

the BENCHMARK

Newsletter



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Third Quarter: Tug-of-War

Nathan Goodwin recaps the third quarter in the markets and cautions against making rash decisions in this volatile year. Instead, revisit your plan and your risk tolerance and rebalance.

We may sound like a broken record,

but getting out of the market almost always costs you money in the long run.

Don't worry so much about the days ahead, and remember to enjoy the beautiful fall days.

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Presidential Tax Proposals: Thoughtful Planning Wins, No Matter Who Does



By Nick Clay

Voter polls and betting markets at the time of this writing (late September) suggest that Joe Biden is favored to win the 2020 presidential election. One fun website to look at is fivethirtyeight.com, which has simulated the election over 40,000 times based on a wide array of combinations of state polls and projections. Their site currently shows Biden winning the election 77% of the time. Biden's chances dipped down to a 2 in 3 shot after the Republican National Convention on August 31 but have since recovered.

After 2016, we know that just about anything is possible. Virtually no one predicted the outcome then. Nonetheless, proper planning based on statistics can be our friend. Regardless of what side of the aisle you sit on, we believe it's better to be informed, proactive, and prepared for the "what if's" of a President Trump reelection or a Joe Biden win.

If President Trump wins his bid for reelection, we are likely to continue to see four more years of the market-friendly tax and regulatory policies that were implemented as part of the Tax Cuts and Jobs Act of 2017 (TCJA).

If Joe Biden shakes things up with a victory, then it's likely we could see some significant changes to the tax code, trade relations, healthcare, infrastructure, and more. Joe Biden's proposals aren't as extreme as those of Senators Warren and Sanders, but the proposals are still significant departures from the current landscape.

This article explores what a Trump or Biden victory might mean for the tax code and investors. Arguably the biggest variable for investors is tax policy. Tax changes would affect paychecks, business taxes, investment gains, inheritances, and so much more. While there are social and health issues in the spotlight today, we believe differences in tax proposals – which are still in draft form for the most part – will play a large role in how votes are cast.

We note that both candidates' tax plans are likely to evolve over the next couple of weeks due to voter sentiment and appetite for change. Complete overhauls are often promised, but they're unrealistic because tax policy is not entirely up to the president. Nonetheless, the proposals from both sides have remained relatively consistent thus far. Let's explore the highlights!

Individual tax rates – The top tax bracket is currently 37% for individuals with income over \$518,400 and married couples filing jointly with income over \$622,050. Current rates are set to expire after 2025. President Trump plans to extend this deadline and also has proposed enacting a 10% middle-class tax cut, which would include lowering the 22% marginal tax rate down to 15%.

Joe Biden has proposed raising the top marginal tax rate from 37% back to the pre-TCJA level of 39.6% for income over \$400,000.

Tax credits for individuals – Under current tax law, the child tax credit is up to \$2,000 per child under age 17. There is also up to a \$500 per dependent credit for other dependents. Families can claim up to \$3,000 in dependent care expenses for one child/dependent and \$6,000 for two children/dependents per year. The credit is worth between 20% and 35% of these expenses, depending on a family's income. President Trump has not proposed any changes to these credits but has hinted at requiring Social Security numbers for eligibility purposes.

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Joe Biden has proposed temporarily increasing the child tax credit to \$3,000 per child for children ages 6 to 17 and to \$3,600 for children under 6. He further has proposed raising the child/dependent care tax credit to \$8,000, or a maximum of \$16,000 for two or more children/dependents.

Capital gains rates – The top tax rate for long-term capital gains and qualified dividends is 20% for income over \$441,450 for individuals and \$496,600 for married couples filing jointly. President Trump has proposed indexing capital gains for inflation, reducing capital gains tax rates, and enacting a capital gains tax holiday that would eliminate capital gains for a specified period of time.

Joe Biden's plans call for removing the long-term capital gains and qualified dividend rate for income over \$1 million, instead taxing these funds at the top ordinary income tax rate of 39.6%.

Estate tax – The current estate and gift tax exemption is \$11,580,000 per individual, which was doubled as part

of the TCJA in 2017. However, it's scheduled to sunset back to an indexed amount of approximately \$5,800,000 after 2025. President Trump has proposed extending the higher exemption past 2025.

Joe Biden wishes to let the estate and gift tax exemption revert back to \$5,800,000 after 2025. \$3,500,000 is also a number that has floated around. Also noteworthy are Biden's hopes to eliminate the step-up in basis on inherited assets. This would cause a large wave of capital gains taxes to be due when wealth passes to heirs in the future.

Corporate tax rates – A huge win for corporations under the TCJA was doing away with the gradual tax structure, implementing a flat 21% tax rate, and eliminating the alternative minimum tax (AMT). President Trump plans to keep this structure if reelected.

