

Cohen Smith & Company, P.A.

NEWSLETTER



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In This Issue

- Good News for High-Income Taxpayers
- Employer-Owned Life Insurance – Income Tax Trap
- Storing Tax Records: How Long Is Long Enough?
- Tax Calendar



Good News For High-Income Taxpayers

Adjusted gross income-based personal exemption phaseout and itemized deduction reduction are gone. For 2010, taxpayers with higher levels of AGI will no longer face a phaseout of their deduction for personal exemptions or a reduction in their itemized

deduction. For 2009, the personal exemption phaseout began when AGI exceeded these threshold amounts: \$250,100 (joint return or surviving spouse), \$208,500 (head of household), \$166,800 (single) and \$125,100 (married filing separately). And the Itemized deduction reduction began when AGI exceeds \$166,800 (\$83,400 for married filing separately).



Employer – Owned Life Insurance – Income Tax Trap

While we normally recommend use of “cross-purchase” life insurance

policies (owned by the individuals) when funding multiple-owned life insurance, some companies may purchase and own “key man” life coverage for one or more employees. Such coverage is usually designed to provide an “economic shelter” to the company in the event of an untimely death of an important employee.

For life insurance policies issued after August 17, 2006, several technical requirements must be met in order to avoid having to report insurance proceeds as taxable income. Failure to conform with the following requirements can cause life insurance proceeds to be reported as taxable income by the company.

First, before the issue date, the employee must be notified in writing of the intent to insure, along with the face amounts of the policy. The employee must provide written consent to being insured and be informed that the company will be the beneficiary of any policy proceeds payable upon death of the employee.

Second, the employer must file a return (Form 8925 – Report of Employer-Owned Life Insurance Contract) each year providing:

1. The number of employees at the end of the year.
2. Number of employees insured under employer-owned life insurance contracts.
3. The total amount of insurance in force.
4. That the company has a valid consent for each insured employee.



Storing Tax Records: How Long Is Long Enough?

Now that another year has come and gone, some tax records will soon be ready for storage.

Federal law requires you to maintain copies of your tax returns and supporting documents for three years; called the “three-year law” and leads many people to believe they’re safe provided they retain their documents this period of time.

However, the RIS believes you have significantly underreported your income (by 25 percent or more), or believes there may be indication of fraud, it may go back six years in an audit. To be safe, use the following guidelines:

Business Documents To Keep For Three Years

- ◆ Correspondence with Customers and Vendors
- ◆ Duplicate Deposit Slips
- ◆ Purchase Orders
- ◆ Employee Personnel Records (after termination)
- ◆ Employment Applications
- ◆ Expired Insurance Policies
- ◆ General Correspondence
- ◆ Audit Reports
- ◆ Internal Reports
- ◆ Petty Cash Vouchers
- ◆ Physical Inventory Tags
- ◆ Time Records for Hourly Employees

Business Documents To Keep For Six Years

- ◆ Accident Reports, Claims
- ◆ Accounts Payable Ledgers and Schedules
- ◆ Accounts Receivable Ledgers and Schedules
- ◆ Bank Statements and Reconciliations
- ◆ Cancelled Checks
- ◆ Cancelled Stock and Bond Certificates
- ◆ Documents substantiating asset additions (after disposal)
- ◆ Employment Tax Records
- ◆ Expense Analysis and Expense Distribution Schedules
- ◆ Expired Contracts, Leases

- ◆ Inventories of Products, Material, Supplies
- ◆ Invoices to Customers
- ◆ Notes Receivable Ledgers, Schedules
- ◆ Payroll Records and Summaries (including payment to pensioners)
- ◆ Sales Records
- ◆ Subsidiary Ledgers
- ◆ Time Books
- ◆ Travel and Entertainment Records
- ◆ Vouchers for Payments to Vendors, Employees, etc.
- ◆ Vouchers Register, Schedules

Business Records To Keep Forever

While federal guidelines do not require you to keep tax records “forever,” in many cases there will be other reasons you’ll want to retain these documents indefinitely.

