

February 16, 2009

Issue 2009-06

ExacNews

Exactax Client:

In-house turnaround time remains excellent and the phone response time is averaging less than 90 seconds. To maintain quality service for all of our clients please limit the scope of your calls to questions about the Exactax system and not tax law or research. Each year as the tax law becomes more complex there are many different and difficult issues that need to be resolved. Exactax does not provide the extended level of service needed to answer these types of questions. Please consult services such as PPC, CCH and RIA that are intended to do just that.

Extended Hours

Extended hours are now in effect. Production, Technical and Customer Support departments will be open from 8:00 A.M. until 7:00 P.M (Pacific Time) Monday-Friday and 8:30 to 5:00 on Saturdays.

The RST Department will remain open from 8:00 A.M. until 8:00 P.M, Monday-Friday, for reruns, supply orders and tracking the status of returns only. The RST Department will be open from 8:30 A.M. until 5:00 P.M on Saturdays.

Support for billing and credit card payments is available from 8:00 to 6:00, Monday-Friday. Ask for extension 225.

Instruction Manuals and Proforma

All instruction manuals, except 990, have been shipped. Proforma for 990s will ship this week. The 990 manual will ship as the update is available.

Note: Some 990 proforma and supplies were shipped inadvertently that contained 2007 input forms. If you received these supplies, please discard them and wait for the correct 2008 forms.

2007 Returns on CD Now Available

The form for ordering 2007, 2006 and 2005 archive of returns on CD is included with this mailing.

Priority and Express Mail

Priority and express mail will arrive here the fastest if you send it directly to our street address. Do not send this type of mail to the PO box.

Photocopy Policy

All documents submitted with the input sheets will be photocopied and billed .75 per sheet. Exactax does not attempt to make any determination or analyze the applicability of attachments to the return.

Correction - Bonus Depreciation Election

In the previous ExacNews it was indicated that making any election out of bonus depreciation on Form [54] would automatically print the required election statement. The election statement will automatically print only when an election out of ALL classes has been made. For any election other than for all classes, you must also enter the corresponding election code(s) at the bottom of 1040, Form Letter [2], in zips 50 – 68. The same rule applies to this election in the business system. For all systems the zips for this election are located on Form [2] except for 1120, which uses Form [2A]. The election code numbers are listed on the bottom of each form.

No Charge Rerun Period for 1040 Batch Returns Ending

The ‘No Charge’ period for 1040 batch return telephone reruns ends on February 28th. All reruns must be called in or received by February 28th to qualify. Per ExacTax policy, when there is an ExacTax error, the error is always corrected at no charge. However, if additional changes are requested, or items are added that were not part of the original return, then the applicable charges will apply.

RDE Users – Make Backups!

Start early and do it frequently. We can’t emphasize the importance of this enough! All RDE users should be making regular backups of all data files. Making a backup in UltraTax is very easy once you have it set up:

- 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. This can also be your USB drive that you plug in.

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.

Note: Most systems are not set up to back up directly to a CD OR DVD and must first back up to the hard drive or some other drive.

Common Errors and Frequently Asked Questions

Below is a list of common questions and input errors that ExacTax has been encountering. Many of these are being corrected and reprocessed at no charge during the free rerun period but they increase the processing time. Please review the ExacTax messages that come with the return to see if changes or corrections have been made so that you can avoid the making the same errors in the future.

Form [3A] Direct Deposit/Debit: When entering the bank information on Form Info [3A], verify that the routing number (RTN) is valid. This number is normally found at the bottom of a check, not always on a deposit slip. A valid number is 9 digits long and must

begin with the first two numbers from 01 through 12 or 23 through 32. Any other numbers at the beginning are invalid.

Forms [20A/B] and [23A/B] zip 3: All W2s and 1099s require an employer or payer name. If left blank on a W2, ExactTax will enter 'WAGES' in the employer name field; if left blank on a 1099R ExactTax will enter 'PAYER'.

