

January 10, 2011

Dear Clients and Friends:

We hope the New Year finds you and your family in good health and fortune. Here are our thoughts on some of the current issues that may affect you and your taxes in 2011 and beyond.

Investment Environment. The S&P 500 ended 2010 up 13%, closing a volatile year that included a 17% mid-year correction. In the last four months of the year the S&P 500 rallied almost 20%. Interest rates remain at historic lows, prompting many market prognosticators to warn investors recently buying long term bonds or bond funds of potential losses.

Tax Changes. Individual income tax rates for 2010 remain unchanged due to Congresses' mid-December extension of the Bush-era tax cuts. The brackets will adjust for inflation in 2011, after staying the same in 2010. For 2011, employers will continue to pay 6.2% for social security tax (old age, survivors, and disability insurance) and 1.45% for Medicare tax (hospital insurance). The Social Security rate for employees will drop to 4.2% in 2011 (the maximum savings for each employee will be \$2,136). The Medicare rate will stay the same as it was in 2010 at 1.45%. The wage cut-off for 2011 remains unchanged at \$106,800, while all wages are subject to Medicare tax.

Estate and Gift Tax Update. As of January 1, 2011, the Estate Tax is back. The exemption is now \$5 million per person and the tax rate is 35%. All inherited property will once again receive a step-up in basis. The gift tax exemption has been re-unified with the estate tax exemption to \$5 million. If you previously utilized your \$1 million lifetime exemption, you are now able to gift an additional \$4 million. We recommend taking advantage of this opportunity before the exemption reverts back to \$1 million in 2013. You can also gift up to \$13,000 per person per year tax free without using any of your lifetime exemption. Starting in 2012 the gift tax exemption will be indexed for inflation. Any of the decedent spouse's unused \$5 million exemption is now automatically assigned to the surviving spouse's estate. All of these changes are set to expire in 2013.

IRA Rules. The annual IRA contribution for both regular and Roth IRAs remains at \$5,000 for 2010-11. Those 50 and older, including non-working spouses 50 and older, can contribute \$6,000 annually in 2010-11. 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 and \$179,000 in 2011. For company employees with a 401(k) Roth contribution option, there are no income limits.

Roth IRA Conversions. Any taxpayer regardless of income can now convert a traditional IRA to a Roth IRA in 2011. As of September 2010, 401(k) plans can now offer participants the ability to convert their traditional accounts to Roth 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 set up and fund their children's IRAs, especially if they are in lower brackets today. Should the account drop in value, the 2011 Roth conversion can be undone as late as October 15, 2012. Check with us for strategies and tactics to maximize the benefit. The Government encourages converting as it accelerates tax receipts that it would otherwise have to wait decades to receive.

Retirement Plans. The salary deferral limit in 2010-11 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 2010-11. 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 2010-11 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. This 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.

Business Vehicles. It's time to record your odometer reading. This will help document your total business miles deduction for 2010. The tax-free mileage reimbursement rate increased to 51¢ per mile for 2011 which is up from 50¢ per mile in 2010.

2011 Estimated Taxes. Tax payments are due: April 18th, June 15th, September 15th 2011 and January 16th 2012. The penalty for underpayment of these taxes is computed like interest and is now about 4%.

Small Business Health Care Tax Credit for Small Employers. Your business can receive a credit of up to 35% of the cost of health insurance premiums if it: pays at least 50% of your employees' health insurance, has less than 50 employees, and the average annual wage is less than \$50,000. If your company fits or is close to this profile, please let us know, and we will email you a spreadsheet that will assist us in claiming the credit. Owner's wages and premiums are excluded from the credit calculation.

Payroll Tax Exemption and General Business Tax Credit (HIRE Act). If you hired new employees after March 18, 2010, and the employees had been unemployed for more than 60 days prior to working for you, you are entitled to an exemption of the employer's share of the social security tax, which is 6.2%. If this applies to you, and your payroll company did not request your new employees complete Form W-11, please let your payroll company know as soon as possible. If the new employees work at least 52 consecutive weeks for you, you will be eligible for a general business credit up to \$1,000 on your 2011 income tax return.

