



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

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Did You Know?

Baby Boomers give more to charity than any other generation at an average of \$1,361 annually compared to \$1,138 for older Americans. More than 50 percent of younger donors born after 1964 plan to give more in the future.

Source: Association of Fundraising Professionals

Recent Tax developments

Energy-efficient home improvements tax credit

The IRS has issued guidance on the up-to-\$500 Code Sec. 25C tax credit available to homeowners for eligible energy-efficient home improvements placed in service after 2005 and before 2008. A 10% credit is allowed for the cost of certain improvements, e.g., insulation, exterior windows, skylights, exterior doors, and pigmented coated metal roofs; and a specified amount is allowed for other items – e.g., advanced main air circulating fans (\$50), natural gas, propane, or oil furnaces or hot water boilers (\$150), and heat pumps, water heaters, and central air conditioners (\$300). Manufacturers of

these energy-efficient items must provide consumers with a certification that they can rely on in claiming the credit.

Donation of cars, boats, and planes valued at more than \$500

The IRS has revised the form which a charity must use for 2006 to report qualified vehicles donated to it – Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes. Under stringent new rules, a taxpayer's charitable deduction for these vehicles with a claimed value in excess of \$500 can't, with a few narrow exceptions, exceed the charity's gross proceeds from its sale of the vehicle. The revised form clarifies that for a donor to get his deduction the charity's acknowledgement must include (along with other required information) whether the charity provided any goods or services in exchange of the vehicle, and a description and good faith estimate of the value of any such goods or services, or, if the goods or services consist solely of intangible religious benefits, a statement to that effect.

Phaseout of 2006 itemized deductions and personal exemptions

Under liberalized tax law changes that apply for the first time in 2006, there's a smaller phaseout of a higher-income taxpayer's itemized deductions and personal exemptions. All things being equal, a smaller phaseout means a larger deduction and, as a result, less taxes due for 2006. This may be of particular importance to individuals who must pay quarterly estimated tax or face a penalty (i.e., most taxpayers who have income that's not subject to withholding). The smaller reductions in a taxpayer's itemized deductions and personal exemptions may result in smaller required estimated tax payments during the year. The IRS has provided official worksheets for calculating these reduced phaseout amounts.

Domestic production deduction

The IRS's instructions to new Form 8903, Domestic Production Activities Deduction, and revised instructions to S corporation Form 1120S and partnership Form 1065 carry additional guidance on some aspects of the new-for-2005 U.S. production activities deduction. Under this provision, taxpayers are allowed a deduction equal to the percentage (3% for 2006; 6% through 2009; and 9% thereafter) of the lesser of their qualified production activities income for the tax year (i.e., net income from U.S. manufacturing, production, or extraction activities) or their taxable income, subject to a 50% of W-2 wages limitation. The various instructions shed some light on the often tortuous computations necessary to determine this credit. For example, they explain how disallowance rules under other deductions apply, and provide liberalized rules for computing qualified production activities income. They also explain special rules that apply to S corporations and partnerships.

Contractor's energy-efficient home credit

The IRS's has explained how an eligible contractor can get the required certification for a dwelling (including a vacation home) that he's constructed in order to qualify for the \$1,000 or \$2,000 energy-efficient credit. This new credit applies to homes purchased after Dec. 31, 2005 and before Jan. 1, 2008. To get the credit, the home's construction (which can include substantial reconstruction and rehabilitation) must be substantially completed after Aug. 8, 2005 and meet specific energy saving requirements. The IRS guidance carried a list of software programs that may be used in calculating energy consumption to obtain the certification.

Cost of removing building's mold is currently deductible

Generally, expenses must be capitalized if they're needed to place property in an ordinarily efficient operating condition (as in the case of expenses to remedy a condition that existed when the property was acquired), or if they add to a property's value, substantially prolong its useful life, or adapt it to a new or different use. The IRS and some courts have treated the costs of removing asbestos from a building as a capital expenditure because it results in an improvement in the property by reducing or eliminating human health risks. In welcome news for taxpayers affected by the sometimes devastating cost of a mold condition in a structure, the IRS has privately ruled that – unlike the costs of removing asbestos – the cost a business incurs to remove mold from a building it owned and leased out is deductible as an ordinary and necessary expense.

