WINTER 2022

AUTO FOCUS

Quarterly Industry Newsletter

Tax Season is upon us...

You may begin to see a lot more forms on your desk, questions from your CPA or just need some guidance. We can help.

Upcoming dates

- **February 14**
  - Valentine's Day
- **February 21**
  - Presidents' Day
- **Reminders**
  - Organize filing records (1099s, 1098s, W-2s, etc.)
  - Schedule tax appointment for drop off or meeting
  - Begin tax planning for 2022

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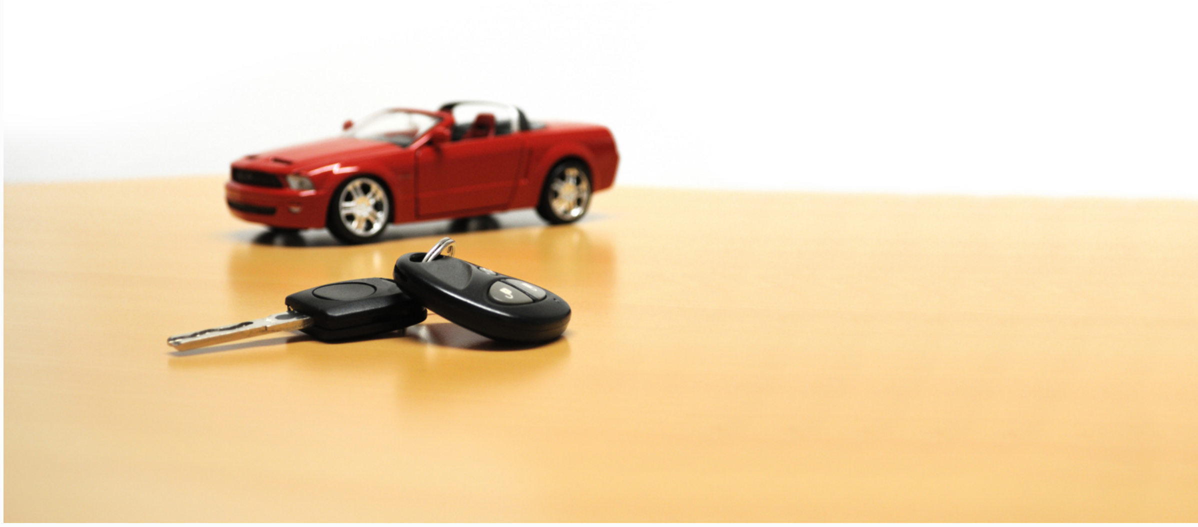
Executive Summary

Just like new: Demand for industry products will likely increase as the economy recovers

Operators in the New Car Dealers industry sell new and used passenger vehicles, provide repair and maintenance services and offer financing and insurance options. The industry is highly cyclical in nature and vulnerable to economic shifts, such as fluctuations in employment, overall consumer spending and financing rates. Over the five years to 2021, industry revenue is expected to increase at an annualized 1.6% to $1.0 trillion over the five years to 2021, including an increase of 10.6% in 2021. This increase in revenue throughout the period comes despite the negative impact that the COVID-19 (coronavirus) pandemic had on the industry. Due to the coronavirus pandemic and the associated economic uncertainty that came with it, revenue for this industry declined 2.5% in 2020.

Many consumers choose to finance new and used vehicle purchases. Thus, the industry is sensitive to fluctuations in interest rates. Interest rates have remained historically low and are expected to remain low for the foreseeable future due partially to the coronavirus pandemic. When interest rates are low, the cost of financing vehicles is lower, and therefore, purchasing a new car may seem more attractive to consumers. Moreover, low interest rates improve profitability for industry operators as floorplan financing, or the expense to finance new vehicle inventory, becomes less costly. Low interest will likely help subside some of the effects the pandemic has had on the industry. New car sales are expected to increase in 2021, which will help lead to growth in industry revenue.

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



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. Consumer confidence is forecast to increase over the next five years, recovering from lows that came as a result of the coronavirus pandemic. Therefore, demand for industry products will likely increase as the economy recovers. IBISWorld anticipates industry revenue will increase, rising at an annualized rate of 1.0% to $1.1 trillion over the five years to 2026.

Easy-to-Overlook Tax Documents

This year is a little more challenging

With tax season now officially underway, here are several tax documents that may be easy to miss in your mailbox or inbox:

Child tax credit letter. From July through December 2021, the IRS paid out 50% of projected child tax credit payments to qualified households. The IRS is sending out a recap of these advance payments in Letter 6419 that you can use to correctly account for these payments on your tax return. This letter should have arrived in your mailbox by late January.

