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1st QUARTER 2020

Why inheritance is usually not taxable

Several times in the most recent quarter we were asked, and discussed in detail, if an inheritance is taxable. Because of this repeated subject we thought it appropriate to broach the subject here.

John A. Kvale, CFA, CFP ®

Is an inheritance taxable?

For the most part, no, an inheritance is not taxable. There are of course exceptions (certain states have silly inheritance laws but these are slowly being repealed due to state resident desire). Under current tax law, upon death after tax investments receive a step up in basis, which means they are marked as the value of the deceased as fair value. This means that if an asset was purchased for just pennies decades ago, it's

(see **Immediate,** Page 2)

Buy or lease

Should you buy or lease next car

Long desired but fearful of repercussions of writing this article, we finally had the courage to jump in. Opinions on this subject are sometimes very strong (maybe even divisive!) on either side of the fence.

In doing research for this article we came across a very handy internet site, www.usedfirst.com.

(see **Leasing,** Page 4)

Recession thwarted? Maybe. A second more positive look. Remember the Scouts motto "Be prepared."

We have been crowing a lot about the inverted yield curve and the predictive nature it has on recessions.

The chart on Page 7 from FRED (St. Louis Federal Reserve Bank) is our go-to chart, as the history is long and it is easy to see when the yield curve inverts, a recession is not far behind.

With multiple decades of good data, we felt very comfortable that a recession is imminent but

(see **Our,** Page 7)

INSIDE:

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Immediate transfer of assets carries little tax burden to inheritor

(continued from Page 1)

new basis for the inheritor is the fair market value at the date of death.

As a side note for those thinking of gifting appreciated assets (to non-charitable recipient) one might want to consider this step up in basis. If you gift a highly appreciated asset it will carry your basis and the recipient will then have taxes upon sale. All things considered equal, upon death that same asset under current tax law will transfer to the recipient with little or no taxes.

Once the assets are transferred into the beneficiary's account, the interest, dividend and capital gain clock will begin and moving forward, taxes will be due on this amount as the beneficiary becomes the owner of the asset but the initial transfer will not be taxable, a very fair tax situation.

Receiving an IRA as inheritance? There are taxes but not immediately.

Under current tax laws an IRA will pass to a spouse, child, sibling or other direct heir with no mandatory complete distribution necessary - there will be possible minimum distributions.

If a spouse is in the age range of RMD (Required Minimum Distributions) the receiving beneficiary spouse will pick up mandatory distributions based on his or her age. If a child is the recipient of an IRA the child's age blended with the original decedent and will be computed to mandate a non-penalty and much smaller required minimum distribution even if the beneficiary is very young for the rest of their life. (Possible law changes coming.)

TAXES

Estate tax is also born at the decedent level and is not paid by the inheritor, again making for a non-taxable receipt of an inheritance.

If the inheritor wanted to distribute the entire IRA, she/he has that option with no penalty; however, this would bring full taxable income for the entire amount of the distribution, a decision that would need to be carefully considered before commencement.

The estate tax is currently $11,400,000 per person and rising.

Recent tax laws have increased the estate tax level to $11,400,000 per person, an amount that can be easily doubled for a couple. Long ago this amount was just a few hundred thousand which brought many people into the fold of the estate tax loop. With the current much higher level, easy planning allows most an avoidance of any estate taxes.

The expectation is for the estate tax level to increase in the years to come, with a possible cliff reversion in 2026 but there is a lot of runway between now and then.

Bottom line on the estate tax is it is likely to continue to fade over the next decade, and in the event that it reverts, planning steps can be made to minimize it.

Estate tax is also born at the decedent level and is not paid by the inheritor, again making for a non-taxable receipt of an inheritance.

In closing

The immediate transfer of assets carries very little tax burden to the inheritor. Moving forward interest, dividends, future capital gains in after-tax accounts would be taxable, and in the case of an IRA beneficiary, the RMD amount will be required and taxable but in almost all cases these are the only tax mandates.

In the unlikely event there is an estate tax, due to creative planning techniques and high limits, the estate would owe the tax, not the inheritor. JK

Why an inheritance is separate property until you choose to comingle even if you live in a community property state

As a follow-up to the *"Why an inheritance is usually not taxable"* article we thought it timely to go one step farther and explain inheritance and the unique characteristics an inheritance has, even if you reside in a community property (most assets viewed as joint) state.

