Nagel on Finances: Watch that inflation

BY ROGER NAGEL
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Roger Nagel

By the time the first round of Paycheck Protection Program loans had been issued in June 2020, the first round of federal stimulus payments had already been distributed.

Within weeks, the PPP loans were being forgiven.

For the first time in American history, we had a massive amount of direct governmental payments to citizens to prop up the COVID-weakened economy. Many citizens needed little help, if any.

And the economic support kept on coming.

It was about this time, early summer 2020, that I began asking about inflation. The simple question was, “How can we keep pouring money into the economy and not pay for it?”

You, too, were asking the same question.

At the time, I thought that PPP loan forgiveness might be tightened. That didn’t happen.

When Treasury announced that expenses paid with PPP loan proceeds could not be deducted, I was quick to point out that this was the method by which we would pay tax on the “forgivable loans.”

Ultimately, however, the PPP loans were totally forgiven and not taxed.

Since July 2020, our economy has been flooded with more stimulus payments, more PPP loans, the Employee Retention Credits and non-taxable unemployment compensation. Even state and local governments began distributing cash directly to citizens.

Most of us were concerned about higher taxes.

But now we have inflation: 6-7 percent for the first time since 1981. And it will worsen in the short run.

Rising prices and supply shortages are expressions of inflation. So are worker shortages. We seem to have no idea where or when these trends will reverse.

It took 2½ years to normalize in 1979.

So, if you own a business and are beginning to plan for 2022's operating budget, can you ignore this? Only to your own peril.

It is time to devote yourselves to the data. What price increases have you seen in your competition?

Are you experiencing auctions for supplies that bid up costs? Substitute products for back orders? What does consumer behavior tell you about supply and demand?

Your workforce? If you find good people, how much more will they expect to be paid since your last hire? Can benefits make up the differential?

Unless you are willing to sacrifice profits in 2022, it is now time to reflect on how you will pass along the increasing inflationary costs of goods and services. But, what if you can't?

What if you compete against companies that can absorb the extra costs of operations and will not raise prices? How will you make up for that?

Is this a good time to sell to your company to larger competitors who can absorb these risks? If so, negotiate a premium for the workforce you have in place and the vendor relationships that may help you compete.

This year's fourth-quarter planning may be less about taxes and much more about trimming out fixed overhead costs to survive our new inflationary economy.

(Roger Nagel, CPA/PFS, CMA, CGMA, is the managing director of Nagel CPAs, LLC – Accountants and Advisors, serving the middle Rio Grande Valley and beyond. Learn more at nagelcpa.us.)