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2nd QUARTER 2020

CARES Act

Coronavirus Aid, Relief and Economic Security Act

A stimulus package was passed into law on Friday, March 27, 2020, for the benefit of those being effected by the Coronavirus officially starting the clock for many programs.



John A. Kvale,
CFA, CFP®

While we will cover the areas most likely to affect the largest number of people, this package is large, broad based, far sweeping and we are still learning much of the law and expect further clarifications as time passes.

This bill is the largest of its kind and is about 10% of the annual USA Gross Domestic National Production.

The general spirit of the most important parts of the bill is getting money into the hands of consumers quickly AND attempting to incentivize employers to keep workers on the payroll.

(see Checks, Page 2)

Bonds and bond funds

Due to their fantastic safety, created their own TEMPORARY peril

Given the speed of the Equity Market (stocks) drop due to the ever expanding Coronavirus. Investors were caught flat-footed and in a dash for cash, sold their old faithful bond holdings which are viewed

favorably again due to their safety.

Many investors recklessly sold their bonds and bond holdings in a need for quick cash. Much like your neighbor

(see Portfolio, Page 7)

INSIDE:

- Checks to go out to over 90 percent of population

- RMD (Required Minimum Distributions) waived in 2020

- Pandemic Unemployment Insurance Benefit for self employed

- Business owners may qualify for free forgiveness loan

- Portfolio that at normal times would rise, actually does the opposite temporarily

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Checks to go out to over 90 percent of population

(continued from Page 1)

Given our initial research, here are the most important immediate items:

1. Recovery Rebate : If you have a new address as of your most recent filing date, YOU NEED TO COMPLETE FORM 8822 ASAP (<https://www.irs.gov/pub/irs-pdf/f8822.pdf>) – A copy of which is on Page 6 of this newsletter as well.

2. RMD (Required Minimum Distributions) for the year 2020 have been COMPLETELY WAIVED FOR ALL.

3. Small business owners affected may want to look into government backed SBA loans being administered by local banks that in many cases will be totally free, never to be paid back loans.

4. Self employed individuals may want to review the Pandemic Unemployment Benefit.

Below is a quick cheat sheet overview summary of the main provisions of the Care Act.

Recovery Rebate

Checks Being Sent to Over 90% of the population

Each person to receive \$1,200, kids UNDER age 17 credited to parents at \$500 each, no

limit in headcount.

This rebate is NOT TAXABLE.

The payout is likely to be sent out end of April or early May.

Where is the money going?

Social Security recipients will receive theirs via their direct deposit account. Non Social Security recipients will receive their rebate via the last known account on either your 2018 or 2019 tax return, whichever is more recent or directly to the address on file.

A letter will be sent to the last known address of your most recent tax return, hopefully within two weeks of the bills signing, with instructions on your calculation AND how the U.S. government intends to send you the rebate.

If you have moved recently or after your most recent tax filing date, YOU MUST FILE FORM 8822 ASAP for the IRS to update your address or you will likely not receive the notification letter, far complicating an already complicated situation.

At this time we are told there is only a phone number on the letter (again which is going out

(see There, Page 3)