Inheritance has direct ownership tracing

An inheritance is a unique transfer of assets with a very detectable and separable source. Given that inheritances are mostly determined by either beneficiary designations on specific assets such as an IRA beneficiary, wills, trusts or a transfer on death (TOD) which is basically specific beneficiaries for funds/assets, the source of an inheritance is very specific and very clear, which gives it unique characteristics regarding joint or co-mingled assets.

After a decedent has passed away and whatever mechanism has determined the direction of the inheritance (again beneficiary on IRA, will, trust, transfer on death), those assets are separate property to the beneficiary until they choose for them not to be!

Now as a quick point of clarification, there is a case for asset growth once the beneficiary has received the assets to be joint property but in almost all cases of dispute, this usually is not an issue.

So how does an inheritance stay separate?

It's as easy as keeping the asset in her/his own name and ABSOLUTELY not adding or depositing co-mingled assets into the separate property.

INHERITANCE

Distributions from the separate property to comingled property are generally OK and will keep the separate property in-tact; however, there are some very unique exceptions, such as so many distributions from the separate property that it can take on co-mingled status but unless tremendously sloppy, a separately inherited asset will stay separate until co-mingled.

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How to make separate property joint?

Just the opposite as above, mix it up! In certain cases there may be situations where there is a need or desire to make separate property joint property, possibly tax, inheritance tax, other asset location issues may make this appealing; taking the separate property, adding a spouse or significant other and mixing the assets will effectively make the separate property joint property.

There is no right or wrong way to hold the asset as it is a case-by-case scenario but it is important to know separate property, once co-mingled is very difficult to turn back to separate property, just by the nature of the co-mingling.

We hope you enjoy this add on article to our *"Why an inheritance is usually not taxable"* and thought this is timely for additional information.

LEASING best if desire vehicle no more than 3 years old

(continued from Page 1)

While you may only be interested in buying a new car or leasing, one of the most important items is the residual value, especially in leasing.

As the neat graph (at the bottom of this page) shows from the site, there are dramatic differences in the decay value of cars. In our opinion, worthy of at least a few minutes research, especially if you are open to different makes and models.

Those that are interested in buying a used car, the handy site will also target an expected BEST year to buy the car, as shown in the very high end auto charts on Page 5, with a steep depreciation schedule.

What follows is our personal, professionally researched and client experiences on buying or leasing that next car.

