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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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December 2008

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Electronic Tax organizer

Beginning with the 2008 tax filing season, we will be including an option for clients to receive an electronic tax information organizer. In prior years, these organizers have been mailed in January as part of our normal tax preparation process. If you would like to receive your 2008 individual income tax organizer via e-mail, please contact Susan Kuhl in our office at: (386) 738-3300 or smkuhl@cohensmithcpas.com.

Year-end Tax Planning, continued from November

- Postpone income until 2009 and accelerate deductions into 2008 to lower your 2008 tax bill. This strategy may enable you to claim larger deductions, credits and other tax breaks for 2008 that are phased out over varying levels of adjusted gross income (AGI). These include IRA and Roth IRA contributions, conversions of regular IRAs to Roth IRAs, child credits, higher education tax credits, the above-the-line deduction for higher-education expenses, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2008. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year, or if political winds shift to higher rates in 2009.
- If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into Roth IRAs if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2008.
- If you own an interest in a partnership or S corporation, you may need to increase your basis in the entity so you can deduct a loss from it for this year.
- Consider using a credit card to prepay expenses that can generate deductions for this year.
- Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2008, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. This includes the deduction for state property taxes on your residence, state sales tax, miscellaneous itemized deductions, and personal exemption deductions. Other deductions, such as for medical expenses, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. As a result, in some cases, deductions should be deferred rather than accelerated to keep them from being lost because of the AMT.
- If you are thinking of making energy savings improvements to your home, such as putting in extra insulation or installing energy saving windows, postpone your move until 2009. A credit of up to \$500 may be available for such improvements if made next year (but not this year).
- Substantial tax credits are available for installing energy generating equipment (such as solar electric panels or solar hot water heaters) to your home. The credits are available whether you spend the money this year or next, but if you're installing solar electric property, and will be spending more than \$6,667, the credit will be larger for expenses made in 2009 rather than 2008 (refer to separate newsletter article on Residential Energy Credit).
- If you are thinking of buying a hybrid vehicle eligible for a tax credit, check to see if it's eligible for the credit, and, if so, purchase it before year-end.
- If you are self-employed and haven't done so yet, set 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 2008 to an unlimited number of individuals, but you can't carry over unused exclusions from one year to the next.

- 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 age 70 ½ or older, own IRAs (or Roth IRAs), and are thinking of making a charitable gift before year-end, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer can achieve important tax savings (refer to separate newsletter article, on IRA Transfers to Eligible Charities).

Congress Extends Numerous Tax Breaks

The recent Tax Extenders and AMT Relief Act of 2008 (Extenders Act) provides extensions for several popular tax breaks and the addition of several new relief provisions, including disaster-area tax relief. Following is an overview of *some* of the key provisions for individuals and business owners in the new legislation:

- ***College Tuition Deduction.*** The above-the-line deduction for up to \$4,000 of college tuition and related fees was retroactively restored for 2008 and extended through 2009.
- ***Optional Sales Tax Deduction.*** The optional itemized deduction for general state and local sales taxes was retroactively restored for 2008 and extended through 2009.
- ***Additional Standard Deduction for Property Taxes.*** The new (for 2008) standard deduction for nonitemizers of up to \$1,000 for married joint-filers (\$500 for others) was extended through 2009.
- ***Educator Expense Deduction.*** The above-the-line deduction for up to \$250 of personal expenditures by teachers and other school employees was retroactively restored for 2008 and extended through 2009.
- ***IRA Rollover Provision.*** The provision allowing qualified taxpayers to make tax-free contributions from their IRA plans to qualified charitable organizations is extended through 2009.
- ***15-year Cost Recovery.*** The 15-year write-off for qualified leasehold, restaurant, and retail improvements is extended through 2008.
- ***S Corporation Charitable Contributions of Property.*** Favorable Subchapter S basis rules for gifts of appreciated property are extended through 2009.
- ***Disaster Relief.*** Included in the new legislation are Midwestern disaster area tax relief and a new tax relief package for victims of all federally declared disasters occurring after December 31, 2007, and before January 1, 2010.

We hope this information is helpful. If you would like more details about these changes, or any other aspects of the new law, please do not hesitate to contact us.

Plug-in Electric Vehicle Credit

Electric-powered vehicles are receiving a great deal of attention lately because of the high cost of gasoline. These vehicles should be available to consumers for purchase within the next few years. Surprisingly, Congress seems to be on top of things and, in the recently passed Energy Improvement and Extension Act of 2008 (Energy Act), has authorized a tax credit as an incentive to purchase a plug-in vehicle.

The new qualified plug-in electric drive motor vehicle credit (plug-in vehicle credit) will range from \$2,500 to \$7,500 for light-duty vehicles, with factors such as battery capacity determining how much buyers will receive. The base credit will be \$2,500 for vehicles powered by a 4-kilowatt battery. An additional \$417 will be added to the credit for each additional kilowatt hour of battery power, up to a maximum of \$7,500 for light-duty vehicles (gross vehicle weight rating of not more than 10,000 pounds). Heavier vehicles can qualify for a credit of up to \$15,000. This credit will serve to ease the anticipated sticker-shock prices of plug-in electric vehicles.

