



## **Celebrating our 20th Anniversary**

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Interested in knowing more about our firm? Then take a minute to browse our website at [www.cohensmithcpas.com](http://www.cohensmithcpas.com) – read about us - our services - and the people behind the name.

We are pleased to provide you our online informational newsletter which we believe you will find of interest. Each month brief articles on relevant topics will be included, along with a tax calendar for the current and following months.

### **April 2007**

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### **Mortgage Insurance Premiums May Be Deductible in 2007**

The Tax Relief and Health Care Act of 2006 established, under very limited circumstances, an itemized deduction for mortgage insurance premiums paid on acquisition indebtedness for a qualified personal residence. Basically, the deduction is available only for amounts paid or accrued during 2007 for mortgage insurance contracts issued during 2007 for the taxpayer's personal residence.

The deduction is phased out ratably by 10% for each \$1,000 (or fraction thereof) by which the taxpayer's adjusted gross income (AGI) exceeds \$100,000. Thus, the deduction is unavailable for taxpayers with an AGI exceeding \$109,000 (\$54,500 for married filing separately).

### **Hybrid Vehicle Credit Phase-out Continues for Toyota Brands**

Sales of Toyota (including Lexus) hybrid vehicles were brisk throughout 2006, totaling 212,073 vehicles for the year. As a manufacturer's sales of qualifying vehicles passes a 60,000-unit threshold, the Alternative Vehicle Credit begins a phase-out process. The credit for Toyota brands was reduced to 50% of the original amount on October 1, 2006, and subsequently to 25% of the original amount on April 1, 2007. The credit is completely phased-out for vehicles purchased after September 30, 2007.

The phase-out's effect can be seen by reviewing the credit available on the popular Toyota Prius. The original credit of \$3,150 was reduced to \$1,575 on October 1, 2006 and subsequently to \$787.50 on April 1, 2007. No credit will be available on the Prius after September 30, 2007 when the credit is completely phased-out.

### **Jenkins & Gilchrist Admits It Is Subject to \$76 Million IRS Penalty**

WASHINGTON – The Internal Revenue Service today announced that it has reached a settlement with the law firm of Jenkins & Gilchrist, which agreed that they are subject to a penalty of \$76 million. The penalty stems from the firm's promotion of abusive and fraudulent tax shelters and violation of the tax law concerning tax shelter registration and maintenance and turnover to the IRS of tax shelter investor lists.

“While it is unfortunate that the 56-year-old national firm of Jenkins & Gilchrist is terminating its legal practice, this should be a lesson to all tax professionals that they must not aid or abet tax evasion by clients or promote potentially abusive or illegal tax shelters, or ignore their responsibilities to register or disclose tax shelters,” said IRS Commissioner Mark W. Everson. “Pursuing abusive tax shelters is a top priority for the IRS.”

The firm aggressively marketed potentially abusive tax shelters to high-net worth individuals. Some of the packages marketed to these individuals included listed transactions such as COBRA (Currency Options Brings Reward Alternatives); BEST (Short Option/Basis Enhancing Securities Transaction); BLISS (Basis Leveraged Investment Swap Spreads); OPS (Option Partnership Strategy); BEDS (Basis Enhancing Derivatives Structure); and BOSS (Bond & Option Sale Strategy).

The firm also marketed two transactions that are not listed transactions – HOMER (Hedge Option Monetization of Economic Remainders) and BART (Basis Adjustment Remainder Trusts).

The agency estimates that 1,400 investors are affected by the firm's advise and will owe interest and penalties on their underpayment of tax. Jenkins & Gilchrist, which was once a 600-lawyer national firm, is in the process of winding down its legal practice and business affairs.

The national law firm of Jenkins & Gilchrist is composed of a corporation in Dallas, Texas; a corporation in Chicago, Illinois; a partnership in Los Angeles, California; and a partnership in New York City.

## **Merck Settles with IRS for \$2.3 Billion**

Drug maker Merck will pay the IRS \$2.3 billion to resolve several tax disputes. The settlement covers taxes, interest, and penalties related to tax years 1993 through 2001. The primary dispute related to a tax-saving partnership with a British bank based in Bermuda. The resolution is one of the largest achieved in recent years by the IRS and a taxpayer through the examination process.

Although large, the recent settlement with Merck was not the largest with a major drug manufacturer. Last September, Glaxo SmithKline Holdings (Americas) Inc. & Subsidiaries agreed to pay the IRS \$3.4 billion in what was the largest tax settlement ever with a major drug manufacturer.

## **Tax Calendar**

### **APRIL 2007**

#### **April 10**

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

#### **April 17**

**Individuals.** File an individual income tax return for 2006. If you want an automatic six-month extension of time to file your return, file Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Alternatively, you can get an extension by phone or over the Internet if you pay part or all of your estimated income tax due with a credit card. Then file Form 1040, 1040A, or 1040EZ by October 15.

If you are not paying your 2007 income tax through withholding (or will not pay in enough tax during the year that way), pay the first installment of your 2007 estimated tax. Use Form 1040-ES.

Note that April 17 is also the deadline for making contributions to IRAs or Roth IRAs for 2006.

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

**Household employers.** If you paid cash wages of \$1,500 or more in 2006 to a household employee, file Schedule H (Form 1040) with your income tax return and report any employment taxes. Report any federal unemployment (FUTA) tax on Schedule H if you paid total cash wages of \$1,000 or more in any calendar quarter of 2005 or 2006 to household employees. Also report any income tax you withheld for your household employees.

**Partnerships/LLCs.** File a 2006 calendar year return (Form 1065). Provide each partner with a copy of Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., or a substitute Schedule K-1. If you want an automatic six-month extension of time to file the return and provide Schedule K-1, file Form 7004. Then file Form 1065 by October 15.

**Electing large partnerships.** File a 2006 calendar year return (Form 1065-B). If you want an automatic six-month extension of time to file the return, file Form 7004. Then file Form 1065-B by October 15.

**Trusts and Estates.** File a 2006 calendar year return (Form 1041). Provide each beneficiary with a copy of Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, etc., or a substitute Schedule K-1. If you want an automatic six-month extension of time to file the return and provide Schedule K-1, file Form 7004. Then file Form 1041 by October 15.

**Corporations.** Deposit the first installment of estimated income tax for 2007.

**Gift Tax Returns.** If you made taxable gifts in 2006, file Form 709.

**April 30**

If you have employees, a federal unemployment tax (FUTA) deposit is due if the FUTA liability through March 31 exceeds \$500.

The first quarter Form 941 (Employer's Quarterly Federal Tax Return) is also due today (except that you have until May 10 to file if you deposited all taxes for the quarter when they were due).

**June 15**

Second quarter estimated tax payments for individuals, trusts, and calendar-year corporations are due today.