AUTO FOCUS NEWSLETTER

Thaney & Associates, CPAs Quarterly Industry Newsletter

Fall Client Update Newsletter

Watching summer transform into beautiful fall colors can be just as mesmerizing as tax planning. Similar to looking closely for gorgeous autumn scenery, with tax planning you're meticulously on the lookout for opportunities to cut your 2022 taxes.

In this month's newsletter, read about several planning strategies to consider as time is winding down to implement tax cutting measures for 2022. Also read about ideas to improve your personal cash flow, and the ingredients of a successful business partnership.

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

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Still Time to Reduce any Tax Surprises!

Consider conducting a final tax planning review now to see if you can still take actions to minimize your taxes this year. Here are some ideas to get you started.

Review your income. Begin by determining how your income this year will compare to last year. Since tax rates are the same, this is a good initial indicator of your potential tax obligation. However, if your income is rising, more of your income could be subject to a higher tax rate. This higher income could also trigger phase-out's that will prevent you from taking advantage of certain deductions or tax credits formerly available to you.

Examine life changes. Review any key events over the past year that may have potential tax implications. Here are some common examples:

- Purchasing or selling a home
- Refinancing or adding a new mortgage
- Getting married or divorced
- Incurring large medical expenses
- Changing jobs
- Welcoming a baby

Identify what tax changes may impact you. Some of the major changes this year include the lowering of the child tax credit and the lowering of dependent care credit for working couples. This year also marks the first year in the last two with no pandemic related payments. If you think this could impact your situation it may make sense to conduct a tax planning review.

Manage your retirement. One of the best ways to reduce your taxable income is to use tax beneficial retirement programs. So now is a good time to review your retirement account funding options. If you are not taking full advantage of the accounts available to you, there is still time to make adjustments.

Look into credits. There are a variety of tax credits available to most taxpayers. Spend some time reviewing the most common ones to ensure your tax plan takes advantage of them. Here are some worth reviewing:

- Child Tax Credit
- Earned Income Tax Credit
- Premium Tax Credit
- Adoption Credit
- Elderly and Disabled Credit
- Educational Credits (Lifetime Learning Credit and American Opportunity Tax Credit)

Avoid surprises. Your goal right now is to try and avoid any unwanted surprises when you file your tax return. It's also better to identify the need for a review now versus at the end of the year when time is running out. And remember, you are not required to be a tax expert. Use the tips here to determine if a review of your situation is warranted.

NEW CAR DEALERS

Executive Summary

Just like new: Limited supply of cars pushes prices higher, benefiting operators despite fewer cars sold

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, consumer confidence and interest rates. Over the five years to 2022, industry revenue is expected to increase at an annualized rate of 2.7% to $1.2 trillion over the five years to 2022, including an increase of 3.7% in 2022. This increase in revenue throughout the period comes despite the negative effect of the COVID-19 (coronavirus) pandemic. The pandemic induced decline in consumer spending contributed to an estimated 5.1% decline in 2020 revenue. Subsequent slowdowns in factory production has lead to ongoing shortages for parts, computer chips and so new cars themselves. As supply fell, the skyrocketing price of new vehicles lead to revenue increasing an estimated 16.4% in 2021. Operators have performed particularly well in high income states with limited public transport, such as California and Texas, after urban residents fled coronavirus and high cost of living in Norther states. Additionally, the low volume of actual sales limited hiring for new salesman and boosted industry profit.

Many consumers choose to finance new and used vehicle purchases. Thus, the industry is sensitive to fluctuations in interest rates. Low interest rates improve profitability for industry operators as floorplan financing, or the expense to finance new vehicle inventory, becomes less costly. In 2022, interest rates have risen from extreme lows to limit recent spikes in inflation. As steep prices weigh on consumers, the limits of the new car market's elasticity are continuously tested. Widespread increases in prices for everyday goods followed by a monetary contraction and lower incomes could be the breaking point for this industry's customers. As a result, revenue growth is expected to slow in 2022.

Over the five years to 2027, industry revenue is projected to decrease slightly. Despite the beginnings of economic recovery post-2020, the industry is not expected to experience the high growth rates of the 2010s. Higher interest rates, while also limiting employment opportunities and disposable income, are expected to negatively affect the industry's crucial financing segment. IBISWorld anticipates industry revenue will decline at an annualized rate of 0.1% to $1.2 trillion over the five years to 2027.

Ideas to Improve Your Personal Cash Flow

One of the most common reasons businesses fail is due to lack of proper cash flow. The same is often true in many households. Here's how this concept of cash flow applies to you along with some ideas to improve it.

Cash flow defined

Cash flow equals cash coming in (wages, interest, Social Security benefits) and cash going out in the bills you pay and money you spend. If more is coming in than going out, you have positive cash flow. If the opposite is true, you have negative cash flow. Unfortunately, calculating and forecasting cash flow can get complicated. Some bills are due weekly, others monthly. A few larger bills may need to be paid quarterly or annually.

