

2009
TAX LETTER



LOUIS F. DEMARS, C.P.A., P.C.

ACCOUNTING, TAX & CONSULTING SERVICES

Louis F. DeMars, C.P.A., P.C.

Firm Profile

For over twenty years, *Louis F. DeMars, C.P.A., P.C.* remains a strong, committed, and experienced, mid-sized accounting firm in the New York Tri-State area. Ranked among the leading Long Island CPA Firms by Long Island Business News, we have earned a reputation for excellence in professional client service, integrity, and our ability to provide sound financial advice. We continue to receive consecutive unqualified opinions from an independent Peer Review Firm on our system of quality control for our accounting and auditing practices as required by the Peer Review Board of the American Institute of Certified Public Accountants.

Serving clients from coast to coast, Louis F. DeMars, CPA, P.C. is distinguished by the entrepreneurial personal service, depth of experience, and the financial, tax, and business expertise of our dedicated professional and administrative staff.

Forever studying our processes, upgrading our investment in technology, and dedicating ourselves to professional development and education, the firm is poised to respond to the detail that our clients desire and deserve.

ABOUT THE PARTNERS

Shirish B. Mohile is a licensed Certified Public Accountant in the State of New York. He is a graduate of the University of Bombay earning dual bachelors degrees in the areas of Laws and Commerce, and a master's degree in the area of Laws. He earned his M.B.A. from Adelphi University with a major in Finance.

Mr. Mohile, a Partner with the firm, has been with the firm in excess of fifteen years and is experienced in both public and private accounting. As an active member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants, his areas of concentration are accounting, auditing, financial reporting and all areas of taxation. He is also a Diplomat of the American Board of Forensic Accountants. Active in his community as a treasurer of the Lynbrook Chamber of Commerce, he is the past Treasurer of Maharashtra Mandal New York, a not-for-profit organization and member of the budget committee of the Village of Lynbrook.

Adele J. Valenzuela is a licensed Certified Public Accountant in the State of New York. She is a graduate of Hofstra University earning a Bachelors Degree in accounting.

Ms. Valenzuela, a Partner with the firm, has been with the firm for in excess of nine years and is experienced in both public and private accounting. As an active member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants, her areas of concentration are accounting, auditing, financial reporting and taxation. She is also active in the Williston Park Chamber of Commerce and Rotary Organization.

Louis F. DeMars, Managing Partner, is a licensed Certified Public Accountant in the States of New York and New Jersey. He is a twenty plus year member of the American Institute of Certified Public Accountants, the New York State Society of Certified Public Accountants, the National Society of Tax Professionals, the A.I.C.P.A. Division of Certified Public Accounting Firms, and the American Board of Forensic Accountants.

He has served as an adjunct faculty member at the School of Accountancy, C.W. Post Campus of Long Island University, and at the School of Business at Hofstra University.

He is a graduate of the C.W. Post Campus of Long Island University, School of Professional Accountancy, and earned his M.B.A. from Hofstra University School of Business, with a major in Taxation. He is experienced in both public, private and not for profit accounting.

He has served as past Treasurer and past President of the Garden City Lions Organization, former Vice President of the Williston Park Chamber of Commerce, and has served two terms as a Director of the Garden City Chamber of Commerce. He has also served on the Finance Committees for both the Long Island Children's Museum and the Garden City Community Church, and remains an active member of the Small Business and Real Estate Committees for the Long Island Association.

In his community, he has served as a Boy Scout parent volunteer and as a manager and coach in the Garden City Athletic Association's boys and girl's soccer, little league, basketball, softball and lacrosse programs.

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WHOLESALE DISTRIBUTION

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January, 2009

As we head into 2009, we find ourselves as a nation in unprecedented times. Unemployment is predicted to reach proportions not seen in nearly fifty years, the federal government has pledged seven hundred billion dollars to aid troubled financial institutions, bankruptcies have risen significantly, and the stock market has declined nearly forty percent from its peak in 2007. The government's response to these situations has been to enact tax legislation. The 2008 Economic Stimulus Act, the 2007 Mortgage Relief Act, the Housing and Economic Recovery Act of 2008, the Emergency Economic Stabilization Act of 2008, will have a major impact on the preparation of your 2008 individual and business income tax returns.

The following is to highlight for you the prominent portions of the tax law changes affecting 2008 and thereafter and to explain these changes to you in plain language.

INDIVIDUAL PROVISIONS

Federal Tax Rates - Tax rates remain the same for 2008 and are scheduled to remain the same through 2010, although we believe that changes are coming. As before, due to the phaseout of personal exemptions and the loss of some itemized deductions (as discussed below), 2008 *tax brackets* have been adjusted upward for inflation. The 2008 U.S. individual income *tax rate schedules* can be found in Appendix I.

Regular Income Tax Rate Changes

Year	28% Rate Reduced to	31% Rate Reduced to	36% Rate Reduced to	39.6% Rate Reduced to
2005-2010	25%	28%	33%	35%
2011 and after	28%	31%	36%	39.6%

Personal Exemptions - The personal exemption allowed for individuals and dependents has been increased in 2008 to \$3,500 from \$3,400 in 2007, and is presently scheduled to increase for inflation for the year 2009. If one claims an exemption for a child or any other dependent, the child or dependent may not claim his or her own exemption. For 2008, the benefit of personal exemptions is phased out when adjusted gross income exceeds the following thresholds; \$239,950 for married filing jointly and qualifying spouses; \$199,950 for head of households; \$159,950 for singles; and \$119,970 for married filing separately. The phaseout is accomplished by reducing the 2008 exemption amount of \$3,500 by 2% for each \$2,500 (\$1,250 for married filing separately) or fraction thereof of AGI in excess of the above amounts.

Under the Tax Relief Act there is a repeal of the phase out of personal exemptions scheduled for 2006-2009. In tax years beginning in 2006 and 2007 the amount of the exemption phase out reduction that would otherwise apply is reduced by one third and tax years beginning in 2008 and 2009 by two thirds. For tax years beginning after 2009 the exemption phaseout is repealed.

Dependents - All taxpayers must have their dependent's social security numbers listed on their tax return. If the dependent is under age 24 and has more than \$1,800 of unearned income (i.e. interest, dividends) for 2008, he or she may potentially be required to report their own social security number on their tax return, and will pay a tax at the parents' rate on the amount of unearned income in excess of \$1,800. A dependents earned income (ie. wages, fees) to the extent of his or her deductions remain taxed at the dependents rate. Parents may elect to include the unearned income of any of their children under the age of 24 on their own tax return, if conditions permit, instead of filing separate returns for each child.

\$SAVER- In order to minimize your tax liability for your children, we recommend that you limit your child' investment in interest and dividend producing activities. Tax deferred investments such as savings bonds, annuities or growth oriented stocks or mutual funds may be a suitable alternative.

Standard Deduction - The standard deduction, available only to those taxpayers who do not itemize deductions, is increased as follows:

<u>Filing Status</u>	<u>2009*</u>	<u>2008</u>
Single	\$5,700	\$5,450
Married, Filing Jointly	11,400	10,900
Married, Filing Separately	5,700	5,450
Head of Household	8,350	8,000

*Projected Standard Deduction Amounts

Individuals who are blind or age 65 or older are entitled to an additional standard deduction. The additional standard deduction amount doubles for individuals who are both elderly and blind.

Accelerated by the tax law, the standard deduction for joint filers and surviving spouses has been increased to an amount equal to double that of single filers.

Real Estate Tax Deduction for Non-Itemizers - Under prior law, only individuals who itemized their tax deductions could deduct real estate taxes on their property. The Housing and Economic Recovery Act gives non-itemizers a limited deduction for property taxes. Beginning in tax years 2008 or 2009, and individual taxpayer's standard deduction is increased by the lesser of:

1. The amount allowable to the taxpayer as a deduction for real estate taxes, or
2. \$500 for single individuals and \$1,000 in the case of married individuals filing jointly.

