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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.

Other helpful on-line services		
www.IRS.gov	www.MyFlorida.com	www.Volusia.org

October 2008

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Navigating Turbulent Times

During troubled times we often receive calls for insights into how to avoid missteps and protect businesses and investments. Below are some tips to help you assess your current financial condition and your business plan to face the current economic challenges.

1. Begin by reviewing your cash position and anticipated cash needs. Are they in line with your business's short-term needs and goals? Cash is king in the current business environment.

2. Take a fresh look at your monthly income and expenses. Are you meeting your projections? How much of a drop in revenues can your business withstand and for how long? What are your cash-flow needs for the next 90 to 120 days? Or 120 to 180 days? Do you have sufficient cash reserves for the next 30 to 60 days?

3. Check with your lenders on the status of your credit lines. Are you in compliance with their terms? Will your bank renew their commitments at similar amounts, rates and terms?

4. Reduce your reliance on credit by disciplining your spending.

5. Refocus on your balance sheet and how much credit (accounts receivable) you are extending to your customers.

6. If your credit lines are at maximum limits, consider meeting with vendors and working out a schedule of partial payments that will allow continued delivery of critical materials and supplies.

7. Consider alternative types of financing including loans on life insurance policies, private lenders or U.S. Small Business Administration backed loans.

8. Keep a close eye on your accounts receivable. Watch for new patterns of slow payments and follow up immediately. Review your largest and riskiest accounts to determine whether credit constraints or economic slowdown will affect their ability to pay you. Keep receivables aging current at all times.

9. Manage accounts payable more closely. If absolutely necessary, forfeiting early pay discounts may help preserve cash that may be needed for critical items, although this is a costly form of borrowing. Keep accounts payables aging current at all times, because aging is an important tool for managing cash.

10. Analyze your expenses and determine which ones can be controlled. Can you reduce spending in any areas to put less of a burden on your cash-flow needs? As necessary, communicate to staff/team members about the need to tighten spending.

    If you are a manufacturer, review inventory management practices. Are there opportunities to reduce your on-hand inventory?

    Service companies should make sure they're capturing all their billable hours and invoicing promptly. Have you billed all your contractual items? How about all your pass-through expenses, such as billable third-party services and travel and living expenses?

11. Consider ways to pass your increased costs (i.e. fuel expense) on to your customers.

12. If necessary, reduce overall staff hours (and possibly compensation) in order to maintain valuable staff until business levels improve. However, if staff reductions are warranted, move quickly and decisively to lower costs.

13. Check the safety of any cash deposits you have. On October 3, 2008 the FDIC deposit insurance was temporarily raised from $100,000 to $250,000 per depositor through December 31, 2009. If you have more than $250,000 in any one bank, move the excess to another FDIC insured bank. Consider investments such as CDARs (Certificates of Deposit Account Registry) to spread the risk of short to medium-term cash you may have invested in CDs.

14. Don't engage in panic selling your investments. Make sure your portfolio is diversified and in accordance with your risk tolerance.

15. Create a plan NOW to respond to future declines in revenues, before they actually occur. Re-think your business strategies and update projections. Review your product/service lines to identify the most profitable items and determine how to leverage for future growth in profits.

16. Maintain contact with your good customers. Even casual discussions can sometimes lead to new business opportunities.

17. Review your insurance coverage, particularly any from companies with weak balance sheets or less than excellent ratings. Be careful not to surrender a policy, as securing new coverage might require underwriting that can affect your coverage.

18. Address any employee's fears about how this crisis will affect the company, their jobs and their retirement or other benefit plans. Speculation and gossip are counterproductive, so it's better to address their concerns directly.

For help in understanding some of the issues facing small business, you can turn to the CPA profession's free Financial Literacy Web site for consumers, www.360financialliteracy.org. It offers tools and tips to help you make important decisions for your business and your own personal financial planning needs.

Finally, remain focused on your own advantages. Remember:

- Small businesses have greater flexibility and can more easily adjust to changes in the economy than their larger counterparts.
- Small business owners can use the recent crisis as an opportunity to buckle down, refocus, assess and make their company more financially sound, disciplined and less reliant on credit.

During tough times, it's important to maintain communication with your CPA firm and other trusted advisers. We know and understand business and challenges faced by owners. We can assist you in navigating these turbulent times by helping you gauge your current situation in the wake of recent market events and in creating a sound business plan in response.

