J.K. Financial, Inc.

REGISTERED INVESTMENT ADVISOR
8222 Douglas Ave Suite 590
Dallas, TX 75225

1st QUARTER 2023

INSIDE:

Maybe tiger can change stripes?

Higher interest rates longer, CPI gives cover

John A. Kvale, CFA, CFP ®

Those with great memories may recall one year ago we began speaking of "slowdowns" and the anatomy of such economic periods.

Then around the end of the first quarter we pointed out that over multiple decades the tendency had been for the Federal Reserve to raise rates just short of the last peak and then hold tight only to lower rates shortly thereafter. (see **Good**, Page 2)

2023 tax rates and tables

With the Inflation Adjustments being larger than normal, see our CPI article in this newsletter, we wanted to include the new levels and we will have this posted on a special page in our blog at www.street-cents.com

(see tax charts, Page 3)

ESTATE TAX adjustments

Set to occur 2026, possible changes, worth keeping on radar

While it may seem like a long way away, given how fast time moves, the year 2026 will be here before we know it. The *possible* implications of the sunsetting of a major tax law change make it worthy of a heads-up discussion.

What is estate tax?

Estate tax is an umbrella like tax unassociated with the most common federal, state and local taxes that is calculated upon death. If you want to think of it as "death tax" that is fine, as that is when the calculations begin. The filing is generally due nine months after death or 15 with an extension. (see **Estate**, Page 3)

GOOD NEWS: Worst is behind us

(continued from Page 1)

April 2022

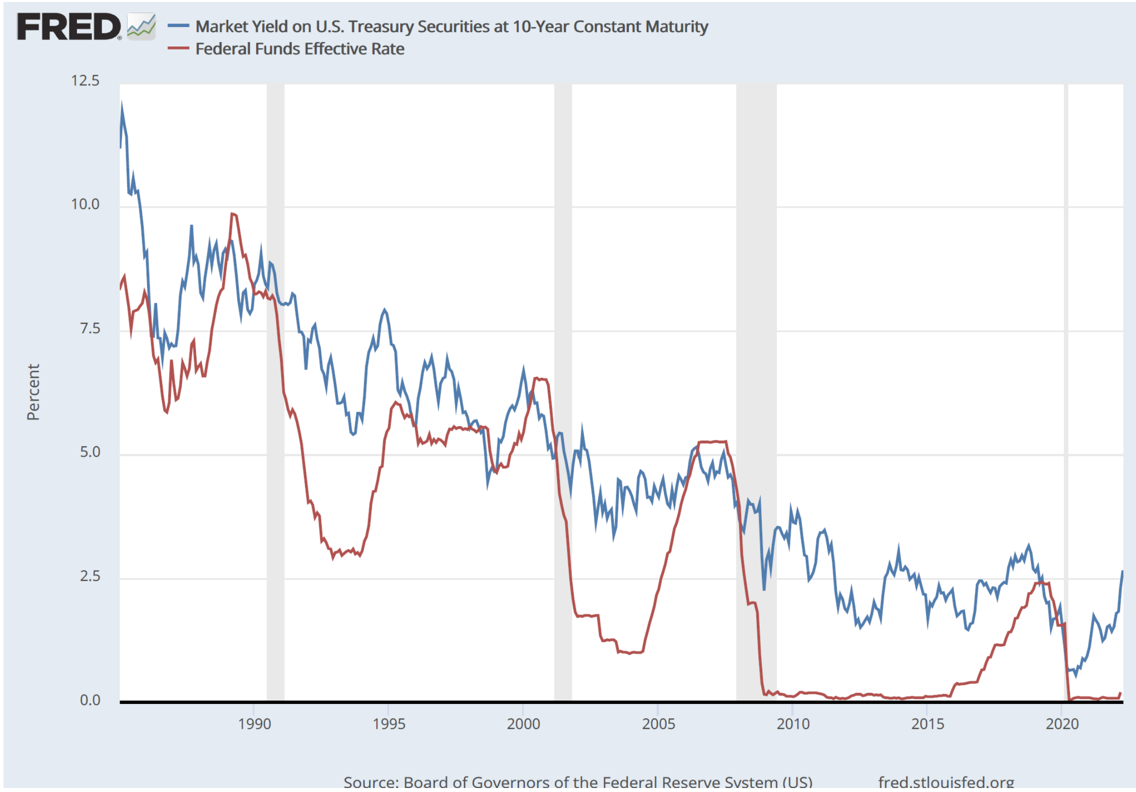
With a cover of an ever higher and sticky CPI (Consumer Price Index, a.k.a. blunt inflation measure) *(See our inflation/CPI article also in this newsletter)* the Federal Reserve jumped on the brakes with both feet blowing past prior peaks and multiple decades of history.

