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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

January 2009

In This Issue

- Electronic Tax organizer
- Consider Refinancing Mortgage Debt
- Social Security Changes for 2009
- Maximizing Meal Deductions
- Incentive Trusts for Children
- New Law Waives Required Minimum Distributions (RMDs) for calendar year 2009.
- Standard Mileage rate down for 2009
- Tax Calendar

Electronic Tax organizer

Beginning with the 2008 tax filing season, we will be including an option for clients to receive an electronic, rather than paper, 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.

Consider Refinancing Mortgage Debt

With long-term interest rates at historical low (5% and even below), now is an excellent time to review the benefits of refinancing. For those with sound credit scores, considerable savings may be available through lower mortgage payments and/or shorter payment terms.

Of course, any refinancing decision must be evaluated in light of additional costs to refinance (appraisals, documents regarding fees, commissions, etc.) Often, these additional costs can be recovered in a reasonably short period of time (say, 3 years or less), making refinancing an excellent move for longer-term borrowers.

Should you have any questions regarding evaluating a decision of whether or not to refinance, please don't hesitate to give us a call.

Social Security Changes for 2009

The Social Security Administration (SSA) recently announced numerous adjustments to Social Security benefit amounts, thresholds, limits, and exclusions. For 2009, Social Security and Supplemental Security Income (SSI) beneficiaries will receive a 5.8% cost of living adjustment. The maximum benefit for workers retiring, after attaining full retirement age, in 2009 will be $2,323/month (up from $2,185/month in 2008). Finally, the wage base for calculating the Social Security portion (OASDI) of the annual payroll tax obligation will be $106,800 in 2009 (up from $102,000 in 2008). There is no limit on wages for calculating the Medicare contribution.

The SSA estimates the average monthly benefit for all retired workers in 2009 will be $1,153, up from $1,090 in 2008. For aged couples, both receiving benefits, the average 2009 monthly benefit is estimated to be $1,876, compared to $1,773 in 2008. Finally, the SSA estimates the monthly benefit for all disabled workers will be $1,064, up from $1,006 in 2008.

Maximizing Meal Deductions

Most businesses owners are aware of the tax rule that disallows 50% of their otherwise allowable deductions for business meals. This provision normally applies regardless of the reason for the meal – from taking clients out to dinner, to paying for your meals while traveling away from home. What is not nearly as widely known is that there are several exceptions to this 50% disallowance rule. When one of these exceptions applies, you generally get a 100% deduction for the business meal expenses – which might just make even a good meal taste that much better. Here's a quick run down of the major exceptions to the disallowance rule.

- **The Office Coffee Bar.** Employers can deduct 100% of the cost of providing employees with free coffee, soft drinks, donuts, or similar snacks or beverages to be consumed on the business premises.

- **Employee Parties.** Employers can deduct the full cost of providing food and beverages at recreational, social, or entertainment gatherings primarily for the benefit of rank and file employees (as opposed to highly compensated employees). Examples include company outings, banquets, or other gatherings (such as an annual holiday party) for employees and their guests.

- **Meals Served on the Employer's Premises.** In the right circumstances (which can be fairly difficult to meet), an employer may provide employees with meals at work and claim a full deduction (without the employees having to report the value of the meals in their income). The key is the meals have to be provided (a) for a valid business reason, (b) on or near your businesses premises, and (c) primarily for the convenience of the employer (rather than merely as an added fringe benefit for employees).

- **Items Available to the Public.** Expenses incurred for meals available to the general public are 100% deductible. Examples include free food at concerts hosted by a shopping mall, free dinners for potential restaurant customers, free hot dogs at a car dealership promotion, free wine and food at an exhibition sponsored by a liquor dealer, and free cookies furnished by a realtor at an open house.

- **Charity Sporting Event.** The allowable deduction for the cost of a ticket to a qualifying charity sporting event isn't reduced by the 50% meal disallowance rule even when meals are included. The ticket package must include admission to the event, but it can also include meals and refreshments. To qualify, the charitable event must give 100% of its net proceeds to a charity and use volunteers to do almost all the work. The classic example is a charity golf tournament with a meal included in the deal.

As you can see, there are enough exceptions to the 50% disallowance rule that most businesses can often meet at least one, if not more of them. To the extent your business qualifies for any of them, it's important that the 100% deductible qualifying expenses be tracked and accounted for separately (for example, charging them to a separate account in your accounting records), so that a full deduction can be claimed.

If you have any questions regarding the types of business meal expenses that may qualify for a full deduction or how to properly isolate and account for them in your records, please give us a call.

Incentive Trusts for Children

Over the next decade, increasingly large amount of wealth will pass by gift and inheritance from parents to children. In some cases, the amount that a child might receive from parents will be nominal, but in other cases, the amount may be large enough to be life-altering event. When parents confront the idea of their children inheriting substantial, life-altering amounts of money, they often have reactions such as:

"We don't want our children to do nothing with their lives because they are anticipating a large inheritance."

or

"**We want our children to understand the value of work. We believe that earning your way through life is better than living off an inheritance."**

So, when the amounts that children might inherit are substantial, and parents are concerned about the impact the inheritance will have on their children, what can they do?

Some parents give the family fortune to charity, rather than giving it to the children. Others announce to their children that the children will inherit only a limited amount, giving them advance warning that they should not anticipate a large inheritance.

But what if parents want their children to inherit the entire family fortune? How can the family fortune be distributed to children in a way that doesn't disable them for becoming productive members of society?

One idea is to give the family fortune to children in a type of trust often called an "incentive trust."

