

Paid family leave benefits not subject to State income tax

State Controller and Franchise Tax Board (FTB) Chair Steve Westly announced that benefits paid to employees participating in the Paid Family Leave program are not subject to California income tax.

“I’m delighted to tell Californians they can take time to be with their newborn children or care for their loved ones without worrying about getting stuck with a state tax bill,” said Westly.

The new law (SB 1661 Kuehl, Stats. 2002, Ch. 901) extends disability compensation to people who take time off work to care for a seriously ill child, spouse, parent, domestic partner, or to bond with a new baby or adopted child. Because the benefits paid are in the nature of unemployment compensation, California law considers it nontaxable income for state purposes. Anyone eligible starting July 1, 2004, can claim weekly benefits of up to \$728 for a maximum of six weeks.

The Paid Family Leave program is part of the State Disability Insurance (SDI) program administered by the Employment Development Department. An estimated 13 million California workers covered by SDI or a similar Voluntary Plan are eligible for this benefit.

The Paid Family Leave program is funded through worker contributions. To learn more about it, visit the Employment Development Department’s Website at www.edd.ca.gov or call (877) 238-4373.

California 2004 indexed tax rates

California taxpayers will pay less in income taxes next year due to the state’s 2004 indexed tax rates, according to State Controller, Steve Westly.

“We’re adjusting the tax rates for inflation so that families will pay less in state income taxes next year and keep more money in their pockets,” said Westly.

The tax rates have been indexed by 3.1 percent for the 2004 tax year, which means that the average family will pay less in state income taxes if their income was unchanged from last year. Indexing takes the inflation rate into account and adjusts tax brackets, filing requirement thresholds, the standard deduction, and certain credits. We compute the indexed values using the inflation rate as measured

by the *California Consumer Price Index* for all urban consumers from July 1, 2003 to June 30, 2004.

We design the minimum filing requirement thresholds to ensure that most people who will not owe taxes are not required to file a tax return. We adjust these tables each year to include the added senior exemption and the dependent exemption credits.

The tax threshold, the amount of income reached where a tax liability is incurred, has risen to \$10,492 of adjusted gross income for single and married filing separate taxpayers and \$20,931 for married, surviving spouse, and head of household taxpayers.

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Tax News

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

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FTB to charge fee for certain services

Effective January 1, 2005, we will begin charging a fee to set up payment arrangements for taxpayers and to perform certain expedited services.

The new fees are the result of recently enacted legislation that created California Revenue and Taxation Code Section 19591 that requires us to recoup our costs for certain specialized tax services.

The law states that fees must be reasonably related to the actual costs we incur to provide the specialized services. We *anticipate* that the following fees will apply to the following services:

- Installment payment programs\$20
- Expedited services for:
 - Corporation revivor requests\$100
 - Tax clearance certificate requests\$100
 - Tax-exempt status requests\$50

Questionnaires sent to taxpayers claiming head of household status

The 2003 head of household audit season begins in September with the first mailing of audit questionnaires. These important facts about our Head of Household Program can help you better serve your affected clients.

e-Filers get a leg up

In general, taxpayers who completed a *Head of Household Questionnaire*, Form FTB 4803e, at the time they e-filed their tax return will not receive a head of household questionnaire unless the Form FTB 4803e was incomplete or contained conflicting information.

Need help? We're on the Internet

Our Head of Household Webpage provides the rules for qualifying for the head of household filing status, information about our audit process, and the answers to frequently asked questions. There is also a self-test to help taxpayers determine if they qualify for the filing status.

To get there, go to our Franchise Tax Board home page, www.ftb.ca.gov, and type in the key words Head of Household.

Don't have Internet access?

Call our Head of Household Automated Assistance Line and ask for a copy of FTB Pub. 1540. Taxpayers or tax preparers who don't have access to the Internet can also call our Head of Household Automated Assistance Line at (800) 555-4005. This automated line has tips on how to complete the audit questionnaire, explains who may qualify a taxpayer for the head of household filing status, and has answers to frequently asked questions. The assistance line provides answers in both English and Spanish.

FTB Pub.1540, *California Head of Household Filing Status*, summarizes the general rules for qualifying for the head of household filing status, has self-tests, frequently asked questions, and definitions of commonly used terms. It can be ordered through our Head of Household Automated Assistance Line. A Spanish version, FTB Pub. 1540SPAN, *California Información Sobre el Estado Civil Cabeza de Familia*, is also available.

Ask the Advocate



Debbie Newcomb
Taxpayer Advocate

Dear Readers:

Back in July we teamed up with Spidell Publishing to present two tax gap symposiums. Your feedback regarding our tax gap efforts, and ideas for reducing it, all went towards making both events a success. I want to thank everyone who participated and to share with the rest of the tax professional community some of your ideas and comments regarding the tax gap.

