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The Firm Insider

DAVIS & HODGDON ASSOCIATES CPAs ▪ PLC

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Another January and once again we are busy preparing for tax season – in fact it will be my 29th year of preparing tax returns. One thing that has kept me in the business is that you can always count on the tax laws changing and with the upcoming elections I do not anticipate that 2008 or 2009 will be any different.

Tax season is a good time for us to highlight areas the practice continues to focus on. For instance, we have now been "paperless" for almost 6 years, which not only adds efficiency for us, but also provides additional security for you. With a "paperless" environment we provide the utmost confidentiality for your data. Upon receipt we scan your information and then secure it in file cabinets until we return it to you. Our copies of your tax returns and documents are maintained in password protected paperless computer files which are backed up on a nightly basis.

Each year we try to make your tax return preparation as convenient as possible for you, while still providing the level of service that we would expect to receive. Along those lines you will notice we have created a Client Rights and Responsibilities statement. We felt it was time to specifically list what you should expect from us and to communicate what we expect from you.

The other area we try to emphasize is the planning process. Our goal is to make sure you pay the lowest possible tax and whenever possible we will help you plan accordingly. We often make recommendations regarding your personal taxes in the letter that accompanies your tax return. If you ever want to discuss these items further, please don't hesitate to contact us. We are here to help you through the tax law maze.

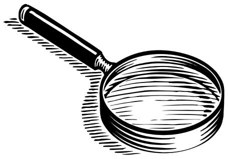
It will be an interesting tax year – plan to hear much more from us after the election to do year end tax planning for 2008.

THANK YOU FOR YOUR REFERRALS

We feel that client referrals are one of the best marketing tools a company can have. Over the years Davis & Hodgdon Associates CPAs' growth can be credited to the friends, family members and colleagues that our clients have sent our way. We consider this the highest of compliments to the firm and quality of service we strive for.

Included in your Tax Organizer is a "Care Enough to Share" card. Please complete the card and return it to us along with your completed Tax Organizer. As a thank you for referring anyone who becomes a new client, we will give you a $25 gift certificate to a local area restaurant of your choice.

THE IRS REVISES THE RANDOM AUDIT PROGRAM



The IRS has laid out its goals and objectives in its recently released report, "Reducing the Federal Tax Gap—A Report on Improving Voluntary Compliance." Congress has approved a significant increase in IRS compliance funding. The likelihood of having an audit will rise in the years to come.

The chief target area for these and future audits will focus on taxpayers who meet the following criteria:

- are self employed
- have businesses with high cash flow
- have zero withholdings on their income
- have income that is not separately reported to the IRS

These taxpayers, along with shareholders of closely held S Corporations, will receive more audit scrutiny from the IRS. Another area that will take on importance in future audits will be the basis of assets sold and reported on the Schedule D. The IRS is very concerned about the problem of overstating the basis of sold assets.

ASK JOHN

When should I review my estate plan?

If you have not redone your Advance Directive for Health Care (or Health Care Powers of Attorney) since August of 2004, you should get them redrafted and signed to make certain they comply with HIPAA (the Health Care Insurance Portability and Accountabilty Act). Without added language, your spouse, loved ones, and even your designated agent may NOT have access to your medical records.

If your estate is above $2,000,000 you should have the "tax language" in your Will or Trust reviewed because of recent tax law changes.

Whenever your goals or plans change. For example, if you change your mind about who should be the guardian of your children or who should be your Personal Representative or Successor Trustee. In other words, when circumstances change, your estate plan should reflect those changes. A good "rule of thumb" is to review your estate plan at least once every five years.

IN CASE YOU WERE WONDERING ....

Upper–incomers are bearing even more of the income tax load, the highest burden since the 1986 Tax Reform Act passed, IRS says. It just analyzed data from 2005 returns, the most recent year available.

The top 1% of filers paid 39.4% of all income taxes, up from 36.9% the year before. Yet they had just 21% of total adjusted gross income (AGI). The minimum AGI needed to be in the top 1% rose to a new high of $364,000.

The top 5% paid 59.7% of total income tax and made 36% of all AGI. They each had incomes of $145,000 or more. And the top 10% of all filers, those with AGIs of at least $103,900, bore 70% of the income tax burden while tallying a little more than 46% of total adjusted gross income.

The bottom 50% of filers paid just 3.1% of total income tax. Their share is low because payroll taxes are not included in the figures and because many of them receive tax relief from the earned income credit.

Excerpt from The Kiplinger Tax Letter, Vol. 82, No. 21, October 19, 2007

ADDITIONAL SERVICES

At Davis & Hodgdon Associates CPAs, we offer services beyond tax preparation. Some of the additional services we offer to our clients include:

Accounting, Auditing, and Planning

- Internal Control Procedures
- Audits, Reviews, and Compilations of Financial Statements
- Non Profits and Pension Plans

Tax Services

- Year-end Projections
- Entity Selection
- Tax Return Preparation (Federal and all States)
- IRS and State Problem Solving
- Fringe Benefits

Management Consulting Services

- Buy Sell Agreements
- Compensation Structuring
- Business Strategic Planning
- Office Administration Consulting

Financial Fraud Investigations

- Corporate Investigations
- Reconstruction of Accounting Records
- Fraudulent Financial Transaction Analysis
- Pretrial Investigations

Business Valuations

- Purchase and Sales Analysis
- Cash Flow Analysis
- Mergers and Acquisitions

QuickBooks®

- Accounting Assistance
- Installation and Support
- Reviews
- Training

Financial and Estate Planning

- IRA/ Retirement Distribution Calculations
- Financial Plans
- Estate Plans

MEET THE STAFF GAME

How well do you know the staff at Davis & Hodgdon Associates CPAs ?

Match the Staff Member to their Fun Fact

STAFF MEMBER	FUN FACT
John Davis	Graduate of St. Michaels
Bret Hodgdon	Volunteer EMT
Dawn Grenn	Washington Redskins Fan
David Brace	Met Bruce Springsteen
Dan Huskes	Former ski instructor
Rob Barush	Moved from New Orleans
Matt Cleare	MBA Student at UVM
Sam Boyer	Boston Red Sox Fan
Amy Puchrik-Viens	Golf Enthusiast

Answers will be in our Spring Newsletter

Our Funny Side

"I'm pleased to report that our project is ahead of schedule and under budget... not bad for the first hour!"

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Find the misspelled word!

We have hidden one misspelled word in our newsletter

Be the first to find it and call our office at 802-878-1963

YOU WILL WIN $10!*

* if you have won recently, please allow others the opportunity to win — thank you.

Winner of the Fall misspelled word contest:

Kristin DeForge

Bergeron, Paradis & Fitzpatrick

As a member of CPAConnect, we are part of a leading network of local CPA firms. CPAConnect is an affiliate of CPAmerica International, which is one of the largest CPA networks in the United States.

This affiliation provides a knowledge base through a leading national network of more than 230 local CPA firms. This resource allows us to offer our staff and clients access to additional expertise and resources from across the country and around the world.