KEY 2020 CARES ACT PROVISIONS

RECOVERY REBATES	CORONAVIRUS-RELATED DISTRIBUTIONS	OTHER PROVISIONS	UNEMPLOYMENT COMPENSATION BENEFITS	SMALL BUSINESS BENEFITS
<ul style="list-style-type: none"> Refundable income tax credit against 2020 income of up to \$2,400 for married couples filing a joint return. All other filers begin with a refundable credit of up to \$1,200. The credit amount then increases by up to \$500 for each child a taxpayer has under the age of 17. AGI threshold amounts: Married Joint, \$150,000; Head of Household, \$112,500; All Other Filers, \$75,000. Payment reduced by \$50 for every \$1,000 over threshold amounts. Individuals must have a work-eligible Social Security number (and not be claimed as a dependent), but they do not need to have had reportable income in 2019 and can also be eligible for other income-benefit programs as well. 	<ul style="list-style-type: none"> Coronavirus-Related Distributions are distributions of up to \$100,000, made from IRAs, employer-sponsored retirement plans, or a combination of both, which are made in 2020 by an individual who has been impacted by the Coronavirus. Distributions are exempt from the 10% penalty, not subject to mandatory withholding requirements, are eligible to be repaid over 3 years, and the income may be spread over 3 years. 	<ul style="list-style-type: none"> Required Minimum Distributions are waived in 2020, and taxpayers who have already taken their RMDs for 2020 have the option of returning them, if they so desire. 2020 is ignored for the purposes of the 5-Year Rule that applies to Non-Designated Beneficiaries (e.g., charities, estates, non-See-Through Trusts) who inherit a retirement account from decedents who die prior to reaching their required beginning date. New \$300 above-the-line deduction for "qualified charitable contributions", and the AGI limit for cash charitable contributions has been temporarily repealed. Student loan payments deferred until September 30, 2020, and employers can exclude student loan repayments from compensation. 	<ul style="list-style-type: none"> 'Regular' Unemployment Compensation is 'bumped' by \$600 per week, and the benefit period is extended by 13 weeks. Unemployment benefit will be available the first week of unemployment, waiving the 'normal' one-week waiting period. 	<ul style="list-style-type: none"> Certain small business can qualify for small business loans up to a maximum of the lesser of \$10 million, or 2.5x average payroll costs to cover payroll, rent, utilities, mortgage interest, group insurance premiums, etc. Such loans (which have a maximum interest rate of 4%) are eligible for full or partial forgiveness. Eligible amounts must be spent during the first 8 weeks after the loan is made if spent on payroll costs, rent, utilities, and group health insurance premiums, BUT business MUST maintain the same number of employees (subject to certain timeframes). Payroll tax credit for qualifying businesses not receiving a covered loan (above). Employers are eligible to defer payroll taxes from the date of enactment, through the end of the year, until the end of 2021 and 2022.

RMD (Required Minimum Distributions) waived in 2020

(continued from Page 2)

to 90% of the earning population) to correct any mistakes. There will likely be a lengthy hold time if this is actually the way this is handled when the letter is sent.

There is a phase out:

The applicable AGI phase out threshold amounts are as follows:

- Married Joint: \$150,000
- Head of Household: \$112,500
- All Other Filers: \$75,000

This phase out is based on either your 2018 or 2019 tax return, whichever is most recent. If your income exceeds the threshold and you are phased out completely, and your 2020 income is below the threshold when you file your 2020 tax return, you will receive your Recovery Rebate

