



Tax News

September 2017

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Common audit issues and audit tips

Over the past few years, we identified common Personal Income Tax audit issues.

These issues typically involve substantiation or interpretation of the facts:

- Gains and Losses from Sales of Stock: When shares of stocks are sold, we will ask for substantiation for the gains/losses. Adjustments are typically found in the computation of stock basis.
- Real Property Sales: We will typically ask for substantiation of purchase costs, improvements, and repairs. Adjustments are made when the documentation provided does not reconcile to the amounts claimed.
- Like-Kind Exchanges: We will look at all aspects of the exchange. Common adjustments are for certain requirements not being met, when there is a difference in the calculation of boot, or when the property basis is unsubstantiated.
- Charitable Contributions: We will ask for appraisal reports for large non-cash donations to support the claimed fair market value (FMV) of donated items. Adjustments occur when we find that FMV is overstated.

Additionally, here are some tips that may help facilitate a timely completion of an audit:

- Let the auditor know as soon as possible if there will be a delay or you are unable to provide a complete responses to an information document request. This allows the auditor to plan accordingly and grant a reasonable extension as well as discussing alternative documentation without causing unnecessary delays to the audit.
- If you determine that an amended return or claim for refund will be filed, let the auditor know as soon as possible to prevent delays in the audit.
- Report any federal audit activity to our auditor as soon as you are aware of it. The auditor may decide to wait for the final federal determination when federal and California laws are the same. Doing so may save time and work for both you and us.
- In the event you are unable to resolve an audit issue with the auditor, you may contact the auditor's supervisor listed on the initial contact letter for assistance.

We value your input and invite you to participate in the Audit Customer Experience Survey provided by the auditor after completion of the audit. This survey allows us to gather insights and identify opportunities for improvement so that we may better serve you.

New FTB filing requirement for federal Form 8975 and Schedule A (Form 8975)

On June 29, 2016, the United States (U.S.) Treasury (Treasury) and the Internal Revenue Service (IRS) released final regulations on country-by-country (CbC) reporting. The information required under the regulations provides greater transparency regarding the operations and tax positions taken by U.S. multinational enterprise (U.S. MNE) groups. The final regulations, as set forth in Treasury Regulations Section 1.6038-4, require large U.S. multinational companies to prepare and file an annual federal Form 8975 and Schedule A (Form 8975).

In general, the new CbC reporting regulations apply to U.S. persons that are the ultimate parent entity of a U.S. MNE group with revenue of \$850 million or more in the preceding accounting year and whose taxable year begins on or after June 30, 2016. For additional information, refer to the [Instructions for Form 8975](#) and [Revenue Procedure 2017-23, 2017-7 Internal Revenue Bulletin 915](#). California conforms to the information reporting requirements imposed under Internal Revenue Code (IRC) Section 6038 as modified by Revenue and Taxation Code (R&TC) Section 19141.2.

Who must file with California

The new filing requirement of federal Form 8975 applies to California taxpayers subject to the provisions of IRC Section 6038. Consequently, California taxpayers required to file federal Form 8975 with the IRS must attach a copy of federal Form 8975 to their California return. If federal Form 8975 is not provided, a penalty may be imposed under R&TC Section 19141.2.

What to file

There are two parts to federal Form 8975:

1. Form 8975 – Country-by-Country Report

In this form, the U.S. filer reports general information such as:

- The U.S. MNE group's business entities.
- Each entity's tax jurisdiction.
- Country of organization.
- Main business activity.

Any additional information related to the MNE.

2. Schedule A (Form 8975) – Tax Jurisdiction and Constituent Entity Information. This Schedule must be filed separately for each tax jurisdiction in which the group has one or more constituent entities resident.

When and how to file

Include federal Form 8975 and the Schedule(s) A (Form 8975) as part of the federal return attached to a California return. These forms will also be available in our e-file program. Contact your software provider to see if they support the ability to e-file the above schedules with the California return.

My court-ordered debt (My COD) account online self-service

Did you know that the Court-Ordered Debt (COD) Collections Program collects delinquent court fines, fees, and forfeitures, as well as victims' restitution, on behalf of California courts and state agencies? The courts and state agencies refer these debts to us and we assist them by collecting delinquent debt.

