



## **Celebrating our 20th Anniversary**

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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.**

### **September 2007**

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#### **Understanding the Influences of Volusia County's Housing Market**

If you are interested in knowing more about the Volusia County housing market, take a look at the 3<sup>rd</sup> quarter 2007 – Economic Development Quarterly, published by the Volusia County Department of Economic Development. Rick Michael, department head, provides an excellent overview of the housing industry. If you are interested in receiving the quarterly, contact Paige Holley (386) 681-2457.

## **Family Limited Partnerships**

In the last few years, family partnerships have received a tremendous amount of attention from both professional commentators and the financial press. Family partnerships are not a new phenomena, however. Perhaps the latest wave of interest in family partnerships can be traced to their exposure in Sam Walton's autobiography, *Made In America*. The Walton family formed a family partnership, Walton Enterprises, early on, prior to accumulating their wealth. By doing so, the Walton family probably saved billions in estate tax, kept family members together in a common endeavor, and avoided splitting up the estate in a manner that could have led to loss of control over the family business.

While they carry some risk as a planning strategy, family limited partnerships (FLPs) have been used successfully by taxpayers to achieve business and wealth transfer goals. Listed below are some of the benefits of structuring your financial affairs to take advantage of this planning opportunity.

Properly structured, an FLP allows you to (1) protect your assets from potential creditors; (2) begin the orderly transfer of assets to your children, with a minimum of transfer taxes; and (3) maintain as much control over the assets as possible without adverse tax effects. An FLP also provides flexibility to react to changing circumstances.

As the general partner of a family limited partnership, you maintain some control over the management and investment of the partnership's assets, yet you can give away or sell limited partner interests to your children or other heirs. Depending on the specific rights and powers associated with the partnership interests they receive, the value of the limited partnership interests may also be discounted, leading to significant transfer tax savings. In addition, limited partnerships are an excellent way to protect assets from creditors.

If you would like to know more about FLPs, give us a call. And, keep in mind, you don't have to be mega-wealthy like a Walton to take advantage of FLP benefits, although high net worth individuals (over \$2,000,000) will receive the majority of FLP benefits.

## **Find National Charity Data Online**

Have you ever wondered what percentage of the funds your charity collects pays for operating expenses or how the money you donate to a charity is spent?

The Better Business Bureau's Wise Giving Alliance at [www.give.org](http://www.give.org) provides information intended to assist donors in making informed decisions about the charities to which they contribute. This website contains information on charitable organizations that solicit contributions nationally such as the AARP Foundation and Meals on Wheels Association of America. Available information includes sources and uses of funds; and the percentage of funds allocated to programs, fund raising, and administration.

## **Bunching Deductible Expenditures**

This year, the standard deduction for married joint filers is \$10,700. The magic number for single filers is \$5,350, while the figure for heads of households is \$7,850. If your 2007 itemized deductions are likely to be just under or over this amount, it may pay to adopt the strategy of bunching together expenditures for itemized deductions every other year, while claiming the standard deduction in the intervening years. Examples of items that often work well for this strategy include the interest on your January home mortgage payment, charitable contributions and property taxes.

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 paid your 2006 property taxes in 2007 and you pay your 2007 property taxes by December 31, you could claim \$15,000 of itemized deductions on your 2007 return (\$4,000 of property taxes for last year, plus another \$4,000 for the 2007 bill, plus \$7,000 of mortgage interest). In 2008, you would only have the \$7,000 of mortgage interest, but you can claim the standard deduction, which will probably be around \$11,000 after an inflation adjustment. This strategy allows you to cut your taxable income by a meaningful amount over the two-year period. You can then repeat the drill all over again in 2009.

### **Employing Your Child in the Family Business**

The Small Business and Work Opportunity Tax Act of 2007 recently expanded the kiddie tax rules which can now apply to children as old as 23. The expansion of the kiddie tax rules diminishes somewhat the value of shifting income-producing assets to children to take advantage of their lower tax bracket since the income generated will, in many cases, be taxed at the parent's higher tax rate. However, the kiddie tax only applies to *unearned* income (e.g., dividends and interest) and does not reach *earned* income (e.g., wages).