Case for leasing

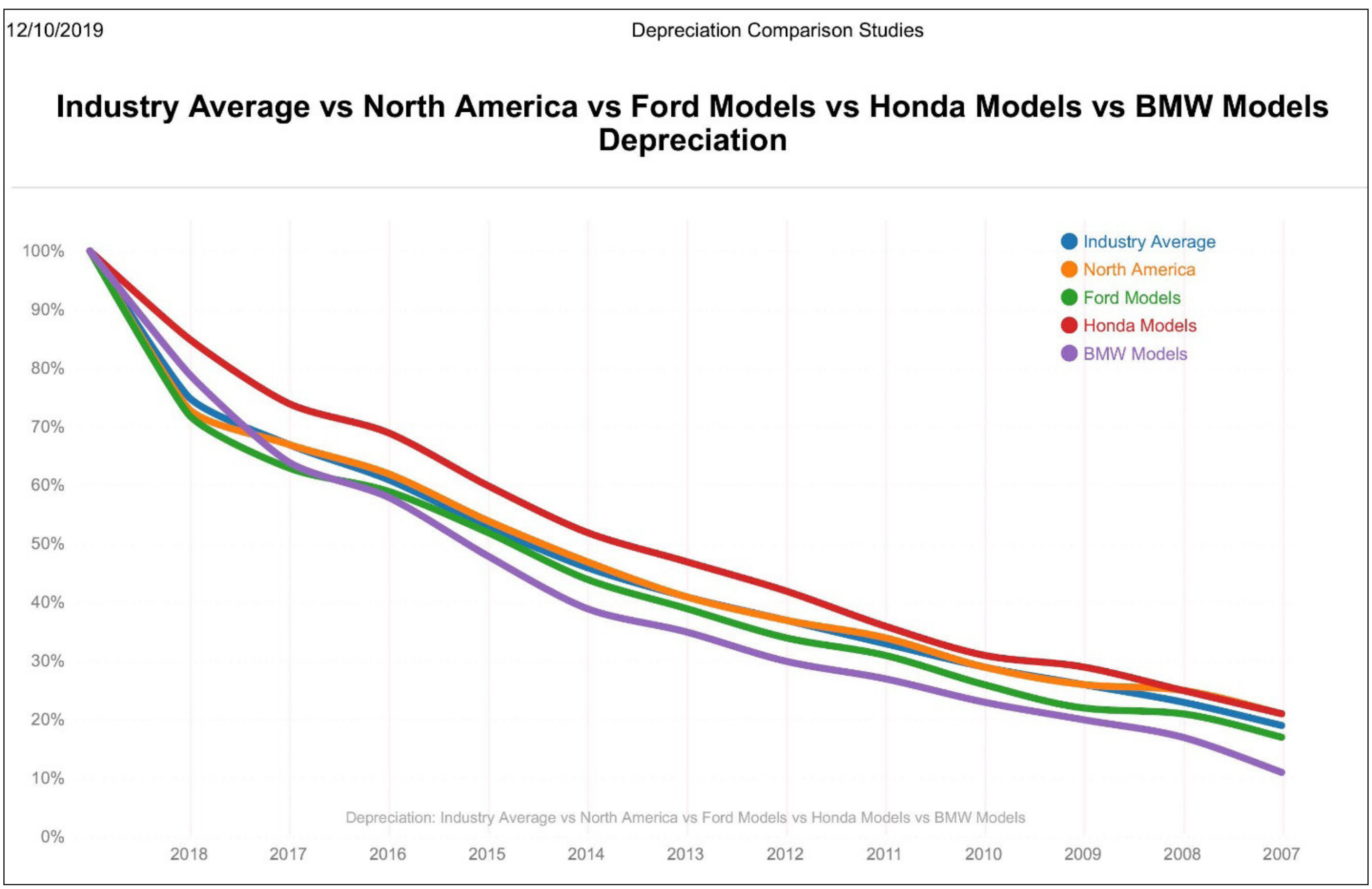
Leasing a car is by far the least expensive from an out of pocket standpoint (minimum monthly payment) way to get into a NEW car.

In certain cases there is a great desire to drive a vehicle that is no more than two or three years old; in this case leasing is likely your best decision. Continued safety is certainly a big point for the new car ownership.

In leasing a car, you are essentially paying for the depreciation based on the residual value when you return the car. As such your negotiations and research should be around the residual value of the car, as that's what your payments will be associated with.

As an example, the new all electric or highly electric cars have such a high residual value buying or leasing is very similar in payment schedules.

(see **Keep,** Page 5)



Keep NEW for extended period for best option

(continued from Page 4)

Mileage is one of the biggest factors in residual value so do not underestimate your annual mileage or you will be underwater and have a big payment due upon return of the lease.

Case for a new car

If you are one that must have a new car but are willing to keep it for an extended period of time, purchasing a new car is likely your best option.

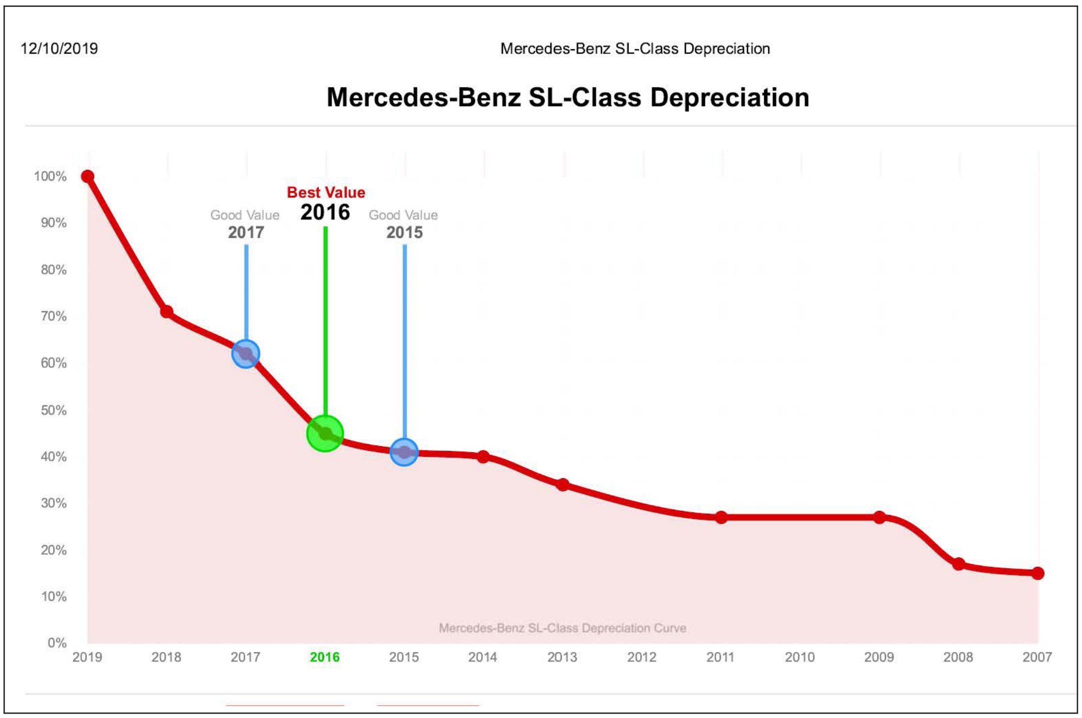
A favorite place to buy a new car which we have had good experience is a membership program such as Costco or Sam's or any other type that gives you some sort of unique advantage or barrier for the general public.

