

TAX UPDATE

2008 MID-YEAR NEWSLETTER

Dear Clients,

Now is a great time to focus and plan to make 2008 a bright tax savings year. This Tax Update Mid-Year client newsletter provides helpful tax planning ideas to help minimize the tax you'll owe next April. Feel free to call if you have any questions about this information.

Will You Be Getting a Rebate Check?



As part of the 2008 economic stimulus effort, the U.S. Treasury is sending payments to more than 130 million individuals. These stimulus payments will arrive through the spring and summer. If you filed a 2007 tax year return and you qualify for the rebate, your payment will be automatic. If you did not file a 2007 tax return because your income is low enough to owe no taxes, or you receive tax-exempt income such as Social Security or certain veterans' benefits, you must still file a 2007 return to become eligible for the stimulus payment.

Payment amounts will vary from \$300 to \$1,200 depending on your filing status. There will also be \$300 rebates for each qualifying child.

The IRS is sending you two notices. One will explain the stimulus payment program and the other will confirm your eligibility, payment amount, and when you can expect the payment. Save the second notice with your 2008 tax records.

Are You Eligible?

Not everyone will receive a rebate. To be eligible:

1 You must not have any unpaid tax. The IRS will deduct outstanding taxes if you have any federal or state tax debt.

2 You must not make too much money. The rebate phases out for individuals with gross incomes above \$75,000 (over \$150,000 for married couples filing jointly). The phase-out is 5% of all income over these limits.

3 You must make enough money. If you have less than \$3,000 in qualifying income, you will not receive a rebate. Only those with \$3,000 or more of income will be eligible, but income from Social Security or veteran's benefits may be included to reach that minimum.

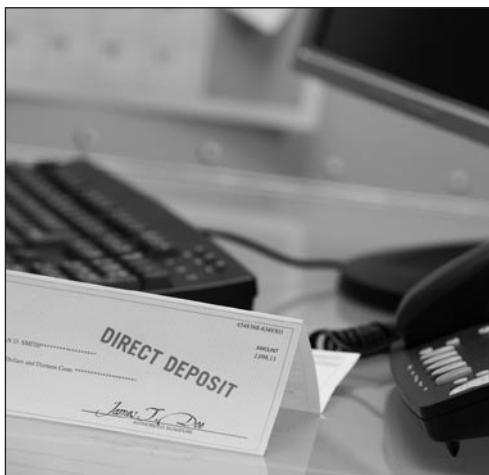
4 You must file a 2007 tax return even if you don't owe any taxes.

5 You must have a valid Social Security Number.

6 Nonresident Aliens and dependents are ineligible.

Tip: If you moved after filing your 2007 tax return you should notify the IRS by filing Form 8822.

If you had your 2007 tax refund directly deposited, your rebate check should be deposited directly to the same account.



Excess IRA Contributions? — What to Do —

In 2008 you can contribute up to \$5,000 (\$6,000 if you're at least 50 years old) of your earned income into popular Roth or Traditional IRAs to fund your retirement. Since IRA's have income limitations and you can contribute to multiple plan accounts in one year, it is easy to find yourself over-contributing. What happens if you donate too much into your IRA or you find your income too high to participate?

6% Excess Contribution Tax

If you contribute too much you must pay a tax equal to 6% of the excess contribution plus 6% of any earnings EACH YEAR you do not fix the problem. In addition, you must remove any benefit you received on your tax return. So if the donation is in a tax deferred IRA account you will also need to add the donation back into your income.

How to Fix the problem

If this happens to you;

1 You can withdraw the excess contribution before the due date of your tax return (including extensions) to avoid the 6% penalty. So if you know the problem exists, ask to file an extension until you can disburse the funds.

2 You can re-characterize the contribution to a nondeductible Traditional IRA, as long as your total IRA contribution is under the annual limit.

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Tax Changes for Your Planning

As a result of several tax bills enacted in the past 12 to 18 months, your 2008 tax planning opportunities are many. As you implement your tax plan for 2008 keep the following changes in mind.

