

**60 HOUR CALIFORNIA TAX
EDUCATION COUNCIL (CTEC)
QUALIFYING EDUCATION COURSE**

**15 HOUR CALIFORNIA TAX LAW, RETURN
SCENARIOS, EXAMINATION**

Provider Number: 2040

CTEC Course Number: 2040-QE-0003



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Introduction

Thank you for choosing Golden State Tax Training Institute, Inc. This basic self-study 60 hour Qualifying Education (QE) course is approved by the California Tax Education Council (CTEC). This section contains 15 hours of Qualifying Education (QE) consisting entirely of California tax law. All the material covered here will be specific to the state of California. There are many cases where the state law differs from the Federal law and the tax preparer must be aware of these differences in order to process state returns for their clients. Successful completion of the full 60-Hour QE course will enable you to register with CTEC as a California Registered Tax Preparer (CRTP) and prepare taxes within the State of California. We know your time is important to you so we have produced the most comprehensive and innovative tax education products on the market today. We focus on customer service and satisfaction and we strive to look for new and responsive ways to make earning your CTEC qualifying education requirements as convenient as possible.

Since this is a self-study course, you can complete it at your own pace and on your own schedule. The minimum passing requirement is 70% on the examination questions at the end of the material. The exam has no time limit and is open book, so you are allowed to look up answers in the text we provide. You do not need to finish the exam in one continuous sitting as all of the answers you enter online are automatically saved. After you submit the exam to us we will grade it and, upon successful completion, e-mail you a Certificate of Completion. Additionally, we notify the California Tax Education Council (CTEC) that you passed the Qualifying Education (QE) allowing you to apply for your CRTP registration.

If you should fail the exam on your first attempt, you will have the option to re-take the exam at no additional cost.

The California return begins with the Federal adjusted gross income and adjustments are made to account for differences in Federal and state laws. In many cases the focus is to point out or highlight differences between Federal and California tax law. However, in many instances California conforms to Federal tax law and this is also pointed out. For extensive details see [FTB Publication 1001 - Supplemental Guidelines to California Adjustments](#).

Certain tax issues are relevant only to California and these are discussed where appropriate. The governing agency in California that corresponds to the Internal Revenue Service is the Franchise Tax Board (FTB). Whereas the California Tax Education Council (CTEC) was established by the California State Legislature to promote and certify competent tax preparation within the State of California, the FTB is responsible for administering both California personal income tax and corporate tax, much like the IRS does on the Federal level.

Course Description

Tax Cuts and Jobs Act

Most of the provisions in the Tax Cuts and Jobs Act take effect on January 1, 2018 and are operative for income tax returns filed in 2019. **The bill will NOT affect income tax returns prepared in 2018.** Since this course covers the 2017 tax year for income tax returns filed in 2018 the new tax laws will not be reflected with the exception of the medical expense deduction that will remain in place with a lower floor of 7.5% for tax years 2017 and 2018.

In general, the bill provides new tax brackets, larger standard deduction amounts and adjusted credit amounts. It scales back a popular deduction for state and local taxes, repeals a key tenet of the Affordable Care Act and cuts the corporate tax rate from 35% to 21%.

The bill also removed the personal exemption, permanently adjusted the alternative minimum tax (AMT) exemption amounts for inflation and doubled the Child Tax Credit from \$1,000 to \$2,000 per child, with up to \$1,400 available in refunds for families who owe little or no taxes. The bill also doubles the standard deduction, to \$12,000 (\$24,000 for married couples).

These tax provisions for individual taxpayers, including the new tax rates, **will start January 1, 2018, and will expire at the end of 2025.**

The course highlights major tax changes that are of significant importance to a tax practitioner. This section focuses on key California tax law provisions recently enacted or indexed for inflation. Among other topics, this unit includes information relating to significant California tax law updates, residency requirements, specific return conformity, tax rates, exemptions, credits and deductions.



This section includes a table of contents and comprehensive index to help guide your search for specific topics. Additionally, if you are using the electronic version of the course you can use the word search function by pressing "CTRL + F" on your keyboard and entering the word(s) you would like to look up.

Along with the extensive course content you will also find a bibliography you can use to find additional reference material when searching for particular topics or answers to review and examination questions. The numbers in parentheses at the end of a sentence correspond to the numbers in the bibliography.

Completion Deadline & Exam: This California Tax Education Council (CTEC) course must be completed within one year of the date of purchase.

Course Level: This basic course is appropriate for individuals interested in becoming a California Registered Tax Preparer (CRTP).

CTEC QE Credits: 15 Hours

Category: State of California Taxation

Prerequisite: None

Advanced Preparation: None

Course Learning Objectives

1. Develop a familiarity with the changes affected by inflation and recent tax law especially as they relate to California residency requirements, specific return conformity, tax rates, exemptions, credits and deductions.
2. Identify important definitions of California income including retirement income, capital gains and losses, unemployment compensation and other major income sources.
3. Review various California professional tax preparer ethics standards and relevant penalties.
4. Summarize California tax law, common statutes of limitations (SOLs) for assessments and claims for refund or credit following a Federal action and power of attorney.

Review Questions and Feedback

Following each lesson there are several review questions that are designed to help you learn the material you have just studied. Review questions are for instructional use only and you will not be graded on these questions. We provide both the answers to each question and an explanation or feedback as to how we arrived at each answer.

Best practice suggests that you should try to answer these questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material. As with all self-study CPE courses, you can refer back to the course material to locate the answers - the so called 'open book' learning method is permissible.

Tax Return Preparation Practice Scenarios

The California Tax Education Council (CTEC) allows Qualifying Education (QE) credit for preparing Federal and California tax forms and their related schedules. At the end of the course there are several tax return preparation scenarios that are designed to increase your practical working knowledge. The tax return preparation scenarios vary in complexity and are for instructional use only. You will not be graded on these questions however you should complete the return in its entirety. We provide both the answers to each question and an explanation or feedback as to how we arrived at each answer.

You should use the information provided in the 2017 tax tables in the appendix at the back of the course and on the 2017 forms included with each scenario to complete each return exercise.

For the tax return preparation scenarios, best practice suggests that you should try to answer the questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material.

Final Examination

Passing the qualifying exam from a self-study course is contingent upon scoring 70% or higher on the exam questions related to the course material. This final examination consists of 120 multiple-choice questions, meaning you must correctly answer 84 in order to pass.



How To Submit The Online Examination:

- Log into www.GSTTI.com.
- Enter your email address and your password.
- Click link to take online exam.
- Answer questions (There is no time limit).
- Submit answers (The exam does not need to be completed in one sitting).
- Get certificate by email within 24 hours.
- We electronically notify CTEC that you earned Qualifying Education (QE) course credits.

The exam has no time limit, and is open book, so you are allowed to look up answers in the text we provide. You do not need to finish the exam in one continuous sitting as all of the answers you enter online are automatically saved. After you submit the online exam to us you will receive a pass/fail message.

If you should fail the exam on your first attempt, you will have the option to re-take the exam at no additional cost. If you score less than 70%, a message will be displayed at the bottom of the page along with a list of incorrect questions. You have unlimited attempts to pass an exam.

Upon successful completion of the full 60-Hour QE course, we will e-mail you a Certificate of Completion. Additionally, we notify the California Tax Education Council (CTEC) that you passed the Qualifying Education (QE) allowing you to apply for your CRTP registration online at www.CTEC.org.

Registration is completed by you at www.CTEC.org. You must also have proof of a \$5,000 tax preparer insurance bond which can be obtained from any number of bond companies for about \$15 - \$25 per year. After your initial registration, you must complete 20 hours of continuing education each year and register with CTEC by October 31st. There is a late registration period from November 1st to January 15th but you will have to pay CTEC a late registration fee during this period. Golden State Tax Training has a 20-Hour CTEC approved education course that you can take each year to meet this requirement. Lastly, you must obtain a preparer tax identification number (PTIN) from the IRS (www.irs.gov/ptin). You must renew your PTIN with the IRS at the end of every year if you plan to prepare taxes the following year.

We wish you every success and thank you for choosing Golden State Tax Training Institute, Inc.

Understanding the Icons Used in this Book

	Important - Update or Change
	Tip - Significant information
	Note - Additional information

Golden State Tax Training Institute, Inc. is an approved education provider for the California Tax Education Council (CTEC) and the Internal Revenue Service (IRS). Our CTEC provider number is 2040 and can be verified at www.CTEC.org. Our IRS provider number is P619F and can be verified on the IRS list of [Approved Continuing Education Providers](#).



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CTEC Registration Requirements

IMPORTANT: Just because you successfully completed the 60-hour qualifying education (QE) course does not mean you can prepare tax returns in the state of California. You must also complete the registration process with the California Tax Education Council (CTEC). Carefully read the instructions below to complete that process.

You have 18 months from the completion date listed on the 60-hour qualifying education (QE) completion certificate provided by your education provider to register with CTEC. If you do not register with CTEC within the allowed 18 months, you will be required to complete another 60-hour qualifying education course before being able to register.

CTEC registration **MUST** be completed online at <https://www.ctec.org/Preparer/>. You will need the following to complete your registration: your social security number (SSN); proof that you have a \$5,000 tax preparer bond; your IRS PTIN (Preparer Tax Identification Number); and, payment of the registration fee with a Visa, Master Card or Debit card.

You have two registration options:

1. **CAUTION** - If you register as a new preparer before November 1 – you are registering for the cycle year ending on October 31 of that year. Example: If you register as a new preparer on October 15, 2017, that registration is only valid thru October 31, 2017. You would be required to take another 20 hours of continuing education sometime between October 15, 2017 and October 31, 2017 to renew your registration for the next registration cycle.
2. If you register as a new preparer after October 31 – you are registering for the next cycle year beginning November 1 of the current year and ending on October 31 of next year. Example: If you register as a new preparer on November 2, 2017, your registration is valid thru October 31, 2018. From November 2, 2017 thru October 31, 2018, you will be required to take 20 hours of continuing education from a CTEC approved provider in order to meet the renewal requirements for the next registration cycle, which will begin on November 1, 2018.

Education providers **do not** register students with CTEC, it is up to you to take the final step and complete the registration process.

Registration Checklist

CTEC Course Number: 2040-QE-0003

California law requires anyone who prepares tax returns for a fee within the State of California and is not an exempt preparer to register as a tax preparer with the California Tax Education Council (CTEC). Exempt preparers are California certified public accountants (CPAs), enrolled agents (EAs), and attorneys who are members of the State Bar of California.

All **new** California Registered Tax Preparers (CRTP) must:

1. Complete 60-hours (45 hours Federal and 15 hours state) of qualifying tax education (QE) from Golden State Tax Training Institute, Inc., a CTEC Approved Education Provider. ☐
2. Obtain a PTIN (Preparer Tax Identification Number) from the IRS. Most first-time PTIN applicants can obtain a PTIN online on the IRS website in about 15 minutes. For more information about PTIN Requirements for Tax Return Preparers visit the IRS website at:
<http://www.irs.gov/Tax-Professionals/PTIN-Requirements-for-Tax-Return-Preparers> ☐
3. Purchase a \$5,000 tax preparer bond. Students may obtain the bond while in school, receive their completion certificate from the tax school, and use both the certificate and the bond to register with CTEC. Bonds can be obtained from any number of bond companies for about \$15 - \$25 per year. For more Bonding Requirements information visit the CTEC website at:
<http://www.ctec.org/Preparer/Bonding> ☐



4. Register with CTEC within 18 months from the completion date on the certificate of completion. The Registration Fee is \$33. For more information about Preparer Registration and Personal Accounts visit the CTEC website at: <https://www.ctec.org/Preparer/>



After your initial registration, you must complete 20 hours of continuing education each year and register with CTEC by October 31st. Golden State Tax Training has a 20-Hour CTEC approved continuing professional education course that you can take each year to meet this requirement.

To renew your registration all CRTPs must:

1. Complete 20-hours (10 hours of Federal tax law, 3 hours of Federal tax updates, 2 hours of Ethics and 5 hours of California tax law) of continuing professional education each year.
2. Maintain a valid PTIN (Preparer Tax Identification Number) from the IRS.
3. Maintain a \$5,000 tax preparer bond.
4. Renew the registration by October 31st of each year. Renewal Registration fee is \$33.

There is a late renewal period that runs from November 1st through January 15th of the following year. If you renew during that time period, a late registration fee will apply. If you fail to renew by January 15th of any given year, you will be required to retake the 60-hour qualifying education course and register as a new preparer.

As a reminder, education providers **do not** register students with CTEC, it is up to you to take the final step and complete the registration process.

Here are some additional, important registration topics to remember:

- The CTEC fiscal year registration period runs from November 1 to October 31 of the following year.
- After your initial registration, you must complete 20 hours of continuing education annually from a CTEC approved provider and renew your registration with CTEC by October 31st each year.
- There is a late renewal period that runs from November 1st through January 15th of the following year. If you renew during that time period, a late registration fee will apply.
- If you fail to renew by January 15th of any given year, you will be required to retake the 60-hour qualifying education course and register as a new preparer.



Lesson 1

California Tax Law Updates

At the conclusion of this lesson you should have a basic knowledge of:

- What's New
- Other Important Legislation

What's New

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2017. However, there are continuing differences between California and Federal law. When California conforms to Federal tax law changes, the Franchise Tax Board (FTB) does not always adopt all of the changes made at the Federal level.

Form 540X Eliminated

Starting January 2018, the e-file program will accept e-file amended returns for individuals on tax year 2017 Forms 540, 540NR Long, 540NR Short, and 540 2EZ, as well as new Schedule X. For tax year 2016 and prior years, amended individual returns will need to continue to be paper filed using Form 540X.

Beginning with tax year 2017, the Franchise Tax Board (FTB) will eliminate the [FTB Form 540X - Amended Individual Income Tax Return](#), for amending individual tax returns and replace it with the 540 series forms, each adapted to allow for amended return filing.

At the same time, FTB will introduce new Schedule X - California Explanation of Amended Return Changes, which will reconcile the difference between the original return and amended return to determine any additional amount owed or refund due, and to provide reasons for amending.

The California e-file Program offers year-round e-filing for individuals filing Forms 540, 540NR Long, 540NR Short, 540 2EZ and businesses filing Forms 100, 100S, 100W, Schedule R combined reports, 565, 568 and 199 along with most accompanying forms and schedules.

College Access Tax Credit

For taxable years beginning on and after January 1, 2017, and before January 1, 2023, the College Access Tax Credit (CATC) is available to entities awarded the credit from the California Educational Facilities Authority (CEFA). The credit is 50% of the amount contributed by the taxpayer for the taxable year to the College Access Tax Credit Fund. The amount of the credit is allocated and certified by the CEFA.

Recently passed legislation (SB81) modified provisions to CATC. Taxpayers are now able to use the credit to reduce their tax below tentative minimum tax beginning with taxable years beginning on or after January 1, 2014. FTB will contact taxpayers who filed their 2014 tax return prior to the passage of this law, to assist them with claiming additional credit for which they might be eligible.

New Donated Fresh Fruits or Vegetables Credit

For taxable years beginning on or after January 1, 2017 and before January 1, 2022, qualified taxpayers may claim the New Donated Fresh Fruits or Vegetables Credit. This tax credit is for donations of fresh fruits or vegetables made to California food banks. The amount of the tax credit is 15% of the qualified value of the donated item, based on weighted average wholesale price. The credit may be claimed only on a timely filed original return. However, any credit not used in the taxable year may be carried forward up to seven years. For more information, get [FTB Form 3814 - New Donated Fresh Fruits or Vegetables Credit](#).



Recent Tax Law Updates

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2017. However, there are continuing differences between California and Federal law. When California conforms to Federal tax law changes, FTB does not always adopt all of the changes made at the Federal level.

Proposition 55

California voters approved a statewide ballot initiative that extends the 10.3%, 11.3%, and 12.3% personal income tax rates for single taxpayers with taxable income over \$250,000, joint filers with taxable income over \$500,000, and head-of-household filers with taxable income over \$340,000 (as adjusted for inflation). These rates were set to expire after the 2018 tax year, but they will now expire after the 2030 tax year.

Voluntary Contributions

A taxpayer has the option to contribute to the following new funds: (1)

- California YMCA Youth and Government Voluntary Tax Contribution Fund
- Habitat for Humanity Voluntary Tax Contribution Fund
- California Senior Citizen Advocacy Voluntary Tax Contribution Fund
- Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund
- Rape Backlog Kit Voluntary Tax Contribution Fund

Low-Income Housing Credit Allocations to Partners

For partnerships owning projects that receive a preliminary reservation of the Low-Income Housing Credit (LIHC) before January 1, 2020, the prior law exception that requires a partnership to allocate the credit among partners based upon the partnership agreement is re-enacted.

For projects that receive a preliminary reservation of the LIHC beginning on or after January 1, 2016, and before January 1, 2020, a taxpayer may make an irrevocable election in its application to the California Tax Credit Allocation Committee to sell all or any portion of the LIHC allowed to one or more unrelated parties for each taxable year in which the credit is allowed. An original purchaser is allowed a one-time resale of that credit to one or more unrelated parties.

California Achieving a Better Life Experience (ABLE) Program

For taxable years beginning on or after January 1, 2016, the California Qualified ABLE Program was established and California generally conforms to the Federal income tax treatment of ABLE accounts. This program was established to help blind or disabled people save money in a tax-favored ABLE account to maintain health, independence, and quality of life. Additional information can be found in the instructions of [FTB Form 3805P - Additional Taxes on Qualified Plans \(Including IRAs\) and Other Tax-Favored Accounts](#).

Native American Income

California does not tax reservation sourced income earned or received from the same Indian country in which the taxpayer lives and is an enrolled member. Additional information can be found in the instructions for California [Schedule CA \(540\)](#) and [FTB Form 3504 - Enrolled Tribal Member Certification](#).

Other Important Information

California Earned Income Tax Credits

California now offers its own Earned Income Tax Credit (CA EITC) starting with calendar year 2015 tax returns. This credit is offered in addition to the existing Federal EITC. The CA EITC is "refundable," meaning that the taxpayer will receive a refund if the amount of the credit is greater than the tax he or she owes. This credit is available to California households with adjusted gross incomes (AGI) of less than \$15,009 if there are no qualifying children, less than \$22,323 if there is one qualifying child, less than \$22,310 if there are two qualifying children or less than \$22,303 if there are three or more qualifying children. The maximum amount of investment income to remain eligible for the credit is \$3,561.



For the CA EITC, eligible sources of earned income are W-2 wages, self-employment income, salaries, tips and other employee compensation subject to California withholding. The 2017 tax year is the first time self-employment income can be used to qualify for CA EITC.

Payments and Credits Applied to Use Tax

For taxable years beginning on or after January 1, 2015, if a taxpayer includes use tax on their personal income tax return, payments and credits will be applied to use tax first, then towards income tax, interest, and penalties.

Financial Incentive for Seismic Improvement

For taxable years beginning on or after January 1, 2015, taxpayers can exclude from gross income any amount received as loan forgiveness, grant, credit, rebate, voucher, or other financial incentive issued by the California Residential Mitigation Program or the California Earthquake Authority to assist a residential property owner or occupant with expenses paid, or obligations incurred, for earthquake loss mitigation.

Natural Heritage Preservation Credit

For qualified contributions made on or after January 1, 2015, the credit carryover period has been extended to 15 years or until exhausted, whichever occurs first. Any unused credits remaining before January 1, 2015, will remain subject to an eight-year carryover provision. In addition, the period for when a qualified contribution is made, for which a tax credit will be allowed, has been extended to June 30, 2020.

Disaster Losses

For taxable years beginning on or after January 1, 2014, and before January 1, 2024, taxpayers may deduct a disaster loss for any loss sustained in any city, county, or city and county in California that is proclaimed by the Governor to be in a state of emergency. For these Governor-only declared disasters, subsequent state legislation is not required to activate the disaster loss provisions.

Taxpayers affected by declared disasters are automatically eligible for qualifying disaster loss treatment. Special tax rules apply to disaster losses. Victims may claim a loss in either the year the disaster occurred or in the prior year. Those who choose the latter can reduce their tax liability for the prior year, allowing FTB to quickly issue a refund. Taxpayers who need copies of lost or damaged state tax returns should complete [FTB Form 3516 - Request for Copy of Personal Income or Fiduciary Tax Return](#), which can be downloaded online.

Generally, California law follows Federal law regarding the treatment of losses incurred as a result of a casualty or a disaster. However, for California purposes, a casualty loss becomes a disaster loss when both of the following occur:

- The loss is sustained in an area the President of the United States or the Governor of California declares a state of emergency.
- The loss is sustained because of the declared disaster.

Head of Household

For taxable years beginning on or after January 1, 2015, California requires taxpayers who use head of household (HOH) filing status to file [FTB Form 3532 - Head of Household Filing Status Schedule](#), to report how the HOH filing status was determined.

Financial Incentive for Turf Removal

For taxable years beginning on or after January 1, 2014, and before January 1, 2019, taxpayers can exclude from gross income any amount received as a rebate, voucher, or other financial incentive issued by a local water agency or supplier for participation in a turf removal water conservation program.

Penalty Assessed by Professional Sports League

For taxable years beginning on or after January 1, 2014, an owner of all or part of a professional sports franchise will not be allowed a deduction for the amount of any fine or penalty paid or incurred, that was assessed or imposed by the professional sports league that includes that franchise.



Repeal of Geographically Targeted Economic Development Area Tax Incentives

The California legislature repealed and made changes to all of the Geographically Targeted Economic Development Area (G-TEDA) Tax Incentives. Enterprise Zones (EZ) and Local Agency Military Base Recovery Areas (LAMBRA) were repealed on January 1, 2014. The Targeted Tax Areas (TTA) and Manufacturing Enhancement Areas (MEA) both expired on December 31, 2012.

Form 3840 - California Like-Kind Exchanges

For taxable years beginning after January 1, 2014, California requires taxpayers who exchanged real or tangible personal property located in California for like-kind property located outside of California, and that meet all the requirements of Internal Revenue Code Section 1031, to file an annual information return with the Franchise Tax Board (FTB). The FTB has finalized the new [FTB Form 3840 - California Like-Kind Exchanges](#) to help taxpayers keep track of their California source deferred gains from like-kind exchanges involving like-kind property located outside of California and meet this new reporting requirement.

All taxpayers who complete a like-kind exchange of California property for non-California property are required to file FTB Form 3840. The mandatory filing requirement applies to all individuals, estates, trusts and all business entities regardless of their residency status or commercial domicile.

Enterprise Zone Credits

Assembly Bill 93 repeals all enterprise zones on January 1, 2014. Although the enterprise zone credits are repealed beginning with the 2014 tax year, unused hiring and sales and use tax credits may be carried over for 10 years after 2013. This 10-year carryover limitation applies to flow-through entity owners as well. Even though the enterprise zones are repealed beginning January 1, 2014, the credit carryover may only be used against the net tax that would have been imposed on the income attributable to activities within the respective former enterprise zone.

Qualifying and vouchered employees hired prior to January 1, 2014, will continue to generate credits for any remaining portion of the 60-month period from the commencement of employment. As always, the credit carryover is subject to the business income limitation. Specifically, the credit carryover may only be used against the net tax that would have been imposed on the income attributable to activities within the respective former enterprise zone.

Cancellation of Debt Income (CODI)

For taxable years beginning on or after January 1, 2014, and before January 1, 2019, California did not conform to the Federal recognition of CODI under IRC Section 108(i). If the taxpayer recognized the CODI for Federal tax purposes, then he or she must deduct the Federal CODI amount.

Governor Declared Disasters

For taxable years beginning on or after January 1, 2014, and before January 1, 2024, taxpayers may deduct a disaster loss for any loss sustained in any city, county, or city and county in California that is proclaimed by the Governor to be in a state of emergency. For these Governor-only declared disasters, subsequent state legislation is not required to activate the disaster loss provisions. Any law that suspends, defers, reduces, or otherwise diminishes the deduction of a net operating loss (NOL) shall not apply to a NOL attributable to these specified disaster losses. The President's declaration continues to activate the disaster loss provisions.

Net Operating Loss (NOL) Carryback

For NOLs incurred in taxable years beginning on or after January 1, 2015, the carryback amount shall be 100% of the NOL. Individuals, Estates, and Trusts compute the NOL carryback in Part IV of [FTB Form 3805V - Net Operating Loss \(NOL\) Computation and NOL and Disaster Loss Limitations - Individuals, Estates, and Trusts](#). (1)



Tip Any taxpayer entitled to a carryback period pursuant to Internal Revenue Code (IRC) [Section 172\(b\)\(3\)](#) may elect to relinquish/waive the entire carryback period with respect to an NOL incurred in the 2013 taxable year. By making the election, the taxpayer is electing to carry an NOL forward instead of carrying it back in the previous two years. To make the election, the taxpayer should check the box in Part I under Section C - Election to Waive Carryback, of [FTB Form 3805V - Net Operating Loss \(NOL\) Computation and NOL and Disaster Loss Limitations - Individuals, Estates, and Trusts](#), and attach FTB Form 3805V to the tax return.



Additional Tax Law Updates

The [California Franchise Tax Board \(FTB\)](#) has information regarding a variety of personal income and corporation franchise and income tax issues that include:

- A summary of the major corporate income tax changes that went into effect for the current tax year.
- An explanation of the sourcing rules for the gain on the sale of a partnership interest.
- The repeal of the enterprise zone credits.
- The release of state income tax rate schedules.
- The commencement of a voluntary electronic order-to-withhold (eLevy) program available to financial institutions.
- A summary of the services available to Spanish-speaking taxpayers.
- Implementation plans to roll out the new reporting requirements for IRC Section 1031 exchanges involving out-of-state property purchased with the gain received from the sale of California property.
- The FTB's efforts to continue to transition to a complete digital office, which will allow taxpayers to access electronic copies of correspondence and other information via their MyFTB Account.

Tax Rate Schedules

The rate of inflation in California, for the period from July 1, 2016, through June 30, 2017, was 2.1%. The 2017 personal income tax brackets are indexed by this amount.

Schedule X — Single or married/RDP filing separately				
Over	But not over	Tax is		Of amount over
\$0	\$8,223	\$0.00	Plus 1.00%	\$0
\$8,223	\$19,495	\$82.23	Plus 2.00%	\$8,223
\$19,495	\$30,769	\$307.67	Plus 4.00%	\$19,495
\$30,769	\$42,711	\$758.63	Plus 6.00%	\$30,769
\$42,711	\$53,980	\$1,475.15	Plus 8.00%	\$42,711
\$53,980	\$275,738	\$2,376.67	Plus 9.30%	\$53,980
\$275,738	\$330,884	\$23,000.16	Plus 10.30%	\$275,738
\$330,884	\$551,473	\$28,680.20	Plus 11.30%	\$330,884
\$551,473	And over	\$53,606.76	Plus 12.30%	\$551,473

Table 1-1 - California Tax Rate Schedules (2017)

Schedule Y — Married/RDP filing jointly, or qualifying widow(er) with dependent child				
Over	But not over	Tax is		Of amount over
\$0	\$16,446	\$0.00	Plus 1.00%	\$0



\$16,446	\$38,990	\$164.46	Plus 2.00%	\$16,446
\$38,990	\$61,538	\$615.34	Plus 4.00%	\$38,990
\$61,538	\$85,422	\$1,517.26	Plus 6.00%	\$61,538
\$85,422	\$107,960	\$2,950.30	Plus 8.00%	\$85,422
\$107,960	\$551,476	\$4,753.34	Plus 9.30%	\$107,960
\$551,476	\$661,768	\$46,000.33	Plus 10.30%	\$551,476
\$661,768	\$1,102,946	\$57,360.41	Plus 11.30%	\$661,768
\$1,102,946	And over	\$107,213.52	Plus 12.30%	\$1,102,946

Table 1-2 - California Tax Rate Schedules (2017)

Schedule Z — Head of Household				
Over	But not over	Tax is		Of amount over
\$0	\$16,457	\$0.00	Plus 1.00%	\$0
\$16,457	\$38,991	\$164.51	Plus 2.00%	\$16,457
\$38,991	\$50,264	\$615.25	Plus 4.00%	\$38,991
\$50,264	\$62,206	\$1,066.17	Plus 6.00%	\$50,264
\$62,206	\$73,477	\$1,782.69	Plus 8.00%	\$62,206
\$73,477	\$375,002	\$2,684.37	Plus 9.30%	\$73,477
\$375,002	\$450,003	\$30,726.20	Plus 10.30%	\$375,002
\$450,003	\$750,003	\$38,451.30	Plus 11.30%	\$450,003
\$750,003	And over	\$72,351.30	Plus 12.30%	\$750,003

Table 1-3 - California Tax Rate Schedules (2017)

Filing requirement thresholds, the standard deduction, and certain credits were adjusted along with income tax brackets based on the inflation rate of 2.1%, as measured by the California CPI for all urban consumers from June 2016 to June 2017. In the previous year, California had an inflation rate that measured 2.1%. The following are some of the changes to various items:



Standard Deduction, Personal Exemption, Renter's Credit	2016 Amounts	2017 Amounts
Standard deduction for single or married, filing separate	\$4,129	\$4,236
Standard deduction for joint, surviving spouse, head of household	\$8,258	\$8,458
The minimum standard deduction for dependents	\$1,050	\$1,050
Personal exemption credit for single, separate, head of household	\$111	\$114
Personal exemption credit for joint filers, surviving spouses	\$222	\$228
Dependent exemption credit	\$344	\$353
Nonrefundable Renter's Credit available for single filers with AGI	\$39,062 or less	\$40,078 or less
Nonrefundable Renter's Credit available for joint filers with AGI	\$78,125 or less	\$80,156 or less

Table 1-4 - FTB State Income Tax Rate Schedules Adjusted (2017)

Nonqualified Deferred Compensation Tax Rate Decrease

For taxable years beginning on or after January 1, 2013, the rate of additional tax was reduced from 20% to 5% of any amount deferred under a nonqualified deferred compensation plan that is includible in income. (1)

Mandatory Electronic Payments

A taxpayer is required to remit all his or her payments electronically once he or she makes an estimate or extension payment exceeding \$20,000 or he or she files an original tax return with a total tax liability over \$80,000. Once the taxpayer meets this threshold, all subsequent payments regardless of amount, tax type, or taxable year must be remitted electronically. The first payment that would trigger the mandatory e-pay requirement does not have to be made electronically. Individuals that do not send the payment electronically will be subject to a 1% noncompliance penalty.

The taxpayer can request a waiver from mandatory e-pay if one or more of the following is true:

- He or she has not made an estimated tax or extension payment in excess of \$20,000 during the current or previous taxable year.
- His or her total tax liability reported for the previous taxable year did not exceed \$80,000.
- The amount he or she paid is not representative of his or her total tax liability.

The taxpayer can make his or her Mandatory Electronic Payments using one of the following methods:

- Pay online with Web Pay.
- Request an Electronic Funds Withdrawal (EFW) on the taxpayer's e-file return.
- Pay by credit card.
- Use the pay-by-phone option.



However, making a payment using the taxpayer's bank's online bill payment system is not an electronic payment. His or her bank mails a paper check to FTB which does not meet the requirement to pay electronically.

Estimated Tax Payments

Generally, a taxpayer must make estimated tax payments if he or she expects to owe at least \$500 (\$250 if married/RDP filing separately) in tax for 2018 (after subtracting withholding and credits) and he or she expects his or her withholding and credits to be less than the smaller of:

- 90% of the tax shown on his or her 2018 tax return; or
- 100% of the tax shown on his or her 2017 tax return including Alternative Minimum Tax (AMT).



Individuals who are required to make estimated tax payments, and whose 2017 California adjusted gross income is more than \$150,000 (or \$75,000 if married/RDP filing separately), must figure estimated tax based on the lesser of 90% of their tax for 2018 or 110% of their tax for 2017 including AMT. This rule does not apply to farmers or fishermen.

Taxpayers with 2018 California adjusted gross income equal to or greater than \$1,000,000 (or \$500,000 if married/RDP filing separately), must figure estimated tax based on their tax for 2018.

Taxpayers are required to pay 30% of the required annual payment for the 1st required installment, 40% of the required annual payment for the 2nd required installment, no installment is due for the 3rd required installment, and 30% of the required annual payment for the 4th required installment.

Taxpayers with a tax liability less than \$500 (\$250 for married/RDP filing separately) do not need to make estimated tax payments.

If the taxpayer and his or her spouse/RDP paid joint estimated taxes but are now filing separate income tax returns, either the taxpayer or his or her spouse/RDP may claim the entire amount paid, or each may claim part of the joint estimated tax payments. If the taxpayer wants the estimated tax payments to be divided, he or she notifies the FTB before he or she files the tax income return so the payments can be applied to the proper account. The FTB will accept in writing, any divorce agreement (or court-ordered settlement) or a statement showing the allocation of the payments along with a notarized signature of both taxpayers.

If the taxpayer and his or her spouse/RDP made separate estimated tax payments, but are now filing a joint income tax return, add the amounts the taxpayer and his or her spouse/RDP paid. Attach a statement to the front of Form 540 explaining that payments were made under both SSNs.

If the taxpayer is a military servicemember not domiciled in California, he or she does not include his or her military pay in his or her computation of estimated tax payments. If the taxpayer is the nonmilitary spouse of a servicemember he or she may or may not need to include his or her pay in his or her computation of estimated tax payments.



A taxpayer does not have to make estimated tax payments if he or she is a nonresident or new resident of California in 2018 and did not have a California tax liability in 2017.

Backup Withholding

With certain limited exceptions, payers that are required to withhold and remit backup withholding to the Internal Revenue Service (IRS) are also required to withhold and remit to the FTB on income sourced to California. If the payee has backup withholding, the payee must contact the FTB to provide a valid taxpayer identification number, before filing the tax return. Failure to provide a valid taxpayer identification number may result in a denial of the backup withholding credit.

Direct Deposit Refund

The taxpayer can request a direct deposit refund on his or her tax return whether he or she e-files or files a paper tax return. The taxpayer should be sure to fill in the routing and account numbers carefully and double-check the numbers for accuracy to avoid it being rejected by his or her bank.

Mortgage Forgiveness Debt Relief

California law remains out of conformity with the Federal statutory exclusion for certain discharges of qualified principal residence indebtedness for discharges of indebtedness occurring on or after January 1, 2014.

Direct Deposit for ScholarShare 529 College Savings Plans

If the taxpayer has a ScholarShare 529 College Savings Plan account maintained by the ScholarShare Investment Board, he or she may have his or her refund directly deposited to his or her ScholarShare account.

Registered Domestic Partners (RDP)

Under California law, RDPs must file their California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs have the same legal benefits, protections, and responsibilities as married



couples unless otherwise specified. If the taxpayer entered into a same sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, the taxpayer is required to file a California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status.

For purposes of California income tax, references to a spouse, husband, or wife also refer to a California RDP, unless otherwise specified. When the FTB uses the initials RDP they refer to both a California registered domestic "partner" and a California registered domestic "partnership," as applicable.

California Disclosure Obligations

If the individual was involved in a reportable transaction, including a listed transaction, the individual may have a disclosure requirement. Attach Federal [Form 8886 - Reportable Transaction Disclosure Statement](#), to the back of the California tax return along with any other supporting schedules. If this is the first time the reportable transaction is disclosed on the tax return, send a duplicate copy of the Federal Form 8886 to the following address:

TAX SHELTER FILING
ATSU 398 MS F385
FRANCHISE TAX BOARD
PO BOX 1673
SACRAMENTO CA 95812-9900

The FTB may impose penalties if the individual fails to file Federal Form 8886, or fails to provide any other required information. A material advisor is required to provide a reportable transaction number to all taxpayers and material advisors for whom the material advisor acts as a material advisor.

Electronic Levy Program

In the past, The FTB issued all levies on financial institutions by paper notices. In July of 2013, the FTB implemented an electronic order-to-withhold (eLevy) program. Financial institution participation in the eLevy program is voluntary. The FTB is specifically focusing its efforts on enrolling the top ten financial institutions in California to participate to the eLevy program.

Sale of Partnership Interest

On the sale of a partnership, an individual taxpayer will generally source the gain to their state of residence, unless their partnership interest has acquired a business situs in California. A corporate taxpayer may be required to pay California taxes on a gain from the sale of a partnership interest even if the taxpayer is a passive investor and the partnership interest was a nonbusiness asset. Under California law the nonbusiness gain or loss from the sale of a partnership interest must generally be allocated based on the ratio of the partnership's tangible property in California to the partnership's tangible property everywhere at the time of the sale.

However, if more than 50% of the value of the partnership's assets consists of intangibles, the gain from the sale must be allocated based on the partnership's sales factor for the year preceding the sale. For S corporations, the sale will be sourced differently for the corporation than for the shareholders. In addition, for purposes of determining the LLC fee, taxpayers must follow the corporation franchise and income tax apportionment rules for assigning sales for tangible personal property and the market-based sourcing rules for services and intangibles.

Corporate Tax Changes

The FTB reminds taxpayers that the following corporate tax updates became effective for the current tax year:

- There is a change in the definition of "doing business".
- There is an adoption of a new definition of "gross receipts".
- The adoption of the "Finnegan" rule for assignment of sales.
- The requirement to use market-based sourcing rules for assigning sales of other than tangible personal property.
- The enactment of the single-sales factor apportionment formula for all apportioning trade or businesses unless the business is predominantly engaged in specified qualified business activities.



The FTB also reminds taxpayers that nonbusiness income, property, and payroll are not to be considered when applying the new “doing business” thresholds. Also, taxpayers should note that when Public Law 86-272 applies, it only protects an out-of-state business from an income-based tax, and not from California’s minimum franchise tax, annual tax, or the LLC fee.

2017 Corporate Tax Rates	
Entity Type	Tax Rate
Corporations other than banks and financials	8.84%
Banks and financials	10.84%
Alternative Minimum Tax (AMT) rate	6.65%
S corporation rate	1.5%
S corporation bank and financial rate	3.5%

Table 1-5 - California Tax Rates and Exemptions (2017)

California Fire Prevention Fee

California residents previously deducted the Fire Prevention Fee they paid on their Federal income tax returns as a real property tax deduction under Section 164 of the Internal Revenue Code and Section 1.164-4 of the Income Tax Regulations. However, in Chief Counsel Memorandum 201310029 the IRS states California residents **may not** deduct the Fire Prevention Fee as a real property tax deduction because: (2)

1. The fee is not a tax under California or Federal law.
2. The fee is not levied at a like rate.
3. The fee is not imposed throughout the taxing authority's jurisdiction.
4. The fee is assessed only against specific property to provide a local benefit.

Credit for Prior Year Alternative Minimum Tax

The taxpayer uses [FTB Form 3510 - Credit for Prior Year Alternative Minimum Tax - Individuals or Fiduciaries](#), to figure his or her 2017 California credit for prior year alternative minimum tax (AMT) incurred in a taxable year. Individuals and fiduciaries qualify for the credit if one of following applies:

- He or she had an AMT credit carryover from 2016.
- He or she paid AMT for 2015, and had 2016 adjustments and tax preference items other than exclusions.

Corporations must use Schedule P (100 or 100W), Alternative Minimum Tax and Credit Limitations - Corporations, Part III to claim the credit for prior year AMT.

Affordable Care Act

Although this is not a new law, there are still questions about how the Federal Affordable Care Act affects California taxes. California tax code conforms to the 2010 Federal income tax rules, which excludes the value of the medical coverage provided to nondependent adult children from California gross income and allows a deduction to self-employed individuals for health insurance premiums for nondependent adult children under age 27.

Health Coverage for Adult Children

California Assembly Bill (AB) 36 conforms California personal income tax law with Federal income tax law by adopting a specified provision of the Affordable Care Act signed into law by the President in March 2010. (The Affordable Care Act refers to Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010.)

California personal income tax law, as amended by AB 36, conforms to the 2010 Federal income tax rules which exclude the value of the medical coverage provided to nondependent adult children from California gross income and allow a deduction to self-employed individuals for health insurance premiums for nondependent adult children under age 27.



Therefore, any amount paid by an employee for such additional coverage is excluded from California taxable wages. Also, self-employed individuals may deduct the health insurance premium paid for an adult child under age 27.

California Health Insurance Exchange

Covered California™, California's marketplace for health care coverage, opened for business as of October 1, 2013. The goal of Covered California™ is to provide Californians and small businesses access to quality, affordable health care coverage from major health insurance carriers. Covered California is the only place where an individual can learn about and use Federal financial assistance that can help reduce health care costs. Consumers can also learn if they are eligible for low-cost or no-cost Medi-Cal.

Covered California™ makes it simple and more affordable for millions of Californians to get affordable, quality health insurance, including Medi-Cal, that cannot be canceled or denied because of a pre-existing medical condition or if someone gets sick. Covered California™ offers a range of plans so consumers can choose the one that best meets their health needs and financial situation.

Covered California™ health insurance plans, and all health plans in the individual and small-group markets, are sold in four primary levels of coverage: Bronze, Silver, Gold and Platinum. As the metal category increases in value, so does the percentage of medical expenses that a health insurance plan covers, compared with what the taxpayer is expected to pay in copays and deductibles. Plans in the higher metal tiers have higher monthly premiums, but he or she pays less when he or she needs medical care. If the taxpayer chooses to pay a lower monthly premium, then he or she will pay more when he or she needs medical care. The taxpayer can choose the level of coverage that best meets his or her health needs and budget.

If the taxpayer is under 30, he or she may be able to buy an additional health insurance plan option called minimum coverage plan. These plans usually have lower premiums and mostly protect him or her from worst-case scenarios. Minimum coverage plans through Covered California cover three doctor visits or urgent care visits, including outpatient mental health/substance use visits, with no out-of-pocket costs, and free preventive benefits. All other services will be full price but at the negotiated in-network price, until the taxpayer spends \$6,350, after which all in-network services are covered at 100%.

Relevant Court Cases

After a California law defining marriage as solely between a man and a woman was struck down by the state supreme court as contrary to the state constitution, California voters adopted Proposition 8, which amended the state constitution to overrule the state supreme court's decision. Two same-sex couples filed a Federal legal challenge to Proposition 8 in U.S. District Court for the Northern District of California on May 27, 2009. In August of 2010, a Federal District Court struck down Proposition 8.

In February of 2012, a panel of judges on the Ninth Circuit Court of Appeals upheld the District Court's decision. En banc review was denied by the Ninth Circuit, and the case was brought before the Supreme Court under the name *Hollingsworth v. Perry*. (3)

On June 26, 2013, the Supreme Court decided the petitioners did not have standing to appeal the District Court's order. The judgment of the Ninth Circuit was vacated, and the case was remanded with instructions to dismiss the appeal for lack of jurisdiction. Their decision made same-sex marriage legal again in California, but it also opted against ruling more broadly on the issue of gay marriage.

California Tax Legislation

New Employment Credit

For taxable years beginning on or after January 1, 2014, and before January 1, 2021, the New Employment Credit (NEC) is available to a qualified taxpayer that hires a qualified full-time employee on or after January 1, 2014, and pays or incurs qualified wages attributable to work performed by the qualified full-time employee in a designated census tract or economic development area, and receives a tentative credit reservation for that qualified full-time employee. In addition, an annual certification of employment is required with respect to each qualified full-time employee hired in a previous taxable year.