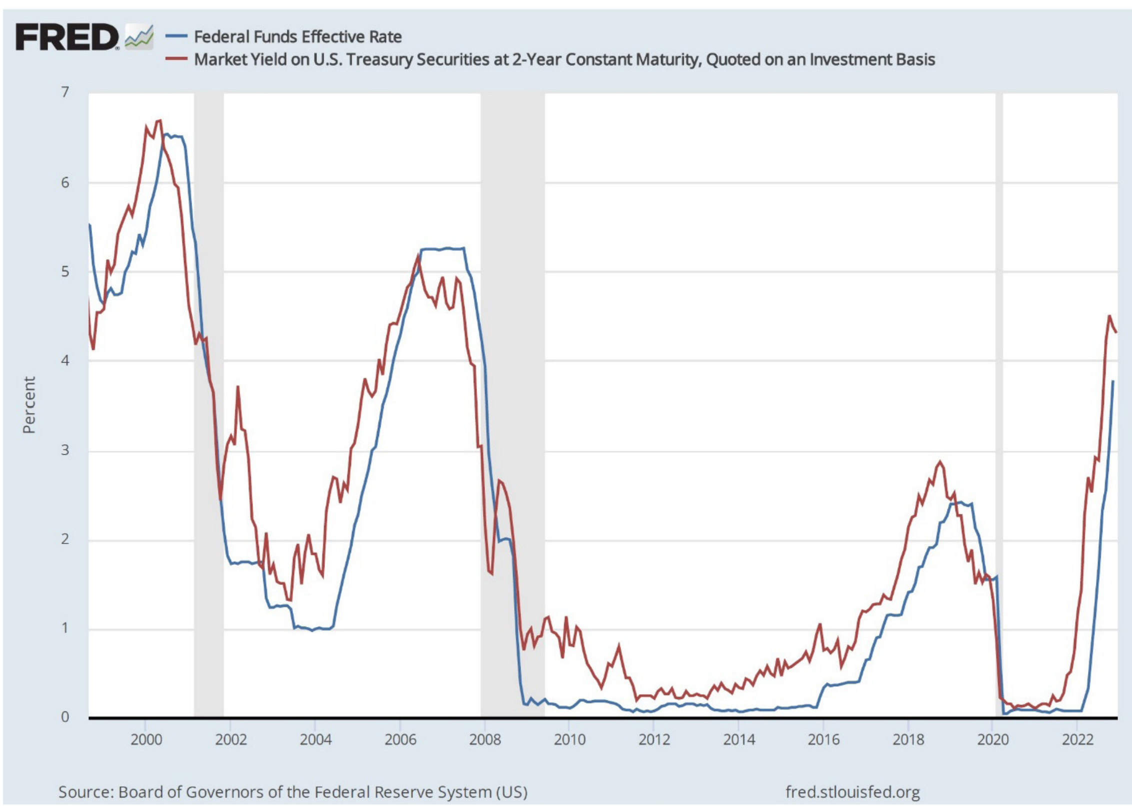
This speedy increase put the fear in, the safe money, a.k.a. fixed income and the speed caused headwinds not seen in decades.

November 2022

The good news-- yes, there's always good news-- is the worst is very likely far behind us now.

The even better news is our safe a.k.a. fixed income/bond investments has now been reset at much higher rates than we've seen in multiple decades.





These higher rates, for longer and a changing of tigers stripes, may be a reset of higher income for the foreseeable future, for our "safe" funds.

