

Time to Order Package X

It is time to order your 1998 California Package X.

The Franchise Tax Board is accepting orders now and will mail the Package X in January. All early orders will be processed immediately so the labels are ready to print as soon as the Package X is produced.

There are three versions of the 1998 Package X to choose from. The bound and loose-leaf paper versions cost \$12 plus sales tax. The best value, however, is the CD-ROM for Windows version. It costs \$19, plus sales tax

and comes with:

- 1998 California Package X forms;
- 1998 Internal Revenue Service Package X forms;
- Ten fillable forms;
- California Package X forms for the four previous years; and
- Information on electronic filing (e-file).

The CD-ROM for Windows version also has a search feature so that you can locate

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One-Stop Shopping Comes to Sacramento



This new Taxpayer Service Center, located at 3321 Power Inn Road in Sacramento, opened for business in September. The service center houses staff from the Franchise Tax Board,

State Board of Equalization, Employment Development Department and the Department of Alcoholic Beverage Control.

Tax News

Volume 98-6 November 1998

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

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:
Marvin Meek

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.

To view **TAX NEWS** on the Internet or to request an electronic mail subscription, contact FTB on the Internet:
www.ftb.ca.gov

For information about a client's account, contact:

Tax Practitioner Support Unit
(916) 845-7057 (phone)
(916) 845-6377 (fax)

For recorded answers to questions on California taxes, to order forms or check on a refund, call:

F.A.S.T. (800) 338-0505
From outside U.S. (916) 845-6600

To send a facsimile about a client's account, transmit to:

Electronic Correspondence
(916) 845-6377

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

Hearing Impaired:
TDD (800) 822-6268

FTB on the Internet
www.ftb.ca.gov

Printed on recycled paper.



FTB Hosts Head of Household Event

The Franchise Tax Board will host a Head of Household (HOH) Symposium from 9 a.m. until noon, on Wednesday, Dec. 9.

The free symposium will be held at FTB's central office facility located at 9645 Butterfield Way, Sacramento, CA., and is open to tax practitioners and taxpayers. Tax practitioners can earn two educational credits by attending the symposium.

The symposium, which will feature a HOH program overview, case studies and a panel of experts answering questions about HOH issues, came about as the result of taxpayers and tax practitioners expressing an interest in learning more about the HOH filing status. Some of the HOH situations that will be addressed include more than one family in the same home, individuals living with partners and divorced or legally separated individuals.

Those interested in attending the symposium should reserve their seat with FTB by Nov. 30. To make a reservation, call FTB at (916) 845-6899 and provide the following information:

- Full name
- Telephone number
- If you are a practitioner
- The number of seats you would like to reserve
- Your mailing address
- The name and mailing address of each person for whom you are reserving a seat
- If you would like educational credits for attending
- If you would prefer a call back to confirm your reservation

Participants can also fax the information to (916) 845-6756, e-mail it to Hoh_Sym@FTB.ca.gov or mail it to:

Franchise Tax Board
P.O. Box 1998
Rancho Cordova CA 95741-1998

FTB, BOE Offer Taxpayer Service Days

Dean Andal, Chair, State Board of Equalization (BOE), will sponsor a series of free seminars in 1999, designed to be a one-stop source of tax information for taxpayers and small business owners.

of tax subjects including employment tax, property tax, sales tax and the problem resolution process. Attendees will also be able to participate in workshops on specific tax-related topics.

Attendees will have an opportunity to receive free counseling on an assortment of tax subjects.

Each seminar will run from 9 a.m. until 3 p.m., with registration and refreshments beginning at 8:30 a.m. The following Taxpayer Service Day seminars have been confirmed:

Thursday, March 18, in Stockton at the University of Pacific.
(209) 932-2338

Wednesday, March 24, in Chico, at California State University, Chico.
(916) 227-1883

Saturday, March 27, in Sacramento at American River College.
(916) 227-1883

Thursday, April 1, in Fresno at California State University, Fresno. (209) 248-4209

Taxpayer Service Days are all-day educational conferences featuring representatives from BOE, Franchise Tax Board, Internal Revenue Service, Employment Development Department, County Assessor's Office and several other local, state and federal agencies.

Attendees will have an opportunity to receive free counseling on an assortment

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Pat Huberty

Pat Huberty Says Farewell as Tax News Editor

Readers of *Tax News* will have to look closely to note any changes in the bi-monthly publication.

So here's a tip: if you look in the masthead on page two, you will notice that *Tax News* has a new editor.

Marvin Meek debuts as editor with the November issue succeeding Patricia Huberty, who retired in September after guiding *Tax News* for six years.

Ms. Huberty drew praise from her colleagues at Franchise Tax Board for her management of *Tax News*, which included adding color to the publication, increased circulation and delivery via the Internet.

"I will miss her 'easy to work with' style," said Gerald H. Goldberg, executive officer, who frequently collaborated with Huberty on articles.

Huberty said that she saw her mission as "providing more information, which would help people do their jobs, and making it understandable."

Taxpayers' Bill of Rights Hearing Set For December

The Franchise Tax Board's annual Taxpayers' Bill of Rights hearing is scheduled for Dec. 15, 1998.

The hearing, where taxpayers may present proposals for changing existing state income tax law, is scheduled for the early part of a regular meeting of the three-member Franchise Tax Board. The meeting will be held in Room 121, 450 N Street, Sacramento, CA.

Changes proposed at the hearing should be intended to improve the clarity and understanding of tax law. FTB asks that anyone who plans to make a proposal submit a written statement before the hearing. The statement should include the proposed law change and the Revenue and Taxation Code (R&TC) sections that would be affected. Taxpayers can send their statements to the Taxpayer Advocate Bureau, P.O. Box 157, Rancho Cordova, CA 95741-0157.

