

January 31, 2008

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 that may affect you and your taxes in 2008 and beyond.

Tax Changes. Again there are changes to the tax code. Individual income tax rates for 2008 remain unchanged with the brackets adjusted for inflation as in the past. For 2008, employer and employee will continue to pay 6.2% each for social security tax (old age, survivors, and disability insurance) and 1.45% each for Medicare tax (hospital insurance). The 2008 wage limit for social security tax is \$102,000, while all covered wages are subject to Medicare tax. This stealth tax increase continues. The cut off was \$80,400 in 2001.

Estate Taxes. The estate tax exemption remains at \$2.0 million for 2008 and is scheduled to increase to \$3.5 million in 2009. We still expect during the next Congress the exemption to be permanently set at \$4 to \$5 million, and hopefully will be indexed for inflation. The U.S. gift tax annual exclusion for 2008 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 increases to \$5,000 in 2008 up from \$4,000 in 2007. Those 50 and older as well as non-working spouses can contribute \$6,000 annually in 2008, which is an increase from \$5,000 in 2007. 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. You can contribute to a Roth IRAs as long as your modified adjusted gross income is less than \$169,000 in 2008, which is an increase of \$3,000 from 2007.

Retirement Plans. The salary deferral limit in 2007 and 2008 for 401(k) plans is \$15,500, and the limits for corporate plans are \$45,000 for 2007 and \$46,000 for 2008. 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. Adoption of Roth 401(k) plans continues to be an option for company plans. There are no income limitations with Roth 401(k)s. (Traditional Roth IRAs are disallowed when joint income exceeds \$169,000)

Social Security Wage Limits. The wage limit for those under 65 to avoid giving back some of the benefits in 2008 is \$12,560. The Medicare premium continues to be “means tested” meaning higher income people pay more, even though statistics show these people are generally healthier than lower income persons. This is yet 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 30th 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 were not necessarily re-programmed for these exceptions resulting in 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 2008 so that we may review their accuracy.

Business Vehicles. It's time to record your odometer reading. This will document your total miles for 2007. The tax-free mileage reimbursement rate increases to 50.5¢ per mile in 2008, up from 48.5¢ per mile in 2007.

LRA Payments. To date, LRA payments are Federally taxable up to the casualty loss taken on your tax return. While this may change, this is the rule as it stands now. Louisiana has chosen not to issue 1099s for LRA money p in 2007. If you have received LRA money, please be sure to let us know before we prepare your 2007 tax return.

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.

The Kiddie Tax. The Kiddie Tax now applies to children under the age of 19 or, if a full time student whose earned income does not exceed half of his or her own support for the year, under age 24. The Kiddie Tax taxes unearned income of children at the parent's highest marginal rate. The first \$1,700 of a child's unearned income is shielded from the Kiddie Tax. The Kiddie Tax applied to children 14 and under prior to 2006.

Louisiana Tax Refunds. The influx of refund claims arising from Katrina and the increased use of tax credits continues to overwhelm Baton Rouge. They are slower than ever in processing returns and refunding your money. If you have not received your Katrina sales tax refund or movie tax credit refund, please let us know as soon as possible.

2008 Estimated Taxes. The tax payment dates are back to normal again; April 15th, June 15th, September 15th and January 15th. The penalty for underpayment, computed like interest, is now 8%, up from 5% two years ago.

Insurance Surcharge Refund. Please let us know if you paid any surcharges in 2007 for the Citizens Property Insurance Program. We can claim the surcharge as a credit on your 2007 Louisiana income tax returns. Please include your premium notice listing the named surcharges with your tax data and we will claim the credit.

Louisiana Gift Taxes and Inheritance Tax Repealed. The repeal goes into effect July 1, 2008, so gifts made on or after that date will no longer be subject to Louisiana gift taxes. Gifts made prior to July 1, 2008, however, remain subject to gift tax. Effective January 1, 2008, inheritance tax will not be due for any death occurring after June 30, 2004, under any circumstances. Under prior law, an inheritance tax was due if a succession was not timely opened. That is, the inheritance tax could be avoided if a succession was opened within nine months of the date of death. Therefore, until January 1, 2008, any inheritance tax must be paid and an inheritance tax return must be filed in the event that the succession representative does not timely open the succession. Refunds will be available for inheritance taxes paid after June 30, 2004, beginning later this year.

Stelly Plan Amendment. Effective as of August 15, 2007, a taxpayer is now allowed a state income tax deduction that is based upon the excess federal deduction. The deduction phases-in over the next few years and is calculated by multiplying the excess federal deduction by the applicable percentage rate. The applicable percentage rate is 57.5% for tax year 2007, 65% for tax year 2008, and 100% for tax year 2009 and thereafter.

Louisiana Tax Credits. Louisiana has over 57 different refundable and non-refundable tax credits for individuals and businesses. Some you may be aware of: Movie Tax Credits, Broadway South Credits and Inventory tax credits, while others are more obscure such as for organ donation. Please refer to our website for a list of the credits, www.dfcpa.com.

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. All documents containing sensitive information are shredded at our office using a third party document destruction company.

Staff Update. We recently hired one new staff member to fill our administrative position, Sabrina Bealer-Beckemeyer. Sabrina was the office manager at a local promotions company and handled all back office duties.

We all wish you a happy and prosperous New Year!

A handwritten signature in cursive script that reads "Dave".A handwritten signature in cursive script that reads "John".