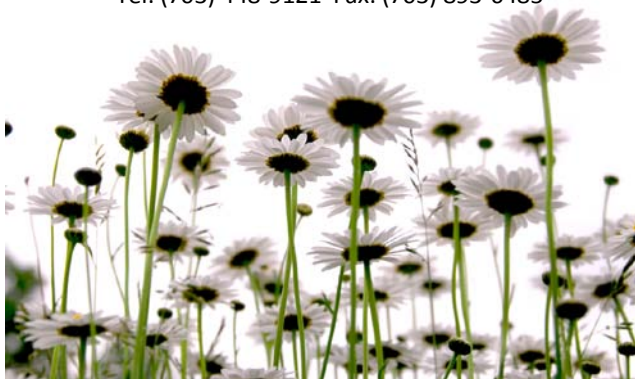


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CLIENT UPDATE

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Tax Breaks in New Stimulus Legislation

Numerous targeted tax relief provisions are included in the massive economic stimulus legislation, the American Recovery and Reinvestment Act of 2009, which President Obama signed into law on February 17. Some of the tax breaks apply for 2009 and 2010. Some of the major provisions are the Making Work Pay credit for those with earned income, a one-year AMT exemption patch, enhancements to the child tax credit, and earned income credit.

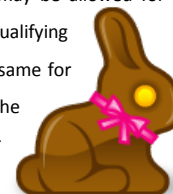
Making Work Pay tax credit. The signature tax break in the new law is the Making Work Pay credit, which will be allowed for 2009 and 2010. The credit is 6.2% of earned income, up to a maximum credit of \$800 for married couples filing jointly and \$400 for others. The credit effectively offsets the 6.2% Social Security tax on the first \$6,452 of earnings for a single worker, or the first \$12,904 of earnings for joint filers. However, the credit is phased out by 2% of modified adjusted gross income exceeding \$75,000, or \$150,000 on a joint return. A worker who can be claimed as a dependent by another taxpayer is not eligible for the credit. For employees, the credit will generally



be implemented through reduced income tax withholdings. Self-employed individuals can claim the credit when they file for 2009, based on net earnings taken into account in computing taxable income. It is possible that some employees may not receive the full credit to which they are entitled because they have little or no withholdings, while others may receive too much because they hold several jobs, can be claimed as dependents, or because their AGI will subject them to the phase-out of the credit. Presumably, adjustments will be required on the 2009 tax return to reconcile the amount received during the year with the maximum credit allowed.

AMT patch for 2009. The AMT exemptions for 2009 are increased to \$70,950 for joint filers and qualifying widows and widowers, \$46,700 for single persons and heads of households, and \$35,475 for married persons filing separately. Also, the law allowing nonrefundable personal tax credits to offset AMT as well as regular income tax has been extended through 2009.

Earned income credit. A higher earned income credit may be allowed for 2009 and 2010 to individuals with three or more qualifying children. Under prior law, the maximum credit was the same for three or more children as for two children. For 2009, the new law increases the credit percentage for three or more children from 40% to 45% of the first \$12,570 of earned income, so the maximum credit is \$5,657 for three or more children (at 45%), compared to \$5,028 for two children (at 40%). The phase-out range for 2009 joint filers has been increased so that it is \$5,000 higher for single persons, heads of households, and qualifying widows or widowers; the difference had been \$3,120 under prior law. For 2010, the amount of earned income eligible for the credit and the phase-out ranges will be adjusted for inflation.



J.K. Lasser's Monthly Tax Letter, March 2009.

Ideas to Act on Now

Seven lessons from the meltdown. If ever something could be considered a learning experience, it's the current financial tsunami. Here are seven things you can do to make yourself a better investor: 1. To avoid Madoff-like swindle, get monthly statements listing all positions for your investments. 2. Be aware that new investing gadgets, such as "long-short" mutual funds, aren't certain to save you. 3. Don't deify those who warned you about losses, but shower with praise an adviser who urged you to switch more money into cash and treasuries a year ago. 4. Expect wild swings over short periods to become the new norm, meaning you should consider trading less and holding longer. 5. Keep a larger than usual cash reserve so you're prepared to pick up investments on sale. 6. Practically every investment has become riskier than it used to be, so assess your portfolio and adjust accordingly. 7. The economic fortunes of countries, regions and financial markets are increasingly interlocked, so diversify by category rather than by country.

Earn more for your vacation home. Vacation rentals generally offer better value than resort hotels, so tough times may mean you can squeeze more—not less—money from your second home. The average rental brings in about

\$30,000 a year, and high-end homes in popular destinations can rake in \$150,000. Advertise on vacation rental Web sites, such as HomeAway.com, and in local newspapers and around the office (be sure to include high quality photos). Consider renting out your home during the peak season, when you can collect higher rents, and shifting your own use to less pricey times. If you rent out your home more than 14 days per year, you must report all the income to Uncle Sam, but you can write off expenses to hold down the tax bill.

