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INSIDE:

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A FOCUS ON TAXES

Lot of changes due to IRS clarifications, comments

John A. Kvale, CFA, CFP ®

Some punting of changes due to complexity

As we begin this newsletter, the challenge is to adhere to our goal to have shorter more singular articles but with the subject matter of taxes, everything tends to blend together.

This, our lead article, will focus on our fantastic new total tax table (see Page 2) and our editor's fine job of accentuating this new pristine table here in the newsletter.

This Cheat Sheet will also be prominently available on our website for your review and for your download if you are so inclined.

We have taken the initiative to highlight the various frequently used or confusing data points in this comprehensive table. We know with comprehensiveness of this nature it can be a bit daunting even to us as we look at the various rules and admire just how complex the tax laws have become. We will use this sheet as our legend and likely talk about this throughout the year. (Note: Key Financial Data, Page 2)

(see **529 Plan**, Page 3)

User hints, workflow thoughts

Tax related Schwab/TDAmeritrade reminders

Dual tax forms in most cases – TDA, Schwab holding period

With taxes dominating our newsletter theme, we wanted to remind clients in almost every case there will be TWO tax documents for each account.

We say almost as many of those RMD (Required Minimum Distributions) recipients who only take an annual lump sum were completed before the merger, which will mean there will only be a tax form from the TDAmeritrade holding period.

(see **Email**, Page 5)

KEY FINANCIAL DATA 2024

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2024 Tax Rate Schedule

Taxable income ($)	Base amount of tax ($)	Plus	Marginal tax rate	Of the amount over ($)
Single				
0 to 11,600		+	10.0	
11,601 to 47,150	1,160.00	+	12.0	11,600.00
47,151 to 100,525	5,426.00	+	22.0	47,150.00
100,526 to 191,950	17,168.50	+	24.0	100,525.00
191,951 to 243,725	39,110.50	+	32.0	191,950.00
243,726 to 609,350	55,678.50	+	35.0	243,725.00
Over 609,350	183,647.25	+	37.0	609,350.00
Married filing jointly and surviving spouses				
0 to 23,200		+	10.0	
23,201 to 94,300	2,320.00	+	12.0	23,200.00
94,301 to 201,050	10,852.00	+	22.0	94,300.00
201,051 to 383,900	34,337.00	+	24.0	201,050.00
383,901 to 487,450	78,221.00	+	32.0	383,900.00
487,451 to 731,200	111,357.00	+	35.0	487,450.00
Over 731,200	196,669.50	+	37.0	731,200.00
Head of household				
0 to 16,550		+	10.0	
16,551 to 63,100	1,655.00	+	12.0	16,550.00
63,101 to 100,500	7,241.00	+	22.0	63,100.00
100,501 to 191,950	15,469.00	+	24.0	100,500.00
191,951 to 243,700	37,417.00	+	32.0	191,150.00
243,701 to 609,350	53,977.00	+	35.0	243,700.00
Over 609,350	181,954.50	+	37.0	609,350.00
Married filing separately				
0 to 11,600		+	10.0	
11,601 to 47,150	1,160.00	+	12.0	11,600.00
47,150 to 100,525	5,426.00	+	22.0	47,150.00
100,526 to 191,950	17,168.50	+	24.0	100,525.00
191,951 to 243,725	39,110.50	+	32.0	191,150.00
243,726 to 365,600	55,678.50	+	35.0	243,725.00
Over 365,600	98,334.75	+	37.0	365,600.00
Estates and trusts				
0 to 3,100		+	10.0	
3,101 to 11,150	310.00	+	24.0	3,100.00
11,151 to 15,200	2,242.00	+	35.0	11,150.00
Over 15,200	3,659.50	+	37.0	15,200.00

Standard Deductions & Child Tax Credit

Filing status	Standard deduction
Married, filing jointly and qualifying widow(er)s	$29,200
Single or married, filing separately	$14,600
Head of household	$21,900
Dependent filing own tax return	$1,300*
Additional deductions for non-itemizers	
Blind or over 65	Add $1,550
Blind or over 65, unmarried & not a surviving spouse	Add $1,950
Child Tax Credit	
Credit per child under 17	$2,000 ($1,700 refundable)
Income phaseouts begin at AGI of:	$400,000 joint, $200,000 all other

