APCPAA Business Advisory Journal

2018 Schedule of Events

MAR 2018	ANNUAL BUSINESS ADVISORY JOURNAL PUBLICATION
APR 2018	NETWORKING & BUSINESS DEVELOPING MIXER
MAY 2018	BUSINESS OWNER NETWORKING WITH CEO OF CATHAY BANK
JUL 2018	2 ND ANNUAL PROFESSIONAL EDUCATION SYMPOSIUM
SEP 2018	2 ND ANNUAL APCPAA INTERNATIONAL BUSINESS DEVELOPMENT TOUR TO CHINA AND TAIWAN
NOV 2018	3 RD ANNUAL BOARD & OFFICER INSTALLATION GALA
FEB 2019	NETWORKING & FAMILY VOLUNTEERING COMMUNITY CHARITY EVENT
APR 2019	3 RD ANNUAL APCPAA GOLF TOURNAMENT

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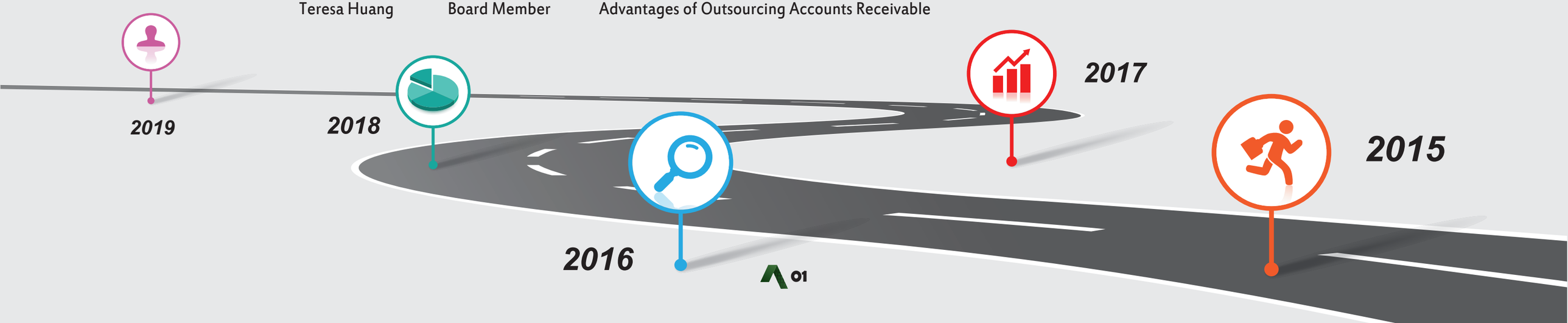







President's Message

The Asian Pacific CPA Association is proud to publish our annual "Business Advisory Journal," in order to share with the business community about new laws, market changes, and planning concepts. These articles will help business owners to recalibrate their businesses and enable professional advisors to better serve their clients.

Each article is only as strong as the experience and technical expertise of the authors, and our APCPAA members/authors are leading CPAs, Attorneys, Bankers, Realtors, Wealth Advisors, & Other Professional Advisors in their respective industries. The strength of APCPAA lies in our diverse professional industry membership, because in today's complex business environment, we must work closely with experts in allied professions to produce the best client solutions. APCPAA is also proud to serve as a bridge for the Asian community, by building a professional network and educational home for Chinese, Korean, Japanese, Vietnamese, and all other Asian business professionals.

As the President of APCPAA, I warmly invite you to join and grow with us, so that ultimately, we may continue to provide the best advice to our clients.

Tony Yu, ESQ, CPA, CPCU, CFP®, ACI, CLU, ChFC, PFS, CFS, TEP
APCPAA President 2017-2018







Tony Yu

President

Tony Yu is an ESQ, CPA, CPCU, CFP®, ACI, CLU, ChFC, PFS, CFS, TEP. He is the 2nd Generation Owner of DSG Business, Tax, & Wealth Planning.

Tony is also the Managing Attorney of DSG Wealth & Trust Law, a DSG- affiliated company which helps those same clients with estate planning design and implementation.

See: www.dsgwealth.com

Estate & Gift Tax Changes 2018 Impact to Lifetime Gifting

At the end of 2017, President Trump and the Republican- led Congress passed legislation to double the exemption amount for estate, gift and generation-skipping taxes from the previous $5 million base, set in 2011, to a new $10 million base, good for tax years 2018 through 2025. The exemption is indexed for inflation, so in 2018, each individual can now exempt $11.2 million of assets from these taxes. Husband and wife who properly elect the estate tax portability provision can now exclude $22.4 million for 2018. This new tax law is set to expire in 2025, when exemption levels will revert back to where they would have been if the federal tax overhaul had never passed. After accounting for inflation, the expected reverted exemption amounts would be around $6 million for individual and $12 million for married couples.

The estate, gift, and generation-skipping taxes share the same exemption amount. For example, if someone gifts $1 million during his life, his available estate tax exemption amount would be reduced by $1 million. The client can still take advantage of this increased exemption amount without dying, by making lifetime gifts. Legislation makes clear that the gifts you make under today's higher exemption levels will retain their benefit even if the exemption level falls in the future. Therefore, between 2018 and 2025, the new tax law offers enormous lifetime gifting opportunities.

