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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 read the IRS instructions first and consult services such as, PPC, CCH, RIA and Quickfinder that are intended to do just that.

Extended Hours

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

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

Instruction Manuals and Proforma

All instruction manuals and remaining state proforma have been shipped as of last week. The 990 proforma will complete shipping this week.

Note: Some California 1065 proformas inadvertently included both the Form CAGenL **{CA1}** for LLCs (568) and the CAGenP **{CA2}** for regular partnerships (565) in the same proforma set. If the California LLC box on Form PI is checked then you must use the **{CA1}**, otherwise use **{CA2}**. Discard the form that is not applicable.

2008 Returns on CD Now Available

The form for ordering 2008, 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.

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. You can also use a USB drive that you plug in, as a backup location.
- 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 or your USB drive.

Backing up to another location on *your hard drive alone* won't help in the event of a crash. If you back up to your local hard drive we highly recommend that you also then copy your backup directory to your USB drive, external hard drive or to a CD/DVD and write a new disk each time.

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 before copying to the CD/DVD.

CA LLC Fee Estimated Payment

California changed the requirements for the payment of the LLC fee (determined per schedule based on gross receipts of $250,000 and over at $900, $2,500, etc) for returns beginning on or after January 1, 2009. This is separate from the LLC tax (minimum of $800). Previously this fee was paid when the return was due. Under the change, the fee must be estimated and paid by the 15th day of the sixth month of the tax year. Any part of the LLC fee due on the current year return is paid with voucher Form 3536 along with the return.

The estimated fee for 2010 for is paid with another Form 3536 by June 15th, 2010, for calendar year returns. To generate this voucher you must check *Calculate estimated fee (3536)* on 1065 Form CALPmt **{CA3B}** in zip 8. Checking this zip will use the current fee as the estimated amount. You may also enter your own amount in zip 9. If neither box is used, no estimate voucher will be produced.

For 1040 returns computing a single member LLC, you must check zip 22 on CALLCExt **{CA56B}** or enter the amount in 23 to generate the estimate voucher

Corrected Input Forms

Form 5405 {80G} First-Time Homebuyer Credit: This form was previously reissued and has been changed again. Recently added zips 47 and 48 regarding the documentation type for mobile home and new construction have been deleted. New zip 49 has been added with codes 1 and 2 for the same purpose.

CA LLC Forms: The format of the general questions section of the 1040 CALLCGen **{CA56A}** and the 1065 CAGenL **{CA1}** has been changed. On the prior version the questions were in check box format where a check meant ‘Yes’ and blank meant ‘No’. These have been changed to a code box format where ‘1’ = Yes and ‘2’=’No’. The updated forms are included with this bulletin. You can continue to use the proformaed input forms by entering a code 1 or 2 for each question.

Note: When e-filing the California LLC these questions must be answered; there is no default answer.

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.

Input for Schedule L (standard deduction): There is no separate input form specifically for Schedule L. Property taxes and sales tax on the purchase of a qualified new vehicle from Schedule A are automatically used in the computation. If the taxpayer will not be itemizing and the only additional item is property tax, you can enter the amount to be used for Schedule L on Form 1040 **{1}**, zip 55, in the upper right-hand corner. Note: on the proforma version of Form **{1}** zip 55 was inadvertently drawn as a checkbox but it is an amount field.

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, <u>not always on a deposit slip</u>. 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.

ELF: When direct deposit information is entered you must always enter Form ELF **{3A}**, zip 8, suppress direct debit or zip 9, the date for direct debit for a balance due.

Form W2 {20}: All W2s and 1099s require an employer or payer name. If left blank on a W2, ExacTax will enter ‘WAGES’ in the employer name field; if left blank on a 1099R ExacTax will enter ‘PAYER’. The employer’s FEIN is also required to correctly compute excess Social Security tax withheld.

When federal wages are entered and no entries are made for Social Security or Medicare wages, ExacTax 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, <u>**you must enter a zero in each applicable field**</u>.

Form {23A}: 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 80 is checked (contribution or conversion was made over 5 years ago)

then entries must 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.

When a traditional IRA distribution is entered on Form 1099R and there is any traditional IRA basis entered on Form IRA **{60A}** then you must enter the value on 12/31/09 in zip 15 or 16 to receive the correct computation on Form 8606.

