



# Tax News

February 2018

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## What's new for filing 2017 tax returns

### Standard deductions

- Single, or married/RDP filing separate – Increased from \$4,129 to \$4,236.
- Married/RDP filing joint, qualified widower, or head of household – Increased from \$5,258 to \$8,472.

### Personal exemptions

- Single, married/RDP filing separate, or head of household – Increased from \$111 to \$114.
- Married/RDP filing joint or qualified widower – Increased from \$222 to \$228.

### Dependent exemptions

Increased from \$344 to \$353.

**Voluntary contributions** – Taxpayers may contribute to the following five new funds:

- California YMCA Youth and Government Voluntary Tax Contribution Fund
- Habitat for Humanity Voluntary Tax Contribution Fund
- California Senior Citizen Advocacy Voluntary Tax Contribution Fund
- Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund
- Rape Backlog Kit Voluntary Tax Contribution Fund

**Wrongful incarceration exclusion** – California law conforms to federal law excluding from gross income certain amounts received by wrongfully incarcerated individuals for taxable years beginning before, on, or after January 1, 2018. If you included income for wrongful incarceration in a prior taxable year on your California personal income tax return, you can file an amended California personal income tax return for that year. If the normal statute of limitations has expired for that year, you must file a claim for refund for state income taxes paid on that income before January 1, 2019.

**College Access Tax Credit** – For taxable years beginning on or after January 1, 2017, and before January 1, 2023, the College Access Tax Credit (CATC) is available to taxpayers awarded the credit from the California Educational Facilities Authority (CEFA). The credit is 50 percent of the amount contributed by the taxpayer for the taxable year to the College Access Tax Credit Fund.

The amount of the credit is allocated and certified by the CEFA. For more information go to the CEFA website at [treasurer.ca.gov](http://treasurer.ca.gov) and search for **catc**.

**Schedule X, California Explanation of Amended Return Changes** – For taxable years beginning on or after January 1, 2017, Schedule X has replaced Form 540X, Amended Individual Income Tax Return.

**Improper withholding on severance paid to veterans** – The Combat-Injured Veterans Tax Fairness Act of 2016 gives veterans who retired from the Armed Forces for medical reasons additional time to claim a refund if they had taxes improperly withheld from their severance pay. If you filed an amended return with the IRS on this issue, you have two years to file your amended California return.

**California Earned Income Tax Credit (EITC)** – For taxable years beginning on or after January 1, 2017, California conforms to the federal definition of earned income to include net earnings from self-employment. Earned income thresholds have also increased. Your client may now qualify for the refundable EITC if they have earned income of less than \$22,323. Additional information can be found on form FTB 3514, California Earned Income Tax Credit.

**Extension due date** – For taxable years beginning on or after January 1, 2017, the extension period for a partnership and limited liability company (LLC) taxed as a partnership to file its tax return has changed from six months to seven months.

**Federal Form 8975 and Schedule A (8975) filing requirement** – California taxpayers whose taxable year begins on or after June 30, 2016, and who are required to file the federal forms listed below with the IRS, must also attach copies of these forms to the California tax return:

- Federal Form 8975, Country-by-Country Report
- Federal Schedule A (8975), Tax Jurisdiction and Constituent Entity Information.

For additional information, refer to the Instructions for Form 8975, Revenue Procedure 2017-23, 2017-7 Internal Revenue Bulletin 915.

**Principal Business Activity (PBA) Codes** – The PBA Codes have been updated and revised to reflect updates to the North American Industry Classification System (NAICS). The updated PBA codes can be found in any one of the business entity tax booklets.

**New Donated Fresh Fruits or Vegetables Credit** – For taxable years beginning on or after January 1, 2017, and before January 1, 2022, qualified taxpayers may claim the new Donated Fresh Fruits or Vegetables Credit. This tax credit is for donations of fresh fruits or vegetables made to California food banks. The amount of the tax credit is 15 percent of the qualified value of the donated item, based on weighted average wholesale price. The credit may be claimed only on a timely-filed original return. However, any credit not used in the taxable year may be carried forward for up to seven years. For more information, get form FTB 3814, New Donated Fresh Fruits or Vegetables Credit.

**Paperless Schedule K-1** – Effective January 1, 2018, we discontinued the Paperless Schedules K-1 (565 and 568) program due to the increasing participation of our business e-file program. For more information regarding the California business e-file program, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **business efile**.

