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**We are pleased to provide you with our online informational newsletter which we believe you will find of interest. Every month brief articles on relevant topics are included, along with a tax calendar for the current and following month.**

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## **December 2007**

### **In This Issue**

- Accounts Receivable Collection
- Social Security News Release 10/17/07
- 2008 Inflation Adjustments
- Direct IRA Contribution Provision Set to Expire
- Patron's Gifts and Athletic Tickets
- 2008 Standard Mileage Rates
- Tax Calendar

## **Accounts Receivable Collection**

With the Central Florida economy impacted from the housing slowdown, businesses need to pay special attention to collection of accounts receivable. Regular “aging” of account balances, with appropriate follow-up on overdue accounts, continues to be a high business priority.

If accounts appear to be uncollectible, be sure to write the account off by December 31<sup>st</sup>, in order to claim a 2007 tax deduction. Of course, write-off of an account does not mean collection efforts should cease. If you are successful in recovering all, or a portion, of an account previously written off, the amount is simply claimed as income when received.

## **Social Security News Release 10/17/07**

The Social Security Administration has announced that the wage base for computing the Social Security tax (OASDI) in 2008 rises to \$102,000 from \$97,500 in 2007, an increase of about 4.6%. The \$4,500 increase is due to an increase in average total wages.

- ◆ Observation: The increase from 2007 to 2008 is larger than the increase from 2006 to 2007 (when the wage base increased by only \$3,300). It also marked the first time the wage base has exceeded \$100,000.

The Federal Insurance Contributions Act (FICA) imposes two taxes on employers, employees, and self-employed workers - one for Old Age, Survivors and Disability Insurance (OASDI; commonly known as the Social Security tax), and the other for Hospital Insurance (HI; commonly known as the Medicare tax).

The FICA tax rate for employees and employers is 7.65% each – 6.2% for OASDI and 1.45% for HI. For self-employed workers, the FICA tax is 15.3% - 12.4% for OASDI and 2.9% for HI. There is a maximum amount of compensation subject to the OASDI tax, but no maximum for HI.

- ◆ Illustration: On a salary of \$102,000 (or more), an employee and his employer each will pay \$279 more (\$6,324 instead of \$6,045) in Social Security tax in 2008 than in 2007.
- ◆ Illustration: A self-employed person with at least \$102,000 in net self-employment earnings will pay \$558 more (\$12,648 instead of \$12,090) in the Social Security part of the self-employment tax in 2008 than in 2007.
- ◆ Observation: Self-employed workers deduct half of their self-employment tax above-the-line in arriving at adjusted gross income.
- ◆ Observation: The FICA tax rates have remained unchanged since '90.

## **2008 Inflation Adjustments**

For 2008, personal exemptions and standard deductions will rise, tax brackets will widen, and workers will be able to save more for retirement, thanks to inflation adjustments announced by the Internal Revenue Service.

By law, the dollar amounts for a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits affecting virtually every taxpayer, are being adjusted for 2008. Key changes affecting 2008 returns, filed by most taxpayers in early 2009, include the following:

- The value of each personal and dependency exemption, available to most taxpayers, is \$3,500, up \$100 from 2007.

- The new standard deduction is \$10,900 for married couples filing a joint return (up \$200), \$5,450 for singles and married individuals filing separately (up \$100) and \$8,000 for heads of household (up \$150). Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions and state and local taxes.
- Tax-bracket thresholds increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket is \$65,100, up from \$63,700 in 2007.
- The maximum earned income tax credit for low and moderate income workers and working families with two or more children is \$4,824, up from \$4,716. The income limit for the credit for joint return filers with two or more children is \$41,646, up from \$39,783.
- The maximum Hope credit, available for the first two years of post-secondary education, is \$1,800, up from \$1,650 in 2007
- The income limit for the savers credit is \$53,000 for joint filers (up \$1,000), \$39,750 for heads of household (up \$750) and \$26,500 for singles and married persons filing separately (up \$500). Low- and moderate income workers who contribute to a retirement plan, such as an IRA or 401(k), may qualify for the credit, which is available in addition to any other tax savings that apply.
- The contribution amount allowed for Roth IRAs begin to phase out for joint filers with incomes exceeding \$159,000 (up from \$156,000) and \$101,000 (up from \$99,000) for singles and heads of household.
- For contributions to a traditional IRA, the deduction phase-out range for an individual covered by a retirement plan at work begins at income of \$85,000 for joint filers (up from \$83,000) and \$53,000 for a single person or head of household (up from \$52,000).
- Participants in most employer-sponsored 401(k) plans and 403(b) plans for employees of public schools and certain tax-exempt organizations can contribute up to \$15,500, unchanged from 2007. Individuals, age 50 or over, can make an additional contribution of up to \$5,000, also unchanged from 2007.
- Individuals participating in SIMPLE retirement plans can contribute \$10,500, unchanged from 2007. Those, age 50 or over, can make an additional contribution of up to \$2,500, also unchanged from 2007.
- The annual contribution limit for most defined contribution plans rises to \$46,000, up from \$45,000 in 2007.

