ExacTax (714) 284-4802 ▪ Customer Support: (800) 254-2244 ▪ Website: www.exactax.com
2301 West Lincoln Ave., Suite 100, Anaheim, CA 92801

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ExacNews

ExacTax Client:

This issue of ExacNews has a lot of information regarding the latest changes in reaction to the **American Recovery and Reinvestment Act of 2009 (ARRA)**. Most of the changes relate to the 2009 Tax Projection Worksheet and may be important for estimated taxes and planning consideration. Items affecting 2008 returns include the updated IRS form and Input Form 5405 **[80G]**, Credit for First-time Homebuyers, updated Input Form **[6A]** with a new estimate option for small business owners and a new four-year NOL carryback election for small business losses on Form **[95B]**.

990 Instruction Manuals

The 990 instruction manuals will be mailed out this week to 990 batch processors. All 990 proforma and supplies were mailed previously.

PDF Archive CDs

All PDF Archive CD orders are being processed on a FIFO basis. All orders received by March 9th should be completed by the end of this week.

Standard Deduction Increased by Property Tax

Enter all real estate taxes paid on Form **[70A],** zip 18 as you normally would. The maximum up amount up to $500/1,000 will be added to the standard deduction and compared to total itemized deductions to determine which will yield the highest deduction.

Suppress Two Year Comparison Reports

If you don’t want the Two Year Comparison Reports in any of your returns, select Automatic Feature #10. This will stop the comparisons from printing and will also suppress the printing of the input forms on future proforma. When this option has been selected you will no longer need to delete each of the proformaed Two-year comparison input forms in the 2008 proforma as the report will not print.

RDE Corrected Downloads

There were a few instances where the proforma file may contain the taxpayer’s Social Security number and little else. If you encounter one of these you can download the corrected file using the ExacTax RDE Communications Center as follows:

- From the *Utilities* menu select *Retrieve Proforma Files*.
- Press the **Connect** button.
- Select *Show All Files*.
- Select only the file(s) that you need.
- Press the **Download Selected Files** button.

Caution: Each downloaded file will write over an existing file with the same log number. Do not download files for clients that you have already worked on or your new data entry will be lost.

Form W2 and HSA Contributions

When a Form W-2 shows employer contributions to a Health Savings Account in Box 12 with a Code 'W' this must be entered on Input Form **[20A]** or **[20B]** in zip 40 for correct treatment on Form 8889. You must also complete the necessary entries on Input Form 8889 **[63B]** to compute the rest of the form.

Note: Entries for Total HSA contributions for 2008, Form **[63B]**, zip 4; will add to the employer contributions from W2; do not duplicate.

Form 1099R Reductions

Forms 1099R **[23A/B]** have several items that will reduce the taxable portion of the distribution entered in zip 8. These are:

- Amount of rollover in zip 48
- Qualified charitable distribution (QCD) in zip 49 (applies only to IRAs)
- Qualified HSA funding distribution (HFD) in zip 50 (applies only to IRAs) ***Note:*** Input Form 8889 **[63B]** must also be completed with the additional required information.
- Qualified public safety officer exclusion (PSO) in zip 51 (not applicable to IRAs)

Therefore, DO NOT reduce the taxable portion in zip 8 in advance when one of these reductions is entered.

CA Single Member LLC

A California Single Member LLC (Form 568) return produced in conjunction with the Form 540 or Form 540NR incurs a separate return charge. Please review the lower left-hand corner of the ExacTax Diagnostic sheet that comes back with the return for additional items. The charge is also listed on the invoice in the Spec. Handling/Misc column.

American Recovery and Reinvestment Act of 2009 (ARRA)

The following American Recovery and Reinvestment Act of 2009 (ARRA) changes are now available. In addition, new Input Form TPW-3 **[96D]** has been added to accommodate many of these changes. A copy of this form is included with this bulletin.

