The BVB Group Newsletter

2nd Quarter 2021

The birds are chirping, the snow has melted, and the warmth of Spring is upon us. (At least here in Wisconsin)

Last year, we were looking at a market that was in freefall trying to figure out the impact of COVID. The S&P 500 was down 19.6% and there was little end in sight. If you look at our market pulse chart to the right, the 1-year figure is the 12-month recovery in the markets. This once again just shows the resilience of the US Economy and the consumer to recover from COVID.

Now that we have recovered and the market is hitting all-time highs, it's time to do a little Spring Cleaning on your portfolios and finances. By that, we mean revisit your cash flow needs for 2021 to plan for a volatile market, rebalance your investments to manage the risk and make sure you make your annual increase in contributions to your 401ks, other retirement plans or savings accounts to make sure your financial plan stays on track.

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MARKET PULSE (As of 03.31.2021)

Index	YTD	1 year	3 year	5 year
Dow Jones Ind Avg	8.3%	53.8%	13.6%	16.0%
S&P 500	6.2%	56.4%	16.8%	16.3%
MSCI EAFE	3.6%	45.2%	6.5%	9.4%
Barclays Agg Bond	(3.4%)	0.7%	4.7%	3.1%
Barclays Muni Bond	(0.3%)	5.5%	4.9%	3.5%
Barclays High Yield	0.8%	23.7%	6.8%	8.1%
BBgBar 3-Mo T-Bill	0.0%	0.1%	1.5%	1.2%

Source:Baird's 1Q21 Market Chartbook

Inflation – A Risk or an Opportunity

One of the most common questions or discussions of 2021 we are having with our clients is on the topic of inflation. Inflation, by definition, is the decline in purchasing power of a currency over time. A simple way to put it, it is at the rate the cost of goods and services goes up over time.

The reason inflation is becoming such a hot topic is people are starting to get a concern of the amount of spending our current government is spending to fight COVID ($6 Trillion), increasing consumer demand as the economy "reopens", and a backlog of goods and services as aspects of the global supply chain are

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struggling. When all these aspects of supply, demand and monetary policy come together, inflation comes to everyone's mind.

Now the question from there is, what do we do about it and is inflation a problem?

In short, no…there is nothing one individual can do to slow inflation itself and is it a problem, well not yet. In addition, it is difficult to predict "when" inflation becomes a problem. I can't take credit for this, but someone said *inflation is a problem when it gets too high and inflation is too high when it becomes a problem.* Essentially no one can really put a specific % on the rate at which inflation becomes a problem, so it just becomes something you need to plan for.

How to prepare for inflation is a multipronged approach.

1. Revisit your annual living expenses. – An accurate cash flow needs helps us prepare our financial plans to project the future costs of living.

2. Do not invest TOO conservatively – Having an investment portfolio that is too conservative may help you sleep at night, but it shouldn't be expected to protect you against inflation as rates rise and performance lags cost of living. Equity exposure is typically needed to outpace inflation. You may need equity exposure to outpace inflation.

3. Inflation is not created equally – Different goods and services are impacted by rising prices differently. Costs of medical expenses, school tuition and childcare will likely increase faster than TVs, and other items.

In the end, no one knows if or when inflation will become an issue for our clients, but we also know it can't be ignored. During a recent webinar a strategist said, "risks are only a risk if they are not planned for", and we are planning for this one.

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Breakdown – American Rescue Plan Act of 2021

Below are key excerpts from Baird's Overview of the American Rescue Plan Act of 2021

The $1.9 trillion economic stimulus package initially proposed in mid-January has officially been passed into law. After several modifications were made to the bill, including the removal of the minimum wage provision, the American Rescue Plan Act of 2021 was passed by the Senate in a 50-49 vote, and subsequently signed by President Joe Biden on March 11, 2021. The bill allocates funds to state and local governments, schools, COVID-19 testing and vaccination programs, small business programs and various other industries significantly impacted by the pandemic. The bill also expands on many of the measures provided in the CARES Act and Consolidated Appropriations Act, 2021 (CAA), benefiting small businesses and low-income families.