Tax Rates on Long-Term Capital Gains and Qualified Dividends

If taxable income falls below $47,025 (single/married-filing separately), $94,050 (joint), $63,000 (head of household), $3,150 (estates)	0%
If taxable income falls at or above $47,025 (single/married-filing separately), $94,050 (joint), $63,000 (head of household), $3,150 (estates)	15%
If income falls at or above $518,900 (single), $291,850 (married-filing separately), $583,750 (joint), $551,350 (head of household), $15,450 (estates)	20%

3.8% Tax on Lesser of Net Investment Income or Excess of MAGI Over

Married, filing jointly	$250,000
Single	$200,000
Married, filing separately	$125,000

Exemption Amounts for Alternative Minimum Tax**

Married, filing jointly or surviving spouses	$133,300
Single	$85,700
Married, filing separately	$66,650
Estates and trusts	$29,900
28% tax rate applies to income over:	
Married, filing separately	$116,300
All others	$232,600
Exemption amounts phase out at:	
Married, filing jointly or surviving spouses	$1,218,700
Single and married, filing separately	$609,350
Estates and trusts	$99,700

Gift and Estate Tax Exclusions and Credits

Maximum estate, gift & GST rates	40%
Estate, gift & GST exclusions	$13,610,000
Gift tax annual exclusion	$18,000
Exclusion on gifts to non-citizen spouse	$185,000

Education Credits, Deductions, and Distributions

Credit/Deduction/Account	Maximum credit/deduction/distribution	Income phaseouts begin at AGI of:
American Opportunity Tax Credit/Hope	$2,500 credit	$160,000 joint $80,000 all others
Lifetime learning credit	$2,000 credit	$160,000 joint $80,000 all others
Savings bond interest tax-free if used for education	Deduction limited to amount of qualified expenses	$145,200 joint $96,800 all others
Coverdell	$2,000 maximum; not deductible	$190,000 joint $95,000 all others
529 plan (K-12)	$10,000 distribution	None
529 plan (Higher Ed.) †	Distribution limited to amount of qualified expenses	None

Tax Deadlines

- January 16 – 4th installment of the previous year's estimated taxes due
- April 15 – Tax filing deadline, or request extension to Oct. 15. 1st installment of 2024 taxes due. Last day to file amended return for 2020. Last day to contribute to: Roth or traditional IRA for 2023; HSA for 2023; Keogh or SEP for 2023 (unless tax filing deadline has been extended).
- June 17 – 2nd installment of estimated taxes due
- September 16 – 3rd installment of estimated taxes due
- October 15 – Tax returns due for those who requested an extension. Last day to contribute to SEP or Keogh for 2023 if extension was filed.
- December 31 – Last day to: 1) pay expenses for itemized deductions; 2) complete transactions for capital gains or losses; 3) establish a Keogh plan for 2024; 4) establish and fund a solo 401(k) for 2023; 5) complete 2024 contributions to employer-sponsored 401(k) plans; 6) correct excess contributions to IRAs and qualified plans to avoid penalty.

* Greater of $1,300 or $450 plus the individual's earned income.
** Indexed for inflation and scheduled to sunset at the end of 2025.
† $10,000 lifetime 529 distribution can be applied to student loan debt.

Check with your financial professional for updates.

Retirement Plan Contribution Limits

Annual compensation used to determine contribution for most plans	$345,000
Defined-contribution plans, basic limit	$69,000
Defined-benefit plans, basic limit	$275,000
401(k), 403(b), 457(b), Roth 401(k) plans elective deferrals	$23,000
Catch-up provision for individuals 50 and over, 401(k), 403(b), 457(b), Roth 401(k) plans	$7,500
SIMPLE plans, elective deferral limit	$16,000
SIMPLE plans, catch-up contribution for individuals 50 and over	$3,500

Individual Retirement Accounts

IRA type	Contribution limit	Catch-up at 50+	Income limits
Traditional nondeductible	$7,000	$1,000	None
Traditional deductible	$7,000	$1,000	If covered by a plan: $123,000 - $143,000 joint $77,000 - $87,000 single, HOH 0 - $10,000 married filing separately If one spouse is covered by a plan: $230,000 - $240,000 joint
Roth	$7,000	$1,000	$230,000 - $240,000 joint $146,000 - $161,000 single & HOH 0 - $10,000 married filing separately
Roth conversion			No income limit