In order to be allowed a credit, the qualified taxpayer must have a net increase in the total number of full-time employees in California. Any credits not used in the taxable year may be carried forward up to five years. If a qualified employee is terminated within the first 36 months after beginning employment, the employer may be required to recapture previously taken credits. (4)

California Competes Credit (CCC)

The California Competes Credit (CCC) is available for each taxable year beginning on and after January 1, 2014, and before January 1, 2025. The California Competes Credit is available to businesses that want to come to California or stay and grow in California. Tax credit agreements will be negotiated by the Governor's Office of Business and Economic Development (GO-Biz) and approved by the California Competes Tax Credit Committee.

Businesses will commit to certain employment or project investment requirements, the Franchise Tax Board (FTB) refers to as "milestones," as part of the credit agreements. The legislation that enacted this credit requires the FTB to review certain businesses books and records to ensure that businesses are in compliance with the agreed upon milestones.

The California Competes Credit only applies to state income or franchise tax. Taxpayers who are awarded a contract by the committee will claim the credit on their income or franchise tax returns using credit code 233. The credit can reduce tax below the tentative minimum tax. Any credits not used in the taxable year may be carried forward up to six years. (5)

Governor Brown signed legislation in 2014 allowing the California Competes Credit to reduce tax below the tentative minimum tax.

The California Competes Tax Credit is an income or franchise tax credit available to businesses that relocate to California or stay and expand in California. Tax credit agreements are negotiated by the Governor's Office of Business and Economic Development (GO-Biz) and approved by a statutorily created California Competes Tax Credit Committee. The committee consists of:

- Director of GO-Biz (Chair).
- State Treasurer.
- Director of the Department of Finance.
- One appointee each by the Speaker of the Assembly and Senate Committee on Rules.

For Fiscal Year 2017/2018, \$230.4 million of the California Competes Tax Credits will be available for allocation during three application periods. GO-Biz is hosting over 30 informational workshops on applying for the credit.

For the first application period, \$75 million will be available for allocation. Applications for the credit will be accepted at calcompetes.ca.gov from July 24, 2017, until August 21, 2017. Go to www.business.ca.gov/CalCompetes.aspx for more information on the California Competes Tax Credit.



In each fiscal year, no more than 20% may be allocated to any one taxpayer. Small businesses will be able to apply for the credit as 25% of the amount of the credits available each year will be specifically reserved for small businesses (gross receipts of less than \$2 million). The minimum amount a business can request is \$20,000.

Any business can apply for the California Competes Tax Credit. The credit is available statewide to all industries. However, while there are no geographic or sector-specific restrictions, the purpose of the California Competes Tax Credit is to attract and retain high-value employers in California in industries with high economic multipliers and that provide their employees good wages and benefits.

Also, there is nothing to prohibit a business from taking both credits if the business is allocated a CCC from GO-Biz, and also meets the qualifications for the New Employment Credit (NEC). (5)



Review

The following pages contain several review questions that are designed to help you learn the material you have just studied. Review questions are for instructional use only and you will not be graded on these questions. We also provide you the answers to each question and an explanation or feedback as to how we arrived at each answer.

Best practice suggests that you should try to answer these questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material. As with all self-study Qualifying Education (QE) courses, you can refer back to the course material to locate the answers, the so called 'open book' learning method is permissible.

Review Questions

Answers appear in [Review Feedback](#)

1. Which of the following is a false statement regarding Net Operating Loss (NOL) in California?
 - A. For taxable years that began in 2002 and 2003, California suspended the NOL carryover deduction.
 - B. For NOLs incurred in a taxable year beginning on or after January 1, 2015, the carryback amount shall be 50% of the NOL
 - C. Any taxpayer is entitled to a carryback period pursuant to Internal Revenue Code (IRC) Section 172(b)(3) may elect to relinquish/waive the entire carryback period with respect to an NOL incurred in the 2013 taxable year.
 - D. For NOLs incurred in taxable years beginning on or after January 1, 2008, California has extended the NOL carryover period from 10 taxable years to 20 taxable years following the year of the loss.
2. For 2017, the California exemption credit for a dependent is what amount?
 - A. \$114
 - B. \$228
 - C. \$353
 - D. \$441
3. A taxpayer is required to remit all of his or her income tax payments electronically once he or she files an original tax return with a total tax liability over what amount?
 - A. \$10,000
 - B. \$20,000
 - C. \$50,000
 - D. \$80,000



Review Feedback

Return to [Review Questions](#)

Question 1 - B. For NOLs incurred in a taxable year beginning or after January 1, 2015, the carryback amount shall be 50% of the NOL

For NOLs incurred in taxable years beginning on or after January 1, 2015, the carryback amount shall be 100% of the NOL. Individuals, Estates, and Trusts compute the NOL carryback in Part IV of [FTB Form 3805V - Net Operating Loss \(NOL\) Computation and NOL and Disaster Loss Limitations - Individuals, Estates, and Trusts](#).

Question 2 - C. \$353

The rate of inflation in California, for the period from July 1, 2016, through June 30, 2017, was 2.1%. The 2017 personal income tax brackets are indexed by this amount. Based on this information the exemption credit for a dependent in 2017 is \$353.

Question 3 - D. \$80,000

A taxpayer is required to remit all of his or her payments electronically once he or she makes an estimate or extension payment exceeding \$20,000 or he or she files an original tax return with a total tax liability over \$80,000. Once the taxpayer meets this threshold, all subsequent payments regardless of amount, tax type, or taxable year must be remitted electronically. The first payment that would trigger the mandatory e-pay requirement does not have to be made electronically. Individuals that do not send the payment electronically will be subject to a 1% noncompliance.



California Residency, Returns, Exemptions, Filing Status

At the conclusion of this lesson you should have a basic knowledge of:

- Residency Requirements
- Main California Tax Forms
- Electronic Filing Requirements
- Exemption Credits
- Filing Status
- Special Filing Situations

California Residency

Residency is important because it determines how the income is taxed by the state of California. The California law defines the term resident to include: (6)

- Every individual who is in the State for other than a temporary or transitory purpose. As explained, it does not matter whether such an individual's domicile, or permanent home, is in California or elsewhere.
- Every individual who is domiciled in the State but who is outside the State for a temporary or transitory purpose.

A California resident is any individual who meets any of the following: (7)

- Present in California for other than a temporary or transitory purpose.
- Domiciled in California, but located outside California for a temporary or transitory purpose.
 - Domicile is defined for tax purposes as the place where a person voluntarily establishes him or herself and family, not merely for a special or limited purpose, but with a present intention of making it a true, fixed, permanent home and principal establishment. It is the place where, whenever an individual is absent, he or she intends to return.
 - For a complete definition, refer to "Meaning of Domicile" in [Publication 1031 - Guidelines for Determining Resident Status](#).

California residents are taxed on ALL income, including income from sources outside California.

Nonresidents of California are taxed only on income from California sources. Part-year residents of California are taxed on all income received while a resident and only on income from California sources while a nonresident. Wages and salaries have a source where the services are performed.

The source of this income is not affected by either of the following: (7)

- The location of the employer where the payment is issued.
- An individual's location when he or she receives payment.

Residents must include all wages and salaries earned while a resident, regardless of where the services were performed. Nonresidents should include the income for services performed in California.

Temporary or Transitory Purpose



The regulations contain several examples of temporary or transitory purpose. They state that "the underlying theory is that the state with which a person has the closest connection during the taxable year is the state of his residence." California law specifically provides that an individual whose permanent home is in California, but who is absent from the state for an uninterrupted period of at least 546 days under an employment-related contract, will generally be considered to be outside the state for other than a temporary or transitory purpose and, therefore, will not be treated as a resident subject to California tax. A return to California for not more than 45 days during a taxable



year will not affect the nonresident status of such an individual. The same rules will apply to a spouse who accompanies such an individual.

Effect of Domicile

Residency is not the same as domicile, which is an individual's permanent home, the place to which the individual, whenever absent, intends to return. Loosely speaking, a person's domicile is where they tell people they actually live. A person may be domiciled outside California and still, by remaining in the state for other than temporary or transitory purposes, be considered a California resident. Conversely, California domiciliary may not be considered California residents if they remain outside the state for purposes that are not temporary or transitory. It is not necessary to demonstrate residency in any particular foreign state or country to avoid being considered a California resident.

Change of Domicile

A taxpayer can have only one domicile at a time. Once he or she acquires a domicile, the taxpayer retains that domicile until he or she acquires another.

A change of domicile requires all of the following:

1. Abandonment of the taxpayer's prior domicile.
2. Physically moving to and residing in the new locality.
3. Intent to remain in the new locality permanently or indefinitely as demonstrated by the taxpayer's actions.

Six and Nine Month Presumptions

Individuals who are in California for temporary or transitory purposes are nonresidents of California. For instance, if an individual comes to California for a vacation, or to complete a transaction, or is simply passing through, his or her presence is considered to be temporary or transitory. If a taxpayer is domiciled outside California and is in the state less than six months in the aggregate, he or she is considered being in California for temporary or transitory purposes.

However, the taxpayer must not engage in any activity other than that of a seasonal visitor, tourist, or guest within California. Owning or maintaining a home, opening a bank account to pay personal expenses, or having membership in local social clubs by themselves do not cause a seasonal visitor, tourist, or guest to lose temporary or transitory status.

As nonresidents, individuals are taxed only on their income from California sources. Individuals who are in California for other than a temporary or transitory purpose are considered to be California residents. For instance, if an employer assigns an employee to an office in California for a long or indefinite period, or if a taxpayer retires and moves to California, or if an individual is ill and is in California for an indefinite recuperation period, his or her stay is other than temporary or transitory. As residents, these individuals are taxed on income from all sources.

California tax law also provides that "every individual who spends in the aggregate more than nine months of the taxable year within this State shall be presumed to be a resident." The presumption is not conclusive and may be overcome by satisfactory evidence. On the other hand, presence within the State for less than nine months does not necessarily mean that the individual is not a resident. The regulations provide that "a person may be a resident even though not in the State during any portion of the year."

Military Personnel

Military personnel are subject to special treatment. California military personnel are treated as nonresidents when they leave the State under permanent military orders to serve at out-of-state posts of duty. If the spouse remains a California resident and the other spouse retains his or her California domicile, the remaining spouse is subject to tax on his or her one-half of the community income. Out-of-state military personnel serving at posts of duty in California are not subject to California tax unless California domicile is adopted. If California domicile is adopted, California will tax the entire income received during the period of residence. Declarations filed with military service branches that show California as the state of legal residence will be treated as presumptive evidence of California residence.

Mixed Residence of Spouses - Community Income

When one spouse is domiciled in California, works outside the state and establishes nonresident status, while the other



spouse remains a California resident, the resident spouse may be taxable on one-half of the nonresident spouse's income because it is deemed to be community income. In case of a permanent separation of the spouses, their earnings are separate income; in this event, the resident spouse would not have to report any of the nonresident spouse's earnings.

Out of State Under Employment Contract

The California Franchise Tax Board established a safe harbor rule for determining whether individuals are nonresidents for tax purposes for years beginning on or after January 1, 1994. The safe harbor provides that an individual domiciled in California who is outside California under an employment-related contract for an uninterrupted period of at least 546 consecutive days will be considered a nonresident unless any of the following is met: (8)

- The individual has intangible income exceeding \$200,000 in any taxable year during which the employment-related contract is in effect.
- The principal purpose of the absence from California is to avoid personal income tax.



The spouse or registered domestic partner (RDP) of the individual covered by this safe harbor rule will also be considered a nonresident while accompanying the individual outside California for at least 546 consecutive days. Also, return visits to California that do not exceed a total of 45 days during any taxable year covered by the employment contract are considered temporary.

Individuals not covered by the safe harbor determine their residency status based on facts and circumstances. The determination of residency status cannot be solely based on an individual's occupation, business, or vocation. Instead, consider all activities to determine residency status.

In general, the location where an individual has the closest connections or ties is his or her place of residence. These ties are evaluated by looking at a set of factors about the taxpayer. In using these factors, it is the strength of the ties, not just the number of ties, which determines residency.

The following list shows some of the factors used to help determine residency status of a taxpayer:

- Amount of time spent in California compared to the amount of time spent outside California.
- Location of the taxpayer's spouse and children.
- Location of the taxpayer's principal residence.
- Where the taxpayer's driver's license was issued.
- Where the taxpayer's vehicles are registered.
- Where the taxpayer maintains professional licenses.
- Where the taxpayer is registered to vote.
- Location of the banks where the taxpayer maintains accounts.
- Location of the taxpayer's doctors, dentists, accountants, and attorneys.
- Location of any church, temple, mosque, professional associations, or social and country clubs where the taxpayer is a member.
- Location of taxpayer's real property and investments.
- Permanence of the taxpayer's work assignments in California.
- Location of the taxpayer's social ties.

The list is not all inclusive and other factors may be used to determine residency. For instance, students who are residents of California and leave the state to attend an out-of-state school do not automatically become nonresidents, nor do students who are nonresidents of California coming to this state to attend a California school automatically become residents. In these situations, individuals must determine their residency status based on their facts and circumstances. The following are some examples of out of state employment situations and the resulting determination of whether they are resident or non-resident.

Example 1

Rob is a California resident. He agreed to work overseas for one year. He returned to California after the employment contract expired and stayed for three months. Then, he signed another contract with the same employer to work overseas for another year.

Treatment 1

Rob cannot be considered a nonresident under the safe harbor rule because his absence from California for employment



reasons was not for an uninterrupted period of at least 546 consecutive days. Rob cannot combine the days he was overseas from the two separate contracts.

Example 2

Angela is a California resident. She transferred to her employer's Germany office for a two-year work assignment. She visited California for a three-week vacation during the two-year assignment.

Treatment 2

Based on the information given, under the safe harbor rule, Angela was a nonresident of California for the two years she worked in Germany. Her three-week visit to California is considered temporary. As a tax return preparer, you should ensure she did not earn in excess of \$200,000 intangible income in either taxable year.

Example 3

Dave is a successful architect who works in more than one location and maintains several places of abode. He has an apartment in Paris, owns a house in California, and has a condo in Arizona. Dave spends nine months each year outside California working.

Treatment 3

To determine whether he is a resident of California, you would have to look at the factors listed above. If Dave's wife and children live in California, he votes in California, his bank accounts are in California, and he has a California driver's license, Dave is probably a California resident and fully subject to California tax.

Example 4

Don and Betsy are California residents. Don agreed to work overseas for 20 months under an employment contract. His family remained in San Diego, CA. During those 20 months Don visited his family in San Diego for a month.

Treatment 4

Don can be considered a nonresident during his absence under the safe-harbor rule. His month-long visit to California is considered temporary. During the year, Don earned \$80,000 on his overseas assignment and Betsy earned \$30,000 as a teacher in San Diego. Don did not have any other income. The tables show how to report income if Don and Betsy filed a joint income tax return or separate income tax returns.

Married Filing Jointly Form 540NR			
Spouse	Income	Total AGI	CA AGI
Don's Wages	\$80,000	\$80,000	\$40,000*
Betsy's Wages	\$30,000	\$30,000	\$30,000
TOTAL	\$110,000	\$110,000	\$70,000
* Half of Don's wages are taxable in California because it is a community property state and his spouse Betsy (or a registered domestic partner would also qualify) is a resident of California.			

Table 2-1 - FTB Publication 1031 - Married Filing Jointly Form 540NR (2017)

Married Filing Separately			
	Don's Form 540 NR		Betsy's Form 540
Spouse	Total AGI	CA AGI (Sch CA - 540NR) Col. E	Total AGI
Don's Wages	\$40,000	\$0	\$40,000*
Betsy's Wages	\$15,000	\$15,000	\$15,000
TOTAL	\$55,000	\$15,000	\$55,000
* Half of Don's wages are taxable in California because it is a community property state and his spouse Betsy (or a registered domestic partner would also qualify) is a resident of California.			

Table 2-2 - FTB Publication 1031 - Married Filing Separately Form 540NR (2017)



California Returns

Who Must File

The California law requires that an income tax return be filed for every individual (or fiduciary acting for an individual) who has income in excess of the certain amounts based on status, age, and number of dependents. If the taxpayer's gross income is more than the amount shown in the table below for his or her filing status, age, and number of dependents, then the taxpayer has a filing requirement.

A California resident should file a California tax return if either his or her gross income (which consists of all income he or she received from all sources in the form of money, goods, property, and services, that is not exempt from tax) or his or her adjusted gross income (which consists of his or her Federal adjusted gross income from all sources, reduced or increased by all California income adjustments) is more than the amounts shown on the chart below for his or her filing status, age, and number of dependents.

Nonresidents and Part-Year Residents should file a California tax return if he or she has any income from California sources and his or her gross income (which consists of all income he or she received from all sources in the form of money, goods, property, and services, that is not exempt from tax) or adjusted gross income (which consists of his or her Federal adjusted gross income from all sources, reduced or increased by all California income adjustments) is more than the amounts shown on the chart below for the taxpayer's filing status, age, and number of dependents.



If the taxpayer's gross income or adjusted gross income is less than the amounts listed on the chart, he or she may still have a filing requirement.

2017 California Basic Filing Requirements - California Gross Income				
Filing Status	Age as of December 31, 2017*	No dependents	1 dependent	2 or more dependents
Single or Head of Household	Under 65	\$17,029	\$28,796	\$37,621
	65 or Older	\$22,729	\$31,554	\$38,614
Married/RDP filing jointly or separately	Under 65 (both spouses/RDPs)	\$34,060	\$45,827	\$54,652
	65 or older (one spouse)	\$39,760	\$48,585	\$55,645
	65 or older (both spouses/RDPs)	\$45,460	\$54,285	\$61,345
Qualifying Widow(er)	Under 65	N/A	\$28,796	\$37,621
	65 or Older	N/A	\$31,554	\$38,614



Lesson 2 - California Residency, Returns, Exemptions, Filing Status

Dependent of another person (Any filing status)	Under 65	More than the taxpayer's standard deduction
	65 or older	More than the taxpayer's standard deduction

*Note: If the taxpayer turns 65 on January 1, 2018, he or she is considered to be age 65 at the end of 2017.

Table 2-3 - California Tax Rates and Exemptions - Individual Filing Requirements (2017)

If the taxpayer's adjusted gross income is more than the amount shown in the table below for his or her filing status, age, and number of dependents, then the taxpayer has a filing requirement:

2017 California Basic Filing Requirements - California Adjusted Gross Income				
Filing Status	Age as of December 31, 2017*	No dependents	1 dependent	2 or more dependents
Single or Head of Household	Under 65	\$13,623	\$25,390	\$34,215
	65 or Older	\$19,323	\$28,148	\$35,208
Married/RDP filing jointly or separately	Under 65 (both spouses)	\$27,249	\$39,016	\$47,841
	65 or older (one spouse)	\$32,949	\$41,774	\$48,834
	65 or older (both spouses)	\$38,649	\$47,474	\$54,534
Qualifying Widow(er)	Under 65	N/A	\$25,390	\$34,215
	65 or Older	N/A	\$28,148	\$35,208
Dependent of another person (Any filing status)	Under 65	More than the taxpayer's standard deduction		
	65 or Older	More than the taxpayer's standard deduction		

*Note: If the taxpayer turns 65 on January 1, 2018, he or she is considered to be age 65 at the end of 2017.

Table 2-4 - California Tax Rates and Exemptions - Individual Filing Requirements (2017)

Even if the taxpayer does not meet the basic filing requirements, he or she should still file a tax return in order to get a refund if either of the following apply: (8)

- California state income tax was withheld from his or her pay, there was a California real estate sale, or he or she had income from an S corporation, partnership, or LLC.
- He or she made California estimated tax payments.

Also, an individual for whom a Federal dependent exemption may be claimed by another taxpayer must file a separate state income tax return if the individual's gross income from all sources exceeds the amount of the basic standard deduction allowed to the individual under Federal law. Married/RDP couples may elect to file separate returns or a joint return.



Tax Forms

The principal California income tax return forms are as follows:

Resident individuals	540, 540 2EZ
Nonresident and part-year residents	540NR Long, 540NR Short
Estates and trusts	541
Partnerships	565

Table 2-5 - California Tax Forms (2017)

A copy of the Federal return and schedules must accompany the 540NR. It must also accompany the 540 if the taxpayer attached any Federal schedules other than Schedule A or B to the Federal return.

Form 540 - California Resident Income Tax Return

California taxpayers will generally use [Form 540 - California Resident Income Tax Return](#). When filing a Form 540 the taxpayer must have been a California resident for the entire year and may:

- Use any filing status.
- Claim all dependents to which he or she is entitled.
- Have earned any amount of income from all sources of income.
- Claim all adjustments to income.
- Use either the standard deduction or itemized deductions.
- Have tax payments to the following:
 - o Withholding from all sources.
 - o Estimated tax payments.
 - o Payments made with extension.
 - o Excess State Disability Insurance (SDI) or Voluntary Plan Disability Insurance (VPDI).
- Claim all tax credits.
- Pay all taxes.

Form 540 2EZ

Taxpayers who are single or joint filers, heads of household, or qualifying widow(er)s and who are not blind may use [Form 540 2EZ - California Resident Income Tax Return](#) if, for the taxable year to be reflected in the return, the taxpayer: (9)

1. Was a California resident the entire year.
2. Uses single, married/RDP filing jointly, head of household or qualifying widow(er) as his or her filing status.
3. Had total income of:
 - a. \$100,000 or less if single or head of household.
 - b. \$200,000 or less if married/RDP filing jointly or qualifying widow(er).
4. Had income only from:
 - a. Wages, salaries, and tips.
 - b. Taxable interest and dividends.
 - c. Pensions.
 - d. Unemployment compensation reported on Form 1099-G.
 - e. Taxable scholarship and fellowship grants (only if reported on Form(s) W-2).
 - f. Paid family leave.
 - g. U.S. Social Security benefits.
 - h. Tier 1 and tier 2 railroad retirement payments.
 - i. Capital gains from mutual funds (reported on Form 1099-DIV, box 2a only).
5. Does not claim any itemized deductions, is not required to use a modified standard deduction for dependents, and does not make any adjustments to income.
6. Does not claim any tax credits other than:
 - a. Personal exemption credit.
 - b. Up to three dependent exemption credits.
 - c. Nonrefundable renter's credit.
 - d. Senior exemption credit.



7. Does not pay any tax other than withholding shown on Form W-2 or Form 1099-R.
8. Has no tax due other than the income tax computed using the Form 540 2EZ table.

For the 2017 tax year, taxpayers cannot use Form 540 2EZ if he or she can be claimed as a dependent and any of the following are true:

- The taxpayer has a dependent of his or her own.
- The taxpayer is single and his or her total income is less than or equal to \$14,086.
- The taxpayer is married/RDP filing jointly or a qualifying widow(er) and his or her total income is less than or equal to \$28,122.
- The taxpayer is head of household and his or her total income is less than or equal to \$19,922.
- The taxpayer is required to use a modified standard deduction for dependents.

Also, the taxpayer cannot use Form 540 2EZ if his or her total wages are less than the following amounts based on his or her filing status:

- Single - \$3,886.
- Married/RDP filing jointly, head of household, or qualifying widow(er) - \$8,122.

Form for Nonresidents - Full or Part-year

A person who was a nonresident for any part of the year must file his or her return on [Form 540NR - California Nonresident or Part-Year Resident Income Tax Return](#) or [540NR Short](#), regardless of residence status at the end of the year. Any change in residence status should be fully explained on the return or in an attached statement.

Reporting Federal Changes

A California taxpayer filing an amended Federal return is required to file an amended California return within six months after filing the amended Federal return if the change increases the amount of California tax due. Also, if any change or correction is made in gross income or deductions by Federal authorities, or where gross income or deductions are changed by renegotiation of government contracts or subcontracts, such changes must be reported to the Franchise Tax Board within six months after the final determination of the Federal change or correction or renegotiation. The taxpayer is required to concede the accuracy of the Federal determination or state wherein it is erroneous.

The Federal determination is presumed to be correct unless the taxpayer overcomes the burden of establishing that the determination is erroneous; this principle has been approved in many appeals decided by the State Board of Equalization over the years. Beginning with tax year 2017, the taxpayer uses the 540 series forms, each adapted to allow for amended return filing, and Schedule X - California Explanation of Amended Return Changes, which will reconcile the difference between the original return and amended return to determine any additional amount owed or refund due, and to provide reasons for amending. For tax year 2016 and prior years, amended individual returns will need to continue to be paper filed using Form 540X.

California Electronic Filing (e-File)

The California Franchise Tax Board (FTB) accepts electronic filing of returns from individuals and professional preparers through the e-file program. CalFile is a simple, easy-to-use service that offers free, direct to government e-filing of the taxpayer's return. CalFile offers convenient features such as:

- Import information to the taxpayer's tax return that Franchise Tax Board already has on record.
- Save a partially completed tax return to finish later.
- Save the taxpayer's completed tax return to view and print later.
- File a prior year tax return.

Mandatory Electronic Filing

Tax return preparers who prepare and file more than 100 timely original California personal income tax returns during any calendar year and who prepare at least one personal income tax return using tax preparation software in the current calendar year must file all personal income tax returns for the current calendar year and subsequent calendar years using



electronic technology. The requirement ceases to apply to a tax return preparer if, during the previous calendar year, the tax return preparer prepared no more than 25 original personal income tax returns. A taxpayer may also elect to have his or her tax return preparer file a paper, rather than electronic, return. The election is made by filing [FTB Form 8454 - e-file Opt-Out Record for Individuals](#).

Filing Via Electronic Technology

Personal income tax returns and other documents that are filed using electronic technology must be in a form prescribed by the FTB and are not complete unless an electronic filing declaration ([FTB Form 8453 - California e-file Return Authorization for Individuals](#)) is signed by the taxpayer. The declaration must be retained by the document preparer or the taxpayer and must be furnished to the FTB upon request.

Professional tax preparers who wish to participate in the electronic filing program must be enrolled in the IRS e-file program and are required to submit E-file Participant Enrollment Form ([FTB Form 8633 - Application to Participate in the IRS e-file Program](#)) to the FTB. Tax payments must be accompanied by [FTB Form 3582 - Payment Voucher for Individual e-Filed Returns](#). The FTB accepts electronic signatures using the Self-Select PIN and Practitioner PIN methods, in lieu of the E-File Return Authorization Form, FTB 8453. California conforms to Federal income tax provisions allowing electronic postmarks as proof of the date electronically filed returns are deemed filed.

California Exemption Credits

Tax credits are allowed for personal exemptions. The credits are deducted from the tax computed on taxable income before exemptions are applied. The credit applies to the separate tax on lump-sum distributions. The exemption credits for 2017 are shown below:

Filing Status/Qualification	2016	2017
Single person	\$111	\$114
Married/RDP, separate return	\$111	\$114
Married/RDP, joint return	\$222	\$228
Head of household	\$111	\$114
Qualifying widow(er)	\$222	\$228
Dependent	\$344	\$353
Blind person - additional	\$111	\$114
Age 65 or older - additional	\$111	\$114

Table 2-6 - State of California Franchise Tax Board - California Tax Rates and Exemptions (2017)

Reduction of Exemption Credits for High-Income Taxpayers



Tip

The exemption credits are reduced if a taxpayer's Federal adjusted gross income exceeds a threshold amount. For 2017, in the case of single taxpayers, each credit is reduced by \$6 for each \$2,500 or fraction thereof by which the taxpayer's Federal adjusted gross income exceeds \$187,203. For married/RDP taxpayers or a surviving spouse filing a joint return, each credit is reduced by \$12 for each \$2,500 or fraction thereof by which the taxpayer's Federal adjusted gross income exceeds \$374,411. For married/RDP taxpayers filing separately, each credit is reduced by \$6 for each \$1,250 of Federal adjusted gross income over \$187,203. For a head of household, each credit is reduced by \$6 for each \$2,500 of Federal adjusted gross income over \$280,808. The threshold amounts are adjusted annually for inflation. California conforms to this procedure in principle. A worksheet is provided by the California FTB to assist in determining the amount of the exemption credit reduction. (10)

When applying the phase-out amount, apply the \$6/\$12 amount to each exemption credit, but do not reduce the credit below zero. If a personal exemption credit is less than the phase-out amount, do not apply the excess against a dependent exemption credit.

Nonresidents and Part-Year Residents

Nonresidents and part-year residents are allowed reduced credits for personal exemptions on the basis of prorated taxable income. The phase-out of exemption credits for high-income taxpayers must be applied before the proration of the credits.



California Filing Status

Individuals must use, for California purposes, the filing status used on the Federal return for the same taxable year. Married taxpayers AND Registered Domestic Partners (RDP) are also required to use their Federal filing status, except that the following may file either joint or separate returns, regardless of how they filed their Federal return: (11)

- Couples in which either spouse was an active member of the military.
- Couples in which one spouse was a nonresident for the entire year and had no California-source income.

A joint nonresident income tax return is required of a husband and wife who file a joint Federal return if one of the spouses was a California resident for the entire taxable year and the other was a nonresident for all or any part of the tax year and had California-source income.

The determination of whether an individual is married, surviving spouse, head of household, or blind is made at the close of the taxable year. If an individual, his or her spouse, or a dependent giving the taxpayer surviving spouse or head of household status dies during the year, determination of status is made as of the date of death. A joint return may be filed if one spouse dies during the taxable year. An individual who is legally separated from his or her spouse under a decree of divorce or of separate maintenance is **not** considered married.

Single

The taxpayer should use the single filing status if **any** of the following was true at the end of the tax year: (11)

- Not married or an RDP.
- Divorced under a final decree of divorce, legally separated under a final decree of legal separation, or terminated a registered domestic partnership (RDP).
- Widowed before January 1, 2017, and did not remarry or enter into another registered domestic partnership in 2017.

Married/ Registered Domestic Partner (RDP) Filing Jointly

A taxpayer may file married/RDP filing jointly if **any** of the following is true: (11)

- Married or an RDP as of December 31, 2017, even if the taxpayer did not live with his or her spouse/RDP at the end of 2017.
- Spouse/RDP died during 2017 and the taxpayer did not remarry or enter into another registered domestic partnership in 2017.
- Spouse/RDP died during 2018 before the 2017 tax return was filed.



A married couple or RDPs may file a joint return even if only one had income or if they did not live together all year. However, both must sign the tax return.

Married/Registered Domestic Partner (RDP) Filing Separately

Community property rules apply to the division of income if the taxpayer uses the married/RDP filing separately status. For more information, get one of the following publications:

- Guidelines for Determining Resident Status ([FTB Publication 1031](#)).
- Tax Information for Registered Domestic Partners ([FTB Publication 737](#)).
- Guidelines for Married/RDP Filing Separate Returns ([FTB Publication 1051A](#)).
- Tax Information for Military Personnel ([FTB Publication 1032](#)).

Additionally, the taxpayer cannot claim a personal exemption credit for his or her spouse/RDP even if the spouse/RDP had no income, is not filing a tax return and is not claimed as a dependent on another person's tax return. The taxpayer may be able to file as head of household if his or her child lived with him or her and the taxpayer lived apart from his or her spouse/RDP during the entire last six months of the tax year. (11)



Head of Household

For the specific requirements that must be met to qualify for head of household filing status, see [FTB Publication 1540 - California Head of Household Filing Status](#). In general, head of household filing status is for unmarried individuals and certain married individuals or RDPs living apart who provide a home for a specified relative.

To be entitled to use head of household filing status **all** of the following must apply: (11)

1. Unmarried and not in a registered domestic partnership, or met the requirements to be considered unmarried or considered not in a registered domestic partnership on December 31, 2017.
2. Paid more than one-half the cost of keeping up the home for the tax year.
3. For more than half the year, the home was the main home for the taxpayer and one of the specified relatives who by law can qualify him or her for head of household filing status.
4. Not a nonresident alien at any time during the year.



For a child to qualify as a foster child for head of household purposes, the child must either be placed with the taxpayer by an authorized placement agency or by order of a court.



For taxable years beginning on or after January 1, 2015, California requires taxpayers who use head of household (HOH) filing status to file [FTB Form 3532 – Head of Household Filing Status Schedule](#), to report how the HOH filing status was determined.

Qualifying Widow(er) with Dependent Child

Fill in the circle on Form 540, line 5 and use the joint return tax rates for 2017 if all of the following apply: (12)

1. The taxpayer's spouse/RDP died in 2015 or 2016 and he or she did not remarry or enter into another registered domestic partnership in 2017.
2. The taxpayer has a birth child, stepchild, adopted child, or eligible foster child whom he or she can claim a dependent exemption credit.
3. This child lived in the taxpayer's home for all of 2017. Temporary absences, such as for vacation or school, count as time lived in the home.
4. The taxpayer paid over half the cost of keeping up the home for this child.
5. The taxpayer could have filed a joint tax return with his or her spouse/RDP the year he or she died, even if the taxpayer did not do so.

Definition of Dependents



With all the tax benefits tied to claiming a dependent, it is important to make sure a taxpayer can claim the dependent on his or her tax return. To claim a dependent, the person must meet criteria of a qualifying child or qualifying relative. The qualifying child rules always take precedence over the qualifying relative rules.

A child must pass all of the following tests to be a qualifying child: (13)

1. Relationship: the person must be one of the relatives listed below or a descendant of such a person.
 - a. Birth child
 - b. Stepchild
 - c. Brother
 - d. Half brother
 - e. Stepbrother
 - f. Nephew
 - g. Eligible foster child
 - h. Grandchild
 - i. Adopted child
 - j. Sister
 - k. Half sister
 - l. Stepsister
 - m. Niece



2. Age:
 - a. At the end of the filing year, the child was younger than the taxpayer (or his or her spouse if filing a joint return).
 - b. Younger than 19 years of age.
 - c. Younger than 24 years of age and a full-time student.
 - d. At the end of the filing year, the child was any age and permanently and totally disabled.
3. Residency:
 - a. Child must live with the taxpayer (or his or her spouse if filing a joint return) in the United States for more than half of the year. More than half the year is 183 days; in a leap year, it is 184 days.
4. Support:
 - a. The child cannot have provided more than half of his or her own support for the year.
5. Joint Return:
 - a. The child cannot file a joint return for the year, unless the child and the child's spouse did not have a separate filing requirement and filed the joint return only to claim a refund.

If two or more taxpayers including a parent claim the same child as a qualifying child for a particular tax year, the person shall be treated as the qualifying child of the taxpayer who is:

- A parent of the person.
- If none of the taxpayers is a parent, the taxpayer with the highest adjusted gross income for the taxable year.

If the parents both claim the same child, their child shall be the qualifying child of:

- The parent with whom the child resided for the greater portion of the taxable year.
- The parent with the highest adjusted gross income, if the child resides with both parents for the same amount of time during the taxable year.

The four tests that must be met for a person to be a qualifying relative are: (13)

1. Not a qualifying child:
 - a. A child is not a qualifying relative if the child is a qualifying child or the qualifying child of any other taxpayer.
2. Member of household or relationship:
 - a. Live with the taxpayer all year as a member of the household.
 - b. Be related to taxpayer in one of the ways listed as any relationship that was established by marriage and is not ended by death or divorce:
 - i. Birth child
 - ii. Grandchild
 - iii. Brother
 - iv. Half brother
 - v. Parent/Stepparent
 - vi. Stepbrother
 - vii. Son-in-law
 - viii. Brother-in-law
 - ix. Father-in-law
 - x. Uncle
 - xi. Nephew
 - xii. Stepchild
 - xiii. Adopted child
 - xiv. Sister
 - xv. Half sister
 - xvi. Grandparent
 - xvii. Stepsister
 - xviii. Daughter-in-law
 - xix. Sister-in-law
 - xx. Mother-in-law
 - xxi. Aunt
 - xxii. Niece



3. Gross income test:
 - a. Person's gross income for the year must be less than \$4,050 for 2017.
4. Support test:
 - a. Generally, the taxpayer must provide more than half of a person's total support during the calendar year. To determine whether the taxpayer has provided more than half the support, compare the amount he or she contributed for the person's support to the entire amount of support the person received from all sources. All sources include tax-exempt income, such as Social Security benefits and Temporary Assistance for Needy Families (formerly Aid to Families with Dependent Children), and the person's own funds used for support.

Any unrelated person who lived with the taxpayer all year as a member of his or her household can qualify him or her for a Dependent Exemption Credit as long as all the other requirements for the credit are met. However, such a person cannot qualify the taxpayer for head of household filing status. A cousin is a descendant of a brother or sister of the taxpayer's parents and is not one of the relatives who by law can qualify the taxpayer for head of household filing status.

Any one of the relationships listed above that were established when the taxpayer married or entered into a registered domestic partnership are not ended if the taxpayer divorces or terminates the registered domestic partnership, or his or her spouse/RDP dies. Also, an uncle or aunt may qualify the taxpayer only if he or she is the brother or sister of his or her father or mother and a nephew or niece may qualify the taxpayer only if he or she is the child of his or her brother or sister.

Special Filing Situations

Same-Sex Married Couples

Beginning with the 2008 taxable year, same-sex married couples (SSMC) were required to file their California income tax return using either the married filing jointly or married filing separately filing status. For Federal purposes, they were required to file their Federal income tax return using the single or head of household filing status. On June 26, 2013 the United States Supreme Court in "Windsor v. United States" determined that key provisions of the 1996 Defense of Marriage Act were invalid. The U.S. Department of the Treasury and the Internal Revenue Service ruled that SSMCs legally married in jurisdictions that recognize their marriage will be treated as married for Federal tax purposes. (14)

Legally married same-sex couples generally must file their 2017 Federal income tax return using either the married filing jointly or married filing separately filing status. California taxpayers are generally required to use the same filing status that they used for Federal tax purposes. Because SSMCs must file both Federal and California income tax returns using the same filing status, no Federal/California differences exist for SSMCs. Therefore [FTB Publication 776 – Tax Information for Same-Sex Married Couples](#) is no longer needed and became obsolete after the 2013 tax year.

Registered Domestic Partners (RDP)

Effective for taxable years beginning on or after January 1, 2007, RDPs under California law must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs will have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified. If a taxpayer entered into a same-sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, the taxpayer is required to file a California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status.

A domestic partnership is established in California when both persons file a Declaration of Domestic Partnership with the California Secretary of State, and at the time of filing, either both persons are members of the same sex, or one or both of the persons is/are over the age of 62 and meet the eligibility criteria under Title II of the Social Security Act as defined in [42 USC Section 402\(a\)](#) for old-age insurance benefits or Title XVI of the Social Security Act as defined in [42 USC Section 1381](#) for aged individuals: (15)

- Both persons have a common residence.
- Neither person is married to someone else or is a member of another domestic partnership with someone else that has not been terminated, dissolved, or adjudged a nullity.
- The two persons are not related by blood in a way that would prevent them from being married to each other in California.
- Both persons are at least 18 years of age.
- Both persons are capable of consenting to the domestic partnership.



The definition of common residence means that both domestic partners share the same residence. It is not necessary that the legal right to possess the common residence be in both of their names. Two people have a common residence even if one or both have additional residences. Domestic partners do not cease to have a common residence if one leaves the common residence but intends to return. For complete details see [FTB Publication 737 - Tax Information for Registered Domestic Partners](#).

If the taxpayer is an RDP, he or she may qualify to use the head of household filing status if both of the following apply: (16)

- The taxpayer is in the process of ending the relationship.
- He or she meets the requirements to be considered not in a registered domestic partnership.



Individuals of the same sex and opposite sex who are in registered domestic partnerships, civil unions or other similar formal relationships that are not marriages under state law are not considered as married or spouses for Federal tax purposes.

Application for Registered Domestic Partners (RDP)

On May 28, 2010, the IRS released Chief Counsel Advice (CCA) 2010210501 which changes the Federal tax treatment of California registered domestic partners' (RDP) community income. The IRS concluded that a California RDP must report one-half of the community property income on the Federal returns.

The Federal advice is based on the California law changes, effective beginning January 1, 2007, that treats earned income of a registered domestic partnership as community property for state income tax purposes. Previously, the IRS did not recognize this community property treatment; however, the IRS has now decided to extend full community property treatment to registered domestic partners in California. In another Chief Counsel Advice memo, CCA 2010210492, the IRS also explained that it can consider the assets of a taxpayer's registered domestic partner when determining the reasonable collection potential of a taxpayer's offer in compromise under IRC [Section 7122](#), since California law provides both partners have an equal interest and liability in the community property.

A domestic partnership is established in California when both persons file a Declaration of Domestic Partnership with the California Secretary of State, and at the time of filing, meet all of the filing requirements. In May of 2010, the IRS released Chief Counsel Advice (CCA) #201021050 which changes the Federal tax treatment of California registered domestic partners' (RDP) community income. The IRS concluded that a California RDP must report one-half of the community property income on the Federal returns.

The Federal advice is based on the California law changes, effective beginning January 1, 2007, that treats earned income of a registered domestic partnership as community property for state income tax purposes. Previously, the IRS did not recognize this community property treatment; however, the IRS has now decided to extend full community property treatment to registered domestic partners in California.

CCA 201021050 also clarifies that for tax years beginning before June 1, 2010, registered domestic partners may, but are not required to amend their returns to report income in accordance with these changes. California provides guidance to RDPs in [FTB Publication 737 - Tax Information for Registered Domestic Partners](#), including how to make RDP adjustments for differences between state and Federal law.

In general, in the absence of an agreement to the contrary, earnings of spouses/RDP who are domiciled in California and are not permanently separated are community property. On separate returns, any community income or deductions must be split equally between the spouses/RDP. The credit for a dependent supported by community funds may be taken by either spouse/RDP. Where the spouses/RDP are separated with no intention of resuming the marital/RDP relationship, the earnings of each spouse/RDP during the period of separation are his or her separate property. This is the effect of a provision of the Family Code.

Both Federal and California law now provides relief for the innocent spouse/RDP in certain community-property situations, and empowers the Internal Revenue Service and the Franchise Tax Board to treat community income as separate under certain conditions. Where one spouse/RDP is a nonresident alien, community property laws are inapplicable to some extent for Federal income tax purposes; California has not conformed.



Military Personnel and Spouses

California law is generally the same as Federal law regarding which type of military pay (active duty, disability, reserve, and retirement) is taxable. However, active duty military pay is not included as part of California source income unless the military member is domiciled and stationed in California and the pay is earned in California. Servicemembers domiciled outside of California, and their spouses, exclude the servicemember's military compensation from gross income when computing the tax rate on nonmilitary income.

Requirements for military personnel domiciled in California remain unchanged. Military personnel domiciled in California must include their military pay in total income. In addition, they must include their military pay in California source income when stationed in California. However, military pay is not California source income when a servicemember is permanently stationed outside of California. (17)

The Military Spouses Residency Relief Act (MSRRA) amended the Federal Servicemembers Civil Relief Act. For taxable years beginning on or after January 1, 2009, a nonmilitary spouse of a military servicemember shall neither lose nor acquire a residence or domicile for tax purposes by being absent from or present in California to be with the servicemember serving in compliance with military orders if the servicemember and spouse have the same domicile.

Income of a military servicemember's nonmilitary spouse for services performed in California is not California source income subject to state tax if the spouse is in California to be with the servicemember serving in compliance with military orders, and the servicemember and spouse have the same domicile in a state other than California.

For purposes of determining residency, civilian spouses of military servicemembers not meeting the MSRRA requirements and retired military servicemembers are not covered by the Federal SCRA, as amended by the MSRRA. For tax purposes, their residency is determined under state laws. [R&TC Section 17014](#) defines a resident as:

- Every individual who is in this state for other than a temporary or transitory purpose.
- Every individual domiciled in this state who is outside the state for a temporary or transitory purpose.

