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3rd QUARTER 2019

New tax law review

Change will be new normal

After two decades worth of tax law changes, the first run through the new laws and actual completed tax returns has garnered some interesting findings worth noting as well as update reminders.



John A. Kvale,
CFA, CFP®

The end of this article includes a post from street-cents.com completed on the final due day of regular individual filings, when the subject matter was still very hot!

Just to keep things complicated, at the time of this article, there are several new laws being presented in various government agencies that are attempting to change the Required Minimum Distribution (RMD) mandates. We will keep updated (see Taxes, Page 2)

Inverted yield curve

Updates, history and current

The biggest news, and somewhat surprisingly only lightly spoken about during the recent quarter, was the inverted yield curve.

After a five day, mostly intra-

day inversions in March, full inversion occurred later in the quarter.

A normal yield curve slopes upward and to the right, representing greater rates as

(see Slowing, Page 4)

Social Security event and your questions

We had the opportunity to welcome back our terrific guest speaker and Social Security expert, Mr. Tom Clark. During the presentation Mr. Clark mentioned this was nearing his six thousandth – yes, 6,000 Social Security presentations to give.

With so many presentations under his belt, much of the information just rolls off his tongue in very clear but fast format. Luckily, with knowledge from our prior event with Mr. Clark, we knew he did not waste time with sentences and were prepared with five recorders located throughout the venue.

At our blog, street-cents.com with wonderful feedback from posting short audio clips along with explanations from the prior event, we intend on repeating this over the summer,

(see It won't, Page 5)

INSIDE:

- Taxes not higher but new thinking required

- Laws affect IRA distributions, SALT limit deductions; new tax forms/schedules not simple

- Slowing global economy concerns inverted yield curve

- It (Social Security) won't go away, marriage/divorce impacts, new laws

- Why we write Street-cents

- Summer plans

Don't miss our blog
www.street-cents.com



New tax law review

Taxes not higher but new thinking required

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but after two decades of relative minimal tax law changes, it appears change will be the new normal.

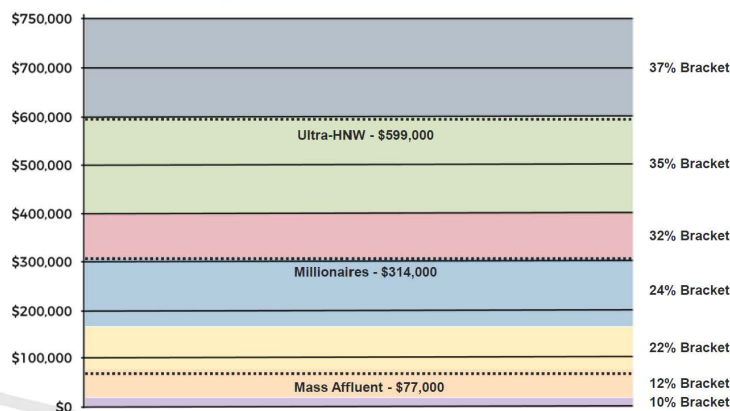
The chart at right from our friend Michael Kitces is a great visual of the current tax brackets. The purpose of this chart is a reminder of retired income tax brackets. With a standard deduction that is over \$12k, these 2018 rate thresholds are likely to be lower, especially for joint tax filers.

The chart below again from Kitces is a general reminder of the various ways to draw income at retirement in order to minimize the long term tax cost. Again, with lowered rates there are various possibilities.

We would have you take only one item from this entire chart and that is that

SETTING TAX EQUILIBRIUM

Finding Tax Equilibrium



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Handouts/Materials: kitces.com/FPADFW19

[@michaelkitces](https://twitter.com/michaelkitces)

under the new tax laws in certain circumstances it may make sense to accelerate IRA distributions, a likely unthinkable thought under the old laws.

Here is our post from streetcents.com on the final day of tax season, when our thoughts were very clear.

Tax Findings and thoughts from the 2018 Tax Season as we cross the finish line, finally!

Posted on April 15, 2019

Frequently our posts here act as a diary, for clarification, look back and for possible reference in the future.

With tax season officially ending today – thank goodness – we felt like no better time than the present to pin our thoughts on what we saw this tax season.

So here we go...

2018 new tax law review and thoughts

Initially as we entered the tax year, we heard rumors

(see Laws, Page 3)

TAX-EFFICIENT WITHDRAWALS

Coordinating Tax-Efficient Withdrawals...

