

Contents	Page
FTB Stops Accepting Cash Payments in Los Angeles and Oakland Field Offices	2
New Services Help Taxpayers Dealing With Tax Debts	3
Federal Tax Changes 2011 Summary	4
Return Information Notices (RIN) – Why they’re Issued, and How to Prevent Them!	5
New Tax News Live Video	6
New Withholding Tool	6
2012 Filing Season	6
LLC Fee Estimated Payment Due June 15	7
IRS Nationwide Tax Forums	9
Tax NewsFlashes	
2012 California Tax Practitioners’ Conference	10
FAQs: Understanding the Real Estate Tax Deduction	10
Ask the Advocate	
Underpayment of Estimate Tax Penalty	7
Event Calendar	9
EDR in the News	
Update	10
Criminal Corner	
Van Nuys Man’s Grand Theft and Tax Evasion Lead to Prison	11
Inside FTB	
FTB Notices Delayed	12
Big Business	
Dicon Fiberoptics Ruling	12

FTB Stops Accepting Cash Payments in Los Angeles and Oakland Field Offices

Starting June 1, we will stop accepting cash payments in the Los Angeles and Oakland Field Offices for a 12-month pilot basis.

The “no-cash” policy change is intended to increase taxpayer and employee safety, reduce taxpayer wait times at public counters, and reduce cost in handling cash. Accepting cash payments is costly in both the staff time it takes to process cash and in armored car services. If the pilot is successful, we plan to expand it to all of our public service field offices.

Instead of driving to a field office, individuals can make payments by visiting us online and using [Web Pay](#). Taxpayers can schedule their estimated tax payments up to one year in advance and sign up for automated email reminders. New this year is the ability to save your bank account number to view scheduled Web Pay requests, and to cancel a payment.

Individuals who want to make payments at field offices can use checks, their debit/credit cards with the Visa and MasterCard logo. Individuals can also pay using the following credit cards:

- Visa.
- MasterCard.
- American Express.
- Discover.

A 2.3 percent convenience fee will be charged by the credit card processing vendor, Official Payments Corporation. The minimum fee is \$1. We also accept payments via money orders and Western Union.

Business taxpayers can pay in person by check or money order. We do not have a credit card program for businesses. Businesses can pay online by using [Web Pay for Businesses](#) or [Electronic Funds Transfer for Banks and Corporations](#). For more details, go to our website at ftb.ca.gov.

New Services Help Taxpayers Dealing With Tax Debts

We realize times are tough and taxpayers may be struggling to pay their tax liabilities.

When a taxpayer can't pay, we prefer to work with them to resolve the collection issue sooner than later.

Our collection strategy is to encourage and ensure taxpayers resolve their debts as quickly as possible through the method best suited for their situation. We want to help them achieve long-term compliance. We often encounter people in difficult circumstances and handle their accounts with understanding. It is important to us that we provide consistent and equitable treatment to all taxpayers.

To avoid collection action we encourage taxpayers to file required tax returns on time and pay their liability in full. If they cannot, they should enter into an installment agreement, submit an acceptable Offer In Compromise (OIC), or explain your financial hardship or other circumstances that prevents you from paying the liability.

We are excited to share some new and existing services for taxpayers.

Interactive Voice Response (IVR) Installment Agreement (IA)

Beginning last March, taxpayers with financial hardships we're able to establish a payment plan through our automated phone line at 800.689.4776. The service is available in both English and Spanish. Taxpayers answer questions through our IVR system and can set up a payment plan in about eight minutes. Taxpayers can also go online to apply for an IA request at ftb.ca.gov under Payment Options. Taxpayers who owe \$25,000 or less and can pay off their balance due within 60 months generally qualify.

Live Chat

In April, we initiated Live Chat within our collections program. This Internet option gives taxpayers the ability to ask general questions regarding collection issues. Taxpayers can select live chat from our installment agreement, wage garnishment, and bank garnishment webpages. This service is not secure so taxpayers should not share personal information such as their SSN and bank account number.

Virtual Hold

Taxpayers now have the option of choosing our new Virtual Hold feature to request a call back instead of waiting on hold. This option holds the taxpayer's place in queue and will call the taxpayer back at the number provided. More than 309,000 taxpayers have taken advantage of this feature since January.

Outbound Contact – Coming in June 2012

Starting in late June, we will use an automated calling system to contact taxpayers to

resolve their collection issues. We will call taxpayers and immediately connect them with a live customer service agent or leave a message for them to call us back. We expect this new contact method will assist us to help even more taxpayers resolve their issues and avoid entering our involuntary collection process.

