

March 10, 2008

Issue 2008-8

ExactaxNews

Exactax Client:

Due to the Economic Stimulus Act of 2008, two new worksheets have been added for informational purposes. The first will show the amount of projected stimulus tax payment (before any offsets) based on calculated amounts from the 2007 tax return and the other shows the projected recovery rebate credit for 2008 based on the Tax Projection Worksheet. See separate special ExactaxNews bulletin, Issue 2008-9, for complete details, updated input forms and new Input Form [1SP]. Form [1SP] can be used for most non-filers to produce a specially priced 'Stimulus Payment' Form 1040A.

The first deadline for corporation returns with a calendar year end is Monday, March 17, 2008. Exactax telephone support will be open on Saturdays, from 8:30 AM to 5:00 PM, to assist you with your questions and reruns. UPS and California Overnight do not pick up from Exactax on Saturdays. However, pick up of returns will be available at our Anaheim facility. Please mark your Form PI as 'Hold for pickup' in advance.

Postage Due

There has been a recent rise in the number of packages arriving at Exactax with postage due. Not only does this cost more, it delays the delivery of your package to us. Per Exactax policy, if mail is received from your office with postage due it will be accepted and a minimum procedure charge of \$3.00 will be billed. Additional amounts will apply if the postage due is over \$1.00.

Note: The minimum postage on the 9 ½ x 11 envelopes is currently **\$0.80**.

Fiscal Year Proforma

2007 proforma has been shipped for all 2006 fiscal year business returns processed from February 19, 2008 through March 6, 2008. If applicable, RDE downloads have also been created and are available through the RDE Communications Center. Select 2007, *Utilities/Retrieve Proforma Files*.

Program Updates/Changes (effective with release on 3/04/08)

California IRA deduction limits

The state of California has updated their instructions for the IRA deduction calculation. For married filing joint and qualifying widow(er) statuses, the new phase-out is now federal adjusted gross income of \$80,000 to \$100,000. The prior phase-out amounts were \$75,000 to \$85,000. Returns prepared prior to March 4th using filing status married filing jointly or qualifying widow(er) with an IRA deduction on federal Form 1040, line 32, should be reviewed. If an addition was made on Schedule CA for the IRA deduction, an amended return may need to be filed.

California Allocated tips

With this release, allocated tips entered on federal Form W2 [20A/B] in Box 8 (zip 33), are no longer included as an addition to income on Schedule CA. Previously prepared returns with tips entered on Form W2, Box 8, should be reviewed.

California Schedule S, Other state credit

With this release, nonresident California returns claiming a credit for other state's tax on Schedule S, will correctly calculate line 2 on Schedule S when Arizona or Oregon resident returns is attached. Returns prepared prior to this release that included an Oregon or Arizona return with a California nonresident return should be reviewed.

Common Errors

Efile – Enter Required Data

Many returns are being held up due to incomplete input. Each time this occurs, the return is pulled aside and someone must try to resolve the error or contact you. The most common items are:

- Missing FEIN or state ID numbers on Forms W2 and 1099
- Missing or incomplete employer/payer address on Forms W2 and 1099
- Incorrect or missing PIN authorization indicator code on Form PIN [3A], zip 5. This must be code '4' for joint returns and '2' for all others.
- The state wage line on Form W2 [20B] does not have the required postal code in zip 42.

IRA Basis and Value

When there is a distribution of a traditional IRA and there is basis present on Form IRA [60A] then there should always be an entry for the value on 12/31/07, even if zero, so that the Form 8606 can correctly compute the amount of basis recovery.

When there is a distribution of a Roth IRA, other than a code 'Q' (qualified), there should be an entry for the basis on 12/31/06 and for the value on 12/31/07, even if zero.

Education Credit/Tuition and Fees Deduction

To claim either the education credit or the tuition deduction, a qualified student must be entered on Form Educ [60B]. The student **MUST** also be listed on Form 1040 [1]. If the student was a dependent last year and was proformaed on Form [60B], but is no longer a dependent on Form [1], they must be deleted from Form [60B].

Frequently Asked Questions

1040: Why is the taxable state refund on 1040 less than the gross amount on Input Form [22B]?

There are several reasons that this may occur due to the amount of tax benefit received. Tax benefit can be affected by prior year itemized deductions, sales tax, taxable income and alternative minimum tax. The computation of taxability is shown on the Tax Refund Worksheets included in your copy of the return. For more information on the computation refer to IRS Publication 525.

1040V: I normally get Form 1040V with balance due returns but I didn't receive one with Form 1040A. Why?

The Form 1040V is only to be filed with Form 1040. Taxpayers filing Form 1040A, 1040EZ or 1040NR just enclose an unattached check.

RDE Quick Tip

To get the IRS instructions for a particular tax form, click on the *Help* menu and select *Tax Subject Index [Ctrl-H]*. Click on the *Web Form Instructions* radio button. You will get an extensive list of forms and publications that will launch from the internet.

For a specific reference, open the input screen for a particular form, for example Screen CR-3 for Residential Energy Credit, Form 5695. Right-click anywhere on the screen and a pop-up menu will appear. Select *Web Research / Government* and a menu with several selections will appear. A link to the IRS instructions for the Form 5695 will appear at the top. Click on the selection to launch from the internet.