Identifying Cash-Flow Sources (& Costs)	Account Sequencing (& Finding Tax Equilibrium)	Coordinating Portfolio Implementation (Asset Location)	Annual Adjustments
Income Focused	Taxable First	Asset Allocation	Transfer RMDs
Capital Gains Top-up	IRA First	Asset Location	Update Asset Location
Fully-Invested Total Return	Split		Partial Roth Conversions
	Partial Roth Conversions		Tax Loss Harvesting
	Tax Equilibrium		Tax Gain Harvesting

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New tax law review

Laws affect IRA distributions, SALT limit deductions; new tax forms/schedules not simple

(continued from Page 2)

and complaints of higher taxes – which on our first few returns, we found inaccurate.

As we carried through tax season we found that there were winners and losers and we will try to explain in greater detail for future reference for this time next year and for possible planning... for the record it was generally very hard to anticipate the winners from losers in advance as each situation seemed to have it's own twist.

This is in general and very broad terms as there are always exceptions, especially

hoped.

Folks and heavy tax state residences – Again due to SALT deduction, we saw limits being reached frequently.

Folks that just fell under the itemized deductions due to limitations from the new tax laws – Limited deductions held many under the standard deduction.

Charitable donors – but not heavily charitable donors – standard deduction comes in play.

And the winners:

Large families – Child credit in play here – \$2k credit per child helped.

Married couples – especially those that had been filing non-itemized returns in the past-higher deduction in play here – a net gain in the higher standard deduction.

Non itemizers – Those filing regular standard tax returns, usually found

meaningful benefit.

Business owners with qualified pass through taxes – lower tax rate at work here.

Real estate holdings that were not high property tax but possibly had meaningful interest expense – Although SALT limited much, interest expense was not limited in many cases.

So what have we learned?

Given the lower marginal tax rates in certain situations it likely makes sense to accelerate IRA distributions if one is in the appropriate asset position.

Heavy property tax real estate holdings may have limits, the SALT limit will greatly affect the deductions of such holdings.

While salt clumping – the clumping of the property taxes – may not work as well, charitable deduction clumping will work very effectively but needs planning. Clumping years of charity gifting to get over the standard deductions may provide greater benefit.

In closing, the thing we learned the most:

The new tax forms and all of their crazy schedules are horrible!

The effort to go to a simplified tax return was nice; however, it over complicated the details of any non-simple tax return.

We hope that in the future many of the schedules are enlarged or pulled to the front as it is very difficult to reconcile and reconcile tax returns with the current forms.

Have a great “last unofficial” tax day!



TAX LAWS

Given the lower marginal tax rates in certain situation it likely makes sense to accelerate IRA distributions if one is in the appropriate asset position.

when dealing with taxes.

First the losers:

Single taxpayers – With many deductions no longer allowed, simple standard deduction caused lower write offs in many cases.

Folks with heavy real estate right offs – SALT (State and Local Tax) deduction limited many. For the record, clumping did not work as well as we had

Slowing global economy concerns inverted yield curve

(continued from Page 1)

the term gets longer. This makes sense as the longer the term, the greater the risk and thus the greater the rate.

Rates are generally controlled by capital market participants. When participants buy especially with aggression in certain terms of the curve, rates will move. Greater aggressive buying will lead to LOWER rates as the price is pushed up.

The best term differential from a predictive standpoint is the very short term, 90 day yield versus the longer 10 year term. The graph (top) clearly shows the recession predictive nature of the inversion.

Different term differentials

As can be seen in the graph below, there are times when other differentials have inverted and a recession has not occurred.

The most important part of the graph is in the bottom right, which shows the great difference in time of an eventual recession.

Time ranges from just a few months to almost two years with an average of 14 months



according to this chart from our friends at JPMorgan. If we land on the average, our coming recession would be May of 2020.

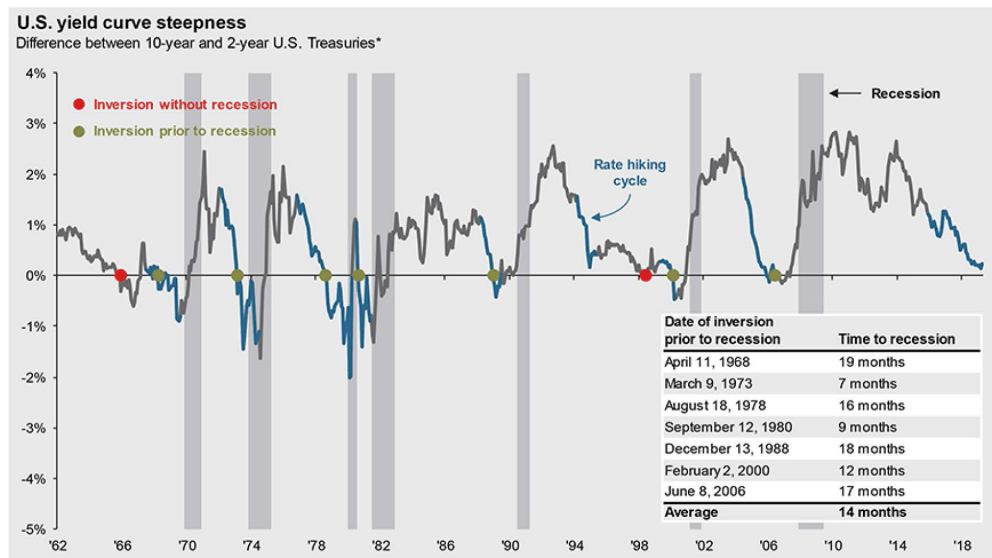
Late in the most recent quarter, we had the opportunity to listen to the Dallas Federal Reserve Chairman Robert Kaplan speak concerning his thoughts on the economy and rates. Sending a question via the moderator concerning the inverted yield curve directly garnered the following thoughts:

