



Celebrating our 20th Anniversary

**COHEN, SMITH & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
133 EAST INDIANA AVENUE
DELAND, FLORIDA 32724-4329
(386) 738-3300
www.cohensmithcpas.com**

Interested in knowing more about our firm? Then take a minute to browse our website at 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 month.

July 2007

In This Issue

Section 199 Revisited

Medicare Part B Premiums Increase

One-person 401(k) Plans for the Small Business Owner

Review Your Will Periodically

President Signs Small Business Tax Act

Worker Compensation Rates to Decline

Florida Sales and Use Tax – Sales Tax Holiday

Tax calendar

Section 199 Revisited

When you hear the term Section 199, one of several things might come to mind: an area of a department store near the back of the building, a new perfume or cologne, a portion of the latest cookbook, or a section of the Internal Revenue Code. In this case, you would be correct if you picked “a section of the Internal Revenue Code.”

Section 199 was established by the American Jobs Creation Act of 2004 and gave us the Domestic Production Activities Deduction, also known as the “Producer Deduction.” The Producer Deduction is just that, a business tax deduction based on income attributable to certain manufacturing and production activities conducted in the U.S.

We are revisiting this topic because the Producer Deduction doubles for tax years beginning in 2007, when compared with 2005 and 2006. For 2007 tax years, the deduction is 6% of qualified domestic production activities, or a 100% increase from the 3% allowed in 2005 and 2006. So, if you qualified for this deduction in prior years, your federal tax bill should decrease in 2007, if you continue to qualify. Incidentally, the producer deduction rate will increase once again to 9% for tax years beginning in 2010.

The definition of *qualified production activities* is very broad. These activities include, but are not limited to, traditional manufacturing of tangible personal property; domestic construction, civil engineering and architectural services for U.S. projects; production of electricity, gas, and potable water; software production; film and videotape production and licensing; growing of agricultural products and food (farming); and processing agricultural products for food.

This Producer Deduction is available to individual business owners as well as C corporations, S corporations, and partnerships, among other entities. If you have any questions, please call us to discuss this opportunity to reduce your federal taxes.

Medicare Part B Premiums Increase

As individuals age 65 and older may already know, Medicare Part B (Part B) premiums have gone up. Part B covers doctor bills, lab tests, and other outpatient services. Prior to 2007, the Federal government paid 75% of the monthly Part B premium (\$374 in 2007) and the covered individual paid the remaining 25% (\$93.50 in 2007). However, starting this year, premiums are based on your income—higher income equals higher premiums.

Taxpayers at the higher income levels, starting with modified adjusted gross income of \$80,000 for single filers and \$160,000 for joint filers, will now have less of their premiums subsidized by the government. Since your 2006 income tax information was not available in January, the Federal government used your 2005 tax information to compute your 2007 Part B premiums. So, higher income individuals have seen their premiums increase to one of four new levels (starting at \$105.80 and ending at \$161.40 per month or from 28% to 43% of the total monthly premium) in 2007.

This is the first year of a three-year program to increase Part B premiums for higher income individuals. In 2009, these taxpayers will be required to pay *up to* 80% of the monthly Part B premium. At the 2007 monthly Part B premium rate of \$374, that's \$299.20 per month compared to the standard 25% rate of \$93.50 in 2007; and that's without adjusting for inflation.

One-person 401(k) Plans for the Small Business Owner

One-person 401(k) plans are becoming increasingly popular for businesses that employ only the owner. Given the right circumstances, such plans can allow a large amount to be contributed on behalf of the owner, while maintaining flexibility in making contributions in future years. The cost of preparing the annual return (Form 5500 is required) is nominal in comparison to the additional funding a one-person 401(k) plan allows. Also, because the plan has no employees other than the owner, it is not subject to the complicated nondiscrimination tests normally applicable to 401(k) plans.

For 2007, a business owner can make an elective deferral contribution of up to \$15,500 (\$20,500 if he or she is age 50 or older), plus an employer contribution of up to 20% of self-employment (SE) income or 25% of compensation. In calculating the allowable employer contribution, the owner's SE income or compensation is not reduced by the owner's elective deferral contribution.

The total contributions (elective deferral plus the employer contribution) cannot exceed the lesser of 100% of the participant's compensation or \$45,000 (\$50,000 if age 50 or older) for 2007.

Example: Maximizing contributions with a one-person 401(k) plan.

Randy, age 50 (by the end of the current year), is the sole owner and employee of Flight-in-Training, a sole proprietorship. Flight-in-Training is also the sole source of Randy's earned income. Randy earns \$145,000 (net of the SE tax deduction) in the current year and wishes to maximize contributions to a retirement account. Randy believes that the business will probably continue to be profitable, but he would like the flexibility of determining on a year-to-year basis how much to contribute. Randy does not expect to hire employees and will remain a one-person company.

For 2007, the maximum contribution Randy can make to his one-person 401(k) plan is \$49,500. This maximum contribution consists of his elective deferral in the amount of \$15,500, his catch-up contribution of \$5,000 (he is age 50 or over at year-end), and his profit sharing contribution of \$29,000 (20% × his SE income of \$145,000).

The business owner can borrow from his or her 401(k) plan, assuming the plan document so permits. The maximum loan amount is 50% of the account balance or \$50,000, whichever is less.

When the business employs someone other than just the owner, 401(k) contributions may be required for the other employees, in which case the plan would become a "standard" 401(k) plan with all the resulting complications. However, the plan can exclude from coverage any employee who is under age 21 and any employee who has not worked for at least 1,000 hours during any 12-month period. Because this exclusion rule allows the business owner to avoid covering young and part-time employees, the plan may still qualify as a simple and easy one-person 401(k) arrangement.

