

TAX LETTER

Income Tax and Candidates for President

Dear Clients and Friends:

Republican John McCain and Democrat Barack Obama will be, most likely, nominated by their respective party for President of the United States. Definitely, there are great differences between these two candidates wanting to be our President. They differed in age, experience, race, color, and of course politics. Since this is a Tax Letter, we would like to concentrate only in their views on taxation.

For John McCain, he basically committed to keep the “Bush” policy and methods. He said, time and time again, that he will seek continuation of “Bush” tax policy and if any changes need to be made, they would be enhancements and not really changes. From this point, we can rest for sure that we know, almost exactly, what will happen to our taxes if McCain is the winner. We not only know it, we are used to it and we are living with it.

On the other hand, Barack Obama is a self proclaimed agent of “change”. This means that if Obama is elected, our taxes will be quite different from what is now. They will be “changed”, for good or for bad, for health or for sickness. Without spelling out his tax policies in detail, at the very least, Obama did make it clear that he considered the “Bush” tax policy is bad for the “poor” and only benefit the “rich”. He further announced that he will increase the tax deductions, exemptions and credits (particularly refundable credits) for the low income families. Sounds good, but where the money is coming from ? To address this question, Obama made known some of his taxing the “rich” directions. After some analysis, at a minimum, we have the following concerns.

Income Tax Rate

Obama wants to increase the maximum income tax rate for individuals from the current 35% to 39.6%. This way, in his and his advisers’ thinking, the “rich” will pay more taxes. In reality, our income tax system is a gradual system not a flat rate system. We calculate our total income tax using what known as the “tax brackets”. This means, if the top “bracket” goes to 39.6%, then, the second “bracket” down the line will, likewise, be increased to higher than what it is now. Accordingly, the third level “bracket” down the line will also be increased. One by one, each and every current “bracket” will move up the ladder and will be increased. Is this taxing the “rich” or taxing everybody who, currently, is paying taxes ? Is this only the “rich” pay more taxes or the “middle” income citizens will also be burdened with higher taxes ? The answers are a sounding “YES”. Everybody will pay more. The “middle” income will suffered the most.

Remember the most notorious “Alternative Minimum Tax” (AMT) ? It started with the same good feeling, same soaking the “rich” slogan. Only a few years later, we all paying for it. Again, the “middle” income suffered the most. The Democratically controlled Congress, time and time again, promised to either reform or repeal the AMT. See what happened ! Politics as usual, Promise broken and the AMT is to stay.

Capital Gain Rate

Obama wants to “change” again. Change from the current maximum 15% to 25% to 28%. This is, at least, a 10% increase. For every One Hundred Thousand dollars of Capital Gain, taxpayers must pay Ten Thousand dollars more. This is a lot. Obama and his advisers think that only the “rich” have capital gain. They totally missed the boat. They forget the “middle” income, they forget to study the IRS statistics, they forget the teaching of capital formation, they forget that our Country need more investment, business spending to be competitive in today’s global economic environment, they forget

Estate Tax, Exemption and Maximum Rate

“Bush” policy gave us a gradual increased exemption and a gradual reduced maximum rate. Currently (2008), the exemption is 2 million dollars and the maximum rate is 45%. Next year (2009), the exemption will be 3.5 million dollars and the maximum rate remain at 45%. By 2010, there will be no estate tax for one year, then, the “Old” method will be resumed in 2011. McCain vowed , at least, to extend the “Bush” method, and make 2009 exemption and maximum rate permanent. Obama did not say much in this area. However, knowing that he is an agent of “change” with a “soaking the rich” slogan, we can imagine what Obama will be doing with the estate tax. We can safely predict that Obama will consider an estate more than 2 million dollars will be a “rich” estate, ready to be soaked. Whatever may be, please **Draw Your Own Conclusion.**

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

Sincerely,

Cho F. Chan CPA, Inc.