FALL 2021

AUTO FOCUS

Quarterly Industry Newsletter

Tax Planning Season is upon us...

Read up on our quarterly updates for your industry.

THANEY & ASSOCIATES
Certified Public Accountants

www.ThaneyCPA.com

Email: info@thaneycpa.com

Phone: 888-252-8769

Executive Summary

Hit the road: Industry growth will likely be tempered by rising oil prices and falling new car sales

Over the five years to 2021, revenue for the Automobile Wholesaling industry has fallen. Early during the period, automobile retail sales increased due to rising per capita disposable income and increased access to credit. Consumers were more willing to opt for expensive products and were able to have easier access to financing for industry products, bolstering downstream demand. However, the COVID-19 (coronavirus) pandemic in 2020 has resulted in declining demand and an anticipated decline in industry revenue. Overall, industry revenue has fallen at an annualized rate of 2.6% to $605.7 billion over the five years to 2021, including an increase of 8.5% in 2021 alone.

Conversely, profit has increased due to decreased purchase costs and strong economic conditions for the majority of the period. However, the coronavirus is expected to significantly decrease industry profit in 2021, due to disruptions in the supply chain, temporary shut downs of downstream customers and a large decrease in revenue. Pressured profitability has resulted fewer industry participants, with the number of enterprises declining during the period. Additionally, the larger domestic companies, such as General Motors Company and Ford Motor Company, which were recovering from restructuring processes during the previous period, gained more market share as the current period went on, leaving less space for smaller operators. This trend is expected to continue, specifically with the merger of Peugot S.A into Fiat Chrysler Automobiles N.V., now named Stellantis N.V. in January 2021.

Please call to discuss these and other tax planning opportunities.
888.252.8769

Moving forward, revenue is anticipated to increase as the economy begins to recover from the coronavirus pandemic and per capita disposable income continues to increase. However, this growth is expected to be somewhat tempered by rising oil prices and a decrease in new car sales. Conversely, the projected increase in oil prices, while hurting demand for vehicles overall, could increase consumer demand for fuel-efficient vehicles over the next five years.
As a result, industry revenue is expected to increase at an annualized rate of 0.4% to $618.2 billion over the five years to 2026. Additionally, industry profit is expected to increase slightly along with revenue. However, it should be noted that industry revenue is not expected to surpass pre-pandemic levels during the outlook period.

Tax Planning Meetings

Now is the time to schedule

Now is the time to schedule a tax planning appointment. If you are on the fence, here are some things to consider:

It can make a difference. This is especially true if you have a major event that occurs during the year. For example:

- Selling a house? You can avoid taxes if primary residence requirements are met.
- Starting a business? Choosing the correct entity can lower your taxes every year!
- Getting ready to retire? Properly balancing the different revenue streams (part-time wages, Social Security benefits, IRA distributions and more) has a huge impact on your tax liability.

Even in uneventful years, external forces like new tax laws can be managed if planned for in advance.

Put yourself in control. Timing is important when it comes to minimizing taxes, and the timing is often in your control. For instance, bundling multiple years of charitable contributions into one year can create an opportunity to itemize deductions. Plus holding investments for longer than one year to get a lower tax rate, and making efficient retirement withdrawals are other examples of prudent tax strategies that you control.

There may still be COVID tax breaks. While it's true that many one-time tax breaks were offered for only the 2020 tax year, there are still plenty of COVID tax breaks available in 2021. Some of these tax breaks include an expanded child tax credit, an increased child and dependent care credit, the ability to roll forward unused funds in your Flexible Spending Account and charitable deductions that are available to all taxpayers, even if you don't itemize your deductions.

There are tax planning opportunities for every level of income. There are tax strategies to be implemented at all income levels, not just those at the top of the tax bracket. Tax deductions are available for student loan interest, IRA contributions and others even if you claim the standard deduction. Certain tax credits (called refundable credits) will increase your refund even if you don't owe taxes. Missing any of these tax breaks can unnecessarily increase your taxes.

Tax planning is often as simple as looking for ways to reduce taxable income, delay a tax bill, increase tax deductions, and take advantage of all available tax credits. The best place to start is to bolster your level of tax knowledge by picking up the phone and asking for assistance.

KEY VALUE DRIVERS

Per capita disposable income

Motor vehicles are costly, so consumers largely take disposable income into account when deciding whether to purchase a vehicle. When disposable income rises, demand for more expensive purchases, such as new vehicles, tends to increase as well. Per capita disposable income is expected to increase in 2021, representing a potential opportunity for the industry.

