

January, 2010

Dear Client:

This past year has been a difficult year for most everyone, and while many diverse changes and tinkering were made to the tax laws, Congress failed to act on numerous significant tax matters - leaving all of us with a great degree of uncertainty about whether some will be reinstated retroactively. In particular, the whole matter of the Gift Tax and Estate Tax is in serious limbo.

Based on what we know as of this writing, the following are some items that could be important for 2010 - and, we trust, will not be subject to retroactive changes. On the reverse of this letter is a list of key changes that had an impact on 2009.

2010

Standard Mileage Rates: 50¢ per business mile; 16.5¢ for miles related to medical or moving; 14¢ for miles driven for charitable purposes.

Conversions to Roth IRA: Beginning in 2010, there no longer is any income threshold above which rollovers to a Roth IRA are prohibited. Almost anyone can make a Roth IRA conversion. The resulting income is taxable in 2011 and 2012.

Required Minimum Distributions: Once you reach age 70½, and if you have monies in an IRA, 401(k), or similar pension plans, minimum annual distributions are required again.

Estate Tax: As of this writing, the estate tax has been repealed for 2010 only - and complex basis adjustment rules have replaced the automatic step-up in basis of assets bequeathed to beneficiaries. However, Congress may retroactively reinstate the Estate Tax, along with the former Gift Tax rules.

Gift Tax: Because the Estate Tax is repealed, gifts in excess of the annual exclusion, which is \$13,000 per recipient per donor, will potentially be taxed at 35% if lifetime cumulative taxable gifts exceed \$1,000,000.

Home Buyer Credit: For home purchases after November 6, 2009, some credit may be available to previous home owners in addition to first time home-buyers. Please check with us for details.

Pension Deferrals: Elective deferral limit is \$16,500 for 2009 and 2010 for 401(k), 403(b), 457, and SARSEP plans, with a catch-up contribution of \$5,500 for those age 50 and over.

SIMPLE Pension Plans: Maximum deferral limit is \$11,500 for 2009 and 2010, with a catch-up contribution of \$2,500 for those age 50 and over.

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

Health Savings Accounts: The maximum HSA contribution is \$3,050 for single coverage and \$6,150 for family coverage. Catch-up contributions of \$1,000 per year for individuals age 55 and older. No contributions may be made after a participant reaches age 65.

Our standard US engagement letter is enclosed along with our checklist. Please answer the questions on page two of the 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

Some reminders for **2009** tax information:

US-Canada Exchange Rate: Average rate was \$1.1412 Cdn = \$1.00 US

Non-Itemizers: If you paid real property taxes, please provide us with a copy of your property tax bill.

New Vehicle Sales Tax Deduction: If you bought any new vehicle after February 16, 2009, please provide us with a copy of the purchase invoice.

Education Credits: Enhancements have been made to the various education credits. Please provide us with copies of any tuition slips or student loan interest statements so we can see which credits may apply.

Unemployment Compensation: Starting in 2009, the first \$2,400 of unemployment compensation is not taxable.

Cash for Clunkers: The \$3,500 or \$4,500 payments are not taxable for federal tax purposes.

COBRA Subsidy Payments: The 65% subsidy for payment of COBRA health care coverage continuation premiums is not taxable, subject to phase-out limits (\$125,000 single, \$250,000 joint filing).

Making Work Pay Credit: Available to single filers under \$95,000 of adjusted gross income (AGI) and to married filers with AGI under \$190,000. The credit is equal to 6.2% of earned income, capped at \$400 or \$800 for single or married, respectively, subject to phase-out provisions. We will calculate.

First-Time Homebuyer Credit: Eligible first-time homebuyers purchasing a principal residence in the US during 2009 may claim a refundable tax credit equal to 10% of the purchase price - with the credit capped at \$8,000.

Various Energy Credits: There are numerous possible tax credits in this area. If any of the following were acquired, please provide documentation for the purchase and we will review what credits may be applicable:

biomass fuel stoves	skylights, windows
outside doors	insulation
high-efficiency furnaces	water heaters
central air-conditioning	solar electric systems
solar hot water heaters	geothermal heat pumps
wind turbines	alternative fuel vehicles
hybrid vehicles	