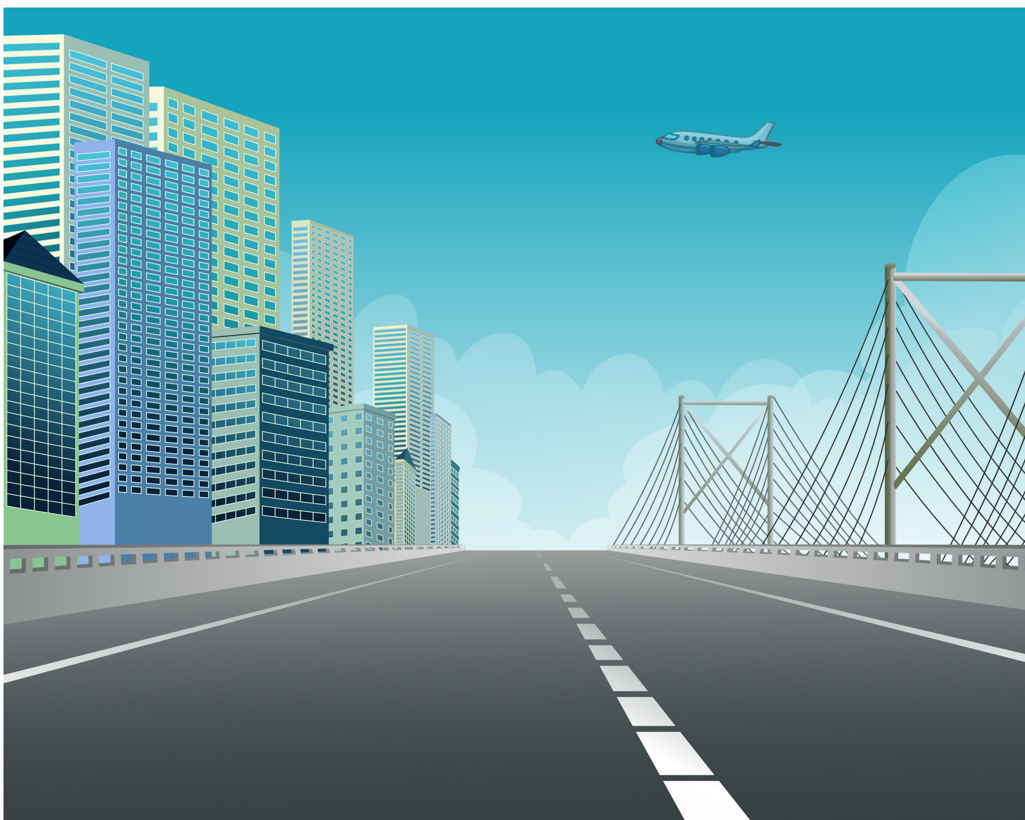
WINTER 2022

CONSTRUCTION

Quarterly Industry Newsletter

TAX SEASON IS UNDERWAY...

In this edition of our newsletter, we are covering HVAC Contractors and Highway & Bridge Construction. We know many of you may not be in this industry and we want to hear from you if there is something specific you would like to read. Respond to this email with your request!



In this month's newsletter, we share the secret to getting a quick tax refund. Also read about easy to overlook tax forms, and some items you may not realize were taxable.

Please enjoy the information, and pass along articles of interest to all your family and friends. And as always, please call if you have questions or need help.

Upcoming dates

- **March 15**
  - Due date for partnership and S corporation tax returns (Forms 1065, 1120S)
- **Reminders**
  - Daylight saving time begins Sunday, March 13

THANEY & ASSOCIATES
Certified Public Accountants

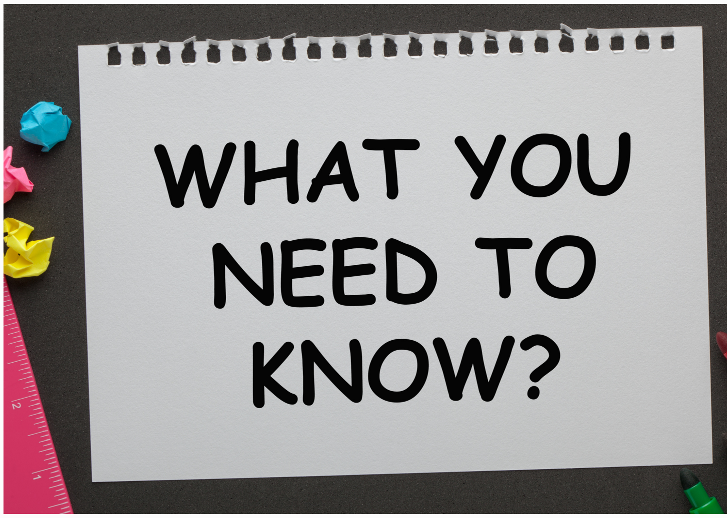
www.ThaneyCPA.com
Email: info@thaneycpa.com
Phone: 888-252-8769