Lifetime gifting may include gifts of partial business ownership and real estate, either simply using traditional discounting techniques (lack of control and marketability) or in combination with grantor annuity trusts or sales to defective grantor trusts.

This is also a golden opportunity for maximizing gifts into an Irrevocable Life Insurance Trust (ILIT), so that the ILIT may purchase life insurance for the next generation. An ILIT is an irrevocable trust which serves as an intermediary through which the trust's grantor gifts money into the ILIT, which in turn purchases life insurance. Ultimately, after the policy's insured dies, the death benefit will be distributed into the trust, free of estate tax. Without an ILIT, the, policyowner, who is often the same party as the insured, will have to add that entire death benefit to his gross estate.

Previously, with lifetime exemptions at half the amount, wealthy clients had to preserve most of their exemption for transferring assets at hand, instead of using it for lifetime gifts to ILITs for insurance premium payments. But now, with doubled exemption limits, wealthy clients can allocate some exemption amounts to gift into an ILIT to purchase large policies that will exponentially grow their family's financial legacy. For example, a husband and wife at age 50 can now gift $2 million into the ILIT, which in turn may fund a $14 million, no-lapse guarantee, universal life insurance policy. The life insurance proceeds will be free of income tax (IRC section 101(a)) and also free of estate and GST tax, because of the ILIT structure.

While clients may have other assets to transfer to their children, the ILIT and its insurance proceeds serve as a tax efficient, diversified, and leverageable investment asset, which is also liquid and predictable for wealth planning purposes. Talk to your Attorney, CPA, and Certified Financial Planner for further planning.

Wendy On

Vice President

Wendy On is a Tax Partner at Fineman West & Company where she serves as the trusted tax and business advisor for public and privately-held businesses and individuals.

Wendy provides business and tax planning stratgies and share best practices in the industry to help companies achieve their financial goals.

See: www.dsgwealth.com

Is a C Corporation the Choice of Entity after Tax Reform?

Many are speculating that there will be a flurry of pass-through conversions to C corporation taxation to take advantage of the flat 21% tax rate. Will the conversions to C corporation create the optimal taxing structure under this new tax bill? Let's take a look.

Lower tax rate
C corporation is taxed at a flat 21% rate whereas partnership income flowing through to an individual partners is subject to tax at a maximum 37% rate. In additional, C corporations can fully deduct state and local taxes whereas an individual's deduction is limited to a maximum $10,000.

Double taxation
C corporations are subject to two levels of taxation, one at the corporate level on earnings and one at the shareholder level on dividends. Dividends usually are taxed at the qualified dividend rate of 20%. Dividends also may be subject to the 3.8% net investment income tax. If only federal taxes are considered, the effective federal double tax rate is 39.8%.

20% QBI deduction.
Pass-through income (eg, S corporation or partnership) may be eligible for a 20% deduction for qualified business income (QBI), but that still leaves the effective tax rate at 29.6% (ie, higher than the C corp 21% tax rate). Furthermore, the 20% QBI deduction is not allowed for most service businesses unless taxable income is below $315,000 (married filing joint). See comparison below.

Tax Percentage on Original Income	C Corporation		Active Pass-Through	
	Fed Only	Fed and CA	Fed Only	Fed and CA
Tax If Undistributed	**21.0%**	**28.0%**	**29.6%**	**42.9%**
Tax on Distribution	18.8%	26.7%		
Tax if Distributed	39.8%	54.7%	29.6%	42.9%

Losses
Losses in a C corporation do not flow to the owners for immediate tax benefit.

Additional taxes
If the C corporation accumulates cash, it can be subject to accumulated earnings tax and/or personal holding company tax.

Step-up at death
If an owner dies owning C corporation stock, the stock will receive a step-up in basis to its fair market value but the appreciated assets inside the corporation do not get stepped up. If a partner in a parnterhsip dies, Section 754 provides an election to adjust the inside bases of the partnership assets upon a partner's death.

Outbound foreign
Under the new international tax rules, ownership of foreign corporations by a C corporation rather than an individual has several advantages. Dividends paid by a foreign corporation to a C corporation may qualify for the dividend received deduction while dividends paid to an individual or pass-through entity are fully taxable.

Should I be a C corporation? Bottom line is, you have to run the numbers. Talk to your CPA and run the numbers applying the specifics of your situation. There is no "one size fits all" answer.

Melanie Pong

Vice President

Melanie Pong is a multilingual Home Mortgage Consultant NMLSR ID#485535 for Wells Fargo Home Mortgage with over 10 years in mortgage lending experience.

Melanie is also on the Executive Board for the Asian Real Estate Association of America (AREAA) IE Chapter.

See:
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Mortgage Process & Residential Program Highlights

The Modern Mortgage Process

The process of applying for and closing a mortgage can be complex. It's important to understand and plan for the financial responsibilities of homeownership and the ongoing maintenance expenses that come with owning a home.

What determines how much you can borrow? The amount you can borrow will depend on a number of factors, including your ability to repay the loan. Your lender will use two ratio-based guidelines to evaluate your ability to repay.

The first is your debt-to-income ratio. Debt-to-income ratio is the percentage of your monthly income that is spent on monthly debt payments.

This means your expected monthly mortgage payment (principal, interest, taxes, and insurance) plus your other monthly debt obligations are compared to your gross pre-tax monthly income.

