

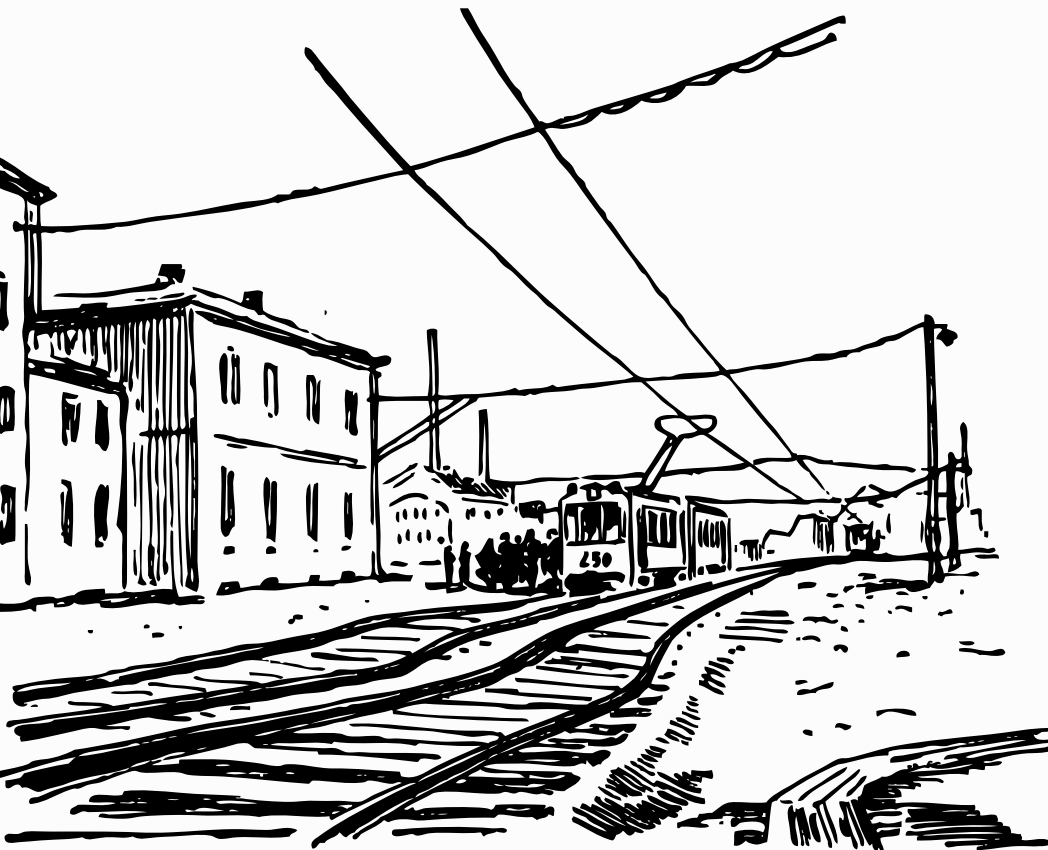
WINTER 2022

# MANUFACTURING

Quarterly Industry Newsletter

## TAX SEASON IS UNDERWAY...

*In this edition of our newsletter, we are covering Medical Device and Structural Metal Product Manufacturing. 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

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# The Secret to a Quick Tax Refund

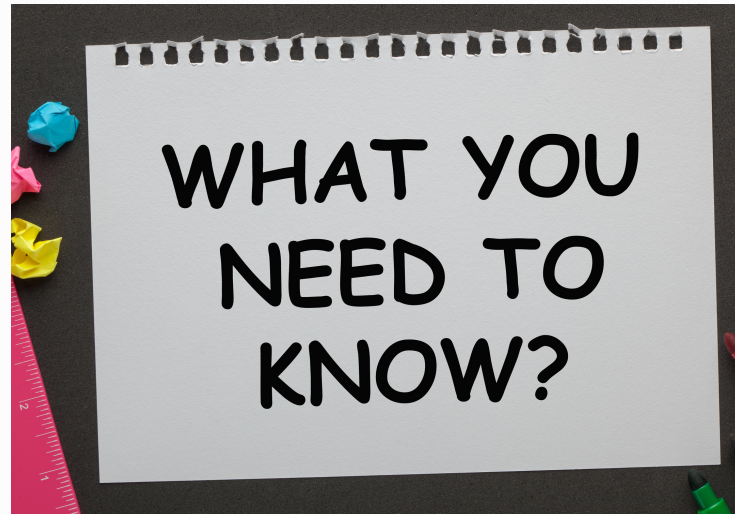
*Here's how to get your overpayment as soon as possible*

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.

