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Issue 2009-05

## **ExacNews**

### **Exactax Client:**

The 2008 tax filing season is now in full swing. Courier service is up and running and electronic filing is available for all supported products. As shown below, proforma and supplies for all but the 990s have been shipped. Instruction manuals continue to ship as they become available.

### **Office Hours**

Office hours are currently 8:00 AM – 7:00 PM Pacific Time.

The RST Department (**Rerun/Supplies/Tracking**) is open until 8:00 P.M for reruns, supply orders and tracking.

Saturday office hours are from 8:30 – 5:00 Pacific Time.

### **Proforma and Supplies**

Proforma and starter kits for late renewals have been shipped. Proforma and supplies for 1040 states other than California and all state proforma for business began shipping last week.

### **Instruction Manuals**

1040 instruction manuals began shipping last week. Business manuals, except 990, begin shipping this week.

### **Avoid Postage Due**

When mailing input forms in the large pre-addressed Exactax envelope with the green diamonds, remember that the **minimum postage is \$0.83**, up to a maximum of one ounce (about 4 sheets of paper). Packages over one ounce require additional postage. Envelopes with postage due will incur procedure charges.

### **C.O.D. Policy**


**IMPORTANT: Accounts with an outstanding balance over 21 days will be placed on C.O.D. status.**

**Accounts using Courier Service will have all shipments held until the account is current.**

**All other C.O.D. accounts will be shipped UPS C.O.D. until the account is current.**

### **RDE Software Releases**

UltraTax version 2008.4.0 from Creative Solutions became available for download on February 4<sup>th</sup> and contains all previously released products. The CD is being shipped this week from Creative Solutions. Check regularly for updates available on your *Home Page*

by pressing the *Home Page* icon on the upper right-hand side of the tool bar . Updates will not install a new version. A new version must be downloaded from the CS Professional Suite web site and installed or installed from the new CD.

## 2008 Rebate Computation

The IRS has reported that over 15% of the returns filed have an error with the 2008 Recovery Rebate Credit. Returns processed by ExactTax have had about the same error rate. To insure an accurate return please follow these tips:

- Do Not write a number in zip 1 - This is a check box.
- Do Not check zip 1 unless there is a pre-printed projected amount that is correct.
- Do Not write a number in the shaded proforma field for the projected amount.
- Make your life easier – ignore everything else on Form [1A] and just use zip 4.

There are currently too many errors occurring on this form for our Audit Department to call on every one. Therefore, from now on our audit policy with regard to Form [1A] will be, when this form is submitted and the entry is missing or incorrect we will attempt to check zip 12, *Have IRS figure the credit*. This will print the notation ‘RRC’ to the left of 1040, line 70. However, we can’t guarantee that we will be able to catch every one.

**Note:** For e-file returns an entry in Box 12 will disqualify the return. In addition, no entry in zip 4 and 5 will also disqualify the return. If you guess and e-file with an incorrect amount, the return will be rejected with error code 269. Therefore, once again we recommend that if your client does not have their copy of Notice 1378, go to the IRS web site and verify the amount received, especially for e-file returns.

**RDE Users:** A new ‘web research’ item has been added to Screen Cr-4 in UltraTax version 2008.4. Right-click anywhere on the screen and from the pop-up menu select *Web Research / Government / How Much Was My 2008 Stimulus Payment?* This will launch your browser and take you directly to the IRS web page to verify the payment.

## Schedule B Diagnostics

At the request of the IRS, computer tax software companies were asked not to default an answer to question 8 on Schedule B, Part III which reads: “*During 2008, did you receive a distribution from, or were the grantor of, or a transferor to, a foreign trust?* If left unanswered, you will always receive the diagnostic: “*Schedule B, Part III – Foreign trust activity question not answered.*” This question must be answered *Yes=1* or *No=2* at the bottom of Form [26B], in zip 12. Answering this question ‘Yes’ will force Schedule B to print. Answering ‘No’ does not make Schedule B print.

1040, Schedule B, Part III, Question 7a says “*At any time during 2008, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account?*” This is answered ‘No’ by default unless a country name is entered in zip 11 on Form [26B]. However, even though the default answer is ‘No’ you will still receive the following diagnostic: “*If taxpayer (or spouse, if filing jointly) had an interest in or signature or other authority over or owned 50%\$ or more of a corporation owning one or more foreign bank accounts, enter the name of the country*” whenever the country is blank.

## Property Tax or Renter’s Credit?

To claim the \$500/1,000 addition to the standard deduction for real estate tax, enter the total amount paid on Input Form [70A] zip, 18. Do not duplicate the personal portion

automatically carried from a rental with business use or a home office. If not entering any real estate tax don't forget to enter the number of months on Form CACr-2 [CA22] for the California non-refundable renter's credit, if qualified. A diagnostic will alert you when these entries may have been overlooked.

### **Bonus Depreciation and Electing Out**

Bonus depreciation is currently required on all new qualified property placed in service in 2008 and will automatically be computed by default. If the asset is used property, check the *Used Property* box located above the *Date In Service* field on the depreciation forms, to stop the computation. Bonus depreciation is not shown separately like Section 179 expense is; it is simply included as part of the current depreciation total.

To elect out of bonus depreciation for all assets in one or more class of property, submit Input Form *Bonus Depreciation Elections* [54]. In the 2008 section of Form [54] check each class where the election applies or check the last box to elect out for all classes. This will stop the bonus computation for all classes indicated and will automatically generate the required election statement (new enhancement this year). Do not duplicate this election with an election entry on Input Form [2].

