



# Tax News

January 2016

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## Ready, set, go live! Our enhanced MyFTB online service is now available

We realize the launch of our enhanced MyFTB online service may not be as exciting as the latest technology gadget on the market, but we are pretty proud of what this self-service tool has to offer you.

MyFTB was designed to help you, taxpayers, businesses representatives, and tax preparers, get the information you need when you need it.

You can view account information, communicate with us, and use new self-service tools. Check out these short videos for more information.

- For Individuals and Business Representatives
- For Tax Preparers

The enhanced MyFTB is a major technology release that includes many new features, services, and information. We ask for your patience and support with the launch of the enhanced MyFTB by notifying us if you experience technical difficulties and need help with your client's account. Please call the Practitioner Hotline at 916.845.7057 or use Secure Chat within MyFTB.

Also, your feedback about our new services is important to us. To share your non-client specific feedback you can email us at [myftbfeedback@ftb.ca.gov](mailto:myftbfeedback@ftb.ca.gov). **(We will not respond to your feedback.)**

Previous Tax News articles that highlight MyFTB online self-service options are:

- Changes Coming for Power of Attorney (POA)
- Tax Preparer Tour of MyFTB
- New Registration for MyFTB
- MyFTB Brings More Online Enhancements for the Tax Preparer with an active Power of Attorney (POA) Declaration
- The New MyFTB Coming Soon
- EDR will Release MyFTB

For information on MyFTB or to register today, go to [ftb.ca.gov](http://ftb.ca.gov), find **myftb**, and select **Learn more**.

## Client list in MyFTB

In the enhanced MyFTB, tax professionals can register as a Tax Preparer and access your client's account online.

You can do this directly from the **Client List** page, a list that displays names of your clients and the accounts you can access in MyFTB. After completing registration, you should confirm your **Client List**. Below is additional information about establishing your **Client List**:

### Tax preparer without a power of attorney

- You will need to separately add each client to your **Client List** – See the How to Add Clients.
- On the **Client List** page, the Tax Preparer role displays under **Access Type**.
- Tax Preparer Clients will automatically be removed from the **Client List** after 13 months.

### Taxpayer preparer with a Power of Attorney

Power of attorney (POA) representatives who are registered in MyFTB will receive additional features; see [Changes Coming for Power of Attorneys on January 4, 2016](#) in the November Tax News.

POA clients automatically display on your **Client List**. Check to see if your client displays on your **Client List** page. On the **Client List** page, the **Power of Attorney** role displays under **Access Type**.

POA declarations filed *after* October 1, 2014 - Your clients will automatically display on your **Client List** if you filed your POA declaration with your PTIN. If your client is not listed, you may submit a new declaration using the MyFTB online service, or contact us at 916.845.7065.

POA declarations filed *prior* to October 1, 2014 – Your clients will not automatically display on your **Client List**. If you would like to have additional features available in MyFTB, you will need to submit a new POA declaration. We suggest you file the POA declaration using the online POA service in MyFTB for faster processing. If you do not want to receive the additional features as a POA representative in MyFTB, your POA representative status will remain in effect, and you do not need to take action.

The **Client List** defaults to display individual clients for which an active relationship exists. To see Estate/Trust or Business Entity clients, you must use the search feature.

### Searching for clients

To search for a client, select the “+” to expand the **Client Search Criteria**. Here you may select Individual, Estate/Trust, or Business clients to view. For POA representatives, you can search for active POA clients by selecting **Access Type of POA** and **POA Status** and select the **Search** button. If the search results display more than 200 results, refine your search results by adding more information such as a last name, first name, or ID number.

### Important information for power of attorney representatives in 2016

Power of attorney (POA) representatives who are registered in MyFTB will have access to additional features in MyFTB.

These additional features include the ability to view notices and correspondence, view returns, and submit an online protest. Below are important reminders for POA representatives.

#### Important information

Use your Preparer Tax Identification Number (PTIN) when registering for MyFTB and submitting your power of attorney declaration online, if you have one. Your PTIN assists us in processing your POA declaration.

