AUTO FOCUS NEWSLETTER

Thaney & Associates, CPAs Quarterly Newsletter

SUMMER

Tax Season Updates Newsletter

Having a low tax bill doesn't happen by accident. The best way to keep as much of your hard-earned money away from Uncle Sam as possible is by having a tax planning strategy that you revisit throughout the year. In this month's newsletter, read through several situations where a tax planning session might make sense to help you try and cut your 2024 tax bill.

we've got some tax planning ideas to consider as you head into summer, also learn how to prepare yourself financially when purchasing a vehicle.

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.

THANEY & ASSOCIATES
Certified Public Accountants

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- **UPCOMING DATES:**
- **JUNE 17 - PTET ELECTION PAYMENTS DUE**
- **JULY 4-5 - INDEPENDENCE DAY / OFFICE CLOSED**

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Start Your Tax Planning NOW!

Keeping your taxes as low as possible requires paying attention to your financial situation throughout the year. Here are some tips for getting a head start on tax planning for your 2024 return:

Review your paycheck withholdings. Now is a good time to check your tax withholdings to make sure you haven't been paying too much or too little. Use this online tool from the IRS to help calculate how much your current withholdings match what your final tax bill will be.
Action step: To change how much is withheld from your paycheck in taxes, fill out a new Form W-4 and give it to your employer.

Defer earnings. You could potentially cut your tax liability by deferring your 2024 income to a future year via contributions to a retirement account. For 2024, the 401(k) contribution limit is $23,000 ($30,500 if 50 or older); $7,000 for both traditional and Roth IRAs ($8,000 if 50 and older); or $16,000 for a SIMPLE IRA ($19,500 if 50 and older).
Action step: Consider an automatic transfer from either your paycheck or checking account to your retirement account so you won't have to think about manually making a transfer each month.

Plan withdrawals from retirement accounts to be tax efficient. Your retirement accounts could span multiple account types, such as traditional retirement accounts, Roth accounts, and taxable accounts like brokerage or savings accounts. Because of this, consider planning your withdrawals to be as tax efficient as possible.
Action step: One way to structure withdrawals is to pull from taxable accounts first, and leave Roth account withdrawals for last. Another approach is to structure proportional withdrawals from all retirement accounts, which would lead to a more predictable tax bill each year.

Net capital gains with capital losses. If you have appreciated investments you're thinking about selling, take a look through the rest of your portfolio to see if you have other assets that you could sell for a loss and use to offset your gains. Using the tax strategy of tax-loss harvesting, you may be able to take advantage of stocks that have underperformed.
Action step: Make an appointment with your investment advisor to look over your portfolio to see if there are any securities you may want to sell by the end of 2024.

Tax planning can potentially result in a lower bill from the IRS if you start taking action now. Please call if you have questions about your tax situation for 2024.

You Need Tax Planning If...

Life can alter your taxes with little to no warning. Here are several situations where you may need to schedule a tax planning session:

Getting married or divorced. You could get hit with a Marriage Penalty in certain situations when the total taxes you pay as a married couple is more than what you would pay if you and your partner filed as Single taxpayers. The opposite can also occur, when you benefit from a Marriage Bonus. This often occurs when only one spouse has a job or earns income in other ways such as a business. Another situation when tax planning becomes critical is if you and your future spouse both own homes before getting married.

If you're going from Married to Single, make the process include tax planning. Under divorce or separation agreements executed after 2018, alimony is no longer deductible by the spouse making payments and isn’t considered taxable income for the spouse receiving payments at the federal level. The opposite is true for divorce or separation agreements executed before 2019 – alimony is generally deductible by the spouse making payments and must be reported as taxable income by the spouse receiving payments.

Child support is also not deductible by the spouse making payments, and isn't considered taxable income for the spouse receiving payments. In addition, not all assets are taxed the same, so their true value will vary.

Saving or paying for college. There are many tax-advantaged ways to save and pay for college, including 529 savings plans, the American Opportunity Tax Credit, and the Lifetime Learning Credit. As you plan your future, understanding how these expenses can be managed often happens long before you begin your college journey.

Growing a family. Your family's newest addition(s) also comes with potential tax breaks. You'll need a Social Security number for your newborn child and to understand the impact this little gem will have on your full-year tax situation. These include breaks to help pay for child care or adoption-related expenses, the child tax credit, and the Earned Income Tax Credit.

Changing jobs or getting a raise. Getting more money at work is a good thing. But it also means a higher tax bill. So you may need to review your tax withholding to ensure there are no surprises at the end of the year. And when leaving an employer, expect a tax hit for severance, accrued vacation, and unemployment income payments.