Higher IRA Contribution Limits. In 2008 you can contribute up to \$5,000 (\$6,000 if age 50) to a Traditional or Roth IRA. This is up \$1,000 from 2007.

Expanded Income Limits for IRA's. The deductible contribution income phase-out ranges for IRA's have increased \$1,000 single; \$2,000 married in 2008. You can take the full IRA contribution deduction if your income is below \$85,000 (married filing jointly) or \$53,000 (if single or head of household). Partial deductions are available if your income is between \$85,000 and \$105,000 (married filing jointly) and \$53,000 and \$63,000 (single or head of household).

Higher Income Limits for Savers' Credit. More clients who contribute to their retirement plans can earn the Savers' Credit. The credit is worth up to \$2,000. The 2008 income limits are \$26,500 for singles, \$39,750 for head of households and \$53,000 for joint filers.

0% Tax Rate. 2008 is the first year that a 0% federal income tax rate on long-term capital gains and qualified dividends takes effect. This rate was 5% in 2007. This special rate applies to clients in the 10% or 15% regular income tax brackets.

Expanded Kiddie Tax. In 2008, anyone under age 19 with non-employment related investment income over \$1,800 will be taxed at a rate equal to their parents' marginal (highest) tax rate. The inclusive

age limit climbs to age 24 if the child is a full-time student with earned income equal to less than half their support. Earned income (wages) are not affected by the Kiddie Tax.

Survivor's Home Sale Exclusion. Effective January 1, 2008 a surviving spouse has two years to take advantage of the joint-return filers' \$500,000 gain exclusion when selling a home. Previously, a surviving spouse was only entitled to the single filer's \$250,000 gain exclusion after the tax year of the spouse's death.

Additional Small Business Deductions. For new equipment purchased in 2008 there is a special 50% bonus depreciation allowance. This will allow small businesses to increase their depreciation and lower their tax obligation in 2008.

In addition, the IRS Section 179 write-off increases for 2008. This allows businesses to expense the cost of qualified assets/equipment in the year of purchase versus over the life of the asset. The write-off amount is \$250,000, up from \$125,000. The amount will go back to \$125,000 (plus inflation) in 2009 and 2010. This benefit phases out when a business acquires more than \$800,000 in assets in 2008 (up from \$510,000).

Remember however, that these business benefits only "shift" your tax obligation from the year of purchase to later years.

These are but a few of the changes in tax law that could impact your situation. With proper planning you may be able to pleasantly change your tax obligation for 2008.

Benefits of Direct Deposit

Having your tax refund directly deposited into your account(s) is faster (2 to 3 weeks), safer (thwarts mail theft) and provides you the convenience to allocate the funds to your best financial advantage.

Taking control of your tax refund is getting easier with the growing popularity of direct deposit. The IRS now gives you the option to allocate your refund into three separate accounts. If you didn't take full advantage of this service on your 2007 return, a little knowledge and planning can make it happen for 2008.

Many clients now have some of their refund sent to their:

- Checking account, to pay bills
- Savings account, for later use
- IRA, to maximize their contribution limits

Over 60 million taxpayers (43%) had their refunds directly deposited last year.

The process is easy as long as your account or accounts have a nine digit routing number and an account number. Here are some things to be aware of:

- You can designate 1, 2 or 3 accounts.
- In addition to checking and savings accounts you can direct the IRS to send your refund directly to a money market account, health savings account (HSA), Coverdell education savings account (ESA), and IRA's.
- You can allocate different amounts to your three accounts.
- Your accounts must be held in a registered U.S. financial institution, like a bank or brokerage firm.
- Make sure the institutions accept direct deposits to each of your accounts.

Directly depositing your tax refund can be a fast, safe, and convenient way to take control of your tax refund for your best financial advantage next tax season.

Excess IRA Contributions? – What to Do –

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3 You can pay the 6% tax this year and use the contribution to fund next year's IRA contribution.

In any case, rest assured you have time to correct the problem. Just make sure you do not wait too long to do so.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.