Enter your email address on your POA declaration. We will no longer send copies of notices to POA representatives starting January 2016. An email notification will be sent to the email address listed on the POA declaration when your client receives a notice.

Submit your POA declaration online using MyFTB, if possible. Declarations submitted using MyFTB will be processed faster than declarations submitted by paper.

**For POA declarations filed prior to October 1, 2014** - If you are submitting a POA declaration online and want to retain a prior POA declaration for the same period, we encourage you to submit a new POA declaration listing all POA representatives.

We are excited to transition to MyFTB on January 4 and we are working diligently to provide you your **Client List**. We received a significant increase of POA declarations in November and December. If you submitted your POA declaration in December, your client list may not be viewable within MyFTB until the end of January. We appreciate your patience while we work through this significant transition in our workload.

For more information relating to POA representatives, see [Changes Coming for Power of Attorneys on January 4, 2016](#).

## Registration opens - Better protects you and your information

This month we launch our enhanced MyFTB registration process to better protect your clients' tax account information.

When you register, we will mail a personal identification number (PIN) to the address on record. This PIN is valid for 21 days from the date you started your registration, to the address on record. Please wait 3 to 10 days to receive your PIN in the mail.

We will not disclose the PIN to you over the phone or via fax. The PIN will only be disclosed in limited circumstances and only after adequate identity verification. If you have an immediate need for the PIN letter, you may visit one of our field offices and our public counter staff may print a copy of the PIN letter, after verifying your Government issued photo ID.

If you need assistance during your registration process, our agents are here to help at 800.353.9032 from within the United States or 916.845.2829 from outside the United States.

## Are there driver license requirements to e-file?

Will I need to provide information from my California driver's license or State identification (ID) card to e-file my 2015 California personal income tax return?

We received several questions about the following:

### **Will I need to provide information from my California driver's license or State identification (ID) card to e-file my 2015 California personal income tax return?**

The short answer is no; California driver license or state ID card information is not required to e-file a California tax return and tax returns will not be rejected if this information isn't provided. However, California, along with many state revenue agencies is requesting additional information this filing season in an effort to combat stolen-identity tax fraud and to protect taxpayers and their refunds. Several popular computerized tax preparation programs will now include input fields for this information. Providing a driver license or state ID number is voluntary at this time but may help process a tax return more efficiently.

## Time for charitable contributions or credits

If your client gave a gift or made a contribution in 2015 to a qualified charitable organization, they may qualify for an income tax deduction.

### **Gifts or contributions**

Charitable contributions are deductible only if your client itemizes deductions on their federal Form 1040, Schedule A, and has the proper documentation to support the deduction. To determine if the organization that your client contributed to qualifies as a charitable organization for income tax deductions, you can use the IRS' online search tool for exempt organizations, which is available at [EO Select Check](#). It's important to note that payments to individuals are never deductible.

### **Proper documentation**

Generally, the deduction for most charitable contributions is 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. Additionally, 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 issue 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. For 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.

Your clients must keep adequate records to prove the amount taken. Contributions of \$250 or more to any single charity require written acknowledgment of the contribution by the charity (donee) before claiming a charitable contribution. The written acknowledgement must be contemporaneous, meaning the donor needs to obtain the acknowledgment from the charity on or before the earlier of the date the tax return is filed or the due date of the tax return (including extensions).

The charity's written acknowledgment must contain all of the following information:

- Organization name.
- Amount of cash contribution.
- Description (but not the value) of any noncash contribution(s).
- Statement that the organization did not provide goods or services in return for the contribution, if that were the case.

Description and good faith estimate of the value of goods or services, if any, that the organization provided in return for the contribution. Statement that goods or services, if any, that the organization provided in return for the contribution consisted entirely of intangible religious benefits, if that was the case.

An organization that does not acknowledge a contribution incurs no penalty; however, without a written acknowledgment, your client may not claim the tax deduction.