**Veterans' organizations** – Effective January 1, 2018, veterans' organizations that are federally tax-exempt under Internal Revenue Code (IRC) Section 501(c)(19) may submit a copy of their IRS tax-exempt determination letter to us to establish their state income tax exemption. Veterans' organizations that are not issued a federal determination letter can still file for an application to obtain a California tax-exempt status.

## Advantages of the new Schedule X

In the January 2018 Tax News we announced the introduction of the new Schedule X, California Explanation of Amended Return Changes, which replaces Form 540X, Amended Individual Income Tax Return, for tax years 2017 or later.

One significant advantage with the new Schedule X is taxpayers and tax professionals are now able to e-file 2017 individual amended returns if the tax software used to prepare the return supports it. We received a number of requests for a list of tax software providers who support this e-file enhancement in their products.

As of January 2, 2018, the following software vendors support individual amended return e-file capability:

- Advanced Tax Solutions

- Drake Software
- Jackson Hewitt
- Petz Enterprises
- TaxAct
- Taxslayer
- Thomson Reuters
- Universal Tax System-ATX

Over the last year, we greatly improved the processing timeframes for individual amended returns. These gains were based on process improvements inherent with the Return Analysis applications as well as a significant cross-training effort to support quicker processing. We expect that the improvements resulting from implementation of Schedule X will allow us to maintain, and potentially further improve, the processing improvements we've made in the last year.

Finally, the Schedule X enables the taxpayer to apply a refund due to their 2018 estimated tax. For details on how to apply a 2017 refund to 2018 estimated tax, please see amended return instructions in the Form 540 or Form 540 NR booklet or the Schedule X instructions. We will also be exploring ways to enhance the Schedule X to allow estimated tax transfers to tax years after 2018.

## Tax deduction - Charitable contributions

**Did your client give a gift or make a contribution in 2017 to a qualified charitable organization?**

If they did, they may qualify for an income tax deduction.

Charitable contributions are deductible only if your client itemizes deductions on their federal Schedule A (Form 1040), Itemized Deductions, and has the proper documentation to support the deduction. Deductions for most charitable contributions are generally limited to 50 percent of your client's federal adjusted gross income (AGI), but in some cases limitations of 30 percent and 20 percent of federal AGI may apply. Also, the general rule is that payments to individuals are not deductible

A couple items to keep in mind:

### **Deduction limitation**

If your client received a benefit as a result of making a contribution to a qualified organization, the deduction is limited to the amount of the contribution exceeding the value of the benefit received. This frequently arises when a contribution entitles the donor to merchandise, goods, or services, including admission to a charity ball, banquet, theatrical performance, or sporting event.

**Example:** If your client buys a ticket to a charity dinner for \$100, and the dinner itself is valued at \$35, the donation will be limited \$65 – the amount that exceeds the fair market value of the benefit received.

### **Remember to have proper documentation**

Your clients must keep adequate records to prove the amount claimed. Contributions of \$250 or more to any single charity require written acknowledgment of the contribution by the charity (beneficiary) before claiming a charitable contribution. Written acknowledgement from the charity is required and must be obtained from the charity on or before the earlier of the date when the tax return is filed or the due date of the tax return (including extensions). The written acknowledgement must contain:

1. Charity name.
2. Amount of cash contribution.
3. Description (but not the value) of any noncash contribution(s).
4. Statement that the charity did not provide goods or services in return for the contribution, if that were the case.
5. Description and good faith estimate of the value of the goods or services, if any, that the charity provided in return for the contribution.
6. Statement that goods or services, if any, that the charity provided in return for the contribution consisted entirely of intangible religious benefits.

### **Noncash contributions**

Noncash contributions over \$500 require [IRS Form 8283, Noncash Charitable Contributions](#), to be completed and filed with the tax return for the year of the donation. If your client is claiming a deduction for a contribution of noncash property:

- Greater than \$5,000, then a qualified appraisal of the noncash property is needed. However, it does not have to be included with the tax return.

- Worth more than \$500,000, then a signed qualified appraisal must be included with the tax return for the donation year.

For additional information on charitable contributions and the documents needed to substantiate deductions, see IRS Publication 526, [Charitable Contributions](#). Also see IRS Publication 1771, [Charitable Contributions Substantiation and Disclosure Requirements](#).

To find out if an organization qualifies as a charitable organization for income tax deductions, use IRS' online search tool EO Select Check.

