chair John Chiang
member Jerome E. Horton
member Ana J. Matosantos

State of California
Franchise Tax Board

02.16.12

Lynn Freer
Spidell Publishing, Inc
PO Box 61044
Anaheim, CA 92803-6144

Dear Ms. Freer,

Thank you for your presentation at the Taxpayers' Bill of Rights Hearing held on December 1, 2011. I am responding to the proposals you submitted.

Disability Waiver of Mandatory e-Payment Requirement
Initially, FTB looked at the legislative process to create a permanent disability mandatory e-pay waiver. We have since determined that we could handle these permanent waiver requests administratively. This administrative remedy is in the process of being developed and requires changes to existing forms, publications, processing procedures, website content, and our IT systems. We are working as quickly as possible and expect that the mandatory e-pay permanent disability waiver will be available to taxpayers prior to the April 15 filing deadline. Once the process becomes final, we will update our external website and publish a Tax News article.

Property Tax Deduction on Schedule CA
We understand the importance of educating taxpayers and tax practitioners to improve self-reporting of property taxes as an itemized deduction. While some taxpayers and practitioners correctly report this deduction, we realize that many taxpayers are not aware of guidance provided by the IRS and FTB on how to correctly report this deduction. Our goal is to provide information and tools needed to accurately report this deduction.

After exhaustive research, we believe and have announced that federal law is clear in that an itemized deduction for real property tax is not allowed for a Mello-Roos assessment, to the extent it is not based by the value of the property assessed. However, the Chief Counsel of the Franchise Tax Board formally requested clarification from Chief Counsel of the Internal Revenue Service (IRS) in Washington DC regarding the validity of a memorandum authored in 2003 by a local IRS attorney indicating that a Mello-Roos assessment may be deductible even though it is not assessed on an ad valorem basis.

We also contacted each county with information about our *Real Estate Tax Deduction Education Campaign*. This includes our education efforts for the current filing season, as well as additional reporting requirements beginning with the 2012 tax return.

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We will continue to enhance our webpage with guidance and links to county information to assist taxpayers in understanding their tax bills so that they can accurately determine the legally allowable deduction for real estate taxes.

Sincerely,

Steve Sims, EA
Taxpayers' Rights Advocate

cc: Hon. John Chiang, Chair
Hon. Jerome E. Horton, Member
Hon. Ana J. Matosantos, Member