Joe Biden has proposed keeping the flat rate structure in place, but raising the tax to 28% while also reinstating the AMT on profits of more than \$100 million.

With regards to your investment portfolio, it is important to be aware of what is actually relevant to your investing outcome while not letting emotions dictate your decisions. Although it might seem the financial markets can be predicted based on what "might" happen, we should banish that feeling from our thought process because markets simply are not predictable in the short run.

As always the case, regardless of potential tax policy changes, you should be mindful and tax-aware when pursuing financial planning and investing. Success depends in large part on maximizing after-tax returns.

With change comes opportunity. There are planning strategies that investors might benefit from in the coming years, regardless of who wins the election. As always, the team at BCS Wealth Management considers it a blessing to walk alongside you during your financial journey. Please let us know if there is anything keeping you up at night that we can help address.

Carolyn's Fresh Apple Cake

- 2 ½ c. all-purpose flour
- 1 cup oil
- 2 teaspoons baking powder*
- 2 cups sugar
- 1 teaspoon baking soda*
- 3 large eggs
- 1 teaspoon salt*
- 3 cups chopped apples (peeled)
- 1 ½ teaspoons cinnamon
- 1 cup chopped nuts (if desired)
- 1 teaspoon vanilla
- ½ pkg. butterscotch chips

*If using Self-Rising flour omit the baking powder, baking soda, and salt.

Cream together the oil, sugar and eggs. Add all dry ingredients and mix until smooth. Stir in the apples, nuts, and vanilla. Pour the batter into a greased 9"x 13" pan. Sprinkle the batter with butterscotch chips. Bake in a 350 °F oven for 50 to 55 minutes. This time will vary slightly based on the moisture of the apples.

This fresh apple cake is wonderful made with any type of apples. The cake gets better the longer it sits, but I love it right out of the oven with a big glass of milk. This is also a family friendly recipe that is easy to make with children. I received this recipe from Mrs. Mildred Saylor when I was a child. I hope you and your family enjoy it!

- Carolyn Kerr



With many restrictions in place, we made the decision to cancel our main client event in October. We look forward to seeing you as soon as possible and hope to resume our events next year.

Third Quarter: Tug-of-War

By Nathan Goodwin

We're three quarters of the way through 2020! I don't know about you, but I'm ready to watch the Times Square ball drop and wave goodbye to one of the craziest years I can remember. It's hard to believe we still have a presidential election to go through before 2020 comes to a close.

Although it may not feel like it, the markets continued to rebound from the March drop and actually had a strong quarter. Adding these gains to the second quarter gives us the best back-to-back quarters for the DOW and S&P 500 since 2009.

Ten of the eleven sectors represented in the S&P 500 had positive gains, with energy being the one laggard. The NASDAQ continues to outperform, as our reliance on technology continues to be highlighted in this recovery, both in business and in our personal lives. The NASDAQ and S&P 500 are now positive on the year.

The markets feel like they're in a tug-of-war. On one side we see political unrest, an economy still not fully open and recovered, and concerns over winter COVID-19 challenges. On the other side, we see better than expected jobs data, a possible second stimulus package, and promising COVID-19 vaccines coming soon.



Major Stock Indexes	3rd Quarter 2020	YTD
DJIA	7.6%	-2.7%
Nasdaq Composite	11.0%	24.5%
S&P 500	8.5%	4.1%
Russell 2000	4.6%	-9.6%
Global Dow	5.0%	-8.9%
Japan: Nikkei 225	4.0%	-2.0%
Stoxx Europe 600	0.2%	-13.2%
UK: FTSE 100	-4.9%	-22.2%
Major Bond Index	3rd Quarter 2020	YTD
Bloomberg Barclays US Aggregate (Total Return)	0.6%	6.8%

The markets like to look ahead, but it's hard to see through the fog of all these possibilities. This is why the markets remain volatile, with big swings almost daily.

If you feel unsettled right now, you're not alone, but it's not a time to make rash decisions. A quick impulse decision to sell in March could have caused you to miss the best two consecutive quarters in over a decade. I say this in almost every article, but it's worth repeating. We do not know exactly what direction the market will take in the short term, but having a good financial plan in place means we don't have to. Getting out of the market almost always costs you money in the long run. Instead, it's a great time to rebalance, and revisit your plan and risk tolerances. Also, don't forget to get outside and enjoy these beautiful fall days. It can do a mind and body good!

This is our final newsletter before year-end, so we want to wish you and your family a blessed holiday season. It continues to be a roller coaster year, but we're here to ride it out with you. We appreciate the trust you place in us. We hope to see you soon. As always, we're here anytime you need us.

Nathan is a partner at BCS Wealth and is pictured with his two daughters, Jovie and Lindy.





