

TAX LETTER

Directional Differences between Federal and California

HAPPY NEW YEAR.

It is a common knowledge that 2008 was a bad year, naturally and financially. Naturally, the mid western States (at least about 10 States) were declared Federal disaster areas. Needless to say that the people in those States needed help, a lot of help. Financially, the entire Country was hit by a “financial tsunami”. Beginning from the 2007 “sub prime” earthquake, financial tidal waves erupted one after the other in a relatively short time. For example, while the “sub prime” mess was unfolding, we experienced the explosion of the Fannie Mae and Freddie Mac” scandals which were followed by the Lehman Brothers and AIG collapse. We believe that we all have, at least, one question in our mind, that is: How our Country is going to handle these series of Calamities?

The Federal position is clear. Bail out after bail out were proposed, passed and structured. All aspects of financial institutions either acquired or salvaged, in whatever manner possible, directly or indirectly with the assistance from the Federal Government. Income taxes were reduced and or targeted to be reduced. For example, the Alternative Minimum Tax (AMT) and the allowance for the IRC Section 179 first year special write-off were both extended and increased to much higher levels respectively. Washington is intended to bring back the post 9/11 “Net Operating Loss (NOL) carried back “and “Bonus Depreciation” provisions in 2009, and may be retroactively applied to 2008. All these actions indicated the Federal Government understood that the foreclosures, lay-offs, etc. have a profound impact on the lives of millions of people. Whether the bail-outs and the tax releases combined together were sufficient enough to turn the tide is a question of magnitude, at least, we can see that Washington is moving in the right direction.

California is running backward in an exact opposite direction from the Federal. Instead of easing the tax burden, California increases the burden and offered absolutely no relief at all, no AMT relief and no special write-off and no bonus depreciation deduction. Further, instead of following the Federal and bring back the post 9/11 NOL allowance, California suspended both 2008 and 2009 NOL deductions entirely. It is highly likely that the Government of California led by their Legislature failed to see the hard time ahead for their Citizen. In their opinion, the Citizen and the businesses in California are doing just find and their tax burden should be increased to help paying the wastefulness of their State Legislators. Therefore, instead of working hard to pass the budget acceptable to the Governor and to conform to all Federal tax relief provisions enacted in 2008, the California Legislators chose to hang the budget and ignore the suffering of the taxpayers.

In the middle of a financial tsunami, instead of working together by assisting businesses to weather the storm and maintain employment such as by easing the “minimum” wage

which is among the highest in the Nation, they increased it. Instead of allowing more time for businesses and self-employed people to meet their estimate tax obligations, they shortened it. Instead of suspending the special surtax for LLC's known as LLC fees, they demand the LLC fees to be paid twice in 2009, once regularly for 2008 in April and the other for 2009 before June 15. To understand the burden, one must realize that the California LLC fee is assessed not based on profit, it is assessed as a percentage of total gross receipt and payable even you have losses.

In short, if the US Congress operated in the same way the California Legislators did, **“whether you like it or not”**, our Nation will be in a mess much greater than what we are facing now.

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.