Generally, for tax purposes, the taxpayer is considered a resident of the state from which he or she entered the military. The Federal Servicemembers Civil Relief Act (SCRA) provides that: (17)

- A person shall not be deemed to have lost a residence or domicile in any state solely by reason of being absent in compliance with military orders.
- A person shall not be deemed to have acquired a residence or domicile in any other state solely by reason of being there in compliance with military orders.
- Compensation for military service is not considered to be from sources within the state where a member is stationed if that state is not the member's domicile.

Domicile is defined as the one place: (17)

- Where the taxpayer maintains a true, fixed and permanent home.
- To which he or she intends to return whenever absent.

For tax purposes, a military servicemember is not considered a resident of California unless he or she is domiciled in California. An individual domiciled in California when entering the military is considered to be a: (17)

- Resident while stationed in California.
- Resident while stationed in California on permanent change of station (PCS) orders and temporary duty (TDY) assignments outside California, regardless of the duration.
- Nonresident while stationed outside California on PCS orders.

Military members domiciled outside of California are considered nonresidents for tax purposes even when stationed in California on PCS orders.

Examples of Resident Status for Military Personnel

California Military Personnel in California - Military members whose domicile is California are residents of California and are subject to tax on all income, regardless of source, while stationed in California on permanent military orders.



California Military Personnel Outside California - California military members who leave California under PCS orders become nonresidents of California for income tax purposes when they leave California. All income received or earned prior to departure is subject to tax by California. After departure, only income from California sources is subject to tax by California. Nonresidents are generally not taxed by California on income from intangibles, such as dividends from stocks or interest from bonds or bank accounts.

California military members who leave California under a TDY assignment continue to be California residents even though absent from the state. California military members on a ship whose home port is in California remain California residents while on sea duty, regardless of the ship's location. (17)

Nonmilitary Spouse - If the spouse of the military member remains in California, the spouse is considered a California resident. As a California resident, the spouse is subject to tax on all his or her separate income, regardless of where it is earned. If the military member retains a California domicile, the spouse is also subject to tax on his or her one-half community property share of all income, including the military member's military pay.

The spouse of a military member who is domiciled in California but leaves the state with the military spouse on PCS orders outside California becomes a nonresident upon leaving California. All income received or earned while a California resident is subject to tax. While a nonresident, only income from California sources is subject to tax. (17)

Non-California Military Personnel - Military members who are domiciled outside California remain nonresidents, even though stationed in California, unless they establish a California domicile. (17)

Military Couples - Each member follows the above rules applicable to each of them as individual military members.

In general, California taxes all of the income the servicemember received while he or she was a resident of California and all of the income he or she received from California sources while he or she was a nonresident. However, Military pay is not included in California source income unless the military member is domiciled in California and stationed in California. For tax purposes, income is allocated between spouses based upon whether the person receiving the income is domiciled in a community property or separate property state. (17)

The community property states are: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Puerto Rico is a community property U.S. territory. All other states and U.S. territories are separate property states and territories.



Military retirement pay is taxable if it is received by a California resident. This applies to all military pensions received while the retiree is a California resident regardless of where the retiree was stationed.

Nonresident Spouse with no California Source Income

If the taxpayer files a joint tax return for Federal, he or she may file separately for California if either spouse was: (18)

- An active member of the United States armed forces or any auxiliary military branch during 2017.
- A nonresident for the entire year and had no income from California sources during 2017.

However, if the spouse earning the California source income is domiciled in a community property state, community income will be split equally between the spouses. Both spouses will have California source income and they will not qualify for the nonresident spouse exception.

Common Law Marriage

In California, a taxpayer must obtain a marriage license and enter into a legal marriage or file and meet the requirements to enter into a registered domestic partnership (RDP) in order to be considered married/RDP. Living together for a certain amount of time and/or taking the same name does not create a common law marriage.

The IRS, however, does recognize common law marriages for Federal tax purposes if it is recognized by the state where the taxpayers currently live, or in the state where the common law marriage began. The handful of states that do recognize common law marriages include: Alabama, Colorado, Iowa, Kansas, Montana, South Carolina, Texas, Utah, and Washington D.C.



Unrelated Individuals Living Together

Both California and Federal laws require a specified relationship to qualify for head of household classification. This means that unrelated individuals living together do not qualify, even though one may furnish the chief support and be entitled to an exemption credit for a dependent. (16)

Married Individuals Treated as Unmarried

Certain married individuals may be treated as unmarried for purposes of determining their filing status. This applies where the individual lives apart from his or her spouse/RDP for the last six months of the year and maintains a home for a dependent child, under certain limited conditions. The principal California advantage of the unmarried classification is that it puts the individual in a position where he or she may get the benefit of the lower rates that go with head of household classification. Head of household classification is, of course, also advantageous on the Federal return.

Multiple-Support Agreements

A taxpayer may satisfy the requirement of supporting a dependent even though he or she did not furnish over half the support, in certain multiple support situations. Under these rules, a taxpayer may claim a dependent for who he or she contributed less than one-half (but more than 10%) of the support, provided he or she is a member of a group that contributed over one-half the support, and provided the other members of the group can meet the limitations imposed in these special provisions. (19)

Community Property

All property, real or personal, wherever situated, acquired by a married person during the marriage while domiciled in the state of California is defined as community property and subject to community property law. Likewise, all property acquired prior to the marriage or after the legal dissolution of the marriage is not considered or subject to the laws of community property. The same treatment applies to debt. Each spouse/RDP owns one-half of all community property. If property cannot be specifically identified as separate property, it is considered community property.

Separate property includes the following: (8)

- Property owned separately by each spouse/RDP before marriage or registering as a domestic partnership.
- Property received separately as gifts or inheritances.
- Property purchased with separate property funds.
- Money earned while domiciled in a separate property state.
- All property declared separate property in a valid agreement.

If the property or the income from the property is used for community purposes, or commingled, it could lose its separate property character, overriding any agreements. Also, income generated from community property is community income. Community income also includes compensation for services if the spouse/RDP earning the compensation is domiciled in a community property state. Divide the community income equally between the taxpayer and his or her spouse/RDP when separate returns are filed. (8)

Generally, income from separate property is income of the spouse/RDP who owns the property. When filing, the taxpayer and his or her spouse/RDP report income separately on separate returns. Debt incurred during the marriage/partnership is equally shared by both people regardless of how the debt came to be. A spouse or partner who had debt prior to the marriage/partnership is solely responsible for this debt and it is treated as a pre-marital asset.

Community Income

Income generated from community property is community income. Community income also includes compensation for services if the spouse/RDP earning the compensation is domiciled in a community property state. Divide the community income equally between the taxpayer and his or her spouse/RDP when separate returns are filed. (8)

Commingled Property

Sometimes things are part separate property and part community property. This is called commingling because the separate property and community property have become mixed together. When property is a combination of separate or community property, it can get very complicated to figure out how to divide it in the event of divorce or dissolution.



Mixing or commingling separate property with community property will transmute the separate property into community property unless the separate property component can be traced. If community property is used to assist in the purchase of a separate property asset, or if community property substantially benefits or improves separate property, a community property right to reimbursement is presumed.

The right is "pro tanto," meaning that it follows appreciation, interest, and profits attributable to the community property contribution. It is generally not applicable for routine upkeep and living expenses, such as payment of property taxes or maintenance.

As discussed above, commingled property becomes community property unless the separate property portion can be traced. Tracing is done by allocating withdrawals, deposits or payments between community property funds and separate property funds. The burden of proof is usually on the party attempting to rebut the community property presumption created under state law.

A common situation is when one party owned a house before the marriage or domestic partnership and then sold it and used the proceeds as a down payment on another house after getting married, or after registering a domestic partnership. The down payment for this new house would be considered separate property (since the money came from selling a house that one person owned before the marriage or partnership). But, if the mortgage payments on the new house are made during the marriage or partnership using the earnings of either spouse/RDP, the equity (value) resulting from paying down the house loan is community property. The result is that the equity in the house is commingled.

Another common situation happens when a spouse/RDP has a pension or retirement benefit from a job held before and then also during the marriage. The contributions each person made to the pension before the marriage or registered domestic partnership are separate property. The contributions made after the date of marriage or registration of the domestic partnership and before separated are community property. After separation, those contributions go back to being separate property. Exactly how the pension is divided is complicated and it may require an expert in pension plans to help figure it out.

Separate Income

Generally, income from separate property is income of the spouse/RDP who owns the property. When filing, the taxpayer and his or her spouse/RDP report these incomes separately on their separate returns. (8)

Deductions

Expenses incurred to earn or produce community business or investment income are generally divided equally between the taxpayer and his or her spouse/RDP. Each spouse/RDP is entitled to deduct half of the expenses of the business or investment expenses on his or her separate return. Expenses incurred to earn or produce separate business or investment income are deductible by the spouse/RDP who owns the investment generating the income, provided that spouse/RDP pays the expenses from his or her separate funds. (8)

Expenses that are not attributable to any specific income, such as medical expenses, are deductible by the spouse/RDP who pays them. If these expenses are paid from community funds, the deduction is divided equally between the taxpayer and his or her spouse/RDP. If one spouse/RDP itemizes deductions, both spouses/RDPs must itemize deductions, even if the itemized deductions of one spouse/RDP are less than the standard deduction. (8)

Exemption Credits

When the taxpayer files separate returns, he or she and his or her spouse/RDP must each claim his or her own personal exemption credit. When the taxpayer has more than one dependent supported by community funds, he or she and his or her spouse/RDP may divide the number of dependents between themselves in any manner they choose. However, they may not split the credit for any one dependent. (8)

Civil Service Retirement

For income tax purposes, community property laws apply to annuities payable under the Civil Service Retirement Act (CSRS) or Federal Employee Retirement System (FERS). Whether a civil service annuity is separate or community income depends on the taxpayer's marital status (or his or her status as an RDP) in California and domicile of the employee when the services were performed for which the annuity is paid. Even if the taxpayer now lives in a non-community property



state and receives a civil service annuity, it may be community income if it is based on services performed while married or during the registered domestic partnership in California and domiciled in a community property state.

If a civil service annuity is a mixture of community income and separate income, it must be divided between the two kinds of income. The division is based on the employee's domicile and marital status/RDP in community and non-community property states during his or her periods of service.

Pre-Nuptial Agreements

A prenuptial agreement is entered into before marriage. This agreement can set forth what will happen to the taxpayer's and his or her spouse's or partner's assets and income in the event of divorce, separation or death. Most importantly, a prenuptial agreement can preserve the nature of property in the event the marriage or partnership ends. In other words, separate property can remain separate, instead of being subject to community property or equitable distribution laws.

Prenuptial agreements in California are governed by California's Uniform Premarital Agreement Act. Under this act, a prenuptial agreement in California is known as a premarital agreement. [Section 1610](#) of the California Family Law Code defines what a premarital agreement is – basically it is an agreement made by an engaged couple that will take effect when they get married or enter into a registered domestic partnership.

[Section 1610](#) also defines what property is, and the definition is very broad, encompassing pretty much anything of value. In order to be valid in California, a prenuptial agreement must be in writing. Generally, a prenuptial agreement will set forth exceptions to the general rules imposed by the law with respect to community property and debts.

California Family Law Code [Section 1612](#) sets out what can and cannot be included in a prenuptial agreement. This is fairly similar to most other states. Generally, any financial issue can be dealt with in a premarital agreement. Issues relating to children, including child support and custody are not permitted. Nor is one allowed to contract about obligations during the marriage, such as household chores, frequency of sexual relations, or penalties for adultery.

Below is an overview of what can be included in a prenuptial agreement:

- Division of property in the event of divorce or separation.
- Whether particular items are considered community property or separate property.
- Ownership of the marital residence.
- Responsibility for premarital debts.
- Distribution of property in the event of death (although an update of the estate planning documents will also need to reflect this).
- Alimony obligations (in most States).
- Financial responsibilities during the marriage.
- Under which state's law the prenuptial agreement is (otherwise it will be the state of the divorce, and not the marriage).
- How disputes about the prenuptial agreement are to be resolved (for instance through mediation or arbitration).
- Inclusion of the so-called sunset clause – many couples allow that their prenuptial agreement will not be valid if they are married for a certain number of years.

There are also a number of limitations to what can be included in a prenuptial agreement. Prenuptial agreements cannot deal with any of the following issues:

- Physical custody of the children (this includes things such as in what religion to raise the children, their schooling, etc.).
- Visitation schedules for each parent to see the children.
- Child support agreements.
- Anything illegal (as with most contracts).
- Anything unconscionable (unfair).
- Anything that is thought to encourage divorce.

Although most states including California permit prenuptial agreements to deal with alimony, a court is allowed to invalidate the alimony provisions if the judge believes them to be unjust. This will normally occur in long term marriages if there is a great disparity between spouses' incomes and no or little alimony being paid.



There was a time when prenuptial agreements were treated very cautiously by the courts and it was difficult to enforce them. The courts took the attitude that prenuptial agreements encouraged divorce, and that this was against the public policy of encouraging marriage. Times have changed, and now prenuptial agreements are more common and are normally enforced by courts. However, there are many circumstances when a prenuptial agreement may not be enforced.

These circumstances are as follows:

- If there was duress or coercion used to get one party to sign the prenuptial agreement. Prenuptial agreements must be signed voluntarily.
- If the prenuptial agreement is unconscionable. The prenuptial agreement does not need to be fair but it also cannot be overly lopsided in favor of one spouse/partner.
- If there was no or insufficient financial disclosure. If parties do not know about each other's financial situation when they enter into a prenuptial agreement, then the agreement will not be enforced. Usually the financial disclosure that is provided will be documented so that there is proof of this in the future if needed. Financial disclosure must be fairly detailed. For instance, it is not enough simply to state that one party owns a business – full financial details of the business must be provided, and perhaps even a business valuation must be done.
- Lack of understanding. One party can always claim that they did not understand what it was they signed. And this is not surprising – prenuptial agreements can be quite complex legal documents. Ensuring that both parties have legal representation before entering into the prenuptial agreement is the best way of dealing with this issue.
- Time pressure. Starting to negotiate a prenuptial agreement the night before the wedding is, well, far too late. There should be a reasonable amount of time so that issues can be thought about and negotiated, legal representation can be obtained, financial disclosure can be given, and so on. Some states specify a minimum amount of time for the process – often requiring at least 7 days. Realistically, even 7 days is not much time.
- Anything that would make a normal contract unenforceable also applies to prenuptial agreements. So, for instance, if there is fraud involved, a prenuptial agreement will not be enforced.

Business Subject to Franchise Tax

Any corporation 'doing business' in California is subject to the minimum franchise tax even if it is not qualified with the California Secretary of State. 'Doing Business' means actively engaging in any transaction for the purpose of financial gain. If the taxpayer qualified with the Secretary of State, the corporation is subject to the franchise tax until the taxpayer dissolves his or her corporation.

The corporation is subject to corporate income tax if it is not qualified with the Secretary of State and is not 'doing business' in California but derives income from sources within California. For example, if the corporation is a limited partner in a limited partnership doing business in California, the corporation would be subject to corporate income tax. Unincorporated associations are also subject to corporation income tax.



Review

The following pages contain several review questions that are designed to help you learn the material you have just studied. Review questions are for instructional use only and you will not be graded on these questions. We also provide you the answers to each question and an explanation or feedback as to how we arrived at each answer.

Best practice suggests that you should try to answer these questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material. As with all self-study Qualifying Education (QE) courses, you can refer back to the course material to locate the answers, the so called 'open book' learning method is permissible.

Review Questions

Answers appear in [Review Feedback](#)

1. A temporary or transitory return to California for not more than how many days during a taxable year will not affect the nonresident status of an individual?
 - A. 30 days
 - B. 40 days
 - C. 45 days
 - D. 60 days
2. If the taxpayer does not want to use the married/RDP filing separately status, he or she may be able to file as head of household if his or her child lived with him or her and the taxpayer lived apart from his or her spouse/RDP during the entire last how many months of the tax year?
 - A. Three months
 - B. Four months
 - C. Five months
 - D. Six months
3. Henry is a resident of California and a single taxpayer. He accepts a three-year assignment to work in New Zealand. His assignment in New Zealand covers the period January 1, 2015, through December 31, 2017. He rented out his residence and put his vehicle and belongings in storage within the state of California. Henry maintained all his California bank accounts, his driver's license, and voter registration. He has less than \$200,000 of intangible income during each year. Upon completion of his assignment, Henry intends to return to California. He returned to California to visit family on two separate occasions with both visits totaling 28 days during 2015 and 2016. Which of the following is true regarding Henry's California residency?
 - A. Henry is considered a resident during his absence from the state.
 - B. Henry is considered a nonresident during his absence from the state.
 - C. Henry fails the safe harbor rule for days spent in California visiting
 - D. Henry fails the safe harbor rule for amount of income earned during his work assignment
4. If a taxpayer is domiciled outside California and is in the state less than how many months in the aggregate, he or she is considered being in California for temporary or transitory purposes?
 - A. Three months
 - B. Four months
 - C. Five months
 - D. Six months



5. Betty receives and accepts a permanent job offer in North Dakota. She and her husband sell their California home and move to North Dakota on July 3 with their children. They lease an apartment and enroll their children in school. Betty and her husband obtain North Dakota driver's licenses and make numerous social connections in their new home city. They have no intention of returning to California. Which of the following statement is correct?
 - A. Betty and her husband are full year California residents based in the 6-month rule
 - B. Betty and her husband are California residents until the date on which they obtain their North Dakota drivers licenses
 - C. Betty and her husband were residents until July 3, and on that day, they became nonresidents.
 - D. Betty and her husband are California residents until the closing date for the sale of their California home
6. Doug is a resident of California and accepts a 15-month assignment in Saudi Arabia. He puts all of his personal belongings, including his automobile, in storage in California. Doug has a California driver's license and is registered to vote in California. He maintains bank accounts in California. In Saudi Arabia, Doug stays in a compound provided for him by his employer, and the only ties he established there are connected to his employment. Upon completion of the work assignment, Doug will return to California. Doug will not return to California at any time during the 15-month work assignment. Which, if any, of the following statements applies to Doug?
 - A. Doug is a non-resident for the duration of his assignment
 - B. Doug is a nonresident for the first 12 months of his assignment but a resident for the last 3 months of his assignment
 - C. Doug is a nonresident for the first 3 months of his assignment but a resident for the last 12 months of his assignment
 - D. Doug remains a California resident during his entire work assignment
7. For California filing threshold purposes, which of the following statements is correct?
 - A. Married couples who file separate Federal returns must also file separate returns in California
 - B. Married couples who file joint Federal returns must also file jointly in California
 - C. A same-sex married individual or a registered domestic partner (RDPs) who files single for Federal must file married/RDP filing jointly or married/RDP filing separately for California
 - D. All of the above
8. Which of the following conditions must be met for a taxpayer to use Form 540 2EZ?
 - A. Filing status is married/RDP jointly and had total income of \$165,000.
 - B. The taxpayer(s) do not itemized deductions
 - C. The taxpayers(s) do not pay tax other than withholding shown on Form W-2 or Form 1099R.
 - D. All of the above
9. Which of the following qualifies a California taxpayer to use the head of household filing status?
 - A. Taxpayer was a resident alien for a portion of the tax year
 - B. For less than half the year, the home was the main home for the taxpayer and one of the specified relatives who by law can qualify him or her for head of household filing status.
 - C. Paid more than one-half the cost of keeping up the home for the tax year.
 - D. Taxpayer was married or in a registered domestic partnership
10. Which of the following can be included in a prenuptial agreement?
 - A. Responsibility for premarital debts
 - B. Physical custody of the children
 - C. Visitation schedules for each parent to see the children
 - D. Child support agreements



Review Feedback

Return to [Review Questions](#)

Question 1 - C. 45 days

A temporary or transitory return to California for not more than 45 days during a taxable year will not affect the nonresident status of such an individual. The same rules will apply to a spouse who accompanies such an individual.

Question 2 - D. Six months

If the taxpayer uses the married/RDP filing separately status he or she cannot claim a personal exemption credit for his or her spouse/RDP even if the spouse/RDP had no income, is not filing a tax return and is not claimed as a dependent on another person's tax return. The taxpayer may be able to file as head of household if his or her child lived with them and the taxpayer lived apart from his or her spouse/RDP during the entire last six months of the tax year.

Question 3 - B. Henry is considered a nonresident during his absence from the state.

Henry meets the safe harbor rule for length of duration, number of visiting days spent in California not exceeding 45, and income earned in any one year. He is considered a nonresident during his absence from the state.

Question 4 - D. Six months

If an individual is domiciled outside California and is in the state less than six months in the aggregate, he or she is considered being in California for temporary or transitory purposes. However, the taxpayer must not engage in any activity other than that of a seasonal visitor, tourist, or guest within California.

Question 5 - C. Betty and her husband were residents until July 3, and on that day, they became nonresidents.

In this situation, Betty and her husband are part-year residents of California. Until July 3, they were California residents, and on that day, they became nonresidents. All of their income while they were residents (January 1 through July 2) is taxable by California. However, after they become nonresidents, only their income from California sources is taxable by California. The safe harbor rule requirements are met because they sold their California residence, enrolled their children in North Dakota schooling, and obtained drivers licenses from North Dakota.

Question 6 D. - Doug remains a California resident during his entire work assignment

Doug has maintained greater connections with California than he has established in Saudi Arabia. His absence is for a temporary or transitory purpose and, therefore, he remains a California resident during his work assignment. As a California resident, his income from all sources is taxable by California, including the income that was earned from his assignment in Saudi Arabia.

Question 7 - C. A same-sex married individual or a registered domestic partner (RDPs) who files single for Federal must file married/RDP filing jointly or married/RDP filing separately for California

The taxpayer uses the same filing status for California that he or she used for his or her Federal income tax return, unless he or she is in a same-sex marriage or a registered domestic partnership (RDP). If the taxpayer is a same-sex married individual or an RDP and files single for Federal, he or she must file married/RDP filing jointly or married/RDP filing separately for California. If the taxpayer is a same-sex married individual or an RDP and files head of household for Federal purposes, he or she may file head of household for California purposes only if he or she meets the requirements to be considered unmarried or considered not in a domestic partnership.

Question 8 - D. All of the above

Looking at the section titled "Use of Form 540 2EZ", the criteria for which conditions must be met in order to use this form are spelled out. Condition 2 indicates that if the income was less than \$200,000 for married/RDP filing jointly then the taxpayers(s) can use this form so answer A is correct. Condition 4 indicates that taxpayer(s) who do not itemize deductions can use this Form so Answer B is also correct. Condition 6 indicates that taxpayer(s) who do not pay any tax other than withholding on Form W-2 or Form 1099-R can use this Form so Answer C is also correct. Therefore, Answer D, all of the above is the correct selection.



Question 9 - C. Paid more than one-half the cost of keeping up the home for the tax year

In general, head of household filing status is for unmarried individuals and certain married individuals or RDPs living apart who provide a home for a specified relative. Therefore, Answer D is not correct based on the marriage. To be entitled to use head of household filing status the taxpayer must show that for more than half the year, the home was the main home for the taxpayer and one of the specified relatives who by law can qualify him or her for head of household filing status. Thus, Answer B is incorrect. Head of household filing status requires that the taxpayer not be a nonresident alien at any time during the year, making answer Answer A incorrect. However, if the taxpayer can show that they were responsible for more than one-half the cost of keeping up the home for the tax year, then they qualify for head of household status and answer C is therefore correct.

Question 10 - A. Responsibility for premarital debts

California Family Law Code section 1612 sets out what can and cannot be included in a prenuptial agreement. This is fairly similar to most other states. Generally, any financial issue can be dealt with in a premarital agreement. However, issues relating to children, including child support and custody are not permitted. Nor is one allowed to contract about obligations during the marriage, such as household chores, frequency of sexual relations, or penalties for adultery.

Below is an overview of what CAN be included in a prenuptial agreement:

- Division of property in the event of divorce or separation.
- Whether particular items are considered community property or separate property.
- Ownership of the marital residence.
- Responsibility for premarital debts.
- Distribution of property in the event of death (although an update of the estate planning documents will also need to reflect this).
- Alimony obligations (in most States).
- Financial responsibilities during the marriage.
- Under which state's law the prenuptial agreement is (otherwise it will be the state of the divorce, and not the marriage).
- How disputes about the prenuptial agreement are to be resolved (for instance through mediation or arbitration).
- Inclusion of the so-called sunset clause – many couples allow that their prenuptial agreement will not be valid if they are married for a certain number of years.



California Income

At the conclusion of this lesson you should have a basic knowledge of:

- Gross Income
- Adjusted Gross Income (AGI)
- Taxable Income
- Retirement Income
- Capital Gains
- Other Types of Income
- Income From a Business

Definition of Gross Income

California conforms, as a general rule, to most of the Federal provisions. Generally, this lesson will detail the differences between California and Federal law regarding gross income for tax year 2017. However, if 2017 tax year information is not available 2016 tax year information will be included.



Remember that residents of California are taxed on all income, including income from sources outside California. Nonresidents of California are taxed only on income from Californian sources. Part-year residents are taxed on all income received while a resident and only on income from California sources while a nonresident.

For taxable years beginning on or after January 1, 2002, if the taxpayer is a nonresident or a part-year resident, he or she determines the California tax by multiplying the California taxable income by an effective tax rate. The effective tax rate is the California tax on all income as if the taxpayer was a California resident for the current taxable year and for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions, divided by that income. The following formula can be used: (20)

$$\text{Prorated tax} = \text{California taxable income} \times \frac{\text{Tax on total taxable income}}{\text{Total taxable income}}$$

Gross income is broadly defined to include income derived from any source, except as otherwise specifically provided in the statute. The major differences include: (21)

- California does not include income in the following benefits, which are taxed to some extent under Federal law:
 - o Social Security.
 - o Unemployment Compensation.
 - o Railroad retirement benefits.
- Income from certain annuities and pension and profit-sharing plans.
- California Qualified Stock Options (issued on or after January 1, 1997, and before January 1, 2002).
- Nonresident's military compensation attributable to resident spouse.
- Dividends paid by a fund attributable to interest received from U.S. obligations or California state or municipal obligations.
- Income of nonresidents for the performance of duties of certain merchant seamen and compensation of an employee of a rail carrier, motor carrier, or air carrier.
- Compensation received by an employee for costs of participating in a ridesharing arrangement.
- Winnings from the California lottery are exempt from California tax. Such winnings are subject to Federal tax as gambling gains, except to the extent they may be offset by gambling losses.
- Any amount received by consumer for recycling empty beverage containers is exempt from the California tax.
- Rewards received from a government authorized crime hotline.
- California does not tax state income tax refunds.
- Interest earned on certain Federal bonds.



California Adjusted Gross Income (AGI)

California adjusted gross income is the taxpayer's Federal adjusted gross income from all sources reduced or increased by all California income adjustments. When differences occur, an adjustment is necessary to convert Federal individual AGI into California individual AGI. These adjustments can increase or decrease Federal AGI. The taxpayer should use [Schedule CA - California Adjustments - Residents](#), to make adjustments to his or her Federal adjusted gross income and to his or her Federal itemized deductions using California law. Some of the California subtractions from income include California lottery winnings, reward from a crime hotline, beverage container recycling income and health savings account (HSA) distributions for unqualified medical expense. Some of the California additions to income include Federal net operating loss (NOL), original issue discount (OID) for debt instruments issued in 1985 and 1986, foreign income and mortgage relief upon sale or disposition of principal residence.

Gross Income of Nonresidents

Gross income of nonresidents includes only gross income from sources within California. A nonresident member of a partnership or similar organization must include his distributive share of income from California sources. A nonresident beneficiary of an estate or trust must include distributable income of the estate or trust from California sources.

Nonresidents are taxed as though they were residents but with the tax computed according to a prorated taxable income formula (for post 2001 taxable years). A part-year resident of California is taxed on all income received while a resident and only on income from California sources while a nonresident.

Taxable Income

The Federal law defining taxable income is incorporated in the California law. The exceptions are listed below:

- California allows no deduction for personal exemptions. Instead, California allows personal exemption credits.
- California standard deduction amounts are different from the Federal amounts.
- California has not adopted the Federal additional standard deductions for aged and blind individuals. However, California provides additional personal exemption credits for such taxpayers.

Taking into account these differences, California taxable income may be defined briefly the same as for Federal purposes, i.e., adjusted gross income reduced by the standard or by itemized deductions.

If the Internal Revenue Service (IRS) examined and changed a taxpayer's Federal tax return the taxpayer must notify the Franchise Tax Board (FTB). If the IRS changed his or her Federal return and he or she owes additional tax, the taxpayer must report the changes to the FTB within 6 months of the final Federal determination. If the IRS changed the taxpayer's return and he or she is due a refund from California, he or she must claim the refund within 2 years of the final Federal determination.

Family Support Payments

There is a clear distinction between alimony (spousal support) and child support. Whereas alimony is a deductible expense for the payer and treated as taxable income to the recipient, child support is neither a deductible expense nor taxable income in the year received. Other payments that do not qualify as alimony include:

- Property settlement payments, even if required by the divorce decree or other written instrument or agreement.
- Retirement benefits that the other spouse is entitled to receive are actually from community property.
- Any voluntary payments made before they are required by a divorce decree or agreement.



If the divorce decree or separation instrument provides for family support but no amount of the family support is designated as child support, then the entire payment is considered alimony. This can be a common source of mistakes made by taxpayers who assume any payments made to an ex-spouse are deductible. California treats an RDP the same as a spouse. Consequently, the Franchise Tax Board treats alimony payments between RDPs the same as alimony payments between spouses.

Alimony

Alimony is money paid from one spouse to another, typically for day-to-day support of the spouse with fewer financial



resources (alimony is sometimes referred to as spousal or family support under Family Law). The law allows courts to award alimony or spousal support to one of the former spouses when a married couple divorces. Payments made to a third party can be considered alimony. Indirect alimony may include cash payments to a third party to satisfy the obligations of a former spouse, such as to provide a residence for a former spouse, e.g., rent, mortgage, utilities, etc., medical cost payments, or other such expenses incurred by the payer's former spouse. (22)

The following types of payments do NOT qualify as alimony: (22)

- Property settlement payments, even if required by the divorce decree or other written instrument or agreement.
- Retirement benefits that the other spouse is entitled to receive based on division of community property.
- Any voluntary payments made before they are required by a divorce decree or written agreement.
- Child support payments.

Alimony from the taxpayer's spouse or former spouse is taxable to an individual in the year received. Taxpayers report alimony income on line 11 of the Federal Form 1040, and this figure carries through to the California return.

California law is the same as Federal. Generally, alimony payments received pursuant to a divorce, dissolution, or legal separation are taxable to the spouse who receives the payments. Any amount received for support of minor children is not taxable. Alimony paid by a California resident to a nonresident is not taxable to the recipient.

Retirement Income

The California treatment of pension and annuity income is generally the same as the Federal treatment. For example, California and Federal law are the same regarding: (23)

- The "General Rule."
- The "Simplified General Rule" (sometimes called the "Safe Harbor Method").
- IRA Rollovers.
- Roth IRAs.
- Archer Medical Savings Accounts (MSAs).
- Coverdell Education Savings Accounts (ESAs).
- Current-year IRA deductions.
- Lump-sum credit received by Federal employees.
- California Achieving a Better Life Experience (ABLE) Accounts.

However, there are differences between California and Federal law for: (23)

- Social Security and railroad retirement benefits.
- Retirees using the "Three-Year Rule" whose annuity date was after July 1, 1986, and before January 1, 1987.
- Some prior-year IRA deductions.
- Health Savings Accounts (HSAs).



If the taxpayer's pension plan invested in U.S. Government securities or in mutual funds that invested in U.S. Government securities, he or she may not reduce the taxable portion of his or her pension distribution by the amount of interest attributable to the U.S. Government securities.

Income from Pensions and Profit Sharing Plans

Generally, both California and Federal laws tax benefits received under qualified pension or profit-sharing plans to the employee only when actually distributed to the employee. Such distributions are usually taxed as though they were an annuity, the consideration for which is the amount (if any) contributed by the employee under the plan. Certain non-forfeitable rights to receive annuities are taxed in the year in which the employer pays for the annuity contract. (23)

Nonresidents are not taxed on pensions, even if they were a California resident when the pension income was accrued. Conversely, California taxes qualified pension, profit sharing, and stock bonus plan income the taxpayer receives as a resident for services performed outside California while he or she was a nonresident.



Lump-Sum distributions

If an employee's benefits are paid to him in one taxable year, because of his death or termination of his employment, the taxable amount is subject to special treatment as a lump-sum distribution. The taxable amount is the total distribution less employee contributions, and any unrealized appreciation on employer securities included in the distribution.



Under California and Federal law, the \$5,000 employer-provided death benefit exclusion was repealed. Payments received in 2017 on behalf of decedents dying on or after August 21, 1996, do not qualify for the exclusion.

California Residents Receiving an Out-of-State Pension

California residents are taxed on ALL income, including income from sources outside California. Therefore, a pension attributable to services performed outside California but received after the taxpayer became a California resident is taxable in its entirety by California.

Nonresidents of California Receiving a California Pension

In general California does not impose tax on retirement income received by a nonresident after December 31, 1995. For this purpose, retirement income means any income from any of the following: (23)

- A qualified plan described in IRC Section 401.
- A qualified annuity plan described in IRC Section 403(a).
- A tax-sheltered annuity described in IRC Section 403(b).
- A governmental plan described in IRC Section 414(d).
- A deferred compensation plan maintained by a state or local government or an exempt organization described in IRC Section 457.
- An IRA described in IRC Section 7701(a)(37), including Roth IRA and SIMPLE.
- A simplified employee pension described in IRC Section 408(k).
- A trust described in IRC Section 501(c)(18).
- A military pension, even if the military service was performed in California.
- A private deferred compensation plan program or arrangement described in IRC Section 3121(v)(2)(C) only if the income is either of the following:
 - o Part of a series of substantially equal periodic payments (not less frequently than annually) made over the life or life expectancy of the participant or those of the participant and the designated beneficiary or a period of not less than 10 years.
 - o A payment received after termination of employment under a plan program or arrangement maintained solely to provide retirement benefits for employees in excess of the limitations on contributions or benefits imposed by the IRC.
- Any retirement or retainer pay received by a member or former member of a uniform service computed under Chapter 71 of Title 10, United States Code.

California taxes qualified pension, profit sharing, and stock bonus plan income the taxpayer receives as a California resident for services performed outside California while he or she was a nonresident.

Military Pension

If the taxpayer is a California resident, his or her military pension is taxable by California, regardless of where the service was performed.

Individual Retirement Arrangements (IRAs)

The California treatment of distributions from IRAs is the same as the Federal, except that California permits tax-free recovery of the following: (23)

- Contributions that were not allowed as California deductions.
- Interest on certain retirement bonds.

Both California and Federal laws allow deductions for contributions to individual retirement arrangements or for the purchase of individual retirement annuities or bonds. These arrangements are commonly known as IRAs. For a Traditional



IRA, the most that can be contributed is the smaller of the age based contribution limit (see table below) or 100% of compensation.

Traditional IRA Contribution Limits		
Age	2016	2017
Under 50	\$5,500	\$5,500
50 and Over	\$6,500	\$6,500

Table 3-1 - FTB Publication 1005 - Individual Retirement Arrangements (IRAs) (2017)

The limit on annual contributions to an Individual Retirement Arrangement (IRA) remains unchanged at \$5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains \$1,000.

If the taxpayer is covered by an employer's retirement plan or if he or she files a joint tax return with his or her spouse who is covered by such a plan, the taxpayer may be entitled to only a partial deduction or no deduction at all, depending on his or her income. The taxpayer should see the Federal instructions for more information. The taxpayer can elect to designate otherwise deductible contributions as nondeductible. However, he or she does not have to elect the same treatment for California purposes that he or she did for Federal purposes.

The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) between \$62,000 and \$72,000. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is \$99,000 to \$119,000. For a married individual filing a separate return, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between \$186,000 and \$196,000, up from \$184,000 and \$194,000. For singles, heads of household, qualifying widow(er) or married filing jointly or separately with a spouse who is not covered by a plan at work his or her modified AGI can be any amount and he or she can take a full deduction up to the amount of his or her contribution limit. For a married individual filing a separate return with a spouse who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

The AGI phase-out range for taxpayers making contributions to a Roth IRA is \$186,000 to \$196,000 for married couples filing jointly, up from \$184,000 to \$194,000 in 2016. For singles and heads of household, the income phase-out range is \$118,000 to \$133,000, up from \$117,000 to \$132,000. For a married individual filing a separate return, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.



The deductible IRA income 2017 phase-out limits, for individuals who are active participants, are increased as follows:

2017 IRA Deduction Limits - Effect of Modified AGI on Deduction if the Taxpayer is Covered by a Retirement Plan at Work		
Filing Status	Modified AGI Amount	Deduction Amount
Single or Head of Household	\$62,000 or less	Full Deduction to Contribution Limit
	\$62,000 - \$72,000	Partial Deduction
	\$72,000 or more	No Deduction
Married filing jointly or Qualifying Widow(er)	\$99,000 or less	Full Deduction to Contribution Limit
	\$99,000 - \$119,000	Partial Deduction
	\$119,000 or more	No Deduction
Married filing separately	Less than \$10,000	Partial Deduction
	\$10,000 or more	No Deduction
If the taxpayer files separately and did not live with his or her spouse at any time during the year, the taxpayer's IRA deduction is determined under the single filing status.		

Table 3-2 - IRA Deduction Limits - Effect of MAGI on Deduction if You Are Covered by a Retirement Plan at Work. (2017)



If the taxpayer is not covered by a retirement plan at work, he or she should use the following table to determine if his or her modified AGI affects the amount of his or her deduction. The deduction is limited only if his or her spouse is covered by a retirement plan.

2017 IRA Deduction Limits - Effect of Modified AGI on Deduction if the Taxpayer is not Covered by a Retirement Plan at Work		
Filing Status	Modified AGI Amount	Deduction Amount
Single, Head of Household or Qualifying widow(er)	Any Amount	Full Deduction to Contribution Limit
Married filing jointly or separately with a spouse who is not covered by a plan at work	Any Amount	Full Deduction to Contribution Limit
Married filing jointly with a spouse who is covered by a plan at work	\$186,000 or less	Full Deduction to Contribution Limit
	\$186,000 - \$196,000	Partial Deduction
	\$196,000 or more	No Deduction
Married filing separately with a spouse who is covered by a plan at work	Less than \$10,000	Partial Deduction
	\$10,000 or more	No Deduction
If the taxpayer files separately and did not live with his or her spouse at any time during the year, the taxpayer's IRA deduction is determined under the single filing status.		

Table 3-3 - IRA Deduction Limits - Effect of MAGI on Deduction if You Are NOT Covered by a Retirement Plan at Work (2017)

The taxpayer's deduction is allowed in full if he or she (and his or her spouse, if married) are not covered by a retirement plan at work.

The amount of the California deduction for IRA, Keogh, SEP, and SIMPLE contributions is the same as the Federal deduction. However, the California deduction may be limited by California compensation or by California self-employment income if the taxpayer files Long Form 540NR.

Example

Susan moved into California on December 1. She made contributions to her IRA and claimed a deduction of \$2,000 on her Federal tax return. Her California wages were \$500. Her allowable deduction is the lesser of:

- The Federal deduction of \$2,000.
- The California compensation of \$500.

Therefore, she enters \$500 on line 28, column E of Schedule CA. She will make no entry in column B or column C.

Difference in Basis

A resident of California's IRA distribution is fully taxable if his or her IRA contributions were fully deductible. If his or her IRA contributions were partially or fully nondeductible, then the nondeductible contributions are not taxed when they are distributed. The taxpayer's basis is the amount of his or her nondeductible contributions. How the taxpayer recovers his or her basis depends on when his or her nondeductible contributions were made.

If the taxpayer made nondeductible contributions after 1986, a part of each distribution is considered a return of his or her basis and is not taxable. The California taxable amount will generally be the same as the Federal taxable amount, and he or she should not make an adjustment to his or her Federal AGI on [Schedule CA](#) (540 or 540NR).

If the taxpayer made nondeductible contributions before 1987, none of his or her distribution is taxed until he or she has recovered the pre-1987 basis. Because there was a difference between Federal and California contribution limits before 1987, there may be a difference in the California and Federal taxable amounts. If there is a difference, make an adjustment to reduce the taxpayer's Federal AGI to the correct taxable amount for California. The adjustment is the lesser of the pre-1987 California basis or IRA distribution included in Federal AGI.

A 2002 law changed the IRA basis of former nonresidents. The law changed for taxable years beginning on or after January 1, 2002. If the taxpayer is a California resident who was a former nonresident, the new law may affect the taxation



of his or her IRA income. The law affects not only individuals who became California residents in 2002, but also individuals who became California residents prior to 2002. Under prior law, when an individual became a resident, he or she received a stepped-up basis in the IRA equal to the annual contributions made while a nonresident, plus the earnings on the IRA while a nonresident. The taxpayer was allowed to carry over this IRA basis until it was fully recovered. Beginning in 2002, the taxpayer no longer has this stepped-up basis.

The law treats a former nonresident as though the individual were a resident for all prior years for all items of deferred income, including IRAs. Accordingly, a former nonresident will be allowed an IRA basis only for contributions which would not have been allowed as a deduction under California law had the taxpayer been a California resident.

Do not include in California basis any rollover contributions from an employer sponsored or self-employed retirement plan, including a tax-sheltered annuity. If the taxpayer became a California resident prior to 2002 and he or she has an unrecovered stepped-up IRA basis that he or she was carrying into 2002, restate the IRA basis using the new law.

California did not conform to the \$2,000 or 100% of compensation annual contribution limit permitted under Federal law from 1982 through 1986. During these years, California limited the deduction to the lesser of 15% of compensation or \$1,500 and denied a deduction altogether to individuals who were active participants in qualified or government plans. Any amounts an individual contributed in excess of California deduction limits during these years create a basis in the IRA.

Example

Carlos became a California resident on January 1, 2002. In 2001, while he was a nonresident of California, he received a \$50,000 lump-sum distribution from an employer's retirement plan and rolled over the distribution to an IRA. The earnings on his IRA in 2001 were \$2,000. Carlos received his first distribution from the IRA in 2002. The distribution was \$4,000, all of which was taxable for Federal purposes. His California basis is determined as follows:

Taxable year 2001 (prior law):

California IRA basis, January 1, 2001 (earnings while a nonresident)	\$2,000	
Less: IRA distribution in 2001	<u>\$0</u>	
California IRA basis, December 31, 2001		<u><u>\$2,000</u></u>

Taxable year 2002 (new law):

IRA distribution		\$4,000
Less: California IRA basis		
Contributions in excess of California deduction limits	\$0	
Less: Basis recovered in prior years	<u>\$0</u>	
California IRA basis		<u><u>\$0</u></u>
Taxable IRA income		<u><u>\$4,000</u></u>

California IRA basis, December 31, 2002, is \$0.

A nonresident or former nonresident will no longer receive a stepped-up basis for annual contributions and earnings attributable to periods of non-residency.

Roth IRAs

A Roth IRA is an individual retirement plan that differs from a traditional IRA in the way contributions and distributions are taxed. Contributions to a Roth IRA are never deductible, and, if the taxpayer meets the requirements, qualified distributions are not taxed. California law conforms to Federal law regarding Roth IRAs.

All Roth IRA transactions must be treated the same way for California purposes as they are for Federal purposes and no California adjustment will be necessary unless the taxpayer converted a traditional IRA into a Roth IRA and the California basis of the converted IRA was different from the Federal basis.

