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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.

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July 2008

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Although this year is only half over, we've already had three new tax laws with several more almost certainly on the way. Despite added confusion created by these repetitive changes, the current federal income tax environment is still quite favorable. Now is the time to take advantage of the tax breaks that Congress has provided before they are taken away. This letter presents some tax planning ideas to consider this summer while you have time to think. Some of the ideas may apply to you, some to family members, and others to your business.

Leverage Standard Deduction by Bunching Deductible Expenditures

Are your 2008 itemized deductions likely to be just under, or just over, this year's standard deduction amount? If so, consider the strategy of bunching together expenditures for itemized deduction items every other year, while claiming the standard deduction in the intervening years. This year, the standard deduction for married joint filers is \$10,900, for single filers it's \$5,450, and for heads of households it's \$8,000.

For example, say you're a joint filer whose only itemized deductions are \$4,000 of annual property taxes and \$7,000 of annual home mortgage interest. If you pay your 2007 and 2008 property taxes by December 31 of this year, you could claim \$15,000 of itemized deductions on your 2008 return (\$4,000 of property taxes for 2007, plus another \$4,000 for the 2008 bill, plus \$7,000 of mortgage interest). Of course, to accomplish this, you must have deferred paying your 2007 property taxes until 2008. If this strategy won't work this year, consider postponing payment of your 2008 taxes until January 2009 to allow you to bunch 2 years of taxes next year. On the "off" years, you would only have the \$7,000 of interest, but you can claim the standard deduction, which will be a little over \$11,000 after being adjusted for inflation. Following this strategy allows you to cut your taxable income by a meaningful amount over the two-year period. Then you can repeat the drill all over again every other year.

In addition to timing of property tax payments, you can also bunch your charitable donations to create a larger deduction every other year.

Time Investment Gains and Losses

As you evaluate investments held in taxable accounts, consider selling some appreciated securities, especially those you've held for over a year that would generate long-term capital gains. The maximum federal income tax rate on most long-term capital gains from 2008 sales is only 15%. Therefore, now may be a good time to cash in some long-term winners to benefit from historically low tax rates. Cashing in some winners this year could turn out to be a really smart move if tax rates go up next year. Depending on how the November elections turn out, higher capital gains taxes in 2009 are a definite possibility. Of course recent market downturns can affect the timing of when you elect to sell.

In addition, selling some loser securities (currently worth less than you paid for them) can be a good idea too. The resulting capital losses will offset capital gains from other sales this year (including short-term gains from securities owned for one year or less). If capital losses exceed capital gains, the excess losses can be used to shelter up to \$3,000 of your high-taxed ordinary income from salaries, bonuses, self-employment, and so forth (\$1,500 if you're married and file separately). However, depending on your exact situation, you could actually collect greater tax savings by triggering capital losses during a year in which you have minimal or no long-term gains. That could be next year rather than this year, especially given this year's low long-term capital gains tax rates. Contact us if you want help in identifying your best tax-smart options.

Take Advantage of Generous but Temporary Tax Breaks for Businesses

Several business-friendly tax changes kicked in this year that make purchasing equipment and software in 2008 a tax wise idea.

- ***Bigger Section 179 Deduction.*** Your business may be able to take advantage of the temporarily increased Section 179 deduction. Under the Section 179 deduction privilege, an eligible business can often claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions. For tax years beginning in 2008, the maximum Section 179 deduction is an enormous \$250,000. For tax years beginning in 2009, however, the maximum deduction is scheduled to drop back to about \$130,000 (depending on the inflation adjustment). Various limitations apply to the Section 179 deduction privilege, so please contact us if you want more information.
- ***50% First-year Bonus Depreciation.*** Above and beyond the bumped-up Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software acquired and placed in service by December 31 of this year. The 50% first-year bonus depreciation break will expire at year-end unless Congress takes further action. Contact us if you want more details about this generous, but temporary, tax break.

2008 May Be A Good Year for Dividends, Stock Redemptions, and Stock Sales

If you're a shareholder in a closely held C corporation, the current federal income tax rate structure is helpful to your cause. If the company pays you a taxable dividend, the maximum federal rate is only 15%. The same 15% maximum rate applies to corporate payouts and stock sales that generate long-term capital gains. Because this taxpayer-friendly scenario could change, now may be a good time to convert some of your C corporation wealth into cash at a very manageable tax cost. Here's why we say that.

Higher tax rates on dividends and long-term gains are scheduled to kick in starting with 2011. The maximum federal rate on dividends will jump from the current 15% to a whopping 39.6%, and the maximum rate on most long-term gains will jump from the current 15% to 20%. While 2011 may seem to be in the distant future, we could see those higher tax rates (or even worse) as early as next year—depending on how the November elections turn out. To hedge against that possibility, consider the following ideas.

- ***Take Dividends in 2008.*** They will be taxed at a federal rate of no more than 15%. If you wait, dividends in future years could be taxed at 39.6% (or maybe even higher) depending on how the political winds blow.
- ***Sell Stock in 2008.*** Speaking strictly from a tax-rate perspective, selling shares in 2008 and paying a federal rate of no more than 15% (for shares held over one year) beats paying a 20% rate (or maybe even higher) on gains from sales in future years.

Don't Forget about Your Estate

The federal estate tax exemption for 2008 is \$2 million. For 2009, the exemption is scheduled to increase to \$3.5 million. For 2010, the federal estate is supposed to be repealed—but just for that one year. It now seems clear that if the promised repeal ever happens at all, it will just be for 2010. The more likely scenario is that we will continue to have a federal estate tax for 2010 and beyond, but possibly (hopefully) with a somewhat larger exemption than the current \$2 million figure. Therefore, planning to avoid or minimize the federal estate tax should still be part of your overall financial game plan.

Whittling your estate down by making annual gifts continues to be a tax-smart strategy. If you have some favorite relatives or unrelated persons, you can give each of them up to \$12,000 this year. So can your spouse. These gifts will reduce your estate tax exposure without any adverse gift tax effects. Making multiple gifts over multiple years can dramatically reduce your exposure to the estate tax. So the sooner you start an annual gifting program, the better. Contact us for more information and other ideas on the best ways to avoid (or reduce) estate taxes.

Tax Calendar

JULY 2008

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 15

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 2008. 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 11 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 2007. 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 2008

August 11

Social Security, Medicare, and withheld income tax. File Form 941 for the second quarter of 2008. This due date applies only if you deposited the tax for the quarter in full and on time.

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.

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.