

January 2007

Dear Client:

Another year has come along, and with it came more tinkering with the tax laws. A proper remediation of the Alternative Minimum Tax is still awaited, but the 15% maximum tax rate for long-term capital gains and qualifying dividends remains – although that could change in 2007 with the new majority presence in Washington.

**2006**      **Federal telephone excise tax refund** will be showing up on your tax returns – based on your number of exemptions.

**Tax on children's income:** parent's tax rates will now apply to children under age 18 – was under age 14 in prior years.

**On-line auction sellers:** the IRS has put taxpayers on notice that if they are actively engaged in on-line selling or trading (think e-Bay), they may have tax reporting to do. Please let us know if this may apply to you.

**US-Canada Exchange Rate:** Average rate was \$1.1340 Cdn = \$1.00 U.S.

**2007**      **Donation substantiation:** beginning in 2007, any deduction for a cash contribution to a charity will not be allowed unless you have a cancelled check or dated receipt. Cash into the church collection plate, for example, will no longer be deductible.

**Pension Deferrals:** elective deferral limit is now at \$15,500 (was \$15,000 in 2006) for 401(k), 403(b), SARSEP, and 457 plans (possibly up to 100% of compensation).

**SIMPLE Pension Plans:** maximum deferral limit increases to \$10,500 (was \$10,000 in 2006).

**IRA/Roth IRA Limits:** remain at \$4,000 per year, with gross income limitations for Roth IRA plans.

**Pension Catch-Up Contributions:** additional contributions allowed for those age 50 or over by end of year who otherwise qualify:

    SIMPLEs, and 401(k) SIMPLE: \$2,500 per year (unchanged from 2006)  
    401(k) regular, 403(b) and 457 Plans: \$5,000 per year (unchanged from 2006)  
    IRAs and Roth IRAs: \$1,000 per year (unchanged from 2006)

**Standard Mileage Rate:** changes to 48.5¢/mile (was 44.5¢ for 2006).

**Gift-Tax Exclusion:** remains at \$12,000 annually per donee.

**Estate Taxes:** the aggregate lifetime estate tax exemption remains at \$2,000,000 per person, but the top tax rate drops from 46% in 2006 to 45% for 2007. The lifetime gift tax exemption remains capped at \$1,000,000.

Our standard U.S. engagement letter is enclosed along with our checklist. Please answer the questions on page 2 of the blue letter, sign the letter, and return it to us. We cannot begin your tax return until we have received the signed engagement letter.

We encourage you to meet with us or bring in your tax data as early as is reasonable, but please do your best to have complete information. We may not be able to avoid putting returns on extension if final information is not available to us by March 20.

Sincerely,

Herrick, Ltd. CPAs