The annual hearing is required by a provision of the Taxpayers' Bill of Rights, R&TC Sections 21001-21022.

The time of the hearing was not confirmed by press time. For more information about the hearing, call the Tax Practitioner Support Unit at (916) 845-7057 or visit FTB at its www.ftb.ca.gov Internet address.

Taxpayer Service Days

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To confirm your admittance to the seminar, call the telephone number provided for the location of your choice. For-up-to-date information about these and other taxpayer education opportunities, visit the BOE Web site at www.boe.ca.gov and click on Taxpayer Education. To get information about FTB's participation in the seminars, contact Alvaro Hernandez, FTB Small Business Tax Education Coordinator, at (916) 845-5257.

Taxpayer Service Center Debuts in Oakland

Add Oakland to the growing list of California cities with a Taxpayer Service Center.

The Franchise Tax Board closed its field office located on Broadway Avenue in Oakland and moved into a Taxpayer Service Center with the State Board of Equalization. The new service center allows taxpayers and tax practitioners to get a variety of tax information and assistance from both agencies at one central location.

The new Oakland Taxpayer Service Center is located at 1515 Clay Street Suite 3N-305 Oakland

Service centers have also been established in Sacramento, San Bernardino, Stockton, Bakersfield, Long Beach and Ventura.

Register For Free e-file Seminars

The Franchise Tax Board and the Internal Revenue Service are co-sponsoring free e-file seminars. You can learn about everything from how to fill out an e-file application to how to read the acknowledgement report you receive when your tax returns are accepted by an e-file system.

To register for a seminar, send a fax to (916) 845-5340 or you can register on-line by contacting FTB at its www.ftb.ca.gov Internet site.

The seminar schedule for the remainder of 1998 is:

Los Angeles

November 12 – Lawndale

November 19 – Van Nuys

Northern California

November 18 – North Highlands

November 19 – Hayward

November 30 – Redding

December 4 – Oakland

December 10 – North Highlands

December 17 – North Highlands

Central California

November 17 – Bakersfield

December 1 – San Jose

FTB Expands Direct Deposit

Tax Practitioners Can Now Offer Direct Deposit to First-time Filers

If you participate in California's e-file program, you can now offer direct deposit to more of your clients in 1999, thanks to the enhancements the Franchise Tax Board has made to its direct deposit program.

The most significant change involves taxpayers who are filing a California tax return for the first time. During the 1998 filing season, FTB offered direct deposit of refunds to taxpayers who filed their return electronically (e-file) and already had a return on file for the previous tax year. Beginning in 1999, FTB will also offer direct deposit to first-time filers who use e-file.

Taxpayers were also limited to only one FTB-issued direct deposit request to their bank account per each tax year. That will change in 1999.

If two taxpayers share a bank account, both will be able to receive their refunds by direct deposit.

"During the 1998 filing season we processed nearly 187,000 direct deposit

requests. That amounted to more than 22 percent of all e-file refunds issued by FTB and is comparable to what the participation rate is for other states offering direct deposit," said Alison Adams, lead analyst in the Electronic Document Services Unit at FTB.

Direct deposit allows taxpayers to have their tax refunds deposited directly into their bank accounts and is only available with e-file. With direct deposit, the tax refund will normally be deposited in the taxpayer's bank account within 5-7 banking days from the date FTB acknowledges receipt of the e-filed return.

In addition to filing electronically, taxpayers must also meet the following criteria in order to use direct deposit:

- The return must not contain any errors that would change the refund amount or generate a Return Information Notice from FTB.
- The refund cannot be offset for state taxes, federal taxes or other obligations.

For more information about how to join the e-file program and take advantage of direct deposit, contact the e-file Help Desk at (916) 845-0353. Help Desk hours are 8 a.m. until 5 p.m., Monday through Friday.

Change of Address? Use New Form

Form FTB 3533 Similar to Federal Address Change Form

Taxpayers who have changed their home or business mailing addresses or their business locations, may now use form FTB 3533, "Change of Address." This form is very similar to federal Form 8822, "Change of Address."

Generally, taxpayers need only complete one form FTB 3533 to change their home and business addresses. However, if the change also affects the mailing address

for their children who filed separate returns, they must complete a separate form FTB 3533 for each child.

If you are a representative filing for the taxpayer, attach a copy of your power of attorney to form FTB 3533.

Form FTB 3533 will be included in the 1998 California Package X, Tax Forms Catalogue (paper and CD-ROM format). It also will be available at FTB's www.ftb.ca.gov Internet address, or you can write to

Tax Forms Request
P.O. Box 307
Rancho Cordova, CA 95741-0307.

FTB Gives e-filers Break From Head of Household Review

In the 1999 filing season, tax practitioners will have a chance to make the head of household examination process less annoying for their clients.

As part of a pilot effort, FTB will offer taxpayers who file their returns electronically (e-file) the option of voluntarily completing a head of household questionnaire along with their California tax return. The tax returns and refunds of taxpayers who choose to complete the questionnaire will be processed just as quickly as those taxpayers who choose not to.

The pilot is designed to determine whether taxpayers can provide accurate and complete substantiation of their head of household status at the time they file their returns.

The current head of household examination process begins with taxpayers claiming the head of household status on their current year returns. Later, FTB examines the returns to determine their eligibility. FTB then mails a letter to taxpayers, requesting that they provide additional information to help verify their eligibility.

Taxpayers found to be ineligible, who fail to provide enough information or fail to respond at all receive a Notice of Proposed Assessment. That assessment could result in a change in their filing status and additional tax.

Taxpayers qualifying for the status receive a letter from FTB stating that their filing status for the current tax year will not be changed.

