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CSB NEWS

CLIENT SPOTLIGHT ON…

JAMES B. DONAGHEY, II, DMD, PC

Pictured from left to right: *Melissa Chimento, Jessica Stockton, Jacky Jenkins, Cindy Landrum, Dr. Donaghey, Lisa McGahey, Vicki Thomas, Shantel Landrum and Tonya Waltman.*

James B. Donaghey, II and his orthodontic team have been creating beautiful smiles in the Mobile area for over twenty years. Dr. Donaghey is a graduate of McGill-Toolen Catholic High School, Loyola University in New Orleans, and the University of Alabama School of Dentistry. While at St. Louis University, completing the Masters in Dentistry program, Dr. Donaghey received the J.P. Marshall Award as outstanding orthodontic resident.

Dr. Donaghey provides many treatment solutions for adults and children such as traditional braces, clear braces, Invisalign technology and treatment for clenching and TMJ problems. The Donaghey orthodontic team's main goal is to provide the best orthodontic care for their patients, but beyond that, they strive to provide an overall quality experience for their patients and families. They do this through establishing personal relationships with patients, seeing them on time, providing personalized financial arrangements, and coordinating the patient's orthodontic treatment with other dental offices when necessary.

In an effort to maintain the exceptional level of treatment that patients are accustomed to, Dr. Donaghey has invested in state-of-the-art equipment and technology. He uses digital radiography and photography which allows patients and their families to see instantly much more than they could before.

The Donaghey orthodontic office was the first to use automated phone reminders of patient appointments and a website is in development which will allow patients to check appointments, accounts and pre-treatment records via the internet. But don't worry… even with all the technological advancements … they don't plan to lose sight of personal relationships with patients.

We would be remiss if we didn't mention Dr. Donaghey's dedicated team. Many of these talented professionals have been with the practice for over ten years; some more than 20 years! This longevity facilitates long-term friendships with patients and families.

Dr. Donaghey has been a CSB client since he started his practice in 1984. We applaud Dr. Donaghey's success and appreciate that he has relied on us for his accounting and tax needs for over twenty years!

If you would like more information, please call 251-342-3188.

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to the Newsletter

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Tyler Kerns
Deborah Martinsen
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IN THIS ISSUE

VISION STATEMENT

Our firm's objective is to maximize our clients' wealth. We strive to be the premier accounting and consulting firm in our area by offering a complete range of quality services to our clients. We will employ only the best people and ensure outstanding training and long-term career opportunities.

OUR TEAM MEMBERS

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Be Proactive!

2008 is winding down, so now is a great time to start gathering and organizing your 2008 tax information. For your convenience, we will mail tax organizers around the first week of January.

Remember… if you have experienced a significant difference in your income or expenses, you should call our office right away for tax planning before year-end.

Our tax team will be happy to project your 2008 tax situation and recommend tax saving strategies. If you would like to schedule a tax planning appointment, please give us a call.

ASK THE TAX MAN...

Dear Tax Man,

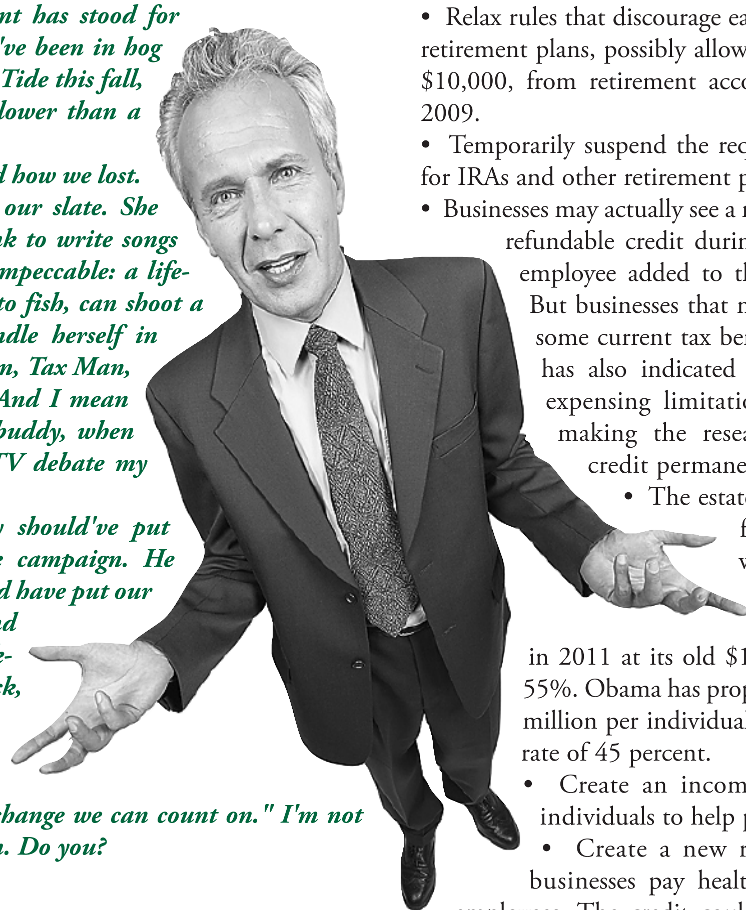
All my life, the elephant has stood for football and politics. So while I've been in hog heaven cheering on the Crimson Tide this fall, the election has got me feeling lower than a snake's belly.

