

A Tough Assignment: Making Tax Forms More Likeable

Nobody doesn't like Sara Lee.

The Franchise Tax Board knows that no one would ever substitute "California tax forms" for "Sara Lee" in the famous advertising slogan. Even so, a top FTB priority is to make filing tax returns a better experience.

One of FTB's strategies is to make tax forms, instructions and publications easier to understand and fill out. And as the error rate on tax returns continues its slow decline, improved tax forms may be in line for some credit, along with new electronic ways to file a form.

FTB produces more than 150 tax forms. Most of them are revised in some way every year.

One of the main reasons for changing tax forms, of course, is that tax law changes. Changes in both federal and California tax law affect California tax forms. And the law not only changes but becomes more complex. FTB's challenge is to incorporate these changes and complexities on tax forms in ways that are as easy as possible to understand. FTB also tries to mirror comparable federal forms. Individuals and, in some instances, business entities must complete a federal tax form before filling out a California form. Consistency in format and language helps underscore, for example, that a specific California instruction is the same instruction the taxpayer followed in filling out the federal form.

Changes and improvements to tax forms may come from:

- Taxpayers. Some respond to the FTB Executive Officer's invitation, printed in tax booklets, to submit suggestions and express concerns. Others simply write to "Sir or Madam" at FTB. Some call in their suggestions to FTB's Taxpayer

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A Tall Tale



This computer-enhanced photograph shows just a portion of the paper some partnerships could save if they filed their Schedules K-1 on a CD-ROM. A CD-ROM will hold almost six million compressed

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Tax News

Volume 98-5 September 1998

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

Members of the Board:

Kathleen Connell, Chair
State Controller

Dean Andal
Chair, State Board of Equalization

Craig L. Brown
Director, Department of Finance

Executive Officer:
Gerald H. Goldberg

Editor:
Pat Huberty

To update or correct your address or to subscribe to **TAX NEWS** (send \$12 for a one-year subscription), write:

TAX NEWS
P.O. Box 520
Rancho Cordova, CA 95741-0520
or call: (916) 845-7070.

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For information about a client's account, contact:

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New Taxpayer Service Center Opens: Andal to Headline Ceremonies

Sacramento is the newest California city with a Taxpayer Service Center, a one-stop shopping location for tax information and assistance.

Although the center is currently open for business, an official opening ceremony is scheduled for September 22. Dean Andal, who is both chairman of the State Board of Equalization and one of the three members of the Franchise Tax Board, will serve as master of ceremonies at the event.

At the opening ceremony, speakers will review the Taxpayer Service Center

concept and services. The speakers include officials from the center's participating agencies.

The new center is located at 3321 Power Inn Road, Second Floor, Sacramento 95826. It includes the Franchise Tax Board's Sacramento field office, formerly on Folsom Boulevard, as well as offices of the State Board of Equalization, the Employment Development Department's Tax Division and the Department of Alcoholic Beverage Control. □

Making Tax Forms More Likeable

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Services Center.

- Tax practitioners and producers of substitute and scannable forms.
- FTB employees. Everyone who works for FTB not only is a taxpayer but also uses the information on tax forms in some way to perform their jobs. As a result, they look for ways to simplify forms for the people who fill them out and for those who must use the information they contain.
- The FTB Advisory Board. This advisory body to the FTB Executive Officer recently responded to an invitation to make suggestions for tax form improvements. The board includes representatives of such organizations as the American Association of Retired Persons, the California Society of Certified Public Accountants, the California Society of Enrolled Agents, the California Tax Reform Association, the California Taxpayers' Association and other organizations and firms.

One of the most frequent suggestions in recent years is to include mailing envelopes for taxpayers in the tax booklets. FTB does not provide envelopes because of their cost. Some taxpayers complain that instructions for filling out forms are too difficult; others write to say that FTB is doing a good job

in simplifying tax forms. Even though the exemption section of the tax form continues to produce the most errors because of legislated intricacies, taxpayers responded with compliments when the exemption worksheets were improved for the 1995 tax year. Including space for unemployment insurance compensation on Form 540EZ drew compliments as well.

Specific taxpayer suggestions range from complaints that the Schedule P, "Alternative Minimum Tax and Credit Limitations," subsequently simplified, was too complicated to questions of grammar. One taxpayer recently requested that FTB use the correct abbreviation for "continued." The taxpayer correctly pointed out that the word should be abbreviated as "cont'd." or "cont.," not as "con't." And last year, a taxpayer who submitted suggestions for the Form 540X, "Amended Individual Income Tax Return," asked to be reimbursed \$500 as a consulting fee.

FTB has nine employees working full time to make tax forms, instructions and publications easier for taxpayers and tax practitioners to understand and use. Their procedures include:

- Considering all suggestions from all sources.
- Reviewing all tax law changes.

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EROs: Send IRS Only One E-Filing Declaration

The Internal Revenue Service reports that, during the past filing season, some California electronic return originators (EROs) submitted state as well as federal forms and declarations.