# MEDICAL DEVICE MANUFACTURING

## *Industry Definition*

In good health: Technological developments will likely continue to bolster industry growth

This industry includes manufacturers of electromedical and electrotherapeutic apparatuses, such as magnetic resonance imaging equipment, medical ultrasound equipment, pacemakers, hearing aids, electrocardiographs and electromedical endoscopic equipment. The industry also manufactures irradiation apparatuses and tubes for medical diagnostic, medical therapeutic, industrial, research, scientific evaluation and other applications.

Medical Device Manufacturing industry products are essential for healthcare. Therefore, industry operators are generally protected from significant revenue volatility. However, these products are also relatively expensive, which makes the Medical Device Manufacturing industry slightly more vulnerable to fluctuations in economic conditions. Technological advances, increased healthcare spending and an improving economy stimulated demand for medical devices over much of the five years to 2021. The aging US population has further contributed to industry revenue, given the high incidence of health issues requiring medical devices among elderly people. Overall, these factors have contributed to industry revenue rising at an annualized rate of 2.5% to \$45.0 billion over the five years to 2021.

However, in 2020, the COVID-19 (coronavirus) pandemic disrupted the Healthcare sector, causing demand for industry products to fall. While the virus caused high demand for respiratory ventilators, breath monitors and other devices used in the treatment of coronavirus, other devices fell in importance. In response to the pandemic, most states implemented stay-at-home orders, which placed restrictions on nonessential healthcare services. Meanwhile, patients have been cautious about visiting healthcare providers, out of fear of contracting or spreading the virus. With fewer patients, healthcare providers have had less need for new medical devices. As a result, in 2020, industry revenue fell moderately. However, as the pandemic passes and demand for healthcare services begins to recover, demand for medical devices is expected to quickly bounce back, leading to an estimated 4.8% revenue growth in 2021.

Over the five years to 2026, the industry is expected to return to growth, with revenue increasing at an annualized rate of 3.2% to \$52.7 billion. The aging baby boomer population and technological developments will continue to bolster industry growth, while the changing regulatory environment will likely support profitability. Additionally, input prices are expected to rise only slightly, resulting in a marginal increase in average industry profit (measured as earnings before interest and taxes) from 12.3% of revenue in 2021 to 12.4% in 2026. However, profit growth is likely to be slightly limited by increased import competition. Growth in medical device manufacturing in other countries is expected to lead to decreased exports and increased imports.



# KEY EXTERNAL DRIVERS

## Number of physician visits

Hospitals are one of the major purchasers and users of medical devices. The need to purchase or replace equipment directly correlates with the total number of physician visits in a year; therefore, an increase in physician visits bolsters demand for medical devices. The number of physician visits is expected to increase in 2021.

## Federal funding for Medicare and Medicaid

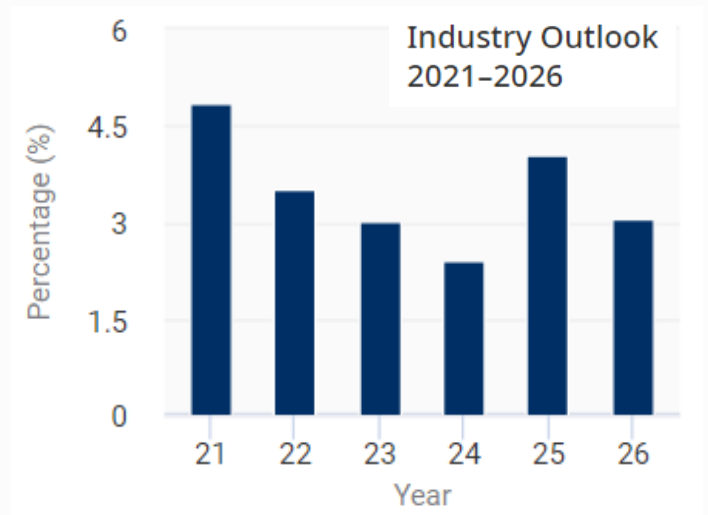
Health coverage is an important factor for patients and doctors choosing treatment options. Medicare coverage is particularly significant, as it directly affects the number of patients who have to pay for industry products and the amount that manufacturers receive in Medicare payments. Federal funding for Medicare and Medicaid is expected to increase in 2021.

## Number of adults aged 65 and older

Recent medical advancements and longer life expectancy have boosted the number of adults aged 65 and older. Incidences of disease and disorder rise with age, increasing demand for medical treatment. Therefore, growth in the number of adults aged 65 and older leads to greater industry demand. The number of adults aged 65 and older is expected to increase in 2021, presenting a potential opportunity for the industry.