The pilot project will simplify the eligibility verification process for taxpayers who use e-file and claim head of household on their tax returns. Once FTB receives the tax return and questionnaire, e-file staff will process the tax return and the refund will be issued.

FTB audit staff will examine the head of household information. If the answers satisfy the head of household audit criteria, FTB will forego sending the taxpayer the head of household letter and the head of household status will be allowed at that time. Submitting the head

of household questionnaire does not guarantee that taxpayers will not be contacted by FTB about their head of household filing status. If there is missing or incomplete information, FTB will issue a routine follow-up letter.

For more information about e-file's head of household pilot program, contact the e-file Help Desk at (916) 845-0353. Help Desk hours are 8 a.m. until 5 p.m., Monday through Friday.

Interest Rates

For the period of January 1, 1999 through June 30, 1999, the interest rate on underpayments and overpayments of California income taxes will be eight percent. The following table lists interest rates since 1988.

Effective Date	Rate
1 Jan. 1988 - 31 Mar. 1988	11%
1 Apr. 1988 - 30 Sept. 1988	10%
1 Oct. 1988 - 30 June 1989	11%
1 July 1989 - 31 Dec. 1989	12%
1 Jan. 1990 - 30 June 1990	11%
1 July 1990 - 31 Dec. 1990	11%
1 Jan. 1991 - 30 June 1991	11%
1 July 1991 - 31 Dec. 1991	10%
1 Jan. 1992 - 30 June 1992	10%
1 July 1992 - 31 Dec. 1992	9%
1 Jan. 1993 - 30 June 1993	8%
1 July 1993 - 31 Dec. 1993	7%
1 Jan. 1994 - 30 June 1994	7%
1 July 1994 - 31 Dec. 1994	7%
1 Jan. 1995 - 30 June 1995	8%
1 July 1995 - 31 Dec. 1995	9%
1 Jan. 1996 - 30 June 1996	9%
1 July 1996 - 31 Dec. 1996	9%
1 Jan. 1997 - 30 June 1997	9%
1 July 1997 - 31 Dec. 1997	9%
1 Jan. 1998 - 30 June 1998	9%
1 July 1998 - 31 Dec. 1998	9%
1 Jan. 1999 - 30 June 1999	8%

FTB Calendar

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.

January

- 200,000 demands to file are mailed to individuals who failed to file 1997 returns.
 - Package X is published and distributed
 - E-file return transmissions begin
- 15 Personal income tax estimate payments are due.
- 20 Previous month nonresident withholding payments are due if total withholding exceeded \$2,500.

February

- 20 Previous month nonresident withholding payments are due if total withholding exceeded \$2,500.

Avoid Penalties, Respond to Corporate Filing Notices

Recently, FTB issued approximately 25,000 notices to corporations requesting that they file their 1996 California corporation tax return. If your client received one, it is not too late to respond to the notice and avoid the issuance of a Notice of Proposed Assessment (NPA) and its related penalties and interest.

If your client received a notice and has already filed a California corporation tax return, send a signed copy of the complete return to the address provided on the notice.

If the corporation has filed the return and it is a combined report return, be sure to include a copy of the Schedule R-7, "Election to File a Unitary Taxpayers' Group Return and List of Affiliated Corporations," with the return.

If you think your client may not have a filing requirement, complete the questionnaire included with the notice and send it to FTB. The questionnaire is designed to identify the business activity the corporation conducted in California. The sooner FTB receives your response, the sooner it can review the information and advise you about your client's filing requirements.

FTB Identifies 1997 Nonfilers

Starting in December, Individuals to Receive Notices

"Did you forget something?"

The Franchise Tax Board will be asking that question to nearly 700,000 individuals who have yet to file their 1997 personal income tax return. The extended due date for filing a 1997 income tax return was October 15, 1998.

So, if it has not been filed yet, it is late.

FTB will be sending notices to identified nonfilers beginning in December. The notice advises individuals that information reported to FTB suggests that they may be required to file a tax return, but FTB has been unable to locate one under the name and social security number listed on the notice.

If a return is not filed in response to

FTB's notice, a proposed assessment may be issued based on the available information. The assessment will include tax, penalties and interest, as well as fees to cover the cost of enforcing the individual's filing requirements.

Approximately 49 percent of the individuals contacted are self-employed. Another 37 percent contacted are wage earners. Individuals who filed a federal tax return from a California address but did not file a California return comprise 10 percent of the total. People with partnership or S Corporation income make up two percent of the individuals contacted, and another two percent are contacted because they sold real property located in California.

Forms Producers Need FTB Approval

Make Sure Your Scannable/Substitute Forms Comply

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

If they do not, delays may occur during processing. In some cases, FTB may not be able to process your clients' forms and will have to contact them directly.

All companies that produce or sell substitute or scannable California tax forms must file an agreement to comply with FTB requirements for the 1998 tax year. Form FTB 1096, "Agreement to Comply with FTB Publication 1098," states that the company agrees to follow certain rules for developing scannable and substitute forms. Merely filing form FTB 1096, however, does not mean the company's forms have been approved by FTB.

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

If you are unsure whether all your forms have been approved for the 1998 tax year, ask your tax software company to show you the letter of approval for each form before you use it. Do not accept a general statement that the forms have been approved. Instead, give the company a list of the forms you plan to use and request a copy of the letter of approval for each one.

To date, the following companies have filed forms FTB 1096 with FTB:

Able-Wagner Inc.

(714) 572-8585

Accountant Stationers & Printers

(800) 423-9717

Accountware, Inc.

(800) 772-0920

Alex Brown Realty, Inc.

(410) 727-4083

Alpine Data, Inc.