EROs are tax practitioners who were approved by FTB to produce e-filed, or electronically transmitted, returns.

According to the IRS, the agency received a significant number of Forms W-2, Copy C, which is the state copy. And, in most cases, the Copy C was accompanied by a state form FTB 8453, "California Individual Income Tax Declaration for Electronic Filing." In all cases, EROs also correctly sent the IRS the federal Copy B of the Form W-2 along with the

federal Form 8453, "U.S. Individual Income Tax Declaration for Electronic Filing."

The duplication increased the IRS workload because the agency needed to compare the documents in order to determine whether they were duplicates or whether social security numbers were incorrectly entered.

For California purposes, EROs are required to keep the state form FTB 8453 in their offices for four years. The Franchise Tax Board also recommends that they retain the Form W-2, Copy C for the same length of time. Neither form should be sent to either FTB or the IRS. □

Installment Payments May Replace Some Garnishments

For some individuals who owe back taxes, installment payment plans may replace wage garnishments.

The Franchise Tax Board will contact selected taxpayers who now have an Earnings Withholding Order for Taxes, commonly known as a wage garnishment, and offer to convert the order to a voluntary installment agreement plan. All payments would be made by electronic funds transfer.

FTB will send the eligible taxpayers a letter and a copy of the 3567 Booklet, which contains form FTB 3567BK, "Installment Agreement Request."

Wage garnishment is one of the collection tools that FTB uses to resolve delinquent liabilities. FTB mails garnishment orders to employers in order to attach a percentage of an employee's wages every pay period until the employee's tax liability is paid or the garnishment is released because of financial hardship or some other reason. Employers who receive the orders are required to collect, record and transmit the garnished wages to FTB each month. Employers can be held liable for any payments that are not withheld and sent to FTB.

Under the installment agreement plan, eligible taxpayers whose wages are now garnished would make a fixed payment each month. In some cases, the amount may be smaller than the amount currently deducted from wages under a garnishment.

In addition to giving individuals an opportunity to convert their wage garnishments, the installment plan also eliminates the employer's role. It relieves employers of tracking withheld amounts and paying related bookkeeping expenses. And because installment payments are transmitted electronically, the plan allows FTB to post payments quickly to the taxpayer's account with less handling.

The conversion of wage garnishments to installment agreements is one of the newest ways that FTB has developed to help taxpayers meet their tax obligations. Others include a streamlining of the installment agreement program (see the November 1997 issue of Tax News) and adapting new technology to increase efficiency in processing tax returns. □

FTB Follows IRS "LIFO" Procedure

The Franchise Tax Board will follow the Internal Revenue Service's Revenue Procedure 97-44, which deals with certain automobile dealers.

The Revenue Procedure grants relief to certain automobile dealers that elected the last-in, first-out (LIFO) inventory method of accounting but violated the LIFO conformity requirement of Internal Revenue Code Section 472(c) or (e)(2).

The California policy is outlined in FTB Notice 98-10. It states that FTB "will permit those taxpayers who qualify for the relief provided by Revenue Procedure 97-44 to continue to use the LIFO method if they attach a copy of the memorandum furnished to the IRS under Section 5 of Revenue Procedure 97-44 to their franchise or income tax return for the accounting period which includes May 31, 1998." The notice also says that FTB will not require taxpayers to pay a settlement amount.

FTB Notice 98-10 was issued on June 5, 1998. You can locate it at FTB's <http://www.ftb.ca.gov> Internet site; click on "Other FTB Information" and then on "FTB Legal Documents." The notice also has been published by most tax services. □

***Using 1998
Scannable/
Substitute Forms?
Check the
November
Tax News***

If you are planning to use scannable or substitute 1998 California tax forms, make sure they meet Franchise Tax Board requirements.

To determine whether your software company has filed an intent to comply with the requirements, check the November Tax News for a preliminary list. Additional companies will be listed in the January issue.

FTB approval is necessary to ensure that the software you use produces forms that can be processed quickly. If they do not, FTB may not be able to process the forms and may need to contact your clients directly.

All companies that publish, produce or sell substitute and/or scannable California tax forms must file an agreement to comply with FTB requirements for the forms.

And FTB must approve the forms before they are sold or provided to tax preparers. □

Withholding Required When Nonresidents Sell California Property

Do your nonresident clients who sell California property know that money must be withheld from the sale price to pay California taxes? Do your clients who buy from nonresidents understand their responsibilities?

Withholding generally is required in nonresident real estate sales when the seller is an individual with a street address outside California or a corporation with no permanent place of business in the state.

Escrow companies must notify buyers in writing that they must withhold tax dollars from the price they pay for property. The buyer is responsible for withholding the right amount. Usually, however, escrow companies assist buyers as part of their regular services; they make sure that an amount is withheld and sent to the Franchise Tax Board. An escrow company can charge no more than \$45 for this service.

