



## Celebrating our 20th Anniversary

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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 will be 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)

### October 2007

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## Year-End Planning

As the end of the year approaches, it is a good time for you to engage in tax planning, which will be more challenging than usual because of uncertainty over whether and how Congress will extend AMT relief to avoid millions more becoming entrapped by it in 2007, and whether Congress will extend a number of important tax breaks expiring at the end of 2007.

For individuals, these include the option to deduct state and local sales and use taxes, the above-the-line deductions for qualified tuition expenses and educator expenses, the tax credit for making qualifying energy saving improvements to a home, such as insulation and energy-saving windows, and the option for individuals who have attained age 70 ½ to exclude up to \$100,000 a year for otherwise taxable distributions from an IRA (or a Roth IRA) that are paid directly to a qualifying charitable organization by the IRA trustee. For businesses, tax breaks that will expire at the end of this year unless they are extended by Congress include the research tax credit, faster writeoffs for leasehold and restaurant improvements, and enhanced deductions for certain contributions to charity.

We have compiled a checklist of actions that may help you to save taxes if you act before year-end. Not all actions will apply in your particular situation, but you will likely benefit from some of them.

- Increase the amount you set aside for next year in your employer's health flexible spending account if you set aside too little for this year. Don't forget you can set aside amounts to get tax-free reimbursements for over-the counter drugs, such as aspirin and antacids, if your employer's plan so allows.
- If you own an interest in a partnership or S corporation and the entity has a projected loss for 2007, you may need to increase your basis in the entity so you can deduct the loss this year.
- If your business pays tax on the cash basis, consider using a credit card to prepay expenses that can generate deductions for this year.
- If you are thinking of making energy saving improvements to your home, such as putting in extra insulation or installing energy saving windows, consider doing so before year end in order to qualify for a tax credit that may not be available after 2007.
- If you are thinking of buying a hybrid vehicle eligible for a tax credit, purchase it before year-end after confirming that the particular model still qualifies for the credit.
- Business clients also should consider making expenditures that qualify for the \$125,000 business property expensing option.
- You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction this year.
- You may be able to save taxes this year and next year by applying a "bunching" strategy to "miscellaneous" itemized deductions, medical expenses and other itemized deductions. For example, consider extending your subscriptions to professional journals, paying union or professional dues, to bunch into 2007 miscellaneous itemized deductions subject to the 2%-of-AGI floor. Also, timing the payment of real estate taxes so that two years are paid in one calendar year can help to itemize every other year.
- If you could be facing a penalty for underpayment of estimated tax, you may be able to eliminate or reduce it by increasing your withholding between now and the end of the year.
- Self-employed individuals should consider setting up a self-employed retirement plan.
- You can save gift and estate taxes by making gifts sheltered by the annual gift tax exclusion before the end of the year. You can give \$12,000 in 2007 to an unlimited number of individuals but you can't carry over unused exclusions from one year to the next.

- This year, the kiddie tax rules apply to kids under age 18; next year they will also ensnare most children age 18 and full time students age 19 through 23. If your child holds appreciated stock, and isn't in kiddie tax territory this year but will be in 2008, consider having him or her sell the stock this year. In many cases this will result in a 5% tax on the gain, instead of 15% if the sale is postponed till next year.
- If you're thinking of donating a used auto to charity, you may want to inquire whether the charity plans to sell the car or use it in its charitable activities; the latter may yield a bigger deduction for you.
- If you are contemplating marriage or divorce consider the potential tax impact of filing as married or single.
- If you are age 70 ½ or older, and own IRAs (or Roth IRAs), and are thinking of making a charitable gift before year-end, arrange for the gift to be made directly by the IRA trustee. Such a transfer can achieve important tax savings but it won't be available after 2007 under current law.

These are just some of the year-end steps that can be taken to save taxes. Should you have any questions or wish to discuss the type of planning that could work for you, please do not hesitate to give us a call.

### **Disinherited by Vanguard (September 3, 2007 Forbes Magazine)**

In late July the Vanguard group sent 170,000 customers a form letter innocuously labeled: "Change in beneficiary policy will help you simplify your planning." A more candid heading would have been: Warning! Unless you act, we're about to change who gets your individual Retirement Accounts when you die."

Vanguard has decided that, as of mid-September, it will require customers to use identical beneficiaries for all IRAs of the same type. All your IRAs holding money rolled from employer pension plans count as the same type and must have the same beneficiaries. Traditional IRAs, both pretax and aftertax, are a second type. Roth IRAs are a third.

