



Celebrating our 20th Anniversary

**COHEN, SMITH & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
133 EAST INDIANA AVENUE
DELAND, FLORIDA 32724-4329
(386) 738-3300
www.cohensmithcpas.com**

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 will be included, along with a tax calendar for the current and following month.

Interested in knowing more about our firm? Please take a minute to browse our website at www.cohensmithcpas.com.

Other helpful on-line services

www.IRS.gov

www.MyFlorida.com

www.Volusia.org

November 2007

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Property Tax Exemptions; Limitations on Property Tax Assessments – Amendment #1
(www.VoteSmartFlorida.org)

The revision proposes changes to the State Constitution relating to property taxation. With respect to homestead property, this revision: (1) increases the homestead exemption except for school district taxes and (2) allows homestead property owners to transfer up to \$500,000 of their Save-Our-Homes benefits to their next homestead. With respect to nonhomestead property, this revision (3) provides a \$25,000 exemption for tangible personal property and (4) limits assessment increases for specified nonhomestead real property except for school district taxes.

In more detail, this revision:

- (1) Increases the homestead exemption by exempting the assessed value between \$50,000 and \$75,000. This exemption does not apply to school district taxes.
- (2) Provides for the transfer of accumulated Save-Our-Homes benefits. Homestead property owners will be able to transfer their Save-Our-Homes benefit to a new homestead within 1 year and not more than 2 years after relinquishing their previous homestead. However, if this revision is approved by the electors in January of 2008 and if the new homestead is established on January 1, 2008, the previous homestead must have been relinquished in 2007. If the new homestead has a higher just value than the previous one, the accumulated benefit can be transferred; if the new homestead has a lower just value, the amount of benefit transferred will be reduced. The transferred benefit may not exceed \$500,000. This provision applies to all taxes.
- (3) Authorizes an exemption from property taxes of \$25,000 of assessed value of tangible personal property. This provision applies to all assessed value of tangible personal property. This provision applies to all taxes.
- (4) Limits the assessment increases for specified nonhomestead real property to 10 percent each year. Property will be assessed at just value following an improvement, as defined by general law, and may be assessed at just value following a change of ownership or control if provided by general law. This limitation does not apply to school district taxes. This limitation is repealed effective January 1, 2019, unless renewed by a vote of the electors in the general election held in 2018.

Further, this revision:

- (a) Repeals obsolete language on the homestead exemption when it was less than \$25,000 and did not apply uniformly to property taxes levied by all local governments.
- (b) Provides for homestead exemptions to be repealed if a future constitutional amendment provides for assessment of homesteads “at less than just value” rather than as currently provided “at a specified percentage” of just value.
- (c) Schedules the changes to take effect upon approval by the electors and operate retroactively to January 1, 2008, if approved in a special election held on January 29, 2008, or to take effect January 1, 2009, if approved in the general election held in November 2008. The limitation on annual assessment increases for specified real property shall first apply to the 2009 tax roll if this revision is approved in special election held on January 29, 2008, or shall first apply to the 2010 tax roll if this revision is approved in the general election held in November of 2008.

Amendment Type:

Legislative/Joint Resolution, this amendment was placed on the ballot by the Florida Legislature during the 2007 Special Session D. It was required to pass both the Senate and House by 60% vote to be eligible for the ballot.

Disability Insurance for Business Owners and Professionals

As you probably know, it's wise to have disability insurance coverage to protect you and your family from loss of earnings if you become unable to work. Studies show that the possibility of permanent disability is far greater than death during a person's working lifetime. Total and permanent disability is not only statistically more common than premature death, but can also have a much greater financial impact on the family. Both death and disability can remove a source of income, but with disability, family expenditures might actually increase. The disabled person must be fed, clothed, and sheltered, and the family is faced with large, ongoing medical expenditures.

Disability insurance needs are usually based on the level of wages that would be lost if you were disabled. However, a more precise method may be needed to measure the gap between anticipated expenditures and continuing income. This method considers other sources of income and special funding needs, such as unfunded education costs.

The benefits paid under a disability insurance policy can be totally tax-free to you, 100% taxable, or partially taxable depending on the type of policy, who pays the premiums, and whether or not they are paid with pre-tax dollars.

IRS Warns Taxpayers of a New Phishing Scam

The IRS recently warned taxpayers of a new phishing scam in which a phony IRS email tells recipients they can receive \$80 by filling out an online customer satisfaction survey. *Phishing* is the term used to describe the practice of tricking victims into revealing private personal or financial information over the Internet, telephone, or by other means. In this case, the email notifies the recipient that he or she has been randomly selected to participate in a survey. They are told that, in return for filling out the survey, they will receive an \$80 credit from the IRS. In addition to standard customer satisfaction survey questions, the survey requests the name and phone number of the participant and also asks for credit card information.