In general, the taxable amount of a Roth IRA distribution will be the same for California and Federal purposes. However, the taxable portion of the distribution may be different for California purposes than for Federal purposes if the taxpayer: (23)

- Made a 1998 conversion from a traditional IRA to a Roth IRA.
- Elected to report the taxable portion of the conversion over 4 years.
- The Federal basis of the traditional IRA was different from the California basis.



The tax due as the result of a conversion may be different for California purposes than for Federal purposes if the taxpayer: (23)

- Made a conversion from a traditional IRA to a Roth IRA.
- The Federal basis of the traditional IRA was different from the California basis.



Federal law and California law are the same regarding Roth IRA contributions, conversions, and distributions. However, the taxable amount of a distribution may not be the same because of basis differences. (24)

Simplified Employee Pension Plan (SEP)

California law conforms generally to the Federal law permitting employer contributions to an employee's individual retirement plan through a simplified employee pension (SEP) plan. The employer's contributions to the employee's SEP-IRA are excluded from the employee's gross income. The employee's contributions to the SEP-IRA are separate and apart from the employer's contributions and may be deducted from the employee's gross income in the same manner, and to the same extent, as any IRA contribution. SEP distributions are subject to tax on the basis of the same rules that apply to the distributions from an IRA.

Under both California and Federal law, an employer may provide a simplified employee pension (SEP) plan for employees. California's treatment of an SEP plan is the same as the Federal treatment. The maximum deduction and contribution amounts per plan year to a SEP are as follows: (23)

Year	Amount	Compensation Limit
2017	The lesser of \$54,000 or 25% of compensation	\$270,000
2016	The lesser of \$53,000 or 25% of compensation	\$265,000
2015	The lesser of \$53,000 or 25% of compensation	\$265,000
2014	The lesser of \$52,000 or 25% of compensation	\$260,000
2013	The lesser of \$51,000 or 25% of compensation	\$255,000
2012	The lesser of \$50,000 or 25% of compensation	\$250,000

Table 3-4 - IRS Publication 560 - SEP Contribution Limits (2017)

Savings Incentive Match Plan (SIMPLE)

Both California and Federal law allow an employer to provide a Savings Incentive Match Plan (SIMPLE) plan for employees. California's treatment of an SIMPLE plan is the same as the Federal treatment. A SIMPLE IRA or a SIMPLE 401(k) plan may permit catch-up contributions up to \$3,000 in 2017. Salary reduction contributions in a SIMPLE IRA plan are not treated as catch-up contributions until they exceed \$12,500 in 2017. Taxpayers may contribute the following amounts to a Simple IRA and Simple 401(k):

Maximum Contributions to Savings Incentive Match Plan for Employees (SIMPLE)		
Age	2016	2017
Under 50	\$12,500	\$12,500
50 & Over	\$15,500	\$15,500

Table 3-5 - FTB Publication 1005 - Maximum Contributions to Savings Incentive Match Plan for Employees (SIMPLE) (2017)

401(K), 403(B), and 457 Plans

Taxpayers may contribute the following amounts to a deferred compensation plan:

Maximum Contributions to Deferred Compensation Plans		
Age	2016	2017
Under 50	\$18,000	\$18,000
50 & Over	\$24,000	\$24,000

Table 3-6 - FTB Publication 1005 - Maximum Contributions to Deferred Compensation Plans (2017)



For 2017, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the Federal government's Thrift Savings Plan remains unchanged at \$18,000. Also, the catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the Federal government's Thrift Savings Plan remains unchanged at \$6,000.

Contributions to Union Pension Plans

California conforms to the Federal rules regarding deductibility of members' contributions to union pension plans. This means, generally, that the contributions are not deductible, since the employee ordinarily has a vested interest or the right to a return of his contributions.

Early Distributions

California has a tax on premature distributions (before age 59½) from IRAs, any qualified retirement plans, annuities, and modified endowment contracts. The California early distribution penalty is 2½% in addition to the Federal rate of 10%. An exception occurs for early distributions from SIMPLE plans if the withdrawal is made during the two-year period beginning on the date the taxpayer first began participation in the plan. In that case, the California tax rate is 6% in addition to the Federal penalty of 25%. California does not have taxes similar to the Federal tax on excess accumulations, tax on excess contributions, or tax on excess distributions. (23)

Early distributions are amounts the taxpayer withdraws from a qualified retirement plan, annuity, or modified endowment contract before he or she is age 59½. The tax on early distribution is imposed in addition to any regular California income tax on the distribution.

The tax on early distributions does not apply to: (23)

- The portion of the distribution that is a return of basis.
- Distributions made due to total and permanent disability.
- Distributions made as a part of a series of substantially equal payments made for the life (or joint lives) of a taxpayer and his or her designated beneficiary (if from an employer plan, payments must begin after separation from service).
- Distributions due to death (does not apply to modified endowment contracts).
- Distributions made to a taxpayer to the extent he or she has medical expenses deductible under IRC [Section 213](#) (does not apply to modified endowment contracts).
- Distributions made to unemployed individuals for health insurance premiums (applies only to IRAs).
- Distributions made for qualified higher education expenses (applies only to IRAs).
- Distributions of up to \$10,000 made for first home purchases (applies only to IRAs).
- Distributions made to a taxpayer after he or she separated from service with an employer in or after the year in which the taxpayer reached age 55 (applies only to qualified retirement plan distributions, does not apply to IRAs).
- Distributions made to an alternate payee under a qualified domestic relations order (applies only to qualified retirement plans, does not include IRAs).
- Distributions due to an IRS levy on the qualified retirement plan.
- Distributions due to a Franchise Tax Board notice to withhold on a qualified retirement plan.
- Distributions made after September 11, 2001, to reservists while serving on active duty for at least 180 days.
- Distributions made after August 17, 2006, to public safety employees after separation from service after age 50.



The taxpayer may also owe tax on early distributions from an IRA or SEP if he or she entered into a prohibited transaction. The IRA ceases to be an IRA on the first day of the taxable year and the taxpayer is considered to have received a distribution of the entire value of the IRA. If the taxpayer is under age 59½ on the first day of the taxable year, he or she is subject to the tax on early distributions.

Qualified higher education expenses include tuition, fees, books, and school supplies for the taxpayer, the taxpayer's spouse, or a child or grandchild of the taxpayer or the taxpayer's spouse.

Qualified first-time homebuyer distributions are withdrawals of up to \$10,000 during the taxpayer's lifetime that are used to buy or build a home that is the principal residence of the taxpayer, his or her spouse, or a child, grandchild, or ancestor of the taxpayer or the taxpayer's spouse.



The California tax penalty is 2.5% combined with the Federal 10% penalty, except for early distributions from SIMPLE plans during the two-year period beginning on the date the taxpayer first began participation in the plan. In that case, the tax penalty is 6% combined with the Federal 25% penalty. California does not have taxes similar to the Federal tax on excess accumulations, tax on excess contributions, or tax on excess distributions. (23)

Rollovers

As with Federal law, a taxpayer is allowed to rollover a tax-free distribution (withdrawal) of assets from one qualified retirement plan that is contributed to another plan. He or she must complete the rollover within 60 days following the distribution for it to qualify for tax-free treatment. Any taxable amount not rolled over within 60 days should be included in income and may be subject to an additional 2.5% tax. (25)

Section 457 plans can be rolled over to other qualified plans. In addition, distributions from a Section 457 plan can be used to purchase permissive service credit for other retirement plans. Also, a surviving spouse can roll over distributions from a deceased spouse's qualified retirement plan to a Section 457 plan in which the surviving spouse participates.



As of 2015, a taxpayer can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs he or she owns (Announcement 2014-15 and Announcement 2014-32). The limit will apply by aggregating all of an individual's IRAs, including SEP and SIMPLE IRAs as well as traditional and Roth IRAs, effectively treating them as one IRA for purposes of the limit. Neither trustee-to-trustee transfers between IRAs nor rollovers from traditional to Roth IRAs ("conversions") are not limited.

Social Security Benefits

California does not tax Social Security income from the United States, including survivor's benefits and disability benefits. Social Security income may be partially taxable under Federal law. To determine whether or not Social Security benefits are taxable for the Federal return, see [IRS Publication 915 - Social Security and Equivalent Railroad Retirement Benefits](#), or [IRS Publication 17 - Chapter 12 - Social Security and Equivalent Railroad Retirement Benefits](#).

When making California adjustments on Form 540 Line 14 for U.S. Social Security Benefits (and Tier 1 or Tier 2 Railroad Retirement Benefits) the taxpayer should:

- Enter the amount of U.S. Social Security benefits or equivalent tier 1 railroad retirement benefits reported on Federal Form 1040A, line 14b or Form 1040, line 20b.
- Enter the amount of tier 1 (non-Social Security equivalent) and tier 2 railroad retirement benefits included in the amount on Federal Form 1040A, line 12b or Form 1040, line 16b.

Do not include any other pension amounts on this line. If the taxpayer filed Form 1040EZ, enter \$0.

Railroad Retirement Benefits

California law differs from Federal law in that California does not tax:

- Tier 1 railroad retirement benefits.
- Tier 2 railroad retirement benefits reported on Federal Form RRB 1099-R.
- Sick pay benefits under the Railroad Unemployment Insurance Act.

The information above applies only to United States Social Security and railroad retirement. Foreign social security is taxable by California as annuity income. A tax treaty between the United States and another country which excludes the foreign Social Security from Federal income or which treats the foreign social security as if it were United States Social Security does not apply for California purposes



Railroad benefits paid by individual railroads are taxable by California. These benefits are reported on Federal Form 1099-R.

Payments to Pension or Profit Sharing Plans

California generally conforms to the Federal rules (as amended to date) for the deductions of contributions to retirement



plans for employers, employees, and the self-employed. Under Federal law, no three-year rule is allowed for any individual whose annuity starting date is after July 1, 1986.

Under California law, an individual whose annuity starting date was after July 1, 1986, and before January 1, 1987, could elect to use the three-year rule if: (24)

1. The employer paid part of the cost.
2. During the three years from the date of the first annuity payment, the total amount receivable will equal or exceed the cost (investment) in the contract.

Under both Federal and California laws, a contribution made after the end of the taxable year is considered to have been made on the last day of the year, provided the contribution is on account of such taxable year and is made no later than the due date of the return. Except for IRAs, the due date for this purpose includes any extensions.

Capital Gains

Tax treatment of a capital gain or loss depends on the length of time that the taxpayer held the capital asset. Examples of capital assets can be but are not limited to real estate, securities such as individual stocks or mutual funds, and collectibles like art, gold, or coins. The length of time a taxpayer has held a capital asset is called the holding period.

If the taxpayer held the asset for more than one year, it is classified as a long-term asset. Any capital asset held for less than one year is classified as a short-term asset. This is important for determining Federal treatment of capital gain or loss.



Unlike Federal law, California treats capital gains as ordinary income which means there are no holding period implications in the determination of a capital gain or loss. California passed Proposition 30 in the November 2012 referendum and the ordinary income tax rates in the measure apply retroactively to January 1, 2012. Those earning \$250,000 to \$300,000 a year now pay 10.3% (up from 9.3%). For taxpayers earning \$1 million or more, California's new rate is 13.3% (up from 10.3%).

Sale or Exchange of Personal Residence

Both California and Federal law allow an individual taxpayer to exclude from his or her gross income up to \$250,000 (\$500,000 for married/RDP taxpayers filing jointly) of gain realized on the sale or exchange of a personal residence if the taxpayer owned and occupied the residence as a principal residence for an aggregate period of at least two of the five years prior to the sale or exchange. (26)

Under both California and Federal laws, if a taxpayer does not meet the two-year ownership and use requirement due to a change in place of employment, health, or unforeseen circumstances, the exclusion may be prorated. The exclusion amount is based on Federal filing status, and not on California filing status. The California rules are generally the same as the Federal. Additionally, California taxpayers who served in the Peace Corps during the 5-year period ending on the date of the sale may reduce the 2-year period by the period of service, not to exceed 18 months.

If there is a difference between the amounts excluded (or depreciated, if recapture applies) for Federal and California, complete California [Schedule D](#) (540 or 540NR). Transfer the amount from California [Schedule D](#), line 12a, to [Schedule CA](#) (540 or 540NR), line 13, column B (if gain is less than Federal). Transfer the amount from California [Schedule D](#), line 12b, to [Schedule CA - California Adjustments Residents](#) (540 or 540NR), line 13, column C (if gain is more than Federal).

Withholding Requirements for Sales of California Real Property

There are withholding requirements for sales of California real property closing on or after January 1, 2008. Real estate withholding is a prepayment of California state income tax for sellers of California real property. Real estate withholding is not an additional tax on the sale of real estate. It is a prepayment of the income (or franchise) tax due on the gain from the sale of California real property. California law requires real estate withholding whenever there is a transfer of title on California real property. Examples include: (27)

- Sales or transfers of real property (including exchanges).
- Leaseholds/options.



- Short sales.
- Easements.
- Personal property sold with real property (if not stated separately).
- Deferred exchanges.
- Vacant land.

The requirement to withhold is the responsibility of the buyer, but may be performed by the real estate escrow person (REEP) on the buyer's behalf.

Unless an exemption applies, all of the following are subject to real estate withholding: (27)

- Individuals.
- Corporations.
- Partnerships.
- Limited liability companies (LLC).
- Estates.
- Trusts.
- Real estate investment trusts (REIT).
- Relocation companies.
- Bankruptcy trusts and estates.
- Conservatorships.

Real estate withholding is not required when any of the following apply:

- The total sales price is \$100,000 or less:
 - o When there are multiple sellers the withholding is determined by the total sales price, not each seller's portion.
 - o Sales of multiple parcels and/or family units (duplex, triplex, etc.) within the same escrow agreement constitute one transaction for purposes of determining the withholding requirements. Withholding is required where the combined sale price of all parcels exceeds \$100,000, even though the sales price of each separate parcel in the same escrow transaction is under \$100,000.

Withholding is required on sales or transfers of California real property when the total sale price exceeds \$100,000 and meets one of the following conditions: (27)

- The seller is a corporation with no permanent place of business in California immediately after the sale.
- The seller is an individual or any other type of entity except for a partnership.

Sellers who meet the above criteria may still qualify for a full or partial exemption. However, the law does not provide for early refunds of taxes withheld on sales of real estate. The taxpayer must file his or her California tax return to claim the amount withheld.

Sellers are exempt from withholding if the: (27)

- Property qualifies as his or her principal residence (IRC [Section 121](#)).
- Property was last used as his or her principal residence (IRC [Section 121](#)).
- Sale will result in a loss or zero gain for California tax purposes.
- Transaction will qualify as a like-kind exchange, with some exceptions (IRC [Section 1031](#)).
- Transaction will qualify as an involuntary conversion (IRC [Section 1033](#)).
- Transaction will qualify for non-recognition treatment under IRC [Section 351](#) (transfer to a corporation controlled by the transferor) or IRC [Section 721](#) (contribution to a partnership in exchange for a partnership interest).
- Seller is a corporation with a permanent place of business in California.
- Seller is a partnership.
- Seller is an LLC classified as a partnership for Federal and California income tax purposes, which is not a single member LLC that is disregarded for Federal and California income tax purposes.
- Seller is a tax-exempt entity.
- Seller is an insurance company, individual retirement account (IRA), qualified pension plan, or charitable remainder trust.



Sellers who meet one of the above exemptions must sign a written certification (Form 593-C) under penalty of perjury to be exempt from withholding.

As the seller, the taxpayer may choose between the two withholding calculation methods available:

- Total Sales Price Method.
- Alternative Withholding Calculation Method.

Real estate escrow persons (REEP) and Qualified Intermediaries (QI) are not authorized to provide legal or accounting advice for purposes of determining withholding amounts. The Franchise Tax Board (FTB) encourage sellers to consult with a tax professional for this purpose.

To calculate the withholding using the Total Sales Price Method, the taxpayer multiplies the total sales price or boot by 3⅓% (.0333). Boot is defined as the money, debt relief, or the fair market value of "other property" received by the seller in an exchange in addition to replacement property.

To calculate the withholding using the Alternative Withholding Calculation Method, also known as the Optional Gain on Sale Election Method, the taxpayer multiplies the estimated gain calculated on [FTB Form 593-E - Real Estate Withholding - Computation of Estimated Gain or Loss](#) by the seller's or transferor's maximum tax rate. To find the current maximum tax rates, go to ftb.ca.gov/Tax-Rates.

If the taxpayer elects to compute withholding using the Alternative Withholding Calculation Method, he or she is required to: (27)

- Complete and sign FTB Form 593-E (the form he or she used to calculate the amount of his or her loss or gain for withholding purposes).
- Sign [FTB Form 593 - Real Estate Withholding Tax Statement](#).

By signing these forms, the taxpayer certifies under penalty of perjury the gain shall not be less than the gain required to be recognized. California law requires the taxpayer to keep Form 593-E for his or her records for five years. The FTB may review relevant escrow information to ensure withholding compliance.

Short Sales

Section 580e of the Code of Civil Procedure also addresses mortgages. This section was added in 2010 and it prohibits a deficiency judgment on specific agreed to "short sales" (allowing the defaulter to sell the house at below cost, and the lender accepting the proceeds as payment in full). In 2011, Section 580e was amended to expand its provisions in order to mitigate the impact of the ongoing foreclosure crisis and to encourage the approval of short sales as an alternative to foreclosure.

According to an IRS Information Letter dated September 19, 2013, the IRS has determined under the 2011 changes to the California Code of Civil Procedure Section 580e, that California taxpayers who sell their principal residences in a short sale for less than what is owed on the home are relieved of incurring cancellation of indebtedness income, if the lender agrees to the short sale as full consideration of the mortgage debt, and there will be no cancellation of indebtedness income.

The IRS's letter answered the question regarding whether a homeowner would have taxable cancellation of indebtedness (COD) income when the lender approved a short sale considering California's Code of Civil Procedure (CCP) Section 580e. The letter finds California's anti-deficiency provision under Section 580e of the CCP which generally prohibits a lender who holds a deed of trust from either claiming a deficiency or obtaining a deficiency judgment from the homeowner after agreeing to a short sale, treats the homeowner's obligation as a nonrecourse obligation for tax purposes.

This means in California, upon a lender's acceptance of the short sale any CCP 580e qualifying cancellation of indebtedness income is nontaxable nonrecourse debt. CCP 580e does not apply to all short sales. In addition to other restrictions this law states it does not apply if the trustor or mortgagor is a corporation, limited liability company, limited partnership, or political subdivision of the state. California conforms to the relevant portions of the Federal tax law governing the forgiveness of nonrecourse and recourse debt, so if the lender agrees to the short sale as full consideration of the mortgage debt, for tax purposes, the loan will be nonrecourse thus, there is no cancellation of indebtedness income for California tax purposes. (28)



The IRS issued an April 29, 2014 IRS Information Letter which clarifies guidance in their original letter dated September 19, 2013. The new letter states, in part: (29)

Section 580b(a)(3) of the California's Code of Civil Procedure (CCP) provides that:

- A deficiency judgment will not apply in any event after a sale of real property under a mortgage that secures a purchase-money loan.
- A purchase money loan is a loan that was used to pay all or part of the purchase price of an owner-occupied dwelling for not more than four families and that is secured by the property.

Therefore, the IRS states their understanding is for loans that qualify under Section 580b(a)(3), a lender has no recourse against a mortgagor for a deficiency under any circumstance. The cancellation of a nonrecourse loan upon disposition of property does not result in cancellation of debt (COD) income. In addition, under Section 580b(a)(3), a "purchase-money loan" includes a loan used to refinance a purchase-money loan, or subsequent refinances of a purchase-money loan, except to the extent that the lender lends new principal that is not applied to an obligation owed or to be owed under the purchase-money loan.

California conforms to Federal law and according to the IRS Information Letter dated September 19, 2013, the IRS has determined that California taxpayers who sell their principal residences where the lender has agreed to a short sale for less than what is owed on the home do not have cancellation of indebtedness income, which may have been taxable. Instead, the amount of cancelled debt is included in the amount realized in determining gain or loss on the sale of that residence.

The IRS guidance is limited to short sales only involving a principal residence for tax years 2011 and forward. The IRS guidance did not specifically address other types of real estate transactions such as non-judicial foreclosures. Copies of the IRS Chief Counsel Office letters and copies of Barbara Boxer's letters to the IRS are readily found on the Internet. FTB guidance can be found on the FTB website at the [Mortgage Forgiveness Debt Relief](#) page. If the taxpayer is considering filing amended returns based on this new IRS letter, he or she should also file corresponding California amended tax returns. (29)

Undistributed Capital Gains for Regulated Investment Company (RIC) Shareholders

Federal law requires certain undistributed capital gains reported on Federal [Form 2439 - Notice to Shareholder of Undistributed Long-Term Capital Gains](#) to be included in the gross income of the mutual fund shareholder and allows a tax credit for the capital gains tax paid by the Regulated Investment Company (RIC). California has no similar provision. Do not enter the amount of undistributed capital gains on California [Schedule D](#) (540 or 540NR). (24)

Capital Loss Carryover/Carryback

If the taxpayer was a resident of California for all prior years, he or she can claim his or her California capital loss carryover from the previous tax year. However, if the taxpayer was a nonresident of California during any taxable year that generated a portion of the 2011 capital loss carryover, he or she must recalculate the 2011 capital loss carryover as if he or she resided in California for all prior years. If the taxpayer has always been a nonresident of California, he or she determines capital loss carryovers and capital loss limitations based only upon California source income and loss items in order to compute California taxable income.

If the taxpayer changed his or her residency during the tax year, compute income and deductions using resident rules for the period of the year he or she was a California resident and nonresident rules for the period of the year he or she was a nonresident. Compute any prior year carryover loss as if he or she was a California resident for all prior years and as if he or she was a nonresident for all prior years. Prorate both capital loss carryover amounts based upon the period of California residency and the period of non-residency during the year.

Federal law allows a deduction for carrybacks of certain capital losses. California has no similar provision. Report the amount of California capital gains and losses on California [Schedule D](#) (540 or 540NR). (24)

Special Treatment on Gains Related to the Sale of Certain Assisted Housing

Federal law does not allow special treatment on gains related to the gain on sale or disposition of a qualified assisted housing development to low-income residents or to specified entities who maintain housing for low-income residents.



California law permits the deferral of such gain, under certain conditions, if the proceeds are reinvested in residential real property (other than a personal residence) within two years of the sale. Enter the transaction on [California Schedule D \(540 or 540NR\)](#), [California Capital Gain or Loss Adjustment](#), line 1. In column (e) enter “-0- R&TC Section 18041.5.” Reduce the basis of replacement property by the gain deferred. Attach a schedule to the return reflecting computation of basis in the replacement property, or a statement of intent to replace within the replacement period. (24)

Exclusion of Deferral and Gain on the Sale of Qualified Small Business Stock

Federal law allows deferral and exclusion under IRC [Section 1045](#) and IRC [Section 1202](#) of 100% of the gain on sale of qualifying small business stock originally issued after August 10, 1993, that was held for more than five years. California does not conform. Use California [Schedule D \(540 or 540NR\)](#) if the taxpayer claims the Federal IRC Section 1045 deferral or IRC Section 1202 exclusion on his or her Federal return. (24)

Net Operating Loss (NOL)

For taxable years beginning on or after January 1, 2014, and before January 1, 2024, taxpayers may deduct a disaster loss for any loss sustained in any city, county, or city and county in California that is proclaimed by the Governor to be in a state of emergency. For these Governor-only declared disasters, subsequent state legislation is not required to activate the disaster loss provisions. Any law that suspends, defers, reduces, or otherwise diminishes the deduction of a net operating loss (NOL) shall not apply to a NOL attributable to these specified disaster losses. The President’s declaration continues to activate the disaster loss provisions.

For NOLs incurred in taxable years beginning on or after January 1, 2015, the carryback amount shall be 100% of the NOL.

If the taxpayer’s deductions for the year exceed his or her income, he or she may have an NOL carryover. The California NOL is generally figured the same way as the Federal NOL. However, under California law:

- Carryover/carryback periods and percentages vary with the type of California NOL. The tables on page 5 and page 6 in the Instructions for FTB Form 3805V show the types of NOLs available, a description, the taxable year the NOLs were incurred, the percentages and carryover/carryback periods for each type of loss.
- An NOL may be carried over to future years. No carrybacks are allowed for NOLs incurred in taxable years beginning before January 1, 2013. Note: California will allow NOLs incurred in taxable years beginning on or after January 1, 2013, to be carried back to each of the preceding two taxable years.
- Prior to the 2014 taxable year, if the taxpayer elected an NOL from an activity within the following areas or zones to offset income earned solely within those areas or zones:
 1. Enterprise Zone (EZ). Get FTB Form 3805Z, Enterprise Zone Business Booklet, for more information.
 2. Local Agency Military Base Recovery Area (LAMBRA). Get FTB Form 3807, Local Agency Military Base Recovery Area Business Booklet, for more information.

Generally, the 2017 NOL must be carried back to the second taxable year before the loss year. Any loss not used in the second preceding taxable year is then carried to the first preceding taxable year. Any loss not applied in the two preceding years is carried forward.

NOL Suspensions



For taxable years beginning in 2010 and 2011, California suspended the Net Operating Loss (NOL) carryover deduction. Taxpayers continued to compute and carryover NOLs during the suspension period. However, taxpayers with a modified adjusted gross income of less than \$300,000 or with disaster loss carryovers were not affected by the NOL suspension rules. (30)

For taxable years beginning in 2008 and 2009, California suspended the NOL carryover deduction. Taxpayers continued to compute and carryover their NOL during the suspension period. However, taxpayers with a net business income of less than \$500,000 or with disaster loss carryovers were not affected by the NOL suspension rules. (30)

Extended Carryovers for Suspended NOLs

The carryover period for any NOL or NOL carryover, for which a deduction is disallowed because of the 2008-2011 suspension, are extended by: (30)



- One year for losses incurred in taxable years beginning on or after January 1, 2010, and before January 1, 2011.
- Two years for losses incurred in taxable years beginning before January 1, 2010.
- Three years for losses incurred in taxable years beginning before January 1, 2009.
- Four years for losses incurred in taxable years beginning before January 1, 2008.

Carryovers

For NOLs incurred in taxable years beginning on or after January 1, 2008, California has extended the NOL carryover period from 10 taxable years to 20 taxable years following the year of the loss. For taxable years that began in 2002 and 2003, California suspended the NOL carryover deduction. Taxpayers continued to compute and carryover an NOL during the suspension period. However, the deduction for disaster losses was not affected by the NOL suspension rules.

The carryover period for an NOL incurred in taxable years: (30)

- Beginning before January 1, 2002, has been extended for two years.
- Beginning on or after January 1, 2002, and before January 1, 2003, has been extended for one year.

For taxable years beginning on or after January 1, 2004, the NOL carryover percentage is 100%. The NOL carryover percentage varies for NOLs incurred prior to January 1, 2004. See [FTB Form 3805V - Net Operating Loss \(NOL\) Computation and NOL and Disaster Loss Limitations - Individuals, Estates, and Trusts](#) for more information.

If an individual's deductions for the year exceed his or her income, the individual may have an NOL carryover. The California NOL is generally figured the same way as the Federal NOL.

However, under California law: (30)

- Carryover/carryback periods and percentages vary with the type of California NOL.
- An NOL may be carried over to future years. No carrybacks are allowed for NOLs incurred in taxable years beginning before January 1, 2013. (Note: California will allow NOLs incurred in taxable years beginning on or after January 1, 2013, to be carried back to each of the preceding two taxable years.)
- Prior to the 2014 taxable year, if the taxpayer elected an NOL from an activity within the following areas or zones to offset income earned solely within those areas or zones:
 1. Enterprise Zone (EZ). Get FTB Form 3805Z - Enterprise Zone Business Booklet, for more information.
 2. Local Agency Military Base Recovery Area (LAMBRA). Get FTB Form 3807 - Local Agency Military Base Recovery Area Business Booklet, for more information.

Nonresidents determine net operating losses (NOLs) based upon California source income and deductions, regardless of whether they have an NOL in computing total taxable income. If the taxpayer moves in to California, the NOLs need to be restated as if they had been a California resident for all prior years. If the taxpayer moves out of California, they would determine their NOLs as if they had been a nonresident of California for all prior years (source income only). Part-year residents must prorate their NOL amounts based upon the amount of time as a resident and the amount of time as a nonresident.

Carryback

NOL incurred in taxable years beginning on or after January 1, 2013, shall be carried back to each of the preceding two taxable years. The allowable NOL carryback percentage varies. For an NOL incurred in a taxable year beginning on or after: (30)

- January 1, 2013, and before January 1, 2014, the carryback amount shall not exceed 50% of the NOL.
- January 1, 2014, and before January 1, 2015, the carryback amount shall not exceed 75% of the NOL.
- January 1, 2015, the carryback amount shall be 100% of the NOL.

Any taxpayer entitled to a carryback period pursuant to Internal Revenue Code (IRC) [Section 172\(b\)\(3\)](#) may elect to relinquish/waive the entire carryback period with respect to an NOL incurred in the 2013 taxable year. By making the election, the taxpayer is electing to carry an NOL forward instead of carrying it back in the previous two years. To make the election, the taxpayer should check the box in Part I under Section C - Election to Waive Carryback, of [FTB Form 3805V - Net Operating Loss \(NOL\) Computation and NOL and Disaster Loss Limitations - Individuals, Estates, and Trusts](#), and attach FTB Form 3805V to the tax return.



Passive Activities

If the taxpayer has always been a nonresident of California, determine the allowed passive activity losses and suspended losses based only upon California source passive income and loss items to compute California taxable income. Only California source passive losses carry forward into the following year. Part-year residents must prorate their passive loss amounts based upon the amount of time as a resident and the amount of time as a nonresident.

Installment Sales

For taxable years beginning on or after January 1, 2002, California taxes installment gains received by a nonresident from the sale of tangible property and intangible property on a source basis. California taxes real property based upon where the property is located. Installment gains from the sale of intangible property are generally sourced to the recipient's state of residence at the time of the sale. California taxes residents on all income regardless of source. California taxes the installment proceeds received by a nonresident to the extent the income from the sale was from a California source.

Like-Kind IRC Section 1031 Exchanges

If the taxpayer is a nonresident and exchanges real property located within California for property located outside California, the realized gain will be sourced to California even though the taxpayer is not taxed until the gain is recognized. If the taxpayer exchanges property located outside California for property located within California the gain is recognized when the California property is sold, has a California source and is taxable to California.

Effective January 1, 2014, California Revenue and Taxation Code Sections 18032 and 24953 require that all individuals and business entities that perform like-kind exchanges of property located in California for property located outside California file an annual information return to report their previously deferred California sourced gain or loss.

If the taxpayer performs a like-kind exchange as described above and defer any gain or loss under Internal Revenue Code Section 1031 in tax years beginning on or after January 1, 2014, then he or she must file a California Like-Kind Exchange information return. The FTB has finalized the new [FTB Form 3840 - California Like-Kind Exchanges](#) to help taxpayers keep track of their California source deferred gains from like-kind exchanges involving like-kind property located outside of California and meet this new reporting requirement. (31)

The taxpayer must file the California Like-Kind Exchange information return annually: (31)

- As long as he or she defers the gain or loss.
- If he or she replaces the out of state property with another out of state property as part of another exchange.
- Regardless of his or her residency or domicile.
- Until the taxpayer recognizes the deferred California sourced gain or loss on a California tax return.
- Until the deferred California source gain or loss is eliminated because of the property owner's death.

The taxpayer no longer needs to file if he or she donates the property to a non-profit organization.

Other Income

Unemployment Insurance and Benefits

Unemployment insurance (UI) provides temporary payments to individuals who are unemployed through no fault of their own. It is an employer-paid tax. Unemployment insurance benefits are taxable income for Federal purposes but are not taxable by the State of California.

In order to determine taxable income each January, the Employment Development Department (EDD) sends a [Form 1099-G - Certain Government Payments](#) to each individual for the total unemployment insurance benefits paid during the prior year. If the taxpayer does not receive Form 1099-G by mid-February, he or she may call the EDD at (800) 795-0193 to get another copy. For more information, see IRS [Publication 525 - Taxable and Nontaxable Income](#). Because California excludes unemployment compensation from taxable income, the taxpayer should enter the amount of unemployment compensation on [Schedule CA - California Adjustments Residents](#) to adjust taxable income.



Rental Income and Loss

California conforms to Federal law regarding the computation of rental income and loss. However, adjustments to Federal income or loss the taxpayer reported generally are necessary because of the difference between California and Federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis used to figure California depreciation may be different from the recovery period or amount used for Federal.

Remember that the California depreciation amounts may be different if: (32)

- Real property was placed in service between January 1, 1981 and December 31, 1986 or between May 13, 1993 and December 31, 1996.
- First-year bonus depreciation on personal property was claimed when the asset was first placed in service.



If an individual claimed the 30% additional depreciation for Federal purposes on or after September 11, 2001, California has not conformed to the Federal Job Creation and Worker Assistance Act of 2002 which allows taxpayers to take an additional first year depreciation deduction and Alternative Minimum Tax depreciation adjustment for property placed in service after September 10, 2001.

If there is a difference in depreciation amounts, California [FTB Form 3885A - Depreciation and Amortization Adjustments](#) as well as [Schedule CA - California Adjustments Residents](#), must be completed and filed. Any adjustment amounts for rental property are entered on Line 17, Schedule CA.

Generally, Schedule E rental losses are considered passive activity losses. These losses are deductible only against income from passive activities. Nondeductible passive activity losses (losses that exceed the income from the passive activity) for the year are “suspended passive activity losses”. Suspended losses can be carried forward indefinitely and used in subsequent years against passive activity income. They are allowed in full upon a taxable disposition of the activity, i.e., when the property is sold.

Individuals, estates, trusts, and S corporations use [FTB Form 3801 - Passive Activity Loss Limitations](#), to figure both of the following: (33)

- Allowable California passive activity loss (PAL).
- Adjustment the taxpayer must make to account for any difference between his or her California PAL and his or her Federal PAL.

Generally, California law is the same as Federal law concerning PAL limitations. However, differences, such as the special treatment for real estate professionals may cause his or her California PAL to be different from his or her Federal PAL.

Although the general rule seems straightforward, Federal and state differences, along with special rules, can create opportunities for errors. The following are three common errors related to [Schedule E](#), page 1, pertaining to rental real estate losses found on both self-prepared and tax practitioner-prepared returns: (34)

1. **Passive vs. non-passive for rental real estate activities:** For both Federal and California tax returns, a passive activity includes any trade or business in which the taxpayer does not materially participate, and any rental activity regardless of participation. Beginning in 1994, and for Federal purposes only, rental real estate activities performed by qualified real estate professionals are not automatically treated as passive activities. California does not conform to this provision. Therefore, for California purposes all rental activities are considered passive activities.
2. **Special allowance for passive real estate rental activities:** California conforms to the Federal special allowance rules for those taxpayers who actively participate in rental real estate activities. Under this rule, up to \$25,000 of passive rental real estate losses may be used to offset non-passive income. This \$25,000 limitation is reduced when an individual's modified adjusted gross income (MAGI) is more than \$100,000. Once MAGI exceed \$150,000, the \$25,000 is reduced to zero. Refer to Federal [Form 8582 - Passive Activity Loss Limitations](#) and California [FTB Form 3801 - Passive Activity Loss Limitations](#) for instructions on how to correctly calculate the limitation phase-out and allowable loss.
3. **1031 Exchanges and suspended passive losses:** For both Federal and California purposes, current and suspended passive losses are fully deductible on the disposition of a passive activity; when a taxpayer sells his or her entire interest in a rental property, for instance. However, three criteria must be met before losses are deductible against non-passive income: (34)



- o It requires that the taxpayer dispose of an entire interest in a fully taxable transaction to an unrelated party.
- o All gain realized must be recognized.
- o Therefore, in an exchange of the taxpayer's interest, such as a 1031 exchange in which no gain or loss is recognized, suspended passive losses are not deductible.

Employees' Group Term Life Insurance

An employee must include in income an amount equivalent to his or her employer's cost of group term life insurance to the extent the cost exceeds the cost of \$50,000 of coverage plus any contribution by the employee to purchase the insurance. Generally, employers will include the excess of life insurance coverage as income on the employee's Form W-2 Box 12 code C. Exceptions are provided where the employer, or a charitable organization, is the beneficiary. An exemption is also provided for insurance under a qualified pension or profit-sharing plan. California follows the Federal law. (35)



The cost of group term life insurance for retirees funded by the transfer of excess pension assets is taxable for California purposes. Enter on [Schedule CA](#) (540 or 540NR), line 16, column C the amount of the cost excluded for Federal purposes.

Taxable Interest

There are also types of interest a taxpayer will have to pay taxes on in California that are not taxed on the Federal return. These types of interest include those the taxpayer identified as tax-exempt interest on his or her Federal Form 1040 (or Form 1040A) which he or she received from: (36)

- The Federally exempt interest dividends from other states, or their municipal obligations and/or from mutual funds that do not meet the 50% rule above.
- Non-California state bonds.
- Non-California municipal bonds issued by a county, city, town, or other local government unit.
- Obligations of the District of Columbia issued after December 27, 1973.
- Non-California bonds if the interest was passed through to the taxpayer from S corporations, trusts, partnerships, or Limited Liability Companies (LLCs).
- Interest or other earnings earned from a Health Savings Account (HSA) are not treated as taxed deferred. Interest or earnings in a HSA are taxable in the year earned.
- Interest on any bond or other obligation issued by the Government of American Samoa.
- Interest income from children under age 19 or students under age 24 included on the parent's Federal tax return and reported on the California tax return by the child.

Entities paying more than \$10.00 of Federal tax exempt interest or interest-dividends that were earned on bonds issued by a state or local government other than California are required to provide an information return to the Franchise Tax Board. This requirement is defined under California Revenue and Taxation Code [Section 18639](#) and applies to individuals and partnerships with a California address.

Dividends and Other Corporate Distributions

The provisions of the California personal income tax law regarding dividends and other corporate distributions follow the general pattern of the Federal law. The principal provisions of the Federal law, to which California conforms, may be summarized very briefly as follows:

- Any distribution out of earnings and profits of the current year or out of earnings accumulated after February 28, 1913, is a dividend.
- Certain liquidating distributions are treated as payments in exchange for stock.
- The redemption of a stock which is "essentially equivalent to the distribution of a taxable dividend" is to be treated as such.
- Certain stock dividends may be nontaxable.

Stock Options

California law conforms to Federal law concerning the taxation of statutory and non-statutory stock options. Generally, the



taxpayer recognizes taxable wage income upon the exercise of a non-statutory stock option. The difference between the fair market value of the stock on the exercise date and the option price is the taxable wage income. If he or she paid tax on this wage income to California and another state, California may allow a credit for taxes paid on this double-taxed income. The taxpayer does not include any amount in income when an incentive stock option is granted to him or her or when he or she exercises the option. The taxpayer recognizes capital gain or loss when he or she sells the stock if the holding period requirements under IRC [Section 422](#) are met.

If the taxpayer exercises an incentive stock option while a California resident or a nonresident and later sells the stock in a qualifying disposition while a nonresident, the income is characterized as income from the sale or disposition of intangible personal property having a source in the taxpayer's state of residence at the time he or she sold the stock. Accordingly, the taxpayer is not subject to income tax by California even though the services that gave rise to the income may have been performed in this state. (37)

California law provides an income exclusion for California qualified stock options (issued on or after January 1, 1997, and before January 1, 2002), that are exercised by an individual who has earned income for the taxable year from the corporation granting the CQSO of \$40,000 or less; and has exercised options for no more than 1,000 shares with a combined fair market value of less than \$100,000 (determined at the time the options are granted). See [FTB Publication 1004 - Stock Option Guidelines](#), for more information. (24)

California Personal Income Tax Refund

Federal law includes the state income tax refund in income. California excludes the state income tax refund from income. Although the taxpayer may not have received a California Personal Income Tax Refund, the amount in Box 2 of the [Form 1099-G - Certain Government Payments](#) is considered to have been refunded to him or her whether the refund was:

- Directly deposited into a bank account.
- Offset for other liabilities such as tax, penalties and interest.
- Credited towards estimated tax payments.
- Intercepted by other state, city or county agencies or the IRS.
- Donated as a Voluntary Contribution on a California Personal Income Tax Return.
- Applied to a Use Tax payment.

Form 1099-G is a statement used to notify taxpayers of the amount of California Personal Income Tax Refund, Credit, or Offset they received for a specific tax year. It is not a bill nor notification of an additional refund.

Life Insurance - Death Benefits

In general, life insurance proceeds are nontaxable except for the interest element. If proceeds are held by an insurer under an agreement to pay interest, the interest received is fully taxable. If the proceeds are paid in installments that include an interest element, the interest element is taxable.

California Lottery Winnings

California excludes California lottery winnings from taxable income. There is no exclusion for lottery winnings from other states. They are taxable by California. California and Federal laws allow gambling losses only to the extent of reported gambling income. If the taxpayer reduced gambling income for California lottery income, he or she may need to reduce the losses included in the Federal itemized deductions.

Gifts, Inheritances and Tips

The value of property received as a gift, bequest or inheritance is nontaxable, but the income from such property is taxable. Tips received by a waiter, waitress, valet or bar person are taxable income and are not exempt as gifts. For property inherited on or after January 1, 1987, the California basis and the Federal basis are the same.



The annual gift exclusion conforms to Federal standards. For 2017 the annual exclusion for gifts remains at \$14,000. Estates of decedents who die during 2017 have a basic exclusion amount of \$5,490,000, up from a total of \$5,450,000 for estates of decedents who died in 2016. (38)



Tax Free Interest

Interest on the following obligations is exempt from California tax:

- Bonds and other obligations of the United States, territories of the United States, and Puerto Rico. Interest on District of Columbia obligations issued after December 24, 1973, is not exempt.
- United States Treasury bills, notes, and bonds.
- Bonds (not including other obligations) of the State of California or of political subdivisions thereof, issued after November 4, 1902.

The exemption for interest on these specific bonds does not extend to interest received on refunds of United States taxes. This point is not covered in the regulations or any published ruling, but it has been the California Tax Franchising Board's administrative policy to deny the exemption. The California Attorney General has ruled that interest on postal savings accounts is taxable. Interest on bonds of other States is not exempt.

Also, Federal law does not tax interest from state or local bonds. California taxes the interest from non-California state and local bonds.

Interest on Housing Authority bonds (issued by housing projects created under the Housing Authorities Law) is exempt if the bonds are issued by a project located in California, but is taxable if the bonds are issued by a project located outside the State. Such interest would presumably be exempt from Federal tax.



Interest from Federal National Mortgage Association (Fannie Mae) Bonds, Government National Mortgage Association (Ginnie Mae) Bonds, and Federal Home Loan Mortgage Corporation (FHLMC) securities is taxed by California. (24)

Certain mutual funds pay exempt-interest dividends. If the mutual fund has at least 50% of its assets invested in tax-exempt U.S. obligations and/or in California or its municipal obligations, that amount of dividend is exempt from California tax. The proportion of dividends that are tax-exempt will be shown on the annual statement or statement issued with [Form 1099-DIV - Dividends and Distributions](#).

Amounts Received Under Accident and Health Plans

Certain amounts paid under an employer-financed accident or health plan to reimburse an employee for expenses incurred by the employee for medical care of the employee, or the employee's spouse, or dependents are excludable from gross income, unless received in reimbursement for medical expenses previously deducted.

Employer-provided coverage under an accident or health plan (including amounts contributed to an employee's medical savings account) is also excluded from an employee's gross income. California follows Federal law guidelines.

