



California Society of Tax Consultants  
**HIGH DESERT CHAPTER**  
15 CHAPTERS STATEWIDE  
Volume 52 May 2010

**President's Message**

Michele' Maiwald would like to apologize for no message this month due to circumstances beyond her control. She will be back with a message for June's newsletter.

**REGISTRATION:** 5:30 PM  
**DINNER:** 6:00 PM

**MEMBERS:** \$ 30.00  
**MEMBERS/GUESTS:** \$ 40.00  
*\*Price when paying at registration*

**LOCATION:**  
**Lil' Bit of Country**  
**14335 Hesperia Road**  
**Victorville, CA**

**Speaker and Topic for May**

**TOPICS: Roundtable Discussion**

This presentation has been designed to meet the requirements going back to of the Director of Practice of the Internal Revenue Service, the California State Board of Accountancy, and the California Tax Education Council, Business & Professions Code #22250-222859, including Code 31 of Federal Regulations 10.6(g), continuing education rule 88(c) covering maintenance of attendance records, retention of program outlines, qualifications of instructors and length of class hours. This does not constitute an endorsement by these groups.

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**CSTC SOCIETY**     [www.cstcsociety.org](http://www.cstcsociety.org)

The latest Reporter is available online now!

Do not forget to log into the society web page for the latest news, you can also view and print the reporter, and be sure to check out the members' only page and bulletin boards. The log in is:

User ID: **CSTC1000** Password:

### **TAXSPECIALIST**

Past editions of the newsletter for our Chapter are on line at [www.cstcsociety.org/HIGHDESERT](http://www.cstcsociety.org/HIGHDESERT) click on the Calendar/News link to view the education schedules and issues of the newsletter.

Anyone planning to attend a board meeting should contact any board members to confirm their attendance. To assure timely delivery of your monthly newsletter please notify Lori LaPlante of any change of address, phone number or email address.

Come and Join Us at a Dinner meeting!!

We always look forward to seeing all our members. Take advantage of the opportunity to learn something new or just refresh your knowledge on some interesting topics.

**REMINDER** Wear your badge to be eligible for the drawing. If you do not have a badge, please tell Judie LaDow, so she can order one for you. If you have lost your badge, replacements are available at a cost of \$15.00, due at the time of ordering.

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## **FYI**

### **Tax-Free Employer-Provided Health Coverage Now Available for Children under Age 27**

IR-2010-53, April 27, 2010

WASHINGTON — As a result of changes made by the recently enacted Affordable Care Act, health coverage provided for an employee's children under 27 years of age is now generally tax-free to the employee, effective March 30, 2010.

The Internal Revenue Service announced today that these changes immediately allow employers with cafeteria plans — plans that allow employees to choose from a menu of tax-free benefit options and cash or taxable benefits — to permit employees to begin making pre-tax contributions to pay for this expanded benefit.

IRS [Notice 2010-38](#) explains these changes and provides further guidance to employers, employees, health insurers and other interested taxpayers.

“These changes give employers a unique opportunity to offer a worthwhile benefit to their employees,” IRS Commissioner Doug Shulman said. “We want to make it as easy as possible for employers to quickly implement this change and extend health coverage on a tax-favored basis to older children of their employees.”

This expanded health care tax benefit applies to various workplace and retiree health plans. It also applies to self-employed individuals who qualify for the self-employed health insurance deduction on their federal income tax return.

Employees who have children who will not have reached age 27 by the end of the year are eligible for the new tax benefit from March 30, 2010, forward, if the children are already covered under the employer's plan or are added to the employer's plan at any time. For this purpose, a child includes a son, daughter, stepchild, adopted child or eligible foster child. This new age 27 standard replaces the lower age limits that applied under prior tax law, as well as the requirement that a child generally qualify as a dependent for tax purposes.

The notice says that employers with cafeteria plans may permit employees to immediately make pre-tax salary reduction contributions to provide coverage for children under age 27, even if the cafeteria plan has not yet been amended to cover these individuals. Plan sponsors then have until the end of 2010 to amend their cafeteria plan

language to incorporate this change.

In addition to changing the tax rules as described above, the Affordable Care Act also requires plans that provide dependent coverage of children to continue to make the coverage available for an adult child until the child turns age 26. The extended coverage must be provided not later than plan years beginning on or after Sept. 23, 2010. The favorable tax treatment described in the notice applies to that extended coverage.