The plug-in vehicle credit is available for vehicle purchases after December 31, 2008 and before January 1, 2015. This credit will be phased out after the 250,000th plug-in electric vehicle has been sold.

Enhanced Residential Energy Credit

Congress recently enhanced the tax credit for solar energy and added two new energy systems to the list of residential energy enhancements qualifying for the residential energy efficient property (REEP) credit. The recently enacted Energy Improvement and Extension Act of 2008 (Energy Act) includes these provisions designed to give taxpayers an immediate tax break and partially cover the cost of these new systems that will lower future energy bills.

Prior to the Energy Act, individuals were allowed a tax credit for REEP expenditures for qualified solar water heating and photovoltaic systems. These credits, available for systems placed in service between January 1, 2006, and December 31, 2008, amounted to 30% of the system's cost. The credit for individuals was 30% per system in any tax year, but was capped at a maximum of \$2,000 per system.

For tax years beginning after December 31, 2008, the Energy Act makes several enhancements to previous legislation. First, the credit is extended for an additional eight years through 2016. Next, the \$2,000 cap for solar water heating property expenditures is eliminated and the credit will be 30% of the system's entire cost. This allows a taxpayer installing a \$30,000 system to receive a \$9,000 tax credit where, prior to the Energy Act, the credit would have been limited to just \$2,000. A nice break considering the high cost of these systems. Finally, the credit is fully available to offset the AMT in 2009. As with prior law, the dwelling unit must be located in the U.S. and be used as a residence by the taxpayer.

The Energy Act adds small wind energy property and geothermal heat pump systems as components eligible for the REEP credit. Qualified small wind energy property is property that uses a wind turbine to generate electricity for use in connection with a dwelling unit in the U.S. and used as a residence by the taxpayer. The Code does not require the residence to be the principal residence of the taxpayer. So, wind turbines installed on a second residence appear to comply. This component of the credit is limited to \$500 for each ½ kilowatt of capacity, not to exceed \$4,000.

In addition, the 30% credit is now available for qualified geothermal heat pump system property expenditures. A qualified geothermal heat pump is geothermal heat pump property installed on or in connection with a dwelling unit located in the U.S. and used as a residence by the taxpayer. As with wind property, it appears that geothermal heat pumps installed in a second residence will qualify for the credit. This component of the credit is limited to \$2,000 for any qualified geothermal heat pump system expenditure. Prior to the Energy Act, heat pumps qualified for the nonbusiness energy property credit, but that credit amount was limited to \$300.

With the enhancement of the REEP credit, Congress has given taxpayers an even greater opportunity to save on taxes and their future energy costs as well. This law change also presents a tax planning opportunity since delaying the installation until 2009 could result in a new or higher tax credit. For example, if, during 2008, a taxpayer spends \$10,000 on solar energy property, the credit will be limited to \$2,000 (the cap). However, if that same taxpayer delayed the purchase until 2009, the credit would be \$3,000 ($\$10,000 \times 30\%$).

Please contact us to discuss the REEP credit or any other tax compliance or planning issue.

Two-Year Extension for Nontaxable IRA Transfers to Eligible Charities

There's an up-to-\$100,000 annual exclusion from gross income for taxpayers age 70 ½; who make otherwise taxable individual retirement account (IRA) distributions that are qualified charitable distributions. Such distributions aren't subject to the charitable contribution percentage limits since they are neither included in gross income nor claimed as a deduction on the taxpayer's return. Because such a distribution is not includible in gross income, it doesn't increase adjusted gross income (AGI) for purposes of the phase-out of itemized deductions, personal exemptions, or any other deduction, exclusion, or tax credit that is limited or lost completely when AGI reaches certain specified levels. An excluded distribution can't be deducted as a charitable contribution. For married individuals filing joint return, the limit is \$100,000 per spouse.

A qualified charitable distribution is one made on or after the date that the IRA owner (or beneficiary of an IRA) attains age 70 ½; directly by the IRA trustee to a Code Sec. 170(b)(1)(A) charitable organization (other than a Code Sec. 509(a)(3) organization or a donor advised fund). Also, to be excludible, the distribution must otherwise be entirely deductible as a charitable contribution under Code Sec. 170 without regard to the charitable deduction percentage limits. Although a direct distribution from an IRA to a charity is not included in the taxpayer's gross income, it is taken into account in determining his required minimum distribution (RMD) for the year.

Under pre-Act law, the opportunity for eligible taxpayers to make nontaxable IRA transfers to eligible charities does not apply to distributions made in tax years beginning after December 31, 2007.

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.

JANUARY 2009

January 15 - Individual taxpayers' final 2008 estimated tax payment is due unless the Form 1040 is filed by January 31, 2009, and any tax due is paid with the return.

January 31 - Most employers must file Form 941 (Employer's Quarterly Federal Tax Return) to report Medicare, social security, and income taxes withheld in 2008. 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 12 to file the return. Small employers who have been notified by the IRS should file Form 944 (Employer's Annual Federal Tax Return).

- ❖ Give your employees their copies of Form W-2 for 2008. If an employee agreed to receive Form W-2 electronically, have it posted on the website and notify the employee.
- ❖ Give annual information statement to recipients of certain payments you made during 2008. You can use the appropriate version of Form 1099 or other information return.
- ❖ File Form 940 for 2008. 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 12 to file the return.