Scholarship and Fellowship Grants

Certain scholarship and fellowship grants and tuition grants are excluded from taxable income, as long as the grant or scholarship does not represent compensation for services performed as a condition of the grant. In the case of graduate teaching or research assistants of exempt educational institutions, the amount of any tuition reduction for education at the employing institution may be excluded. California conforms, in the main, to Federal law.



California excludes grants paid to low-income individuals to construct or retrofit buildings to make them more energy efficient. Federal law has no similar exclusion. (18)

Meals and Lodging Furnished by Employer

The value of meals and lodging furnished by an employer for the convenience of the employer is excluded from gross income, provided the meals are furnished on the business premises of the employer and the employee is required to accept the lodging on the employer's premises as a condition of his or her employment. California conforms to Federal law.

Prizes and Awards

Prizes and awards are specifically designated as being includable in taxable income, with two exceptions. The exceptions



relate to the value of certain employee achievement awards and amounts received in recognition of achievement of a charitable, scientific, or artistic nature. To be eligible for the charitable award exemption, the recipient must be selected without any action on his or her part, he or she must not be required to render substantial future services, and the award must be transferred by the payer to a charity designated by the recipient. California law is the same as Federal.

Community Income

In general, in the absence of an agreement to the contrary, earnings of spouses who are domiciled in California and are not permanently separated are community property. On separate returns, any community income or deductions must be split equally between the spouses. The credit for a dependent supported by community funds may be taken by either spouse. Where the spouses are separated with no intention of resuming the marital relationship, the earnings of each spouse during the period of separation are his or her separate property. This is the effect of a provision of the Family Code.

Both Federal and California law now provides relief for the innocent spouse in certain community-property situations, and empowers the Internal Revenue Service and the Franchise Tax Board to treat community income as separate under certain conditions. Where one spouse is a nonresident alien, community property laws are inapplicable to some extent for Federal income tax purposes; California has not conformed.

Employee Educational Assistance Plans

California law is substantially the same as Federal law concerning the exclusion of up to \$5,250 of employer-provided educational assistance benefits from an employee's gross income. If the taxpayer's employer pays more than \$5,250 for educational benefits for him or her during the year, the taxpayer must generally pay tax on the amount over \$5,250. His or her employer should include in his or her wages (Form W-2, box 1) the amount that the taxpayer must include in income.



If the benefits over \$5,250 also qualify as a working condition fringe benefit, the taxpayer's employer does not have to include them in his or her wages. A working condition fringe benefit is a benefit which, had the taxpayer paid for it, he or she could deduct as an employee business expense. (39)

Archer Medical Savings Accounts (MSA)

An MSA is a tax-exempt trust or custodial account set up in the United States exclusively to pay for qualified medical expenses of the account holder or the account holder's spouse or dependent(s) in conjunction with a high deductible health plan (HDHP). The taxpayer uses Federal [Form 8853 - Archer MSAs and Long-Term Care Insurance Contracts](#) to report general information about new MSAs, to figure MSA deductions and to figure taxable distributions for MSAs.

There is no separate form to file to report general information about new MSAs or to figure MSA deduction for California tax purposes. However, if the taxpayer has a taxable MSA distribution, he or she should file [FTB Form 3805P - Additional Taxes on Qualified Plans \(Including IRAs\) and Other Tax-Favored Accounts](#).

With the exception of the amount of penalties imposed on unauthorized withdrawals, California law is the same as Federal law. Employer's contributions to an Archer medical savings account (MSA) and any interest or dividends earned on an Archer MSA are excluded from a taxpayer's gross income.

After December 31, 2007, contributions cannot be made to an Archer MSA for a taxpayer unless either of the following applies: (25)

- He or she was an active MSA participant before January 1, 2008.
- He or she becomes an active MSA participant after December 31, 2007 because he or she is covered by a HDHP of a MSA participating employer.

Withdrawals made from an Archer MSA are also exempt if used to pay unreimbursed qualified medical expenses of the taxpayer, spouse, and dependents which are essentially the same as those expenses that qualify for an itemized medical deduction. Distributions from an Archer MSA for nonmedical purposes are treated as taxable income and are subject to a 10% penalty (15% under Federal law), unless the distribution is made after the taxpayer reaches age 65, becomes disabled, or dies. The penalty is reported on [FTB Form 3805P - Additional Taxes on Qualified Plans \(Including IRAs\) and Other Tax-Favored Accounts](#). (23)



Medicare Plus Choice MSAs/Medicare Advantage MSAs

California law is the same as Federal law regarding distributions from Medicare Advantage MSAs. Any distribution that is subject to the 50% penalty under IRC [Section 138\(c\)\(2\)](#) is also subject to a 50% penalty for California purposes.

Health Savings Accounts (HSA)

A HSA is a tax-exempt trust or custodial account that a taxpayer sets up with a U.S. financial institution (such as a bank or an insurance company) in which he or she can save money exclusively for future medical expenses in conjunction with a high deductible health plan (HDHP). California does not conform to Federal legislation that enacted HSAs beginning January 1, 2004.

Because California does not conform to Federal legislation for HSAs, a contribution to an HSA is not deductible. Interest and other earnings of an HSA are not tax-deferred and must be included in taxable income. A rollover from an MSA to an HSA constitutes an MSA distribution not used for qualified medical expenses. Therefore, the distribution is subject to California income tax and the additional 10% tax under R&TC Section 17215.

Effective for taxable years beginning on or after January 1, 2007 the IRS allows a one-time rollover from an IRA to a HSA. California does not conform to this provision. Under California law any distribution from an IRA to a HSA must be added to AGI on the taxpayer's California return and would be subject to a 2½% additional tax under the rules for premature distributions under R&TC Section 17085.

Qualified Tuition Programs

California incorporates Federal laws concerning qualified tuition programs, which **excludes** from the gross income of a beneficiary of, or contributor to, a qualified tuition program, qualified distributions or earnings under such program. To qualify for the exclusion, distributions must be used to pay for a beneficiary's qualified higher education expenses. However, amounts distributed to a contributor (e.g., refunds to a parent or other relative) will be *included* in the contributor's gross income to the extent that such amounts exceed the contributions made by that person.

Distributions are also not taxable under the annuity rules if they are transferred within 60 days to another qualified tuition program for the benefit of the designated beneficiary (limited to once in a 12-month period) or to the credit of another beneficiary under a qualified tuition program who is a family member of the designated beneficiary. Also, a change in beneficiary will not be treated as a distribution if the new beneficiary is a member of the previously designated beneficiary's family. Distributions not used for qualified education expenses are subject to a 2.5% penalty (combined with 10% for Federal purposes). The penalty is reported on [FTB Form 3805P - Additional Taxes on Qualified Plans \(Including IRAs\) and Other Tax-Favored Accounts](#).

Mortgage Interest Credit

Do not mistake the mortgage interest tax deduction for the Federal mortgage interest tax credit. There is no comparable State of California credit. In California, the taxpayer may claim the full mortgage interest deduction through Schedule CA. If the taxpayer reduced his or her Federal mortgage interest deduction by the amount of his or her mortgage interest credit (from Federal [Form 8396 - Mortgage Interest Credit](#)), increase the California itemized deductions by the same amount.

Income From a Business

Income of a business, trade, or profession carried on within California is taxable. If such income is derived from both within and outside of California, and if the part conducted outside of California is distinct and separate, only the gross income from the California operations need be reported. If, however, there is any business relationship between the parts within and without the State (flow of goods, etc.), so that the net income from sources outside the State cannot be accurately determined, a portion of the net income is attributed to California by an appropriate formula.

A nonresident's income from California sources includes income from a business, trade, or profession carried on in California. If the nonresident's business, trade, or profession is carried on both within and outside California and the part outside California is separate and distinct from the part within California, only income from the part conducted within California is California source income.



A nonresident partner of a partnership has taxable California-source income to the extent that the partnership receives income from California sources. The same is true for beneficiaries of a simple trust (one which distributes its income annually) or an estate, shareholders of an "S" corporation (a corporation in which the shareholders, rather than the corporation, are taxed) and a limited liability company (usually taxed as a partnership).

Business Licenses

Doing business in California requires compliance with respect to the proper permit, license, or account. The California Board of Equalization (BOE) regulates and administers companies doing business in California. The BOE oversees several special tax and fee programs in addition to the sales and use tax. If the taxpayer's business is selling in California, he or she must register with them as a seller and obtain a seller's permit if the following conditions apply:

- The business is engaged in California.
- The business will sell or lease tangible personal property that would ordinarily be subject to sales tax if sold at retail (this includes wholesalers, manufacturers and retailers).
- The business will make sales for a temporary period, normally lasting no longer than 90 days at one or more locations (for example, fireworks booth, Christmas tree lots, garage sale).

The business must also obtain a use tax account if it meets all of the following conditions:

- Business receives at least \$100,000 in gross receipts from business operations per calendar year. Note: Gross receipts are the total of all receipts from both in-state and out-of-state business operations.
- Business is not a holder of a use tax direct payment permit as described in section 7051.3 of the Revenue and Taxation Code.
- Business is not otherwise registered with the BOE to report use tax.

The requirement to obtain a seller's permit or a use tax account applies to: sole proprietors; partnerships; corporations; organizations; husband/wife co-ownership; LLPs; LLCs.

In some cases, a company may have a "qualified purchaser" located in California and transacting business on behalf of the company. A qualified purchaser is required to register with the BOE and provide the name under which the qualified purchaser transacts or intends to transact business, the location of the qualified purchaser's place or places of business, and other information the BOE may require. Moreover, qualified purchasers are required to file a return, along with their remittance of the amount of tax due, on or before April 15.

Business Entity Due Date Changes



Governor Brown signed AB 1775, which generally conforms due dates for California business entity tax returns to the changes to Federal due dates after the 2016 tax year. For 2017 returns due in 2018, partnership returns were due the 15th day of the third month following the close of the taxable year (March 15, 2018 for calendar year partnerships).

C Corporation tax returns were due the 15th day of the fourth month (April 15, 2018, for calendar year corporations, extended to April 17 due to the 15th falling on a Sunday.) Due dates for Limited Liability Company (LLC) returns classified as partnerships will be the same as the partnership due date, LLC returns classified as corporations will be due on the corporation due date.

The extended due date did not change. The last day to file the taxpayer's 2017 Corporate Franchise or Income Tax return with an automatic extension for calendar year filers of October 16. For fiscal year filers, the extended due date is the 15th day of the 10th month following the close of the taxable year. Corporations will no longer have the additional month after filing their Federal return. If the taxpayer misses the deadline for filing his or her income tax return by the extended due date, the Franchise Tax Board (FTB) imposes a penalty of 25% of the amount due, after applying any payments and credits made on or before the original tax return due date.

For Single-Member LLCs (SMLLCs) owned by pass-through entities (S corporations, partnerships, and LLCs classified as partnerships), the original due date of the return is the 15th day of the 3rd month following the close of the taxable year. For all other SMLLCs, the original due date of the return is the 15th day of the 4th month following the close of the taxable year of the owner.



For tax exempt entities the original tax return due date is still the 15th day of the 5th month following the close of the taxable year. However, the extended due date is changed to the 15th day of the 11th month following the close of the taxable year.



Review

The following pages contain several review questions that are designed to help you learn the material you have just studied. Review questions are for instructional use only and you will not be graded on these questions. We also provide you the answers to each question and an explanation or feedback as to how we arrived at each answer.

Best practice suggests that you should try to answer these questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material. As with all self-study Qualifying Education (QE) courses, you can refer back to the course material to locate the answers, the so called 'open book' learning method is permissible.

Review Questions

Answers appear in [Review Feedback](#)

1. The California penalty for early withdrawal or premature distributions from IRAs is inapplicable if the distributions are used to pay for which of the following?
 - A. Distributions made to unemployed individuals for mortgage insurance premiums
 - B. Distributions made due to total and permanent disability
 - C. Distributions made up to \$15,000 made for first home purchases
 - D. All of the above
2. What is the maximum contribution amount to a Simplified Employee Pension (SEP) for 2017 if the taxpayer's compensation is \$270,000?
 - A. \$50,000
 - B. \$51,000
 - C. \$54,000
 - D. \$57,000
3. Payments made to a third party can be considered alimony. Indirect alimony may include cash payments to a third party to satisfy the obligations of a former spouse including all of the following except:
 - A. Rent
 - B. Mortgage
 - C. Utilities
 - D. Property Settlements
4. A taxpayer must complete a rollover from one qualified retirement plan to another qualified plan within how many days following the distribution for it to qualify for tax-free treatment?
 - A. 30 days
 - B. 45 days
 - C. 60 days
 - D. 90 days
5. California does not consider which of the following as income subject to state tax?
 - A. Interest from non-California state bonds
 - B. Tips
 - C. Gambling winnings
 - D. Rewards received from a government authorized crime hotline
6. California differences in gross income compared to Federal law include which of the following?
 - A. Compensation received by an employee for costs of participating in a ridesharing arrangement.
 - B. Dividends paid by a fund attributable to interest received from U.S. obligations or California state or municipal obligations.
 - C. Interest earned on certain Federal bonds.
 - D. All of the above



7. The California treatment of distributions from IRAs is the same as the Federal, except for which of the following?
 - A. Qualified distributions are subject to a 1% California tax
 - B. Non-qualified distributions (e.g. before age 59 ½) are subject to a 2.5% penalty in addition to the 10% Federal penalty
 - C. California treats IRA distributions, both qualified and non-qualified, the same as Federal.
 - D. All of the above

8. In 2014 Cheryl exchanges property located in Montana for property located in Bakersfield, California. The California property is sold in 2017 and Cheryl realizes a gain on the sale using the 2014 basis. Which of the following statements is accurate?
 - A. Cheryl owes California tax in 2014 at the point of the exchange
 - B. Cheryl owes California tax on her 2017 tax return for the gain
 - C. Cheryl does not owe California tax because the original property was located in Montana
 - D. Cheryl does not owe California tax because she held the property more than 2 years

9. In determining rental income or loss, California depreciation may be different from Federal if:
 - A. Real property was placed in service on April 22, 1987
 - B. First year bonus depreciation on personal property was claimed when the asset was first placed in service
 - C. Real property was placed in service on June 18, 1995.
 - D. Both B and C



Review Feedback

[Return to Review Questions](#)

Question 1 - B. Distributions made due to total and permanent disability

The penalty is inapplicable to premature distributions from individual retirement plans if they are distributions made due to total and permanent disability. See the list of situations that the early withdrawal penalty does not apply under the Premature Distributions section. There is no penalty for a distribution for an unemployed taxpayer but the distribution must be used for health insurance premiums. There also is an allowable distribution for first time home purchases BUT the maximum is only \$10,000.

Question 2 - C. \$54,000

Under both California and Federal law, an employer may provide a simplified employee pension (SEP) plan for employees. California's treatment of an SEP plan is the same as the Federal treatment. The maximum contribution amount for 2017 is the lesser of 25% of the employee's compensation or \$54,000 (compensation is limited to \$270,000).

Question 3 - D. Property Settlements

Payments made to a third party can be considered alimony. Indirect alimony may include cash payments to a third party to satisfy the obligations of a former spouse, such as to provide a residence for a former spouse, e.g., rent, mortgage, utilities, etc., medical cost payments, or other such expenses incurred by the payer's former spouse. The types of payments that do not qualify as alimony are property settlement payments, even if required by the divorce decree or other written instrument or agreement, retirement benefits that the other spouse is entitled to receive based on division of community property, any voluntary payments made before they are required by a divorce decree or written agreement or child support payments.

Question 4 - C. 60 days

A taxpayer is allowed to rollover a tax-free distribution (withdrawal) of assets from one qualified retirement plan that is contributed to another plan. He or she must complete the rollover within 60 days following the distribution for it to qualify for tax-free treatment. Any taxable amount not rolled over within 60 days should be included in income and may be subject to an additional 2.5% tax.

Question 5 - D. Rewards received from a government authorized crime hotline

California conforms, as a general rule, to most of the Federal provisions. Gross income is broadly defined to include income derived from any source whatever, except as otherwise specifically provided in the statute. California excludes rewards received from a government authorized crime hotline from income. Tips, winnings (except the California lottery) from gambling or interest from non-California state bonds are subject to California state tax.

Question 6 - D. All of the above

Included in the lesson is a series of bullet points that indicate the major differences between California and Federal definition and treatment of gross income. Included in this list are answers A, B and C. Therefore, Answer D, all of the above is correct.

Question 7 - B. Non-qualified distributions (e.g. before age 59 ½) are subject to a 2.5% penalty in addition to the 10% Federal penalty

Generally, the California treatment of distributions from IRAs is the same as the Federal, except that California permits tax-free recovery of contributions that were not allowed as California deductions and interest on certain retirement bonds. Both California and Federal laws provide a penalty tax on premature or non-qualified distributions (before age 59½) from self-employed plans, annuity plans, individual retirement accounts and modified endowments contracts, to the extent the distribution is includable in income. The California penalty is 2.5% of the distribution. The Federal penalty is generally 10%. There are exceptions to this penalty if used for medical expenses or higher education expenses provided the proper criteria are met.



Question 8 - B. Cheryl owes California tax on her 2017 tax return for the gain

If the taxpayer exchanges property located outside California for property located within California the gain is recognized when the California property is sold, has a California source and is taxable to California. If the taxpayer is a nonresident and exchanges real property located within California for property located outside California, the realized gain will be sourced to California even though the taxpayer is not taxed until the gain is recognized.

Question 9 - D. Both B and C

California conforms to Federal law regarding the computation of rental income and loss. No adjustment will be necessary unless the depreciation calculated for Federal and California purposes is different. California depreciation amounts may be different if real property was placed in service between January 1, 1981 and December 31, 1986 or between May 13, 1993 and December 31, 1996, **OR** if first-year bonus depreciation on personal property was claimed when the asset was first placed in service. Answer A is incorrect because it does not fall into the time periods that can cause a difference in the amount. Answer B is correct because it is the exact exception that will cause a difference in California depreciation amounts. Answer C is correct because it does fall into the time period where differences in amounts are possible. Thus, Answer D is the correct choice.



California Deductions, Loss, Depreciation

At the conclusion of this lesson you should have a basic knowledge of:

- Standard Deduction
- Itemized Deductions
- Losses
- Depreciation

Standard Deduction

California has conformed to Federal law allowing taxpayers to elect a Standard Deduction in lieu of itemizing deductions. The 2017 California standard deduction for a head of household, a surviving spouse, or a married couple filing a joint return is \$8,458. For single filers or married/RDP filing separately, the deduction is \$4,236. The minimum standard deduction for dependents is \$1,050. Both Federal and California law limit the standard deduction of a person who is claimed as a dependent.

As under Federal law, the following may not take the standard deduction: (40)

- A married individual filing separately when the other spouse itemizes.
- An individual making a short-period return because of a change in the annual accounting period.
- An estate, trust, common trust fund, or partnership.

Federal law also denies the standard deduction to nonresident aliens, but California does not.

The taxpayer should decide whether to itemize his or her charitable contributions, medical expenses, mortgage interest paid, taxes, etc., or take the standard deduction. The taxpayer's California income tax will be less if he or she takes the **larger** of:

- His or her California itemized deductions.
- His or her California standard deduction.

California itemized deductions may be limited based on Federal AGI. To compute limitations, the taxpayer should use Schedule CA (540). A Registered Domestic Partner (RDP) should use his or her recalculated Federal AGI to figure his or her itemized deductions.

On Federal tax returns, individual taxpayers who claim the standard deduction are allowed an additional deduction for net disaster losses. For California, deductions for disaster losses are only allowed for those individual taxpayers who itemized their deductions.

If married/or an RDP and filing separate tax returns, the taxpayer and his or her spouse/RDP must either both itemize their deductions (even if the itemized deductions of one spouse/RDP are less than the standard deduction) or both take the standard deduction.

If someone else can claim the taxpayer as a dependent, he or she may claim the greater of the standard deduction or his or her itemized deductions. To figure his or her standard deduction, the taxpayer should use the [FTB Form 540 - California Standard Deduction Worksheet for Dependents](#).

Deductions of Nonresidents

The California tax on nonresidents and part-year residents is determined on the basis of the taxable income of a nonresident or part-year resident. In computing either California adjusted gross income or a nonresident's or part-year resident's taxable income for this purpose, only deductions that are attributable to California are allowable.



Nonresidents and part-year residents may prorate their itemized deductions, including deductions for alimony paid, or the standard deduction by the ratio that California adjusted gross income bears to total adjusted gross income. To compute the percentage of itemized or standard deductions available to be claimed divide California AGI by the Federal AGI (the result cannot exceed 1.0).

In computing the tax that would be payable if the taxpayer were a full-year resident, the usual rules for itemizing deductions are applicable, that is, deductions should normally be itemized if they amount to more than the standard deduction.

Itemized Deductions

Individuals may take the standard deduction or itemize deductions for California purposes, whether or not they itemize on their Federal return. California has conformed to most of the Federal itemized deduction provisions.

The following are the major differences between California and Federal itemized deductions:

- State, local and foreign income taxes, state disability insurance tax (SDI) and qualified use taxes may be deducted for Federal but not California purposes.
- Miscellaneous itemized deductions for expenses related to producing income taxed under Federal law, but not California, are not deductible for California purposes, and vice versa.
- The contribution carryover from pre-1987 tax years could differ.
- There could be a California-only carryover from a disaster loss.
- The deduction for interest on certain home mortgages could differ.
- Deductions including an element of gain or loss may differ because of differences in California and Federal bases.
- Itemized deductions for high-income taxpayers must be reduced by 6% of adjusted gross income for California.

2% Floor on Miscellaneous Itemized Deductions

Certain unreimbursed employee expenses, expenses of producing income, and other qualifying expenses are deducted as miscellaneous itemized deductions on the Federal and California returns.

For both California and Federal purposes, most miscellaneous itemized deductions are subject to a 2% floor. Only the portion of the total amount of such deductions in excess of 2% of the taxpayer's adjusted gross income is deductible. Generally, a taxpayer applies the 2% limit after he or she applies any other deduction limit. (41)

Following are the most common expenses subject to the 2% floor: (41)

- Professional society dues.
- Employment-related educational expenses.
- Home office business expenses.
- Expenses of looking for a new job.
- Professional books, magazines, journals and periodicals.
- Work clothes and uniforms.
- Union dues and fees.
- Certain other unreimbursed employee business expenses.
- Safe deposit box rental.
- Tax counsel and assistance.
- Cost of work-related small tools and supplies.
- Investment counsel fees.
- Fees paid to an IRA custodian.

A taxpayer can deduct the items listed below as miscellaneous itemized deductions. They are not subject to the 2% limit: (41)

- Amortizable premium on taxable bonds.
- Casualty and theft losses from income-producing property.
- Federal estate tax on income in respect of a decedent.
- Gambling losses up to the amount of gambling winnings.
- Impairment-related work expenses of persons with disabilities.



- Loss from other activities from Schedule K-1 (Form 1065-B), box 2.
- Losses from Ponzi-type investment schemes.
- Repayments of more than \$3,000 under a claim of right.
- Unrecovered investment in an annuity.

Overall Limitation for High-Income Taxpayers

The itemized deductions of taxpayers in high-income brackets will be limited to the lesser of 6% of the excess of adjusted gross income over the threshold amount or 80% of the amount of itemized deductions otherwise allowable for the tax year.

The 2017 California threshold amounts are: (1)

- \$187,203 for a single taxpayer or a married taxpayer filing a separate return.
- \$280,808 for a head of household.
- \$374,411 for a surviving spouse or a married taxpayer filing a joint return.

The California threshold amounts are adjusted annually for inflation.

California does not incorporate the Federal five-year phase-out and eventual repeal of the limitation on high-income taxpayers claiming itemized deductions. The Federal phase-out began with the 2006 tax year and the repeal went back into effect beginning with the 2013 tax year. For both California and Federal purposes, the limitation does not apply to deductions for medical expenses, casualty and theft losses, wagering losses, or investment interest expenses.

Expenses for Production of Income

Taxpayers may deduct all ordinary and necessary expenses incurred:

- For the production or collection of income.
- For the management, conservation or maintenance of property held for the production of income.
- In connection with the determination, collection or refund of any tax.

The deduction is generally subject to the 2% floor on miscellaneous itemized deductions, except for deductions attributable to property held for the production of rents or royalties.

For California purposes, however, deductible expenses must relate to income that is taxable by California. Moreover, it should be noted that although Federal and California law are formally the same, different taxing authorities may take different views concerning whether an item of expense is ordinary and necessary. In practice, therefore, deductions allowed under one law may not always be allowed under the other.

Interest

California conforms to Federal law concerning the deductibility of interest expenses, except as specifically discussed below.

Tax-Exempt Interest

Interest expense incurred to purchase or carry tax-exempt obligations is not deductible under both California and Federal law. However, the amount of nondeductible interest may differ due to differences between California and Federal law regarding tax-exempt obligations.

Investment Interest Expense

A deduction is allowed for investment interest expense up to the amount of net investment income. The deduction is figured on [FTB Form 3526 - Investment Interest Expense Deduction](#). The limitation on itemized deductions for high-income taxpayers does not apply to investment interest expenses.

Mortgage Interest

A deduction is allowed for a limited amount of interest paid or accrued on debts incurred to acquire a principal or second residence and home equity debts. The aggregate amount of acquisition indebtedness must not exceed \$1 million, and the



aggregate amount of home equity indebtedness must not exceed \$100,000. Interest attributable to debt over such limits is non-deductible personal interest. (42)

The California law provides that payments made to the California Housing Finance Agency by first-time homebuyers under a buy-down mortgage plan are considered payments of interest for the purposes of the interest deduction. Such payments are made to reimburse the agency for its cost of subsidizing the borrower's interest cost. Although there is no comparable provision in the Federal law, it might be argued that the payments are made in lieu of interest and therefore should be treated as interest for Federal as well as California purposes.

Student Loan Interest

Under both California and Federal law, an above-the-line deduction is allowed for interest due and paid on qualified education loans up to a maximum of \$2,500 per tax year. Student loan interest is the interest paid during the year on a qualified student loan (this includes both Federal and private loans) and includes both required and voluntary interest payments. The deduction permits taxpayers with less than \$75,000 in modified adjusted gross income for a single filer or \$155,000 for joint filers to deduct up to \$2,500 in Federal student loan interest payments each year. (43)

To qualify, a student loan must have been taken out solely to pay for qualified education expenses, such as tuition and fees, room and board, books, supplies, and equipment, and other necessary expenses (such as transportation). The student must also have been enrolled at least half-time in a degree program when the loan was disbursed, and must have paid interest on a qualified student loan during the tax year. The deduction is taken as an adjustment to income and therefore can be claimed even if a student or parent does not itemize deductions on their tax return. The deduction is phased out for taxpayers with adjusted gross incomes between \$60,000 and \$75,000 (between \$125,000 and \$155,000 for joint filers).



California does not conform to Federal law regarding student loan interest deduction for non-California domiciled military taxpayers and a spouse/RDP of a non-California domiciled military taxpayer residing in a community property state.

Taxes

California law is the same as Federal, except that California specifically prohibits the deduction of "state, local and foreign income, war profits, and excess profits taxes," and California does not allow the deduction of state or local sales and use taxes or the California SDI tax. However, some such taxes may be used as credits.

California law has incorporated Federal provisions allowing for the deduction of certain specific categories of taxes, as follows: (24)

- State, local, and foreign real property taxes.
- State and local personal property taxes.
- Other state, local, and foreign taxes relating to a trade or business, or to property held for production of income (except income taxes).

Foreign Taxes

Numerous rulings and decisions over the years have held specific foreign taxes nondeductible under the income tax prohibition.

State Disability Insurance Tax

California does not allow a deduction for the employee's tax under the state unemployment insurance law (commonly referred to as SDI). SDI is an allowable deduction on Federal returns. However, California does allow a credit for excess SDI if the taxpayer worked for at least two employers during 2017 and together they paid him or her more than \$110,902 in wages. (1)



If SDI (or VPD) was withheld from wages by a single employer, at more than .9% (.009) of gross wages, the taxpayer may **not** claim excess SDI (or Voluntary Plan Disability Insurance (VPDI)) on the taxpayer's FTB Form 540.



The maximum SDI withholding tax for 2017 is \$998.12 (\$110,902 x .009 (0.9%)). A taxpayer may be entitled to claim a credit for excess SDI (or VPD) only if he or she meets all of the following conditions:

1. He or she had two or more employers during 2017.
2. He or she received more than \$110,902 in wages.
3. The amounts of SDI (or VPD) withheld appear on his or her Forms W-2.

A taxpayer may claim the excess SDI or (VPD) on Form 540, or Long Form 540NR. The taxpayer cannot claim the excess SDI (or VPD) on Form 540 2EZ or Short Form 540NR. If the taxpayer normally files Form 540 2EZ and is eligible to claim excess SDI (or VPD) he or she should switch to Form 540 to claim the credit. Short Form 540NR filers must use Long Form 540NR to claim the credit.

Auto License Fees

California motor vehicle license fees less the vehicle license fee offset amounts and excluding registration fees, weight fees (trucks only), county or district fees, are based on value and are deductible as personal property taxes. The California Department of Motor Vehicles (DMV) can supply the amount of a taxpayer's deductible vehicle license fee.

Loss

Under both California and Federal laws, an ordinary loss deduction is allowed for a loss that is not compensated for by insurance or otherwise. As to individual taxpayers, losses are limited to the following: (44)

- Those incurred in a trade or business.
- Those incurred in a transaction entered into for profit.
- Those arising from casualty or theft, to the extent the total of such losses, after excluding the first \$100 or each loss, exceeds 10% of Federal adjusted gross income.

Casualty, theft, and wagering losses are not subject to the limitations of high-income taxpayers.

Casualty and Theft Losses

California law generally follows Federal law regarding the treatment of losses incurred as a result of a casualty or theft. A theft is the taking and removing of money or property with the intent to deprive the owner of it. The taking must be illegal under the law of the state where it occurred and it must have been done with criminal intent. Theft losses are deductible only in the year of discovery, unlike other losses, which are deductible in the year sustained.

A casualty loss occurs when property is lost or damaged due to an earthquake, fire, flood, or similar event that is sudden, unexpected, or unusual. Examples of casualties are hurricanes, tornadoes, floods, storms, shipwrecks, fires, accidents, droughts, hard freezes, mine cave-ins, sonic booms, and vandalism. A casualty does not include normal wear and tear or progressive deterioration.

Within certain limits, the owner of property may claim a deduction for damage or loss of the property resulting from a casualty or theft. The damage or loss may be partial or complete. The property involved may be realty (land and buildings), personal (automobiles, clothing, jewelry, etc.), or intangibles (stocks and bonds, etc.). The deduction for tax purposes is allowed when insurance or other reimbursements do not fully repay them for the damage or loss to the property.

If the taxpayer's property is personal-use property or is not completely destroyed, the amount of the casualty loss is the lesser of:

- The adjusted basis of the property.
- The decrease in fair market value of the property as a result of the casualty.

The amount of the theft loss is generally the adjusted basis of the property because the fair market value of the property immediately after the theft is considered to be zero.

If the property is business or income-producing property, such as rental property, and is completely destroyed, then the amount of the loss is the taxpayer's adjusted basis. The loss, regardless of whether it is a casualty or theft loss, must be



reduced by any salvage value and by any insurance or other reimbursement the taxpayer receives or expects to receive. The adjusted basis of the property is usually cost, increased or decreased by certain events such as improvements or depreciation.



If the loss deduction is more than income, the taxpayer may have a net operating loss. The taxpayer does not have to be in business to have a net operating loss from a casualty. For more information, see IRS Publication 536 – Net Operating Losses for Individuals, Estates and Trusts.

Reporting Casualty and Theft Losses

Calculate the taxpayer's disaster loss by reporting California amounts on Federal Form 4684 - Casualties and Thefts, Section A - Personal Use Property, and submitting this form with the California tax return. The taxpayer will also need to attach a statement providing the date and location of the disaster (city, county, and state).

A separate Form 4684 is required for each casualty or theft loss which occurred during the tax year.

1. If casualty losses exceed casualty gains, Form 4684 must be completed. Each casualty loss is subject to a \$100 floor, and total losses are deductible only to the extent that the total loss amount for the tax year exceeds 10% of Adjusted Gross Income.
2. It is possible that a financial gain can occur as a result of a casualty loss. For example, the reimbursement obtained from an insurance company can be greater than the actual fair market value of a loss. This is very rare, but if it happens, and the casualty gain(s) exceed the loss(es), the gain is reported on Schedule D as capital gain, depending on the holding period. No further entry is required on Form 4684.

Gambling Losses

California and Federal laws allow gambling losses only to the extent of reported gambling income. The amount of losses the taxpayer deducts may not be more than the amount of gambling income reported on his or her return.

California excludes California lottery winnings from taxable income. However, the taxpayer should not make an adjustment on Schedule CA for lottery winnings from other states. They are taxable by California. California does not tax California lottery winnings.

If the taxpayer reduced gambling income for California lottery income, he or she may need to reduce the losses included in the Federal itemized deductions. Also, there may be a difference between California and Federal taxable gambling income. (1)

Worthless Securities

Losses from worthlessness of securities that are capital assets are considered as a loss from sale or exchange on the last day of the taxable year in which the securities become worthless. The Federal deduction rule applies and such losses are subject to the limitations on deduction of capital losses.

Bad Debts

California law is the same as Federal. Nonbusiness bad debts are treated as short-term capital losses (one year or less). Additionally, nonbusiness bad debts must be totally worthless to be deductible. A taxpayer cannot deduct a partially worthless nonbusiness bad debt. (45)

Disaster Losses

California law generally follows Federal law regarding the treatment of losses incurred as a result of a casualty or a disaster. To qualify as a disaster loss for Federal purposes, the President of the United States must declare the area in which the disaster occurred as a disaster area, eligible for Federal assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. This includes a major disaster or emergency declaration under the Act. A pronouncement by the Governor of California declaring an area as a disaster or emergency area is not enough to qualify as a disaster loss for Federal purposes. For California purposes, legislation can be passed declaring a disaster in the State of California for California tax purposes. See FTB Publication 1034 - Disaster Loss How to Claim a State Tax Deduction for complete details.



A casualty loss occurs when the taxpayer's property is lost or damaged due to an earthquake, fire, flood, or similar event that is sudden, unexpected, or unusual. The taxpayer usually qualifies for a casualty loss deduction for tax purposes when insurance or other reimbursements do not repay him or her for damage to the property.

For California purposes, the taxpayer's casualty loss becomes a disaster loss when both of the following occur: (46)

1. The taxpayer sustains the loss in an area the President of the United States or the Governor of California designates as a disaster area. (Note: If only the Governor declares a disaster, subsequent state legislation is required to activate the disaster provision for California tax purposes).
2. The taxpayer sustains the loss because of the declared disaster.

Special tax rules apply to disaster losses. The taxpayer can claim a disaster loss in the taxable year the disaster occurred or in the taxable year immediately before the disaster occurred. The advantage of claiming a disaster loss in the prior year is that the loss will generally reduce the prior year tax liability generating a refund that the Franchise Tax Board (FTB) can quickly issue.

A taxpayer can claim a disaster loss either on an amended tax return filed for the preceding year or on the tax return filed for the year of the loss. If the taxpayer has already filed the tax return for the preceding year, he or she can claim a disaster loss against that year's income by filing the 540-series form adapted to allow for amended return filing, and by completing Schedule X - California Explanation of Amended Return Changes, which will reconcile the difference between the original return and amended return to determine any additional amount owed or refund due, and to provide reasons for amending. For tax year 2016 and prior years, amended individual returns will need to continue to be paper filed using FTB Form 540X. The due date for filing the amended return is April 15 following the year of the loss, unless extended.

For example, the taxpayer sustained a disaster loss in August 2017. He or she can claim the loss on his or her 2017 tax return when he or she files it by April 15, 2018, or claim the loss immediately on his or her 2016 tax return. If the taxpayer already filed his or her 2016 tax return, complete an amended return. The taxpayer must make the election to claim the loss on his or her 2016 tax return by April 15, 2018, the original due date for the 2017 tax return or by the extended due date.

For disasters in Los Angeles and San Bernardino Counties as result of severe winds that occurred in November 2011, and in Santa Cruz County as a result of severe storms that occurred in March 2011, 100% of the excess disaster loss can be carried over for 20 years. For prior disasters that occurred in taxable years 2004 through 2011, an individual is allowed to carryover 100% of the excess loss for up to 15 years. (Exception: Certain disasters that were presidentially declared with no subsequent California legislation can be carried over for 20 years.)



For taxable years beginning on or after January 1, 2014, and before January 1, 2024, taxpayers may deduct a disaster loss for any loss sustained in any city, county, or city and county in California that is proclaimed by the Governor to be in a state of emergency. For these Governor-only declared disasters, subsequent state legislation is not required to activate the disaster loss provisions.

Charitable Contributions

California's allowable contribution deductions are generally the same, with minor differences, as allowed under current Federal laws. The taxpayer's California deduction may be different from his or her Federal deduction. California limits the amount of his or her deduction to 50% of his or her Federal adjusted gross income. The taxpayer should figure the difference between the amount allowed using Federal law and the amount allowed using California law.

California also follows Federal law, which allows a five-year carryover of contributions that exceed the percentage limit and specifies how the carryover is to be absorbed in succeeding tax years. When deducting a prior year charitable contribution carryover, and the California carryover is larger than the Federal carryover, enter the additional amount as a positive number on Schedule CA.

Generally, the taxpayer can deduct contributions of money or property he or she makes to, or for the use of, a qualified organization. A contribution is "for the use of" a qualified organization when it is held in a legally enforceable trust for the qualified organization or in a similar legal arrangement. The contributions must be made to a qualified organization and not set aside for use by a specific person.

If the taxpayer receives a benefit as a result of making a contribution to a qualified organization, he or she can deduct only the amount of his or her contribution that is more than the value of the benefit he or she receives. If the taxpayer pays



more than fair market value to a qualified organization for goods or services, the excess may be a charitable contribution. For the excess amount to qualify, the taxpayer must pay it with the intent to make a charitable contribution.

Charitable Automobile Expense

The Franchise Tax Board has conformed over the years to the Internal Revenue Service policy of allowing a fixed automobile mileage rate for use of an automobile in activities for the benefit of a charitable organization that qualifies for deductible contributions. Under California law, the rate is 14 cents per mile for 2017.

Substantiation

California conforms to Federal provisions that allow a deduction for charitable contributions only if the contributions are verified under regulations prescribed by the Secretary of the Treasury.

Voluntary Contributions

California permits taxpayers to make certain contributions by designating the desired amounts (full dollar amounts) on their returns as additions to their tax liability. Thus, the designated amounts increase the balance payable on the return or reduce the refund. The current designated contributions listed are: (47)

- California Seniors Special Fund
- Alzheimer's Disease/Related Disorders Fund
- Rare and Endangered Species Preservation Program
- California Breast Cancer Research Fund
- California Firefighters' Memorial Fund
- Emergency Food for Families Fund
- California Peace Officer Memorial Foundation Fund
- California Sea Otter Fund
- California Cancer Research Fund
- School Supplies for Homeless Children Fund
- State Parks Protection Fund/Parks Pass Purchase
- Protect Our Coast and Oceans Fund
- Keep Arts in Schools Fund
- State Children's Trust Fund for the Prevention of Child Abuse
- Prevention of Animal Homelessness and Cruelty Fund
- Revive the Salton Sea Fund
- California Domestic Violence Victims Fund
- Special Olympics Fund
- Type 1 Diabetes Research Fund
- California YMCA Youth and Government Fund
- Habitat for Humanity Fund
- California Senior Citizen Advocacy Fund
- Native California Wildlife Rehabilitation Fund
- Rape Backlog Kit Fund

A taxpayer who is 65 years of age or older and who is entitled to claim an additional personal exemption credit may designate the amount of the credit as a contribution to the California Seniors Special Fund. In 2017 this amount is up to \$228 or \$114 per spouse. The amount of the contribution need not be reduced to reflect any income-based reduction in the amount of the credit. All designated contributions are permitted as charitable contributions. (47)

Tax-Free IRA to Charity Distributions Reinstated

The Protecting Americans from Tax Hikes Act of 2015 made permanent the tax exemption of distributions from individual retirement accounts for charitable purposes. The provision permits taxpayers age 70½ and over to make direct distributions (up to \$100,000 per year) from their Traditional or Roth IRA account to a qualified charity. The distribution is tax-free, but there is no charitable deduction.

The key benefits of making a direct charitable IRA distribution include that the distribution:

1. Is not included in the taxpayer's income for the year.



2. Counts toward the taxpayer's minimum required distribution for the year, if any.
3. Counts as a charitable contribution for the year (although not a deductible contribution).

It is important for the taxpayer to remember that a qualified charitable IRA contribution must be directly distributed to the qualified charity. Otherwise, the distribution is taxable as income and the charitable deduction would be taken on the taxpayer's itemized deductions subject to all the normal limitations.

Depreciation

California has adopted Federal depreciation provisions, called the Modified Accelerated Cost Recovery System (MACRS), for personal income tax purposes. Assets placed in service before 1987 continue to be depreciated under pre-1987 California rules.



Tip

California does not incorporate Federal provisions that allow an additional 30% first-year bonus depreciation deduction for qualified property purchased after September 10, 2001, and before May 6, 2003, and placed in service before January 1, 2005; an additional 50% first-year bonus depreciation deduction for qualified property purchased after May 5, 2003, and before 2005. Federal law also allows an additional 50% first year special depreciation for certain qualified property acquired on or after January 1, 2007, and before January 1, 2011. California does not conform to this provision. (48)

The taxpayer should use [FTB Form 3885A - Depreciation and Amortization Adjustments](#), only if there is a difference between the amount of depreciation and amortization allowed as a deduction using California law and the amount allowed using Federal law. California law and Federal law have not always allowed the same depreciation methods, special credits, or accelerated write-offs. As a result, the recovery periods or the basis on which the depreciation is figured for California may be different from the amounts used for Federal purposes.

The taxpayer will probably have reportable differences if all or part of his or her assets were placed in service:

- **Before January 1, 1987** - California disallowed depreciation under the Federal accelerated cost recovery system (ACRS). Continue to figure California depreciation for those assets in the same manner as in prior years for those assets.
- **On or after January 1, 1987** - California provides special credits and accelerated write-offs that affect the California basis of qualifying assets. California did not conform to all changes to Federal law enacted in 1993; therefore, the California basis or recovery periods may be different for some assets.
- **On or after September 11, 2001** - If the taxpayer claimed the 30% additional depreciation for Federal purposes, California has not conformed to the Federal Job Creation and Worker Assistance Act of 2002 which allows taxpayers to take an additional first year depreciation deduction and Alternative Minimum Tax depreciation adjustment for property placed in service after September 10, 2001.



Do not use FTB Form 3885A to report depreciation expense from Federal [Form 2106 - Employee Business Expenses](#).

The following summary of MACRS applies to Federal and California post-1986 asset additions. The 1986 Tax Reform Act (TRA) modified the Accelerated Cost Recovery System (ACRS) for property placed in service after 1986, except for property covered by transitional rules. Four new classes of property have been added; 7-year property, 20-year property, residential rental property (generally, 27.5 years); and nonresidential real property (31.5 years).

For Federal purposes, the recovery period for nonresidential real property is 39 years. California conformed to this provision on January 1, 1997. The California recovery period of 31.5 years should be used for property placed in service on or after May 13, 1993, and before January 1, 1997.

