MANUFACTURING 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

MANUFACTURING

EXECUTIVE SUMMARY

Assembly required: An increase in the overall economy and a decline in the value of the US dollar are expected to support sector revenue growth

The Manufacturing sector has been experiencing a revenue decline at a CAGR of 0.4% to $7.0 trillion over the past five years, including an estimated 2.0% decline in 2023, while profit is projected to fall to 8.0%. The outbreak of COVID-19 had a negative effect on the sector, but it recovered with the rollout of vaccines and stimulus money in 2021. In 2022, revenue continued to grow, but at a slower rate, driven by a favorable international trade climate and growth in the US GDP. However, manufacturing revenue is forecast to decline in 2023 because of rising interest rates and high uncertainty. The sector remains vital to the US economy, but its importance has been declining as the economy becomes more service-oriented and manufacturers offshore production to countries with lower labor costs.

Wholesalers, retailers and construction companies are some of the key markets for manufacturers. These markets have been affected by the COVID-19 pandemic in different ways. For example, wholesalers' demand for manufactured goods declined following the outbreak of COVID-19, but recovered in 2021 and stayed strong in 2022. Retailers continued to purchase manufactured goods in 2020 despite the pandemic, with demand from retailers remaining strong in the following years. Demand from other manufacturers fluctuated largely in line with the economy, declining in 2020 and rebounding in the second half of the current period.

Over the next five years, the Manufacturing sector is expected to see growth, with revenue increasing at a CAGR of 1.6% to reach $7.6 trillion. This growth is expected to be driven by an increase in the overall economy and a decline in the value of the US dollar, which will make US-manufactured goods more affordable for foreign markets. Profit, measured as earnings before interest and taxes, for the sector, is also forecast to increase to 8.4%. Manufacturers will likely continue to integrate advanced technologies to improve efficiency and supply chain resilience.

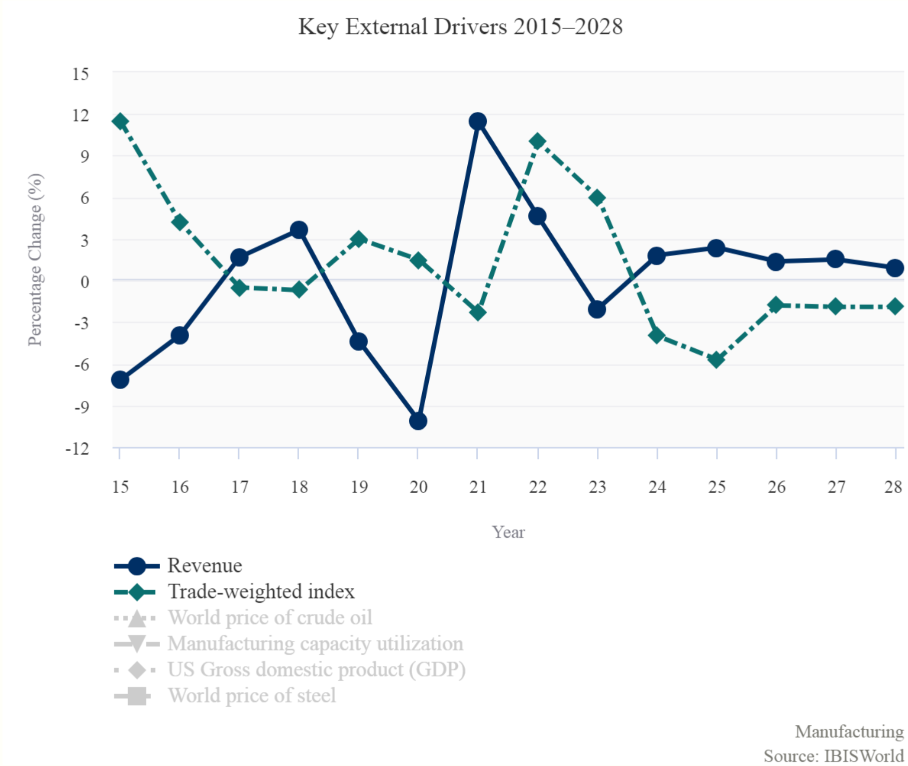
Key External Drivers

Trade-weighted index

The trade-weighted index (TWI) measures the strength of theUS dollar. When the dollar is strong, exports from the US become more expensive for foreign buyers, making domestic manufacturers less competitive globally. The exchange rate also affects the cost of imported raw materials and components, which are used by US manufacturers in their production process. In 2023, the TWI is expected to increase, posing a potential threat to the industry.