When federal wages are entered and no entries are made for Social Security or Medicare wages, ExactTax automatically enters the federal wages in the fields for Social Security and Medicare wages and computes the amount of tax withheld on each. If any of these fields should be zero, **you must enter a zero in each applicable field.**

Form [22B], zip 1: On new clients, the state tax refund is often entered with a code 1 or left blank, (to compute the State Tax Refund Worksheet), but the 2007 amounts required to compute the worksheet are missing. To treat an amount as taxable, without going through the State Tax Refund Worksheet, enter a **code 7** in the Type Code field. If a code 7 is not entered and the 2007 amounts are not entered, the refund will not be taxable.

Form [23A/B]: When Form 1099R for a Roth IRA distribution has a distribution code other than:

- 'Q' (qualified distribution) or
- 'T' (exception applies), with age over 59 ½ and zip 79 is checked (contribution or conversion was made over 5 years ago)

then entries must to be made on Form IRA [60A] for the Roth basis and the value on 12/31 so that Form 8606 can compute the taxable portion correctly. Form 1099R, zip 8, Taxable Amount, is disregarded for a Roth distribution and a zero entry will not make it non-taxable.

Forms [50, 51, 52 and 72] Depreciation: All assets entered on these forms must have a description and a date in service ('Various' is not allowed as a date). Unless the asset is a vehicle using the standard mileage method or is rented/leased, then a cost, method and life must also be entered.

Do not write 'Out of Service', 'Sold' or other notations across the depreciation input form. If the asset was sold or taken out of service, complete the applicable disposition input form. If the asset is to be deleted, draw a clear X through the entire asset.

Form [70A], zip 26: Additional State/locality Info [70A]: 2008 is the fifth year that the sales tax deduction has been available and we are still encountering numerous errors in the input. These errors slow the review process and result in an incomplete sales tax computation. If there is no additional local rate and no change in residency do not make any entries in this field.

Remember, maximizing the sales tax deduction is important even when state income tax will be deducted. This is because the taxability of a state tax refund is limited by the amount that could have been deducted for sales tax. The minimum required entries on Form [70A], zip 26 for additional local sales tax are each identified with a black star★:

- The state postal code in the 'ST' column

- The name of the locality
- The additional local rate in excess of the state base rate.

Note: We regret that the program is not currently designed to look up the local rate based on the locality name. Therefore, you must provide the local rate.

(Additional entries may be needed if the taxpayer moved, the local rate changed, etc.)

If the taxpayer did not move during the year (code 3 in column 2) and there was no change in the local rate during the year (code 4 in column 2), **do not make any entries** in the Part-Year Date From or Date To fields. Dates of 01/01/08 and 12/31/08 are often entered unnecessarily.

Note: Entries in zip 27 are for the additional sales tax on certain major purchases. Do not enter the purchase price, only the actual sales tax paid.

Form Cr-3 [80C]: Form 5695 – Residential Energy Credit: We have received many calls about the credit for expenses for windows and doors. The credit for these items expired last year. The only items available for 2008 are listed on the input form. Please refer to the IRS instructions for Form 5695 for more information.

Note: Do not make entries in the section titled *Joint Occupancy* unless the taxpayer owns the house with someone other than a spouse.

Form Cr [80A]: Form 2441 – Dependent Care Credit: The total amount paid to providers must equal the amounts paid for each dependent on Input Form 1040 [1]. When there is more than one dependent and amounts have only been entered for the providers, then Audit will need to contact you.

Note: California e-file requires that the telephone number is entered in the column titled *State Use CA/HI/ME*.

Form 8910 [80F]: Alternative Motor Vehicle Credit: Please refer to the IRS web site for the latest credit information. The only 2008 models that qualify for this credit are the Ford Escape Hybrid and the Mercury Mariner Hybrid. Other 2007 models qualify if purchased in 2008; however no Toyota or Lexus models qualify after 09/30/07.