The 3-year, 5-year, and 10-year classes have been revised, and more accelerated depreciation is provided within these classes. Property within the 15-year and 20-year classes is depreciated by methods that maximize the depreciation deduction. However, commercial real estate and residential rental property are depreciated over longer periods than under pre-TRA provisions. Post-1986 depreciation on property placed in service before 1987 will continue to be computed under the method used when the property was placed in service.



Federal law allowed the rapid write-off of tangible personal property and buildings over recovery periods which were shorter than economic useful lives under the Accelerated Cost Recovery System (ACRS). California law in general did not conform to Federal law but did allow ACRS for certain residential rental property constructed in California on or after July 1, 1985, and before January 1, 1987.

Depreciation Methods According to Class

Prescribed depreciation methods are assigned to each class: (49)

- For 3-year, 5-year, 7-year, and 10-year classes, depreciation is by the 200% declining-balance method, switching to straight line when the latter yields a larger deduction.
- For 15-year and 20-year property, depreciation is by the 150% declining-balance method, switching to straight line when the latter yields a larger deduction.
- For residential rental property and nonresidential real property, straight-line depreciation is to be used.

The taxpayer may make an irrevocable election to treat all property in one of the classes under the straight-line method. Property is by California statute placed in one of the classes. Use [FTB Form 3885 - Corporation Depreciation and Amortization](#) to calculate California depreciation and amortization deductions for corporations, including partnerships and limited liability companies (LLCs) classified as corporations.

Asset Expense Election (IRC Section 179 Election)



The Protecting Americans from Tax Hikes (PATH) Act of 2015 retroactively extended the Federal Section 179 deduction limit to \$510,000 in 2017. Businesses exceeding a total of \$2,030,000 in 2017 of purchases in qualifying equipment will have the Section 179 deduction phase-out dollar-for-dollar and completely eliminated above \$2,540,000. (50)

Although Federal law made permanent the increased IRC Section 179 expense, for California purposes, the maximum IRC Section 179 expense deduction remained at \$25,000. This amount is reduced if the cost of all IRC Section 179 property placed in service during the year is more than \$200,000. (51)

However, because recent Federal amendments limit the asset expense deduction to \$25,000 for Sport Utility Vehicles (SUV's) with load weights between 6,000 and 14,000 pounds, applicable to vehicles placed in service after October 22, 2004, the deduction for these vehicles remains the same for both California and Federal purposes. Also, Federal law allows a Section 179 expense election for off-the-shelf software and certain qualified real property; California does not conform. (24)

Other Deductions

Alimony

The law requires alimony payments to be reported as income by the recipient. The person who pays the alimony may take a deduction for these payments. Alimony payments an individual makes are deductible if **all** of the following requirements are met: (22)

- An individual pays in cash, checks, or money orders.
- The divorce or separation instrument does not say that the payment is not alimony.
- The individual and his or her former spouse are not members of the same household when the individual makes the payment.
- The individual has no liability to make any payment after the death of his or her spouse or former spouse.
- The individual's payment is not treated as child support.

Payments made to a third party are considered alimony. Indirect alimony may include cash payments to a third party to provide a residence for a former spouse (i.e., rent, mortgage, utilities, etc.), medical cost payments or other such expenses incurred by the recipient.

Generally, alimony deductions appear on line 31 of the Federal Form 1040 and line 31a of Schedule CA.



The taxpayer must include the Social Security number (SSN) or individual taxpayer identification number (ITIN) and last name of the person to whom he or she paid alimony.

Certain types of payments do not qualify as alimony. These include:

- Property settlement payments, even if required by the divorce decree or other written instrument or agreement.
- Retirement benefits that the other spouse is entitled to receive are actually from community property.
- Any voluntary payments made before they are required by a divorce decree or agreement.
- Child support payments.

Child support is not considered alimony and cannot be deducted. If the taxpayer's divorce decree or other written instrument or agreement calls for alimony and child support, and he or she pays less than the total required, the payments apply first to child support. Any remaining amount is then considered alimony.

Alimony Paid to Nonresident

Alimony paid by a California resident is deductible when paid to a former spouse who is not a California resident, although the former spouse is **not taxed** on the income by California.

Alimony Paid to Registered Domestic Partners (RDPs)

California treats an RDP the same as a spouse. Consequently, the Franchise Tax Board treats alimony payments between RDPs the same as alimony payments between spouses.

Medical Expenses

Federal tax law has changed the allowable medical and dental expense deduction amount. For Federal purposes, a deduction is allowed for unreimbursed allowable medical and dental expenses that exceeds 7.5% of Federal adjusted gross income (AGI). California allows a deduction for medical and dental expenses that exceed 7.5% of Federal AGI. Also, California differs from Federal law in that the State allows a deduction for the medical expenses of a registered domestic partner and the partner's dependents. The taxpayer should include in medical expenses amounts paid for transportation primarily for, and essential to, medical care.

A taxpayer can include: (52)

- Bus, taxi, train, or plane fares, or ambulance service.
- Transportation expenses of a parent who must go with a child who needs medical care.
- Transportation expenses of a nurse or other person who can give injections, medications, or other treatment required by a patient who is traveling to get medical care and who is unable to travel alone.
- Transportation expenses for regular visits to see a mentally ill dependent, if these visits are recommended as a part of treatment.

The taxpayer can take in to account out-of-pocket expenses, such as the cost of gas and oil, when he or she utilizes his or her car for medical reasons. The taxpayer cannot include depreciation, insurance, general repair, or maintenance expenses. If the taxpayer does not want to use his or her actual automobile expenses for 2017, he or she can use the standard medical mileage rate of 17 cents per mile (down 2 cents per mile from 2016). The taxpayer can also include parking fees and tolls. He or she can add these fees and tolls to his or her medical expenses whether he or she uses actual automobile expenses or uses the standard mileage rate.

California Assembly Bill (AB) 36 was enacted on April 7, 2011. This bill conforms California personal income tax law with Federal income tax law by adopting a specified provision of the Affordable Care Act signed into law by the President in March 2010. (The Affordable Care Act refers to Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010.) AB 36 is effective immediately, and generally applies to the same taxable periods as Federal law.

The Affordable Care Act amends Federal income tax laws to exclude the value of an eligible adult child's medical coverage from the taxable income of the parent-employee, even if the child is not a dependent. The law also allows self-employed individuals a deduction for health insurance premiums for an adult child under age 27, even if the child is not a dependent.



California personal income tax law, as amended by AB 36, conforms to the 2010 Federal income tax rules which exclude the value of the medical coverage provided to nondependent adult children from California gross income and allow a deduction to self-employed individuals for health insurance premiums for nondependent adult children under age 27.

Federal law has changed the allowable medical and dental expense deduction amount. For Federal purposes, a deduction is allowed for unreimbursed allowable medical and dental expenses that exceeds 7.5% of Federal adjusted gross income (AGI). California allows a deduction for medical and dental expenses that exceed 7.5% of Federal AGI.

To determine the amount of the itemized deduction adjustment: (36)

- Calculate the medical and dental expense deduction for California.
- Calculate the medical and dental expense deduction for Federal.
- Subtract the Federal amount from the California amount.
- Enter the amount on **Schedule CA**, on line 41, as a positive number.

The definition of dependent is the same as for purposes of the exemption credit for dependents, and is determined without reference to gross income of the dependent.

The definition of medical care is expanded for both California and Federal purposes to include amounts paid for qualified long-term care services and eligible long-term care premiums paid under qualified long-term care insurance contracts. Premiums paid for a qualified long-term care insurance contract are a medical expense, but the deductible amount of the premium is limited by the age of the individual at the close of the tax year. The inflation-adjusted maximum deductible amounts are:

Age Group	Eligible Premium Amounts	
	2016	2017
Age 40 and under	\$390	\$410
Ages 41 through 50	\$730	\$770
Ages 51 through 60	\$1,460	\$1,530
Ages 61 through 70	\$3,900	\$4,090
Age 71 and over	\$4,870	\$5,110
Note: The limit on premiums is for each person.		

Table 4-1 - IRS Publication 502 - Qualified Long-Term Care Insurance Contracts (2017)

Archer Medical Savings Accounts

California law is the same as Federal, with the exception of the penalty amount imposed on withdrawals from an Archer Medical Savings Account (MSA) that are used for nonqualified expenses. Taxpayers that claim a Federal deduction for contributions to an Archer MSA or MedicarePlus Choice MSA may claim the same deduction on their California returns. The deduction is not subject to the 7.5% floor for itemized medical expense deductions. Under both California and Federal law, a contribution made after the end of the taxable year is considered to have been made on the last day of the year, provided that the contribution is on account of such taxable year and is made no later than the due date of the return.

Health Savings Accounts (HSA)

California has not conformed to any of the Federal Health Savings Account (HSA) provisions. The California return starts with Federal adjusted gross income (AGI) and requires adjustments to be made for differences between Federal and California law. Adjustments relating to HSAs are required under current law, as follows: (24)

- A taxpayer taking an HSA deduction on the Federal return is required to increase AGI on the taxpayer's California return by the amount of the federal deduction.
- Any interest earned on the account is added to AGI on the taxpayer's California return.
- Any contribution to an HSA (including salary reduction contributions made through a cafeteria plan) made on the employee's behalf by their employer is not excluded from income and is added to AGI on the employee's California return.

Since a tax-free rollover from an MSA to an HSA is not allowed under California law, any distribution from an MSA that is rolled into an HSA must be added to AGI on the taxpayer's California return. Additionally, under California law that MSA



distribution is not treated as being made for qualified medical expenses and is, therefore, subject to the MSA 10% penalty tax.

Moving Expenses

California adopts Federal provisions that allow an above-the-line deduction for moving expenses incurred in connection with the commencement of work at a new principal place of employment.

Educator Expenses

The Protecting Americans from Tax Hikes Act of 2015 made the above-the-line deduction for certain expenses of elementary and secondary school teachers permanent. California did not conform to Federal law regarding educator expenses.

Employee Business Expenses

California and Federal unreimbursed employee business expenses are considered miscellaneous itemized deductions rather than adjustments to gross income. An individual may claim only miscellaneous itemized deductions that exceed 2% of the taxpayer's adjusted gross income.

California also incorporates the 50% limit on deductions for business meals and entertainment expenses. The 50% limit is computed before the 2% floor is applied. A deduction is allowed even if reimbursement comes from a third party rather than from the employer. Reimbursed employee business expenses that are included in the taxpayer's gross income are deducted from gross income.

Payments to Pension or Profit Sharing Plans

California generally conforms to the Federal rules (as amended to date) for the deductions of contributions to retirement plans for employers, employees, and the self-employed.

Under both Federal and California laws, a contribution made after the end of the taxable year is considered to have been made on the last day of the year, provided the contribution is on account of such taxable year and is made no later than the due date of the return. Except for IRAs, the due date for this purpose includes any extensions.

Mortgage Forgiveness Debt Relief

The Protecting Americans from Tax Hikes Act of 2015 retroactively extended the exclusion for qualified principal residence indebtedness that provides tax relief on canceled debt for many homeowners involved in the mortgage foreclosure through 2016. California law does not conform to Federal law regarding the discharge of indebtedness from the disposition of the taxpayer's principal residence occurring on or after January 1, 2014.

Self-Employed Retirement Plans (Keogh Plans)

Both California and Federal laws allow deductions for contributions to self-employed retirement plans, commonly known as H.R. 10 or Keogh plans. California incorporates Federal law concerning limits on deductible contributions to Keogh plans.

The maximum contribution amount a taxpayer can make to a Keogh plan per year is as follows: (23)

- 2017, the amount is \$54,000
- 2016, the amount is \$53,000
- 2015, the amount is \$53,000
- 2014, the amount is \$52,000
- 2013, the amount is \$51,000
- 2012, the amount is \$50,000

Individual Retirement Arrangements (IRAs)

Both California and Federal laws allow deductions for contributions to individual retirement arrangements or for the purchase of individual retirement annuities or bonds. These arrangements are commonly known as IRAs. For a Traditional



IRA, the most that can be contributed is the smaller of the age based contribution limit (see table below) or 100% of compensation.

If the taxpayer is covered by an employer's retirement plan or if he or she files a joint tax return with his or her spouse who is covered by such a plan, the taxpayer may be entitled to only a partial deduction or no deduction at all, depending on his or her income. The taxpayer can elect to designate otherwise deductible contributions as nondeductible. However, he or she does not have to elect the same treatment for California purposes that he or she did for Federal purposes. To take the election on the Schedule CA, the Federal deduction is taken on line 32, column A, as usual, but the election for California will be on line 36, column B or C. Write: "408 election" to the left of the line.

The following is a summary of the California IRA deduction allowed. To calculate any adjustments to the taxpayer's IRA deduction see Schedule CA (540) instructions.

California law is the same as Federal law. For a SIMPLE IRA, an elective deferral may be made for up to the amount listed in the chart below. For a Traditional IRA, the most that can be contributed is the smaller of:

- The amount listed in the chart below or
- 100% of the taxpayer's compensation.

IRA Deduction Limits	
Age	2013 - 2017
Under 50	\$5,500
50 and Over	\$6,500

Table 4-2 - FTB Publication 1005 - IRA Deduction

SIMPLE IRA Deduction Limits	
Age	2015 - 2017
Under 50	\$12,500
50 and Over	\$15,500

Table 4-3 - FTB Publication 1005 - IRA Deduction



The taxpayer's deduction is allowed in full if he or she (and his or her spouse/RDP, if married) are not covered by a retirement plan at work.

Roth IRAs

Federal law and California law are the same regarding contributions, conversions, and distributions. However, the taxable amount of a distribution may not be the same because of basis differences. Roth IRA contributions are not deductible. (24)

Coverdell Education Saving Accounts

Under both California law and Federal law joint filers with modified adjusted gross income below \$220,000 (\$110,000 for single filers) may contribute up to \$2,000 per child per year to a Coverdell Education Savings Account (CESA). Earnings on contributions will be excluded from gross income and be distributed tax-free provided that they are used to pay the child's post-secondary education expenses or a child's elementary or secondary education expenses. A Federal election to waive the application of the exclusion, or the lack of such an election, is binding for California purposes. The \$2,000 annual contribution is phased out for joint filers with modified adjusted gross income of \$190,000 to \$220,000, and for single filers with modified adjusted gross income of \$95,000 to \$110,000.



If the taxpayer has a taxable distribution from a Coverdell ESA, get [FTB Form 3805P - Additional Taxes on Qualified Plans \(Including IRAs\) and Other Tax-Favored Accounts](#), to figure the additional tax.

The contributions to a Coverdell ESA are not tax deductible, but money deposited in the account will grow tax-free until distributions are taken. If the distribution from an account is not more than the beneficiary's qualified education expenses, the beneficiary will not owe Federal income taxes. Eligible educational institutions can be either postsecondary schools or an eligible elementary or secondary school. This would apply to a college, university, vocational school, or other



postsecondary educational institution that is eligible to participate in a student aid program administered by the Department of Education. This would also include virtually all accredited, public and nonprofit postsecondary institutions.

California State Income Tax Refund

State income taxes may be deducted for Federal but not California purposes. This includes amounts paid through withholding, estimated taxes and prior year balance dues paid in the current year.

Employee Business Expenses

California and Federal unreimbursed employee business expenses are considered miscellaneous itemized deductions rather than adjustments to gross income. An individual may claim only miscellaneous itemized deductions that exceed 2% of the taxpayer's adjusted gross income.

California also incorporates the 50% limit on deductions for business meals and entertainment expenses. The 50% limit is computed before the 2% floor is applied. A deduction is allowed even if reimbursement comes from a third party rather than from the employer. Reimbursed employee business expenses that are included in the taxpayer's gross income are deducted from gross income.

Expense Disallowance for Substandard Housing

The Substandard Housing Program assists state and local agencies responsible for abating unsafe living conditions that violate California Health and Safety Codes. Substandard housing is property in violation of California state or local health and safety codes as determined by city or county regulatory agencies. Only these regulatory agencies have authorization to issue determinations that property is noncompliant (substandard) or compliant.

When a regulatory agency notifies the Franchise Tax Board (FTB) of a noncompliant substandard property, the FTB disallows any income tax deductions claimed for interest, taxes, amortization, or depreciation on that property during the period of noncompliance. These expenses are not deductible even if paid during the period of noncompliance. This applies to both individuals as well as sole proprietors.

When the property is noncompliant for part of a year, the FTB disallows the deductions at a rate of 1/12 for each month the property is noncompliant. If the taxpayer and/or sole proprietor no longer own(s) the property, the FTB disallows the deductions from the date of noncompliance to the date the property was sold. If the taxpayer and/or sole proprietor own more than one property, the FTB only disallows deductions on the noncompliant property.

Property is substandard from the date of noncompliance to the date of compliance. The Franchise Tax Board will continue to disallow the income tax deductions during the substandard period. Even if the property is repaired, the property is considered substandard until the regulatory agency re-inspects the property and issues a Notice of Compliance.



Review

The following pages contain several review questions that are designed to help you learn the material you have just studied. Review questions are for instructional use only and you will not be graded on these questions. We also provide you the answers to each question and an explanation or feedback as to how we arrived at each answer.

Best practice suggests that you should try to answer these questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material. As with all self-study Qualifying Education (QE) courses, you can refer back to the course material to locate the answers, the so called 'open book' learning method is permissible.

Review Questions

Answers appear in [Review Feedback](#)

- California law is the same as Federal, except that California specifically prohibits the itemized deduction of which of the following?
 - State, local & foreign income taxes
 - Qualified sales and use taxes
 - Interest on certain home mortgages
 - All of the above
- For both California and Federal purposes, most business miscellaneous itemized deductions are subject to a 2% floor. Only the portion of the total amount of such deductions in excess of 2% of the taxpayer's adjusted gross income is deductible. Which of the following are the most common expenses subject to the 2% floor?
 - A fixed percentage of the utility costs to operate the facility
 - Union dues and fees
 - Employment-related educational expenses
 - Both B and C
- Distributions from a Coverdell ESA that exceed the child's qualified higher education expenses in a tax year are generally subject to income tax and to an additional tax of what amount?
 - 1.0%
 - 1.5%
 - 2.0%
 - 2.5%
- For California purposes, the maximum IRC Section 179 expense deduction allowed is what amount?
 - \$10,000
 - \$15,000
 - \$20,000
 - \$25,000
- California incorporates the Federal limit of what percentage on deductions for business meals and entertainment expenses?
 - 2%
 - 7.5%
 - 10%
 - 50%
- Brendan is a California resident. He was ordered to pay \$12,000 in alimony to his former spouse, Nicole, who is not a California resident. He meets all the requirements when paying his support. What amount can Brendan take as a deduction for these payments?
 - \$0
 - \$1,000
 - \$6,000
 - \$12,000



7. California follows Federal law, which allows a carryover of how many years for charitable contributions that exceed the income percentage limit?
 - A. Three years
 - B. Four years
 - C. Five years
 - D. Six years

8. In 2017, if a taxpayer and his or her spouse are 65 years of age or older and claim the Senior Exemption Credit, he or she may make a combined total contribution of up to what amount to the California Seniors Special Fund?
 - A. \$114
 - B. \$144
 - C. \$200
 - D. \$228



Review Feedback

[Return to Review Questions](#)

Question 1 - D. All of the above

Individuals may take the standard deduction or itemize deductions for California purposes, whether or not they itemize on their Federal return. California has conformed to most of the Federal itemized deduction provisions. Some of the major differences between California and Federal itemized deductions are State, local and foreign income taxes, and State disability insurance tax (SDI) and qualified sales and use taxes may be deducted for Federal but not California purposes, a California-only carryover from a disaster loss could be deducted and a deduction for interest on certain home mortgages could differ.

Question 2 - D. Both B and C

Certain unreimbursed employee expenses, expenses of producing income, and other qualifying expenses are deducted as miscellaneous itemized deductions on the Federal and California returns. For both California and Federal purposes, most miscellaneous itemized deductions are subject to a 2% floor. Only the portion of the total amount of such deductions in excess of 2% of the taxpayer's adjusted gross income is deductible. Generally, a taxpayer applies the 2% limit after he or she applies any other deduction limit. Union dues and fees and employment-related educational expenses are two of the most common expenses subject to the 2% floor.

Question 3 - D. 2.5%

Distributions from a Coverdell ESA that exceed the child's qualified higher education expenses in a tax year are generally subject to income tax and to an additional tax of 2½% (figured in Part II of FTB Form 3805P).

Question 4 - D. \$25,000

For California purposes, the maximum IRC Section 179 expense deduction allowed is \$25,000. This amount is reduced if the cost of all IRC Section 179 property placed in service during the year is more than \$200,000.

Question 5 - D. 50%

California incorporates the 50% limit on deductions for business meals and entertainment expenses. The 50% limit is computed before the 2% floor is applied. A deduction is allowed even if reimbursement comes from a third party rather than from the employer. Reimbursed employee business expenses that are included in the taxpayer's gross income are deducted from gross income.

Question 6 - D. \$12,000

Alimony paid by a California resident is deductible when paid to a former spouse who is not a California resident, although the former spouse is **not taxed** on the income by California.

Question 7 - C. Five years

The taxpayer can carry over any contributions he or she cannot deduct in the current year because they exceed adjusted-gross-income limits. The taxpayer may be able to deduct the excess in each of the next 5 years until it is used up, but not beyond that time. The total charitable deduction for the year to which the taxpayer carries the contributions cannot exceed 50% of the adjusted gross income for that year.

Question 8 - D. \$228

In 2017, if a taxpayer and his or her spouse are 65 years of age or older and claim the Senior Exemption Credit on line 7, he or she may make a combined total contribution of up to \$228 or \$114 per spouse to the California Seniors Special Fund. Contributions entered to this fund will be distributed to the Area Agency of Aging Councils (TACC) to provide advice on and sponsorship of Senior Citizens issues. Any excess contributions not required by TACC will be distributed to senior citizen service organizations throughout California for meals, adult day care, and transportation.



Lesson 5

California Credits, Expenses

At the conclusion of this lesson you should have a basic knowledge of:

- California Tax Credits
- Expense Reimbursement Deductions
- Business Expense Deductions

In addition to the credits for personal and dependency exemptions, California law provides a variety of credits that may be used to reduce taxable income.

A taxpayer who claims more than two credits must complete the appropriate form for each credit and the credits must be summarized on [Schedule P - Alternative Minimum Tax and Credit Limitations](#), Part III. One or two credits may be claimed directly on Form 540. In addition, since tax year 2006, credits may not be applied against the additional income tax required when a taxpayer's taxable income is in excess of \$1 million.

Although Federal tax credits are not applicable under California law, certain California credits are similar to their Federal counterparts. California also has many credits for which there are no comparable Federal credits, and there are some Federal credits that have no California counterparts.

California Tax Credits - Priorities

The law provides rules for the order in which various tax credits are to be applied. These rules are necessary because of the variety of provisions for carryovers in the various credits. The law provides that credits shall be allowed against net tax (the regular tax plus the tax on lump-sum distributions less exemption credits, but in no event less than the tax on lump-sum distributions) in the following order:

1. Credits, except the credits in categories 4 and 5 below, with no carryover or refundable provisions.
2. Credits with carryovers that are not refundable, except for those that are allowed to reduce net tax below the tentative minimum tax.
3. Credits with both carryover and refundable provisions.
4. The minimum tax credit.
5. Credits that are allowed to reduce net tax below the tentative minimum tax.
6. Credit for taxes paid to other states.
7. Credits with refundable provisions but no carryover (withholding, excess SDI, CA EITC).

Special Rules for Married Couples

If spouses or RDPs file separate returns, the credit for the married/RDP couple may be taken by either or divided equally between them, except as follows:

- If either spouse is not a California resident for part of the year, the credit is divided equally and prorated for the non-resident spouse or spouses (see Part-year Residents below).
- If both spouses are California residents and maintain separate residences for the entire year, the credit must be divided equally between them; there is no option for one to take the full credit.

Credit Sharing

Unless a personal income tax credit provision specifies some other sharing arrangement, two or more taxpayers (other than a husband and wife) may share a tax credit in proportion to their respective shares of the creditable costs. In the case of a husband and wife filing separately, either may claim the whole of the credit or they may divide it equally between them. (53)



Part-Year Residents

A person who is a resident for only part of the year is allowed 1/12 of the credit for each full month of California residence during the year.

Reduced Credits for Nonresidents and Part-Year Residents



Nonresidents and part-year residents are allowed reduced tax credits, with some exceptions. Credits are allowed on the basis of a prorated taxable income formula. For example, if California income is 50% of the total, allowable credits are 50% of total credits.

Tip

However, different rules are subject to the following exceptions: (54)

- The renter's credit is allowed in proportion to the period of residence.
- Credits for taxes paid to other states are allowed in full.
- Credits that are conditional upon a transaction occurring wholly within California are allowed in full.

California Earned Income Tax Credit

California now offers its own Earned Income Tax Credit (CA EITC) starting with calendar year 2015 tax returns. This credit is offered in addition to the existing Federal EITC. The CA EITC is "refundable," meaning that the taxpayer will receive a refund if the amount of the credit is greater than the tax he or she owes. This credit is available to California households with adjusted gross incomes (AGI) of less than \$15,009 if there are no qualifying children, less than \$22,323 if there is one qualifying child, less than \$22,310 if there are two qualifying children or less than \$22,303 if there are three or more qualifying children. The maximum amount of investment income to remain eligible for the credit is \$3,561. See additional information under "Qualifications" below.

For the CA EITC, eligible sources of earned income are W-2 wages, self-employment income, salaries, tips and other employee compensation subject to California withholding. The 2017 tax year is the first time self-employment income can be used to qualify for CA EITC. The taxpayer can find his or her filing status in the next table to see how much he or she may qualify for or he or she can use the [CalEITC4Me](#) online calculator to estimate his or her credit:

2017 California Earned Income Tax Credit Maximum Amounts			
Number of Qualifying Children	CA Maximum Income	CA EITC (up to)	IRS EITC (up to)
None	\$15,008	\$223	\$510
1	\$22,322	\$1,495	\$3,400
2	\$22,309	\$2,467	\$5,616
3 or more	\$22,302	\$2,775	\$6,318

Table 5-1 - California Earned Income Tax Credit Amounts (2017)

California Earned Income Tax Credit Qualifications

- The taxpayer must file a state tax return, even if he or she does not owe any tax or are not otherwise required to file.
- The taxpayer must have earned income from W-2 wages, self-employment, salaries, tips, or other employee compensation subject to California withholding. (The 2017 tax year is the first-time self-employment income can be used to qualify for CA EITC.)
- The taxpayer, his or her spouse, and any qualifying children must each have a Social Security number issued by the Social Security Administration that is valid for employment.
- The taxpayer must file using the single, married/registered domestic partner (RDP) filing jointly, or head of household filing status. The "married/RDP filing separately" status may not be used.
- The taxpayer must either:
 - o Meet the rules for those without a qualifying child; or
 - o Have an individual that meets all of the qualifying child rules for him or herself or his or her spouse if he or she files a joint return.



- The taxpayer's principal residence must be in California for more than half the tax year.
- Both the taxpayer's adjusted gross income and earned income (defined above) must be no more than:
 - o \$15,008 if there are no qualifying children.
 - o \$22,322 if there is one qualifying child.
 - o \$22,309 if there are two qualifying children.
 - o \$22,302 if there are three or more qualifying children.
- The taxpayer's investment income, such as interest, dividends, royalties, and capital gains cannot exceed \$3,561 for the entire tax year.

California Earned Income Tax Credit Qualifying Child Rules

In general, to be a taxpayer's qualifying child, a person must meet three criteria:

- **Relationship** - Is the taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of any of them.
- **Residence** - Has the same principal residence as the taxpayer in California for more than half the tax year. Certain exceptions apply.
- **Age** - Must be younger than the taxpayer and either a) under the age of 19 at the end of the tax year, or b) under the age of 24 if a full-time student for at least 5 months of the year. A permanently and totally disabled child may be included at any age.

One Return – The child only qualifies for one return. If the child can be claimed by more than one taxpayer, the child's qualification goes to:

- The parent.
- If more than 1 taxpayer is the child's parent, the one with whom the child lived for the longest time during the year, or if the time was equal, the parent with the highest adjusted gross income (AGI).
- If no taxpayer is the child's parent, the taxpayer with the highest AGI.



The taxpayer will need to file a California income tax return and complete an [FTB Form 3514 - Earned Income Tax Credit](#) to claim the credit. California does not offer a state Earned Income Tax Credit for tax years prior to 2015.

Cal HFA Mortgage Credit Certificate (MCC) Tax Credit

The Cal HFA Mortgage Credit Certificate (MCC) Tax Credit program operates as a Federal income tax credit, reducing the Borrowers' potential Federal income tax liability enabling a first-time homebuyer to convert 20% of their annual mortgage interest into a direct income tax credit on their U.S. individual income tax return for the life of their loan. The amount of the Cal HFA MCC Tax Credit cannot exceed the amount of a Borrower's annual Federal income tax liability. Unused portions of the credit may be carried forward for up to three years.

Borrower eligibility requirements: (55)

- Each CalHFA MCC Tax Credit applicant must be a U.S. citizen, permanent resident alien or qualified alien.
- All CalHFA MCC Tax Credit applicants must meet the credit, income and loan requirements of CalHFA MCC Tax Credit program handbook, the lender, and the mortgage insurer/guarantor.
- All applicants must be first-time homebuyers.
 - o Exception to first-time homebuyer requirements:
 - Home is located in a Federally designated targeted area
 - Qualified veterans pursuant to the Heroes Earning Assistance and Relief Tax act of 2008.

Property requirements:

- Sales price of the home cannot exceed CalHFA's sales price limits established for the county in which the property is located.
- Property must be a single-family, one-unit residence, including approved condominium. Properties having a guest house, granny units, in-law quarters, and/or separate units containing kitchen facilities are not eligible.
- Property must meet the requirements of CalHFA, the lender and the mortgage insurer/guarantor.



For CalHFA purposes a first-time homebuyer is defined as a Borrower who has not had an ownership interest in any principal residence during the previous three years.

Nonrefundable Renter's Credit

The Nonrefundable Renter's Credit is a personal income tax credit that can only be used to offset tax liability; therefore, a taxpayer must have a tax liability to claim the credit.

To qualify for the full Nonrefundable Renter's Credit, the taxpayer must meet **all** the following: (56)

1. Was a resident of California.
2. Have California adjusted gross income (AGI) under certain levels. For 2017 the limit is \$40,078 or less if the taxpayer's filing status is single or married/registered domestic partner filing a separate return; or \$80,156 or less if he or she is a married/registered domestic partner filing jointly, a head of household, or a qualified widow(er).
3. Paid rent for at least half of 2017 for property in California that was his or her principal residence.
4. Did not live with another person for more than half the year (such as a parent) who claimed him or her as a dependent in 2017.
5. Not a minor living with and under the care of a parent, foster parent, or legal guardian.
6. Rented property for more than half the year that was not exempt from California property tax in 2017.
7. Married and neither taxpayer nor his or her spouse/registered domestic partner was granted a homeowner's property tax exemption during 2017. (The taxpayer can still qualify for the credit, even though his or her spouse/registered domestic partner claimed a homeowner's exemption, as long as each maintained a separate residence for the entire year in 2017).

If the taxpayer met the income requirements the credit for 2017 is:

- Single, \$60
- Head of household or widow(er), \$120
- Married/registered domestic partner filing separately, \$60
- Married/registered domestic partner filing jointly, \$120

If the taxpayer was a resident of California for at least six months in 2017 and paid rent on property in California, which was his or her principal residence, he or she may qualify for a reduced amount of the credit, when filing, Form 540NR, based on the number of full months he or she was a resident of and rented property in California.

If married/RDP filing jointly where one spouse/RDP claimed the homeowner's property tax exemption and both spouses/RDPs lived apart for the entire year, enter half of the amount listed on the chart for married/RDP filing jointly on the line below. Follow the instructions next to the chart.

Nonrefundable Renter's Credit - Nonresidents							
Filing Status	Number of Months						
	6	7	8	9	10	11	12
Single or married/RDP filing separately	\$30	\$35	\$40	\$45	\$50	\$55	\$60
Married/RDP filing jointly, head of household or qualifying widow(er)	\$60	\$70	\$80	\$90	\$100	\$110	File Form 540

Table 5-2 - Form 540NR Tax Booklet - Nonrefundable Renter's Credit Qualification Record (2017)

Other State Tax Credit (OSTC)

In an effort to relieve double taxation, the California law allows in some cases a credit against the California personal income tax for income tax paid to another State (or to a territory or possession of the United States). No credit is allowed for income taxes paid to cities or to foreign countries. Some foreign taxes on gross receipts may be taken as a deduction.



Tax Based on Net Income

The credit is allowed only for taxes of another State based on *net income*, excluding any tax comparable to the alternative minimum tax. It therefore does not apply to a tax imposed on *gross income*.

Timing of Credit

A taxpayer may not take credit for tax paid another State until the tax is actually paid. If the other state tax has already been paid, the credit may be claimed at the time of filing the California return; if not, it may be claimed later by means of a refund claim. The claim for credit must be supported by filing [Schedule S - Other State Tax Credit](#) together with a copy of the return filed with the other State. A copy of the other State's return need not be filed along with the California return if the return is filed electronically; however, a copy of the other state's return must be retained by the taxpayer in his or her records.

Effect of Joint or Separate Returns

In the case of a husband and wife who file separate returns in California and a joint return in the other State, each is allowed a credit based upon the portion of the other state tax allocable to his or her own income; the total tax paid to the other State is prorated to each on the basis of the income that is included in the joint return and also taxed in the California separate returns. Where a joint return is filed in California, the entire amount of taxes paid by either or both to the other State may be claimed as a credit, regardless of whether a joint return or separate returns are filed in the other State.

Refunds Must Be Reported

If, after paying tax to another State, the taxpayer obtains a refund or credit of any part of such tax, such refund or credit must be reported immediately to the Franchise Tax Board. The reduction in the credit against the California personal income tax must be computed and the resulting increase in the net California personal income tax paid, with interest.

Credit for Taxes Paid to Other States by Residents of California

Credit is allowed California residents for net income taxes paid to another State on income also subject to the California income tax, but the California credit is allowed to California residents only if the other State does not allow California residents a credit for California taxes on the other state's tax returns. California does not allow this credit for California's alternative minimum tax or for the other state's tax comparable to California's alternative minimum tax. The purpose is to prevent the allowance of credits by both States at the same time.

Under this rule, credit is allowable only for taxes paid to the following States and possessions: (57)

Alabama (AL), American Samoa (AS), Arkansas (AR), Colorado (CO), Connecticut (CT), Delaware (DE), District of Columbia (DC) (unincorporated business tax and income tax, the latter for dual residents only), Georgia (GA), Hawaii (HI), Idaho (ID), Illinois (IL), Iowa (IA), Kansas (KS), Kentucky (KY), Louisiana (LA), Maine (ME), Maryland (MD), Massachusetts (MA), Michigan (MI), Minnesota (MN), Mississippi (MS), Missouri (MO), Montana (MT), Nebraska (NE), New Hampshire (NH) (business profits tax), New Jersey (NJ), New Mexico (NM), New York (NY), North Carolina (NC), North Dakota (ND), Ohio (OH), Oklahoma (OK), Pennsylvania (PA), Puerto Rico (PR), Rhode Island (RI), South Carolina (SC), Utah (UT), Vermont (VT), Virgin Islands (VI), Virginia (VA) (dual residents*), West Virginia (WV), and Wisconsin (WI).

*A dual resident is any taxpayer who is defined as a California resident under California law and a Virginia resident under Virginia law. If the taxpayer is a dual resident, he or she allowed to claim the Other State Tax Credit for taxes paid to Virginia on Virginia source income. Dual residents who are elected or appointed officials and staff as defined in R&TC Section 17014(b) may claim the other state tax credit for taxes paid to Virginia on all income taxed by Virginia whether or not it has a source in Virginia.



California residents who are included in a group nonresident return similar to the return described in California Revenue & Taxation Code (R&TC) [Section 18535](#), filed with the states listed above as well as Arizona, Oregon, or Virginia may also claim a credit for their share of income taxes paid to these states, unless any of these states allow a credit for taxes paid to California on the group nonresident return.



Residents - How to Claim the Credit

- The tax must be paid to a state that does not allow California residents a credit against taxes imposed by that state.
- The income must have its source in the other state. California law and its associated case decisions are the authority for the determination of the source of income, or any matter affecting the computation regardless of any provision or interpretation of the law of the other state.
- The same income must be taxed by both states. Generally, income that is taxed by California and the other state will be the same amounts. However, the double-taxed income amounts reported on California Schedule S, Parts 1(b) and 1(c) may be different because of differences in California and the other state's tax laws, or because of basis differences.
- Substantiation must be provided showing that a tax return was filed with the other state.
- Substantiation must be provided that taxes were paid to the other state.

Limitation on Amount

The amount of the credit is limited to the same proportion of the total California tax as the income taxed by both States bears to the total income taxed by California. The purpose of this rule is to ensure that the credit allowed will not be any greater than the California tax actually paid on the income which has been subjected to double taxation.

Procedure to Determine Credit

For a California resident (or part-year resident), here are the steps to take to determine the credit:

1. Find out from the list of States and possessions (listed previously) whether the other State or possession qualified for California credit.
2. Determine what items of income are taxed to the resident/part-year resident as a *nonresident* by the other State and also taxed by California. The FTB shall call this the double-taxed income.
3. Determine the net amount of the double-taxed income that is actually subject to tax by California after deducting any expenses which apply specifically to that income (such as depreciation, etc.). This computation should be made by applying the California rules for determination of adjusted gross income to the double-taxed income.
4. Compute the limitation of the credit (discussed previously). Thus, the amount of the credit is limited to:
 - a. The same proportion of the total California tax.
 - b. The income taxed by both States bears to the total income taxed by California.
5. The credit is the lower of two amounts:
 - a. The amount computed under step 4.
 - b. The actual tax paid to the other State.

Generally, the taxpayer takes the credit for double-taxed income on the taxpayer's resident return. However, there are a few exceptions.

When figuring the Other State Tax Credit, the taxpayer does not include any of the following:

- Taxes paid to any local government, such as a city or county.
- Taxes paid to the Federal government.
- Taxes paid to any foreign country.
- Any tax comparable to California's alternative minimum tax paid to another state.
- Tax on net passive income, built in gains tax, gross income tax, and any special tax paid to another state (S corporation).

Appeal of Gregory J. Soukup and Mary Jo Carr (94-SBE-014)

In Appeal of Gregory J. Soukup and Mary Jo Carr, 94-SBE-014, the California Board of Equalization reasoned that, although California law precludes California taxpayers from claiming a credit for taxes paid to another state if the other state allows a credit to the California resident, the provision should be interpreted in a manner that is consistent with "good tax administration [which] mandates a policy of encouraging the filing of composite returns." Thus, if the election to file a composite return in the reverse credit state makes the California taxpayer ineligible to claim the credit in the reverse credit state, California will allow the credit for the California taxpayer's share of income taxes paid to the reverse credit state.



Credit for Taxes Paid to Other States by Nonresidents of California

Nonresidents - How to Claim the Credit

- The tax must be paid to a state that allows California residents a credit against taxes imposed by that state. The same income must be taxed by both states. Generally, income that is taxed by California and the other state will be the same amounts. However, the double-taxed income amounts reported on California Schedule S, Parts 1(b) and 1(c) may be different because of differences in California and the other state's tax laws, or because of basis differences.
- Substantiation must be provided showing that a tax return was filed with the other state.
- Substantiation must be provided showing that taxes were paid to the other state.

States Eligible for Credit

California nonresident individuals, estates, or trusts that are residents of one of the following states or U.S. possessions and paid a net income tax to that state or U.S. possession on income that is also taxed by California may claim the Other State Tax Credit: (57)

- Arizona (AZ)
- Guam (GU)
- Oregon (OR)
- Virginia (VA)

California nonresidents who are residents of any state or U.S. possession not listed may not claim this credit. This credit is not allowed on a California group nonresident tax return.

Limitations on Amount

The maximum credit amount is limited to the lesser of the following two amounts:

- The same proportion of the total tax paid to the State of residence as the income taxed in both states bears to the total income taxed by the State of residence as the income taxed in both states bears to the total income taxed by the State of residence.
- The same proportion of the total California tax as the income taxed in both States bears to the total income taxed by California. The total California tax for this purpose is the tax after deducting credit for personal exemptions.



If the taxpayer has a credit from more than one state, he or she should figure the credit separately by completing a separate [Schedule S - Other State Tax Credit](#) for each state. The taxpayer adds the credits from each state's Schedule S, line 12 and enters the total on his or her tax return. The taxpayer must attach the schedules to his or her tax return.

Other Tax Credits

Excess State Disability Insurance (SDI) Credit



An income-tax credit is allowed for any excess employee contributions for disability insurance under the Unemployment Insurance Code. The 2017 SDI withholding rate is .9% (.009). The rate includes Disability Insurance (DI) and Paid Family Leave (PFL). The SDI taxable wage limit is \$110,902 for each employee per calendar year. The maximum amount withheld for each employee is \$998.12.

In other words, if an employee worked for more than one employer during the year, the employee is entitled to recover any amounts withheld from his or her wages in excess of the tax on the maximum wage limit (amount over \$998.12 withheld in 2017). If the employee files an income tax return, the employee recovers any such excess by claiming credit on his or her return. If the claim is disallowed, the employee may file a protest within 30 days with the Employment Development Department (EDD). (1)



Senior Head of Household Credit

For 2017, California allowed a senior head of household to claim a credit equal to 2% of taxable income, with a maximum California AGI of \$73,226, and a maximum credit of \$1,380.

To qualify for the credit in 2017, a taxpayer must: (1)

- Be 65 years of age or older on December 31, 2017.*
- Qualify as a head of household in 2015 or 2016 by providing a household for a qualifying individual who died during 2015 or 2016.
- Not have AGI over \$73,226 for 2017.

*If the taxpayer's 65th birthday is on January 1, 2018, he or she is considered to be age 65 on December 31, 2017.

Adoption Costs Credit

For the year in which an adoption decree or an order of adoption is entered (e.g., adoption is final), a taxpayer can claim a credit for 50% of the cost of adopting a child who was both:

1. A citizen or legal resident of the United States.
2. In the custody of a California public agency or a California political subdivision.



For the 2017 tax year, the credit may not exceed \$2,500 per child and may only include specified costs directly related to the adoption. The adoption costs credit may be claimed only for the taxable year in which the decree or order of adoption is entered; however, the costs that are included may have been incurred in previous taxable years. The credit may be carried over until the total credit of \$2,500 is exhausted.

Treat a prior unsuccessful attempt to adopt a child (even when the costs were incurred in a prior year) and a later successful adoption of a different child as one effort when computing the cost of adopting the child.

Include the following costs if directly related to the adoption process: (1)

- Fees for Department of Social Services or a licensed adoption agency.
- Medical expenses not reimbursed by insurance.
- Travel expenses for the adoptive family.



This credit does not apply when a child is adopted from another country or another state, or was not in the custody of a California public agency or a California political subdivision. Additionally, any deduction for the expenses used to claim this credit must be reduced by the amount of the child adoption costs credit claimed.

Credits for Joint Custody Head of Household/Dependent Parent

For the 2017 tax year, the California joint custody head of household/dependent parent credits equaled the lesser of 30% of the net tax or a maximum of \$451. The credits cover both dependent children and dependent parents. The credits are subject to the same annual inflation adjustment as the exemption credits. However, neither may be claimed if the taxpayer used either the head of household or qualifying widow(er) filing status.