Health Savings Accounts

Annual limit	Maximum deductible contribution	Expense limits (deductibles and co-pays)	Minimum annual deductible
Individuals	$4,150	$8,050	$1,600
Families	$8,300	$16,100	$3,200
Catch-up for 55 and older	$1,000		

Deductibility of Long-Term Care Premiums on Qualified Policies

Attained age before close of tax year	Amount of LTC premiums that qualify as medical expenses in 2024
40 or less	$470
41 to 50	$880
51 to 60	$1,760
61 to 70	$4,710
Over 70	$5,880

Medicare Deductibles

Part B deductible	$240.00
Part A (inpatient services) deductible for first 60 days of hospitalization	$1,632.00
Part A deductible for days 61-90 of hospitalization	$408.00/day
Part A deductible for more than 90 days of hospitalization	$816.00/day

Social Security

Benefits		
Estimated maximum monthly benefit if turning full retirement age (66) in 2024	$3,822	
Retirement earnings exempt amounts	$22,320 under FRA $59,520 during year reach FRA No limit after FRA	
Tax on Social Security benefits: income brackets		
Filing status	**Provisional income***	**Amount of Social Security subject to tax**
Married filing jointly	Under $32,000 $32,000-$44,000 Over $44,000	0 up to 50% up to 85%
Single, head of household, qualifying widow(er), married filing separately and living apart from spouse	Under $25,000 $25,000-$34,000 Over $34,000	0 up to 50% up to 85%
Married filing separately and living with spouse	Over 0	up to 85%
Tax (FICA)		
SS tax paid on income up to $168,600	**% withheld**	**Maximum tax payable**
Employer pays	6.2%	$10,453.20
Employee pays	6.2%	$10,453.20
Self-employed pays	12.4%	$20,906.40
Medicare tax		
Employer pays	1.45%	varies per income
Employee pays	1.45% plus 0.9% on income over $200,000 (single) or $250,000 (joint)	varies per income
Self-employed pays	2.90% plus 0.9% on income over $200,000 (single) or $250,000 (joint)	varies per income

*Provisional income = adjusted gross income (not incl. Social Security) + tax-exempt interest + 50% of Social Security benefit

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Medicare Premiums

2022 MAGI single	2022 MAGI joint	Part B Premium	Part D income adjustment
$103,000 or less	$206,000 or less	$174.70	$0
103,001-129,000	206,001-258,000	$244.60	$12.90
129,001-161,000	258,001-322,000	$349.40	$33.30
161,001-193,000	322,001-386,000	$454.20	$53.80
193,001-500,000	386,001-750,000	$559.00	$74.20
Above 500,000	Above 750,000	$594.00	$81.00

Uniform Lifetime Table (partial)

Age of IRA owner or plan participant	Life expectancy (in years)	Age of IRA owner or plan participant	Life expectancy (in years)
73	26.5	89	12.9
74	25.5	90	12.2
75	24.6	91	11.5
76	23.7	92	10.8
77	22.9	93	10.1
78	22.0	94	9.5
79	21.1	95	8.9
80	20.2	96	8.4
81	19.4	97	7.8
82	18.5	98	7.3
83	17.7	99	6.8
84	16.8	100	6.4
85	16.0	101	6.0
86	15.2	102	5.6
87	14.4	103	5.2
88	13.7	104	4.9

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A FOCUS ON TAXES

529 Plan fantastic for young, but don't overfund

(continued from Page 1)

So let's get started with the analysis and the important data points that will pull all of this together.

In late December of 2022 the Secure Act 2.0 was passed. This act garnered many changes that we have recently experienced over the year but there were also several items that were undeterminable and later defined in 2023 that will commence in 2024, and some even follow up from the 2020 Secure Act 1.0.

New rules for 529's clarified – Roll to Roth but limitations

The passage of the Secure Act 2.0 garnered in high level rhetoric of new laws that excited us in the form of not stranding 529 plans. We cautiously touched on this several times throughout the year and now have clarity which brings us back to our original thoughts on 529 plans; which are, we want to keep a careful eye on not stranding assets in them or overfunding them unless very specifically stated techniques or goals.