Stimulus payment letter. The IRS issued millions of economic impact payments in 2021. The IRS is mailing a summary of these payments you received in Letter 6475. As with the child tax credit letter, you can use this letter to accurately report your economic impact payments on your tax return. This letter also should have arrived in your mailbox by late January.

Identification PIN. The IRS may have assigned you an Identity Protection PIN (IP PIN) to help protect your identity. An IP PIN is a six-digit number that prevents someone else from filing a tax return using your Social Security number or Individual Taxpayer Identification Number. This IP PIN is known only to you and the IRS. If you are a confirmed victim of tax-related identity theft and the IRS has resolved your tax account issues, the IRS will mail you a CP01A Notice with your new IP PIN each year.

Corrected tax forms. If an error is discovered on a tax form you've already received, a corrected version will be created, then mailed to both you and the IRS. You can also request a corrected tax form if you believe you found an error. Here are some of the forms you might see with corrections:

- Form W-2 from your employer that shows corrected wages, salary and taxes withheld
- Form 1099-INT or Form 1099-DIV from your investment broker that shows a revision in interest and dividend income
- Form 1099-NEC from a client to whom you provide services
- Form 1098 that shows how much mortgage or student loan interest you've paid

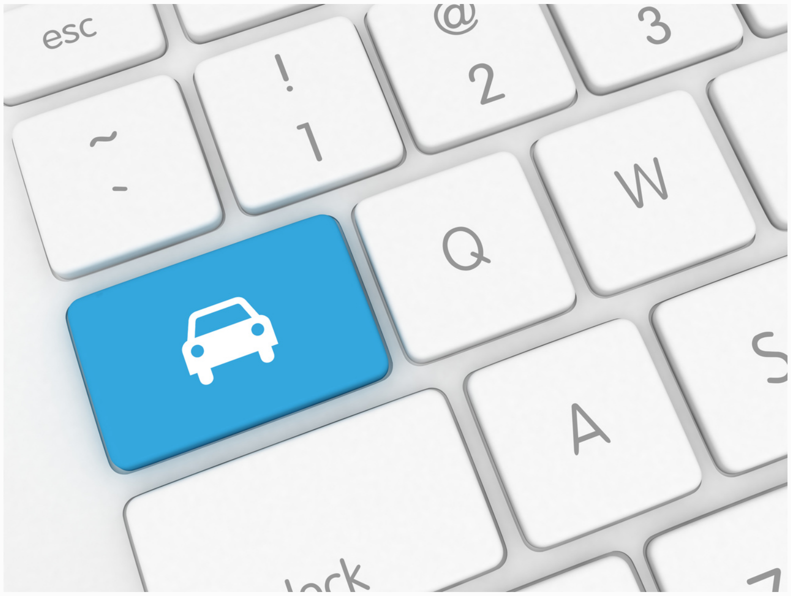
You may not be aware you were issued a corrected tax form until it shows up in your mailbox (or inbox). If you do receive a corrected form, don't throw the old version away! Save both the original version and corrected version in case either are needed for future reference.

PERFORMANCE

All-new model

Similar to other direct sales industries, new car dealers have pursued internet-based sales strategies.

Dealer service companies, such as Edmunds.com Inc., Cars.com LLC and Autotrader.com Inc. help dealerships sell vehicles at a faster rate than traditional methods, albeit with lower profit. Due to rising consumer reliance on the internet to gather information and make new car purchases, new car dealers have collaborated with these outlets to increase traffic to their dealerships. However, such partnerships require dealerships to lower prices to remain competitive with other participating dealers. Although this business model limits profit, it increases volume, which lowers floor plan financing expenses. Floor plan financing requires dealerships to pay interest on their inventory until it sells. Therefore, the faster dealerships sell their inventory, the lower interest they must pay, helping ease pressure on profit.



The development of a business model that is more focused on parts and repair services has also helped dealers bolster profit. Although the parts and services segment comprise a lower share of industry revenue than vehicle sales, it provides a wider profit margin and a more stable source of revenue. Even when demand for new and used vehicles declines, demand for parts and services generally does not, as consumers desire to maintain the vehicles they are using. Responding to this trend, industry player Penske Automotive Group Inc. has added new service bays to many of its larger dealerships.

Vehicle platforms

Over the five years to 2021, the number of new car sales has decreased.

