MANUFACTURING 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.

MANUFACTURING IN THE US

The Manufacturing sector comprises companies that transform raw inputs via mechanical, physical or chemical processes into new products, as well as the assembly of component parts into new, complex goods. Sector revenue performance is largely attributable to the value of the US dollar, commodity prices, policy decisions and US manufacturing capacity. Revenue for the Manufacturing sector is anticipated to increase at an annualized rate of 6.6% to $8.8 trillion over the five years to 2022, including an increase of 14.2% in 2022 alone due to recovering domestic and global demand for industry products from COVID-19 (coronavirus) pandemic-induced lows. Industry revenue growth has been decelerated by the estimated 10.0% decline in revenue in 2020 as the coronavirus pandemic and subsequent government closure of nonessential businesses and tepid global demand hampered industry performance. The rise in coronavirus-related costs as well as commodity price volatility is also expected to weaken industry profit during the period.

Executive Summary

Assembly required: High inflation and volatile commodity prices are anticipated to stifle revenue expansion for manufacturers

Volatility in commodity prices, trade tensions and coronavirus-induced tepid global demand have led the value of industry exports to decline during the current period. Commodity-driven economies are key buyers of US products and volatile commodity prices have hampered demand for sector products. During the current period for instance, the world price of crude oil is expected to increase 54.7% in 2022 and has declined as much as 32.7% in 2020. However, in 2022 commodity prices have largely recovered from coronavirus-induced lows, boosting revenue for sector operators.

Over the five years to 2027, revenue for the Manufacturing sector is forecast to continue to decrease. Sector revenue is expected to decrease at an annualized rate of 1.7% to $8.1 trillion over the next five years. High inflation and volatile commodity prices, both in the United States and global economies, pose a significant risk to sector operators and is anticipated to stifle revenue expansion for manufacturers. Manufacturers are also at risk of changes in trade conditions, in relation to tariffs and trade agreements. However, shifting technological change in the Manufacturing sector and rising consumer spending is anticipated to benefit large, developed economies, such as the United States.

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.

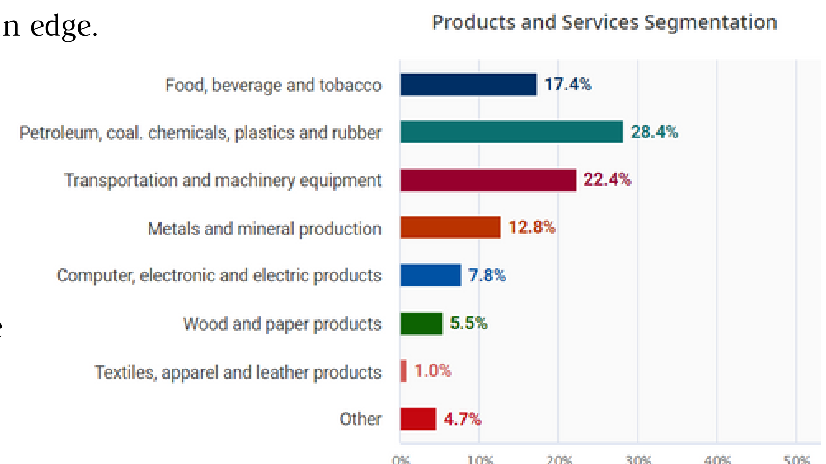
✓ **Create savings habits to add to cash flow.** Consider paying a bill to yourself in your cash outflows. This saved money is a simple technique to create positive cash flow each month to build an emergency reserve.

INDUSTRY OUTLOOK

The continued advancement of technology in both manufactured products and manufacturing processes is anticipated to drive change in the structure of the sector.

As products become more integrated with connectivity and software, manufacturing processes will likely adapt. For operators to efficiently continue moving toward a service model, they are likely to continue to adapt processes to mirror software publishing industries. Greater software focus in products will likely necessitate shifts in company structure, employment dynamics and value chains. As more of the product is predicated on data collection and software upgrades, then the constitutive physical parts can become simpler. Simpler physical parts result in the greater commoditization of manufactured goods, which favors production in countries with inexpensive labor. As a result, although sector employment and wages are expected to grow, the average wage may experience modest decline.

Sector employment is expected to increase an annualized 0.2% to $16.3 million workers over the next five years. As the economy expands and technological change entices manufacturers to enter new markets or expand into new facilities, the number of establishments will likely increase an annualized 1.2% to 835,199 locations during the same period. Despite the anticipated increase in revenue over the next five years, profit is anticipated to stagnate amid rising wage costs and increased investment in research and development costs to maintain an edge.



Industry Life Cycle:

The Manufacturing sector is in the mature stage of its life cycle. Sector value added (SVA), which measures a sector's contribution to the overall economy, has increased over the 10 years to 2027, increasing at an annualized rate of 2.6%.

Comparatively, US GDP is expected to rise an annualized 1.8% during the same period. There are numerous high value-added industries within the sector. For example, many complementary industries to the healthcare sector, such as the Brand Name Pharmaceutical Manufacturing industry (IBISWorld report 32541a), have industry value added (IVA) growth exceeding GDP. However, SVA growth measures more than innovation, capturing growth from increased hiring, increased capital spending and stronger profit. In general, although major technological innovation occurs, the market usually wholeheartedly accepts products within the sector, solidifying its maturity.

As a major component of the broader economy, the Manufacturing sector represents a significant employer for households across the United States. Primarily, growth has occurred through subsectors requiring highly skilled labor for research and development and management purposes, such as the Chemical Manufacturing subsector (NAICS 325) and the Transportation Equipment Manufacturing subsector (NAICS 336). However, a notable trend toward both consolidation and offshoring exists for many industries. As a result, the number of sector establishments is expected to increase at an annualized rate of 2.7% during the 10-year period.

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