First-Time Homebuyer Credit

This bulletin includes the revised Form 5405 **[80G]**, First-Time Homebuyer Credit, which increases the maximum first-time homebuyer credit amount to $8,000 for a principal residence purchased after December 31, 2008, and before December 1, 2009. This increase reflects the recent change included in the ARRA for first-time homebuyers.

- Note that homes purchased before January 1, 2009, still follow the pre-ARRA rules of a maximum credit amount of $7,500 with a 15-year repayment. In addition, a new FYI diagnostic will be generated when the first-time homebuyer credit is allowed. The diagnostic will display the credit amount and indicate whether the credit is subject to the 15-year repayment rules or not.

- Returns filed prior to this update with Form 5405 for a home purchased in 2009 need to file Form 1040X, Amended Return, to receive any additional first-time homebuyer credit.

5-year Carryback of Net Operating Losses for Small Businesses

Qualified Small Businesses may make a one-time election to carryback a Net operating loss generated in tax year 2008 only, for a three, four, or five year period. The election for a Small Business Loss carryback must be made with the original tax return prior to the due date of the return including extensions.

The *Carryback period*, zip 1, on Form NOL **[95B]** for purposes of Form 1045, has been expanded to include a four year carryback period for small businesses. In addition, three new elections for three, four, and five year small business NOL carrybacks have been added to ExacTax, Form **[2]** for zips 50 through 68 to generate one of the election statement using the applicable codes as follows:

Election to Increase NOL Carryback Period for a Small Business Loss

Under IRC Section 172(b)(1)(H), the taxpayer elects to apply the increased carryback provision to an applicable NOL for the tax year ending in 2008. The applicable NOL for tax year 2008 will be carried back *{code 93 = 3 years, code 94 = 4 years, code 95 = 5 years}* years.

A business qualified for the election includes a corporation, partnership or proprietorship with average annual gross receipts of no more than $15 million for the year of the loss and the two immediately preceding tax years.

Note: *Taxpayers who have already filed their tax returns for a year ended in 2008 should be made aware that they have until 60 days after February 17 (April 18) to make the election for one of these long carrybacks.*

Making Work Pay Tax Credit— New Tax Projection Worksheet Input Form **[96D]**

American Recovery Act includes a worksheet for the *Making Work Pay* tax credit which automatically calculates the refundable credit for individuals with projected earned income in 2009. For taxpayers who are subject to wage withholding, the credit will typically be distributed through 2009 federal income tax withholding adjustments made by the taxpayer’s employer.

To see the anticipated effect of the change in withholding, additional entries are required with respect to the taxpayer’s income tax withholding for 2009 as follows:

- To have ExacTax automatically calculate the revised withholding amount, on Form **[96B]**, zip 19, enter code **2** (use the W-4 Withholding Worksheet), and complete the fields indicated with an asterisk (*) on revised Form W4 **[95M]** (included with this bulletin). With this data entry completed, the Tax Projection Worksheet will calculate the 2009 income tax withholding using the revised withholding tables issued by the IRS.

- Or, enter code **3** (Adjusted for projected making work pay credit) in zip 19 on Form TPW-2 **[96B]** to have ExacTax automatically reduce the 2009 income tax withheld on the Tax Projection Worksheet by the amount of the projected Making Work Pay credit.

- Or, use *Income tax withheld*, zip 18 on Form TPW-2 **[96B],** to force the total income tax withholding, taking into account the anticipated reduction in withholding based on the projected Making Work Pay credit. When zips 18 and 19 are blank, ExacTax will default to prior-year federal income tax withholding, which may result in an understatement of projected tax due to the automatic withholding reductions taking place by employers.

  For taxpayers who are not subject to wage withholding, such as self-employed individuals, the credit will be reflected as a refundable credit on the 2009 return.

  To adjust the 2009 estimated tax payments to take into account the Making Work Pay credit, enter code **8** on Input Form Est **[6A]**, in *2009 declaration*, zip 29. Or enter code **2** in zip 29 and indicate the adjustment amount in the *Amount for code #2*, zip 31 on Form **[6A]**.