We are ready to assist taxpayers already in the collection process who need more help.

Liens

We are aware many lenders are working with customers who have a hardship. If taxpayers are looking to refinance or sell a home and there is a state tax lien filed, there are options. Taxpayers, their representatives, or their lenders, may request that we “subordinate” or lower the lien priority to allow a financial institution to refinance or modify the loan. When a home is selling for less than the loan balance, we can remove the tax lien from the property to allow the homeowner to complete the sale.

Offer in Compromise (OIC)

An OIC is for taxpayers who do not have, and will not have in the foreseeable future, the income, assets, or means to pay their tax liability. The program allows taxpayers to submit an application and offer a lesser amount for payment of a nondisputed final tax liability. We consider each case’s unique facts and circumstances and generally approve an offer when the amount offered represents the most we can expect to collect within a reasonable period of time. For more information, go to ftb.ca.gov and search for **offer in compromise**.

One of our primary responsibilities is to collect and account for state income tax revenue. In collecting this revenue, we commit to the fair administration of the tax laws and partner with taxpayers and their representatives to resolve compliance issues. We want to help.

Federal Tax Changes 2011 Summary

We prepared our [2011 Summary of Federal Income Tax Changes](#) that we provide annually to the Legislature. Our 2011 summary explains new federal laws along with the effective dates, the corresponding California law, if any, includes an explanation of any changes made in response to the new federal law, and the impact on California revenue if California conforms to the federal changes.

The summary also contains citations to the section numbers of federal Public Laws, the Internal Revenue Code (IRC), and how the federal changes affect California Revenue and Taxation Code (R&TC).

Return Information Notices (RIN) - Why They're Issued, and How to Prevent Them!

Join us for a webinar on June 26.

REGISTER NOW

Space is limited.

Do you know the most common reasons why we issue a RIN? Would you like to learn how to prevent the issuance of a RIN?

Join us for a free webinar and get the information you need.

The webinar is developed for individuals, businesses, and government entities.

Title: Return Information Notices (RIN) - Why They're Issued, and How to Prevent Them!

Date: Tuesday, June 26, 2012

Time: 10 AM - 11 AM PDT

After registering you will receive a confirmation email containing information about joining the webinar.

System Requirements

PC-based attendees

Required: Windows® 7, Vista, XP or 2003 Server

Macintosh®-based attendees

Required: Mac OS® X 10.5 or newer

New Tax News Live Video

We partnered with California Society of Enrolled Agents Education Foundation to produce our latest new video. Our newest video, [Record Keeping](#), give tips to tax professionals and small businesses on what types of records should be kept and for how long. For other products, go to our [products page](#).

New Withholding Tool

Generally, you must withhold if you pay California source income to a California nonresident on all payments that exceed \$1,500 in a calendar year. Also, if you backup withhold for the Internal Revenue Service (IRS), you must also backup withhold for us on California source income. We created a small business withholding tool for your quick reference. The publication gives you information on the steps to take to withhold payments.

To view or print small business withholding tool, go to ftb.ca.gov and search for FTB [1018](#).

2012 Filing Season

Personal Income Tax Returns

The 2012 filing season has been another busy one for us. As of May 17, there were more than 14 million current-year personal income tax returns filed, which is up slightly compared to the same time last year. Electronic filing continues to increase, with nearly 12 million returns received so far this year. Of the returns received, more than 82 percent have been electronically filed. This is up two percent compared to the same time last year.

Business Entity Tax Returns

Business returns came in steadily too, with nearly 800,000 business tax returns filed; this is roughly one percent lower compared to the same time last year. Conversion to electronic filing is up; almost 50 percent of all business entity returns were filed electronically. This is an increase of 10 percent from the same time last year.

Electronic Services

As the year progresses, do not forget to take advantage of our electronic services that are always available, no waiting.

Access your individual or business clients' MyFTB Account information. To use this application, login with your user name and password, and enter your clients' secrets (information you already have). You should obtain your clients permission to view their tax account information using our new form, [FTB 743](#), Online Account View Access Authorization. Keep the authorization form signed by you and your clients for your records. Do not mail the form to us.

Paying electronically means your clients do not have to spend time writing and mailing a check. It also ensures that their payments are quickly applied to their account. We encourage them to use one of the many options on our website for electronic payments. Your clients can schedule their estimated payments up to one year in advance or subscribe to our estimated tax payment email reminder service to never miss a due date.