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 claims a deduction for a contribution of noncash property greater than \$5,000, they will need a qualified appraisal of the noncash property; however, it does not have to be included with the tax return. If your client is claiming a deduction for a contribution of noncash property worth more than \$500,000, the 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](#).

## Credits

If your client made a contribution to the College Access Tax Credit Fund (the "Fund") and received a certification from the California Educational Facilities Authority (CEFA) they may be entitled to claim a tax credit on their California tax return. For 2015 contributions, the credit is 55 percent of the amount contributed by the taxpayer to the Fund. Taxpayers may also be able to claim a charitable deduction on their federal tax return. However, if a deduction is claimed for federal tax purposes, the amount of the charitable deduction taken on the federal return must be added back as a state adjustment on the California tax return. Taxpayers cannot claim a California income tax deduction and a credit for the same contribution.

To claim a credit, you must first receive a certificate from the California Educational Facilities Authority (CEFA). For additional information, see FTB's College Access Tax Credit page or the [CEFA website](#).

## Changes to Large Corporate Understatement Penalty – New exceptions added!

On September 30, 2015, the governor signed Assembly Bill (AB) 154, which provided a change to the understatement measurement and two additional exceptions to the LCUP.

### Change to the understatement measurement

The understatement of tax is the amount of tax resulting from an audit adjustment or self-assessment that exceeds the tax shown on the original return or an amended return filed on or before the extended due date of the return.

Under the new law, an additional tax liability as reported on the first amended return that results from a proper Internal Revenue Code (IRC) Section 338 election is treated as if included in the amount of tax shown on an original return for the understatement as well as the 20 percent threshold. This change to the understatement measurement is effective for taxable years beginning on or after January 1, 2015.



## New exceptions

In addition to the existing exceptions regarding change of law and reliance on Chief Counsel ruling, the penalty will not be imposed if an understatement is attributable to either of these new exceptions:

**Federal Accounting Method Change:** A change to the taxpayer's federal accounting method under IRC Section 446 where the original due date of the return for the taxable year of the understatement occurs before the IRS consents to the change.

**Section 25137:** The imposition of an alternative apportionment or allocation method by the Franchise Tax Board under the authority of Revenue and Taxation Code Section 25137.

The federal accounting method change exception applies to taxable years beginning on or after January 1, 2015, and the Section 25137 exception is applicable to understatements for any taxable year for which the statute of limitations on assessments had not expired as of September 30, 2015.

For additional details, please refer to Large Corporate Understatement Penalty FAQ's.

## Thank you for supporting the new business entity e-file requirement

After a successful first year, we want to take this opportunity to thank you for your increasing participation in the business e-file program, and your support of the new Business Entity e-file requirement (Assembly Bill 2724).

Business e-file has grown by 29 percent in this first year of the requirement with 70 percent of all business returns being e-filed.

With your help, feedback, and after reviewing waiver request reasons, we made a number of improvements to our business e-file program for the upcoming filing year. We have partnered with the software developer industry to remove some of the obstacles that prevented business returns from being e-filed. Many businesses that were unable to e-file in 2015 will now be able to do so. Some of the changes that were made include:

**Business Entities (BE) with no California identification (ID) number** - Did you know that you may still e-file a business entity tax return even when there is not a California ID number? For tax year 2014 and forward, we accept tax returns without a California ID, as long as an explanation in lieu of a number is provided (i.e. "Applied for" or "Foreign Non-U.S."). Check with your software provider to see if they support this feature.

If the business entity has not registered with the California Secretary of State but has previously filed a return without a California ID, we assigned an ID. Please call us at the phone number listed below to determine if we assigned a California ID number to the entity.

**Call:**

- 800.852.5711, Monday through Friday, 8 a.m. to 5 p.m., except state holidays.
- 916.845.6500 (outside U.S.).