Mortgage program guidelines vary, but a good rule of thumb is to keep your total debt level at or below 36% of your gross monthly income.

The second, housing-to-income ratio, is the percentage of your monthly income that is spent on monthly housing payments. Your lender will also compare just your expected monthly mortgage payment (including taxes and insurance) to your gross monthly income. Mortgage program guidelines vary, but a good rule of thumb is to keep your housing expense level at or below 28%.

Your lender will also examine your current debts, payment habits, credit history, and credit score. They want to confirm that you pay your bills, loans, credit cards and other debt on time and that you don't have excessive levels of outstanding debt.

How to get ahead of the game?

It's a good idea to check your credit history and correct any problems before applying. You can get a free credit report annually at www.annualcreditreport.com.

Mortgage applications… you've heard about that ... have a lot of steps, a lot of paper work, a lot of unknowns.

We recommend that you engage a mortgage provider that offers great rates AND high-tech solutions, which will allow you to upload documents, get status updates and receive and sign important disclosures all online and from any computer, smartphone, or tablet.

Possessing the knowledge on the process of obtaining a mortgage along with a prestigious mortgage officer guiding you the whole way will all but guarantee a smooth mortgage application experience.

If you made gifts last year, you may (or may not) need to file a gift tax return

Gifting assets to loved ones is one of the simplest ways of reducing your taxable estate. However, what may not be as simple is determining whether you need to file a gift tax return (Form 709).

Return required

A federal gift tax return (Form 709) is required if you:

- Made gifts of present interests — such as an outright gift of cash, marketable securities, real estate or payment of expenses other than qualifying educational or medical expenses (see below) — if the total of all gifts to any one person exceeded the $14,000 annual exclusion amount (for 2017),
- Made split gifts with your spouse,
- Made gifts of present interests to a noncitizen spouse who otherwise would qualify for the marital deduction, if the total exceeded the $149,000 noncitizen spouse annual exclusion amount (for 2017)
- Made gifts of future interests — such as certain gifts in trust and certain un-marketable securities — in any amount, or
- Contributed to a 529 plan and elected to accelerate future annual exclusion amounts (up to five years' worth) into the current year.

Return not required

No gift tax return is required if you:

- Paid qualifying educational or medical expenses on behalf of someone else directly to an educational institution or health care provider,
- Made gifts of present interests that fell within the annual exclusion amount,
- Made outright gifts to a spouse who's a U.S. citizen, in any amount, including gifts to marital trusts that meet certain requirements, or
- Made charitable gifts and aren't otherwise required to file Form 709 — if a return is otherwise required, charitable gifts should also be reported.

If you transferred hard-to-value property, such as artwork or interests in a family-owned business, consider filing a gift tax return even if you're not required to. Adequate disclosure of the transfer in a return triggers the statute of limitations, generally preventing the IRS from challenging your valuation more than three years after you file.

In some cases it's even advisable to file Form 709 to report nongifts. For example, suppose you sold assets to a family member or a trust. Again, filing a return triggers the statute of limitations and prevents the IRS from claiming, more than three years after you file the return, that the assets were undervalued and, therefore, partially taxable.

Tommy Wang

Vice President

Tommy Wang is a Registered Patent Attorney. He is also the founder and principal of Wang IP Law Group, P.C. specializing in Intellectual Property Law.

Tommy has extensive experience representing clients in both federal and state courts as well as throughout the country. He also advises numerous international clients on U.S. Patent law.

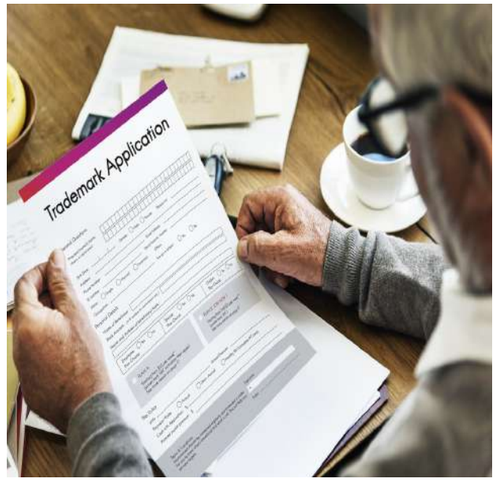
See: www.thewangiplaw.com

Trademark for Cannabis Products

FEDERAL CONTROLLED SUBSTANCE ACT BARS TRADEMARK PROTECTION FOR PRODUCTS CONTAINING CANNABIS

Although 26 states and the District of Columbia have legalized marijuana medically and/or recreationally, marijuana is still considered a Schedule I drug under the Federal Controlled Substances Act (CSA). In addition to creating confusion for consumers who legally purchase and use marijuana according to the laws of their state, the rights of business owners are severely restricted by the CSA's impact on inte lectual property rights.

As public opinion continues to sway in favor of legalizing marijuana, this conflict has only intensified as the legislative gap between state and federal law widens. Business owners seeking to obtain a trademark in connection with goods containing marijuana or marijuana derivatives have been barred from doing so for failure to comply with the CSA.



The "Lawful Commerce" Rule

The United States Patent and Trademark Office (USPTO) is a federal agency that examines trademark applications for approval and registration. The USPTO requires trademarks to be for goods or services used in lawful commerce. This means that trademark applications must comply with all federal laws, including the CSA. Therefore, any trademark applications for marks and/or goods associated with cannabis products, in any form, will be rejected.

