

Tax Season

Everything you need to navigate through the busy season.

TOOLKIT

As California's rainy season gives way to reveal an azure spring sky, CPAs know that the greater storm is yet to come.

As the holiday season turns into tax season, bringing the promise of constant, adrenaline-fueled deadlines, CPAs can be excused for turning a sentimental eye to winter.

But never fear! CalCPA's annual Tax Season Toolkit is here to help.

As you meet with clients, research what's new in the tax codes and update your software to provide the best service you can, spring ahead and confidently meet the only season that's never late or early—tax season.

California Tax Tips Practitioner Hotline Hours

The tax practitioner hotline is available Monday–Friday, 8 a.m.–5 p.m., at (916) 845-7057. The hotline is closed on weekends and state holidays. You also can fax questions to (916) 845-6377.

California Package X

A copy of the FTB's Package X will make tax season a little easier. Package X contains 2006 California tax forms and instructions and is offered in bound and loose-leaf print versions.

The FTB is taking orders and will begin shipping Package X in January.

For information, or to download an order form, go to www.ftb.ca.gov/professionals/packageX. Or call (916) 845-7070.

E-file Resources

The FTB has compiled a wealth of e-file resources, including FAQs; program information; a list of approved e-file software providers; an e-file tutorial; sample client letters; and forms and publications at www.ftb.ca.gov/professionals/efile/M_e_file.html.

You can contact the FTB's e-file help desk at (916) 845-0353 or by fax at (916) 845-0287.

To e-mail the FTB with your e-filing questions, visit www.ftb.ca.gov/emailapps/ero.asp or e-file@ftb.ca.gov.

Business e-file

The FTB's Business e-file Program is evolving, with more features promised for 2007. You now can file Form 100 along with certain forms and schedules, and the FTB will expand the program to include Forms 100S, 565, 568, etc.

If you are enrolled in the California e-file Program, you do not need to enroll again for Business e-file. However, if your office will have different contact information for Business e-file, you must update your information at www.ftb.ca.gov/online/8633.

For more information, including applicable forms and schedules, visit <http://ftb.ca.gov/professionals/busefile>. For California Business e-file questions, contact the FTB's e-Programs Customer Service at (916) 845-0353 or e-file@ftb.ca.gov.

California Real Estate Withholding Information for Sellers and Buyers

The 3.33 percent withholding requirement for real estate sales has been modified for sales occurring after Jan. 1, 2007. Sellers may elect to have the withholding based on the actual gain. There will be a worksheet on the FTB's website for computing the revised withholding.

For more information on California's withholding requirements, including newly revised FAQs, visit www.ftb.ca.gov/individuals/wsc/California_Real_Estate.html. For questions relating to real estate withholding requirements, call (916) 845-7315 or e-mail WSCS.GEN@ftb.ca.gov and include "Real Estate Team" in the subject line.

Tax Rates, Tax Threshold and Standard Deductions

The tax rates have been indexed by 4.8 percent for the 2006 tax year.

The tax threshold has risen to \$11,271 of adjusted gross income for single and married filing separate taxpayers, and \$22,542 for married filing joint, surviving spouse and head of household taxpayers.

The standard deduction will increase for single or married filing separate taxpayers from \$3,254 to \$3,410. For married, qualifying widow(er), or head of household taxpayers, the standard deduction increases from \$6,508 to \$6,820. The personal exemption credit increases for single, married filing separate, or head of household taxpayers from \$87 to \$91 and for married or surviving spouses from \$174 to \$182. The dependent exemption credit rises from \$272 to \$285 for each dependent.

Other tax credits affected by indexing include the Joint Custody Head of Household Credit, Dependent Parent Credit, Qualified Senior Head of Household Credit and the Renter's Tax Credit.

For more, visit www.ftb.ca.gov/aboutFTB/press/2006/06_40.html.