The required withholding amount, according to the law, is 3 1/3 percent of the sales price. A seller who believes that amount is more than the tax liability may request FTB to reduce or waive the withholding. However, sellers always must file a California tax return, even if they are exempt from withholding or they qualify for a waiver.

Sellers qualify for an automatic waiver of the 3 1/3 percent withholding amount if they sign a form 590RE, available from the escrow company, and meet one of these conditions:

- The total sales price is \$100,000 or less.
- The seller certifies that the property was his or her principal residence, which now is defined as a home owned and used for two of the last five years prior to the sale date.
- The seller is a partnership or limited liability company and the title is recorded in the entity's name.
- The seller is a tax-exempt entity.
- The seller is a California estate because the decedent was a California resident at the time of death.

- The seller is an irrevocable trust with at least one trustee who is a California resident.

Even if none of these conditions apply, a seller may be able to have withholding reduced or waived. Requests for waivers and reductions are handled on a case-by-case basis but generally are granted when:

- The gain or loss on the sale is small.
- The transaction is an exchange under Internal Revenue Code Section 1031, "Exchange of property held for productive use or investment."
- The sale will be reported using the installment method.
- The sale involves multiple sellers, and some are California residents.
- The sale involves property recently acquired by inheritance.

At any rate, FTB works closely with sellers or their representatives so that the amount withheld equals as closely as possible the amount of the tax liability from the sale. This prevents sellers from making an unnecessarily large withholding payment or from underpaying, which can lead to a penalty.

For two reasons, sellers should request waivers as early as possible during the process of selling the property and include all documents that would support their case for reduced withholding or a waiver. First, requests without documentation take longer to process because FTB then has to research the necessary information. Second, if escrow is ready to close before FTB determines the appropriate amount of withholding, the escrow company must withhold the statutory 3 1/3 percent of the sales price. This amount is withheld until the company receives FTB's determination or for 45 days, whichever comes first.

To request a waiver or withholding reduction, sellers should complete and send FTB a Form 597-A, "Nonresident Withholding Waiver Request for Real Estate Sales." The form is available at FTB's <http://www.ftb.ca.gov> Internet site and by mail from Tax Forms Request,

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FTB Notice Addresses Settlement Authority

A new Franchise Tax Board notice outlines how disputes about civil tax matters may be settled.

FTB Notice 98-11 updates and supersedes all previous notices about FTB's settlement authority. The most significant change the notice makes is to add the requirement that the taxpayers make a good faith offer with the settlement request.

The notice states that FTB's Settlement Bureau is generally responsible for negotiating settlements in disputed civil tax matters, taking into consideration the costs and risks of litigating the matters. The Settlement Bureau handles cases with protested deficiency assessments, cases on appeal to the Board of Equalization and claims for refund. Taxpayers unable to pay an undisputed tax liability should contact FTB's offer in compromise program.

The notice notes that Revenue and Taxation Code Section 19442 gives FTB

the authority to settle civil tax matters in two ways:

- **Settlements approved by the Franchise Tax Board.** The process starts when FTB's Executive Officer or his Chief Counsel designee presents a settlement recommendation to the Attorney General who, within 30 days, must advise in writing whether the recommendation is reasonable from an overall perspective. If the Attorney General agrees with the recommendation, the FTB Executive Officer or Chief Counsel presents it to the three-member Franchise Tax Board. A majority of the members must approve or disapprove the recommendation.
- **Small case settlements.** The FTB Executive Officer and the Chief Counsel together may approve the settlement of a disputed civil tax matter if it involves a reduction in tax and penalties as long as the reduction is not more than \$5,000.

Whenever taxes and/or penalties are reduced more than \$500, a public record statement must be placed in the office of the FTB Executive Officer. Statements, which are available to the public, may contain only:

- The name or names of taxpayers who are parties to the settlement.
- The total amount in dispute.
- The amount of the settlement.
- A summary of the reasons why the settlement is in the state's best interests.
- For settlements approved by the three-member board, the Attorney General's conclusion about the reasonableness of the settlement.

For more information about FTB's settlement authority and the ways to initiate a settlement, see FTB Notice 98-11. It is available at FTB's <http://www.ftb.ca.gov> Internet site; click on "Other FTB Information" and then on "FTB Legal Documents." The notice also has been published by most tax services. □

Withholding Required

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Franchise Tax Board, P.O. Box 307, Rancho Cordova, CA 95741-0307. Or you may call (916) 845-4900; to receive the form by fax, call (800) 998-3676.

A seller should obtain a copy of Form 597, "Nonresident Withholding Tax Statement for Real Estate Sales," which the escrow company sends to FTB with the withheld amount. The seller must attach the copy to the 540NR, "California Nonresident or Part-Year Resident Income Tax Return," to document the withholding claimed. Sellers should keep in mind that an escrow statement showing the amount of withholding at the close of escrow does not necessarily mean that they can claim that amount on their tax return. Some of the withholding may have been refunded at the time of FTB's waiver determination. So, the Form 597 is the only certain way to show the actual amount sent to FTB.

