



# 2023 - 2024 TAX UPDATE



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**CHOI HONG LEE & KANG** LLP  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## CLEAN VEHICLE CREDIT

- The credit can only be claimed once per vehicle, but taxpayers can claim a credit for every eligible new vehicle they purchase, even if multiple vehicles are purchased in the same year. The IRS has, however, limited the amount of advanced credits taxpayers can claim at a dealership to two vehicles per year.
- Vehicles from manufacturers such as Tesla and General Motors qualify for the Clean Vehicle Credit for vehicles sold after 2022 if all other requirements are met.
- The lessee of vehicles does not qualify for the Clean Vehicle Credit. The Inflation Reduction Act states that a qualified vehicle is one whose original use commences with the taxpayer, which is acquired for use or lease by the taxpayer and not for resale.
- The maximum amount of the Clean Vehicle Credit is \$7,500 per qualified vehicle if the vehicle's critical materials and battery components are manufactured, processed, extracted, or produced in the U.S. or in countries with which the U.S. has entered a free trade agreement. However, this new limitation only applies to vehicles for which the taxpayer takes delivery after April 17, 2023. If the vehicle only meets one of the requirements, then the credit is limited to \$3,750.
- Beginning for vehicles placed in service in 2024, taxpayers can claim advanced Clean Vehicle Credits at the dealership for credits claimed under IRC §30D and §25E (but only if the taxpayer attests to the dealer that the vehicle will be used predominantly for personal use).

## ENERGY EFFICIENT HOME IMPROVEMENT CREDIT

The nonrefundable Nonbusiness Energy Credit under IRC §25C was renamed the Energy Efficient Home Improvement Credit by the Inflation Reduction Act and extended through 2032.

- Increasing the percentage of the credit from 10% of the cost to 30% of cost of the:
  - A. Amount paid or incurred by the taxpayer for qualified energy efficiency improvements installed during such taxable year; and
  - B. The amount of the residential energy property expenditures paid or incurred by the taxpayer during such taxable year (prior to the Inflation Reduction Act, there was no percentage limit on these amounts).
- Replacing the \$500 lifetime cap on the credit with a \$1,200 annual credit limitation;
- Adding air sealing material or systems to the list of qualified residential energy property for which the credit may be claimed;

## PROVISIONS FOR INDIVIDUALS

- Expanding the list of qualified energy property to include a natural gas heat pump and a natural gas, propane, or oil furnace or hot water boiler, a biomass stove or boiler, and improvements to or replacements of a qualified panel-board, sub-panelboard, branch circuit, or feeders;
- Removing asphalt and metal roofs from the list of building envelope components for which the credit may be claimed;
- Requiring all items placed in service after 2024 for which the credit is claimed to be produced by a qualified manufacturer, and a qualified product identification number must be provided on the tax return filed by the taxpayer.

## PROVISIONS FOR BUSINESSES

### QUALIFIED LONGEVITY ANNUITY CONTRACTS (QLACs)

Qualified Longevity Annuity Contracts (QLACs) are investment vehicles that allow taxpayers to remove assets from their IRA and hold them until later retirement years. The premiums paid for all QLAC contracts for the benefit of any individual cannot exceed \$200,000 (indexed for inflation starting in 2025). QLACs cannot be purchased with funds from an inherited IRA. QLACs may be purchased under: defined contribution plans, traditional IRAs, §IRC 403(b) plans and governmental IRC §457(b) plans.

Under a QLAC, a plan may provide that if the purchasing retiree dies before (or after) the age when the annuity begins, the premiums they paid but have not yet received as annuity payments may be returned to their accounts.

### NEW ROTH SEP IRA (NEW SIMPLE SEP IRA)

The SECURE 2.0 Act adds new IRC §402(h) (1) (C), which provides that SEP IRAs can now be designated as Roth SEP IRAs beginning in 2023. However, any employer contributions to a Roth SEP IRA are treated as taxable compensation to the employee. Contributions to a traditional SEP IRA are excluded from the employee taxable compensation. The new Roth SEP IRA will be a great option for clients who have self-employment income but have low (or no) income tax liability.

