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Happy Holidays! As 2008 comes to a close and the New Year begins, it's time to start thinking about taxes again. We trust 2008 has been a happy and prosperous year for you. Thank you for the previous years' referrals. As always, referrals are appreciated.

Year-end presents both an opportunity and a challenge when it comes to tax planning. Keep in mind that the window of opportunity for many tax saving moves closes on December 31st. Enclosed is your 2008 Tax Organizer which we will use in preparing your 2008 Tax Return(s). It summarizes your 2008 tax information and provides space for you to enter your 2008 data. As you receive your 2008 tax documents, please collect them and keep them with this organizer. These documents include such items as your W-2's, Form 1099's, K-1's, brokerage statements, etc. Your check register may also include pertinent information.

A personalized list of necessary tax documents has been prepared. They are based upon last year's tax return, so be sure to enclose any new tax forms received this year with your completed organizer.

The following is a quick look at everyone's tax return:

Income:
From whatever source derived.

Gifts:
Gifts received are not taxable to you. Gifts paid out are not deductible from the payer. The amount in gifts you may pay out per year is $12,000 per person. With your spouse, you may give an additional $12,000. So if you and your spouse wanted to give $12,000 each to five people, you could reduce your estate by $120,000. This strategy is for the liquid taxpayers and allows the recipient of the gift to report the earnings.

Adjustments to Income:
Included are IRA's/SEP's/KEOGH's/Student Loan Interest/Medical Savings Accounts/Certain Moving Expenses, self employed health insurance are all deductible. For IRA contributions, SEP's, KEOGH's for 2008, the amount must be funded on or before April 15, 2009.

Deductions:

STANDARD	2009	2008	2007	2000	1990
Single	$ 5,700	5,450	5,350	4,750	3,250
Married	11,400	10,900	10,700	7.350	5,450
Head of Household	8,350	8,000	7,850	6,450	4,750
Married File Separate	5,700	5,450	5,350	3,675	2,750

Itemized Deductions:

Medical - greater than 7.5% of Adjusted Gross Income
Taxes – State; Real Estate; Personal Property (Autos) or Sales Tax
Interest - Mortgage/Points/Investment Interest Expense/Mortgage Insurance (if loan was issued after Jan. 1, 2007)
Charity - Cash and/or checks (The Int. Rev. Serv. is asking for more documentation here)

Non-cash items: Please be able to support the value claimed. Receipts to a qualified charity should be a part of your annual tax return. For the thrift value method greater than $500, we will file form 8283, which indicates to whom the donation was made, their address, a description of the donated items, the date acquired, the cost, and the (THRIFT VALUE) of the donated property.
Please include any miles driven for charitable purposes, as they are deductible at $0.14 per mile.
Job Expenses: This amount is subject to a floor of 2% of adjusted gross income. Some clients have done very well on their tax return by claiming the status of a (STATUTORY EMPLOYEE). Please call me if you have job expenses greater than $2,000. Some employers have made this change. Larger companies, in the past, have not made this change.

Personal Exemptions increased from $3,400 in 2007 to $3,500 in 2008.

__Kiddie Tax Credits__ remain the same at $1,000 per child under 16 years old for 2008 and 2009.

Tax Rates:

For your information, prior to 1964, the top tax rate was 91%. From 1964 through 1981, the top rate was 70%. From 1982-1986 the top rate was 50%. Between the tax reform act of 1986 and now 2008, the rates are as follows:

Years						
1987	11%	15%	28%	35%	38.5%	None
2000	None	15%	28%	31.0%	36.0%	39.6%
2002	10%	15%	27%	30.0%	35.0%	38.6%
2003-2010	10%	15%	25%	28.0%	33.0%	35.0%
2011-beyond	10%	15%	28%	31.0%	36.0%	39.6%

