



## 2017/2018 TAX UPDATE

### MISSING OR INCORRECT W-2?

W-2s are due to employees by January 31. The IRS advises that if an employee does not receive his/her Form W-2 by mid-February, they should contact their employer to request a duplicate copy and verify whether or not the employer has the current mailing address. The Service also advises taxpayers to call IRS (800-829-1040) if they are unable to obtain a copy of Form W-2 from their employer. The Service will send a letter to the employer to comply.

### ITEMIZED DEDUCTION (SCH A) PHASEOUT FOR 2017

The total amount of itemized deduction is reduced by 3% of the amount by which the taxpayer's adjusted gross income (AGI) exceeds the threshold amount (\$313,800 for joint returns, \$261,500 for single), with the reduction not to exceed 80% of the otherwise allowable itemized deductions. Mortgage interest payment, charitable contribution and property tax payment are subject to phase-out.

### MEDICAL EXPENSE DEDUCTIONS

A Taxpayer is allowed medical expense deduction on Schedule A if the sum of the deductible expenses are more than the AGI medical expense threshold, which is 10% for everyone in 2017 and beyond. Also, non-traditional medical treatment, such as "integrative medical care" is deductible as a medical expense, but medical marijuana cannot be included in medical expenses since it is not legal under federal law.

### QUALIFIED PLUG-IN ELECTRIC DRIVE VEHICLES CREDIT

A credit is allowed to new qualified plug-in electric drive vehicles (plug-in credit) purchased during 2017. The base credit amount is \$2,500 and applies for each qualifying vehicle placed in service by the taxpayer during the tax year. An additional credit amount, which may not exceed maximum \$5,000, is calculated based on the size of the battery. Therefore, the maximum credit allowed is \$7,500. However, California has no comparable credit, but the rebate up to \$2,500 to taxpayers who purchase a qualified plug-in electric drive vehicle is available but limited for the 2017/18 fiscal year. The rebate should be reported as a taxable income both to the federal and state.

### RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT

If the taxpayer installs solar heat, geothermal heat, and wind power as the main heating system between January 01, 2017 and December 31, 2019 for his/her residence, then 30% of the total bills paid for the installment will be subject to tax credit.

## TRUMP'S TAX REFORM

Both the House of Representative and Senate passed the final version of the Tax Cuts and Jobs Act, which will be in effect beginning 2018. Brief summaries of new tax laws are as follows:

- The new seven federal income tax brackets are **10,12,22,24,32,35,37%** compared to the current tax rate of 10,15,25,28,33,35,39.6%. The final bill doubles the standard deduction: A single filer's deduction increases from \$6,350 to **\$12,000** while The deduction for Married and Joint Filers increases from \$12,700 to **\$24,000**. The bill suspends personal exemptions (current: \$4,050).
- It limits the deduction on mortgage interest to the first **\$750,000** of the loan. Interest on home equity lines of credit can no longer be deducted. Current mortgage-holders aren't affected (up to 1million can be deducted).
- The bill expands the deduction for medical expenses for 2017 and 2018. It allows taxpayers to deduct medical expenses that are **7.5** percent or more of income.
- The bill doubles the unified estate tax and gift tax exclusion amount to **\$10,980,000** for single. (The annual Gift tax exemption amount itself will not be doubled but will increase up to \$15,000 for 2018 (\$14,000 for 2017)).
- Taxpayers can deduct up to **\$10,000** in state and property taxes.  
(If taxpayers expect their state and property taxes to be greater than \$10,000, they could save more money by paying property tax bill, whose due date is April, 10, 2018, before the end of year 2017 or by prepaying state income tax of 2017, which is due by January 15, 2018, at the end of year 2017)
- The final bill increases the Child Tax Credit from \$1,000 to **\$2,000**. Credit is refundable up to \$1,400.
- Starting in **2019**, the new legislation eliminates the Affordable Care Act (Obamacare)'s individual mandate.
- The new bill lowers the corporate tax rate from 35 to **21** percent.
- The new bill eliminated the Alternative Minimum Tax(AMT) for corporations.

Should you have any other questions or concerns, please contact our office.

# < TAX PLANNING AND TAX AUDIT >

## INDIVIDUAL TAXPAYERS

### AFFORDABLE CARE ACT- GET HEALTH CARE COVERAGE, OR PAY A PENALTY

Starting January 1<sup>st</sup> of 2014, all U.S. citizens and lawful permanent residents are required to have health insurance coverage. Penalty for not having health insurance coverage in 2017, and 2018 is \$695 per person and capped at three times that amount or 2.5% of yearly household income - whichever is higher.

### CONTRIBUTION TO RETIREMENT SAVINGS

In 2017, taxpayers are able to contribute up to \$18,000 (\$18,500 in 2018) to their Retirement Savings Plan (401K, Simple and etc.). For participants who are age 50 or over can contribute up to \$24,000 (\$24,500 in 2018). The maximum contribution for SEP (Simplified Employee Pension) is \$54,000(\$55,000 in 2018).