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 Cr-3 {80C}: Form 5695 – Residential Energy Credit: We have received many calls about where to enter the expense for items not listed on the input form. Most of the items are very specific, (i.e. widows, doors, etc)., except for zip 7, *Energy-efficient building property costs*. This is a general category that includes many different types of expenses. Please refer to the IRS instructions for Form 5695 for more information on what qualifies.

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 the Audit Department 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 5405, First-Time Homebuyer Credit and Repayment of the Credit

The final version (Rev. December 2009) of Form 5405, First-Time Homebuyer Credit and Repayment of the Credit is now available.

Note that for homes purchased after November 6, 2009, the IRS requires taxpayers to use the Form 5405 (Rev. December 2009) when filing a 2008 amended return. If you are amending a 2008 return for one of these late purchases, you must manually complete a 2009 Form 5405 and discard the 2008 version that is produced with the 2008 return.

Due to additional documentation requirements, the IRS has determined that Form 5405, First-Time Homebuyer Credit and Repayment of the Credit cannot be filed electronically for tax year 2009.

Members of the uniformed services, Foreign Service, or intelligence community who served on qualified official extended duties are not subject to repayment of the credit and are given an extra year to claim the First-Time Homebuyer Credit. Homes purchased after December 31, 2010 may not be claimed for the credit on the 2009 tax return.

Individuals cannot claim the First-Time Homebuyer Credit for homes purchased after November 6, 2009 if:

- The purchase price of the home is greater than $800,000
- The individual can be claimed as a dependent on another person's tax return
- The individual (and spouse if married) are under the age of 18 at the date of purchase
- The home was acquired by a related party to the taxpayer or spouse

ExacTax will disallow the Form 5405 credit and generate an FYI diagnostic for the situations above.

For taxpayers who claimed the First-Time Homebuyer Credit on a joint return in 2008 and a spouse dies, check Form 5405, zip 46, *Surviving spouse of home purchased* to automatically reduce the credit to be repaid by one half. ExacTax will generate an FYI diagnostic in this circumstance.

First-Time Homebuyer Credit claimed on a 2008 tax return may have to be repaid if the home is sold or no longer used as a principal residence. Complete *Form 5405 – Prior Year Credit Information* on Form 5405. Homes sold after December 31, 2010 cannot be repaid on the 2009 tax return.

The following paragraphs have been updated as a result of the Form 5405 (Rev. December 2009) changes:

Homes purchased in 2008 will be subject to repayments over 15 years beginning in tax year 2010. ExacTax will automatically track the repayment. A new paragraph will inform taxpayers of the repayment amount to begin in 2010. The repayment amount is <u>not</u> automatically added to estimated tax computations unless you are using the Tax Projection Worksheet for estimated tax.

Another paragraph has been updated to include the latest documentation attachment requirements for Mobile Homes and Newly Constructed Homes if no settlement statement is available, binding contracts, and credit claimed for long-time residents.

Form 1040X, Amended Return

The IRS has redesigned Form 1040X, Amended Return for 2009 by removing the three-column comparison and leaving only the corrected amount column. As a result of this change, an Amended Return Comparison Report was added this year. The new Amended Return Comparison Report will aid in reviewing the revised Form 1040X, reflecting how it calculated in prior years. The IRS has stated that they will accept the older version of Form 1040X for amending prior year returns. Consequently, the Form 1040X versions in prior years of ExacTax may be used to amend the related prior year returns.

With the redesign of Form 1040X, the signature block has moved from the first page to the second page. The signature section of the amended filing instructions has been updated to reflect this change as well.

********* Important electronic filing information ********

All ExacTax Electronic Return Originators (ERO) are set up as part of the Practitioner PIN Program. The IRS allows electronically filed returns to be signed with a Practitioner PIN. The Practitioner PIN places the burden of verifying the identity of the taxpayers with the Electronic Return Originator and does not require the entry of the prior year AGI or prior year taxpayer PIN.

Form 2848, Power of Attorney and Declaration of Representative cannot be filed electronically with the return. However, this form can be filed electronically through the IRS e-services. Note that Form 2848 (POA) can be attached to Form 8453 when acting as an agent signing an electronically-filed return. If the POA is included with a return marked for electronic filing, then a Form 8453 will be produced, rather than Form 8879. Form 8453 must be mailed in weekly with the applicable attachments.

