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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.**

**Interested in knowing more about our firm? Please take a minute to browse our website at [www.cohensmithcpas.com](http://www.cohensmithcpas.com).**

<b>Other helpful on-line services</b>		
<a href="http://www.IRS.gov">www.IRS.gov</a>	<a href="http://www.MyFlorida.com">www.MyFlorida.com</a>	<a href="http://www.Volusia.org">www.Volusia.org</a>

## **March 2008**

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## **Who Pays Tax**

According to a recently issued IRS bulletin, taxpayers in the top 1 percent of adjusted gross income reported adjusted gross income of at least \$364,657 in tax year 2005. This group accounted for 21.2 percent of all adjusted gross income reported, which was up 2.2 percent from the prior year. This group also accounted for 39.4 percent of total income tax reported, which was up 2.5 percent from 2004.

Taxpayers in the top 5 percent of adjusted gross income reported adjusted gross income of at least \$145,283. This group accounted for 35.7 percent of all adjusted gross income reported and 59.7 percent of total income tax. Yes, it's true, the top 5% of taxpayers paid 60% of the total taxes collected.

## **National Taxpayer Advocate Report**

The Taxpayer Advocate Service is an independent arm of the IRS that assists taxpayers who are experiencing economic harm, who have tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. Nina Olson is the National Taxpayer Advocate, a tax attorney, and the only IRS employee authorized to make legislative proposals directly to Congress. She reports the top problems taxpayers are having with the IRS and offers suggestions on how these problems can be solved.

In her recent annual report to Congress, Ms. Olson focused attention on the consequences of late-year changes to the Internal Revenue Code (e.g., taxpayer confusion and delayed refunds). She also noted the need for a coordinated IRS approach to combat the cash economy portion of the tax gap. In addition, she urged Congress to enact another Taxpayer Bill of Rights and to authorize symbolic "apology payments" where taxpayers suffer significant harm as a result of IRS errors. Her report discussed problems facing taxpayers, made dozens of recommendations for administrative change, proposed recommendations for legislative change, and discussed the 10 tax issues most frequently litigated in the federal courts during the preceding fiscal year.

## **IRS Approves New Medical Deductions**

Not all services performed by medical professionals are deductible as a medical expense (e.g., cosmetic surgery). Likewise, no deduction is allowed for nonprescription items that are merely beneficial to health. While it is fairly clear that expenses to treat or cure illness are incurred for medical reasons, it is less clear whether procedures or products are obtained for medical or personal reasons when the individual is not sick.

Fortunately, the IRS recently gave the green light for deducting some fairly common medical expenses incurred by taxpayers who are not experiencing any symptoms of illness. The cost of a physical exam and the related lab fees are deductible, even though the taxpayer is not experiencing any symptoms of illness. The cost of a full-body scan, a relatively high-cost procedure, to possibly identify disease or other abnormalities that is performed by a technician without first obtaining a physician's recommendation or exploring less expensive alternatives is deductible. The cost of a pregnancy test kit is deductible even though its purpose is to test the healthy functioning of the body rather than to detect disease.

Keep in mind that medical expense deductions are subject to a limitation, and contact us if you have questions or concerns about deductible medical expenses.

## **Term or Whole Life Insurance: Which Is Best?**

The argument about whether to purchase term insurance or permanent insurance (e.g., whole life) has been around for years. So, we thought it would be a good time to review some of the key aspects of both. Keep in mind that there are other types of life insurance policies available, but these are two of the most commonly owned.

Term insurance provides protection for a specified period of time. Generally, there are two types of term life insurance: annually renewable term (where the premium increases each year) and level premium term (where the premium remains constant for a specified period of years). For example, if the policy is written for 10 years, it provides protection equal to the face amount of the policy for that period. At the end of the period, the coverage terminates, and the policy generally has no value. The principal appeal of term insurance is the low cost.

Term insurance is particularly useful for providing maximum protection for young families at low premium costs. It is also used to provide for the liquidation of a debt, such as a home mortgage, with the insurance amount decreasing as the mortgage gets smaller. Another use of a limited period policy would be to provide a college fund for children in case of the untimely death of the family wage earner. Once the children graduate from college, the policy will have served its purpose and can be canceled.

Some disadvantages of term insurance include higher premiums if the insured needs to renew the policy; the potential inability of the insured to renew the policy at the end of the term because of poor health; the fact that many term insurance policies never pay a death benefit because term policies frequently are allowed to expire; and the policy generally has no cash value.

Whole life is one of the three types of permanent or cash value life insurance (the others are universal and variable life). Whole life is the combination of a savings account (cash value) with insurance. The savings feature arises because, in the early years of a whole life policy, the annual level premium is more than enough to pay the current cost of the insurance protection. The excess premiums in early years and the effect of compound interest make up for the deficiency of premiums in later years when the annual level premium is no longer sufficient to pay for the cost of insurance. The funds accumulated in the early years are held by the insurer for the policyholder and provide the cash value aspect of the policy. Because the earnings being compounded inside the policy are not taxed to the owner of the policy, part of the premium is being paid with pretax dollars.