An Overview of Donor-Advised Funds

By Philip Bachman

Making a donation to a charity sounds so simple. And usually it is – just write a check! Yet there are lots of other ways charitable giving can be done. This article discusses donor-advised funds, a popular solution for longer-term gifting intentions.

A donor-advised fund is a charitable giving vehicle with unique characteristics. It allows donors to make a contribution to a sponsoring organization, receive an immediate tax deduction (per IRS rules), and then recommend grants to their chosen charities over time. Donor-advised funds allow philanthropic individuals to allot funds for benevolence, invest them for possible growth, and distribute them with flexibility.

Donor-advised funds are maintained by a 501(c) (3) nonprofit, called a sponsoring organization, which invests the assets and administers the donor's account. Community, public, or faith-based foundations are examples of sponsoring organizations. Nonprofit arms of financial-services firms, such as Schwab Charitable, are also well-established sponsors.

Donations into a donor-advised fund may be made with cash, securities, or even illiquid assets like limited partnership interests and real estate. When donors transfer investment assets to donor-advised funds, they can avoid capital gains taxes and receive immediate fair-market-value tax deductions. (A note to folks age 70½ or older who make Qualified Charitable Distributions from an IRA: these cannot be contributed into a donor-advised fund.)

Donor-advised fund holders enjoy a federal income tax deduction of up to 50% of adjusted gross income for cash contributions. The deduction is up to 30% of adjusted gross income for appreciated securities. These are higher limits than donations into private foundations.

It is important to note that contributions into a donor-advised fund are irrevocable. The contributions are considered a gift from the donor to the sponsoring organization. Therefore, the funds cannot be taken back for personal use. They must ultimately flow to another qualified charitable organization (or the sponsor's own worthy missions).

After the contribution is made, the donor can advise the sponsor when and where to make gifts. The sponsor is not legally obliged to follow that advice, but they generally do. For cash balances, the donor may choose to invest the account. Investment choices usually include a selection of mutual funds or sometimes broader investment offerings. Each sponsor has its own administrative fee structure.

Funds may be held inside the accounts indefinitely. Actually, this is the main criticism about donor-advised funds. Since there are no rules for when distributions to charities must be made, some believe donor-advised funds run contrary to authentic benevolence. On the other hand, some suggest donor-advised funds encourage increased philanthropy. This is because their structure is conducive to tax planning, and the assets have the opportunity to grow, which benefits charitable causes over the long term.

The use of donor-advised funds remains a relatively small part of philanthropy. Most folks still give to their preferred causes outright. Giving directly is the simplest way to donate if the gift is meant to benefit the charity immediately, as most gifts are.

However, the popularity of donor-advised funds has mushroomed in recent years. In 2019, assets held in donor-advised funds rose to \$121.4 billion, an increase of 20% from 2018. Much of the growth in donor-advised funds has come from contributions of appreciated assets. Indeed, donor-advised funds may make a lot of sense for folks who could benefit from a larger tax deduction in a given year but who wish to distribute gifts over an extended period of time.

Our office works with Schwab Charitable. Schwab Charitable's minimum initial contribution is \$5,000. We offer professional management for Schwab Charitable accounts over \$250,000.

Please let us know if we can be helpful to your philanthropic planning or investing. Meanwhile, we encourage you to contact your CPA or tax advisor with questions about how philanthropy intertwines with your taxes.



The Power of Life Insurance



By Scott Hoilman

September was Life Insurance Awareness Month! Since time moves quickly – September came and went so fast – we encourage you to not let time get away from you when it comes to life insurance planning! We believe life insurance is a crucial part of a well-rounded financial plan for most people.

What is the purpose of life insurance?

Although life insurance may not be the best solution in every scenario, there are many great reasons for having life insurance. The reasons draw upon parts of everyone's unique situation, such as their goals, financial outlook, family needs, family history, and more. This article mentions some ways life insurance is beneficial. Thinking through these might help you determine if having life insurance coverage is the right solution for you.

Final Expenses - Only the Beginning

When many people think of life insurance, they may initially think of covering their own final expenses, not wanting to burden their family with those costs. But life insurance is beneficial for so many more reasons than that! After all, oftentimes a family's savings can handle some or most of the final expenses, even with the ever-rising costs associated with burial, funeral, and related expenses.

Building Generational Wealth

Possibly the next most common reason people want to add to their life insurance coverage is because it allows for an extremely cost-effective way to pass wealth to the next generation. In this light, life coverage can be seen as an economical generational savings fund, whereby a person's children, grandchildren, or others can benefit in the long-term.

Replacing an Income Stream

Having a child is both a blessing and a large commitment of both time and money. For this reason, it is often smart for couples with young kids to get life coverage to function as a form of income protection. Especially if a couple relies on just one parent to provide most of the income to support the family, that breadwinner should be protected to safeguard the lifestyle, goals, and needs of the family in case something were to happen to the breadwinner.