Social Security Taxes - FICA Tax *Rates* for 2009 have not been changed from their 2008 level, nor have they been changed for some time. However, the *FICA Wage Base* has been increased again and will apply in 2008 at the following levels:

<u>2008</u>	First	\$102,000	7.65%
	over	\$102,000	1.45%
<u>2009</u>	First	\$106,800	7.65%
	over	\$106,800	1.45%

Employers make payments totaling 15.30%. (Employee contribution 7.65%; Employer contribution 7.65%.)

In 2009, self-employed individuals will pay a total of 15.3% tax for all self-employment income on a maximum of \$106,800 and 2.9% Medicare tax on all self-employment income in excess of that amount. As in 2008, a self-employed individual is allowed to claim a deduction equal to 50% of self-employment taxes for 2009.

Social Security Benefits – Taxation - For 2008, as in prior years, a taxpayer whose provisional income plus one half of his Social Security benefits exceeds \$25,000 (\$32,000 for married filing jointly), will be subject to a tax on up to 85% of his or her Social Security benefits. Provisional income is defined as your AGI plus tax exempt income and other foreign income normally not included in your tax calculations.

In 2008, retirees over age 65 shall not have their benefits reduced regardless of the amount of earned income. Early retirees, those between age 62 and retirement age, will still forfeit benefits to the extent of \$1 for every \$2 of earned income over \$13,560 for 2008 and \$14,160 for 2009. Unearned income, i.e. interest, dividends, does not affect the amount of your benefits.

Moving Expenses - A person who moves his residence due to a change in job or business may be allowed to deduct certain specified moving expenses.

The definition of moving expenses includes only the reasonable costs of 1) moving household goods and personal effects from the old residence to the new residence, and 2) traveling (including lodging) from the old residence to the new residence.

Where an automobile is used in moving, deductions may include either 1) a standard mileage allowance or 2) actual out of pocket expenses incurred.

The expenses can be deductible if the distance between your new job and your old residence is at least 50 miles more than the distance between your old job and your old residence. Additionally, as an employee, you must work full-time during at least 39 weeks of the next year after moving. If self-employed, you must work full-time at least 78 weeks during the next two

years after relocating.

Employer-provided moving expenses are excluded from the employee's gross income, unless such expenses were previously deducted by an employee in an earlier year. Moving expenses shall be a deduction in computing adjusted gross income, instead of an itemized deduction which is deducted from adjusted gross income.

\$ SAVER - Recent High School and College graduates may qualify to deduct moving expenses if after leaving school they move from a former principal residence to a new principal residence.

Alternative Minimum Tax (AMT) - The original concept of the AMT was devised to ensure that certain high income taxpayers who benefit "too much" from deductions and credits must pay a minimum amount of tax. Individuals and corporations, as well as estates and trusts must pay the AMT if this tax exceeds their regular tax liability. This tax today functions as a modified flat tax, with little publicity.

Because of the lowering of regular income tax rates, the rise in individual income levels, and the non-modification of the AMT rules over the past several years, the AMT has become applicable to a greater number of taxpayers especially in high tax states such as New York, New Jersey, Connecticut and California. The AMT has been projected to affect the majority of taxpayers over the next several years as indicated on the next page.

The burden of the AMT shifts under the Bush tax cuts to people making less than \$200,000 who take deductions for their children and state and local taxes.

<u>Income Category</u>	<u>Share of Alternative Minimum Tax</u>	
	<u>2003</u>	<u>2010</u>
\$30,000-\$50,000	0.2%	1.1%
\$50,000-\$75,000	1.2%	7.2%
\$75,000-\$100,000	2.1%	14.0%
\$100,000-\$200,000	15.9%	36.3%
\$200,000-\$500,000	43.0%	30.7%
\$500,000-\$1,000,000	13.8%	4.2%
\$1,000,000 or more	22.5%	6.0%

Source – Tax Policy Center

By 2010 the AMT is expected to replace the regular tax for most upper middle class taxpayers, eliminating all or part of the Bush tax cuts as indicated below:

<u>Income Category</u> <u>(in thousands)</u>	<u>2003</u>	<u>2010</u>	<u>Average AMT</u> <u>in 2010 for Each</u> <u>Taxpayer</u>
All taxpayers	2.6%	30.4%	\$3,751
\$30-\$50	0.1%	6.9%	\$809
\$50-\$75	0.5%	36.6%	\$1,301
\$75-\$100	1.1%	72.9%	\$2,023
\$100-\$200	9.3%	92.0%	\$3,661
\$200-\$500	55.3%	96.2%	\$12,206
\$500-\$1,000	28.9%	49.3%	\$20,496
\$1,000 or more	19.3%	24.3%	\$117,302
<u>Filing Status</u>			
Family of 4; \$75,000 to \$100,000	1.0%	97.2%	\$2,855
Married Filing Joint	3.7%	53.5%	\$3,946
Single Parent	0.8%	9.2%	\$1,643
Singles	0.5%	2.4%	\$4,749

Source – Tax Policy Center

The AMT *tax rate* for non-corporate taxpayers in 2008 remains at 26% on AMT income of up to \$175,000, and 28% on AMT income over that amount. The AMT *exemption amount* however, has been modestly increased. The exemption amounts for 2008 are now \$69,950 for joint filers, \$46,200 for single and head of household filers, and \$34,975 for married filing separately. Relatively speaking, this provides a temporary band-aid to a structurally larger problem. Because of the significant revenue raised by the AMT, past administrators have been reluctant to enact a permanent solution.

Standard Mileage - If you claim automobile expenses based on the number of business miles traveled during the year, either as an employee or self-employed, you may deduct \$.505 from January 1 through June 30, 2008 and \$.585 from July 1 through December 31, 2008. These rates apply to all miles of use for business purposes. The standard rate for mileage in connection with charity work remains at \$.14 per mile for 2008. The standard rate for mileage in 2008 in connection with medical travel has been changed to \$.19 per mile from January 1 through June 30, 2008 and \$.27 per mile from July 1 through December 31, 2008. Additional costs for parking and tolls may be deducted separately.

Itemized Deductions - For the tax year 2008, taxpayers with adjusted gross income (AGI) above \$159,950 (\$79,975 for married filing separately) will have part of their itemized deductions reduced. The cutback affects all itemized deductions except medical expenses, casualty and theft losses, gambling losses, and investment interest.

The reduction is equal to the lesser of:

- 1) 3% of the taxpayer's AGI over \$159,950 (\$79,975 for married filing separately)

or,

- 2) 80% of the taxpayer's otherwise allowable itemized deductions other than medical, casualty and theft, and investment interest deductions.

For example, a taxpayer with AGI of \$180,000 would lose \$602 ($\$180,000 - \$159,950 \times 3\%$) of their itemized deductions.

Effective 2006, under the Tax Relief Act, the phaseout of itemized deductions for high income taxpayers is gradually repealed through 2009. For 2008 and 2009 the taxpayer will reduce allowable deductions by an amount equal to one-third of the regular limited amounts. In 2010, high-income taxpayers will not be required to reduce the amount of itemized deductions which they can claim.

State and Local Income Tax/General Sales Tax - For tax year 2008, individual taxpayers may elect to deduct the higher of their state and local income taxes or their state and local general sales tax as an itemized deduction on their federal income tax returns. In high tax states such as New York, New Jersey, and Connecticut, our state and local income taxes would result in the higher deduction. This provision would benefit individuals residing in low income tax or no income tax states such as Florida and Texas.

Charitable Contributions - A charitable contribution is deductible only if it is made to a qualified entity, and is subject to certain percentage of income limitations. Individuals may carry forward for 5 years their charitable contributions which exceed these limits.

For contributions made during 2008, in the amount of \$250.00 or more, taxpayers must obtain written substantiation from the charitable organization of the contribution. For such contributions, a canceled check alone is no longer sufficient.

