FALL 2021

MANUFACTURING

Quarterly Industry Newsletter

With a little over two months remaining until you can begin filing your 2021 tax return, now's the time to kick your tax planning into high gear.

THANEY & ASSOCIATES

Certified Public Accountants

www.ThaneyCPA.com

Email: info@thaneycpa.com

Phone: 888-252-8769

Also read about several updates on the industry through this year of unknowns, Taking a look at different manufacturing sectors, discuss some possible COVID tax breaks and much more.

Please call if you would like to discuss how this information could impact your situation. If you know someone who could benefit from this newsletter, feel free to send it to them.

Executive Summary

Assembly required: Research and development investment will likely assist revenue growth.

The Manufacturing sector comprises companies that transform raw inputs via mechanical, physical or chemical processes into new products, as well as the assembly of component parts into new, complex goods. Sector revenue performance is largely attributable to the value of the US dollar, commodity prices, policy decisions and US manufacturing capacity. Revenue for the Manufacturing sector is anticipated to increase at an annualized rate of 0.4% to $6.0 trillion over the five years to 2021, including an increase of 9.8% in 2021 alone due to recovering domestic and global demand for industry products from COVID-19 (coronavirus) pandemic-induced lows. Industry revenue growth has been decelerated by the estimated 7.7% decline in revenue in 2020 as the coronavirus pandemic and subsequent government closure of nonessential businesses and tepid global demand hampered industry performance. The rise in coronavirus-related costs as well as commodity price volatility is also expected to weaken industry profit during the period.

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

Volatility in commodity prices, trade tensions and coronavirus-induced tepid global demand have led the value of industry exports to decline during the current period. Commodity-driven economies are key buyers of US products and volatile commodity prices have hampered demand for sector products. However, in 2021 commodity prices have largely recovered from coronavirus-induced lows, boosting revenue for sector operators.

Over the five years to 2026, revenue for the Manufacturing sector is forecast to continue to experience growth. Sector revenue is expected to increase at an annualized rate of 0.8% to $6.2 trillion over the next five years. Commodity prices are anticipated to stabilize from coronavirus-induced volatility and renewed demand, both in the United States and global economies, which is anticipated to facilitate revenue expansion for manufacturers. However, the uncertainty surrounding the Delta variant of the coronavirus pandemic poses a significant risk to sector operators. Manufacturers are also at risk of changes in trade conditions, in relation to tariffs and trade agreements. However, there is also potential for uncertainty to dissipate during the outlook period. Moreover, shifting technological change in the Manufacturing sector is anticipated to benefit large, developed economies, such as the United States.

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.