Create your cash flow snapshot

Before improving your cash flow, you need to be able to visualize it. While there are software tools to generate a statement of cash flow, you can also take a snapshot of your cash flow by creating a simple monthly spreadsheet:

- Type each month across the top of the spreadsheet with an annual total.
- Note all your revenue (cash inflows), then create a list of expenses (cash outflows) in the left-hand column.
- Enter your income and bills by month. Create a monthly subtotal of all your inflows. Do the same for your cash outflows. Then subtract the expenses from income. Positive numbers? You have positive cash flow. Negative numbers? You have negative cash flow.
- Create a cumulative total for the year under each month to see which months will need additional funds and which months will have excess funds.

Ideas to improve your cash flow

Identify your challenges. See if you have months where more cash is going out than is coming in to your bank account. This often happens when large bills are due. If possible, try to balance these known high-expense months throughout the course of the year. Common causes are:

- Holidays
- Property tax payments
- Car and homeowners insurance
- Income tax payments
- Vacations

Build a reserve. If you know there are challenging months, project how much additional cash you will need and begin to save for this in positive cash months.

Cut back on annuities. See what monthly expense drivers are in your life. Can any of them be reduced? Can you live with fewer cell phone add-ons? How about cutting costs in your cable bill? Is it time for an insurance review?

Shop your current services. Some of your larger bills may create an opportunity for savings. This is especially true with home and car insurance.

Create savings habits to add to cash flow. Consider paying a bill to yourself in your cash outflows. This saved money is a simple technique to create positive cash flow each month to build an emergency reserve.

INDUSTRY OUTLOOK

Over the five years to 2027, revenue for the New Car Dealers industry is projected to stagnate. High car prices coupled with high borrowing costs, following interest rate hikes, could place considerable burdens on potential car buyers, thus limiting demand. Additionally, the direction of oil and gas prices remains unclear. A lack of interest in increasing United States oil production and continued tension between Russia and the West show no signs of changing in the outlook period, contributing to gas shortages. Therefore, consumers will likely think twice about purchasing new vehicles when a key part of owning a car, buying gas, weighs on budgets. These factors contribute to likely downward volatility in a changing industry.

Major vehicle manufacturers are expected to continue introducing fuel-efficient models, including electric and hybrid vehicles, which are popular with many consumers.

However, it is the used vehicles segment that is expected to buoy revenue the most. As used vehicle prices have increased, operators have been able to mark up selling prices and reap higher returns on their sales. The increase in prices, however, has also had an adverse effect for the product segment. Higher prices for used cars have caused a narrower price margin that has caused consumers to opt for new vehicles instead, which are less profitable for industry operators.

Interest rates are expected to remain higher in the outlook period. The prime rate, a leading indicator of borrowing costs, is expected to increase early in the outlook period. This reflects monetary policy efforts to curb a continued rise in inflation.

As a result of tight policy, industry wages are expected to slow, increasing at an annualized rate of 0.6% to $82.9 billion over the five years to 2027. Financing is essential to new car dealerships, especially given high car prices. With industry consumers already under pressure from high prices, difficulty borrowing will likely price out even more potential car buyers. As higher rate are not expected to benefit car manufacturers, the potential disconnect between supply and demand could expand significantly in the outlook period. This trend is a leading contributor to expected declines in industry performance over the five years to 2027.

Government regulation is also expected to influence the industry over the next five years. In 2012, the Environmental Protection Agency and the National Highway Traffic Safety Administration issued a regulation that would increase average fleet-wide fuel economy standards to 54.5 miles per gallon by 2025. Given skyrocketing oil prices, the direction of environmental policy is slightly muddled. Regulators may encourage increased oil production to correct supply shortages. Conversely, governments could encourage consumers to substitute away toward increasingly popular fuel-efficient and eco-friendly vehicles, thus supporting demand for industry services.

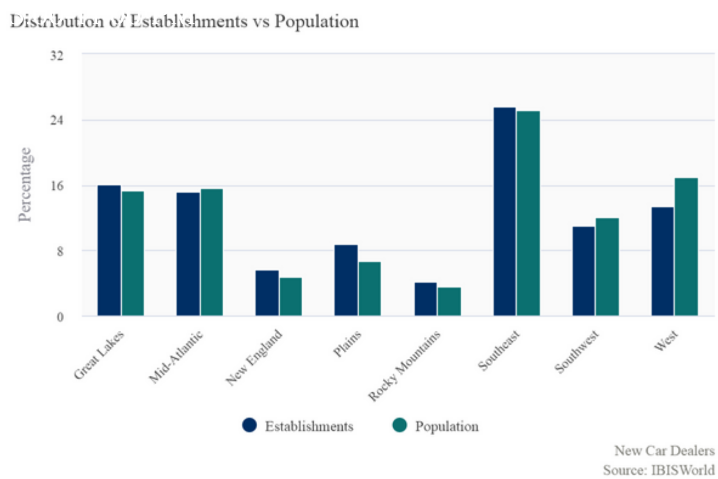
INDUSTRY OUTLOOK

Volatile gasoline prices and automaker mergers are expected to lead to a surge of vehicle introductions over the next five years.

