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September 2005

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.

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Give Win-Win Charitable Donations Every Time

As part of an overall, smart tax-planning strategy, many people get an early start to the holiday gift-giving season by contributing to charities throughout the autumn months. As long as you follow all of the IRS rules, you get the gift of tax savings in return for your contributions, allowing both you and the charity to benefit from your generosity-creating a win-win situation.

Qualified organizations

Only gifts made to IRS-recognized charities will result in a tax break. These "qualified" organizations include "501(c)(3)s"-named for a section of the Tax Code that defines their status as nonprofits. Other kinds of organizations may also qualify, including educational and religious institutions, federal, state, and local governments, and certain not-for-profit cemetery companies. Our office will be happy to let you know whether your intended beneficiary organization qualifies.

Over \$250 = proper documentation required

The IRS requires a "contemporaneous written acknowledgment" from the qualified organization that received your contribution of \$250 or more in cash or non-cash of at least that value. Basically, that means that you want to get proof of your charitable contribution at the same time you make the gift. This written acknowledgment can be provided on paper or electronically, but it must include:

- * the name of the organization;
- * the date that you contributed your gift;
- * the specific amount of cash or, if appropriate, a description of the non-cash contribution; and

* an explanation of any benefit you received in return for contributing to the organization, along with an estimated value of that benefit (if no benefit was conferred, then the written statement should indicate that fact).

If you donate less than \$250 or its equivalent to a qualified organization, your cancelled check, credit card, or cash receipt will fulfill the requirement for a "contemporaneous written acknowledgment" and the charity need not supply one.

Also, nonprofits must provide you with a written statement for gifts greater than \$75 if the organization gave you a benefit in return. When this happens, the written statement must include (1) a good faith estimate of the value of the benefit; and (2) an explanation that you may deduct only the amount of the gift in excess of the benefit.

Contribute assets if you have them

When choosing between cash and assets, it makes more sense to donate an appreciated capital asset which you held on to for more than a year (long-term) to a qualified charity than to sell it and donate the after-tax proceeds of the sale. Why? First, you will avoid incurring capital gains tax on the sale of your asset. Second, for long-term capital gain property (see below), you will receive a tax deduction equal to its full fair market value.

Examples of capital assets include, but are not limited to, stocks, real property, and works of art—each of which could be classified as "long-term" or "short-term" capital assets depending on how long you have owned the asset. If you hold your asset for under a year, it is short-term property; otherwise, it is generally considered long-term. However, special rules apply to determine the holding period in many situations, including but not limited to, assets acquired through inheritance, divorce, and like-kind property exchanges.

To illustrate your potential tax savings, gain from the sale of long-term assets is taxed at a maximum federal capital gains tax of 15% (5% if your income is under a certain level). Gain from the sale of short-term assets is taxed at your marginal federal tax rate, which can be up to 35%.

Vehicle donations

New, stringent rules govern how you compute the amount you may deduct for a charitable contribution of a qualified vehicle worth more than \$500. Our office can discuss these rules, information reporting requirements, issues that arise if the charity sells the vehicle, and other issues.

Calculating your deduction

Broadly speaking, you are entitled to take charitable deductions of up to 50% of your adjusted gross income (AGI). However, ceilings of 20% and 30% are imposed for certain contributions, which our office can speak to you about. Certain types of donations and donations to certain types of organizations will trigger these lower limits.

Generally, you can deduct the amount by which your total gift exceeds the value of any benefit you

receive in return. Where that benefit is very small, you may completely disregard it and not reduce the amount of your deduction. These "insubstantial" benefits are defined each year by law. Also, you may disclaim a benefit when it is given, thereby avoiding the impact of a reduced charitable deduction. Of course, you must reject the benefit when it is offered, not after you have received it.

Volunteer, but don't try to deduct your time

Although you are not entitled to any deduction for the value of your donated services, you may be able to deduct some expenses you incur when performing volunteer work. For example, you can deduct your travel expenses if the qualified organization does not reimburse you, assuming you did not receive benefit for the travel (such as a pleasure trip, recreation, or vacation).

Real Estate

The "bull market" in Volusia County real estate continues to surprise many residents. Morgan Gilreath, Property Appraiser, cites values are up 23% over last year alone. The largest increase has been in single family vacant land, which was up an astonishing 40% in 2004.

Is this a "bubble"? Not according to most experts. While prices certainly cannot sustain the record growth levels of the past few years, the consensus for the near future seems to be continued price escalation, although at a slightly lower pace.

If you are considering selling appreciated real estate there are a number of "tax smart" scenarios. If the property qualifies as your primary personal residence for at least 2 of the last 5 years, up to \$500,000 of profit is exempt on a jointly-filed return. In certain instances, you may qualify for partial gain exclusion, depending on the reason for selling.

If the property you are selling is not your residence and you have held the real estate for over 1 year, you qualify for favorable 15% capital gain rates. Should you wish to defer the capital gains tax, you may be able to effect a like-kind exchange (referred to as a Section 1031 exchange). Under Section 1031, you are permitted to purchase replacement property of equal, or greater, value and defer the tax bill.

While like-kind exchanges can be beneficial, you must be careful to follow the many technical requirements of the regulations. For example, the property you are selling must have been "held for investment." This means the personal use condominium you may have owned for many years does not qualify (although there are some techniques to possibly overcome this problem). Also, you must use a qualified agent (not your real estate broker or attorney) to complete the transaction.

If you are considering selling appreciated real estate, contact us prior to signing any contracts. We can review all the potential tax saving areas with you and insure the technical requirements are followed.

TAX CALENDAR

SEPTEMBER 2005

September 12

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

September 15

Individuals. Make a payment of your 2005 estimated tax if you are not paying your income tax for the year through withholding (or will not pay in enough that way). Use Form 1040-ES. This is the third installment date for estimated tax in 2005.

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

Corporations. File a 2004 calendar year income tax return (Form 1120 or 1120-A) and pay any tax due. This due date applies only if you timely requested an automatic six-month extension.

Deposit the third installment of estimated income tax for 2005. Use the worksheet Form 1120-W to help estimate tax for the year.

S corporations. File a 2004 calendar year income tax return (Form 1120S) and pay any tax due. This due date applies only if you timely requested an automatic six-month extension. Provide each shareholder with a copy of Schedule K-1 (Form 1120S).

OCTOBER 2005

October 11

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

October 17

Individuals. File a 2004 income tax return and pay any tax, interest, and penalties due if you were given an additional two-month extension.

Partnerships. File a 2004 calendar year return (Form 1065). This due date applies only if you were given an additional three-month extension. Provide each partner with a copy of Schedule K-1 (Form 1065) or a substitute Schedule K-1.

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

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 purposes.

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