AUTO FOCUS NEWSLETTER

Thaney & Associates, CPAs Monthly Company Newsletter

Summer Client Update Newsletter

The last thing you may want to do during the summer is start thinking about your 2022 tax return! The best way to lower your tax bill for next year, however, is to start looking for tax cutting strategies as soon as possible.

In this month's newsletter, read about some tax planning tips to help you lower your 2022 taxes. Also read about tax implications if you have a side hustle, and money management tips for couples!

Please feel free to forward the information to someone who may be interested in a topic and call with any questions you may have.

THANEY & ASSOCIATES
Certified Public Accountants

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Start your Tax Planning NOW!

Keeping your taxes as low as possible requires paying attention to your financial situation throughout the year. Here are some tips for getting a head start on tax planning for your 2022 return:

Check your paycheck withholdings. Now is a good time to check your tax withholdings to make sure you haven't been paying too much or too little. The IRS has an online tool that will help you calculate how much your current withholdings match what your final tax bill will be. Visit https://apps.irs.gov/app/tax-withholding-estimator.
Action step: To change how much is withheld from your paycheck in taxes, fill out a new Form W-4 and give it to your employer.

Defer earnings. You could potentially cut your tax liability by deferring your 2022 income to a future year via contributions to a retirement account. For 2022, the 401(k) contribution limit is $20,500 ($27,000 if 50 or older); $6,000 for both a traditional and Roth IRA ($7,000 if 50 and older); or $14,000 for a SIMPLE IRA ($17,000 if 50 and older).

Action step: Consider an automatic transfer from either your paycheck or checking account to your retirement account so you won't have to think about manually making a transfer each month

Plan withdrawals from retirement accounts to be tax efficient. Your retirement accounts could span multiple account types, such as traditional retirement accounts, Roth accounts, and taxable accounts like brokerage or savings accounts. Because of this you should plan for your withdrawals to be as tax efficient as possible.

Action step: One way to structure withdrawals is to pull from taxable accounts first, and leave Roth account withdrawals for last. Another approach would be to structure proportional withdrawals from all retirement accounts that would lead to a more predictable tax bill each year..

Net capital gains with capital losses. If you have appreciated investments you're thinking about selling, take a look through the rest of your portfolio to see if you have other assets that you could sell for a loss and use to offset your gains. Using the tax strategy of tax-loss harvesting, you may be able to take advantage of stocks that have underperformed.

Action step: Make an appointment with your investment advisor to look over your portfolio to see if there are any securities you may want to sell by the end of 2022.

AUTO MANUFCATURING IN THE US

Executive Summary

Rolling along: Reversing economic trends are expected to support industry growth

The Car and Automobile Manufacturing industry has had a bumpy road over the five years to 2022. During much of the period, improvements to the economy have helped the auto sector overall. However, declining prices for fuel and crude oil over the past decade have helped bolster demand for trucks and sport utility vehicles at the expense of compact cars and sedans. Furthermore, automakers' response to changing consumer preferences has been to shift production away from industry-relevant vehicles. In 2017, Fiat Chrysler Automobiles NV halted production of cars and sedans in the United States. In 2018, General Motors Company and Ford Motor Company both announced plans to further restructure operations away from industry-relevant vehicles. As a result, industry revenue has suffered during the period, while the COVID-19 (coronavirus) pandemic accelerated industry decline trends in 2020. Industry revenue has declined an annualized 1.6% to $104.2 billion over the five years to 2022; however, this includes an anticipated 5.5% increase in 2022 following pandemic lows.

As consumers become more environmentally conscious, major players have focused their operations on the production of hybrid and compact cars. As a result, this product line has increased rapidly in popularity over the past five years and is set to generate the greatest share of revenue moving forward. As operators continue to tailor-make vehicles to consumer desires, companies within the industry have also attempted to modernize equipment. Wage costs are higher in the United States compared with some foreign countries, making automation an appealing strategy to cut costs. Such efforts have helped to bolster industry profit during the period despite cratering demand in 2020.

