



The Colony Group, LLC
Two Atlantic Avenue
Boston, Massachusetts 02110
800-758-8200 617-723-8200
fax: 617-723-6338
www.thecolonygroup.com

January 7, 2009

Dear Client:

As we enter the season of preparing income tax returns for 2008, we would like to take this opportunity to review some of the tax-related strategies and developments that our clients should be considering. As always, we are pleased to speak with each of you individually about the strategies that make the most sense for your specific circumstances.

We have compiled a list of opportunities that may be available to help reduce your tax liability for 2008 or future years when preparing your tax returns. Not all of these actions will be appropriate for everyone, but you may benefit from at least some of them. Many of you have engaged The Colony Group for tax planning and return preparation, and, as part of those services, your financial counselor will be sure to consider these strategies for you.

Tax Strategies to Consider

- If you are subject to the **Alternative Minimum Tax (AMT)**, then you may have been granted some level of relief by the Emergency Economic Stabilization Act of 2008. This Act increased the AMT exemption amount for 2008 to \$69,950 in the case of married taxpayers filing jointly and \$46,200 for those filing individually. The exemption amount is phased out at higher income levels.
- The above Act also provides welcome relief for individuals who have an **AMT refundable credit** carried over from prior years due, for example, to the exercise of Incentive Stock Options (ISOs). The Act allows this credit to be claimed over a two-year period rather than five years and eliminates the income-based phase-out related to the credit.
- **Make a non-deductible IRA contribution.** If your income prevents you from making a deductible **contribution** to a traditional IRA or a contribution to a Roth IRA, you can still make a *non-deductible* contribution to a traditional IRA. As a potential additional benefit, current law dictates that in 2010, the income restriction on traditional-to-Roth IRA conversions will expire. If the law is not changed, individuals with higher income will be able to convert a traditional IRA into a Roth IRA.
- **Make a deductible IRA contribution, regardless of your work status.** As a general rule, you cannot make a deductible IRA contribution unless you have wages or other earned income. Nevertheless, an **exception** applies that allows a non-working spouse to “borrow” earned income from the working spouse. For 2008, non-working spouses can make a deductible IRA contribution of up to \$5,000 (\$6,000 if you are 50 or over). Income limitations apply if the working spouse is covered by an employer-provided retirement plan. To be deductible for the 2008 tax year, an IRA contribution must be made no later than April 15th.
- If you are self-employed, consider **opening and funding a self-employed retirement plan such as a SEP-IRA**. In **general**, tax-deductible contributions of up to 25% of self-employed compensation can be made (up to \$46,000 for 2008). The deadline for opening and funding a SEP-IRA is the deadline for filing your tax return (including extensions).

- **Several tax incentives were extended** and may benefit you for 2008 or 2009:
 - The deduction for state and local sales taxes in lieu of state and local income taxes;
 - The deduction for the cost of qualified higher education expenses of up to \$4,000, subject to income limitations;
 - The deduction for unreimbursed classroom expenses (up to \$250) incurred by teachers and other education professionals; and
 - The ability to make tax-free distributions of up to \$100,000 from IRAs directly to a charity.

- If you are thinking of making **energy saving improvements** to your home, a credit of up to \$500 may be available for such improvements made in 2009 (but not in 2008). Substantial tax credits also are available for installing **energy generating equipment** (such as solar electric panels or solar hot water heaters) in your home.

- The Housing Assistance Tax Act of 2008 gives individuals who do not itemize deductions a **limited deduction for state and local real property taxes** by increasing the amount of their standard deduction by the lesser of the amount paid or \$500 (\$1,000 for married taxpayers filing jointly). Taxpayers who may benefit from this deduction include homeowners who have paid off their mortgage. Their itemized deductions may be less than the standard deduction because they no longer itemize interest deductions.

- **Write off business-related education expenses.** You can deduct the cost of education that maintains or improves the skills required in your business or employment but not costs incurred to meet the minimum requirements of your trade or profession or to qualify you for a new job. Deductible education expenses may be limited if claimed as miscellaneous itemized deductions.