The substantiation should include a good-faith estimate of the value of any goods and services provided to the donor. The substantiation must also be obtained by the taxpayer prior to his or her filing of the tax return for the year of the contribution.

For non-cash contributions in excess of \$5,000, taxpayers are required to obtain qualified appraisals which must be filed with their tax returns.

Donations of clothing and household items made after August 17, 2006 must also meet new, more stringent, substantiation requirements. Items must now be in good used condition or better. If not, a qualified appraisal is now required for items valued over \$500.

\$ SAVER - Donating Appreciated Securities - You may donate appreciated securities to any of the above referenced charities. In doing so, you actually get a double benefit. Firstly, you are allowed a charitable contribution deduction for the fair market value of the securities donated as of the date of the gift. Secondly, one can avoid paying the capital gains tax on the difference between the purchase price of the securities and the appreciated value upon the date of donation.

For 2008, taxpayers contributing a qualified vehicle valued over \$500 to a charity must receive a contemporaneous record from the charity including the taxpayer's social security number and vehicle identification number. The deduction will equal the gross proceeds for which the charity sold the vehicle.

Capital Gains and Losses - Generally, short term capital gains are taxed at your ordinary income tax rates. Long term (assets held more than 12 months) capital gains are taxed at a maximum rate of 15% (0% for those in the 10% or 15% tax bracket).

The top rate of 28% still applies to the sale of property such as coins, stamps, works of art, ext. Capital gains treatment also applies to real estate. A tax rate of 25% applies to the sale of depreciable real estate to the extent of depreciation recapture, with is the difference between the purchase price and the accumulated depreciation allowed the property since the inception.

This recapture amount is subject to tax at a rate of 25%. Additionally, any long-term appreciation in the value of the real estate, which is the difference between the sale price and the original cost, shall be taxed at a maximum rate of 15%.

For example, rental property was purchased in 2003 in the amount of \$250,000 and sold in 2008 for \$400,000. Total depreciation claimed during this six year period was \$30,000. The total gain on this transaction would be \$180,000. ($\$400,000 - (\$250,000 - 30,000)$). The amount related to price appreciation of \$150,000 would be taxed at a rate of 15%. The \$30,000 of depreciation recaptured would be taxed at a rate of 25%.

Capital losses continue to receive the same tax treatment as in prior years. Capital losses may offset capital gains dollar for dollar. Capital losses may offset other ordinary income to the extent of \$3,000 per year. Any capital losses unused at the end of the tax year may be carried forward indefinitely until fully exhausted or until a taxpayer dies.

First Time Home Buyer Credit – As a way to stimulate the depressed housing market, the Housing and Economic Recovery Act of 2008 has a provision which allows first time homebuyers a new refundable tax credit equal to the lesser of \$7,500 (\$3,750 for a married individual filing separately) or 10% of the purchase price of the principal residence. The credit is allowed for the year in which the taxpayer purchases the home. There are however conditions:

1. A purchase is deemed to occur when title closes and the credit cannot be used in acquiring property from certain related persons.
2. The taxpayer must be a first time home buyer which is defined as an individual who had no ownership interest in a principal residence in the United States during the three year period prior to the purchase of the home.
3. The tax credit is recaptured, or paid back, over a 15 year period with no interest beginning in the second taxable year after which the home is purchased. This pay back provision results in the taxpayer receiving an interest free loan in the maximum amount of \$7,500 through a tax credit to be repaid interest free over the subsequent 15 year period.
4. This provision is effective for qualifying home purchases on or after April 9, 2008 and before July 1, 2009.
5. Upon disposal of the property, or upon the taxpayer ceasing to use the home as a principal residence, the unpaid balance of the credit is recaptured in that tax year. No amount is recaptured after the death of the taxpayer.

Sales of Principal Residence - The rules in connection with the sale of a principal residence sold after May 6, 1997 are as follows:

Gains realized on the sale or exchange of a principal residence is excludable up to \$250,000 for individuals and \$500,000 if married filing a joint tax return. This exclusion is allowed each and every time a taxpayer of any age, selling or exchanging a principle residence, meets the eligibility

requirements. Eligibility for this exclusion requires that a taxpayer must have owned the residence and occupied it as a principle residence for at least two of the five years prior to the sale or exchange. A taxpayer who does not meet these requirements may be able to ratably exclude a portion of the exemption based on the number of months the taxpayer owned and occupied the residence, divided by 24 months. Relief may be granted if the sale of home is due to a change in place of employment, health or unforeseen circumstances only. This exclusion is generally available every two years.

To the extent that the gain on the taxpayer's residence includes a postponed gain on a previous residence under prior law, it will be taxable if it is in excess of the new exclusion amount. Losses on the sale of a principal residence remain not deductible.

Individual Retirement Accounts - The retirement features of the tax law are extensive and may affect most taxpayers. Substantial changes in prior years in this area continue to effect all retirement plans, including IRA's for this and future tax years. The contribution limits for Individual Retirement Accounts have increased for 2008 and 2009. The increases in contribution amounts which are applicable to IRA's and Roth IRA's are summarized on the next page:

<u>IRA Maximum Contribution Limits</u>		
	<u>IRA's For Taxpayers</u>	
	<u>IRA's</u>	<u>Over Age 50</u>
2008	5,000	6,000
2009	5,000	6,000
2010	Subject to annual inflation adjustment	

Alimony is treated as compensation for IRA purposes.

For 2008, the amount deductible for a Spousal IRA is \$5,000 (\$6,000 if a catch-up contribution is made). In order to receive the deduction, the combined compensation for both spouses must be equal to or greater than the amount contributed.

Taxpayers may still make Non-Deductible IRA contributions if they cannot qualify to make deductible IRA contributions with the new increased limits applicable to future years.

\$ SAVER - We recommend that you maximize your savings by contributing to your IRA as early in the year as possible. Your contribution can begin earning tax deferred income immediately.

\$ SAVER - Beginning in 2007, individuals may elect to have their federal tax refund directly deposited into their IRA. The IRA must be established before the request for direct deposit is made and the taxpayer must comply with all due date requirements.

Keogh accounts have traditionally referred to retirement plans for self employed persons, which several years ago did not provide equivalent benefits to that of corporate plans. However, with the changes made over the years, parity has been achieved between corporate and self employed plans. Self-employed retirement plans are now generally referred to by the name for each type.

For money-purchase pension plans or profit sharing plans, the maximum allowable contribution is 100% of earned income not to exceed \$46,000 for 2008. For defined benefit plans, the contributions are limited to provide annual benefits at retirement to the lesser of 100% of earned income determined on a three year average basis of \$230,000 for 2008. Contributions to defined benefit plans must be paid quarterly in an amount equal to 100% of last year's contribution or 90% of the current year's contribution.

If you already have a retirement plan or IRA and want to make a contribution for 2008, you must do so by April 15, 2009 for your IRA or the due date of your tax return including extensions for your retirement plan. If you do not have a retirement plan you must have had to open a plan account by December 31, 2008 in order to make a deductible contribution for 2008. You may however open up an IRA for 2008, whether or not you have an existing one, any time up to April 15, 2009.

IRA, Keogh, and Pension Plan Distributions - There are withholding provisions for distributions from all qualified plans. These distributions require a mandatory 20% withholding tax. The 20% withholding tax applies to that portion of a qualified plan distribution which is eligible for "rollover" to an individual retirement account or another qualified plan. The withholding tax will apply whether the participant takes the distribution as a taxable income or rolls over the distribution to another qualified plan.

To avoid the 20% withholding, the participant must authorize the plan trustees to make a "Direct Transfer" of his retirement funds to another qualified plan. A direct transfer of funds is a distribution from a qualified plan to another qualified plan without the participant actually taking possession of the funds.

If you reached age 70 during 2008, you must make a distribution from your IRA/Keogh/Retirement Plan by April 1, 2009. These amounts received in 2009 are taxable in year 2009. Participants in other qualified retirement plans, who were required to make distributions in prior years because they reached age 70, must make sure that they received their 2008 distribution before January 1, 2009.