The comments I received from the symposiums indicated that while the tax gap itself is not a new concept to you (or us), the ways in which people try to avoid paying their fair share of taxes is always changing. As a result, our strategies for identifying these folks and making them comply with the tax law are evolving as well. The ideas voiced at the symposiums fell into one or more of the following categories:

Focused enforcement on a particular industry

1. Choose an industry and audit a significant number of businesses in that industry, citing that the Internal Revenue Service had a lot of success when they used this tactic with the fishing industry in Alaska, and that as word of the increased enforcement activity spread, other tax cheats would be encouraged to come into compliance.
2. Increase investigations into home daycare and in-home elder care industries, day workers, and landscape workers.
3. More vigorous investigation and prosecution of bad tax preparers and issuing cease and desist orders to tax preparers who are not following the rules or are not licensed.
4. Create an avenue for taxpayers and tax preparers to report tax preparers who promote ways for taxpayers to underreport income and overdeduct.
5. Cross-check preparer information on returns against license lists to ensure that preparers are properly licensed.
6. Put more criminal investigators on the job to deal with the huge problem of cash pay.
7. Be more involved with California Tax Education Council. Fine non-registered preparers. And conduct compliance visits in the April to December timeframe too.
8. Go after tax shelter promoters.

Use what we have

1. Work with other agencies, e.g. Employment Development Department, Board of Equalization, etc. to share information to locate tax cheats.
2. Use driver's license numbers to track taxpayers.
3. Do more data matching—use county data, city data, and BOE.
4. Do reconciliation of BOE sales tax data to Schedule C that is filed.
5. Real estate withholding (AB 2065). Allow for reduced withholding if small gain.
6. Use bank records to find unreported income.
7. Use Form 1098 to tell if correct amount of income was reported on tax return.

Information Return Enforcement

1. Use Schedules K-1 to make sure partnership income is reported on tax returns.
2. Add balance sheet to schedule C to allow for identification of more audit issues.
3. Do more cross-checking of information with returns—CP 2000 programs really work.
4. Audit any taxpayer that for two years in a row reports total income less than their home mortgage interest deduction.
5. Have taxpayers include an addendum of entities/individuals who provide work/services for them.
6. Do audits for Form 1099 compliance—make sure Schedule C has all Forms 1099 reported. (IRS Schedule C has a new line *contract labor*.)
7. If Form 1099 is not issued, do not allow business the deduction.
8. Form 1099 reporting should be expanded to corporations.

Publicity/Education

1. Many felt we needed to educate the public about the tax gap and increase public awareness. The suggestions made most frequently included:
2. Do press releases when we hire new auditors.
3. Increase our advertising to combat the radio ads such as: *pay pennies on the dollar of your tax liability*, or: *incorporate in Nevada and don't pay California taxes.* People hear this so much they begin to feel that they are “saps” for paying their taxes.

Do more media campaigns

1. Most people think working for cash is ok. Publicize examples of this and how we have taken action on this issue.

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Tax amnesty program coming in 2005

Recent legislation authorizes the Franchise Tax Board and the Board of Equalization to administer a Tax Amnesty Program in early 2005. The following frequently asked questions and answers provide some preliminary information about the program, who is eligible to participate, and when to apply. This information is also available on our Website, www.ftb.ca.gov. As more details become available, we will update our Website and notify you via our *Tax e-News* email service.

What is tax amnesty?

Tax amnesty is a limited-time chance for individuals and businesses to pay past-due income, franchise, sales, or use taxes and the related interest penalty-free and without the fear of criminal prosecution. It runs from February 1, 2005, through March 31, 2005. Taxpayers eligible to participate in amnesty but choosing not to do so will be subject to additional penalties.

Who is eligible?

Amnesty is open to both individuals and businesses for taxable years 2002 and prior, if they did any of the following:

- Did not file the required California tax returns.
- Underreported income on a previously filed tax return.
- Claimed excessive deductions.
- Did not pay income/franchise, sales, or use taxes on time.

The following taxpayers or transactions are not eligible for amnesty:

- Taxpayers currently under criminal investigation or prosecution on tax-related matters.
- Abusive tax shelter transactions that were eligible for relief under California's Voluntary Compliance Initiative or the 2003 IRS Offshore Voluntary Compliance Initiative - These initiatives applied to taxpayers with nonreported or underreported tax liability amounts attributable to an investment in an abusive tax shelter. Note: These taxpayers are eligible for amnesty for non-abusive tax shelter items.

How and when can clients apply?

- Complete and return a signed amnesty application by March 31, 2005. Amnesty runs from February 1, 2005, through March 31, 2005. (Since March 31 is a state holiday, we will accept applications postmarked April 1, 2005.)
- File all missing income tax returns for amnesty years by May 31, 2005.
- File amended income tax returns for taxable years where

you underreported your income for tax amnesty years by May 31, 2005.

- Pay all outstanding tax liabilities and interest for amnesty years by May 31, 2005. Or, set up an installment payment agreement that will be fully paid by June 30, 2006 for those amnesty years.

Where to get forms?

- The amnesty application and tax forms for 1985-1993 will be available on this Website by January 15, 2005.
- Tax forms for years 1994-2002 are currently available on this Website under *Forms & Publications*.
- Tax forms for years before 1994 are available by phone order at (800) 852-5711.

Can I delay filing and paying past-due taxes for clients until the amnesty period begins?

