



**COHEN, SMITH & COMPANY, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
133 EAST INDIANA AVENUE  
DELAND, FLORIDA 32724-4329  
(386) 738-3300  
www.cohensmithcpas.com**

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).

#### Other helpful on-line services

[www.IRS.gov](http://www.IRS.gov)

[www.MyFlorida.com](http://www.MyFlorida.com)

[www.Volusia.org](http://www.Volusia.org)

## March 2009

### In This Issue

- Frequently Asked Questions About Tax Provisions in the Economic Stimulus Bill
- Florida Property – Governor's Proposed Budget Includes Property Tax Reforms
- Electronic Data Back-up and Security
- Tax Calendar

### **Frequently Asked Questions About Tax Provisions in the Economic Stimulus Bill**

President Obama signed the American Recovery and Reinvestment Tax Act of 2009 into law on February 17, 2009.

#### OVERVIEW

*How much of the \$787.2 billion stimulus package is spending versus tax benefits?*

Overall, the stimulus bill would increase federal budget deficits by \$185 billion over the remaining months of fiscal year 2009, by \$399 billion in 2010, by \$134 billion in 2011, and by \$787 billion over the 2009-2019 period, according to the Congressional Budget Office. Over the 10-year period, tax provisions would reduce federal revenues by a projected \$211 billion, or 27 percent of the total stimulus package.

### ***How quickly will the stimulus get out and into the economy?***

Consumers should see some benefits as soon as early April. That's when the Making Work Pay Credits described below kicks in. Most of the other benefits first appear on taxpayers' 2009 returns. But that doesn't mean they can't take advantage of them before April 15 of 2010. Individuals and businesses should review how the new law affects them and then adjust their withholdings or estimated payments now to reflect the benefits they will receive this year.

### **INDIVIDUAL PROVISIONS**

#### ***How quickly will people see a change in their paychecks as a result of the "Making Work Pay" provision?***

The IRS released new withholding tables reflecting the Making Work Pay credit on February 21 and said most taxpayers will see the credit in their paychecks this spring. The IRS asked employers to begin using the new withholding tables no later than April 1. The \$400 credit will show up as about an extra \$10 a week in the paychecks of eligible individuals. The average person isn't going to notice that very much, so it is likely to be spent. When consumers get lump sums, they tend to save the money or use it to retire debt. Small amounts get spent. *The Joint Committee on Taxation estimates the provision will cost \$116.199 billion over 10 years.*

#### ***Who is Eligible for the First-Time Home Buyer Credit?***

The law provides an \$8,000 tax credit for first-time homebuyers who buy a principal residence before December 1. The credit is available to homebuyers who haven't owned their own primary residence for the past three years with incomes up to \$75,000 for individuals and \$150,000 for married couples. Unlike the \$7,500 credit enacted last year, it doesn't have to be repaid unless you sell your home within three years. *Estimated cost is \$6.638 billion over 10 years.*

#### ***Who Qualifies for the Auto Sales Tax Credit?***

Buyers of new cars or light trucks can deduct the portion of state and local sales and excise taxes attributable to the first \$49,500 of the vehicle's purchase price. The deduction is "above the line," which means taxpayers don't have to itemize deductions to claim it, and can be taken against the alternative minimum tax. The deduction is available to taxpayers with adjusted gross income of up to \$125,000 for individuals and \$250,000 for married couples. The deduction is good for purchases made from February 17, 2009 through December 31, 2009. The deduction can amount to \$1,000 to \$2,000 depending on the price of the car and the applicable tax rate in your state. *Estimated cost is \$1.684 billion over 10 years.*

#### ***How Does the Law Help Families with College Costs?***

Parents can claim a tax credit of up to \$2,500 a year for college expenses for any year of college. The credit is limited to taxpayers with adjusted gross incomes up to \$80,000 for individuals and \$160,000 for married couples. The change is only for 2009 and 2010. *Estimated cost is \$13.907 billion over 10 years.*