Always check the prices using your friendly internet as there is tons of information out there to get the price range of the vehicle you want.

Regarding pricing a car, either new or used (often forgotten in the heat of the moment), decide on the exact vehicle you want. Once you determine what vehicle you want then check the various prices. If you're trying to compare different models, makes, colors and features it will make the comparison almost impossible.

Financing a new car frequently can be coupled with a 0% or extremely low interest rate due to where rates are currently in this economic cycle. As a pointer, check with the financing company and see if by financing the car you get some sort of rebate for lowered cost on the car as there is a value most time for

(see **Used,** Page 8)



Mercedes-Benz SL-Class Depreciation

Year	New Price	Current Price	Maintenance	$ Decline	% Decline	% Paid	% Left	Years Left	Net Used Value ®
2019	$130,216	$130,216	$296	$0	0%	100%	100%	12	0
2018	$129,672	$91,810	$356	$38,406	29.49%	70.53%	91.67%	11	21.14
2017	$128,032	$79,561	$467	$12,249	13.34%	61.78%	83.33%	10	21.55
2016	$128,385	$58,119	$637	$21,442	26.95%	44.77%	75%	9	30.23
2015	$125,389	$51,936	$748	$6,183	10.64%	40.82%	66.67%	8	25.85
2014	$124,979	$51,412	$974	$524	1.01%	40.36%	58.33%	7	17.97
2013	$133,310	$46,372	$1,386	$5,040	9.8%	33.75%	50%	6	16.25
2011	$118,402	$34,006	$1,711	$0	0%	27.28%	33.33%	4	6.05
2009	$117,940	$34,434	$2,026	+$428	-1.26%	27.48%	16.67%	2	-10.81
2008	$110,366	$20,942	$2,335	$13,492	39.18%	16.86%	8.33%	1	-8.53
2007	$109,546	$19,169	$2,775	$1,773	8.47%	14.97%	0%	0	-14.97

Export to XLSX   Export to CSV

What to do when in a car accident

First and most importantly, if there is an injury of any seriousness, immediately call 911 and get the EMT there to help. This sounds obvious but in every case the following interviews and information was preceded by this fact.

Assuming that there are no major injuries, the following gray areas may arise and are the subject of this article.

After a chance seating next to a former Police Chief and current judge while on a flight, this article was born just as the *"Lease or buy a car"* article was just being completed, also in this newsletter.

Former Chief, current judge offers suggestions

The former Chief of a small town in Texas, who was now a judge, said it was very common for police officers, especially in larger metropolitan areas NOT to want to deal with the huge paperwork associated with logging in an automobile accident.

His suggestion? Use your camera as a weapon. Video tape and picture everything you possibly can, including VIN numbers of the cars involved and even get an interview with someone as a witness if you had someone that would do that.

Police from local campus near home

A second interview of a local campus police officer went like this: Upon request they would gladly do a police report and they could also call the local police, in this case Dallas.

They would do a police report if the damage was more than $2000. Otherwise, they would generally not do a police report unless asked.

He also mentioned to take pictures of everything and if possible make sure automobile and license are both valid or legit.

ACCIDENT

As a best practice try to get a police report if at all possible, think before you file and in any case, take tons of pictures for your own protection of everything.