(800) 825-1040

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Forms Producers

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AM Software
(816) 741-7848

American Financial and Tax
(714) 669-1172

Arthur Andersen LLP
(941) 365-9469

Atilla M. Taluy
(805) 984-0248

ATX Forms, Inc.
(800) 944-8883

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

Brass Tax Presentations
(619) 487-2553

Bryan Cave LLP
(Telephone number not available)

CCH Incorporated (Torrance)
(310) 543-6200

CCH Incorporated (Wichita)
(316) 685-8100

CCH Incorporated Federal
and State Tax Unit
(847) 267-2472

CFS Income Tax
(805) 522-1157

Check Printers, Inc.
(904) 733-6221

CLR/Fasttax
(800) 327-8829

CLR/Fasttax
(OMEGA Group)
(972) 250-8000

Compucraft Tax Services
(800) 435-7829

Consolidated Business Systems
(800) 262-4461

Content Creators LLC
(415) 893-9915

CPASoftware
(800) 272-7123

Creative Solutions, Inc.
(734) 426-5860

Curtis Publications Inc.
(Telephone number not available)

D.A. Bailey and Sons Publishers, Inc.
(CPA Buddy)
(540) 672-2000

Data Technology Group
(617) 661-1118

Dean Witter Realty, Inc.
(212) 392-4601

Deloitte & Touche Technologies LLC
(800) 960-1639

DRAKE Enterprises LTD
(828) 524-8020

Ernst & Young LLP
(425) 990-6910

EXACTAX, Inc.
(800) 352-3638

Gear Up Tax Seminars
(916) 979-1222

Gemisys Corporation
(303) 705-6000

Golden State Tax Training Institute, Inc.
(Telephone number not available)

H & R Block
(816) 932-8495

Hambrecht & Quist
(415) 439-3000

Hayden R. Wisdom, EA
(530) 888-1040

Hogan & Hartson LLP
(202) 637-8566

HowardSoft
(619) 454-0121

Independent Preparer Services, Inc.
(818) 701-3090

Inland Society of Tax Consultants
(Telephone number not available)

Intuit, Inc.
(619) 784-4274

IRIS Systems
(800) 852-4747

Satisfy Educational Needs With Video Courses

Need continuing education credits? Prefer to study in your home or office?

The Center for Tax Education (CTE) offers three, three-credit video courses that can help satisfy your education requirements.

Course titles include "Office-In-Home Deductions," "California's Employment Factors" and "California Tax Rules for Nonresidents."

The programs are presented by CTE, a partnership of the School of Business Administration, California State University, Sacramento; the Internal Revenue Service; the Employment Development Department; the State Board of Equalization and the Franchise Tax Board.

Each course contains a one-hour videotape, textbook, workbook and a brief, open book examination for three credits. Each course costs \$60.

To order any of the courses, call (916) 845-7070, or visit FTB's CTE Web site at www.ftb.ca.gov/education/Taxtalk.htm.

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Partnerships Must File Federal Form 1065 First

The Taxpayers' Relief and Protection Act of 1997 added Sections 771 through 777 to the Internal Revenue Code (IRC), creating a simplified reporting method for large partnerships. California, however, did not conform to this provision.

As a result, large partnerships that elect to file federal Form 1065-B, "U.S. Return of Income for Electing Large Partnerships," must first complete a federal Form 1065, "U.S. Return of Income for Partnerships," in order to complete California Form 565, "Partnership Return of Income."

The IRC also requires partnerships with 100 or more partners to electronically file their federal Forms 1065 and Schedule K-1s (1065). Although California does not have a similar provision, FTB encourages partnerships to file their Schedule K-1s (565) via diskette, magnetic tape or CD-ROM. Technical information is available in FTB Publication 1062, "Guide for K-1 (565) Filing by Diskette and Magnetic Tape."

The 1998 version of Publication 1062 will be available on FTB's Web site in January. However, if you have questions or would like a copy of the 1997 Tax Year Publication 1062, visit the FTB Electronic Services Internet site at www.ftb.ca.gov or call FTB's e-file Help Desk at (916) 845-0353.

Forms Producers

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ITS, Inc.

(800) 487-8291

Jackson Hewitt Tax Service

(757) 473-3300

JCF Systems

(Telephone number not available)

KPMG Peat Marwick, LLP

(Telephone number not available)

Lacerte Software

(972) 490-8500

Les Blend Co.

(650) 917-0558

Mavricc Management Systems

(248) 614-4500

Micro Vision Software

(800) 829-7354

Microsoft Corporation

(Telephone number not available)

Nelco

(920) 337-2774

ORRTAX Software Inc.

(800) 377-3337

Owens Mortgage Investment Fund

(925) 935-3840

Petz Enterprises, Inc.

(800) 345-4337

Probate Software

(970) 330-3260

Professional Stationers Inc.

(800) 244-2159

Rock Creek Technologies

(703) 528-5400

Roseberg Escobar Services

(213) 563-0497

Short Form Software

(914) 353-7719

Spidell Publishing, Inc.

(714) 776-7850

STF Services Corporation

(800) 541-7197

Tax And Accounting Software Corporation

(800) 998-9990

Tax Form Library

(800) 466-9110

Tax Link, Inc.

(614) 457-1949

Tax Systems, Inc.

(713) 682-1791

TAXBYTE, Inc.

(800) 245-8299

Taxtor Educators

(909) 885-5017

Taxware Systems, Inc.

(800) 877-1065

Taxworks by Laser Systems

(801) 552-8800

Technology Funding, Inc.

(650) 345-2200

TFP Data Systems

(Telephone number not available)

TK Publishing, Inc.

(407) 351-0966

TMI Tax Services, Inc.

