

# CONSTRUCTION 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 —

### IN THIS ISSUE

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**START YOUR TAX  
PLANNING NOW!**

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**HUSTLING FOR EXTRA  
INCOME! (DON'T FORGET  
THE TAXMAN)**

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**5 GREAT THINGS  
ABOUT IRA**

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**MONEY MANAGEMENT  
TIPS FOR COUPLES**

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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.

# COMMERCIAL BUILDING CONSTRUCTION IN US

## Executive Summary

**Building up: the rising value of private nonresidential construction will boost industry revenue growth**

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Revenue for the Commercial Building Construction industry has fell over the five years to 2022, as the COVID-19 (coronavirus) pandemic put the brakes on growth, with industry revenue falling an estimated 3.7% and 9.4% in 2020 and 2021 respectively. The industry is expected to return to mild growth in 2022 as the value of private nonresidential construction begins to increase after falling for the previous two years, with industry revenue expected to rise 0.1% in 2022 alone. At the beginning of the period, the Construction sector (IBISWorld report 23) trended upward, propelling industry revenue growth. Rising per capita disposable income facilitated consumers to spend more, supporting downstream demand for industry services. Additionally, falling unemployment, improving business sentiment and accommodative interest rates had led many businesses to expand, increasing industry workload and revenue. However, due to the downturn in construction markets caused by the coronavirus pandemic, early period revenue growth has been negated. Overall, IBISWorld expects industry revenue to fall an annualized rate of 1.3% to reach \$230.4 billion over the five years to 2022.

Industry revenue growth is anticipated to accelerate over the five years to 2027 as the value of private nonresidential construction continues to increase throughout the period. Additionally, office rental vacancy is expected fall after spiking amid the shift to a work-from-home model in 2020 and 2021, with falling vacancies expected to drive office construction. Overall, industry revenue is anticipated to grow at an annualized rate of 3.0% to \$267.1 billion over the five years to 2027, as construction activity recovers.



The industry was affected by the coronavirus outbreak, particularly regarding input supply chains, increasing purchase costs, as evidenced via a softening industry profitability and a tightening of the global supply chain and international trade. Overall, a decline in consumer demand in 2020 and 2021, a likely result of skyrocketing unemployment, hurt industry demand, reversing positive trends from earlier during the period. The industry is expected to recover after taking some losses in the near-term while nonresidential construction activity recovers.



# 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.
- **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.

- **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.



# PERFORMANCE

## *Key External Drivers*

### **Office rental vacancy**

Office rental vacancy measures the number of unoccupied office building units against the total number of office units in the United States. High vacancy rates, or a high number of unoccupied suites or buildings, signals a surplus of commercial space. Conversely, lower rates indicate demand for new commercial construction. Office rental vacancy is expected to rise in 2022, posing a potential threat to the industry.

### **Value of private nonresidential construction**

Movements in the value of private nonresidential construction primary determines demand for industry services. Generally, investment fluctuates in line with the business cycle, corporate profit and the value of nonresidential construction. Improvements in the value of private nonresidential construction increase industry demand for contractors concentrating on the construction of warehouses, hotels and offices. The value of private nonresidential construction is expected to rise in 2022, presenting the industry with a potential opportunity.



### **Consumer spending**

Consumer spending significantly influences demand for businesses across the economy. As consumers spend more, downstream demand for goods and services rises, encouraging companies to expand and increase production. This factor drives demand for more retail, office, warehouse and other commercial building spaces. Consumer spending is expected to grow in 2022.

### **Corporate profit**

Corporate profit influences a business' ability to expand operations. As corporate profit rises, companies have a better opportunity to open new locations and hire more workers, driving demand for new commercial construction. Corporate profit is expected to grow in 2022.

### **Yield on 10-year Treasury note**

Interest rates influence demand for new commercial construction because lower rates make it easier to finance new construction. Most property purchases, developments and construction activities in the industry are financed by commercial mortgages, which are related to the yield on 10-year Treasury notes. Low interest rates decrease the cost of borrowing money to finance construction and typically benefit the industry. In 2022, the yield on a 10-year Treasury note is expected to rise.

# INDUSTRY OUTLOOK

Over the five years to 2027, revenue for the Commercial Building Construction industry is anticipated to exhibit growth as the effects of the COVID-19 (coronavirus) pandemic subside, continuing the growth which is expected to have begun in 2022.

As businesses recover, it is expected that demand will rise from commercial operations, while a potential shift to a work-from-home model may disrupt office construction, which is expected to decline as a share of revenue over the next five years. As a result of an expected recovery in demand, industry revenue is expected to grow an annualized 3.0% to \$267.1 billion over the five years to 2027. Encouraged by rising demand, the number of industry operators are expected to expand, returning to growth after the coronavirus outbreak disrupted the initial expansion. Consequently, the number of industry enterprises is projected to increase an annualized 1.1% to 69,071 companies over the five years to 2027.

## INCREASED CONSUMER AND BUSINESS SPENDING

The domestic economy is expected to recover from high unemployment rates resulting from the COVID-19 (coronavirus) pandemic; however, unemployment may still remain somewhat elevated during the outlook period.

