

ExacNews

ExacTax Client:

Once again, ExacTax would like to thank you for a busy and mostly pain-free tax season. We appreciate the opportunity to be your tax service provider. We value your business highly and your input is always greatly appreciated. We all know that the tax season never really ends – it just moves later into the year. With that said, everyone at ExacTax wishes you well and hopefully, a nice bit of time off.

Operating Hours

ExacTax's operating hours are 8:30 – 5:00, Monday through Friday until May 13.

▶ ***Beginning May 14 through September 17 ExacTax will be closed on Fridays.***

ExacTax will also be closed on the following holidays:

May 31, July 5, September 6, November 25-26, December 24 and December 31.

When Calling ExacTax

For faster service, dial Customer Support directly at **800-254-2244** rather than going through the main desk. For reruns, ordering forms, supplies or for tracking the status of a return call the RST Desk at 800-786-4272.

Extension Returns

As discussed in the previous ExacNews, returns that are on extension need to have entries on Input Form Ext {**6A**} for the federal extension date and the California extension date, if applicable. If late interest and penalties are requested on Form Pen {**5**} and the extension information has not been entered, failure to file penalties may also be computed.

If extension payments are entered and the extension dates have been omitted, ExacTax will mark the extension box and use the default extension date of 10/15/2010.

Billing Queries and Reminders

When requesting adjustments to your billing, state the reason in the comment section of your remittance and submit it with your payment. Any problems or questions regarding billing queries may also be faxed directly to the Accounting Department at 714-999-6566. Requests for credit must be made in writing.

Electronic Filing

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.

Note: E-file transmissions are made every day that ExacTax is open.

RDE Reruns

If you have successfully transmitted a return for processing and the 'Last Log' column on your RDE Communications Center client list does not immediately show 'RDE', do not assume that it has not been received by ExacTax. Before re-transmitting the return, click on the *Utilities* menu and select *Retrieve Communications Log*. This will refresh your client list with the latest data from the ExacTax server. If the status still does not appear as 'RDE', contact Customer Support to verify that it has not been received. ExacTax does not give credit for RDE reruns.

RDE Users – Make Backups!

Now is the perfect time to make a backup of all your client files and put them in a safe location. It only takes a few minutes but can save you hours of grief later on.

Program Updates

The latest software upgrade, version 2009.5 has been shipped to all RDE users and should be installed on your system by now. After installing this CD you must check for updates using the CS Connect button on your tool bar; several updates have already been issued since the CD release. You may discard all prior UltraTax 2009 versions as 2009.5 is cumulative and is the final CD. Continue to check for updates as these will be made throughout the year.

Proforma for Late Returns

If you process a 2004 through 2008 return and want to receive proforma for the following year, contact the Customer Support Department. Please wait until you have reviewed the return before placing the proforma order. A \$4.00 proforma charge plus a shipping charge will apply. These requests will be processed on a weekly basis. RDE files will be made available for download using the ExacTax RDE Communication Center.

Hawaii Itemized Deductions and Wagering Losses

The state of Hawaii has passed legislation conforming Hawaii income tax law to Internal Revenue Code Section 165(d) related to wagering losses. As of April 27 the program has been updated and wagering losses are deductible for Hawaii itemized deductions to the extent of wagering winnings. Returns with wagering winnings and losses and itemized deductions should be reviewed and amended when applicable.

California Conformity to Federal Law

On April 12, 2010, SB 401, the California *Conformity Act of 2010* was enacted. Some of these changes were discussed in the previous issue of ExacNews.

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 ExacTax program was updated to stop adding back excluded gain on canceled indebtedness on a qualified residence to California income. This addition was done

automatically when exclusion code 10 (qualified residence) was used on Form 1099C {**96A**}, zip 11.

Because California has lower cancellation of debt limits than the federal, (500,000 if filing joint and 250,000 for all others) when the amount excluded on the federal return exceeds the amount allowed under California law, an addition adjustment will need to be made for ordinary income. Use Form CAAdj {**CA2**}, zip 32 to enter this adjustment. Other adjustments may be required if there is a sale of property with different basis adjustments.

2010 California Tax Credit for New Home / First-Time Buyer

A new set of credits are now available to California homebuyers. One credit is available for the purchase of a new home (never before occupied) and the other is for the first-time homebuyer. The New Home / First-Time Buyer Credits are available only for purchases that close escrow on or after May 1, 2010.

Applying for the 2010 New Home/First-Time Buyer tax credits:

Applications must be faxed **after** escrow closes. The new application will be available by May 1, 2010. FTB will deny the application if the 2009 form is used or if they receive the 2010 application before May 1, 2010.

Check the web page www.ftb.ca.gov/individuals/new_home_credit.shtml frequently. FTB will add updates as they become available.

General Information:

These tax credits are available for taxpayers who purchase a qualified principal residence on or after May 1, 2010, and before January 1, 2011. Additionally, these tax credits are available for taxpayers who purchase a qualified principal residence on or after December 31, 2010, and before August 1, 2011, pursuant to an enforceable contract executed on or before December 31, 2010. The purchase date is defined as the date escrow closes. Taxpayers may apply for the tax credits if they have entered into a contract before May 1, 2010, as long as escrow closes on or after May 1, 2010.

These tax credits are limited to the lesser of 5 percent of the purchase price or \$10,000 for a qualified principal residence. Taxpayers must apply the total tax credit in equal amounts over 3 successive tax years (maximum of \$3,333 per year) beginning with the tax year in which the home is purchased. The tax credits cannot reduce regular tax below tentative minimum tax (TMT). The tax credits are nonrefundable and unused credits cannot be carried over.