If you're one of 170,000 customers who now have different beneficiaries named for separate IRAs of the same type or different beneficiaries for different mutual funds within a single IRA, Vanguard will apply the newest beneficiary form to all your IRAs of one type – unless you contact Vanguard and direct otherwise. If two forms were submitted at the same time, Vanguard will treat the one it processed later as newer. This is crucial, since it's the form – not your will – that determines who gets your IRAs.

Say you've named your oldest child primary beneficiary of one rollover IRA and your younger child primary beneficiary of another. If you don't read your mail carefully, or were on vacation or in the hospital when the letter came, and you die without contacting Vanguard, one of your kids could be done out of his IRA inheritance. When FORBES showed Vanguard's letter to IRA experts, they were outraged. "This borders on the unconscionable," fumed Green Bay, WI, CPA Robert Keebler. "It's crazy. I don't see how they can change the beneficiaries on your account without your consent," said Boston lawyer Natalie Choate.

Colin Kelton, the Vanguard official who signed the July letter, argues customers are getting adequate advance notice and will get a second letter in September alerting them that the beneficiary change has been made.

What if clients pick up the phone and ask to keep different beneficiaries for separate IRAs of the same type? In two customer service calls FORBES was told that's impossible. "There's no way to override the computer," declared one rep. He added that Vanguard is "a low-cost provider" and permitting different beneficiaries would increase its cost.

The other rep insisted that Vanguard's competitors wouldn't allow it either. Not so. Fidelity and Charles Schwab, which holds the most IRA assets, said clients can name different heirs for different accounts of the same type. So did American Funds, Citibank, E-Trade, Janus, Merrill Lynch, MFS and Wachovia. Of those we surveyed, only T. Rowe Price doesn't allow it.

Kelton said that Vanguard might make an exception if a customer could show different beneficiaries were needed. But he couldn't think of any examples where they would be, and those we offered – all cases where lawyers advise it – didn't qualify, he said. What if you want to leave one IRA to charity and one to your kids or one to your kids from your first marriage and one to your current spouse? Kelton says a customer should indicate on the form the percentage each heir is to get and executor of this estate can split the IRA up.

The Internal Revenue Service has allowed such postmortem IRA splits since 2002. But the executor must meet strict deadlines. If, for example, an IRA going partly to a charity isn't split in time, other heirs lose the ability to stretch out payouts and tax deferral over their own lives. So many advisers recommend establishing separate IRAs for separate beneficiaries before your death. "That way, it can't get goofed up," says Keebler. Stephanie Rapkin, a Mequon, WI estate lawyer, was leaving one Vanguard IRA to charity and another to her family. Now she plans to move them both from Vanguard.

What if you want to invest IRA funds for different beneficiaries differently, based on their own assets or taste for risk? Will Vanguard allow different beneficiary forms in that case? No, says Kelton, because it could drag Vanguard into family disputes, and curbing litigation is one reason it's changing its policy. The real problem is that Vanguard has allowed an account owner to name one beneficiary for one mutual fund and a different beneficiary for another fund within a single IRA. Later, the beneficiary of a dud fund might argue that when the IRA was set-up, his fund had 50% of the money and that the account owner really meant to leave him 50% of the whole account. But that's not a problem with separate beneficiaries for separate accounts.

Estate lawyer Choate speculates that Vanguard could end up getting sued anyway – by beneficiaries who were accidentally bumped.

### **Florida Minimum Wage to Increase**

Florida's minimum wage will increase 12 cents an hour next year, or just 1.8 percent.

The Florida Agency for Workforce Innovation says the \$6.79 rate will start Jan.1. It is based on an annual consumer price adjustment. For workers whose tips are counted as part of their wage, the minimum will go to \$3.77 an hour, plus the tips. That is up from \$3.65 an hour set for this year.

While the cost of food and fuel has gone "way, way, way up," the state apparently was basing the increase on the core CPI, which doesn't include those items, said Mark Soskin, a University of Central Florida economist. "You take those off there, the CPI has not been going up."

The 1.8 percent increase isn't much but it's "still a lot better than the national minimum wage," Soskin said.

The federal minimum wage is \$5.85 an hour.

The state's minimum wage went up to \$6.15 an hour in 2005 when voters approved a constitutional amendment the previous year. It went up again to \$6.40 in 2006.

This year, it is at \$6.67 an hour, a 27-cent increase from the previous year.

For Florida, the good news is that gloom and doom predicted when the amendment was approved hasn't happened, Soskin said.

"We have found firms have been able to very easily pass on the higher prices."