No. The State will continue its normal compliance, enforcement, and collection efforts to enforce the tax laws. This means that new audits will be conducted, and nonfiler enforcement efforts

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Ask the Advocate

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2. Publicize audit targets.
3. Use social responsibility messages when we publicize.
4. Publicize instances where underreporters are caught, not just the celebrities.

Many of your suggestions have been implemented or are in the development stage. We recently prepared a series of enforcement proposals to address the tax gap. You can read about the proposals on our website and in future editions of *Tax News*.

In related news, recent legislation authorizes the Board of Equalization and us to administer a tax amnesty in early 2005. I urge you to stay on top of this important issue by frequenting our Website at www.ftb.ca.gov to read the latest tax gap-related news.

Tax amnesty

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will proceed as planned. It also means that normal billing and collection actions will continue. This can result in a levy against bank accounts, garnishments of wages, filing of a tax lien, and other actions allowed by law.

What if my clients do not file for amnesty?

Amnesty legislation provides for increased enforcement actions for years 2002 and prior. The accuracy-related penalty increases from 20 to 40 percent on new tax assessments. This penalty is assessed for negligence or disregard of rules or regulations, any substantial understatement of income tax (10 percent), and other reasons.

An amnesty penalty is imposed at the rate of 50 percent of the existing unpaid interest amount on years for which you could have applied for amnesty.

An amnesty penalty is imposed at the rate of 50 percent of unpaid interest on tax assessments that become final after the

amnesty ending date.

Can my clients apply for amnesty if they are in bankruptcy?

Yes. However, if your clients are in an active bankruptcy, they will need the approval of the Court/Trustee to participate in the amnesty program.

Can I file an extension for amnesty?

No. Amnesty applications must be postmarked by March 31, 2005. (Since March 31 is a state holiday, we will accept applications postmarked April 1, 2005.)

If I file an application for my clients during amnesty, can they file the returns and pay after the deadline?

Yes, but you must file returns and make payments by May 31, 2005. If entering into an installment payment plan, the taxes and interest can be paid over time, but the entire balance must be paid by June 30, 2006.

Let Tax e-News in; keep junk mail out

Face it: As much as we love email, we hate spam. Spam (unsolicited junk email sent to large numbers of people to promote products or services) is a major annoyance, but don't let it prevent you from getting your *Tax e-News*.

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Interest rates

For the period of January 1, 2005, through June 30, 2005, the adjusted interest rate on underpayments and overpayments of California personal income taxes will be **four percent**.

The interest on corporation overpayments for the same period will be **one percent**.

Tax relief for nonresident servicemembers

With the enactment of Senate Bill 615, California now conforms to federal law on certain key provisions of the Servicemembers Civil Relief Act of 2003 (H.R. 100). Most notably, under the new law, the military pay of military servicemembers not domiciled in California may *not* be used to increase the tax liability imposed on other income of military servicemembers or their spouses.

H.R. 100, which President Bush signed into law on December 19, 2003, provides non-tax civil relief and various forms of federal and state tax relief to military servicemembers. Before the enactment of SB 615, California did not conform to the provisions of H.R. 100, therefore, while we did not tax the military pay of military servicemembers not domiciled in California, non-domiciled military servicemembers who had *other* California source income were required to include their military pay in their total income calculation when filing a return to report their *other* California taxable income. Their total income amount determined the tax rate applied to their nonmilitary income. Servicemembers who were domiciled in a community property state other than California, and whose spouses were California residents, had their spouses' community half of the military pay excluded from their total income.

Under the new law, military servicemembers not domiciled in California can exclude their military pay when calculating, for tax purposes, the total income for themselves and their spouses. For affected taxpayers this change affects their tax rate, credit percentage, and deduction percentage. It also requires a special calculation to arrive at a modified federal adjusted gross income for threshold limitations.

The new law does not affect servicemembers domiciled in California or their spouses. They must include all of their military wages when calculating total income. This is true even when servicemembers or their spouses are permanently stationed outside of California and are required to file because of having California-sourced income, such as from a California rental property.

Under S.B. 615 servicemembers not domiciled in California do not include their military pay when calculating:

- Federal adjusted gross income threshold limitations (e.g., personal and dependent exemptions, medical and dental expenses, charitable contributions, and miscellaneous itemized deductions) and phase-outs (e.g., IRA deduction, student loan interest deduction, and PALS).
- Gross income for purposes of determining a filing requirement.
- Alternative minimum taxable income.

Under SB 615 the following applies to military members:

- Native American military servicemembers whose legal residence or domicile is a federal Indian reservation are treated as living on the federal Indian reservation and their military pay is deemed as derived wholly from federal Indian reservation sources.
- The running of the statute of limitations is suspended for the period of a military servicemember's military service for the purposes of bringing an action in a court or administrative proceeding (i.e., Board of Equalization appeal).
- The rate of interest is limited to a maximum of six percent per year on any underpayment incurred before a military servicemember enters military service.

Effective date

SB 615 applies to any taxable year for which the period for making assessments or allowing a claim for refund or credit has not expired as of December 19, 2003. A claim for refund must be filed within the latter of:

- Four years from the original due date of the return.
- Four years from the date a timely return is filed.
- One year from the date of overpayment. The statute of limitations may be extended by disaster loss, periods spent outside the U.S., and/or service in a combat zone.