The Secure Act 2.0 had high level language stating that a 529 could be exchanged into a Roth if not used. With hopes, we followed this throughout the year, and while the statement is true on the surface, the reality is not as good, which we had originally feared.

Where the rules came down on this finally were that essentially after having a 529 for an extended period of time and not using the resources, it could be converted tax free into a Roth IRA but only up to the regular annual max Roth contribution amount. Our problem with this is any 529 of size left stranded may literally be impossible to extinguish into a Roth given the relatively low level of Roth contributions. Said in other words using today's dollars if your 529 earns more than the $7,000 Roth contribution limit it's not going to be extinguishable.

So going full circle on our 529 thoughts, we recommend not overfunding willingly although there are some estate planning possibilities, but these force some very long foresighted expectations of family lineage.

As a quick refresher, 529 plans are after-tax contributions that grow tax deferred thereby making early contributions most appealing. Those living in states that have a state income tax deduction for contributions, it makes sense on an annual basis even if funds are not long term, with the expectation of a quick removal, those contributions are usually around the $10,000 annual level to offset income taxes earned in the state of contribution.

Not all is lost! Other uses and transfer to close relatives

The good news about an overfunded 529 - it's a nice problem to have of course - there are relatively liberal transfer abilities to relatives of close lineage (cousins) under current rules; as an example, as long as funds are being used for higher education, and with some limits, lower education without tax consequences.

What are the penalty tax consequences of withdrawal?

Withdrawal of a 529 plan under current tax law not used for higher education triggers taxes on the untaxed capital appreciation as well as a 10% penalty tax on this on appreciation. Not the end of the world. Especially not the end of the world if the contributions were made later in the beneficiary's life which would assume there is not a lot of appreciation.

So to close the loop on 529's, fantastic plan most appropriate for everyone at a young age, with an eye not to overfund and a very useful tool for those in income tax state deductible residences no matter the age of contribution.

(Continue A FOCUS ON TAXES, Page 4)

A FOCUS ON TAXES

Beneficiary Required Minimum Distribution jostling

Ignoring the 10 year empty rule

A heads up on a very likely required minimum distribution tax law to occur in 2024. **IRA Beneficiaries inheriting IRA's that had already started RMD mandates, may start up again, AND also have the 10 year empty rule.**

We try to make it a point not to talk too much about rules, laws or regulations that are not in effect. Given this fact we will not spend too much time on this subject matter as this is a rule that is very much in flux but our tax advisors that are plugged in to the appropriate channels feel there is a very high probability of this passing.

The Secure Act 1.0, first commencing Jan. 1, 2020, changed Required Minimum Distribution (RMD) rules to allow for a non mandatory distribution as long as the funds were emptied from the beneficiaries account by the end of 10 years.

Prior rules allowed for the beneficiary to draw based on his/her age thereby allowing a very lengthy draw presumably taxable mandatory draw over the lifespan of the beneficiary.

At the time, not a terrible trade off, given a 10 year window to disperse.

It is highly likely that there will be rules that mandate those under this new 10 year window, if the descendant had commenced RMD's will be forced to continue at the original rate and will additionally be forced to empty the beneficiary IRA account by the end of the 10 year term if this does not happen automatically.

The one catch is the tracking of restarting this mandate, so there may be relief but those with good insight are saying most likely this will be implemented.

Required minimum distribution age change allowed for spouse

On a good news note and also associated with Required Minimum Distributions, should a spousal beneficiary wish to keep the younger descendant spouses age there is an election to do so starting in 2024.

In less technical terms, this means should a beneficiary be much older than the spouse who passed, the surviving spouse will be able to choose to keep the younger age timeline for distribution thereby lessening the magnifications of the distribution.

The 401K catch up Roth mandate Punt - rule

Also buried in the Secure Act 2.0 was a very obscure and confusing rule that mandated certain income thresholds make their catchup provisions to regular retirement plans, most notably 401K's, switch from pre-tax to after tax Roth contributions starting in 2023.

We happily remained silent on this subject as the rule was so poorly written and confusing, implementation seemed impossible.

Thankfully after biting our nails a bit, as our post on Street-Cents (https://street-cents.com/2023/08/28/irs-punts-to-2026/) noted on Aug. 29, 2023 the IRS punted this rule to 2026.