Those of our clients who are affected by this provision should contact us for advice as to the amount of required distribution. Failure to make a distribution in the required amount may result in a penalty assessment of up to 50% of the required amount.

On December 23, 2008, President Bush signed the Worker, Retiree, and Employer Recovery Act of 2008 into law. The Act waives any required minimum distributions (RMD's) for 2009 from retirement plans that hold each participants benefit in an individual account such as 401K plans,

403B plans, and certain 457B plans. The Act also waives any RMD for 2009 from an individual retirement account. This means that most participants and beneficiaries would be required to take RMD's from these type of accounts are not required to withdraw any amount in 2009. We recommend that you contact us for further guidance in this area.

Retirement income includes the following:

Profit Sharing and Pension Plans
401(K) Plans and Simplified Employee Pensions (SEP)
Individual Retirement Accounts
Retirement Distributions from Tax Exempt or Governmental Employers
Section 403(B) and 457 Plans

For 2008, individuals over age 70 1/2 can distribute up to \$100,000 per year tax free from their Individual Retirement account to certain charitable organizations without claiming a charitable deduction or including the distribution as income. In order to qualify, the distribution must be made directly from the trustee to the qualified charity.

401(K)/SIMPLE (Tax Deferred) Plans - These types of retirement plans have become very popular in the past several years. The plans allow the employee, not the employer to choose to either receive their entire salary as usual, or to contribute part of his or her salary on a tax deferred basis to a 401(K)/SIMPLE plan. Payments of salary to employees are taxed as current income. Amounts contributed by an employee to a 401(K)/SIMPLE plan are considered employer contributions and are not taxed as current income. Employers and employees are still however subject to FICA Tax on amounts contributed to 401(K)/SIMPLE plans. Earnings on the contributions to 401(K)/SIMPLE plans accumulate tax deferred. Employees are taxed when amounts are distributed from these plans under the same rules that apply to Self Employed and Corporate Pension Plans. Unlike an IRA, employees may also be allowed to borrow from their 401(K)/SIMPLE plan.

Employers may also elect to match 401(K)/SIMPLE contributions of their employees for an added tax benefit to the employee. Employer matching contributions are tax deductible to the employer and tax deferred to the employee.

The tax law provides for scheduled increases in retirement plan contribution limits for 2008 and future years. A summary of retirement plan contribution changes appears in Appendix II.

\$ SAVER - It is our recommendation that all employees who may be eligible to participate in their employer's 401(K)/SIMPLE plan make the most of the amount allowed to be contributed, especially where employer matching contribution is offered. The tax free compounding of interest in these types of plans is a tremendous benefit.

Roth 401(K) - The Roth 401(K) as enacted in 2001 went into effect on January 1, 2006 and has recently been made a permanent part of the tax law. Unlike most parts of the 2001 Tax Act, these provisions will not disappear in 2011.

A Roth 401(K) could allow you to boost up your present retirement savings for the following reasons:

1. Similar to a Roth IRA, a Roth 401(K) allows for current payment of income taxes on the contributions to the plan at your regular income tax rates.
2. Earnings and withdrawals are not taxed if withdrawals begin after age 59 1/2, death or disability, and if the plan is in affect for five years or more from the date of the first contribution to the plan.
3. Participants must take mandatory minimum distributions beginning after age 70 1/2. However, you may rollover Roth 401(K) monies into a Roth IRA, and postpone minimum distributions indefinitely. Accordingly, this is an excellent way to pass assets free of income tax in accordance with your estate planning.
4. The Roth 401(K) has higher contribution limits than a Roth IRA. The contribution limits are similar to that of a regular 401(K) plan. Presently for 2008 these are \$15,500 per year.
5. There are no income limitations for contributing to a Roth 401(K) as there are for the Roth IRA.
6. There are substantial catch up contributions available under a Roth 401(K) if you are age 50 or older.

As there is a small window presently available for contributions to a Roth 401(K) plan, and considering its availability to be an addition to or supplement your existing retirement plans, we strongly recommend that you consult us at your earliest convenience to determine if this type of retirement planning is good for you.

Coverdell Education Savings Accounts - Non-deductible contributions may be made to an Education Savings Account (ESA) for 2008 in the maximum amount of \$2,000 per beneficiary. The purpose of these accounts is to allow taxpayers to set aside money on a tax-free basis to pay for the rapidly rising costs of college education. Accounts may be set up, with income limitations, by parents, grandparents, aunts, uncles, etc. for beneficiaries under the age of 18. In 2008, corporations and other entities are permitted to contribute to ESA's, regardless of the income of the corporation. The earnings of these accounts may be withdrawn tax-free for qualified higher education expenses for beneficiaries between the age of 18 and 30. Multiple ESA's may be created for one beneficiary, but the contribution limit of all contributions for a single beneficiary is \$2,000 in any one tax year. A tax and related 10% penalty may apply to distributions not used for educational purposes. The maximum annual contribution is phased out for joint filers with modified AGI above \$190,000 and less than \$220,000.

For 2008, qualified expenses will also include costs associated with public, private, or religious elementary, or secondary schools including tuition, books, supplies, and room and board.

Estimated Tax Penalty- For individuals whose adjusted gross income in the prior year was \$150,000 or less, (\$75,000 for married individuals filing separately) taxpayers must pay: a) 90% of the current year's tax; or b) 100% of last year's tax to avoid the estimated tax penalty.

For individuals with AGI in 2008 above \$150,000, taxpayers must pay: a) 90% of the current year's tax or b) 110% of year 2007's tax to avoid the estimated tax penalties. Estimated personal tax due dates for 2009 are April 15, 2009; June 16, 2009; September 15, 2009; and January 15, 2010.

New York State and New York City require that, for an automatic extension of time to file your tax return to be valid, 90% of your tax liability must be paid by the estimated tax due dates. Failure to do so will invalidate the extension and subject taxpayers to late filing as well as late payment penalties.

Energy Policy Act - For tax year 2008 and 2009, individuals will be permitted to use two different residential energy tax credits, both of which are very complex and have differing requirements.

The first credit allows a lifetime credit of \$500 for qualifying energy savings improvements such as insulation, windows, doors, and may include circulating fans or furnaces. The second credit is allowed for the purchase of residential energy efficient property such as photovoltaic property, qualified solar water heating property, or qualified fuel cell property.

There are also tax credits available for the purchase or lease of new gasoline and electric hybrid cars.

Each of these credits has very stringent rules, phase outs, and eligibility requirements attached to it. We strongly encourage you to consult with us in terms of which improvements and property may qualify.

CHILDREN AND EDUCATION PROVISIONS

Earned Income Credit- The earned income tax credit is a refundable reduction of tax allowed to taxpayers with a qualifying child or children with earned income below certain threshold amounts.

The EIC is comprised of two different credits:

- 1) The basic credit
- 2) The supplemental credit for health insurance premiums paid for qualifying children.

The maximum credit for 2008 for a taxpayer without children is \$438; with one child is \$2,917; and with two or more children is \$4,824. These amounts are anticipated to increase by an inflation adjustment for 2009.

The credit is phased out completely for single taxpayers with incomes above \$33,995 with one qualifying child, \$38,646 with two or more qualifying children and \$12,880 without qualifying children.

The credit is completely phased out for married taxpayers above \$36,995 with one qualifying child, \$41,646 with two or more qualifying children and \$15,880 without qualifying children.

Child or Dependent Care Credit - For 2008, taxpayers may claim a maximum credit of up to 35% against tax for household and dependent care expenses, if the payment of these expenses allows the taxpayer to be employed. The credit percentage is phased down to a minimum of 20% for taxpayers with AGI in excess of \$43,000. For 2008, a cost limit of \$3,000 applies when the taxpayer has one qualifying child. A \$6,000 limit applies for those with two or more qualifying children.

You must report each child care provider by name, address, amount and social security or federal ID number on your tax return. You may also only claim the credit for payments made for the care of a dependent child under age 13.