CBD Oils and Other Cannabis Derivatives

Medical marijuana products are usually made from plants with high concentrations of the psychoactive tetrahydrocannabinol (THC). Cannabidiol (CBD), also known as "hemp oil," is oil made from high-CBD, low-THC hemp. While CBD interacts with our naturally occurring systems, it is non-psychotropic and does not cause a high. Therefore, CBD is believed to be a safer, less controversial alternative to traditional medical marijuana, while still offering purported health benefits. While certain forms of CBD oil extracted from imported industrial hemp are legal in the United States, the Food and Drug Administration (FDA) has disallowed the sale of any products containing CBD oil as a dietary or health supplement. With growing support for marijuana legalization across the country, the FDA has begun conducting clinical investigations on the safety and side effects of CBD as a dietary or health supplement. Even so, the USPTO has stated that CDB oils shall not constitute "lawful commerce" under the Food, Drug & Cosmetic Act until the FDA's findings are conclusive.

Controlled Substance "Paraphernalia"

In addition to marijuana and its derivatives, the sale of paraphernalia or any products meant to facilitate the consumption of marijuana or other controlled substances, also run afoul of the "lawful commerce" requirement. Paraphernalia is defined by the CSA as "any equipment, product, or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, concealing, producing, processing, preparing, injecting, ingesting, inhaling, or other wise introducing into the human body a controlled substance."

The analysis of what is considered "paraphernalia" often revolves around the intent of the product's use rather than its mechanical properties. For example, a trademark for vaporizers meant for cannabis consumption would be prohibited while a trademark for electronic cigarettes designed for vaporizing liquids containing nicotine would likely be allowed.

Going Forward

Currently, there is no way around the USPTO's refusal to grant trademark registration for marks or goods associated with marijuana. While the future sale of products containing lawful marijuana derivatives in the form of CBD oil may be possible pending FDA guidance, obtaining a trademark relating to the drug will still be met with the restrictions imposed by an increasingly outdated CSA. If support for marijuana legalization continues to grow, a reevaluation of the longstanding federal drug policies in the CSA may be inevitable.

Paul Yang

Vice President

Paul Yang, MBA, CCIM is the founder and the president of PYC Commercial, City of Industry, CA. Over hundreds and hundreds of transactions, Paul has become one of the top salesperson of RE/ MAX.

Paul has received numerous awards: He is a member of Hall of Fame, Platinum Club, 100% Club, etc.

See: www.pycfinancial.com

A Resilient and Positive Momentum Year

Despite the domestic political volatility and international controversies, the Dow Jones has predicted the U.S. economy will continue to bounce back steadily in year 2018. The economy has performed promisingly well during the past years, considering domestically how it has dealt with tough issues like immigration, tax reforms, health care, and government shutdown, etc. On the global level, it has endured threats from North Korea, disputes in UN, and China's economic slowdown. Yet with many other unforeseen disruptions, January has marked the 102nd consecutive month of the economic recovery. In 2018, we are hopeful to see continued growth of GDP, lower employment rates and a moderate rise of interest rate, which will show that the fundamentals are in place for positive momentum in commercial real estate.

Many investors have asked me if I am optimistic about the commercial real estate market in 2018. While I don't have a crystal ball in front of me predicting what's going to happen this year, I do have one that tells me what has been the trend for the past years. If you are an investor/ owner user looking to purchase industrial properties in Southern California, you will continue to find limited supply on the market. Yes, the economy has continued to recover and the import/ export business has kept the two largest ports - Port of Los Angeles and Port of Long Beach busy. The demand for warehouse space shows no signs of decline. For multifamily investors, the average cap rate for investment has remained the lowest among property types. We see a slight increase in inventory but the lower cap rate discourages the general investors from moving forward. Shopping centers investors share mixed feelings and deal with different set of challenges - the online e-commerce. For the past year, STNL's (single tenant net lease), especially these occupied by national tenants that come with corporate guarantee and long term lease were considered the safest bet - too big to fail. However, the internet has not only changed our lifestyle, it has also changed our investment pattern. We have seen many retail store closeouts due to changes in cosumers' shopping habits. As a result, the centers that are occupied by internet proof tenants have become quite popular. After all, you cannot get a haircut on the internet, groom your pets online, or burn your calories and exercise without going to a real gym.

As Fed Chair Janet Yellen steps down and Jerome Powell takes over the rein of the central bank, it is widely expected that Powell will follow the footsteps of Yellen and continue to focus on the overall health of the economy. The majority of the investors are concerned that the rise of interest rate will directly impact their cost of leverage. While the stock market keeps hitting record highs, it's unlikely the Fed will respond to daily market moves by raising the interest rate without considering other factors, i.e. lower inflation and lower unemployment rate.

Sofia Lin

Secretary

Sofia Lin, CPA, is a tax partner with Chen & Fan Accountancy Corporation.

Sofia has more than 20 years of experience serving clients in both domestic and international income tax planning, consulting, and compliance for corporation, individual, and flow-through entity taxation and related IRS and State tax audits.

