TAX UPDATE NEWSLETTER

Thaney & Associates, CPAs Quarterly Industry Newsletter

Spring Client Update Newsletter

Now that tax documents have started arriving in your inbox and mailbox, it's easy to set them off to the side to worry about later. There may be some benefit, however, to filing your tax return as soon as you can. In this month's newsletter, read about several reasons why you should consider filing your return early.

Also, Summarized in this issue are some more important provisions to consider when it comes to your retirement account.

And with inflation still upon us, included are some great ideas to help manage your money and tips to help reduce your monthly bills. All this and suggestions on identifying and managing scams that are all too frequently targeting older Americans round out this month's newsletter.

As always, feel free to pass this information on to anyone that may find it useful and call if you have any questions or concerns.

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Why You Should File Your Tax Return Early

Tax filing season officially began on Monday, January 23rd. Not many people file that early, but for some taxpayers it makes sense to do so. Here are common reasons to consider trying to be at the head of the line:

You want to avoid identity theft. One of the more popular scams by identity thieves is to impersonate someone, file a tax return on their behalf and swipe their refund check. But once you've filed your tax return, the window of opportunity for identity thieves closes. If you've had problems with your identity being stolen in the past, or your information has been compromised, consider filing as early as you can.

You want to avoid a dependent dispute. One of the most common reasons a tax return is rejected by the IRS is when you try to claim a dependent who has already been claimed by someone else. This often occurs when there is shared custody of a child.

Someone needs a completed tax return from you. Completing certain transactions require your most recent tax return as evidence of your income, for example when you buy a house. Consider filing your tax return early so you can provide current tax information. This is especially important if you are self-employed and don't have regular salaried pay stubs to use as proof of income.

You need the refund ASAP. Of course everyone would like their refund as soon as possible. One thing to remember, though, is that while the IRS started accepting returns in January, they won't begin processing them until mid-February. Returns that claim the Earned Income Tax Credit and the Additional Child Tax Credit will see processing of their returns start some time after Feb. 15. But otherwise, the sooner your tax return is in the queue, the sooner you should receive your refund.

You just want to get it out of the way. Nothing reduces the stress of filing your tax return better than just getting it done. Instead of thinking about your return for several months and potentially running into a time crunch as the April filing deadlines gets closer and closer, you may want to just get it over with and file your return as soon as you are able.

New Tax Rules Mean Changes for Retirement Accounts

The SECURE Act 2.0, passed by Congress in late 2022, features numerous ways for you to save more money in your tax advantaged retirement accounts. Here are several of the bill's provisions and what they mean for you.

Money can continue to grow tax deferred. If you turn 72 in 2023 or later, you can keep money in a tax-deferred IRA or 401(k) for another 12 months to help the account continue growing before starting to withdraw funds. This retirement benefit is now available thanks to the required minimum distribution age being raised from age 72 to age 73. The age will increase again from 73 to 75 in 2033.

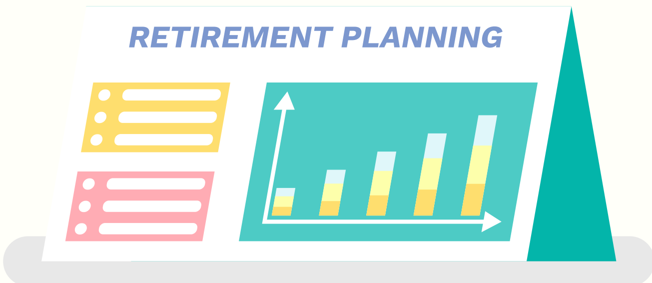
Action: Review your retirement account distribution needs and use this extra time to help make your distributions more tax efficient. For example, if you must earn an additional $10,000 before you hit the next highest tax bracket, consider pulling more taxable income out of your retirement account to take advantage of this lower rate. Or use the extra time to consider converting funds tax-efficiently into a Roth IRA.