This additional reporting will be optional for stock purchased prior to these dates.

### **Open House on Saturday May 15 to Help Small Businesses, Individuals Solve Tax Problems**

IR-2010-55, May 3, 2010

WASHINGTON — The Internal Revenue Service will host a special nationwide Open House on Saturday May 15 to help small businesses and individuals solve tax problems.

Approximately 200 IRS offices, at least one in every state, will be open May 15 from 9 a.m. to 2 p.m. local time. IRS staff will be available on site or by telephone to help taxpayers work through their problems and walk out with solutions.

“Our goal is to resolve issues on the spot so small businesses and individuals can put any issues they have with the IRS behind them,” IRS Commissioner Doug Shulman said. “If you have a problem filing or paying your taxes or resolving a tough tax issue, we encourage you to come in and work with us.”

IRS locations will be equipped to handle issues involving notices and payments, return preparation, audits and a variety of other issues. At a previous IRS Open House on March 27, approximately two-thirds of taxpayers requested and received assistance with payments and notices.

So, for example, a taxpayer who cannot pay a tax balance due can discuss with an IRS professional whether an installment agreement is appropriate and, if so, fill out the paperwork then and there. Assistance with offers-in-compromise will also be available. Likewise, a taxpayer struggling to complete a certain IRS form or schedule can work directly with IRS staff to get the job done.

At the March 27 Open House, 88 percent of the taxpayers who came in for help had their issues resolved

the same day.

[Locations for the May 15 Open House are listed here.](#)

The Open House on May 15 is the first of three events scheduled through the end of June. The next two are planned for Saturday June 5 and Saturday June 26. Details regarding those events will be available soon.

## CALIFORNIA

### California Enacts Mortgage Forgiveness Debt Relief

04.13.2010

**Sacramento** – A new state law allows taxpayers to immediately exclude from their income the amount of mortgage debt on their home loan that has been forgiven by their lender. The law largely brings California statutes into conformity with current federal law. Previously, California conformed to federal debt relief only for 2007 and 2008, according to the Franchise Tax Board (FTB).

"California has been particularly hard hit by the housing crisis," said State Controller and FTB Chair John Chiang. "This is a critical tax change that will help people in our state who already are suffering the loss of their homes."

The new law, SB 401 (Wolk), allows most taxpayers to exclude canceled mortgage debt income of up to \$500,000 on their principal residence. The limit is \$250,000 for married/registered domestic partner (RDP) individuals filing separately. It applies to debt forgiveness in 2009 through 2012 resulting from a foreclosure, "short sale," or loan modification of a taxpayer's qualified personal residence.

Prior to the law's passage, these amounts were taxable to California. If you owe a debt to someone else and they cancel or forgive that debt, the canceled amount often is taxable. These amounts are generally reported on a 1099-C and are provided to both the taxpayer and the government. Debt forgiveness on other types of debt, such as a second home or business property, does not qualify for exclusion under the new law.

The law largely brings California into conformity with the federal Mortgage Forgiveness Debt Relief Act for discharges that occurred in tax years 2007 through 2012. However, California's limits of qualifying principal residence indebtedness differ from federal limits.

Qualifying taxpayers who have already filed their 2009 tax returns should file [Form 540X, Amended Individual](#)

[Income Tax Return](#), to subtract the amount of debt relief from income. To expedite processing, write "Mortgage Debt Relief" in red across the top of the amended tax return. Taxpayers must attach a copy of their federal return, including [Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness \(and Section 1082 Basis Adjustment\)](#), with their state tax return.

Like federal law, the new state law allows individuals and businesses to exempt energy grants that are provided in lieu of federal energy credits from their gross income and alternative minimum taxable income. It also conforms California law to many other federal provisions.

According to FTB estimates, approximately 100,000 people may benefit from mortgage debt relief for tax years 2009-2012. For more information, taxpayers are urged to visit FTB's website at [ftb.ca.gov](http://ftb.ca.gov).

For more information on other taxes and fees in California, visit [taxes.ca.gov](http://taxes.ca.gov).

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

(If you are looking for more information regarding the 2009 New Home Credit, see [FTB Publication 3528, New Home Credit](#), or search using the "Forms & Publications" tab above.)

