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Preliminary Title Reports—No Excuses



Whether you are buying real estate, or taking an interest in real estate as collateral, the only way to know what you are really getting is to search the county recorder's land records. Although anyone can do this, the norm in California is to rely on a title insurance company to search the records, report what they find, and provide an indemnity policy of insurance. Title insurance protects against liens or other items not found in the search and disclosed in a preliminary report. The preliminary title report is one of the most important benefits of getting a title insurance policy. Although it is only an offer of insurance and is not a representation of the condition of title, the preliminary title report allows a buyer to learn about any title defects. This provides an opportunity to work with the title officer to clean up items that should no longer be on record, or an opportunity to reject the property based on title defects that could turn into third party claims. So why do so

There is no excuse for not reading a preliminary title report and all documents referred to....

many buyers fail to adequately review both the preliminary title report and all recorded documents shown as exceptions to title?

In a recent case (*Bailey v. Outdoor Media Group* (155 Cal. App. 4th 778) (2007)), the California Court of Appeal reminded us that under the principal of constructive notice, a transferee of real property is deemed to know about everything in a recorded document, even if the transferee did not do a title search and did not read the recorded document.

In *Bailey* the transferee was a sublessee of a billboard who claimed it did not know that the leased property was the subject of a lis pendens. Because the lis pendens was a recorded document, the Court of Appeal held that the transferee had constructive notice of it. Parties to a real estate deal are deemed to know what is recorded against the property. In other words, there is no excuse for not reading a preliminary title report and all documents referred to in the report and asking an attorney or the title agent for a satisfactory explanation of any document you do not fully understand and the legal effect of a document. It is not enough to just ask your realtor, and it is always better to remove potential title defects then to purchase insurance against possible claims. If you have questions about a preliminary title report or want assistance reviewing one before your contingency period ends, contact Tamara Pow.

Success Story



SLG assisted business partners in the formation of their new business, including a buy-sell agreement. When the partners could not agree on how to run the company, they were able to use the formula in the buy-sell agreement to go their separate ways without litigation and to preserve the goodwill of the business they built.

Accurately Report Payroll For Worker's Compensation Purposes

What happens to those who underreport payroll for worker's compensation purposes? As one licensed contractor found out in the case of *Wright v. Issak*, the consequences can be quite harsh.

In this particular case, a contractor reported payroll of \$312 when in fact actual payroll was \$135,000. During that same time, the contractor charged approximately \$38,000 for a certain project and was paid only \$27,000. Not only was the contractor unsuccessful in his lawsuit to collect the \$11,000 difference, but he also was ordered to pay back the \$27,000 he had collected, plus \$107,000 in punitive damages, attorney's fees and costs—all tied to his underreporting of payroll for worker's compensation purposes.

The court reasoned that the underreporting of payroll for worker's compensation purposes served to automatically suspend the contractor's license and therefore, under California's well established rule, the "unlicensed" contractor could not collect for services rendered and had to repay money collected for providing those unlicensed services.

As this case dealt with, and was therefore limited to, licensed contractors, it is unclear how harsh the consequences will be for those employers in other industries who underreport payroll for worker's compensation purposes. In any event, the importance of accurately reporting payroll figures for worker's compensation purposes cannot be understated.

"The Court reasoned that the underreporting of payroll for worker's compensation purposes served to automatically suspend the contractor's license..."



Tax Corner

- **Incentive Stock Options**

Starting this year, corporations must provide the IRS with information returns listing the dates ISOs were granted, the number of shares, the stock's value at exercise, etc. Contact us if you need assistance with this filing. SLG is happy to work with your accountant to assist you with this reporting.

IRS Audit Rates

	2007 audit rate	2006 audit rate
All individual returns	1.03%	0.98%
Individuals making \$1 million or more	9.25%	6.3%
S corporations	0.45%	0.38%
Partnerships	0.42%	0.36%
AUDIT REVENUE	\$23.5 billion	\$17.2 billion

Source: Kiplinger Tax Letter

- **New Rules On 1031 Exchanges With Vacation Homes**

Internal Revenue Code Section 1031 allows a taxpayer to sell one property and buy a replacement property and defer tax on the sale. This is restricted to property "held for investment." For years the question of whether a vacation home can qualify as a property "held for investment" was unclear. Now, the IRS has issued a ruling (Revenue Procedure 2008-16) providing a safe harbor. If a vacation home is held as a rental property and rented at a fair market value rent for at least 14 days in each of the last two years, and used by the owner (or the owner's family) for no more than 14 days or 10% of the total number of days it is rented (whichever is greater), per year, it will qualify as an investment property. Source: Revenue Procedure 2008-16.

The Latest News At STRUCTURE LAW GROUP, LLP

Tamara Pow Appointed As Commissioner Cupertino Public Safety Commission

Tamara is starting her career in city government. In February she was appointed as a Commissioner on the Cupertino Public Safety Commission to serve until 2012. Congratulations Tamara!



It's A Girl!

Rebecca McCracken gave birth to her first child Julia Grace McCracken on March 17, 2008. Rebecca is currently out on maternity leave. We wish her and her family all the best. Congratulations Rebecca!



Maichi Hoang Our Newest Notary

Case Assistant Maichi Hoang just become a Notary Public. Maichi is working toward receiving her paralegal certificate and is now the second notary in the office. Please be sure to contact our office if you need to have a document notarized. Congratulations Maichi!



Real Estate

• New Resident Property Manager Rules For 2008

All resident managers are subject to California's minimum wage of \$8.00 per hour, plus "time and a half" for overtime. If the manager is not required to live at the property but chooses to do so, and the property has less than 16 units, any rent may be charged, but full hourly minimum wage must be paid. If the manager is required to live at the property, regardless of the number of units, the rent may not exceed \$451.89 per month (or \$668.46 for a couple). If no rent is charged, the manager's wages may be offset by 2/3 of the ordinary rental value, but no more than \$451.89 (or \$668.46 for a couple) per month. But keep in mind that no rent offsets to wages are allowed unless the manager signs an employment contract. Make sure you have a contract with your property manager.



Reminders And Other Items Of Note

• Illegal To Talk On Cellular Phone Without "Hands-Free" Device

Effective July 1, 2008, it will be illegal to talk on a cell phone while driving unless you are using a "hands-free" device. Make sure employees are aware of this new law as employers may be subject to liability if employees are in a car accident while driving for work related matters and talking on their cell phone without a "hands-free" device.

• Annual Meetings

Many corporations hold their annual meetings during the second quarter. Our conference room is available to use for annual meetings and can comfortably seat 12 people. Please be sure to contact our office if you would like to hold your annual meeting in our conference room.



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Dates To Remember

April 1	April Fool's Day	
April 15	TAXES DUE!!!	
April 22	Earth Day	
April 23	Administrative Professional's Day	
May 11	Mother's Day	
May 26	Memorial Day - courts and government offices closed	
June 15	Father's Day	
June 24	Take Your Pet To Work Day	

Did You Know?

- The world record for the rabbit high jump is 1 meter.
- Egg sales are the highest in spring.
- The largest litter of baby rabbits is 24; it happened once in 1978 and once in 1999.
- Babies are born without knee caps. They appear in a child between 2-6 years of age.
- Rabbits can see behind them without turning their heads.
- All porcupines float in water.

We appreciate your referrals!



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