I have yet to understand how we lost. We had the perfect woman on our slate. She inspired my favorite singer Hank to write songs about her. Her credentials are impeccable: a life-time member of the NRA, likes to fish, can shoot a moose, and knows how to handle herself in front of a camera. Not to mention, Tax Man, that she looks good doing it. And I mean real good. I'm here to tell you buddy, when she winked at me during her TV debate my pacemaker nearly blew a fuse!

You know what? They should've put Coach Saban in charge of the campaign. He knows talent when he sees it. He'd have put our girl Sarah in as quarterback and let the old coot sit on the VP back-up bench where he belonged. Heck, we'd have won hands down.

Anyway, what's done is done. But now I'm real concerned over Mr. Obama's "change we can count on." I'm not sure I understand that, Tax Man. Do you?

Sign me,
Still Pinin' for Palin



Dear Pine,

Calm down, my man. Change happens. Maybe you're asking too much for the Tide to go to Miami and Sarah to go to Washington all in the same year. I mean, talk about straining your pacemaker. That much excitement could be overwhelming.

Anyway, in case you haven't noticed, Pine, there has been plenty of change already, since in the past year alone President Bush has signed into law six pieces of tax legislation. That's right - *six* in only twelve months.

There's no question: you can count on change, at least in the tax world. But what kind of change do we expect from an Obama administration? Here are some of his tax proposals:

- Increase the top two individual rates from 33% and 35% to 36% and 39.6%
- Provide a new refundable "Making work pay" tax credit to offset the first $8,100 in payroll taxes for lower and middle-income taxpayers; cap the credit at $500 per wage earner.
- Restore the phaseout of personal exemptions and itemized deductions for individuals making over $200,000 and families with incomes over $250,000.
- Increase payroll taxes by assessing a "surtax," possibly as high as 4%, on earnings above $250,000. The OASDI wage base is currently scheduled to rise to $106,800 in 2009. The HI portion of Social Security taxes has no wage cap.
- Eliminate taxes for senior citizens making less than $50,000 per year.
- Increase the rate on capital gains and dividends to 20% for individuals making over $200,000 and families making over $250,000. The rate is currently 15%.
- Relax rules that discourage early distributions from IRAs and other retirement plans, possibly allowing distributions of 15 percent, up to $10,000, from retirement accounts without penalty for 2008 and 2009.
- Temporarily suspend the required minimum distribution (RMD) for IRAs and other retirement plans.
- Businesses may actually see a mixed bag of tax cuts, such as a $3,000 refundable credit during 2009 and 2010 for each full-time employee added to the work-force by existing businesses. But businesses that move jobs outside the U.S. could find some current tax benefits curtailed or eliminated. Obama has also indicated support for extending the first-year expensing limitation of $250,000 through 2009 and making the research and development (R&D) tax credit permanent.
- The estate tax exclusion is currently $2 million for 2008 and $3.5 million for 2009, with a maximum tax rate of 45%. The estate tax is scheduled to be repealed entirely for 2010, but is reinstated in 2011 at its old $1 million exclusion with a top rate of 55%. Obama has proposed to establish the exclusion at $3.5 million per individual ($7.0 million per couple) with a top rate of 45 percent.
- Create an income-based sliding scale tax credit for individuals to help pay health care costs.
- Create a new refundable tax credit to help small businesses pay health insurance premiums on behalf of employees. The credit could reach 50% of premiums. But, the small business would have to offer a "quality" health plan and pay a "meaningful" share of the cost of employee premiums. Otherwise, the employer would have to contribute to a national health care plan.
- Eliminate the avoidance of self-employment tax of S corporation shareholders and limited partners, who avoid the SECA tax by claiming income as dividends.

If history is any indicator, new tax legislation will be passed in the spring or summer of 2009, but many of its provisions will be retroactive to January 1, 2009.

Pine, remember that politics is nothing but a big pendulum. It's swung to your left for now, but it'll be back. In the meantime, you and other members of the Palin fan club need to cheer up and remember what Bocephus has to say in his "Country Boy" lyrics:

"We came from the West Virginia coal mines and the Rocky Mountains and the western skies. We're from north California to South Alabam, and little towns all around this land. You can't starve us out and you can't make us run, 'cause one-of- 'em ole boys raisin' ole shotgun."

And most importantly, Pine, don't forget that *"A country boy can survive."* Even if he voted for Palin.