	If taxable income is over	But not over	The tax is	Of the amount over
Married/Filing jointly and qualifying widow(er)s	$0	$22,000	$0 + 10%	$0
	$22,000	$89,450	$2,200 + 12%	$22,000
	$89,450	$190,750	$10,294 + 22%	$89,450
	$190,750	$364,200	$32,580 + 24%	$190,750
	$364,200	$462,500	$74,208 + 32%	$364,200
	$462,500	$693,750	$105,664 + 35%	$462,500
	$693,750		$186,601.50 + 37%	$693,750
Single	$0	$11,000	$0 + 10%	$0
	$11,000	$44,725	$1,100 + 12%	$11,000
	$44,725	$95,375	$5,147 + 22%	$44,725
	$95,375	$182,100	$16,290 + 24%	$95,375
	$182,100	$231,250	$37,104 + 32%	$182,100
	$231,250	$578,125	$52,832 + 35%	$231,250
	$578,125		$174,238.25 + 37%	$578,125
Estates and trusts	$0	$2,900	$0 + 10%	$0
	$2,900	$10,550	$290 + 24%	$2,900
	$10,550	$14,450	$2,126 + 35%	$10,550
	$14,450		$3,491 + 37%	$14,450

Employer retirement plans

Maximum elective deferral to retirement plans, e.g., 401(k), 403(b)	$22,500
Catch-up contribution limit for 401(k), 403(b), and certain 457 plans	$7,500
Maximum elective deferral to SIMPLE plans	$15,500
Catch-up contribution limit for SIMPLE plans	$3,500
Maximum elective deferral to 457 plans of government and tax-exempt employers	$22,500
Limit on annual additions to defined contribution plans	$66,000
Annual compensation threshold requiring SEP contribution	$750
Limit on annual additions to SEP plans	$66,000
Maximum annual compensation taken into account for contributions	$330,000
Annual benefit limit under defined benefit plans	$265,000
Limitation used in definition of highly compensated employee	$150,000
Health flexible spending account maximum salary reduction contribution	$3,050

Sources: IRS and Social Security Administration updates 2023.

(Tax charts continued on Page 4)

ESTATE TAX threshold will vary in next years

(continued from Page 1)

When we first entered the investment world, the Federal Estate Tax threshold was $500k. This meant that anyone with a net worth (assets-liabilities) over $500k had to file a form 706 Estate Tax Return and may owe taxes on amounts over the threshold.

Fast forward to today (2023), the estate tax threshold is just shy of $13 million ($12.929 million to be exact).

With the stroke of a pen and some basic planning, this amount can be easily doubled for married couples. Even if planning was not completed, certain disclaimer provisions after the fact can get the doubling of the threshold.

Sunsetting estate tax levels

At the end of 2025, putting Jan. 1, 2026 into play, without any tax law adjustments the estate tax level will adjust back down to somewhere between a $7 to $8 million or $14 to $16 million for couples level.

While estate tax is not a huge revenue earner for the IRS, in our opinion estate tax main purpose is to affect the very largest of the states, think $100 million and up.

Additionally the IRS is having trouble completing regular federal tax returns; by some estimates, some 15,000 to 20,000 taxpayers are still waiting on their regular federal returns to be blessed by the IRS from 2020 to present.

Lowering the estate tax level to an extreme low, while may sound good in the headlines, it will likely create a huge bottleneck and more trouble than money earned.

We will be watching for changes.

The year 2026, as mentioned in the opener, will be here before we know it and we caution anyone from making immediate changes for something that's going to happen in three years. We want you to know we have our eye on this and should something change, we will certainly let you know.

Traditional IRAs

Maximum annual contribution

- Lesser of compensation or $6,500
- Up to $6,500 contribution can also be made for nonworking spouse
- Catch-up contributions (age 50 and over): $1,000

Traditional IRA deductibility table

Filing status	Covered by employer's retirement plan	Modified AGI 2023	Modified AGI 2022	Deductibility
Single	No	Any amount	Any amount	Full
	Yes	$73,000 or less	$68,000 or less	Full
	Yes	$73,001–$82,999	$68,001–$77,999	Partial
	Yes	$83,000 or more	$78,000 or more	None
Married/ Jointly	Neither spouse covered	Any amount	Any amount	Full
Married/ Jointly	Both spouses covered	$116,000 or less	$109,000 or less	Full
		$116,001–$135,999	$109,001–$128,999	Partial
		$136,000 or more	$129,000 or more	None
Married/ Jointly	Yes, but spouse is not covered	$116,000 or less	$109,000 or less	Full
		$116,001–$135,999	$109,001–$128,999	Partial
		$136,000 or more	$129,000 or more	None
Married/ Jointly	No, but spouse is covered	$218,000 or less	$204,000 or less	Full
		$218,001–$227,999	$204,001–$213,999	Partial
		$228,000 or more	$214,000 or more	None

