



# Tax News

October 2017

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## Contents

- Reminder: New tax return extended due dates .....2
- 2017 state personal income tax brackets .....2
- Amended return e-filing for individuals coming in January 2018 .....3
- Estimate penalty - Formula correction .....4
- More taxpayers eligible for CalEITC in 2017 tax year .....5
- Is a California driver’s license required to e-file? .....6
- “Stand-alone” electronic payment process enhancements.....6
- Disaster losses: How to claim a state tax deduction .....7
- Paperless Schedule K-1 (565/568) program set to retire January 2018 .....8
- College Access Tax Credit (CATC) – November 30 deadline to apply for 2017 taxable year .....9
- Ask the Advocate .....9
  - 2017 Executive Officer’s Advisory Board Meeting .....9
- MyFTB Corner .....10
  - Exciting changes coming to MyFTB, effective January 1, 2018! .....10
- Event Calendar.....11

## Reminder: New tax return extended due dates

### **Tax exempt entities:**

For taxable years beginning on or after January 1, 2016, the original and extended tax return due dates for California returns have changed for business entities.

For tax exempt entities the original tax return due date is still the 15th day of the 5th month following the close of the taxable year. However, the extended due date is changed to the 15th day of the 11th month following the close of the taxable year.

### **C corporations and LLCs taxable as a corporation:**

The original tax return due date is now April 15, which used to be March 15 for calendar year filers. For fiscal year filers, the new due date is the 15th day of the 4th month following the close of the taxable year.

The extended due date did not change. The last day to file your 2016 Corporate Franchise or Income Tax return with an automatic extension for calendar year filers of October 16. For fiscal year filers, the extended due date is the 15th day of the 6th month following the close of the taxable year. Corporations will no longer have the additional month after filing their federal return. If you miss the deadline for filing your income tax return by the extended due date, we impose a penalty of 25 percent of the amount due, after applying any payments and credits made on or before the original tax return due date.

We impose the penalty from the original due date of the tax return.

Refer to Businesses: Due Dates at [ftb.ca.gov](http://ftb.ca.gov) for the more details about due date for business entities.

## 2017 state personal income tax brackets

California's state personal income tax brackets are annually adjusted for inflation. Tax filing requirement thresholds, the standard deduction, and certain credits were also adjusted based on an inflation rate of 2.6 percent, as measured by the California Consumer Price Index for all urban consumers from June 2016 to June 2017. Last year, California had an inflation rate of 2.1 percent.

Below are some of the changes:

Status	2017	2016
Standard deduction for single or married-filing-separate taxpayers	\$4,236	\$4,129
Standard deduction for joint, surviving spouse, or head-of-household taxpayers	\$8,472	\$8,258
Personal exemption credit for single, separate, or head-of-household taxpayers	\$114	\$111
Personal exemption credit for joint filers or surviving spouses	\$228	\$222
Dependent exemption credit	\$353	\$344
Renter's Credit available for single filers with adjusted gross incomes of...	\$40,078 or less	\$39,062 or less
Renter's Credit available for joint filers with adjusted gross incomes of...	\$80,156 or less	\$78,125 or less

We also updated the minimum adjusted gross income amounts for determining whether or not taxpayers must file a state personal income tax return. For example, most single people under 65 years old with no dependents would not need to file a tax return unless they have adjusted gross income of \$13,623 or more in 2016. For most taxpayers filing married filing jointly and under 65 years old, the threshold is \$27,249. However, these individuals should still file if they are due a refund or are eligible for the Earned Income Tax Credit.

Other tax credits affected by indexing include the Joint Custody Head of Household Credit, Dependent Parent Credit, and Qualified Senior Head of Household Credit.

The complete 2017 tax rates and exemptions will be available on our website soon.

### [Amended return e-filing for individuals coming in January 2018](#)

Starting January 2018, our e-file program will accept e-file amended returns for individuals on tax year 2017 Forms 540, 540NR Long, 540NR Short, and 540 2EZ, as well as new

Schedule X. For tax year 2016 and prior years, amended individual returns will need to continue to be paper filed using Form 540X.