Luxury auto depreciation limits for 2006

The IRS has released the inflation-adjusted depreciation limits for business autos, light trucks and vans, including minivans and sport-utility vehicles (SUVs), placed in service in 2006. It has also released the annual income inclusion amounts for such vehicles first leased in 2006. The "luxury passenger auto limits" cap the otherwise allowable depreciation that can be claimed in a year. In general, the limits are the same as for vehicles placed in service last year, except for a slight increase (\$100) for business autos in some years after the car is first placed in service. The IRS guidance also carries the depreciation limits and lease inclusion amounts for electric autos.

Hurricane relief

The IRS has approved an additional filing and payment extension – to Aug. 28, 2006-for some, but not all, of those treated as affected taxpayers because of Hurricane Katrina. It has also extended until Oct. 16, 2006 the deadline for deducting in a prior year hurricane-related losses attributable to Hurricane Katrina, Rita, or Wilma.

Toyota Prius Hybrid certified for the clean burning fuel deduction

The IRS has certified the 2006-model-year Toyota Prius Hybrid as being eligible for the clean-burning fuel deduction. The original owner of one of these vehicles may claim a deduction of \$2,000 for vehicles placed in service in 2005, the last year this credit is available. (However, hybrid vehicles may qualify for the new Code Sec. 30B alternative motor vehicle credit.) Other 2006-model-year vehicles previously certified by the IRS are the Ford Escape Hybrid, the Mercury Mariner Hybrid, the Lexus RX 400h, and the Toyota Highlander Hybrid.

The Tax Implications of Travel Reimbursements

Employers sometime reimburse employees for travel related to the business or the employee's job. Depending on whether the plan offered is accountable or nonaccountable, and how long the trip, the employer or employee may be taxed on the reimbursement funds.

Accountable Plans

Amount paid under accountable plans are not taxable wages and so are not subject to the employee's withholding for social security, Medicare or Federal Unemployment Taxes (FUTA). To qualify as an accountable plan, the reimbursement or allowance arrangement must meet all three of the following criteria:

1. There must be a business connection to the expenditure. This means that the expense must be a deductible business expense incurred in connection with services performed as an employee. If not reimbursed by the employer, the expense would be deductible by the employee on their 1040 income tax return. Deductible expenses include the costs of:
 - a. Air, train, bus or car travel between the employee's home and business destination;
 - b. Use of the employee's vehicle at the business destination;
 - c. Taxi, or similar fares for transportation, between the airport or train station and the hotel or work location, between the hotel and work location, between client locations, or between business locations.
 - d. Meals and lodging; and
 - e. Tips paid for services related to any of these expenses.

2. There must be "adequate" accounting by the recipient, within a reasonable period of time. This means that employees must verify the date, time, place, amount and the business purpose of the expenses. Receipts are required unless the reimbursement is made under a per diem plan.

3. Excess reimbursement or advances, must be returned within a reasonable period of time. Reasonable depends upon facts and circumstances.

Nonaccountable Plans

Amount paid under nonaccountable plans are taxable to employees and subject to all employment taxes and withholding. Reimbursements are considered paid under a nonaccountable plan if:

1. The employee is not required to, or does not substantiate with receipts or other documentation, the expenses being reimbursed, in a timely fashion.
2. An amount is advanced to the employee for business expenses and the employee is not required, nor do they return any of the funds advanced that are not used for business expenses.

Sample Accountable Plan for Business Expense Reimbursement

Purpose: This document can be used as a guide to draft an accountable plan for expense reimbursements. However, it is merely an example, it is not meant to be adopted or adapted without consulting appropriate legal counsel.

PART I ACCOUNTABLE PLAN

_____ desires to establish an expense reimbursement policy upon the following terms and conditions:

1. Except as otherwise noted in Part II below, any person now or hereafter employed by shall be reimbursed for any ordinary and necessary business and professional expenses incurred on behalf of _____ only if the expenses are adequately substantiate as required by the Company policy on expense reimbursements. (See policy memo).
2. Under no circumstances will _____ reimbursed employees for business or professional expenses incurred on behalf of _____

that are not properly substantiated _____ and employees understand that this requirement is necessary to prevent our expense reimbursement plan from being classified as a “nonaccountable” plan.