This can be easily done by a few keystrokes on almost any law-enforcement's laptop.

Call to insurance company for guidance

Per a call to my automobile insurance company the following were suggested:

Get a police report if possible, especially if the damages are of substance. You may have to actually go to the police station and complete this report on your own but it does add additional weight for your case.

If you're in a no-fault state you'll need to contact your insurance carrier no matter if it's your fault or not, again for no fault states as all parties involved must contact their respective insurance companies.

Use your phone to take pictures of everything (can see a common theme here!).

Parking lot or accidents on private property would not be responded.

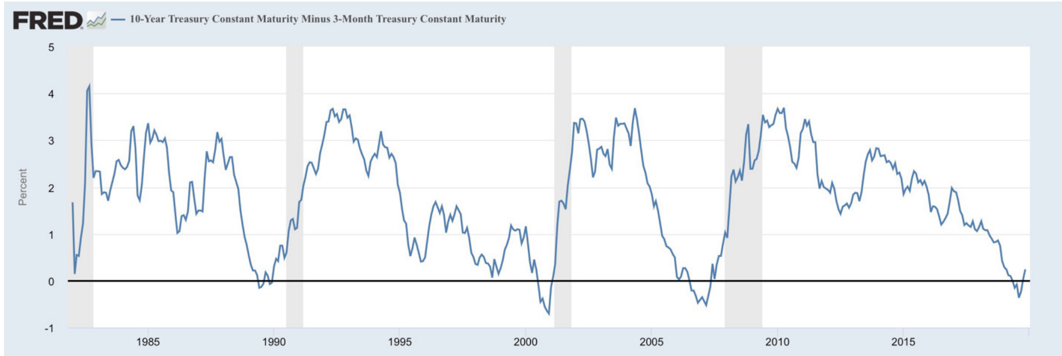
In summary, as a best practice try to get a police report if at all possible, think before you file and in any case, take tons of pictures for your own protection of everything.

Depending on what state you're in, the procedures may be different but in general these were the best practices that we found.

JK

Our theory: Lower rates needed if recession

(continued from Page 1)



have not felt a deep recession was in the cards and the timing could be of great variance.

A (disputed) lowering of rates without a recession

Those following our updates via www.street-cents.com (our three times a week Monday, Wednesday, Friday at 10:30 a.m. articles and blogs) know we have winced a bit each time the FOMC has lowered rates.

Our theory was, and is, gunpowder for the next recession will be needed to spur the economy and by lowering rates now, we may be using needed gunpowder.

Recall this time last year, the Capital Market threw a total hissy fit and dropped by 20% or more depending on where you looked, only to regain its footing, due in part, to a Federal Reserve changing the stance from three forward looking raises in rates, to no more raises and three eventual lowering of rates.

Of solace in the three lowering of rates, they were by the smallest available margins of .25%.

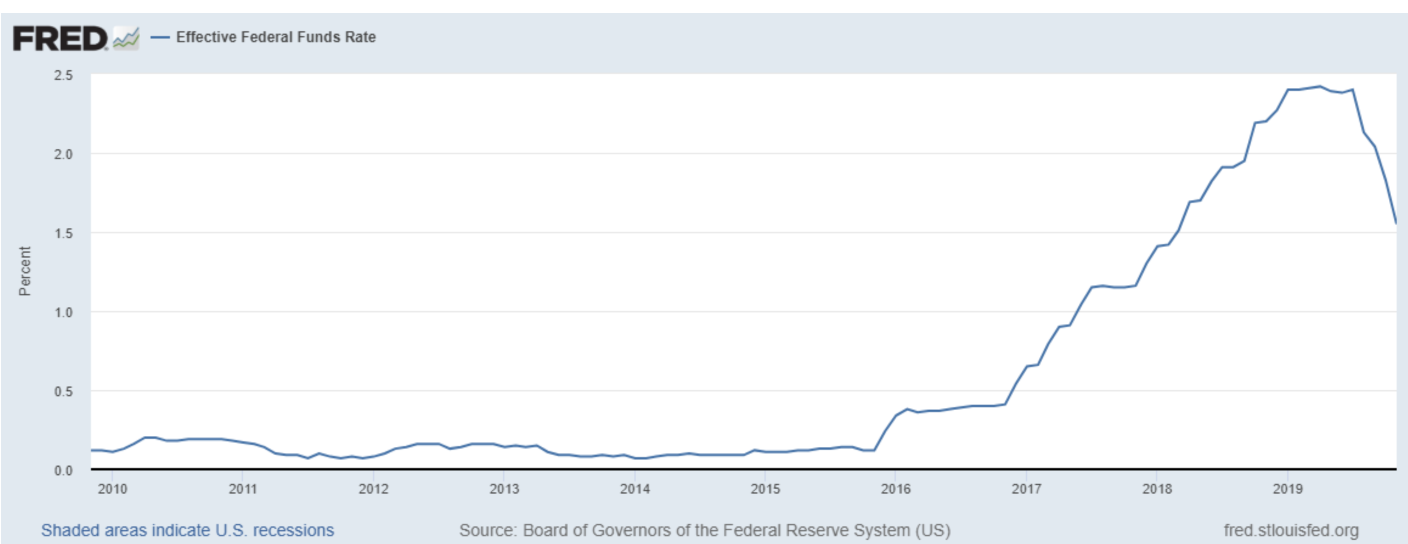
Being wrong?