If you have clients who are military servicemembers not domiciled in California and have not yet filed their 2003 California income tax return, they can file an original return using the new SB 615 rules.

If you have affected military clients who already filed current or prior year returns including their military pay in total income, they can file amended returns for the eligible tax years.

Here are some guidelines for ensuring proper processing:

- Use Form 540X, Amended Individual Income Tax Return.
- Write "Military – HR 100" in red at the top of form 540X, and include a daytime phone number.
- Attach a copy of the military W-2 to the amended return.
- Include a revised Form 540NR, Schedule CA (540NR), and any other affected forms or schedule with the amended return.

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Military

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If your clients are amending a tax year for which the normal statute of limitations is closed, attach a statement of why the normal statute of limitations does not apply. If the statute is open because of military service in a combat zone or outside the United

States, attach a copy of any document that shows when they served in a combat zone or overseas.

Here are some examples of tax situations involving military servicemembers that illustrate the effects of the new law:

Example A: Military member domiciled in California and stationed in California.			
Facts: John is a military member domiciled in California and stationed in California the entire year. John earned \$25,000 in military wages.			
Before SB 615		After SB 615	
Schedule CA - 540		Schedule CA - 540	
Column	A	B	C
Military wages	25,000		
Conclusion: John is a resident of California and reports income from all sources.		Conclusion: The exclusion provision of SB 615 does not apply to military members domiciled in California. John reports the military income to California.	

Example B: Military member domiciled in California and stationed outside the state on PCS orders.					
Facts: Bob is domiciled in California and stationed in Nevada on PCS orders. Bob earned \$35,000 in military wages and had rental income of \$15,000 from a California rental property.					
Before SB 615			After SB 615		
Schedule CA – 540NR			Schedule CA – 540NR		
Column	A	B	C	D	E
Military wages	35,000		35,000		0
Rental income	15,000		15,000	15,000	
Conclusion: Bob included military wages in Total AGI.			Conclusion: The exclusion provision of SB 615 does not apply to military members domiciled in California.		
			Even though Bob is considered a nonresident of California, he does not qualify under SB 615 for the exclusion of income. Therefore, Bob includes military income in Total AGI.		

Military

Example C: Military member domiciled outside California and stationed in California on PCS orders.											
Facts: Mary is domiciled in Oregon and stationed in California on PCS orders. Mary earned \$25,000 in military wages during the year. She also had business income of \$14,000 working on the weekends as a real estate broker in California.											
Before SB 615						After SB 615					
Schedule CA – 540NR						Schedule CA – 540NR					
Column	A	B	C	D	E	Column	A	B	C	D	E
Military wages	25,000			25,000	0	Military wages	25,000	25,000		0	0
Business Inc.	14,000			14,000	14,000	Business Inc.	14,000			14,000	14,000
Conclusion: Mary included military income in Total AGI.						Conclusion: Mary excludes military income from Total AGI on the Schedule CA (540NR), Column B.					

Example D: Military member domiciled in community property state other than California and nonmilitary resident spouse.											
Facts: Tom is domiciled in Texas (a community property state) and stationed in California on PCS orders the entire year. Tom earned \$20,000 in military wages. Karen is a resident spouse and earned \$25,000 wages from a California computer firm. They filed a joint return.											
Before SB 615						After SB 615					
Schedule CA – 540NR						Schedule CA – 540NR					
Column	A	B	C	D	E	Column	A	B	C	D	E
Military wages	20,000	10,000		10,000	0	Military wages	20,000	20,000		0	0
S - Wages	25,000			25,000	25,000	S- Wages	25,000			25,000	25,000
Conclusion: For military members domiciled in community property state other than California, the resident spouse was allowed a military pay adjustment of one-half of the community share of military income on the Schedule CA (540NR), Column B.						Conclusion: SB 615 provides that the military compensation of a servicemember not domiciled in California will not increase the tax liability imposed on other income of the service member or spouse. Therefore, the entire military wages are subtracted on the Schedule CA (540NR), Column B.					

Guide to www.ftb.ca.gov

If you are one of the thousands of tax practitioners who felt overwhelmed by the Internet about 10 years ago, don't beat yourself up too badly. No doubt you had good reasons back then for not embracing the concept of e-commerce on the World Wide Web. Perhaps purchasing the necessary equipment was not in your budget, or perhaps your clients, wary of the new technology, held you back by threatening to leave if you used it to file their returns.

That was just 10 short years ago. Many of the practitioners who shied away from the Internet back then are now some of our most enthusiastic e-file professionals. As for customer resistance, today we see more and more taxpayers *seeking out* preparers who e-file instead of avoiding them. And it is pleasantly ironic to hear tax practitioners express surprise when we do not (yet) have a Web-based option for a particular service.

Now is a great time to get familiar with our Website at www.ftb.ca.gov, so turn on your computer, point your browser to www.ftb.ca.gov, and get ready to have some fun surfing our Website. We'll begin with our new and improved search engine.

Search

Our Website's search engine, powered by *Google* technology, is one of our site's most valuable features for your needs. Using the search function—always located in the upper right-hand corner of the Webpage—will help you quickly find what you need on our site. Take some time to familiarize yourself with our search engine now and you will save yourself valuable time come filing season.