For more information, see FTB Publication 1016, "Nonresident Withholding - Real Estate Guidelines." □

FTB Calendar

September

- 30,000 Notices of Proposed Assessment are mailed to individuals who did not respond to demand to file notices for the 1996 tax year.
- 40,000 questionnaires/demands to file are mailed to corporations that failed to file 1996 returns.
- Notices of Proposed Assessment for corporations' failure to file 1995 tax returns begin finalizing. Those corporations will receive Notices of Balance Due.
- 4 Last day to register for FTB/IRS seminar, "Taxing Perceptions."
- 15 Personal income tax estimate payments are due.
- 20 Previous month nonresident withholding payments are due if total withholding exceeded \$2,500.
- 22 Sacramento Taxpayer Service Center official opening.
- 23 FTB, IRS hold free "Taxing Perceptions" seminar in Oakland.
- 24, 25 FTB, IRS repeat "Taxing Perceptions" seminar in Oakland.

October

- 18,000 Notices of Proposed Assessment are mailed to individuals who did not respond to demand to file notices for the 1996 tax year.
- 6 FTB, IRS hold free "Taxing Perceptions" seminar in Sacramento.
- 7, 8 FTB, IRS repeat "Taxing Perceptions" seminar in Sacramento.
- 15 Final extended due date for personal income tax returns.

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“Striking Gold,” A Video Bonanza for Small Businesses

Are you an enrolled agent with clients interested in viewing an award-winning video on everything a small business person needs to know about taxes?

“Striking Gold in California,” which includes a video, booklet and directory of services and information sources, has been offered to presidents of California Society of Enrolled Agents (CSEA) chapters throughout the state. Check your local chapter to see when or if the video will be available in your area.

The video won second place honors for video production in a State Information Officers Council competition earlier this year.

The “Striking Gold” video package was produced by the Small Business Tax Connection, a committee of Franchise Tax Board, Internal Revenue Service, Employment Development Department and State Board of Equalization representatives. CSEA is a community sponsor along with the Service Corps of Retired Executives (SCORE) and the Small Business Development Center. □

Limited Partnerships: When Does Tax Liability End?

Do your limited partnership clients understand at what point their liability for filing returns and paying an annual tax ends? If they believe it is when they file a certificate of dissolution with the Secretary of State, they’re wrong.

According to law, limited partnerships are required to file returns and pay the \$800 annual tax until they file a certificate of cancellation with the Secretary of State. However, the Franchise Tax Board has noticed that a number of limited partnerships are confused about when their taxpayer responsibilities end.

A certificate of dissolution notifies creditors and other interested parties that a limited partnership is in the process of ending its existence. However, a limited partnership can nullify a certificate of dissolution by filing a certificate of continuation. So, the limited partnership continues to exist until it files a certificate of cancellation.

Some of the confusion among limited partnerships may stem from changes in the law during the last decade. In 1988, Revenue and Taxation Code (R&TC) Section 23081 imposed the annual tax on limited partnerships doing business in California. In 1993, Section 23081(b) was amended so that limited partnerships registered with the Secretary of State were responsible for paying the annual tax even if they were not doing business in the state. It also stated that the tax applied for each taxable year until a limited partnership filed a certificate of dissolution *or* a certificate of cancellation. The Secretary of State then advised that filing a certificate of dissolution “stopped the clock” on taxes, penalties and interest and that filing a certificate of cancellation canceled a limited partnership’s registration. However, under Section 23081(a), a limited partnership could remain liable for paying the annual tax if it continued to do business after filing a certificate of dissolution.

Then, in 1996, Section 23081 was repealed, and the tax on limited partnerships was reenacted in R&TC Section 17935. This statute, which is effective for tax years beginning on or after January 1, 1997, provides that limited partnerships must pay the annual

tax for every taxable year until they file a certificate of cancellation with the Secretary of State.

What about the years before January 1, 1997? FTB’s position is that, for years prior to 1997, limited partnerships that did not do business in California and that filed a certificate of dissolution, but not a certificate of cancellation, were not subject to the annual tax. □

Incorporation Triggers First Tax Return Filing

The XYZ Corporation incorporated in California on February 1, 1996, elected a fiscal year that ends in March and began doing business in California on April 1, 1996. The corporation then filed a tax return for the period from April 1, 1996, to March 31, 1997. The corporation did not file a return for the period from February 1, 1996, to March 31, 1996.

What’s wrong with this picture?

Like many actual corporations, the fictitious XYZ Corporation filed a California tax return only for the period during which it was doing business in the state. However, California law says that corporations are subject to tax from the date of their incorporation, qualification or commencement to do business in California.