Over the five years to 2027, industry revenue is expected to return to growth. While operators are expected to continue producing fewer and fewer cars and sedans, industry revenue performance is expected to be aided by reversing economic trends. Anticipated low interest rates and declining unemployment are forecast to bolster consumer sentiment. As confidence in the economy returns, consumers are expected to be more inclined to make expensive discretionary purchases, such as vehicles. Industry revenue is anticipated to grow an annualized 1.2% to $110.6 billion over the five years to 2027.

Hustling for Extra Income

Don't forget the taxman!

From supplementing their current income to replacing income that was lost because of layoffs, the pandemic or other reasons, many people have started side hustles over the past 2 years to help make ends meet.

If you currently have a side hustle, don't forget about the tax implications from earning extra money. Here are several ideas to help you stay on top of your side hustle's taxes:

- **All income must be reported.** Income from side hustles can come from a variety of sources. Regardless of where the money comes from or how much it is, it is supposed to be reported on your tax return. If you do work for a company, expect to receive a 1099-NEC or 1099-MISC if you are an independent contractor, or a W-2 if you're an employee.
- **Keep good records and save receipts.** Being organized and having good records will do two things: ensure accurate tax reporting and provide backup in the event of an audit. Log each receipt of income and each expense. Save copies of receipts in an organized fashion for easy access. There are multiple programs and apps to help with this, but a simple spreadsheet may be all that you need.
- **Make estimated payments.** If you are running a profitable side business, you will owe additional taxes. In addition to income tax, you might owe self-employment tax as well. Federal quarterly estimated tax payments are required if you will owe more than $1,000 in taxes for 2022. Even if you think you will owe less than that, it's a good idea to set a percentage of your income aside for taxes to avoid a surprise when you file your 2022 return.

- **Don't fall into the hobby trap.** You won't be allowed to deduct any expenses if the IRS determines that your side hustle is a hobby instead of a business. To make sure your side hustle is deemed a business by the IRS, you should show a profit during at least three of the previous five years.
- **Get professional tax help.** There are many other tax factors that can arise from side income such as business entity selection, sales taxes, state taxes, and more. Please call to set up a time to work through your situation and determine the best course of action for your side hustle.

Companies in the Car and Automobile Manufacturing industry produce midsize and large sedans, compact and subcompact passenger cars and luxury vehicles.

Over the five years to 2022, the general performance of the automotive sector has been strong, largely due to upward trends of key macroeconomic indicators. Over most of the five years to 2022, increased employment, disposable income and a favorable stock market have helped foster a generally positive perception of the strength of the US economy. As a result, the Consumer Confidence Index has been strong during most the period. Increased consumer sentiment had been further assisted by historically low interest rates. With rates staying low during much of the period, increased financing options and access to credit encouraged consumers to spend money on big-ticket discretionary items such as automobiles. In turn, more Americans purchased vehicles.

However, most vehicles purchased have been sport utility vehicles (SUVs), light trucks and recently popular crossovers. Declining oil prices during much of the period has helped shift consumer preferences away from compact cars and sedans. As demand for industry-relevant vehicles declined, manufacturers have begun to alter production schedules. Domestic automakers have begun focusing higher percentages of production on trucks, neglecting cars. Over the five years to 2022, every major domestic automaker has reduced vehicle production of sedans and compact cars. In 2017, Fiat Chrysler Automobiles NV (Fiat Chrysler) exited the industry entirely, opting to use all US manufacturing plants for light trucks and SUVs. In 2018, Ford Motor Company (Ford) announced further restructuring of operations away from sedans, while General Motors Company (GM) announced the closure of five plants used to produce industry-relevant vehicles.

Into 2022, unemployment is continuing to decrease and macroeconomic activity is increasing. US consumers have experienced increasing disposable income and have become more likely to make large discretionary purchases, such as industry-relevant sedans and compact cars. As a result, new car sales increased 5.5% in 2022. Furthermore, while manufacturing operations have been largely considered essential, many industry companies opted to temporarily idle plants to combat losses or due to fear of the virus spreading in an industry establishment. While enhanced federal stimulus and a reduction in interest rates have been implemented to combat any negative economic effect, this is unlikely to offset reduced demand for automobiles.