The current period has experienced several high-profile mergers and acquisitions, including Fiat Chrysler Automobiles NV (FCA) and Peugeot SA (Peugeot) merging in 2019. Fiat's high-efficiency powertrains, developed for the expensive fuel prices of the European market, replaced many of the less advanced components in Chrysler, Dodge and Jeep vehicles. Now, through FCA's luxury brand Maserati, the company has announced plans to introduce four all-electric vehicles by 2022, attempting to directly compete with Tesla Inc (Tesla).

However, as during the current period, it is unlikely that such companies will keep all the facilities of acquired operators open and will likely seek to close underperforming locations. Overall, however, the industry is expected to rebound along with the economy. Thus, the number of industry enterprises is expected to grow at an annualized rate of 0.8% to 19,424 companies over the five years to 2027. Industry players that participate in merger and acquisition activity will likely be better situated to take advantage of low-margin, high-volume sales practices that enable them to spread fixed costs over a large revenue base.

New models with advanced technology, such as adaptive cruise control, traffic jam assistance that automatically slows or applies the brakes for a vehicle and fully automated driving functions, will also likely boost demand. For example, Tesla has announced that all new vehicles come standard with the hardware that will be required for fully autonomous driving in the future. Tesla has stated that it expects to release fully autonomous vehicles during the outlook period. While the company already unveiled the option of self-driving capability in its vehicles during the current period, this was deemed to be a partial self-driving feature. However, over the five years to 2027, Tesla and its competitors are expected to unveil a series of fully automated vehicles.



Example Data - Additional States Available Upon Request

State Data for New Car Dealers in the US (2022)

State	Establishments	Establishments Growth Rate (2017-2022)	Revenue	Revenue Growth Rate (2017-2022)	Employment	Employment Growth Rate (2017-2022)	Wages	Wages Growth Rate (2017-2022)
Alabama	385	1.81%	$14.8bn	5.00%	16,712	1.09%	$1.0bn	4.39%
Alaska	39	3.40%	$2.2bn	7.00%	2,417	2.86%	$150.5m	6.36%
Arizona	348	1.13%	$30.2bn	7.39%	26,739	1.52%	$2.1bn	6.77%
Arkansas	291	2.28%	$9.0bn	3.68%	10,869	0.71%	$614.9m	3.08%
California	2,109	1.68%	$141.2bn	5.23%	131,031	1.00%	$9.6bn	4.62%
Colorado	375	2.59%	$21.5bn	4.91%	21,141	1.11%	$1.5bn	4.30%
Connecticut	335	1.11%	$14.3bn	4.58%	14,318	-0.13%	$974.4m	3.97%
Delaware	88	3.25%	$3.9bn	3.68%	4,448	0.02%	$268.9m	3.07%
Florida	1,374	2.22%	$91.4bn	6.24%	91,538	1.78%	$6.2bn	5.63%
Georgia	682	1.96%	$38.1bn	6.01%	38,190	0.91%	$2.6bn	5.40%

Ingredients of a Successful Business Partnership

Like a bundle of sticks, good business partners support each other and are less likely to crack under strain together than on their own. In fact, companies with multiple owners have a stronger chance of surviving their first five years than sole proprietorships, according to U.S. Small Business Administration data.

Yet sole proprietorships are more common than partnerships, making up more than 70 percent of all businesses. That's because while good partnerships are strong, they can be a challenge to successfully get off the ground. Here are some of the ingredients that good business partnerships require:

- **A shared vision.** Business partnerships need a shared vision. If there are differences in vision, make an honest effort to find common ground. If you want to start a restaurant, and your partner envisions a fine dining experience with French cuisine while you want an American bistro, you're going to be disagreeing over everything from pricing and marketing to hiring and décor.

- **Compatible strengths.** Different people bring different skills and personalities to a business. There is no stronger glue to hold a business partnership together than when partners need and rely on each other's abilities. Suppose one person is great at accounting and inventory management, and another is a natural at sales and marketing. Each is free to focus on what they are good at and can appreciate that their partner will pick up the slack in the areas where they are weak.

- **Defined roles and limitations.** Before going into business, outline who will have what responsibilities. Agree on which things need consensus and which do not. Having this understanding up front will help resolve future disagreements. Outlining the limits of each person's role not only avoids conflict, it also identifies where you need to hire outside expertise to fulfill a skill gap in your partnership.

Ingredients of a Successful Business Partnership

A conflict resolution strategy. Conflict is bound to arise even if the fundamentals of your partnership are strong. Set up a routine for resolving conflicts. Start with a schedule for frequent communication between partners. Allow each person to discuss issues without judgment. If compromise is still difficult after a discussion, it helps to have someone who can be a neutral arbiter, such as a trusted employee or consultant.

A goal-setting system. Create a system to set individual goals as well as business goals. Regularly meet together and set your goals, the steps needed to achieve them, who needs to take the next action step, and the expected date of completion.

An exit strategy. It's often easier to get into business with a partner than to exit when it isn't working out. Create a buy-sell agreement at the start of your business relationship that outlines how you'll exit the business and create a fair valuation system to pay the exiting owner. Neither the selling partner nor the buying partner want to feel taken advantage of during an ownership transition.

As always, should you have any questions or concerns regarding your tax situation please feel free to call 888.252.8769

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