See: www.chenfancpa.com

TCJA - The Cost Recovery Provision

On Friday, December 22, 2017, President Trump signed the Tax Cuts and Jobs Act (H.R. 1) (the "TCJA"). The TCJA represents a dramatic overhaul of the U.S. tax code, and the final legislation is lengthy and complex.

The TCJA increases expensing on fixed assets purchase. It retains much of the prior system, with two significant changes.

1. Section 179 Expense,

which allows for immediate write-off of most fixed asset purchases.

In 2017, the deduction is limited to $510,000 so long as total acquisitions placed in service are under $2,030,000, at which point the maximum allowable deduction starts to phase out. For 2018, the deduction is increased to $1,000,000, with the phase out level increasing to $2,500,000.

And now, improvements including roofs, heating, ventilation, air conditioning systems, fire prevention, alarms and security systems qualify under the new Section 179 rules. Existing rules limiting the deduction of Section 179 Expense to profitability were not changed by the law.

2. Bonus Depreciation.

The more significant change with respect to cost recovery involves Bonus Depreciation. Through 2017, businesses were allowed to deduct up to 50% of the cost of "new" fixed assets, with no limitations based on acquisition levels or profitability.

Under the TCJA, the deduction is increased to 100% for items acquired after September 27, 2017. Moreover, the prohibition on new property has been removed.

Unfortunately, the faster write-off of equipment costs is only temporary. It is at the 100% level for expenditures between Sept. 27, 2017, and January 1, 2023. After 2022 and before 2024, the amount deductible drops to 80%, with a further decrease to 60% after 2023, 40% after 2024, and to 20% after 2025. On Jan. 1, 2027, the equipment cost write-off disappears. If the asset was acquired before September 28, 2017, but not placed into service until after September 27, 2017, then the asset would only be eligible for the old rule. Furthermore, it would appear that the "original use" requirement would also have to be satisfied.

Place in Service After 09/27/2017	
Acquired Before 09/28/2017	
09/28/2017-12/31/2017	50%
2018	40%
2019	30%
2020 and after	None

Place in Service After 09/27/2017	
Acquired After 09/27/2017	
09/28/2017-12/31/2022	100%
2023	80%
2024	60%
2025	40%
2026	20%
2027 and after	None

For newly constructed property, it is important to know when a binding contract was entered into between the owner and the general contractor for construction, as pre Sept. 27, 2017 contracts will not get 100 percent bonus even if the property is placed in service after Sept. 28, 2017.

For state tax purposes, in recent years a number of jurisdictions had previously decoupled their tax systems from federal law with respect to both Section 179 Expense and Bonus Depreciation, and it would not be surprising to see this trend increase.

Starting in 2018, the tax rate imposed on C corporations has been reduced from 35% to a flat rate of 21%. Companies that have either purchased real estate or incurred substantial leasehold improvement costs may wish to consider a cost segregation study as part of completing their 2017 tax returns. A cost segregation study may allow you to front load depreciation deductions into the 2017 tax year, prior to the 2018 rate reductions taking effect.

Update Your Estate Plan to Reflect Your Second Marriage

If you're in a second marriage or planning another trip down the aisle, it's vital to review and revise (if necessary) your estate plan. You probably want to provide for your current spouse and not inadvertently benefit your former spouse. And if you have children from each marriage, juggling their interests can be a challenge. Let's take a look at a few planning tips.

Take inventory

Have you updated your will, trusts and beneficiary designations to name your current spouse where desired? Bear in mind that the terms of your divorce may require you to retain your former spouse as beneficiary of certain pension plans or retirement accounts.

Next, assess your financial situation and think about how you want to provide for various family members. For example, do you want to provide for all children equally? Will you favor biological children over stepchildren?

Also, are children from your first marriage significantly older than children from your second marriage? If so, their needs likely will be different. For example, if children from the first marriage are college age, in the short term they may need more financial support than children from your current marriage. On the other hand, if your older children are financially independent adults, they may need less help than your younger children.

Use trusts

Trusts generally avoid probate, so your assets can be distributed efficiently. However, if you leave your wealth to your current spouse outright, there's nothing to prevent him or her from spending it all or leaving it to a new spouse, effectively disinheriting your children. To avoid this result, you can design a trust that provides income for your current spouse while preserving the principal for your children.

Trusts are particularly valuable if your children from a previous marriage are minors. Generally, if you leave assets to minors outright, they must be held in a conservatorship until the children reach the age of majority. It's likely that your former spouse will be appointed conservator, gaining control over your wealth. Even though your former spouse will be obligated to act in your children's best interests and will be supervised by a court, he or she will have considerable discretion over how your assets are invested and used.

To avoid this situation, consider establishing trusts for the benefit of your minor children. That way, a trustee of your choosing will manage the assets and control distributions to or on behalf of your children.If you're preparing for a second trip down the aisle or have recently wed for a second time, contact us for help reviewing and, if necessary, revising your estate plan.

NEW Sec 199A Deduction for Pass-thru Entity

Introduction Sec. 199A Deduction

Sec. 199A deduction is added in the Tax Cuts & Job Act of 2017 and available from tax year 2018 to 2025. This deduction gives the owners of pass-thru businesses like sole proprietors, partnerships, S-Corp, and real estate investors a deduction equal to 20% of qualified business income. There are some restrictions and special requirements kick in when a taxpayer's income rises and the pass- thru entity earns its income in a specified service trade or business.

