

We're Ready to Serve...



Julian Lopez is one of many Franchise Tax Board employees who will be available to assist taxpayers during the 2000 filing season. FTB staff will also be

available at selected Internal Revenue Service offices. Please call 800-338-0505, code 110 for the address and operating hours of the IRS location near you.

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New Law Brings Consistency to Statute of Limitations

Assembly Bill 414, Havice (Ch 99-614), enacted on October 10, 1999, modified the statute of limitations on credits and claims for refund to provide that the claim must be filed within four years after the return was actually filed, if the return is timely filed by the extended due date.

Under previous law, the statute ended four years after the original due date, typically April 15. As a result, taxpayers filing claims for refund had a shorter statute of limitations than that imposed on the Franchise Tax Board to assess tax deficiencies.

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Tax News

Volume 00-1 February 2000

TAX NEWS is a bimonthly publication of the Communications Services Bureau, California Franchise Tax Board. Its primary objective is to provide information to income tax professionals about state income tax laws, regulations, policies and procedures.

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www.ftb.ca.gov

For information about a client's account, contact:
Tax Practitioner Support Unit
(916) 845-7057 (phone)
(916) 845-6377 (fax)

For recorded answers to questions on California taxes, to order forms or check on a refund, call:
(800) 338-0505
From outside U.S. (916) 845-6600

To send a facsimile about a client's account, transmit to:
Electronic Correspondence
(916) 845-6377

Information Center:
(800) 852-5711
From outside U.S. (916) 845-6500

Hearing Impaired:
TDD (800) 822-6268

FTB on the Internet
www.ftb.ca.gov
Printed on recycled paper.

FTB's Bills & Notices Webpage:

Taxpayers Can Now Go Online to Get Answers, Account Information, Advice

The Franchise Tax Board's "Bills & Notices" webpage allows individuals who receive a notice requesting them to file a tax return to access information about why FTB thinks they have a California filing requirement.

The webpage offers specific information on where FTB received the information that led to the notice and it offers taxpayers help in resolving the matter quickly.

Some of the webpage's features include on-line fillable worksheet forms, links to tax forms, filing requirements (including minimum income earnings amounts), information on payment arrangements, links to California Revenue and Taxation Code reference sites, and phone numbers and addresses to contact FTB. General information about Notice of Proposed Assessments (NPAs) is also available from the webpage.

Users can receive information on why the assessment was issued, where the income information came from, and what

Users can receive information on why the assessment was issued.

to do to resolve the matter quickly and easily. Specific tax calculation, penalty, fee and interest information are available also.

The site was developed with customer ease of use in mind. To access information on a bill or notice, go to the FTB Internet website at www.ftb.ca.gov, click on "Bills & Notices," and then type in the FTB form number found on the bottom of the form.

Can't find the FTB form number? No problem. The webpage offers step by step visual instructions for identifying the particular form.

Did You Know...

Did you know that the California Legislature encourages all tax return preparers to inform their clients in writing, prior to completion of the return, that they may make a contribution to any voluntary contribution on the state income tax return? In fact, the Legislature passed a statute to that effect.

The concern is that many taxpayers remain unaware of the voluntary contribution check-offs on the state income tax return. The Franchise Tax Board encourages you to consider adding this information, so that your clients can be fully informed of this opportunity.

Economic Development Areas: Use Proper Returns to Claim Tax Incentives

California has established four types of economic development areas with related tax incentives. The four types of areas are :

- Enterprise Zones
- Local Agency Military Base Recovery Areas
- Manufacturing Enhancement Areas
- Targeted Tax Areas

A business may qualify for special tax incentives if it operates or invests in a trade or business located within the geographic boundaries of one of these areas. Here are the tax incentives that are available for each area:

Enterprise Zone:

- Hiring Credit
- Sales or Use Tax Credit
- Business Expense Deduction
- Net Interest Deduction
- Net Operating Loss

Local Agency Military Base Recovery Area:

- Hiring Credit
- Sales or Use Tax Credit
- Business Expense Deduction
- Net Operating Loss

Manufacturing Enhancement Area:

- Hiring Credit

Targeted Tax Area:

- Hiring Credit
- Sales or Use Tax Credit

- Business Expense Deduction
- Net Operating Loss

Some of the tax incentives may be claimed on both an original return and on an amended return (assuming the statute of limitations has not expired).

For example, the hiring credit may be claimed on an original return and an amended return. Here are some general rules for how to claim the tax incentives:

Hiring Credit: Claim on original and amended returns.