#### ***How Does The New Law Change The Earned Income Tax Credit?***

Working families with three or more children may be eligible for an increased credit. For 2009 and 2010, the Earned Income Tax Credit increase will be available for families with three or more children. The credit is 45 percent of the family's first \$12,570 of earned income, and the credit phase-out now begins at adjusted gross income of \$21,420, \$1,880 higher than under prior law. *Estimated cost is \$4.663 billion over 10 years.*

### ***Are Unemployment Benefits Still Taxed?***

With more people out of work, Congress exempted the first \$2,400 in unemployment benefits from taxes in 2009. The law also provides a 65 percent subsidy for health insurance premiums maintained by laid-off workers under Cobra for up to 9 months. *Estimated cost is \$4.740 billion over 10 years for unemployment provision and \$24.7 billion for Cobra.*

### ***Is the AMT Exemption Increased?***

Congress raised the exemption for the alternative minimum tax for 2009 so it would not catch millions more taxpayers. It was bumped from \$69,950 in 2008 to \$70,950 in 2009. The AMT generally applies to people in high-tax rates and people with large families. It's expensive to fix this problem. The revenue estimate for this one-year patch was \$70 billion over 10 years. *Estimated cost is \$69.759 billion over 10 years.*

### ***What Are Some Energy Incentives?***

The law raises the residential energy property tax credit from 10 percent to 30 percent. That's a nice write-off for taxpayers who are already planning on investing in more efficient energy equipment, but it may not push people to make more purchases than they would have otherwise. Dollar caps are removed for the residential energy efficient property credit for solar hot water and wind energy property and heat pumps. Plug-in electric vehicles now qualify for a \$2,500 tax credit that will phase out after the manufacturers sells 200,000 vehicles.

## **BUSINESS PROVISIONS**

### ***Which 2008 Business Tax Stimulus Provisions Were Extended by the Law?***

- **Fifty Percent Bonus Depreciation** is extended for expenditures made in 2009. Businesses' costs for eligible property can be recovered over time based on an established depreciation schedule. The Economic Stimulus Act of 2008 allowed businesses to immediately write off 50 percent of the cost of eligible property purchased in 2008. *Estimated cost is \$5.074 billion over 10 years.*
- **Small Business Expensing Rules.** In the 2008 stimulus legislation, Congress increased the expensing provisions for small business to \$250,000 for assets purchased in 2008, and phased out the limitation for business that purchased more than \$800,000 in assets. This rule is extended for 2009 and is a great benefit for businesses. Most businesses will be able to deduct \$250,000 right off the top. It's not going to help GM. But it is going to help mid-size companies. *Estimated cost is \$41 million over 10 years.*

### ***What Are the New Business Provisions?***

- **Five Year Carryback of Net Operating Losses for Small Businesses with Less than \$15 million in Revenues.** This is an important provision for small businesses, which are often cash flow intensive, and there was a lot of advance publicity about congressional debate over this feature. Congress ended up allowing a small business with gross receipts of \$15 million or less to carry back a 2008 Net Operating Loss (NOL) for as many as five years. (Without this provision current law allows an NOL to be carried back two taxable years and carried forward for twenty years.) NOL carryback elections made in previous years can be changed, but only once and must be made on a timely basis. *Estimated cost is \$947 million over 10 years.*

- **Temporary Estimated Tax Relief for Small Businesses.** In 2009, an individual will not incur a penalty for underestimating taxes if the payments are equal to at least 90 percent of the liability, so long as the tax year begins in 2009, the individual's adjusted gross income is below \$500,000, and more than 50 percent of the income is from a small business. *Estimated cost is zero over 10 years.*
- **Small Business Capital Gains Provision.** If an individual invests in the stock of a small business and holds that investment for at least five years, the investor may exclude up to 75 percent of the gain, if all other qualifications are met. This provision is effective for investments made after the date of enactment and before January 1, 2011. *Estimated cost is \$829 million over 10 years.*
- **Temporary Reduction of S Corporation Built in Gains from 10 to 7 years.** If a C corporation decided to change to S Corporation status there is no "double" tax on any built-in gains if the assets are held for 10 years. The law reduced the threshold to seven years, but only for sales occurring in 2009 and 2010. *Estimated cost is \$415 million over 10 years.*
- **Enhanced Work Opportunity Credit.** Unemployed veterans and disconnected youth were added to the categories of out-of-work individuals an employer can hire in order to be eligible for the Work Opportunity Credit. There are specific eligibility criteria for each. This credit is available for 2009 and 2010, and for any employee who started work after December 31, 2008. *Estimated cost is \$321 million over 10 years.*