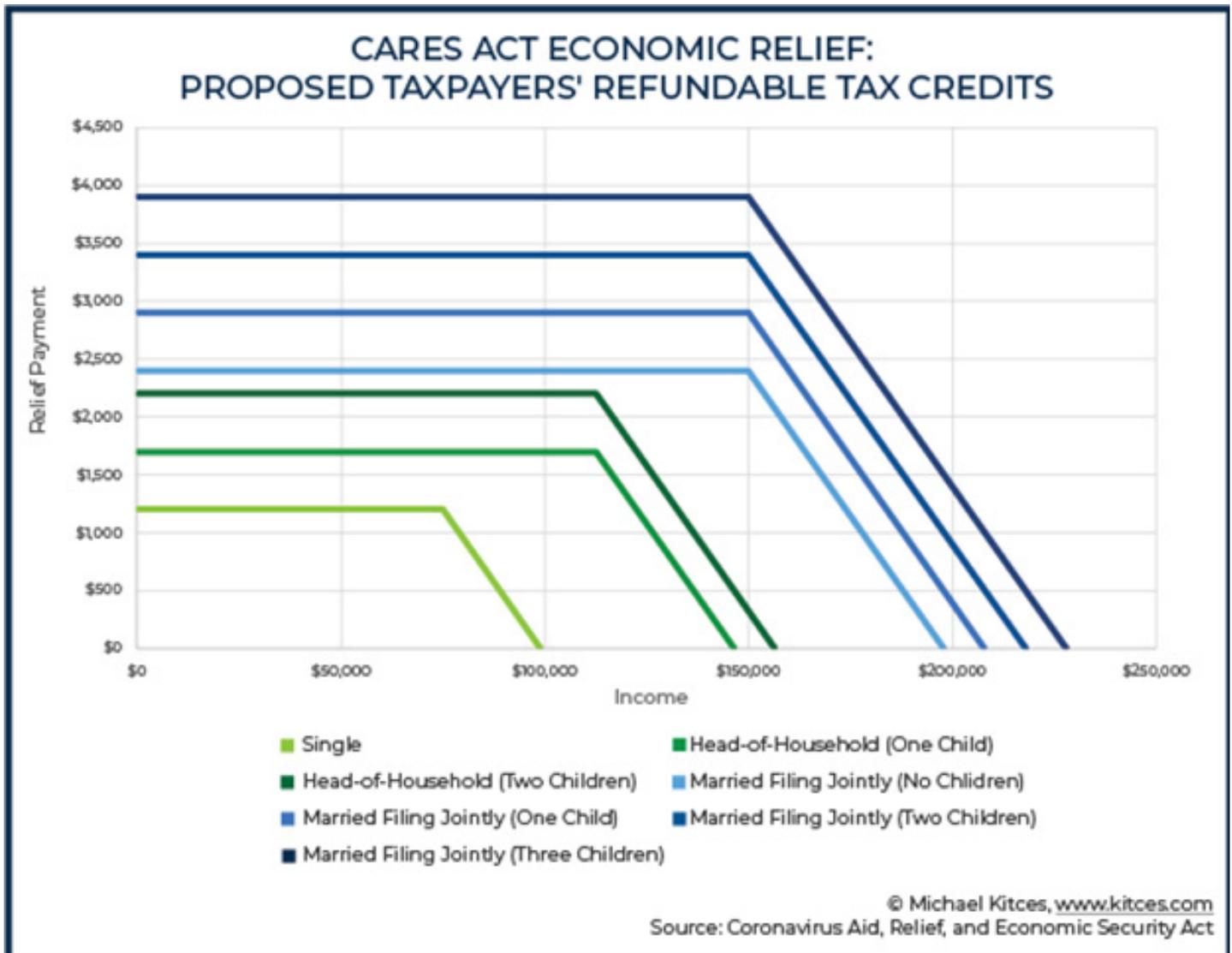
at the time of your 2020 filing.

Should your 2020 income rise above the thresholds but based on your prior year's income you received the rebate, YOU GET TO KEEP THE REBATE WITHOUT PENALTY OR TAX.

Planning tip for those near or in the phase out thresholds

If you have not filed your 2019 return, check to see which is lower, your 2018 or 2019, and if your 2018 is lower, do not file your 2019. Conversely, if your 2019 is lower, file it immediately. You likely will not have to pay until the extended deadline of July 15, 2020. (Double check with your tax professional.) See the chart below.

(see **Distributions**, Page 4)



Pandemic Unemployment Insurance Benefit for self employed

(continued from Page 3)

Tax and Retirement Distribution Provisions

One time maximum \$100k IRA distribution available in 2020 only

Investors affected by the coronavirus can take a maximum of \$100k of a coronavirus impacted distribution from your IRA or employer related plans.

- There will be no 10% penalty for the withdrawal.
- There will also be no 20% mandatory withholding.
- You must take this distribution by 12-31-20.

You can repay this distribution within three years and have NO TAXES. You may stagger payback contributions over any time frame as long as you pay all of it back within three years of the day you received the distribution in order not to have taxes due on the distribution.

If not paying the distribution back, the standard default is to spread your distribution over three years.

Planning tip:

If your 2020 income looks to be much lower, you may opt for the taxes to be paid all in year 2020 rather than the default three year average.

You must self certify that you have been affected.

