

March 23, 2009

Issue 2009-11

ExacNews

Exactax Client:

With just about three weeks remaining until April 15th our turnaround time remains excellent. However, as we enter the final stretch, volume increases and processing will tend to take longer. For those returns where time is important, be sure to select expedited processing **and** a priority shipping method, when applicable. This is also a good time to review your supplies and order what you will need to make it through the 15th.

In addition to Saturdays, Exactax telephone support will be open on Sundays, April 5th and 12th from 9:00 AM to 3:00 PM to assist you with your questions and reruns. Pick up of returns will be available on those days and hours.

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.

Expedite Service

In general, this service is for a return where the preparer is requesting guaranteed one day turnaround time. By checking Form PI - zip 3, you indicate your request to receive this preferential expedited processing service for an additional charge of \$22.00 per Individual and \$32.00 per Business return. Any return *received* and scanned in our Anaheim office by 12:30 pm will be ready for shipment, by your indicated method, the following business day by 4:30 pm.

Note: Expedited handling is for processing the return only. Shipping back to you is always your regular method unless you specify otherwise. Be sure to review the special shipping options on Form PI to ensure timely delivery.

Expedite Requirements

- Mark “**EXPEDITE**” on the outside of envelopes containing at least one return marked for Expedite. Envelopes not marked “Expedite” may not be processed as expeditiously.
- If the envelope is marked “**EXPEDITE**” and no return is marked for Expedite, all returns in the envelope will be treated as Expedite and billed accordingly.
- Be sure to clearly mark Expedite, zip 3 on Form PI.

► **Note:** Returns indicated for Expedite service are still subject to output review in our Error Control Department and could be delayed as a result. If you **do not** want the return to be reviewed in the Exactax Error Control Department check zip 42 on Form PI.

Additionally, Expedite service **does not** include any special return delivery shipping (i.e. overnight/express delivery). Special return delivery must be indicated on Form PI - zip 2.

The Expedite and special shipping options requested on the original run are automatically deleted on a rerun. If you want either of these options on a rerun you must request the rerun operator to re-enter them.

Automatic 1040 Extensions

ExactTax will automatically provide federal Form 4868 extension forms, (name, address and SSN only), for all 1040 proformas that have not been processed by the end of the business day on April 1st. There is no charge for this service.

Note: ExactTax is not able to print a blank California extension payment voucher because it is a scannable form that requires the payment amount to be encoded in the scan band.

E-file Returns Not Yet Authorized

A report of qualified e-file returns that have not yet been transmitted will be sent out this week. If you have not received an ACK for an e-file return then it should be considered as not filed. Call Customer Support for the most current status of any return in question or for a re-print of the latest ACK.

Returns on CD Archive Status

All orders for return archives on CD that were received by March 20th have been completed. For new orders, please allow at least one week for processing.

Shipping via UPS

UPS ground will remain the standard method of shipping to our non-courier customers. There is a \$3.20 shipping charge added to your normal processing fee for **each return** shipped via UPS to a 'commercial' address. Shipment to a 'residential' address is \$4.40. To utilize this method of delivery, your shipping address must be a street address, **not a P.O. Box**. Please make sure ExactTax has your correct zip code and suite number, as there will be a \$6.00 charge if we have incorrect information on file.

U.S. Mail

Should you choose to have your returns shipped via U.S. mail, there will be a \$6.10 special handling charge added to each return fee.

Express Mail

When sending packages to ExactTax via Express Mail, DO NOT send them to our PO Box; this can delay delivery by up to two days. Always send Express Mail to our street address:

**2301 W Lincoln Ave STE 100
Anaheim, CA 92801**

Photocopying Attachments

ExactTax will photocopy additional documents submitted with the input forms and attach them to all copies of the return. All documents to be photocopied must be single-sided.

RDE Reruns

Returns that are processed by RDE must also be submitted for rerun via RDE. Do not call Customer Support for an RDE telephone rerun as this option is not available for RDE returns.