Most items on our Website can be easily found by using a common word or brief term associated with the information you are looking for. You can widen or narrow your search results simply by the number of search terms you use; typically, the more words you input, the fewer search results you will get. You can also use the *Advanced Search* and *Search Tips* links located on the search results page for help. That is where you will find tips on how to best narrow your search criteria.

The search engine works with *Tax News* as well. If you are looking for a particular *Tax News* article about a specific topic, input the topic you are looking for into the search engine and it will retrieve *Tax News* articles containing your search criteria dating back to 1997. Play around with the search engine. Master it and you will master our Website.

Tax Professionals Gateway

We have assembled the items we think you will find most helpful, put them in one location on our Website, and called it the *Tax Professionals Gateway*. You will find it in the middle of our Website's Homepage. If you are in the business of preparing tax returns, or supporting those in the industry that do, this is your gateway. Information and services in the *Tax Professionals Gateway* are grouped under these major headings:

- What's new
- e-file, online services, and other paperless filing options
- General information
- Assistance and self-service options
- Law and legislation
- Special taxes and withholding
- California tax credits
- Useful forms and publications
- Links to other government agencies and professional organizations

Go to the *Useful forms and publications* section, for example, and from this single location on our Website you can:

- Get information and forms for establishing power of attorney.
- Access common forms for individual taxpayers.
- Access common forms for businesses.
- Order *California Package X*.
- View or subscribe to *Tax News* and *Tax News Online*.
- Access a directory containing the names and telephone numbers of organizations within FTB.
- Access FTB internal procedure manuals.

We also have two other gateways – one for individuals and one for businesses:

- The information in the *Individuals Gateway* is geared specifically for individual personal income tax return filers.
- All the links listed in the *Businesses Gateway* address the concerns of business entities looking to either file returns, conduct business, or to cease doing business in California.

Guide to www.ftb.ca.gov

Key Features

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Here are a few of the many features available on our Website that every tax professional should know about:

Forms and Publications Updates

Where you will find it: Go to the *Forms and Publications* section of our Homepage.

Description: FTB Forms are often updated after their initial release. This feature lets you select specific forms and check for recent updates.

Customer Service Number (CSN) Look up

Where you will find it: There is a CSN link under *Quick Links*, located on the right side of our Homepage.

Description: Lets your clients look up their four-digit authentication number. The CSN also allows you, with your clients' permission, to get their account activity online.

The CSN helps ensure taxpayer confidentiality and security when conducting business online with us. It gives you and your clients access to many convenient and free e-Services, including *View Payments Online*, *View Account Balance Online*, *Web Pay*, and *Apply for an Installment Agreement*. To acquire your clients' CSN you will need their Social Security Number and a shared secret from their prior year tax return.

Check e-file Return Status

Where you will find it: Click on the *Tax Professionals Gateway*, go to the *e-services Webpage* and look under the heading *Get Answers*.

Description: This application lets you check the status of e-file returns and to verify when we received them. To access the feature you will need your clients' Social Security Number and Declaration Control Number (for more information about Declaration Control Numbers, go to our e-file Webpage).

View Payments and Balance Due

Where you will find it: There is a *Check Account Balance* link under *Quick Links*, located on the right side of our Homepage. Or, use the search engine and type *My account* into the search box.

Description: This application allows you to view the total current balance due on an account. Use it to get an up-to-date summary of your clients' account, including total tax amount, penalties, interest, and credits on tax years with a balance owing, as of the date the service is accessed. You can also view up to 60 of the most recent payments applied to the balance due. To access this service you will need their Social Security Number and CSN.

Refund Status

Where you will find it: There is a *Refund Status* link under *Quick Links*, located on the right side of our Homepage.

Description: This application lets you check the status of clients' current year refunds. Use it to quickly confirm the amount of their tax refund and when they can expect to receive it. You will need your clients' Social Security Number, the numbers in their mailing address, Zip Code, and the refund amount.

Check Estimated Tax Payments

Where you will find it: Located in the *Assistance and self-service options* section of the *Tax Professionals Gateway*.

Description: This application allows you to monitor the estimate payments applied to clients' accounts. Use it to view up to 25 estimated tax payments, estimate transfers, and extension payments waiting to be applied to their tax return. You will need their Social Security Number and CSN.

e-file, online services, and other paperless filing options

Where you will find it: Located in the *Tax Professionals Gateway*.

Description: This is the one place for you to get anything related to e-file, including joining our e-file program.

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Paperless Schedule K-1 Program

Where you will find it: Located in e-file, online services, and other paperless filing options section of the *Tax Professionals Gateway*.

Description: A convenient way to submit Schedules K-1 (565 or 568). Partnerships, limited liability companies, (or their representatives) may file hundreds of Schedules K-1 (565 or 568) by CD or diskette, instead of sending paper schedules. We provide everything you need to participate, including two types of TestWare. TestWare allows you to test your files before sending them to us, thus ensuring that your files will pass our mainframe edit program.

Payment Options

Where you will find it: Click on the *Payment Options* link, located in the *Quick Links* section of the Homepage.

