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TAX LETTER

Numerous Changes

Dear Clients and Friends:

Beginning from the Stimulant $600 Tax Rebate to the 700 Billion Bail Out, in less than 1 year, the White House and the Congress rolled out numerous new laws in the speed of light. Nearly every one of these new laws consists of some sort of tax provisions which affecting all of us. For this reason, we like to bring to your attention the following new tax provisions:

First Time Home Buyer Tax Credit

During 2008 and 2009, first time home buyers will be able to claim a special tax credit against their Federal income tax for 10% of the purchase price of the home. $7,500 is the maximum credit for single tax payer and for married filing jointly. For single taxpayer, the phased out income level will be $75,000 to $95,000. For married filing jointly, the phase out income will be from $150,000 to $170,000.

There is a catch for this credit. You must refund to the IRS within 15 years beginning on the 25th month. All un-recaptured balance will be paid upon sales of the home.

Changes to the Principle Home Sales Exclusion

IRC Sec 121 allows an exclusion up to $250,000 ($500,000 for a couple) of capital gain from the sales of a principle home. The basic requirements are (1) ownership of the home at least 2 years, (2) using the home as principle home for at least 2 years, and (3) a 5-year look back rule. This way, you can rent the home out for up to 3 years in a 5-year period and qualify for the $250,000 exclusion, as long as you use the home as a principle home for 2 out of those 5 years.

(A) Effective January 1, 2009, you must prorate the $250,000 exclusion in the exact same ratio between rental use and home use. This way, if you rent your home out for 3 years out of the look back 5 years and lived in the home as principle home, you can only claim $100,000 exclusion (40% of $250,000 ; 3 out 5 years = 60%, 2 out of 5 years = 40%).

(B) Effective January 1, 2009, you can claim your up to $500,000 (your own $250,000 plus your deceased spouse's $250,000) for up to 2 years after death of the deceased spouse. Prior to 2009, you can only claim the decedent's $250,000 if you sell the home within the same year of death.

Mortgage Debt Forgiveness Exclusion

In general, debt forgiveness is taxable income to the debtor, whether it is a mortgage or plain simple consumer debt. Because of the "Sub prime" problem and the extremely high volume of "foreclosure", Washington made a new law to exempt certain qualified mortgage forgiveness as taxable income.

The new law exempt all qualified home mortgage forgiveness of debt due to foreclosure if the home is foreclosed in 2007, 2008 and 2009. Total mortgage amount as be as high as $2,000,000. If you are one of the affected, you may use Form 982 to request for the exemption in your 2007, 2008 and 2009 Federal Income Tax Return. Although California conforms to this Federal new law, however, California placed a much lower $200,000 limit on the amount of mortgage forgave.

Special Write-Off for Business

IRC Sec 179 allows a business to write-off an amount equals to the amount of newly acquired and/or put to use business equipment, machineries, computers, furniture and fixtures, etc. subject to an annual maximum and as long as the total acquisition during the same year will not exceed a pre-determined amount. For 2008 these would have been maximum write-off $128,000 and the annual acquisition allowance is $510,000.

(A) The new law increased the 2008 annual write-off maximum from $128,000 to $250,000, and the predetermined annual total acquisition from $510,000 to $800,000. For any taxpayer who can take the advantage of this much higher limits, please do so before too late.

(B) For 2008 only, the new law also allows a special 50% bonus depreciation for qualified business equipment, machines, etc. Further, this 50% bonus depreciation can be combined with the IRC Sec 179 special write-off. For example, if your business use acquisition for 2008 is $800,000. You can first write-off $250,000, then use 50% bonus depreciation for the balance. This way, your 2008 first year total deduction would be $250,000 plus $275,000 (50% of $550,000), and plus the regular depreciation for the remaining $275,000.

New Deductible Items

(A) For individuals, PMI (Mortgage Payment Insurance) payments were not deductible against income tax. The new law changed this rule. Effective from 2007 to 2010, PMI payments can be deducted as part of itemized deductions.

(B) Property Taxes paid can only be deducted as part of itemized deductions. Therefore, if you use “standard deduction”, the property taxes you paid will be wasted, it can not be deducted at all. For 2008, even you use standard deduction; the property taxes you paid can be deducted. Single taxpayer can deduct up to $500, married filing jointly can deduct up to $1,000.

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.