## MATCHING CONTRIBUTIONS FOR STUDENT LOAN REPAYMENT

For purposes of calculating an employer's matching contribution to certain defined contribution plans, an employer can treat an employee's student loan repayments as if the student loan repayment is an employee retirement contribution. This provision applies for plan years beginning after December 31, 2023. A qualified student loan payment is any indebtedness incurred by the employee solely to pay the employee's qualified higher education expenses. Governmental employers are also permitted to make matching contributions to a 457(b) plan or another plan with respect to such repayments.

## NEW AUTOMATIC ENROLLMENT PLAN OPTIONS

The SECURE 2.0 Act provides two new "automatic enrollment" plan provisions:

- One for employers that want to be able to contribute to their employee's retirement savings and offer employees options to contribute more than the current IRA contribution limit options; and
- Another "starter" 401(k)/403(b) plan option for employers that have not previously offered retirement plans that would only allow employee deferral contributions to the plan and limits contribution amounts to the annual IRA contribution limit (currently \$6,500/\$1,000 catch-up contributions). Presumably the reason for this option is to provide a "low-cost" option for employers to offer a retirement plan to their employees.

Employers starting standard new 401(k) or 403(b) plans must automatically enroll their employees in the plan with a minimum employee contribution rate of 3%, applicable to plan years beginning after December 31, 2024. The automatic contribution arrangement must meet the requirements of IRC §414(w)(3), including providing an opportunity for the employee to opt out or to choose a different contribution rate and meet the investment requirements of Treas. Regs. §2550.404c-5.

Unless an employee chooses a different contribution rate, the default rate will be at least 3% and will increase each year by 1% up to a 10% maximum (15% for plan years ending after 2024).

### BUSINESS CLEAN VEHICLE CREDIT

Qualified Commercial Clean Vehicle Credit is available for qualified vehicles purchased after December 31, 2022, and before 2033. The credit is capped at \$40,000 (\$7,500 for vehicles with a gross vehicle weight rating of less than 14,000 pounds). Unlike the Clean Vehicle Credit, the Qualified Commercial Clean Vehicle Credit cannot be transferred to the dealer at the time of purchase. However, tax-exempt entities can treat the seller as the purchaser.

### MONETIZING ENERGY CREDIT

Beginning with the 2023 tax year, businesses may elect to sell energy credits for cash to unrelated taxpayers. Sellers will not recognize income from these sales, nor can the purchaser deduct this expense. Nonprofits may elect to be treated as having made a payment of tax equal to the value of the credit they would otherwise be eligible for. This essentially turns these otherwise nonrefundable credits into refundable credits.

- The ability to sell credits includes, but is not limited to, the:
- Renewable Electricity Production Tax Credit
- Clean Electricity Production Tax Credit
- Energy Investment Credit
- Clean Electricity Investment Credit

### FOREIGN ACCOUNT TAX COMPLIANCE ACT

California conforms to the federal foreign account disclosure (FATCA) requirements. Individuals and businesses that have specified foreign financial assets must file Form 8938, Statement of Specified Foreign Financial Assets, with the California return. California filers are subject to a \$20,000 penalty for failure to file Form 8938 (\$10,000 federal + \$10,000 California).

## BENEFICIAL OWNERSHIP REPORTING

As of or Beginning January 1, 2024, the beneficial ownership information reporting requirements mandated by the 2021 Corporate Transparency Act will be phased in over a two-year period. Under these new rules, covered entities must report specified information about certain owners and officers to the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) and must timely update any changes.

### Who is a beneficial owner?

A reporting company's beneficial owner(s) is any individual who, directly or indirectly, either: exercises substantial control over the reporting company or owns or controls at least 25% of the reporting company's ownership interests.

### Who must report?

- The majority of small and medium businesses: A domestic corporation, LLC, including a single member LLC, or an entity created by filing documents with a Secretary of State's office or similar office under the law of a state or Indian tribe (e.g., limited partnerships, limited liability partnerships, and business trusts in most states). A state includes any other U.S. commonwealth, territory, or possession (FinCEN Small Entity Compliance Guide).
- A foreign corporation, LLC, or other entity formed under the law of another country and registered to do business in any state or tribal jurisdiction by the filing of a document with a Secretary of State or similar office.