### **State Leaders Push for Property Tax Plan (October 16, 2007 Daytona Beach News Journal)**

Amendment could save \$2 billion for homeowners – TALLAHASSEE – Florida lawmakers began reviewing a fall-back overhaul to the state's property tax system Monday, October 15<sup>th</sup> facing questions about the legality and value of some of its key measures.

Senate and House leaders have targeted a mid-week vote on the plan, a state constitutional amendment projected to save property owners from paying somewhere in the neighborhood of \$2 billion in taxes next year.

But even as lawmakers pushed for resolution, questions swirled in Tallahassee and beyond about the measure's key elements, including a plan to let homeowners transfer savings under the state's signature Save Our Homes assessment cap when they move.

The proposal, called portability, is part of a plan meant to supplant an earlier proposed constitutional amendment deemed misleading by a judge. That plan would have phased out the popular 3 percent cap on annual assessment increases.

"I think this contains components that are desired by a huge number of people in Florida," said Rep. Dean Cannon, R-Winter Park the House's top tax negotiator.

"But what's best about this is it's ultimately in the hands of voters."

House and Senate committees began debating the plan Monday, during the first full day of a special legislative session. If approved this week, the plan would go to voters in January as a proposed constitutional amendment.

The plan, broadly agreed upon by Senate and House leaders and Gov. Charles Crist, also includes proposals that would double the state's homestead exemption, give a tax exemption to low-income seniors and create a first time homebuyer's exemption worth 25 percent of a homestead's value.

Most parts of the plan would not affect funding for public schools. But lawmakers disclosed Monday some parts could cost education more than \$400 million a year, drawing immediate objections from Democrats.

Perhaps the most far-reaching part of the proposal is portability, once a marginal concept championed by a handful of legislators. Along with the first-time homebuyers exemption, it is viewed as a way to stimulate the battered housing market.

Portability would let a homestead property owner transfer savings under Save Our Homes to a new primary residence.

The savings is the difference between the just value – the property appraiser's estimate of market value – and the assessed value.

But the idea has been dogged by questions about whether it would exacerbate existing inequities that force non-homestead properties like businesses to shoulder disproportionate tax burdens and whether it would withstand court challenge.

A state-contracted legal analysis concluded this year that portability could be vulnerable to a constitutional challenge, particularly on the grounds it discriminates against out-of-state homeowners who moved to Florida. A successful challenge could force the state to repay huge sums in collected taxes.

Cannon said lawmakers cannot predict what the courts will do.

“Our job is to do our absolute best to write good policy and then let the courts deal with it as they will,” he said after a House committee passed the plan unanimously.

The Senate’s top tax negotiator, Sen. Mike Haridopolos, R-Indianapolis, said the proposal to give a 25 percent tax break to new homebuyers would help defuse concerns by eliminating the differential between people who have Save Our Homes and people who move into the state.

Under the Legislature’s proposal, a homeowner could transfer the entire savings when relocating to a more valuable homestead or the same percentage savings when moving to a less valuable homestead.

For example, if a person moved from a \$250,000 home with an assessed value of \$125,000 to a \$400,000 home, the new home’s assessed value would be \$275,000.

Nancy Riley, president of the Florida Association of Realtors, said her group supports one-time portability but also wants broader tax reform that could help owners of commercial property and second homes.

But Mark Soskin, a University of Central Florida economics professor, said portability would give “another huge windfall” to Save Our Homes recipients while shifting more of tax burden to non-homestead property owners and renters.

“You end up with a smaller and smaller segment paying a larger and larger share,” Soskin said.

For tax-cut advocates, the fact that portability, the first-time homebuyer’s exemption and additional homestead exemption would not apply to school taxes is one of the several concerns.

“They need to go back to the drawing board,” said Margie Patchett, executive director of Volusia Tax Reform.

In Volusia County, school taxes make up an average of 39 percent of each tax bill, said Property Appraiser Morgan Gilreath. That means homeowners would get 61 percent portability. “If it doesn’t say that on the amendment language, then it’s still going to be misleading,” Gilreath said.

**Business tax benefit** – The proposal also provides a \$25,000 exemption for each tangible personal property tax return, which reduces the amount of property subject to tax.

## **OCTOBER 2007**

### **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 2006 income tax return and pay any tax, interest, and penalties due if you were given an automatic six month extension.

Partnerships. File a 2006 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 2006 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 2007. 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 13 to file the return.

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

## **NOVEMBER 2007**

### **November 13**

Social Security, Medicare, and withheld income tax. File Form 941 for the third quarter of 2007. This due date applies only if you deposited the tax for the quarter in full and on time.

### **November 15**

**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 in October.