Recovery Rebates

The recently enacted American Rescue Plan Act of 2021 includes a third round of stimulus payments amounting to $1,400 per qualifying individual. This includes both adults and children, meaning a family of four could receive up to $5,600. Unlike the previous rounds, adult dependents, including college students and older adults, are considered eligible dependents and can therefore add another $1,400 to the household total. The amount received will be based on the taxpayer's 2020 tax return, however, the 2019 return will be used if a 2020 return has not been filed and completed. For social security recipients who are not required to file a return, the rebate will be based on the individual's 2020 social security information pulled from Form SSA-1099 or Form RRB-1099, in the case of railroad retirement benefit recipients. This round of stimulus payments will phaseout quicker than the previous two rounds. Taxpayers will receive the full amount if adjusted gross income is at or below $150,000 for joint returns, $112,500 for head of household returns, and $75,000 for single returns. The payment is fully phased out at an AGI of $160,000 or more for married filers, $120,000 or more for head of household filers and $80,000 or more for single filers.

The payment is considered an advanced 2021 tax credit. Therefore, upon the filing of the 2021 income tax returns, the payment amount will be recalculated based on the taxpayer's 2021 adjusted gross income. As was the case with the previous stimulus payments, if the calculated amount on the 2021 tax return is less than the amount already received, there will be no requirement to pay back the difference. Therefore, taxpayers whose income increased in 2020 compared to 2019 may want to hold off on filing their 2020 tax returns to ensure the payment is calculated based on their lower, 2019 income.

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Child Tax Credit

The Act also provides several modifications to the child tax credit currently in place. These modifications are temporary, however, and will only be effective for the 2021 tax year. Under current law, taxpayers may claim a child tax credit equal to $2,000 per child on their tax return, with only $1,400 being refundable. For 2021, the credit amount is increased to $3,000 per child ($3,600 for children under age 6) and is fully refundable. Additionally, the maximum age for children to qualify is temporarily increased from 16 years old to 17 years old. The credit is subject to two separate phaseouts. The amount in excess of the current law's $2,000 credit is phased out by 5% of the taxpayer's modified adjusted gross income (MAGI) above $150,000 for joint returns, $112,500 for head of household returns, and $75,000 for single returns. Once the excess amount is fully phased out, the remaining $2,000 is subject to the current law's phaseout thresholds (phaseout begins at $400,000 for joint filers and $200,000 for all other filers). The bill also directs the IRS to estimate the taxpayer's child tax credit and pay half the amount in advance periodically (ideally on a monthly basis) beginning July 1, 2021. The remainder will be received when the 2021 income tax return is filed, whereby the full credit amount can be claimed and reduced by the amounts paid in advance. Unlike the recovery rebates, child tax credits received in advance by taxpayers who are ultimately ineligible for the credit may be subject to a claw back on their 2021 income tax return. Taxpayers will be able to opt out of receiving advanced payments or provide information regarding a change in filing status that would impact the credit amount through an IRS website (not made available as of the date of this article)

Child and Dependent Care Credit

As with the other tax credit changes, the bill temporarily increases the child and dependent care credit for the 2021 tax year. Taxpayers that incur childcare or dependent care costs so that they can work, or look for work, may be eligible to claim the child and dependent care credit. Currently, taxpayers can claim a credit equal to 35 percent of up to $3,000 in qualified expenses ($6,000 for two or more dependents). This percentage is reduced by 1 point for every $2,000 of AGI that exceeds $15,000, not to be reduced below 20%. For example, assume Doug and Sue incurred $10,000 in childcare costs for the 2020 tax year. Up to $3,000 can be utilized in calculating the credit amount and their AGI of $156,000 would reduce their credit percentage to the minimum 20%. Therefore, they are eligible for a child and dependent care credit of $600 [$3,000 x 20%]. Under the American Rescue Plan Act, the maximum percentage is increased to 50 percent and the maximum in qualified expenses on which the credit is based is increased to $8,000 ($16,000 for

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two or more dependents). Like the child tax credit, the new child and dependent care credit is subject to two separate phaseouts.