Be aware of auto enrollment. The government wants you to save for retirement, so the new law allows businesses to automatically transfer a greater portion of your paycheck into their retirement plan. The maximum contribution that can now be automatically deferred into your employer's 401(k) plan increases from 10% to 15%.

Action: While saving more for retirement is a great idea, this automatic participation does not account for your particular financial needs. So be aware of the possibility that you will automatically be contributing to your retirement account and independently determine what you can afford to put towards retirement. Make any adjustments if necessary, as you are permitted to opt out of auto enrollment. Remember, you also need to build an emergency fund and pay your bills!

Take advantage of higher catch-up limits. Starting in 2024, the $1,000 catch-up contribution for IRAs will receive an annual cost-of-living adjustment in increments of $100, while the $7,500 catch-up contribution for 401(k)s will increase to at least $10,000. This higher 401(k) catch-up limit will also be indexed for inflation starting in 2025. The additional catch-up contribution is available if you're age 50 or older.

Action: Review the annual savings limit for your retirement savings account, including the catch-up amount if you are 50 years or older. Then make adjustments to your retirement savings plan as soon as possible to take advantage of the higher savings limits.



HELP OLDER ADULTS STAND UP AGAINST SCAMS

While anyone can become a scam victim, fraudsters usually turn to one demographic above all others: older adults. Here's a look at some of the more common scams that target older adults, along with some ideas to help stand up against these would-be thieves.

<u>**The Top Scams That Target Older Adults**</u>

Government impersonation scams. Scammers will call and pretend to be from the IRS, Social Security Administration, or Medicare. The scammer may say the victim has unpaid taxes and threaten arrest or deportation if they don't immediately pay up or threaten to cut off Social Security or Medicare benefits if they don't provide personal identification. Once this information is obtained, it can be used to commit identity theft.

Sweepstakes scam. The victim receives a call or message saying they've won a sweepstakes content or lottery prize. As a condition of winning, victims are required to send money up front to cover tax and processing fees.

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Phone scams. Scammers will call the victim and say, "Can you hear me?" When the victim responds "Yes," the scammer records their voice and hangs up. The scammer now has a voice signature to authorize charges on items like stolen credit cards.

Computer tech support scams. These scams target a lack of knowledge about computers and technology. A scammer may proactively reach out to a potential victim by communicating via a pop-up window that says the victim's computer or phone is damaged and needs to be fixed. When the victim calls the support number for help, the scammer may request remote access to their computer or phone, and demand a fee to repair it.

The grandparent scam. Scammers will call a would-be grandparent, tries to build rapport by pretending to be the victim's grandchild, and eventually asks the victim for money to help with an urgent financial problem.

Romance scams. A scammer will build a relationship with the victim via social media or an online dating website before asking for a large sum of money. The Federal Trade Commission reported that losses to romance schemes reached a record $304 million in 2020, up 50% from 2019.

- Call banks and credit card companies
- Reset account passwords
- Call the police to report stolen property
- Report the scam to the U.S. Senate Special Committee on Aging
- Report to the U.S. Justice Department's National Elder Fraud Hotline
- Submit a consumer complaint to the Federal Trade Commission

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 fluctuations in employment, consumer confidence and interest rates. In the past five years, industry revenue rose at a CAGR of 0.4% to $1.1 trillion, including a 2.8% drop in 2022. The COVID-19 pandemic caused slowdowns in factory production, leading to ongoing shortages for parts, computer chips and vehicles. The skyrocketing price of new vehicles led to a 16.4% spike in revenue in 2021, regardless of lower sales volume.