There is now a uniform definition of a qualifying child:

Qualifying relative - must meet the same five tests as existed under prior law; income, support, relationship, joint return, and citizenship.

Qualifying child - must meet five conditions which are different from the tests for qualifying relative; relationship, age, citizenship/residency, principal residence and support.

The requirements to determine if a child qualifies to be claimed as a dependent have several changes. The gross income test has been eliminated and the support test and residency test has been changed.

Adoption Credit - For 2008, certain taxpayers who adopt a child may be entitled to claim up to an increased maximum non-refundable credit of \$11,650 adjusted annually for inflation for each eligible child for qualified adoption expenses. Additionally, taxpayers who adopt a child with special needs will be entitled to credit of \$11,650 regardless of actual expenses paid. These qualified expenses include adoption fees, attorney's fees, court costs and any other eligible expenses directly related to the adoption process. This tax credit is phased out for parents with modified adjusted gross income between \$174,730 and \$214,730.

For 2008, the adoption credit may offset both the regular tax and alternative minimum tax (ATM) liability. A five year carryforward is available for the unused portion of the credit that exceeds certain limits.

Child Tax Credit - For years 2007 through 2010, a tax credit is available for each qualifying child under age 17 in the amount of \$1,000. A qualifying child is defined as an individual for whom a taxpayer is entitled to claim a dependency exemption, and who is a son, daughter, step-child or

foster child of the taxpayer. The credit phase out for taxpayers is based on your adjusted gross income (see Appendix IV) and your number of qualifying children.

Hope Scholarship Credit - Under the tax law, a non-refundable elective credit for qualified education expenses paid in 2008 will be available for certain low and middle-income individuals. The maximum credit has been increased to \$1,800 per student. It is comprised of 100% of the first \$1,200 of qualified tuition and fees plus 50% of the next \$1,200 of similar tuition and fees. *Eligible education is the first two years of a student's post secondary education at an eligible institution.* Eligible institutions are accredited institutions offering a program towards a bachelor's degree, associate's degree, etc.

The tuition and related expenses must be paid on behalf of the taxpayer, the taxpayer's spouse or a dependent of the taxpayer. In cases where the student is the taxpayer's child, and the parent is claiming the Hope Credit, the student is not entitled to also claim a Hope Tax Credit.

Qualified tuition and expenses are defined as those costs required for enrollment or attendance of a student at an eligible institution. The purchase of books and university fees associated with meals, lodging, athletics, or other personal expenses are *not* qualified tuition or fees. The credit is phased out pro rata where the taxpayer's inflation adjusted gross income for single taxpayers is between \$65,000 and \$80,000; married filing jointly with modified AGI between \$130,000 and \$160,000.

Lifetime Learning Credit - Similar to the Hope Scholarship Credit with certain exceptions, the Lifetime Learning Credit is equal to 20% of qualified tuition and fees paid during the tax year on behalf of the taxpayer, spouse, or any dependent. For 2008, up to \$10,000 of qualified tuition and fees per taxpayer will be eligible for the

20% Lifetime Learning Credit up to a maximum credit of \$2,000. *A prime difference between the Lifetime Learning Credit and the Hope Credit is that a taxpayer may claim the Lifetime Learning Credit for an unlimited number of taxable years,* whereas the Hope Credit may only be claimed for the first two years of post secondary education. A maximum credit of \$1,800 is allowed per student. In contrast, the maximum Lifetime Learning credit of \$2,000 is calculated per taxpayer and does not vary based on the number of students in the taxpayer's family.

The credit phases out pro rata for single taxpayers with modified adjusted gross income between \$48,000 and \$58,000; married filing jointly with modified adjusted gross incomes between \$96,000 and \$116,000.

For any tax year, a taxpayer is permitted to elect just one of the following with respect to each student:

- 1) The Hope Credit
- 2) The Lifetime Learning Credit
- 3) The tax exclusion for distributions from a Coverdell educational savings account

Student Loan Interest - For 2008, a deduction in arriving at adjusted gross income will be allowed for student loan interest. The maximum deduction in 2008 remains at \$2,500. The deduction is allowed for interest paid on qualified education loans during the lifetime of the loan repayment period. This deduction is phased out completely for single taxpayers with modified AGI in excess of \$70,000 and joint filers with modified AGI in excess of \$145,000.

Education Deduction - For 2008, taxpayers' own education expense may be deducted as a business expense subject to the 2% limit if the education maintains or improves a skill required by the individual's employer or meets the express requirements of the individual's employer as a condition of the individual's employment.

Individuals with incomes below \$80,000 and married couples with incomes below \$160,000 can deduct up to \$4,000 in tuition and education-related fees for their dependents or themselves. This break had expired after the 2005 tax year, but Congress has continued to extend the tax break for the 2007 and 2008 tax years.

NEW YORK STATE PROVISIONS

New York State E-Filing - New York State has enacted mandatory e-filing of your New York State tax returns if you use a preparer who has prepared more than one hundred New York State tax returns and who used tax preparation software to prepare tax returns for 2008. If a taxpayer desires to opt out of mandatory e-filing, the taxpayer is required to complete and sign Form IT-800, Opt out Record for Tax Practitioners.

New York State Tax Rates - For tax year 2008, a taxpayer making more than \$40,000 (married filing jointly), \$20,000 (married filing separately and single), or \$30,000 (head of household), will be in the highest tax bracket of 6.85%.

New Empire State Child Credit - For tax year 2008 refundable credit is available to full-year New York State residents. The credit is equal to 33% of the federal child tax credits (child tax credit and additional child tax credit) for each child who qualifies for the federal child tax credit and is at least four years old; or the sum of \$100 for each child who qualifies for the federal child tax credit and is at least four years old, whichever amount is greater.

New York State Earned Income Credit (EIC) - The New York State earned income credit is similar to the Federal EIC. This credit is allowed to individuals and couples earning less than a threshold amount. For 2008, the credit is calculated at 30% of the Federal EIC.

New York State Estimated Tax Penalty - New York State's and New York City's rules in connection with estimated taxes are now similar to the Federal rules. The "safe harbor" for estimated tax payments for taxpayers earning in excess of \$150,000 per year is the lesser of 90% of the current year's liability, or 110% of the prior year's tax liability. For taxpayers earning less than \$150,000 per year, the taxpayer must pay the lesser of 90% of the current year's tax liability or 100% of the prior year's tax liability to avoid the estimated tax penalty or if the amount you owe is \$300 or more and represents more than 10% of your 2008 income tax.

New York State Standard Deduction - The standard deduction for f008 is available to those taxpayers who do not claim itemized deductions as follows:

<u>Filing Status</u>	<u>2008</u>
Single, Someone else claiming you as a dependent	\$3,000
Single, Claiming yourself as a dependent	7,500
Married, Filing jointly or Qualifying widow with dependent child	15,000
Married, Filing separately	7,500
Head of Household	10,500

New York Child and Dependent Care Credit - For 2008, this refundable tax credit remains at a maximum of 110% of the amount of the federal credit for taxpayers earning \$25,000 or less. New York State has also expanded the credit to 100% of the amount of the federal credit for incomes up to \$40,000. For taxpayers with New York State adjusted gross income between \$40,000 and \$65,000, the credit is phased down from 100% to 20% of the federal credit. This credit is available regardless of whether or not you claim the federal credit. For tax years beginning on or after January 1, 2007, New York City full-year and part-year residents with federal adjusted gross income of \$30,000 or less who paid child care expenses for children under the age of four may be eligible to claim a new refundable New York City child and dependent care credit. This credit may be claimed in addition to the New York State child and dependent care credit.

New York State College Choice Tuition Savings Program - The State of New York continues a tax advantaged tuition savings program to enable individuals to save for tuition and other higher education expenses. Individuals can deduct contributions, not eligible or deductible for federal tax purposes, of up to \$5,000 per year (\$10,000 for married filing jointly) for amounts contributed to a college savings. *The contributions to these accounts are deductible for New York State tax purposes only* and interest earned thereon is federally tax deferred as well.

