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Issue 2007-19

## **ExacNews**

### **Exactax Client:**

The September 17<sup>th</sup> deadline for most calendar year corporation returns will be here in just about four weeks and October 15<sup>th</sup> will be right on its heels. Be sure to order any additional input forms that you may need as soon as possible.

### **Batch Renewals**

Please look for your 2007 batch renewal forms being mailed later this month. Renewals for RDE clients were mailed in May. If you have not received your RDE renewal, please contact our Customer Support Department to request a duplicate as soon as possible.

### **Fall RDE Update Workshops**

Due to your many comments and suggestions Exactax will be hosting three 2007 RDE Update Workshop sessions at our Anaheim location during the second week of November. These workshops will use the early version of the 2007 tax program. A list of the dates and sign up information will be in an upcoming bulletin.

### **Tax Newsletter and Holiday Cards**

Next week Exactax will again be sending out order forms for holiday card/calendars and an end-of-year tax newsletter. This year several new customizing features and additional selections have been added, making these a great marketing value.

### **RDE Users – Make Backups!**

We can't emphasize the importance of this enough! All RDE users should be making regular backups of all data files. Basically, it's just like brushing your teeth... you don't have to do all of them, just the ones you want to keep. Making a backup in UltraTax is very easy:

- Create a folder to hold the backup files. Make it somewhere easy to locate.
- Start UltraTax and from the *File* menu select *Backup*
- On the Backup dialog press the *Select All* button.
- Review and change the backup location setting in the lower right-hand corner, as needed, to point to the folder you created.
- Backing up to another location on *your hard drive alone* won't help in the event of a crash. We recommend that you also then copy your backup directory to your CD or DVD drive and write a new disk each time or copy to a separate drive.

- It's also a good idea to keep a recent backup off-site in the event of a fire, theft or other disaster.

### **New RDE Users**

If you are planning to switch to RDE for the first time in the upcoming year, we strongly suggest that you start now with some of your 2006 extension returns. There is quite a difference between using the program and using input forms. Your learning curve will benefit from the additional experience.

### **Holiday Schedule**

Exactax will be closed on Labor Day, September 3<sup>rd</sup>.

### **Tax News of Some Interest**

California is one of 38 states who tax interest earned on bonds issued by other states and their political subdivisions while exempting interest earned on their own. The U.S. Supreme Court has decided to review a Kentucky Court of Appeals decision that held such a statute unconstitutional. (*Dept. of Revenue of the Commonwealth of Kentucky et al. v. George W. Davis et ux.* (August 17, 2006) 193 S.W.3d 557 (No. 2006-5C-105-D); S. Ct. Dkt. No. 06-666). While the Kentucky decision did not directly affect California taxpayers, if the U.S. Supreme Court rules in favor of the taxpayers, Californians may be eligible for refunds of tax paid on interest from out-of-state municipal bonds.

Because this issue could take years before it is resolved for California, it is recommended that taxpayers who reported interest on out-of-state municipal bonds file protective claims for refund for all years still open under the statute of limitations. A protective claim is normally done by filing a 540X and writing “**PROTECTIVE CLAIM**” in red ink at the top of page 1 of your completed Form 540X. Specify the pending litigation or reference the federal determination on Side 2, Part II.

**Caution:** If you prepare a claim for refund to protect a client's potential refund from an expiring statute of limitations, it is important to explain to your client that the entire tax liability for the period in question is subject to audit. In determining whether taxes are overpaid, the FTB “is not confined to the isolated transactions on which the taxpayer's refund claim is based.” (*Sprint Communications Company L.P. v. State Board of Equalization* (1995) 40 Cal.App.4th 1254.)

The California Supreme Court has repeatedly held that a refund claim opens a taxpayer's entire tax liability for the year in question. However, for deficiency items that are barred from assessment by the statute of limitations, the FTB may only assess tax to reduce a refund claim to zero. (*State Board of Equalization v. Superior Court* (1985) 39 Cal.3d 633; *Title Insurance Company of Minnesota v. State Board of Equalization* (1992) 4 Cal.4th 715.)