Whole life premiums are fixed and usually invested in long-term bonds and mortgages as determined by the insurance company. A common axiom is, "buy term and save the difference." This may be a sound strategy; however, some folks are not good savers, although they do pay their bills. Since, in a whole life policy, the savings occurs through paying a bill, this is a means of forced savings. Also, the life insurance cash value grows on a tax-deferred basis.

Whole life is more expensive than term insurance, but the advantages of a whole life policy include guaranteed premiums, death benefits, and cash values; future uninsurability, old age, or other contingencies cannot terminate the policy; when the policyholder is older and no longer needs a large face amount of insurance protection, the policy can be cashed in; and the policyholder can borrow against the accumulated cash value at the interest rate indicated in the policy.

Obviously, the issue of how much and the type of life insurance to purchase is a complicated one and the above information can be used help you understand some of the basics. However, before making any decision about insurance, you should consult with a professional advisor. Also, even if you already own insurance, annual policy reviews can be beneficial, since rates and types of policy offerings change.

## **Tax calendar**

### **March 10**

**Employees who work for tips.** If you received \$20 or more in tips during February, report them to your employer. You can use Form 4070.

### **March 17**

**Corporations.** File a 2007 calendar year income tax return (Form 1120 or 1120-A) and pay any tax due. If you want an automatic six-month extension of time to file the return, file Form 7004 and deposit what you estimate you owe.

**S corporations.** File a 2007 calendar year income tax return (Form 1120S) and pay any tax due. Provide each shareholder with a copy of Schedule K-1 (Form 1120S), Shareholder's Share of Income, Deductions, Credits, etc., or a substitute Schedule K-1. If you want an automatic six-month extension of time to file the return, file Form 7004 and deposit what you estimate you owe.

**S corporation election.** File Form 2553, Election by a Small Business Corporation, to choose to be treated as an S corporation beginning with calendar year 2008. If Form 2553 is filed late, S treatment will begin with calendar year 2009.

**Electing large partnerships.** Provide each partner with a copy of Schedule K-1 (Form 1065-B), Partner's Share of Income (Loss) From an Electing Large Partnership, or a substitute Schedule K-1. This due date is effective for the first March 17 following the close of the partnership's tax year. The due date of March 17 applies even if the partnership requests an extension of time to file the Form 1065-B by filing Form 7004.

### **March 31**

**Electronic filing of Forms 1098, 1099, and W-2G. File Forms 1098, 1099, or W-2G with the IRS.** This due date applies only if you file electronically (not by magnetic media). Otherwise, see February 28. The due date for giving the recipient these forms was January 31. For information about filing Forms 1098, 1099, or W-2G electronically, see Publication 1220, Specifications for Filing Forms 1098, 1099, 5498, and W-2G Electronically or Magnetically.

## **APRIL 2008**

### **April 10**

**Employees who work for tips.** If you received \$20 or more in tips during March, report them to your employer. You can use Form 4070.

## **April 15**

**Individuals.** File an individual income tax return for 2007. If you want an automatic six-month extension of time to file your return, file Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Alternatively, you can get an extension by phone or over the Internet if you pay part or all of your estimated income tax due with a credit card. Then file Form 1040, 1040A, or 1040EZ by October 15.

If you are not paying your 2008 income tax through withholding (or will not pay in enough tax during the year that way), pay the first installment of your 2008 estimated tax. Use Form 1040-ES.

Note that April 15 is also the deadline for making contributions to IRAs or Roth IRAs for 2007.

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in March if the monthly rule applies.

**Household employers.** If you paid cash wages of \$1,500 or more in 2007 to a household employee, file Schedule H (Form 1040) with your income tax return and report any employment taxes. Report any federal unemployment (FUTA) tax on Schedule H if you paid total cash wages of \$1,000 or more in any calendar quarter of 2006 or 2007 to household employees. Also report any income tax you withheld for your household employees.

**Partnerships/LLCs.** File a 2007 calendar year return (Form 1065). Provide each partner with a copy of Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., or a substitute Schedule K-1. If you want an automatic six-month extension of time to file the return and provide Schedule K-1, file Form 7004. Then file Form 1065 by October 15.

**Electing large partnerships.** File a 2007 calendar year return (Form 1065-B). If you want an automatic six-month extension of time to file the return, file Form 7004. Then file Form 1065-B by October 15.

**Trusts and Estates.** File a 2007 calendar year return (Form 1041). Provide each beneficiary with a copy of Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, etc., or a substitute Schedule K-1. If you want an automatic six-month extension of time to file the return and provide Schedule K-1, file Form 7004. Then file Form 1041 by October 15.

**Corporations.** Deposit the first installment of estimated income tax for 2008.

**Gift Tax Returns.** If you made taxable gifts in 2007, file Form 709.

## **April 30**

If you have employees, a federal unemployment tax (FUTA) deposit is due if the FUTA liability through March 31 exceeds \$500.

The first quarter Form 941 (Employer's Quarterly Federal Tax Return) is also due today (except that you have until May 10 to file if you deposited all taxes for the quarter when they were due).