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TAX LETTER

BROAD BASE UNCERTAINTY – A CONGRESSIONAL INTENT

Dear Clients and friends

Please accept our apology for not preparing this month's tax letter earlier. Our excuse is the "tax season". What will be the excuse for Congress not paying attention to certain important tax matters which could have significant effect upon our economy as a whole, particularly upon our current much needed "recovery".

Among these significant tax matters, two issues came to our mind immediately. They are the "Estate Tax" and the "Alternative Minimum Tax" issues.

For the Estate Tax, nearly everyone knew that any person passes away in 2010, there will be no estate tax for his or her estate. However, beginning January 1, 2011, without any changes in the current law, the estate tax exclusion will be substantially reduced to just $1 Million. (Note: in 2009 this exclusion was $3.5 Million per decedent). At the same time the maximum estate tax rate will return to 50% from the current 45%. The uncertainty really impacted a great number of citizens, especially seniors and their descendants.

On the other hand, the Alternative Minimum Tax (AMT) was enacted many years ago primarily targeting high-earners and wealthy people. Because of inflation induced general higher level of earnings, AMT began to impact citizens in much broader coverage which was not part of the original legislative intent. Just a few years ago, the AMT impact had migrated from the high earners down to the middle earners. Recently, even the middle to lower earners were force to face the same destiny.

Congress, promised again and again to fix the AMT problem, yet time and time again, they failed to live up to their commitment. The only solution to the problem was an annual "patch". Congress, temporarily patched the system annually by a certain level of AMT exemption, i.e. $46,700/$70,950 for 2009. If we are lucky enough to have our Congress pass a law for a permanent AMT exemption with a built-in annual inflation adjustment, then, the exemption will no longer be an annual patching. Therefore we, the taxpayers, can begin to plan our affairs with certainty. Would that be nice or too good to be true ?

The AMT together with the Estate Tax will keep us in the sea of uncertainty. Perhaps, our Congress wanted us to be exactly where we are: humble and forever at their mercy.

In addition to the above mentioned AMT and Estate Tax issues, large number of other tax credits and/or deductions either expired in 2009 or will be expired in 2010. For the past many years, Congress annually passed some thing known as an "extender" to extend the expiration, temporary. Again, the question would be why ? Why Congress failed time and time again to make certain annually extended "credits" and "deductions" permanent ? The answer would be the same. That is: Congress want to keep the taxpaying citizens in the sea of uncertainty, thereby, they will be humble and obedient.

Among the expiring "credits" and "deductions", the following is a list of a selected few:

(1) Affecting Individuals (just to list a few):

- State and local sales taxes deductions; special new vehicle sales tax deductions
- Educators & teachers expenses deductions
- Tax free charitable donation directly from IRA accounts
- Additional 15% refundable child tax credit
- Making work pay credit
- American Opportunity (education) credit
- Main home energy property credit
- etc.

(2) Affecting Businesses (just to list a few):

- Research and Development credits
- New market credits
- 15 year amortization for qualified leasehold and restaurant improvement
- IRC Section 179 annual expensing amount and acquisition limits
- Special 50% bonus depreciation for qualified business properties
- Work Opportunity credit (WOTC)
- S Corporation built-in gain 35% tax special relief
- etc.

Any questions and discussions, please contact us at 415-381-0681. For other information, please visit our website at chochan.com.

Sincerely

CHO F CHAN CPA INC.