The total amount of allocated tax credit for all taxpayers may not exceed \$100 million for the New Home Credit and \$100 million for the First-Time Buyer Credit. However, since many taxpayers will not be able to utilize the entire tax credit, the legislation specifies that the \$100 million cap for the New Home Credit will be reduced by 70 percent of the tax credit allocated to each buyer and the \$100 million cap for the First-Time Buyer Credit will be reduced by 57 percent of the tax credit allocated to each buyer. For example, if a taxpayer is allocated \$10,000 for the New Home Credit, the \$100 million cap for the New Home Credit will only be reduced by \$7,000. If a taxpayer is allocated \$10,000 for the First-Time Buyer Credit, the \$100 million cap for the First-

Time Buyer Credit will only be reduced by \$5,700. The 70 and 57 percent reductions do not impact the amount that can be claimed by the taxpayer.

The tax credits will be allocated on a first-come, first-served basis.

Only one tax credit is allowed per taxpayer. If a taxpayer qualifies for both tax credits, the law specifies that the FTB will allocate the amount under the New Home Credit.

Taxpayers will **not** be eligible for either tax credit if any of the following apply:

- The taxpayer was allowed a 2009 New Home Credit.
- The taxpayer is under 18 years old. (A taxpayer who is married as of the date of purchase will be considered to be 18 if the spouse/registered domestic partner (RDP) of the taxpayer is 18 or older on the date of purchase.)
- The taxpayer or the taxpayer's spouse/RDP is related to the seller.
- The taxpayer qualifies as a dependent of any other taxpayer for the tax year of the purchase.

New Home Credit: A qualified principal residence, for purposes of the New Home Credit, must:

- Be a single family residence, either detached or attached. This can be a single family residence, a condominium, a unit in a cooperative project, a house boat, a manufactured home, or a mobile home. A home constructed by the taxpayer is not eligible since the home has not been "purchased."
- Have never been occupied. Sellers must certify that the home has never been occupied in order for a taxpayer to receive an allocation of the credit.
- Be eligible for the California property tax homeowner's exemption.
- Be occupied by the taxpayer as their principal residence for a minimum of 2 years immediately following the purchase.

Tax credit allocation:

- A Certificate of Allocation will not be issued if:
 - The seller does not certify the home has never been occupied.
 - FTB does not receive the application and a copy of the properly executed settlement statement within 2 weeks (14 calendar days) after the close of escrow.
 - FTB receives the application or reservation request after the total tax credits available have been allocated.
- FTB's determination may not be protested or appealed.

First-Time Buyer Credit: A qualified principal residence, for purposes of the First-Time Buyer Credit, must:

- Be a single family residence, either detached or attached. This can be a single family residence, a condominium, a unit in a cooperative project, a house boat, a manufactured home, or a mobile home. A home constructed by the taxpayer is not eligible since the home has not been "purchased."
- Be eligible for the California property tax homeowner's exemption.
- Be occupied by the taxpayer as their principal residence for a minimum of 2 years immediately following the purchase.

A first-time buyer is any individual (and the individual's spouse/RDP, if married on the date of purchase) who did not have an ownership interest in a principal residence, either in or out of California, during the preceding 3 year period ending on the date of the purchase of the qualified principal residence. If the buyer is married on the date of purchase and either the buyer or the buyer's spouse/RDP had an ownership interest in a principal residence during the preceding 3 year period, the buyer does not qualify for the First-Time Buyer Credit even if the spouse/RDP is not going to be on title.

Tax credit allocation:

- A Certificate of Allocation will not be issued if:
 - FTB does not receive the application and a copy of the properly executed settlement statement within 2 weeks (14 calendar days) after the close of escrow.
 - FTB receives the application after the total tax credits available have been allocated.
- FTB's determination may not be protested or appealed.

Applications

FTB will accept applications **by fax only** beginning May 1, 2010. Do **not** use the 2009 application. FTB will post more information by May 1, 2010.

Reservations

Taxpayers who qualify for the **New Home Credit** may, but are not required to, reserve a tax credit prior to the close of escrow. Reservations will become important as we near the \$100 million cap for homes that may not close escrow before the cap is reached, as a reservation will "hold the taxpayer's place in line" until 2 weeks after escrow closes. To reserve a tax credit, the taxpayer and seller need to complete, sign, and fax a reservation request to the FTB to certify that they have entered into an enforceable contract on or after May 1, 2010, and on or before December 31, 2010. A copy of the signed contract must be included with the reservation request. Taxpayers who reserve a tax credit still need to fax an application and a copy of the settlement statement within 2 weeks after the close of escrow. Taxpayers may not reserve a tax credit if the contract was entered into before May 1, 2010. FTB will post the reservation form and details about the process by May 1, 2010.

If you are only applying for the **First-Time Buyer Credit**, you will **not** be able to reserve the tax credit before escrow closes.

Claiming the tax credit

- The taxpayer must receive a Certificate of Allocation from the FTB to claim the tax credit on their California personal income tax return. The Certificate of Allocation will state the maximum amount the taxpayer can claim listed by tax year.
- The taxpayer should refer to the 2010 New Home / First-Time Buyer Credit Publication for instructions on claiming the tax credit (the publication will be available by December, 2010).
- Special rules apply to married/RDP taxpayers filing separately, in which case each spouse/RDP is entitled to one-half of the tax credit, even if their ownership percentages are not equal. For 2 or more taxpayers who are not married/RDP, the tax credit amount will have already been allocated to each taxpayer occupying the residence on their respective tax credit allocation letter.
- If the available tax credit exceeds the current year net tax, the unused tax credit may **not** be carried over to the following tax year.
- The tax credit may not reduce regular tax below the tentative minimum tax.
- The tax credit is **not** refundable.
- Any disallowance of the tax credit may not be protested or appealed. ■