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January 14, 2010

Dear Clients and Friends:

CALIFORNIA TAX MATTERS

Over the past year, California has been very active in the tax area. We want to make sure you are aware of your opportunities and obligations with respect to some of these most recent activities.

The majority of these activities were spurred by the state's fiscal budget crisis. There are three significant developments that we wanted to bring to your attention - a New Jobs Credit, nonresident withholding requirements and use tax obligations.

The New Jobs Credit gives businesses up to a potential $3,000 credit per new full-time employee hired in 2009. The new credit is targeted for small businesses. If a small business had less than 20 employees as of December 31, 2008 and had a net increase in full-time employees in 2009 then it may be eligible for the non-refundable tax credit. California has put a dollar limitation on the amount it will pay out for this credit. After the limitation has been achieved the credit will be dishonored. Therefore, please contact us immediately if you believe you may qualify for this new tax credit.

California, due to its budget crisis, is starting to look closely at the compliance of businesses in regards to withholding on payments to nonresidents of California. Businesses must withhold 7% of the total payment made to domestic nonresident independent contractors for services performed in California. This withholding also applies to distributions of California source income to partners, members, and shareholders of Partnerships, Limited Liability Companies, and S Corporations, respectively. Nonresident withholding is reported and remitted quarterly on Form 592 and annually on Form 592-B. Please be cognizant of these withholding requirements as failure to comply could create significant penalties and interest.

Also because of the state's budgetary crisis, California is increasing the enforcement of the use tax provisions. You may have received a notice from the Board of Equalization ("BOE") recently discussing this issue. The BOE now requires all businesses who are "Qualified Purchasers" (including Schedule C filers) to register and file a use tax return every year. Use tax applies when a person or business purchases tangible merchandise to be used, consumed, given away or stored in California from a retailer outside of the state who does not collect California tax on the sale. For example, buying products over the internet from sites such as Amazon may result in no sales tax being charged to you. However, use tax laws create an obligation for you to pay the tax.

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A "Qualified Purchaser" is a person or business that receives at least $100,000 in gross receipts from business operations per calendar year. Gross receipts include both in-state and out-of-state business operations. It is the responsibility of the person or business to register with the BOE and file the annual use tax return. The due date for the annual return for the 2009 calendar year is April 15, 2010. Please let us know if you need help registering or filing the annual use tax return.

If you have any questions regarding these recent California tax matters, please contact us.

Sincerely,

Sobul, Primes & Schenkel

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