CERTIFIED PUBLIC ACCOUNTANTS
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NATIONAL CONFERENCE OF
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CERTIFIED PUBLIC ACCOUNTANTS

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Dear Clients and Friends:

We hope the New Year finds you all in good health. Here are our thoughts on some of the current issues that may affect you and your taxes in 2010 and beyond.

Investment Environment. 2009 was another unprecedented year for the stock market. After the March 2009 lows, some indices recovered 60+% by year end. But there is some brutal arithmetic at play here. When stocks go down 50%, full recovery would require a 100% gain (doubling) from that point. At this writing, stocks will still need another 40% increase to reach the October 2007 highs. Given that fact, by many measures, the 2000's have been a lost decade for equities.

Tax Changes. Most inflation adjustments will not happen in 2010 due to stable and even falling prices in some economic sectors. Individual income tax rates for 2010 remain unchanged but current pending health care legislation may increase marginal rates for wealthy taxpayers beginning in 2011. For 2010, 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 cut-off for 2010 remains unchanged at $106,800, while all covered wages are subject to Medicare tax.

Standard Deduction. Taxpayers who don't itemize are allowed to take a higher standard deduction for state and local real estate taxes paid in 2009 as well as for sales tax on new autos purchased in 2009 after February 16. This benefit, as so many do in tax law, phases out for higher income taxpayers, in this case incomes greater than $250k for married couples. The standard deduction for married couples remains at $11,400 for 2009-10.

Estate Tax Update. As of January 1, 2010, the Estate Tax has been abolished, but don't cheer yet as it will probably return retroactively to January 1, 2010 in a few weeks after the Congress gets back to 'work' doing their vote selling and earmarking. In all likelihood, the 2009 $3.5 million exemption and 45% marginal rate will be temporarily re-instated until some more permanent tax can be agreed upon later on in the year.

IRA Rules. The annual IRA contribution for both regular and Roth IRAs remains at $5,000 for 2009-10. Those 50 and older, as well as non-working spouses who are 50 and older, can contribute $6,000 annually in 2009-10. 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 fully contribute to a Roth IRA as long as your modified adjusted gross income is less than $167,000 in 2010. For company employees, look for a 401(k) Roth contribution option in your company retirement plan.

Roth IRA Conversions. Any taxpayer regardless of income can now convert his IRA in 2010 to a Roth IRA and spread the income so recognized over a two-year period. Note this rule does not pertain to

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employee 401(k) accounts. The economic key to making this work is at least a 10+ year time horizon and payment of the taxes out of non-IRA funds. It's a great tool for parents to do on behalf of their children's IRAs, especially if they are in the lower brackets today. Should the account drop in value, the transaction can be undone as late as October 15, 2011. Check with us for strategies and tactics to maximize the benefit. The Government likes this plan as it accelerates tax receipts that it would otherwise have to wait decades to receive.

Retirement Plans. The salary deferral limit in 2009-10 for 401(k) plans remains at $16,500, plus another $5,500 for taxpayers over 50. The limits for corporate plans are $49,000 per employee for 2009-10. The employee must have earned income of $245,000 to qualify for that maximum contribution.

Social Security Wage Limits. The wage limit for those under 66 to avoid giving back some of the benefits in 2009-10 remains at $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. The Medicare surcharge is a disguised income tax and we have seen examples where the marginal tax (Medicare premium) exceeds the marginal income generating the tax. Yes, there is a tax bracket greater than 100%, but it's hidden and only affects a few unlucky persons.

Required Minimum Distributions (RMDs). RMDs have returned for 2010. Anyone whose 70th birthday fell between July 1, 2009 and June 30, 2010 will be affected. Please let us know if that affects you as our birthday database is not always accurate.

Business Vehicles. It's time to record your odometer reading. This will help document your total business miles deduction for 2009. The tax-free mileage reimbursement rate increased to 55¢ per mile for 2009 and is reduced to 50¢ per mile for 2010.