Sincerely,

Tax Man

TEAM MEMBER NEWS AND BRAGGIN' RIGHTS

Timothy Brothers, son of Jennifer and Jonathon, is performing in Playhouse in the Park's production of The Life and Adventures of Santa Claus on Thursday, December 4 at the Saenger Theater.

Nikki Calato, a senior accounting student at Spring Hill College, will be working with us for a second year during busy season in our tax assembly and scanning department.

CSB welcomes new team member ***Hope Hickman***. Hope recently received a Bachelor of Science degree in Business Administration, with an Accounting concentration, from the University of South Alabama and is on our audit team. She comes to us with over ten years of accounting experience. An interesting tidbit about Hope is that she studied at l'Institut de Francais, Villefranche-sur-Mer, France in their full immersion language program.

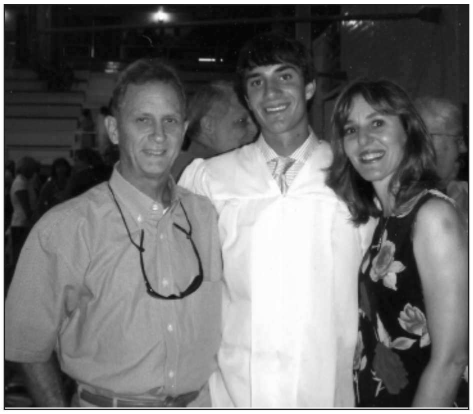
Trey Johnson, III will be interning with us this spring. Trey is in the Masters of Accounting program at the University of South Alabama and will graduate in May 2009.

He's back! ***Tyler Kerns*** worked with us during busy season earlier this year. Now he's back and working in various areas of the firm including consulting and marketing. Tyler received a Bachelor of Science degree in Business Management from the University of South Alabama. Additionally, Tyler and Amanda Berry were married on October 24.

Timothy Brothers as Harold Hill in Causey Middle School's production of "The Music Man"

Amanda and Tyler Kerns

Jamison Elizabeth Daughtery was born on October 28, 2008. She weighed 7 pounds, 13 ounces and was 20 inches. Brian, Kristi and Jonah are enjoying the new addition to their family.



Pudgy McKellar, ***Brian Russell*** and mom Gina McKellar at McGill-Toolen Catholic High School graduation in May.

CSB CARES

Make-A-Wish Foundation

Chase Gets A Puppy

Nothing warms the heart like the love of a new puppy! And that is just what eleven year old Chase needed when his wish was granted to receive his very own English bulldog. Chase is a non-speaking child stricken with cerebral palsy and a seizure disorder. Although Chase's condition makes it difficult for him to express the way he feels, as he holds his new puppy a sense of overwhelming joy is present in his smile.

In addition to his new puppy, Chase received all sorts of gear to take care of his new furry friend. Chase got not one, but two new puppy carriers. Chase also received food and treats, doggy bowls, and most importantly puppy pads. Veterinarian services, grooming sessions, and obedience classes were also donated so that Chase's new puppy will be in tip top shape to have fun with his new best friend.

Apparently, this puppy has already brought a great deal of happiness and joy into Chase's life. Hopefully, this is the beginning of a wonderful relationship between a little boy and his puppy.

MAKE-A-WISH®
GEORGIA & ALABAMA CHAPTER

Deborah Martinsen, our Mobile Office Manager, has been a volunteer with The Make-A-Wish Foundation® of Georgia and Alabama chapter for five years. The Make-A-Wish Foundation is headquartered in Phoenix, AZ, and is the largest wish-granting organization in the world. There are 69 chapters in the U.S. and 27 international affiliates.

The mission and purpose of Make-A-Wish® is to grant the wishes of children with life-threatening medical conditions in order to enrich the human experience with hope, strength, and joy. The wish experience may involve the child meeting a celebrity, going on a trip, receiving a special item that they've always wanted or getting to be someone they admire for a day (a principal, fireman, etc.). Make-A-Wish works very hard to make each child's wish come true.

According to Deborah, one of the biggest misconceptions about Make-A-Wish is that wishes are granted only for terminally-ill children. With that in mind, many people think that it would be too difficult on an emotional level to get involved. "I have found it to be quite the opposite," says Deborah. "The Make-A-Wish children and families have inspired me with their amazing attitudes and courage."

There are many ways to get involved with Make-A-Wish. You can provide monetary support, become a wish volunteer, or be an ambassador by telling the Make-A-Wish story at a variety of functions and assemblies to raise awareness.