Must be affected by coronavirus in some way but the rules are pretty broad:

- Have been diagnosed with COVID-19;
- Have a spouse or dependent who has been diagnosed with COVID-19;
- Experience adverse financial consequences as a result of being quarantined, furloughed, being laid off or having work hours reduced because of the disease;
- Are unable to work because they lack childcare as a result of the disease;
- Own a business that has closed or operate under reduced hours because of the disease; or
- Meet some other reason that the IRS decides to say is OK.

RMD's (Required Minimum Distributions) waived in 2020

All RMD's for any and all mandatory plans are waived as of 2020.

This includes all types of RMD's including those with the five year rule.

Next year will not mandate a doubling of the RMD.

Next year's RMD will be on the higher mandated level but again will not cause a duplicate.

Planning tip:

Just because you do not have to take your RMD, does not mean you necessarily need to stop. Those taking regular monthly distributions may continue to do so. Those with larger pools of IRA type of assets may want to continue to do so, maximizing current income tax brackets. Those having no need or desire to take their RMD may want to happily skip this year.

One off charitable deduction – Small – Available only to non itemizers

Included in the new Coronal Stimulus package is a one time above the line, Charitable Donation Write off of \$300.

This amount is only available to those who do not itemize.

Qualified Charitable Contributions must be **made in cash**. And they **cannot be used to fund either donor-advised funds (DAFs) or 509(a)(3) "supporting organizations."**

There is also an increase of 100% of AGI (Adjusted Gross Income) to donation write offs, much higher than the normal regular maximum.

Unemployment Compensation Benefits

Pandemic Unemployment Insurance Benefit

A new Pandemic Unemployment Benefit is available to those effected by the Coronavirus.

This benefit is additionally available to those that may not have had access before,

(see Business, Page 5)

Business owners may qualify for free forgiveness loan

(continued from Page 4)

mainly self-employed individuals.

This new benefit is \$600/week and lasts for four months.

There is also the elimination of the first week waiting period, allowing those immediate access if needed.

Individuals already receiving unemployment benefits will begin receiving this additional benefit with no offset of their prior benefit occurring effectively making this a complete bonus benefit.

This is a federally backstopped program that is administered by each state so the state will issue these benefits.

Student Loan Deferment

No payments are required until Sept. 30, 2020.

No interest will accrue during the interim.

You must notify your loan provider if you are on automatic payment.

Business Provisions

Paycheck Protection Program – AKA SBA Loan Program

Forgiveness loan can be totally FREE to small business owners if they qualify and use the funds appropriately. If not, they will receive a possible 10 year term, 4% maximum interest rate from the Small Business Association, happily administered by qualified local banks in an attempt to speed the process of getting the loans to business owners.

The purpose of this loan is too keep your people employed.

Available for business owners of less than 500 people who were or have been adversely affected by the Coronavirus.

Must certify Good Faith that the business has been affected by the virus., which can include uncertainty of the future.

Must be applied for by June 30, 2020.

Repayments will not commence until at least six months and no longer than 12 months.

Loan amount is the lesser of \$10 million or 2.5 times your average monthly payroll in 2019 – Payroll costs, excluding prorated amounts for individuals with compensation greater than \$100,000

IF the entire loan is used completely within eight weeks and is used for any of the following:

- Payroll costs - excluding those making over \$100k annually

- Group health insurance premiums and other healthcare costs

- Salaries and/or commissions

- Rent

- Mortgage interest (excluding amounts pre-paid)

- Utilities

- Other business interest incurred prior to February 15, 2020

It may be completely forgiven (NO TAXES IN ANY WAY OR PAY BACK)

CONCLUSION

With so much of this bill being set up for immediate use, we wanted to get this to you as fast as possible. We expect other clarifications and planning techniques to come in the future. We will let you know these as they occur.

if the employer meets the following employee limits:

1. The business must maintain the same number of employees (equivalents) from Feb. 15, 2020 through June 30, 2020 as it did during either the same period in 2019 or

2. from Jan. 1, 2020 until Feb. 15, 2020. To the extent this requirement is not met, the amount eligible for forgiveness will be reduced, ratably.