The Secret to a Quick Tax Refund

Here's how to get your overpayment as soon as possible

Delayed tax refunds, penalties for not filing 2020 tax returns on time that were actually filed on time, and timely tax payments being flagged as late are just some of the headaches taxpayers are grappling with due to a massive backlog of several million unprocessed tax returns the IRS is trying to wade out from under.

Here's how to avoid getting your tax refund delayed and steer clear from late-filing and payment penalties resulting from the IRS backlog:



What you need to know

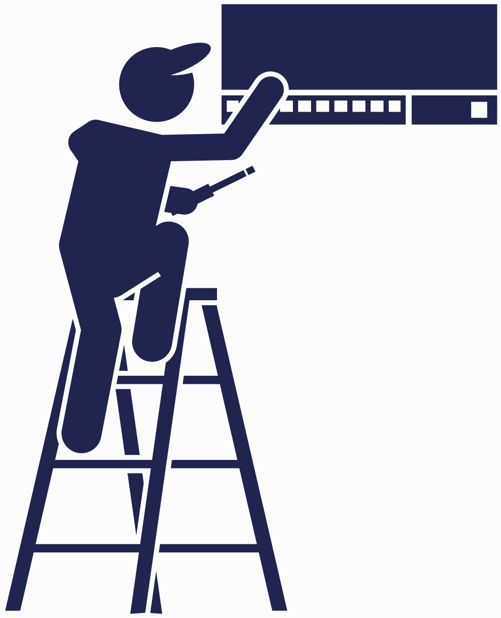
- **E-file your return!** The secret to getting a quick tax refund is to e-file your 2021 tax return! The IRS says approximately 90% of the more than 160 million individual tax returns expected for the 2021 tax year will be e-filed. The majority of these taxpayers will avoid any issues filing their return and getting their refund. If you do e-file, don't forget to sign Form 8879, which authorizes the e-filing of your return.
- Stay calm if you receive a letter from the IRS. You may receive an IRS notice indicating you have an unfiled tax return or that you have an unpaid balance on your account. If the notice was mailed because of the backlog and you indeed filed the tax return in question or paid the amount due listed, the IRS says there is no need to call or respond to the notice as it's continuing to process prior year tax returns as quickly as possible.
- Certified mail is your friend. If you receive an IRS notice for a situation not related to the backlog, you'll want to respond in a timely fashion via certified mail. This will provide proof of your timely correspondence. So even if your response gets lost or caught up in the backlog, you'll have evidence that you responded by the deadline listed on the notice. Remember that delays in responses could generate penalties and additional interest payments.
- Be patient if you need to talk with the IRS. The IRS received a record 282 million phone calls during its 2021 fiscal year, according to National Taxpayer Advocate Erin Collins. Only 32 million of these calls were answered. Collins said the best time to call the IRS are Wednesdays through Fridays, especially early mornings starting at 7 am Eastern time.

Attention Construction Industry!

With so many different types of construction and contractors out there, we want to share with all of you. In this edition, we will focus on HVAC Contractors and Road & Highway construction. If there is a specific industry you would like to see covered in the next newsletter, please feel free to email us and we will add to the list!

Demand for the Heating and Air-Conditioning Contractors industry experienced consistent growth for the majority of the five-year period to 2021, in line with broader economic expansion. Industry operators are primarily engaged in the installation, repair and maintenance of heating, ventilation, air-conditioning (HVAC) and refrigeration systems. As a result, revenue growth is influenced by trends in broader construction activity, where market-specific dynamics also influence demand for industry services. While positive trends in construction benefited the industry for the majority of the five-year period, economic disruption from the COVID-19 (coronavirus) pandemic is expected to disrupt the industry's expansion, while also reducing general profitability. Overall, industry revenue is forecast to rise at an annualized rate of 4.0% over the five years to 2021, totaling $120.2 billion, which includes a significant bump of 8.4% in 2021 alone as residential construction activity surges amid shifting demographic preferences.