### Reminder: We have new Power of Attorney (POA) Declarations forms

As of January 2, 2018, we only process the following POA Declaration forms:

- FTB 3520 PIT – Individual or Fiduciary Power of Attorney Declaration
- FTB 3520 BE – Business Entity or Group Nonresident Power of Attorney Declaration
- FTB 3520 RVK – Power of Attorney Declaration Revocation

All other POA declaration forms, including previous versions of FTB 3520 and IRS forms, will not be processed. The only exception is military durable POA Declarations. General/durable declarations submitted with a completed FTB 3520 PIT will be processed.

We also now have the new Tax Information Authorization relationship if you only need limited tax information for your client.

For more information, see our **December 2017 Tax News**, New Power of Attorney and Tax Information Authorization Forms will be released on December 13, 2017 **and our August 2017 Tax News**, New Forms Coming January 1, 2018 – Power of Attorney and Tax Information Authorization.

## Small Business Tax Seminars 2018

[The California Department of Tax and Fee Administration](#) (CDTFA) sponsors Small Business Tax Seminars that are held throughout the state. These half-day seminars will bring together representatives and experts from some of California's state agencies, such as CDTFA, Employment Development Department, and us. From the federal side, a representative from the IRS and the Small Business Administration (SBA) usually attends as well. Current and prospective small business owners and tax professionals can learn about compliance issues, filing requirements, changes in tax laws, and get their questions answered. Presentations may include avoiding common sales and use tax problems, employee versus independent contractor, common forms of business ownership, better business through keeping better records, and more.

These events provide resources, information, and contacts that can help small businesses prosper and succeed and avoid many common pitfalls or mistakes. These seminars are free to attend and are an important part of California's education and outreach efforts.

It's easy to register and find a small business seminar at a location near you! For a list of upcoming events, visit [Upcoming Events](#) on the CDTFA website. Here you can find a seminar that interests you, important information about the event, and then conveniently register online for it. There is also a [CDTFA Events Calendar](#) which includes all scheduled events with the same information and ability to register. Take advantage of this great resource and register for a small business seminar today.

## California Tax Education Council targets ghost tax preparers

The California Tax Education Council (CTEC) will expand its 2018 public awareness campaign to target tax preparers who do not sign tax returns, also known as ghost tax preparers.

CTEC and our Public Affairs Office will work together during the 2018 tax filing season to warn California taxpayers about ghost tax preparers through media relations and social media.

All CTEC public awareness efforts will focus on driving traffic to its microsite [ReportTaxPreparerFraud.org](#). The microsite will educate taxpayers about ghost tax preparers in English, Spanish, and Mandarin. Through the microsite, CTEC can track the percentage of



taxpayers who take action after seeing a CTEC advertisement, social media post, or media report.

We have also discussed expanding CTEC enforcement to include pursuing ghost tax preparers with CTEC.

### **Side box: What is a microsite?**

A microsite is a separate website commonly developed by an organization or company that wants to measure the effectiveness of a specific campaign. It usually takes more creative leaps in design, is focused on one message and has a different website address.

### [Wildfire, flood, and mudslide victims receive more time to file and pay](#)

We automatically follow federal postponement periods for any presidentially-declared disasters.

The **affected taxpayers** impacted by Southern California wildfires, floods, and mudslides that began in December 2017 are granted an extension to file 2017 California tax returns and make payments until April 30, 2018.

The [IRS granted relief](#) to individuals and businesses in four counties: Los Angeles, San Diego, Santa Barbara, and Ventura. This applies to various tax filing and payment deadlines that occurred starting on December 4, 2017, including:

- Individual income tax returns normally due on April 17, 2018.
- Quarterly estimated tax payments due January 16, 2018.

We will also follow these extended dates and will cancel interest and any late filing or late payment penalties that would otherwise apply.

Disaster loss rules apply to victims in Governor-declared or presidentially-declared disaster areas. Your clients may claim a disaster loss in one of two ways: In the tax year that the disaster occurred, when filing a 2017 tax return this spring; or in the tax year before the disaster

occurred by filing either an amended or original 2016 tax return. We can more quickly issue a refund for eligible claimed losses in the prior tax year.

For a complete list of all disasters declared by the Governor, see the “Qualified Disasters” chart on our Disaster Loss webpage. Additional information and instructions are available in FTB Pub. 1034, Disaster Loss - How to Claim a State Tax Deduction.

For your clients claiming the disaster loss, you should **write the name of the disaster in red ink at the top of the tax return** to alert us to expedite the refund. If you are e-filing, follow the software instructions to enter disaster information.