__The Quick Ten: Please attach (enclose) the following if applicable__

1.) ***Forms*** - W2
2.) ***Form*** - 1099 & 1098 - Self-Employed; Dividends; Interest & Mortgage Interest. Debt forgiveness may be a taxable event. Please make sure you provide us with all of the details.
3.) ***Stock Trades***: The brokerage statements for the active trader for December 2007 through January 2009. For sales on accounts that were purchased outside the window above, we will need the purchase date and price. Stock trades default to first in first out unless you specifically designate the stocks. You may want to include your broker's name and telephone number for better clarification if needed.
4.) ***Interest Income***: For seller-financed mortgages, please supply the name, address, and Social Security number.
5.) ***Estimated Tax Payments*** (Please include):
    __Date__ __To Whom Paid__ __Tax Year__ __Amount__
    Please remember that state tax payments remitted in 2008 are federally tax-deductible in 2008.
6.) ***Retirement Contributions***: SEP's/IRA's/ROTH IRA's/401K's/403b's/etc. We would like to assist you and your broker (if applicable) in calculating the above contributions for you. In certain instances, your contributions may be limited. Please call for clarification.
7.) ***Dependents***: Name; Date of Birth; Social Security Number; and months lived with you during 2008.
8.) ***Childcare Credit***: We are required to report the Name; Address; and I.D. number of the provider, as well as the amount paid.
9.) ***Principle Residence***: In addition to the mortgage interest received by the lender, please supply the closing statements of the purchase, sale and refinancing statement if these transactions occurred during 2008.
10.) ***Flow-Throughs***: K-1's from corporations, partnerships, trusts and LLC's.

****Please make sure to provide us with the amount of the economic stimulus payment you received in 2008****

__Year End Tax Planning for Individuals:__

You can charge deductible expenses on your credit card. For example, charge medical bills and charitable donations on your credit card before 12/31/08. Although paid in 2009, they are deductible for tax year 2008.

Prepay state estimated taxes on or before December 31, 2008 year-end. This is your est. tax payment due 01/15/09 for 2008.

Prepay your January mortgage payment in December 2008. The interest is deductible when paid. If you choose to prepay the January mortgage payment, please keep a copy of the check as it should have been received by the mortgage company in 2008, otherwise send the payment return receipt requested on or before December 31, 2008.

Keep boats and vacation homes in your personal name. Out of pocket costs incurred at the time of business entertainment is deductible.

Sell stock losses before year-end. This will benefit you in two ways. It will offset capital gains and you can take an additional loss of $3,000 on your 2008 tax return. Please avoid the (Wash-Sale Rule). If you sold a stock at a loss and bought it back within 31 days, the loss is disallowed. Please do not overlook Capital Gains from mutual funds when calculating your gains for the year.

Please review your 1099's issued by investment firms.

Non-Cash and Cash contributions:
Non-Cash Contributions before year-end consists of personal items wherein you can deduct the fair market value of the items donated and appreciated long-term stock instead of cash. When donating appreciated securities, you get to deduct the full fair market value of the shares and you will not owe capital gains tax on the build up in value since you bought it. Non-cash charitable contributions are generally deductible up to 35% of the cost of the donated property. This is referred to as the thrift value method. The internal revenue service has added the term "good used condition" for items donated. Please be prepared to prove the items meet the conditions test or exception.

Please enclose your log of items with the fair market values for non-cash donations when you send in your information. When deducting a gift greater than $250, you need to get an acknowledgement from the charity. **(Cash)** A cancelled check is not enough. If you donate a vehicle and the charity or agent sells it, the value of the donation for tax purposes is limited to the sales proceeds. Charities must report to you and the Internal Revenue Service what the sales proceeds were. To maximize your deduction, contribute your car to an organization that intends to use it in its charitable activities.

Exhaust flexible spending accounts (FSAs)
If you have a medical or dependent-care FSA at work, spend all of your contributions to it by year-end. You can also now use your FSAs for purchasing over-the-counter medications. You may be able to use expenses up through March 15, 2009 to absorb your 2008 balance. Check with your employer as this is at their discretion. Otherwise, if not spent by December 31, 2008, the remaining funds are forfeited.

Health Savings Accounts (HSAs):
For those who are covered by a high deductible health plan: $1,100 single persons and $2,200 for families, you and/or your employer, on your behalf, can make tax-deductible contributions to an HSA. Funds accrue tax deferred. Withdrawals for medical expenses not covered by insurance are tax-free. After age 65, funds can be withdrawn and used for non-medical purposes, subject to income tax. The maximum funding to the accounts for 2008 is $2,900 for single persons and $5,800 for families. People who are least 55 years old can contribute an extra $800.

Adoptions:
To encourage individuals to adopt, the tax law provides a personal tax credit. The amount of the credit is 100% of "qualifying expenses" up to $11,650 in 2008.