The program is designed to assist in paying for qualified higher education expenses including tuition, fees, supplies, room and board, books, and equipment required for enrollment or attendance at an accredited undergraduate, graduate, or professional institution of higher education, or at an approved business, trade, technical, or occupational school. While each account can have just one beneficiary, a parent may also open an account for one child and at a later date change the designated beneficiary to another member of the child's family. The account must remain open for at least 36 months before the funds may be withdrawn without penalty. There is a 10% penalty for early withdrawal.

New York State College Tuition Credit - New York State has continued providing tax advantages methods for saving and paying for college. The college tuition credit is refundable and is available only to full-year New York State residents. In lieu of claiming the credit, one may receive a greater tax benefit by claiming the college tuition itemized deduction.

The **college tuition itemized deduction** may offer you a greater tax savings if you itemized your deductions on your federal return. For tax year 2008, the maximum deduction is \$10,000 for each eligible student. Taxpayers should determine which option is better. **You may claim either the credit or the deduction, but not both.**

Use Tax - Individual taxpayers have the ease of reporting unpaid sales and compensating use taxes to the State of New York. These taxes apply in situations where sales tax is not collected at the time of purchase of taxable property or services are made. For example, if a New York State resident purchases clothing tax free in the State of New Jersey and transports it into New York State, a sales and compensating use tax may be voluntarily reported on your personal income tax returns at the time of filing.

New York City Tax Changes - New York City income taxes remain unchanged. A taxpayer making more than \$90,000 (married filing jointly), \$50,000 (married filing separately and single), or \$60,000 (head of household), will be in the highest tax bracket of 3.648%.

New York State Bonus Depreciation - New York State does not recognize the 50% bonus depreciation allowed for Federal tax purposes. New York does however recognize the increased limit on the Federal Section 179, Election to Extend Certain Asset Purchases, as referenced below.

BUSINESS PROVISIONS

Credit Card Information Reporting - Beginning January 1, 2011, banks and online payment networks are required to report to the Internal Revenue Service a merchants annual gross payment receipts along with the merchants name, address, and identification number. It is our opinion that this shall resemble 1099 reporting requirements. This provision is designed to assist the Internal Revenue Service in increasing the tax compliance rate among merchants.

Small merchant are exempt from this reporting requirement if their annual credit or debit card transactions do not exceed \$20,000 in the aggregate or the aggregate number of such type of transactions during the year do not exceed 200.

Asset Purchases - Internal Revenue Service Code Section 179 continues to allow the full write-off of asset purchases with certain dollar limitations provided you are active in the business and such write-off does not cause or increase a loss. There are restrictions however. The maximum deduction is reduced dollar for dollar for amounts of assets placed in service in excess of \$800,000 for tax year 2008. This increase only applies to assets placed into service in the calendar year 2008.

The tax law has changed and extended for scheduled increases in the maximum deduction as follows:

TAX YEAR	MAXIMUM SECTION 179 DEPRECIATION DEDUCTION
2007	\$125,000 (\$160,000 for Qualified Enterprise Zone & NY Liberty Zone)
2008	\$250,000
2009	\$133,000
2010	\$125,000 plus inflation adjustment
2011	\$25,000

The maximum amount of depreciation allowed for a vehicle placed in service in 2008 is \$10,960 for the first year and \$4,800 in the second year. Depreciation for subsequent years drops significantly. There have also been restrictions enacted which limit the depreciation of certain SUVs purchased after October 22, 2004. These limits apply to purchases made from January 1, 2008 to December 31, 2008.

The law also allows substantially increased depreciation and/or amortization deductions for the use of electric passenger automobiles and leaseholds. Generally, for electric vehicles, the yearly statutory limits for depreciation are tripled creating a strong tax incentive to purchase one.

Meals and Entertainment - For 2008, the deduction for the cost of business meals and entertainment remains limited. The law permits generally only a deduction of 50% for these costs. To be associated with the conduct of a trade or business, such entertainment must take place directly before or after substantial and bonafide business discussions.

There are exceptions to the 50% deductibility limitation. The following types of expenses are 100% deductible as meal and entertainment:

1. Food and beverage expenses associated with benefits that are excludable from the recipient's gross income as a de minimis fringe benefit;
2. The cost of a ticket to a sporting event and related expenses if the event is organized to benefit a tax exempt organization;

- For recreational expenses primarily for employees who for these purposes, are not highly compensated. An example of such type of expenses would be for a company picnic, holiday party, etc.

Federal Corporation Tax Rates - The 2008 Federal Corporation Tax Rates are as follows:

If Taxable Income is:**				
	Over	But Not Over	The Tax Is	Of The Excess Over
\$	-0-	\$ 50,000	\$ 0 + 15%	\$ -0-
	50,000	75,000	7,500 + 25%	50,000
	75,000	100,000	13,750 + 34%	75,000
	100,000	335,000	22,250 + 39%	100,000
	335,000	10,000,000	113,900 + 34	335,000
	10,000,000	15,000,000	3,400,000 + 35%	10,000,000
	15,000,000	18,333,333	5,150,000 + 38%	15,000,000
	18,333,333	6,416,667 + 35%	18,333,333	

**Does not take into account the alternative minimum tax.

Taxable income of certain personal service corporations is taxed at a flat rate of 35%. In connection with corporate estimated tax payments, the law requires that certain large corporations (those with taxable incomes of one million dollars or more in any of its three preceding years) to pay 100% of the current year's tax in order to avoid an underpayment penalty.

New York State Corporation Tax Rates - New York State Corporation tax rate for a small business taxpayer is at a maximum rate of 6.5% for year 2008.

The franchise tax rates are as follows:

<u>Small Business*</u>	<u>Tax Rate</u>
\$0 - \$290,000	6.5%
\$290,000 - \$390,000	\$18,850 plus 7.1% of the amount over \$290,000 plus 4.35% of the amount over \$350,000
<u>Other Corporation</u>	7.1%

*Small corporations are defined as those who have entire net income less than \$390,000, have capital stock and paid in capital less than \$1,000,000 and who are not part of an affiliated group of corporations.

New for 2008, the fixed dollar minimum tax will be based upon the New York receipts of the Corporation rather than the gross payroll of the corporation.

S Corporations

If New York Receipts are:	The fixed dollar minimum tax is: Not more
than \$100,000	\$25
More than \$100,000 but not over \$250,000	\$50
More than \$250,000 but not over \$500,000	\$175
More than \$500,000 but not over \$1,000,000	\$300
More than \$1,000,000 but not over \$5,000,000	\$1,000
More than \$5,000,000 but not over \$25,000,000	\$3,000
Over \$25,000,000	\$4,500

C Corporations

If New York Receipts are:	The fixed dollar minimum tax is:
Not more than \$100,000	\$25
More than \$100,000 but not over \$250,000	\$75
More than \$250,000 but not over \$500,000	\$175
More than \$500,000 but not over \$1,000,000	\$500
More than \$1,000,000 but not over \$5,000,000	\$1,500
More than \$5,000,000 but not over \$25,000,000	\$3,500
Over \$25,000,000	\$5,000

Limited Liability Companies/Partnerships- For tax years beginning in 2008 the filing fee for LLC's and LLP's will be based on New York source gross income.

For 2008, single member limited liability companies that are disregarded entities for federal tax purposes will pay a minimum fee of \$25 regardless of income. For all limited liability companies and limited liability partnerships the payment of these fees are due within 30 days of the last day of the tax year, generally January 31st.