The first question: Should the children inherit assets outright or in trust? Most parents decide to give the family fortune to their children in equal shares. The threshold question for many parents is whether to give each child their share of the family fortune outright, or subject their inheritance to a trust. If each child's amount is expected to be significant, then many parents elect to use a trust. A trust can be designed to protect the inherited assets from additional estate taxes as well as from a child's creditors (including a child's divorcing spouse).

In many trusts, the trustee is directed to distribute to the child on a regular basis the net income generated by the trust assets. Typical distributions are made monthly or quarterly. In addition, the trustee is often given the power to distribute any portion of the trust's principal for a child's health, education, maintenance and support.

The use of an incentive trust to promote good life decisions. But how can a trust be designed to provide an incentive for a child, especially an adult child, to accomplish certain goals in life and make thoughtful choices for the child and the child's family? One way is to design a trust that provides the trustee discretion to make distributions of principal from the trust as an incentive for the child to make thoughtful lifestyle decisions, such as pursuing a career (whether financially rewarding or not), raising a family or contributing to the community. These "incentive" distributions to the child could be made in addition to, or in lieu of, the regular distributions of the net income of the trust and distributions of principals for health, education, maintenance, and support.

Examples of incentive distributions. Here are examples of provisions that could be included in incentive trusts for adult children.

- To assist a child to acquire or improve the child's primary residence, especially if the child makes a contribution of funds or personal effort toward the acquisition or improvement of the property.

- To assist a child to establish or maintain the child's business or professional practice.

- To match a child's personally earned income in any calendar year. This provision can be designed to limit the amount that will be matched by adding language such as "but not to exceed one hundred thousand dollars ($100,000) in any year." Also, some parents may want to require that only earned income will be matched, but not unearned income, such as income from investments.

- To match a child's financial contributions to charity. As above, many parents wish to limit the amount that could pass to a charity through this matching provision. In addition, parents may want to require that the child actively participate in any charity to which matching contributions would be made, asking that the child serve on the board of the charity for a certain number of years before such matching contributions would be made.

- To reward a child for career accomplishments, especially if the child's career is not one that provides significant financial rewards. For instance, if a child is an artist, a schoolteacher or a nurse, but the child does not earn a significant salary, then the trustee is encouraged to make distributions of principal to reward the child for his or her dedication to, and advancement in, the child's career.

- To acknowledge and reward a child's efforts if the child is pursuing an educational, scientific or charitable goal that is beneficial to the child, the child's family or the child's community.

- To recognize and reward a child's contribution to raising a family, especially if the child is caring for children or other close relatives and that obligation precludes the child from earning a living outside the home, from working full-time or from pursuing a financially lucrative career.

- To supplement a child's income if the child is ill or disabled, or if the child is caring for a family member who is ill or disabled.

- To supplement a child's other sources of support during retirement years (some parents limit when these distributions would be made, requiring that the distributions may begin only after a child reaches a certain age, such as 65.)

An incentive trust can be designed to fit each family's particular situation. Some trusts may provide for broad, liberal distributions of trust principal, which would essentially distribute the entire trust to the child over a short number of years. Other trusts may provide for stiff requirements before a child receives an incentive distribution, assuring that the trust will last for the child's lifetime and beyond.

Most importantly, the parents should be very involved in the design of the trust in order to insure that it's the right trust for their family.

New Law Waives Required Minimum Distributions (RMDs) for calendar year 2009.

A new law enacted in late 2008 provides that retirement plan account participants, IRA owners, and their beneficiaries do not have to take RMDs for 2009. Thus, taxpayers who can take advantage of this change won't be forced to sell stock or mutual fund shares held in retirement accounts when their value is exceptionally depressed. This change helps retired taxpayers who do not need to rely on their RMDs for living expenses. By not making the RMD for 2009 (or withdrawing less than the RMD) from their qualified plan accounts and/or IRAs, they will wind up with less taxable income for 2009, and possibly avoid (or mitigate the effect of) AGI-based phaseouts of tax breaks. They will also have more tax-sheltered amounts to leave to their beneficiaries.

There's no need to show that a retirement plan account or IRA is "in distress" because of stock market conditions in order to quality for the 2009 RMD suspension. Thus, for example, the RMD suspension applies equally to IRAs invested entirely in FDIC-insured bank-CDs, as well as to IRAs invested in depressed-in-value stocks or mutual funds. The suspension of RMDs for 2009 doesn't help those older taxpayers who must make regular withdrawals (sometimes in excess of the RMD) from their retirement plan accounts and IRAs in order to get by each month.

Standard Mileage rate down for 2009

The optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) is 55¢ per mile for business travel after 2008. That's 3.5¢ less than the 58.5¢ allowance for business mileage that applied in the last six months of 2008. Further, the rate for using a car to get medical care or in connection with a move that qualifies for the moving expense deduction is 24¢ per mile, down 3¢ from the 27¢ per mile allowance for the last half of 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 – Employers must file Form UCT-6 with the Florida Department of Revenue.

FEBRUARY 2009

February 2—Most employers must file Form 941 (Employer's Quarterly Federal Tax Return) to report Medicare, social security, and income taxes withheld in the fourth quarter of 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 10 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.

—Generally, give annual information statements to recipients of certain payments you made during 2008. You can use the appropriate version of Form 1099 or other information return. Form 1099 can be filed electronically with the consent of the recipient.

—File Form 940 [Employer's Annual Federal Unemployment (FUTA) Tax Return] 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 10 to file the return.

—File Form 945 (Annual Return of Withheld Federal Income Tax) for 2008 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.

March 2009

March 2—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 16—2008 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 2008 contributions to pension and profit-sharing plans.