Another potential tax problem if you get a raise or otherwise earn more money is that you may no longer qualify for certain tax breaks, as most tax deductions and tax credits phase out as your income increases. Consider scheduling a tax planning session to discuss the phase out thresholds that may affect you in 2024.

Buying or selling a house. You can exclude up to $250,000 ($500,000 if married) of capital gains when you sell your home, but only if you meet certain qualifications. A tax planning session can help determine if you meet the qualifications to take advantage of this capital gain tax break, or other home-related tax breaks such as the mortgage interest deduction or credits for installing qualified energy-efficient home improvements.

USED CAR DEALERS

EXECUTIVE SUMMARY

New wheels: Rising per capita disposable income will likely support revenue and profit growth

Used vehicle sales have heavily fluctuated due to an undersupply of new vehicles and a restrictive economic environment through the current period. A pandemic recovery that coincided with semiconductor and new car shortages in 2021 prompted growth in used car sales. Inflated disposable income and greater access to credit encouraged vehicle purchases; consumers turned to used cars when they found new car lots empty. Even so, climbing interest rates have deterred vehicle purchases in 2022 and 2023. Revenue for used car dealers surged at an expected CAGR of 3.5%, reaching $173.9 billion through 2024, including a 0.5% jump in 2024, where profit will reach 2.6%.

Used car dealers have boosted sales through in-house financing known as “buy here, pay here” (BHPH). Traditionally, customers that purchase vehicles on a BHPH basis have relatively low credit ratings and would otherwise struggle to finance a used car. Drivers with average credit also have difficulty finding affordable financing during credit crises and often purchase vehicles from used car dealers on a BHPH basis rather than opting for traditional financing from new car dealers. Greater access to credit has diminished demand for used car dealership financing options.

Growth for used car dealers will slow through the outlook period as supply chain disruptions dissipate. Dealers will also face heightened competition from new car dealers that offer parts and repair services and online-only car dealers. Consumer preferences will continue to trend toward online vehicle shopping, which provides convenience and efficiency to busy consumers. Environmental consciousness will continue to push drivers toward eco-friendly vehicles and EVs, limiting the market for used combustion vehicles. Revenue will expand at an anticipated CAGR of 1.6% to $188.2 billion through the outlook period, where profit will reach 2.7%.

↑ 2019-24 Revenue CAGR +3.5%

CURRENT PERFORMANCE

What's driving current industry performance?

A semiconductor shortage inflates used car demand

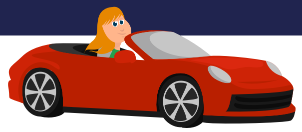
- Semiconductors are one of the primary materials used in automobile manufacturing. A recent shortage of semiconductors disrupted the production of new vehicles, reducing the availability of new cars and, in turn, driving up demand for used cars.
- The shortage and sudden influx of demand also prevented used car dealers from sourcing an adequate supply of vehicles. Still, used car sales skyrocketed in 2021 as a pandemic recovery, stimulus money and pent-up demand for travel coincided with an undersupply of new vehicles.
- The surge in demand for used cars, coupled with limited supply, boosted used car prices and supported profit. Even so, used car dealers that offer car parts have struggled to obtain materials amid supply chain disruptions, causing parts segments to decline.

Migration to car-centric cities boosts dealership sales

- The layout of many cities in the West, Southeast and Southwest incentivizes car ownership. Cities like Huntington Beach, California and Frisco, Texas, have some of the highest car ownership rates in the country.
- Car-dependent cities often require vehicles suited for commuting and longer distances, influencing the types of used cars demanded. Fuel-efficient models and SUVs have become especially popular.
- In particular, Texas has received more inbound migration than outbound since the start of the pandemic. This trend has contributed to the state's already heavy reliance on cars. In general, cities without public transportation options have greater demand for new and used cars.
- Ballooning populations in car-centric cities also expand used car turnover as residents upgrade or exchange vehicles, providing dealers with a steady stream of inventory.

A digital shift helps and hurts used car dealers

- Websites and mobile apps have increasingly enabled consumers to browse for used vehicles anytime, making car shopping more convenient and driving vehicle sales. The proliferation of the internet has also increased competition for brick-and-mortar car dealers as consumers increasingly prefer completing some or all of their car purchase process online.
- Online-only dealers like Carvana have targeted the growing preference for online shopping by offering extensive online inventories and the option for customers to transfer a vehicle between locations, increasing competition in an already fragmented industry.
- A strong online presence has become essential for dealers to remain competitive and tap into the growing market of digital-savvy customers. The pandemic also encouraged online alternatives; many dealers prioritized online expansion as lockdown restrictions limited in-person sales.