Arizona and Hawaii nonconformity to Haiti Charitable Contributions made in 2010:

Arizona and Hawaii do not conform to the accelerated deduction for contributions to Haiti earthquake victims. Total federal itemized deductions allowed to be taken on the federal return, are adjusted for state purposes by the amounts designated as Haiti Relief 1/12/10 – 2/28/10 in the Schedule A cash contributions. These amounts will proforma to the 2010 state Schedule A to increase charitable deductions allowed for the 2010 tax year.

Note: No adjustment is currently being made for these contributions on California returns.

CALLCGen	California Single Member LLC - General Information *(reissue)	Overflow # ____	2009	CA56A

MUST check LLC in state Other type on Form **PI**

LLC unit number . . . . **[1]**

Create an LLC with no federal activity (No data transfers from the 1040 Federal return). . . . . ✓**[3]**

Secretary of State File Number (must begin with 19 or 20) . . . . **[4]**

To attach one or more of the forms below to the LLC, you **must** enter a "3" in the *State Use Code* and the Secretary of *State number* in the State Number field on that form. **Note:** The Secretary of State number **must** begin with '19' or '20'.

Form/Sch	Input Form	Zip Box
Schedule C	Form 28A	7
Schedule F	Form 36A	14
Farm rental	Form 38A	7
Rental	Form 31A	11
K-1	Form 32A	15

[§ 5] Activities included in LLC

#	Form/Sch	Unit No.	Activity Description

Miscellaneous

Defaults to federal information of the first activity included in the LLC

Limited liability company name (35) **[6]**
(Defaults to description of first activity)

D/B/A (35) . . . . **[7]**

Street address (Force) (35) . . . .**[8]**

City (20) / State / Zip code (Force) . . . . .**[9]** **[10]** **[11]**

Telephone number . . . . **[12]** Title (20) **[13]**

Principle business activity name (12) **[14]** (Defaults to description of the first activity included in LLC)

Principal product or service (12) . . . . **[15]**

Principle business activity code (Force) (Defaults to federal data entry for first activity included in LLC) . . . .**[16]**

Date business started in California . . . .(mm/dd/yy) **[17]**

Accounting method (Defaults to federal data entry for Schedules C or F) . . . . (1 = Cash, 2 = Accrual, 3 = Other) **[18]**

Employer identification number (Defaults to federal data entry for first activity included in LLC) . . . . **[19]**

Initial return . . . . ✓**[20]**

Amended return . . . . ✓**[21]**

Amount paid or (refunded) with original return (For filing instructions only) . . . . **[22]**

Final return (Defaults to disposition of activity for first activity included in LLC) . . . .(1 = Yes, 2 = No) **[23]**

Authorize discussion with tax department (If different from the federal option) . . . .(1 = Yes, 2 = No) **[24]**

General Questions

Distribution of property or transfer of interest during tax year . . . .(1 = Yes, 2 = No) **[26]**

Change in control or majority ownership of owned or leased property in California . . . . (1 = Yes, 2 = No) **[27]**

Acquired control or majority ownership of another legal entity that owned or leased California property (1 = Y, 2 = N) **[28]**

Transfer of more than 50% of ownership interest cumulatively transferred since March 1, 1975 (1 = Yes, 2 = No) **[29]**

Forms 592, 592-A, and 592-B were filed for members . . . .(1 = Yes, 2 = No) **[30]**

Under audit by IRS or has been audited in a prior year . . . . (1 = Yes, 2 = No) **[31]**

Member or partner in another LLC or partnership . . . . **[§ 32]**

#	Entity Name	Federal ID #

Credits or credit carryovers are attributable to this disregarded entity . . . . (1 = Yes, 2 = No) **[33]**

Reportable Transaction, Listed Transaction, or Registered Tax Shelter included with return . . . .(1 = Yes, 2 = No) **[34]**

LLC is a direct owner of an entity that filed a federal Schedule M-3 . . . .(1 = Yes, 2 = No) **[35]**

LLC has a beneficial interest in a trust or a grantor of a trust. . . . . **[§ 36]**

