CONSTRUCTION NEWSLETTER

Thaney & Associates, CPAs Quarterly Newsletter

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.

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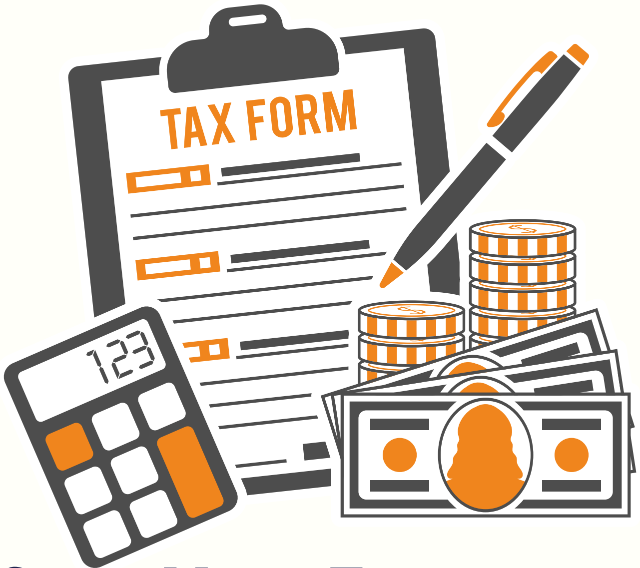


Start Your Tax Planning NOW!

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.

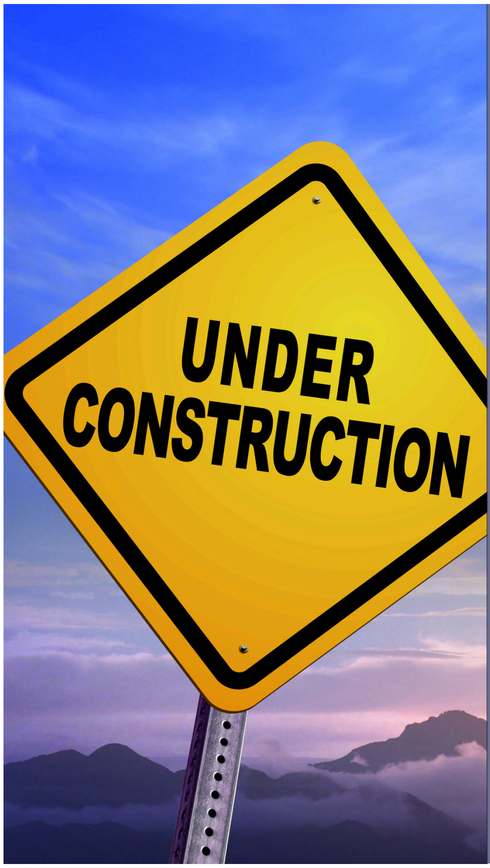
Growing a family. Your family's newest addition(s) also comes with potential tax breaks. You'll need a Social Security number for your newborn child and to understand the impact this little gem will have on your full-year tax situation. These include breaks to help pay for child care or adoption-related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

CONSTRUCTION



EXECUTIVE SUMMARY

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

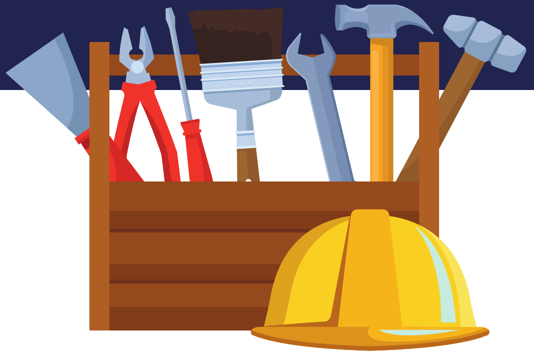
The Construction sector ultimately grew through the end of 2024, having been buoyed by residential construction amid the height of the COVID-19 pandemic. Sector operators construct buildings and engineer projects across a wide range of industries and applications, which often leads construction sector revenue to correlate with fluctuations in macroeconomic conditions. Prior to 2022, the sector benefited from relatively low interest rates, providing an accommodative borrowing environment for both residential consumers and nonresidential clients. Rising interest rates have since stymied sector growth.

Overall, sector revenue has risen at a CAGR of 1.6% to reach an expected $3.3 trillion in 2024, including an estimated increase of 0.6% in 2024 alone. The sector was able to see continued growth in 2020 and 2021 as construction clients who were spending more time at home made use of low interest rates to invest in residential construction. Still, the pandemic brought with it a significant drop 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 some sector services, particularly nonresidential construction services. While construction activity has suffered from the higher cost of capital, the construction sector has benefited from an improving operating environment as the COVID-19 pandemic and supply chain issues have begun to recede into the past. This has allowed average sector profit margin to grow in recent years.

