained in market value. Even better, good debt often comes with a tax deduction on the interest you pay on things like your mortgage or student loans.

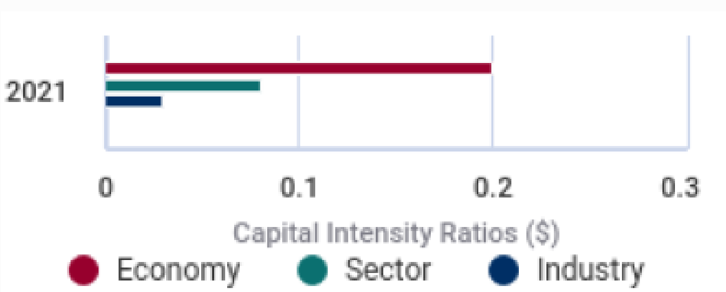
Bad debt adds expense

Credit card debt is almost always bad debt. Not only are interest rates on credit cards higher than most other types of debt, but most purchases made with credit cards are for things that do not contribute to personal financial growth. In fact, interest expense is so high that credit card companies are now legally required to display the cost of this debt directly on their billing statements. Auto loans are another example of bad debt, because cars usually lose value quickly, often leaving more money owed on the debt than the car is worth! But even good debt can turn bad if there is too much of it. Take out too large a mortgage and you may struggle to make payments!

Here are some ideas on how to manage good versus bad debt.

- Consider what you can afford and make a plan for how you will pay off any debts before you take on the debt.
- Never carry a balance on a credit card unless it is an emergency. Pay the balance in full every month.
- Calculate the entire cost, including interest, of anything you purchase using debt. This is the REAL cost of an item.
- Use savings, whenever possible, to purchase goods and services that would otherwise be considered bad debt.
- Pay off high interest debt first.
- Financial growth is often the key measure for defining good versus bad debt, but not always. Other factors, like personal interest, growth, and well-being can also be measures for your debt decisions, as long as you can truly afford the payments.

CAPITAL INTENSITY
level is low



In 2021, the New Car Dealers industry is expected to experience a low level of capital intensity. Industry operators are highly reliant on their salespeople, technicians and office workers. Thus, wages' share of revenue substantially influences an industry operator's business structure. Over the five years to 2021, wages as a share of revenue have increased moderately, causing some pressure on industry profit. In 2021, wage costs are expected to account for 7.2% of industry revenue. Many industry operators have incorporated inventory management systems, which has reduced the need for manual labor. Wages have remained high, however, as operators compete on the basis of being able to provide customers with quality customer service.

Furthermore, depreciation costs are low. By classifying vehicles as short-term assets, new car dealers tend to avoid significant depreciation expenses. Service equipment and the physical dealership are the industry's primary long-term assets. Consequently, the industry operators are expected to spend $0.03 on capital for every $1.00 spent on labor in 2021.

The rate of new patent additions to the industry is low. This is combined with a low concentration of innovation. Both factors being low suggests that new technology entry is slow and widespread, which limits the threat of disruptive threats hurting leading industry operators.

The industry structure creates a moderate level of entry barriers, which is coinciding with a high rate of new competitors entering the industry. This high rate of entry creates a significant pool of potentially disruptive entities and the industry structure does not significantly affect their growth potential.

THREATS OF CHANGE

Potential Disruptive Innovation: Factors Driving Threat of Change

Level	Factor	Disruption	Description
High	Rate of Entry	Likely	Annualized growth in the number of enterprises in the industry, ranked against all other industries. A greater intensity of companies entering an industry increases the pool of potential disruptors.
Moderate	Rate of Innovation	Potential	A ranked measure for the number of patents assigned to an industry. A faster rate of new patent additions to the industry increases the likelihood of a disruptive innovation occurring.
Moderate	Ease of Entry	Potential	A qualitative measure of barriers to entry. Fewer barriers to entry increases the likelihood that new entrants can disrupt incumbents by putting new technologies to use.
Moderate	Market Concentration	Potential	A ranked measure of the largest core market for the industry. Concentrated core markets present a low-end market or new market entry point for disruptive technologies to capture market share.
Low	Innovation Concentration	Unlikely	A measure for the mix of patent classes assigned to the industry. A greater concentration of patents in one area increases the likelihood of technological disruption of incumbent operators.

The New Car Dealers industry has endured some technology and systems disruption over the five years to 2021.