FTB Web Tools

Forms and Publications www.ftb.ca.gov/forms

View, print and download California tax forms. A visit to this page ensures you have the latest version of any FTB form.

You'll also find booklets containing related forms and instructions, as well as links to federal tax forms and tax forms for other states. And a new feature for this tax season is the translated text of FTB 9000H/9000R instructions into Spanish, Chinese and Korean.

View Payments and Balance Due You can view estimated tax payments, recent payments applied to a balance due, current balance due and amnesty balance after you applied for amnesty at www.ftb.ca.gov/online/myacct. A new feature for this tax year is the ability to view an amnesty balance after one has applied for amnesty. You'll need your client's Social Security number and 2006 customer service number to access individual account information. The customer service number changes annually and can be obtained at www.ftb.ca.gov/online/csn. Before you begin, make sure your web browser supports 128-bit SSL encryption.

Web Pay This electronic personal income tax payment method electronically debits payments from the customer's bank account. With Web Pay, you can make any estimated tax, bill, return or extension payments, as well as request an installment agreement for your client up to one year in advance. Learn more at www.ftb.ca.gov/online/webpay.

Check e-file Return Status You can check on the status of an e-file return at www.ftb.ca.gov/online/ifp/ack.html as long as your web browser supports 128-bit SSL encryption.

Legal Documents The FTB made several documents—including legal rulings, law summaries, chief counsel announcements and rulings, and information letters dating to 2000—available online in 2006. You also can view the text of regulations in draft, proposed and final form. Access the clearinghouse at www.ftb.ca.gov/law/documents.html#1.

California Tax Service Center

The FTB, Employment Development Department and State Board of Equalization have joined forces on a website that aims to meet all tax filing needs. The agencies hope that the site serves as a one-stop tax service center, encompassing information, forms and publications that run the tax gamut, from income to sales to property to payroll tax. The site also features a calendar with filing deadlines and educational seminars. Check it out at www.taxes.ca.gov.

Streamlined Offers in Compromise Program

The FTB, EDD and BOE also have joined forces to simplify the Offer in Compromise application process by developing a single form, DE 999CA, Multi-Agency Form for Offer in Compromise. The form is available at www.taxes.ca.gov, as well as each agency's respective websites.

Federal Tax Tips Practitioner Priority Service

The IRS Practitioner Priority Service—(866) 860-4259—is a toll-free,

accounts-related service for tax practitioners. It is your first point of contact for IRS assistance regarding your clients' account issues. Calls are routed to a designated site based on the practitioner's area code. Practitioner Priority Service hours are 8 a.m.–8 p.m. local time, weekdays.

IRS Web Tools

In addition to the IRS e-file program, www.irs.gov/efile/article/0,,id=118663,00.html, other e-services for tax professionals are available.

Disclosure Authorization allows tax professionals to electronically submit Form 2848, Power of Attorney and Declaration of Representative, and Form 8821, Tax Information Authorization.

Electronic Account Resolution allows tax professionals to expedite closure on clients' account problems by electronically sending and receiving account-related inquiries.

The **Transcript Delivery System** allows practitioners to request and receive account transcripts, wage and income documents, tax return transcripts, and verification of non-filing letters.

The **Record of Account**, a new product, combines both the Return Transcript and Account Transcript in one product.

Additionally, the site offers Taxpayer Identification Number Matching as part of its e-services suite. For more, visit www.irs.gov/taxpros/article/0,,id=107478,00.html.

The IRS also offers electronic payment options for individuals and businesses, including electronic funds withdrawal, www.irs.gov/efile/article/0,,id=101317,00.html, and the Electronic Federal Tax Payment System. The EFTPS is a free service provided by the Treasury, and allows businesses and individuals to pay their federal taxes electronically. For more information, visit www.EFTPS.gov.

Additionally, the IRS has set up a directory of prior publications, which may prove valuable when doing a prior year return and can help refresh your memory to previous law. Visit www.irs.gov/pub/irs-prior.