(Telephone number not available)

Top Bookkeeping Service

(818) 996-5677

Universal Tax Systems

(800) 755-9473

Visible Computer Supply

(630) 377-2586

Wallace Computer Service

(630) 377-2586

Weaver Tax Service

(408) 258-0912

William H. Downs, CPA

(818) 981-4313

WorldCom Advanced Networks Inc.

(Telephone number not available)

Xpress Software, Inc.

(800) 285-1065

It's the Law:

A Summary of Legislation Affecting FTB

Several legislative measures dealing with taxes or affecting the Franchise Tax Board were recently signed into law. Here is a summary of those measures:

Budget Trailer Act/Conformity

AB 2797 Cardoza (Ch. 98-322) made several changes to the income tax laws:

Renter's Credit. This provision amends the existing renter's credit to allow a credit amount of \$120 for married filing joint returns, heads of household and surviving spouses if adjusted gross income is \$50,000 or less, and \$60 for other individuals (single or married filing separate) if adjusted gross income is \$25,000 or less. This provision makes the renter's credit nonrefundable. This provision also requires the FTB to recompute the adjusted gross income amounts annually for inflation.

Homeowners and Renters Assistance Program. This provision adjusts for inflation, from 1977 to present and then annually from 1998, the household income amounts used to determine eligibility and the amount of assistance for claimants of the Homeowners and Renters Assistance program.

Dependent Exemption Changes. This provision increases the dependent exemption credit from \$120 to \$253 in 1998 and from \$222 to \$227 in 1999, and indexes this amount for inflation thereafter.

Joint Strike Fighter Program Credits. This provision creates a wage credit and property credit for the Joint Strike Fighter (JSF) program. These credits apply to taxpayers under initial contract or subcontract to manufacture property for ultimate use in a JSF.

Federal Conformity. Generally, these provisions conform California tax law to the Internal Revenue Code (IRC) as of January 1, 1998, unless a specific provision provides otherwise. Among other things, AB 2797 increases the deduction percentage of self-employed health insurance costs from 25 percent to 40 percent for tax year 1998 only.

The Budget Trailer Act also waives the estimated tax penalty for the 1997 or 1998 taxable or income year to the extent the underpayment was created or increased by any provision of this bill. Unless otherwise specified, this act applies to taxable and income years beginning on or after January 1, 1998.

Omnibus Tax Measure

AB 2798 Machado (Ch. 98-323), operative only if Proposition 7 is not approved by the voters, made the following changes to income tax laws:

Economic Development Areas. Under the Government Code, this provision modifies the designation period and size of enterprise zones that meet specific criteria and provides that Trade and Commerce Agency (TCA) may audit enterprise zone programs and determine a result of superior, pass, or fail and may "dedesignate," as defined, failing programs. Under the Revenue and Taxation Code, this provision (A) modifies income apportionment for most economic development area tax incentives, (B) changes the criteria in the targeted tax area hiring credit definition of "qualified employee," and (C) expands the definition of qualified property for the enterprise zone sales or use tax credit.

Research Expenses Credit. This provision revises the state alternative incremental credit by modifying the formula to 80 percent of the federal alternative incremental credit rate. Also, this provision technically corrects a reference in the state research expenses credit to a federal code section.

Employer Child Care Credits. This provision extends the sunset date of the Employer Child Care Program and the Employer Child Care Contribution credits from taxable or income years beginning before January 1, 1998, to years beginning before January 1, 2003.

Manufacturers' Investment Credit. This provision extends the Manufacturers' Investment Credit (MIC) to manufacturers of custom or prepackaged

Vague K-1 Entries Delay Form 565 Processing

Whether you are filing your California Schedule K-1s by paper or via magnetic media, make sure the number of partners you enter on Form 565, Side 2, Item "J" equals the number of Schedule K-1s you submit.

The Franchise Tax Board often receives the Form 565, "Partnership Return of Income," with a single digit number such as 3, entered on Item "J," but the number of Schedule K-1s actually associated with the return are anywhere from 30, 300 or 30,000.

Another common error entry on Item "J" is the term "various." It causes problems during return processing and could result in FTB contacting the partnership for more information.

FTB Uses New Program to Find Nonfilers

If you have clients who pay a mortgage of over \$10,000 per year, but are not filing a tax return, starting in December, they may receive a notice from the Franchise Tax Board requesting them to file.

The notice will ask that they: 1) file the required tax return, 2) send FTB a copy of the return if it has already been filed or 3) explain why they feel they are not required to file a return.

FTB's Nonfiler Program has had success using information from the federal Form 1098, "Mortgage Interest Statement," to identify taxpayers with filing requirements. Some of the nonfilers that have been identified include wage earners, self-employed individuals and owners of multiple rental properties.

There are cases where individuals pay their mortgage payments from funds that are either nontaxable or that have already been taxed. Although FTB takes steps to identify these cases, some go undetected. If this is the case with your client, respond to the notice immediately and explain the situation. Failing to respond to the notice could result in FTB issuing your client a Notice of Proposed Assessment, and that could lead to possible collection action.

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computer software (involved in activities described in Standard Industrial Classification (SIC) codes 7371 to 7373).

Self-Employed Health Insurance. This provision increases the deduction percentage of self-employed health insurance costs from 25 percent to 40 percent, operative for tax years beginning on or after January 1, 1999. AB 2797 increased the percentage to 40 percent for 1998 only.

Minimum Franchise Tax. For income years beginning on or after January 1, 1999, this provision reduces the minimum franchise tax for qualified new corporations, as defined, from \$600 to \$300 for the first income year and to \$500 for the second income year.

This act became effective immediately as an urgency statute and generally applies to taxable or income years beginning on or after January 1, 1998. The self-employed health insurance and minimum franchise tax provisions apply as of January 1, 1999. However, this act specifies that if Proposition 7 of the November 3, 1998, general election is approved by the voters, this act will be deemed to have been inoperative from the effective date of the act.