A My COD Account gives you and your client the ability to view, monitor, and manage their debt online 24 hours a day, 7 days a week.

Logging into the secure My COD Account is easy and only requires the billing number, client last name and social security number. Once logged into the My COD Account, you will be able to do the following:

- View the current balance due.
- View the balance due summary for each active case.
- View the last 25 payments applied to the balance due.
- Make an online payment using a bank account or credit card.
- Apply for an installment agreement.
- Skip an installment agreement payment.
- Delay the payment due date.

You or your client may contact us at **916.845.4064** for assistance with My COD Account.

PIT IVR bill payment delay

Beginning June 20, 2017, personal income tax (PIT) taxpayers who receive an Income Tax Due Notice or Final Notice Before Levy and Lien can use a self-service option through our interactive voice response (IVR) system to request a one-time 30 calendar day delay to pay their bill balance in full. Interest and penalties apply until the balance is paid in full. The self-service option can be utilized by calling 800.689.4776 and is available 24 hours a day, 7 days a week.

When a taxpayer requests an IVR bill payment delay, their eligibility will be verified up front.

They may be eligible if:

- They recently received an Income Tax Due Notice or Final Notice Before Levy and Lien dated within the last 45 days
- They have not received a delay in the last 90 days
- They do not have an Earnings Withholding Order, Continuous Order to Withhold, or Order to Withhold in place
- They do not have an existing installment agreement

Ineligible taxpayers will only have the option to make a payment, go to the main menu to self-help, or during normal business hours, and request to be transferred to a customer service representative.

IRS: New scam to steal your passwords

The Internal Revenue Service, state tax agencies, and the tax industry (Security Summit) warned tax professionals about a new email phishing scam impersonating tax software providers and attempting to steal user names and passwords.

This sophisticated scam yet again displays cybercriminals' tax savvy and underscores the need for you to take strong security measures to protect your clients and your business. This is the time of year when many software providers issue software upgrades and when tax professionals are working to meet the October 15 deadline for extension filers.

These types of phishing scams are why the Security Summit launched the 10-week [Don't Take the Bait](#) campaign currently underway. This awareness effort highlights the many tactics of cybercriminals as well as the steps you can take to protect your clients and themselves.

This latest scam email variation comes with a subject line of "Software Support Update" and highlights an "Important Software System Upgrade." It thanks recipients for continuing to trust the software provider to serve their tax preparation needs and mimics the software providers' email templates.

The e-mail informs the recipients that due to a recent software upgrade, the preparer must revalidate their login credentials. It provides a link to a fictitious website that mirrors the software provider's actual login page.

Instead of upgrading software, the tax professionals are providing their information to cybercriminals who use the stolen credentials to access the preparers' accounts and to steal client information.

The Security Summit reminds you that software providers do not embed links into emails asking you to validate passwords. Also, tax professionals and taxpayers should never open a link or an attachment from a suspicious email.

You can review additional tips to protect clients and yourselves at [Protect Your Clients, Protect Yourself](#) on IRS.gov.

If you who receive emails purportedly from your tax software providers seeking login credentials you should send those scam emails to your tax software provider.

For Windows users, carefully follow this process to help in the investigation of these scam emails:

1. Use "Save As" to save the scam. Under "save as type" in the drop-down menu, select "plain text" and save to the desktop. Do not click on any links.
2. Open a new email and attach this saved email as a file.
3. Send a new email containing the attachment to the tax software provider, as well as a copy to **Phishing@IRS.gov**.

IRS tax tools in 10...

Give IRS ten minutes and they will share some tax tools to help you and your clients prepare for a disaster.

National Preparedness Month Webcasts for: Small Business and Industry

Topic	Date
Planning for Disaster “Making Sure You’re Ready”	September 1
Data & Records Protection	September 8
Federal Tax Relief	September 15
Calculating and Report Disaster Area Losses	September 22
IRS Disaster Assistance and Emergency Relief Program	September 29

10-minute sessions available online each day at the following times:

Session 1

11 a.m. Eastern; 10 a.m. Central; 9 a.m. Mountain; 8 a.m. Pacific; 5 a.m. Hawaii

Session 2

2 p.m. Eastern; 1 p.m. Central; 12 p.m. Mountain; 11 a.m. Pacific; 8 a.m. Hawaii

Register:

Email IRS at: SBSE.SL.Web.Conference.Team@irs.gov

Include the following information in your email:

- Name
- Email address
- Session date & time

Closed Captioning will be available.
Continuing Education will not be offered.