INDUSTRY OUTLOOK

Over the five years to 2027, revenue for the Car and Automobile Manufacturing industry is anticipated to rebound from the lows experienced in 2020 due to the COVID-19 (coronavirus) pandemic.

Revenue growth during the outlook period will most likely be the result of reversing trends of key macroeconomic industry conditions. For example, the national unemployment rate, which increased significantly in 2020, is expected to fall over the next five years. Furthermore, sustained low interest rates will likely bolster industry revenue performance. As interest rates remain low and potential future fiscal stimulus is implemented, consumers will likely be further incentivized to spend money rather than save it as borrowing costs decrease and access to credit is expanded. As confidence in the economy returns, consumers are expected to be more likely to purchase big-ticket goods, such as vehicles, resulting in renewed industry demand. However, while industry revenue is anticipated to grow, this increase will likely be limited, as automakers are still expected to shift production to focus on light trucks. Overall, industry revenue is anticipated to increase an annualized 1.2% to $110.6 billion over the five years to 2027.

FUEL PRICES AND REGULATIONS

Corporate Average Fuel Economy (CAFE) requirements set by the Obama administration in July 2011 were made to encourage automakers to restructure their vehicle product lines to meet the industry standard average fuel economy of 54.5 miles per gallon (mpg) by 2025 for all industry product.

However, the Trump administration has recently frozen CAFE requirements at 2020 levels, setting the standard at 37.0 miles per gallon. The plan sets fuel-efficiency standards to improve in annual increments. Though automakers will likely incur higher production costs in meeting these goals, updated standards also offer opportunities for further growth in sales of the industry's fuel-efficient product lines. In recent years, consumers have favored hybrid and fuel-efficient compact and subcompact models, which will likely continue to drive demand for fuel-efficient vehicles over the next five years. Furthermore, the recent reduction in regulations may help operators reduce costs. However, California is currently in a legal battle with the Trump administration to maintain stricter vehicle mileage requirements within the state. This battle has divided automakers and could have long lasting implications on the emissions policies followed by the industry; refer to the Regulation and Policy section of this report for more information. While fuel prices are anticipated to grow over the coming years, they are not expected to reach heights anywhere near that of the five years to 2022. Automakers are expected to particularly expand production of SUVs and crossovers during the outlook period to increase profit.

Money Management Tips for Couples

Couples consistently report finances as the leading cause of stress in their relationship. Here are a few tips to avoid conflict with your long-term partner or spouse.

Be transparent. Be honest with each other about your financial status. As you enter a committed relationship, each partner should learn about the status of the other person's debts, income and assets. Any surprises down the road may feel like dishonesty and lead to conflict.

Frequently discuss future plans. The closer you are with your partner, the more you'll want to know about the other person's future plans. Kids, planned career changes, travel, hobbies, retirement expectations — all of these will depend upon money and shared resources. So discuss these plans and create the financial roadmap to go with them. Remember that even people in a long-term marriage may be caught unaware if they fail to keep up communication and find out their spouse's priorities have changed over time.

Know your comfort levels. As you discuss your future plans, bring up hypotheticals: How much debt is too much? What level of spending versus savings is acceptable? How much would you spend on a car, home or vacation? You may be surprised to learn that your assumptions about these things fall outside your partner's comfort zone.

Divide responsibilities, combine forces. Try to divide financial tasks such as paying certain bills, updating a budget, contributing to savings and making appointments with tax and financial advisors. Then periodically trade responsibilities over time. Even if one person tends to be better at numbers, it's best to have both members participating. By having a hand in budgeting, planning and spending decisions, you will be constantly reminded how what you are doing financially contributes to the strength of your relationship.

Learn to love compromising. No two people have the same priorities or personalities, so differences of opinion are going to happen. One person is going to want to spend, while the other wants to save. Vacation may be on your spouse's mind, while you want to put money aside for a new car. By acknowledging that these differences of opinion will happen, you'll be less frustrated when they do. Treat any problems as opportunities to negotiate and compromise.

As always, should you have any questions or concerns regarding your tax situation or would like to start your tax planning; please feel free to call at 888-252-8769.

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