Clearly given the market's ability to regain footing, and digest multiple quarters of China vs. USA Sabre sword rattling on tariffs, the correct thing for the FED to do was halt the rate increase and possibly (still hanging on to our hold firm thought) the lowering of rates.

Mid-quarter at an annual CFA (Chartered Financial Analyst) related event, a lunch speaker tossed the chart below in front of a large group of fellow, seasoned, investment professionals. There was a release of everything from gasps to many Hmmm's.

To ignore new data when presented is, at best, being closed minded, and at worst, being wrong, when acknowledgement would have

(see **Recession**, Page 8)



USED with low mileage, keep long time to save money

(continued from Page 5)

financing a car; and with rates so low, frequently paying cash for a car does not give you any advantages.

If there are no distinct advantages and assuming you were not lucky enough to get a very low zero or close to zero rate, plain cash is likely the best option. But do not expect a cash offer to gain you advantages and as mentioned above, it may limit credits or rebates.

Case for used car

With a normal depreciation of between 15% and 30% per year (there are exceptions but these numbers are average), our favorite "new car to you" purchase recommendation is buying a one or two-year-young car with low mileage and keeping it until it will drive no more.

In most cases this will save you a great deal of money. There are exceptions and we recently ran onto a situation where a later year brand new car was within striking distance of a used car because the new models were coming out. In this case, it made sense not to opt for a one-year-old car and just buy a late year new car. But on the margin, the statistics above are true.

Generally on true used car purchases, think from an online service or lease return, financing options are not as prevalent. As mentioned in our previous point, we like paying cash for an automobile if a high interest rate is being offered, which is very likely on used cars.

One last item: just like any other search (job or house), in picking your next car the more flexible you can be on features, the better off you will likely be in getting a good purchase price.

A favorite method to shop for a used car is to use the various used auto sites for an extended period of time until something pops up in price and mileage range (i.e. cars.com, autotrader.com- tons more available).

These are not recommendations and we know every situation can be different but with some flexibility, patience, not being sentimental and forethought, the above points will help you make a good non-emotional and financially prudent decision for that next car. JK

Recession may not occur any time soon

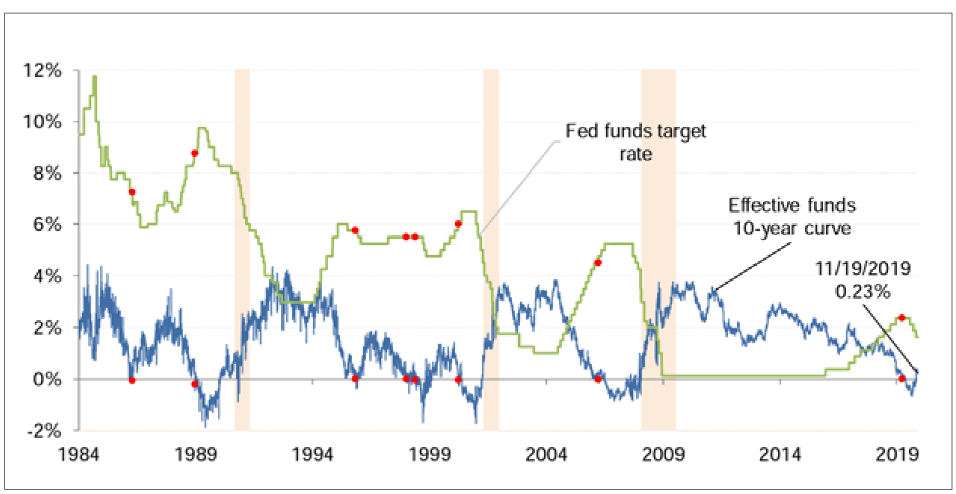
(continued from Page 7)

presented an alternative, even if it disputed a thesis you believe in (not lowering rates until the recession comes).