For more information call: 888.517.WISH, ext. 14; email Make-A-Wish Volunteer Manager, Shandy Arwood at sarwood@ga-al.wish.org or contact Deborah at deborahm@csbcpa.com

HIGHLIGHTS OF RECENT LEGISLATION IMPACTING YEAR-END PLANNING

Since late December, 2007, President Bush has signed into law the following six tax bills:

1) Mortgage Forgiveness Debt Relief Act of 2007 ("2007 Debt Relief Act")
2) Economic Stimulus Act of 2008 ("2008 Stimulus Act")
3) Heartland, Habitat, Harvest, and Horticulture Act of 2008 ("2008 Farm Act")
4) Heroes Earnings and Relief Tax Act of 2008 ("2008 Heroes Act")
5) Housing Assistance Tax Act of 2008 ("2008 Housing Act")
6) Emergency Economic Stabilization Act of 2008 ("2008 Stabilization Act")

Collectively these tax bills include: an extension of previously-expired tax breaks; tax relief for homeowners and home buyers; a tax rebate/credit to help stimulate the economy; alternative minimum tax relief, and tax relief to military members and their families. These new tax provisions will impact virtually every individual taxpayer. As you read the following highlights, please keep in mind that there are several tax breaks available **only in 2008**, other long-term changes are **first effective in 2008**, while some changes are not effective until later. Consequently, pay careful attention to the **effective date** and **expiration date** (if applicable) for each new provision which we **highlight prominently** in each segment.

There Is Some Bad News Too! Although most of these tax changes benefit taxpayers, not all of the news is good. Congress has also imposed several new restrictions and limitations on individual taxpayers, including a new restriction on the home-sale gain exclusion rule and a potential tax on U.S. citizens who move their citizenship abroad (expatriates) or receive gifts from expatriates. These new restrictions are also highlighted below.

The following summarizes *selected* provisions that we think will have the greatest impact on year-end planning for individual taxpayers.

Expired Tax Breaks Extended. A long list of popular tax breaks for individual taxpayers was scheduled to expire at the end of 2007. The *2008 Stabilization Act* postponed the expiration dates for many of these provisions, as follows:

- ***Selected* Expiring Tax Provisions Extended Through The End Of 2009**: **1)** School Teachers' Deduction (Up to $250) for Certain School Supplies; **2)** Deduction for State and Local Sales Tax; **3)** Deduction (up to $4,000) for Qualified Higher Education Expenses; **4)** New Real Property Tax Standard Deduction For Non Itemizers, **5)** Qualifying Tax Free Transfers from IRAs to Charities for Those at Least 70 ½; and **6)** Increased Charitable Deduction Limits for Qualifying Conservation Easements. **Planning Alert!** Under the technical language of the 2008 Stabilization Act, the $500 credit for Energy Efficient Home Improvements is available for 2007 and 2009, **but not for 2008**.

- **Alternative Minimum Tax (AMT) Relief Extended Through 2008**. Without the *2008 Stabilization Act*, you would have received an AMT exemption of only $33,750 (individuals) and $45,000 (married filing jointly) for 2008, and there would have been no AMT offset for many personal tax credits. If these exemptions had not been increased to reflect 2008 inflation rates, IRS says the number of taxpayers paying AMT in 2008 would have increased from approximately 4 million to 25 million. The *2008 Stabilization Act* increased the AMT exemption amounts **for 2008 only to $46,200** (individuals) and **$69,950** (married filing jointly). The Act also extended **for 2008 only** the ability to use certain personal credits (including the dependent care, elderly and disabled, HOPE, Lifetime Learning, and D.C. home buyer credits) against the AMT. **Planning Alert!** The items that commonly trigger AMT for individual taxpayers include: high state and local taxes, an unusually large number of dependents, large medical expenses, or the exercise of an incentive stock option. If you anticipate having significant amounts of any of these items, contacting us early will increase our chances of helping you minimize your AMT for 2008.

• **Refundable AMT Credit.** Many companies offer tax favored incentive stock options (ISOs) as compensation. Under the *regular tax rules*, ISOs are not taxed upon exercise. Under the *AMT rules*, however, upon exercise, a taxpayer must include the excess of the stock value over the exercise price in income. The economic downturn in 2000 resulted in many individuals having to pay tax on "phantom income" because the stock prices dropped dramatically after the date of exercise. Starting in 2007, Congress provided relief for these and other AMT situations. Subject to certain income phase out thresholds, the 2007 law created a new *refundable* AMT credit for any "long term unused AMT credit" (i.e., an AMT credit generated more than 3 years prior to the current year). So, to have a *long term unused AMT credit for 2008*, it must have been generated in years prior to 2005.