Growth in the broader economy during the five-year period produced a favorable housing market, while also accelerating home improvement spending and new construction projects. Similarly, healthy domestic business activity enabled many companies to seek expansion through new facilities and office spaces. As a result, the value of nonresidential construction increased in line with residential construction values. Nonetheless, economic fallout from the coronavirus pandemic is expected to stagnate the majority of domestic construction activity, due to countervailing trends in residential and nonresidential construction activity in 2020.



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

Still, government response to the pandemic is expected to prevent further decline, while also providing incentives for strong recovery. In fact, aspects of the Coronavirus, Aid, Relief, and Economic Security (CARES) Act, have qualified many HVAC projects for increased tax relief, incentivizing many businesses to invest in new systems. Further, increased emphasis from both businesses and consumers on the importance of air-filtration is expected to provide the backdrop for significant growth over the coming five years. Thus, IBISWorld expects total revenue to increase at an annualized rate of 0.3%, totaling $122.2 billion over the five years to 2026, as key downstream markets stabilize and the broader economy emerges from pandemic recession. Still, material effects of the pandemic remain uncertain.

PERFORMANCE

The Heating and Air-Conditioning Contractors industry represents companies primarily engaged in the installation, repair and continued maintenance of heating, ventilation, air-conditioning (HVAC) and refrigeration systems.

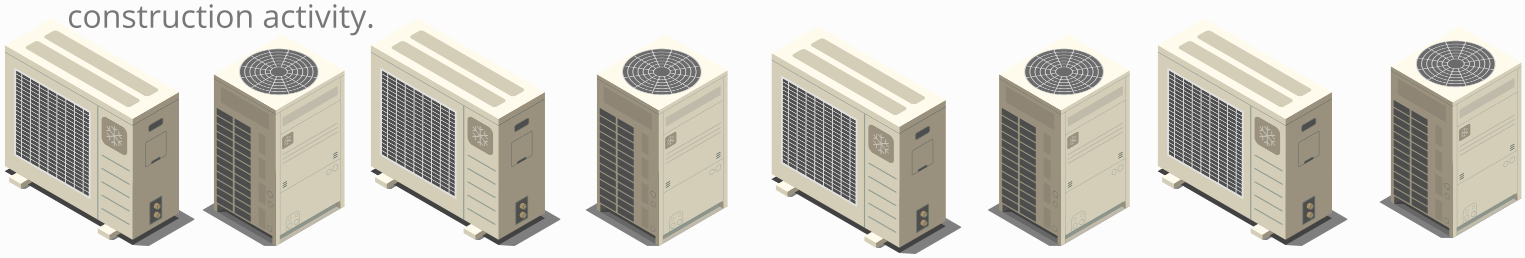
Industry demand is primarily linked to domestic construction activity, since HVAC and refrigeration systems are typically required in virtually all residential, commercial and industrial construction projects. As a result, industry demand experienced consistent growth for the majority of the five-year period to 2021, as economic expansion bolstered construction activity. Further, favorable interest rates resulted in increased new residential housing projects, while growth in per capita disposable income enabled many consumers to upgrade existing systems.

The industry was actually able to benefit somewhat from the COVID-19 (coronavirus) pandemic due to the fact that residential construction and housing starts have soared, greatly boosting industry revenue growth during a time when most other industries declined. Since residential customer are this industry's largest downstream market, trends in residential construction and in private spending on home improvements will greatly benefit the industry. As a result of stay-at-home orders and work from home arrangements, many consumers across the nation have upgraded their homes or even bought new ones, fueling a residential housing and construction bonanza. However, it should be noted that such rapid appreciation in construction values has stretched building material supply chains thin and prices are anticipated rise amid such a surge in demand and low operating capacity. As a result of surging residential construction amid the pandemic the industry is expected to post annualized 4.0% increase to reach $120.2 billion, including an 8.4% increase in 2021 as a result of an acceleration in residential construction activity.

Industry landscape

The majority of industry operators are small companies and nonemployers that specialize in specific regions or localized markets.