### Who is exempt from reporting?

- General partnerships and trusts
- Companies with 20 full-time U.S. employees and at least \$5 million in gross receipts
- Investment companies and advisors
- Tax-exempt orgs, etc.

### Due dates?

- Starting 1/1/24 for new domestic entities, or foreign entities that register: Must file within 90 days of the earlier of Notice they are registered is received; or the government office provides public notice they are registered.
- Existing entities: Entities formed or registered prior to 2024 must file by January 1, 2025.

## NEW BUSINESS PERSONAL PROPERTY TAX FORM

Starting in 2024, owners of short-term rentals (such as rentals offered through a platform like Airbnb) will need to complete new Form BOE-571-STR, Short Term Rental Property Statement, to report business personal property. Unlike real property, business personal property generally is reappraised annually. Business owners must file a business property statement each year detailing the costs of all supplies, equipment, and fixtures at each location. The form does not allow for prorated reporting.

# TAX PLANNING

and

# TAX AUDIT

210.95

149.16

23.26

1.41%

18.92

24.27

287.79

210.95

Apr

May

Jun

Jul

Aug

Sep

Oct

Nov

Dec

Jan

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Oct

Nov

Dec

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## MEDICAL EXPENSE DEDUCTIONS

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The IRS allows all taxpayers to deduct only the amount of the total medical expenses that exceed 7.5% of their adjusted gross income. Medical mileage rate for 2023 is 22 cents.

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## INCOME EXCLUSION OF CANCELLATION OF DEBT ON PRINCIPAL RESIDENCE

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Gross income does not include cancellation of debt if the income for discharged debt from taxpayers' qualified principal residence indebtedness discharged prior to January 1, 2026. (But limited to \$750,000 of acquisition debt (\$375,000 for MFS)). California has not allowed the principal residence exclusion since 2013.

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## CONTRIBUTION TO RETIREMENT SAVINGS

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The contribution to retirement savings plan (401(k), SEP IRA, etc.) is recommended. For 2023, the maximum amount for 401(k) is \$22,500 (\$30,000 if age 50 or older), and the maximum amount for SEP IRA (Simplified Employee Pension) is \$66,000. In 2024, taxpayers can contribute up to \$23,000 (\$30,500 if age 50 or older) for 401(k) and up to \$68,000 for SEP IRA.

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## RETIREMENT PLANS: TRADITIONAL IRA AND ROTH IRA

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Taxpayer can contribute up to \$6,500 (\$7,500 if age 50 or older) to an IRA account by April 15, 2024 to be eligible for tax deduction for 2023. For tax year 2024, taxpayers can contribute up to \$7,000 (\$8,000 if age 50 or older). 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).



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## DISTRIBUTION OF RETIREMENT ACCOUNT

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Taxpayers who turn age 72 after 2022 can put off their first required minimum distributions (RMDs) until April 1 of the year after they turn age 73. Taxpayers who put off their 1st RMD must take two RMDs in the 2nd year (one for the year they turned age 73 and one for the following year.) The deadline for taking RMD is December 31 each year. 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". Please contact our office for more details when exception applies in 2023.

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## CHILD TAX CREDIT (CTC)

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For tax years 2018 through 2025, the Child Tax Credit is \$2,000 per child. Qualifying child should be born on or after 01/01/2007 and must have valid SSN. Taxpayers who failed to obtain an SSN for their qualifying child by the due date of their income tax return are still eligible for the \$500 credit available for other dependent (under IRS § 24(h)(4)(A)). Up to \$1,600 of the Child Tax Credit is refundable in 2023. The refundable portion is \$1,700 for 2024.

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## CHARITABLE CONTRIBUTIONS

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Individual taxpayers can claim cash contributions of up to 60 percent of their 2023 adjusted gross income (50 percent of federal AGI for California).

## VIRTUAL CURRENCY TRANSACTIONS

The IRS has issued the guidance concerning the taxation of virtual currencies that has an equivalent value in real currency (or acts as a substitute for real currency). (IRS Notice 2014-21)

1. Taxpayers who received, sold, sent, exchanged, or otherwise acquired any financial interest in any virtual currency at any time during 2023 have to report capital gain or loss from the transactions.
2. Wages paid to employee using virtual currency are taxable.
3. Payments made to independent contractors using virtual currency are taxable.
4. A taxpayer who mines virtual currency realizes taxable income.