Conformity to TRA/1997 Tax Law Clean-Up

SB 519 Alpert (Ch. 98-07) conforms to several provisions of the Federal Taxpayer Relief Act (TRA) and makes technical "clean-up" corrections to various legislation passed in 1997. The changes made by this act are:

- Repeal the alternative minimum tax installment method adjustment for farmers.
- Terminate suspense accounts for family farming corporations.
- Exclude survivor benefits of public safety officers killed in the line of duty from gross income.
- Permit the use of appraisals prepared for federal disaster loss relief to establish the amount of disaster loss.

Expand the special treatment for the sale of livestock to livestock sold on account of weather-related conditions.

- Permit the abatement of interest on underpayments by taxpayers in presidentially declared disaster areas in 1997.
- Permit an extension of 90 days for filing returns, making claims, filing suit, etc. as described in Internal Revenue Code Section 7508 for taxpayers in presidentially declared disaster areas.
- Simplify the taxation of earnings of Pre-Need Funeral Trusts by permitting a single annual trust return.
- Allow individuals to rollover gain from the sale of California small business stock.
- Make modifications to the rules for Real Estate Investment Trusts (REIT), including the repeal of the 30 percent gross income test.
- Repeal the 30 percent gross income test or the "short-short rule" for Regulated Investment Companies (RICs).
- Clarify that the qualified Subchapter S subsidiary (QSSS) tax is subject to estimated tax payments.
- Clean up numerous 1997 provisions.
- Waive the estimated tax penalty for the 1997 or 1998 taxable or income year to the extent the underpayment was created or increased by any provision of this bill.

Finally, this act contains several different operative dates, as it generally conforms each provision to the federal operative date.

Partnerships in Taxpayer Definition

AB 510 Ashburn (Chapt. 98-49) amends various sections of the Personal Income Tax Law (PITL), Administration of Franchise and Income Tax Laws (AFITL) and Bank and Corporation Tax Laws (B&CTL) to remove or alter language referring to taxpayers or partnerships so it is clear that a partnership is included within the term "taxpayer." This act is effective for taxable and income years beginning on or after January 1, 1999.

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Partnerships & LLCs Return Due Date

AB 1694 Ackerman (Chapt. 98-80) clarifies the due date of the returns for partnerships and limited liability companies (LLCs) as on or before the fifteenth day of the fourth month following the close of their taxable or income year. This act also clarifies that the department may suspend any LLC not classified as a corporation for California tax purposes. This act also makes nonsubstantive technical changes. This act is effective January 1, 1999.

Economic Development Area Clean-Up

AB 2809 Assembly Rev & Tax Committee (Chapt. 98-1039) corrects a chaptering error by reinstating the December 1, 1998, sunset date of the Los Angeles Revitalization Zone (LARZ) net operating loss (NOL) as enacted by AB 18 (Stats. 1993, Ch. 18). Additionally, to prevent future chaptering problems with the various economic development area NOL provisions, this act places each economic development area NOL provision into a separate code section, rather than in a subdivision of the same code section.

The LARZ net operating loss provision applies to taxable or income years ending after December 31, 1997, to ensure that the change applies to all 1997 fiscal year taxpayers. Dividing the NOL provisions into separate code sections applies to taxable or income years beginning on or after January 1, 1998.

This act also makes the following changes to the economic development area hiring credits:

- **Credit Percentage:** Clarifies that the reemployment of seasonal employees shall not constitute commencement of employment. Instead, these employees would be considered continuously employed for purposes of the credit computation. This clarification is declarative of existing law and, thus, would apply to all taxable or income years from the effective date of the hiring credits.

- **Recapture:** Provides that the recapture rules apply to credits taken for wages paid to any seasonal employee who is not rehired in the applicable subsequent seasons. Also, defines "seasonal employment."

The act provides recapture rules for credits taken for wages paid to any seasonal employee that is not rehired in the applicable subsequent seasons applies to taxable or income years beginning on or after January 1, 1998.

FTB Tax Return Information

SB 1383 Leslie (Chapt. 98-623) amended the AFITL regarding unwarranted disclosure or use of tax information to include willful unauthorized inspection as an act punishable as a misdemeanor. The FTB would be required to notify the taxpayer of any known act described above, but only if certain criminal charges have been filed. This act is effective January 1, 1999, and applies to any action after that date.

Web Site Information Gathering

SB 1386 Leslie (Chapt. 98-623) requires that every state agency that maintains or operates an Internet website that uses any method or device to collect personal information, as defined, to prominently display the existence and purpose of such a device on an initial point of communication with the potential user. This act also makes changes regarding public libraries, which do not impact the FTB. This act is effective January 1, 1999.

Low-Income Housing

AB 168 Torlakson (Chapt. 98-09) increases the maximum aggregate housing credit dollar amount allocated annually by the California Tax Credit Allocation Committee from \$35 million to \$50 million for 1998 and 1999 calendar years. As a tax levy, this act became effective upon enactment and is operative for the 1998 and 1999 taxable and incomes years.

Farmworker Housing

SB 302 Costa (Chapt. 98-371) redefines the basis for the Farmworker Housing Credits as "eligible costs." Eligible costs include, but are not limited to, improvements to ensure compliance with laws governing access for persons with

Tax Practitioners' Institute Offers Training

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 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 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

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News From the State Board of Equalization

BOE Offers New Way to Pay Sales and Use Taxes

The State Board of Equalization (BOE) is offering a new service that allows taxpayers to pay their sales and use tax payments with credit cards.

The program uses credit cards issued by NOVUS. Here is how it works:

Taxpayers must first complete their returns or prepayment forms to determine how much tax is due.