Taxpayers should note that the IRS does not initiate contact with taxpayers via email and they can send information about suspicious emails claiming to come from the IRS to phishing@irs.gov. Since establishing this email box last year, the IRS has received more than 30,000 emails reporting almost 400 separate phishing incidents.

Independent Contractor Versus Employee – (irs.gov site)

Are your workers independent contractors or employees? The answer can have a profound impact on how much tax you pay as a small business owner. Knowing whether your workers are or are not employees will affect the amount of taxes you must withhold from their pay. It will affect how much additional cost your business must bear, what documents and information they must provide to you, and what tax documents you must give to them. Employers who misclassify workers as independent contractors can end up with substantial tax bills as well as penalties for failing to pay employment taxes and failing to file required forms.

Generally, whether a worker is an employee or an independent contractor depends upon how much control you have as a business owner. If you have the right to control or direct not only what is done but also how it is to be done then your workers are most likely employees. If you can direct or control only the result of the work done, and not the means and methods of accomplishing the result, then your workers are probably independent contractors.

Three broad characteristics are used by the IRS to determine the relationship between businesses and workers – Behavioral Control, Financial Control, and the Type of Relationship. Behavioral Control covers facts that show whether the business has a right to direct or control how the work is done through instructions, training, or other means. Financial Control covers facts that show whether the business has a right to direct or control the financial and business aspects of the worker’s job. The Type of Relationship factor relates to how the workers and the business owner perceive their relationship.

Knowing the proper worker classification can be critical to your business. Don’t guess. Act now to make certain you know for sure. Please contact us if you are not sure how your workers should be classified.

Go Green and Recap Tax Savings - (Practioners Publishing Company, Tax Action Memo – 1246, page 6)

Nonbusiness Energy Property Credit. This credit is generally limited to a lifetime amount of \$500, although other limits may also apply. Basically, the credit is (a) 10% of what you pay for qualified energy efficiency improvements (such as certain energy efficient insulation, windows, doors and roofs), plus (b) 100% of what you pay for qualified residential energy property (such as certain energy efficient heat pumps, hot water heaters or boilers, and advanced main air circulating fans) on your principal residence (no vacation homes). If you’re going to go green, now may be the time – unless extended by Congress, this credit won’t apply to purchases made after 2007.

Hybrid Vehicle Credit. If you are considering a hybrid vehicle purchase in the near future, please give us a call. The IRS is constantly updating the list of vehicles that qualify for tax credits, which can go as high as \$3,400. However, this credit is not allowed for alternative minimum tax. It is also phased out after the manufacturer records the sale of the 60,000th hybrid vehicle. Under this rule, Lexus and Toyota purchases made after 9/30/07 are not entitled to any credit. If you’re considering another manufacturer’s hybrid, you may want to act fast before it reaches this limit (assuming AMT is not an issue).

Simplified per-diem rates changed for post-Sept. 30 business travel

The IRS has issued “high-low” simplified per-diem rates for post-Sept. 30, 2007 travel. The high-cost area per-diem decreases \$9, and the low-cost area per-diem increase \$4, from the prior simplified per-diems. An employer may pay a per-diem amount to an employee on business-travel status instead of reimbursing actual substantiated expenses for away-from-home lodging, meal and incidental expenses (M&IE). If the rate paid doesn’t exceed IRS-approved maximums, and the employee provides simplified substantiation, the reimbursement isn’t subject to income or payroll tax withholding and isn’t reported on the employee’s Form W-2.

In general, the IRS-approved per-diem maximum is the GSA per-diem rate paid by the federal government to its workers on travel status. This rate varies from locality to locality. Instead of using actual per-diems, employers may use a simplified “high-low” per-diem, under which there is one uniform per-diem rate for all “high-cost” areas within the continental U.S. (CONUS), and another per-diem rate for all other areas within CONUS. Under the optional high-low method for post-Sept. 30, 2007 travel, the high-cost area per-diem is \$237 (\$9 less than the previous rate), consisting of \$179 for lodging and \$58 for M&IE. The per-diem for all other localities is \$152 (\$4 more than the previous rate), consisting of \$107 for lodging and \$45 for M&IE.

Tax Calendar

NOVEMBER 2007

November 13

Social Security, Medicare, and withheld income tax. File Form 941 for the third quarter of 2007. This due date applies only if you deposited the tax for the quarter in full and on time.

November 15

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

Nonpayroll withholding. If the monthly deposit rule applies, deposit the tax for payments for October.

DECEMBER

December 17—Calendar-year corporations must deposit the fourth installment of estimated income tax for 2007.