Dependent Child

To claim the credit as joint custody head of household for purposes of a dependent child, the taxpayer must: (1)

- Be unmarried and not an RDP at the end of 2017.
- Maintain a home that is the principal place of abode of the taxpayer's dependent or descendant for no less than 146 days, but no more than 219 days of the year, under a decree of dissolution or separate maintenance, or under a written custody agreement prior to the issuance of such a decree where proceedings have been initiated.
- Furnish over half the cost of household expenses.



Credit for Dependent Parent

A qualified taxpayer for purposes of claiming the dependent parent credit is one who:

- Was married/or an RDP at the end of 2017 and he or she used the married/RDP filing separately filing status.
- The taxpayer's spouse/RDP was not a member of the taxpayer's household during the last six months of the year.
- The taxpayer furnished over one-half the household expenses for his or her dependent mother's or father's home, whether or not she or he lived in the taxpayer's home.



If the taxpayer qualifies for the Credit for Joint Custody Head of Household and the Credit for Dependent Parent, claim only one. Select the credit that will allow the maximum benefit.

Child and Dependent Care Expenses Credit

The Child and Dependent Care Expenses Credit is a non-refundable tax credit. The credit is applied against the net tax liability. If the credit exceeds the net tax liability, the excess credit cannot be refunded. The credit is allowed for certain household and dependent care expenses the taxpayer incurred during the year that allowed him or her to seek or maintain gainful employment.

The taxpayer should claim this credit if he or she paid someone to care for a qualifying child under the age of 13, another dependent who is physically or mentally incapable of caring for him or herself, or spouse/RDP if physically or mentally incapable of caring for him or herself. The care must be provided in California. To claim this credit, the taxpayer's Federal adjusted gross income (AGI) must be \$100,000 or less and he or she must complete and attach [FTB Form 3506 - Child and Dependent Care Expenses Credit](#).

The differences between California and Federal law are as follows: (58)

- California allows this credit only for care provided in California.
- If the taxpayer was a nonresident, he or she must have earned wages from working in California or earned self-employment income from California business activities.
- The California credit is a percentage of the Federal credit.
- RDPs may file a joint California return and claim this credit.

The taxpayer may take the credit if all eight of the following apply:

1. If the taxpayer is married or an RDP, he or she must file a joint tax return. For an exception, see FTB Form 3506 Instructions, Section E, Married Persons or RDPs Filing Separate Returns.
2. Care must be provided in California for one or more qualifying persons.
3. The taxpayer paid for care so he or she (and his or her spouse/RDP) could work or look for work. However, if the taxpayer did not find a job and has no earned income, he or she does not qualify for the credit. If the taxpayer's spouse/RDP was a student or disabled, see the FTB Form 3506 Instructions, Part III.
4. The taxpayer (and his or her spouse/RDP) must have earned income (wages or self-employment income) during the year. See the FTB Form 3506 Instructions Part III for more information on earned income.
5. The taxpayer and the qualifying person(s) live in the same home for more than half the year.
6. The person who provided care was not the taxpayer's spouse/RDP, the parent of his or her qualifying child, or a person for whom the taxpayer can claim a dependent exemption. If the taxpayer's child provided the care, the child must have been age 19 or older by the end of 2017.
7. The taxpayer reports the required information about the care provider(s) in Part II, and the information about the qualifying person(s) in Part III.
8. The taxpayer's Federal adjusted gross income is \$100,000 or less.

The 2017 tax year amounts of the California credit are a percentage of the allowable Federal credit determined on the basis of the amount of Federal adjusted gross income (AGI) earned as follows:



Federal Adjusted Gross Income	Percentage
\$40,000 or less	50% of the Federal credit
Over \$40,000 but not over \$70,000	43% of the Federal credit
Over \$70,000 but not over \$100,000	34% of the Federal credit
Over \$100,000	Does Not Qualify

Table 5-3 - Instructions for FTB Form 3506 Line 9 (2017)

The California Household and Dependent Care Credit is allowed only for care provided in California, and only to the extent of earned income that is subject to California personal income tax.



A new regulation that specifies the substantiation and records requirements for claiming the personal income tax credit for employment-related child and dependent care expenses has been adopted by California. The regulation is generally applicable to records required to be maintained for taxable years after 2012.

Credit for Spouse/RDP who was a Student or Disabled

The taxpayer's spouse/RDP was a student if he or she was enrolled as a full-time student at a school during any 5 months of 2017. A school does not include a night school or correspondence school. The taxpayer's spouse/RDP was disabled if he or she was physically or mentally incapable of self-care. (59)

Figure the taxpayer's spouse's/RDP's earned income on a monthly basis. For each month his or her spouse/RDP was a full-time student or disabled, include the larger of the following: (58)

- The taxpayer's spouse's/RDP's actual earned income for that month.
- \$250 (\$500, if the taxpayer has 2 or more qualifying persons).



If, in the same month, both the taxpayer and his or her spouse/RDP qualified as either full-time students or disabled, only one of them receives treatment as having earned income of \$250 (or \$500) in that month. For any month that taxpayer's spouse/RDP was not a full-time student or disabled, use his or her spouse's/RDP's actual earned income for that month.

California Motion Picture and Television Production Credit

On February 20, 2009, SB X3 15 was chaptered, creating a credit based on expenditures incurred for film and television productions, which will be allowable to offset California income, franchise or sales and use tax liabilities for taxable years beginning on or after January 1, 2011. This credit is referred to as the "old credit". The amount of credit allocated for distribution was \$100 million for each fiscal year starting July 1, 2009. The fiscal year for California is from July 1st to June 30th of the following year.

Subsequently, AB 1839, chaptered on September 18, 2014, expanded the credit. This credit is referred to as the "new credit." The amount available for allocation was increased to \$330 million starting fiscal year 2015/2016. The new bill is effective from taxable year beginning January 1, 2016, and will continue until fiscal year 2019/2020.

To claim the credit, qualified taxpayers must first apply to the California Film Commission (CFC). CFC issues credit certificates (certificate) to qualified taxpayers who claim the credit in the taxable year CFC issues the certificate. Under limited circumstances, qualified taxpayers may assign or sell their credit.

A qualified taxpayer may elect to assign a credit to an affiliated corporation, which includes either a corporation:

- That owns, directly or indirectly, 100% of the assignor's voting common stock.
- In which the assignor owns, directly or indirectly, 100% of the voting common stock.
- That is wholly owned by a corporation or individual owning 100% of the voting common stock of the assignor.
- That is a stapled entity as defined in R&TC Section 25105.



Revenue and Taxation Code allows qualified taxpayers to sell a credit attributable to an independent film to an unrelated party. To qualify as an independent film, the film and producing company must meet the following criteria:

- The film must have a minimum budget of one million dollars (\$1,000,000) and a maximum budget of ten million dollars (\$10,000,000).
- The film must be produced by a company that is not publicly traded.
- Publicly traded companies cannot directly or indirectly own more than 25% of the company producing the film.

The qualified taxpayer selling the credit shall report the following information to the Franchise Tax Board prior to the sale of the credit: (60)

- The Social Security number or taxpayer identification number of the unrelated party purchasing the credit.
- The amount of the credit.
- The amount of consideration the qualified taxpayer will receive for sale of the credit.

This nonrefundable credit may not be claimed until it is certain that there is a tax liability against which to claim the credit. Therefore, the first time the credit can be claimed is when the liability is assessed against the taxpayer who earned the credit. For example, the credit can be claimed when the tax return is filed or the tax liability is assessed in some other manner.

For taxable years beginning on or after January 1, 2016, a new film credit against tax will be allowed. The new tax credit is allocated and certified by the California Film Commission (CFC).

The qualified taxpayer can:

- Offset the credit against income tax liability.
- Sell the credit to an unrelated party (independent films only).
- Assign the credit to an affiliated corporation.
- Apply the credit against qualified sales and use taxes.

The credit amount is:

- 25% of the qualified expenditures attributable to the production of either a television series that relocated to California in its first year of receiving a tax credit allocation or an independent film.
- 20% of the qualified expenditures attributable to the production of a qualified motion picture in California or a television series that relocated to California that is in its second or subsequent years of receiving a tax credit allocation.

Additional credits, not to exceed a total of 5% of qualified expenditures, may be allowed:

- 5% of qualified expenditures relating to music scoring or music track recording attributable to the production of a qualified motion picture in California.
- 5% of qualified expenditures relating to qualified visual effects attributable to the production of a qualified motion picture in California.
- 5% of qualified expenditures relating to original photography outside the "Los Angeles Zone".

College Access Tax Credit

The College Access Tax Credit (CATC) is available to any taxpayer who contributes to the College Access Tax Credit (CATC) Fund. The CATC Fund is a specially created fund that will be used to provide additional Cal Grants to eligible students. Under the CATC legislation, a taxpayer who contributes to the CATC Fund may claim a California tax credit against a significant portion of the taxpayer's income and franchise taxes during tax years 2014 through 2022.

For taxable years beginning on and after January 1, 2017, and before January 1, 2023, the College Access Tax Credit (CATC) is available to entities awarded the credit from the California Educational Facilities Authority (CEFA). The credit is 50% of the amount contributed by the taxpayer for the taxable year to the College Access Tax Credit Fund. The amount of the credit is allocated and certified by the CEFA. The taxpayer must receive a certificate from California Educational Facilities Authority (CEFA) before he or she can claim the credit on his or her state income tax return.



Recently passed legislation (SB81) modified provisions to CATC. Taxpayers are now able to use the credit to reduce their tax below tentative minimum tax beginning with taxable years beginning on or after January 1, 2014. FTB will contact taxpayers who filed their 2014 tax return prior to the passage of this law, to assist them with claiming additional credit for which they might be eligible.

The taxpayer may also be able to claim a charitable deduction on his or her Federal tax return. If he or she does this, he or she must add back the amount of the charitable deduction taken on his or her Federal return as a state adjustment on his or her California tax return. The taxpayer cannot claim a deduction and a credit for the same contribution.

The taxpayer is eligible to claim the credit for the taxable year he or she submitted the application if all of the following occur:

- CEFA received a completed application by their deadline ((5 PM on Thursday, November 30, 2017 for the 2017 taxable year).
- CEFA issued the taxpayer a Notice of Allocation Reservation.
- The taxpayer provided CEFA a Contribution Submittal Form and contribution by the due date listed on the Notice of Allocation Reservation.
- CEFA provided the taxpayer with a signed College Access Tax Credit Certification.

In 2017, the credit can be applied to offset against insurance gross premiums tax. Also, 2017 is the last year the College Access Tax Credit (CATC) can be earned.

New Jobs Credit

A new tax credit of up to \$3,000 for each additional full-time employee hired is available to small businesses with 20 or less employees beginning January 1, 2009.

The credit is prorated on an annual full-time equivalent basis for employees employed less than a full year. (61)

- The credit is not subject to the 50% limitation for business credits.
- The total amount of credit available to be claimed by all taxpayers is capped at \$400 million.
- The credit must be claimed on a timely filed original return received by the Franchise Tax Board on or before a cut-off date specified by the Franchise Tax Board.
- Taxpayers claiming the credit on an original return received by the Franchise Tax Board after the cut-off date is met will be notified that the credit has been denied.
- Taxpayers that have been denied the credit as a result of the cut-off date being reached will not be assessed an underpayment of estimated tax or underpayment of tax penalty to the extent the underpayment was created or increased by the disallowance of this credit.

California allocated \$400,000,000 for this tax credit. Taxpayers may only claim the credit on an original timely filed return received by the FTB on or before a cut-off date specified by FTB. The cut-off date is the last day of the calendar quarter within which FTB estimates it will have received timely filed original returns claiming the credit that cumulatively total \$400 million.

An employer will qualify for the credit if:

1. Each qualified full-time hourly employee is paid wages for not less than an average of 35 hours per week.
2. Each qualified full-time employee that is a salaried employee was paid compensation during the year for full-time employment within the meaning of [Section 515 of the Labor Code](#).
3. On the last day of the preceding taxable year, they employed a total of 20 or fewer employees.
4. There is a net increase in qualified full-time employees compared to the number of full-time employees employed in the preceding taxable year. For taxpayers who first commence doing business in California during the taxable year, the number of qualified full-time employees employed in the preceding year would be generally be zero, unless certain special rules apply.

An employer may not claim the credit for those employees who are any of the following:

- Certified as a qualified employee in an enterprise zone or targeted tax area.
- Certified as a qualified disadvantaged individual in a manufacturing enhancement area.



- Certified as a qualified disadvantaged individual or qualified displaced employee in a local agency military base recovery area.
- An employee whose wages are included in calculating any other credit allowed.

Mortgage Interest Credit

Do not mistake the mortgage interest tax deduction for the Federal mortgage interest tax credit. There is no comparable State of California credit. In California, the taxpayer may claim the full mortgage interest deduction through [Schedule CA](#). If the taxpayer reduced his or her Federal mortgage interest deduction by the amount of his or her mortgage interest credit (from Federal [Form 8396 - Mortgage Interest Credit](#)), increase the California itemized deductions by the same amount.

Donated Fresh Fruits or Vegetables Credit



For taxable years beginning on or after January 1, 2017, and before January 1, 2022, qualified taxpayers may claim the New Donated Fresh Fruits or Vegetables Credit. This tax credit is for donations of fresh fruits or vegetables made to California food banks. The amount of the tax credit is 15% of the qualified value of the donated item, based on weighted average wholesale price. The credit may be claimed only on a timely filed original return. However, any credit not used in the taxable year may be carried forward up to seven years.

A qualified donor is a taxpayer that is engaged in the trade or business and is defined as the person responsible for planting the crop, managing the crop, and harvesting the crop from the land. The qualified value is calculated by using the weighted average wholesale price based on the qualified taxpayer's total like grade wholesale sales of the donated item sold within the calendar month of the qualified taxpayer's donation. If no wholesale sales of the donated item have occurred in the calendar month of the qualified taxpayer's donation, the qualified value will be equal to the nearest regional wholesale market price for the calendar month of the donation based on the same grade products as published by the United States Department of Agriculture's Agricultural Marketing Service or its successor.

The taxpayer must provide the nonprofit organization the qualified value of the donated fresh fruits or fresh vegetables and information regarding the origin of where the donated fresh fruits or vegetables were grown. Upon receipt of the donated fruits or vegetables, the recipient shall provide a certificate to the taxpayer substantiating the donation.

The certificate must contain a statement signed and dated by a person authorized to sign on behalf of the food bank, and the type and quantity of the products donated, the name of the donor or donors, the name and address of the donee nonprofit organization, and as initially provided by the taxpayer, the qualified value of the donated products and the location where the donated product was grown. The certificate should be provided to the Franchise Tax Board only upon request.



No credit will be allowed unless the taxpayer received a certificate from the donee nonprofit organization certifying donation of the fruits or vegetables.

This credit cannot reduce the minimum franchise tax (corporations and S corporations), annual tax (limited partnerships, limited liability partnerships, and LLCs classified as partnerships), the alternative minimum tax (corporations, exempt organizations, individuals, and fiduciaries), the built-in gains tax (S corporations), or the excess net passive income tax (S corporations). Also, this credit cannot reduce regular tax below tentative minimum tax.

If the available credit exceeds the current year tax liability or is limited by tentative minimum tax, the unused credit may be carried over to reduce the tax in the following year and for the six succeeding years or until exhausted, whichever occurs first. The taxpayer should apply the carryover to the earliest taxable year possible. In no event can the credit be carried back and applied against a prior year's tax.

Expense Reimbursements

Moving Expenses

California allows a taxpayer to exclude from gross income as a qualified fringe benefit any amount received by the taxpayer from an employer for moving expenses that would have been deductible by the taxpayer if they had not been reimbursed. California follows Federal law.



Living Expenses

Reimbursement from an insurance company for excess living expenses paid as a result of destruction (or threatened destruction) of the taxpayer's home by fire or other casualty is excluded from gross income under both California and Federal law.

Employee Educational Assistance Plans

California law is substantially the same as Federal law concerning the exclusion of up to \$5,250 of employer-provided educational assistance benefits from an employee's gross income. If the taxpayer's employer pays more than \$5,250 for educational benefits for him or her during the year, the taxpayer must generally pay tax on the amount over \$5,250. His or her employer should include in his or her wages (Form W-2, box 1) the amount that the taxpayer must include in income.



If the benefits over \$5,250 also qualify as a working condition fringe benefit, the taxpayer's employer does not have to include them in his or her wages. A working condition fringe benefit is a benefit which, had the taxpayer paid for it, he or she could deduct as an employee business expense. (39)

Medical Expenses

Federal law has changed the allowable medical and dental expense deduction amount. For Federal purposes, a deduction is allowed for unreimbursed allowable medical and dental expenses that exceeds 7.5% of Federal adjusted gross income (AGI). California allows a deduction for medical and dental expenses that exceed 7.5% of Federal AGI. California also differs from Federal law in that they allow a deduction for the medical expenses of a registered domestic partner and the partner's dependents.

Effective January 1, 2002, several taxpayer benefits were extended to a taxpayer's domestic partner and the domestic partner's dependent(s) for medical expenses and health insurance benefits that occur on or after January 1, 2002.

The benefits provided by Revenue and Taxation Code section 17021.7 include: (62)

- An exclusion from gross income for employer-provided accident and health insurance.
- An exclusion from gross income for medical expense reimbursement if the expense was not previously deducted.
- Medical expenses deductible as an itemized deduction.
- Long-term health care insurance deductible as a medical expense.
- A deduction by self-employed individuals for health insurance costs. The deduction may not exceed the net earnings from the trade or business in which the insurance plan is established.

California Assembly Bill (AB) 36 was enacted on April 7, 2011. This bill conforms California personal income tax law with Federal income tax law by adopting a specified provision of the Affordable Care Act signed into law by the President in March 2010. (The Affordable Care Act refers to Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010.) AB 36 is effective immediately, and generally applies to the same taxable periods as Federal law.

The Affordable Care Act amends Federal income tax laws to exclude the value of an eligible adult child's medical coverage from the taxable income of the parent-employee, even if the child is not a dependent. The law also allows self-employed individuals a deduction for health insurance premiums for an adult child under age 27, even if the child is not a dependent.

California personal income tax law, as amended by AB 36, conforms to the 2010 Federal income tax rules which exclude the value of the medical coverage provided to nondependent adult children from California gross income and allow a deduction to self-employed individuals for health insurance premiums for nondependent adult children under age 27.

Federal law has changed the allowable medical and dental expense deduction amount. For Federal purposes, a deduction is allowed for unreimbursed allowable medical and dental expenses that exceeds 7.5% of Federal adjusted gross income (AGI). California allows a deduction for medical and dental expenses that exceed 7.5% of Federal AGI.

To determine the amount of the itemized deduction adjustment: (63)

- Calculate the medical and dental expense deduction for California.
- Calculate the medical and dental expense deduction for Federal.



- Subtract the Federal amount from the California amount.
- Enter the amount on [Schedule CA](#), on line 41, as a positive number.

The definition of "dependent" is the same as for purposes of the exemption credit for dependents, and is determined without reference to gross income of the dependent. The definition of "medical care" is expanded for both California and Federal purposes to include amounts paid for qualified long-term care services and eligible long-term care premiums paid under qualified long-term care insurance contracts.

Premiums paid for a qualified long-term care insurance contract are a medical expense, but the deductible amount of the premium is limited by the age of the individual at the close of the tax year. The inflation-adjusted maximum deductible amounts are:

Age Group	Eligible Premium Amounts	
	2016	2017
Age 40 and under	\$390	\$410
Ages 41 through 50	\$730	\$770
Ages 51 through 60	\$1,460	\$1,530
Ages 61 through 70	\$3,900	\$4,090
Age 71 and over	\$4,870	\$5,110
Note: The limit on premiums is for each person.		

Table 5-4 - IRS Publication 502 - Qualified Long-Term Care Insurance Contracts (2017)

An MSA is a tax-exempt trust of custodial account set up in the United States exclusively to pay for qualified medical expenses of the account holder of the account holder's spouse or dependent(s) in conjunction with a high deductible health plan (HDHP). The taxpayer uses Federal [Form 8853 - Archer MSAs and Long-Term Care Insurance Contracts](#) to report general information about new MSAs, to figure MSA deductions and to figure taxable distributions for MSAs. There is no separate form to file to report general information about new MSAs or to figure MSA deduction for California tax purposes. However, if the taxpayer has a taxable MSA distribution, he or she should file [FTB Form 3805P - Additional Taxes on Qualified Plans \(Including IRAs\) and Other Tax-Favored Accounts](#).

With the exception of the amount of penalties imposed on unauthorized withdrawals, California law is the same as Federal law. Employer's contributions to an Archer medical savings account (MSA) and any interest or dividends earned on an Archer MSA are excluded from a taxpayer's gross income. After December 31, 2007, contributions cannot be made to an Archer MSA for a taxpayer unless either of the following applies:

- He or she was an active MSA participant before January 1, 2008.
- He or she becomes an active MSA participant after December 31, 2007 because he or she is covered by a HDHP of a MSA participating employer.

Withdrawals made from an Archer MSA are also exempt if used to pay unreimbursed qualified medical expenses of the taxpayer, spouse, and dependents which are essentially the same as those expenses that qualify for an itemized medical deduction. Distributions from an Archer MSA for nonmedical purposes are treated as taxable income and are subject to a 10% penalty (15% under Federal law), unless the distribution is made after the taxpayer reaches age 65, becomes disabled, or dies. The penalty is reported on [FTB Form 3805P - Additional Taxes on Qualified Plans \(Including IRAs\) and Other Tax-Favored Accounts](#). (64)

Archer Medical Savings Accounts

California law is the same as Federal, with the exception of the penalty amount imposed on withdrawals from an Archer Medical Savings Account (MSA) that are used for nonqualified expenses. Taxpayers that claim a Federal deduction for contributions to an Archer MSA or MedicarePlus Choice MSA may claim the same deduction on their California returns. The deduction is not subject to the 7.5% floor for itemized medical expense deductions. Under both California and Federal law, a contribution made after the end of the taxable year is considered to have been made on the last day of the year, provided that the contribution is on account of such taxable year and is made no later than the due date of the return.



California law is the same as Federal law regarding distributions from Medicare Advantage MSAs. Any distribution that is subject to the 50% penalty under IRC [Section 138\(c\)\(2\)](#) is also subject to a 50% penalty for California purposes. (65)

Health Savings Accounts (HSA)

California has not conformed to any of the Federal Health Savings Account (HSA) provisions. The California return starts with Federal adjusted gross income (AGI) and requires adjustments to be made for differences between Federal and California law. Adjustments relating to HSAs are required under current law, as follows: (48)

- A taxpayer taking an HSA deduction on the Federal return is required to increase AGI on the taxpayer's California return by the amount of the federal deduction.
- Any interest earned on the account is added to AGI on the taxpayer's California return.
- Any contribution to an HSA (including salary reduction contributions made through a cafeteria plan) made on the employee's behalf by their employer is not excluded from income and is added to AGI on the employee's California return.

Since a tax-free rollover from an MSA to an HSA is not allowed under California law, any distribution from an MSA that is rolled into an HSA must be added to AGI on the taxpayer's California return. Additionally, under California law that MSA distribution is not treated as being made for qualified medical expenses and is, therefore, subject to the MSA 10% penalty tax.

Qualified Tuition Programs

California incorporates Federal laws concerning qualified tuition programs, which **excludes** from the gross income of a beneficiary of, or contributor to, a qualified tuition program, qualified distributions or earnings under such program. To qualify for the exclusion, distributions must be used to pay for a beneficiary's qualified higher education expenses. However, amounts distributed to a contributor (e.g., refunds to a parent or other relative) will be *included* in the contributor's gross income to the extent that such amounts exceed the contributions made by that person.

Distributions are also not taxable under the annuity rules if they are transferred within 60 days to another qualified tuition program for the benefit of the designated beneficiary (limited to once in a 12-month period) or to the credit of another beneficiary under a qualified tuition program who is a family member of the designated beneficiary. Also, a change in beneficiary will not be treated as a distribution if the new beneficiary is a member of the previously designated beneficiary's family. Distributions not used for qualified education expenses are subject to a 2.5% penalty (combined with 10% for Federal purposes). The penalty is reported on [FTB Form 3805P - Additional Taxes on Qualified Plans \(Including IRAs\) and Other Tax-Favored Accounts](#).

Employer Provided Transportation Benefits



Tip

Under Federal law and the provisions administered by the Employment Department, qualified transportation benefits are excluded from gross income. Under the California law there are no monthly limits for the exclusion of these benefits and California's definitions are more expansive. Federal law provides an income exclusion for the value of qualified parking provided to an employee of up to \$245 per month. California law provides an income exclusion for compensation or the fair market value of other benefits (except salary or wages) received for participation on a California ridesharing arrangement such as:

- Subsidized parking.
- Commuting in a third-party van pool.
- A private commuter bus.
- A subscription taxipool.
- Monthly transit passes provided for employees and their dependents.

Enter the amount of ridesharing fringe benefits received and included in Federal income on Schedule CA (540 or 540 NR) on line 7 column B.



Business or Trade Expenses

All ordinary and necessary expenses of a business or trade are deductible. The California law is the same as the Federal, with a few minor exceptions, which include:

- California prohibits the deduction of expenses for certain types of illegal and/or criminal activities such as robbery, burglary, forgery, counterfeiting, prostitution, drug trafficking, etc. (Federal laws are quite similar, with the same intent to disallow the deduction of expenses from income derived from illegal activities.)
- Where a tax credit is allowed for wages to provide new jobs, the wages are disallowed as a Federal deduction; however, such wages are still allowed as a California deduction.
- California denies a deduction for business expenses paid to a club that engages in discriminatory practices.
- California, but not Federal, law treats a taxpayer's domestic partner as the taxpayer's spouse for purposes of determining the amount that may be deducted for self-employed individual health insurance and amounts paid or incurred by the taxpayer as to certain group health plans (under the Internal Revenue Code).
- No deduction allowed for taxes measured by income or profits (Federal and state).

Self-Employed Health Insurance Costs

For 2017, self-employed taxpayers are allowed to deduct 100% of the amount they pay for medical insurance for themselves and their families. The deduction cannot exceed net earnings from self-employment. In computing earnings from self-employment one must take into account the deduction for 50% of self-employment tax. This deduction may be taken even if the taxpayer does not itemize deductions.



California personal income tax law, as amended by California Assembly Bill (AB) 36, conforms to the 2010 Federal income tax rules which exclude the value of the medical coverage provided to nondependent adult children from California gross income and allow a deduction to self-employed individuals for health insurance premiums for nondependent adult children under age 27.

Automobile Expenses

The Internal Revenue Service has followed a policy of allowing fixed per diem allowances and automobile mileage rates in lieu of itemized details for certain deductible expenses, and from time to time has announced revision of the allowable rates. It is the policy, generally, of the Franchise Tax Board to conform to the Federal practice.

The Franchise Tax board allows two methods for determining business automobile expenses: (51)

- *Actual expenses* – Car operating expenses (e.g., gas, oil, repairs, license fees, insurance, depreciation, etc.) for the entire year multiplied by the percentage of time the taxpayer used the car for business purposes.
- *Standard mileage rate* – A more simplified method in which the taxpayer multiplies the business miles and the applicable published Federal mileage rate. For 2017, the standard mileage rate is 53.5 cents per mile for business miles driven, down from 54 cents in 2016.

The Franchise Tax Board requires that the taxpayer keeps adequate records showing the date, amount, place, and essential character of the expense to substantiate his or her deduction(s).

Meal and Beverage Expenses

Taxpayers may deduct only 50% of business-related meal and beverage expenses, including the cost of meal and beverage expenses incurred during business travel away from home. The 50% limit is also applicable to unreimbursed expenses incurred by employees on behalf of their employer.



Tip Also, the deduction is generally not allowed unless taxpayers establish that: the meal and beverage expenses were directly related to the active conduct of their trade or business or in the case of expenses directly preceding or directly following a bona fide business discussion, that the expenses were associated with the active conduct of their trade or business. An exception is provided allowing deductions by taxpayers for the cost of their own meals while away on business. Food and beverage expenses deemed lavish or extravagant under the circumstances are not deductible.



The IRS provides detailed guidance on these types of expenses in IRS [Publication 463 - Travel, Entertainment, Gift, and Car Expenses](#) and the FTB follows IRS guidelines.

Entertainment Expenses

Taxpayers may deduct only 50% of the cost of business entertainment expenses. As before, they must establish that the expenses were directly related to the active conduct of their trade or business or in the case of entertainment expenses directly preceding or directly following a bona fide business discussion, that the expenses were associated with the active conduct of their trade or business. Generally, taxpayers may not deduct more than 50% of the face value of entertainment tickets. However, the full amount paid for tickets to sporting events may be deducted if: (66)

1. The event benefits a charity.
2. The proceeds go to the charity.
3. The event uses volunteers to perform substantially all the event's work.



Under Federal and California law, no deduction is allowed for club dues paid or incurred for membership in any business, pleasure, social, athletic, luncheon, sporting, airline, or hotel club. The IRS provides detailed guidance on these types of expenses in IRS [Publication 463 - Travel, Entertainment, Gift, and Car Expenses](#) and the FTB follows IRS guidelines. Also, the CR&TC provides that no trade or business expense deduction is allowed for expenditures made at, or payments made to, a club that restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry, or national origin.

Travel Expenses

Taxpayers may not deduct the cost of travel that in itself constitutes a form of education. For example, a language teacher may not deduct the cost of visiting a foreign country merely for the purpose of maintaining familiarity with the country's language and culture. Charitable travel expenses may be deducted only if there is no significant element of personal pleasure, recreation, or vacation in such travel.

Also, taxpayers may no longer deduct the expenses of attending a convention, seminar, or similar meeting in connection with their investment activities. The convention, meeting, or seminar must now relate to the taxpayer's trade or business. The convention, seminar, or meeting must offer significant business-related activities, participation in meetings, workshops, or lectures. A deduction for travel expenses of a spouse, dependent, or any other individual accompanying a person on a business trip is disallowed unless: (66)

- The accompanying individual is an employee of the person paying or reimbursing the travel expenses.
- The accompanying individual's travel is also for a bona fide business purpose.
- The expenses would otherwise be deductible by the accompanying individual.

The IRS provides detailed guidance on these types of expenses in IRS [Publication 463 - Travel, Entertainment, Gift, and Car Expenses](#) and the FTB follows IRS guidelines.

Gift Expenses

The taxpayer can deduct no more than \$25 for business gifts he or she gives directly or indirectly to each person during the tax year. A gift to a company that is intended for the eventual personal use or benefit of a particular person or a limited class of people will be considered an indirect gift to that particular person or to the individuals within that class of people who receive the gift. The IRS provides detailed guidance on these types of expenses in IRS [Publication 463 - Travel, Entertainment, Gift, and Car Expenses](#) and the FTB follows IRS guidelines. (66)

Start-Up Costs

California conforms to the Federal changes made to the deduction of business start-up and organizational costs paid or incurred on or after January 1, 2005. When starting a new business, a taxpayer can generally deduct up to \$5,000 of start-up expenses (e.g., salaries, marketing, market analysis, etc.) and \$5,000 of organizational costs (e.g., legal services, fees paid to the state to incorporate) in the year the business begins. California does not conform to the Federal increase in the deduction for start-up expenses in 2010 taxable year.



Review

The following pages contain several review questions that are designed to help you learn the material you have just studied. Review questions are for instructional use only and you will not be graded on these questions. We also provide you the answers to each question and an explanation or feedback as to how we arrived at each answer.

Best practice suggests that you should try to answer these questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material. As with all self-study Qualifying Education (QE) courses, you can refer back to the course material to locate the answers, the so called 'open book' learning method is permissible.

Review Questions

Answers appear in [Review Feedback](#)

1. For a taxpayer to qualify for the Nonrefundable Renter's Credit which of the following requirements must be true?
 - A. He or she is a minor living with and under the care of a parent, foster parent, or legal guardian
 - B. He or she rented that was exempt from California property tax
 - C. He or she paid rent for at least 3 months of the year for property in California that was his or her principal residence
 - D. He or she did not live with another person for more than half the year (such as a parent) who claimed him or her as a dependent
2. Provided all the criteria are met, the Nonrefundable Renter's Credit for the head of household filing status is what amount in 2017?
 - A. \$60
 - B. \$90
 - C. \$120
 - D. \$150
3. California allows a taxpayer filing as a senior, head of household to claim a credit equal to 2% of taxable income that does not exceed what amount (provided all other conditions of this credit are met) in 2017?
 - A. \$1,251
 - B. \$1,272
 - C. \$1,380
 - D. \$1,357
4. Distributions from an Archer MSA for nonmedical purposes are treated as taxable income and are subject to a 10% penalty unless the distribution is made for which, if any or all, of the following reasons?
 - A. Taxpayer reaches age 65
 - B. Taxpayer becomes disabled
 - C. Taxpayer dies
 - D. All of the above
5. Under the Revenue and Taxation Code (R&TC), what is the monthly limit for the exclusion for a California ridesharing arrangement?
 - A. \$100
 - B. \$250
 - C. \$255
 - D. No Monthly Limit
6. An employer will qualify for the New Jobs Credit for all of the following reasons except:
 - A. Each employee certified as a qualified employee in an enterprise zone or targeted tax area
 - B. Each qualified full-time hourly employee is paid wages for not less than an average of 35 hours per week
 - C. Each qualified full-time employee that is a salaried employee was paid compensation during the year for full-time employment within the meaning of Section 515 of the Labor Code
 - D. On the last day of the preceding taxable year, they employed a total of 20 or fewer employees



Review Feedback

Return to [Review Questions](#)

Question 1 - D. He or she did not live with another person for more than half the year (such as a parent) who claimed him or her as a dependent

To qualify for the full Nonrefundable Renter's Credit, the taxpayer must meet **all** the following:

1. Was a resident of California.
2. Have California adjusted gross income (AGI) under certain levels. For 2017 the limit is \$40,078 or less if the taxpayer's filing status is single or married/registered domestic partner filing a separate return; or \$80,156 or less if he or she is a married/registered domestic partner filing jointly, a head of household, or a qualified widow(er).
3. Paid rent for at least half of 2017 for property in California that was his or her principal residence.
4. Did not live with another person for more than half the year (such as a parent) who claimed him or her as a dependent in 2017.
5. Not a minor living with and under the care of a parent, foster parent, or legal guardian.
6. Rented property for more than half the year that was not exempt from California property tax in 2017.
7. Married and neither taxpayer nor his or her spouse/registered domestic partner was granted a homeowner's property tax exemption during 2017. (The taxpayer can still qualify for the credit, even though his or her spouse/registered domestic partner claimed a homeowner's exemption, as long as each maintained a separate residence for the entire year in 2017).

Question 2 - C. \$120

If the taxpayer pays rent and has a personal income tax liability, he or she may be able to use the Nonrefundable Renter's Credit to reduce his or her tax. If all criteria are met (see above) the credit amount is \$60 for single or married/RDP filing separately and \$120 for head of household, widow(er), married/RDP filing jointly. Therefore, Answer C is correct.

Question 3 - C. \$1,380

California allows a *senior head of household* to claim a credit equal to 2% of taxable income for a maximum credit of \$1,380 in tax year 2017.

Question 4 - D. All of the above

With the exception of the amount of penalties imposed on unauthorized withdrawals, California law is the same as Federal law. Employer's contributions to an Archer medical savings account (MSA) and any interest or dividends earned on an Archer MSA are excluded from a taxpayer's gross income. Withdrawals made from an Archer MSA are also exempt if used to pay unreimbursed qualified medical expenses of the taxpayer, spouse, and dependents which are essentially the same as those expenses that qualify for an itemized medical deduction. Distributions from an Archer MSA for nonmedical purposes are treated as taxable income and are subject to a 10% penalty (15% under Federal law); unless the distribution is made after the taxpayer reaches age 65, becomes disabled or dies. The penalty is reported on FTB Form 3805P.

Question 5 - D. No Monthly Limit

Under Federal law, qualified transportation benefits are excluded from gross income. Under the R&TC, there are no monthly limits for the exclusion of California ridesharing arrangement benefits and California's definitions are more expansive. Enter the amount of ridesharing benefits received and included in Federal income on Schedule CA (540 or 540 NR) on line 7, column B.

Question 6 - A. Each employee certified as a qualified employee in an enterprise zone or targeted tax area

An employer may not claim the credit for those employees who are any of the following:

- Certified as a qualified employee in an enterprise zone or targeted tax area.
- Certified as a qualified disadvantaged individual in a manufacturing enhancement area.
- Certified as a qualified disadvantaged individual or qualified displaced employee in a local agency military base recovery area.

An employee whose wages are included in calculating any other credit allowed.



California Taxes

At the conclusion of this lesson you should have a basic knowledge of:

- Tax Rates
- Various California Taxes
- Alternative Minimum Tax
- Sales and Use Tax Collection
- California Business Taxes
- Refunds
- Tax Payment
- Estimated Tax Payments

California Tax Rates



The 2017 income tax brackets, along with filing requirement thresholds, standard deductions, and certain credits are adjusted for inflation using a process called indexing. The indexing rate is based on the inflation rate, as measured by the California Consumer Price Index (CPI), for all urban consumers from July 1, 2016 through June 30, 2017. The 2017 inflation rate measured 2.1%. In 2013, the tax rate schedules were updated to reflect tax increases due to the passage of Proposition 30. Among other things, Proposition 30 raised the personal income tax rate on individuals making more than \$250,000 per year for the next six years. The income tax changes apply retroactively to all income earned or received since January 1, 2012.

For tax year 2017, the maximum individual tax rate is 12.3%. If the income exceeds \$1,000,000, there is an additional 1% mental health tax bringing the top rate to 13.3%. The maximum Alternative Minimum Tax rate (AMT) for an individual remains at 7%. California tax law differs from Federal law in that California does not tax Capital Gains or Dividend Income at reduced tax rates. (67)

Additional Tax on Millionaires



Starting with tax year 2005, an additional 1% income tax is imposed on the portion of a taxpayer's income in excess of \$1,000,000. Furthermore, personal income tax credits may not be applied against this added tax. Revenues raised from the additional tax will be used to support the provision of local government mental health services.

Use of Tax Table and Tax Rate Schedules

The *California Tax Table* must be used for all returns on which the taxpayer's taxable income is less than \$100,000. The *California Tax Rate Schedules* must be used for all returns on which the taxpayer's taxable income is over \$100,000.

Tax Rates for Nonresidents

California's tax is imposed on a nonresident's or part-year resident's taxable income as follows; a nonresident's or part-year resident's taxable income is all of the nonresident's or part-year resident's gross income and deductions for the portion of the taxable year that the taxpayer was a California resident and/or the gross income and deductions attributable to California during the period the taxpayer was a nonresident of California. Carryover items, deferred income, suspended losses, or suspended deduction are includible or allowable only to the extent that the carryover item, deferred income, suspended loss, or suspended deduction was derived from sources within this state.

The tax rate applied to the nonresident's or part-year resident's taxable income is computed by first determining the tax on the taxpayer's entire taxable income as if the nonresident or part-year resident were a California resident for the taxable year and for all prior taxable years for purposes of any carryover items, deferred income, suspended losses, or suspended deductions. This amount is divided by the taxpayer's total taxable income and the resultant amount is multiplied by the taxpayer's California-sourced taxable income to arrive at the taxpayer's California tax liability.



Taxes

California law is the same as Federal, except that California specifically prohibits the deduction of "state, local and foreign income, war profits, and excess profits taxes," and California does not allow the deduction of state or local sales and use taxes or the California SDI/VPDI tax. However, some such taxes may be used as credits. California law has incorporated Federal provisions allowing for the deduction of certain specific categories of taxes, as follows:

- State, local, and foreign real property taxes.
- State and local personal property taxes.
- Other state, local, and foreign taxes relating to a trade or business, or to property held for production of income (except income taxes).

Foreign Taxes

Numerous rulings and decisions over the years have held specific foreign taxes nondeductible under the income tax prohibition.

Excess State Disability Insurance (SDI) Credit



An income-tax credit is allowed for any excess employee contributions for disability insurance under the Unemployment Insurance Code. The 2017 SDI withholding rate is .9% (.009). The rate includes Disability Insurance (DI) and Paid Family Leave (PFL). The SDI taxable wage limit is \$110,902 for each employee per calendar year. The maximum amount withheld for each employee is \$998.12.

In other words, if an employee worked for more than one employer during the year, the employee is entitled to recover any amounts withheld from his or her wages in excess of the tax on the maximum wage limit (amount over \$998.12 withheld in 2017). If the employee files an income tax return, the employee recovers any such excess by claiming credit on his or her return. If the claim is disallowed, the employee may file a protest within 30 days with the Employment Development Department (EDD).



If SDI (or VPDI) was withheld from wages by a single employer, at more than 0.9% of gross wages, the taxpayer may **not** claim excess SDI (or Voluntary Plan Disability Insurance (VPDI)) on the taxpayer's Form 540.

Auto License Fees

California motor vehicle license fees less the vehicle license fee offset amounts and excluding registration fees, weight fees (trucks only), county or district fees, are based on value and are deductible as personal property taxes. The California Department of Motor Vehicles (DMV) can supply the amount of a taxpayer's deductible vehicle license fee.

Unearned Income of a Minor Child (Kiddie Tax)

For taxable years beginning on or after January 1, 2010, California conforms to the provision in the Small Business and Work Opportunity Tax Act of 2007 that increased the age of minor children whose unearned income is taxed as if it were the parents' income to apply to children who are either under the age of 19 or full-time students who are between 19 and 24. California also conformed to the Federal provision permitting a parent an election to include child's *interest and dividends* between \$1,050 and \$10,500 on the parent(s) return. The threshold for child's unearned income is adjusted annually for inflation.

For the 2017 tax year Kiddie Tax is owed if all the following apply: (68)

- The child is under the age of 19 or a student under age 24 at the end of the year.
- The child has investment income taxable by California of more than \$2,100
- At least one of the child's parents was alive at the end of the year.
- The child does not have earned income that exceeds over half of their support.

If the child's unearned income is \$1,050 or greater, but includes items other than interest and dividends, or if the taxpayer's child has earned income (wages or non-employee compensation) in excess of \$6,300, then the child must file their own return.



A child's investment income is usually taxed as: (69)

- The first \$1,050 of the child's income is not taxable.
- The next \$1,050 is taxed at the child's rate.
- Any income that is more than \$2,100 is taxed at the parental tax rate.

Investment income is all income other than wages, salaries, professional fees, and other amounts received as pay for work actually done. Net investment income is investment income reduced by the greater of:

- \$2,100.
- \$1,050 plus the child's itemized deductions that are directly connected with the production of his or her investment income.

Parental tax is the difference in tax on the parent's income figured with and without the child's net investment income.

For certain children, investment income over \$2,100 is taxed at the parent's rate if the parent's rate is higher. Use [FTB Form 3800 - Tax Computation for Certain Children with Investment Income](#), to figure the child's tax. If [Federal Form 8615 - Tax for Certain Children Who Have Unearned Income](#), was filed with the child's Federal tax return, enter the name and SSN or ITIN of the same parent who was identified at the top of Federal Form 8615 on FTB Form 3800.

A parent may elect to include on the parent's return the unearned income of a child whose income is more than \$1,050 but less than \$10,500 and consists solely of interest, dividends, or Alaska Permanent Fund dividends. The child is treated as having no gross income and does not have to file a tax return if the child's parent makes the election. However, the election is not available if estimated tax payments were made in the child's name and taxpayer identification number for the tax year or if the child is subject to backup withholding. To report the unearned income of a child on the parent's return, [FTB Form 3803 - Parents' Election to Report Child's Interest and Dividends](#) (comparable to [Federal Form 8814 - Parents' Election To Report Child's Interest and Dividends](#)) must accompany the parent's return.