Next, using a touch-tone telephone, the taxpayer calls 1-800-477-4141 and follows the recorded instructions. The taxpayer should have the return or prepayment form and their sellers' permit number available when they make the call. At the end of the call the taxpayer is asked to either authorize or cancel the payment transaction.

After authorizing the payment, the taxpayer will receive a confirmation number. Once the taxpayer receives a confirmation number, the taxpayer checks the box on the return or prepayment form indicating that they paid by credit card. The process is complete once the taxpayer signs and mails the completed return or prepayment form to BOE.

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disabilities and costs related to reducing utility expenses. Eligible costs do not include land and those costs financed by grants and below market financing. This act is effective January 1, 1999.

Substandard Housing

AB 80 Ducheny (Chapt. 98-646) added unoccupied or abandoned dwellings to the definition of "substandard housing" for which related deductions may be disallowed. This act became effective upon enactment and applies to taxable or income years beginning on or after January 1, 1998.

Disaster Losses

AB 2456 Sweeney, et al. (Chapt. 98-749) allows special disaster treatment of losses sustained as a result of storms or flooding or any other related casualty that occurred during February 1998 in any county in this state that was declared a disaster. This act also amends provisions of the Revenue and Taxation Code relating to property taxation, which do not impact the FTB. This special disaster treatment of losses applies to the taxable or income year of the loss, which may be 1997 or 1998, depending on whether the taxpayer is a fiscal or calendar year filer.

California D.A.R.E. Fund

AB 1733 Machado (Chapt. 98-654) extended the operation of the California Drug Abuse Resistance Education Fund (D.A.R.E.) to January 1, 2004. This act applies to taxable years beginning on or after January 1, 1999.

New Funds

AB 2366 Cedillo (Chapt. 98-818) allows taxpayers to make a voluntary contribution on their personal income tax returns to the Emergency Food Assistance Program Fund. This act also allows taxpayers to make a voluntary contribution on their 1998 personal income tax returns, filed in 1999, to the California Mexican American Veterans' Memorial Beautification and Enhancement Account. This act applies to taxable years beginning on or after January 1, 1998, and will be repealed on January 1, 2004.

California Public School Library

SB 1389 Craven (Chapt. 98-504) extended the operation of the California Public School Library Protection Fund to January 1, 2004. This act is effective January 1, 1999, and first applies to the 1998 tax returns.

Incentive Zones

AB 3 Baca (Chapt. 98-1012) allows Trade and Commerce Agency (TCA) to designate three additional Local Agency Military Base Recovery Areas (LAMBRA) anywhere in this state. This act also deletes the requirement that TCA designate the LAMBRA no later than one year from the effective date of its LAMBRA regulations and would provide for specified loan priorities and contract preference points to businesses located, or contracts performed, in a LAMBRA. The last two provisions mentioned above do not impact the FTB.

Under the Revenue and Taxation Code, this act deleted the January 1, 2003, sunset date from the LAMBRA tax incentives and, instead, tie the qualified use of the incentives to the designation period of the LAMBRA, thereby making the LAMBRA tax incentives more like the enterprise zone tax incentives and ensuring that the incentives do not expire before the designation; changed the hiring credit definition of "qualified disadvantaged individual" and increased the amount of the allowable business expense deduction to the same amount as that allowed for the enterprise zone business expense deduction. This act applies to taxable or income years beginning on or after January 1, 1999.

Definition of LLP

AB 469 Cardoza (Chapt. 98-504) added limited liability partnership (LLP) to the definition of "person" in the Business and Professions Code pertaining to architects. This act included, but only until January 1, 2002, "the practice of architecture" in the definition of "professional limited liability partnership services" in the Corporations Code. This act also required registered or foreign LLPs to provide security for certain claims against them. This act is effective January 1, 1999.

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BOE Taxpayers' Bill of Rights

AB 821 Takasugi (Chapt. 98-612) provides, under the Government Code, that payments, applications, tax returns or claims for credit or refund sent through a "bona fide commercial delivery service" would be deemed as timely made or filed if sent before the specified due date. This act also expanded taxpayers' rights with respect to state taxes administered by the BOE.

Child Support

AB 1396 Alquist (Chapt. 98-899) specifies all written contracts in excess of \$100,000 entered into by state agencies, including the FTB, would be required to contain an acknowledgment by the contractor (vendor) that to the best of its knowledge, it is complying with the earnings assignment orders of all employees and is providing the names of all new employees to the New Hire Registry maintained by the Employment Development Department (EDD). This act is effective and operative on January 1, 1999.

Education Loans

AB 1613 Scott, et al. (Chapt. 98-792) conforms California law to the federal deduction for interest on certain education loans and to the modifications and clarifications of the rules relating to qualified state tuition programs contained in the federal 1997 Taxpayer Relief Act (Public Law 105-34). This act as a tax levy is immediately effective and operative for taxable years beginning on or after January 1, 1998.

Internet Taxation

AB 1614 Lempert (Chapt. 98-351) enacted the "California Internet Tax Freedom Act," prohibiting, with specified exceptions, any city, county or city and county from imposing, assessing or attempting to collect taxes relating to Internet access and Online Computer Services. This act also makes changes to the Sales and Use Tax Law, which is not administered by the FTB. This act is effective January 1, 1999. This act specifies that the California Internet Tax Freedom Act would become inoperative three years from the effective date of this act.

Electronic Recordation Task Force

AB 1906 Brewer (Chapt. 98-463) provided that the California Attorney General shall appoint an Electronic Recordation Task Force consisting of voluntary representatives from governmental agencies and industry groups. Also, this act provided that notices of federal tax liens may be filed, recorded and indexed by electronic or magnetic means. This act also contains provisions regarding the recording of information in San Bernardino County and Orange County. These provisions do not impact the FTB. This act is effective January 1, 1999.

