

January 2009

Dear Business Client:

Most of the tax issues in 2008 related to businesses were not actually changes at all, but rather extensions of prior tax provisions, or adjustments thereto.

- **Equipment Expense Deductions:** The maximum amount of equipment purchases qualifying for the Section 179 deduction election is \$250,000 in 2008 and will drop to \$133,000 in 2009 (\$125,000 in 2010, adjusted for inflation) – and currently includes off-the-shelf software. Note that this limit is scheduled to be \$25,000 in 2011. Remember that the §179 deduction for heavy SUVs, trucks, and vans is capped at \$25,000. There is also a first-year bonus depreciation allowance, equal to 50%, which applies to qualified property placed in service during 2008. (Vermont has accepted these §179 deduction limits, but has not accepted the 50% bonus depreciation deduction.)
- **Domestic Production Activities Deduction:** This is the deduction in which you may be able to deduct up to 6% of your qualified production activities income (this rate applies to 2007-2009). Only certain types of income qualify and the rules and the calculations are rather complex. Some businesses will receive a modest deduction, but with a substantial amount of work involved.
- **US-Canada Exchange Rate:** Average rate was \$ 1.0660 Cdn = \$1.00 US.
- **Net Operating Loss:** Carryback period is currently two years – and with a carryforward of up to 20 years.
- **Standard Mileage Rate:** Changes to **50.5¢/mile** in 2009 (down 3.5¢ from the 58.5¢ allowance in the last six months of 2008).
- **Pensions:** 401(k) type elective deferral is \$15,500 for 2008 and \$16,500 for 2009; catch-up contributions for those age 50 or over is \$5,000 for 2008 and \$5,500 for 2009; maximum SIMPLE deferral limit is still \$10,500 in 2008 and will increase to \$11,500 in 2009 with catch-up contribution of \$2,500 for 2008 and 2009.
- **Social Security Taxes:** The wage base rises to \$106,800 (was \$102,000 in 2008); there is still no wage cap for Medicare taxes.

Because of the extent of the many changes, these explanations are very general in nature. Please contact us if you wish to discuss them in more detail, or feel free to visit our website at www.herrickltd.com.

If you purchased assets or supplies out-of-state, on-line, or through mail order, without paying sales tax, you must self-assess the State tax and remit it to your State's Department of Taxes. Also, remember that each independent contractor who earned \$600 or more in 2008 should be sent a 1099-MISC Form (this rule applies to all non-incorporated contractors and all attorneys, incorporated or not).

Our standard engagement letter is enclosed along with our checklist. Please answer the questions in italics on the checklist, sign the blue letter, and return both to us. We cannot begin your tax returns until we have received the signed engagement letter.

As always, we look forward to working with you and please call if there are any questions.

Sincerely,

Herrick, Ltd. CPAs