Description: *Web Pay* is a secure online service for making tax payments. This secure service lets your clients pay the current amount they owe and schedule future payments, such as estimated tax, up to one year in advance. Taxpayers select the amount they want to pay and when they want to pay it. We will deduct their payment from their account on the day they select. To use it, you will need your clients' Social Security Number and CSN.

Pay by Credit Card is another secure online service for making tax payments. Taxpayers can pay with their *Discover/NOVUS*, *MasterCard*, *Visa*, or *American Express*. Payments can be made online or by phone. Payments are effective the same day. *Official Payments Corp.* charges a convenience fee of 2.5 percent (minimum \$1) to use this service.

Our *Electronic Installment Agreement* Webpage provides online information about the installment agreement request process, who qualifies, and special requirements for an installment agreement. From this page your clients can apply and check the status of their request. To apply online, they will need:

- Social Security Number
- The amount
- A Customer Service Number
- Bank account number and bank routing number

Head of Household self-test

Where you will find it: Located in the *Return filing assistance* section of the *Individuals Gateway*. Or type *head of household* into the search engine.

Description: Gives taxpayers a test to see if they qualify to use the head of household filing status. The legal requirements for the

head of household filing status are more complicated than simply being the head of the house. Use this self-test to help ensure your clients claim the correct filing status.

Fillable forms for withholding agents

Where you will find it: Located in the *Special taxes and withholding* section of the *Tax Professionals Gateway*.

Description: Allows users to access real estate withholding forms and complete them online. Some of the larger escrow offices process thousands of withholding forms. The fillable forms allow them to complete the forms online continuously. They could then print completed forms and submit them to us.

Abusive Tax Shelters Website

Where you will find it: There is an *Abusive tax shelter* link under *Quick Links*, located on the right side of our Homepage. Or type *abusive* into our search engine.

Description: Provides information for registering and reporting on abusive tax shelter transactions. This comprehensive Website provides answers to frequently asked questions about participating in an abusive tax shelter, including reporting and penalty information for tax professionals and organizers of potentially abusive tax shelters. The information on this Website can help your clients avoid penalties for failure to report and list abusive tax shelters and transactions.

Tax Calculator

Where you will find it: Located in the *Return filing assistance* section of the *Individuals Gateway*.

Description: Automatically calculates tax for individual taxpayers. Quick and easy calculator for determining the amount of tax to input on line 17 of Form 540A, or line 20 of the Form 540. To use it you will need your clients' California taxable income. It will not calculate tax for 540 2EZ filers.

Law and Legislation Webpage

Where you will find it: Click on the *Law and Legislation* link located on our Homepage.

Description: This Webpage contains:

- Legal notices and rulings
- Proposed and final regulations
- FTB notices explaining changes made to California Income Tax laws



Mandatory e-file

Thanks to your participation, we've had an extremely successful e-file year! Many of you joined our program due to recent mandatory e-file legislation and you helped make the first year of the mandate a success. We know the first year of e-filing can be the most challenging and we appreciate your efforts.

We also know that many of you who are mandated to e-file were not able to participate for various reasons. This fall we will start contacting those who did not participate to ensure they comply with the law. We are interested in why you didn't participate and how we can help you to comply with the law for next year. If you were subject to the mandate and were unable to participate, it's not too late to get on board. We have many tools available to help you get started and make your transition to e-file easier.

Visit our Website at www.ftb.ca.gov and search for:

Mandatory e-file. There you'll find:

- What you'll need to join our e-file program, including our online enrollment form, answers to frequently asked questions regarding the mandate, and how it affects you.
- A link to our e-file tutorial with tips and ideas from professionals like you who e-file.
- A list of approved e-file software for California.
- Links to the actual legislation and new legislative updates.
- Various references and handouts for you and your clients.

Would you like to provide input on how we can better assist you or make suggestions for updating products like our e-file tutorial?

Email us your suggestions and comments at:

e-file.outreach@ftb.ca.gov.

Business entities e-Services

As the corporate filing season heats up we would like to remind you that we offer an assortment of e-services for businesses:

Electronic Funds Transfer (EFT). This is a faster, more efficient way for business corporations to pay their taxes. EFT allows business corporations to transfer money from their bank account to the state's bank account electronically, eliminating the use of paper checks. Corporations not mandated to use EFT can try it with no obligation to continue using it.

If a corporation's quarterly estimated tax payment or extension payment exceeds \$20,000 or if their total tax liability exceeds \$80,000 for any income year beginning on or after January

1, 1995, they must make all future payments via EFT. Once a corporation remits a payment that meets the criteria for mandatory participation, we will notify them of their mandatory status and provide information on how to use EFT. The payment options available are the Automated Clearing House (ACH) debit and credit and Fedwire. Fedwire payments are available for emergency purposes only.

Paperless Schedule K-1 Program

This is a great way to submit your Schedules K-1 (565 or 568). Through the *Paperless Schedule K-1 (565 or 568) Program*, partnerships and limited liability companies taxable as partnerships, or their representatives, may file hundreds of Schedules K-1 (565 or 568) on one CD or diskette, instead of a stack of paper schedules K-1s. The *Paperless Schedule K-1 Program* can reduce your costs to produce and mail K-1s. It can also ensure 100 percent accuracy in updating this data to our files.