Roth IRAs

Maximum annual contribution

- Lesser of compensation or $6,500
- Up to $6,500 contribution can also be made for nonworking spouse
- Catch-up contributions (age 50 and over): $1,000

Contribution eligibility

Modified AGI is less than $138,000 (single) or $218,000 (married/filing jointly); phaseouts apply if modified AGI is $138,000–$152,999 (single) or $218,000–$227,999 (married/filing jointly).

Deductibility

Contributions to Roth IRAs are not deductible.

Conversion eligibility

There is no income restriction on eligibility for a Roth IRA conversion.

Health savings accounts contribution limits

Individual	$3,850
Family	$7,750

Catch-up contribution: Taxpayers who are 55 or older in 2023 may contribute an additional $1,000, or a total of $4,850 for individuals and $8,750 for families.

Maximum compensation subject to FICA taxes

OASDI (Social Security) maximum	$160,200
HI (Medicare) maximum	No limit

(Tax charts continued on Page 5)

Base amount of modified AGI causing Social Security benefits to be taxable

	Up to 50% taxable	Up to 85% taxable
Married/Filing jointly	$32,001–$44,000	> $44,000
Single	$25,001–$34,000	> $34,000

Maximum earnings before Social Security benefits are reduced

Under full retirement age ($1 withheld for every $2 above limit)	$21,240
Full retirement age and over	No limit*

Standard deductions	Annual	Additional age 65+ or blind
Married/Filing jointly and qualifying widow(er)s	$27,700	$1,500
Single	$13,850	$1,850

Annual Gift Amounts Per Individual **$17,000**

Source Putnam Investments

Medicare Income Adjustment Thresh holds 2023

Full Part B Coverage Beneficiaries who file individual tax returns with modified adjusted gross income:	Beneficiaries who file joint tax returns with modified adjusted gross income:	Income-Related Monthly Adjustment Amount	Total Monthly Premium Amount
Less than or equal to $97,000	Less than or equal to $194,000	$0.00	$164.90
Greater than $97,000 and less than or equal to $123,000	Greater than $194,000 and less than or equal to $246,000	$65.90	$230.80
Greater than $123,000 and less than or equal to $153,000	Greater than $246,000 and less than or equal to $306,000	$164.80	$329.70
Greater than $153,000 and less than or equal to $183,000	Greater than $306,000 and less than or equal to $366,000	$263.70	$428.60
Greater than $183,000 and less than $500,000	Greater than $366,000 and less than $750,000	$362.60	$527.50
Greater than or equal to $500,000	Greater than or equal to $750,000	$395.60	$560.50

Source CMS.GOV

CPI (Consumer Price Index) aka inflation measure keeps Federal Reserve in rate increase mode

Early in the year, we spotted this fantastic chart that breaks down the CPI (Consumer Price Index), the blunt measure of inflation.