Beginning with tax year 2017, we will eliminate the Form 540X, **Amended Individual Income Tax Return**, for amending individual tax returns and replace it with the 540 series forms, each adapted to allow for amended return filing.

At the same time, we will introduce new Schedule X, **California Explanation of Amended Return Changes**, which will reconcile the difference between the original return and amended return to determine any additional amount owed or refund due, and to provide reasons for amending.

The California e-file Program offers year round e-filing for individuals filing Forms 540, 540NR Long, 540NR Short, 540 2EZ and businesses filing Forms 100, 100S, 100W, Schedule R combined reports, 565, 568 and 199 along with most accompanying forms and schedules.

Contact your software providers to see if they are supporting Individual e-filing. Stay tuned to our website and to **Tax News** for more information about our e-file Program.

### [Estimate penalty - Formula correction](#)

We revised the tax year 2016 form FTB 5805, Underpayment of Estimated Tax by Individuals and Fiduciaries. This form is used to determine if a penalty is owed for the underpayment of estimated tax. The correction increased the penalty calculation multiplier on side 2, line 11 from .02269425 to .02393173.

We published the revised tax form on our website on May 16 and notified tax software providers on May 22 to update their tax preparation software. Taxpayers who filed the FTB 5805 before the revision date may have received a bill with an increased penalty amount. The average increase is estimated to be approximately \$30 which represents an underpayment of about \$25,000.

If your clients were assessed an increased underpayment penalty because of the percentage correction, we encourage you to contact us by **December 31, 2017**, to request an adjustment.

Call:

**916.845.7057** (tax professionals)

**800.852.5711** (taxpayers)

Write:

PO Box 942840

Sacramento, CA 94240-0040

We will evaluate the account and waive the difference between the correct and incorrect penalty calculation if appropriate.

If the incorrect multiplier is still appearing in the tax software you are using, please contact your software provider to ensure they have made the form update.

### [More taxpayers eligible for CalEITC in 2017 tax year](#)

About 1.1 million additional taxpayers may be eligible for California's cash-back Earned Income Tax Credit (CalEITC) in the 2017 tax year as a result of state budget trailer legislation signed by Governor Jerry Brown in July.

As a result of Senate Bill 106, the upper income limit to qualify for the credit increased, and for the first time, those who earned self-employment income, including those working in the gig economy, may qualify for the credit.

CalEITC, created by the Governor and Legislature in 2015 as a way to help low-income working families, is designed to be a supplement to the federal Earned Income Tax Credit, which has been in place for decades.

Under the CalEITC expansion, a parent with an income of about \$22,300 or less and one or more qualifying children could benefit from the credit. Families working full time at the state minimum wage of roughly \$10 per hour may qualify.

In comparison, for tax year 2016, a parent with one or more qualifying children could qualify if they had adjusted gross income of up to about \$14,200.

For the 2015 tax year, almost 400,000 households received the credit, sharing about \$200 million worth of CalEITC.

So far, for tax year 2016, nearly 370,000 households have received the credit, receiving about \$196 million worth of CalEITC.

## Is a California driver's license required to e-file?

**Will I need to provide information from my California driver's license or State identification (ID) card to e-file my 2017 California personal income tax return?**

The short answer is no; California driver's 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. The Security Summit partnership continues to identify and implement additional taxpayer safeguards. We ask for your assistance to combat stolen-identity tax fraud and to protect taxpayers and their refunds.

By asking your clients to provide a California driver's license or state ID number on a voluntary basis, it may help process a tax return more efficiently and protect the taxpayer and their refund. One of our foundational principles is to protect taxpayer information and privacy. We continuously look for better ways to protect taxpayers' confidential information, increase security and minimize impact to the business.

## "Stand-alone" electronic payment process enhancements

Beginning January 2018, business entities and tax practitioners will have the ability to submit an electronic fund withdrawal (EFW) request for additional payment types using tax preparation software.