Decreased estimated tax payments for certain small business

The *ARRA reduced estimated tax payments* zip 67 has been added to revised Form Est **[6A]** included with this bulletin**.**

Taxpayers with adjusted gross income less than $500,000 and who have income from a small trade or business that is more than 50% of their adjusted gross income can make 2009 estimated tax payments based on 90% of the tax on their 2008 income tax returns, instead of 100% or 110%. A small trade or business for this purpose has an average number of employees of 500 or fewer. Check this zip if the taxpayer meets the qualifying conditions for certain small business owners for temporary estimated tax payment relief. ExacTax calculates estimated tax payments at 90% of the current year liability.

Note: This option only works in conjunction with 1040-ES 2009 declaration codes 1, 2, 3 and 6 in zip 29.

Deduction for Sales Tax on Purchase of New Vehicle

ARRA allows state and local sales and excise taxes paid on the purchase of a qualified motor vehicle as a deduction. A qualified vehicle must meet the following conditions:

- Purchased after February 17, 2009, and before January 1, 2010
- New not used
- May be passenger car, minivan, light truck, motorcycle, motor home

The Motor Vehicle Tax deduction is limited to the tax on a purchase price of $49,500 and is phased out beginning with modified adjusted gross income of $125,000 ($250,000 jointly filed returns). The deduction is allowed as an additional standard deduction when not itemizing on Schedule A and when not electing to deduct state and local sales taxes in lieu of state and local income taxes. The new Tax Projection Worksheet – American Recovery Act (ARRA) includes a worksheet for the Motor Vehicle Tax Deduction and new Input Form TPW-3 **[96D]** contains a data entry section for motor vehicle purchase information.

American Opportunity Tax (Hope Education) Credit

New Tax Projection Worksheet – American Recovery Act includes a worksheet for the American Opportunity Tax (Hope Education) Credit (AOTC) which calculates the new credit and the refundable portion. More taxpayers will be eligible for the AOTC as the phase-out range has been increased significantly. A refundable portion is now available for taxpayers who have no net tax liability. The new Input Form TPW-3 **[96D]** includes a section for eligible student information.

One-time $250 Economic Recovery Payment to Social Security, SSI, Railroad Retirement and Veterans Disability Compensation Benefits

In 2009, a $250 one-time payment will be issued to qualifying recipients of social security, SSI, railroad retirement, or veteran's disability or pension benefits. To qualify for the one-time payment, an individual must have been eligible for one of those four benefit programs in November 2008, December 2008, or January 2009. Recovery payments will be distributed by each respective agency (the Social Security Administration, Railroad Retirement Board, and Department of Veterans Affairs).

Use the *Economic recovery payment for recipients of social security, SSI, railroad retirement, or veteran's disability or pension benefits* , zip 12 on Form **[96D]** to indicate the anticipated recovery payment the taxpayer (and spouse, if filing jointly) expects to receive. The amount of the economic recovery payment received reduces any Making Work Pay credit available to the taxpayer (and spouse, if filing jointly).

Refundable $250 Credit for Certain Government Retirees

Under ARRA, a $250 credit is allowed for certain government retirees who receive a pension or annuity from work not covered by social security and who aren't eligible to receive an economic recovery payment. Similar to the economic recovery payment, any credit the taxpayer receives as a government retiree will reduce any allowable Making Work Pay credit. Use the *Economic recovery payment for recipients of social security, SSI, railroad retirement, or veterans disability or pension benefits OR credit for certain government retirees*, zip on Form TPW-3 **[96D]** to indicate the anticipated credit the taxpayer (and spouse, if filing jointly) expects to receive.

Unemployment Compensation Suspension of Taxation if Benefits exceed $2,400

ARRA allows up to $2,400 of unemployment compensation to be excluded from the recipient's gross income for 2009. The Tax Projection Worksheet will default to include only the amount of prior-year unemployment compensation that exceeds $2,400. The exclusion is allowed on a per-recipient basis, so for a jointly filed return, the taxable unemployment compensation will be calculated separately for taxpayer and spouse for a potential maximum exclusion of $4,800. When using the *Taxable unemployment benefits* field, zip 22 on Form TPW **[96B],** enter only the net amount to be included in income. Information entered in this field is treated as post-ARRA exclusion and 100% will be included in the 2009 income.