**California Relay Service**

711 or 800.735.2929

**TTY (Device to Device)**

800.822.6268

**Homeowners Associations (HOA) Filing a Form 100** - Nearly all Homeowner association entities that filed a waiver last year can e-file their tax returns in 2016. If Form 100, California Corporation Franchise or Income Tax Return, was filed, a copy of the federal return (IRS 1120-H) can be attached as a pdf image. Check with your software provider to see if they support this feature.

As a reminder for you clients that have not participated in the BE e-file program, the law requiring business entities to e-file is now in effect. This means if you use software to prepare returns you should be e-filing all acceptable returns for taxable years beginning on or after January 1, 2014.

You may request a waiver if you are unable to comply with the requirement due to, but not limited to:

- Technology constraints – The inability of the tax preparation software used by a taxpayer to electronically file the tax return due to software limitations or the complex nature of the tax return.
- Where compliance would result in undue financial burden.
- Circumstances that constitute reasonable cause and not willful neglect.

If you are submitting a waiver please make your reason specific so we can do our best to address your inability to e-file. As part of our continuing outreach and education efforts, waiver requests submitted in 2016 will be approved upon submission.

Thank you for your support of our California business e-file program.

## Featured publication: Your Rights as a Taxpayer

We recently revised our publication 4058B, Your Rights as a Taxpayer.

If you or your clients need a quick reference about taxpayer rights this is the publication for you. The publication includes taxpayer rights information for Board of Equalization and us.

To view or print the publication, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **4058B**, Your Rights as a Taxpayer.

## Head of household (HOH) filing status

We made it easier for taxpayers to claim the HOH filing status.

Beginning with the 2015 tax year, taxpayers must now complete and attach form FTB 3532, Head of Household Filing Status Schedule, to their tax return. The new schedule helps taxpayers determine if they qualify for the HOH filing status at the time of filing their tax returns, simplifies and reduces the questions asked for ease of understanding, and assists taxpayers to complete the form correctly. The new schedule will also substantially reduce the volume of audit letters we currently send.

## Credits

Currently, we are auditing credits that expired, but claimed on personal income tax returns for 2012. Some of the expired credits claimed include:

- Code 171 Ridesharing Credit.

- Code 174 Recycling Equipment.
- Code 180 Solar Energy.
- Code 184 Political Contribution.
- Code 193 Employer Ridesharing.
- Code 178 Water Conservation.

Some of the credits have no carryover provisions and were only in place for a specified time frame. Credits, such as the Political Contribution credit, are disallowed to the extent they exceed the allowable limit.

### **Employee business expenses**

We are also reviewing and conducting audits of personal income tax returns claiming unreimbursed employee business expenses (EBE) for tax year 2012. We will ask taxpayers that claimed these expenses to provide documentation to substantiate their employer's reimbursement policy and deductions claimed to determine if their expense is allowable.

In addition, 46,000 educational letters were sent to taxpayers in November 2014. The focus of these letters was to remind taxpayers of their continuing responsibility to file accurate tax returns, to include only deducting amounts they are legally entitled to claim, and to maintain and provide appropriate documentation and substantiation for all deductions and credits claimed.

For more information about allowable unreimbursed employee business expenses, please refer to the IRC Section 162 and Treasury Regulations Section 1.162-1(a). In addition, the Internal Revenue Service (IRS) has many publications on this issue including :IRS Tax Tip 2015-45, [Six Things You Should Know about Employee Business Expenses](#) and Tax Topic 514 - [Employee Business Expenses](#).

Taxpayers are encouraged to review the referenced information provided above and review claimed unreimbursed employee business expense deductions on their tax returns. If taxpayers claimed expenses that do not qualify, they should file amended tax return(s), if appropriate.

### **Senior Head of Household Credit**

Currently, we are reviewing and conducting audits of personal income tax returns claiming the Senior Head of Household Credit for tax years 2011 and 2012. We disallow credits that do not

meet either the minimum age requirement or not “qualified” to claim HOH in one or both of the prior years.