Suspended Corporations

AB 1950 Torlakson (Chapt. 98-856), among other things, precludes an insurer of a suspended corporation from being prosecuted by the FTB in a misdemeanor action if it defends an insured suspended corporation client in a civil action relating to the insurer's responsibilities to defend and indemnify the insured. This act is effective January 1, 1999.

Ethics Training

AB 2179 Legislative Ethics Committee (Chapt. 98-364) requires that each state agency offer an orientation course on the relevant ethics statutes and regulations that govern the official conduct of state officials. This act also requires that certain agency members, officers and employees attend the orientation course as specified. This act is effective January 1, 1999.

Scholarshare Trust

AB 2812 Higher Ed Committee (Chapt. 98-954) made numerous technical changes to the Golden State Scholarshare Trust Act. This bill provides for an appropriation and, therefore, would be effective upon enactment.

Public Records

SB 143 Kopp (Chapt. 98-620) made changes to the California Public Records Act including providing for public inspection and copying of public records within specified time periods. This act provides that an agency withholding disclosure of a record shall provide the reason in writing. This act is effective January 1, 1999.

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News From the State Board of Equalization

Credit Cards

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To take advantage of the new service, taxpayers must meet the following conditions:

- Taxpayers may use only credit cards issued by NOVUS.
- Taxpayers may use only their credit card to pay taxes that are due with their sales and use tax return, including prepayment forms.
- Taxpayers may not use their credit cards for liabilities for which they have been billed by the BOE.

In addition, taxpayers may not use their credit cards to make payment if they are required to pay by electronic fund transfer.

NOVUS will charge card users a fee of \$4 to \$18 per transaction, depending on the amount charged.

For more information about BOE's new credit card program, call the BOE Information Center at 1-800-400-7115. Representatives are available Monday through Friday, 8 a.m. to 5 p.m., except on state holidays. Or visit the BOE Web site at www.boe.ca.gov.

The Franchise Tax Board anticipates the start-up of a credit card pilot program for individuals who receive bills from FTB. Visit the FTB website at www.ftb.ca.gov after Nov. 15 for more information.

Add Sales Tax When Purchasing Package X

California residents ordering Package X must add sales tax to their total based on their county of residence.

Remember: Do not add sales tax to your Tax News amount. Here are the sales tax rates for California's counties:

Nevada, Solano, Stanislaus Counties

7.375%

Sonoma

7.5%

Fresno, Imperial, Inyo, Madera, Napa, Orange, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Joaquin, Santa Barbara

7.75%

Santa Cruz

8.0%

Alameda, Contra Costa, Los Angeles, Santa Clara, San Mateo

8.25%

San Francisco

8.5%

All Other Counties

7.25%

Package X

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references to special words or terms in both the tax forms and instructions. And in March, you will receive a second disk with updated forms. You should be able to use the CD-ROM if you have:

- A 486DX or Pentium computer with a processor speed of 33 megahertz or faster.
- Microsoft Windows 3.1 or later with a mouse.
- Four megabytes of RAM (main memory).
- Double speed or greater CD-ROM drive capable of reading ISO 9660 format.
- VGA, SVGA or higher resolution color video display/adaptor.
- PostScript Windows-compatible printer or Hewlett-Packard LaserJet III and above with one megabyte of user RAM.

To place your order for a Package X, use the 1998 Tax News/Package X order form on the back page of this issue. (You can also use the form to renew your subscription to Tax News.)

Here are some tips for completing the order form:

- Use the 1998 order form provided. Do not use a form from a previous year. Even if you cross out the year and write in "1998," you are using an out-of-date order form and your order may be delayed.
- Make any necessary corrections to the name and mailing address that are printed on the form.
- Provide your telephone number.
- Add the amounts for the Package X and the Tax News orders, and apply the appropriate amount of sales tax to the Package X order based on the county of your residence. (Refer to the sales tax table provided on this page.) Remember: Do not apply sales tax to the Tax News order amount.
- Be sure to enclose your check or money order, payable to the Franchise Tax Board. Orders without payments are not processed. Do not send cash.

- Mail the order form and your check or money order to:

Tax News/Package X
P.O. Box 2708,
Rancho Cordova, CA
95741-2708.

Tax News is also available by e-mail at no charge and it can be viewed on FTB's Web site at www.ftb.ca.gov. For more information about Package X or Tax News, call (916) 845-7070.

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Holocaust Victims. SB 1397 Brulte/Lockyer (Chapt. 98-962) excludes from gross income any amounts received by a Holocaust victim or the heir or beneficiary of a Holocaust victim from a settlement of claims against any entity or individual for any recovered asset held at the close of World War II. Under the Welfare and Institutions Code, this act, for purposes of determining eligibility for public benefits and Medi-Cal benefits, exempts certain amounts received by Holocaust victims. The Welfare and Institutions Code provisions would not affect the FTB. This act takes effect and is operative January 1, 1999.

Limited Partnerships. SB 1741 Alpert (Chapt. 98-417) requires the FTB to notify limited partnerships (LPs) when they file a final return that the LP tax is due annually until a certificate of cancellation is filed with the Secretary of State. This act is effective January 1, 1999.

Service Contracts. SB 2075 Polanco (Chapt. 98-1075) provides that beginning on or after January 1, 2000, the Insurance Code does not apply to service contracts offered by regulated utility companies, thus making taxpayers offering these contracts liable for income or franchise tax, rather than the gross premiums tax. This act makes various changes to the Business and Professions Code and the Insurance Code. Those provisions would not affect the FTB. As an appropriation measure, this act is effective when signed by the Governor, but specifies that the provisions are operative on January 1, 2000, and are repealed on January 1, 2004.