CONSTRUCTION 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.

The Top Scams That Target Older Adults

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

CONSTRUCTION

EXECUTIVE SUMMARY

Going up: The sector is set to expand as the economy recovers from the COVID-19 pandemic, supply chain issues and high inflation.

The Construction sector has ultimately declined leading up to 2023, having still been unable to recover from the COVID-19 pandemic. Sector operators construct buildings and engineer projects, which often leads construction revenue to correlate with fluctuations in macroeconomic conditions. Until recently, the Construction sector benefited from relatively low interest rates, providing an accommodative borrowing environment for both residential consumers and nonresidential clients. Rising interest rates and unemployment have put the brakes on what had seemed like a post-pandemic recovery in 2021.

Overall, sector revenue has fallen at a CAGR of 1.3% to reach $2.6 trillion through 2023, including a decrease of 4.2% in 2023 alone. Growth has been hindered since the COVID-19 pandemic, which led revenue to decline 6.4% in 2020 alone. This decline came amid a significant decrease in business activity and consumer confidence, in addition to a steep rise in the unemployment rate, leading to the delay of projects and demand for sector services. Since 2020, nonresidential construction has driven down revenue, as residential construction remained relatively strong through 2021 due to low interest rates. With rising interest rates beginning in 2022, industry revenue returned to a decline. While industry revenue has risen during the period, sector profit has not followed. The average sector profit margin, measured as earnings before interest and taxes, accounts for 3.4% of revenue in 2023.

The Construction sector is set to expand as the economy recovers from the COVID-19 pandemic, supply chain issues and high inflation. Many of the largest industries in this sector are anticipated to experience faster growth following low building volumes over the past five years, with sector growth expected to be primarily driven by improvements in commercial and infrastructure construction, aided by the 2021Infrastructure Investment and Jobs Act. Meanwhile, residential construction is expected to remain hampered by interest rates higher than the previous period's record lows. Overall, sector revenue will rise at a CAGR of 0.7% to $2.7 trillion over the next five years, as demand for construction services strengthens.

Key External Drivers

Corporate profit.

The Construction sector derives a substantial share of revenue from services provided to commercial businesses. Corporate profit influences a business's ability to expand operations; as corporate profit rises, companies become more able and willing to open new locations and hire more workers, driving demand for new commercial construction. Corporate profit is expected to fall in 2023.

Local and state government investment.

The Construction sector derives a substantial portion of revenue from services provided to the public sector. As local and state government investment increases, so does demand for construction services. Ongoing, and often noncyclical, investment in museums, courthouses, police stations and recreation facilities all drive demand. Local and state government investment is expected to increase in 2023, representing a potential opportunity for the sector.