### **Change in Dependent Rules**

Many of the most challenging tax questions involve filing status and dependent exemptions. IRS Publication 501 covers exemptions, the standard deduction and filing information. You can get it at the IRS web site, [www.irs.gov](http://www.irs.gov).

New regulations were issued during 2008 that require a non-custodial parent to attach Form 8332, Release of Claim to Exemption For Child of Divorced or Separated Parents, to his or her income tax return when claiming the dependent exemption; (Treasury regulations § 1.152-4, TD 9408, 73 FR 37797, July 2, 2008.) In most cases, a court order won't be sufficient to be entitled to a dependent exemption.

A child who is age 18 or over may be considered to be emancipated under the state law of residence, and therefore not in the custody of either parent during the period after reaching age 18! A parent still can qualify to claim the exemption and head of household status if other tests are met.

When an unmarried couple share a household where an unrelated partner provides the support for the household and the "custodial parent" mother or father of a child that lives in the household isn't working and isn't required to file an income tax return, except to claim a refund, the unrelated partner can qualify to claim the child as a dependent, but probably won't qualify as a head of household because the child isn't a "qualifying relative." This announcement is retroactive to taxable years beginning after December 31, 2004, so taxpayers who fit this scenario should consider filing an amended income tax return. (Notice 2008-5, 2008-2 I.R.B. 256.)

### **Revised Input Form and IRS Guidance on First-time Homebuyer Credit**

Late changes to the Input Form 5405 [80G], First-time Homebuyer Credit, changed the wording of the question on zip 13. A revised copy of this form is included. Please replace any existing supplies.

The IRS has recently given examples of how the first-time homebuyer credit, under Internal Revenue Code Section 36, may be allocated among unmarried co-owners of property. The credit applies to the purchase of a principal residence after April 8, 2008 and before July 1, 2009 by individuals who have not owned a principal residence for more than three years before the purchase. The Notice gives a lot of flexibility for the allocation. For example, if two individuals purchase a residence and otherwise meet the requirements to claim the credit, but one of them has too much modified adjusted gross income to claim the credit, all of the credit can be allocated to the individual who can use it. (Notice 2009-12.)

**Note:** The homebuyer credit is currently being revisited in the Economic Recovery legislation now in process. Stand by for developments.

### **Cancellation of Debt Information Return is Just a Starting Point**

When a taxpayer has had a cancellation of debt and the creditor issues a Form 1099-C [96A], this is just a starting point. For example, if the cancellation is in connection with the foreclosure of a non-recourse mortgage, the cancellation income will be included with sale proceeds to report the sale of the property. The debt may be excluded from income relating to insolvency or under the federal tax law excluding cancellation of debt for a principal residence, claimed on Form 982 [96B]. Special disclosure may be required. See IRS Publication 4681 for more information.

### **California Educator Expenses as an Itemized Deduction**

California has never conformed to the federal adjustment to income for educator expenses of \$250 per qualified taxpayer. This adjustment is automatically added back to California income on Schedule CA. In prior years this expense was not automatically taken as an additional state itemized deduction, subject to 2% of AGI, and needed to be manually entered on Form CAAAdj-2 [CA2]. This year the educator adjustment that is added back to California income will automatically be added to California itemized deductions subject to 2%, recomputed, and the difference taken as an adjustment on Schedule CA, Part II, line 41. In addition, state-if-different California itemized deduction amounts coming from Forms K-1 or K1-T will also be included in this computation. Do not duplicate these amounts on Form [CA2]. To override this computation, enter an amount, including zero, in zip 23 on Form [CA2].

**Note:** Qualified Tuition and fees entered on Form Educate [60B], zip 9, do not currently have the option to be automatically claimed on California as an itemized deduction. Enter the amount from Form [60B] that qualifies as employment-related education expense on Form [CA2] in the CAAAdj-2 section, zip 20. This amount adds directly to the adjustment and is not recomputed subject to 2% of AGI.

Address (If different from address reported on Screen 1040) . . . 1 \_\_\_\_\_

City, state, zip code . . . . . 2 \_\_\_\_\_ | 3 \_\_\_\_\_ | 4 \_\_\_\_\_

Date acquired (After 4/8/08 and before 7/1/09) . . . . . 5 \_\_\_\_\_

Proforma information do not elect to take credit in 2008 (For home purchased after 12/31/08 and before 07/01/09) . . . . . ✓ 6 \_\_\_\_\_

Purchase price . . . . . ★ 7 \_\_\_\_\_

Principal residence was either purchased from a related party, is located outside the United States, or was acquired by gift or inheritance . . . . . ✓ 8 \_\_\_\_\_

Home was financed with tax exempt mortgage revenue bond proceeds . . . . . ✓ 9 \_\_\_\_\_

The home has been sold or is no longer being used as the principal residence? . . . . . (1 = Yes, 2 = No) 10 \_\_\_\_\_

In the period three years prior to the purchase date has:

    Taxpayer owned or had an ownership interest in a home? . . . . . (1 = Yes, 2 = No) 11 \_\_\_\_\_

    Spouse owned or had an ownership interest in a home? . . . . . (1 = Yes, 2 = No) 12 \_\_\_\_\_

Were the taxpayer and spouse married on the purchase date? . . . . . (1 = Yes, 2 = No) 13 \_\_\_\_\_

Taxpayer allocation percentage (If married defaults to 50%; if not married defaults to 100%) (xxx.xx) . . . . . 14 \_\_\_\_\_

Spouse allocation percentage (Defaults to 50%) (xxx.xx) . . . . . 15 \_\_\_\_\_

Owners other than taxpayer[§ 16]		Ownership %
#	Owner Names	

Adjustment to modified adjusted gross income (For First-time Homebuyer credit only) . . . . . 34 \_\_\_\_\_