### Other State Tax Credits (OSTC)

We are reviewing and conducting audits of personal income tax returns claiming OSTC for tax year 2012. We disallow credits claimed to those states which California does not have a reciprocal agreement.

### California Competes Tax Credit

The California Competes Tax Credit is an income or franchise tax credit available to businesses that come to California or stay and grow in California.

Tax credit agreements are negotiated by the Governor's Office of Business and Economic Development (GO-Biz) and approved by a statutorily created “California Competes Tax Credit Committee.” The committee consists of:

- Director of GO-Biz (Chair).
- State Treasurer.
- Director of the Department of Finance.
- One appointee each by the Speaker of the Assembly and Senate Committee on Rules.

For Fiscal Year 2015/2016, \$200.9 million of the California Competes Tax Credits will be available for allocation during three application periods. For the second application period, \$75 million will be available for allocation. Applications for the credit will be accepted at [calcompetes.ca.gov](http://calcompetes.ca.gov) from January 4, 2016, until January 25, 2016. Go to [business.ca.gov](http://business.ca.gov) for more information on the California Competes Tax Credit.

### New informational resources for the Cal EITC

One of the big changes coming for the 2016 filing season, and one that you've probably heard a great deal about already, is the new California Earned Income Tax credit (Cal EITC).

We discussed this new credit in our August and October 2015 editions of Tax News.

With the 2016 filing season upon us, we want you to know about two new online resources available to you; our new webpage and a partner website.

The Cal EITC webpage is now available. It provides general information about the credit and how to qualify for it. We also provide contact information for individuals and organizations that may be interested in partnering with FTB to educate eligible taxpayers about the new Cal EITC.

The partner website, [Cal EITC 4 me](#), is the result of a public-private partnership between the Office of the Governor and more than 50 government, community, and privately-funded organizations. The website includes an EITC estimator, which is very easy to use. By simply entering basic information regarding earned income, the number of qualifying children, and a few other items, eligibility for the Cal EITC and an accurate estimate of a taxpayer's federal and California EITC is immediately provided. Additionally, information that may be used for education and outreach to potential Cal EITC recipients is also provided on the website.

We and many other agencies, groups, and organizations involved in the implementation of the new Cal EITC are confident that with everyone's hard work and effort, including that of the tax practitioner community, the new Cal EITC will be successful and reach those that it is intended to reach.

### Taxpayers' Bill of Rights Hearing held

On December 8, 2015, the Franchise Tax Board held its annual Taxpayers' Bill of Rights Hearing along with a regularly-scheduled board meeting.

During the Board meeting, Board members heard an update on Cal EITC. Michelle Fallon and Jacob Roper, from our Communications Service Bureau, presented an overview of our collaborative efforts with other agencies, and communication tools we are using for education and outreach efforts. Our chief information officer, Cathy Cleek, provided an update on EDR. She told the Board that we are within budget with this project and also exceeding revenue targets. Looking forward to 2016, we can expect the final release, which is the Enhanced MyFTB scheduled on January 4, 2016.

For the Taxpayer Bill of Rights portion of the agenda, practitioners and taxpayers were invited to submit issues in writing but they could also request time to address the Board during the meeting to present their issue. Here are a few of the items presented to the Board:

### **Expedited processing**

It is not uncommon for a shareholder or member to walk away from the corporation or limited liability company (LLC) because the entity never did business or the shareholder/member had already lost money and realized the business was not viable. It would seem to be more efficient and less costly to the state if the FTB had an administrative process whereby the shareholder/member could contact FTB and expedite (within statutory requirements) the transferee process.

### **Inadvertent failure to file Form 568 by single-member LLC's (SMLLC)**

This issue was raised at the 2015 liaison meeting with the Society of Enrolled Agents. The enrolled agent's frequently encounter individually-owned SMLLC's, who fail to recognize their disregarded entity has an entity return filing required by California.

