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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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www.IRS.gov

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November 2008

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Year-end Tax Planning for a Volatile Stock Market

For many investors, this has been a frustrating year with various market sectors adversely shaped by record energy costs, a volatile housing finance market, and government intervention. As we look toward year-end, unless market conditions change dramatically, many of us will see a year-to-date decline in our investment portfolio. But, there may be a way to turn some of those underperforming stocks into tax-saving write-offs.

First, taxpayers are generally allowed to offset capital gains and losses from investment (e.g., stock) sales to arrive at a net capital gain or loss figure for tax computation purposes. If you have already generated sufficient stock sale losses this year to offset any stock sale gains, you have likely eliminated the tax bill on those gains.

Next, consider “harvesting” some capital losses to generate additional tax savings. When taxpayers have a net capital loss (capital losses exceeding capital gains), the IRS allows them to offset up to \$3,000 (\$1,500 if married filing separate returns) of those losses against income from other sources (e.g., wages, interest). This \$3,000 write-off could generate up to \$1,050 ($\$3,000 \times 35\%$) in tax savings for someone in the highest tax bracket. So, if you have up to \$3,000 in excess capital losses from investment sales and the ordinary taxable income from other sources (e.g., wages, interest) to offset it, you are in line to save some tax dollars.

Finally, what about taxpayers who have sufficient capital losses to offset their current year capital gains and the \$3,000 of income from other sources, but have additional net capital losses remaining? Taxpayers in this situation might consider selling profitable positions in their portfolio to utilize those remaining net capital losses and eliminate or reduce any future tax due from profitable sales transactions. If you decide not to sell a profitable position or positions to offset losses in excess of \$3,000, those excess losses can be carried forward indefinitely to future years.

Of course, you might be thinking, “I’m a long-term investor, so I’ll just hold on and wait for a healthier stock market.” That’s fine, but you might consider selling some stocks now to generate a current tax saving, and then repurchasing at a future date to maintain your profit potential. Just don’t forget about the wash-sale rules, which disallow losses if you repurchase the same stock within 30 days of the sale. If you are concerned that the stock you sell might make a rapid comeback before the 30-day wash sale period expires, consider purchasing, concurrently with the sale transaction, the stock of another company or an exchange traded fund (ETF) in the same industry sector to maintain your profit potential.

In summary, a year-end review of your investment portfolio might not be all that thrilling, but it could result in current tax savings, increased investment returns in the long run, and the opportunity to make the best of a bad situation.

Year-end Tax Planning Strategies for Individuals and Business Owners

As we approach year-end, there is still time to take action to lower your 2008 tax bill and add to your tax-advantaged retirement accounts. Listed below are a few ideas to get you started.

Make the Standard Deduction Work for You. If your itemized deductions are just at or below the standard deduction (currently \$10,900 for joint filers and \$5,450 for singles), they don’t generate any tax benefit for you. However, you can bunch itemized deductions from two calendar years into a single tax year to take full advantage of them and exceed the standard deduction that year. Then you can take the standard deduction the next year. Following this two-year pattern results in greater deductions overall. Deductions that work well for this strategy include charitable contributions, property taxes, and your January mortgage payment.

Contribute to Your IRA. You can contribute up to \$5,000 (\$6,000 if you are age 50 or older by year-end) to your IRA in 2008, if certain conditions are met. For married couples, the combined contribution limits are \$10,000 (\$5,000 each) and \$12,000 (\$6,000 each if both are age 50 by year-end) when a joint return is filed, provided one or both spouses had at least that much earned income. Please note, if you or your spouse are covered by an employer-sponsored retirement plan, your IRA deduction may be subject to specific conditions and limitations.

Contribute to Your Employer-Sponsored Retirement Plan. The 2008 annual deferral limit for qualified retirement plans is \$15,500. If you are at least age 50 by year-end, you can contribute an additional \$5,000 to 401(k), 403(b), and 457 plans. These contributions normally decrease your taxable income and the income taxes thereon.

50% Bonus Depreciation. Thanks to recent legislation, qualifying equipment, which includes most tangible personal property and software and certain leasehold improvements acquired and placed in use during 2008, is eligible for an immediate 50% bonus depreciation deduction. This is in addition to the normal depreciation deduction on the remaining balance.

Section 179 Expensing Option. For eligible business property, the Section 179 (election to expense otherwise depreciable assets) limit was recently increased to \$250,000 for tax years beginning in 2008 only. However, the Section 179 deduction phases out, dollar-for-dollar, after eligible equipment purchases reach \$800,000 for the same period. So, the \$250,000 deduction is completely phased-out when eligible equipment purchases total \$1,050,000.

Take Advantage of the \$8,000 Additional Qualified Vehicle Deduction. Qualified vehicles acquired and placed in service during calendar year 2008 are eligible for an increased depreciation deduction of up to \$8,000. This deduction is in addition to the normal maximum of \$2,960 for qualified automobiles and \$3,160 for qualified trucks or vans.

Retaining Key Employees

Unless you have capable successors and employees, your closely held business may not survive your departure if key employees leave instead of adapting to the new owners and management. Therefore, a business succession plan should be in place and contain strategies to identify, retain, and reward key employees.

There are numerous methods for retaining and rewarding a key employee's commitment, loyalty, and hard work. The most effective incentives are usually monetary and include, but are not limited to, the following types of incentives.

Incentive Stock Options. Incentive Stock Options (ISOs) can provide key employees additional compensation through the opportunity to share in the appreciation of the company's stock value. ISOs are usually granted to the employee at no cost with an exercise price at or above the stock's current market price; however, they might have alternative minimum tax implications.