With a lot of time between now and 2026 we will keep an eye on this rule but would not be surprised at all due to the complications of implementing a mandate of this type if this rule is totally reversed, again due to its complication.

(Continue A FOCUS ON TAXES, Page 6)

User hints, workflow thoughts

Email notifications overwhelming; Early arrival takes out stress

(continued from Page 1)

For after tax investment and any regular monthly IRA type of transactions, two tax forms will arrive, one from each handling period.

We will continue to remind everyone, especially during tax time but it is of course VERY important we report both to the IRS as they will be looking to reconcile from their side and missing taxable income is the easiest way to draw their attention.

User notes –

Schwab love of email notifications – Overwhelming!

As we learn the actual ins and outs of the uses on the new platform (Schwab), we would like to note that email notifications are used for almost any and all movement or changes. Email notifications are even used for those very few who still receive paper statements.

Much like a duck on the water, you do not see the paddling of feet underneath the surface, long time clients may be surprised to see how much we are doing behind the scenes: money movement, investment sales/buys, transfers, address change, email change, tax withholding change, cash reinvestments, mutual fund reinvestment, un-reinvestment of both cash and mutual funds and even regularly monthly deposits or withdrawals.

Updates to any of these generate an email notification. A bit overkill and we are in the process of requesting limitations on these but just for a heads up now, email notifications may be the norm for the time being.

Email versus phone number contact – Two factor authorization

Surprisingly, given the aforementioned user note, something we have complete access to update for you is your EMAIL. This is the total opposite of prior rules.

With two factor authorization being a staple of the new systems, we cannot touch in any way a phone contact for each of you. Two factor authorization is the fraud prevention system of sending a code to your cell contact to allow access and is the staple of security for the new systems. Not bad of course, just different and new. We will all adapt.

Workflow thoughts –

Take the stress out – All about fraud

Mid November we posted a funny post on www.streetcents.com about road warrior buddies arriving to the airport early to take the stress out. With fun comments, and further details here, we wanted to expand slightly and give the reasons.

All about fraud

The slowness for completing items related to money movement, ESPECIALLY new instructions, are about fraud protection.

Any item that is delayed is almost always a fraud related issue. With cyber crooks on the prowl, measuring twice and cutting once is the name of the game in any technological platform, especially when involving money.

Arrive early examples:

- Allow at least a week for new wire/money set up instructions.
- As soon as you know the date of an address change, let us know. We can prefill the change and have the date ready to change well in advance.
- Title changes, such as Trust, names or other requests generally take a back seat to money movement, due to natural urgency and as such are longer processing.
- Peak times of the year i.e. end of the year, tax deadlines i.e. April 15th will be slower processing and with slower processing comes greater mistake probability. Let's arrive early and take the stress out of these well-known bottleneck times.

We completely understand emergencies and one-off items occur and certainly accommodate but if we can arrive early and take the stress out, it is helpful for all parties.

In closing, we greatly appreciate all of your patience as we learn new, not bad but different workflows and reporting.

JK

Capital market thoughts, comments

Work still needs to be done

Since we are running short on space, we will keep these comments to the most direct and short. What follows are three high level Macro items worth noting.

Inverted yield curve(s)

One of the best predictors of a slowdown is an inverted yield curve. When the curves (90 day and two year versus the 10 year, see chart) initially inverted, the questions were when the slowdown or recession would occur. Fast forward to today, it seems as everyone has forgotten the yield curve is still inverted.

Concentration

The 20 year chart (see Page 7) is the current Capital weighted (Total Market Value = weighting) less the equal weighted S&P 500 index. Smartly the

(see **Capital,** Page 7)

A FOCUS ON TAXES

Estate tax 2026 major change reminder

As highlighted in the upper right hand portion of our new fancy CHEAT SHEET under estate and gift taxes, the current level of Estate Tax Exemption is $13.6 million per person. This is an adjustment upward for inflation expectations.

One of our main articles one year ago in our newsletter was concern about the dramatic changes that may occur in 2026. At the end of year 2025, this higher threshold for estate taxes, which are a very small percentage of IRS revenues and predominantly only affect the very large estates, think Bill Gates or Warren Buffett are set to adjust downward to a somewhat blurred but expected $6 to $8 million per person.