Form AMT [84]: Minimum Tax Credit:

Another late change to this input form has added 8 new zip boxes, 63 through 70, to enter additional Schedule D information from the 2007 return. ExactTax will update the batch proforma files to include these figures and reprint Form [84] for all returns where there is a minimum tax credit carryover from 2007 or where minimum tax was paid in 2007.

RDE users will also receive re-printed forms when applicable, and will need to enter the new amounts on Screen AMT.

Form 8801 - Credit for Prior Year Minimum Tax

Enter amounts from 2007 return.

* If prior yr Sch D Part IV (or Sch D Tax Worksheet) not completed enter amount that would have been reported.

Table with 2 columns: Description and Amount. Rows include Form 6251, 1041, Minimum tax credit NOL deduction, Child's earned income plus min exempt, U.S. real property net gain, Minimum tax foreign tax credit, Form 6251, line 34, Form 6251, line 35, Electric vehicles CO's, 2007 filing status, 2007 Qual Div & Capital Gains WS In 6 or Schedule D Tax WS In 13*, 2007 Schedule D line 19*, 2007 Schedule D Tax WS line 10, 2007 Next Year's Tentative Minimum Tax Credit WS line 30(2008, 8801 In 32), 2007 Qual Div & Capital Gains WS 7 or Schedule D Tax WS In 14*, 2007 Form 2555 line 45, 2006 Form 8801 line 18, 2006 Form 8801 line 20, 2007 Form 8801 line 18, 2007 Form 8801 line 20, 2007 Form 8801 line 55, 2005 Form 8801 line 26, PY AMT attributable to exercise of ISO (Unpaid as of 10/03/08), Int & pen on PY AMT due to exercise of ISO (Paid before 10/03/08), 2007 Qual Div & Cap Gn WS Ln 3 or Sch D Tax WS In 9*, 2007 Form 1040, line 9b, 2007 Sch D line 7*, 2007 Sch D line 14*, 2007 Sch D line 15*, 2007 Net 28% cap gain/loss, 2007 Form 4952, In 4g, 2007 Form 4952, In 4e.

† Filing status 1 = Single, 2 = Married filing joint, 3 = Married filing separate, 4 = Head of household, 5 = Qualifying widower

CO

Carryovers

Minimum Tax Credit carryforward to 2008 (from 2007 Form 8801, line 28) 2

CACrAMT

California Form 3510 Credit for Prior-year AMT - Exclusions

Enter data from the prior year Schedule P or P(NR)

Table with 2 columns: Description and Amount. Rows include Part I, lines 15 through 18 - Taxable income, NOL, AMTI exclusion, Part I, lines 1 through 7, 13a, 13c, 13l - deductions, contribution, depletion, qualified small business stock, Exclusions items (Includes Sch K-1 (541), line 9d, column (d)), Part I, line 20 - AMTCNOLD, Filing status was married filing separate, Part II, line 22 worksheet, line 1 - Base amount, Part II, line 22 worksheet, line 3 - Threshold amount, Part II, line 22 worksheet, line 9 - Minor child AMT exemption, Part II, line 25 - Regular tax before credits (Resident only).

Form 3510 Credit for Prior-year AMT - Form 540NR

Table with 2 columns: Description and Amount. Rows include Part II, In 35 - Ttl AMT itemized deductions, Part II, In 28-CA AGI adj by NOL/AMTI Excl, Part II, line 29a, 29h, and 29q, Excl items (Include Sch K-1 (541), In 9d, col (e)), Standard/Itemized deductions in prior yr (1 = Standard, 2 = Itemized (Default)), Part II, line 44 - Regular tax.

Form 3510 Credit for Prior-year AMT - Computation of Credit

Enter data from the prior year Schedule P or P(NR)

Table with 2 columns: Description and Amount. Rows include Schedule P (540), Part II, line 26; Schedule P (540NR), Part II, line 45 - AMT, Solar energy credits used to reduce AMT, Prior year AMT credit carryover.

See input Form [85B] for federal preferences and adjustments. See input Forms CAAMT [CA50A] and CAAMT2 [50B] for California preferences and adjustments.