Questions?

Email IRS at: SBSE.SL.Web.Conference.Team@irs.gov

Ask the Advocate

Announcement from the California Department of Tax and Fee Administration Taxpayers' Rights Advocate



Susan Maples, CPA
Taxpayers' Rights Advocate
Follow me on Twitter at
twitter.com/FTBAdvocate

One of the things that I enjoy about being your Advocate is having the opportunity to meet with other California Advocates, including those from the Employment Development Department, the Governor's Office of Business and Economic Development, the Internal Revenue Service, and the new California Department of Tax and Fee Administration (CDTFA). We meet regularly to discuss issues affecting our stakeholders and to share information. This month, I wanted to share some important information from CDTFA about the restructuring of the Board of Equalization and their commitment to the Taxpayers' Bill of Rights.

Recently enacted legislation has led to a restructuring of the Board of Equalization (Board). On July 1, 2017, most duties performed by the Board were transferred to the newly created California Department of Tax and Fee Administration (CDTFA, Department) and the Office of Tax Appeals (OTA). This restructuring is a result of [Assembly Bill 102](#), The Taxpayer Transparency and Fairness Act of 2017, which was signed by Governor Brown.

Upholding the Taxpayers' Bill of Rights is a critical part of the law. CDTFA and its Taxpayers' Rights Advocate want to assure all tax and fee payers that the Taxpayers' Bill of Rights and the legal responsibilities of the Taxpayers' Rights Advocate have been unaffected by the restructuring and remain in force. Adhering to the California Taxpayers' Bill of Rights remains the top priority of CDTFA and the Taxpayers' Rights Advocate. Information needed and received by taxpayers will be applied consistently and clearly so that taxpayers will understand their rights. AB 102 created CDTFA and changed the roles and responsibilities of the Board. CDTFA

will be housed within the Government Operations Agency and will report to the Governor through that agency.

CDTFA will administer most of the taxes and fees previously collected by the Board, including sales and use tax, motor vehicle fuel taxes, marijuana taxes, and cigarette and tobacco products tax. This restructuring should have minimal impact on taxpayers and fee payers. Services previously provided by the Board, such as registration, tax and fee filings, and tax and fee payments have transferred to the CDTFA and will continue uninterrupted. During the transition, much of the business previously conducted through the Board's website will continue to be managed through the Board's website. Full migration of services to the CDTFA website will occur over time.

The Board will continue to function as an independent entity and will perform the duties it was assigned by the California Constitution, which include administering programs related to property taxes, insurance taxes, and excise taxes on alcohol.

Until December 31, 2017, the Board will continue to hear taxpayer appeals on all types of tax and fee matters. The OTA was established by AB 102 effective July 1, 2017, but will not begin its operations or conduct appeals, for those areas not covered by the constitutional authority of the Board until January 1, 2018 (e.g. property tax assessments, insurance tax assessments, and alcohol excise taxes). The OTA will hear appeals on all other tax and fee matters, such as franchise and personal income tax appeals, sales and use tax, and other special taxes and fees starting in 2018.

You can access more information at CDTFA.ca.gov or their [FAQs](#).

The Taxpayers' Rights Advocate (TRA) Office helps taxpayers when they are unable to resolve a matter through normal channels, when they want information regarding procedures relating to a particular set of circumstances, or when there are apparent rights violations in the audit, compliance, or property tax areas.

If you have a concern regarding a tax or fee matter administered by the CDTFA or a BOE-administered tax program, contact the CDTFA's Taxpayers' Rights Advocate at:

Taxpayers' Rights Advocate
California Department of Tax and Fee Administration
450 N Street, MIC 70

P.O. Box 942879
Sacramento, CA 94279-0070

[email](#)

Telephone: **916.324.2798**

Toll free: **1.888.324.2798**

Fax: **916.323.3319**

Inside FTB

Second interested parties meeting (IPM) - Withholding on domestic pass-through entities

We will hold a second IPM to discuss Domestic Pass-Through Entity withholding requirements in a new proposed regulation at California Code of Regulations, Title 18, Section 18662-7. The discussion will focus on proposed draft language, explanation document of the draft language, and diagrams.

