

Tax Letter

March 2008, Vol 30

Difference between Federal & California Tax Rules

Dear Clients and friends:

In this filing season and beyond, taxpayers in California will face great many differences in the tax rules between Federal and State. Therefore, we hope the following discussion will be helpful.

(A) DOMESTIC PARTNERS:

One biggest difference between Federal and California for this year (2007) tax filing should be the “Domestic Partners” filing requirements. It is definitely in the uncharted territory. For the first time, California law requires “Domestic Partners” to file their taxes as married couples. However, Federal Laws do not recognize such “relationship”, and requiring them to file as “Single” individuals.

For the very least, the different between Federal and California laws will double the filing workload for “Domestic Partners”, because they must do their taxes twice - once as two “single” individuals for Federal purposes, and as a “married couple” for California, whether filing jointly or separately.

As a starter, “Domestic Partners” will face a lot of questions. Such as: Are they registered with the Secretary of State - or any one of the California City or County, i.e. San Francisco? Will the new California rules continue to be applicable after the “Domestic Partners” have broken up but failed to properly dissolve their partnership? Must non-resident couples who are registered in other states as “Domestic Partners” file married returns if they have property and/or taxable income in California? Which way is better, filing jointly or separately? Some of the answers to these questions can be found by reading Franchise Tax Board Publication 737. A copy is available on line at “www.ftb.ca.gov.”

(B) OTHER DIFFERENCES:

In addition to the “Domestic Partners” issue, there are many other differences between Federal and California tax laws. The following is an attempt to outline only a few common factors for your reference:

	<u>TAXABLE OR NOT</u>	
	<u>Federal</u>	<u>California</u>
Social Security benefits & Unemployment Compensation	Yes	No
Interest from U.S. Treasury Bonds & Bills, etc.	Yes	No
Forgiveness of Debt on principle residence mortgage	No	Maybe

	<u>DEDUCTION OR NOT</u>	
	<u>Federal</u>	<u>California</u>
Low income worker's retirement saving, i.e. IRA	Yes	No
Donating clothing/household items not in "Good" condition	No	Yes
Health Saving Account (HSA, MSA)	Yes	No
IRA, SEP-IRA, etc. starting 2007 indexing for inflation ?	Yes	No
Long Term unused AMT credit, allowable ?	Yes	No

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

Sincerely,

Cho F. Chan, CPA, Inc.