

January 2009

Dear Client:

It's that time of year again! Time to start compiling the needed information to prepare your 2008 income tax returns. The following is a list of items to keep in mind when pulling together your information:

**2008**

**Tax on children's income:** Parent's tax rates will now apply to children under age 24, if a full-time student, whose earned income does not exceed one-half of his or her support. In practical terms, this will apply to all children who can be claimed as dependents.

**Capital Gains:** A zero tax rate applies to most long-term capital gains and dividend income that would otherwise be taxed at the regular 15% and/or 10% rate.

**First-time Homebuyer Credit:** Eligible first-time homebuyers buying principal residences in the US after April 8, 2008 and before July 2009, may claim a refundable tax credit equal to the lesser of 10% of the purchase price or \$7,500 (\$3,750 for married individuals filing separately). Purchases after December 31, 2008 and before July 1, 2009 may be treated as made on December 31, 2008. But, remember this tax credit is really an interest-free loan that will be paid back at the rate of \$500 per year. Also, if the property is sold before the credit is fully repaid, then the total remaining balance is due upon the filing of your tax return for that year.

**Real Property Taxes:** Non-itemizers can take an additional standard deduction for real property taxes of up to \$500 (\$1,000 for joint filers) for 2008.

**Donation substantiation:** Any deduction for a cash contribution to a charity will not be allowed by the IRS unless you have a cancelled check or dated receipt. You can no longer "estimate" your charitable contributions.

**Pension Deferrals:** Elective deferral limit is \$15,500 in 2008 and \$16,500 in 2009 for 401(k), 403(b), SARSEP, and 457 plans, with a catch-up contribution of \$5,000 for 2008 and \$5,500 for 2009 for those age 50 or over.

**SIMPLE Pension Plans:** Maximum deferral limit is still \$10,500 in 2008 and will increase to \$11,500 in 2009 with a catch-up contribution of \$2,500 for 2008 and 2009.

**Health Savings Accounts:** An individual can fund his or her HSA by making a one-time direct transfer from his or her IRA. The maximum HSA contribution is \$2,900 for single coverage and \$5,800 for family coverage. Catch-up provisions apply to individuals age 55 or older.

**IRA/Roth IRA Limits:** Increases to \$5,000 per year, with gross income limitations for Roth IRA plans, and with a catch-up contribution of \$1,000 for those age 50 or over.

**Standard Mileage Rate:** The deduction is 50.5¢/mile from January 1 to June 30, 2008 and 58.5¢/mile from July 1 to December 31, 2008.

**Moving expenses:** The deduction for moving expenses is 19¢/mile from January 1 to June 30, 2008 and 27¢/mile from July 1 to December 31, 2008.

**Gift-Tax Exclusion:** Remains at \$12,000 annually per donee in 2008 and will increase to \$13,000 in 2009.

**Estate Taxes:** The aggregate lifetime estate tax exemption remains at \$2,000,000 in 2008 and increases to \$3,500,000 in 2009 per person. The top tax rate is 45% in 2008 and 2009. The lifetime gift tax exemption remains capped at \$1,000,000.

**US-Canada Exchange Rate:** Average rate was \$1.0660 Cdn = \$1.00 U.S.

**2009**    **IRA/Roth IRA Limits:** Remains at \$5,000 per year.

**Standard Mileage Rate:** Changes to 55¢/mile (down 3.5¢/mile from the 58.5¢/mile allowance in the last six months of 2008).

**Moving expenses:** The deduction for moving expenses is 24¢/mile.

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 21.

Sincerely,

Herrick, Ltd. CPAs