Previously, this refundable AMT credit was generally recovered 20% per year (stretching it over a 5 year period). **For tax years 2008 through 2012**, the *2008 Stabilization Act*: **1)** generally allows *50% of long term unused AMT credits* to be used over each of 2 years (instead of 20% over each of 5 years), **2)** eliminates the income phase out altogether, **3**) increases your *long-term unused AMT credit* by any interest and penalty you **paid before October 3, 2008** on AMT attributable to ISO income, and **4)** completely abates any AMT *attributable to the exercise of ISOs* **for any tax year ending before 2008** that remains outstanding **on October 3, 2008**, including interest and penalties. **Planning Alert!** Although the new 2 year refund period and the elimination of the income thresholds apply to all long term unused AMT credits, the tax abatement provision described above (item 3) applies **only** to those AMT credits that arose from exercising ISOs. **Tax Tip.** This new provision is great news if you exercised ISOs before 2008 and failed to pay the resulting AMT liability (or the applicable interest and/or penalties) by October 3, 2008. You are now completely relieved of this liability. Also, if you have paid AMT in the past (or you previously paid interest and/or penalties on AMT triggered by an ISO), you may qualify for a "refundable" AMT credit for **2008 and 2009** that could actually generate a cash refund to you. Remember, with this new law change, you can qualify for this AMT relief regardless of your income level.

• **Existing AMT Rules For Exercising ISOs Continue To Apply.** Going forward, the *2008 Stabilization Act* does not eliminate the current AMT impact of exercising ISOs. **Planning Alert!** Exercising an ISO in 2008 could still generate a 2008 AMT if the difference between the stock's value and the exercise price is substantial. **Tax Tip.** If you exercised an ISO **in 2008** and the stock you acquired has declined in value since the date of exercise, it may be possible to eliminate or reduce your 2008 AMT tax liability if you sell the stock **on or before December 31, 2008**. Please check with us if you have exercised incentive stock options during 2008 and the price of the stock has fallen since the date of exercise. A sale of the stock after December 31, 2008 will not affect your AMT liability for 2008. So, we must act timely for a sale to reduce 2008 taxes!

New Temporary First-Time Home-Buyer Credit (With Pay-Back Requirement). The *2008 Housing Act* adds a new temporary refundable credit of up to $7,500 (whether filing jointly or single) for qualified "first-time home buyers" who buy the house after **April 8, 2008 and before July 1, 2009**. The purchase (i.e., title closing) of your first-time home after April 8, 2008 will qualify even if you signed the purchase contract before April 9, 2008. The amount of the credit is the lesser of: **1)** $7,500 ($3,750 if you are married filing separately), or **2)** 10% of the home's purchase price. The credit is phased out as your adjusted gross income (AGI) increases from $75,000 to $95,000 if you are single, or from $150,000 to $170,000 if you are married filing jointly. Since the credit is refundable, you will actually get a refund to the extent the credit exceeds your tax liability. However, unlike most refundable credits that you can keep, this credit has an automatic 15-year payback requirement that resembles an interest free loan that must be repaid to the government. The following highlights the requirements for this new credit:

• **Who Qualifies As A First Time Home Buyer?** To qualify as a "first time home buyer," neither you nor your spouse can have owned a principal residence in the U.S. during the 3 year period ending on the date of the purchase of your new principal residence. **Planning Alert!** You will **not qualify** for the credit if you purchase your home from a related party (e.g., certain family members). **Tax Tip**. Your *principal residence* could include a condominium, houseboat, or mobile home.

- **How Does The 15-Year Pay Back Work?** Subject to certain limitations, you must effectively pay back the credit ratably over 15 years by means of an extra tax on your subsequent tax returns, beginning with the second tax year following the tax year in which the home is purchased. Thus, a qualifying first time home buyer who buys a principal residence in 2008 and claims a $7,500 credit, will pay the credit back annually by adding $500 ($7,500/15 years) to his or her tax liability starting with the 2010 tax return, and ending with the 2024 tax return.

- **If I Buy My First Home In 2009, Can I Take The Credit On My 2008 Return?** If you purchase your qualifying new residence **after 2008**, and **before July 1, 2009**, you may elect to treat the purchase as made on December 31, 2008. **Tax Tip.** This election is particularly beneficial to college students who graduated in 2008, have income below the income threshold for 2008, and purchase their first home in the first six months of 2009. If the student's 2009 income exceeds the threshold levels, electing to take the credit on the 2008 return will salvage the credit.

New Real Property Tax Deduction For Non-Itemizers. For **2008 and 2009 only**, if you do not itemize your deductions (i.e., you take the standard deduction), you may claim an additional "standard deduction" for any state and local property taxes you pay. Your deduction, however, is limited to $500 ($1,000 in the case of a joint return), or the actual real estate taxes you paid, if less. **Planning Alert!** If you are a homeowner and you itemize your deductions on your 2008 return, this new provision will not benefit you. However, if you plan to take the standard deduction for 2008, to get the full $1,000 additional standard deduction (on a joint return), you must pay at least $1,000 of property taxes for 2008. If you are sitting on a property tax bill that will help you meet the $1,000 cap ($500 if single), be sure that you pay it **before the end of 2008. Tax Tip.** This new deduction is available regardless of your income level.