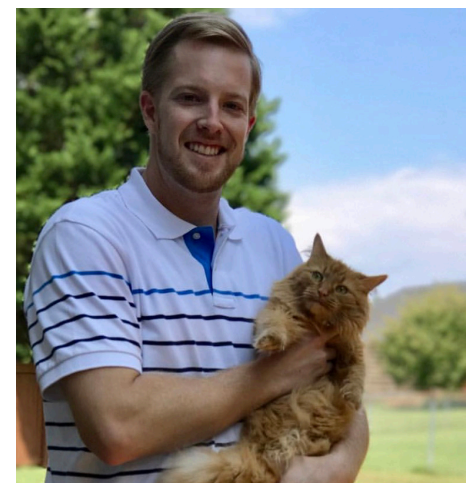
Supplementing Retirement Income and Covering Liabilities

Other situations where life insurance can help a family's financial outlook are by bolstering retirement plans and by covering a large debt. Some types of life policies can be designed with a cash value component, in which cash can be pulled out of the policy to help supplement income during retirement, or to help pay for

unexpected expenses. Further, if a person or couple takes on a large debt such as a mortgage, a life policy helps ensure the family can retain their house, regardless of what the future may bring.

Depending on your and your family's specific financial outlook and situation, there are various types of life policies that can help to protect your family and safeguard your goals. It all starts with your current outlook, your family's needs and wants, and your long-term goals. From there, a policy can be designed to best protect and cover you and your family.

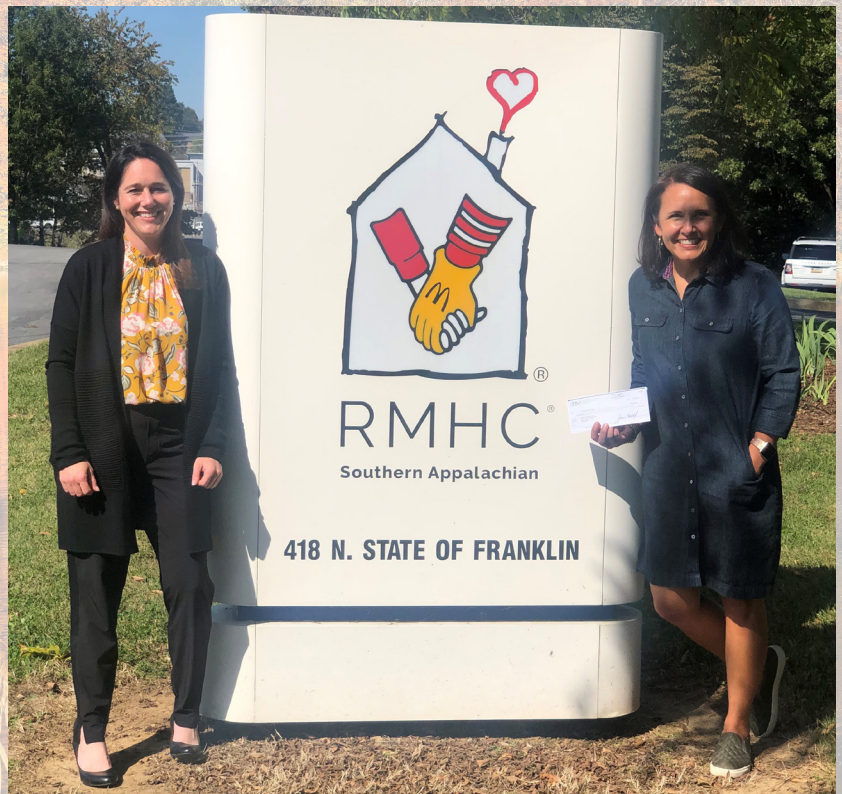
If you would like to discuss further, would like a complimentary, current life insurance review, or have any questions, feel free to contact us at (423) 283-9821, or at Insurance@BCSWealth.com.



BCS Wealth Management is an independent financial planning firm in Johnson City, TN. We help individuals, families, and businesses reach goals important to their financial wellbeing. We provide investments and financial planning, insurance, and group benefits.

Wishing you all the best this fall and into the holiday season. We are thankful for you!

We are honored to help support many of the great organizations in our area. One of those organizations is Ronald McDonald House, a not-for-profit organization that provides a temporary “home away from home” for families whose children are receiving treatment for serious illnesses at area hospitals. Pictured, Myra O’Dell, BCS Wealth Management partner, presents a check to Malia Grant, Chief Executive Officer of Ronald McDonald House, Southern Appalachia. For more information on Ronald McDonald House or to donate, visit www.rmhsa.org.



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