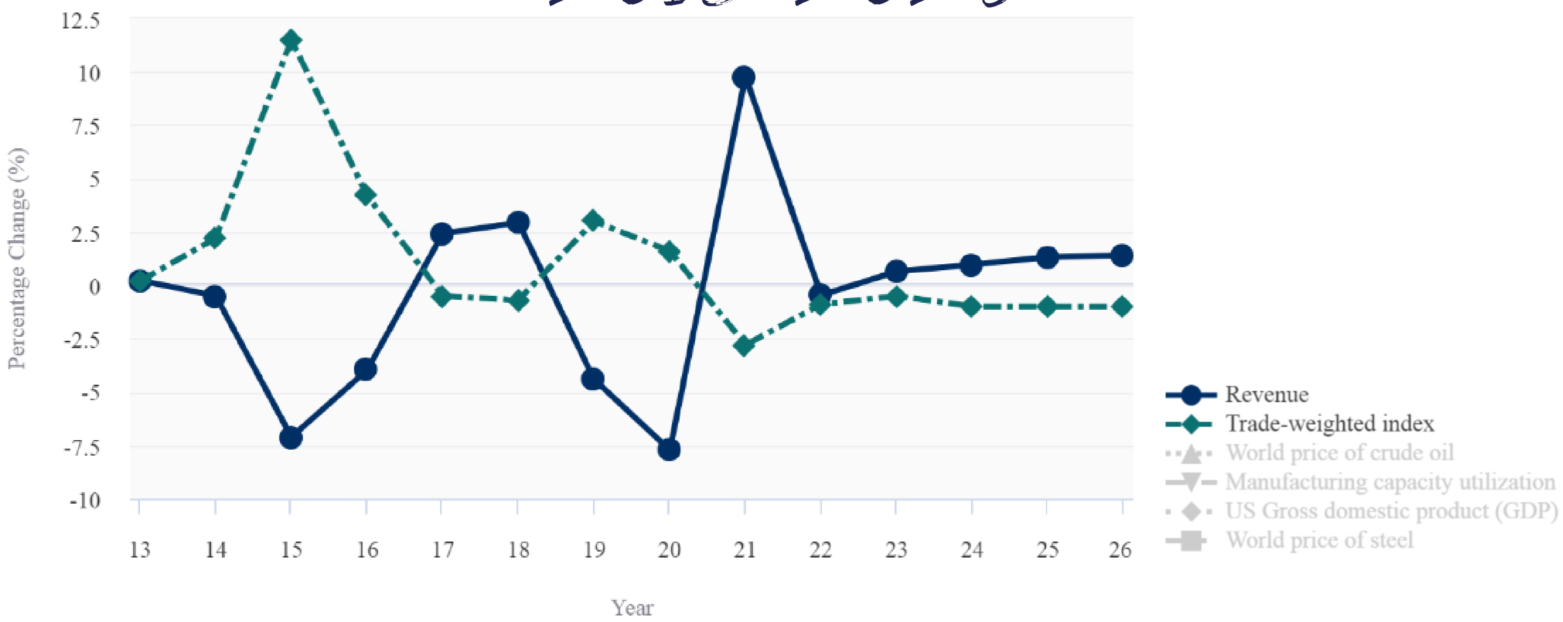
There may still be COVID tax breaks. While it's true that many one-time tax breaks were offered for only the 2020 tax year, there are still plenty of COVID tax breaks available in 2021. Some of these tax breaks include an expanded child tax credit, an increased child and dependent care credit, the ability 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 EXTERNAL DRIVERS

2013-2026



Trade Weighted Index

The trade-weighted index (TWI) measures the strength of the US dollar against other major currencies. Consequently, when the TWI increases, the relative cost of US goods increases for foreign consumers. Exports account for nearly 20.0% of sector revenue in 2021 and consequently, fluctuations in exchange rates can dramatically affect sector performance. In 2021, the TWI is expected to decline.

US Gross domestic product (GDP)

US gross domestic product (GDP) is the dollar value of all goods and services produced in the United States in a given year. When GDP is growing, demand for all sectors of the economy is more likely to expand. General economic growth is a key revenue driver for the Manufacturing sector, as its downstream markets include both consumers and businesses. US GDP is expected to increase in 2021, representing a potential opportunity for the sector.

World price of crude oil

Several sector participants, such as the Petroleum Refining industry (IBISWorld report 32411) and the Petrochemical Manufacturing industry (32511), must set their product prices in line with the world price of crude oil. As a result, when the price of oil rises, these industries can sell goods for higher prices. Additionally, given the lack of immediate substitutes for petroleum products, these price hikes result in greater sector revenue. The world price of crude oil is expected to increase drastically in 2021. Nevertheless, the volatility poses a potential threat to industry operators.

World price of steel

The world price of steel is important for low value-added sector participants, minimally altering raw materials and resales to other actors in the economy. Given that steel is a crucial input for US downstream manufacturers, when the price of steel increases, low value-added manufacturers can raise prices without reducing sales volume. The world price of steel is expected to increase in 2021.

PRODUCTS & SERVICES

Food, Beverage & Tobacco

In the Manufacturing sector, food, beverage and tobacco manufacturing account for 18.7% of sector revenue in 2021.