### **Per-partner/per-shareholder penalty**

Often times partnership taxpayers are not aware that they have a filing requirement. Once contacted, they file returns, only to later be assessed large penalties. Many of these taxpayers are members of pass-through entity that the FTB considers to be doing business in California.

In addition, Kathryn Zdan from Spidell, and Vicki Mulak from CSEA, both expressed their appreciation for FTB's response to the real estate withholding issues received from tax professionals.

## [FBAR: Understanding Foreign Financial Account Reporting](#)

IRS Stakeholder Liaison Western Area presents a webinar.

Webinar date and time:

**Thursday, January 21, 2016**

**11 a.m. Pacific Time 9 a.m. Hawaii Time**

Learning objectives include:

- Learn the purpose Report of Foreign Bank and Financial Accounts (FBAR)
- Determine who must file an FBAR
- Determine the FBAR filing requirements
- Determine who is exempt from the FBAR filing requirements
- Understand the civil and criminal penalties

Register

Earn one continuing education (CE) credit: **Category – Federal Tax**

To receive a certificate of completion, you must:

- View the live presentation for at least 50 minutes from the start of the program for one CE credit.
- View the presentation while signed in using the same email address that you used to register (you will not receive credit by watching on someone else's computer). This will confirm your attendance and generate your certificate of completion.
- Groups cannot register with one e-mail address and then receive separate certificates.
- If certificates are needed, each person *must* register separately.
- Look for your Certificate of Completion by e-mail approximately **two weeks** after the broadcast. If you have met all requirements, you will receive your certificate automatically.

If you are an enrolled agent or another tax return preparer attending for education on a voluntary basis, you must register with your 8-character PTIN, and First Name and Last Name as shown on your PTIN card or letter. If you don't have a PTIN, you will receive a certificate; however, your credit will not be reported to the IRS.



## Ask the Advocate



**Susan Maples, CPA**

Taxpayers' Rights Advocate

Follow me on Twitter at

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

### Our annual report

Each year the Taxpayers' Bill of Rights requires me to provide my findings to the California Legislature areas where FTB can improve its operations and services to taxpayers.

I do this in my [Taxpayers' Bill of Rights Annual Report to the Legislature](#).

Areas of improvement are primarily identified during my interactions with the tax professional community and from submissions into our Systemic Issues Management System (SIMS). My constant interaction with the tax professional community during my frequent presentations, the annual Taxpayers' Bill of Rights Hearing, annual liaison meetings, and Advisory Board meetings, allow me to hear firsthand what issues, concerns, and challenges taxpayers face and the impact of tax legislation.

In this year's report, I discuss issues, areas of concern, and challenges that both the taxpayers and FTB face regarding the following issues:

- Auditor training and retention
- Docketed/undocketed protests
- Claims for refund
- Penalties
- Filing enforcement
- Collections
- Customer service
- Education and outreach
- Late legislation and conformity
- Withholding services

## Inside FTB

### State wants to return \$28 Million in undelivered income tax refunds

Help your clients find out if they are among the thousands of Californians who missed receiving a total of \$28 million in income tax refunds.

This year, the US Postal Service returned more than 49,000 personal income tax refunds to us. Most cases involve taxpayers who moved but failed to update their addresses with us.

Your clients can use the **Check Your Refund Status** online tool, in both English and Spanish, to learn whether they have a refund waiting. Once a taxpayer enters a new mailing address, we automatically issue the new refund. Taxpayers may also call us at 800.852.5711.

We strongly encourage taxpayers to use direct deposit, which allows us to deliver refunds in a matter of days.

As of November 28, 2015, we issued more than 10.5 million refunds totaling more than \$10.8 billion for the 2014 tax year.

## EDR: Enterprise. Data. Revenue!



## Enterprise. Data. Revenue!

### EDR replaces Return Information Notice with Notice of Tax Return Change

In January 2016, we will replace our Return Information Notice (RIN) with an improved notice. The RIN was used when return error(s) create or increase a taxpayer's balance due. In response to focus group recommendations, we made the following changes:

We changed the name of the notice to Notice of Tax Return Change (TRC). This name change more clearly addresses the purpose of the notice.