Mandatory e-Filing for Corporations and Exempt Organizations

Corporations and tax-exempt organizations with total assets of \$10 million or more that file at least 250 returns per year are required to e-file their Forms 1120 for the 2007 filing season. Private foundations and charitable trusts must electronically file Form 990-PF, regardless of their asset size, if they file 250 or more returns a year. Returns include income, employment tax and information returns, such as Forms W-2 and 1099.

Tax

SOFTWARE SUPPORT

Every major provider offers call-in, e-mail and online support. Here's a guide to tax software support:

BNA Tax Management

(800) 372-1033
www.bna.com/tm/support.htm
e-mail: tm@bna.com

Creative Solutions Ultra Tax

(800) 968-0600
www.creativesolutions.com
e-mail: www.creativesolutions.com
thomson.com/support/customer/

Drake Software

(828) 524-8020
<http://support.drakesoftware.com>
e-mail: support@drakesoftware.com

Lacerte

(800) 933-9999
www.lacertesoftware.com/support/
e-mail: www.lacertesoftware.com/myaccount/emailsupport/AddEmail.aspx

GoSystem Tax RS

(800) 327-8829
<https://support.riahome.com>
e-mail: RIA.TechSupport@Thomson.com

ProSystemFX

(800) PFX-9998
<http://prosystemfxsupport.taxcchgroup.com/>
e-mail: http://tax.cchgroup.com/CustomerSupport/CCH/csinq/default

TaxWise

(866) 641-WISE
<http://taxwise.com/>
e-mail: customer.support@taxwise.com

TAX TIP

Recent changes in California tax law give registered domestic partners the same tax filing status as married couples. Under current state and federal law, domestic partners use the single or head of household filing status.

The law, SB 1827, provides for registered domestic partners to file their state tax returns using either the "married filing jointly" status or "married filing separate." The new law takes effect for tax year 2007, which taxpayers will begin filing in January 2008, and does not impact federal tax law.

The FTB has formed an implementation team to review the various processes, forms and system changes needed for implementation by Jan. 1, 2008.

Questions about the filing status can be sent to rdp@ftb.ca.gov.
Read more at www.ftb.ca.gov/aboutFTB/press/2006/sco_06_61.html.

For more, visit www.irs.gov/businesses/corporations/article/0,,id=146959,00.html.

2007 Standard Mileage Rates

As of Jan. 1, 2007, the standard mileage rates used by the IRS to calculate the deductible costs of operating an automobile will be 48.5 cents per mile for business purposes; 20 cents per mile for medical or moving purposes; and 14 cents per mile for charitable purposes.

2007 Pension Plan Limitations

The IRS has unveiled cost-of-living adjustments applicable to dollar limitations for pension plans and other items for tax year 2007. Many of the pension plan limitations will change for 2007. For most of the limitations, the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. For example, the limitation under Sec. 402(g)(1) on the exclusion for elective deferrals described in Sec. 402(g)(3) is increased from \$15,000 in 2006 to \$15,500 for 2007. This limitation also affects elective deferrals to Sec. 401(k) plans and to the Federal Government's Thrift Savings Plan, among other plans. For more, visit www.irs.gov/newsroom/article/0,,id=163616,00.html.

Roth Sec. 401(k) Plans

This was the first year that employers could offer Roth Sec. 401(k) plans, which combine features of traditional Sec. 401(k) plans with those of the Roth IRA. Roth Sec. 401(k) contributions are taken out of a participant's paycheck and deposited into selected investment options, like a Sec. 401(k) contribution. But contributions to Roth Sec. 401(k) plans are made with after-tax dollars. While there is no up-front tax deduction, the account will grow tax-free and withdrawals will be tax-free provided they are taken after age 59 1/2 and after at least five years from the first contribution date. Download the regulations at www.ustreas.gov/press/releases/reports/roth401k_reg_attch.pdf.