Specified Service Trade or Business Limitation

A taxpayer potentially loses the ability to take or fully take the Sec. 199A deduction for trades or businesses that provide services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its' employees or owners. If the taxpayer's taxable income is less than $157,500 (Single) or $315,000 (Married), then the 20% deduction is fully available. Taxpayer will lose all of the Sec. 199A deduction if taxable income exceeds $207,500 (Single) or $415,000 (Married). There is phase out of Sec. 199A deduction if the taxable income is between the above threshold amounts.

W-2 Wages and Depreciation Property Limitation

For all pass-thru entities other than specified service trade or business identified above, the Sec. 199A deduction is fully available if the taxpayer's taxable income is lower than $157,500 (Single) or $315,000 (Married). If taxpayer's taxable income is over $207,500 (Single) or $415,000 (Married), the Sec.199A deduction is limited to the greater of (a) 50% of W-2 wages, or (b) the sum of 25% of W-2 wages, plus 2.5% of the cost of qualified property with respect to the qualified trade or business. If the taxable income is between the above threshold amounts, then a partial deduction is available with the W-2 and deprciable asset limit calculations phase in.

Business Income Tax Credits

- Federal Work Opportunity Tax Credit (WOTC): Federal income tax credit to the employer averaging approximately $2,000 per qualified new hire employee who are typically employees (or employees living with family members of the same household) who received food stamps or other government assistance prior to being hired. Veterans also are qualified new hires. The documentation must be submitted within 28 days from hire date. We cannot go back; we can go forward only.

  Typical clients are: franchised restaurants, nursing/ senior care, supermarkets, security companies, catering companies, manufacturing, wholesaling, retailing, janitorial services, and other businesses that hire over 20 lower hourly rate or minimum wage employees. New businesses, expansions and other one-time hirings are great opportunities as well.

- Federal and State research tax credits: The federal credit is at a rate of 20% of the qualified research expenses (QRE); CA credit rate is 15%. Typical clients are technology startups, manufacturing businesses, software and gaming, construction & engineering, biotech and pharmaceuticals. Refunds can be claimed going back 3 years on the federal side and 4 years on the CA side. For startups with net losses, there is a payroll tax election to claim refunds of the employer portion of the 6.2% Social Security payroll tax - up to $250,000 per year for 2017 and onward.

- 30 year deferral of capital gains tax: The capital gains tax can be deferred for 30 years using an installment sale coupled with a monetization loan when an owner prepares to sell a low basis capital asset (e.g., real property of any kind, mineral rights, water rights, stock in a privately held business, partnership/LLC interest, personal residence, art or antique collection, or other capital assets). For example, medical or other service businesses, manufacturing, wholesaling & retailing businesses, hotels, office towers, apartment complexes, and other real estate (commercial and residential). This method can be used to defer the capital gains tax for 30 years when there is a failed section 1031 like kind exchange and/or when there is remaining cash boot for the seller.

Kevin Yeh

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Charles Lee

Charles Lee graduated from UCLA. He is a CPA in California, and the CEO / Tax Director and owner of Reliant Tax Consulting, Inc., which specializes in certain Federal and California tax incentives and solu tions. Tel: (213) 379-0649 || Email: charles.lee@reliantez.com

Repatriation Tax – Do You Own A Foreign Company?

The Tax Cuts and Jobs Act of 2017 made substantial changes to the international taxation. One of the significant changes is the one-time mandatory "repatriation" tax on accumulated post-1986 deferred earnings held in certain foreign corporations. The affected individuals, trusts, and corporations will need to address the "deemed repatriation" on their 2017 tax return.

The Act requires US shareholders of specified foreign corporations to include income in their pro rata share of the accumulated post-1986 deferred foreign earnings of such corporations. Once included, future distributions of such earnings are free of US tax. These accumulated and deferred foreign earnings are taxed as follows:

- Earnings held in cash and liquid assets are taxed at a 15.5% rate, and
- All other earnings are taxed at an 8% rate.

Accumulated deficits in other specified foreign corporations owned by the same taxpayer can be used to offset the inclusion, which may soften the tax impact. In addition, a reduced foreign tax credit is available for corporate US shareholders.

Taxpayers can elect to pay the tax annually over an eight- year period as follows:

- 8% of the tax each in the first five taxable year,
- 15% of the tax in the sixth taxable year,
- 20% of the tax in the seventh taxable year, and
- 25% of the tax in the eighth taxable year.

If an election is made, the first installment shall be paid on the due date (determined without regard to any extension for filing the return) of the relevant tax return, which for individuals is April 15, 2018, and each succeeding installment shall be paid on the due dates (as so determined) of the following years' tax returns.

How mobile payment Helps Local Businesses Attract Chinese Consumers

China leads the world in mobile payment. In 2016, the country's mobile payment ballooned to $5.5 trillion, which is almost 50 times the size of America's $112 billion market, according to a Chinese consulting firm, iResearch. Chinese consumers tend to be very mobile-savvy, and many of them embrace mobile payment as a natural payment behavior.