Split the TRC into sections, including 1) A heading with taxpayer and balance due information that can also be used as the voucher to include with payments, and 2) A heading, "Why We Changed your 20XX Tax Return," which for certain adjustments, displays a side-by-side

comparison of the amount the taxpayer filed and the adjusted amount, plus explanatory paragraphs.

Revised the explanatory paragraphs for many adjustments and we created new paragraphs that specifically describe the adjustments. We also split paragraphs with multiple parts into separate paragraphs.

Added a “How to Pay Your Balance” section with information for paying online and by mail. For taxpayers subject to Mandatory e-Pay, only the “Pay Online” information will be displayed.

Revised the language included with the insert, FTB 1140, Personal Income Tax Collection Information, to begin with “If you have a balance due,” instead of “We determined you have a balance due.”

We also changed the overall design and layout, which we believe will enhance the appearance and make the notice easier to read. We believe these changes will improve customer service by helping your clients understand why we sent them the TRC, and provide guidance for resolution. We will begin using the TRC in January 2016.

Here is a sample of three sections in the TRC - *Why We Changed Your 2014 Tax Return*, *How to Pay Your Balance*, and *2014 Tax Year Summary*:

## Why We Changed Your 2014 Tax Return

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	<u>Your Calculation</u>	<u>Our Calculation</u>
A. Excess State Disability Insurance: We disallowed your State Disability Insurance (SDI) or Voluntary Plan Disability Insurance (VPDI) withholding because you did not file a timely claim. You must claim excess SDI/VPDI within three years of the due date of the tax return for the year the excess SDI/VPDI was paid. If you disagree with our action and want to protest, you must file a protest with the Employment Development Department (EDD) within 30 days of this notice date. Mail your protest to: EDD, FUTA/SDI CERTIFICATION UNIT MIC-5, PO BOX 826880, SACRAMENTO, CA 94280-0001 or call 916.654.8333.	\$0.00	\$0.00
B. Total Tax Liability: We revised your Dependent Parent Credit to the correct amount.	\$3,340.00	\$4,078.00
C. CA Itemized/Standard Deduction: We processed your tax return using the standard deduction, which is greater than your itemized deductions.	\$3,908.00	\$3,906.00
D. Total Tax Liability: We revised your Disability Access Credit to the correct amount.	\$3,340.00	\$4,078.00

## How to Pay Your Balance

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Our change(s) resulted in a balance owed of \$5,295.21 as shown in the 2014 Tax Year Summary section later in this notice. Pay the balance due by 12/09/2015 to avoid additional penalties and interest charges.

### To Pay Online:

- Go to [ftb.ca.gov](http://ftb.ca.gov) and search for payment options.
- Choose your preferred method of payment.
- Select the "Installment agreement request" method if you are financially unable to pay the balance in full.

### To Mail a Payment:

- Make check or money order payable to the Franchise Tax Board.
- Write your full name and account number on your payment.
- Mail your payment and voucher (top of notice) using the enclosed envelope.

## 2014 Tax Year Summary

We revised your California state income tax return for the 2014 tax year. To understand the revisions, compare the amounts on your tax return and supporting documents with this notice. Use the figures below to compare and update your records. The balance for this tax year reflects all payments or credits applied to your account through 10/09/2015.

	<u>Your Calculation</u>	<u>Our Calculation</u>
CA Adjusted Gross Income.....	\$ 75,100.00	\$ 75,100.00
CA Itemized/Standard Deduction.....	\$ 3,908.00	\$ 3,906.00
Taxable Income.....	\$ 71,194.00	\$ 71,194.00
Tax.....	\$ 4,184.00	\$ 4,184.00
Exemptions.....	\$ 644.00	\$ - 106.00
Total Tax Liability.....	\$ 3,340.00	\$ 4,078.00
CA Income Tax Withholding.....	\$ 900.00	\$ 0.00
Real Estate And Other Withholding.....	\$ 100.00	\$ 0.00
Estimated Tax Payments.....	\$ 2,000.00	\$ 0.00
Late Filing Penalty.....		\$ 1,019.50
Interest & Fees.....		\$ 197.71
Voluntary Contributions.....	\$ 50.00	\$ 0.00
Revised Balance Due.....		\$ 5,295.21

## All About Business

### LLC's 15-day exception and requirements

Many different forms of ownership and filing requirements exist. For those who recently formed a Limited Liability Company (LLC), are you aware of LLC's 15-day exception and requirements?

