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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 month.

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It's Year-end Tax Planning Time. . . Again

There is still time to lower your 2006 tax bill and add to your tax-advantaged retirement accounts. Here are a few ideas to get you started.

Make the Standard Deduction Work for You

If your itemized deductions are just at or below the standard deduction (currently \$10,300 for joint filers and \$5,150 for singles), they don't generate any tax benefit for you. However, you can bunch itemized deductions into a single tax year to take full advantage of them and exceed the standard deduction that year. Then you can take the standard deduction the following year. Following this two-year pattern results in greater deductions overall. Deductions that work well for this strategy include charitable contributions, property taxes, and your January mortgage payment.

Consider Giving Appreciated Securities to Your Children

A great way to reduce the tax hit on an appreciated security is to give it your child (or grandchild). The child can hold the security until the year he or she turns 18 and then sell it without being subject to the "kiddie tax." Assuming the current tax rate structure is left in place, the resulting capital gain will probably be taxed at only 5% if the stock is sold this year or next. If sold in 2008 through 2010, the tax rate will likely be 0%. Remember, your child's lower tax rates won't apply if the stock is sold before the year he or she turns 18. Also, giving the security to your child (or grandchild) is considered a gift. However, you can use your annual \$12,000 gift tax exclusion to shelter the transaction from any gift tax.

Consider Selling Appreciated Securities

It may be a good time to *consider* selling capital assets (e.g., common stock) with a low cost basis. The maximum capital gains tax rate is 15% for gains from the sale of qualifying assets held more than one year. The 15% maximum tax rate is available for both the regular and alternative minimum tax (AMT). In addition, *qualifying* dividends individuals receive during 2006 will generally be taxed at the 15% (or less) capital gains rate.

Year-end Tax Planning Sell Losers with Tax Savings in Mind

It's also important to consider the best time to trigger capital losses by selling losers held in your taxable investment accounts. Capital losses are used to offset any capital gains for the year. If total losses exceed total gains, the excess can be used to offset up to \$3,000 (\$1,500 if married filing separately) of ordinary income.

Contribute to Your IRA

You can contribute up to \$4,000 (\$5,000 if you are age 50 or older by year-end) to your IRA in 2006 if certain conditions are met. For married couples, the combined contribution limits are \$8,000 (\$4,000 each) and \$10,000 (\$5,000 each if both are age 50 by year-end) when a joint return is filed provided one or both spouses had at least that much earned income. And keep in mind that contributions to traditional IRAs may be tax deductible subject to specific limitations.

Contribute to Your Employer-sponsored Retirement Plan

The 2006 annual deferral limit for qualified retirement plans is \$15,000. If you are at least age 50 by year-end, you can contribute an additional \$5,000 to 401(k), 403(b), and 457 plans in 2006. These contributions normally decrease your taxable income.

Purchase Equipment for Your Business and Use Section 179 Expensing

For your business, the Section 179 (election to expense otherwise depreciable assets) limit is \$108,000 for eligible property placed in service during 2006 and includes qualifying property placed in service as late as December 31, 2006. However, the Section 179 deduction phases out, dollar-for-dollar, after eligible equipment purchases reach \$430,000. So, the \$108,000 deduction amount for 2006 is completely phased-out when eligible equipment purchases reach \$538,000.

Business Owners can Set-up a Retirement Plan

If your business doesn't offer a retirement plan, now might be the time to take the plunge. Current retirement plan rules allow for significant deductible contributions. Even if your business is only part-time or something you do on the side, contributing to a SEP-IRA or SIMPLE-IRA can enable you to reduce your current tax load while increasing your retirement savings. With a SEP-IRA, you generally can contribute up to 20% of your self-employment earnings, with a maximum contribution of \$44,000. A SIMPLE-IRA, on the other hand, allows you to set aside up to \$10,000 plus an employer match that could potentially be the same amount. In addition, if you're age 50 or older by year-end, you can contribute an additional \$2,500 to a SIMPLE-IRA.

2007 Inflation Adjustments Widen Tax Brackets, Expand Tax Benefits

Personal exemptions and standard deductions will rise, tax brackets will widen and income limits for IRAs will increase in 2007, thanks to inflation adjustments announced today by the Internal Revenue Service.

By law, the dollar amounts for a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits, affecting virtually every taxpayer, are being adjusted for 2007. Key changes affecting 2007 returns, filed by most taxpayers in early 2008, include the following:

- The value of each personal and dependency exemption, available to most taxpayers, will be \$3,400 up \$100 from 2006.
- The new standard deduction will be \$10,700 for married couples filing a joint return (up \$400), \$5,350 for singles and married individuals filing separately (up \$200) and \$7,850 for heads of household (up \$300). Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions and state and local taxes.
- Tax-bracket thresholds will increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket will be \$63,700, up from \$61,300 in 2006.
- In 2007, for the first time, inflation adjustments will raise the income limits that apply to the retirement savings contributions credit, contributions to a Roth IRA and deductible contributions to a traditional IRA where the taxpayer or the taxpayer's spouse is covered by a retirement plan at work.