2010 Estimated Taxes. The tax payment are due: April 15th, June 15th, September 15th 2010 and January 17th 2011. The penalty for underpayment of these taxes is computed like interest and is now 4%.

Home Buyer Tax Credits. First-time buyers (in tax speak, those that haven't owned a home in three years prior to the purchase) and current home owners living at least five years in their current residence are allowed an $8,000 or $6,500 credit respectively for residences purchased between November 7, 2009 and April 30, 2010 for current owners and for first-time buyers the period is January 1, 2009 to April 30, 2010. As is usual in tax law, these credits are limited by the AMT tax and phase out for higher earning taxpayers. For the credit now in effect, the phaseout begins at $225,000 in adjusted gross income.

Education Credits. The Hope Credit has been replaced in for 2009-2010 by a more generous American Opportunity Tax Credit, now limited to $2,500 with a portion refundable. The credit reimburses the first $2,000 of qualified college expenses in the first 4 years on a dollar for dollar basis so please include all college tuition statements for your dependents so that we may claim the credit where applicable. The alternate educational credit, known as The Lifetime Learning Credit, applies to higher education expenses later in life. It allows a 20% credit for qualified expenses up to $10,000. Education credits are the prime example of using the tax code for social engineering.

Energy Credits. These credits return again for 2009, more generous than ever. A 30% credit of up to $1,500 is allowed for non-business purchases of energy efficient doors, windows and insulation as well as credit for purchasing more efficient furnaces and related home energy appliances. Some autos and even select golf carts now qualify for a credit for purchasing an electric vehicle. Check with your dealer before purchasing to be sure the vehicle qualifies.

Louisiana Recovery Authority (LRA) Payments. The LRA program was essentially paid out in 2008 but a few clients may have received payments in 2009. Because Louisiana does not notify the IRS of such payments and because they are generally taxable to the extent of any Katrina casualty loss deduction, be sure to include the details of any such payment with your 2009 data.

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 2009 on your homeowner's insurance policies. You can claim the surcharge as a credit on your 2009 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 2009 on your primary residence. Include a copy of the premium declaration page of your homeowner's policy with your tax data.

Louisiana Private School Tuition Deduction. Louisiana will now allow up to a 50% deduction for private school tuition and related expenses (i.e. uniforms) per child for grades K-12. That is equivalent to a maximum $150 per child in tax savings.

Louisiana Grants for Grads rebate. This is an example of a useless, "feel good" legislation which purports to award beginning in 2013 (on a lottery basis) 100 lucky young taxpayers with a Louisiana income tax rebate of up to $10,000 which was paid in the first five years after graduation (college or high school) however unlikely it would be for young people to have incurred anywhere near that much tax. Further, it also requires the recipient to "intend" to stay in Louisiana and buy a home. We are not making this up.

Louisiana Capital Gains Income Exclusion on Sale of Privately Held Louisiana Domiciled Businesses. Beginning in 2010, shareholders and LLC members who sell their entire interest in such a company may exclude that income from calculating their Louisiana income tax. This law was adopted to prevent migration of wealthy Louisiana residents to Florida and Texas.

Louisiana Tax Credits. Louisiana has over 65 different refundable and non-refundable tax credits for individuals and businesses. Some you may be aware of: Historic, Motion Picture and Inventory tax credits. Others are more obscure such as a tax credit for Prison Industry Enhancements. This use of credits rather than direct legislative expenditures to stimulate desired social policy has severely complicated the Louisiana tax system over the last decade and burdens us all with expensive and tedious record keeping and reporting requirements. These credits, however complicated to deal with, can save taxpayers money and we continue to recommend Historic and Motion Picture credits, for many taxpayers.

Engagement Letters. Our insurance carrier requires us to renew our engagement letters with all of our clients. The letter states your and 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 on our premises using a third party document destruction company. We backup our encrypted data each night in an offsite data warehouse.

We all wish you a happy and prosperous New Year!

Dave John