MANUFACTURING 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.

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.

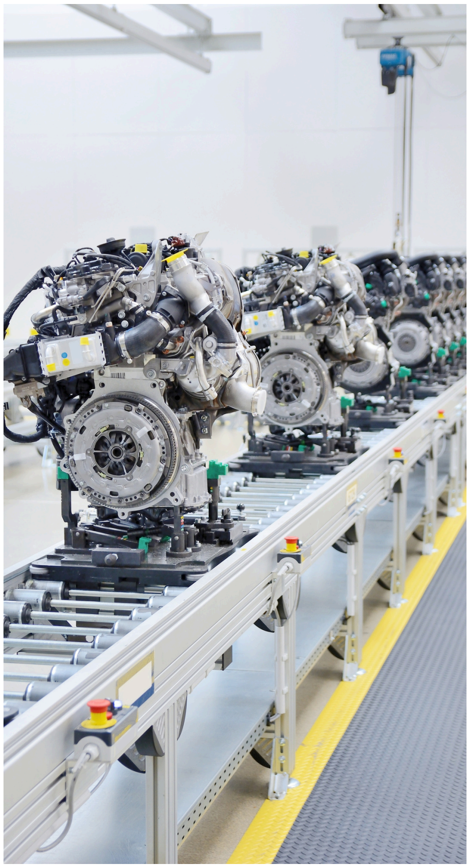
Growing a family. Your family's newest addition(s) also comes with potential tax breaks. You'll need a Social Security number for your newborn child and to understand the impact this little gem will have on your full-year tax situation. These include breaks to help pay for child care or adoption-related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

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

Revenue for the manufacturing sector contracted at an expected CAGR of 0.4% to $7.0 trillion through the current period, including a 3.5% drop in 2023, while profit will falter to 8.0%. The outbreak of COVID-19 has harmed the sector; even so, manufacturers have started to recover with the rollout of vaccines and stimulus money in 2021. The sector will struggle in 2023 because of rising interest rates and high consumer and business uncertainty. The sector remains vital to the US economy; still, its importance has waned 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. The pandemic has hit these markets very differently. For example, wholesalers' demand for manufactured goods dropped 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, especially as e-commerce growth supported the retail sector. Demand from other manufacturers fluctuated largely in line with the economy, declining in 2020 and rebounding in the second half of the current period.

Through the outlook period, the manufacturing sector sector will recover at an estimated CAGR of 0.2% to reach $7.0 trillion. Widespread economic improvements and a decline in the value of the US dollar will drive this shift. Profit will also rally to 8.4%. Manufacturers will continue to integrate advanced technologies to improve efficiency and supply chain resilience, particularly targeting sustainability and shifting consumer preferences.

The COVID-19 slammed the manufacturing sector. Many companies reduced production and faced subdued demand.
The manufacutring sector's importance has waned. The US economy has grown increasingly service-oriented, especially as manufacturers move their production processes abroad.

CURRENT PERFORMANCE

What's driving current industry performance?

Manufacturers combat poor economic conditions during the pandemic

- The outbreak of COVID-19 has harmed the manufacturing sector. Revenue plummeted in 2020, driven by lockdowns and supply chain disruptions. Many manufacturers, especially consumer product producers, struggled as consumer confidence collapsed.
- Certain subsectors, particularly food and consumer electronics manufacturing, capitalized on changing end markets. For example, lockdown measures prevented consumers from dining out, encouraging elevated growth for food and beverage manufacturers.
- Similarly, many consumers spent stimulus checks on new phones and computers, bolstering these segments. Computer shipments skyrocketed in 2021 although manufacturers have increasing offshored consumer electronics production to China and Southeast Asia.
- In contrast, transportation manufacturers struggled during the pandemic as people traveled less. Similarly, manufacturers that create intermediary goods inputs, like chemical and machinery manufacturers, cut production to handle uncertainty.

Supply chain disruptions slam the manufacturing sector

- Companies dealt with a slew of severe supply chain issues. Many issues were from crude oil shortages, stemming from sanctions on Russian oil following its invasion of Ukraine. Most manufacturers maintain globalized supply chains and Russia accounts for approximately 11.0% of the world’s oil supply.
- Lockdown measures also prevented many companies in the mining sector from operating at full capacity. Notably, many manufacturers faced severe semiconductor shortages, leading to long lead times and unfilled orders.
- Automakers felt these pressures, leading to skyrocketing car prices through the current period. Many food manufacturers also coped with skyrocketing commodity prices, highlighted by the ballooning agricultural price index. Many companies cut supply contracts with Russian farmers.

The manufacturing sector remains critical to the US economy

- According to the National Association of Manufacturers, for every $1.00 spent in manufacturing, there is a total impact of $2.60 on the overall US economy, representing one of the largest sectoral multipliers in the economy.
- Despite its massive importance to the economy, the manufacturing sector's role has declined over the past decade, as shown by the sector's decelerating contribution to the US GDP and the declining number of employees per establishment in the sector.
- Since the turn of the century, the US economy has continued to become increasingly service-oriented, contributing to the declining role of the Manufacturing sector. Domestic manufacturers have continued to offshore their production processes to countries with lower labor costs to stay competitive.

What's driving the industry outlook?

The manufacturing sector will benefit from the economy's recovery

- Most key economic metrics, like consumer confidence, disposable income and employment, will climb through the outlook period, signaling fair weather for manufacturers. The sector will greatly benefit from stable consumer demand after years of uncertainty.
- Notably, transportation manufacturers will benefit from pent-up travel demand. New car sales, alongside air and train travel, will skyrocket at the start of the outlook period, rippling through the supply chain and benefiting a wide array of manufacturers.
- Similarly, interest rates will normalize, encouraging manufacturers to invest in new facilities and machinery to make production more efficient and spurring demand from construction buyers. This wave of investment will support growth.

Exports will start to rebound through the outlook period

- Through the outlook period, the value of exports will climb faster than revenue, driven by an expected decline in the value of the US dollar. The dollar's contraction will make US-manufactured goods more affordable abroad.
- Even so, import penetration will continue to threaten the sector, driven by offshoring and outsourcing trends. These regions often leverage lax environmental and labor laws to undercut domestic manufacturers.
- Most domestic manufacturers struggle to compete with low-cost alternatives overseas. In many cases, intermediate manufacturers have started to specialize, offering custom-built solutions. For example, many fabricated metal manufacturers have prioritized relationships with buyers to secure long-term contracts rather than compete in generic markets.

Manufacturers will integrate advanced technologies to improve efficiency and reduce costs

- The COVID-19 pandemic highlighted the importance of supply chain resilience. 3D printing will play a crucial role in addressing disruptions in the healthcare and medical device industries.
- Through the outlook period, more manufacturers invest in additive manufacturing to make the supply chain more resilient, enabling companies to handle exogenous shocks more seamlessly.
- Manufacturers will adopt Artificial Intelligence (AI) and Machine Learning (ML). These advancements have achieved significant progress in recent years and will become increasingly viable over the next decade. Manufacturers can use these tools to analyze data, optimize production processes and make better decisions.

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.