Friday, September 8, 2017

Franchise Tax Board

1 PM Goldberg Auditorium

9646 Butterfield Way

Sacramento, CA 95827

For more information or to attend this meeting, follow the instructions on our IPM webpage.

MyFTB Corner

Update your contact information and ID numbers

Starting September 25, 2017, you can view your contact information and ID numbers on the new **Update Contact Information** page. From this page, you can select your preferred information as well as add, edit, or remove information, such as Names (individual and business), Addresses, and ID numbers.

Contact information and ID numbers

How can I view my contact information and ID numbers?

- Select **Update Contact Information** from the **Profile** dropdown menu.

- This displays your preferred information or the most recent information we received.
- Select the **Edit** link for the type information you need to update.

The screenshot shows the MyFTB website interface. At the top, there is a header with the FTB logo and 'STATE OF CALIFORNIA Franchise Tax Board'. A navigation bar includes 'Home', 'Client Notices', 'Services', and 'Profile'. The 'Profile' dropdown menu is open, showing 'Update Contact Information' (highlighted with a red arrow) and 'Manage Login & Password'. Below the navigation, the 'Update Contact Information' page is displayed. It features three main sections: 'Name and Address', 'Email Address and Phone Number', and 'ID Numbers'. Each section contains user information and links to edit that information.

Name and Address

Name: Jack Frost [Edit Names](#)

Business Name: (None provided)

Mailing Address: 9646 Butterfield Way [Edit Address](#)
Sacramento, CA 95827-1500

Physical Address: (None provided)

Email Address and Phone Number

Email Address: tax_it@myemail.com [Edit Email Address](#)

Phone Number: 123.123.1232 [Edit Phone Numbers](#)

ID Numbers

[Show Filter](#)

ID Type	ID Number
EFIN	000000

[Edit ID Numbers](#)

Important information about updating your contact information:

- Your preferred email address is used to notify you about your MyFTB activity.
- Your preferred name will display on notices we sent your clients.
- Your preferred contact information is used as a default for forms on MyFTB, such as Power of Attorney (POA) declarations.
- The email address indicated on the *POA declaration* is used to notify POA representatives when one of your clients has a new notice or correspondence to view in MyFTB. To update your email address on your declaration, see [How to Add or Edit a Representative's Email Address on an Active Power of Attorney \(POA\) Declaration](#).
- To update the email address tied to your login, click on the **Profile** menu item at the top of the page and select **Manage Login & Password** from the dropdown menu.

What else should I know about updating my contact information and ID numbers?

- We will send you an email notification when you update your contact information. If you update your email address we will send a contact update message to your new and old email address.

MyFTB Corner

What's new to view for tax preparer clients?

Starting September 25, 2017, you will be able to view notices, correspondence, and messages sent to and from us for your Individual and Business Tax Preparer clients (those clients without a Power of Attorney (POA) Declaration). Additionally, you can also view a list of proposed assessments for your Tax Preparer clients.

View Notices and Correspondence

How can I view my Tax Preparer clients' notices and correspondence?

- Select your client from your **Client List** page.
- Select **Notices & Correspondence** from the **Communication** dropdown menu.

By default, notices sent **From FTB** are displayed. Select the **To FTB** tab to see correspondence we received from or about your client.

Home Account Communication Services

MyFTB

John Doe
XXX-XX-0000
[Change Client](#)

CalFile
File your state tax return
[Start My Return](#)
[Contact Us](#)

Notices & Correspondence

Start Chat
Send Message

Not all Notices and Correspondence may be available.

From FTB To FTB

Show Filter

Sent Date	Tax Year	Title	Image
05/15/2017	1998	Additional Documentation Required - Refund Pending	View
05/15/2017	1998	Untimely Protest	View
05/15/2017	2009	Denied Tax Return Due to Filing Status	View

What else should I know about notices and correspondence?

