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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.

STAFF HIGHLIGHT

As part of our bulletin, we are continuing to highlight a couple of our team members. This month, we would like to introduce you to Lisa Hatch and Lynn Anderson both of whom have been with our firm for two years.

Lisa Hatch is a Senior staff accountant with over 10 years experience in the accounting field. Lisa received her Bachelor's degree from Florida Atlantic University, and plans to sit for the CPA exam in the fall. Her present duties consist of compiling financial statements for all types of entities. In addition, Lisa prepares tax returns for complex estates and trusts, as well as corporations, partnerships and individuals.

Lisa has been married to Mike for 17 years and they reside in Deltona with their 3 children. In her spare time, she enjoys spending time with her family and undertaking various home improvement projects.

Lynn Anderson is a Level III staff accountant with 6 years experience in the accounting field. She is presently attending the University of Central Florida and is working towards her Bachelors of Science in Accounting. Lynn's duties include compiling financial statements and payroll processing for a variety of business clients. Lynn also maintains detailed asset depreciation schedules and provides check disbursement services for small businesses. Lynn also prepares corporate and individual income tax returns and assists on special projects.

Lynn is a 30-plus year resident of DeLand and currently resides with her son, Tom. Her personal interests include going to the beach, reading and spending time with her large family.

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2005 Per-Diem Travel and Mileage Rates

Many companies prefer to use the IRS-approved per-diem rates to substantiate deductions rather than keeping track of endless receipts. The IRS has announced the rules and rates applicable for expenses incurred on or after January 1, 2005.

For 2005, the per-diem rate is \$204 for travel to any high-cost locality and \$129 for travel to any other locality within the continental United States (referred to as CONUS). The 2005 meal and incidental expense (M&IE) rates under the optional high-low method are \$46 for high-cost localities and \$36 in all other CONUS localities.

In addition to per-diem rates, the IRS provides vehicle mileage rates. The business mileage rate for 2005 is 40.5 cents per mile.

Of course, even though you may use standard approved rates, in order to claim a travel or mileage deduction, you still must maintain proof of business purpose of your travel.

Attention Employers: New Notice Requirement

As of March 10, 2005, employers must notify employees who might leave or be called for military service of their rights including re-employment rights, health insurance protection, and rights to be free from discrimination and retaliation under the Uniformed Services Employment and Reemployment Rights Act (USERRA). This new requirement is mandated by the Veterans Benefits Improvement Act (VBIA), enacted by Congress in December 2004, and covers all employers, even those with just one employee.

You can meet the new notice requirement by posting a new USERRA poster "in a prominent place where employees customarily check for such information." You may also distribute the notice to your employees in person, or by mail or e-mail.

You can download a copy of the poster from the Department of Labor Web site at www.dol.gov/vets/programs/userra/poster.pdf or call 1-866-4-USA-DOL (1-866-487-2365) to request printed copies. Additional information on USERRA can be found on the DOL Web site at <http://www.dol.gov/vets>. A copy of the statute, fact sheets, and a nontechnical guide to USERRA is available for download at www.dol.gov/vets/programs/userra.

Real Property - Adjustment for storm damage

Recent new Florida law, effective 06/20/2005, provides an assessment adjustment for homestead properties damaged by one or more of the named storms of 2004. The assessment at just value for changes, additions, or improvements to homestead property rendered uninhabitable by the storms will be limited to the square footage exceeding 110% of the homestead property's total square footage. Additionally, homes having square footage of 1,350 square feet or less which were rendered uninhabitable may rebuild up to 1,500 total square feet with the increase not considered a change, addition or improvement subject to assessment at just value. The adjustment is limited to homestead properties in which repairs are completed by January 1, 2008, and apply retroactively to January 1, 2005.

Putting junior family members on the payroll can save taxes

As the owner of a business, you should be aware that you can save family income and payroll taxes by putting junior family members on the payroll. You may be able to turn high-taxed income into tax-free or low-taxed income, achieve social security tax savings (depending on how your business is organized) and even make retirement plan contributions for your child. Here are the key considerations.