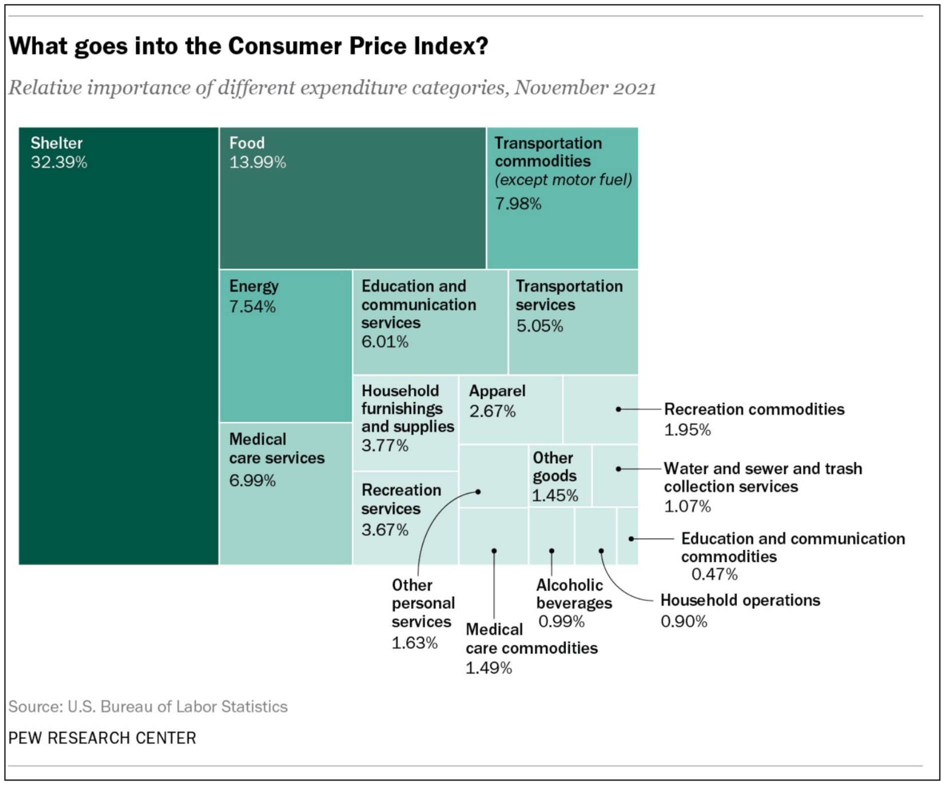
Taking note of the largest impact or percentage of the CPI report, "shelter," no one, including ourselves, expected some of the lagging inputs to push up this blunt measure of inflation so dramatically higher.

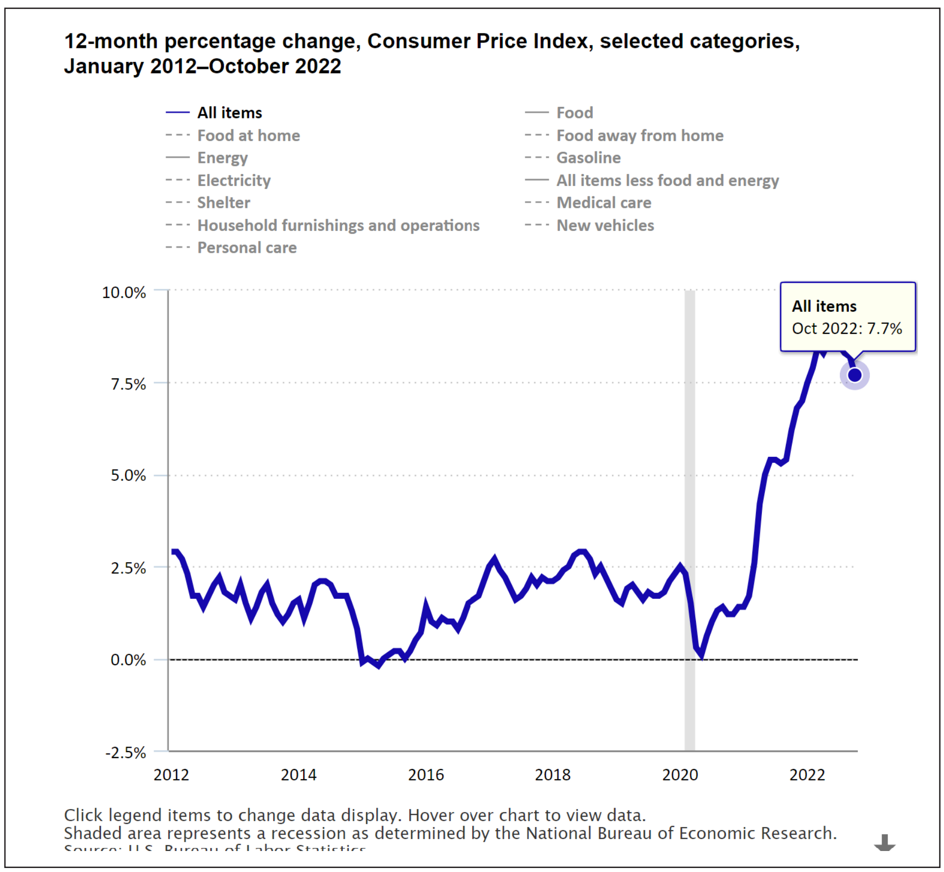
As Mike Tyson said, everybody has a plan until they get hit in the face; as the CPI began skyrocketing, the Federal Reserve, with cover of such increase jammed on the brakes with both feet in the form of extremely higher rates, at the fastest pace and a percentage basis ever. *(See our tiger stripes article also in this newsletter.)*