We will accept these payment requests as "stand-alone," and you can submit them separately from the e-file return. You can file the return at a later date. The following new payment types will be available:

- Quarterly Estimate Payments
- LLC Annual Tax and Fee
- LLC Estimated Fee

Business entities and tax practitioners will still have the ability to submit EFW requests for return and estimate payments with the e-filed return using tax preparation software. As a reminder, the following payment types are currently available:

- Individuals
  - Estimate Payments
  - Extension Payments
  
- Fiduciary (Estate/Trust)
  - Estimate Payments
  - Extension Payments
  
- Business Entities (Corporations/Limited Liability Companies/Partnerships)
  - Extension Payments

Contact your software provider to see if they are supporting “Stand-Alone” EFW payments. Stay tuned to our website and *Tax News* for more information about our e-file Program.

### [Disaster losses: How to claim a state tax deduction](#)

Hurricane Harvey affected FTB directly because we have many employees in our Houston Office. All are safe but the office closed until the storm passed.

We remind you of special treatment for those who suffer a loss due to disaster, especially since California is also in the midst of its fire season.

Taxpayers affected by declared disasters are automatically eligible for qualifying disaster loss treatment. As mentioned above, special tax rules apply to disaster losses. Victims may claim a loss in either the year the disaster occurred or in the prior year. Those who choose the latter can reduce their tax liability for the prior year, allowing us to quickly issue a refund. Taxpayers who need copies of lost or damaged state tax returns should complete FTB 3516, **Request for Copy of Personal Income or Fiduciary Tax Return**, which can be downloaded online.

Generally, California law follows federal law regarding the treatment of losses incurred as a result of a casualty or a disaster. However, for California purposes, a casualty loss becomes a disaster loss when both of the following occur:

- The loss is sustained in an area the President of the United States or the Governor of California declares a state of emergency.
- The loss is sustained because of the declared disaster. For information on how to deduct a loss from a disaster, see FTB Pub. 1034, **Disaster Loss How to Claim a State Tax Deduction**. Pub. 1034 includes a chart of declared disasters that is revised annually.

We realize that disasters occur more frequently than we can update our publication, so we update our Disaster Webpage on our public website whenever a new disaster has been declared, either by the President of the United States or the Governor of California.

### [Paperless Schedule K-1 \(565/568\) program set to retire January 2018](#)

We implemented the Paperless Schedule K-1 (565/568) program in January 1997 in an effort to reduce the amount of paper submitted to the department and to save on processing resources. Initially known as the Magnetic Media Schedule K-1 program, we began accepting Schedule K-1s via tape reel and cartridge. Beginning with the 2000 tax year, we dropped the magnetic media name and the program became known as the Paperless Schedule K-1 (565/568) program. In addition, we expanded the program to accept data on diskettes, CD ROM's and USB/Flash drives.

In January 2006, with the implementation of Business e-file, business entities could submit their Schedule K-1s electronically with their e-filed return. Over the years, we have seen a significant decline in the volume of in paperless K-1s. Over 78 percent of business returns are e-filed indicating a natural shift from utilizing the paperless Schedule K-1s to our business e-file program.

As we continuously look for better ways to protect taxpayers' confidential information, increase data security, and improve efficiency, effective January 1, 2018, we will retire the stand-alone Paperless Schedule K-1 (565/568) program.

Partnerships and Limited Liability Companies can continue to submit the Schedule K-1 (565/568) with their e-filed (*preferred*) or paper filed tax return.

Contact your software providers to see if they are supporting Business e-filing. Stay tuned to our website and to *Tax News* for more information about our Business e-file Program.

## College Access Tax Credit (CATC) – November 30 deadline to apply for 2017 taxable year

The CATC is a credit available to individuals, business entities, and insurance company entities that contribute to the CATC Fund. The California Educational Facilities Authority (CEFA) administers the fund which bolsters financial aid for California's low-income college students. The tax credit is available for taxable years 2014 through 2017, and it is a percentage of the contribution amount you make to the fund. The credit can be used to offset against your California tax liability and any unused credit can be carried over up to six years.