Sales or Use Tax Credit: Claim on original and amended returns.

Business Expense Deduction: Claim on original return only.

Net Interest Deduction: Claim on original and amended returns.

Net Operating Loss: Claim on original return only.

Other tax incentives that require an election to be made, may only be claimed on an original return.

For more information about economic development area tax incentives, call the Franchise Tax Board's Economic Development Area Information Unit at (916) 845-3464 or send a fax to (916) 845-0145.

Boundary Information

For geographic boundary information, call (916) 324-8211 or send a fax to Enterprise Zone Programs at (916) 322-7214. The address is:

Enterprise Zone Programs
California Trade and
Commerce Agency
801 K Street Suite 1700
Sacramento CA 95814

FTB Calendar

February

- Notices of Proposed Assessment are mailed to corporations that failed to comply with requests issued in prior months for 1997 tax returns.

- Notices of Proposed Assessments are mailed to individuals who have not filed their 1998 tax returns.

20 See January 20.

March

- Notices of Proposed Assessments are mailed to corporations that failed to comply with requests issued in prior months for 1997 tax returns.

- Notices of Proposed Assessments are mailed to individuals who have not filed their 1998 tax returns.

20 See January 20.

April

17 1999 personal income tax returns are due.

17 First quarter 2000 personal income tax estimate payments are due.

20 See January 20.

Electronic Fund Transfer Helps Businesses Win Paper Chase

Option Also Saves Administrative Costs

Electronic Payment Option Available

The Franchise Tax Board is offering an electronic payment (e-pay) option to taxpayers who file electronic returns with balances due.

If your clients have a balance due, they or she can have the amount automatically withdrawn from their checking or savings account. The program is voluntary and your client can choose when the withdrawal will take place.

For example, your client can file electronically in February and have the balance due transferred from his or her account to FTB on this year's due date, April 17.

California's booming economy has led to an increase in the number of employees in the workforce.

It has also led to an increase in the number of wage garnishments processed by California employers.

Processing wage garnishments can be a complicated and time-consuming responsibility for a business.

One employee can have several garnishments, each from a different source. So besides processing the garnishment, the employer must also determine the priority and duration of each garnishment.

If some of your clients are struggling with the paperwork from wage garnishments, inform them that there is an alternative payment method that could save them time and money. Employees with wage garnishments

from the Franchise Tax Board may be eligible to pay their personal income tax liabilities through an installment payment plan using electronic fund transfer.

In many cases FTB will release the wage garnishment and the employer can stop writing wage garnishment checks each month for that employee.

For more information, refer to FTB 1014, Earnings Withholding Order for Taxes, Commonly Asked Questions from Employers. To get a copy of the publication, call 800-338-0505 and enter code 938. Or download it from the FTB Website at www.ftb.ca.gov/forms/.

The FTB Electronic Fund Transfer Program may be the answer for your clients who process a large number of wage garnishments each month and are looking for ways to reduce their administrative costs.

Did You Know...

Did you know that your clients can pay their personal income tax by Discover/NOVUS, MasterCard or American Express credit card? There are two ways to pay by credit card:

Telephone: Call 1-888-2PAY-TAX or 1-888-272-9829 and enter jurisdiction code 1555.

Internet: Go to www.8882paytax.com, select Payment Center from the menu on the left side of the webpage, and enter jurisdiction code 1555. You may also access the payment center via a hyperlink on the Franchise Tax Board's website. Go to www.ftb.ca.gov and click on "Credit Card."

Statute of Limitations Can Vary

If the Internal Revenue Service audits your client's tax return, a different California statute of limitations comes into play for that return.

The normal California statute of limitations for tax years 1992 and later, requires the Franchise Tax Board to issue a notice of proposed assessment for a tax deficiency within four years after the original due date of the return, or four years after the date the return was filed, whichever is later.

However, when an IRS audit is involved (on returns that have a final determination on or after January 1, 1993) the statute of limitations is dependent on when FTB is notified of the federal audit adjustments and when sufficiently detailed information has been provided.

The taxpayer or IRS must provide enough information for the assessment to be issued.

If FTB is notified by the taxpayer or IRS within six months of the final federal determination date, FTB must assess additional tax based on the IRS audit within two years from the date the taxpayer or the IRS notified FTB of the federal change or the normal statute, whichever is later.

If FTB is sufficiently notified after the six-month period, FTB can assess additional tax within four years from the date it is notified.