Food manufacturing (NAICS 311) transforms livestock and agricultural products into goods for immediate or final consumption. Products manufactured by this segment are then sold to wholesalers or retailers. Furthermore, beverage activities (NAICS 322) include the manufacturing of both nonalcoholic and alcoholic beverages through fermentation and distilled alcoholic beverages. In addition, this segment also includes the production of tobacco products, such as cigarettes and cigars. Key buyers of this subsegment include wholesalers and establishments in the accommodation and food services sector. This segment's share of sector revenue has increased over the five years to 2021 as rising per capita disposable income enabled downstream consumers to purchase more expensive food and beverage options as well as frequent food services establishments more often. Moreover, in 2021 rebounding demand from restaurants and other food service establishments, which were temporarily closed or contended with limited capacity in 2020, is anticipated to provide operators in food, beverage and tobacco manufacturing industry a boost.

Petroleum, coal, chemicals, plastics and rubber

Petroleum, coal, chemicals, plastics and rubber manufacturing accounts for 24.9% of sector revenue in 2021.

Petroleum and coal products manufacturing (NAICS 324) includes activities related to the transformation of crude petroleum and coal into usable products. The dominant process in the subsector is petroleum refining, involving the separation of crude petroleum into component products through cracking and distillation techniques.
Within this segment, chemical manufacturing is expected to account for 13.7% of sector revenue in 2021. Activities relevant to this sector include the transformation of organic and inorganic raw materials through a chemical process and the formulation of products. The majority of products are sold in intermediate states to other operators in this sector for further processing of basic chemicals that make up the remaining industry groups. Over the past five years this segment has decreased as a share of revenue amid fluctuating input prices and demand.

CONTINUED...

Transportation & machinery equipment

Transportation and machinery equipment accounts for 24.8% of sector revenue in 2021.

Transportation equipment industries manufacture equipment capable of transporting individuals and goods. Operators within this segment are responsible for the assemblage and manufacturing of all modes of transportation including road, rail and water. Motor vehicle-related manufacturing subsectors were particular stricken by declining revenue in 2020 as major automakers temporarily closed production facilities due to the COVID-19 (coronavirus) pandemic. Nonetheless, rising per capita disposable income has boosted demand for motor vehicle-related subsectors in 2021.

Machinery manufacturing industries are expected to account for 7.0% of the sector. Operators within this subsector engage in the manufacturing of machinery through forging, stamping, bending, forming and machining to shape individual pieces of metal for end use. Most end products are sold to wholesalers; however, some goods are sold in their intermediate state to other manufacturers. This segment has declined as a share of revenue over the past five years.

Metals & mineral production

Metals and mineral production is expected to comprise 11.8% of sector revenue in 2021.

The metal manufacturing subsector can be broken down into primary metal manufacturing (NAICS 331), which accounts for 3.9% of the sector, and fabricated metal manufacturing (NAICS 332), which accounts for 5.6% of the sector. Metal manufacturing operators engage in smelting or refining of ferrous and nonferrous metals from ore, pig or scrap metal through electrometallurgical and metallurgical techniques. Fabricated metal operators transform metal into intermediate or end products to be sold as inputs to other goods or to end users.

Nonmetallic mineral product manufacturing is expected to account for 2.3% of the sector. Production activities by this subsector include the transformation of mined or quarried nonmetallic minerals, such as sand, gravel, stone and clay, into products. End products are sold in an intermediate state as inputs into further manufacturing or to end consumers. Overall, this segment's share of revenue has declined over the past five years.

Computer, electronic & electric products

Computer, electronic and electric products manufacturing is expected to account for 8.3% of sector revenue in 2021.

Computer and electronic manufacturing, which accounts for 6.0% of the broader sector, includes activities in the production of computers, computer peripherals and communications equipment. Most end products are sold to wholesalers and retailers; however, in some cases, products may be purchased directly by consumers.

The electrical equipment, appliance and component subsegment, which accounts for 2.4% of the overall sector, includes products that generate, use and distribute electrical power. Products are then sold to wholesalers for resale to consumers. This segment's share of revenue has increased over the past five years.