LLCS

If New York source gross income is:	The annual fee is:
Not more than \$100,000	\$25
More than \$100,000 but not over \$250,000	\$50
More than \$250,000 but not over \$500,000	\$175
More than \$500,000 but not over \$1,000,000	\$500
More than \$1,000,000 but not over \$5,000,000	\$1,500
More than \$5,000,000 but not over \$25,000,000	\$3,000
Over \$25,000,000	\$5,000

Effective for tax years 2003 and thereafter, a partnership, limited liability company that is treated as a partnership, and a New York S Corporation that has income from New York sources are now required to pay estimated taxes on behalf of its members or C Corporation partners, and non-resident individual partners or shareholders on their distributive or pro rata share of the respective entity's income. Should this situation exist in your Apass through@ entity, kindly

contact our office for further guidance in this area.

MISCELLANEOUS PROVISIONS

Estate Tax Changes - For decedents having died during 2008, assets up to \$2,000,000 were not taxed for federal estate tax purposes. This exemption amount is scheduled to increase as shown in the illustration below. In year 2009 it will be possible to pass assets upon death of up to \$3,500,000 free of estate and gift tax.

<u>For Decedents Dying and Gifts During</u>	<u>Highest Estate, GST Applicable Exclusion any Gift Tax Rate</u>	<u>Amount</u>
2007-2008	45%	2,000,000
2009	45%	3,500,000
2010	Taxes Repealed	

There also exists an exemption for "qualified family-owned business interests" (QFOBI) from a decedent's gross estate for New York Estate Tax purposes only. The Federal exemption from prior years has been repealed. In order for an estate to qualify for the QFOBI deduction, the decedent must meet the following criteria

1. Have U.S. citizenship or be a resident at the time of death.
2. The aggregate value of the qualified business must exceed 50% of the decedent's adjusted gross estate.
3. The business interest must pass to the decedent's heirs as well as individuals actively employed in the business for at least ten years prior to the decedent's death.
4. The business interest must have a principal place of business in the U.S. and be owned:
 - a) at least 50% by one family member,
 - b) 70% by two family members or,
 - c) 90% by three family members.

\$ SAVER - *We have worked with numerous clients over the past several years in designing strategies to minimize or eliminate their exposure to estate taxation. Our plan involves assessing the value of an individual's estate and offering specific strategies to reduce your taxable estate.*

New York State Estate and Gift Tax - The New York State gift tax has been repealed, effective in the year 2000. Unlike Federal Estate Tax Law, the New York estate tax exemption amount remains unchanged. For decedents passing in 2008, estates with assets of \$1,000,000 are

exempt from New York State estate taxes.

Estate Planning - While you are contemplating year end tax saving ideas, it is also an excellent time to review your estate planning.

We suggest that if you do not have a will, a health care proxy, and a durable power of attorney that you (and your spouse, if applicable) seek proper professional assistance to obtain one.

In connection with this, we wish to bring to your attention other areas of estate tax planning.

Lifetime Gifts - For 2008, every taxpayer may gift \$12,000 of property to any recipient without incurring a gift tax to the donor nor an income tax to the donee. In 2009, the annual exclusion amount is set to increase to \$13,000 or \$26,000 to married couples. Presently, gifts of \$12,000 or less per person do not require the donor to file an annual gift tax return. In the case of married taxpayers, each may give \$12,000 or consent to have one-half the gift of the other spouse treated as their gift.

Thus for 2009, a married couple can gift \$26,000 to each recipient. To qualify, the gift must be of a present interest. The annual gift tax exclusion shall now be indexed for inflation.

In addition to the annual exclusion, an unlimited gift tax exclusion is allowed for amounts paid for "qualified" medical or qualified educational expenses of any donee. Payments must be made by the donor directly to the provider in order to qualify.

We are available throughout the year, and strongly suggest that you schedule to meet with us to discuss your present and future Estate plans, prior to any substantive law changes.

Living Trusts - Living Trusts have become a very popular estate planning tool. Simply put, assets, instead of being held in the name of an individual, are held in the name of a trust, with you as Trustee and your named beneficiaries who will receive these assets upon your death. The income produced by these assets during your lifetime is taxed to you. Upon becoming deceased, these assets are included in your estate for estate tax purposes. There are virtually no tax benefits in living trusts.

However, there are many non-tax

benefits to be obtained by the use of living trusts. Upon your death, your will must be probated. Probate is a process which, through the Surrogate's Court, assets are transferred from a decedent's estate to named beneficiaries. This process, considering professional fees, may be both costly and time-consuming. Since it involves the Courts and other outsiders, your most personal and private financial information may become available to the public.

Living Trusts circumvent this legal process of probate by holding assets in trust for named beneficiaries. At death, the beneficiaries present the living trust documents to the custodian of the assets (banks, mutual funds, etc.) and they are

transferred to the beneficiary. The use of living trusts legally avoids the process of probate. The use of living trusts also keeps the transaction between the individual decedent and the beneficiaries private.

We are available to consult with you in this area at your convenience.

United States Savings Bonds - A taxpayer, age 24 or older, may under certain circumstances purchase U.S. Savings Bonds, series EE, and exclude the interest earned on these bonds in the year

of redemption. There are, however, several restrictions: 1) the taxpayer must use all of the principal and interest at redemption for qualified education expenses, 2) the qualified education expenses must be for either the taxpayer, his or her spouse or dependents under age 24, and 3) the exclusion is phased out for single or head of household taxpayers whose modified adjusted gross income exceeds \$82,100 in 2008 (\$130,650 for married filing jointly). The tax break is not available if you are married filing separately.

TAX DEADLINES - You must submit your personal tax information to us before April 1, 2009 to allow us sufficient time to have your tax return completed and sent to you by the due date of April 15, 2009. Keep in mind that although you may request an automatic four month extension of time to file, to avoid penalties you must have your tax paid in full by April 15, 2009.

Our hope is that you will find the above information both relevant and helpful. Please feel free to call us to discuss any questions that you may have.

Appendix I
2008 Individual Income Tax Rate

Single

<u>Taxable Income</u>		<u>Pay</u>	<u>Of Excess Over</u>
\$ 0	\$ 8,025	\$ 0 + 10%	\$ 0
8,026	32,550	802.50 + 15%	8,025
32,551	78,850	4,481.25 + 25%	32,550
78,851	164,550	16,056.25 + 28%	78,850
164,551	357,700	40,052.25 + 33%	164,550
357,701	and over	103,791.75 + 35%	357,700

Married Filing Jointly

<u>Taxable Income</u>		<u>Pay</u>	<u>Of Excess Over</u>
\$ 0	\$ 16,050	\$ 0 + 10%	\$ 0
16,051	65,100	1,605.00 + 15%	16,050
65,101	131,450	8,962.50 + 25%	65,100
131,451	200,300	25,550.00 + 28%	131,450
200,301	357,700	44,828.00 + 33%	200,300
357,701	and over	103,791.75 + 35%	357,700

Married Filing Separately

<u>Taxable Income</u>		<u>Pay</u>	<u>Of Excess Over</u>
\$ 0	\$ 8,025	\$ 0 + 10%	\$ 0
8,026	32,550	802.50 + 15%	8,025
32,551	65,725	4,481.25 + 25%	32,550
62,726	100,150	12,775.00 + 28%	65,725
100,151	178,850	22,414.00 + 33%	100,150
178,851	and over	48,385.00 + 35%	178,850

Head of Households

<u>Taxable Income</u>		<u>Pay</u>	<u>Of Excess Over</u>
\$ 0	\$ 11,450	\$ 0 + 10%	\$ 0
11,451	43,650	1,145.00 + 15%	11,450
43,651	112,650	5,975.00 + 25%	43,650
112,651	182,400	23,225.00 + 28%	112,650
182,401	357,700	42,755.00 + 33%	182,400
357,701	and over	100,604.00 + 35%	357,700