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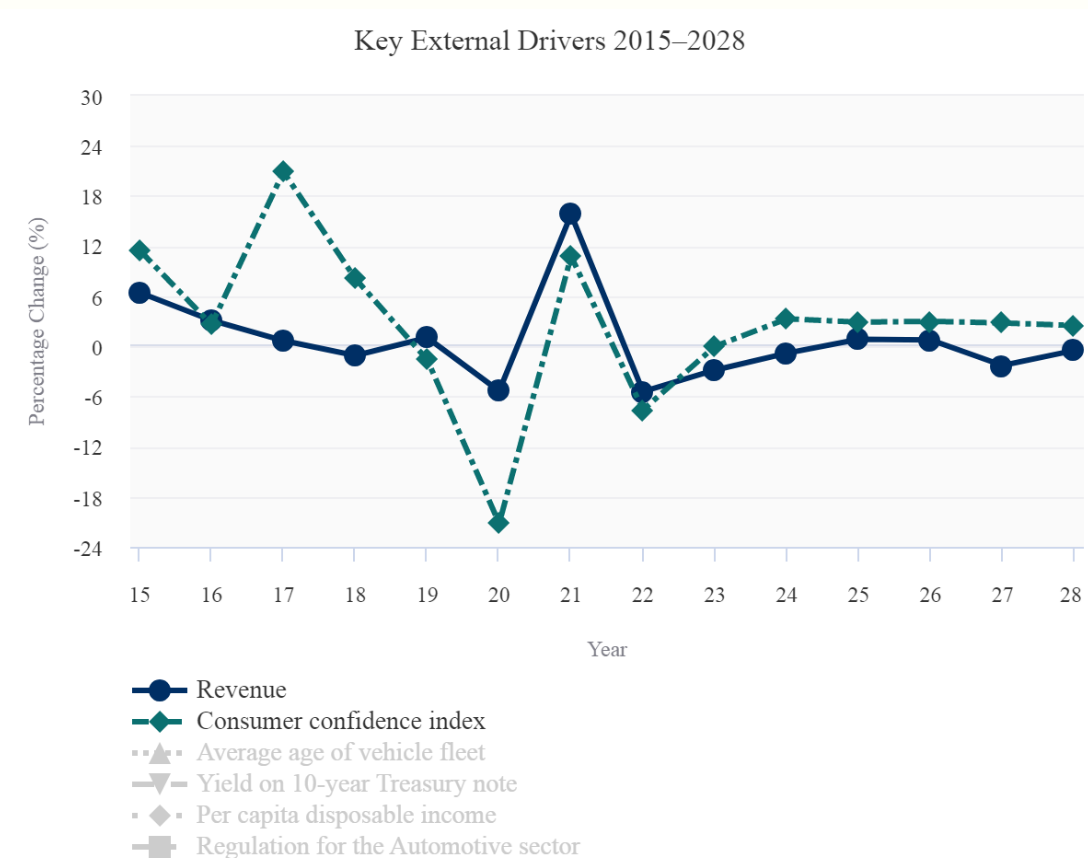
Industry revenue will likely fall at a CAGR of 0.4%, reaching $1.1 trillion in the next five years. Higher interest rates limit employment opportunities and disposable income will negatively affect the industry's crucial financing segment. Consumers have taken out long-term loans on new and used vehicles, putting the industry at higher risk during difficult financial conditions.

Key External Drivers

Consumer confidence index.
When consumers are more confident in their financial outlook, they're more willing to make large purchases like new vehicles. In 2023, the Consumer Confidence Index will decrease slightly, posing a potential threat to the industry.

Average age of vehicle fleet. The average vehicle fleet age is used to forecast future vehicle purchases. An increase in the age of vehicles represents pent-up demand for new vehicles. The average age of a vehicle declines when disposable income rises and demand for affordable, fuel-efficient vehicles increases. However, the quality of vehicles has risen, leading them to last longer. Consumers have held on to older vehicles for a longer period of time. The average age of the vehicle fleet will increase in 2023, representing a potential opportunity for the industry.



Yield on 10-year Treasury note
Since automobiles are typically financed, demand tends to ebb and flow with fluctuations in interest rates. As interest rates increase, financing vehicles becomes more expensive and less desirable. The yield on the 10-year Treasury note, analogous to the interest rate set by the Federal Reserve, will decrease slightly in 2023.