Additional business tax relief for wildfire victims is available through the [California Department of Tax and Fee Administration](#).

## Recent IRS directive for the California Research Credit

On September 11, 2017, the IRS issued Directive Accounting Standards Codification (ASC) 730, relating to research expenditures, and you may be wondering what this directive means for the California research credit.

### What the IRS directive does

This directive allows certain taxpayers a “safe harbor” with respect to the examination of Qualified Research Expenditures (QREs) included in a federal research credit computation. The “safe harbor” is based on a reconciliation of research expenses reported or footnoted for financial statement reporting and following ASC 730. The directive applies to original tax returns (including extensions) filed after September 11, 2017. A full text of the [directive](#) can be found on the IRS website.

### Who is eligible

The directive applies to taxpayers subject to examination by the IRS Large Business and International (LB&I) group that meet both of these requirements:

- Have assets equal to or in excess of \$10 million, and

- Follow Generally Accepted Accounting Principles (GAAP) to prepare their certified financial statements and show a separate line item or state the amount of expenses ASC 730 research costs.

### **How California will apply the directive**

For taxpayers that meet the above requirements and file a California tax return, we will follow the IRS directive and guidelines. We will use GAAP expenditures for the calculation of the California Research Tax Credit. During a California research credit audit, taxpayers following the ASC 730 Directive must provide the following information:

- A copy of the completed and signed Certificate Statement filed with the IRS.
- All ASC 730 financial statement in-house research and development (R&D) expenses performed outside of California.

Additionally, taxpayers following the IRS directive must make the following adjustment to the federal "safe harbor" when computing the California credit:

- From the computations of Adjusted ASC 730 Financial Statement R&D, subtract all in-house and contract expenses performed outside of California.

We may also request other relevant documentation to support the credit. Some examples include, but are not limited to:

- Documentation for any expenses included in the credit in excess of the "safe harbor."
- Information necessary for the computation of the California Credit.

For additional information, see our web page for California Research Credit.

## Ask the Advocate

2017 tax season is underway



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[twitter.com/FTBAdvocate](https://twitter.com/FTBAdvocate)

Our profession has a busy season, and for most of you, it is already well underway! I hope the filing season is off to a smooth start for you and that your clients are able to focus on getting you the information you need to prepare their 2017 tax returns instead of thinking too much about the changes that are coming for 2018.

We have already had many questions about what to expect for 2018. While there are significant federal changes coming for 2018, we don't know yet what will change (or not) for California. But I am confident that whatever changes do come, FTB will be ready for them and will make every effort to ensure a smooth filing season for you next year. With that being said though, it's important that we don't overlook this year's filing season. This month, I'd like to mention a few things that you can do to help ensure things go smoothly this year for

you and your clients.

1. One simple but often overlooked step you can take is to make sure we have current and correct contact information for your clients. Consider checking this when you file their tax returns. This will help us reach your clients as soon as possible if we have a question about their return or need additional information to process their refund. Having a correct address can also avoid unnecessary notices and billing that may result when an incorrect filing address is used. I am amazed at the volume of returned mail due to an incorrect or non-current address having been used to file a return.
2. Another one of the things we frequently recommend is signing up for a Tax Professional MyFTB account and adding your clients to your client list. While our traditional service channels will still be available to you, there are many benefits to interacting with us through MyFTB.

To help you learn more about MyFTB, each month in Tax News we have a MyFTB Corner with helpful tips, along with information about upcoming changes and enhancements to MyFTB.

I know that moving to an online environment after many years (and in some cases, decades) of doing business over the phone and by traditional mail can be daunting, but I

am hopeful that you will consider trying this if you aren't already a MyFTB user. I have heard from many tax professionals who have finally started using MyFTB that they are happy with the overall experience.

3. If you still prefer to contact us using the traditional channels, I have some good news for you. Our contact centers are already on extended hours. Our Practitioner Hotline is now open from 8 AM – 5 PM, but will extend hours one hour earlier in the morning and one hour later in the evening March 5 thru March 15 – 7:00 AM thru 6:00 PM and April 2 thru April 17 – 7:00 AM thru 6:00 PM. Additionally, if you are wondering when it is the best time to reach us and how long your wait might be, our Know Your Wait Times webpage gives you this information and is now updated on a near real-time basis. If you're a MyFTB user, Secure Chat is also available to you to assist you in dealing with your clients' matters.

While I don't have a crystal ball to tell you what is coming for the next filing season, I am optimistic this year's filing season will go well for everyone and I hope this is especially true for you.

