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Issue 2010-07

ExacNews

Exactax Client:

Processing is moving smoothly at Exactax but we all continue to encounter problems determining the amount of Economic Recovery Payment (ERP) received by our clients. Failure to enter the correct amount leads to errors in the computation of the Making Work Pay Credit and rejections of electronic filing returns. Unfortunately, a web site was not set up in advance by the IRS, as it was with the previous rebate payments, to verify the payments received.

However, relief is on its way, if not belatedly. According to the National Association of Enrolled Agents (NAEA), a toll free phone number is now available to determine the ERP; call **(866) 234-2942**. You will need the SSN, date of birth and zip code of the address on the last return filed.

Beginning on or around March 22, the NAEA also believes that an on-line function will be available on the IRS web site for the same purpose.

990 Instruction Manuals

The 990 instruction manuals have been shipped and the 706 manuals will be mailed out this week sent to all who ordered. 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 12th 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 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 2009 proforma as the output report will not print.

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 **{20}** in zip 41 for correct treatment on Form 8889. You must also complete the necessary entries on Input Form 5498SA **{63B}** to compute the rest of the form.

Form 1099R Distributions

Form 1099R often comes with the taxable portion blank and the *Taxable Portion Not Determined* checked. This means that you must determine the taxable portion or no amount will be entered. Even in the case of a Roth IRA or a traditional IRA with basis, always fill in the taxable amount before any rollover.

Form 1099R Reductions

Forms 1099R {23A} 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 ExactTax 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.

CA Conformity Bill –Good News/Bad News

The California General Assembly has passed a bill on March 11 that has been sent to the governor for signing. If enacted, this bill would update California's Internal Revenue Code (IRC) conformity date from January 1, 2005, to January 1, 2009, for taxable years beginning on or after January 1, 2010, for California personal income and corporation franchise and income taxes. By updating the conformity date, California would incorporate many, but not all, of the federal changes enacted by federal acts from 2005 - 2009 that amended IRC provisions followed by California.

Unfortunately, at least one very important conformity provision was not applied retroactively. From the bill:

(h) The amendments made by Section 7(a) of the Mortgage Forgiveness Debt Relief Act of 2007 (Public Law 110-142) to Section 121 of the Internal Revenue Code, relating to exclusion of gain from sale of principal residence, shall apply to sales or exchanges that occur **on or after January 1, 2010.**

Note: For some 2009 returns you may be excluding gain under the qualified residence rule on the federal return and using insolvency or some other exception on the CA return. In this case, a separate Form 982 must be completed for California. Since data entered on a manually prepared form is not included in the California electronic file, file a paper return if Form 982 is completed for California purposes.