### RETIREMENT PLANS : TRADITIONAL IRA AND ROTH IRA

Taxpayers can contribute up to \$5,500 (\$6,500 if age 50 or older) to an IRA account by April 17, 2018 to be eligible for tax deduction for 2017. Taxpayers may convert a traditional IRA to a Roth IRA and vice versa. However, the conversion may result in taxable consequence in certain situations. The myRA (My Retirement Account), which was one of the retirement plans developed in 2014, has been eliminated due to lower participation.

### DISTRIBUTION OF RETIREMENT ACCOUNT

Distributions that occur before an account holder reaches the age of 59 & ½ are taxed as ordinary income and may be subject to a 10% penalty. Amount received from IRAs or qualified plans may be rolled over tax-free if rollover is made within 60 days of the date of the distribution. There are limited exceptions from the 10% additional tax for distributions made for medical and educational purposes and for "first-time homebuyers".

### GIFT TAX / ESTATE TAX EXCLUSION

Gifts are subject to the gift tax. The annual gift tax exclusion is \$14,000 for 2017 (\$15,000 in 2018). A taxpayer, making a gift valued more than \$14,000 to anyone other than spouse, should report the gift on his/her tax return. For 2017, a unified gift and estate tax exemption is \$5,490,000 per person. Consulting with tax advisor is important when making a gift more than the annual exclusion since exceeding amounts will count against the lifetime exclusion. Generation skipping tax may also apply.

### FOREIGN-EARNED INCOME EXCLUSION

In 2017, a U.S. individual living abroad can exclude up to \$102,100 (\$104,100 in 2018) of foreign-earned income if the taxpayer satisfies either the bona fide residence test or the physical presence test. The exclusion applies separately to spouses; as such, if both spouses are qualified individuals, the spouses may exclude up to \$204,200. A qualified individual is either a person whose tax home is in a foreign country and who is a U.S. citizen with a bona fide residence in a foreign country for an uninterrupted period which includes an entire taxable year; or a U.S. citizen or resident who, during any period of 12 consecutive months, is present in a foreign country or countries during at least 330 full days in such period (physical presence test).

### REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS (FBAR)

Taxpayers with an interest in, or signature or other authority over, foreign financial accounts, whose aggregate value exceeded \$10,000 at any time during 2017, must report foreign Bank and financial Accounts (FBAR) by April 17, 2018. Foreign financial accounts include bank

accounts, brokerage accounts, mutual funds, trusts, or other type of foreign financial accounts. Those who fail to file an FBAR who fail to properly file a complete and correct FBAR may be subject to a penalty not to exceed \$10,000 per violation that are not due to reasonable cause. For willful violations, the penalty may be the greater of \$100,000 or 50% of the balance in the account at the time of the violation, for each violation. Starting from 2011, taxpayers with specified foreign financial assets that exceed certain thresholds must report those assets to the IRS on Form 8938.

#### *Taxpayers living in the US*

- Single or married filing separately: Total value of assets was more than \$50,000 on the last day of the tax year, or more than \$75,000 at any time during the year.
- Married filing jointly: Total value of assets was more than \$100,000 on the last day of the tax year, or more than \$150,000 at any time during the year.

#### *Taxpayers living outside the US*

- Single or married filing separately: Total value of assets was more than \$200,000 on the last day of the tax year, or more than \$300,000 at any time during the year.
- Married filing jointly: Total assets was more than \$400,000 on the last day of the tax year, or more than \$600,000 at any time during the year.

## PRINCIPAL RESIDENCE

Taxpayers may qualify to exclude income gained from selling primary residence up to \$250,000 of gain on sale of home if single (up to \$500,000 if married filing jointly). Please contact our office for more details.

## INVESTORS

### REINVESTED DIVIDENDS

Taxpayers, not updating mutual fund cost basis for dividends received and investing back into mutual fund in form of additional shares, will end up being double taxed. This is a common mistake that many taxpayers make. Reinvested dividends should be considered as additional purchases of stock, at different prices.

### CAPITAL GAIN (LONG-TERM)

Long-term capital gains, which are gains on disposition of assets held more than one year, are taxed at 15%, while those in the top 39.6% brackets pay 20% and those in the 10%-15% tax brackets pay 0%. In addition, The Net Investment Income Tax applies at a rate of 3.8% to certain net investment income of individuals, estates and trusts that have income above the modified adjusted gross income. Gain on sale of cryptocurrencies, such as bitcoin will be taxed as a capital gain.

### INVESTMENT INTEREST

If taxpayers borrow money to buy property for investment, interest that taxpayers pay is investment interest and is tax deductible. Deductible investment interest is limited to taxpayers' net investment income. Taxpayers are allowed to carry over disallowed investment interest deduction into next tax year.

### INSTALLMENT SALE

An Owner Carry (Seller Financing) or Installment Sale is a sale of property where at least one payment is to be received after the tax year in which the sale occurs. It allows for the deferral of gain recognition because the seller recognizes the gain over the taxable years in which the payments are actually received. This method does not apply to the sale of stock and bond.