Also, the corporation must file its first return for a period that is not more than 12 months after the date it incorporates or qualifies in California. The first period may be disregarded only if it is half of a month or less and the corporation was not doing business in California and received no income from sources within the state.

If the XYZ Corporation were not fictitious, the Franchise Tax Board would ask it to meet its filing requirement for the period from February 1, 1996, to March 31, 1996. A number of actual corporations could be substituted for the XYZ Corporation in the example, and this

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How to Succeed in (Small) Business

October has three opportunities for anyone interested in starting or maintaining a successful small business.

During that month, small business tax days will be held in Orange County, San Diego and Van Nuys. All of the events are free.

Anyone running a small business, working for one or planning to start one will find a wealth of tax and other information at all three locations. Each event will feature speakers, seminars or classes and information booths where attendees will receive literature and experts' answers to their questions.

At each of the events, participants include the Employment Development Department, the Franchise Tax Board, the Internal Revenue Service, the State Board of Equalization and the Small Business Administration.

Mark your calendar now for events in these areas:

- **Orange County**
Friday, October 16
9 a.m. – 3:30 p.m.

Seminars at this eighth annual Small Business Tax Day will cover small business and income taxes, federal deposit rules for employment taxes, basic sales and use taxes, social security benefits, the business property statement, Small Business Administration financing options, employee versus independent contractor, Employment Development Department reporting requirements, Cal/OSHA compliance, audits and appeals. In addition to the five agencies represented at all events, the participants include Cal/OSHA, the Employer Advisory Council, the Orange County Assessor, the Orange County Treasurer-Tax Collector, the Santa Ana Enterprise Zone, the Social Security Administration and the State Compensation Insurance Fund.

The event will be held at the Titan Student Union at California State University, Fullerton. For more information, call (949) 461-5754.

- **San Diego**
Saturday, October 17
9 a.m. – 3 p.m.

George Chamberlin, host of KSDO radio's "Money in the Morning" program, will deliver the keynote address at the San Diego annual Small Business Tax Information Day. Chamberlin will discuss the small business climate in San Diego. In addition to the five state and federal agencies participating in all three events, Tax Information Day participants include local government agencies and the Fermanian Business Center. The full day of free counseling and information will take place at Point Loma Nazarene College. For more information, call (760) 744-1330, ext. 410.

- **Van Nuys**
Tuesday, October 20
9 a.m. – 3:30 p.m.

Congressman Brad Sherman, who will deliver the keynote address, will share the speakers' podium at this Small Business Fair with State Board of Equalization acting member John Chiang. Participants, in addition to the government agencies that will be represented at all three events, will be the City of Los Angeles, the Department of Industrial Relations, the Los Angeles County Assessor and the Los Angeles County District Attorney's Bad Check Enforcement Office.

The Van Nuys fair will be held at the Air Tel Plaza Hotel at 7277 Valjean Avenue. Parking, as well as admission, will be free. For more information, call (818) 901-5690.□

Incorporation

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month FTB will issue about 40,000 demands to file 1996 tax returns.

A corporation that receives a demand to file will have 30 days to file a return or prove that it has already filed a return for the period. If a corporation does not respond to the demand to file, an assessment will be issued.□

Tax Talk Seminar Ends

Due to diminishing attendance, the Tax Talk seminar will no longer be produced. In the past, the seminar was telecast to 20-plus locations each fall.

A number of Tax Talk video packages are still available. To obtain these packages while supplies last, see the article on page 9.□

FTB Calendar

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- 20 Previous month nonresident withholding payments are due if total withholding exceeded \$2,500.
- 26 Last day for postmarked California Tax Policy Conference registration, to avoid late fee.

November

- Package X order forms mailed with Tax News.
- 11-13 California Tax Policy Conference.
- 20 Previous month nonresident withholding payments are due if total withholding exceeded \$2,500.

December

- Personal income tax booklets mailed.
- 300,000 demands to file are mailed to individuals who failed to file 1997 returns.
- 20 Previous month nonresident withholding payments are due if total withholding exceeded \$2,500.□

New Tax Laws Enacted

Among the California tax laws recently enacted are:

Housing credit. For the 1998 and 1999 calendar years, this act increases from \$35 million to \$50 million the maximum aggregate housing credit dollar amount that the California Tax Credit Allocation Committee allocates annually for the low-income housing credit. (Assembly Bill 168, Torlakson - Ch. 98-09.)

Partnership/LLC return. This new law clarifies the due date for partnership and limited liability company returns as on or before the 15th day of the fourth month following the close of the entity's taxable year. The act amends Revenue and Taxation Code Sections 18633 and 18633.5, which previously stated the due date for a return as "within three months and 15 days after the close of (the entity's) taxable year." The act also clarifies that the Franchise Tax Board may suspend the powers of certain limited liability companies that fail to pay tax.

This law takes effect on January 1, 1999. (AB 1694, Ackerman - Ch. 98-80.)