Kaplan thought, much like we did, that the small intraday inversions in March were less significant than the recent more severe inversion.

He believed the main reason for the inversion is concerns over a slowing global economy due to the trade/tariff wars. If a resolution is found in the near future, Kaplan felt strongly the curve would un-invert and normalize as, in his opinion global expectations for growth would increase.

Asked if Kaplan would vote for lowering rates to spur the economy he replied that he was neutral at this time and would not vote for raising or lowering rates.

Look for more on this along with recorded audio from the event at our blog www.street-cents.com.



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. *From January 1962 to May 1976, short-term bond is U.S. 1-year note, and from June 1976 onwards the short-term bond is the 2-year note due to lack of data availability. Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to recession and the onset of recession.
Guide to the Markets - U.S. Data as of April 30, 2019.

It won't go away, marriage/divorce impacts, new laws

(continued from Page 1)

likely in a large multiple part series. We look forward to sharing actual audio (Tom speaks very fast and covered a lot of ground) from the event in a multi-part post series over the summer months.

In answer to our request, you guys did GREAT and sent us tons of great questions before the fact. As a thank you, we wanted to answer many of those here in the newsletter now.



never began taking benefit.” Mr. Clark went on to state that this occurs only very randomly and happens because the benefit office accidentally let something slip through the cracks. Thinking this may have been fraud, we were very happy to learn of this situation.

4. November of 2015 ushered in new laws and changes. Are there any neat techniques that survived?

“Benefits, such as file and suspend and restricted application are still available to a few, who met the age restrictions at the time. This will change in the next few years as time passes, as each day we move

forward, fewer have access to these techniques,” according to Mr. Clark.

5. Can you explain non U.S. citizen spousal benefits?

While we spoke about almost everything imaginable, we did not speak on this topic. Fortunately the SSA (Social Security Administration) website has the following thorough answer: RS 02610.030 5 Year Residency Requirements for Spouses, Natural Child, Adopted Child, and a Parent

A. Spousal Relationships - Spousal relationships include spouses, widows/widowers, divorced spouses, surviving divorced spouses, or surviving divorced mothers or fathers.

1. When the Residency Requirement is Met An alien entitled to benefits as a spouse, widow/widower, divorced spouse, surviving divorced spouse, or surviving divorced mother or father must meet the following requirement: The alien must have resided in the U.S. for 5 or more years, and the alien must have been in a spousal relationship with the person on whose earnings record the entitlement is based for 5 or more years.

2. Period of Residency The 5-year period of residence: Does not have to be continuous; Nor does the same spousal relationship need to have existed for the entire period. An alien could have one, two or more of the spousal relationships to the NH during the U.S. residence. For example, the period as the spouse of the NH and a period as the widow/widower of the NH can be combined for the 5 year relationship.

6. We have been told many of the benefit statements are not always accurate, understating the actual eventual benefit. Has this been your experience?

Mr. Clark jested that it is a seven hour class to completely understand your benefits and as such there are inaccuracies.

7. How much can I earn and not receive penalties if I

(see Social, Page 6)

1. Last time we spoke you were VERY certain Social Security would be there for all of us upon retirement. With all the changes, do you still feel this way? (via email after the event)

No, Social Security can never go away for many reasons. One is the economic impact of Social Security. Just in the metroplex, Social Security now pays over a billion dollars in benefits each month. In Texas, Social Security pays over \$5 billion monthly. And that money is spent and ends up in other people's paychecks. 80-year-old Social Security beneficiaries are no longer saving for retirement so they spend those checks no matter the price of oil, gas, cotton and cattle. That money gets spent on airline tickets, cell phones, steak dinners, toys for grandkids, sales tax, property taxes, etc. It is a rare worker whose pay doesn't depend in part on that Social Security money being spent. Imagine how much worse the last recession would have been if the billion dollars a month wasn't being spent in the DFW area keeping all those stores and restaurants open. Before Social Security began paying benefits in 1940, the U.S. had never gone more than 31 years without a depression. We have had no depressions in the 79 years since 1940.