World price of crude oil

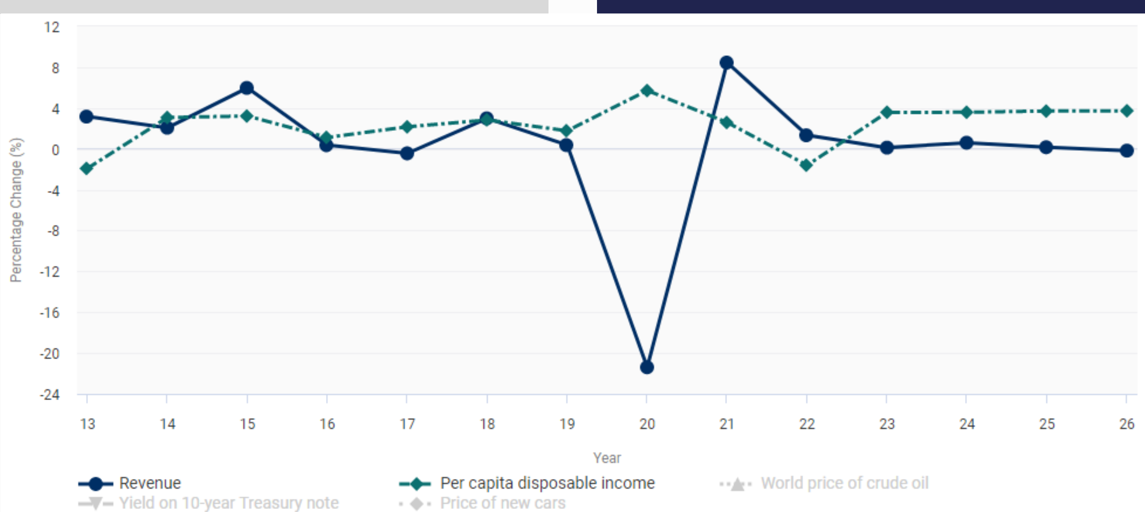
As the price of gasoline rises, people drive less and are reluctant to purchase an additional automobile as running costs increase. The price of gas and diesel has been volatile over the five years to 2021, fueling uncertainty among households and businesses. The world price of crude oil is expected to increase in 2021.

Yield on 10-year Treasury note

Consumers and businesses have an incentive to purchase goods that typically need financing, such as automobiles, when the interest rate falls because it reduces the cost to borrow. Over the five years to 2021, it has become easier for consumers and businesses to obtain financing. Interest rates have also fallen more recently to entice borrowing. The yield on a 10-year Treasury note is expected to increase in 2021.

Price of new cars

As motor vehicles become more expensive, consumers will likely favor more affordable substitutes, such as bicycles or public transportation. Therefore, increases in new car prices cause demand to fall, resulting in a decline in industry revenue. The price of new cars is expected to increase in 2021, posing a potential threat to the industry.



Automobile Wholesaling
Source: IBISWorld

INDUSTRY OUTLOOK

Moving forward, revenue for the Automobile Wholesaling industry is expected to increase as the economy begins to recover from the COVID-19 (coronavirus) pandemic.

Additionally, new car sales are expected to decrease less dramatically than during the current period, while per capita disposable income is expected to continue rising. These factors are expected to fuel growth in downstream demand over the five years to 2026.

However, the world price of oil is expected to increase during the outlook period, which will likely make customers wary of buying new cars. In addition, rising interest rates will likely pressure downstream demand, as customers are expected to be less able to afford the necessary financing to purchase a car. Nevertheless, while demand for higher-margin SUVs and light trucks will most likely fall during this period, increased demand for fuel-efficient options, such as hybrid cars, may bolster revenue for wholesalers that specialize in more compact and fuel-efficient products. Overall, industry revenue is expected to increase at an annualized rate of 0.4% to $618.2 billion over the five years to 2026. It should be noted that industry revenue is not expected to surpass prepandemic levels during the outlook period.

In line with revenue growth, profit is anticipated to rise during the outlook period.

However, profit is expected to continue to be pressured by slow growth in demand and volatile input prices. Additionally, customers may opt for newer and more innovative models of fuel-efficient cars due to rising gas prices, which could enable wholesalers to sell more cutting-edge products. This may enable operators to temper the likely fall in demand for other high-margin products in the SUV and light trucks segment. Nevertheless, while profit will likely increase during the period, the slowdown in downstream demand and the continued high level of transportation and purchase costs will likely keep profit at a relatively low level.

AUTO LEASING, LOANS & SALES FINANCING

Drive on: More accessible credit markets and higher income are expected to spur industry growth

Sustained macroeconomic growth over the early portion of the five years to 2021 has led to increased demand for the Auto Leasing, Loans and Sales Financing industry. This industry includes establishments that provide sales financing or leasing in combination with sales financing for automobiles. Consumers are most active in this industry when they anticipate future income stability. In addition, a decrease in interest rates reduces financing costs and incentivizes larger purchases, thereby fueling industry demand. Rising consumer sentiment and declining unemployment translated into higher auto sales and steady car prices during the majority of the five-year period. Automakers are expected to sell 17.0 million new cars and light trucks in 2021, representing a slight decline from all-time highs reached in 2016.