LLC owns membership in business entity disregarded for tax purposes . . . . .**[§ 37]**

#	Entity Name	Federal ID #

LLC deferred income from the disposition of assets . . . . (1 = Yes, 2 = No) **[38]**

LLC or entity LLC has interest in elected to defer income from the discharge of indebtedness as described in IRC 108(i) for Federal purposes . . . . (1 = Yes, 2 = No) **[39]**

Portion of the discharge of indebtedness attributable to the LLC . . . . **[40]**

See **Form {CA56B}** for extension/estimate/penalty and **Forms {CA56C/56D}** for income apportionment
See **Forms {56E-56K}** for business entity overrides
See **Form {CA86}** for LLC electronic filing.

CA General Information (LLC) *(reissue)

Overflow # ______ 2009 CA1

CA corporation number . . . . . [1]
Secretary of State file number . . . . . [2]
Date business started (If different from federal) . . . . . (mm/dd/yy) [3]
Initial return (If different from federal) . . . . . ✓[4]
Final return (If different from federal) (Also marks K-1's as final) . . . . . ✓[5]
Amended return (If different from federal) (Also marks K-1's as amended) . . . . . ✓[6]
Superseding return (If different from federal) (Also marks K-1's as superseding) . . . . . ✓[7]
Tax authority may discuss return with preparer . . . . . (1 = Yes, 2 = No) [8]
Do not complete Schs L, M-1 and M-2? (1 = Yes, 2 = No, 3 = Yes-Print Schs L, M-1 & M-2, 4 = Yes-Print only Sch K-1, Item I) [9]
Investment partnership . . . . . ✓[10]
Was LLC registered in CA without earning any income sourced in state during tax year? . . . . . (1 = Yes, 2 = No) [11]
Was there a distribution of property or transfer of interest? . . . . . (1 = Yes, 2 = No) [12]
Did LLC or subsidiaries have change in control/majority ownership in CA real property? . . . . . (1 = Yes, 2 = No) [13]
Did LLC or subsidiaries control/majority ownership of other entity that owns/leases CA property? (1 = Yes, 2 = No) [14]
If owned/leased CA real property, has more than 50% of interest transfered since 3/1/1975? . . . . (1 = Yes, 2 = No) [15]
Does the LLC have any foreign nonresident members? (If different from federal) . . . . . (1 = Yes, 2 = No) [16]
Are any members also LLCs or partnerships? . . . . . (1 = Yes, 2 = No) [17]
Is this LLC under audit by the IRS for the current or prior year? . . . . . (1 = Yes, 2 = No) [18]

Is this LLC a member or partner in another LLC or partnership? . . . . [§ 19]

#	Entity Name	Federal ID #

Credits or credit carryovers attributable to the disregarded entity . . . . . ✓[20]
Is LLC direct owner of entity that filed federal Schedule M-3? . . . . . (1 = Yes, 2 = No) [21]

[§ 22] List name, address and FEIN of trust or grantor trust in which this LLC has beneficial interest

#	Name (36)	Address (35)	City	St	Zip	EIN

[§ 23] List name and FEIN of any disregarded entities that this LLC owns a membership in for tax purposes

#	Name (36)	EIN

Is any member related by blood or marriage to any other member? . . . . . (1 = Yes, 2 = No) [24]
Is any member a trust for the benefit of any person related by blood/marriage? . . . . . (1 = Yes, 2 = No) [25]
Did LLC defer gains from dispositions of assets? . . . . . (1 = Yes, 2 = No) [26]

General footnote (74) **[§ 27]**

Disregarded Entity Information

(Complete only if the LLC has elected to be disregarded)

Sole owner's: Name (48) [28]
Address (35) . . . . . [29]
City (20) . . . . . [30]
State . . . . . [31]
Zip . . . . . [32]
Federal taxpayer identification number [33]
Secretary of State file number (12) . . . . . [34]
Title (20) . . . . . [35]
Return filed with FTB by sole owner . . . . [36] (1 = Form 540, 2 = Form 541, 3 = Form 100, 4 = Form 100S, 5 = 565, 6 = 568)
If other: (11) . . . . . [37]