- You can view, print, and save notices and correspondence.
 - Notices and correspondence will not display on your **Client Notices** list for your Tax Preparer clients.
 - You will not receive an email notification when one of your Tax Preparer clients has a notice or correspondence available to view online.
 - *Only* notices and correspondence for POA clients will display on your **Client Notices** list.*
 - You will *only* receive email notification for POA clients when they have a notice or correspondence to view and you included your email address on the POA Declaration.*
- *You can only view notices and correspondence for tax year(s) or account period(s) indicated on the POA Declaration.

View Proposed Assessments

How can I view my Tax Preparer client’s proposed assessments?

- Select your client from your **Client List** page.
- Select **Proposed Assessments** from the **Account** dropdown menu.

The screenshot shows the MyFTB interface. At the top, there are navigation tabs: Home, Account, Communication, and Services. The 'Account' dropdown menu is open, showing options: Account Summary, Estimate Payments & Credits, Payment History, Returns, and Proposed Assessments (which is highlighted). Below the menu, the 'Proposed Assessment List' is displayed. On the left, there is a client profile for John Doe (XXX-XX-0000) with a 'Change Client' link. Below that is a 'CalFile' section with a 'Start My Return' button and a 'Contact Us' link. The main content area shows a table with the following data:

Tax Year	NPA NUMBER	Amount	Status	Protestable Online
2013	1704420001	\$1,000.00	Pending	Yes*
2012	1704420000	\$5,812.56	Pending	Yes*

* To protest a proposed assessment online, you must have an active POA declaration for the year on the assessment. If you do not have an active POA, your client may submit the protest online.

The amount above equals the amount on the last notice we issued for the NPA Number and does not include any additional interest or penalties.

If you want to make a payment or request a payment arrangement, go to [payment options](#).

To respond to a proposed assessment not protestable or viewable online, [send FTB a message](#). View [Help](#) for information on what is protestable online or if you do not see your proposed assessment listed.

The **Proposed Assessment List** displays a list of proposed assessments for your client, as well as a list of protests that have been submitted online.

What else should I know about proposed assessments?

- Some proposed assessments will not display on the Proposed Assessment List, such as Notice of Proposed Assessment for Carryover Amount (NPACA).

- To protest a proposed assessment online, you must have an active POA Declaration for the year on the assessment. If you do not have an active POA Declaration, your client may submit the protest online.
- Protest submitted by US Mail, fax, or MyFTB message may be available to view on the **Notices and Correspondence** page.

All About Business

Changes to partnership due dates under Assembly Bill (AB) 119.

There have been two recent changes to the filing due dates for partnership returns:

AB 1775 (2016) conformed California law to corresponding federal law and changed the filing due dates for business entity returns. We discussed these changes in our October 2016 issue of Tax News.

AB 119 (2017) changed the extended filing period for partnerships and limited liability companies (LLCs) classified as partnerships from six to seven months.

So how does this affect the filing and processing of your clients' 2016 and 2017 partnership returns?

As part of the change in the law, the California Legislature authorized a one month "grace period" for the 2016 tax year during the transition period from the former six-month filing extension period to the new seven-month extension period. It's important to note that this only applies to partnerships and LLCs classified as partnerships.

For tax year 2017 returns, we will update our tax forms and instructions, as well as our return processing systems to automatically allow the seven-month extension to file. However, due to the timing of the law change (June 27, 2017), 2016 California tax forms, related instructions, and our internal systems for processing returns still reflect a six-month extension. Therefore, for 2016 returns, we are taking proactive steps internally to avoid the imposition of late/failure to file penalty for partnership returns timely filed during the grace period.

While we will make every effort to avoid imposing a late/failure to file penalty for 2016 partnership returns timely filed during the grace period, if your client receives a notice from us that a late/failure to file penalty was imposed and you believe this is in error, you should contact us. We will review the matter and if the return was submitted within the appropriate time period, we will abate the late/failure to file penalty on the 2016 tax year.

Qualifying entities:

- Partnerships required to file under Revenue and Taxation Code (R&TC) Section 18633
- LLCs classified as partnerships under R&TC Section 18633.5

Eligible penalties:

- The delinquent filing penalty under R&TC Section 19131.

The failure of a partnership to comply with filing requirements penalty under R&TC Section 19172.

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.