Refundable Child Tax Credit Eligibility

ARRA lowers the earned income threshold used to determine the refundable portion of the child tax credit from $8,500 (for 2008 returns) to $3,000 (for 2009 returns). This decrease can result in increased credit availability for certain low-income taxpayers, as well as a larger credit for taxpayers already eligible for the credit.

Increase in Earned Income Credit for Families with 3+ Qualifying Kids

ARRA increases the earned income percentage for families with three or more qualifying children to 45% for 2009 and 2010. This increased percentage may result in up to an additional $628.50 earned income credit for families with three or more qualifying children. Prior to this law change, the earned income credit for families with three or more qualifying children was limited to 40% of the taxpayer's earned income (the same as families with two or more children).

Increase in Earned Income Credit Phase-out Amount for Joint Filers

Phase-out amounts for married couples filing joint returns used in determining the allowable earned income credit are increased from $3,000 to $,5000 for 2009 and 2010. This increase may result in increased credit availability for jointly filed returns with earned income approaching the maximum thresholds for the EIC.

Refundable health coverage tax credit for eligible individual's health insurance costs is increased from 65% to 80% through 2010

ARRA increases the amount of refundable health coverage tax credit on Form 8885 to 80% of the amounts paid by the taxpayer for eligible health insurance costs. The increase is effective through tax year 2010. The *Other payments* field, zip 23 on Form TPW-2 **[96C]** is available to project an increased credit on the Tax Projection Worksheet.

Alternative Minimum Tax Patch

An AMT patch is included for 2009. The 2009 AMT exemption amounts are increased to $70,950 for joint filers and surviving spouses and $46,700 for singles and heads of households. (The refundable minimum tax credit was not extended.) These exemptions will now automatically be indexed for inflation.

Emergency Economic Stabilization Act of 2008 (EESA), Midwestern Area Disaster Relief, and American Recovery and Reinvestment Act (ARRA)

Due to legislative changes for the Emergency Economic Stabilization Act of 2008 (EESA), Midwestern Area Disaster Relief, and American Recovery and Reinvestment Act (ARRA), the IRS has delayed certain forms for 1040 electronic filing which represent a low volume of returns (less than 25,000 in total for the entire country).

- Form 3468, Investment Credit (includes business energy credits)
- Form 8835, Renewable Electricity, Refined Coal, and Indian Coal Production Credit

The end ☺

2008 Federal Payments

2007 overpayment applied	[1]	
Enter total, or	[2]	
Treat calculated amounts as paid ✓	[4]	
Individual payments, if unequal or not timely:		

	Date paid	Amount paid	Calculated amount
1st	[5]	[6]	
2nd	[7]	[8]	
3rd	[9]	[10]	
4th	[11]	[12]	
5th	[13]	[14]	
	Total		

Paid with 4868 extension (see Ext below)		[19]	
Paid with 2350 ext		[20]	
Additional payment	[21]	[22]	
Amount paid with 1040-V (Force)		[23]	
Other withholding		[25]	
Former spouse SSN, if joint estimates		[26]	

2008 Overpayment Application

Application of overpayment*	[27]	**(codes below)**
Amount for code #5 OR #8	[28]	

2009 Estimates - Calculated

Form 1040ES – declaration**	[29]	**(codes below)**
Withholding adjustment	[30]	
Amount for code #2	[31]	
Amounts for code #5, #9 or 2009 estimates paid:		
1st payment	[32]	
2nd payment	[33]	
3rd payment	[34]	
4th payment	[35]	
Amounts for code #6:		
Taxpayer SE income	[36]	
Spouse SE income	[37]	
Adj gross income	[38]	
Other tax/credit adj	[39]	
Number of 2009 vouchers desired***	[40]	**(codes below)**
Amount to round up each estimate	[41]	
Treat 4th qtr estimate as due on 12/31 ✓	[42]	
ARRA Reduced estimated tax payments ✓	[67]	