The Kiddie:
There are no tax or filing requirements for children, who are less than 18 years of age, when their income is less than or equal to $900. The most effective way to control income for the child is to place a certificate of deposit in the child's name and using the child's social security number. There is a lower rate for income between $900 and $1,800; thereafter, the rate charged for the dependent child will be at the "allocable parental tax" rate. The 529 plans, which are the education funds for your dependents, are deductible on the state level at a rate of $2,000 per child. This is a government-monitored program that I have not been a fan of in the past nor am I currently a fan of this investment tool because use of the funds available for investment are generally are highly restrictive.

Also, children who own series EE bonds can accrue the earnings while they are in the lower tax brackets described in the Kiddie tax calculations. When converting from the cash basis to the accrual basis, the catch-up years must be taxed currently, subsequent years must be reported.

Seniors, between 62.5 and 65, who are collecting Social Security benefits and continuing to work can earn up to $13,560 in 2008 without any loss of benefits and $14,000 (not finalized) in 2009. For individuals continuing to work and having reached full retirement age, there is not an earned income limit.

As reverse-equity mortgages gain popularity, please be advised that the interest charges incurred may not be tax-deductible. They become deductible when paid.

An annual **Social Security benefit statement** is available to you. Some taxpayers are already receiving this information. You can get this information by calling 800-772-1213 or visiting their web site at www.ssa.gov. It is called a Personal Earning Statement.

Selected Tax Law Changes for 2008:

For non-itemized taxpayers, for real property taxes, clients who claim the standard deduction on their tax return, property tax can deduct up to $1,000 if you are married or $500 if you're not.

First-time homebuyers may now borrow up to $7,500 from the federal government in the form of a tax-credit. This in essence is an interest-free loan that must be repaid in equal installments over a 15-year period.

The Internal Revenue Service has enacted new legislation that may reduce your alternative minimum tax (AMT) assessment.

State of Georgia – Tax Planning:
There are credits available in the state, which consist of the Disabled Person Home or Retrofit Credit, Georgia National Guard/Air National Guard Credit, Qualified Caregiving Expense Credit, Driver Education Credits, Rural Physicians Credit and Disaster Assistance Credit, Child and Dependent Care expense credits, conservation credit for qualified donations of real property. Please call our office or include the expended amounts with your information.

Deductions and credits often overlooked:

- **Sales tax deduction.** State tax deduction is the higher of state income tax or state sales tax paid. Please don't forget any tax paid on major purchases inclusive of motorized vehicles.
- **Job** search expenses: Includes costs of resume preparation, outplacement agencies and travel to job interviews.
- **Medical insurance.** Self-employed taxpayers can finally deduct 100% of medical insurance premiums.
- **Treatment** for alcoholism, smoking and drug abuse.
- **Investment** advisors fees.
- **Interest** on margin accounts with a brokerage firm. In May of 2003, most stock dividends (called "qualified dividends"), were changed from being taxed as ordinary income to the capital gains rate of 15%, if you're in the 15% or lower tax bracket, your tax hit is softened to only 5%. This was great for most investors; however, if you have margin interest expense, it is only deductible up to interest income and certain dividend levels. **Tactic:** To get a deduction for the excess interest expense now, rather than carrying it forward, you can elect to treat an amount of tax favored capital gains and dividends as income taxed at ordinary rates, then deduct the excess investment interest against it.
- **Safe deposit box fees**, if the box is used to hold savings bonds, stock certificates or other investments.
- **Labor union dues.**
- **Subscriptions to trade** publications related to your job.
- **Penalties on early withdrawal** of certificate of deposits.
- Your state's **personal property taxes** on cars and boats.
- **Medical and Moving mileage** has been increased for 2008 and is deductible at **19 cents** per mile from **January 1 - June 30** and **27 cents** per mile from **July 1 - December 31.**
- **Student Loan interest.**
- **College tuition** tax credits.
- If you acquired an **electric vehicle**, up to a $4,000 tax credit may be available.
- Non-reimbursed employee business expenses.

Estate Tax Planning
Under the new law, the tax currently imposed on assets left to an estate will phase out over the next two years. It is scheduled to be fully repealed in 2010. So, unless Congress takes action, the tax will be automatically reinstated in 2011. For 2007-2008, the exclusion is $2.0 million. The exclusion will increase to $3.5 million in 2009, be completely eliminated in 2010, and raised back to $1 million in 2011. Of the top estate tax rate of 55%, 17% of this amount goes directly to the states. Some states are looking to collect the estate tax themselves which would allow them to set their own limits in the future.