If FTB is not notified of the federal change, the statute of limitations may be suspended and FTB can assess additional tax at any time.

Learn About Revenue Agent's Reports; Call FTB to Schedule Presentation

What happens between your client and the Franchise Tax Board following an Internal Revenue Service audit is the focus of a new educational workshop sponsored by FTB.

FTB's Revenue Agent's Report workshops are designed to cover many of the questions asked by practitioners when their clients are in this position.

The workshops, which are being offered to tax practitioners throughout the state, are part of FTB's ongoing efforts to provide quality customer service and assistance to tax professionals.

Some of the topics that will be covered

include FTB's notification requirements as they apply to federal revenue agent reports and the statute of limitations laws.

If your organization would like a presentation, contact Sandra Schaafsma by telephone at (916) 845-7267 or send an email to her at:

sandra_schaafsma@ftb.ca.gov. Or call Judith Aucutt at (916) 845-4018. Aucutt's email address is: judith_aucutt@ftb.ca.gov.

Requests can also be sent via fax. Send your fax request to the attention of Sandra Schaafsma or Judith Aucutt at (916) 845-6004.

Stumped by Head of Household Questions? Call FTB

Franchise Tax Board's Head of Household Program will conduct workshops throughout California. The workshops are geared at helping practitioners to better understand the head of household filing status.

Workshop topics will include a program overview, an explanation of the qualification criteria for using the filing status and a discussion about important questions that practitioners should ask their clients who file head of household.

For additional information about head of household workshops in your area, contact FTB's Head of Household Unit at (916) 845-6265.

Get the Most Out of Your Tax News

In addition to the print version, Tax News is also available electronically. For no charge, FTB sends Tax News via e-mail.

Practitioners can also go to the Tax News webpage, located on the Internet at www.ftb.ca.gov/education and access current and past issues of Tax News.

Tax e-News

Tax e-News is an electronic information service exclusively for tax practitioners. It is designed to provide current news and information affecting tax professionals. To sign up for the service, simply send an e-mail message to: Tax_e-News@ftb.ca.gov. Or go to the Tax News webpage and use the Tax e-News hyperlink provided.

If you have questions about any of the Tax News products or services, call the Tax News Help Desk at (916) 845-7070.

Save Time, Money; Use Magnetic Media for Information Returns

Whether your client files five or five hundred information returns, using magnetic media can save everyone time and money.

Here are some of the things you and your clients need to know about filing information returns on magnetic media with the Franchise Tax Board:

- Information returns for the 1999 tax year are due to FTB and the Internal Revenue Service by February 28, 2000.
- The information return format for 1999 has changed. California now conforms to two federal record format changes. The first change expands the record length from 420 to 750 positions. The second change increases the tax year field from two to four digits.
- If you file 250 or more information returns of one type, you must use magnetic media. See FTB 8305, Magnetic Media Reporting Requirements for Forms 1098, 1099, 5498, W-2G and FTB 8305S, Magnetic Media Filing Regulations, for details.

- In order to use magnetic media, you must be pre-approved by FTB and the IRS, and you will need to choose one of the following three methods:

1. Participate in the IRS/ State Combined Reporting Program. This allows you to file once with IRS, who then forwards the state information to FTB.
2. Use a service bureau to compile and submit the information returns to FTB.
3. File directly with FTB using tape, cartridge, CD-ROM or diskette. If you are unsure of which method is best for you, speak to one of the FTB magnetic media technicians at (916) 845-3778.

- Use 1099 TestWare. This is a new and easy way to edit your information return file and correct any format errors before you submit it to FTB.

For more information on how to use magnetic media, visit the Electronic Services webpage at www.ftb.ca.gov/elecserv/ or call the Information Reporting Help Line at (916) 845-6304.

Catch Errors Early With TestWare

1099 TestWare is free software that enables you to test your data files before submitting them to the Franchise Tax Board.

1099 TestWare performs a pre-edit check on each file to ensure that it is in a format that can successfully pass FTB's mainframe edit programs.

For more information about 1099 TestWare, contact the Magnetic Media Unit at (916) 845-3778. Or download 1099 TestWare from the Franchise Tax Board's website. Go to www.ftb.ca.gov/elecserv/, click on Information Returns (1099) via Diskette, Cartridge or Tape, then click on the link to 1099 TestWare.