What's driving the industry outlook?

An influx of new vehicles will set used car dealers back

- Semiconductor and other input shortages will end at the start of the outlook period, expanding the supply of new cars and reducing new car prices.
- This trend will reinvigorate competition from new car dealers. Expanded inventories at new car dealerships will draw consumers away from used car dealers, which previously benefited from the new car undersupply.
- Even so, new car prices will climb through the outlook period, especially as manufacturers produce more advanced electric vehicles. New car dealers will increasingly expand their inventory of used cars, intensifying competition for dedicated used car dealers.
- To stay ahead, some dealers will prioritize sales from parts, services and financing; these services often yield higher profits than vehicle sales alone.

The proliferation of electric vehicles poses a threat to used car dealers

- Consumers will opt for more eco-friendly transportation options as environmental consciousness grows. Individuals in cities with accessible public transportation may forgo vehicle purchases entirely.
- Many consumers will also prioritize electric and hybrid vehicles, particularly as the government offers support to the electric vehicle supply chain and related buyers. Similarly, improved charging infrastructure could draw in new EV buyers.
- Most consumers are also hesitant to buy used EVs, citing battery degradation, higher prices compared with combustion vehicles and a lack of subsidies in the secondhand EV market. Fortune has reported that used EVs are piling up in junkyards amid these consumer concerns.
- Used car dealers will likely face the same challenges in used EV markets. The Chairperson of Volkswagen and Audi partner association has stated that companies have had to slash prices to get consumers to even look at EVs, suggesting EVs will remain largely unprofitable in used markets. Used EVs take longer to sell than gasoline models, even after significant price cuts, according to iSeeCars.com.

Dealers will use a customer-centric approach to retain demand

- Customer reviews and ratings will significantly influence purchasing decisions, prompting used car dealers to proactively manage their reputations. Dealers will emphasize personalized service, flexible test drives and easy vehicle inspections to differentiate themselves from competition and enhance the overall buying experience.
- Used car dealers will also increasingly adopt and integrate technology, like CRM systems and data analytics, to better understand and meet customer preferences and create a tailored service. Used car dealers will hire additional employees to focus on providing exceptional customer service.

Prepare Yourself Financially When Purchasing a Vehicle

Financing a new or used car could spell big financial trouble if your vehicle is ever declared a total loss – even if the accident is 100% the other driver's fault. Here's what you need to know about staying safe financially if you take out a car, truck, or SUV loan in the future.

Background – The 80% Rule

Many Americans believe if their vehicle is declared a total loss following an accident, insurance companies will provide enough money to cover the cost to replace the vehicle with a similar vehicle. The truth, though, is that insurance companies never provide you with enough money to buy a true replacement vehicle.

The rule of thumb to use when planning is 80%...if the true cost to get the exact same vehicle you were driving before an accident is $30,000, your insurance will only give you 80% of this dollar amount, or $24,000. You'll have to come up with the other 20%, or $6,000 in this example.

Why not 100%?

Unbeknownst to most of America, the valuation of vehicles deemed a total loss is determined by one company, CCC Intelligent Solutions. Per CCC, their services are used by most of the top 20 insurance companies. Instead of using a fair market valuation method to calculate the replacement cost of your vehicle, CCC uses a model that calculates a value that, when compared to valuation models found at Kelly Blue Book, Edmunds, and NADA, is systemically low.

How to Protect Yourself Financially

Here are some ideas to help you stay financially healthy when purchasing your next vehicle:

- Put down at least 20%. An unavoidable accident, even with no medical bills, could place your financial life in chaos. So try to have at least 20% equity in the vehicles you own from the moment you make the purchase or your loan will be underwater leaving you with no room to replace your vehicle with a similar make and model.
- Get a vehicle history report. Don't buy a vehicle that's been in an accident or has had other major issues such as flood damage. Buying a vehicle history report can help you identify cars, trucks, & SUVs that may create an even greater financial risk if you need to find a replacement.
- Build a fund for vehicle repairs and maintenance. Save up for inevitable maintenance and vehicle repairs. You could even use these funds to cover your 20% portion of a vehicle's replacement cost. Having enough money in this fund is critical. If you need to repair a car after a fender bender AND you do not have enough to cover your share of the cost, you will need to deal with the lender who has a lien on your vehicle. You can quickly find yourself in a financial trap.
- Choose shorter repayment terms. You'll have a higher monthly payment, but you'll be in a better financial situation sooner in the event of an accident.