## BUSINESS OWNERS

### AUTOMOBILE EXPENSE

For 2017, the standard mileage rate is 53.5¢ per mile. Taxpayers should keep a detailed mileage log for substantiation. Commuting mileage incur while traveling from home to one or more regular places of business are generally non-deductible.

### BAD DEBT, CASUALTY AND THEFT LOSS

When claiming tax deduction for portion of losses on tax returns, taxpayers should keep related documents to prove bad debts, casualty and theft loss in case of audits.

### SECTION 179 AND DEPRECIATION

Section 179 allows business owners to deduct up to \$510,000 for purchasing equipment, and the phaseout threshold is \$2,030,000 in 2017. In 2018, business owners can deduct up to \$520,000 for purchasing equipment, and the phaseout threshold is \$2,070,000. The bonus depreciation amount is at 50% for 2017 (40% for 2018).

### PENSION PLAN

Putting more money into retirement account is a good idea in terms of tax savings and getting ready for retirement early. Taxpayers should consult with tax advisors and financial advisors before starting a pension plan.

### AFFORDABLE CARE ACT FOR BUSINESS

In 2017, an employer with more than 50 employees must provide coverage that meets minimum value, or will face penalty of \$2,260 per employee. In brief, a full-time employee is one who works 130 hours per month, or 30 or more hours per week. On the other hand, a small business employer, who has fewer than 25 full-time equivalent employees, is eligible for the "Small Business Health Care Tax Credit"; The maximum credit for 2017 is 50 percent of premiums paid for small business employers and 35 percent of premiums paid for small tax-exempt employers. The benefit may vary depending on employee's wage and insurance premium.

### NEW EMPLOYMENT CREDIT

New Employment Credit is 35% of the qualified wages for the first 60 months of employment for an employee who meets the requirement. The employee must be hired on or after January 1st, 2014, must work more than 35 hours a week and must earn over 150% of CA minimum wage. Employee must have been unemployed for 6 months before the hire date or retired from the military 12 months before hire date.

### RESEARCH ACTIVITIES CREDIT

The credit is allowed for expenses for qualified research activities in business (max \$250,000 per year).

## INCOME TAX AUDIT

### SOURCE OF LIVING EXPENSE

When taxpayers' expenditures are greater than their reported income, supporting documents for source of fund, which used for their living expenses exceeding their income, are required.

### SOURCE OF FUND

Taxpayers should have supporting documents for the source of funds used to acquire a real estate or business.

### BANK DEPOSIT

When the deposit includes non-sale deposits, supporting documents, such as copies of cancelled checks and deposit slips, should be kept as your substantiation. Otherwise, they may be treated as additional income.

### CHARITABLE CONTRIBUTION

Taxpayers, who make charitable contributions equaling \$250 or more, must have records and written receipt from the qualified organization. Taxpayers donating an item or a group of similar items valued at more than \$5,000 must also complete Section B of Form 8283, which generally requires an appraisal by a qualified appraiser.

### SEPARATE BANK ACCOUNT

Keeping separate accounts (business and personal) is always the smart thing to do. The proper way to transfer the business income to personal account is either by having corporation pays you salary and/or makes transfer as withdrawal/distribution to personal accounts.

### RECORD KEEPING

Bank statements, cancelled checks, receipts, invoices and all other documents used to prepare income tax returns should be kept at least 4 years from the date tax returns were filed. When taxpayers acquire or sell property, whether business or personal, taxpayers should keep escrow documents and/or other documents supporting real estate transactions for at least 4 years from the date tax returns are filed.

### CASH TRANSACTION

A currency transaction report (CTR) is a report that U.S. financial institutions are required to file for each deposit, withdrawal, exchange of currency, or other payment or transfer, by, through, or to the financial institution, which involves a transaction in currency of more than \$10,000. The bank will report to the IRS if any attempts known as structuring, which are intentional attempts to withdraw and deposit more than \$3,000 but less than \$10,000 to avoid CTR. A taxpayer must also report using Form 8300 if he/she received an aggregated amount over \$10,000 during a taxable year from a customer.

### FOREIGN GIFT

Gifts or bequests valued at more than \$100,000 from a nonresident alien individual or foreign estate or gifts valued at more than \$15,671 for 2017 from foreign corporations or foreign partnerships must be reported to IRS by filing Form 3520.

### FORM 1099 FILING REQUIREMENT

A taxpayer may subject to a penalty if he/she files a form 1099 without meeting form 1099 filing requirements. The penalty applies if taxpayers fail to file in a timely manner, fail to include all information required to be shown on a return, and/or includes incorrect information. (penalty ranges from \$30 to \$100)

### AUDIT NOTICE

When taxpayers receive an audit notice, the first thing for them to do is contact their tax advisors. Sometimes auditors visit business site without prior arrangement. Taxpayers should always ask for proper identification, inquire about the reason for visitation and contact tax advisors before giving out any information to auditors.

*We wish you and yours  
a healthy and happy holiday season  
and prosperous New Year!*

**CHOI HONG LEE & KANG LLP**

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