### **Florida Property – Governor's Proposed Budget Includes Property Tax Reforms**

In a February 20, 2009 press release, Governor Charlie Crist outlined his proposed \$66.5 billion budget and a number of legislative priorities for the upcoming 2009 legislative session. His budget includes a number of property tax reforms including a proposed Constitutional amendment that would further reduce the growth cap on non-homestead properties from 10% to 5%. The amendment also would grant first-time Florida home buyers an additional property tax exemption, as well as a 50% exemption, up to \$250,000, to home owners who previously have not owned a home in Florida. Another proposed Constitutional amendment would replace the automatic 3% increase with no increase on the assessed value of a homestead when the homestead's market value decreases. Finally, proposed legislation would remove the presumption that the property appraiser's assessment of the property value is correct and requires the party bringing suit to provide evidence of their assessment. Only time will tell how many, or if any, of the Governor's proposals will be enacted into law.

### **Electronic Data Back-up and Security**

It seems like hardly a week goes by without reading of an information breach at large companies, educational institutions or government offices. Such breaches are often a result of outside "hackers" gaining access to non-secured information through the entities in-house data processing system. To insure data remains secure, firewalls, passwords and other software and hardware-based security measures need to be implemented and maintained.

In addition to maintaining data security, data back-up and recovery, including off-site storage, are important areas that are often overlooked by small businesses. Nevertheless, safeguarding electronic data from loss due to fire, theft, hardware and/or software failure and other similar disruptive events should be a priority.

We recommend companies perform regular internal and external reviews and testing of data back-up and recovery procedures. Such reviews should include actual data recovery from back-up storage media.

While difficult economic times often cause companies to reduce costs wherever possible, lack of attention to the safety and reliability of electronic data, including accounts receivable, payroll, accounts payable, etc., can be decidedly more costly than reviewing back up and security processes on a regular basis. If you haven't recently reviewed these areas with an internal or external data processing consultant, we recommend you do so before a loss of valuable information occurs.

## **March 2009**

**March 2**—The government's copy of Form 1099 series returns (along with the appropriate transmittal form) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to March 31.

—The government's copy of Form W-2 series returns (along with the appropriate transmittal form) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to March 31.

**March 16**—2008 income tax returns must be filed or extended for calendar-year corporations. If the return is not extended, this is also the last day for calendar-year corporations to make 2008 contributions to pension and profit-sharing plans.

## **APRIL 2009**

### **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 2008. 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 2009 income tax through withholding (or will not pay in enough tax during the year that way), pay the first installment of your 2009 estimated tax. Use Form 1040-ES.

Note that April 15 is also the deadline for making contributions to IRAs or Roth IRAs for 2008.

**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 2008 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 2007 or 2008 to household employees. Also report any income tax you withheld for your household employees.

**Partnerships/LLCs.** File a 2008 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 five-month extension of time to file the return and provide Schedule K-1, file Form 7004. Then file Form 1065 by September 15.

**Electing large partnerships.** File a 2008 calendar year return (Form 1065-B). If you want an automatic five-month extension of time to file the return, file Form 7004. Then file Form 1065-B by September 15.

**Trusts and Estates.** File a 2008 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 five-month extension of time to file the return and provide Schedule K-1, file Form 7004. Then file Form 1041 by September 15.

**Corporations.** Deposit the first installment of estimated income tax for 2009.

**Gift Tax Returns.** If you made taxable gifts in 2008, 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).