## MyFTB Corner

### Webinar: MyFTB updates

Maximize the use of your MyFTB account by watching the free Webinar: MyFTB Updates.

We made a lot of improvements to MyFTB in January. Here are just a few of the new features covered in the webinar:

- New Tax Professional home page
- Updates to the Client List
- Updates to the Power of Attorney "wizard"
- New Power of Attorney and Tax Information Authorization details pages
- How to create and use your Associates List for Power of Attorney declarations
- Resources
- And more!

Understand the changes so you can use MyFTB for all your clients at your convenience, 24/7.

## MyFTB Corner

Save time, register as a tax professional in MyFTB

You can save time by using a **MyFTB Tax Professional account** to view your client's information online. With a MyFTB account, you can:

### View information

- Prefiling information such as wages, withholding, estimated payments and credits
- FTB issued notices and correspondence
- Accounting information and return history information
- Returns\*
- And more!

### Take actions

- Chat with us
- Send us a message
- Protest a notice\*
- Submit Power of Attorney (POA) Declarations
- Add Tax Information Authorization (TIA) clients
- Manage POA and TIA relationships
- And more!

**\*Available to Power of Attorney representatives only**

Take the time to set up your account now! After you register, we will send you a PIN by U.S. mail to complete the sign-up process and activate your account. For details on how to register, see *How to register for a MyFTB Account*.

## MyFTB Corner

Renew your clients in MyFTB for uninterrupted access

Need continued access to your Tax Information Authorization (TIA) clients' information? You can renew access through your **MyFTB Tax Professional account**.

1. Select the **Renew** link next to your client's name.
2. **Confirm** you are authorized to continue to access your client's account.
3. **Submit** by selecting **OK**.

You can renew your TIA relationship if your request is made *more* than 10 business days *prior* to the expiration date. We will send a letter to your client notifying them that you have requested continued access to their account information.

Access to a TIA client's information expires 13 months from either the:

1. Date you added the TIA client on MyFTB, or
2. Signature date on FTB 3534 (Tax Information Authorization) if mailed to us.

If a TIA client relationship expires, you will need to re-add your client to MyFTB or mail a new FTB 3534 to us.

**You must have your client's permission to renew access to their account.**

For additional information on renewing in MyFTB, see [How to Renew a Tax Information Authorization \(TIA\) Client](#). Don't have a MyFTB Tax Professional account? Sign up for one today! See [How to Register for a MyFTB Account](#).

## MyFTB Corner

Upload FTB 3520 PIT or FTB 3520 BE when submitting a Power of Attorney (POA) Declaration using MyFTB

Be sure to upload the **new** POA Declaration forms, FTB 3520 PIT or FTB 3520 BE, when submitting POA Declarations in MyFTB.

**You must upload only FTB 3520 PIT or FTB 3520 BE. All other forms will be rejected during processing.**

We've made improvements for submitting POA Declarations in MyFTB:

- The POA wizard now aligns with the new FTB 3520 PIT and FTB 3520 BE forms to make it easier to complete.

- You can create an **Associates List**, which is a list of representatives you can add or update to POA relationships in the future, so you don't need to rekey their information.
- You can view the status of your POA Declarations in MyFTB. From your **Client List**, select **View POA** for your client.

For more information, see How to Submit a FTB form 3520 PIT or 3520 BE Power of Attorney Declaration. For Information on **Associates List**, see our **January 2018 Tax News** article, Create Your Associates List to Submit a POA on MyFTB.

## All About Business

### Market-based sourcing discussions continue

November 1 through 3, 2017, we participated in a market-based sourcing rules panel at the California Tax Policy Conference held in Carlsbad, California. The panel discussed the most recent Chief Counsel Rulings and proposed amendments to California Code of Regulations, Title 18, Section 25136-2. Specifically, the panel discussed assignment of asset management fees, government contracts, freight forwarding/brokering, and research and development contracts, along with the rules for invoking reasonable approximation as a method for sourcing sales from sales of other than tangible personal property.

Currently, we are reviewing proposed language for all proposed amendments. Prior to the next Interested Parties Meeting, draft language for all proposed amendments and staff's 50 state analyses will be published on our website.

The next Interested Parties Meeting will be held sometime this spring.

## Event Calendar

As part of education and outreach to our tax professional community, we participate in many different presentations and fairs. We now provide a calendar that shows the events we attend, as well as other events happening with us, such as interested party and board meetings.