This comparatively lower level of unemployment will likely have two profound effects on businesses. First, more employees ultimately require additional commercial space, particularly within the service sector, which has the highest demand for employees amid sectors hard hit by the coronavirus. Secondly, increasing employment will likely raise disposable income levels, enabling households to spend more on nondiscretionary goods and services. This, in turn, will likely increase downstream demand for industry services.

Over the five years to 2027, we anticipate strong industry demand will alleviate price-based competition.

However, the rising cost of building materials is expected to increase industry purchase costs while simultaneously hindering profit growth. As a result, industry profit is anticipated to only grow marginally over the next five years. Industry employment is projected to grow as companies expand to meet growing demand. However, the popularity of hiring subcontractors on a per-project basis in lieu of full-time employees is expected to persist during the outlook period. Industry employment is anticipated to grow an annualized 2.2% to 277,367 workers over the five years to 2027.





# IRA

## 5 Great Things About IRA's

IRA's can be a powerful tool to lower taxes all while saving for retirement or other predetermined uses. Here are five fairly unreported things to know about IRA's.

**A nonworking spouse can have an IRA.** If your spouse doesn't work, you may still be able to open and contribute to an IRA for your spouse, assuming that you work and file a joint tax return. This can be a great way to help reduce your taxable income each year.

**You may still contribute to an IRA if you have a 401(k) or similar program at work.** As long as you do not exceed the income limits, it is ok to have both an IRA as well as other forms of retirement savings plans. It's simply important to know your options and plan accordingly.

**Even children can have IRAs.** If your child has earned income, you can open and contribute to an IRA. Just ensure you can document the earnings. While your child can contribute their own earnings, many parents will help keep track of things like babysitting money, then match those earnings in either a traditional or ROTH IRA. Often the ROTH IRA is preferred, because the future earnings could be tax free! Your child's IRA is managed by an adult until the child is old enough for the account to be transferred to their name.

**Non-deductible contributions may be made.** If you exceed IRA income phaseouts, contributions to your IRA may not reduce your taxable income for the year. But you may still want to make after-tax contributions to a non-deductible IRA. Remember, while you are taxed on the contributions to a non-deductible IRA, the earnings can still grow tax-deferred.

**Tax rules surrounding IRAs are vast and complex. But within the rules are numerous situations that if you know they exist, can help you plan for a more tax-efficient future.**

**It's not just for retirement.** With traditional IRAs, if you withdraw funds before the age of 59 1/2 you may be subject to income tax AND an early withdrawal penalty. But there are exceptions to this rule. These include withdrawals for a first time home purchase, major medical bills, college costs, birth/adoption and many others. However, it is important to know the rules BEFORE you withdraw the funds.

# INDUSTRY OUTLOOK

## CONTRACTS AND CONVERGENCE

During the outlook period, a convergence of the general contractor (GC) role and architect-designer role within the construction process is anticipated to subtly change the industry.

Under standard design, bid and build contract models, a property owner or developer signs a contract with a building designer, and once plans are agreed upon, a separate bidding process takes place for the GC. In recent years, other contract models have gained prominence. This includes the design-build model, in which one entity acts as the designer and GC for a project. Our experts expect such alternative contract structures to become more popular over the next five years.

In particular, larger GCs have increasingly added in-house design and architectural services to vertically integrate the construction process and, ultimately, capture a larger share of the market. Design-build contracts offer the prospect of more efficient communication, quicker build times and potential cost savings. However, such contracts also potentially create conflicts of interest because builders and designers typically act as opposing forces, checking one another's recommendations to ensure proper pricing, materials and schedules.

Other shifts in contract models include integrated product delivery, a process made possible by modern computing technology and remote, internet-based communication. These remote communication activities bring all engaged parties, such as owners, designers, GCs and subcontractors, into the planning for each element of a buildout.

Building information modeling software incorporates massive amounts of data to anticipate the effect of changing minute details of a blueprint and materials list, down to the subcontractor level. While these alternative and technologically advanced methods will likely have an indirect influence on the way large GCs compete for lucrative contracts, they are not projected to replace standard design, bid or build contracts.

The Commercial Building Construction industry is in the mature stage of its life cycle, characterized by complete market acceptance, a low level of technological change and slow enterprise growth. Industry value added (IVA), which measures an industry's contribution to the overall economy, is expected to rise at an annualized rate of 0.6% over the 10 years to 2027. Conversely, US GDP is anticipated to grow at an annualized rate of 2.0% during the same period. Though IVA is growing at a slower rate than the overall economy, much of this deceleration is due to the outbreak of COVID-19 (coronavirus) disrupting industry operations for the meantime.

Industry revenue performance is tied closely to the overall health of the US economy. While pronounced business cycles have a negative influence on the industry, its wide acceptance across the economy ensures ample demand in a normal business environment. This connection with overall economic cycles is highly indicative of a mature industry. Additionally, the industry undergoes moderate technological change, with new developments generally limited to new kinds of logistical, organizational and design software that may influence the role a general contractor plays in the building process.



# 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.