The chart at right, which adds the rate path, overlaid with the yield curve, along with the eventual recession, shows multiple examples of the recession being caused by an increase during the inverted yield curve AND, **more importantly the recession thwarted when rates are lowered when the yield curve is inverted.** A definitely splash of cold water on our running thesis.

In closing, we hope we are wrong and hope this chart proves correct that a recession will not occur any time soon.

In the meantime, a favorite Scout's motto is where we will stand. *"Be prepared!"* JK



Reach back to last year's taxes

Ideas you can do today to help last year's taxes

With a first in multiple decade tax law changes taking effect last year, we have been hesitant to make major tax reminders and recommendations.

After one years' new tax laws under our belts, the learning curve continues but there is confidence in making the following reminders and recommendations.

For the record, the new tax law's major hurdle is the higher standard deduction of $12,200 per person. What follows are deductions that occur regardless of the standard deduction or itemizer.

SEP – Simplified Employee Pension

This deduction/contribution to your regular IRA or SEP account can be made up to the filing date of your taxes, including extensions. The deduction can offset non W-2 income such as consulting or direct payment income and generally can offset 25% of your taxable income up to a maximum amount of $56k.

It can be done even if you have a company 401k (some dual contribution maximums) and again offsets non W-2 or direct income.

IRA – Individual Retirement Account

This is available regardless of income level for those without a retirement plan and available with income limits for those that have an available retirement plan. Contributions can be made up until only regular filing date of the following year (April 15, 2020 is deadline for 2019 Reach Back Tax Savings).

HSA – Health Savings Account

This account is for high deductible health insurance participants. Pre-tax contributions that grow tax deferred with almost no mandatory distributions and if used for medical expenses are not taxed upon distribution.

This, a favorite due to no income limits, is for those that have a high deductible plan. Check with your health carrier to see if your plan qualifies and you may make contributions for 2019 up until regular filing day of April 15, 2020 just the same as the IRA above.

One technique for those that have a company sponsored plan and the company does not contribute the max, fill up the max with your own dollars to gain that extra deduction.

Roth – Roth IRA

While not a tax saver from a Federal Income Tax standpoint, it is available if you meet the requirements and can be contributed this year for last year's tax year. As a refresher, a Roth contribution is made after tax, as such very little reporting on tax returns is made. Contributions grow tax deferred and upon withdrawal at retirement are received tax free, under current tax law.

Itemization attempt

While the new huge standard deduction pushes many into a non-itemized tax return, it is recommended that you continue to keep, record and attempt to submit your deductions for possible itemization.

Medical expenses have much higher limits as well for deductibility not only from a standard deduction hurdle but also from an income cap level. The old clumping technique for property taxes is not nearly as effective since there is an annual limit on the deduction.

As a good practice for future years, give it an itemized try every year but do not be disappointed if you end up like many, a standard income tax filer today but maybe not in the future if tax laws change again!

JK

Fun times on Sirius radio giving financial information

More fun times live on SiriusXM satellite radio with Wharton professor Kent Smetter. For the record, it was the sixth time.

Multiple years ago I was honored to be asked on a two hour live call-in financial planning radio show hosted by Wharton professor Kent Smetter.

About a year ago the show changed to a one hour format due to Kent's obligation at the University - he does lots of research and produces lots of papers which are very interesting.

On a side and somewhat humorous note, the two hour radio station had two financial planners with one a longer stent than the other. The new one hour format is only one planner leaving a good length of time on live radio.

The former producer, Michelle Stucker, whom I had grown comfortable with, had been promoted to a new show. Michelle's boss and chief producer was running the show and this was her first production with Kent. She had stated multiple times she enjoyed the show but it was obvious there was a concern that we may have a lack of callers.