"Taxpayer" definition. This act is a technical amendment to a number of codes to remove or alter language referring to "taxpayers or partnerships." It clarifies that a partnership is included within the term "taxpayer."

The law takes effect on January 1, 1999. (AB 510, Ashburn - Ch. 98-49.)□

Tax Policy Conference Upcoming

You still have time to sign up for the 1998 California Tax Policy Conference before a late fee is charged to register.

The conference will be held at the Palace Hotel in San Francisco on November 11 – 13. It attracts the country's top tax experts who debate hot issues in the tax community.

If you send your conference fee with a registration postmarked October 26 or earlier, the charge for this year's event is \$595. After October 26, the conference fee is \$645. The fee covers all workshops, general sessions, comprehensive conference material and several meals. It does not include hotel accommodations.

Workshop topics include electronic commerce, allocating expenses, legislation, the Internal Revenue Service, court developments, litigation, state

taxation of foreign income, burden of proof issues, Board of Equalization issues, tax incentives and audit issues. The State Bar of California approved the program for 13.5 continuing education credits. The program also has been submitted to the National Registry of CPE Sponsors for 13.5 hours of credit.

Conference sponsors are the California Franchise Tax Board; the Institute of Governmental Affairs, University of California, Davis; and the California Policy Seminar, a University of California program.

To register for the conference, contact the FTB <http://www.ftb.ca.gov> Internet site and click on "Education & Outreach." You also may fax (916) 845-5047 or call (916) 845-7998. For more information, see the July 1998 Tax News.□

Making Tax Forms More Likeable

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- Marking up the previous year's forms or drafting new forms to accommodate the most viable suggestions as well as new laws.
- Arranging to have the revised forms and instructions reviewed by a group of FTB staff members who check them for readability and accuracy. Specifically, the reviewers make sure that the forms work mathematically and produce the desired result; that tax code provisions are accurately and understandably explained; that grammar, spelling and sentence structure are correct; and that the forms are written so that FTB processing, audit, research and other staff members will obtain the information they need. Depending on the particular tax form, set of instructions or publication, anywhere from 50 to 100 people perform the review.
- Considering all reviewer comments and incorporating them on revised forms, instructions and publications.
- Sending the revised documents to reviewers for a second and final check.

If you or your clients have suggestions for simplifying or otherwise improving tax forms, instructions or publications, write

Gerald Goldberg, Executive Officer, Franchise Tax Board, P.O. Box 942840, Sacramento, CA 94240-0040. Or contact FTB at its <http://www.ftb.ca.gov> Internet address and select "Send Mail to the Executive Officer" on the home page.□

"Taxing Perceptions" Has New Sacramento Location

"Taxing Perceptions," a one-day seminar for tax professionals, has changed its Sacramento site.

The seminar, scheduled for October 6 and repeated on October 7 and 8 in Sacramento, will be held at Howard Johnson's at 3343 Bradshaw Road. The federal building site for additional seminars in Oakland in September is unchanged.

All "Taxing Perceptions" seminars are currently filled, and Sacramento registrants will be notified of the change of location. The seminars are presented by the Franchise Tax Board and the Internal Revenue Service.□

No ID Numbers on Individual, Business Entity Mailings

The Franchise Tax Board will not publish taxpayer identification numbers on any items mailed to individual or business entity taxpayers.

With the enactment of Senate Bill 458 (Ch. 97-685), state agencies are precluded from mailing any documents with individuals' social security numbers showing. Although the law applies only to individuals, FTB policy calls for removing identifying numbers from business entity mailing labels as well. As a result, corporation numbers and federal employer identification numbers (FEINs) will no longer appear on mailing labels.

FTB also is revising tax forms and instructions to encourage taxpayers to enter their identifying number on their tax returns so that return processing will not be delayed and taxpayer identities will not be confused.

For the 1998 tax year, the Internal Revenue Service also plans to produce mailing labels without social security numbers for the booklets for Forms 1040 and 1040A, both of which are a "U.S. Income Tax Return," and 1040EZ, "Income Tax Return for Single and Joint Filers With No Dependents." □

Need Continuing Education Credits? Listen to Some Tax Talk

If you are interested in obtaining both important information and continuing education credits, send for Tax Talk video packages.

Tax Talk offers single topic videos and four- and eight-hour video courses. Depending on your choice, you can qualify for three to eight continuing education credits.

Your Tax Talk options include:

- **Continuing Education Video Series.** The three titles in the series are "California Employment Factors," "Office-In-Home-Deductions" and "California Tax Rules for Nonresidents." Each course includes a one-hour videotape, textbook, workbook and brief, "open book" examination. Each course yields three credits and costs \$60.
- **Tax Talk '98 Home Study Course.** This four-hour video course offers a variety of tax information. It includes federal and California tax law changes made in 1997 and information about partnerships, California employment factors and the State Board of Equalization's new managed audit program. The

course includes a video, a textbook and an examination for four continuing education credits. The opportunity for continuing education credits from this course expires on October 31, 1998, so move quickly if you are interested. The course costs \$80.

