CHOI HONG LEE & KANG LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
WWW.CHLKCPAS.COM

TAX UPDATE 2019 / 2020

PENALTY ISSUE FOR NOT HAVING HEALTH INSURANCE IN 2019

Beginning January 1, 2019, the ACA's individual shared responsibility payment is $0, effectively repealing the individual mandate. So taxpayers without health insurance will not be penalized at tax time. In response to the TCJA's reduction of the individual mandate penalty to $0, California enacted SB 78 on June 27, 2019. The bill provides that effective January 1, 2020, California residents must maintain monthly healthcare insurance coverage or be subject to state penalties ($695 per person (and $347.50 per dependents) or 2.5% of annual household income, whichever is greater).

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 in 2019 is from $321,400 to $421,400 for Married Filing Jointly ($160,725 - $210,725 for Married Filing Separately, and $160,700 ~ $210,700 for Single and Head of Household). Please contact our office for further details.

According to the draft instructions, taxpayers must reduce their qualified business income by the amount of any charitable contribution made by the trade or business. Passthrough entities should cease making charitable contributions from their businesses based on this new guidance. Business owners should make distributions to themselves, then make the charitable contributions directly from their personal funds going forward.

RENTAL REAL ESTATE SAFE HARBOR

The final rental real estate safe harbor rules were issued on September 24, 2019. The rental real estate harbor provides rules under which a rental real estate enterprise is treated as a trade of business solely for purposes of IRC Section 199A and the regulations thereunder. There are four requirements to meet the rental real estate safe harbor: 1) Separate books and records must be maintained to reflect income and expenses for each rental real estate enterprise; 2) 250 or more hours of rental services must be performed per year with respect to each rental real estate enterprise; 3) Contemporaneous records must be maintained including time reports, logs, or similar documents regarding services performed; 4) The tax payer must attach a signed election statement to their return.

*Self-Rentals: If a self-rental is part of an operating business that is a trade or business, then the 250-hour or more safe harbor is not required because the rental property is automatically deemed to be a trade or business.

VIRTUAL CURRENCY TRANSACTIONS (IRS LETTERS 6174, 6173 FOR CRYPTO TAXES)

1. The IRS has issued the guidance concerning the taxation of Bitcoin and other virtual currencies, Notice 2014-21, in which they stated that virtual currencies are to be treated as property, not as currency. Taxpayers who received, sold, sent, exchanged, or otherwise acquired any financial interest in any virtual currency at any time during 2019 have to report Capital Gain or Loss from the transactions.
2. Taxpayers with known virtual currency holdings started receiving one of three letters; Letter 6173, Letter 6174, and Letter 6174-A. Please contact our office for more details.

2019 TAX RATE

Individual income tax brackets (7 brackets): 10%, 12%, 22%, 24%, 32%, 35%, and 37%

Standard deduction increases (Married filing jointly $24,400, Head of household (HOH) $18,350, Single filer and Married filing separately $12,200).

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

IRA CONTRIBUTION AMOUNTS

Taxpayer can contribute up to $6,000 ($7,000 if age 50 or older) to an IRA account to be eligible for tax deduction for 2019. (Married Filing Jointly : $12,000 / $14,000 if age 50 or older)

CHILD TAX CREDIT & OTHER DEPENDENT CARE TAX CREDIT

For tax years 2018 through 2025, the Child Tax Credit (CTC) is $2,000 per qualifying child. Of this, up to $1,400 per child is refundable. Taxpayers must obtain a Social Security number (SSN) for their child by the due date of their income tax return (including extensions) in order to claim the $2,000 Child Tax Credit (CTC). Taxpayers may also claim a credit of $500 per dependent that is not a qualifying child, and the dependent must be a U.S. Citizen, U.S. national, or U.S. resident alien.

MEDICAL EXPENSE DEDUCTIONS

The IRS qualified medical expenses that are 10 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.

RIDE SHARING, PART-TIME DELIVERY SERVICES, OR E-COMMERCE

Rideshare drivers (those working through Uber or Lyft) or those in E-Commerce (Amazon, YouTube, etc.) have to report the income on their tax return. For those using their own cars to earn income through ride sharing or part-time delivery services, auto expenses can be deducted using either: 1) The standard mileage rate of 58.0 cents per mile in 2019; or 2) Actual expenses times business percentage.