Turning high-taxed income into tax-free or low-taxed income. You can turn some of your high-taxed income into tax-free or low-taxed income by shifting some of your business earnings to a child as wages for services performed by him or her. The work done by the child must be legitimate, and the amount you pay the child must be reasonable for your business to deduct the wages as a business expense.

For example, suppose a business person operating as a sole proprietor is in the 35% tax bracket. He hires his 17-year-old daughter to help with office work full-time during the summer and part-time into the fall. She earns \$5,000 during the year (and doesn't have earnings from other sources). The business person saves \$1,750 (35% of \$5,000) in income taxes at no tax cost to his daughter, who can use her \$5,000 standard deduction for 2005 to completely shelter her earnings.

The business person could save an additional \$1,400 in taxes if he could keep his daughter on the payroll for a longer period and pay her an additional \$4,000. She could shelter the additional amount from tax by making a tax-deductible contribution to her own IRA.

Keep in mind that bracket-shifting works even if the child is under age 14 (although you'd probably be paying less for a younger child's labor). The kiddie tax only causes a younger child's investment income in excess of \$1,600 (for 2005) to be taxed at the parent's marginal rate. It has no impact, however, on the child's wages and other earned income, which can be sheltered by the child's standard deduction.

Social security tax savings, too. If your business is not incorporated, you can also save some

self-employment (i.e., social security) tax dollars by shifting some of your earnings to a child. That's because employment for FICA tax purposes doesn't include services performed by a child under the age of 18 while employed by a parent. For example, let's say a sole proprietor who usually takes \$120,000 of earnings from the business pays \$5,000 to her 17-year-old child in 2005. The sole proprietor's self-employment income would be reduced by \$5,000, saving her \$145 (the 2.9% HI portion of the self employment tax she would have paid on the \$5,000 shifted to her daughter). This doesn't take into account a sole proprietor's income tax deduction for one-half of his or her own social security taxes.

A similar but more liberal exemption applies for FUTA, which exempts earnings paid to a child under 21 while employed by his or her parent. The FICA and FUTA exemptions also apply if a child is employed by a partnership consisting solely of his parents.

Note that there is no FICA or FUTA exemption for employing a child if your business is incorporated or a partnership that includes non-parent partners. However, there's no extra cost to your business if you're paying a child for work you'd pay someone else to do anyway.

Retirement benefits. Your business also may be able to provide your child with retirement benefits, depending on the type of plan it has and how it defines qualifying employees. For example, if it has a simplified employees pension, a SEP contribution can be made for the child up to 15% of his or her earnings. The child's participation in the SEP won't prevent the child from making tax-deductible IRA contributions as long as adjusted gross income (computed in a special way) is below the level at which deductions for IRA contributions begin to be disallowed. For 2005, that figure is \$50,000 for a single individual.

If you have any questions about how these rules apply to your particular situation, please don't hesitate to call. Also, keep in mind that some of the rules about employing children (such as the maximum amount they can earn tax-free) changes from year to year, and may require your income shifting strategy to change, too.

TAX CALENDAR

JULY 2005

July 11

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

July 15

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

Partnerships. File a 2004 calendar year return (Form 1065). This due date applies only if you were given an automatic three-month extension. Provide each partner with a copy of Schedule

K-1 or a substitute K-1. If you need an additional three-month extension, file Form 8800.

Electing large partnerships. File a 2004 calendar year return (Form 1065). This due date applies only if you were given an automatic three-month extension. If you need an additional three-month extension, file Form 8800.

AUGUST 2005

August 1

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the second quarter of 2005. 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 August 10 to file the return.

For federal unemployment tax, deposit the tax owed through July if more than \$500.

If you maintain an employee benefit plan with a calendar year end, file Form 5500 or 5500EZ for calendar year 2004.

August 10

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

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the second quarter of 2005 only if you deposited the tax for the quarter in full and on time. Otherwise, Form 941 was due on August 1.

August 15

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

Individuals. If you have an automatic 4-month extension to file your income tax return for 2004, file Form 1040, 1040A, or 1040EZ and pay any tax, interest, and penalties due. If you need an additional two-month extension, file Form 2688.

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