Enhanced Refundable Child Tax Credit (For 2008 Only). If your income does not exceed certain thresholds, you may be entitled to a $1,000 child tax credit even if the credit exceeds your Federal income tax liability. **For 2007**, you were entitled to this *refundable* credit to the extent of 15% of your earned income in excess of $11,750. The *2008 Stabilization Act* reduces the earned income threshold **for tax years beginning in 2008** to $8,500. **Planning Alert!** This reduction of the earned income threshold is only for 2008. **Tax Tip**. For 2008, if you have one qualifying child, you need earned income of at least $15,167 (down from $18,417 for 2007) to qualify for the full $1,000 refundable credit.

Requirements For "Qualifying Child" Tweaked. For **tax years beginning after 2008**, the *2008 Stabilization Act* makes several changes for a taxpayer to obtain certain tax benefits for a "qualifying child" (e.g., earned income tax credit, $1,000 child credit, dependency exemption). For example, under the new law, for certain tax benefits, a *qualifying child* must be younger than the claiming taxpayer, and a taxpayer (other than the child's parent) claiming the child must have higher AGI than the parents of the *qualifying child*. **Tax Tip**. These changes will now allow the *earned income tax credit* for a qualifying older sibling who is caring for a younger sibling in a home with no parents, which was denied under prior law due to a technical glitch. **Planning Alert!** These changes will also eliminate the opportunity under prior law for high income parents with several children to shift tax breaks to one of their lower-income children.

Surviving Spouses Get Home-Sale Exclusion Relief. You can generally exclude up to $250,000 ($500,000 for joint returns) of gain realized on the sale or exchange of your principal residence that you have used as your principal residence for at least 2 of the previous 5 years. Under prior law, if a spouse died, the surviving spouse could qualify for the $500,000 exclusion only if the sale occurred in the tax year of the deceased spouse's death. Under the *2007 Debt Relief Act*, **effective for sales or exchanges after 2007**, a surviving spouse will be able to use the $500,000 home sale exclusion (rather than the $250,000 exclusion) for **sales occurring within 2 years after the death of a spouse**, provided that **1)** the spouses qualified for the $500,000 exclusion immediately before the death of the deceased spouse, and **2)** the surviving spouse has not remarried by the date of the sale. **Tax Tip.** This new tax break will be most beneficial to a surviving spouse who was the sole owner of the home before the death of the decedent spouse. In that event, the surviving spouse would have received no "step-up" in basis for the house on the decedent spouse's death and this expanded opportunity for the survivor to qualify for the $500,000 exclusion becomes much more important. This is more common with second marriages where the spouse who owned a house before the marriage continues to be the sole owner after the marriage. **Tax Tip.** Don't forget, if you are a surviving spouse wishing to take advantage of this new tax break, you must sell your house within the 2-year period immediately following the date of the spouse's death.

What Do I Need To Know About The Stimulus Rebate Credit? By now, the vast majority of qualifying taxpayers have received their government-issued rebate check. Even though this is technically a credit for the 2008 tax year, your rebate was calculated by the IRS based upon your 2007 income tax return information. The rebates were generally $600 for individuals, $1,200 for couples, $300 or $600 for certain low income people, and an additional $300 for your qualifying dependents under age 17. Even if you otherwise qualify, your rebate credit begins phasing out once your adjusted gross income (AGI) exceeds $75,000 ($150,000 for joint returns). For joint filers with no children, the credit will generally be lost entirely when your AGI reaches $174,000 (single filers with no children will generally lose the entire credit when their AGI reaches $87,000).

In certain situations, the rules for calculating this rebate can be quite complicated. Fortunately, for most individuals who qualify, the IRS has already computed the rebate and sent a check. If you have a question about the computation or status of your rebate check, you can access www.IRS.gov and click on the link that addresses "rebates" or "stimulus payment." **Tax Tip.** If your rebate check turns out to be greater than your "actual" 2008 credit, you can keep the excess! Also, the IRS says the stimulus payment is not taxable income. **Planning Alert!** You should keep your IRS letter reflecting the amount of the rebate, so we can use it to determine how much to reduce your credit for 2008.

Military Families Can Get The Stimulus Rebate Without Spouse's Social Security Number. When Congress authorized the economic stimulus payments, it required that no payments could be made to individuals filing joint returns unless each spouse had a valid Social Security number. The *2008 Heroes Act* now provides that a Social Security number is not required for joint returns where **at least one spouse was a member of the U.S. Armed Forces** at any time during the tax year. In addition, a qualifying child is taken into account in determining the amount of the credit even though the return doesn't include the child's Social Security number. **Tax Tip.** This provision is particularly helpful to U.S. Armed Forces members who are married to foreign spouses who lack Social Security numbers.

Military Death Benefits May Now Be Contributed To Roth IRAs, Etc. Effective for payments made on account of deaths from injuries occurring after October 6, 2001, the *2008 Heroes Act* generally provides that a recipient of a military death gratuity and/or Service Members' Group Life Insurance proceeds can, within certain time limits, contribute the amounts received to a Roth IRA or Coverdell Education Savings Account (CESA). These contributions will not be subject to the regular CESA or Roth IRA contribution limitations nor the AGI phase out rules. **Tax Tip.** This gives survivors more choices as to where they can invest these benefits.