Your business entity clients can make online payments too. Corporations, limited liability companies (LLC), and partnerships use information from their most recently filed tax return to register for Web Pay. They can schedule payments up to one year in advance. It is free and easy.

Finally, if your clients need help with a tax bill they can now apply online to get themselves into an installment agreement with us. For more information, go to ftb.ca.gov and search for **installment agreement**.

LLC Fee Estimated Payment Due June 15

An LLC not classified as a corporation must pay the annual LLC fee if it is organized, doing business, or registered in California and has income of at least \$250,000. The annual LLC fee is based on total income from all sources derived from or attributable to this state. For calendar year LLCs, June 15 is the date that their 2012 estimated LLC fee is due. For fiscal year LLCs, the estimated fee is due on the 15th day of the sixth month of the current taxable year.

The fees are as follows:

If Total Income* Is:	2012 Fee:
\$250,000-\$500,000	\$ 900
\$500,000-\$1,000,000	\$ 2,500
\$1,000,000-\$5,000,000	\$ 6,000
\$5,000,000 or more	\$11,790

* Total income for LLC fee purposes is gross income plus the cost of goods sold, that are paid or incurred in connection with the trade or business of the taxpayer.

LLCs should use [Form 3536](#), Estimated Fee for LLCs, to make their estimated fee payments. LLCs can also use our [Web Pay](#) feature to make their estimated fee payment, go to ftb.ca.gov, and search for **Web Pay**.

The LLC current estimated fee requirement is 100 percent of the previous taxable year estimated fee. If the r payment is late or less than the amount owed, we will assess a ten percent penalty on the underpaid fee. The underpaid fee is the difference between the current taxable year LLC fee, and the estimated fee paid on or before the estimated fee due date.

LLCs can avoid the penalty if their estimated fee payment is equal to or greater than their prior year's LLC fee. For purposes of whether the LLC estimate fee penalty applies, there is no requirement that the prior tax year be a full 12 months. Also, there is no penalty for the LLCs first year filing in California.

Short Period LLC Returns

Sometimes an LLC is required to file a short period return, such as changing from a single member to a partnership. Each short period is considered a taxable year and subject to both the \$800 annual tax and LLC estimated fee. In addition, if the LLC is going to owe an LLC fee in the current tax year, it is required to make an estimated LLC fee payment. Let's take a look at an example:

Chocolate Chip LLC, a calendar year filer, reported a fee of \$900 on its 2010 return. Chocolate Chip changed from a single member to a partnership on July 31, 2011. On June 15, 2011, Chocolate chip made a \$900 timely estimated fee payment. Chocolate Chip filed its first short period return ending July 31, 2011, and reported a \$2,500 LLC fee. Chocolate Chip does not have an estimated LLC fee underpayment penalty, because they meet the prior year exception.

On its second short period return for August 1, 2011, through December 31, 2011. Chocolate Chip reported a fee of \$11,790. Chocolate Chip has no LLC fee estimated payment requirement for this short period, because the 15th day of the sixth month after the beginning of the tax year (January 15, 2012) is not included within its tax year (August 1, 2011, to December 31, 2011).

Ask the Advocate



Underpayment of Estimate Tax Penalty

Periodically, we feature a systemic issue reported to us by the tax professional community. The issue is that the estimate tax penalty should not become final without providing taxpayers a safe harbor to dispute the penalty. Based on my research, I have concluded the following:

Taxpayers can request a waiver of the estimate penalty by using [FTB 5805](#), Underpayment of Estimate Tax by Individuals and Fiduciaries.

Taxpayers are asked to attach FTB 5805 to their tax return for processing. If completed appropriately and meeting the requirements, the penalty will not be assessed during return processing.

In instances where FTB 5805 is not submitted with the tax return or the taxpayer did not realize they had an estimate penalty, we will assess the estimate penalty and send a bill.

However, taxpayers do have the opportunity even after receiving a bill, and that bill becomes final, to request a waiver of the estimate penalty by contacting us and providing a completed FTB 5805. Taxpayers can contact us either by telephone or correspondence.

This is not a systemic issue.

Steve Sims, EA
Taxpayers' Rights Advocate

Follow me on Twitter at twitter.com/FTBAdvocate.

Event Calendar

As part of our education and outreach to our tax professional community, we participate in many different presentations and fairs. We now provide a [combined-calendar](#) to show the events we are attending as well as other events happening with us such as interested party and board meetings.



Enterprise. Data. Revenue!