Thus, as construction activity expanded for the majority of the five-year period, the total number of industry enterprises is forecast to increase at an annualized rate of 1.8% over the five years to 2021, totaling 117,481 individual operators. Similarly, as industry participation increases, the total industry labor force is expected to expand. Overall, the total number of industry employees is expected to increase at an annualized rate of 2.3% over the five years to 2021, totaling 566,869 workers. Overall, industry profit, measured as earnings before interest and taxes, is expected to decline from 5.3% in 2016 to reach 4.5% in 2021. Profit decline is also expected to be caused by rapid surges in building material costs such as cement and wood, which have risen sharply in line with demand for residential building materials.



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.

ROAD & HIGHWAY

Road work ahead: Decreasing federal funding for transportation will likely slow revenue growth

The Road and Highway Construction industry has experienced a host of issues over the five years to 2021, mainly budgetary constraints and weak investments in transport infrastructure. Local and state governments, which are the largest sources of funding industry-relevant projects, have maintained prudent budgets during the period, while federal programs, such as the Highway Trust Fund, have remained precarious. Industry revenue is expected to increase at an annualized rate of 2.8% to $125.5 billion over the five years to 2021, including an incline of 12.2% in 2021 alone. Due to decrease in value of private nonresidential construction and domestic trips by US residents as a result of the COVID-19 (coronavirus) pandemic revenue growth slowed in 2020. Profit, measured as earnings before interest and taxes, has declined alongside revenue, accounting for 6.2% of revenue in 2016 to 4.2% in 2021.

Overall, industry revenue has increased during the period due to increase in federal funding for transportation. Government funding for highways has increased over the past five years, creating greater demand for industry services. These trends have resulted in revenue fluctuations and a slight decline during the current period. Revenue growth decelerated slightly in 2016; however, it may have been a result of pent-up demand and the fact that funding from the Moving Ahead for Progress in the 21st Century Act expired that year. Additionally, industry revenue fell in 2017 and 2018, since overall government consumption and investment was depressed those years. In 2020, the industry is anticipated to endure declining revenue due to the contraction of taxes collected from gas operators and state and local budget constraints as a result of spending on mitigating the effects of the coronavirus pandemic.

Industry revenue is expected to increase at an annualized rate of 0.5% to $128.9 billion over the five years to 2026. Revenue growth is expected to grow slowly due to decrease in federal funding for transportation, which is expected to decrease at an annualized rate of 8.9% over the five years to 2026; and a decrease in government funding for highways, which is expected to decrease an annualized 0.4% during the same period. Overall, value of private nonresidential is expected to balance out over the next five years, supporting industry growth, with inclines in domestic trips by US residents is expected to positively affect industry revenue.

ROAD & HIGHWAY

Over the five years to 2026, the Road and Highway Construction industry is expected to exhibit slower revenue growth due to an expected decrease in government funding for transportation.

Meanwhile, government funding for highways is also anticipated to decrease, declining an annualized 0.4% over the five years to 2026. Local and state government investment activity is expected to increase an annualized 1.0% over the next five years which will help bolster industry revenue. Additionally, federal funding for transportation is anticipated to decrease and the Fixing America's Surface Transportation (FAST) Act funding which was set to expire in September 2021, received a one-year extension which includes $13.6 billion to ensure Highway Trust Fund solvency and maintains current funding levels for highway and transit programs. Therefore, the repair, replacement and expansion of the United States' deficient infrastructure, coupled with urban sprawl and potential relief packages for the COVID-19 (coronavirus) pandemic, will likely lead to higher demand for road and highway projects. States are expected to keep using public-private partnerships (PPPs) and user fees to fund projects. Considering these trends, industry revenue is anticipated to rise, increasing at an annualized rate of 0.5% to $128.9 billion over the five years to 2026.

Economic growth is expected to drive income growth and support the housing market, permitting local and state governments to collect more taxes and expand public works portfolios.

However, state and municipal authorities will likely remain cautious; over the five years to 2026, local and state government investment is expected to fall. Federal spending will likely remain a key component of industry growth. In December 2015, the Senate passed a bipartisan, multiyear transportation bill that will enable sustained funding for interstate highways and roads. The bill provides spending authorization for the Highway Trust Fund for part of the outlook period. The fund is expected to experience another shortfall in 2020, at which point Congress is expected to either seek a comprehensive solution to the structural problems of the fund or seek a short-term solution. Over the five years to 2026, IBISWorld projects government funding for highways to decrease as investment in other projects are given priority.

If you would like to read the full Ibis-World report on this industry, please email us and we will send to you directly.

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.