Beginning with transactions on January 1, 2023 and after, virtual currency platforms are required to issue Form 1099-B for virtual currency transactions. Many platforms, such as Coinbase and Robinhood, have already begun providing year-end reporting statements, which are similar to the 1099-B forms. However, to date, final regulations have not been issued, so taxpayers can expect that 1099 reporting for cryptocurrency transactions will not begin until at least 2024 (for 1099s issued in early 2025).

Beginning with transactions on December 17, 2023, Form 8300, report of cash payments over \$10,000 received in a trade or business is required to be filed with the IRS by the 15th day after the date virtual currencies are received exceeding \$10,000 in a single transaction.

Under the wash sale rules, taxpayers who sell virtual currencies and then purchase other substantially similar virtual currencies within 30 days of the sale date may not claim a loss on their stock sale.

## NONFUNGIBLE TOKENS (NFT)

A nonfungible token (NFT) is a unique digital identifier that is recorded using distributed ledger technology (ex. Block chain technology) and may be used to certify authenticity and ownership of an associated right or asset. The IRS has stated that they will apply a “look-through” analysis to determine whether an NFT is a collectible. (IRS Notice 2023-27). Labeling an NFT as a collectible can have adverse tax consequences because:

- Sales of a collectible are subject to a higher capital gains tax rate of 28%
- IRAs cannot be invested in collectibles. If they are, then the investment is treated as a taxable distribution to the IRA owner upon purchase of the collectible.

## GIFT TAX / ESTATE TAX EXCLUSION

For 2023, the annual gift tax exclusion is \$17,000 (\$18,000 for 2024). A taxpayer, making a gift valued more than \$17,000 to anyone other than spouse, should report the gift on the tax return. For 2023, a unified gift and estate tax exemption per person is \$12,920,000 (\$13.61 million for 2024). It is scheduled to reduce back to \$5 million after 12/31/25. 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 2023, a U.S. individual living abroad can exclude up to \$120,000 of foreign-earned income if the taxpayer satisfies either the bona fide residence test or the physical presence test. The exclusion applies separately to each spouse; as such, if both spouses are qualified individuals, the spouses when filing jointly may exclude up to \$240,000. 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.

## 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 2023, must report foreign Bank and financial Accounts (FBAR) by April 15, 2024. 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 \$15,711 unless the violation is willful. For willful violations, the penalty may be the greater of \$156,107 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.

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

## PRINCIPAL RESIDENCE

## PENALTY ISSUE FOR NOT HAVING HEALTH INSURANCE CONTINUE IN 2023

### 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.

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.

Beginning January 1, 2020, all California residents must have qualifying health insurance coverage unless they qualify for an exemption. Otherwise, nonexempt taxpayers without coverage must pay the state penalty. In 2023, it will be the higher of a flat amount of \$900 per adult person (\$450 per dependent child), up to an annual maximum of \$2,700.

## FIRST-TIME PENALTY ABATEMENT

For taxable years beginning on or after January 1, 2022, the FTB offers a first-time penalty abatement for individual taxpayers facing a late-filing penalty or late-payment penalty. The request may be made either orally or in writing, and abatement only applies to a timeliness penalty related to one taxable year. Unlike the federal first-time penalty abatement which is available once every four years, the California penalty abatement is only available once in a lifetime. The federal first-time penalty abatement is available to both individuals and businesses, and qualified penalties include failure to file/timely file, failure to pay/timely pay, and failure to deposit. Federal first-time abatement requests may be made orally or by filing Form 843, Claim for Refund and Request for Abatement.

## 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 (2023)			
	Single	Married Filing Jointly	Married Filing Separately	Head of Household
0%	\$44,625	\$89,250	\$44,625	\$59,750
15%	\$492,300	\$553,850	\$276,900	\$523,050
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.

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## CALIFORNIA MINIMUM WAGE

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On January 1, 2024, the state-wide California minimum wage will rise to \$16.00 per hour for all employer sizes. Effective from July 1, 2023, the minimum wage in LA City is \$16.78 per hour and unincorporated areas of LA County is \$16.90.