- If you are a first-time homebuyer purchasing your principal residence between April 9, 2008 and June 30, 2009, you may be eligible for a **first-time homebuyer credit** of up to \$7,500, subject to limitations. The credit must be repaid in equal installments over 15 years, essentially making it an interest-free loan.

- A recent development that may affect your income and tax planning for 2009 is the passage of the Worker, Retiree, and Employer Recovery Act of 2008. This new law **temporarily suspends the requirement to take required minimum distributions (RMDs)** from qualified retirement plans for 2009. If you do not need the income that your RMD provides, you may prefer to leave it in your retirement account in an effort to avoid taking a withdrawal from an account that may be significantly depleted from the 2008 market downturn.

- Certain **deduction and exclusion amounts have been increased for 2009.** The maximum 401(k)/403(b) contribution will be \$16,500 (plus a “catch-up” contribution of \$5,500 if you are 50 or over). Also, the annual gift tax exclusion has been raised to \$13,000 for gifts made during 2009.

Current Obama Tax Proposals

The election of Barack Obama as the next President likely will lead to many further changes on the tax front. The President-Elect’s tax platform has not yet been formalized into proposed legislation, but, during the **presidential** campaign, President-Elect Obama expressed a preference for higher income tax rates targeted at taxpayers in the top tax brackets. His proposals included the following:

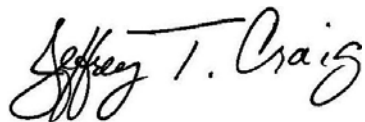
- The 10%, 15%, 25%, and 28% tax brackets would remain in effect, but **the 33% and 35% tax brackets would revert back to their former levels** of 36% and 39.6%, respectively. President-Elect Obama indicated that these higher tax rates would apply only to individuals with more than \$200,000 of income and families with more than \$250,000 of income.
- The 15% **tax on long-term capital gain and qualified dividends would be increased** to 20% for individuals with more than \$200,000 of income and families with more than \$250,000 of income.
- The 6.2% FICA tax (12.4% for self-employed individuals), which in 2009 applies only to the first \$106,800 of earnings, **would also apply to any earnings over \$250,000.**
- The **phase-out of personal exemptions and reduction of itemized deductions**, currently scheduled to be eliminated in 2010, would be reinstated.
- Effective in 2009, the estate tax exclusion increased from \$2 million to \$3.5 million, with a maximum tax rate of 45%. In 2010, the estate tax is scheduled to be repealed, and then, in 2011, it would be reinstated with a \$1 million exclusion and a 55% top tax rate. President-Elect Obama proposed to **maintain the exclusion at \$3.5 million, with a top tax rate of 45%.**

Prior to the precipitous economic decline that occurred during the Fall, it had been widely speculated that the above tax increases would be proposed to be effective for part or all of 2009. Since Election Day, however, it has become increasingly unlikely that the new Administration would be willing to risk damaging the fragile economy with higher taxes. In fact, as evidenced by President-Elect Obama's recent proposal of a \$300 billion tax cut, it is more likely in the short-term that we will see tax relief for individuals (at least at the middle- to lower-income levels) and businesses. Accordingly, while there can be no certainty on the matter, it now appears less likely that any tax increases would be enacted prior to 2010.

In light of the foregoing, in the short-term, we are not recommending any drastic changes in investment or tax strategies solely in connection with the prospects of higher taxes. Longer-term, however, we are mindful of these possible tax changes, and we do recommend vigilance throughout 2009. Tax-efficient investment vehicles such as municipal bonds are likely to become more attractive for many investors if tax rates rise. Avoiding the FICA tax also may become more important. Finally, the timing of 2009 and 2010 transactions also will require greater scrutiny.

We appreciate the opportunity to be of service to you and wish you a happy New Year.

Very truly yours,



Jeffrey T. Craig, CFP[®], EA
Director of Tax Services

Material discussed in this letter is meant to provide general information and should not be acted on without consulting with your financial counselor. The information in this letter is for general guidance only and is not a substitute for professional advice. To ensure compliance with requirements imposed by the IRS, we inform you that the information contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.