Yield on 10-year Treasury note

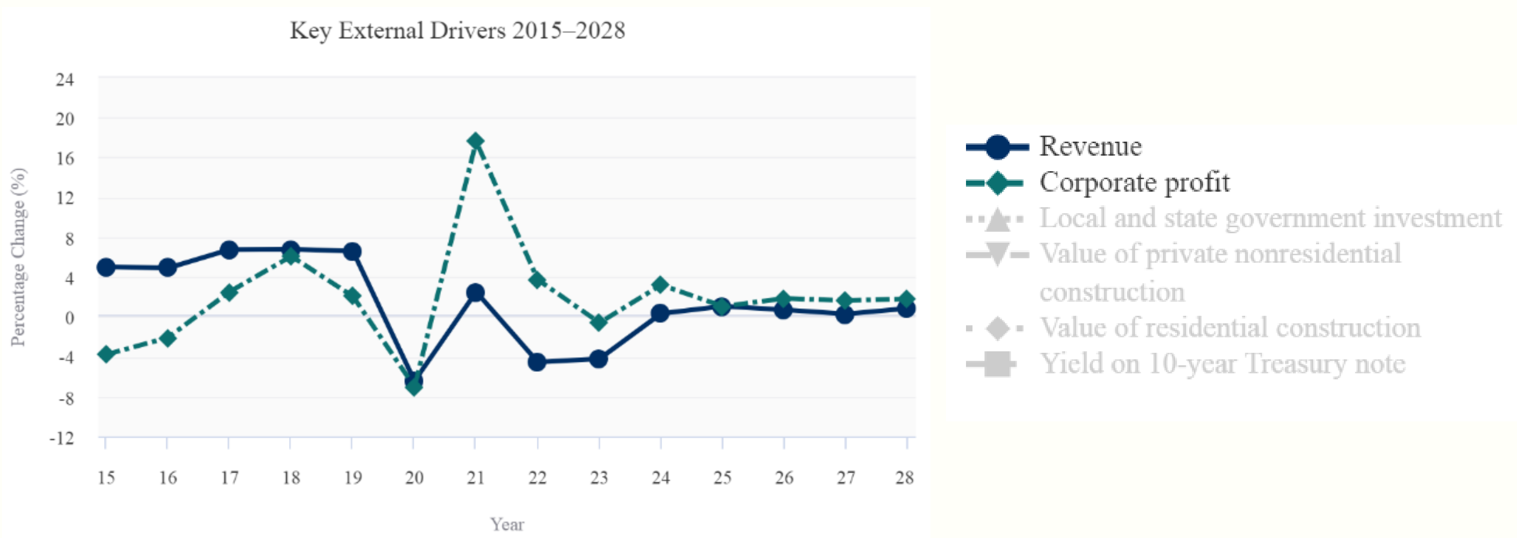
The yield on the 10-year Treasury note serves as a proxy for interest rates paid on loans. Thus, the need for new developments is largely dependent on the cost of financing; as the yield rises, so do the interest payments due on these loans, increasing the total cost of financing. In 2023, the yield on the 10-year Treasury note is expected to increase.

Value of private nonresidential construction

The value of private nonresidential construction includes new construction and renovations associated with all nonresidential buildings, such as commercial, industrial, educational and religious structures. The Construction sector derives more than 70.0% of its revenue from new construction, renovation and repairs on nonresidential buildings. As a result, construction contractors benefit from increased private nonresidential construction activity. The value of private nonresidential construction is expected to decline in 2023, posing a potential threat to the sector

Value of residential construction

The value of residential construction includes new single-family and multifamily building projects. This segment also includes renovations to existing structures by homeowners, developers and landlords. The Construction sector benefits from increased investment in residential properties, as new homes require sector operators to complete construction while owners of existing structures contract sector operators for various renovations and upgrades. The value of residential construction is expected to fall in 2023.



INDUSTRY OUTLOOK

Construction sector revenue will rise at a CAGR of 0.7% to $2.7 trillion over the next five years, with profit margins reaching 3.9% in 2028.

High inflation, high interest rates

- As long as high inflation remains high, interest rates will remain elevated, depressing growth.
- High interest rates will raise the capital needed for construction, while inflation will stifle consumer spending.

Strengthening supply chains expected over coming years

- As supply chain issues continue to be ironed out in the coming years, contractors will face reduced and more consistent costs.
- As supply chain issues ease, contractor profit will rebound.

Renewed federal funding to come

- The 2021 Infrastructure Investment and Jobs Act will provide infrastructure funding over the coming years, supporting the construction sector.
- The Inflation Reduction Act of 2022 will provide funding for construction projects meant to reduce the nation's greenhouse gas emissions.

Heavy and civil engineering construction

- This subsector includes businesses engaged in the construction of entire engineering projects, such as bridges, highways, tunnels, pipelines, sewer lines, utilities and dams. Additionally, this subsector includes specialty trade contractors whose primary activities are the production of specific components for such projects; the contractors that are included in this subsector generally perform activities that are specific to heavy and civil engineering construction that are not normally performed on buildings.
- This sector should see growth from funding from the 2021 Infrastructure Investment and Jobs Act which was passed following a dearth of federal infrastructure funding in prior years.

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Building construction

- This sector includes new work, additions, alterations and maintenance and repairs on all new and existing structures, as well as the on-site assembly of prefabricated buildings and the construction of temporary buildings.
- As the value of construction has fallen due to the COVID-19 pandemic's impact on the broader economy and current high interest rates, this sector has declined.

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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.