CONTINUED...

Wood and paper products

Wood and paper products account for 5.5% of sector revenue in 2021.

Wood product manufacturing, which accounts for 2.0% of the broader sector, includes the manufacture of materials made from wood via sawing, planning, laminating, shaping and assembling.
Paper products manufacturing accounts for 3.5% of the broader sector. This subsegment includes all manufacturing establishments that make pulp, paper and converted paper products. These processes tend to occur in a vertical process, as each process funnels into the next. The NAICS designation separates this subsegment into two groups, those that make paper and those that make converted paper products. Overall, this segment's share of revenue has declined over the past five years.

Textiles, apparel & leather products

Textile, apparel and leather products are expected to account for 1.2% of sector revenue in 2021.

Within this segment, textile mills (NAICS 313) and textile product mills (NAICS 314) account for 0.8% and 0.2% of the sector, respectively. These operations manufacture basic fibers into useable items. Finally, leather and allied product manufacturing transforms hides into leather. This segment's share of revenue has increased over the past five years.

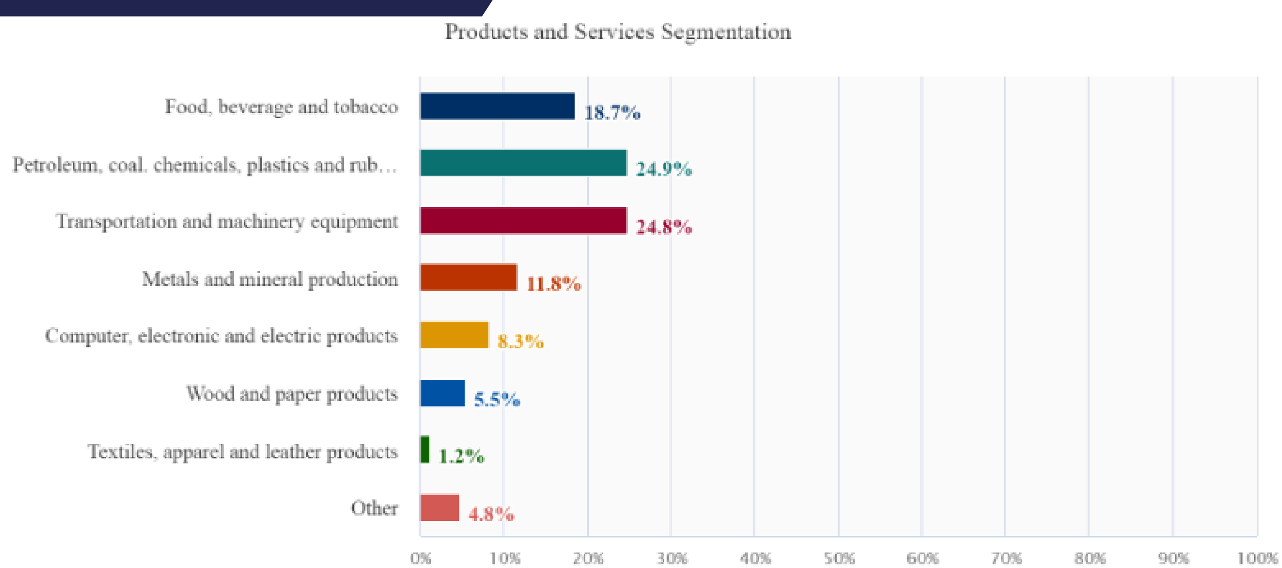
Other...

Other manufacturing is expected to account for 4.8% of sector revenue in 2021.

These subsegments include furniture and related product manufacturing (NAICS 337), printing and related support activities (NAICS 323) and miscellaneous manufacturing (NAICS 339).

2021 Industry Revenue

$6.0 tr



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.

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.

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.

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.

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

THANEY & ASSOCIATES

Certified Public Accountants