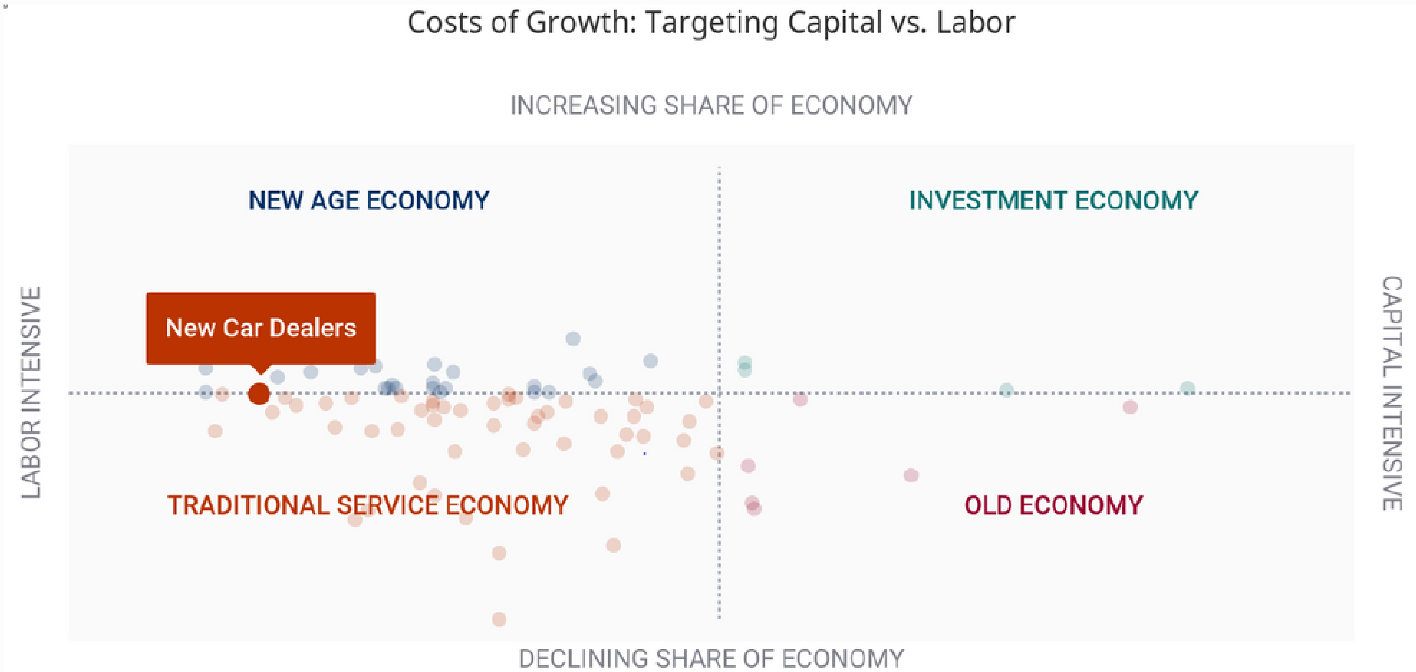
The biggest technological disruption that the industry has experienced is the ability to buy cars online through social media and e-commerce platforms. Therefore, operators endure a threat of customers switching to more nontraditional means of buying cars. This threat has increased as a result of the COVID-19 (coronavirus) pandemic as many consumers are likely to try purchasing cars through these means as the possibility of contracting the virus by shopping for cars in-person remains a threat.

The New Car Dealers industry has experienced a moderate level of revenue volatility over the five years to 2021.

Volatility is expected have increased in 2020 as revenue decreased 3.5%. This drop came mainly as a result of the COVID-19 (coronavirus) pandemic creating unfavorable economic conditions and reducing consumer confidence. Additionally, many industry operators were forced to temporarily close early in the year local governments enacted social-distancing guidelines aimed at slowing the spread of the virus. Industry revenue is expected to grow 4.9% in 2021, however, as the economy continues to recover.

Industry revenue growth is strongly tied to consumer sentiment, access to credit and household income. When economic conditions are favorable, credit is more easily accessible and household income is high, industry revenue tends to grow at a steady rate. Over the past five years, prior to the coronavirus pandemic, consumer confidence soared, as per capita disposable income level grew at a consistent rate and credit became more accessible to a broader range of consumers. As a result, the industry experienced little revenue volatility.

However, revenue volatility for the industry is also influenced by the price of crude oil. The world price of crude oil is inherently volatile, which has persisted over the past five years. Thus, while economic conditions remained relatively stable during the period, promoting healthy and stable revenue growth, volatile oil prices contributed to revenue fluctuations, as volatile prices have made it difficult for consumers to plan their vehicle purchases.



The New Car Dealers industry is heavily regulated.

Dealers must comply with state and federal regulations that cover licensing, franchising and liability. For example, dealers must renew franchise and state licensing agreements annually. Franchise agreements protect a dealer's exclusive right to sell a specific brand within a specified radius. Most states also require dealers to assume liability or offer returns for used vehicles that exhibit defects within 30 days of purchase. Car dealerships are particularly susceptible to customer complaints, and state attorneys general can revoke a dealership's license under certain circumstances. These regulations are in addition to workplace and employment practice laws applicable to most businesses. The industry also encounters environmental regulations relating to emissions and discharges from their service and repair business operations as outlined in the Clean Air Act and the Clean Water Act.

Regulations from the Federal Trade Commission (FTC) and the Internal Revenue Service (IRS) can significantly affect operations. Beginning November 1, 2009, new car dealers became subject to new privacy regulations from the FTC known as the Red Flags Rule, which requires new car dealers to establish identity theft prevention programs and to train all employees to be in compliance with such rules. Identity thefts resulting from noncompliance exposes the dealer to additional liability. The Dodd-Frank Wall Street Reform and Consumer Protection Act, while signed into law in 2010, could still potentially lead to additional indirect regulation of automotive dealers through the regulation of auto finance companies and other financial institutions moving forward, despite the current administration's recent changes the act.

In early 2020, many businesses were forced to temporarily suspend operations as local governments attempted to curb the spread of the COVID-19 (coronavirus) pandemic. Many industry establishments were affected by these measures and had to suspend business activity for several weeks. These shutdowns played a role in the lower revenue that was recorded in 2020, however, the vast majority of dealerships have since been able to reopen. Barring any extreme resurgence of coronavirus in the United States, it is unlikely that there will be similar measures taken in 2021.