Over the five years to 2026, IBISWorld expects industry revenue to increase at an annualized rate of 2.7% to $144.7 billion. As concerns surrounding the spread of the coronavirus dissipate during the period, macroeconomic conditions are expected to once again steadily improve. This will afford consumers the confidence needed to make large capital purchases. Additionally, consumer spending growth over the five years to 2026 will better position consumers to replace aging vehicles.

The Auto Leasing, Loans and Sales Financing industry is expected to return to steady growth over the five years to 2026.

As concerns surrounding the spread of COVID-19 (coronavirus) dissipate during the period, macroeconomic conditions are once again expected to begin to improve. Namely, per capita disposable income is expected to increase an annualized 2.7% over the five years to 2026. This will lead consumers to be more secure in their financial stability and enable them to have the confidence needed to make capital purchases such as buying a car. Additionally, as macroeconomic conditions improve, interest rates are expected to gradually rise, helping operators extend loans with high interest rates during the period. Rising interest rates will not meaningfully deter consumers from purchasing cars, as interest rates are expected to remain well below their historic average despite increases during the period. Although new car sales are expected to slightly decline over the outlook period, they are projected to remain at high levels over the five years to 2026. Overall, industry revenue is expected to increase an annualized 2.7% over the five years to 2026 to $144.7 billion.

Industry participation is expected to decrease slightly over the five years to 2026. Overall, industry profit is expected to increase from 28.4% of industry revenue in 2021 to 30.1% in 2026. Profit growth is expected to be aided by an increase in the price of new cars during the period. Healthy profit is expected to entice new operators to the industry during the period. Despite this attraction, the number of industry enterprises is expected to decrease an annualized 0.3% to 2,086 enterprises over the five years to 2026. To manage increased workload stemming from higher demand for their services, operators are also expected to expand their labor forces during the five-year period. As a result, the number of industry employees is expected to increase an annualized 1.3% to 92,602 workers over the five years to 2026.

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 Mutual Fund Tax Surprise!

Some tax planning tips for mutual fund investors

From a tax planning viewpoint heading into the 2021 tax season, here are some great mutual fund tips to avoid a tax surprise. Unless noted otherwise, these tips assume your mutual fund investment is outside of a retirement account like a 401(k) or traditional IRA.

Long-term gains create a potential tax benefit. With the Dow Jones, Nasdaq and S&P 500 indexes having grown between 10% and 20% since January 1, there's a good chance the stocks comprising your mutual funds have grown in value. Whenever possible, time the sale of your appreciated mutual fund shares to avoid short-term capital gains (assets that are held less than one year). Short-term capital gains are taxed as ordinary income, whereas long-term capital gains often have a lower tax rate

Time your sales to account for dividend distributions. If you've owned appreciated mutual fund shares for more than 12 months and want to sell, find out when your fund distributes dividends. Dividend tax rates could apply and may be very high. Selling before the dividend payout may keep all your earnings as long-term capital gains.

The IRS wants your cost basis. Know the original cost of each share in your mutual fund. This basis includes any costs related to the transaction like brokerage fees. It can get pretty complicated as your mutual fund buys and sells shares in underlying individual equities that make up the mutual fund. It is even more complex if your mutual fund automatically reinvests any dividends.

Transfers could cause a tax event. Ask you broker or agent if there will be a capital gain if you transfer mutual fund shares from one account to another. What appears to be a transfer may actually be a sale of shares in one fund and a purchase of shares in another. This can create a taxable event if not handled properly.

The Mutual Fund Tax Surprise!

Continued

Dividend distributions can impact the fund's value. Similarly, if you've had your eye on a particular fund, understand the historic payout of dividends. The cost of the mutual fund might be artificially higher right before a dividend payout. To make matters worse, you may even get a dividend distribution that is taxed at higher ordinary income tax rates for gains that occurred before you purchased the mutual fund.

Plan withdrawals from retirement accounts to be tax-efficient. Remember withdrawals from mutual funds within retirement accounts like 401(k)s and traditional IRAs are taxed as ordinary income. So plan these sales accordingly.

Recordkeeping is important. Keep detailed records of every transaction. While brokers are now required to report your cost basis to the IRS, the information they provide may be in error. It's best to develop a filing system to confirm the accuracy of what your broker is reporting.

Call if you would like to discuss how any of this information relates to you. If you know someone that can benefit from this newsletter, feel free to send it to them.

888.252.8769

info@thaneycpa.com

Look at mutual fund costs. Disclosure rules require fund managers to adequately display the costs associated with each mutual fund. All things being equal, consider these operating costs when deciding between similarly performing mutual funds in a category.

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