- **Tax Talk '97 Home Study Course.** This eight-hour course covers partnerships, trusts, penalties and sales and use tax. It includes a video, a textbook and a test for eight credits. However, you will not be able to obtain credits for this course after October 31, 1998. The course costs \$150.

Tax Talk is a program of the Center for Tax Education, sponsored by the Internal Revenue Service, the Franchise Tax Board, the State Board of Equalization, the Employment Development Department, the California State University, Sacramento, School of Business Administration and California Community Colleges.

You may obtain an order form for all Tax Talk courses on FTB's Internet site. Access <http://www.ftb.ca.gov>, and then click "Education and Outreach." Or call (916) 845-7070. □

Schedules K-1: Five Reasons Not to File on Paper

Partnerships with lots of partners now have five good reasons to stop filing paper Schedules K-1.

Although the Franchise Tax Board accepts paper versions of the Schedule K-1 (565), "Partner's Share of Income, Deductions, Credits, etc.," it also continues to offer partnerships more and more alternatives and incentives.

The first four reasons for eliminating paper Schedules K-1 are the:

- CD-ROMS,
- Diskettes,
- Magnetic tape and
- Tape cartridges

that are available as alternatives to filing on paper.

The fifth reason is a new, free software program for editing the schedules. The TestWare program allows partnerships to edit K-1 files on diskettes before sending them to FTB. In the past, files that failed FTB's mainframe edit program were returned to partnerships for correction. Now partnerships can test files before sending them. So, the production files should be error-free when they arrive at FTB. For more information on TestWare, see the July 1998 issue of Tax News.

To obtain the free software, download it from FTB's <http://www.ftb.ca.gov> Internet address; click on "Electronic Services" and then on "Businesses - Filing/Payments." Or call the electronic filing Help Desk at (916) 845-0353 between 8 a.m. and 5 p.m. □

Limited Liability Companies Billed

In late August, the Franchise Tax Board began billing limited liability companies (LLCs) for unpaid taxes and fees.

The LLCs who are receiving the bills have failed to pay fees, filed incorrect forms or have not correctly computed taxes. The bills cover the 1994 tax year, when only 557 entities filed LLC returns, through the 1996 tax year, when the number of LLC returns grew to approximately 16,500.

Among the initial bills are Return Information Notices for LLCs that failed to compute and pay the correct LLC fee and/or nonconsenting nonresident taxes and interest. The bills also include Notices of Balance Due for LLCs that failed to pay the LLC annual tax or fee and/or nonconsenting nonresident taxes and applicable penalties and interest.

For information about the correct ways for LLCs to file and about FTB's recent billings, contact FTB at its <http://www.ftb.ca.gov> Internet site. Click on "General Tax Information" and then on "Limited Liability Companies." □

FTB to Employ New Child Support Collection Tool

This month, the Franchise Tax Board will launch a federally mandated program matching a list of child support debtors against the names on accounts at financial institutions. The data match is intended to locate debtor assets that can be used to pay past-due child support.

The program stems from the 1996 federal welfare reform law that established several new enforcement tools for collecting delinquent child support. One of the tools, the Financial Institution Data Match (FIDM), is the basis for the new FTB program.

Under the federal law, each state, cooperating with financial institutions doing business in the state, is required to develop and implement a quarterly data match program. The information gathered is to be used to collect past-due child support.

Assembly Bill 702 (Villaraigosa - Ch. 97-697) gave FTB responsibility for managing the program in California. FTB is experienced in both data matching and the automated levy processing of financial institution assets to collect delinquent child support. As authorized by law, FTB has been collecting delinquent child support for participating district attorneys since 1993.

FTB will mail FIDM Participation Booklets to financial institutions this month and initiate the first data match in January 1998.

If you or a financial institution client would like more information about the program or the enabling legislation, call the FIDM Help Desk at (916) 845-6304. □

Filing Returns Without Filing Them Out

In the future, the Franchise Tax Board will be able to offer some taxpayers the opportunity to file tax returns without filling out a single form. For a number of individuals who failed to file a 1996 tax return, the future is now.

Beginning in August, FTB will conduct a pilot project by preparing 1996 tax returns for about 400 people who have not filed them. This is an important step toward "return free" filing, an option that by 2010 would let taxpayers choose to let FTB assemble their tax information and calculate their tax liabilities.

For the pilot project, FTB will gather wage information about some nonfilers from the Employment Development Department and federal tax information about other nonfilers from the Internal Revenue Service. FTB then will transfer the information to a 1996 Form 540A, "California Resident Income Tax Return," calculate the tax liability, subtract withholding credits and send the completed return to the taxpayer who has not yet filed.