World price of crude oil

When the price of crude oil is high, the cost of energy increases, which can raise the cost of production for manufacturers. High oil prices can also increase transportation costs. Additionally, many manufacturers produce goods that are directly or indirectly related to the oil and gas industry. Demand for these goods may change based on trends in the energy markets. The world price of crude oil is expected to decline in 2023.



Manufacturing capacity utilization

Manufacturing capacity utilization is calculated by dividing the actual output of a manufacturing facility by the maximum possible output. When capacity utilization is high, it indicates that manufacturers are producing at or near their full capacity, which can be a sign of strong demand. High capacity utilization can also lead to economies of scale, helping manufacturers lower their production costs. Manufacturing capacity utilization is expected to decline in 2023.

US Gross domestic product (GDP)

When the GDP is growing, it generally indicates that the economy is expanding, which can lead to increased demand for manufactured goods. This increased demand can lead to increased production and hiring in the manufacturing sector, which can in turn lead to further economic growth. US GDP is expected to stagnate in 2023.

World price of steel

When the price of steel increases, it can raise the cost ofproduction for manufacturers that use steel in their products. This can lead to increased prices for consumers, lower profit margins for manufacturers and a decrease in demand for steel-intensive products. The world price of steel is expected to decline in 2023, representing a potential opportunity for the industry.

INDUSTRY OUTLOOK

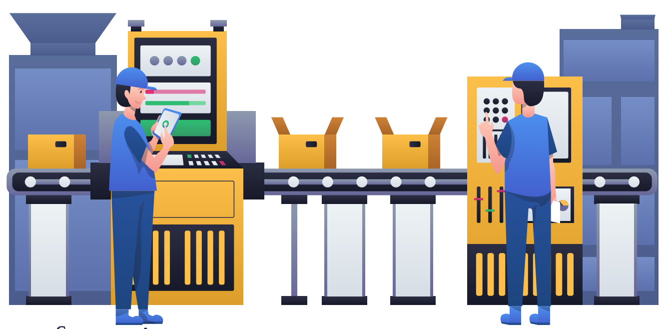
Manufacturing revenue is expected to grow at a CAGR of 1.6% to $7.6 trillion over the next five years, while profit is projected to increase to 8.4%.

The economy will likely grow over the next five years, contributing to growth in manufacturing revenue

- Despite high uncertainty in 2023, US GDP is expected to grow over the next five years, contributing to growth in manufacturing revenue.
- New York Federal Reserve President John Williams notes that inflation is not expected to significantly fall until 2024, which is when real GDP is anticipated to return to steady growth.
- Meanwhile, US energy prices are expected to normalize over the next five years. However, the Russian-Ukraine conflict remains a threat to economic stability as there is potential that the conflict could expand.

Manufacturers will continue to integrate advanced technologies to improve efficiency and reduce costs

- The COVID-19 pandemic has highlighted the importance of supply chain resilience, and 3D printing has played a crucial role in addressing disruptions in the healthcare and medical device industries.
- Over the next five years, more manufacturers will continue to invest in additive manufacturing to make the supply chain more resilient and enable companies to move forward more seamlessly.
- Manufacturers will also continue to adopt Artificial Intelligence (AI) and Machine Learning (ML), which have achieved significant progress in recent years. These tools will be used to analyze data, optimize production processes and make better decisions.



Exports are expected to represent a larger share of manufacturing revenue

- Over the next five years, the value of exports will likely increase at a faster rate than revenue, driven by an expected decline in the value of the US dollar. A decline in the value of the dollar will make US-manufactured goods more affordable abroad, benefiting domestic manufacturers.
- The value of imports in the manufacturing sector is expected to grow, driven by offshoring and outsourcing trends. However, unfavorable currency exchange rates will decelerate this growth over the next five years.

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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.

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