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NATIONAL CONFERENCE OF  
CPA PRACTITIONERS  
SOCIETY OF LOUISIANA  
CERTIFIED PUBLIC ACCOUNTANTS

January 31, 2009

Dear Clients and Friends:

We hope the New Year finds you all in good health. Our letter is going out at this time hereafter to combine it with the mailing to our clients who receive organizers. Here are our thoughts on some of the current issues that may affect you and your taxes in 2009 and beyond.

Stock Market. 2008 was an unprecedented year for the market. Time-tested advice to diversify and buy and hold seemed to no longer hold true. Market timing seems to have been the only way to limit losses. For those who have time on their side, we believe this is a buying opportunity. We may not have seen the market hit bottom, but if history is an indicator, the market will recover. It is becoming more evident that higher tax rates are on the horizon. What is not known is how trillion-dollar spending by the government will affect inflation, which may cause the next bubble.

Tax Changes. Individual income tax rates for 2009 remain unchanged with the brackets adjusted for inflation as in the past. For 2009, 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 2009 wage limit for social security tax is \$106,800, while all covered wages are subject to Medicare tax. This stealth tax increase continues. The Social Security cut off was \$80,400 in 2001.

Standard Deduction. Taxpayers who don't itemize are allowed to take a higher standard deduction for state and local real estate taxes paid in 2008. The allowance is as much as \$500 for individuals, or \$1,000 for married couples who file jointly. Previously, these are taxes that would have been deductible only if you itemized. Taxes on business and foreign real estate can't be used to increase your standard deduction.

Estate Taxes. The estate tax exemption increases to \$3.5 million in 2009. The U.S. gift tax annual exclusion for 2009 increases to \$13,000, while the lifetime exemption remains at \$1,000,000. The lifetime gift and estate tax exemptions were formerly the same number, but the lifetime gift exclusion is fixed at \$1 million. The estate tax is scheduled to expire next year, but we do not expect this to happen. Look for the Democratic Congress to set the 2010 exclusion at \$3.5 - \$5 million with marginal rates at 35-45% above the exclusion.

IRA Rules. The annual IRA contribution for both regular and Roth IRAs is \$5,000 in 2009. Those 50 and older as well as non-working spouses who are 50 and older can contribute \$6,000 annually in 2009, which is the same as 2008. 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 IRA as long as your modified adjusted gross income is less than \$176,000 in 2009, which is an increase of \$7,000 from 2008. Starting in 2010 anyone will be able to convert their IRA to a Roth IRA. You can currently make the conversion but your adjusted gross income before the conversion must be less than \$100,000.

Retirement Plans. The salary deferral limit in 2009 for 401(k) plans is \$16,500, and the limits for corporate plans are \$49,000 for 2009 and \$46,000 for 2008. Business owners may want to assess their company 401(k) plans to allow discretionary employer profit sharing contributions. This will allow business owners the option to increase their contributions above the \$16,500 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 \$176,000)

Social Security Wage Limits. The wage limit for those under 66 to avoid giving back some of the benefits in 2009 is \$14,160. The Medicare premium continues to be means tested, meaning higher income people pay more, although statistics show these people are generally healthier than lower income persons. This is yet another stealth tax increase by politicians too timid to label it for what it is.

Required Minimum Distributions (RMDs). RMDs have been suspended for 2009 due to the collapse of the stock market in 2008. Congress should have had the courage to suspend RMDs for 2008, but chose not to act.

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 always 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 2009 so that we may review their accuracy.*

Business Vehicles. It's time to record your odometer reading. This will document your total miles for 2008. The tax-free mileage reimbursement rate increased to 50.5¢ per mile for the first half of 2008 and then increased to 58.5¢ from July 1 through December 31, 2008. In 2009 the rate is reduced to 55¢ per mile.

Louisiana Recovery Authority (LRA) Payments. LRA payments are federally taxable up to any casualty loss taken on your tax return. Louisiana has chosen not to issue 1099s for LRA money paid. You will have until June 30, 2010, to pay the taxes owed on your LRA payment, provided we amend your return by June 30, 2009. If you have received LRA money, please be sure to let us know before we prepare your 2008 tax return and supply us with the substantiation as to the amount received.

Stimulus Payments. Let us know how much stimulus rebate you received last year. Typically it was \$600 per taxpayer and dependent, with phase-outs for higher incomes. If you didn't qualify or didn't receive your payment, you may be entitled to one on your 2008 tax return.

Charitable Contributions. In response to perceived abuse, taxpayers 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. For 2008, 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, it applies to

children under age 24. The Kiddie Tax taxes unearned income of children at the parents' highest marginal rate. The first \$1,800 of a child's unearned income is shielded from the Kiddie Tax. The Kiddie Tax applied to children 14 and under prior to 2006.

2009 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 of these taxes is computed like interest and is now 6%.

Insurance Surcharge Refund and 7% Credit for Property Insurance Premiums. Please let us know if you paid any surcharges (Fair Plan, Coastal Restoration, etc) in 2008 on your homeowner's insurance policies. You can claim the surcharge as a credit on your 2008 Louisiana income tax returns. Please include your premium notice listing the named surcharges with your tax data and we will claim the credit. Louisiana will also reimburse you 7% of your homeowner's insurance premium paid in 2008 on your primary residence.

Louisiana Gift Taxes and Inheritance Tax Repealed. The repeal went into effect July 1, 2008, so gifts made on or after that date are no longer subject to Louisiana gift taxes. Gifts made prior to July 1, 2008, however, are subject to gift tax. Effective January 1, 2008, inheritance taxes are not 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.

Stelly Plan Amendment. Effective August 15, 2007, a taxpayer is now allowed a state income tax deduction that is based upon excess federal itemized deductions. 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 was 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, Historic Tax Credits, Broadway South Credits and Inventory tax credits. Others are more obscure such as for organ donation. Please go to our website for a list of the credits ([www.dfcpa.com](http://www.dfcpa.com)). If you are interested in Movie Tax Credits or Historic Tax credits, please contact us.

Engagement Letters. Our insurance carrier is requiring us to renew our engagement letters with all of our clients. The letter states our responsibility in preparing your returns. We will include the engagement letter with your return. Please sign and mail it back at your earliest convenience.

Tax Preparation Efficiencies. We would like to stress the importance of providing us with all relevant tax data in our initial meeting. A recurring inefficiency is the need to repeatedly contact clients who omit common tax information such as stock basis data necessary to calculate capital gains or to inquire about 1099s for income that repeats year after year.

Privacy Policy. We again wish to remind you that 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 do we 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. We backup our data each night in an offsite data warehouse using state of the art encryption.

Staff Update. We recently hired several new staff members. Tambi Farish joined the firm in the summer and is a CPA with fifteen years experience. She has worked in public accounting and in industry as a controller for small and mid-sized companies. Sharon Talkington also joined the firm in the summer, and is an accountant with sixteen years experience preparing financial statements for professional practices and small businesses. Amanda Johnson is our new office manager. She was the office manager for a CPA firm in Austin, Texas, prior to moving to New Orleans. Beth is the proud mother of Eleanore, affectionately known as Ellie, who was born August 29.

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".