YEAR END TAX PLANNING FOR BUSINESSES:

- If you **pay an individual** for services rendered, make sure you either prepare a 1099 for non-employee compensation or a W-2 for an employee's wages. We are available to assist in this process.
- Set up a **retirement plan** before year-end. We should have already discussed this option. Please call me if you think we need to chat further.
- Retirement accounts, defined benefit plans, etc. can now be **vested** over a 7-year period as opposed to the previous 6-year limit.
- For **cash basis taxpayers**, pay all outstanding bills before December 31, 2008 year-end.
- **Mark down slow moving inventory** so your business can take a write down this year.

- For **accrual basis taxpayers**, write off non-collectible account receivables.

- **Change your tax status from a C-Corporation** to an **S-Corporation,** or vice-versa. We should have already discussed this option. You have 75 days from year-end to make this change to be effective in the coming tax year.
- Employers can **reimburse employee business expenses** before year-end when the employer has an "accountable plan". This can reduce salaries and create savings on payroll taxes, while also reducing the employee's taxable income.
- **S-Corporation** owners who need additional capital (loans) should borrow the funds individually and then lend them directly to the corporation. Since most small companies' debt requires a personal guarantee, this process will add to the basis of the company for wherein certain losses can be recognized.
- **New per diem rates.** The US General Services Administration has announced per diem travel rates for the continental US effective October 1, 2008 – September 30, 2009. The standard rates ($70 for hotel and $39 for meals and incidental expenses per day) remain unchanged from the prior fiscal year, but there are about 400 locations with new higher per diem rates. To view the new per diem rates, go to www.gsa.gov and click on "per diem rates" under "Travel Resources".
- The IRS does not require receipts for cash expenses of less than $75 if you record them in your business diary at the time they were incurred.
- **Deposits in bank for cash basis taxpayers** are taxable when deposited and recorded in your checkbook.
- **For equipment placed in service** in 2008, if your capital acquisitions are less than $800,000 you can expense up to $250,000. Assets that will be acquired in early 2009 can be acquired and placed in service in 2008 to utilize the additional deduction.
- The **default** method for depreciation in 2008 is the 50% accelerated write-off method.
- **For business travel,** meals and entertainment expenses, please document **who, what, where, and when.**
- **Auto mileage** for business use of a car and truck expenses in 2008 is deductible at 50.5 cents per mile from January 1 through June 30. From July 1 through December 31 the rate is 58.5 cents per mile. The business portion of parking fees and tolls may be deducted in addition to the standard mileage rate.
    - **Generally,** if you drive 20,000 business miles before June 30th, the standard mileage deduction is greater than actual expenses incurred. In 2008, the standard mileage deduction would be $10,100 versus actual expenses of $8,270. If you drive 10,000 business miles, the standard deduction would be $5,050 versus actual expenses of $8,270. These are averages, and different vehicles would generate different deduction amounts. **Leasing a vehicle is looking attractive again.**

Social Security Cap: For 2008 the cap was $102,000 and for 2009 it has been increased to $106,800.

Retirement Planning:

	401K Deferral Cap:	Simple IRA's (for Businesses)	IRA's (Indiv.)
Year	Amount	Amount	Amount
2008	15,500	10,500	5,000
2009	16,500	11,500	5,000

For those taxpayers who are 50 years of age or older at December 31, 2008, a "**catch-up" contribution** is available for tax year 2008. For 401K plans, this contribution is $5,000 in 2008; For Simple IRA's, this would be $2,500 for 2008; and finally, for traditional IRA's the catch-up contribution for 2008 is $1,000.

The maximum contribution for a **SEP** plan in 2008 is $46,000. The maximum 401k contribution in 2008 is $46,000 inclusive of the $15,500 elective contribution.

For other closely held companies, generally the one owner/one employee company, the **412i** plan will be able to fund a retirement plan for up to the actuarial limits per annum. The contribution can be as much as $300k-$400k per year. This retirement option is made up of annuities and life insurance. Also, see our discussion above regarding **health savings accounts**.

