

Tax Season toolkit

The Info You Need to Build a Successful Busy Season



After the bustle of the coming holidays, CPAs will be launched into tax season. With the rapid changes taking place in the economy and regulatory world, there's much to know when it comes to filing for your clients. But, never fear. CaICPA's annual Tax Season Toolkit is here.

California Tax Update for 2016

Entity Return Due Dates (AB 1775)

For taxable years beginning on or after Jan. 1, 2016, California conformed to the new federal due dates. Use the chart below as a quick reference guide. Fiscal-year filers, adjust the dates accordingly.

California Conformity to Federal Due Dates

For a Calendar-Year Filer	CA & Federal Due Dates	CA Extended Due Dates
- C corp * - LLC treated as a C corp *	April 15	Oct. 15
- S corps - LLCs treated as a S corp	March 15	Sept. 15
- Partnerships - LLCs treated as a partnership	March 15	Sept. 15
Exempt organizations	May 15	Nov. 15
Single-member LLCs	Generally based on return due date of owner	

*For C corps and LLCs treated as C corps with a June 30 year-end, California did not conform to the federal due date change.

Extensions to File

For C corps, S corps and exempt organizations, the current seven-month extension will be reduced to six months. The six-month extension remains unchanged for partnerships. For more information about business entity extension due dates, see FTB Notice 2016-04.

Payment Dates

Changes to the return due dates will result in corresponding changes to payment due date for taxes and fees due by the original return due date.

California Competes Tax Credit Update California Competes Tax Credit Application Considerations (SB 836) | Businesses

Governor's Office of Business and Economic Development (GO-Biz) is now authorized to consider the following factors when selecting a business for the California Competes Tax Credit:

- Financial solvency of the taxpayer and the taxpayer's ability to finance its proposed expansion;
- Taxpayer's current and prior compliance with federal and state laws;
- Current and prior litigation involving the taxpayer;
- Reasonableness of the fee agreement between the taxpayer and any third party providing any services related to the credit; and
- Anything else GO-Biz deems necessary to administer the credit with accountability and transparency and to efficiently utilize the limited amount of credit available.

Internet Disclosure (AB 2900) | Businesses

Go-Biz is required to post these items on its website:

- The primary location where the taxpayer has committed to increasing the net number of jobs or making investments;
- Information that identifies each tax credit award that was prioritized for being located in an area of high unemployment or poverty; and
- Information that identifies each tax credit award that's counted toward the credit amount required to be allocated to small business.

Application Period Update

The remaining application periods and credit amounts available are:

- Jan. 2-23 (\$100 million)
- March 6-27 (\$68.3 million, plus any remaining unallocated amounts)

Other Credits and Incentives Legislative Changes Notification Requirement for California Earned Income Tax Credit (AB 1847) | Businesses

This bill requires California employers, state departments and certain agencies to provide formal notification to their employees of possible eligibility for the new California earned income tax credit.

New Advanced Strategic Aircraft Program Credit (SB 836) | Businesses

The operative date of the credit was changed to taxable years beginning on or after Jan. 1, 2016, and before Jan. 1, 2031 (currently, taxable years beginning on or after Jan. 1, 2015, and before Jan. 1, 2030).

Fruits or Vegetables Donations Credit (SB 837) | Businesses

This bill creates a 15 percent credit to a qualified taxpayer that donates fresh fruits or vegetables to a food bank located in California for taxable years beginning on or after Jan. 1, 2017, and before Jan. 1, 2022. Any credit that isn't used can be carried forward for seven years.

Low-Income Housing Credit (SB 837) | Businesses

This bill requires a partnership to allocate the credit to partners based on the partnership agreement, regardless of how the federal low-income housing tax credit is allocated to the partners or whether the allocation of the credit under the terms of the agreement has substantial economic effect. The credit applies to periods before Jan. 1, 2020 (was Jan. 1, 2016), and also allows the low income housing credit to be sold if certain conditions are met.

Other Legislative Changes

Extension of the Tax Increase (Proposition 55) | Individuals

On Nov. 8, California voters approved the extension of the temporary tax increase on individuals, which was due to expire in 2018. Proposition 55 extends the tax rates instituted by Proposition 30 through 2030; however, it didn't extend the temporary sales tax rate increase that expires in 2017. Below are the current marginal tax rates:

Filing Enforcement and Collection Fees for 2016-17

TAXABLE INCOME			2016 MARGIN TAX RATES
Single filer	Joint Filer	Head of Household	
\$52,612-\$268,750	\$105,224-\$537,500	\$71,615-\$365,499	9.3%
\$268,751-\$322,499	\$537,501-\$644,998	\$365,500-\$438,599	10.3%
\$322,500-\$537,498	\$644,999-\$1,000,001	\$730,998-\$1M	11.3%
\$537,499-\$1M	\$1,000,001-\$1,074,976	\$730,998-\$1M	13.3%
Over \$1M	Over \$1,074,976	Over \$1,000,001	13.3%*

* The marginal rate plus the 1 percent mental health tax rate for taxable income in excess of \$1 million.