Also, the human cost would be tremendous. For 2/3 of persons over 65, Social Security is more than half their income. Right now, 9% of Americans over 65 live in poverty. Without Social Security, it would be 39% living in poverty and many millions just above the poverty line.

2. Can you explain the divorced verses divorced and remarried benefits?

Once someone is married for 10 years, they have accrued benefits from their spouse, irregardless of their earnings history. If they remarry before age 60, they may assume the earnings benefits of their new spouse, according to Mr. Clark. BEWARE. Should a spouse remarry to a much lower income earner, it could result in a diminished benefit.

3. Have you ever heard of someone being offered a lump sum of retroactive Social Security benefits?

“Yes, this would be an unusual occurrence and would have only happened if someone would have started an application, not completed the application and

Why we write Street-cents

Explanation of writings per question from readers/clients

(This article from our Blog at www.street-cents.com garnered so many comments we wanted to run it in our newsletter as well, as all the creativity for the newsletter is the same for the blog as noted in the post itself.

The funny thing about this post was the hesitation to actually post it after it was written. It was very personal and really gave you a peek behind the curtain on our thinking and workings. We just do not always know that you guys are so interested. So thank you for all the kind comments and remarks. We will continue to share the personal stuff occasionally. Posted on May 20, 2019)

It's unclear who pushed across the finish line the final decision to start a Blog – memory says a long-time journalistic teaching sister but the Mrs. says she had a hand in it – more to lose with crossing the latter than the former.

In 2010, almost 2,000 articles ago, this blog – Street-cents.com was started.

Recently an interesting article written by Seth Goden said the first 200 posts are the toughest. Not sure if that was true here but it did take some time to get organized into the current three times per week posts and the discovery of subject matter.

Our writings

Being shorter format here, when you guys show interest it spurs newsletter articles, future ideas (Part 2 or 3) and deeper dives into similar subjects.

All of our posts are original such the occasional spelling mistakes, apologies.

Articles are posted Monday, Wednesday and Friday at 10:30 a.m. Central time.

What a great way to pivot into subject matter based on YOUR interests.

What a great way to deliver information to a lot of people at once.

What a great way to speak to everyone during trying economic or market times.

Subjects are so varied that we know not all will apply. Our hope is to cover so much ground that we eventually hit everyone.

We do this for information, education, self-clarity, communication and to let you guys know what's going on in our lives.

When do posts get written?

Mostly at very odd times. The majority of this post was written during an early a.m. rain delayed tennis tournament from a hotel room while waiting for it to dry- not kidding – not sure why the ideas pop up but an attempt to get the information down here as it occurs seems to make for the best posts.

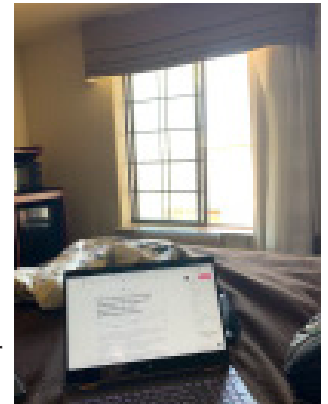
Why videos?

Video is to get you even more the spirit of our subject matter and for those less likely to read but visually or audibly inclined.

We love it when you comment.

Please share with your friends.

We are complimented and honored to have you take just a few minutes out of your day to read/listen to our thoughts. *R*



Social Security: Age likely to stay same, time to report

(continued from Page 5)

retire before my full retirement age?

\$17,640 for 2019! Easy picking for Mr. Clark

8. The full retirement age keeps being pushed out. Will this continue? Is there a schedule?

Not likely as too many people like the current system the way it is and do not want it changed, according to Mr. Clark. The current changes we made many decades ago and are just now finishing their way through the systems. (Our bet a possible means testing in the future as we have seen this already occur with Medicare premiums.)

9. How long do I have to report my Social Security earnings if they were not reported by an employer?

Three years, three months and 15 days.

10. For many years I did not draw on an ex-spouse's earnings by accident – using only my earnings benefit. Can I request some sort of look back to get my full benefits?

Unfortunately, this occurs because the SSA cannot keep track of ex-spouses and only has line of sight to the current spouse. An ex-spouse has the responsibility to keep track of this occurrence and notify the administration for benefits.