Health Savings Account Changes. As part of the Affordable Care Act, over-the-counter medicines or drugs can only be reimbursed from Health Savings Accounts with a prescription. The prescription requirement does not apply to insulin, medical devices, contact lenses or eye glasses. Contribution limits for 2011 are the same as they were in 2010: \$6,150 for family coverage and \$3,050 for single coverage; those 55 and over can add \$1,000 to the appropriate coverage limits.

Self Employed Health Insurance Deductions. For 2010 only, health insurance premiums for self-employed individuals will reduce self-employment taxes. This break will only last for one year, 2010.

100% Immediate Expensing of Business Equipment. For new, not used, business equipment purchased in 2011, 100% of the cost can be currently expensed rather than depreciated over several years. If the property is used, you can expense up to \$500,000 as long as your aggregate capital purchases do not exceed \$2,500,000 in 2011.

1099 Requirements. The rules for 2011 are the same as 2010; however, if you own rental real estate, you are now required to issue Form 1099 to all contractors who are paid more than \$600 in 2011. Please have each contractor complete Form W-9, Request for Taxpayer Identification Number and Certification, before paying them. The form is available online. As the law stands now, all businesses will have to issue 1099s for all payments made beginning on 1/1/12. Hopefully this new law will be repealed before then. Both Congress and the President recently expressed second thoughts on the need for this burdensome paperwork.

Electronic Federal Payment System (EFTPS). As of January 1, 2011, all businesses will be required to make federal income and payroll tax deposits electronically. Paper coupons will no longer be accepted at the bank. While you can apply online, there is about a two week lag before you can use the system. Please sign up now at <https://www.eftps.gov/eftps>.

Electronic Filing of Returns. We have utilized e-filing for most returns for years now, but the IRS now mandates that tax preparers e-file all 2010 returns. We still need your signature on Forms 8879 and LA 8453, which authorize us to e-file your returns. You may opt out of e-filing using a special exemption request. Just let us know.

Energy Credits. These credits return again for 2011, but are less generous. The credit dropped to 10% of the cost of the energy efficient property with a maximum of \$500 for 2011. Last year the credit was 30% up to \$1,500. The credit is allowed for non-business purchases of energy efficient doors, windows, insulation, furnaces, and related home energy appliances. If you already utilized the full \$1,500 credit in prior years, you cannot take the additional \$500 credit in 2011.

Insurance Surcharge Refund. Please let us know if you paid any surcharges (Fair Plan, Coastal Restoration, etc.) in 2010 on your homeowner's insurance policies. We will take the surcharge as a credit on your 2010 Louisiana income tax returns. Please include your premium notice listing the named surcharges with your tax data and we will claim the credit.

Louisiana Private School Tuition Deduction. Louisiana still allows up to a 50% deduction for private school tuition and related expenses (i.e. uniforms) per child for grades K-12 up to a maximum of \$10,000 per child, which is equivalent to a maximum \$300 per child in tax savings.

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 profit from their Louisiana income tax. This law was adopted to prevent migration of wealthy Louisiana residents to Florida and Texas prior to a big capital gain.

Louisiana Tax Credits. Louisiana has over 75 different refundable and non-refundable tax credits for individuals and businesses. You are probably familiar with the Quality Jobs and Historic tax credits, but 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 the state and us with expensive and tedious record keeping and reporting requirements. Nevertheless these credits, however complicated to deal with, can save taxpayers money and we continue to recommend Historic, Motion Picture and Quality Jobs credits for many taxpayers.

Engagement Letters. Our insurance carrier requires us to renew our engagement letters with all of our clients annually. 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 to anyone for any reason without your 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!

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