1099 Internet Filing

1099 Internet Filing is the fast, easy, and convenient filing option for Forms 1098, 1099, 5498 and W-2G. With 1099 Internet Filing, you can securely send this information via a text file from your system to ours. You will receive immediate confirmation when your file is received. The text file must be in an acceptable format.

For more information regarding formatting requirements and on using this service, check out our Website at: www.ftb.ca.gov.

In 2006, we are planning to implement e-filing for business entity forms, starting with the partnership return, FTB Form 565. Other business entity forms will be added in subsequent years (568, 100, 100S, and 100W).

For more information on Business Entities e-Services visit our Website at www.ftb.ca.gov.

e-file Workshops for 2004

Our e-file workshops, conducted with the Internal Revenue Service, continue to generate enthusiasm among tax professionals interested in learning about the e-services we offer. If you haven't attended a workshop before, now is a good time to come and learn about the e-services before the next filing season. Look for the schedule of upcoming workshops on our Website at www.ftb.ca.gov and search for: **e-file workshops**.

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Important dates for our e-file program

If you participate in our e-file program, you don't want to forget these important dates:

- **October 15, 2004** — Last day to transmit timely returns
- **October 20, 2004** — Last day to retransmit rejected returns
- **December 31, 2004** — Last day for electronic return originators and transmitters to retain acknowledgment file material for returns e-filed in 2003. Remember: electronic return originators must retain the Form FTB 8453, *California e-file Return Authorization*, for each return they e-filed, for four years from the due date of the return or for four years from the date the return is filed, whichever is later.
- **December 2004**—The following e-file publications for California individual income tax returns are available for your reference:
 - *e-File Handbook* (FTB Pub. 1345)
 - *e-File Handbook Supplement* (FTB Pub.1345A)
- **January 14, 2005**— California begins accepting tax year 2004 e-file returns.

If you are not already a member of the California e-file program team, join now! When you e-file your clients' returns you get:

- **Proof of receipt** – We provide acknowledgement that we have accepted a return for processing.
- **The opportunity to correct errors** – Our system performs up-front edits on e-file returns to detect errors, which allows you time to make corrections prior to filing. This reduces the chance your clients will receive a notice due to an error on their returns.
- **Accurate returns** – Because we perform up-front edits, less than one percent of e-file returns require special error handling after they are filed.

To e-file, you must be an approved Electronic Return Originator (ERO). If you are not yet an approved ERO and want to e-file your clients' tax returns, you must first enroll with the Internal Revenue Service. Once you have your Electronic Filing Identification Number (EFIN), complete and submit the *California e-file Program Enrollment Form* (FTB 8633) online

e-signatures

In July we said we were adding electronic signature options to our e-file signature procedures beginning with taxable year 2004 returns. Our procedures will closely mirror those used by the Internal Revenue Service.

For example, along with the traditional method of printing, signing, and retaining the *California e-file Return Authorization* (Form FTB 8453), we will accept electronic signatures using the Self-Select personal identification number (PIN) and Practitioner PIN methods.

Using the Self-Select PIN method, your clients will be asked to complete a click-through agreement. Their signature will then consist of both a 5-digit PIN that they select and a shared secret. The shared secret will be the taxpayer's prior-year California adjusted gross income (AGI).

Using the Practitioner PIN method, you can enter your clients' PIN on their behalf. Your clients must sign the *California e-file Signature Authorization* (form FTB 8879). You complete a click-through agreement and enter their PIN when prompted by your software. A shared secret is not required with this method. You retain Form FTB 8879 for four years.

If your clients chooses to sign their returns with a PIN, then you will be required to sign using the Electronic Return Originator (ERO) PIN, which will consists of your 6–digit EFIN and a five-digit PIN that you select. Both the ERO PIN and the taxpayer's PIN can be any five digits except all zeros. Look for more information soon on our Website at www.ftb.ca.gov.

Web Pay

Web Pay is the fast, safe, and efficient way for your clients to pay their personal income taxes online.

With Web Pay, your customers can make the following types of payments online:

- Estimated tax.
- Bill.
- Return.
- Extension.

www.ftb.ca.gov

2004 tax rate indexing

CONTINUED FROM PAGE 1

Personal exemptions

The personal exemption credit for single, separate, and head of household taxpayers will increase from \$82 to \$85. For joint or surviving spouse taxpayers, the personal exemption credit will increase from \$164 to \$170.

- Single, married filing separate, and head of household \$85
- Married filing joint and surviving spouse \$170
- Blind \$85
- Age 65 and over \$85

Dependent exemption credit

The dependent exemption credit will increase from \$257 per dependent claimed in 2003 to \$265 each in taxable year 2004.

Standard deductions

The standard deduction amount for single or married filing separate taxpayers will increase from \$3,070 to \$3,165.

For joint, surviving spouse, or head of household taxpayers, the standard deduction increases from \$6,140 to \$6,330.

Credit for qualified senior head of household

The qualified senior head of household credit is two percent of California taxable income. The new adjusted gross income ceiling is \$54,730, and the maximum credit amount \$1,031.