**As a highly competitive, high-profit industry that produces largely nondiscretionary products, the Medical Device Manufacturing industry has performed well over much of the five years to 2021.**

Revenue fell early during the period, as low profit constrained hospitals' ability to raise capital for large purchases. However, an improving economy encouraged more consumers to seek medical care; industry revenue is consequently expected to increase at an annualized rate of 2.5% to \$45.0 billion over the five years to 2021. As more individuals increase spending on healthcare and are diagnosed with conditions requiring medical devices, demand for industry products has increased.



## Trade-weighted index

The trade-weighted index (TWI) measures the relative strength of the US dollar. A higher TWI discourages Americans from purchasing domestically manufactured devices and makes it more expensive for foreign customers to purchase US products. The TWI is expected to decrease in 2021. However, the pandemic has continued to make trade difficult, posing a threat to the industry.

## Total health expenditure

Total health expenditure includes private and public spending on activities that promote health and prevent diseases. Increased healthcare funding programs (such as the Patient Protection and Affordable Care Act) result in more available funding for the replacement of medical equipment and supplies, increasing industry demand. Total health expenditure is expected to increase in 2021.

# 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.





# STRUCTURAL METALS

## Executive Summary

Good bones: The industry is anticipated to benefit from reduced import penetration

Revenue for the Structural Metal Product Manufacturing industry has exhibited mixed results over the five years to 2021. Strong economic growth has caused the industry's capacity to expand during the five-year period. However, the effects of the COVID-19 (coronavirus) pandemic in 2020 is estimated to have muted the industry's economic growth somewhat on an annualized basis. Nonetheless, growing demand from the industry's downstream markets, including construction, aerospace and infrastructure industries, has supported demand for structural metal products over the past five years. Concurrently, the industry has contended with volatile input costs, an appreciating US dollar and the effects of the US-China trade war. Overall, IBISWorld expects industry revenue to rise at an annualized rate of 2.7% to \$53.8 billion over the five years to 2021.

The industry's performance is heavily influenced by the price of metals and import penetration. Steel and aluminum represent key inputs in the manufacturing process of structural metal products. Although rising metal prices increase purchase costs for industry operators, they also boost the value of inventory and raise selling prices, as increased prices are passed down to the customer. Consequently, the substantial rise in the price of steel is expected to benefit the industry, causing revenue to increase 3.1% in 2021 alone. However, drastic increases in input costs have ultimately contributed to profit declines within the industry, as industry operators have struggled to secure stable purchasing contracts while also contending with intense low-cost import competition from Chinese producers. Overall, industry profit has declined over the past five years.

IBISWorld expects industry revenue to grow at an annualized rate of 1.1% to \$56.9 billion over the five years to 2026. Following pandemic-related slowdowns in 2020 and 2021, an anticipated resurgence in demand from the construction and manufacturing markets is projected to drive this growth from a low base. Additionally, the industry is anticipated to benefit from reduced import penetration due to tariffs placed on imported structural metal products. Export markets are also expected to emerge as a source of growth for the industry as the value of US dollar is expected to decline over the next five years, which may ultimately make US-made structural metal products more competitive in global markets.

# INDUSTRY PERFORMANCE

Over the five years to 2021, volatile input prices have hampered industry performance.

Operators in this industry manufacture structural metal products, such as reinforcing bars, bar joists, railway bridge sections, dam gates, transmission tower sections and railroad car racks. They also manufacture metal plate work, such as bins, culverts, hoods, ladles, containment vessels and prefabricated metal buildings.

Since most industry products are ferrous, meaning that they consist of iron ore, the prices of raw materials necessary to produce structural metal products are essential to the pricing and quantity demanded of such products. Despite a decline in steel prices at the outset of the period, IBISWorld expects the world price of steel to increase an annualized 13.6% during the five-year period, including a 72.2% increase in 2021 alone. Overall, industry operators have passed down increased input cost to downstream markets by raising prices. Moreover, strong demand over the past five years has supported these gradual price increases.

Nonetheless, rapidly rising input costs have negatively affected industry profit in recent years. IBISWorld anticipates industry profit, measured as earnings before interest and taxes, to account for 4.3% of industry revenue in 2021, down from 5.3% in 2016. This drastic decline in profitability was hastened by economic conditions in 2020.



**Products produced in the Structural Metal Product Manufacturing industry are used in the construction of commercial and residential buildings, highways and utilities systems.**

Over the five years to 2021, industry revenue growth has been underpinned by construction growth early during the period. However, some factors have limited industry expansion in more recent years, such as volatile steel prices, rising import competition and the effects of the COVID-19 (coronavirus) pandemic. Overall, industry revenue is expected to rise at an annualized rate of 2.7% to \$53.8 billion over the five years to 2021. This includes an anticipated increase of 3.1% in 2021 alone as the resumption of economic activity boosts industry demand and the substantial rise in the price of steel raises selling prices.

# 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.

**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.



### **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.