EDR in the News

Update

The EDR Project provides us the opportunity to focus some of our time and talents on identifying initiatives that generate much needed revenue for the state within the first 18 months of the project. We will implement the following EDR initiative this month:

Outbound Contact

The Outbound Contact initiative implements automated phone campaigns to proactively contact Personal Income Tax (PIT) and Business Entity (BE) debtors during normal business hours to inform them they have an unresolved issue with us, provide self-service options, and/or put them in contact with one of our collectors. We will initially run two types of campaigns:

The **Collector Contact Campaign** will contact taxpayers whose cases have not been resolved during the voluntary collections cycle. The automated dialer will call the taxpayer and, when they answer, connect them to one of our collectors who will work with them to resolve their case through several payment options.

Broadcast Campaigns will deliver a phone message to taxpayers whose cases are still in the voluntary collection cycle. The message will guide taxpayers to resolve their

collection cases through our web and Interactive Voice Response ([IVR](#)) self-service options.

PIT Broadcast and Collector Contact campaigns will be launched in July 2012, and the BE campaigns will be launched in September 2012.

Refund Fraud

The Refund Fraud initiative improves the process of fraud detection allowing us to stop more fraudulent refunds from being issued.

Collector Asset Alert

The Collector Asset Alert initiative focuses on improving the detection of a new asset on balance due cases. Initiatives implemented in the past such as [Additional Sources for Levy](#) and [FIRM](#) added new payer information to cases. With the new information, collectors and call center staff will be alerted of any potential new assets. This initiative allows staff to respond more efficiently to cases with new or updated assets.

Web Installment Agreement Front End Validations

The Web Installment Agreement (eIA) Front End Validations initiative will leverage the validation checks built for the Interactive Voice Response IA and integrate these validation checks with the existing eIA solution. Implementing up-front validation checks to the web application will result in providing better service to the taxpayers by letting them know sooner if they qualify for an installment agreement.

Criminal Corner

Van Nuys Man's Grand Theft and Tax Evasion Lead to Prison

A Van Nuys man pleaded no contest to three counts of grand theft, one count of false documents, and one count of state income tax evasion.

Sedrak Dzhinanyan, 35, was sentenced to three years in state prison and was immediately taken into custody. Dzhinanyan obtained two real estate equity loans through fraudulent means in 2007 to acquire nearly \$550,000. Dzhinanyan used the alias Hakob Ktikyan to receive nearly \$300,000 from one lender and \$250,000 from a second lender. Both loans resulted in fraudulent documents being filed with the county recorder, which is a felony.

In addition to the fraud, Dzhinanyan failed to report the illegal income on his 2007 state income tax return. All income is taxable including income from illegal sources. Dzhinanyan owes the state more than \$49,000 in unpaid tax. Interest, penalties, and the

cost of the investigation will be added to this amount. The exact amount of restitution will be determined at a June 29 restitution hearing.

Los Angeles County Superior Court Judge Norm Shapiro handed down the sentence in Department 116 of the Clara Shortridge Folz Criminal Justice Building. Los Angeles County Deputy District Attorney Hilda Weintraub prosecuted the case. This was a joint investigation between the Los Angeles County District Attorney's Office and us.

Inside FTB

FTB Notices Delayed

We begin our notice delay process, which affects e-file and paper Statement of Tax Due (STD) notices, as well as e-file Return Information Notices (RIN), for the 2011 tax year, according to the following schedule:

- E-File STDs were held from January 1, 2012, through May 25, 2012.
- Paper STDs and e-file RINs were held from March 16, 2012, through May 25, 2012.

We began releasing notices on May 25, 2012. The release will be throttled at 40,000 notices a night, totaling 200,000 per week. We implemented this delay process in 2008 after taxpayers received notices that caused confusion over whether we received a timely payment and caused taxpayers to call their representatives during the busy filing season.

Big Business

Dicon Fiberoptics Ruling

The California Supreme Court reversed the Court of Appeal's holding and found that the taxpayer, not us, has the burden of proof to show a worker is a qualified employee for purposes of the Enterprise Zone (EZ) Hiring Credit. The court also reaffirmed our right to conduct an audit to determine whether a taxpayer is entitled to the EZ Hiring Credit. ([Dicon Fiberoptics v. Franchise Tax Board](#), Cal., No. S173860, 4/26/2012)

Tax News
June 2012

While we may audit an employee voucher if we suspect it was inappropriately issued, we do not anticipate that this decision will change how we presently conduct our Enterprise Zone audits.