Schedule B Depreciation

Schedule B depreciation to Schedule A:
Percentage (Defaults to federal) . . . . . (xxx.xxxxxx) [38]
Amount (Defaults to federal) . . . . . [39]
Type of cost . . . . . (1 = Additional section 263A costs (Default), 2 = Other costs) [40]

Voucher Information

Name control (Force) . . . . . [41]

First-Time Homebuyer Credit *(reissue-2)

Type of homebuyer credit being claimed (1 = First-time homebuyer credit, 2 = Homebuyer credit for long-time residents) . . . . ★ [1]

Member of the U.S. uniforms service, Foreign Service, or intelligence community serving on qualified official extended duty. . . . . ✓ [2]

Address (If different from address reported on **Form 1040 {1}**) . . [3]

City, state, zip code . . . . [4] [5] [6]

Date acquired (After 4/8/08 and before 05/01/10) (For service members after 12/31/08 and before 1/1/11) (mm/dd/yy) ★ [7]

Attachment documentation type (If home purchased after 12/31/08 and before 1/1/11 and no settlement statement avaliable) . . . .(1 = Mobile Home, 2 = New Construction) [49]

Binding contract in place before 5/1/10 to close on home before 7/1/10 (Non-service members only). . . . . ✓ [8]

Purchase price (Home purchased after 11/6/09 is subject to $800,000 purchase price limitation) . . . . ★ [9]

Date sold or no longer used as principal residence . . . . (mm/dd/yy) [10]

Proforma information, do not elect to take credit in 2009 (For purchases in 2010 only) . . . . ✓ [11]

Form 5405 - Current Year Credit Information

Answer the following questions if the taxpayer or spouse is claiming a regular First-time Homebuyer credit

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) [12]

Spouse owned or had an ownership interest in a home? . . . .(1 = Yes, 2 = No) [13]

Answer the following questions if the taxpayer or spouse is claiming a limited Homebuyer credit for long-time residents

In the period 8 years prior to the purchase date has:

Taxpayer owned and used the same residence as home for 5 consecutive years.. . . . . (1 = Yes, 2 = No) [14]

Spouse owned and used the same residence as home for 5 consecutive years. . . . .(1 = Yes, 2 = No) [15]

Answer for all Home buyers

Were the taxpayer and spouse married on the purchase date?. . . . . (1 = Yes, 2 = No) [16]

Principal residence was purchased from a related party, is located outside the Uniter States, or was aquired by gift or inheritance. . . . . ✓ [17]

Taxpayer allocation percentage (If married defaults to 50%; if not married defaults to 100%) . . . .(xxx.xx) [18]

Spouse allocation percentage (Defaults to 50%). . . . .(xxx.xx) [19]

[§ 20] Owners other than taxpayer and spouse		Ownership %
#	Owner Names	xxx.xx

Adjustment to modified adjusted gross income (For this credit computation only) . . . . [21]

Form 5405 - Prior Year Credit Information †

First-time homebuyer credit taken (2008 Form 1040, line 70) . . . .[22]

Reason for disposition or change of main home* (see codes below) . . . .[23]

Basis of home (If different from purchase price) . . . .[24]

Selling price of home. . . . . [25]

Ex-spouse's full name (If transferred home to ex-spouse in divorce settlement). . . . . . . [26]

Accelerated recapture first-time homebuyer credit (Force) . . . . [27]

Member of U.S. uniformed service, Foreign Services, or intelligence community and home sold or ceased to be main home in connection with Government orders for qualified official extended duty service. . . . . . . ✓ [44]

Recapture first-time homebuyer credit and claiming first-time homebuyer credit . . . . ✓ [45]

Surviving spouse of home purchased(If spouse is deceased & home remains principal res for the surviving spouse) ✓ [46]

*** Disposition codes:**

A = Home sold to unrelated party, gain on sale
B = Home sold unrelated party, no gain on sale
C = Home sold to related party
D = Home converted to rental, business, no longer used as a main home
E = Home transferred due to divorce settlement
F = Home destroyed or condemned. Will acquire new home within 2 years
G = Home destroyed or condemned. Will not acquire new home within 2 years
H = Taxpayer/Spouse deceased

† If the First-Time Homebuyer credit was claimed in 2008, complete zips 1, 7, 9 and 22 for tracking purposes.