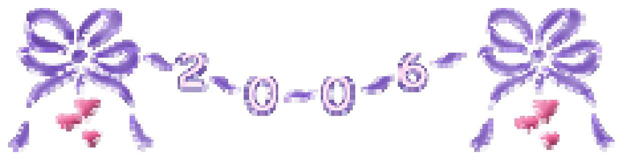

Happy Holiday and Prosperous New Year
From Cho Chan and Staff

Tax Letter

January 2006, Vol 4 - Year End TAX ROUND UP

Congress recessed for the year on 12/22/2005. Prior to the recession, a large number of Bills went through both Houses. Among them there were at least 4 to 5 major Acts of Congress, one way or the other, affecting income taxes.

First, there were the August 2005 Energy and Transportation Acts. These 2 Acts gave a host of tax credits and deductions in the areas concerning energy savings and conservation. Each business, builder/developer, contractor, and particularly, home owner should pay attention to these 2 Acts. Included in theses Acts were $2,000 to $4,000 tax credit for Solar Energy devices. On a smaller scale, individual home owner can choose from a list of energy saving/conservation tax credits ranged from $150 to $500 for each installed, qualified appliance. However, the special energy related tax credits will be in effect only for 2 years, 2006 and 2007. Please refer to our **October 2005 Tax Letter** for more detail.

Second, the long awaited report from the Presidential Appointed Special Tax Reform Commission finally came in November last year. The Commission made a number of recommendation and proposals to achieve their tax Simplification and Elimination of the most hated Alternative Minimum Tax (AMT). Among them are the reduction and/or repeal of the popular Home Mortgage Interest deduction and the State/Local taxes deduction. Further, they also proposed to either eliminating or replacing "standard deduction", "personal exemption", "child tax credits", and "educational credits". As a result, the Commission managed to create such an opposition that nearly all of the recommendations in their report will have "zero" chance to be accepted by the President, not to speak Congress.

Third, it is the most important **Gulf Opportunity Zone Act of 2005**. It passed both Houses and signed into law at the very last minute of 2005. This Act on one hand extended many tax benefits offered by the Katrina Emergency Tax Relief Act of 2005, which was enacted in September, to the victims of other hurricanes, namely, Rita and Wilma. On the other hand, it created three (3) new, special, economic zones in the United

States. They are known as the Gulf Opportunity Zones, for short, the GO Zones. Needless to say, they are the Katrina GO Zone, Rita GO Zone, and the Wilma GO Zone. The tax benefits will not be restricted to only the victims and businesses originally within the Zones. Nearly everyone, every tax payer who is interested to participate in the "redevelopment" of the Zones will be covered. The so called "redevelopment" is not limited to physical rebuilding, it also include individuals, businesses and industries not originally located inside the Zones. All they have to do is to acquire properties, trades or businesses, and/or sites for purposes of engaging in the process of "redeveloping" one of the three GO Zones, then, they will be entitled to all the Federal tax benefits offered by this new Act and all the related incentives offered by the State and local Governments.

Among the income tax incentives, we would like to highlight the following three (3) significant points for our clients and friend to consider:

(a) One-time 50% write-off for qualified properties used in the GO Zone by any taxpayer as long as the properties are acquired on or after August 28, 2005. Residential rental real properties and commercial real properties must be acquired and put to use before December 31, 2008. All other business used properties must be acquired and put to use before December 31, 2007.

(b) Doubling and expanding the regular IRC section 179 annual write-off maximum and overall acquisition Cap for all qualified properties put to use in the GO Zones. This means that any taxpayer who invest or acquire qualified properties to use in one of the three GO Zones will be able to write-off up to $208,000 in 2006 and 2007. At the same time, the annual total investment Cap can be as high as $1,030,000.

(c) Allowing all taxpayers to write-off up to 50% of all demolition and clean-up costs incurred within the GO Zones. Normally, all demolition and clean-up cost must be 100% capitalized as part of construction costs. The most significant point of this incentive is that the law not only allows but encourages investors to buy-up properties, demolished all of part of them, clean them up and write-off 50% of all costs in the year as they are incurred. Then, **flip** the properties **for profits** in the same year or within a few years.

If you need any further information please give us a call at **415-381-0681**, or visit our web site at **www.chochan.com**.

HAPPY AND PROFITABLE 2006

Sincerely,

Cho F. Chan, CPA, Inc.