

April 16, 2010

Issue 2010-11

ExacNews

Exactax Client:

Everyone at Exactax would like to thank you for making this a very smooth and efficient season. While there were several late corrections and new wrinkles due to tax law changes this year, we were able to adjust our input forms and production processes to maximize throughput. We will continue to make improvements to keep the turnaround time as quick as possible. As always, we appreciate the many years of your loyal business and look forward to providing for your tax processing needs in the years to come. We will be taking a small break beginning Monday and we hope you get some well deserved rest too.

Operating Hours

We will be closed Saturday April 17 through Tuesday, April 20. Regular hours, 8:30 to 5:00 will resume on Wednesday, April 21.

Note: E-file support for authorizations of corrected transmissions only will be available on Friday, April 16, Monday April 19 and Tuesday April 20, from 9:00 AM – 3:00 PM. Call (714) 284-4802 and enter extension 235.

Electronic Filing Cut-Offs

For electronically filed returns to be “timely filed”, they had to be transmitted to the IRS and/or to the FTB on or before April 15, 2010 and **accepted** by the IRS and/or FTB on or before April 20, 2010.

If a return was filed by April 15th and is rejected, the re-transmission of corrected, timely filed **rejected** returns must be authorized to Exactax by **2:45 P.M. (PT)** on Tuesday, April 20, 2010. If you have not received ACKS for all returns that have been transmitted by April 15, please call Customer Service at 800-254-2244 to confirm the status. If you have not received an ACK with an accepted status for an e-file return then, the return should be considered as not filed.

Returns for which a paper extension has been filed may still be filed electronically with the IRS and/or the FTB until October 15, 2010 and must be accepted by the IRS and/or the FTB on or before October 20, 2010.

Workshops for First-Time Efilers

Look for a schedule of summer workshops for first-time efilers in an upcoming issue of ExacNews.

CD Archives

The orders for CD archives have all been filled. Please allow at least one week for all new orders to be completed.

California Conformity to Federal Law

On April 12, 2010, SB 401, the Conformity Act of 2010 was enacted. The Act changes California’s conformity date to the Internal Revenue Code from January 1, 2005, to January 1, 2009, for taxable years beginning on or after January 1, 2010. California’s conformity results in numerous substantive changes to both the Personal Income Tax Law and the Corporation Tax Law with respect to those areas of preexisting conformity that are subject to changes under federal laws enacted after January 1, 2005. The Act would also conform to the February 17, 2009, federal legislation providing an exclusion from gross income in any taxable year for energy grants provided in lieu of federal energy credits.

Several provisions of the new law affect taxable years beginning prior to January 1, 2010. The FTB will provide additional updates about changes to the law for taxable years beginning on or after January 1, 2010. The most notable provision is discussed next.

Mortgage Forgiveness Debt Relief Extended

The Act allows taxpayers that had all or part of the loan balance on their principal residence forgiven by their lender to exclude the forgiven debt from gross income. The new law applies to discharges of qualified principal residence indebtedness on or after January 1, 2009, and before January 1, 2013. However, California does not follow the federal limits exactly. Returns already filed that included canceled debt on qualified personal residence for California may now qualify to exclude it and should file an amended return. Go to www.ftb.ca.gov and search for Mortgage Forgiveness Debt Relief for additional information.

Note: As of April 15 the tax program has been updated to stop the add back of excluded gain to California when exclusion code 10 (qualified residence) is used on Form 1099C **{96A}**, zip 11.

1040 Extensions - Late Payment Interest and Penalties:

There are still a large number of returns on extension that will be filed in the coming months. Here are some updates and pointers:

In order for Exactax to compute any late interest or penalties a **filing date** MUST be entered on Form Pen **{5}**, zip 4. This is the date through which the penalties and interest will be computed. Exactax will compute Late Interest (INT) and Failure to Pay Penalty (FTP = 1/2% per month) on the balance due through the date entered.

The Failure to File Penalty (FTF) will also be computed unless an extension code is entered (see next paragraph) or the penalty is specifically suppressed. The filing date is not reflected in the client letter. The letter will instruct the taxpayer to “file as soon as possible” by default unless an extension date is entered.

Note: Zips 18, 19 and 20 are available to individually suppress penalty and interest computations.

To have a filing date print on the client letter (“File your return by October 15, 2010”), enter an Extended Due Date Form Ext section **{6A}** in zip 2 (default is 10/15/10), and a code **1** in zip 1. This code must be entered along with the date.

If zip 1 is blank, the Failure to File Penalty (FTF = 4 1/2% per month) will be computed whenever interest and late payment penalties are computed. A date earlier than the actual extended due date may be entered; however, make sure the same date is entered on Form Pen **{5}** for a matching penalty and interest computation.

The amounts computed are detailed on a Late Filing Interest and Penalty Worksheet. The amounts are printed separately at the bottom of Form 1040, page 2, identified by their acronyms *INT*, *FTP* and *FTF*.

Note: Enter the amount actually paid on federal extension on Form Est **{6A}**, zip 19 or 20.

State returns require the same type of entries on the equivalent state forms. For example, on California returns enter the filing date for computing late interest and penalties, on Input Form CAPen **{5}**, zip 1. Enter the extended due date on Form CAExt section **{6A}**, zip 2 with an ‘X’ in zip 1. Enter the amount paid on extension in zip 3.

Note: Entering the state extension date will automatically trigger late interest and penalty computations on balance due state returns. You can suppress these using zips 3, 4 and 5 on Form Pen **{5}** in the CAPen section. Other states - see each state’s penalty input form for the suppression boxes.

Recap: 1) Always enter a code 1 in zip 1 on Input Form Ext **{6A}**, the extended due date in zip 2 and the amount paid with the extension in the Form Est section **{6A}**, zip 19 or 20, including a zero.

- 2) Enter the filing date on Input Form Pen **{5}**, zip 4 to compute late interest and penalties on Form 1040.
- 3) Enter the state extended due date, filing date and amount paid with extension on the applicable state input forms.
- 4) Check the applicable boxes on Form Pen **{5}** to suppress penalty and interest, if necessary. ●