Per capita disposable income
During periods of low disposable income, discretionary spending declines. Similarly, when disposable income levels are high, discretionary spending increases. Rising disposable income boosts consumers' capacity to support debt-funded consumption, such as purchasing a new car. Per capita disposable income will increase slightly in 2023.

Regulation for the Automotive sector
Increased regulation of fuel economy, emissions and safety standards can raise the cost of manufacturing cars and trucks. Dealers pass these costs on to customers, raising product prices and potentially reducing demand. Regulation for the automotive sector is expected to increase in 2023, posing a potential threat to the industry.

INDUSTRY OUTLOOK

New car dealer revenue will decline at a CAGR of 0.4%, reaching $1.1 trillion in the next five years with profit margins remaining at 1.7%.

Interest rates will remain high until inflation comes down, straining new car demand

- Interest rate hikes may not continue in the next five years. It's very likely that rates will remain high for part of the outlook period, at least until inflation shows signs of coming down.
- Financing costs could be higher for car buyers well into 2024. Notably, a decline in rates will probably be associated with a weak economy. Even as financing costs decline, low incomes and high employment will prevent a surge in demand.
- Higher rates may trigger defaults for risk long-term borrowers. Debt payment pauses and cancellations make credit estimations more difficult for industry operators. The phenomenon of decades-long car loan terms creates risk for years to come.

Supply chains continue shifting but look steadier than in previous years

- Widespread supply chain disruptions will be less of an issue in the next five years. This will limit the supply side drive surges in car prices, as seen in 2021 and 2022.
- Semiconductor production will increase in the next five years, lessening the effects of the past five years' shortage. The CHIPS Act of 2022 will likely bring chip manufacturing to the United States, creating possible disruptions for automobile producers in Asia but benefiting those in Mexico.

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Global trade tensions pose risks to new vehicle prices

- Trade tensions will likely create volatility in the price of imported cars. New car dealers sell a number of foreign brands from Asia and Europe.
- The United States has tried to bring semiconductor production home while limiting China's semiconductor capabilities. This affects advanced chips and simpler chips, both used in new vehicles. This will create higher costs for automobile manufacturers, soon to be passed on to new car dealers and consumers.

IF YOU WOULD LIKE A COPY OF THE FULL REPORT FROM IBIS WORLD FOR NEW CAR DEALERS IN THE US, PLEASE REACH OUT TO US DIRECTLY.

GREAT MONEY HABITS

Developing and maintaining great money habits can help you lay the foundation for achieving your financial goals. Here are some ideas.

- **Establish a budget and review it at regular intervals.** Create a workable budget every year then set aside time to review your budget periodically. This will help you think critically about where your money is going and help you eliminate old, destructive money habits.
- Calculate your net worth. Your net worth is an indicator of your financial health and how you manage your money. To calculate your net worth, add all your money and assets, then subtract the total amount you owe to others. The result is your net worth. Often this result is negative due to things like student loans, high credit card balances, or underwater debt (e.g. you owe more on your car than it is worth). So don't worry about the result, just know what your net worth is so you can improve it over time. Like reviewing your budget, a regular check-in on your net worth allows you to think more about your finances and take the necessary action to improve it.

Once you understand the basics of your financial situation, it's time to sit down and proactively plan ahead. Two of the most critical areas you can prepare for are minimizing your taxes and saving for retirement. So plan ahead and feel free to ask for help.

- Use sinking funds to plan. A sinking fund is an account where money is set aside to repay debt or replace a wasting asset (like a car that loses value over time). So create a sinking fund in your budget. Then decide how to use it. Given the rising rate environment, the best use is typically paying down any credit card debt. Then use the fund to attack any other debt, like pre-payment of mortgages. Also consider building a sinking fund to pay for future expenses, like replacing your car, furnace, roof or other large expense so you are ready when it needs replacement.

- Stay curious about personal finance. Your financial picture changes as your life changes, which is why it's important to always learn something new about money that you can apply to your situation. Pick several books, blogs, podcasts, and videos that look interesting, as they may offer a fresh perspective on tips to improve your finances.