

Sy Accountancy Corporation

Member, American Institute of CPAs
704 Mira Monte Place, Pasadena, California 91101
Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

CALIFORNIA NONFILER PROFILE

By Victor Sy, CPA, MBA

Who are California's non-tax filers? Are you one of them? How do you compare to Californians who do not file their income taxes?

The Franchise tax Board (FTB) mailed about 700,000 notices urging nonfilers to file their State income tax returns. If you do not file within 30 days, the FTB may issue a proposed assessment based on information from various sources. This proposed assessment will be estimated on the high side, of course, and will include penalties, interests and enforcement fees.

Who are California's non-tax filers?

1. Fifty-four percent are wage earners (employees).
2. Twenty-nine percent are self-employed (in business for themselves).
3. Sixty-five percent are first-time nonfilers who have a good history of filing their returns on time.
4. Majority of nonfilers are between 36 and 45 years old.

How does the State identify non-filers?

1. Eight percent file a federal tax return from a California address.
2. Four percent receive Form 1098 Mortgage Interest Statement on a real estate loan.
3. Three percent sell real property located in California (escrow companies send Form 1099s to the IRS).
4. Two percent have income from partnerships or S corporations (these entities issue Form K-1s).

How do non-filers respond to notices for non-filing?

1. Thirty-eight percent file within 30 days (expensive).
2. Twenty-five percent file after receiving a proposed assessment of taxes, penalties and interests (more expensive).
3. Thirty-seven percent file only after collection action is initiated by the FTB (most expensive).

The average nonfiler assessment for tax penalties, interests and enforcement fees is about \$4,000!

TIP: If you do not have the funds to pay taxes, file anyway. There are two separate penalties: Penalty for not filing and penalty for not paying. The penalty for not filing is high while the penalty for not paying is reasonable. It is, therefore, unwise for you not to file because you cannot pay. If you cannot file because you are missing a W2, Form 1098 Mortgage, contributions or other data, file. Estimate the missing data, attach how you made the estimate and disclose that this document is missing, that you based your figures on estimates, but will amend as soon as the datum is available. This way, you are not hounded by the thought of one day receiving a notice for unpaid taxes and unnecessary penalties, interests, collection fees and enforcement fees. Talk to your own accountant and tax preparer to discuss this problem before the filing deadline. Good luck.