Automatic Six-month Extension

Individual and business taxpayers can request an automatic six-month tax filing extension without a reason or a signature. The streamlined extension program is available for individual taxpayers through Form 4868, and for business taxpayers through a streamlined Form 7004. For more, visit www.irs.gov/newsroom/article/0,,id=150456,00.html.

Guidance for California Registered Domestic Partners

Registered domestic partners in California must file separate federal

TaxTalk Listserve

The **TaxTalk listserve** is an online community for posing and answering tax questions, discussing tax issues and passing on tax information. For details on how to sign up, go to www.calcpa.org/members/listservers.

TAX TIP

income tax returns, as single taxpayers, based on guidance released in 2006 by the IRS. IRS Chief Counsel Advice 200608038, the first IRS pronouncement on domestic partner tax treatment since the enactment of the California Domestic Partner Rights and Responsibilities Act of 2003, can be downloaded at www.irs.gov/pub/irs-wd/0608038.pdf.

Tax Increase Prevention and Reconciliation Act

The 2005 Tax Increase Prevention and Reconciliation Act (TIPRA), was signed into law May 17, 2006. For individuals, the act provides lower tax rates on long-term capital gains and qualified dividends; AMT relief; an increase of the kiddie tax age to children under 18; and the removal of the AGI ceiling after 2009 for regular IRA to Roth IRA conversions.

Changes affecting businesses and corporations include the extension of the enhanced Sec. 179 expense election through 2009, and tax-free corporate divisions. An overview of the act can be found at www.calcpa.org/californiacpa/0807.htm.

TIPRA also made extensive changes to the IRS' offer in compromise program. Taxpayers submitting new lump-sum offers now must make a 20 percent up-front payment. And taxpayers submitting periodic-payment OICs also must make an initial up-front payment, plus any other proposed payments that are due, while the IRS evaluates the offer. The IRS will treat these payments as tax payments. This Act also has modified the application process so that an OIC application is deemed accepted if the IRS fails to act on it within two years. For more, visit www.irs.gov/newsroom/article/0,,id=159954,00.html.

Pension Protection Act

President Bush signed the Pension Protection Act (PPA) of 2006 Aug. 17, 2006, providing extensive changes to existing law and new rules affecting qualified retirement plans, plan administrators and participants.

The PPA makes comprehensive amendments to the Internal Revenue Code and to the Employee Retirement Income Security Act of 1974, as amended. The PPA made permanent certain temporary provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 relating to retirement plans. Other changes include automatic enrollment in Sec. 401(k) plans, increased deduction limits, more frequent reporting and disclosure statements, broadened portability, cash balance pension plans and changes to fiduciary rules governing investment advice. For a summary of the major provisions of the PPA that affect retirement plans, visit www.calcpa.org/californiacpa/articles/2006/1002.html.

The PPA also made changes to the laws governing charitable donations, including stricter requirements for money donations, curtailed deductions for donations of clothing and household items, and a basis adjustment to the stock of an S corporation donating property. For an overview of the charitable donation provisions, visit www.calcpa.org/californiacpa/articles/2006/1006.html.

2005 Gulf Opportunity Zone Act

Some of the provisions of this act apply nationally, including changes to the suspension of interest and certain penalties, nonqualified deferred compensation plans, and the deduction regarding domestic production activities. For an overview of the relevant provisions, visit www.calcpa.org/californiacpa/articles/2006/0307.html. CPA

TAX TIP

Raise Your Hand: Find a CPA

As tax season begins, don't forget to register or update your information with CalCPA.org's Find a CPA.

Find a CPA is among the most popular pages on the website, receiving thousands of hits each month. The feature has matched scores of taxpayers with the local CPAs who best suit their needs.

Your listing specifies not only where you practice, but how you practice. Listings include services provided, industries served and languages spoken. Add your name to the directory—or update your profile if you're already listed—at <http://secure.calcpa.org/MemberNet/Members/MemberUpdate.aspx>.