Additional retirement plan choices for the business owner include Keogh plans, SEP plans, SIMPLE IRAs, and the traditional and Roth IRA. Please give us a call if you have any questions about retirement plan benefits and related tax savings.

Review Your Will Periodically

A will is an integral part of most estate plans. It is the legal instrument through which an individual disposes of his or her property, determines who will manage the administration of his or her estate, and appoints a guardian for any minor children.

We recommend that you review your will periodically, as tax legislation, family relationships, economic situations, personal conditions, planning objectives, and the state of principal residence may all change over time. The importance of the review of your will by all members of the estate planning team cannot be overstated. The ultimate purpose of the review is to ensure that the will and its specific terms meet your ever-changing goals and objectives.

As you may know, the estate tax is scheduled for repeal effective for decedents who die in 2010 and the tax will reappear in 2011. It will require an act of Congress (literally) to permanently repeal the estate tax. Prior to the scheduled repeal, the 2001 Tax Act provides for a gradual increase in the applicable exclusion amount for estate tax purposes from \$1 million in 2002 to a maximum of \$3.5 million in 2009. Many existing wills provide for a bypass trust to be funded with assets in an amount up to the applicable exclusion amount. Because this amount increases significantly in the next few years, it is important to fully understand the consequences that such a provision will have on your estate.

In addition to your will, other documents should be considered when reviewing an estate plan. Documents that provide for lifetime contingencies or other events, such as incapacity, are an important element of your estate plan. Beneficiary designations for assets that will pass outside the terms of the will must also be reviewed (these are referred to as nonprobate assets). Examples of nonprobate assets are life insurance proceeds, retirement plan benefits, and revocable living trusts which all pass directly to the designated beneficiary.

The probate process applies to decedents who die and leave a will (testate), as well as those who die without a will (intestate). When a will exists, the probate process involves establishing the will's validity. If no will exists, the process centers on establishing who is entitled to receive the property under state law.

Of course, many individuals choose to utilize trusts in connection with estate planning, since trusts can avoid or at least minimize probate. Regardless of the type of estate planning vehicle used, regular review of the documents will insure the maximum benefits and allow revision to meet personal life changes. Please call us if you have questions on estate taxation or any other personal or business tax planning issues.

President Signs Small Business Tax Act

On 5/25/07, President Bush signed H.R. 2206, the Small Business and Work Opportunity Tax Act of 2007. In part, the Act (1) extends the work opportunity tax credit for 3½ years and provides liberalized rules for certain groups; (2) increase the Section 179 deduction limit to \$125,000 and the phaseout amount to \$500,000 for 2007 (to be indexed for inflation thereafter), and extends the enhanced expensing provision through 2010; (3) makes several beneficial changes to the S corporation rules; (4) allows unincorporated businesses owned by a married couple to file as a sole proprietorship instead of a partnership; and (5) waives the individual and corporate AMT limitations on the work opportunity tax credit and tip credit. These provisions will be paid, in part, by (1) expanding the kiddie tax rules to apply to children age 18, and children over age 18, but under age 24 who are full-time students, if their earned income doesn't exceed one-half of their support; (2) extending the period of time the IRS has to issue notices of deficiency before it must suspend interest and penalties on an underpayment; (3) expanding and increasing preparer penalties; and (4) authorizing a new penalty on refund claims that lack a reasonable basis.

Worker Compensation Rates to Decline

Florida employers will pay less for workers' compensation insurance next year because of a 50 percent reduction in the assessment rate for Workers' Compensation Administration Trust Fund. There will be a savings statewide of up to \$19 million. In addition, 28 new insurance carriers are writing worker's compensation in Florida, generating significant premium growth that reduces the workers' compensation trust fund assessment rate. Less dependency on the trust fund lowers costs for employers.

Florida Sales and Use Tax – Sales Tax Holiday

A sales tax holiday will be in effect from 12:01 a.m., August 4, 2007, through midnight, August 13, 2007 on the purchase of: books, clothing, wallets, or bags (including: handbags, backpacks, fanny packs, and diaper bags, but excluding briefcases, suitcases, and other garment bags) having a sales price of \$50 or less per item. The sale of school supplies having a sales price of \$10 or less per item is also tax exempt during this period. This exemption does not apply to sales within: (1) a theme park or entertainment complex; (2) a public lodging establishment, such as a hotel or motel; or (3) an airport. The 2007 Florida Legislature has also enacted a separate sales tax holiday for hurricane preparedness items, which took place from June 1, 2007 through June 12, 2007.

JULY 2007

July 10

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 16

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

July 31

Social Security, Medicare, and withheld income tax. File Form 941 for the second quarter of 2007. 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.

Federal unemployment tax. Deposit the tax owed through June if more than \$500.

All employers. If you maintain an employee benefit plan, such as a pension, profit-sharing, or stock bonus plan, file Form 5500 or 5500-EZ for calendar year 2006. If you use a fiscal year as your plan year, file the form by the last day of the seventh month after the plan year ends.

AUGUST 2007

August 10

Social Security, Medicare, and withheld income tax. File Form 941 for the second quarter of 2007. This due date applies only if you deposited the tax for the quarter in full and on time.

August 15

Social Security, Medicare, withheld income tax. If the monthly deposit rule applies, deposit the tax for payments in July.

Nonpayroll withholding. If the monthly deposit rule applies, deposit the tax for payments in July.