

February 22, 2007

Dear Clients and Friends:

We hope that the New Year finds you all in good health. Our letter is going out at this time hereafter to combine it with the mailing of organizers. Here are our thoughts on some of the current issues, which may affect you and your taxes in 2007 and beyond.

*Tax Changes.* The tax brackets are tweaked annually for inflation, but the rates from 10-35% remain in place. The good news is that the lower 15% tax rate for dividends and capital gains, which had been scheduled to expire in 2008, has been extended through 2010. All taxpayers get a small (\$30-\$60) credit for telephone excise tax the IRS has been collecting for many years. If you think you paid more, make a list of the excise tax paid for long distance only from March 1, 2003 through July 31, 2006. Include your cell as well as land line in the itemization.

*Estate Taxes.* The estate tax exemption remains at \$2.0 million for 2007 and 2008. Sometime during the next two years we expect the exemption to be permanently set at \$4-5million, hopefully indexed for inflation. The U.S. gift tax annual exclusion for 2007 remains at \$12,000, with a lifetime exemption over that annual exclusion of \$1,000,000. The lifetime gift and estate tax exemptions used to be the same number, but the lifetime gift exclusion is fixed for now at \$1 million.

*IRA Rules.* The annual IRA contribution for both regular and Roth IRAs remains at \$4,000. Those 50 and older can contribute \$5,000 annually for 2006 and 2007; as well as non-working spouses. We continue to favor Roth IRAs for younger taxpayers over traditional deductible IRAs. A Roth IRA, although not deductible, grows tax-free and is untaxed at retirement.

*Retirement Plans.* The contribution limit in 2007 for 401(k) plans is \$15,500 and \$45,000 for corporate plans. Business owners may want to assess their company plans. 401(k) plans that allow discretionary employer profit sharing contributions can allow business owners to increase their contributions above the \$15,500 limit. A new wrinkle this year for company plans is a Roth 401(k) option which is permitted regardless of the taxpayer's income. (Traditional Roth IRAs are disallowed when joint income exceeds \$160,000).

*Social Security Wage Limits.* The wage cut off for the OASDI (6.2%) portion of FICA is \$97,500, up from \$94,200 in 2006. The Medicare tax continues at 1.45% on all wages. The wage limit for those under 65 to avoid giving back some of the benefits in 2007 is \$12,960. The Medicare premium in 2007 is now "means tested" meaning higher income people pay more, even though statistics show these people are generally healthier than lower income persons. This is another stealth tax increase by our politicians who are too timid to label it for what it is.

*Government E-Bonds.* It has always been an option to defer reporting interest on E-Bonds until they mature. Interest on bonds purchased prior to 1965 must have been reported in 2005 or in prior years

and bonds issued after 1965 must report their interest on the 30<sup>th</sup> anniversary, regardless of whether they are cashed. If you own E-bonds, please provide us with their face value and maturity so that we may track this for you.

Penalty Notices. Katrina caused a number of special one-time changes in the rules for filing and paying taxes for 2005 and 2006. As you might expect, IRS and Louisiana compliance computers have not necessarily been re-programmed for these exceptions. The results have been many erroneous penalty and backup withholding notices sent to taxpayers. We want to emphasize the continued importance of sending us any penalty notices you receive in 2007 so that we may review them for accuracy.

Business Vehicles. It's time to record your odometer reading. This will document your total miles for 2006. The tax-free mileage reimbursement rate increases to 48.5¢ per mile in 2007, up from 44.5¢ per mile in 2006.

LRA Payments. To date, the taxation of LRA grants has been moot, due to the delay in their actual disbursement. Inevitably, the money will flow and the taxability of the payments will have to be settled. Right now, the Louisiana Congressional delegation is sponsoring bills to exempt the payments from tax, under the similar exemption of FEMA emergency funds disbursed right after Katrina. One wrinkle may arise for those having previously received a tax benefit for an uninsured loss. We expect that any such benefit would be recaptured (taxed) if offset from LRA money. Please let us know if you have applied for LRA grant funds and the status of your request.

Charitable Contributions. In response to a perceived abuse, taxpayers in 2007 will no longer be able to claim a cash deduction for charitable contributions without some form of written documentation. This means no more "church-estimated" deductions. From now on, document your charitable giving by check or use a cash envelope with your name.

Louisiana Tax Refunds. The influx of refund claims arising from Katrina has simply overwhelmed Baton Rouge. They are slower than ever in processing returns and refunding your money. Compounding their problems is a rash of fraudulent Katrina sales tax refund requests. Given the budget surplus the Governor was so anxious to spend, one would think they could have devoted the necessary resources to the Department of Revenue to allow them to do their job properly

2007 Estimated Taxes. The tax payment dates are back to normal again; April 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup> and January 15<sup>th</sup>. The penalty for underpayment, computed like interest, is now 8%, up from 5% two years ago.

Insurance Surcharge Refund. The Louisiana Legislature recently passed a law to rebate the excess insurance premiums we have and will be paying to shore up the Citizens Property Insurance Program, otherwise known as the insurer of last resort. This company is now insolvent, mostly due to Katrina. To fix the problem, private insurers were forced to add a surcharge to their policies that all of us pay. That surcharge is to be returned to us thanks to the surplus generated by Katrina sales taxes. Please include your premium notice listing the named surcharges with your tax data and we will claim the credit. The State should have asked the insurers to credit or simply refund the amount directly to their policy holders and bill the state for reimbursement. If this were an isolated incident in poor tax administration, we would give Baton Rouge a pass. It is not. The inventory tax credit and movie tax

credit processes are just as badly administered. The Department of Revenue needs to stand up and explain to the Legislature that they can't adequately administer the tax laws as they stand now without additional resources and to burden them more with this torturous tax credit scheme is making matters even worse.

Privacy Policy. We again wish to remind you the information you supply us to prepare your financial statements, income tax returns, and to provide various tax and financial planning services is held in the strictest of confidence. We do not outsource overseas, nor disclose personal information about our clients or former clients to anyone for any reason without specific authorization.

Staff Update. We recently hired two new staff members, Brian Nillson and Beth Brennan. Annie d'Hemecourt left us in April to seek her fortune in Austin. We will miss her. Brian is a CPA in Australia who had his own tax practice in Illinois for the last 13 years. Beth is a CPA and former Internal Auditor with Whitney National Bank. Their talents, paired with those of Nicole and Janet, will enable us to continue to provide you the high level of service you have come to expect.

We all wish you a happy and prosperous New Year!