### **Direct IRA Contribution Provision Set to Expire**

Time is running out on a beneficial tax provision that allows direct contributions from IRA accounts to a charitable organization. Under this provision, qualified taxpayers can donate up to \$100,000 to an eligible charity without first being taxed on the distribution. However, unless Congress extends this provision, it will expire at the end of 2007. So, there's an incentive to take action before year-end.

This provision is available to taxpayers age 70½ or older who have one or more IRAs and a desire to make charitable contributions. It allows eligible taxpayers to make charitable contributions *directly* from their IRAs for up to \$100,000 to an eligible charity. These nondeductible direct charitable distributions, which can replace otherwise required minimum distributions, are tax-free to the IRA owner.

### **Patron's Gifts and Athletic Tickets**

The cost of tickets to a charitable event is eligible for a contribution deduction to the extent the purchase price exceeds the fair market value of admission and privileges associated with the event.

At the same time, tickets to a charitable event are not necessarily deductible simply because they are not used by the taxpayer, even if the donor had no intention of using the tickets upon purchasing them. However, certain unused tickets (e.g., a single theater or symphony ticket by the holder of season tickets) may qualify as charitable contributions if returned for resale to the sponsoring charitable organization. The purchase of raffle, bingo, or lottery tickets is not a charitable contribution.

On a positive note, a special exception exists for sports fans. They can deduct 80% of donations to colleges or universities for the right to buy tickets to an athletic event in the institution's stadium, regardless of whether the tickets would have been readily available without the payment. However, the amount paid for other benefits such as the cost of the tickets, the right to use the skybox, guest passes to visit the skybox, and reserved parking privileges are not deductible as charitable contributions.

As a general rule, amounts paid for charitable events are only deductible to the extent the purchase price exceeds the value of the event (meal, entertainment, etc.). Also, amounts paid for items purchased at charity auctions generally provide no deduction, unless the purchase price exceeds the fair market value of the purchased item.

### **2008 Standard Mileage Rates**

The Internal Revenue Service issued the 2008 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning January 1, 2008, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

- 50.5 cents per mile for business miles driven
- 19 cents per mile driven for medical or moving purposes; and
- 14 cents per mile driven in service of charitable organizations.

The new rate for business miles compares to a rate of 48.5 cents per mile for 2007. The new rate for medical and moving purposes compares to 20 cents in 2007. The rate for miles driven in service of charitable organizations has remained the same.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile; the standard rate for medical and moving purposes is based on the variable costs as determined by the same study. Runzheimer International, an independent contractor, conducted the study for the IRS. The mileage rate for charitable miles is set by law.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS), after claiming a Section 179 deduction for that vehicle, or for any vehicle used for hire or for more than four vehicles used simultaneously.

## **DECEMBER**

**December 17**—Calendar-year corporations must deposit the fourth installment of estimated income tax for 2007.

## **JANUARY 2008**

**January 15** - Individual taxpayers' final 2007 estimated tax payment is due unless the Form 1040 is filed by January 31, 2008, and any tax due is paid with the return.

**January 31** - Most employers must file Form 941 (Employer's Quarterly Federal Tax Return) to report Medicare, social security, and income taxes withheld in 2007. If your tax liability is less than \$2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until February 12 to file the return. Small employers who have been notified by the IRS should file Form 944 (Employer's Annual Federal Tax Return).

- ❖ Give your employees their copies of Form W-2 for 2007. If an employee agreed to receive Form W-2 electronically, have it posted on the website and notify the employee.
- ❖ Give annual information statement to recipients of certain payments you made during 2007. You can use the appropriate version of Form 1099 or other information return.
- ❖ File Form 940 for 2007. If your undeposited tax is \$500 or less, you can either pay it with your return or deposit it. If it is more than \$500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 12 to file the return.