Nonqualified Stock Option. A nonqualified stock option (NQSO) is an option that specifically states it is a NQSO or one that does not meet the requirements of an ISO. Like an ISO, you can use a NQSO to provide key employees additional compensation through the opportunity to share in the appreciation of the company's stock value.

Restricted Stock. A restricted stock plan transfers stock to an employee subject to certain restrictions. Often, the shares are transferred to the employee at little or no cost, but are subject to forfeiture if the employee fails to fulfill the terms of the plan. A common restriction requires employees to forfeit their shares if they terminate employment within a certain number of years.

Minimum Wage Increase

Effective January 1, 2009, Florida's minimum wage will increase to \$7.21 per hour from \$6.79. If federal and state minimum wage rates are not the same, federal law directs businesses to pay the higher of the two wage rates. The Florida minimum wage rate will prevail over the federal rate until such time as the federal minimum wage becomes higher. Federal and Florida minimum wage requirements will increase to \$7.25 on July 24, 2009.

Social Security Wage Base Rises to \$106,800 for 2009

The Social Security Administration has announced that the wage base for computing the Social Security tax (OASDI) in 2009 rises to \$106,800 from \$102,000 in 2008, an increase of about 4.7%. The \$4,800 increase is due to an increase in average total wages.

- ❖ Observation: The increase from 2008 to 2009 is \$300 larger than the increase from 2007 to 2008 (when the wage base increased by \$4,500).

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 \$106,800 (or more), an employee and his employer each will pay \$297.60 more (\$6,621.60 instead of \$6,324) in Social Security tax in 2009 than in 2008.
- ❖ Illustration: A self-employed person with at least \$106,800 in net self-employment earnings will pay \$595.20 more (\$13,243.20 instead of \$12,648) in the Social Security part of the self-employment tax in 2009 than in 2008.
- ❖ 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.

Export University 101: Introduction to Exporting

Export University is a training program developed by the Florida District Export Council in cooperation with the Florida Trade Alliance Partners to help Florida companies begin export initiatives, and to gain increasing skills and innovation in their international sales. Export University 101 is designed for new-to-export firms that would like expert advice on the export basics. Attendees will receive a certificate following completion of this course. This course is ideal for marketing and sales management and staff, export operations personnel, purchasing, logistics, and anyone with a responsibility for import/export functions. Course goals include: 1) evaluating export readiness; 2) developing an export marketing plan; and 3) understanding the basics about U.S. export regulations, logistics and how to ensure that you get paid. This course does not treat the topics of foreign or outsourced manufacturing.

When: Tuesday, November 18, 2008
From 8:30 a.m. to 4:00 p.m.

Where: Mori Hosseini Center Bldg.
1200 W. International Speedway Blvd.
Daytona Beach, Florida 32114

Cost: \$45 Covers Program, Lunch, 2 Coffee Breaks and Cookies
(free parking)
Register by 5:00 p.m. Friday, November 14, 2008

REGISTRATION AND PAYMENT

For registration and full agenda, please go to www.floridaexporter.com/Daytona101.

Payment Credit Card (MC, VISA, AMEX)

Questions: Doris Bernal bernal@DaytonaState.edu, phone 386-506-3582 or Shirley Klein 386-506-4327.

Small Employer Pension Plan Startup Credit – Form 8881

Eligible small employers that adopt a new qualified defined benefit or defined contribution plan (including a Code Sec. 401(k) plan, SIMPLE plan, or simplified employee pension) may claim a nonrefundable credit. The credit is equal to 50% of administrative and retirement-related education expenses for the plan for each of the first three plan years, with a maximum credit of \$500 for each year. The first credit year is the tax year that includes the date the plan becomes effective, or, electively, the preceding tax year.

The pension plan startup credit is available only to businesses that did not employ, in the preceding year, more than 100 employees with compensation of at least \$5,000. But, an employer isn't an eligible employer if, during the three-tax year period immediately preceding the first tax year for which the credit is otherwise allowable, it or any member of any controlled group including the employer (or any predecessor of either) established or maintained a qualified employer plan to which contributions were made, or benefits were accrued, for substantially the same employees that are in the qualified employer plan. To be eligible for the credit, the plan must cover at least one nonhighly compensated employee. If the credit is for the cost of a payroll-deduction IRA plan, it must be made available to all employees who have worked with the employer for at least three months.

No deduction is allowed for that portion of the qualified startup costs paid or incurred for the tax year which is equal to the credit.

NOVEMBER 2008

November 10

Social Security, Medicare, and withheld income tax. File Form 941 for the third quarter of 2008. This due date applies only if you deposited the tax for the quarter in full and on time.

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

November 17

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

Nonpayroll withholding. If the monthly deposit rule applies, deposit the tax for payments for October.

Victims of Tropical Storm Fay

Individuals may file their 2007 income tax return and pay any tax, interest, and penalties due (if you were given an automatic six month extension).

Partnerships may file a 2007 calendar year return (Form 1065), (only if you were given an automatic six month extension). Provide each partner with a copy of Schedule K-1 (Form 1065) or a substitute Schedule K-1.

S corporations may file a 2007 calendar year income tax return (Form 1120S) and pay any tax due. (if you timely requested an automatic six-month extension). Provide each shareholder with a copy of Schedule K-1 (Form 1120S).

DECEMBER 2008

December 10

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

December 15 Calendar-year corporations must deposit the fourth installment of estimated income tax for 2008.