While a recent dip can be attributed to declining consumer confidence and consumer spending due to the coronavirus pandemic, some of this decline is tied to volatility in the price of crude oil. The world price of crude oil is inherently volatile; however, it exhibited substantial declines early in the period and in the years prior, dropping 47.2% and 15.7% in 2015 and 2016, respectively. As a result, sales of sport utility vehicles (SUVs) and light duty trucks started to rise slowly. According to 2019 data from the National Automobile Dealers Association, light duty trucks as a share of total new car dealers' vehicle sales increased to 72.0% in 2019 (latest data available). However, crude oil prices reversed later during the period, spiking in 2017 and 2018. Crude oil prices collapsed in 2020 mainly due to increased supply and low demand due to the unfavorable global economy created by the pandemic. Automakers have been introducing more eco-friendly SUVs and trucks, encouraging consumers to trade in their old gas-guzzling vehicles for fuel-efficient alternatives, thus supporting industry revenue growth. This should position manufacturers well for the upward trend in crude oil prices that are expected throughout 2021 and beyond as demand recovers from the negative impacts of the coronavirus pandemic.

HYBRID & ELECTRIC

Plugged in: Due to continued tax incentives and rising fuel costs, industry revenue is expected to expand

The Hybrid and Electric Vehicle Manufacturing industry primarily produces hybrid electric vehicles (HEV) and electric vehicles (EV), including plug-in electric vehicles (PEV) and plug-in hybrid electric vehicles (PHEV). Over the five years to 2021, industry revenue is expected to significantly expand, as technology continues to advance and long term environmental concerns grow. Furthermore, as the price of batteries falls and industry products become increasingly competitive based on price, demand from downstream markets has continued to fuel growth at the manufacturing level. As a result, industry revenue has risen at an annualized rate of 10.2% to $17.5 billion over the five years to 2021, including an increase of 23.2% in 2021 alone as the economy begins its recovery following the COVID-19 (coronavirus) pandemic.

Due to the coronavirus pandemic, supply chains were significantly disrupted in 2020, which delayed production of industry products. Additionally, the economic downturn decreased the potential pool of downstream customers, as the unemployment rate soared and millions of consumers were left without employment. Furthermore, social distancing guidelines and severely low travel rates, both for leisure and for commuting to work, meant demand for new vehicles was relatively low. Still, consumer tax credits for industry vehicles, as well as rising environmental concerns, continued to expand the industry's share of total car manufacturing. Accordingly, industry revenue has only fallen 4.0% in 2020, representing a decline that is far less severe than other similar industries. Despite an expected strong rebound in revenue in 2021, industry profit, measured as earnings before interest and taxes, is still expected to fall during the period, accounting for 0.8% of industry revenue in 2021.

Due to continued tax incentives, further technology advancements and rising fuel costs, industry revenue is expected to expand over the five years to 2026. As oil prices stay relatively elevated as the economy regains steam following the coronavirus pandemic, alternative forms of power and fuel are expected to boost demand for industry products. With environmental concerns at the forefront, industry revenue is expected to rise, increasing at an annualized rate of 11.1% to $29.6 billion over the five years to 2026.

I Owe Tax on That?

5 Surprising Taxable Items

Wages and self-employment earnings are taxable, but what about the random cash or financial benefits you receive through other means? If something of value changes hands, you can bet the IRS considers a way to tax it. Here are five taxable items that might surprise you:

Scholarships and financial aid. Applying for scholarships and financial aid are top priorities for parents of college-bound children. But be careful — if any part of the award your child receives goes toward anything except tuition, it might be taxable. This could include room, board, books, travel expenses or aid received in exchange for work (e.g., tutoring or research).

Gambling winnings. Hooray! You hit the trifecta for the Kentucky Derby. But guess what? Technically, all gambling winnings are taxable, including casino games, lottery tickets and sports betting. Thankfully, the IRS allows you to deduct your gambling losses (to the extent of winnings) as an itemized deduction, so keep good records.

Unemployment compensation. Congress gave taxpayers a one-year reprieve in 2021 from paying taxes on unemployment income. Unfortunately, this tax break did not get extended for the 2022 tax year. So unless Congress passes a law extending the 2021 tax break, unemployment will once again be taxable starting with your 2022 tax return.

Social Security benefits. If your income is high enough after you retire, you could owe income taxes on up to 85% of Social Security benefits you receive.

Alimony. Prior to 2019, alimony was generally deductible by the person making alimony payments, with the recipient generally required to report alimony payments received as taxable income. Now the situation is flipped: For divorce and separation agreements executed since December 31, 2018, alimony is no longer deductible by the payer and alimony payments received are not reported as income.