- ◆ Audit Reports from CPAs/Accountants
- ◆ Cancelled Checks for Important Payments (especially tax payments)
- ◆ Contracts, Leases Currently in Effect
- ◆ Corporate Documents (incorporation, charter, by-laws, etc.)
- ◆ Documents substantiating asset additions
- ◆ Deeds
- ◆ Depreciation Schedules
- ◆ Financial Statements (Year End)
- ◆ Insurance Records, Current Accident Reports, Claims, Policies
- ◆ IRS Revenue Agents Reports
- ◆ Legal Records, Correspondence and Other Important Matters
- ◆ Minute Books of Directors and Stockholders
- ◆ Mortgages, Bills of Sale
- ◆ Property Appraisals by Outside Appraisers
- ◆ Retirement and Pension Records
- ◆ Tax Returns and Worksheets
- ◆ Trademark and Patent Registrations
- ◆ Year End Trial Balances

Personal Documents To Keep For One Year

- ❖ While it’s important to keep year-end mutual fund and IRA contribution statements forever, you don’t have to save monthly and quarterly brokerage and

investment account statements, once the year-end statement has arrived.

Personal Documents To Keep For Three Years

- ❖ Credit Card Statements
- ❖ Medical Bills (in case of insurance disputes)
- ❖ Expired Insurance Policies

Personal Documents To Keep For Six Years

- ❖ Supporting Documents For Tax Returns
- ❖ Accident Reports and Claims
- ❖ Medical Bills (if tax-deduction claimed)
- ❖ Major Purchase Receipts
- ❖ Other Tax-Related Bills
- ❖ Depreciation Schedules and Other Capital Asset Records (keep for 6 years after disposal)

Personal Records To Keep Forever

- ❖ Legal Records
- ❖ Important Correspondence
- ❖ Income Tax Returns
- ❖ Income Tax Payment Checks
- ❖ Property Records/Improvement Receipts (or six years after property sold)
- ❖ Investment Basis Schedules
- ❖ Retirement and Pension Records

Special Circumstances

- ❖ Car Records (keep until car is sold)
- ❖ Credit Card Receipts (keep until verified on your statement)
- ❖ Insurance Policies (keep for the life of the policy, plus one year)
- ❖ Mortgages/Deeds/Leases (keep 6 years beyond the agreement)
- ❖ Property Records/Improvement receipts (keep forever or six years after property sold)
- ❖ Pay Stubs (keep until reconciled with your W-s, plus one year)
- ❖ Sales Receipts (keep for life of the warranty)
- ❖ Stock and Bond Records (keep for 6 years beyond selling)
- ❖ Warranties and Instructions (keep for the life of the product)
- ❖ Other Bills (keep until payment is verified on the next bill)

- ❖ Depreciation Schedules and Other Capital Asset Records (keep for 6 years after disposal)

TAX CALENDAR



FEBRUARY 2010

February 1

Most employers must file Form 941 (Employer's Quarterly Federal Tax Return) to report Medicare, Social Security, and income taxes withheld in 2009. 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 February 10 to file the return. Small employers who have been notified by IRS should file Form 944 (Employer's Annual Federal Tax Return).

File Form 940 [Employer's Annual Federal Unemployment (FUTA) Tax Return] for 2009. If your undeposited tax is \$500 or less, you can either pay it with your return or deposit it. If it is more than \$500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.

File Form 945 (Annual Return of Withheld Federal Income Tax) for 2009 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc. 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 year in full and on time, you have until February 10 to file the return.

Employers must file Form UCT-6 with the Florida Department of Revenue.

Give annual information statement to recipients of certain payments you made during 2009. You can use the appropriate version of Form 1099 or other information return.

Give your employee their copies of Form W-2 for 2009. If an employee agreed to receive Form W-2 electronically, have it posted on the website and notify the employee.

February 10

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

MARCH 2010

March 1

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 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 15

2009 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 2009 contributions to pension and profit-sharing plans.

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

Other helpful line services



[www.IRS.gov](http://www.irs.gov)
www.MyFlorida.com
www.Volusia.org