Estimate Filing Instructions

Print estimate filing instructions for 2009 estimate code #4 (Filing instruction will print with blank amounts) ✓	[44]
Suppress printing of estimate filing instructions for 2009 estimate code #7 ✓	[45]

** Declaration Codes

1 = Use current liability
2 = Use current year liability adjusted by amount below
3 = Use current year liability, even if less than $1,000 (CA < $500, MFS < $250))
4 = Print vouchers with amount fields blank (Check box 43 for Client Letter)
5 = Use amounts entered below, before overpayment
6 = Use current year amounts adjusted by amounts below
7 = Calc but don't print vouchers (Use code 5 to stop **BOTH** calc and print)
8 = Use tax from Tax Projection Worksheet (Resident/Nonresident states only)
9 = Use amounts entered below ⚠ **Cancels overpayment codes 2 - 6 above.**

*** Voucher Codes

(Does not work with Estimate Declaration codes 5 or 9)

4 = Four vouchers (Default)
3 = Last three vouchers
2 = Last two vouchers
1 = Last voucher (100%)
A = First voucher (100%)
B = Second voucher (100%)
C = Third voucher (100%)

Ext — Extension Information

Calculate extension or extension was filed (1 = yes)	[1]
Extended due date (Enter actual extension payment in box 19 above)	[2]

StPmt — State 2008 Payments†

Unit # ____

Taxpayer/Spouse/Joint (T/S/J)	[1]
State postal code	[2]
Paid with '07 return (auto to Sch A)	[3]
2007 overpayment applied	[4]
Other withholding ††	[5]
Enter total, or	[6]
Treat calculated amounts as paid ✓	[8]
Individual payments, if unequal or not timely:	

	Date paid	Amount paid	Calculated amount
1st	[9]	[10]	
2nd	[11]	[12]	
3rd	[13]	[14]	
4th	[15]	[16]	
5th	[17]	[18]	
	Total		

CAEst — California Overpayment Application

All **OTHER** states see state **[Est]** Form.

Application of overpayment*	[1]	**(codes below)**
Amount for code #5 or #8	[2]	

2009 Estimates - Calculated

Form 540-ES – declaration**	[3]	**(codes below)**
Withholding adjustment	[4]	
Amount for code #2	[5]	
Amounts for code #5, #9 or 2009 estimates paid:		
1st payment	[6]	
2nd payment	[7]	
3rd payment	[8]	
4th payment	[9]	
Amounts for code #6:		
Taxable income	[10]	
Other tax	[11]	
Credits	[12]	
Number of 2009 vouchers desired***	[13]	**(codes below)**
Amount to round up each estimate	[14]	
Treat 4th qtr estimate as due on 12/31 ✓	[15]	(mm/dd/yy)
1st quarter estimate date (Force)	[16]	
2nd quarter estimate date (Force)	[17]	
3rd quarter estimate date (Force)	[18]	
4th quarter estimate date (Force)	[19]	

* Overpayment Codes

1 = Refund 100% of overpayment (Default)
2 = Apply 100% of overpayment to next year's estimate, refund excess
3 = Apply to first estimate, refund excess
4 = Apply equally to each estimate, refund excess
5 = Apply amount specified below to estimates until exhausted, refund excess
6 = Apply to first and second estimates, refund excess
7 = Apply 100% of overpayment to next year's estimates, no refund
8 = Apply amount specified below (Do not refund excess)

† For additional state and city payments, see Form StPmt **[6B].** For other state's overpayment application see state **[Est]** form.

†† Enter amounts from CA Forms 592 and 593 on Form **[70A]** in State and local income tax, using a code 3.

CAExt — California Extensions

Calculate extension or extension filed ✓		[1]
Extended due date (TL/FI & PI calc) (mm/dd/yy)		[2]
Paid with extension (P2 540/540NR ONLY)		[3]
Additional payment	[5]	[6]

California Other Payments

Other withholdings (Form 594, 592B)	[7]
LLC payments made for members	[8]
IRC 1341 Claim of Right credit	[9]

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 12/01/09 * 5

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

* A date after 12/31/08 will generate up to an $8,000 credit.