Practitioners: Help Clients File Proper K-1s

Franchise Tax Board receives a wide variety of unacceptable paper Schedules K-1 such as copies of federal Schedules K-1 (1065), “green bar” printouts instead of Schedules K-1, and various other Schedules K-1 of the filer’s own creation.

You can help your clients and FTB by making sure your clients are aware of the proper Schedule K-1 to file. Inform them that the only

acceptable paper formats are the official FTB Schedule K-1 (565) Partnership’s Share of Income, Deductions, Credits, etc., or a substitute Schedule K-1 approved by FTB (in accordance with FTB Pub 1098, Guidelines for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms).

For questions regarding substitute

Schedules K-1, call Lynda Rush, Substitute Forms Program Administrator at (916) 845-3553.

Alternative filing methods such as magnetic media allow Schedules K-1 to be processed faster and with increased accuracy over paper Schedules K-1 (see magnetic media article below). Encourage your partnership clients to consider using magnetic media.

Big, Small Can Profit From Magnetic Media Program

No Size Restrictions Means Large and Small Businesses Can Reap Paperless Benefits

Not long ago, only those partnerships with thousands of partners considered filing their Schedules K-1 (565) via magnetic media. That is no longer the case.

Today more small partnerships, many with fewer than 100 partners, are participating in the Franchise Tax Board’s Magnetic Media 565 K-1 program.

FTB’s Magnetic Media program is voluntary and there are no size restrictions. Some participants have as few as five partners and others have more than 80,000. Of the nearly 300 new partnerships that joined the program in

1999, 76 had fewer than 100 partners.

Filing Schedule K-1 via magnetic media will save your partnership clients time and paper, regardless of the size of their business. Here are some other facts about filing Schedules K-1 via magnetic media:

It takes FTB less than five minutes to load 80,000 Magnetic Media Schedules K-1 from a diskette or CD.

Approximately 331,000 uncompressed Schedules K-1 records can be loaded onto one CD.

FTB has free K-1 TestWare that allows partnerships to pre-test their magnetic media K-1 files before submitting them.

The K-1 TestWare includes a program to expand files from a delimited format to a format that meets FTB’s requirements. To download the TestWare, go to the FTB Electronic

Services for Businesses webpage at www.ftb.ca.gov/elecserve/

Partnerships that do not send magnetic media Schedules K-1 (565) must only use FTB approved forms. Tax practitioners should not sign FTB Form 565, without verifying that the Schedules K-1 are on an approved FTB form.

The record layout for a magnetic media Schedule K-1 is provided in California Pub. 1062, Magnetic Media Schedules K-1 (565) filing via CD, Diskette, or Magnetic Media.

To download it from the FTB Electronic Services for Businesses webpage, go to www.ftb.ca.gov/elecserve/, click on Partnership Schedule K-1 via CD-ROM, Diskette or Magnetic Media, then click on K-1 TestWare. Or, contact Tina Stiles, FTB Magnetic Media Coordinator, at (916) 845-6060.

Interest Rate

For the period of January 1, 2000 through June 30, 2000, the interest rate on underpayments and overpayments of California income taxes is eight percent.

Use Only FTB-Approved Forms

Are you planning to use scannable or substitute 1999 California tax forms?

If so, make sure they meet the Franchise Tax Board's requirements. If they do not, delays may occur during processing. In some cases, FTB may not be able to process your clients' forms and will have to contact them directly.

All companies that produce or sell substitute or scannable California tax forms must file an agreement to comply with FTB requirements for the 1999 tax year. Form FTB 1096, Agreement to Comply with FTB Publication 1098, states that the company agrees to follow certain rules for developing scannable and substitute forms. Merely filing form FTB 1096, however, does not mean the company's forms have been approved by FTB.

Each year, companies must also submit their forms to FTB for approval. Companies that either sell or provide photocopies of official FTB forms do not need to submit them for approval.

If you are unsure whether all your forms have been approved for the 1999 tax year, ask your tax software company to show you the letter of approval for each form before you use it.

Do not accept a general statement that the forms have been approved. Instead, give the company a list of the forms you plan to use and request a copy of the letter of approval for each one.