Appendix II
Summary of Retirement Plan Contribution Limits

	<u>2008</u>	<u>2009</u>
401(k), SARSEP, 403(B)	\$15,500	\$16,500
Catch-up Contributions to 401(K) Plans for Individuals over age 50	\$5,000	\$5,500
Defined Contribution Plans	\$46,000	\$49,000
Defined Benefit Plans Maximum Benefit	\$185,000	\$195,000
Individual Retirement Plans (IRA)	\$5,000	\$5,000
Catch-up Contributions to Traditional and Roth IRA's for individuals over age 50	\$1,000	\$1,000
SIMPLE Plans	\$10,500	\$11,500
Catch-up Contributions to SIMPLE Plans for individuals age 50	\$2,500	\$2,500
SEP	\$46,000	\$49,000
Annual Compensation Limit	\$230,000	\$245,000
Highly Compensated Employee Defined	\$105,000	\$110,000
Key Employee in a Top-Heavy Plan	\$150,000	\$160,000

Appendix III
Tax Attributes of Various Investments

<u>Security</u>	<u>Description/Inflation</u>	<u>Tax Attributes</u>
Cash, CDs, and Savings Accounts	Money in bank, government insured up to certain limits.	Annual interest is taxed.
Treasury Bills Short-term (up to 1 year) debt	Interest earned is taxed at obligation of U.S. Treasury if bills are sold.	Interest is exempt from state and local taxes.
Treasury Notes	Medium-term (2-year to 10-year maturity) debt obligation of U.S. Treasury.	Annual interest is taxed. is exempt from state and local taxes.
Treasury Bonds	Long-term (more than 10 years' maturity) debt obligation of U.S. Treasury.	Annual interest is taxed. Interest is exempt from state and local taxes.
Inflation-Indexed Treasuries	10-year maturity debt obligation of U.S. Treasury. Principal is adjusted annually on the basis of changes in the consumer price index.	Annual interest is taxed. Increase in principal taxed currently. Interest is exempt from state and local taxes.
Ginnie Mae-GNMA	A security representing a share in a pool of mortgages in which the timely payment of interest and principal is guaranteed by the Government National Mortgage Association.	Annual interest is subject to federal, state, and local tax. The principal, which can be paid off sooner or later than expected, is not taxable.
U.S. Savings Bonds	Debt obligation of U.S. Treasury. Pays interest rates depending on your purchase date series. I bonds are indexed for inflation.	Interest is exempt from state and local taxes. Federal tax is deferred on Series E, EE, and I bonds. Can be exempt from federal tax if bonds are used to fund higher education, within income limits.

<u>Security</u>	<u>Description/Inflation</u>	<u>Tax Attributes</u>
Municipal Bonds	Debt obligations of states, cities, or towns or their agencies.	Interest is exempt from federal tax and in state where issued. Interest on certain private activity bonds can be subject to AMT.
Corporate Bonds	Debt obligations of corporations.	Annual interest is taxed. Special rules for bond premium and discount: the amount paid above or below a bond's face value.
Zero Coupon Bonds	Fixed rate debt obligations of U.S. Government, state, or corporation. No annual interest paid. All earned interest paid at maturity.	U.S. Government and corporate interest is taxable each year as though it had been received. State obligation interest is tax exempt.
Stock, Common and Preferred	Security denoting units of equity ownership in a corporation.	Dividends, when paid, generally taxable. Appreciation, if any, taxed when stock sold, generally at a favorable tax rate. Losses are deductible but subject to limitations.
Mutual Fund	Shares in a company that invests money from many investors to buy stocks, or bonds, or both, in many corporations. Some funds invest in government bonds only.	The fund's earnings paid to shareholders are treated as dividends or capital gains. Dividends may be taxable or exempt depending upon their source.

Appendix IV

Adjusted Gross Income (AGI) Phaseout Thresholds for 2008

<u>Tax Item</u>	<u>Taxpayers Affected</u>	<u>Phaseout-Begin</u>	<u>Phaseout-End</u>
Itemized Deductions (Overall Limit)	Single, head of household, joint filers	\$159,950	phaseout varies by taxpayer
	Married filing separately	\$ 79,975	phaseout varies by taxpayer
<hr/>			
7.5% Floor on Medical Deductions	Those itemizing medical expenses	7.5% of AGI	N/A
<hr/>			
2% Floor on Misc. Itemized Deductions	Those itemizing misc. expenses	2% of AGI	N/A
<hr/>			
10% Floor on Casualty Loss loss	Those itemizing casualty	10% of AGI	N/A
<hr/>			
Personal Exemption	Single	\$159,950	N/A
	Head of household	\$199,950	N/A
	Joint filers	\$239,950	N/A
	Married filing separately	\$119,975	N/A
<hr/>			
Child Tax Credit*	Single, head of household	\$75,000	phaseout varies by taxpayer
	Married filing separately	\$55,000	phaseout varies by taxpayer
	Joint filers	\$110,000	phaseout varies by taxpayer

<u>Tax Item</u>	<u>Taxpayers Affected</u>	<u>Phaseout-Begin</u>	<u>Phaseout-End</u>
Dependent Care Credit*	Joint filers, head of household, single	35% credit if AGI Not over \$15,000	20% credit if AGI over \$43,000
First Time Homebuyer Credit	Single, head of household	\$75,000	\$95,000
	Joint filers	\$150,000	\$170,000
Elderly and Disabled Credit	Single, head of household	\$7,500	phaseout varies by taxpayer
	Joint filers	\$10,000	phaseout varies by taxpayer
	Married filing separate	\$5,000	phaseout varies by taxpayer
Adoption Credit*	All filers	\$174,730	\$214,730
Earned Income Credit*	Single, head of household, no child	\$7,160	\$12,880
	Single, head of household, one child	\$15,740	\$33,995
	Single, head of household, two or more children	\$15,740	\$38,646
	Joint filers, no child	\$10,160	\$15,880
	Joint filers, one child	\$18,740	\$36,995
	Joint filers, two or more children	\$18,740	\$41,646

<u>Tax Item</u>	<u>Taxpayers Affected</u>	<u>Phaseout-Begin</u>	<u>Phaseout-End</u>
Hope Credit*	Single, head of household	\$48,000	\$58,000
	Joint filers	\$96,000	\$116,000
Lifetime Learning Credit*	Single, head of household	\$48,000	\$58,000
	Joint filers	\$96,000	\$116,000
Student Loan Interest Deduction*	Single, head of household	\$55,000	\$70,000
	Joint filers	\$115,000	\$145,000
Savings Bonds Interest Exclusion	Single, head of household	\$67,100	\$82,100
	Joint filers	\$100,650	\$130,650
Coverdell Education Accounts (formerly Education IRAs)	Single, head of household, married filing separate	\$95,000	\$110,000
	Joint filers	\$190,000	\$220,000
IRA Deduction	Single, head of household	\$53,000	\$63,000
	Joint filers	\$85,000	\$105,000
	Married filing separate	\$ 0	\$ 10,000
Roth IRA Eligibility	Single, head of household	\$101,000	\$116,000
	Joint filers	\$159,000	\$169,000
	Married filing separate	\$ 0	\$10,000

<u>Tax Item</u>	<u>Taxpayers Affected</u>	<u>Phaseout-Begin</u>	<u>Phaseout-End</u>
Rental Real Estate Passive Losses	Single, head of household, joint filers	\$100,000	\$150,000
	Married filing separate	\$50,000	\$75,000

 *Modified AGI, as defined by the relevant Code Sections, is used instead of AGI.

Appendix V
Preliminary Average Itemized Deductions for 2006 by
Adjusted Gross Income Ranges*

<u>Adjusted Gross</u> <u>Income Ranges</u>	<u>Medical</u> <u>Expenses</u>	<u>Taxes</u>	<u>Interest</u>	<u>Contributions</u>
Under \$15,000	\$7,179	\$ 2,693	\$ 8,761	\$ 1,373
15,000 to 30,000	6,720	2,837	8,362	1,897
30,000 to 50,000	5,791	3,665	8,451	2,123
50,000 to 100,000	6,354	5,815	9,813	2,673
100,000 to 200,000	9,302	10,445	12,892	3,860
200,000 or more	29,509	39,234	23,274	18,539

*Source: Spring 2008 Statistics of Income Bulletin

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