The sector is set to expand as interest rates are set to eventually fall while government funding remains steady in the coming years. Many of the largest industries in this sector are anticipated to see 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 2021 Infrastructure Investment and Jobs Act, the 2022 CHIPS and Science Act and the 2022 Inflation Reduction Act. Overall, sector revenue is set to climb at a CAGR of 2.1% to reach $3.7 trillion in 2029, as demand for construction services strengthens.

CURRENT PERFORMANCE

What's driving current industry performance?



Growth was strong prior to the COVID-19 pandemic

- Prior to the COVID-19 pandemic, the construction sector saw revenue growth as rising corporate profit, rising consumer spending and relatively low interest rates drove investment in construction.
- The value of private nonresidential construction grew in the years prior to the COVID-19 pandemic as businesses invested in property.
- The value of utilities construction was growing prior to 2020 as expenditure toward constructing power, sewage or water supply infrastructure supported the sector.
- Rising interest rates, while later dwarfed by 2022 and 2023 rate hikes, contributed to the value of residential construction declining in 2019, dampening revenue growth for the construction sector.

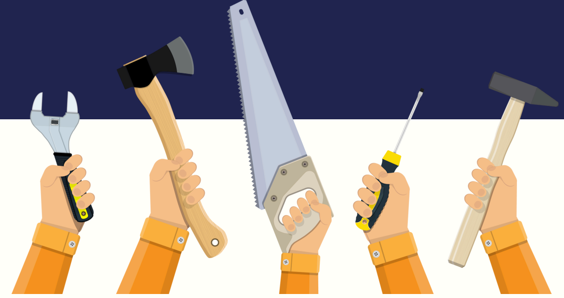
The COVID-19 pandemic negatively impacted nonresidential construction

- The COVID-19 pandemic complicated operations for the construction sector, driving down the value of private nonresidential construction and harming sector profit.
- The COVID-19 pandemic precipitated work stoppages, declining corporate profit, rising unemployment and falling consumer spending.
- Lowered interest rates and a general trend of people spending more time in (and therefore spending more money on) their homes drove an increase in the value of residential construction during the height of the COVID-19 pandemic, driving construction sector revenue growth.
- The value of private nonresidential construction was particularly negatively impacted by the COVID-19 pandemic as corporate profit suffered and demand for office space dropped as working from home became more common, reducing investment in nonresidential construction.

High interest rates are constraining growth

- Currently, high interest rates, meant to curb inflation, are stifling investment in construction as an increased cost of capital has lowered demand for construction services.
- Rising interest rates have particularly negatively impacted residential construction, as the rising cost of mortgage loans has decreased spending on residential construction.
- Consumer spending and employment have both rebounded since the height of the pandemic, driving growth for the sector, particularly in 2021.
- Infrastructure spending included in the 2021 Infrastructure and Jobs Act and the 2022 Inflation Reduction Act has returned the value of utilities construction to growth in 2023. The 2022 CHIPS and Science Act has spurred construction spending from particular industries.

What's driving the industry outlook?



Interest rates will eventually fall

- As long as inflation remains high, interest rates will remain elevated, depressing construction sector growth. High interest rates will raise the capital needed for construction, while inflation will stifle consumer spending.
- Interest rates are expected to ultimately fall from their current heights over the coming years, but will not likely reach pandemic lows.
- It remains questionable whether mortgage rates will immediately lower in response to falling interest rates, especially as demand for housing outpaces supply.
- With many homeowners having secured loans at historically low interest rates in recent years, demand for residential construction will be lower in coming years as individuals are reluctant to move and give up their current rates.

Strengthening supply chains expected over coming years

- As supply chain issues continue to fade into the past, average sector profit will continue to slightly expand as materials costs fall and operators face a more consistent operating environment.
- The uncertain state of the war in Ukraine, global shipping lanes and geopolitics in general will continue to threaten the global supply of major commodities, including copper, aluminum, oil and gas.
- As the supply of alternative materials rises to meet current demand, the supply chain will become more reliable. A broad trend of nearshoring or friendshoring will also make supply chains more reliable.
- As extreme weather and environmental disasters, including wildfires, droughts and hurricanes become more common in coming years, global supply chains will face continued threats.

Federal funding will support construction sector revenue

- The 2021 Infrastructure Investment and Jobs Act will provide sustained infrastructure funding through 2026, supporting the construction sector. In particular, the bill will provide funding for roads and bridges, green power infrastructure, passenger and freight rail, water infrastructure and other projects.
- Passed in 2022, the Inflation Reduction Act will provide funding for construction projects meant to reduce the nation's greenhouse gas emissions over a period of ten years.
- The 2022 CHIPS and Science Act provides for funding for domestically produced semiconductors, which will benefit the construction sector in coming years. Already, the CHIPS Act and the IRA have contributed to a surge in US construction spending for manufacturing facilities that is set to continue in the near future.
- Long-standing federal, state and local housing assistance programs will continue to be a steady source of revenue for the construction sector.

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.