Some taxpayers may want to consider converting to a Roth IRA from a traditional IRA while the market is down. You can convert your traditional IRA to a Roth IRA through 2010 without any penalties provided your Modified AGI is less than 100,000 (in 2010, the income limitations will be removed and any tax liability due from the conversion will be averaged over 2011 and 2012). You have to pay ordinary income tax on the original contributions and any gains up to that point, but any contributions made after the conversion can be withdrawn tax free after five years and the earnings accumulate tax free. There may be tax-legislation changes in the upcoming years that could affect the value of the Roth IRA. Please consult with us before making this conversion.

For your year-end board meeting, which may be in Hawaii, please discuss and reference in your memorandum the following items:

Charitable Contributions;
Year-end bonuses and or profit sharing arrangements;
Reasons why earnings are being retained; and,
Any changes to the business organizational structure.

The Biggest Loopholes of All – Now:

Buy an SUV or truck that weighs **more** than 6,000 pounds for your business and write off up to $25,000 in additional depreciation expense.

When you are involved in a personal injury lawsuit, make sure any settlement agreement made compensates you for physical injuries, not emotional injuries. Physical injuries are not taxable.

Make your lawyer a "partner" in your lawsuit to minimize taxes on your settlement. This way you would only report as income the actual amount you receive versus the gross amount less the expenses.

Maximize your companies' deduction for bad debt by writing off old accounts receivables.

Donate excess inventory or depreciable business property to charity. Companies that do this can deduct the cost plus 50% of the unrealized appreciation in the goods or equipment. (Sorry Gang, only C-Corporations)

$500 LIFETIME ENERGY-SAVINGS HOME IMPROVEMENT TAX CREDIT FOR 2009

Improvements must be made to your principal residence only and placed in service from 2006, 2007 and 2009 (improvements made in 2008 do not qualify). The maximum amounts are: Windows $200; Air Circulating Fan $50; Natural gas, propane, or oil furnace or hot water boiler $150; and for any item of energy-efficient building property (heat pumps) $300.

EDITORIALS FROM YOUR CPA, THIS AND A QUARTER WILL NOT EVEN BUY YOU A CUP OF COFFEE

We are looking at a stock market that is down this year by one of the highest percentages in our country's history.

Historically, the rate of foreclosures in the US has been 5-6%. Currently, we are experiencing a 10% foreclosure rate. We anticipate a continued decline in real-estate values through 2009. First time homebuyers are in the driver's seat.

Interest rates appear to have stabilized. During the Carter years, interest rates raced to 18%. Who ever is in an Adjustable Rate Mortgage, please lock in a rate. In order to stimulate the economy, I feel that interest must remain low.

Production levels have fallen off a cliff, and we have been in a recession for all of 2008. I expect the recession to continue at least through the first half of 2009 and longer if liquidity is not restored to the credit markets and consumer confidence continues to deteriorate.

Let's all be smart with our portfolios. Cash is an investment vehicle. Real Estate, Stocks (inclusive of Mutual Funds), Bonds, and Businesses owned should all have a percentage of your total portfolio. The percentage weight varies depending on the individual. Weighing your portfolio is important. Maybe 25% to 35% within the above areas may help reduce your risk in any one sector. The older you are, the more conservative you should be.

The best person to pick a stock is you, the consumer. You know what you buy. Interest rates are low, yet there is substantial risk in equity markets. I would not suggest placing any funds into the stock market that you will need to access within the next ten years. For any funds not needed within that time frame, I would suggest investing the same dollar amount in consistent intervals (weekly, monthly, quarterly) in order to "dollar-cost average" your investments.

For 2008 my stock picks averaged a negative rate of return consistent with the overall market. In any case, here are our picks for this year. This is the year. This is an opportunity of a lifetime. The average return after a market adjustment over a three year period is a 36% return. After this adjustment, we should all be able to retire by June.

Technology: Apple (AAPL); Microsoft (MSFT)
Energy: Southern Co.(SO)
Chemical: Dow Chemical (DOW)
Financials: Financial Select Sector (XLF)
Industrial Goods: Genuine Parts (GPC);
Consumer Goods: McDonalds (MCD); Campbell Soup Co. (CPB); Family Dollar (FDO); General Elec. (GE); Atria (MO)
Health Care/Pharmaceuticals: Pfizer (PFE); Bristol Myers Squibb (BMY)
Speculative Picks: Under Armour (UA); Citi-Corp (C);

Seasons Greetings! See ya'll soon.

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