



**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 months.

September 2006

In This Issue

New Pension Law
Canceling Private Mortgage Insurance
Energy Efficient Commercial Building Property Deduction
Child Support Enforcement – 2005 Post Legislative Review

New Pension Law

On August 3, Congress passed the Pension Protection Act of 2006 (“the Pension Act”). President Bush has said he will sign the massive bill into law (it’s over 900 pages long). Although the Pension Act has not received very much media attention, it includes many important tax changes that will affect individuals, employers, businesses in general, and charitable organizations.

Phaseout Ranges for Deductible IRA and Roth IRA Contributions Will Be Indexed for Inflation

For 2007 and later years, the new law mandates inflation adjustments to the income-based phaseout ranges that limit contributions to traditional IRAs and Roth IRAs. The new inflation-adjusted phaseout ranges will allow more individuals to contribute to these accounts.

Nonspouse Beneficiaries Can Roll Over Distributions from Deceased Person's Retirement Plan

Starting in 2007, the Act permits tax-free rollovers of direct trustee-to-trustee transfers from a deceased person's IRA or retirement plan to a nonspousal beneficiary's IRA. The same tax-free rollover privilege will be available for trustee-to-trustee transfers from tax-sheltered annuity arrangements and governmental Section 457 plans to a nonspousal beneficiary's IRA. Under prior law, only surviving spouses were able to take advantage of the tax-free rollover privilege.

Favorable Rules for Section 529 Plans Are Now Permanent

The Pension Act makes permanent the current ultra-favorable federal income tax treatment of Section 529 plans used to finance college education costs. Of particular importance, qualified Section 529 plan distributions (distributions used for qualified higher education expenses) will continue to be federal-income-tax-free, even after 2010. Previously, these distributions would have been taxable if made after 2010.

Changes Affecting Charitable Donations and Charities

The Pension Act also includes numerous changes affecting the tax treatment of donations to tax-exempt charitable organizations as well as other provisions that affect charities themselves. Here are highlights of the most important changes.

- *Tighter Rules for Cash under \$250.* The Pension Act completely disallows any deduction for a charitable donation of cash, a check, or any other monetary gift unless you have either a bank record (such as a canceled check) or a written communication from the charity that adequately documents your donation. This unfavorable change is effective for tax years beginning after the new law's date of enactment, so most individuals won't be affected until 2007.

Note: Basically this means no more deduction for estimated amounts of cash put in the collection plate. Starting in 2007, you'll need to write a check, charge it, or get some sort of documentation from the charity.

- *Temporary Allowance of Donations Directly out of IRAs.* The Pension Act allows those who are age 70½ or older to claim tax-free treatment for otherwise taxable distributions from traditional or Roth IRAs, when the IRA money is paid out directly to a tax-exempt charity. This favorable new rule for "qualified charitable distributions" applies for 2006 and 2007. However, there is a \$100,000 annual cap on the privilege. Because charitable distribution is federal-income-tax-free, you don't get any federal income tax deduction. But, tax-free treatment for the distribution is effectively the same as a 100% write-off. The new rule benefits seniors who don't itemize as well as seniors who would be adversely affected by the "normal" restrictions on itemized charitable contribution deductions.
- *Temporary Liberalizations for Qualified Conservation Contributions.* The Pension Act liberalizes the rules for "qualified conservation contributions" made in 2006 and 2007 by individuals and private corporations to charitable organizations. Qualified conservation contributions in excess of what can be currently deducted can be carried forward for up to 15 years.

Canceling Private Mortgage Insurance

When homebuyers make a down payment of less than 20% of the home's purchase price, they often must pay for private mortgage insurance (PMI). While the monthly PMI payments are small in relation to the mortgage payments, they do add up over time. Fortunately, rising home prices have helped to relieve many homeowners of the PMI obligation.

In many cases, homeowners who have made their mortgage payments on time for at least two years (depending on their location) can qualify for discontinuing PMI if their equity in the home is at least 20% of appraised value. The strong real estate market has made this a reality for many homebuyers as their home values and, of course, home equity has grown rapidly in recent years. So, stated another way, if your current mortgage is equal to or less than 80% of your home's appraised value, you may qualify to drop the PMI coverage. The costs involved to terminate the PMI (e.g., an appraisal fee) are usually recovered in less than a year. If you believe you qualify, you should contact your lender to request removal of the PMI charge.

Energy Efficient Commercial Building Property Deduction

The Energy Tax Incentives Act of 2005 (Energy Act) provides an immediate deduction (as opposed to multi-year depreciation) for the cost of qualified energy-saving improvements to commercial buildings in the U.S. Prior to the Energy Act, there were no special deductions for expenses incurred for constructing energy efficient commercial building property. Heating equipment, cooling equipment, air conditioning, and other air handling equipment may be structural components of a building, and, as such, are normally depreciated over a period of 27.5 years if residential rental property, or 39 years if nonresidential real property.

The immediate deduction is available to taxpayers who own or lease commercial buildings and install energy efficient property as part of the buildings' interior lighting system; heating, cooling, ventilation, and hot water systems; or building envelope. The maximum deduction is generally limited to \$1.80 per square foot on a lifetime basis. To qualify, the improvements must meet a 50% reduced energy consumption standard. In some circumstances, a reduced deduction amount of \$.60 per square foot may apply. The deduction is available for qualified energy efficient commercial building improvements placed in use after December 31, 2005 and before 2008.

Example: In 2006, GenCo, a developer and builder of office space and a calendar year taxpayer, began construction of a 100,000 square foot office complex that will incorporate the latest technology to reduce the building's use of energy. The building is completed and placed in service in May 2007. If the appropriate energy and power cost reduction requirements are met, GenCo can take an immediate tax deduction of up to \$180,000 ($\$1.80 \times 100,000$ square feet) in 2007.

The IRS recently issued guidance reminding taxpayers that, prior to claiming the new deduction, they must obtain certification that the required energy savings will be achieved. The IRS also provided information on software programs to use for energy saving calculations.

Child Support Enforcement – 2005 Post Legislative Review

Effective October 1, 2006 – The State of Florida Department of Revenue requires employers who employed 10 or more employees in any quarter during the preceding state fiscal year or who were subject to and paid tax to the Department in the amount of \$30,000 or more to remit child support payments to the State Disbursement Unit by electronic means. This is consistent with the requirements in current law for electronic remittance of taxes under ss.213.755 and 443.163, F.S. The Department is required to adopt rules that, to the extent feasible, are consistent with the Department's rules for electronic filing and remittance of taxes. A waiver grant by the Department from the requirement to file and remit taxes electronically constitutes a waiver for purposes of child support transactions.

For specific enrollment information, please contact the State Disbursement Unit – Employers Relation Department – at 1-877-388-0421.

TAX CALENDAR

SEPTEMBER 2006

September 11

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 2006 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 2006.

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 2005 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 2006. Use the worksheet Form 1120-W to help estimate tax for the year.

S corporations. File a 2005 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 2006

October 10

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 16

Individuals. File a 2005 income tax return and pay any tax, interest, and penalties due if you were given an automatic six month extension.

Partnerships. File a 2005 calendar year return (Form 1065). This due date applies only if you were given an automatic six 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 2005 calendar year return (Form 1065-B). This due date applies only if you were given an automatic six month extension