Motor Vehicle Tax Deduction (ARRA)

Submit this form in conjunction with Forms [96B] and [96C]

Date acquired (New car deduction effective only for purchases on or after date of enactment, February 17, 2009) 1
Purchase price of qualified vehicle 2
Sales tax paid on purchase 3
Excise tax paid on purchase 4

ExacTax optimizes the motor vehicle sales tax between the motor vehicle deduction and optional sales tax method. The projected state and local income tax and sales tax are calculated for the optimization as follows:

1. If Form TPW **[96B]**, zip 48 for State and local or sales taxes has an amount, then projected sales tax is calculated as follows:
   Form TPW-3 **[96D]**, zip 3 (Sales tax paid on purchase) plus
   Form TPW-3 **[96D]**, zip 8, (Sales tax included on Form TPW **[96B]**, zip 48).
   Note: Form **[96B]**, zip 48, should not include any amount from the vehicle purchase.
   The balance of Form TPW **[96B]**, zip 48 less Form TPW-3 **[96D]**, zip 8 will be treated as State and local income taxes.

   If Form TPW **[96B]**, zip 48 is blank, the projected sales tax is calculated as:
   Current year total sales tax as calculated on the 2008 sales tax worksheet plus
   Sales tax paid on purchase from Form TPW-3 **[96D]**, zip 3.
   The projected state and local income taxes will default to current year state and local sales taxes as computed for purposes of the 2008 Schedule A.

2. To determine the highest potential standard deduction, the motor vehicle tax deduction will always be included in the projected standard deduction reported on the Tax Projection Worksheet line 35.

2009 Motor vehicle deduction (Force) (Also forces itemized deductions to state and local income taxes). 5

Elect to deduct state and local sales tax (Force). . . . . ✓ 6

Sales tax included on Form TPW [96B] State and local or sales taxes field. 8

American Opportunity Tax (Hope Education) Credit

Enter eligible student information here for the American Opportunity Tax Credit (formerly Hope Credit).
Amounts entered here are not optimized between the American Opportunity Tax Credit and the Tuition and Fees Deduction.

Eligible student information [§ 9]

#	TS	Student's SSN	First Name	Last Name	Qualified Expenses

Making Work Pay Credit (ARRA)

Most individuals who are subject to wage withholding will receive the making work pay credit in the form of a federal income tax withholding adjustment made by the individual's employer. To see the anticipated effect in the change in withholding, additional data entry is required on Form TPW-2 **[96C]**:

* Enter code "3" (Adjusted for projected making work pay credit) in zip 19, Calculated income tax withheld, to have ExacTax reduce the income tax withheld on line 61 of the Tax Projection Worksheet by the amount of the projected making work pay credit.

* Or, enter code "2" (use the W-4 Withholding Worksheet) in zip 19 and complete the required fields indicated with an asterisk (*) on Form W4 **[95M]** to have ExacTax calculate the revised withholding amount reported on line 61 of the Tax Projection Worksheet.
Note: Form W-4 is not required to be filed to get the automatic withholding change.

* Or, enter the total adjusted withholding amount in zip 18 on Form TPW-2 **[96C]**. When zips 18 and 19 on Form **[96C]** are blank, the 2009 income tax withholding on the Tax Projection Worksheet will default to the amount on the 2008 return.

For non-wage earners, such as self-employed individuals, the credit can be received in advance by reducing the amount of estimated tax payments for 2009. Enter code "8" (Use liability from Tax Projection Worksheet) in zip 29 on Form Est **[6A]**, or enter code 2 in zip 29 and indicate the withholding adjustment in the Amount for code #2, zip 31.

2009 earned income (Force) 11
Economic recovery payment for recipients of social security, SSI, railroad retirement, or veterans disability or pension benefits OR credit for certain government retirees 12