Documenting Charitable Contributions

One of the most popular tax deductions is the one allowed for donations to charitable organizations—from the local church or synagogue to the Red Cross and various other national organizations. Unfortunately, over the last several decades, this deduction has also been among the most abused. Thus, perhaps it is not surprising that Congress has responded to the problem by regularly enacting more rules around documenting donations.

What we're left with is a confusing array of rules that you have to comply with in order to claim a deduction, when a few years ago all you really needed in most cases was a cancelled check. A recent court case illustrates how easy it is to run afoul of the documentation requirements.

In the case, the taxpayers did nothing more than donate several thousand dollars to their church during the tax year. Although the donations were made by check, the IRS disallowed all but a few hundred dollars because the taxpayers failed to obtain a timely receipt from their church to support the donations. Such receipt (or receipts) must be received by the time you file your return for the year of the donation (or, if earlier, by when the return is due). In addition, it must list any significant goods or services received in return for the donation (other than intangible religious benefits) or specifically state that the donor received no goods or services from the charity. In the case at hand, the taxpayers waited until their charitable deduction was challenged before trying to get a proper receipt. By then, of course, it was too late.

Why did the IRS only allow a few hundred dollars of the claimed deductions? The requirement to obtain a receipt only applies where a single donation (or a group of related ones) totals $250 or more. Eight of the taxpayers' donations during the year (totaling a little over $400) were for less than this amount. Thus, their cancelled checks were sufficient support for the deduction.

Separate from this court case, the IRS recently released new guidance on substantiating contributions. One area of focus is on the relatively new requirement that when donating cash, taxpayers can only obtain a deduction if they have a proper receipt from the charity. For taxpayers who incur unreimbursed out-of-pocket expenses while performing charitable work, this appeared to create a situation where such taxpayers might lose their deductions for these types of expenses, since it is generally not practical to obtain receipts from charities for out-of-pocket expenses they know nothing about. Fortunately, the IRS has indicated they plan to adopt the common sense rule that if the out-of-pocket expenses for a charitable activity or event are less than $250, the donor can document the expenses simply by keeping appropriate purchase receipts or other reasonable written evidence.

While this has given you just a glimpse at the documentation rules for charitable donations, we'd be happy to discuss with you any of the requirements for specific types of donations. Please feel free to call us as the need arises.

Business Recovery Grants Available

Funding to assist Volusia County businesses affected by the flood waters of Tropical Storm Fay is available by the U.S. Department of Labor as part of a national emergency grant. Administered by the Center for Business Excellence, grants for up to $5,000 will be available to help pay for recovery costs incurred as a result of the storm. To qualify, businesses must have 25 or fewer employees, have an unemployment compensation account, been in business for at least 12 months prior to the Tropical Storm Fay, and have at least one employee unable to work as a result of the storm. If you or someone you know would like to apply for one of the grants, call the Center of Business Excellence hotline at (386) 323-7079 (the hotline is a recorded message). Please be prepared to leave your name, business name, location and telephone number. Messages are reviewed hourly. You will be contacted to arrange a meeting time to visit your business and process your application for benefits.

New Property Tax Deduction for Non-Itemizers

For tax years beginning in 2008, the Act permits taxpayers who claim the standard deduction instead of itemizing deductions to claim an additional deduction for State and local property taxes paid. The deduction can't exceed the lesser of State and local property taxes actually paid or $500 ($1,000 for joint return filers).

Taxes taken into account in arriving at adjusted gross income (i.e., taxes deducted as trade or business expenses in computing the taxpayer's adjusted gross income) aren't taken into account in computing the new property tax deduction.

OCTOBER 2008

October 10

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

October 15

Individuals. File a 2007 income tax return and pay any tax, interest, and penalties due if you were given an automatic six month extension.

Partnerships. File a 2007 calendar year return (Form 1065). This due date applies 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.

Electing large partnerships. File a 2007 calendar year return (Form 1065-B). This due date applies only if you were given an automatic six month extension

October 31

Social Security, Medicare, and withheld income tax. File Form 941 for the third quarter of 2008. Deposit any undeposited tax. (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 November 10 to file the return.

Federal unemployment tax. Deposit the tax owed through September if more than $500.

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 (From 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).