If not, this article may be resourceful.

### 15-Day Exception

LLC's are not subject to the annual tax and fee if both of the following are true:

- The LLC did not conduct any business in California during the taxable year.
- Their taxable year was 15 days or fewer.

**For example:** LLC Z filed its Articles of Organization with the Secretary of State (SOS) on December 17, 2015 and has a calendar tax year, not fiscal. LLC Z did not conduct any business in California during its 2015 tax year. LLC Z's tax year for 2015 was 15 days. Under the 15-Day Exception, LLC Z qualifies and is not subject to the \$800 annual tax and annual LLC fee for its 2015 tax year.

For information on the doing business standards in California, read the October 2014 article [Doing Business Under New Standards](#).

### **When an LLC does not meet the 15-Day Exception**

If the 15-day exception is not applicable, LLCs classified as partnerships and disregarded single member LLCs must do all of the following:

- File Form 568.
- Pay an annual tax of \$800.
- Pay an annual LLC fee based on total income from all sources derived from or attributable to California.

LLCs classified as corporations should refer to FTB Publication 1060, [Guide for Corporations Starting Business in California](#). This publication provides information for these types of LLCs.

### **File Form 568**

The Form 568 is due by the 15th day of the 4th month after the close of the tax year, unless the LLC files its tax return under the automatic six-month extension. For example, the 15th day of the 4th month for the 2015 calendar tax year is April 15, 2016. An extension of time to file is not an extension of time to pay. All payments owed including nonconsenting nonresident member's taxes are due on the original due date of the tax return.

Send Form 568, necessary schedules, and payment for applicable fee to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0501

If no payment is due, send completed Form 568 and necessary schedules to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0500

### **\$800 Annual Tax**

LLCs classified as disregarded entities or as partnerships are subject to an \$800 annual tax. This applies if they do business in California or if the SOS accepts their Articles of Organization (LLC-

1) or Application for Registration as a Foreign Limited Liability Company (LLC-5). LLCs organized or registered in California are subject to the annual tax even if they conduct no business in California (R&TC Section 17941 (b)(1)). For taxable years beginning on or after January 1, 2011, an LLC organized in California is doing business in California (R&TC Section 23101 (b)(1)).

Generally, the LLC annual tax in the amount of \$800 is due on the 15th day of the 4th month after the beginning of the current tax year. For example, an LLC needs to pay the \$800 annual tax by April 15, 2016 for tax year 2016. For newly formed LLCs, the \$800 annual tax payment is due and payable by the 15th day of the 4th month after the LLC organizes with the California SOS. For the LLC's first year, this is measured from the date the LLC files its Articles of Organization. For example, if you filed your Articles of Organization on June 19, your annual tax is due on September 15.

### **Annual LLC Fee**

LLCs classified as SMLLC or partnerships are subject to an annual fee based on their total income "from all sources derived from or attributable to California" (R&TC Section 17942). LLCs must estimate and pay the annual fee by the 15th day of the 6th month of the current tax year. If the LLC's tax year ends prior to the 15th day of the 6th month, the LLC must pay the fee by the due date for filing its Form 568, Limited Liability Company Return of income.

LLCs use FTB 3536 to pay the estimated fee. An LLC that underestimates its fee will be subject to a penalty equal to 10 percent of the amount of the underpayment.

For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search **FTB 3556** for our LLC filing information.

### **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.