A technique for shifting income to children that avoids the kiddie tax is for parents to employ their child in a family business. Provided the compensation is reasonable relative to the work performed, the child has *earned* income and the business is entitled to a deduction for the expense. A child's earned income is not subject to the kiddie tax, so wages are taxed at the child's lower tax rate. In addition, wages paid to a child under age 18 from a parent's sole proprietorship are exempt from FICA taxes. A FUTA exemption exists as well.

In addition to the earned income being taxed at the child's rate, a child may shelter all or a portion of the earned income with the standard deduction. An individual claimed as a dependent (e.g., child) is entitled to a standard deduction equal to the greater of \$850 or \$300 plus actual earned income up to a maximum of \$5,350 for 2007. However, the child may not claim a personal exemption if he or she is eligible to be claimed as a dependent.

**Example: Saving taxes by employing your child.** Glenda hires her 12-year-old son, Tim, to work in the stockroom of her clothing boutique which operates as a sole proprietorship. The boutique employees earn \$10 per hour; Tim is paid \$6 per hour based on the types of services he is able to perform. In 2007, Tim earned \$1,700 in wages from the boutique. His only other income is \$425 of dividends.

Tim avoids paying federal income tax on the entire \$1,700 of wages, since he is entitled to a \$2,000 standard deduction (the lesser of \$5,350 or \$300 plus his earned income, if it exceeds \$850), and Glenda's business is entitled to a \$1,700 deduction for the wages paid to Tim. In addition, only \$125 of Tim's \$425 unearned income is taxed, and it is taxed at a 5% dividend tax rate—the kiddie tax does not apply because unearned income is less than \$1,700. Also, the wages are exempt from both FICA and FUTA taxation.

### **SUV Tax Breaks under Attack Again**

As you may know, SUVs that have gross vehicle weight ratings - the manufacturer's maximum weight rating when loaded to capacity - above 6,000 pounds are exempt from the stingy IRC Sec. 280F luxury vehicle depreciation and expensing limitation.

While these gas-guzzling heavy vehicles may not be environmentally friendly when it comes tax time, they are hard to beat – at least for the time being. For example, the maximum first-year depreciation deduction for a \$40,000 heavy SUV placed in service during 2007 and used 100% for business will generally be \$28,000 [\$25,000 Section 179 deduction + \$3,000 MACRS deduction (20% x \$15,000)]. In contrast, the maximum first-year depreciation deduction for a \$40,000 auto used 100% for business will be limited to a paltry \$3,060 (\$3,260 for a light truck or van).

This could all change. Congress is again looking at slashing this benefit. Currently, there is a provision in the Renewable Energy and Energy Conservation Tax Act of 2007 (H.R. 2776), that would subject all SUVs with a gross vehicle weight of over 6,000 pounds and up to 14,000 pounds to the Section 280F luxury auto limits. The bill also would repeal the special \$25,000 heavy SUV expensing limit in Code Sec. 179(b)(6). These changes if adopted as proposed would be effective for property placed in service after 12/31/07.

**Not the Law Yet, But Something to Watch.** We reiterate that this is just a provision in proposed legislation. It may or not ever make it into the law and, effective dates are always up for change.

**Observation:** Legislators have tried several times before to close the SUV loophole, but the idea never gained traction. This time around, there may be substantial opposition to doing anything that could hurt sales of heavy SUVs, a major source of income for the ailing U.S. auto industry. We'll keep you posted.

## **SEPTEMBER 2007**

### **September 10**

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 17**

Individuals. Make a payment of your 2007 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 2007.

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 2006 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 2007. Use the worksheet Form 1120W to help estimate tax for the year.

S Corporations. File a 2006 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 2007**

### **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 15**

Individuals. File a 2006 income tax return and pay any tax, interest, and penalties due if you were given an automatic six month extension.

Partnerships. File a 2006 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 2006 calendar year return (Form 1065-B). This due date applies only if you were given an automatic six month extension