QUALIFIED PLUG-IN ELECTRIC DRIVE VEHICLES CREDIT

A) Taxpayer who bought a new plug-in electric drive vehicle before the end of 2019, are eligible for a credit, minimum $2,500 to maximum $7,500. The credit is calculated based on the size of battery (Kilowatt-hours).

B) Taxpayers who had their Tesla delivered in the first half of 2019 are eligible for a credit of $3,750, which drops to $1,875 for the second half of 2019. Any new Tesla delivered after 2019 is completely ineligible for the credit.

C) 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 form the state should be reported as a taxable income for both federal and state tax return.

RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT

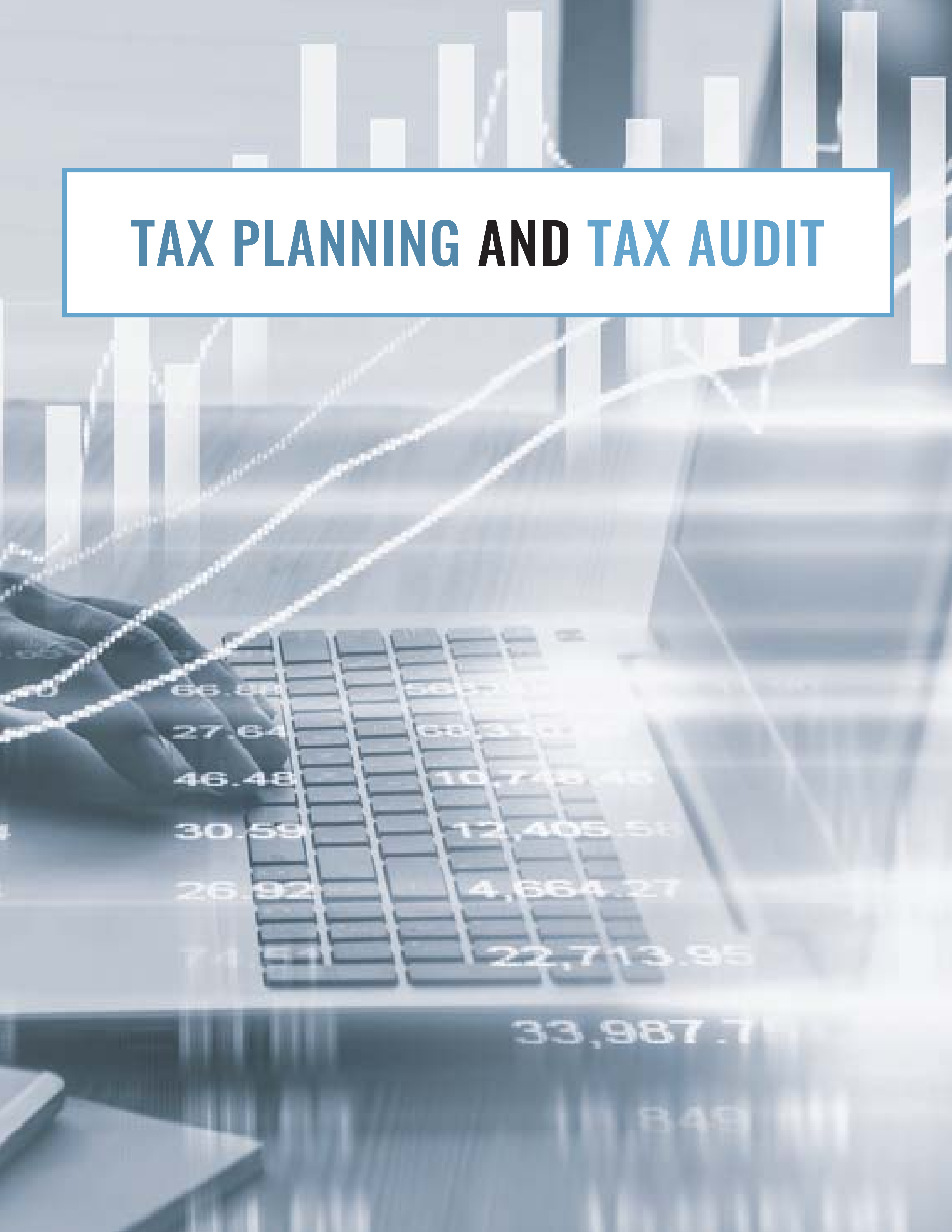
The credit for qualified solar electric property and qualified solar water heating property placed in service before January 1, 2022 is:

1) For property placed in service between January 1, 2017, and December 31, 2019, the credit amount is 30%;

2) For property place in service between January 1, 2020, and December 31, 2020, the credit amount is 26%; and

3) For property placed in service between January 1, 2021, and December 31, 2021, the credit amount is 22%.