You may not cut any employees <\$100k annually by more than 25% or they will not count towards the above headcount.

With so much of this bill being set up for immediate use, we wanted to get this to you as fast as possible. We expect other clarifications and planning techniques to come in the future. We will let you know these as they occur.

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FORM 8822

Form **8822**

(Rev. October 2015)

Department of the Treasury
Internal Revenue Service

Change of Address

(For Individual, Gift, Estate, or Generation-Skipping Transfer Tax Returns)

▶ Please type or print. ▶ See instructions on back. ▶ Do not attach this form to your return.
▶ Information about Form 8822 is available at www.irs.gov/form8822.

OMB No. 1545-1163

Part I Complete This Part To Change Your Home Mailing Address

Check **all** boxes this change affects:

1 Individual income tax returns (Forms 1040, 1040A, 1040EZ, 1040NR, etc.)
▶ If your last return was a joint return and you are now establishing a residence separate from the spouse with whom you filed that return, check here

2 Gift, estate, or generation-skipping transfer tax returns (Forms 706, 709, etc.)
▶ For Forms 706 and 706-NA, enter the decedent's name and social security number below.

▶ Decedent's name ▶ Social security number

3a Your name (first name, initial, and last name)	3b Your social security number
4a Spouse's name (first name, initial, and last name)	4b Spouse's social security number

5a Your prior name(s). See instructions.

5b Spouse's prior name(s). See instructions.

6a Your old address (no., street, apt. no., city or town, state, and ZIP code). If a P.O. box, see instructions. If foreign address, also complete spaces below, see instructions.

Foreign country name	Foreign province/county	Foreign postal code
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6b Spouse's old address, if different from line 6a (no., street, apt. no., city or town, state, and ZIP code). If a P.O. box, see instructions. If foreign address, also complete spaces below, see instructions.

Foreign country name	Foreign province/county	Foreign postal code
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7 New address (no., street, apt. no., city or town, state, and ZIP code). If a P.O. box, see instructions. If foreign address, also complete spaces below, see instructions.

Foreign country name	Foreign province/county	Foreign postal code
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Part II Signature

Daytime telephone number of person to contact (optional) ▶ _____

Sign Here	▶ Your signature	Date	▶ Signature of representative, executor, administrator/if applicable	Date
	▶ If joint return, spouse's signature	Date	▶ Title	

For Privacy Act and Paperwork Reduction Act Notice, see back of form.

Cat. No. 12081V

Form **8822** (Rev. 10-2015)

Portfolio that at normal times would rise, actually does the opposite temporarily

(continued from Page 1)

who has a home almost identical to you just across the street, sells in a panic for whatever reason but inadvertently sets the new temporary price for your home lower to his sales price than the actual price.

Bonds, much like your home, don't trade in milliseconds like stocks and in some cases may only trade once a week or even once a month.

Managers holding recklessly "sold by others" bonds are forced to mark their price to that recklessly sold bond until a new price is discovered.

A portfolio that at normal times would

have risen immediately, has actually done just the opposite, temporarily as can be seen by the chart (below) of the largest, bond fund in the world. That's about a 5% drop.

