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MAY 2009

IF YOU DON'T NEED IT – DON'T TAKE IT (No required minimum distributions for 2009)

Taxpayers over 70½ and those who have inherited interests in IRAs are generally required to take a minimum distribution from the account each year. For 2009 only (regardless of the type of account – Keogh, IRA, Qualified Plan, etc.), the minimum required distribution has been suspended. The requirement returns in 2010. Beneficiaries who do not need for consumption the after-tax proceeds of the 2009 distribution can enjoy a current income tax

reduction at their top tax bracket by skipping their 2009 distribution. Those who need the distribution for consumption and who have usually taken it late in the year, might be able to delay the distribution to January 2010 and still enjoy the tax reduction. If a distribution has been taken, it can be returned by rollover contribution within 60 days of the distribution and effectively voided. We will be happy to answer your questions.

TAX-EXEMPT INTEREST V. TAXABLE INCOME

In the current investment environment with the flight to the safety of treasuries, tax-exempt “municipal” bonds and bond mutual funds are yielding higher interest returns than equivalent maturity taxable funds. For example, on May 6, 2009 the Vanguard Short-Term Treasury fund (average maturity 2.6 years) was yielding 1.11 percent. Vanguard’s Limited-Term Tax-Exempt fund (average maturity 2.8 years) was yielding 2.08 percent. An investor holding the Short-Term Treasury fund and receiving 1.11 percent return but paying current federal and Louisiana income tax at the top bracket would have a net-of-tax return of 0.67 percent compared to the net-of-tax earnings on the Tax-Exempt Bond fund of 2.08 percent.

The chance to increase net-of-income tax returns is attractive to those willing to accept the difference between the zero credit risk of treasuries and the credit risk of a diversified portfolio of tax-exempt bonds. It is necessary, however, to remember that while such bonds and bond mutual

funds pay interest that is not directly subject to federal income taxes (although state income taxes may apply) some tax-exempt bonds pay interest that is subject to the alternative minimum tax (AMT). When purchasing tax-exempt bonds or bond mutual funds it is important to understand whether or not the bonds are private activity bonds. For taxpayers in the AMT zone, interest from private activity bonds is fully taxable. For taxpayers not subject to AMT, private activity bonds can be a better choice.

For those receiving Social Security benefits, tax-exempt interest may be indirectly taxable by increasing the tax on these benefits. The taxability of Social Security benefits depends on the extent that income, including Social Security benefits, exceeds certain filing status thresholds. Tax-exempt interest income is included in computing the threshold. As a result, tax-exempt interest will cause more of your Social Security benefits to be taxable unless you are already paying the

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maximum income tax on your Social Security benefits.

The possibility of a higher after-tax return and the risk of alternative minimum tax are factors

that should be considered when making a choice between tax-exempt investments and taxable interest earning investments. We will be happy to discuss the possible taxation of an investment in tax-exempt bonds with you.

MINIMUM WAGE INCREASES TO \$7.25 PER HOUR ON JULY 24, 2009

On July 24, 2009, the minimum wage will increase from the current amount of \$6.55 to \$7.25 as a result of 2007 legislation. This increase is the last of a series of three increases provided for in the legislation. Before this legislation, the last increase in the minimum wage was September 1, 1997,

when the minimum wage was increased to \$5.15 per hour. In the intervening 11½ years, the consumer price index has increased by approximately 32 percent. The \$2.10 increase is a 41 percent increase and will have apparently outpaced inflation when fully implemented.

HEALTH SAVINGS ACCOUNTS DEDUCTION INCREASES FOR 2009

The IRS has released the calendar year 2009 deduction limitations for health savings accounts. Individuals with self-only coverage may deduct up to \$3,000, and individuals with family coverage may deduct up to \$5,950. The “catch up” contribution for taxpayers age 55 or over will be \$1,000 for 2009.

We continue to believe that HSAs provide a cost-effective way for high-income taxpayers to

deduct patient-responsible medical expenses (deductibles, co-insurance, non-covered services, etc.) with pretax dollars. They also provide another way of saving with pretax dollars.

As with most tax-favored saving vehicles, HSAs require some planning to maximize their benefits. We will be happy to help you with any questions you may have about these beneficial accounts.

PRETAX SAVINGS LIMITS INCREASE FOR 2009

We continue to believe that the combination of maximum funding of pretax savings and the utilization of low-cost investment vehicles is a powerful tool in achieving financial security. Accordingly, we are pleased to note the increased dollar limitations for 2009 contributions to pretax savings plans. The IRS adjusts these limits annually for the increase in the cost of living.

The elective deferral for 401(k) and 403(b) plans increases for 2009 to \$16,500 from 2008’s maximum of \$15,500. For those age 50 and over, the 2009 limitation is \$22,000 (up from 2008’s limit of \$20,500).

The deductible contribution to defined contribution plans (SEPs, profit-sharing plans, and money purchase pension plans) increases from

\$46,000 for 2008 to \$49,000 for 2009. For SIMPLE retirement accounts, the deduction limitation for 2009 is \$11,500, up from \$10,500 for 2008. The limitation for SIMPLE account participants age 50 and over is \$14,000 for 2009.

The general deferral limitation for Section 457 plans (Rabbi trusts or deferred compensation plans for local and state governments and tax-exempt organizations) increases to \$16,500 from the \$15,500 limit for 2008. For participants age 50 and over in governmental plans (but not plans of tax-exempt organizations), the deferral limit is \$22,000 for 2009.

The contribution limitations for both traditional and Roth IRAs for 2009 are \$5,000 for those under 50 years of age and \$6,000 for those age 50 and above.