Standard Mileage Rate increase by 4¢ for 2007

IRS has announced that the optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) is 48.5¢ for business travel after 2006. That's 4¢ more than the 44.5¢ allowance for 2006 business travel. This increase is due to higher prices for vehicles and fuel.

Simplified deduction method

The mileage allowance deduction replaces separate deductions for lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance and license and registration fees. The taxpayer may, however, claim separate deductions for parking fees and tolls connected to business driving.

The standard mileage rate may not be used for the purchased auto if:

- It was previously depreciated using a method other than straight-line for its estimated useful life;
- A Code Sec. 179 expensing deduction was claimed for the auto;
- The taxpayer depreciated it using MACRS under Code Sec. 168; or
- The vehicle is used for hire, such as a taxicab.

Also, the standard mileage rate can't be used to compute the deductible expenses of five or more autos owned or leased by a taxpayer and used simultaneously (such as in fleet operations).

A taxpayer who uses the mileage allowance method for an auto he owns may switch in a later year to deducting the business connected portion of actual expenses, so long as he depreciates it from that point on using straight line depreciation over the auto's remaining life. The depreciation deductions would be subject to the Code Sec. 280F dollar caps.

A taxpayer may use the mileage allowance method for a leased auto only if he uses the method (or a fixed and variable rate (FAVR) allowance method) for the entire lease period (including renewals). If the lease period began before '98, this rule applies only for the post-'97 portion of the lease period (including renewals).

Other business mileage rate rules

For 2007, the depreciation component of the mileage rate is 19¢ per mile (17¢ per mile for 2006 and 2005, 16¢ per mile for 2004 and 2003). The depreciation component reduces the basis of the auto for gain or loss purposes.

Advantages of using standard mileage rate

For those taxpayers eligible to use it, the standard mileage rate offers the following advantages:

- Mileage rate users need not keep a record of actual expenses, or retain receipts where required. A record of the time, place, business purpose and number of miles traveled suffices.
- If an auto's business expenses are deducted via the mileage rate, it is not subject to the Code Sec. 280F dollar caps, or the special rules that apply if qualified business use does not exceed 50% of total use.
- The mileage rate method may yield bigger deductions than the actual expense method for a thrifty, high-mileage model.

Disadvantages of mileage rate method

The mileage rate method may produce a smaller deduction than would be obtained by claiming actual business-connected operating expenses plus depreciation (or lease payments). Also, use of the mileage rate method prevents the taxpayer from claiming regular MACRS deductions (subject to the luxury auto dollar caps) for the auto in later years.

Other applications of mileage allowance method

Employers that require employees to supply their own autos may reimburse them at a rate that doesn't exceed 48.5¢ per mile for employment-connected business mileage during 2007 (44.5¢ per mile for 2006), whether the autos are owned or leased. The reimbursement is treated as a tax-free accountable-plan reimbursement if the employee substantiates the time, place, business purpose, and mileage of each trip. Additionally, an employee's personal use of lower-priced company autos during 2007 may be valued at 48.5¢ per mile if the conditions specified in Reg. § 1.61-21(3)(1) are met.

Other mileage rules for 2007

Employers may use a FAVR allowance method to reimburse employees who supply their own cars for business (whether the cars are leased or owned). For 2007, the standard auto cost used to compute the FAVR allowance cannot exceed \$27,600 (up from \$27,400 for 2006).

In addition, for 2007, the rate for using a car to get medical care or in connection with a move that qualifies for the moving expense deduction is 20¢ per mile (18¢ per mile for 2006). The mileage rate for driving an auto for charitable use during 2007 will remain unchanged at 14¢ per mile (a statutory rate that's not adjusted for inflation).

Telephone Excise Tax Refund

In response to five U.S. circuit court decisions, the IRS has announced it will issue refunds of federal excise taxes collected on long-distance telephone services billed to customers after February 28, 2003 and before August 1, 2006. The courts ruled that the 3% federal telephone service excise tax does not apply to long-distance service as it was previously billed (not based on a telephone call's time and distance and thus not subject to the tax imposed).

The IRS recently announced standard safe-harbor amounts that *individuals* may claim for their refund in lieu of claiming the refund for actual taxes paid (and having to be ready to provide the necessary back-up documentation). The standard amounts are based on the total number of exemptions claimed on the 2006 federal income tax return. The refund amounts are \$30 for an individual filing a return with one exemption, \$40 with two exemptions, \$50 with three exemptions, and \$60 with four or more exemptions. *Individuals* will claim their refund on their 2006 federal income tax return. The IRS is creating a special short form (Form 1040EZ-T) for taxpayers who normally wouldn't need to file a return, but will want to claim the refund. Additional guidance on how to obtain the telephone tax refund for businesses and nonprofits will be announced soon.

Tax Calendar

December 15—Calendar-year corporations must deposit the fourth installment of estimated income tax for 2006.