Joint custody head of household/dependent parent credit

Joint custody head of household and dependent parent credits are the lesser of \$337 or 30 percent of net tax. of net tax.

Qualified parent credit/young infant credit

This credit has sunset and will not appear in the 2004 *Personal Income Tax booklets*. However, it has carryover provisions. It is included on the 2004 Form FTB 3540, *Credit Carryover Summary*.

Renter's credit

For taxpayers filing single and married filing separate with a California Adjusted Gross Income of \$29,955 or less, the credit is \$60.

For taxpayers filing married filing joint, head of household, and surviving spouse, with California Adjusted Gross Income of \$59,910 or less, the credit is \$120

Reduction of exemption credits

For each \$2,500 (\$1,250 if married filing separate) of adjusted gross income or fraction thereof which exceeds the threshold value, a reduction of \$6 (\$12 joint) will apply. The new indexed threshold values are as follows:

- Single, Married Filing Separate \$139,921
- Head of Household \$209,885
- Joint, Surviving Spouse \$279,846

Reduction of itemized deductions

The new indexed threshold amounts are as follows:

- Single, Married Filing Separate \$139,921
- Head of Household \$209,885
- Joint, Surviving Spouse \$279,846

Editor's Note: You can find additional tax rates and filing requirement amounts on Tax News Online, located on our Website, www.ftb.ca.gov.



2003 Tax Forms
Updates & Revisions
Available Online
www.ftb.ca.gov

Public service counters

The Long Beach, Van Nuys, and West Covina public service lobbies closed on July 1, 2004. If taxpayers need further assistance, they can visit our Website at: www.ftb.ca.gov, call the telephone number located on their billing notice, call our toll-free number at (800) 338-0505, or visit one of these field offices:

Los Angeles Field Office
300 S. Spring Street
Suite 5704
Los Angeles CA 90013

Sacramento Field Office
3321 Power Inn Road
Suite 250
Sacramento CA 95826

Santa Ana Field Office
600 W. Santa Ana Blvd
Suite 300
Santa Ana CA 92701

Oakland Field Office
1515 Clay Street
Suite 305
Oakland CA 94612

San Francisco Field Office
121 Spear Street
Suite 400
San Francisco CA 94105

San Diego Field Office
7575 Metropolitan Drive
Suite 201
San Diego CA 92108

Do your part...

Avoid these common errors when preparing returns and your clients returns will sail through our processing procedures.

Estimate payments

When the estimate payment total taxpayers claim on their return is different from the total we receive, we delay processing while we issue a notice about the discrepancy to the taxpayer. You can keep track of your clients' estimate payment activity by using the *Check Account Balance* feature on our Website, www.ftb.ca.gov. This application lets you view a record of the estimate payments we have received from your clients before you complete this step of the tax return.

You will need your clients' social security number and their customer service number in order to access their account information. You can obtain their customer service number from us if you can provide us with the appropriate Franchise Tax Board Power of Attorney, Form FTB 3520. To learn more about our Customer Service Number Program visit our *Customer Service Number Webpage*.

When adjusting estimate payment information on a scannable return, make sure you make the correction on both pages of the return. So, if you change the estimate

payment total amount in the scan band portion of the return, you must also change the total on Page 2 of the return or we will input the wrong amount.

Exemption credits

Be sure exemptions have been totaled correctly and that the total exemptions have been transferred to the correct line of the return.

Tax liability

Make sure all figures above the tax line have been reported correctly so the correct tax is computed. Use the automated tax table on our Website and make sure you transfer the correct tax amount from the tax table to the tax return.

Excess State Disability Insurance claims

When reporting the amount of excess state disability insurance, make sure you only use the amount provided in the state disability insurance section of the client's form W-2. For clients using the married filing joint filing status, be sure to calculate the primary taxpayer's and spouse's excess state disability insurance separately.

Do not include state disability insurance amounts from out-of-state sources in the total.

...File smart

Tax Practitioner Services & Holiday Calendar

Tax Practitioner Hotline

Telephone 916.845.7057

Fax 916.845.6377

Personal Income Tax Collection

Fax 916. 845.0494

Business Entities Collection

Fax 916. 845.0145

FTB e-file Help Desk

Telephone 916. 845.0353

The Tax Practitioner Hotline is open Monday through Friday, 8 a.m. to 5 p.m. The Hotline is not open on weekends and state holidays.

2004 Official California State Holidays

Thursday, January 1, 2004
New Year's Day

Monday, January 19, 2004
Martin Luther King Jr. Day

Thursday, February 12, 2004
Lincoln's Birthday

Monday, February 16, 2004
Washington's Birthday (observed)

Wednesday, March 31, 2004
Cesar Chavez Day

Monday, May 31, 2004
Memorial Day

Monday, July 5, 2004
Independence Day (observed)

Monday, September 6, 2004
Labor Day

Monday, October 11, 2004
Columbus Day

Thursday, November 11, 2004
Veteran's Day

Thursday, November 25, 2004
Thanksgiving Day

Friday, November 26, 2004
Day after Thanksgiving

Saturday, December 25, 2004
Christmas Day

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