We once again are keeping an eye on this as there are dramatic estate planning adjustments that may be made especially if this lower threshold is adjusted farther down.

As an interesting historical note, when we first entered the investment world this estate planning level was $600k pushing almost everyone into an estate tax situation in today's dollars.

Closing A FOCUS ON TAXES

In closing, we apologize for the complexity. We of course are staying up on this diligently and try to bring it to you in the most straight forward terms possible and we also know repetition both on our Blog at www.street-cents.com and in the newsletter will help, so we will touch many of these points multiple times in the future, and of course stay up with any changes that occur. JK

Capital market thoughts, comments

(continued from Page 6)

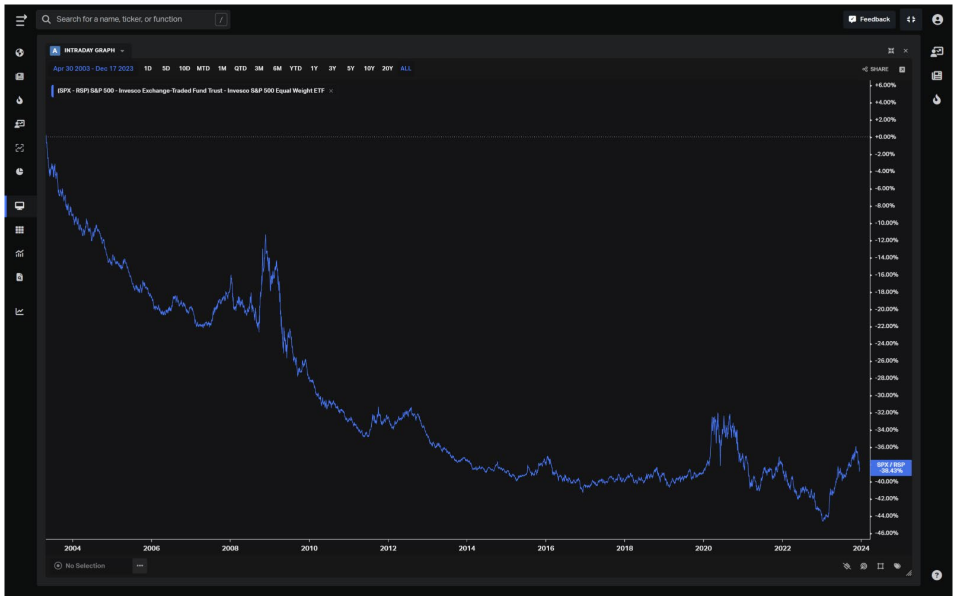
chart generally slopes downward to the right as the equal weighted index is of higher risk but a great measure of market health.