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 $19,000 ($25,000 if age 50 or older) and the maximum amount for SEP IRA (Simplified Employee Pension) is $56,000. In 2019, taxpayers can contribute up to $19,500 ($26,000 if age 50 or older) for 401(k) and up to $57,000 for SEP IRA.

RETIREMENT PLANS: TRADITIONAL IRA AND ROTH IRA

Taxpayer can contribute up to $6,000 ($7,000 if age 50 or older) to an IRA account by April 15, 2020 to be eligible for tax deduction for 2019. Taxpayer may convert a traditional IRA to a Roth IRA. There is no limit for conversion income, 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

For 2019 and 2020, the annual gift tax exclusion is $15.000. 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 2019, a unified gift and estate tax exemption is $11,400,000. Please consult with a tax advisor before making a gift more than the annual exclusion since exceeding amounts will count against the lifetime exclusion.

FOREIGN-EARNED INCOME EXCLUSION

In 2019, a U.S. individual living abroad can exclude up to $105,900 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 $211,800. 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). Please contact our office for more details.

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.

REQUIRED MINIMUM DISTRIBUTIONS (RMD)

If a taxpayer turned age 70 ½ in 2019, the RMD may be taken prior to the end of 2019 or, as an alternative, prior to April 1, 2020. The 2020 RMD must also be taken in 2020.

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 2019, must report foreign Bank and financial Accounts (FBAR) by April 15, 2020. Foreign financial accounts include bank accounts, brokerage accounts, mutual funds, trusts, or other type of foreign financial accounts. Under IRC Section 5321 the maximum penalty for an FBAR violation is $12,921 unless the violation is willful. For willful violations, the penalty may be the greater of $129,210 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 value of 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 any related record.

CAPITAL GAIN (LONG-TERM)

Rate	Taxable Income Breakpoint			
	Single	Married Filing Jointly	Married Filing Separately	Head of Household
0%	$39,375	$78,750	$39,375	$52,750
15%	$434,550	$488,850	$244,425	$461,700
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 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.

CALIFORNIA ABC TEST (AB 5 Ch. 19-296)

Under AB 5, most workers are presumed to be an employee for purposes of the Labor code, the Unemployment Insurance Code, and for most wage orders of the Industrial Welfare Commission unless a hiring entity satisfies a three-factor test, referred to as the ABC test. Under the ABC test, all three of these conditions must be met in order to treat the worker as an independent contractor:

a) The worker is free from the control and direction of the hiring entity in connection with the performance of the work.
b) The worker performs work that is outside the usual course of the hiring entity's business.
c) The worker is customarily engaged in an independently established trade, occupation, or business of the same nature as the work performed.

NET OPERATING LOSS (NOL)

For losses arising in tax years beginning January 1, 2018, the NOL deduction is limited to 80% of taxpayer's taxable income for the year of the claim deduction. Carryovers are allowed indefinitely (California NOLs can be carried forward up to 20 years). However, only farming loss and insurance company losses may be carried back. (This rule is applied to NOL created from January 1, 2018). California conforms to the repeal of NOL carrybacks for NOLs attributable to taxable years beginning January 1, 2019.

AUTOMOBILE EXPENSE

For 2019, the standard mileage rate is 58.0¢ per mile. Taxpayers should keep a detailed mileage log for substantiation. Commuting mileage incurs 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 $1,020,000 for purchasing equipment, and the phaseout threshold is $2,550,000 in 2019. 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 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 $1.25 million (or 250,000 each year for up to five years)

SEXUAL HARRASSMENT TRAINING

With the signing of SB 778, California employers with five or more employees will now be required to provide by January 1, 2021:

a) At least two hours of classroom or other “effective interactive training and education” regarding sexual harassment prevention to all supervisory employees; and
b) At least one hour classroom or other “effective interactive training and education” regarding sexual harassment prevention to all non-supervisory employees.

After this initial sexual harassment prevention training is completed, a covered employer must provide the requisite sexual harassment and prevention training to each employee in California once every two years.