(SB 826) | Individuals and Businesses

The cost recovery fee is assessed to recover program costs when individuals and business entities fail to file tax returns upon demand or pay their delinquent taxes. The cost recovery fee includes two separate fees—the filing enforcement fee and the collection fee. The cost recovery fee amounts are reviewed yearly and based on program costs. The fees for 2016-17 are:

Entity Type	Collection Fee	Filing Enforcement Fee
- Individuals		
- General and LPs		
- LLP		
- LLCs treated as a partnership	\$266	\$81
- Corporations		
- LLCs treated as a corporation	\$365	\$100

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Exclusion and Qualified Health Services Plan Income (SBX2-2) | Businesses

Effective July 1, 2016, income of qualified health service plans accrued with respect to enrollment or services that occur on or after July 1, 2016, and on or before June 30, 2019, is excluded from gross income for purposes of the California franchise (income) tax. This statute remains in effect until Dec. 1, 2019, and is repealed as of June 30, 2020.

New 'Check-off' Designated Charitable Funds | Individuals

- California Domestic Violence Victims Fund (AB1399)
- School Supplies for Homeless Children Fund—Extension of Sunset Date (AB 1789)
- Special Olympics Fund (AB 2371)
- Type 1 Diabetes Research Fund (AB 2430)
- Revive the Salton Sea Fund (SB 1416)

Other Franchise Tax Board Changes

New Identity Theft Hotline | Individuals

The FTB has a new ID theft hotline. The ID theft fax number remains the same to submit ID theft correspondence and forms, such as the ID Theft Affidavit, FTB 3552. The numbers are:

Phone: (916) 845-7088 | Fax: (916) 843-0561

2016 Disaster Losses | Individuals and Businesses

For taxable years beginning Jan. 1, 2014, taxpayers—both individuals and businesses—may deduct a disaster loss for any loss sustained in any city or county in California that's proclaimed by the governor to be in a state of emergency. For these governor-only declared disasters, subsequent state legislation isn't required to trigger the disaster loss provisions.

Prior to 2014, taxpayers who were in disaster areas designated by the governor, but not the president, had to wait until the state Legislature enacted legislation to utilize the special disaster loss provisions by amending prior year returns to deduct their loss.

2016 Qualified Disasters

Disaster Code	Incident Period	Disaster	County	Governor Declared	President Declared
75	Aug. 2016	Blue Cut Fire	San Bernardino	Yes	No
74	Aug. 2016	Clayton Fire	Lake	Yes	No
73	Aug. 2016	Chimney Fire	San Luis Obispo	Yes	No
72	July 2016	Soberanes Fire	Monterey	Yes	No
71	July 2016	Sand Fire	Los Angeles	Yes	No
70	June 2016	Erskine Fire	Kern	Yes	No

If you're going to e-file, use the disaster code from the chart above. If you're going to file a paper return, print the following information in red ink across the top:

- Disaster
- Name of disaster in governor's state of emergency proclamation
- The year the loss occurred: Year from governor's state of emergency proclamation.

See www.ftb.ca.gov/forms/misc/1034.pdf for more.

Economic Nexus Thresholds Indexed for Inflation | Businesses

The new doing business thresholds are:

- California property: \$54,771
- California payroll: \$54,771
- California sales: \$547,711

Interest Rates Increase on Jan. 1, 2017 | Individuals & Businesses

In the first interest rate increase in four years, the FTB announced a change in the adjusted interest rate for the period beginning Jan. 1, 2017, through June 30, 2017. The interest rate increases from 3 percent to 4 percent (compounded daily) for personal income and corporation tax underpayments, personal income tax overpayments and estimated tax penalties. The rate for corporation tax overpayments for the period remains at zero. For certain corporate underpayments subject to the additional 2 percent interest—known as hot interest—the combined interest rate increases from 5 percent to 6 percent.

Information compiled by **Bob Reynolds, CPA**, partner, and **Kelly Bluth**, manager, of Moss Adams LLP. You can reach Bob Reynolds at (916) 503-8138 or bob.reynolds@mossadams.com, or Kelly Bluth at (916) 503-8210 or kelly.bluth@mossadams.com.