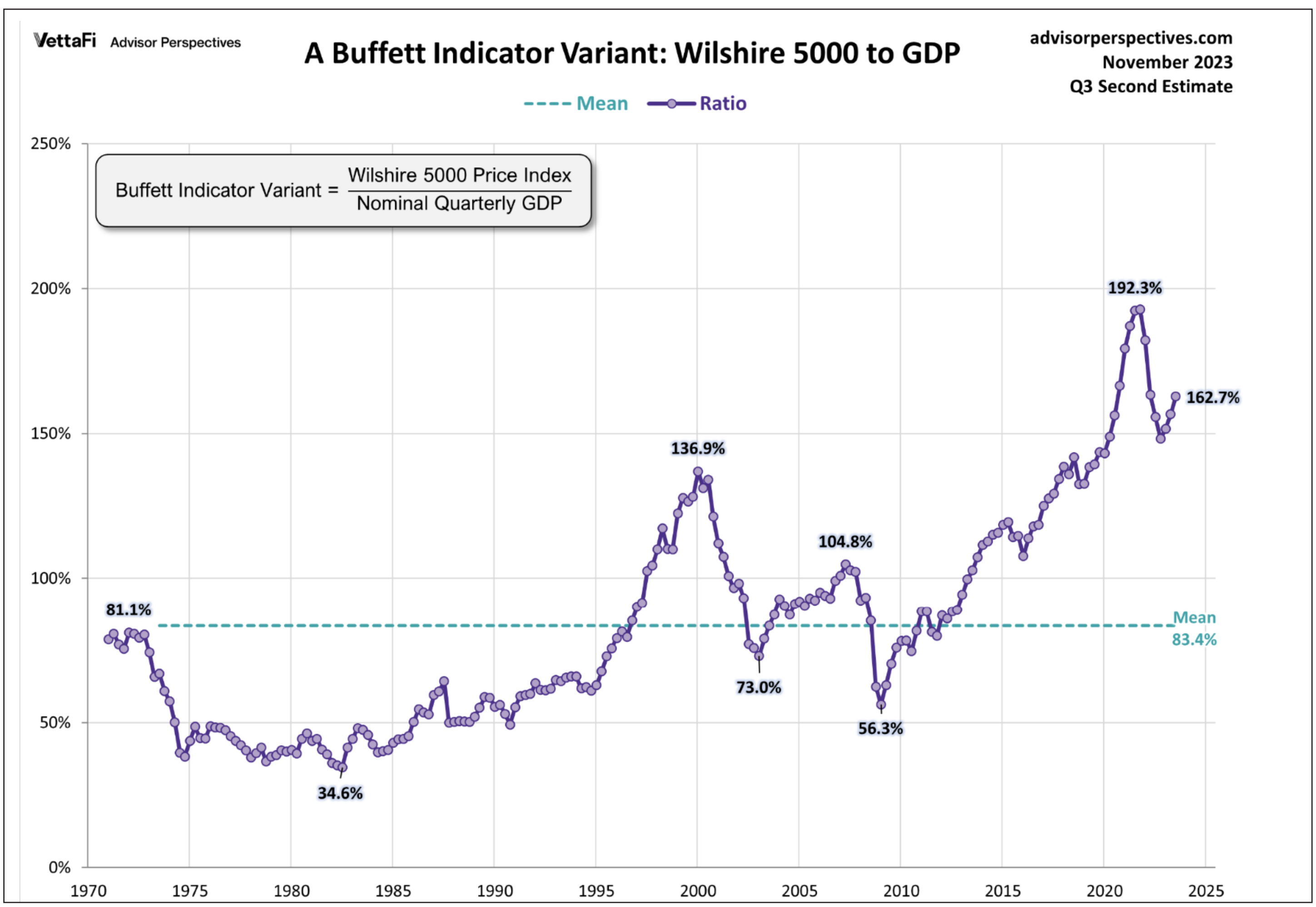
When the capital weighted index is greatly outperforming, the line goes the opposite direction and this often is a warning sign. Note times of prior larger spikes.

Valuation

The total economy versus the market value of stocks is a favorite Warren Buffet indicatory that measures risk. Currently at 162, well above the 84 level, risk exists. Source: https://www.advisorperspectives.com/dshort/updates/2023/12/05/buffett-valuation-indicator-november-2023-update

In closing, we will put the rose colored glasses on eventually, when appropriate but from a very high level these major data points (we have lots of others) along with just the general spirit of higher financing costs in the form of greater interest costs, lessens valuations of almost any asset. This is being ignored at the moment. JK





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Parting thoughts for you...

With a larger than normal amount of tax law changes, and such a great response last year to our tax tables, this newsletter is dominated by all things taxes once again. Sticking to our attempts to make each article shorter for pick up and put down attention, it gets tough in these types of subject matters as they all weave together.

Mid December, the federal open market committee led by Jerome Powell announced their intent to pivot. This means the intentions move from hiking rates to eventually lowering rates. Investors have wildly cheered this unexpected announcement. While we always look through a half glass full framework, there is still a lot of work to do. In our market related article, we touch on three elephant-in-the-room items. But rest assured there are another 15 or 20 data points that we are watching with similar concern.

Sounding a bit like a broken record, we do see much greener pastures ahead in 2024 but are not ready to waive the victory flag yet.

We are also happy to announce that by the time you are reading this, we will hopefully have an all new street-cents Blogsite that has been modernized and has some neat new features. Look for further announcements soon.

Have a wonderful start to a brand new year and we look forward to experiencing it together with you and thank you so much for your time. Cheers!

Dates:

Jan. 15 - Martin Luther King, Jr. day, markets closed

Feb. 19 - President's Day, markets closed

March 29 - Good Friday, markets closed