Home-Sale Exclusion Restricted. If you sell your home, you may qualify for the home-sale exclusion which allows you to sell your principal residence and exclude the gain up to $250,000 ($500,000 if filing jointly). Generally, to qualify, you must have owned and used the home as your principal residence for at least 2 of the preceding 5 years. Typically, because of the *principal residence* requirement, you cannot exclude any gain from the sale of your vacation or second home. This has led some taxpayers to convert a second home into a principal residence for at least 2 years before selling the home, thus qualifying the home for the full $250,000/$500,000 exclusion. The *2008 Housing Act* clamps down on this planning technique for **sales after 2008** by generally requiring you to pay taxes on the portion of the gain that reflects the time the home was not used as your principal residence. **Good News!** This new restriction is not retroactive. Instead, it applies only to sales after 2008. In addition, any periods of personal or rental use before 2009 **are ignored**. **Tax Tip**. If you currently own a second home or rental home and you convert it to your principal residence before 2009, you can generally avoid this new restriction altogether. **Planning Alert!** The actual mechanics for applying this new rule can be complicated. Please call us if you need more information on this new limitation.

PLANNING WITH THE EXPANDED KIDDIE TAX AND THE NEW ZERO % CAPITAL GAINS

"Kiddie Tax" Expanded Starting In 2008. Before 2008, children under age 18 were taxed on their unearned income (e.g., interest, dividends, and capital gains) at their parents' marginal tax rate if the unearned income exceeded a *threshold amount*. This rule is commonly referred to as the "kiddie tax." **Starting in 2008**, the *kiddie tax* has been expanded and becomes more complicated. Under the new rules, a child who *is not filing a joint return with a spouse* will have his or her unearned income in excess of the *threshold amount* ($1,800 for 2008), *taxed at the parents' tax rate* if: **1)** The child either has **not attained age 18** by the *close of the tax year*; **OR 2)**The child **is age 18** by the *close of the tax year* AND the child's **earned income does not exceed one half the child's support**; **OR 3)**The child is age **19 through 23** by the *close of the tax year* AND the child is a full time student AND the child's earned income does not exceed one half the child's support. **Planning Alert!** Unlike prior years, starting in 2008, many college students will no longer be able to sell off their appreciated capital gain investment accounts set up by their parents to cover tuition and pay tax at the student's lower tax rates. Furthermore, most college students under age 24 will generally be unable to qualify for the new zero % capital gains tax rate discussed below. **Tax Tip.** Since a child's *earned income* is not taxed at the parents' rate, you should consider employing your child in your business and pay your child *reasonable* compensation. Your child's earnings won't be subject to the kiddie tax and will generate a deduction for the family business. Also, if your child is over age 17 and generates earned income exceeding one-half of his or her support, the child could also avoid the kiddie tax exposure.

New Zero % Capital Gains Tax Rate Starts In 2008! Year end strategies for long term capital gain and qualified dividend income have historically focused largely on high bracket investors. However, with 2008 ushering in a *temporary* zero % capital gains tax rate for lower bracket taxpayers, capital gain planning has become particularly urgent for 2008.

- **How Does The Zero % Rate Work? From 2008 through 2010**, the long term capital gains and qualified dividends that would otherwise be included in the 15% (or below) ordinary income tax bracket, will be taxed at a zero % rate. **Planning Alert!** For 2008, all ordinary income (e.g., W-2, Form 1099, interest income) up to $65,100 for joint returns ($32,550 if single) is taxed at the 15% rate, or below. Thus, taxpayers filing jointly can benefit from the zero percent capital gains rate if (and to the extent) they have 2008 ordinary taxable income under $65,100 ($32,550 if filing single). **Example.** Assume that Betty and Fred **1)** have joint 2008 W-2 income of $75,000 (and no other taxable income), **2)** have two dependent children (each 2008 personal exemption is $3,500), and **3)** use the standard deduction ($10,900 for 2008 joint returns). For 2008, their taxable income is $50,100 ($75,000 minus 4 exemptions which total $14,000, minus the standard deduction of $10,900). Thus, Betty and Fred could generate up to $15,000 ($65,100 minus $50,100) of net long term capital gain taxed at zero %. All net long term capital gain exceeding $15,000 would be taxed at 15%. **Tax Tip.** Formerly high-income taxpayers who are between jobs, are recently retired, or who expect to report higher-than-normal business deductions in 2008, may find themselves in a low enough tax bracket to take advantage of the zero % capital gains rate. If you are experiencing any of these situations, please call our firm and we will help you determine if there is a strategy for you to take advantage of these temporarily low capital gains rates.