Don't Delete Proforma Multi-state Depreciation

In the proforma for multi-state returns you will often find depreciation forms with overflows computing depreciation for every state. Do not delete these additional treatments. Most returns that have more than one state and have depreciation anywhere in the return will require depreciation to be computed on every asset separately for each state. This is necessary even for an asset associated to an activity that does not belong to the state.

For example, a California resident has a rental in California and one in Hawaii. ExacTax automatically creates the HI treatment in every activity. The proforma for both rentals will have CA and HI treatments computing depreciation under California and Hawaii law.

The reason for this is that many part-year and non-resident state returns have two income computations. The first column computes worldwide income under that state's law. Usually the tax is computed on the worldwide amount and prorated based on the actual source income or a pro-ration is done for other purposes. If you delete the proformaed state depreciation, the worldwide income may be overstated or the ratio understated.

California Resident with Other State's Wages

A California resident return will automatically pick up and tax **ALL** state wages reported on Form W2 [20A and 20B], regardless of the postal code. When a resident return has a W-2 with both California and another state's wages you must determine whether or not the other state wages have been included in the California amount.

If the California amount does not include any other state wages, then no additional action is needed. If the California amount does include other state wages then an adjustment will be needed to prevent the overstatement of California wages. On Input Form CAAdj [CA2], enter a zero in zip 6, override for additions to wages, to stop the addition that would otherwise result.

Note: California Form 540, line 12, is supposed to be the total of all state wages from Form W-2, Box 16. This is a hash total the state uses to verify the W-2 accuracy; it does not mean that this amount is taxable to California.

Common Errors

Proformaed Estimated Payments

Estimated tax payments that are proformaed on Form 6A in the shaded area will not be used unless Form Est, zip 4 or ST Pmt, zip 8 is checked to Treat calculated amounts as paid. Writing in a date paid will not cause the proformaed amount to be used.

Selecting a Depreciation Method

The depreciation method for real property placed in service after 1986, in most cases, should be 'M' (MACRS). When a life of 27.5 or 39 is entered, depreciation is computed using MACRS, straight-line, mid-month convention over the life entered.

When 'MACRS-SL' (MACRS Straight-line Class Life) is entered, the asset will be depreciated using MACRS Straight-line, mid-month convention over the Class Life. In the case of 27.5 and 39 year property, this is 40 years. This election to use the class life for real property can be made on a building-by-building basis and is best used when trying to minimize the amount of current depreciation. However, in most cases where we see MACRS-SL being entered, the preparer's manual computation usually shows that 'M' was actually intended.

Section 179 and Current Depreciation

When entering depreciation detail for prior year assets on Input Forms [50], [51], [52] and [72], remember that Prior Depreciation must include all Section 179 and bonus depreciation previously claimed. Prior depreciation can never be less than the amount of prior Section 179 entered. For current year assets, an overriding entry in Current Depreciation must contain all depreciation, including current Section 179.

Entering Totals

When entering an amount such as *Federal Income Tax Withholding*, zip 45, on Form 99, the full amount must be entered in the box. Often one amount is entered in the box with one or more outside the box. Only the amount in the box will be included in the computation. Incorrect totals will needlessly send returns to Error Control and delay processing.

1099 Distribution Codes

The distribution code on Form 1099 [23A/B] is an important entry because it controls how the distribution is treated. Some 1099R forms are issued with two codes in Box 7. The entry on Input Form [23A/B], zip 15, must be a single character code, as shown in the instruction manual. If the code on the Form 1099R contains 'D' or 'P' then it is a corrective distribution of either excess deferrals or excess contributions from a prior year.

Never submit a 1099R with a distribution code P; this will only result in a phone call from Audit. If it is an **excess deferral**, report it on the 2006 (D) or 2007 (P) return respectively, usually with a code 8 on Input Form [23A/B]. Do not report these on the 2008 return. If it is an **excess contribution** then it should be reported on the 2008 return using a code 8 or a code 1 (if a penalty applies). Unfortunately, the 1099-R will not indicate the specific nature of the distribution. This information is normally found in an explanatory letter from the employer that is typically sent to the recipient before March 15th of the distribution year.