

## TAX LETTER

### 2009 Federal vs California

#### HAPPY AND RECOVERING YEAR OF THE TIGER

Dear Clients and friends:

Tax return filing season is here once again. If it is not for the numerous differences between Federal and California, every thing would be pretty much the same as before. Therefore, we think our readers would like to know, at least, what the key differences are. As always, we would like to try our best to help.

For 2009 income tax returns, following are some of the key differences between Federal and California. They are presented for **general interest only**, not for any specific type of taxpayers.

1. **FIRST TIME HOME BUYER REBATE** – In order to help American Citizens to be home owners, the Federal Government offer a Rebate up to \$8,000 for first time home buyer. California provided no such rebate to help the first time home buying Californians to purchase their first home. Instead for a limited time, California offered a larger tax credit (up to \$10,000) for people who buy “new” homes, regardless whether the buyer is first time, second time or third time. In order to claim this credit, the buyer (taxpayer) must purchase a “new” home and attached Form 3528 with a credit confirmation from the Franchise Tax Board (FTB). This Form and the FTB confirmation notice should be provided by the seller of the new home which, in general, should be the builder and/or developer of the “new” home.

2. **CANCELLATION OF RESIDENTIAL MORTGAGE** – In order to assist the unfortunate American Citizens whose home were foreclosed by the lenders, bankers, etc. The Federal Government exempted from income taxes the balance of the unpaid mortgage forgiven by the lender (up to \$2,000,000) upon foreclosure. Conversely, California will tax that unpaid but forgiven mortgage balance as income. Effectively, Californians who loose their home may have to pay income tax to California in order to be homeless. Consideration, California style !!

3. **SALES TAX FOR NEW AUTO** – To assist the failing auto industry, the Federal Government allow a special tax deduction for the sales tax paid to states and local governments upon phasing a new automobile up to \$49,500 purchase price. Certainly, California will not hesitate to collect the sales tax. At the same time, California specifically disallows the deduction of those sales taxes collected by the State. In order

words, Californians must first paid sales tax on the money used to buy the auto and paid tax again on that amount of money as income tax.

4. CASH FOR CLUNKER – There was a Federal tax free allowance ranged from \$3,500 to \$4,500 for Americans who traded in their old clunkers for new, qualified automobiles. California Government said no, this is income subject to income tax. No break for Californians again.

5. UNEMPLOYMENT CHECKS – Time is tough and unemployment is high, Federal specifically exempt the first \$2,400 unemployment pay received by Americans who loose their job. Although, the amount exempted is small, yet it is comfort to know that someone cares. The State of California does not think so. California will tax all (100%) unemployment pay received by Californians. Compassion, California style !!

6. HEALTH SAVING ACCOUNT (HSA) - Under the current level of medical costs, insurance premium, co-payment, deductibles, etc., Americans in general will welcome some kind of help. Therefore, Federal regulations allow a one-time conversion of tax free savings in Individual Retirement Accounts (IRA) directly into Health Saving Accounts (HSA). This way, individual HSA accounts will have more money to help to pay for medical co-payments, deductibles, etc. You guessed it right. California will not allow and will tax individual who convert any amount from IRA to HSA.

Any questions and/or discussions, please contact us at 415-381-0681. For other information, please visit our website at [chochan.com](http://chochan.com).

Sincerely

CHO F CHAN CPA INC.