3. All expenses must be substantiated within a reasonable period of time. ¹ See Company policy statement of substantiation for what constitutes a reasonable period of time.
4. All charges to company credit cards must be substantiated in the same manner as the above mentioned reimbursements.
5. Advances that are not substantiated within a reasonable period of time must be returned (paid back) within a reasonable period of time. ²

PART II: EXCEPTIONS TO ACCOUNTABLE PLAN

Notwithstanding any term or condition in Part I of this document, the following persons, expenses, or arrangements are not considered to be covered under this accountable plan and are subject to terms and conditions of a separate expense reimbursement policy:

1. _____
2. _____
3. _____

Company officer: _____ Date: _____

¹ Must be 60 days or less after the expense is paid or incurred if the company wants to qualify for the “fixed date” safe harbor substantiation rule.

² Must be 120 days or less after the expense is paid or incurred if the company wants to qualify for the “fixed date” safe harbor substantiation rule.

Six-Steps to Preparing for a Disaster

Although the American Red Cross reports that home fires are still the most common disaster occurring in the United States, would you be ready if another hurricane hit? What about a tornado or earthquake? With the start of another hurricane season now on us, is your business going to be proactive or reactive?

Barry MacQuarrie, director of Technology for KAF Financial Group in Braintree, Mass. (suburb of Boston), offers a six-point guide to how a business can prepare for a disaster:

1. Assign the Team.
2. Understand the Risks.
3. Develop the Plan.
4. Involve Everyone.

5. Test the Plan.
6. Mitigate the Risks.

For more information and a more in-depth explanation, visit www.aicpa.org/infotech and “Disaster and Business Continuity Planning,” a topic selected by CPAs nationwide as one of the 2006 Top Technologies issues.

\$\$\$ for Taxpayers Who Did not File 2002 Returns

Unclaimed refunds totaling more than \$2 billion are available for 1.7 million taxpayers who failed to file income tax returns for 2002.

In order to claim these funds, returns must be filed by April 17, 2006. In cases involving non-filers, most taxpayers have a three-year window of opportunity to claim their refunds. The IRS does not assess a penalty for filing a late return qualifying for a refund. However, taxpayers seeking a 2002 refund will have their checks held if they also have not filed tax returns for 2003 or 2004. And, any refund will first be applied to any amounts owed to the IRS and may also be used to satisfy unpaid child support or past-due federal debts.

By failing to file a return, individuals may lose more than a refund of taxes withheld or paid during 2002. Many low-income taxpayers may be eligible to claim the earned income tax credit (EITC) in excess of the amount of taxes paid. However, those who file more than three years late will not receive a refund if their credit exceeds their tax liability.

TAX CALENDAR

MAY 2006

May 1

Employers. For Social Security, Medicare and withheld income tax, file Form 941 for the first quarter of 2006.

May 10

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

Employers. For Social Security, Medicare and withheld income tax, file Form 941 for the first quarter of 2006 only in you deposited the tax for the quarter in full and on time. Otherwise, Form 941 was due on May 1. See Pub. 509, page 7.

May 15

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

JUNE 2006

June 12

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

June 15

Individuals. If you are a U.S. citizen or resident alien living and working (or on military duty) outside the United States and Puerto Rico, file Form 1040 and pay any tax, interest, and penalties due. Otherwise, see the April 17 entry in the April Client Bulletin. If you want additional time to file your return, file Form 4868. Then, file Form 1040 by October 16.

However, if you are a participant in a combat zone, you may be able to further extend the filing deadline. See Publication 3, Armed Forces' Tax Guide.

Individuals. Make a payment of your 2006 estimated tax if you are not paying your income tax for the year through withholding (or will not pay in enough tax that way). Use Form 1040-ES. This is the second installment date for estimated tax in 2006. For more information, see Publication 505.

Corporations. Deposit the second installment of estimated income tax for 2006. A worksheet, Form 1120-W, is available to help you estimate your tax for the year.

In accordance with IRS Circular 230, this newsletter is not to be considered a "covered opinion" or other written tax advice and should not be relied upon for IRS audit, tax dispute, or any other purpose.