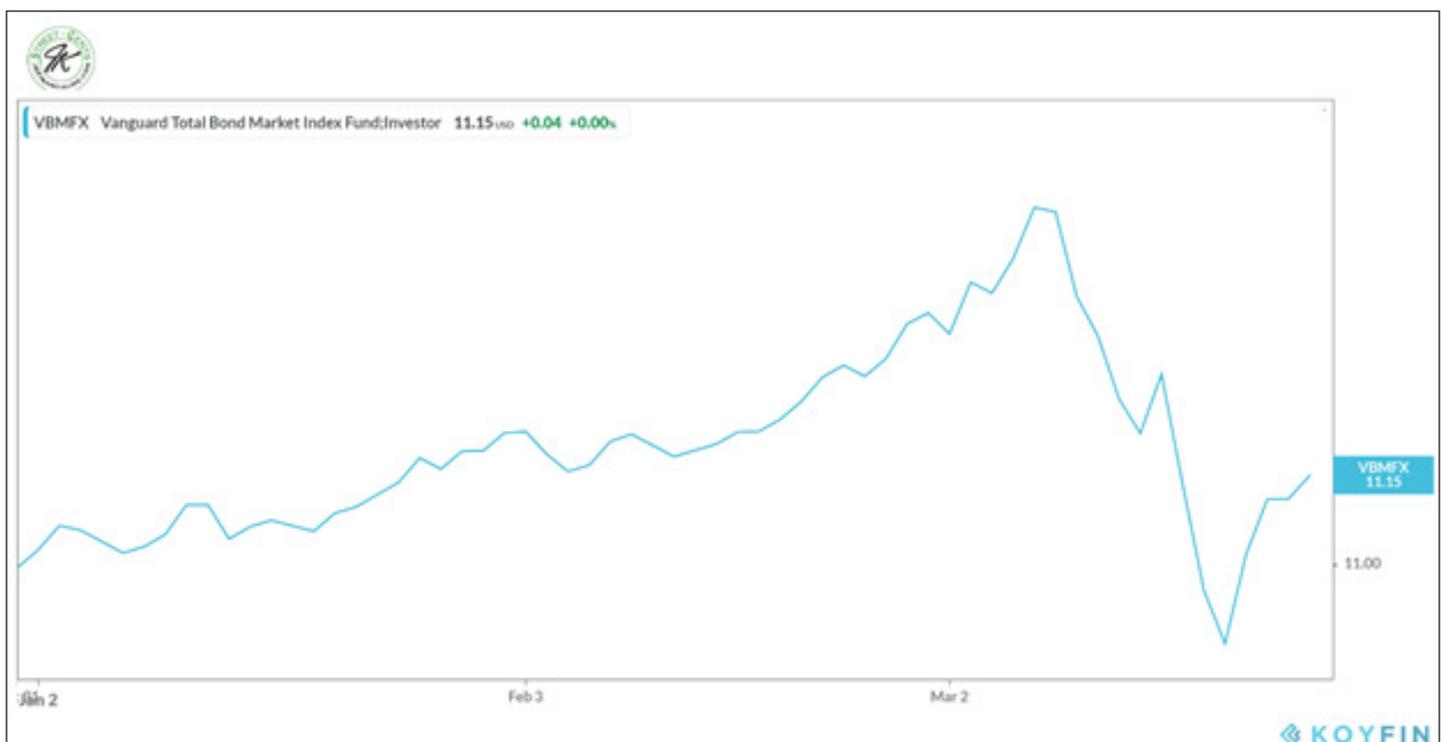
HISTORY as guide

Not only does this correct itself but also likely turns out to go even higher in value, which is what happens when rates go down and bonds go up.

Using history as our guide, not only does this correct itself but also likely turns out to go even higher in value, which is what happens when rates go down and bonds go up.

In closing, one more bit of good news in almost all cases, we will have reinvestment of income at these lower prices, taking advantage of that pricing for our own benefit.

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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...

Due to the extreme complexity of the CARE ACT, which was put into law Friday, March 27, 2020 and the delay of tax filing until July 15, 2020 we pushed our intended newsletter back to the next quarter and spent the majority of this newsletter explaining the parts of the new CARE ACT that will most likely affect us.

We made room for a very important Capital Market article concerning bonds; basically, they are so good they've been slightly bad lately but that should change.

Everyone at our office is safe, all of our families are safe and we hope you and your family are safe and stay safe as well!

Dates:

Good Friday, April 10
Memorial Day, May 25
Independence Day,
Honored Friday, July 3

Things to do now:

IGNORE bond holdings value for time being
CONFIRM most recent tax return has correct address or file Form 8822
REMEMBER No MANDATORY RMD (Required Minimum Distributions) in 2020
CONSIDER deferring student loan payments by contacting provider
Sole proprietors affected by virus FILE for Pandemic Unemployment Benefit
Business owners affected by virus CHECK INTO SBA Forgiveness Loan