TAX UPDATE
2018 / 2019

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

2018 TAX RATE

Individual income tax brackets (7 Brackets):

10%, 12%, 22%, 24%, 32%, 35%, 37%

Standard deduction increases (Married filing jointly $24,000, Head of household (HOH) $18,000, Single filer and Married filing separately $12,000). Personal exemption is repealed.

Company income tax rate (C-Corp): 21 %

MORTGAGE INTEREST LIMITS

For mortgage purchase contract after December 15, 2017, mortgage interest is deductible up to $750,000 mortgage loan for married filing jointly ($375,000 for married filing separately).For mortgage before December 15, 2017, mortgage interest is deductible up to $1,000,000 mortgage loan. From 2018, the interest for home equity loan is not deductible unless it is the loan for home acquisition or improvement.

STATE AND LOCAL TAX DEDUCTION

Taxpayers may elect to deduct state and local sales, income, or property taxes up to $10,000 ($5,000 for a married taxpayer filing a separate return) after December 31, 2017.

IRC §199A : SMALL BUSINESS DEDUCTION

Qualified Business Income from S-Corp, Partnership, Sole Proprietorship (Sch. C) can be deducted up to 20% for the individual tax return. Specified service businesses (Health, Law, Accounting, Financing Services, Brokerage Services, Performing Arts, Athletics etc.) is not eligible for the deduction when taxable income is at or above the phase out ceiling. The deduction for qualified business income from non-specified service business for taxpayers whose taxable income is at or above the top of the phase out range is limited by the wages limitation. The wage limitation is greater of 50% of all W-2 wages paid by the business or the sum of 25% of all W-2 wages and 2.5% of the unadjusted basis of depreciable asset immediately after acquisition. Phase out range is from $315,000 to $415,000 for Married filing jointly ($157,500 - $207,500 for others). Please contact our office for further details.

CHILD TAX CREDIT

Child Tax Credit increases to $2,000 per qualifying child who is under age 17 ($1,400 Refundable). The credit begins to phase out for taxpayers who have more than $400,000 adjusted gross income for married filing jointly taxpayers and $200,000 for all other taxpayers.

MEDICAL EXPENSE DEDUCTIONS

The IRS qualified medical expenses that are 7.5 percent or more of AGI are allowed for deductions. The IRS qualified medical expense items (Weight loss program, etc.) are expanded, however, medical marijuana is not qualified.

QUALIFIED PLUG-IN ELECTRIC DRIVE VEHICLES CREDIT

Any taxpayer who bought a new plug-in electric drive vehicle before the end of 2018, are eligible for a credit, minimum $2,500 to maximum $7,500. The credit is calculated based on the size of battery (Kilowatt-hours). California has no comparable credit but has a rebate for the purchase of "clean vehicles". Depending on the vehicle, the rebate amount ranges from $900 to $5,000. In addition, low income families can get an additional rebate of up to $2,000. A rebate amount from the state should be reported as a taxable income for both federal and state tax return.

RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT

For qualifying property placed in service between January 1, 2017, and December 31, 2019 which has solar water heating, geothermal heat pump or small wind energy etc., the credit amount is 30% for the installation expense.

TAX PLANNING AND TAX AUDIT

CONTRIBUTION TO RETIREMENT SAVINGS

The contribution to Retirement Savings Plan (401(k), SEP IRA etc.) is recommended. The maximum amount for 401(k) is $18,500 ($24,500 if age 50 or older) and the maximum amount for SEP IRA (Simplified Employee Pension) is $55,000. In 2019, taxpayers can contribute up to $19,000 ($25,000 if age 50 or older) for 401(k) and up to $56,000 for SEP IRA.

RETIREMENT PLANS: TRADITIONAL IRA AND ROTH IRA

Taxpayer can contribute up to $5,500 ($6,500 if age 50 or older) to an IRA account by April 15, 2019 to be eligible for tax deduction for 2018. Taxpayer may convert a traditional IRA to a Roth IRA. There is no income limit for the conversion, however, the conversion may result in taxable consequence in certain situations (Paying back tax benefit from Traditional IRA).

DISTRIBUTION OF RETIREMENT ACCOUNT

Distribution 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 $15,000 in 2018. A taxpayer, making a gift valued more than $15,000 to anyone other than spouse, should report the gift on his/her tax return. For 2018, a unified gift and estate tax exemption is $11,180,000. Consulting with a tax advisor is important when making a gift more than the annual exclusion since exceeding amounts will count against the lifetime exclusion.

FOREIGN-EARNED INCOME EXCLUSION

In 2018, a U.S. individual living abroad can exclude up to $103,900 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 when filing jointly may exclude up to $207,800. 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).

PRINCIPAL RESIDENCE

Taxpayers may qualify to exclude income gained from selling primary residence (Living at least 2 years out of the previous 5 years) 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.

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 2018, must report foreign Bank and financial Accounts (FBAR) by April 15, 2019. Foreign financial accounts include-bank accounts, brokerage accounts, mutual funds, trusts, or other type of foreign financial accounts. Those require to file a 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.

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. Please keep a record.

CAPITAL GAIN (LONG-TERM)

Rate	Taxable Income Breakpoint			
	Single	Married filing Jointly	Married filing separately	Head of Household
0%	$38,600	$77,200	$38,600	$51,700
15%	$425,800	$479,000	$239,500	$452,400
20%	No Breakpoint			

Depending on the amount of adjusted gross income (AGI), net investment income tax (3.8%) can be added.

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

Owner Carried Financing (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.

NET OPERATING LOSS (NOL)

For losses arising in tax years beginning after December 31, 2017, the NOL deduction is limited to 80% of taxpayer's taxable income for the year of the claim deduction. Carryovers are allowed indefinitely. However, carryback is only allowed to farming loss and insurance company loss. (This rule is applied to NOL created from January 1, 2018)

AUTOMOBILE EXPENSE

For 2018, the standard mileage rate is 54.5¢ 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 SPECIAL DEPRECIATION

Section 179 allows business owners to deduct up to $1,000,000 for purchasing equipment, and the phaseout threshold is $2,500,000 in 2018. Qualified new or used equipment's bonus depreciation amount can be claimed as an expense up to 100% from September 28, 2017.

MEAL & ENTERTAINMENT

Client Entertainment expense (Sporting event tickets, Theater tickets, Golf outings, and Yacht excursions) is non-deduction from 2018. Meals for employees are 50% deductible and meals for employees while traveling for business are 50% deductible. Clients meals are 50% deductible the same as before. However, holiday parties, company picnics, and other occasional employee appreciation events are 100% deductible. Taxpayers should keep related events and meals expense documents separately to claim the full deduction.

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.

RESEARCH ACTIVITIES CREDIT

Research expenses for the business is deductible up to $250,000.

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 of down payment 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 a charitable contributions equaling $250 or more, must have records and written receipt from the qualified organization. Taxpayers, who make charitable contribution less than $250 should keep canceled checks. 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.

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.

INCOME TAX AUDIT

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 a corporation paying you salary and/or making transfer as withdrawal/distribution to personal accounts.

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 $16,111 for 2018 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 $50 to $270)

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.

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!

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