### Important Update (05/06/10): The 2010 New Home Credit and First-Time Buyer Credit begins May 1, 2010.

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. We will deny the application if the 2009 form is used, we receive the 2010 application before May 1, 2010, or we receive the application before escrow closes. (Updated 04/28/10).

**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. However, taxpayers may not request a New Home Credit

reservation if they have entered into the contract before May 1, 2010. (Updated 04/28/10)

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.

We will allocate the tax credits on a first-come, first-served basis. We expect it to take 3-6 months to notify taxpayers after an application or reservation is received. We need to develop a computer system to capture, verify, reserve or allocate, issue letters, and track the credits. Please be patient and do not fax an application more than once. Since the First-Time Buyer Credit is expected to be used up very quickly, we will provide estimates, based on sampling, of the number of First-Time Buyer applications and the related credit amounts that we have received beginning May 6, 2010. This will allow First-Time Buyers to estimate whether they will be able to apply for the credit and allow us to determine when we have received enough applications to fully allocate the \$100 million and stop accepting First-Time Buyer applications. Since the New Home Credit is not expected to be used up as quickly, we will wait until approximately mid-July after our computer system is available to post information about the New Home Credit usage. (Updated 04/28/10)

Only one tax credit is allowed per taxpayer. If a taxpayer qualifies for both tax credits, the law specifies that we 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.
  - We do not receive the application and a copy of the properly executed settlement statement within 2 weeks (14 calendar days) after the close of escrow, regardless of whether a reservation request was submitted.
  - We receive the application or reservation request after the total tax credits available have been allocated.
- FTB's determination may not be protested or appealed.

**Reserving a New Home Credit Before Escrow Closes:** Taxpayers who qualify for the **New Home Credit** may, but are not required to, request a reservation **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. Taxpayers may only request a reservation if they have entered into an enforceable contract on or after May 1, 2010, and on or before December 31, 2010. Taxpayers may not reserve a credit if the contract was entered into before May 1, 2010. Taxpayers who only qualify for the **First-Time Buyer Credit** may **not** request a reservation.

Requesting or receiving a reservation **does not** guarantee the credit. An application must still be completed and faxed to FTB along with the final settlement statement within **two weeks after** the close of escrow. If a buyer requests a reservation and the purchase is cancelled, the buyer must notify FTB. (Updated 04/28/10)

**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:
  - We do not receive the application and a copy of the properly executed settlement statement within 2 weeks (14 calendar days) after the close of escrow.
  - We receive the application after the total tax credits available have been allocated.

- FTB's determination may not be protested or appealed.

**Estimated applications received for First-Time Buyer Credit as of 05/04/10 (Updated 05/06/10)**

The figures shown below are only estimates, based on small samples. The numbers are overstated as there will be duplicate, revised, and invalid applications included as we have not verified any of the applications. These estimates are only provided to give a general idea of the number of applications received and the amount requested for the First-Time Buyer Credit. We are showing 57% of the estimated requested credit since the \$100 million cap will only be reduced by 57% of the credit allocated to the buyer. The amounts do not reflect actual amounts which will be allocated. These estimates will be updated each Thursday until we are sure that we have received more than enough applications to allocate the full \$100 million. Once we determine that we have received sufficient applications to allocate the full \$100 million, we will stop accepting applications for the First-Time Buyer Credit. Estimates for the New Home Credit will be provided once our computer system is completed.

**Applications for First-Time Buyer Credit received as of 05/04/10**

	<b>Estimated Total First- As of Time Buyer Applications Received</b>	<b>57% of Estimated Requested Credit</b>
05/04/10	427	\$2,350,708



### **DINNER RESERVATION**

*Please reserve \_\_\_\_\_ place(s) for the dinner meeting of the High Desert Chapter of the California Society of Tax Consultants on Wednesday, May 12, 2010.*

*All reservations must be received by Noon Monday May 11, 2010.*

*Enclosed is my check payable to CSTC for \$ \_\_\_\_\_.*

Advance Registration is \$25.00 for members and \$35.00 for non-members.

There will be an additional charge of \$5.00 for those who do not make advance reservations.

Name: \_\_\_\_\_

Address: \_\_\_\_\_

City, St, Zip: \_\_\_\_\_

Mail to:                      Lynda Cook  
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                                     Apple Valley, CA 92307

Meeting Place:            Lil Bit of Country  
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