A one hour show with no callers can be a bit wordy at best, even with yours truly frequently called chatty daddy. Not to worry. Of course I had emailed the new chief producer Patti multiple questions and discussion topics just in case the timing of the radio show led to a lack of callers.

In Murphy's like fashion, when Patti the chief producer called me and asked me to hold she said, "Good news, John. There's already a caller holding."

In rapid fire succession we had callers waiting the entire show which is great but of course somewhat unnerving.

The first caller claimed that indexes were going to bring the market down, which Kent quickly dismantled in an aggressive manner; and I happily knew some statistics that indexes only make up about 1/3 of the capital markets and as such, would be unlikely.

The second caller had an alleged 8% guarantee return on an investment pool, which Kent once again aggressively dismantled as he tossed the ball to me. I hopefully was a bit more politically correct and just mentioned that there are no 8% guaranteed returns today.

Next stop, a very confusing caller who had a brother who was receiving public benefits and had participated in a public program called Able Plans, which are extremely new and vary on a state-by-state basis with rules and regulations. Kent, sounding like he was not extremely familiar with the plan, tossed them to me which I generically answered, hopefully to his and the audience liking, as the question was a new area of the law for beneficiaries and very unique state by state.

Finally, a nice young man called in, showing the future is bright as he was very young but already making great efforts to save for retirement, had low debts and was wondering how he would be able to offset income from his new contracting job after he left his longtime employer.

This one was a more familiar layup and I was able to add that he should consider trying to consolidate his old 401(k) account and may offset his new employer 1099 contract income as SEP Simplified Employee Pension most likely into his same IRA account keeping his life simpler.

Being a runner, doing this radio show is the closest I can get to a runner's high that the adrenaline provides after several miles – which occurs when the phone rings and says, *Hey, John, you know the drill; wait for Kent to ask you about yourself, and please be quiet as you're on live Sirius satellite radio!*

JK

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(Second time)

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FINANCIAL PLANNERS AND WEALTH MANAGERS

As members of J.K Financial, Inc. founded in 1995, a Dallas-based, fee-only total wealth management firm, John Kvale, Donald Capone, and Jennifer "Jen" Hill, represent 61 years of collective industry experience. The firm's "Roll-Up-the Sleeves" holistic approach and in-house, constantly updated "Life on One Page Reference Document" help clients not only with wealth management and financial planning, but also retirement, insurance, and estate planning as well as the unique events and stressful curveballs that occur throughout life. The firm welcomes the most complicated financial decisions and draws on the decades of experiences for clarity in helping determine the best path for clients.

Single women make up the largest individual group of J.K. Financial's clients, followed closely by families owning small businesses, C-level executives, and millennials. The firm's high-touch, multi-generational approach has created a terrific age variance in clients spanning across all age groups, from the very young to the multi-decade retiree, by utilizing technology-appropriate tools for each.

Through the firm's all in-house, originally crafted articles on its public blogsite, www.street-cents.com, J.K. Financial enjoys deciphering the capital markets and financial planning landscape, as well as sharing common stories, monthly videos, and podcasts and frequently using humor and personal experiences to energize and buffer an often-mundane, yet important, subject matter.

Thanks very much for the recognition, J.K. Financial welcomes any inquiries.

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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...

Wow, it's hard to believe another year has already passed. We wish everyone a wonderful 2020; and, thank you for your time as you read and comment on our blog posts and take time to read our newsletters.

During the last quarter we were honored to receive D Magazine's Best Wealth Manager and Best Financial Planner awards, as well as co-host Wharton's Your Money live Sirius satellite radio show!

We are excited to announce that our vendor TDAmeritrade will merge with Schwab later in the year if all goes well, likely giving us more financial tools to better serve you guys!

In this newsletter a more optimistic look at a possible inverted yield curve and the repercussions. There's also a two part series that we think is fantastic on inheritance; and a two part series all about the car, cleverly coined by our publisher.

Have a great 2020 and thank you so much!

From John and The Gang, here at J.K. Financial, Inc.

Dates:

Jan. 20 - Martin Luther King, Jr. day, markets closed
Feb. 17 - Presidents' day, markets closed
April 10 – Good Friday, markets closed

Things to do now:

COMPARE buying vs. leasing a car. (Pages 4-5)

CAR ACCIDENT: get police report, call insurance, take tons of pictures. (Page 6)

CHECK for things you can do now to help last year's taxes. (Page 9)

READ Street-cents on Monday, Wednesday and Friday.