Great homes at deep discounts. If your job prospects are good and you don't plan to sell for at least five years, now's a good time to snap up a bargain on a home. For a listing of foreclosed homes the Department of Housing and Urban Development is selling, visit HomeSales.gov. Or consider buying a "real estate owned" property—a house the bank buys back if the bidders don't meet the minimum on a foreclosure—to avoid some of the hassles of a foreclosure. Go to your local multiple-listing service's Web site to search for REOs. If you're not facing a deadline and aren't easily discouraged, you could try to buy in a short sale, in which a home is sold for less than the outstanding mortgage balance with the approval of the lender. And if you want a new home, builders are offering a host of incentives, including price cuts, low mortgage interest rates and upgrades of cabinetry, flooring and other finishes.

Kiplinger's Personal Finance Advisor, April 2009.

IRS Case Handling Errors Probably Cost Government Millions

The Automated Collection System (ACS) is a computerized inventory of balance-due accounts and delinquent return investigations that the IRS uses to contact taxpayers when attempting to collect unpaid taxes. According to a report issued by the Treasury Inspector General for Tax Administration (TIGTA), IRS errors in handling certain "large-dollar" ACS cases likely led to the loss of substantial tax revenue, perhaps as much as \$209 million. Large-dollar cases are those in which the unpaid taxes are between \$100,000 and \$1 million. They constitute a small part of ACS cases but bring in substantial revenue. In fiscal year 2007, large-dollar cases represented about 1% of ACS cases closed but 15% of the ACS dollars collected. The IRS requires a greater number of procedures and tighter internal controls for large-dollar cases and other cases, and the ACS employees working the large dollar cases receive specialized training to deal with the complex issues that are often encountered. TIGTA reviewed a sample of 62 large-dollar cases closed from the ACS large-dollar unit in fiscal 2007, with an aggregate balance due of about \$11.4 million. TIGTA concluded that nine of those cases were prematurely moved from ACS to the general queue—a holding file where there is less of a chance of resolving a delinquency—some after only a few weeks, and eight other cases were not worked up properly by ACS employees. Although some cases might ultimately be collected after the



large-dollar cases are assigned to the general queue, the likelihood of collection is less than for ACS cases. Extrapolating from the sample, TIGTA estimates that about 1,000 taxpayer accounts with an aggregate balance due of about \$209 million were moved from ACS to the general queue in fiscal 2007. TIGTA acknowledged that some of this \$209 million might be collected after transfer to the queue, but because the IRS could not provide reliable estimates of queue collections, the amount lost from the transfer from ACS to the queue could not be more precisely determined. In response to the TIGTA audit, the IRS said it would review a sample of large-dollar cases sent from the ACS to the queue to determine how many may have been sent prematurely and whether the transfer was due to "the system" or employee decision.

J.K. Lasser's Monthly Tax Letter, March 2009.

Virginia Commerce and Trade in a Tough Economy

Virginia finds itself at the pinnacle of business climate ranking year after year. Forbes.com announced in July 2008 that Virginia topped its annual list of the best states for business for the third year in a row. (In fact, Virginia hasn't slipped since the rankings began in 2006.) Energy costs are a full 30% below the national average and Virginia is spotted with top-notch institutions of higher learning and enjoys relatively low crime levels. The rankings confirm what several companies already know: Virginia's overall business climate is alluring. That appeal has helped bring in new business and expand existing business for the past few years. There are seven migration and expansion projects since 2005 that have bolstered Virginia's economy, and will likely continue to do so: Canon, Coors, IKEA, MeadWestvaco, Northrop Grumman/CGI, Rolls-Royce and Volkswagen. These projects together created 3,845 new jobs, saved 200 jobs and represented a combined capital investment of more than \$1.8 billion. What's more, the state projects \$262 million in state revenue from the projects over the next 10 years and \$645 million over the next two decades. However, with spiking business costs and lowered growth projections for the next five years, there are several hurdles to overcome in bringing in new business and expanding existing businesses in Virginia. Transportation, a hot topic across the Commonwealth, has long been an impediment to progress in Virginia, especially in Northern Virginia and the Hampton Roads regions, where congestion has gone beyond a chronic nuisance to a business barrier. What's more, the Commonwealth is cutting construction to focus on maintaining the roads currently in place. So real progress on this issue doesn't seem likely anytime soon. The bottom line is that business is moving to Virginia, however slowly. It is impossible to say whether new business and business expansion projects in the works can fully replace the jobs that have been lost or whether more jobs are at stake. But Virginia is working to maintain the Commonwealth's status as a pro-business state and a viable, attractive option for new industries.

Disclosures, January/February 2009.