### Highlights of the CATC for 2017 taxable year:

- Deadline for CEFA to receive the credit application is **5 p.m. (Pacific Time) on November 30, 2017.**
- Last year this credit can be earned.
- Credit is 50 percent of money contributed to the fund.
- Credit can be applied to offset against insurance gross premiums tax.

For additional information, go to our CATC webpage. Instructions to donate and how to obtain the certificate for the credit are available on the [CEFA webpage](#) at [tresurer.ca.gov](http://tresurer.ca.gov).

## Ask the Advocate



**Susan Maples, CPA**  
Taxpayers' Rights Advocate  
Follow me on Twitter at  
[twitter.com/FTBAdvocate](https://twitter.com/FTBAdvocate)

### 2017 Executive Officer's Advisory Board Meeting

The Advisory Board is made up of 20 invited representatives from industry, state and federal government, in addition to FTB staff. The Board meets to provide insight and contributions to our Executive Officer from a non-FTB point of view on the various projects and programs we administer and upcoming initiatives that impact FTB, the way we do business, and our staff. Being directly involved with this meeting allows me and my staff to gain valuable insight into the issues, challenges and concerns faced by industry and our government partners.

The format of this year's meeting consisted of presentations from FTB staff and two breakout sessions. Here are some of the highlights from

the meeting to give you an idea of what we presented to the attendees and what we covered in the breakout sessions.

This year's presentations covered:

- Updates on our forms and notices, Power of Attorney (POA) 2.0, and EDR.
- Significant litigation currently involving FTB, including cases heard at the United States Supreme Court, California Supreme Court, and the lower courts.
- An emerging issues discussion, which covered several topics, including: offers in compromise, collections, our preparer compliance program, privacy/security/fraud, changes to the California EITC, and market-based sourcing rules.

We also had two breakout sessions covering Customer Experience and Audit – key priorities

In the coming months, I look forward to sharing more about what's planned for the future and what changes you can expect in the way we do business and interact with you, the tax professional. My staff and I will keep you updated through *Tax News*, the many California Tax Updates we present statewide to various groups, and through our external website.

## MyFTB Corner

Exciting changes coming to MyFTB, effective January 1, 2018!

Based on your feedback, we're making improvements to MyFTB beginning **January 1, 2018**. Some of these changes include:

- Accepting the following professional ID numbers during registration:
    - Preparer Tax Identification Number (PTIN)
    - California Certified Public Accountant (CPA)
    - California State Bar Number
    - Enrolled Agent (EA) Number with CA addresses **new**
- Note:** We will no longer accept the Electronic Filing Identification Number (EFIN) or California Tax Education Council (CTEC) for registration.
- Improving the Tax Professional homepage to display your contact information, alerts and recently active or rejected Power of Attorney (POA) declarations.
  - Rebranding the "Tax Preparer" Access Type (your non-Power of Attorney clients) to Tax Information Authorization (TIA) client throughout MyFTB.

- Displaying the processing statuses, expected completion time frames, and rejection reasons for both your POA and TIA clients.
- Redesigning the POA wizard to align with the new FTB 3520 PIT and FTB 3520 BE forms.
- Creating a feature to save your “favorite” representatives to your new Associates List page. Once added, you can simply select one or all when adding additional representatives in the POA wizard.

As mentioned in our August Tax News, we will have **new** POA and TIA forms effective January 1, 2018 and will only accept the following forms.

Power of Attorney 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

Tax Information Authorization (TIA) Forms:

- FTB 3534 – Tax Information Authorization – Individual, Fiduciary, Business Entity or Group Non Resident
- FTB 3535 – Tax Information Authorization Revocation

See August Tax News, New Forms Coming January 1, 2018 - Power of Attorney and Tax Information Authorization, for more details.

## 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.