Each year, United States receive close to 3 million visitors from China who collectively spent over $33 billion in the country in 2016. Cathay Bank, the longest operating bank operated by Chinese Americans, is the first and only Chinese-American Bank that offers merchant bankcard solutions with the capability to accept Alipay payments. Alipay is one of the most trusted and popular payment options for Chinese consumers with real name user pool of 450 million in 2016. With the expansion of its partnership with First Data, Alipay is available for Cathay Bank clients that use the Clover® point-of-sale (POS) and business management platform.

As the number of Chinese visitors is expected to hit 6.5 million annually by 2020, getting Alipay in your business will be a good way to enhance your business performance. In addition, Alipay means easier payment for Chinese visitors, which in return can stimulate consumption. Its geolocation-based "Discover" function allows users to locate nearby businesses, receive promotional information and share their experience, giving you the opportunity to reach out to them before they arrive at the United States.

To boost your sales via the cutting-edge merchant bankcard solution, visit firstdatapartners.com/cathay or contact your representative at Cathay Bank.

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A Joint Home Purchase Can Ease Estate Tax Liability

If you're planning on buying a home that you one day wish to pass on to your adult children, a joint purchase can reduce estate tax liability, provided the children have sufficient funds to finance their portion of the purchase. With the gift and estate tax exemption now set at an inflation-adjusted $10 million thanks to the Tax Cuts and Jobs Act, federal estate taxes are less of a concern for most families. However, the high exemption amount is only temporary, and there's state estate tax risk to consider.

Current and remainder interests

The joint purchase technique is based on the concept that property can be divided not only into pieces, but also over time: One person (typically of an older generation) buys a current interest in the property and the other person (typically of a younger generation) buys the remainder interest. A remainder interest is simply the right to enjoy the property after the current interest ends. If the current interest is a life interest, the remainder interest begins when the owner of the current interest dies.

Joint purchases offer several advantages. The older owner enjoys the property for life, and his or her purchase price is reduced by the value of the remainder interest. The younger owner pays only a fraction of the property's current value and receives the entire property when the older owner dies.

Best of all, if both owners pay fair market value for their respective interests, the transfer from one generation to the next should be free of gift and estate taxes.

The relative values of the life and remainder interests are determined using IRS tables that take into account the age of the life-interest holder and the applicable federal rate (the Section 7520 rate), which is set monthly by the federal government.

Consider the downsides

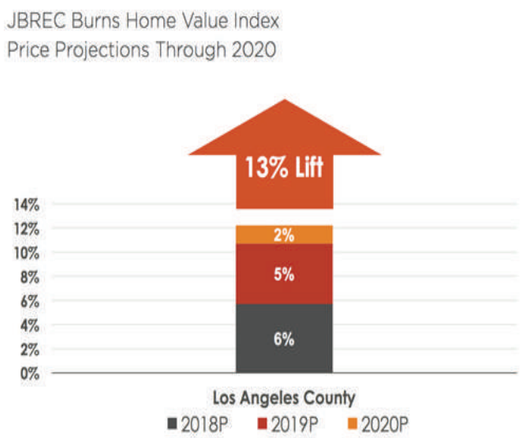
The younger owner must buy the remainder interest with his or her own funds. Also, while the tax basis of inherited property is "stepped up" to its date-of-death value, a remainder interest holder's basis is equal to his or her purchase price. This step-up in basis allows the heir to avoid capital gains tax on appreciation that occurred while the deceased held the property.

But, in most cases where estate tax is a concern, the estate tax savings will far outweigh any capital gains tax liability. That's because the highest capital gains rate generally is significantly lower than the highest estate tax rate.

Keep it simple

In a world where many estate planning techniques can be complicated, a joint purchase isn't.

Residential Real Estate Forecast



The current economic recovery is eight years into its cycle and is already one of the longest expansions in modern U.S. history. However, recent growth has been at relatively conservative rates. A minor recession, or "hiccup," is projected in 2020, paired with a slight decline in home sales and pricing.

It is expected that the 30-year fixed mortgage rate will increase from 4.0% to 4.8% from 2017 to 2020. It equates to roughly a 15% to 20% monthly payment increase. This insight conveys the market expectation of a solid economy in the coming years, with the understanding that rates will not rise significantly if market conditions cannot warrant such an increase.

While incomes have grown, home prices have consistently increased by 7% or more per year since 2012. Despite the current lack of affordability, home value index is projected to add nearly another 13% in appreciation by 2020. Employment growth in 2017 has slowed from 2016 but still added over 50,000 jobs in the lastyear.

Competition is heating up for homes compared with last year. This year, 42% of homes sold were over asking price (compared with 38% in 2016). There have been nearly 3 times the amount of multifamily permits compared with single family permits pulled this past year, with a total of about 22,000 units. Inventory levels of condominium have shrunk from 700 new units to only about 400 units currently in Los Angeles. This lessened inventory should help maintain solid price appreciation in the condominium market going forward.

Source:
Real Estate Economic Forecast 2017 – Los Angeles County Housing and Economic Outlook, by Pacific Union International, Inc. and John Burns Real Estate Consulting, LLC ("JBREC")

Accounting Method

Is your current accounting method still appropriate for your business?
If not, the 2017 & 2018 is the year to change.

The 2018 is exciting year for both taxpayers and tax practitioners. The new tax laws, which it took effect on January 1, 2018, presents great opportunities for taxpayers and tax practitioners to evaluate and implement the new changes to reduce the upcoming tax bills.