CSB TAX TIDBITS

SOCIAL SECURITY TAXES TO RISE IN 2009

Beginning January 1, 2009 the amount of wages subject to FICA tax at 6.2% (12.4% if self employed) increases to $106,800 (from $102,000 in 2008). The FICA-Medicare tax of 1.45% (2.9% if self employed) continues to apply to all wages and self-employment income.

SOCIAL SECURITY EARNINGS LIMIT

There is a limit on how much you can earn and not affect your Social Security benefits, if you are under normal retirement age. That limit for 2009 is $14,160. Earn more than this and your benefits are cut $1 for every $2 earned above the limit. The limit in 2008 was $13,560.

STANDARD MILEAGE RATES (CENTS PER MILE)

	2009	7/08 - 12/08	1/08 - 6/08
Business	55.0	58.5	50.5
Charitable	14	14	14
Medical	24	27	19
Moving	24	27	19

RETIREMENT PLAN LIMITS

RETIREMENT PLAN LIMITS	2009	2008
IRA	$5,000	$5,000
IRA, age 50 or more at 12/31	6,000	6,000
401(k), 403(b) employee	16,500	15,500
401(k), 403(b) catch-up	5,500	5,000
Simple 408 (p)(2)(E)	11,500	10,500
Defined contribution limit	49,000	46,000

ESTATE TAX LIFETIME EXEMPTION

2008	2,000,000
2009	3,500,000
2010	Repealed
2011	1,000,000

GIFT TAX ANNUAL EXCLUSION INCREASE

The gift tax annual exclusion for 2009 will be $13,000, up from $12,000 in 2008.

IRS APPROVED PER DIEM RATES

As of 10/01/08 the "high" and "low" cost per diem allowances are: High cost for meals & incidentals - $58, lodging - $198, total - $256. Low cost meals & incidentals - $45, lodging - $113, total - $158.

STANDARD DEDUCTIONS

STANDARD DEDUCTIONS	2009	2008
Married filing joint	$11,400	$10,900
Surviving Spouse	$11,400	$10,900
HOH	$ 8,350	$ 8,000
Single	$ 5,700	$ 5,450
Married filing separately	$ 5,700	$ 5,450
Dependent	$ 950	$ 900
Add if Blind/+65	$1,100-1,400	$1,050- $1,350

TAX TABLES

2008 Married Filing Joint and Surviving Spouses

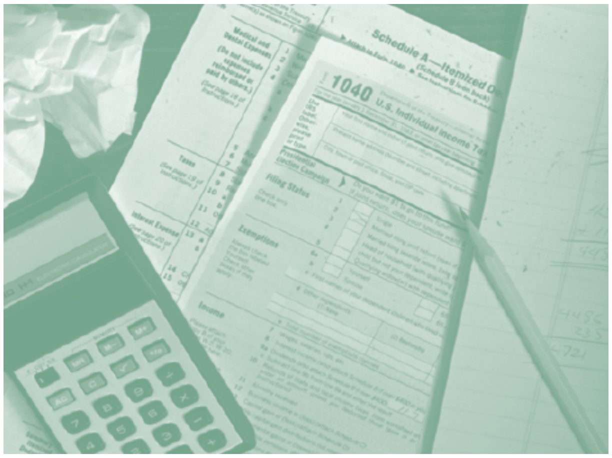
Taxable Income

Over	But Not Over	Pay	+	% on Excess	of the amount over --
$0	$16,050	$0		10%	$0
16,050	65,100	1,605.00		15%	16,050
65,100	131,450	8,963.00		25%	65,100
131,450	200,300	25,550.00		28%	131,450
200,300	357,700	44,828.00		33%	200,300
357,700	------------	96,770.00		35%	357,700

2008 Single

Taxable Income

Over	But Not Over	Pay	+	% on Excess	of the amount over --
$0--	$8,025	$0		10%	$0
8,025	32,550	803.00		15%	$8,025
32,550	78,850	4,481.00		25%	32,550
78,850	164,550	16,056.00		28%	78,850
164,550	357,700	40,052.00		33%	164,550
357,000	-----------	103,792.00		35%	357,700



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Holiday Message

By John Shields

When I was a teenager, there were times when I thought my father was terribly "uninformed." But by the time I got to be twenty-one, to paraphrase Mark Twain, I was astonished at how much the old man had learned in just a few years.

With the recent downturn in our economy, I am reminded of one of my father's old sayings that seems appropriate: "When the going gets tough, the tough get going."

We have clients in a variety of industries. As we approach the end of the year, many of you continue to thrive while others face serious financial challenges. Our goal at CSB is to help all of you succeed. Our success is measured by your success. When your "going gets tough" so does ours, and we pledge to do everything we can to help you through difficult times.

In the meantime, let us remember that while financial hardship can create stress for everyone, there are many other blessings in our lives for which we can be thankful.

In that spirit, we thank every one of you, our clients, for being a valued and essential part of our firm. May you and your family have a peaceful and joyous holiday season and a prosperous new year.