First, the 50 percent is reduced by 1 point for every $2,000 of AGI that exceeds $125,000. Once the additional credit amount is fully phased out, the 20% original credit percentage applies. The 20% is not reduced until AGI reaches $400,000. Once this income level is reached, the 20 percent will continue to decrease, and taxpayers will no longer be eligible to claim the credit once AGI equals $440,000. Continuing with the previous example, assume Doug and Sue again incurred $10,000 in childcare costs in 2021. Under the new bill, up to $8,000 can be utilized in calculating the credit; however, their AGI of $156,000 would reduce the 50% maximum credit percentage by 16% [($156,000-$125,000)/$2,000]. Therefore, they are eligible for a child and dependent care credit of $2,720 [$8,000 x 34%]. Under current law, the credit is nonrefundable, meaning it cannot be utilized unless the taxpayer has a tax liability, however, the credit will be fully refundable in 2021 only.

When claiming the child and dependent care credit, the maximum amount of qualified expenses on which the credit is calculated must be reduced by any employer-provided dependent care benefits excluded from income. Currently the maximum exclusion is $5,000 ($2,500 in the case of a married taxpayer filing separately); however, the bill temporarily increased this amount to $10,500 for the 2021 tax year ($5,250 for a married taxpayer filing separately).

Forgiven Student Loan Exclusion

Under current law, forgiven student loans are considered taxable income, unless certain conditions are met, such as death or disability of the borrower. The American Rescue Plan Act expands the exclusion eligibility to all federal student loan amounts forgiven after 2020 and before 2026 for any reason. Therefore, if a federal student loan is discharged between January 1, 2021 and December 31, 2025, the discharged amount does not need to be included in taxable income. Although not included in this bill, this provision seems to imply that broader student loan forgiveness could apply in the future.

While there were several other provisions included in the American Rescue Plan Act of 2021, those mentioned above are likely to have a significant impact on lower income households and small business in the 2021 tax year. Even though many of these provisions won't appear impactful until the 2021 tax filing season, taxpayers should begin the discussions with their tax advisors now to ensure they are taking advantage of these tax savings opportunities where possible. A full copy of the bill can be found on Congress.gov.

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Baird's Update on "Work From Home"

As you know, last year we asked for patience as we transitioned to a "work from home" set up for the team, well we are going to ask for the same as we transition to a "Back to the Office".

Early March the Baird Waukesha office reopened to associates at 100% capacity due to our local COVID numbers tracked by Johns Hopkins. This meant that all employees were eligible to come back to the office to work but were not required.

As of this newsletter, Baird policies have indicated that there isn't a mandatory in office presence and there will likely be a work from home option for our teams in some capacity going forward.

Currently our team is committing to having at least one Financial Advisor and one support member in the office every day during office hours to handle any drop offs, mail and incoming phone calls. Team members who are working from home are also available just like we have been during the past year.

We are currently offering in-person meetings and client reviews in our office. We are unable to meet with clients in other office locations. At this time, we only have two large conference rooms available so occasionally scheduling can be difficult due to other meeting needs in the office. So do not be surprised if meetings needs to be scheduled three or four weeks in advance. In addition, Baird's policy requires clients coming into the office to wear a mask.

Obviously, we are still happy to meet with clients virtually via WebEx or over the phone.

Thanks again for your patience as we transition "Back to the Office".

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Reminder

2020 Tax deadlines have now been postponed to May 17th, 2021. This includes the deadline to make your 2020 IRA contributions.

2021 Estimated tax payments are still due on April 15th, 2021.

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