The new tax law lowers the individual income tax rates, including the top marginal rate from 39.6 percent to 37 percent. It also added a new 20 percent deduction on business income from certain pass-through businesses. With this new 20 percent deduction, it could effectively reduce the top individual tax rate of 37 percent to 29.6 percent.

There were also attractive changes to the choice of accounting method. It is worth of noting that the new tax laws expanded the list of businesses that are eligible to use the cash method of accounting. For example, businesses with average gross receipts during the preceding 3 years of $25 million or less generally would:

1) Be able to use the cash method of accounting regardless of whether the purchase, production, or sale of merchandise is an income-producing factor
2) Be exempt from the UNICAP rules of Sec. 263A
3) Be exempt small construction contracts from the requirement to use the percentage-of-completion method

With the combination of tax reduction and a simplified choice of accounting method, it's an opportunity to evaluate your current accounting method to be sure it's still suitable for your business.

Depending on your choice of accounting method, you can defer income and accelerate deductions to generate both temporary and permanent tax saving benefits for 2017. Consider following example:

1) John, a calendar-year taxpayer, uses an accrual method for his S corporation.
2) The A/R for its year ending December 31, 2017 is $300,000.
3) The A/P for its year ending December 31, 2017 is $100,000.
4) John is expected to be in the highest tax bracket for 2017 and 2018.

John can defer $200,000 of income from 2017 to 2018 by changing from the accrual to cash method, the income will be subject to a 29.6 percent tax rate rather than a 39.6 percent tax rate. This resulted in a permanent tax savings of $20,000 and deferral of $59,200 of taxes till next year.

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Salary Deferral Contributions: Pre-Tax or ROTH?

With the introduction of Roth 401(k) accounts in 2016, a common question asked by many participants is whether they should contribute their salary deferral pre-tax (Traditional) or after-tax (Roth).

A 401(k) Plan allows participants the opportunity to contribute to the 401(k) Plan via payroll contributions. This contribution is called salary deferral and can be made pre-tax, after-tax, or even a combination of both. Pre-tax contributions are the most common choice for salary deferral contributions. The immediate benefit of pre-tax salary deferral is that the contribution reduces your current year taxable income. While participating in the 401(k), the earnings grow tax-deferred. When taking distributions from the 401(k) Plan, pre-tax contributions and tax deferred earnings are treated as taxable income for the year in which they are distributed from the participant's 401(k) account.

Pre-tax salary deferral contributions are attractive to high-income participants who are seeking ways to reduce their taxable income for the current year. Another appeal for many participants is that the money they would have paid to the IRS will spend years earning interest for the participant, rather than being spent

In comparison, income contributed to a Roth 401(k) as after-tax contributions is taxable in the year it is earned. However, earnings in a Roth 401(k) are never taxable as long as certain provisions are met: distributions must be made at least 5 years after the first Roth contribution and the participant has reached 59½ years old.

Roth (after-tax) salary deferrals are popular for young participants or participants in low income tax brackets as the gains grow tax free. Young participants have the benefit of time to allow compound earnings to grow their investments. Low income earners essentially lock-in their tax rate by contributing after-tax.

Another option that many participants do not consider is funding their 401(k) Plan with a combination of both pre-tax and after-tax dollars. This is another way for a participant to diversify their tax strategy, giving them more income source options to choose from at retirement. Remember though, choosing to contribute to both does not mean you get to contribute twice as much money. Your contribution limit remains the same regardless of whether you choose to contribute pre-tax, after-tax, or both.

Advantages of Outsourcing Accounts Receivable

Accounts receivable outsourcing can provide the cash flow your business needs to expand and can help make the process of receiving usable funds easier. The process stands to take much of the stress out of business operations but can be a bit of an abstract concept. When illustrated with a real world example however, the benefits of accounts receivable outsourcing and management start to become clear:

Picture this: Bill's Furniture Supply is having a fantastic year. Demand is at a historic high, and the overall business is expanding to create new products like desks, bookshelves and more. But something is standing in the way of Bill's Furniture Supply's growth potential. Bill's Furniture Supply is having trouble collecting on customers' invoices. Some retailers are regularly late with payments, leaving Bill's Furniture Supply without the cash flow it needs to purchase raw materials for production. Bill's Furniture Supply decides it needs a financial services firm to help it juggle this process.

What does outsourcing AR management really mean? It means typically knowing the credit worthiness of a customer as soon as an order is placed, and enjoying reduced stress as a result of not having to absorb a credit loss if the customer has the financial inability to pay. It means having a trusted firm whose extensive relationships in the industry enable the firm to obtain payment on receivables where most others fail. It means decreasing overhead and improving efficiency, and it may mean regular access to working capital for everyday business expenses.

If reducing expenses, improving efficiency, and quickly gaining access to working capital sounds beneficial for your business, working with a firm like CIT for accounts receivable management could be worthwhile. For suppliers like Bill's Furniture Supply, outsourcing the AR process saves time and allows it to focus on doing what it does best: producing and selling a quality product.

Jeremy Yang

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Teresa Huang

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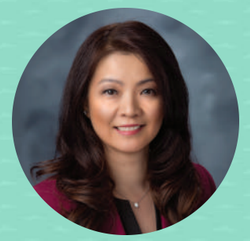

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