

January 2008

Dear Client:

It's that time of year again! Time to start compiling the needed information to prepare your 2007 income tax returns. The following is a list of items to keep in mind when pulling together your information:

2007 **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 now at \$15,500 for 401(k), 403(b), SARSEP, and 457 plans, with a catch-up contribution of \$5,000 for those age 50 or over. (Limits unchanged for 2008).

SIMPLE Pension Plans: Maximum deferral limit increases to \$10,500, with a catch-up contribution of \$2,500 for those age 50 or over. (Limits unchanged for 2008).

Health Savings Accounts: An individual can fund his or her HSA by making a one-time direct transfer from his or her IRA.

IRA/Roth IRA Limits: Remain at \$4,000 per year, with gross income limitations for Roth IRA plans with a catch-up contribution of \$1,000 for those age 50 or over.

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

Moving expenses: The deduction for moving expenses is 20¢/mile.

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.

US-Canada Exchange Rate: Average rate was \$1.0734 Cdn = \$1.00 U.S.

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.

IRA/Roth IRA Limits: Increases to \$5,000 per year.

Standard Mileage Rate: Changes to 50.5¢/mile.

Moving expenses: The deduction for moving expenses is 19¢/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