Here is a list of the companies that have filed forms FTB 1096 with the department so far:

2nd Story Software
(319) 373-3600

5227 Tax Systems, Inc.
(626) 578-1978

Able-Wagner Inc
(714) 572-8585

Accountant Stationers & Printers
(800) 423-9717

AJV Computerized Data Management Inc.
(973) 989-8955

Alpine Data Inc.
(800) 525-1040

AM Software
(816) 741-7848

American Financial & Tax
(714) 669-1172

Arthur Andersen LLP
(941) 341-2498

Atilla M. Taluy
(805) 984-0248

ATX Forms, Inc.
(207) 498-4289

Block Financial Corporation (TaxCut)
(913) 599-2885

BNA Software
(301) 424-6350

CCH Incorporated (Torrance)
(310) 543-6200

CCH Incorporated (Wichita)
(316) 612-5000

CFS Income Tax
(805) 522-1157

Content Creators, LLC
(415) 893-9915

CPA Software
(850) 434-2685

Creative Solutions
(734) 426-5860

Curtis Publications, Inc.
(Telephone number not available)

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Forms Producers

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Deloitte & Touche Tax Technologies
LLC
(847) 236-8000

Drake Enterprises
(828) 524-8020

Ernst & Young LLP
(415) 951-3000

EXACTAX
(714) 778-4081

Gear Up Tax Seminars
(916) 979-1222

GEMISYS
(303) 705-6000

Golden State Tax Training
Institute, Inc.
(847) 459-3000

Hayden R Wisdom, EA
(530) 888-1040

H&R Block
(816) 932-8495

H&R Block Tax Tucs Inc.
(916) 331-8168

Hambrecht & Quist
(415) 439-3000

HowardSoft
(858) 454-0121

Inland Society of Tax Consultants
(Telephone number not available)

Intuit, Inc.
(858) 784-4274

IPS/ImageOne, Inc.
(818) 701-9692

IRIS Systems
(800) 852-4747

ITS, Inc.
(800) 487-8291

Jackson Hewitt Tax Service
(757) 473-3300

KPMG LLP
(Telephone number not available)

Lacerte Software
(972) 490-8500

Mathematical Science Research
Institute
(Telephone number not available)

MAVRICC Management Systems, Inc.
(248) 614-4500

Microsoft Corporation
(425) 703-2877

Micro Vision Software
(800) 829-7354

Nelco
(920) 337-2774

ORRTAX Software, Inc.
(800) 377-3337

Petz Enterprises, Inc.
(209) 835-2720

Probate Software
(970) 330-3260

Productivity Products, Inc
(925) 299-1930

Professional Stationers, Inc.
(818) 982-5222

Republic Service Bureau, Inc.
(310) 978-6000

Research Institute of America Group
(212) 807-2898

Resource/Phoenix Inc.
(415) 485-4500

Reynolds & Reynolds
(Telephone number not available)

RIA (formerly CLR/FastTax)
(800) 327-8829

RIA (Omega Group) (formerly CLR/
FastTax)
(972) 250-8000

SDDS Computer Accounting
(909) 987-2908

Short Form Software
(914) 353-7719

Spidell Publishing, Inc.
(714) 776-7850

Stallion Software, Inc.
(513) 936-9771

STF Services Corporation
(800) 541-7197

Tax and Accounting Software
Corporation
(800) 998-9990

Tax Forms Inc.
(Telephone number not available)

Tax Form Library
(800) 466-9110

Tax Link, Inc.
(614) 457-1949

Taxtor Educators
(909) 885-5017

Tax Systems, Inc.
(800) 877-1065

Taxware Systems, Inc.
(800) 877-1065

Taxworks by Laser Systems
(801) 552-8800

Top Bookkeeping Service
(818) 996-5677

Tri-Tech Software Development
Corporation
(972) 680-2223

U S Tax Systems, Inc.
(800) 966-8787

Universal Tax Systems
(800) 755-9473

Wallace Computer Services
(630) 588-6151

Weaver Tax Service
(408) 258-0912

William H. Downs, CPA
(818) 981-4313

Xpress Group, Inc.
(Telephone number not available)

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For timely filed returns, the new law eliminates the difference in the statute applicable to proposed deficiency assessments and claims for refund or credit. It provides greater equity to taxpayers by specifying that taxpayers have the same statute of limitations for claims for refund or credits as exists for

deficiency assessments for timely-filed returns.

AB 414 does not affect returns filed after the extended due date. If the return is delinquent, the claim for credit or refund must be filed within four years from the original due date of the return, or one year from the date of the overpayment, whichever period expires later.

The act, which amended section 19306 of the Revenue and Taxation Code, applies to all claims for refund and credits for which the statute has not expired as of January 1, 2000.

For more information about AB 414, visit the California Legislative Information Website at www.leginfo.ca.gov. Select the button entitled "Bill Information" and type "AB 414" into the search feature.

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