You guys did great and we thank you for making the event terrific and providing these questions. There were more and we hope to answer all of them during our multipart audio series blog posts this summer. *R*

Summer plans

Kvale's play tennis, enjoy beach, mountains

The newest family member, Zellie, will be coming along to non-plane travel tennis tournaments to help her owner and player (Sophia) through the up and downs of the longer (and much hotter) summer tournaments. Summer marks the most tournaments of the year as weather and schedules allow for an opportunity to play every weekend, an option we decline due to wear and tear on everyone.



Pierce will also begrudgingly be involved in the racket sport (he's actually very good but not his desire) just out of spill over events that are convenient and will keep him away from constant Fortnite with his friends. His real love? At least for the moment? Playing the guitar! Even has the hair to go along with it.



Mom and dad look forward to a quick beach trip between tournaments/rest and

an extended cooler mountain trip for the former, late in the summer, with family and the latter along with tennis player joining very late in the stay to rest and help with the drive back.



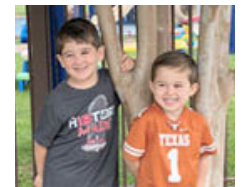
Speaking of driving back, a friend with an extra PT Cruiser convertible (over a decade old) sets the path for our first driver in the fall as we cross paths during the mountain trip and hope for an uneventful, top off journey back home.

Capone's enjoy summer in Houston in athletics, pool

As the family grows the summers seem to go faster and faster. Randi and I are excited to spend our first summer in Houston with Nathan. Isaac is beginning to become a multi-sport athlete as he begins his first summer in the YMCA basketball league. Asher begins his summer gymnastics program which he describes as his favorite thing to do.



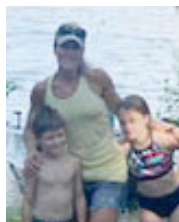
As always, we have lots of family time planned. Travel is a little harder with five but that makes the trips we are able to take all the more special. When the summer concludes we will have an official kindergartner who says his favorite thing to learn is math (happy Papa here!).



Even though it is hot in Houston, we love our weekend trips to the pool and maybe a popsicle or two to help cool us off. We hope that everyone has a wonderful, fun filled summer!

Hill family enjoys family retreat camping, swimming, boating

Lucky for us, my in-laws recently purchased a wonderful Lake House at Cedar Creek so our family has really appreciated the quick 50 minute drive to get out of the hustle and bustle of Dallas and relax by the water in the country. This summer, we plan to enjoy going



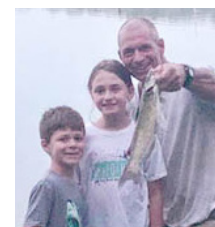
out there often to do some fun camping, swimming, take rides on our little boat and watch the pretty sunsets in the evenings.

While at the lake, my husband Jeremy will hopefully have the opportunity to do lots of fishing, which he truly loves, and my children Addison

(9) and Hunter (6) will enjoy lots of fun moments bonding with their cousins and playing all the sports they enjoy including volleyball, baseball, soccer and football.

Looking ahead at the next few months, there is also a lot on my tennis schedule, which always

makes me happy! I'll be playing in several competitive matches as well as a few tournaments and hope to continue working on improving my game while enjoying fun times with my lovely group of tennis friends on and off the court.





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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing.

Parting thoughts for you...


Some quarters are much busier than others. This quarter seems like one of our busiest ever, as we covered a lot of ground in finishing up the first in over two decades of tax changes and reviewing tons of tax returns. We hope you enjoy our tax review article.

Near the end of May we had our wonderful guest speaker Tom Clark discuss Social Security and Medicare in drinking from a fire hydrant like fashion. We touch on the questions that you guys sent us. Thanks again and expect real audio from the event on our blog at Street-cents as we make it through the summer.

We also posted a video that was a

question and answer professionally completed at one of the conferences earlier on in the first quarter. Thank you for the positive comments and feel free to direct anyone interested in our services to this recent video at our website or at our company Facebook page.

Lastly, we included a post from Street-cents that garnered tons of comments. We thank you for those comments and we thank you for the time that you take to read our work here and at Street-cents. The article was titled "Why we write" and we hope you enjoy it here in our newsletter as well.

Have a great summer. 

Dates:

July 4 - Independence Day- Capital markets closed

Sept. 2 - Labor Day - Capital markets closed

Oct. 15 - Extension for Regular 1040 due

Things to do now:

REVIEW finances as new tax laws apply. (Page 1)

WATCH global expectations for growth. (Page 4)

CHECK questions about Social Security. (Page 5)

READ Street-cents on Monday, Wednesday and Friday. (Page 6)