Yes, inflation likely peaked for good in the middle part of 2022 but the lingering of lofty levels, garnered by lagging owners equivalent rent (shelter) the largest input as noted above is allowing Jerome Powell, Federal Reserve Chair, cover to not only have raised rates quickly but to likely keep them there for some period of time, a dramatic change from historically the last two to four decades.

Looking forward, higher rates for longer may be the new normal, tempering reckless "free money" investments and on the edge projects, slowing the economy and helping our "safe" investments (bonds/fixed income).

JK





Personal reflections from a very unique year

(Article first appeared on www.street-cents.com)

Tiger can change stripes

The expectation was the Federal Reserve would likely continue raising rates just shy of the prior top and stopping. Wrong!

CPI gives cover

Powell (chair of Federal Reserve) changed his stripes and increased rates faster on a percentage basis and larger than ever before.

Safe funds earning us more

Powell is likely to hold rates higher for longer, barring any systematic problems, our safe funds/bonds/fixed income are now set to earn rates we've not seen in over two decades.

Future is better

It's very likely the clouds of higher interest rates are likely to clear.

Being optimistic at our core, it's sometimes very difficult to speak out about expecting a slow down even when from multiple data points, the direction is pretty clear.

Last year as the Federal Feserve looked to press the brakes, the stars aligned and we overcame our fear of being negative and began identifying what turned out to be a greater slow down than we expected.

Tiger can change stripes

In our tiger stripes changes article, we identified our thoughts as of April, which seems like an eternity ago, and using history as our guide, the expectation, that Jerome Powell, chair of the Federal Reserve, would likely continue as they had done in almost two decades past, raising rates just shy of the prior top and stopping. Wrong!

CPI gives cover

Switching over to our CPI analysis (Consumer Price Index) article, with the cover of ever high inflation, Powell changed his stripes and increased rates faster on a percentage basis and larger than ever before. Once again overcoming our constantly optimistic fear of being ever more negative, with faster and higher increased rates, we became even more cautious on the economy and for a longer period of time.

Safe funds earning us more

The good news on the economic front is while Powell is likely to hold rates higher for longer, barring any systematic problems, our safe funds/bonds/fixed income are now set to earn us rates we've not seen in over two decades; and thankfully, the headwind is most likely behind us.

Future is better

Just as we pointed out over a year ago what a slowdown looks like and that it might occur, we are now ready to point out later on this year it's very likely the clouds of higher interest rates and two feet on the economic brakes by Powell are likely to clear.

Much learning – Thank you!

As I embark on my 36th year in the industry (the most recent was one of great learning), I am thankful for all of you, as we went through this together, for your kind words, patience and confidence. Thank you very much. JK

J.K. FINANCIAL, INC.
REGISTERED INVESTMENT ADVISOR
8222 DOUGLAS AVE SUITE 590
DALLAS, TX 75225
Phone: 214-706-4300
Fax: 214-706-4262
E-mail: info@jkfinancialinc.com

Check out our Blog

www.street-cents.com

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Parting thoughts for you...

We hope you enjoy our newsletter and thank you in advance for taking time to read.

Uniquely in this newsletter, there is a personal reflections section detailing some of our thoughts and the unique events that occurred in 2022.

With much of this content threading together on the back of a higher inflation, we also uniquely included tax tables as many adjustments were dramatic due to the aforementioned inflation.

We also have these tables highlighted on our blog site at street-cents.com somewhat self-serving but certainly also for your easy perusal.

While last year at this time we were talking slowdowns, this year we are happy to look for the end of the slow down. There might be additional rain before the end but we will certainly get through this. Have a great start to 2023!

Dates:

Jan. 16 - Martin Luther King, Jr. day, markets closed

Feb. 20 - President's Day, markets closed

April 7 - Good Friday, markets closed