SB 778 further requires that covered employers are required to provide training to nonsupervisory employees within six months of hire, and to new supervisory employees within six months of the assumption of a supervisory position.

CANNABIS (FULL EXPENSE DEDUCTIONS ALLOWED IN CALIFORNIA STARTING IN 2020)

Since Cannabis was legalized in California, California allowed only corporate taxpayers engaged in cannabis activities to claim business expense deductions and credits for their ordinary and necessary business expenses, as long as they were not convicted of specified illegal activities, including drug trafficking, in a criminal proceeding or other proceeding in which a governmental agency was involved.

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 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.

SEPARATE BANK ACCOUNT

Keeping separate accounts (business and personal) is always the smart thing to do. The proper way to transfer business income to personal account is either by paying yourself a salary and/or making a transfer as withdrawal/distribution to personal accounts.

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

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 $16,388 for 2019 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. (Form 1099 filing due date: 1) 1/31/2020 for 1099-MISC NEC, 2) 2/28/2020 for 1099-DIV, 1099-INT, and 1099-R)

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.

Directory

Los Angeles Office #1 (Suite 480)

3435 WILSHIRE BLVD., SUITE 480, LOS ANGELES, CA 90010 T: (213) 365-1700 F: (213) 365-1726

Partners

Ilsup (Tommy) Lee	(213) 639-6285	ext. 717	tlee@chlkcpa.com
Ik Su (Justin) Kang	(213) 639-6296	ext. 716	jkang@chlkcpa.com
Soh Yun Kang Park	(213) 550-2182	ext. 713	sykang@chlkcpa.com
Kyu J. Kim	(213) 550-1277	ext. 727	kyukim@chlkcpa.com

Managers

Samantha Kang	(213) 550-2183	ext. 712	samkang@chlkcpa.com
Changkwon Moon	(213) 550-2184	ext. 720	ckmoon@chlkcpa.com
Amy Lee	(213) 639-6295	ext. 719	amylee@chlkcpa.com

Staffs

Haley Jeehea Ahn	(213) 481-5486	ext. 722	hjahn@chlkcpa.com
Seongho (Chris) Kim	(213) 550-2091	ext. 714	ck@chlkcpa.com
In Joo Moon	(213) 550-2185	ext. 724	ijmoon@chlkcpa.com
Jhee Sue Yang	(213) 550-2185	ext. 711	jsyang@chlkcpa.com
Jitaek (Jason) Kim	(213) 481-5474	ext. 721	jason@chlkcpa.com
Diane Park	(213) 550-2186	ext. 723	dpark@chlkcpa.com
Sharon Cha	(213) 427-9595	ext. 728	scha@chlkcpa.com
Erika Oh	(213) 550-2090	ext. 725	erikaoh@chlkcpa.com
Donguk Kim	(213) 365-1700	ext. 718	dkim@chlkcpa.com
Claire Han	(213) 365-1700	ext. 700	hanmj@chlkcpa.com
Insu Na			isna@chlkcpa.com

Advisors

Jung G. Choi (Inactive)	(213) 365-1700	jgbsbc@gmail.com
Sung Ha Hong (Inactive)	(213) 365-1700	sunghahongcpa@hotmail.com
Spencer S. Moon	(213) 365-1700	SpencerMoonCPA@gmail.com
Jay Chung	(213) 365-1700	jaynnchung@gmail.com

Los Angeles Office #2 (Suite 1080)

3435 WILSHIRE BLVD., SUITE 1080, LOS ANGELES, CA 90010 T: (213) 382-8001 F: (213) 382-9115

Partner

Henry Kim	(213) 382-8001	ext. 780	hkim@chlkcpa.com

Staffs

Emily Chung	(213) 382-8001	ext. 781	echung@chlkcpa.com
Hyunjin (Kate) Kye	(213) 382-8001	ext. 782	hkye@chlkcpa.com

Torrance Office

3820 DEL AMO BLVDS., SUITE 220, TORRANCE, CA 90503 T: (310) 542-6373 F: (310) 370-5565

Partner

Judy Rufsvold	(310) 542-6373	ext. 701	jko@chlkcpa.com

Staffs

Seo Won Choi	(310) 542-6373	ext. 703	schoi@chlkcpa.com
Elly Lim	(310) 542-6373	ext. 702	elim@chkcpa.com

Advisor

Hong Won Suh	(310) 542-6373	ext. 705