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## PASS-THROUGH ENTITY ELECTIVE TAX

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Qualified S Corp, partnership, disregarded single-member LLC or LLC taxed as partnership or S Corp doing business in CA may make an election to pay a pass-through entity elective tax on behalf of qualifying taxpayers for 2021 to 2025 tax year. The amount equals 9.3% of its qualified net income. This will decrease Federal net income on owner's K-1, and the owner will receive a CA tax credit equal to 100% of the state tax paid by the pass-through entity on behalf of its owner. Qualified taxpayers include individual, fiduciary, estate, trust, and disregarded single member LLC. For tax years 2022 to 2025, the election is made by making the first payment (which is the greater of \$1,000 or 50% of the elective tax paid for the prior tax year) by June 15 during the tax year of the election. The remaining amount must be paid by the due date of the original return without regard to the extensions.

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## CALSAVERS PROGRAM

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CalSavers is a state-administered Roth-like retirement plan that private employers must offer to their CA employees if the employer does not provide its own retirement plan unless a few conditions are met. IRS classifies CA's CalSavers program as Roth IRA. Non-compliant employers will be penalized \$250 per employee upon the first penalty notice. Employers with at least 1 employee will be required to register by December 31, 2025. Religious organizations with 501(c) (3) exemption are not required to register.

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## NET OPERATING LOSS (NOL)

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The net operating loss deduction for taxable years beginning after December 31, 2020, is limited to 80% of the excess (if any) of taxable income (For California, 100% of taxable income is allowed). Carryovers are allowed indefinitely (California NOLs can be carried forward up to 20 years). After 2020, Carrybacks are not allowed for both federal and California.

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## SECTION 179 AND SPECIAL DEPRECIATION

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Section 179 allows business owners to deduct up to \$1,160,000 for purchasing equipment, and the phase-out threshold is \$2,890,000 in 2023. Bonus depreciation is reduced to 80% for qualified property placed in service during 2023 and will continue to drop 20% annually until it is phased out.

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## MEAL & ENTERTAINMENT

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Client entertainment expense (sporting event tickets, theater tickets, golf outings, and yacht excursions) is non-deductible since 2018. Meals for employees are 50% deductible and meals for employees while traveling for business are 50% deductible. Client meals, employee meals while traveling for business, and meals provided for the convenience of the employer are 50% deductible. Further, 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.

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## PENSION PLAN

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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.



# 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 \$18,567 for 2023 from foreign corporations or foreign partnerships must be reported to IRS by filing Form 3520.

## FORM 1099 FILING REQUIREMENT

A taxpayer may be subject to a penalty if he/she fails to file a Form 1099 in a timely manner or he/she fails to include all information required to be shown on a return. Penalty ranges from \$60 to \$310.

### 1) 1099 Paper-file deadline:

1/31/2024 for 1099-NEC,  
2/28/2024 for 1099-MISC, DIV, INT, R, C, B, S

### 2) 1099 E-file deadline:

01/31/2023 for 1099-NEC,  
03/31/2023 for 1099- MISC, DIV, INT, R, C, B, S

### 2) 1099 recipient deadline:

1/31/2024 for 1099-NEC,  
2/15/2024 for 1099-MISC, DIV, INT, R, C, B, S

## RECORD KEEPING

Bank statements, canceled 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.

# INCOME TAX AUDIT

## EMPLOYEE RETENTION CREDIT (ERC)

On September 14, 2023 the IRS announced that they stopped processing all new ERC refund claims and will continue their moratorium at least through December 31, 2023. Taxpayers may consider using voluntary disclosure program if they do not qualify. There are penalties or criminal prosecution if ERC is fraudulently claimed. Additionally business owners should never pay a percentage or contingency fee based on the amount of their ERC tax refund according to the IRS.

Taxpayers must reduce the amount of wage expenses claimed by the amount of credit claimed. It is not required to include these ERC refunds in taxable income on the federal return. California also does not require taxpayers to include any portion of the ERC on the return. Make sure wages claimed for ERC were not paid with PPP loans or other COVID-19 grants. Improperly forgiven PPP loans are taxable for both federal and California purposes.

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