Typically, when FTB cannot locate a taxpayer's return, it sends the taxpayer a letter that is a formal legal demand to file the return. The letter asks taxpayers to file the missing return, provide proof that a return has already been filed or explain why there is no requirement to file. In the pilot project, taxpayers will have the additional option of reviewing the information on the Form 540A tax return that has been prepared for them. If the information is correct, the taxpayer signs the return and mails it to FTB. A taxpayer who does not agree with the information on the return is asked to complete a new return.

The pilot program is intended to increase compliance with tax law by providing better customer service, and the new filing option makes filing delinquent returns easier for taxpayers. □

News from the State Board of Equalization

New Ways to Verify Seller Permit Numbers

The State Board of Equalization is offering two new services to help businesses verify sellers' permit account numbers easily, quickly and after regular business hours.

Now businesses may check sellers' permit numbers either on the Internet or through an interactive voice response (IVR) telephone system. Both systems operate seven days a week, except for maintenance periods. Previously, business persons could obtain up to three numbers at one time from a customer service representative. To verify more than three numbers, they needed to submit a written request.

To verify a seller's permit account number on the Internet, businesses should

contact the Board of Equalization at <http://www.boe.ca.gov> and select the "Seller's Permit Verification" option. Or, they can call toll free to (888) 225-5263. In both cases, they will be prompted to enter the eight or nine digit seller's permit number. Both the Internet and IVR systems will indicate whether the permit is valid. For most valid permits, the systems also provide the permit holder's name and address.

Businesses need to verify that permit numbers on resale certificates are valid at the time the certificate is shown. They should not accept certificates if they know or have reason to believe that the property being purchased is not for resale. □

Tax Practitioners' Institute Coming Up

In November and December, the 1998 Tax Practitioners' Institute will offer tax practitioners the opportunity to obtain up to 24 hours of continuing professional education credits.

You can obtain the Institute's education credits from a three-day program and use them to satisfy the requirements of the California State Board of Accountancy, the California Tax Education Council and, for enrolled agents, the Internal Revenue Service.

The Institute's federal program covers compliance issues including policy and procedural updates for the current season and tax planning strategies for individual and corporate returns. The state program includes a review of changes in state income and franchise tax law and policy. It also covers state and federal law differences that affect state returns for individuals and corporations.

The Institute will offer its programs at the following times and places. For enrollment, registration fee and other information, call the telephone number listed below for the site nearest you:

November 2 - 4, Sacramento
(916) 278-7129

November 5 - 7, Fresno
(209) 278-2352

November 12 - 14, Cupertino
(408) 342-0233

November 16 - 18, Chico
(530) 898-6105

November 19 - 21, San Luis Obispo
(408) 342-0233

November 30, December 1 - 2, Oakland
(510) 885-3605

December 3 - 5, Monterey
(408) 342-0233

December 10 - 12, Arcata
(707) 826-3731

Institute sponsors are California State University, Chico, Fresno, Hayward and Sacramento; Humboldt State University; University of California, Santa Cruz; the Franchise Tax Board; and the Internal Revenue Service. □

E-File Seminars Are Free

Register now for free e-file seminars.

Get the answers to all your questions about electronic filing at any one of a series of seminars throughout California. The Franchise Tax Board and the Internal Revenue Service are co-sponsors of the seminars, which are being held this month and through December.

You can register for a seminar either by sending a fax to (916) 845-5340 or by contacting FTB at its <http://www.ftb.ca.gov> Internet site.

Seminar schedules for the Los Angeles, Southern California and Northern California IRS Districts were published in the July Tax News and also are featured on the FTB Internet site. The dates and locations for the Central IRS District are:

- September 22 – San Luis Obispo
- September 23 – Ventura
- September 29 – Salinas
- September 30 – San Jose
- November 4 – Modesto
- November 5 – Fresno
- November 17 – Bakersfield
- December 1 – San Jose. □

First E-Filing, Now E-Paying

For the 1998 tax year, the Franchise Tax Board is offering an electronic payment (e-pay) option to taxpayers who file electronic returns with balances due.

With the new option, an e-filer with a balance due may authorize FTB to debit his or her bank account on a specified date for the amount due. Your clients now can not only e-file but e-pay, eliminating the need to mail a check and form FTB 3582, "Payment Voucher for Electronically Transmitted Returns," by April 15.□

Head of Household Symposium Taking Shape

Both tax practitioners and taxpayers, responding to a query printed in Tax News and to letters, showed an interest in a head of household symposium.

Tax practitioners expressed interest in learning, among other things, how the head of household filing status relates to multiple households in the same home, individuals living with partners, dependents and divorced or legally separated individuals. In expressing interest in the symposium, taxpayers often mentioned their specific situation as their

primary interest. They listed "kids that don't work," an unmarried status, living with adult children and support for children to whom they are not related. At least one tax practitioner and one taxpayer listed "everything."

A symposium has been tentatively scheduled for December in the Sacramento area. Watch the November issue of Tax News for the symposium's date and place.□

Address Service Requested