The taxpayer is not required to report the same as Federal. For example, if the taxpayer reported Federal Kiddie Tax on the parent's return, they can choose to report it on the child's return for California and vice versa. Schedule CA adjustments would be needed. For example, if the parents elect to report a child's income on the Federal income tax return, but not on the California income tax return, they must be sure to make an adjustment on Schedule CA (540 or 540NR), line 21f.

Documentary Transfer Tax

In California, counties and cities have been authorized to impose a tax on deeds of transfer of interests in real estate with a value of more than \$100 located within such county or city. The amount of the tax is based on the consideration or value of the realty transferred. The county rate is fifty-five cents (\$0.55) for each five hundred dollars (\$500) of value, and the non-charter city rate is one-half of the county rate and is credited against the county tax due. Charter cities, however, may impose transfer taxes at a rate higher than the county rate. The transfer tax must be paid by the person who makes, signs or issues any document subject to the tax, or for whose use or benefit the document is made, signed or issued.

Taxpayers over the age of 55 or who are severely and permanently disabled may transfer the adjusted base-year value of their original residence to a replacement residence of equal or lesser fair market value (FMV) in the same county, provided the purchase of the replacement principal residence is within two years of the sale of the original home. Property tax relief also is available for moves between counties if the county where the replacement home is located has adopted an ordinance permitting the valuation transfer.

Effective September 19, 2013, nine California counties will have property tax ordinances implementing the inter-county base year value transfer provisions for taxpayers that are at least age 55 or are severely and permanently disabled. The counties are:

- Alameda
- El Dorado
- Los Angeles
- Orange
- Riverside
- San Diego
- San Mateo



- Santa Clara
- Ventura

Generally, the carryover of a residence's base-year value by a taxpayer over the age of 55 or a severely and permanently disabled person is only obtainable once. However, a taxpayer over the age of 55 who previously transferred the base-year value of a former residence to a replacement residence may apply the base-year value transfer provisions a second time if he or she later becomes severely and permanently disabled. Taxpayers over the age of 55 or disabled are also allowed a base year value transfer if they would otherwise have been qualified for a base year value transfer, except for the fact that their residence was substantially damaged or destroyed by misfortune or calamity. Hence, the value of their replacement residence exceeds the value of their original residence in its damaged condition. Additionally, businesses are not qualified to transfer original base-year values.

California Estate Tax

Prior to January 1, 2005, California actually did collect a separate estate tax at the state level, called a "pick up tax", that was equal to a portion of the overall Federal estate tax bill. The "pick up tax" is a state estate tax that was collected based on the state estate tax credit that the IRS allowed on the Federal estate tax return, IRS Form 706, prior to January 1, 2005.

Effective January 1, 2005, the "pick up tax" officially phased out under the provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). In response to these changes in Federal law that phased out the "pick up tax", some states that used to collect a "pick up tax" chose to enact laws that allow the state to still collect a state estate tax. This is referred to as "decoupling" since the states that enacted a state estate tax no longer based their state estate tax laws on current Federal estate tax laws.

The majority of states did not act and no longer collect a state estate tax. Additionally, California is unique because oddities in state law prohibit the legislature from enacting a California state estate tax without voter approval.

A [Form ET-1 - California Estate Tax Return](#), is required to be filed with the State Controller's Office, whenever a Federal estate tax return [Form 706 - United States Estate \(and Generation-Skipping Transfer\) Tax Return](#) is filed with the IRS. However, after January 1, 2005, the IRS no longer allows the state death tax credit; therefore, a California Estate Tax Return is not required to be filed for decedents whose date of death is after December 31, 2004.

Pursuant to Revenue and Taxation Code [Section 13302](#) the amount of California estate tax is equal to the maximum allowable amount of the credit for state death taxes, allowable under the applicable Federal estate tax law. Generally, this amount would be shown (depending on the year of death) on either line 13 or 15 of the Form 706. The penalty for failure to file a California Estate Tax Return is five percent (5%) per month or portion thereof, not to exceed 25%. Effective January 1, 2001, the entire unpaid balance bears interest at the Federal rate and is compounded daily.

A [Form ET-1A - California Additional Estate Tax Return](#), is required to be filed with the State Controller's Office whenever a Federal Additional Estate Tax Return, Internal Revenue Service (IRS) Form 706-A, or Form 706-D, is required to be filed with the IRS. The qualified heir of the estate with respect to any specially valued property must file the Additional Estate Tax Return, even if no tax is ultimately due. The qualified heir must also file the additional estate tax return if there was any involuntary conversion or exchange of any specially valued property even if the conversion or exchange is nontaxable. The Additional Estate Tax Return is due and any tax liability is payable on or before six (6) months from the date of disposition or cessation.

Pursuant to Revenue and Taxation Code [Section 16720](#), every person required to file a Federal generation-skipping transfer tax return, IRS Form 706-GS(D) or Form 706-GS(T) is required to file a California Generation-Skipping Transfer Tax Return, GST(D) or GST(T), with the State Controller's Office. The California Generation-Skipping Transfer Tax Return is due and payable on or after January 1st, but not later than April 15th, of the year following the calendar year when the distributions were made or the terminations occurred. The California return must include a complete copy of the Federal generation-skipping transfer tax return and all related schedules. (70)

California does not have a state inheritance tax, however, beneficiaries should be mindful of a number of tax-related issues. Some assets received by intestacy or bequest may be subject to taxation despite the absence of a state inheritance tax.

Gasoline Tax Refund

The State of California imposes a motor vehicle fuel tax per gallon purchased. The law allows for a refund of the gasoline



tax paid if the fuel is used for certain off-highway purposes. Gasoline includes “finished gasoline” and gasoline blendstocks. The term “motor vehicle fuel” is often used in place of gasoline. Finished gasoline means all products (including gasohol) that are normally known or sold as gasoline. Gasoline does not include jet fuel, diesel fuel, kerosene, liquefied petroleum gas, natural gas in liquid or gaseous form, alcohol or racing fuel.

Individuals, businesses (corporations, partnerships, sole proprietors, etc.), non-profit organizations, governmental entities, and other entities that have purchased and used gasoline for “qualifying off-highway purposes” may file for a refund. All claimants must have paid the California gasoline tax to qualify for a refund. Refund claims must be filed within three (3) years from date of gasoline purchase. Use [Form SCGR-1 - Gasoline Tax Refund Claim](#) to claim the refund.

Due to changes in the governing statutes, claims for gasoline will be refunded at the following rates. Additionally, each new fiscal year the Board of Equalization may adjust the rate of the motor vehicle fuel excise tax.

Period	Rate per Gallon
From July 1, 2011 to June 30, 2012	0.357
From July 1, 2012 to June 30, 2013	0.36
From July 1, 2013 to June 30, 2014	0.395
From July 1, 2014 to June 30, 2015	0.36
From July 1, 2015 to June 30, 2016	0.30
From July 1, 2016 to June 30, 2017	0.278
From July 1, 2017 to June 30, 2018	0.297

Table 6-1 - California State Controller - Gasoline Tax Refund - Excise Tax Rates (2017)

Para-transit claims will continue to be refunded at a rate of \$0.06 cents per gallon.

A separate tax is imposed for the privilege of storage, removal, entry, or use of diesel fuel. Effective July 1, 2012, the state tax rate is 10¢ per gallon of diesel fuel, subject to adjustment should the Federal fuel tax rate be reduced. Certain local jurisdictions are also approved to impose a limited per gallon tax on the sale, storage, or use of motor vehicle fuel, if approved by the voters.

Generally, a taxpayer may file one claim for each calendar year. However, if during the year the amount of gas tax he or she paid exceeds \$750, he or she may file a claim at the end of that quarter, rather than waiting for the end of the year. Exporters of gasoline may file as often as necessary.

The taxpayer does not need to send the original gasoline purchase receipts with his or her claim form. He or she only is required to submit Form SCGR-1 and related schedules. However, the State Controller's Office (SCO) may request any information deemed necessary to process a refund, including purchase invoices. Failure to provide the supporting documents upon request is cause for denial of the claim. In addition, certain other documentation is required for export and paratransit claims.

Taxpayer must retain original purchase invoices and all information supporting refundable fuel usage for four years following refund issuance. The State Controller's Office (SCO) performs post-payment audits of refund claims. Failure to support any amount refunded may result in repayment of the amount refunded. Claimants must also provide "proof of exportation".

Proof of exportation includes the following: (71)

- Documentation from the importing state or country that verifies the amounts claimed.
- Bills of lading, pipeline tickets, delivery tickets, or the fuel manifest.
- Invoices must be cross-referenced with the supporting documentation to show the gasoline movement from California to other state or country.

Additionally, paratransit operators must make available a copy of their contract(s) to provide transportation services. Paratransit operators must be a party to a contract or agreement with a public agency that authorizes them to provide transportation services, or be designated as a transportation agency.



Property Tax Postponement

In February 2009, the State Legislature indefinitely suspended the State Controller's Office Property Tax Postponement Program. Since that time, the Controller's Office has been working with the Legislature to reinstate the program or find other ways to assist senior, blind and disabled homeowners with their property taxes. However, the State Controller's Office Property Tax Postponement Program remains suspended. However, on September 30, 2011, the Governor signed [AB 1090](#), which allows each county, if they choose, to start a property tax postponement program for properties located in their county. The voluntary county-run property tax postponement program is effective January 1, 2012.

Alternative Minimum Tax (AMT)

The alternative minimum tax, which is in addition to regular tax, is imposed under California and Federal law in an amount equal to the excess (if any) of the tentative minimum tax for the taxable year over regular tax for the taxable year. For California alternative minimum tax purposes, regular tax is the personal income tax before reduction for any credits against tax.

The California alternative minimum tax rate is 7%. For Federal purposes, the alternative minimum tax rate is 26% of the first \$175,000 (\$87,500, in the case of married individuals filing separately) of a taxpayer's alternative minimum taxable income (AMTI) in excess of the applicable exemption amount and 28% of any additional AMTI in excess of the exemption amount. However, the Federal, but not California, minimum tax rate is lowered to reflect the reduction in the Federal capital gains rate and the reduced rate applied to qualified dividends.

A nonresident's or part-year resident's tentative minimum tax is determined by multiplying the nonresident's or part-year resident's alternative minimum taxable income by a ratio, the numerator of which is the tax determined as if the taxpayer were a California resident for the taxable year and for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions, and denominator of which is the taxpayer's total alternative minimum taxable income. A nonresident or part-year resident's alternative minimum taxable income includes all items of alternative minimum taxable income during which the taxpayer was a California resident and only those items derived from California sources during any period that the taxpayer was a nonresident.

Any carryover items, deferred income, suspended losses, or suspended deductions are allowable only to the extent that the carryover item, suspended loss, or suspended deduction was derived from California sources. There is no equivalent computation for Federal purposes.

For the AMT, certain items of income, deductions, etc., receive different tax treatment than for the regular tax. Therefore, the taxpayer needs to refigure items for the AMT that he or she figured for the regular tax. In some cases, the taxpayer may wish to do this by completing the applicable tax form a second time. If he or she does complete another form, do not attach it to his or her tax return, but keep it for his or her records.

For regular tax, some deductions may result in carryovers to future taxable years. Examples are investment interest expense, NOL, and capital loss. Because the taxpayer may have to refigure these items to determine AMT for the estate or trust, the carryover amount may be different for AMT than for regular tax. Although the carryovers that the taxpayer figures for AMT do not affect the carryovers for regular tax, he or she must keep track of the AMT carryovers in order to complete his or her Schedule P in future years.

California modifies Federal law disallowing the standard deduction and the deduction for personal exemptions for alternative minimum tax computation purposes to disallow only the standard deduction. Also, California allows certain credits to reduce a taxpayer's regular tax below the tentative minimum tax, after an allowance for the minimum tax credit.

The following are some of the credits that may reduce the regular tax below the tentative minimum tax:

- The Nonrefundable Renter's Credit.
- The Credit for Excess Unemployment Compensation Contributions.
- The credits for taxes paid to other states.
- The credit for withheld tax.
- The personal, dependent, blind, and senior exemption credits.
- The Adoption Costs Credit.
- California Earned Income Tax Credit (EITC).



- The credits for qualified joint custody head of household and a qualified taxpayer with a dependent parent; and the senior head of household credit.

Computation of AMTI

For both Federal and California purposes, AMTI is regular taxable income after certain adjustments, increased by the amount of Tax Preference Items (TPI). However, for purposes of calculating AMTI, qualified taxpayers exclude income, adjustments, or items of tax preference from their trade or business.

The following are the main applicable adjustments and TPIs:

- Medical and Dental Expenses.
- Real Estate and Property Taxes.
- Excess depreciation.
- Capitalized expenses.
- Long-term contracts.
- Alternative minimum tax net operating loss deduction.
- Alternative tax itemized deductions.
- Incentive stock options.
- Investment interest expense.
- Interest on home mortgage not used to buy, build or improve a home.

Medical and Dental Expenses

The taxpayer does not include any adjustment for differences between Federal and California laws to figure AMTI.

Personal Property Taxes and Real Property Taxes

When figuring AMTI the taxpayer enters any of the following from Federal Schedule A:

- State and local personal property taxes.
- State, local, or foreign real property taxes.

Certain Interest on a Home Mortgage

When figuring AMTI the taxpayer enters home mortgage interest in which the proceeds were used for purposes other than buying, building, or improving his or her principal residence or a qualified dwelling that is his or her second home. This may be all or part of the amount on Federal Schedule A (Form 1040).

Example

Gregory paid \$950 interest on a \$12,000 home equity loan used to buy a ski boat. He would enter \$950 on Schedule P (540) because the proceeds were not used to buy, build, or improve his home.

Exemption Amounts

The California and Federal alternative minimum tax is imposed on alternative minimum taxable income minus the exemption amount. For both California and Federal purposes, the exemption amounts are reduced by 25 cents for each \$1 that alternative minimum taxable income exceeds the beginning phase-out level, until the exemption is completely phased out. The 2017 exemption phase-out amounts for California tax purposes are: (10)

Filing Status	Exemption Amount	Phase-out begins at
Married/RDP filing jointly or qualifying widow(er)	\$91,793	\$344,225
Single and head of household	\$68,846	\$258,168
Married/RDP filing separately, estates, or trusts	\$45,895	\$172,110

Table 6-2 - AMT Exemption Amounts (2017)



The California Alternative Minimum Tax is filed on [Schedule P \(540\) - Alternative Minimum Tax and Credit Limitations - Residents](#).

Credit for Prior Year Minimum Tax

California allows a credit in the form of a carryover to taxpayers who have incurred California alternative minimum tax in prior years but not in the current tax year. The credit is computed in the same manner as the Federal credit with the substitution of certain California figures in place of the Federal. Both the Federal and California credits are based on the amount of alternative minimum tax paid on deferral preferences (items that defer tax liability) as distinct from exclusion items (items that permanently reduce tax liability).

The credit is computed on [FTB Form 3510 - Credit for Prior Year Alternative Minimum Tax - Individuals or Fiduciaries](#), and for a taxpayer claiming this credit for the first time, most of the figures needed for the computation come from [Schedule P \(540\)](#) of the prior year's California personal income tax return. Unused credits may be carried forward indefinitely.

AMT Exemption for Small Business

California modifies Federal law disallowing the standard deduction and the deduction for personal exemptions for AMT computation purposes to disallow only the standard deduction. California also modifies Federal law to exclude from AMTI the income, adjustments, or items of tax preference attributable to a trade or business of a taxpayer who: (71)

1. Owns or has an ownership interest in a trade or business.
2. Has aggregate gross receipts, less returns and allowances, of less than \$1 million during the taxable year from all trades or businesses owned by the taxpayer or in which the taxpayer has an ownership interest.



Tip

For purposes of computing the taxpayer's gross receipts, only the taxpayer's proportionate interest in a trade or business in which the taxpayer has an ownership interest is included. "Aggregate gross receipts, less returns and allowances" is the sum of the gross receipts of the trades or businesses that the taxpayer owns, and the proportionate interest of the gross receipts of the trades or businesses in which the taxpayer has an ownership interest and the pass-through entities in which the taxpayer holds an interest. The term includes gross income from the production of both business income and nonbusiness income.

According to the Franchise Tax Board, the \$1 million threshold applies regardless of the taxpayer's filing status. Thus, married taxpayers filing jointly are not allowed to increase the \$1 million threshold to \$2 million.

Sales and Use Tax Collection

The California sales tax was first imposed in 1933; the use tax in 1935. These taxes, which are administered by the State Board of Equalization, have become a major source of the state's revenue. The sales tax is imposed upon retailers for the privilege of selling tangible personal property at retail. Although the tax is not levied directly on the consumer, it is ordinarily passed on to the consumer. The use tax, enacted as a complement to the sales tax, is imposed upon the storage, use, or other consumption in California of tangible personal property purchased from a retailer without being subjected to the sales tax.

The sales or use tax payable in connection with any given transaction is the sum of three components: (71)

1. The basic state sales and use tax.
2. The Bradley-Burns local tax.
3. Additional local "transactions and use" taxes, if any.

Voter-approved Proposition 30, The Schools and Local Public Safety Protection Act of 2012, which imposed the one quarter of one percent (0.25%) temporary statewide sales and use tax rate expired on December 31, 2016. As a result, effective January 1, 2017, the California statewide sales and use tax rate will decrease by 0.25% from the current rate of 7.50% to the new rate of 7.25%. However, the total tax rate in many cities and counties will remain higher than the statewide rate because of local voter-approved district taxes in those areas.



Proposition 30 also increased the personal income tax on a temporary basis until 2018. However, Proposition 55 approved by voters in November 2016 extended only the personal income tax increase through 2030.



The sales tax rate increase does not apply to sales of motor vehicle fuel (gasoline). Currently, the sales tax rate for sales of motor vehicle fuel is 2.25% plus applicable district taxes.

The sales tax rate increase does apply to sales of diesel fuel. Effective January 1, 2017, the sales tax rate for sales of diesel fuel is 9.00% plus applicable district taxes. This rate will be in effect through October 30, 2017. The rate will increase to 13.00% from November 1, 2017 - June 30, 2018. New rates will be published July 2018 based on the rate of inflation. California cities and counties are authorized by the Bradley-Burns Uniform Local Sales and Use Tax Law to impose a total tax of 1% on the sale or use of tangible personal property.

One of the most common local taxes other than Bradley-Burns is the transactions and use tax, a local tax imposed within the boundaries of various transit, traffic, or other districts, as allowed by state law to finance district operations. Existing law prohibits, in any county, the combined rate of all taxes imposed in accordance with the Transactions and Use Tax Law from exceeding 2%. Transactions and use tax applies in addition to the state sales and use tax.

For purposes of determining which local taxes apply to a transaction, all retail sales are deemed to occur at the place of business of the seller. This rule applies regardless of the physical location of the property sold and regardless of where title to the property passes to the buyer. If a retailer has more than one place of business involved in a sale, the transaction is regarded as having taken place where the principal negotiations are carried on or where the order is taken. As long as title passes within the state, it is immaterial that it passes outside the taxing jurisdiction in which the retailer's business is located.

The place of sale of an out-of-state retailer that does not have a permanent place of business in California, other than a stock of tangible personal property, is the place from which delivery or shipment is made. This rule also applies if a retailer has a permanent place of business in California if the sale is negotiated out-of-state and there is no participation in the sale by the retailer's permanent place of business in this state.

For transactions of \$500,000 or more, if a seller is required to collect local use tax on a transaction the seller must report the local use tax revenues derived therefrom directly to the participating jurisdiction where the first functional use is made. Out-of-state businesses who voluntarily register with the state to collect use tax have the option of reporting such a transaction to the participating jurisdiction.

The use tax is imposed on the storage, use, or other consumption in California of property purchased from a retailer for such storage, use, or other consumption. It applies to certain rental transactions and to out-of-state fabrication of customer-furnished materials. Because the use tax does not apply to cases where the sale of the property is subject to the sales tax, the use tax generally applies to purchases made outside of California for use within the state. Although this tax is imposed upon the purchaser, any retailer engaged in business in the state is required to collect the tax and remit it to the state.

The California State Board of Equalization (BOE) has approved a use tax table to use in the calculation and reporting of estimated California use tax on individuals' state income tax returns. According to the BOE, the intent of the table is to make it convenient for taxpayers who are not registered with the BOE to comply with their use tax obligations by providing them the option to report their estimated use tax liabilities by using the table instead of calculating and reporting their actual unpaid use tax liabilities. The BOE is required to annually calculate the estimated amount of use tax due based on a person's California adjusted gross income.

The use tax table is separated into 15 adjusted gross income (AGI) ranges starting at AGI less than \$10,000 and ending with AGI greater than \$199,999. On June 1, 2012, and each June 1 thereafter, the BOE is required to calculate the use tax liability factor or use tax table percentage for the current calendar year by multiplying the percentage of income spent on taxable purchases for the preceding calendar year by 0.37, multiplying the product by the average state, local, and district sales and use tax rate, and then rounding the result to the nearest thousandth of a percent.

Consumers may elect, and are not required, to use the use tax tables included in the instructions to their California Franchise Tax Board (FTB) returns to report their estimated use tax liabilities for one or more single nonbusiness purchases of individual items of tangible personal property each with a sales price of less than \$1,000 on their FTB returns. However, eligible consumers may still calculate their actual use tax liabilities using the worksheets in the instructions to their FTB returns and report their actual use tax liabilities on their returns.



The use tax table may not be used to estimate use tax liabilities for business purchases, including purchases made by businesses required to hold a seller's permit or to register with the BOE under the Sales and Use Tax Law and report their use tax liabilities directly to the BOE.

Internet Transactions Taxable to California

Despite all of the publicity surrounding Internet commerce, one essential fact is often overlooked, there is no general tax exemption for sales made over the Internet. If the business is located in California, all Internet sales of physical products are generally taxable unless they qualify for a specific tax exemption or exclusion. Internet sales are treated just like sales an individual makes at retail stores or other outlets, through sales representatives, over the telephone, or by mail order.

If the business is located outside of California, sales of physical products delivered to California locations are generally subject to the state's use tax. While the customers are responsible for the use tax, the business must collect the tax from the customer and make payments to the California State Board of Equalization (BOE) if the following apply: (71)

- Business has a permanent or temporary business location in California, including a warehouse, sales room, or office.
- Business has any kind of representative or agent in the state, even temporarily, who makes sales, takes orders, installs or assembles merchandise, or makes deliveries in California for the business.

If either of the conditions above applies, the business is required to register with the BOE and obtain a Certificate of Registration - Use Tax Account.



Even if the criteria above do not apply to the business, generally, it must register, collect, and pay use tax on payments it receives from the lease of merchandise including vehicles, vessels and aircraft, located in California. This is true whether the business negotiates the lease over the Internet or by any other means.

The taxpayer must use the Use Tax Worksheet on his or her tax return to calculate his or her Use Tax liability, if any of the following apply:

- He or she prefers to calculate the amount of use tax due based upon his or her actual purchases subject to use tax, rather than based on an estimate.
- He or she owes use tax on any item purchased for use in a trade or business not registered with the State Board of Equalization.
- He or she owes use tax on purchases of individual items with a purchase price of \$1,000 or more.

Non-Taxable Internet Sales

Some internet sales may not be subject to California sales or use tax. Examples include sales of cold food products, sales delivered outside the state of California, and sales for the purpose of resale. See [California Board of Equalization Publication 61 – Sales & Use Taxes: Exemptions and Exclusions](#) for more detailed information.

Products Electronically Transmitted to Customers

If a business sells electronic data products such as software, data, digital books (eBooks), mobile applications, and digital images, they are generally not taxable when the business transmits the data to the customer over the Internet or by modem. However, if as part of the sale the business provides a customer with a printed copy of the electronically transferred information or a backup data copy on a physical storage medium such as a CD-ROM, the entire sale is usually taxable.

An eBook is an electronic version of a traditional print book that can be read by using a tablet computer or by using an eBook reader. Users can purchase an eBook on diskette or CD, but the most popular method of getting an eBook is to purchase a downloadable file of the eBook without purchasing any physical storage medium. A mobile application, also known as a "mobile app", is computer software designed for use on a smartphone or tablet computer.

The transfer of a downloadable file such as an eBook or an "app" without purchasing any physical storage medium is not a taxable transaction. If the company sells canned (non-custom) software programs to customers who download them from a server, those sales are generally not subject to tax. However, if the business also provides customers with a backup



copy on a CD-ROM, then the entire transaction is taxable. Similarly, if the business transmits a stock (non-custom) database to the taxpayer's customer over the Internet and also provides a printed copy of the contents, the entire sale is subject to tax.

Affordable Care Act

The Affordable Care Act amends Federal income tax laws to exclude the value of an eligible adult child's medical coverage from the taxable income of the parent-employee, even if the child is not a dependent. The law also allows self-employed individuals a deduction for health insurance premiums for an adult child under age 27, even if the child is not a dependent.

California personal income tax law, as amended by AB 36, conforms to the 2010 Federal income tax rules which exclude the value of the medical coverage provided to nondependent adult children from California gross income and allow a deduction to self-employed individuals for health insurance premiums for nondependent adult children under age 27.

- Any amount paid by an employee for such additional coverage is excluded from California taxable wages.
- Self-employed individuals may deduct the health insurance premium paid for an adult child under age 27.

If the taxpayer has already filed Form 540 with a Form W-2 that included the amount of medical coverage for his or her nondependent adult children in his or her California wages, he or she should contact his or her employer to have them issue him or her Form W-2C excluding the amount from his or her California wages. The taxpayer should use [FTB Form 3525 - Substitute for Form W-2, Wage and Tax Statement, or Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.](#) as a substitute for Federal Form W-2C if his or her employer does not issue him or her a Form W-2C. The taxpayer should file FTB Schedule X - California Explanation of Amended Return Changes to report the reduction in his or her California wages.

For self-employed individuals who reported a California adjustment excluding the health insurance premium paid for nondependent adult children, file Schedule X - California Explanation of Amended Return Changes to report the allowed deduction for California.

Form 1095-A - Health Insurance Marketplace Statement

Form 1095-A provides the taxpayer with information about his or her health care coverage if he or she or someone in his or her family enrolled in coverage through the Health Insurance Marketplace.

The Health Insurance Marketplaces furnish this form to:

1. The IRS to report certain information about individuals who enroll in a qualified health plan through the Health Insurance Marketplace.
2. Individuals to allow them to:
 - a. Take the Premium Tax Credit.
 - b. Reconcile the credit on their returns with advance payments of the premium tax credit (advance credit payments).
 - c. File an accurate tax return.

Form 1095-A provides information about the taxpayer's Marketplace coverage, including the names of covered individuals and which months they were covered last year. The taxpayer uses the information from Form 1095-A to complete [Form 8962 - Premium Tax Credit \(PTC\)](#), and reconcile advance payments of the Premium Tax Credit or – if he or she is eligible – to claim the Premium Tax Credit on his or her tax return. The taxpayer does not attach Form 1095-A to his or her tax return, he or she should keep it with his or her tax records.

Form 1095-B - Health Coverage

Form 1095-B is used to report certain information to the IRS and to taxpayers about individuals who are covered by minimum essential coverage and therefore are not liable for the individual shared responsibility payment. The taxpayer will receive Form 1095-B from his or her insurance provider if he or she had insurance for him or herself or his or her family members. The term "health insurance providers" includes insurance companies, some self-insured employers, and government agencies that run Medicare, Medicaid or CHIP.



The taxpayer is likely to get more than one form if:

- He or she had coverage from more than one provider.
- He or she changed coverage or employers during the year.
- If different members of his or her family received coverage from different providers.

Form 1095-B provides information about the taxpayer's health coverage, including who was covered, and when the coverage was in effect. If Form 1095-B, Part IV, Column (d), shows coverage for the taxpayer and everyone in his or her family for the entire year, the taxpayer can simply check the full-year coverage box on his or her tax return.

If the taxpayer did not have coverage for the entire year, he or she should use Form 1095-B, Part IV, Column (e), to determine the months when he or she or his or her family members had coverage. If there were months that the taxpayer did not have coverage, he or she should determine if he or she qualifies for an exemption from the requirement to have coverage. If not, the taxpayer must make an individual shared responsibility payment. However, the taxpayer is not required to file a tax return solely because he or she received a Form 1095-B if he or she is otherwise not required to file a tax return. The taxpayer does not attach Form 1095-B to his or her tax return, he or she should keep it with his or her tax records.

Form 1095-C - Employer-Provided Health Insurance Offer and Coverage Insurance

Form 1095-C is filed and furnished to any employee of an Applicable Large Employer (ALE) member who is a full-time employee for one or more months of the calendar. ALE Members must report that information for all twelve months of the calendar year for each employee. The taxpayer will receive a Form 1095-C if he or she a full-time employee working for an applicable large employer (ALE). An applicable larger employer is generally an employer with 50 or more full-time employees, including full-time equivalent employees. Even if the taxpayer was not a full-time employee, he or she will receive form 1095-C if his or her employer offered self-insured coverage and him or her or a family member enrolled in that coverage. The taxpayer might receive more than one Form 1095-C if he or she worked for more than one applicable large employer last year.

Form 1095-C provides the taxpayer with information about the health coverage offered by his or her employer and, in some cases, about whether he or she enrolled in this coverage. If the taxpayer enrolled in a health plan through the Marketplace, the information in Part II of Form 1095-C could help determine if he or she is eligible for the Premium Tax Credit. If the taxpayer did not enroll in a health plan through the Marketplace, this information is not relevant to him or her.

If there is information in Part III of Form 1095-C, the taxpayer should review this information to determine if there are months when he or she or his or her family members did not have coverage. If there are months the taxpayer did not have coverage, he or she should determine if he or she qualifies for an exemption from the requirement to have coverage. If not, the taxpayer must make an individual shared responsibility payment. The taxpayer is not required to file a tax return solely because he or she received a Form 1095-C if he or she is otherwise not required to file a tax return. The taxpayer does not attach Form 1095-C to his or her tax return, he or she should keep it with his or her tax records.

California Business Taxes

Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA)



The Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA), SB 94, passed on June 27, 2017. It established a comprehensive system to control and regulate the cultivation, distribution, transport, storage, manufacturing, processing, and sale of medicinal and adult-use cannabis, and related products. The MAUCRSA defines the power and duties of the various state agencies responsible for controlling and regulating the commercial medicinal and adult-use cannabis industry.

Cannabis businesses that have already received any required licenses or permits from their local jurisdiction may apply for state licenses to operate from various agencies.

Businesses operating under these state licenses can choose any form of valid business structure for their business. They are able to operate on a for-profit or not-for-profit basis. They are not eligible for California franchise and income tax exemption, as they do not meet the requirements as described in Internal Revenue Code Section 501(c) or California Revenue and Taxation Code (R&TC) Section 23701.



Schedule R - Apportionment and Allocation of Income

For taxable years beginning on or after January 1, 2013, [Revenue and Taxation Code \(R&TC\) Section 25128.7](#) requires all business income of an apportioning trade or business, other than an apportioning trade or business under R&TC Section 25128(b), to apportion its business income to California using the single-sales factor formula. For more information, get [Schedule R - Apportionment and Allocation of Income](#).

For taxable years beginning on or after January 1, 2013, [R&TC Section 25136](#) requires all taxpayers to assign sales, other than sales of tangible personal property, using Market Assignment. For more information, get [Schedule R - Apportionment and Allocation of Income](#).



Applicable to returns for taxable years beginning on or after January 1, 2016, the California partnership return and C corporation tax return due dates are modified to be similar to Federal law. Partnership returns will be required to be filed on or before the 15th day of the third (previously, fourth) month following the close of the taxable year. C corporation returns will be due on or before the 15th day of the fourth (previously, third) month following the close of the taxable year.

Corresponding changes are made to the limited liability company (LLC) return due dates. LLCs classified as partnerships will have a return due date of the 15th day of the third month following the close of the taxable year. LLCs classified as corporations will have a return due date of the 15th day of the fourth month following the close of the taxable year. LLCs that are single-member LLCs (SMLLCs) will have a return due date based on the return due date of the owner. SMLLCs owned by an S corporation, partnership, or LLC classified as a partnership will have a return due date of the 15th day of the third month following the close of the taxable year. All other SMLLCs, including those owned by a corporation, will have a return due date of the 15th day of the fourth month following the close of the owner's taxable year. S corporation returns continue to be due on or before the 15th day of the third month following the close of the taxable year.

Sole Proprietorship

A sole proprietorship is an unincorporated business that is owned by one person. It is the simplest form of business organization to start and maintain. The business has no existence apart from the taxpayer, the owner. Its liabilities are his or her personal liabilities, and the taxpayer undertakes the risks of the business for all assets owned, whether used in the business or personally owned. The taxpayer includes the income expenses of the business on his or her own tax return.



A husband and wife can be classified as a sole proprietorship. A business conducted by registered domestic partners must be classified as a partnership.

A sole proprietor reports his or her business income and expenses on Federal [Schedule C - Profit or Loss from Business](#). If the taxpayer is required to complete Federal Schedule C, then he or she must provide a copy of his or her Federal return, including Schedule C. This form is included with the taxpayer's California personal income tax return (CA Form 540). The return due date is normally April 15 for calendar year taxpayers and the tax rate depends on the proprietor's total taxable income.

If the taxpayer is a sole proprietor of a farming business, he or she uses [Schedule F - Profit or Loss From Farming](#), to report his or her profit or loss.

Withholding is a prepayment of California state income or franchise tax. A sole proprietor is a withholding agent if they control, receive, have custody of, dispose of, or pay California source income. A withholding agent is obligated to withhold from all payments or distributions of California source income made to a nonresident payee unless the withholding agent receives authorization from the Franchise Tax Board (FTB) for a waiver or a reduced withholding amount. Withholding is optional, at the discretion of the withholding agent, on the first \$1,500 in payments made during the calendar year.

If a sole proprietor is required to withhold and remit backup withholding to the Internal Revenue Service (IRS), the sole proprietor is also required to withhold and remit to the Franchise Tax Board (FTB), except for instances that are specifically excluded for California purposes. (72)



Partnerships

A partnership is the association existing between two or more persons who join to carry on a trade or business. Each person contributes money, property, labor or skill and expects to share in the profits and losses of the business. A partnership is not taxable on the income of the entity. Each partner includes his or her share of the partnership's income or loss on his or her tax return.

General Partnerships

A general partnership is a business entity that is made up of two or more entities to carry on a trade or business. Each partner contributes money, property, labor, or special skills and each partner shares in the profits and losses from the business. In a general partnership, all the partners are personally liable for the partnership debts. In a limited partnership, limited partners are not liable for the partnership's debts beyond the funds they contribute to the partnership. A limited partner will normally have little knowledge or participation in the activities of the partnership. General partnerships file [FTB Form 565 - Partnership Return of Income](#). General partnerships that do business in California and other states must apportion their income using [Schedule R - Apportionment and Allocation of Income](#).

California has not conformed to the Federal small partnership provisions. These provisions allow partnerships with 10 or fewer partners (all partners must be domestic, individual partners) to avoid being treated as a partnership for tax purposes. As a result, these partnerships do not file Federal partnership returns and are not subject to federal return filing penalties. For California, these partnerships are treated like all other partnerships and must file partnership returns. They are subject to all California partnership taxes and penalties. Form 565 is due on the 15th day of the third month after the close of the year. If the due date falls on a Saturday, Sunday, or a legal holiday, the filing date is the next business day. (73)

Limited Partnerships

A limited partnership is made up of two or more entities and must have at least one limited partner and one general partner. Limited partners are only liable for the partnership's debts equal to their investment in the partnership. A limited partner normally has little knowledge or participation in the activities of the partnership, the general partner usually runs the limited partnership. Please note, limited partnerships and limited liability partnerships (LLP) are not the same.

Limited partnerships file [FTB Form 565 - Partnership Return of Income](#). Limited partnerships that do business in California and other states must apportion their income using [Schedule R - Apportionment and Allocation of Income](#).

California does not require a new limited partnership with a short accounting period of 15 days or less during their initial year to file or pay the annual tax for the year. In order to qualify for this treatment, the limited partnership cannot do business during that time and must have registered with California Secretary of State on or after the following days of the month they choose as their income year ending:

Month of Registration with the Secretary of State and Taxable Year Ending	Day of the Month
January, March, May, July, August, October and December (31-day month)	17th or after
April, June, September and November (30-day month)	16th or after
February (28-day month) February (29-day month)	14th or after 15th or after

Table 6-3 - Limited Partnerships - Short Tax Year (2017)

The limited partnership annual tax is \$800. To be subject to the tax, the limited partnership must for at least one day during the year be: (74)

- Doing business in California.
- Registered with the California Secretary of State.

Doing business in California is defined as actively engaging in any transaction for the purpose of financial gain or profit. The annual tax must be paid by the original return due date of the partnership return.



Limited Liability Partnerships

A limited liability partnership is a partnership that provides its partners a limitation on personal liability similar to limited partnerships. However, a limited partnership cannot become a limited liability partnership. Instead, qualified general partnerships register with either the California Secretary of State or another state to become limited liability companies. The limited partnership annual tax is \$800.

To be subject to the tax, the limited partnership must for at least one day during the year be: (74)

- Doing business in California.
- Registered with the California Secretary of State.

Limited liability partnerships file [FTB Form 565 - Partnership Return of Income](#). Limited partnerships that do business in California and other states must apportion their income using [Schedule R - Apportionment and Allocation of Income](#).

Corporations

In forming a corporation, prospective shareholders transfer money, property, or both for the corporation's capital stock. A corporation generally takes the same deductions as a sole proprietorship to figure its taxable income. A corporation can also take special deductions.

The profit of a corporation is taxed to both the corporation and to the shareholders when the profit is distributed as dividends. However, shareholders cannot deduct any loss of the corporation.

C Corporations

A C corporation is a legal entity that exists separately from the people who own, manage, control, and operate it. It can enter into contracts, pay taxes, and is liable for its debts. It issues shares of its stock, as evidence of ownership, to the person(s) or entities that contribute the money or business assets the corporation uses to conduct its business.

The stockholders or shareholders own the corporation and are entitled to any dividends the corporation pays. If the corporation liquidates, they are entitled to all of the corporation's assets after all creditors are paid.

The annual tax for C corporations is the greater of 8.84% of the corporation's net income or \$800. As of January 1, 2000, newly incorporated or qualified corporations are exempt from the annual minimum franchise tax for their first year of business. Newly incorporated or qualified corporations are subject to the minimum franchise requirement on their second return.

All California C corporations and LLCs treated as corporations file [FTB Form 100 - California Franchise or Income Tax Return](#). Form 100 is due on the 15th day of the fourth month after the close of the year. If the due date falls on a Saturday, Sunday, or legal holiday, the filing date becomes the next business day.

Corporations (in good standing) that have fully paid their tax liability but cannot file their return by the due date receive an automatic seven-month extension to file the return. Since the extension is automatic, there is no extension request form. If the corporation owes tax, it should submit [FTB Form 3539 - Payment Voucher for Automatic Extension for Corporations and Exempt Organizations](#) with payment by the original return due date. An extension to file is not an extension to pay. Tax is due on or before the original return due date regardless of an extension to file. The Franchise Tax Board (FTB) treats returns filed after the extended due date as delinquent, with penalties computed from the original return due date. (75)

S Corporations

An S corporation is a hybrid business entity. It has a separate legal existence and generally offers liability protection to its owners (shareholders). It pays California tax on its net income and also is a conduit where the profit or loss flows through to the shareholders. The corporation must elect to be treated as an S corporation. There can be no more than 75 shareholders and only one class of stock. Shareholders can only be individuals, estates or certain trusts. S corporations can own subsidiaries. The income of an S corporation is generally not subject to federal income tax. Its shareholders



include on their tax returns their share of the corporation's separately stated items of income, deduction, loss, credit, and their share of non-separately stated income or loss.

Generally, California law follows Federal law in computing the S corporation's income. However, the major difference is that for California purposes, an S corporation's income is taxable at the corporate level and the pass-through of its income to the shareholders is also taxable on their returns.

California law is also different in the following areas: (76)

- The S corporation is allowed tax credits and net operating losses.
- The computation of tax on built-in gains and excess passive income.

The annual tax for S corporations is the greater of 1.5% of the corporation's net income or \$800. As of January 1, 2000, newly incorporated or qualified corporations are exempt from the annual minimum franchise tax for their first year of business.

All California S corporations and LLCs companies treated as S corporations for Federal tax purposes, should file [FTB Form 100S - California S Corporation Franchise or Income Tax Return](#). Form 100S is due on the 15th day of the third month after the close of the taxable year. If the due date falls on a Saturday, Sunday, or legal holiday, the filing date becomes the next business day. S Corporations that do business in California and other states must apportion their income using [Schedule R - Apportionment and Allocation of Income](#).

California has conformed to Federal law that let an S corporation own a subsidiary. These subsidiaries are commonly called QSubs. The election by the parent S corporation to treat its subsidiary for Federal purposes as a QSub is in most cases binding for California. A QSub is not treated as a separate entity, but as division of the parent S corporation. All of the QSub's activities are reported on the parent S corporation's return. If a QSub is doing business in California, then the parent S corporation is considered doing business in the state and must file Form 100S.

In addition to parent S corporation paying the franchise or income tax, QSub is subject to an \$800 annual tax, which is paid by the parent S corporation. The QSub annual tax is due and payable when the S corporation's first estimated tax payment is due. If the QSub is acquired during the year, the QSub annual tax is due when the S corporation's next estimated tax payment is due. The QSub annual tax is subject to the estimated tax rules and penalties. (76)

Limited Liability Companies

A limited liability company (LLC) combines traditional corporate and partnership characteristics. Members of a limited liability company are given the same advantage of limited liability as shareholders of a corporation, while generally being taxable at the member level, like a partner in a partnership.

A limited liability company may be classified as an association taxable as either a C corporation or an S corporation. California and Federal laws treat these limited liability companies as corporations subject to all corporation tax laws. Limited liability companies classified as C corporations must file [FTB Form 100 - California Franchise or Income Tax Return](#). If they are classified as an S corporation they must file [FTB Form 100S - California S Corporation Franchise or Income Tax Return](#). The Federal classification of the entity is binding for California and a separate state election is not allowed.

Limited liability companies file [FTB Form 568 - Limited Liability Company Return of Income](#). Form 568 is due on the 15th day of the third month after the close of the year. If the due date falls on a Saturday, Sunday, or legal holiday, the filing date is the next business day. An LLC required to file Form 568 pays an annual tax of \$800, and may be subject to an LLC fee based on total income from all sources derived from or attributable to the state of California. LLCs that do business in California and other states must apportion their income using [Schedule R - Apportionment and Allocation of Income](#).

Limited liability companies are subject to a fee under the same circumstances that they become subject to the annual tax. The fee is based on the limited liability company's annual total income from worldwide sources. Total income is not apportioned or allocated based on the operations in California. Generally, the limited liability fee is considered a deductible ordinary and necessary business expense. (77)



Foreign Corporations

To qualify a corporation from another state or country to transact intrastate business in California, the corporation must fill out [Form S&DC-S/N - Statement and Designation by Foreign Corporation](#), and submit for filing along with all of the following: (78)

1. A \$100 filing fee (for a foreign stock corporation) or \$30 filing fee (for a foreign nonprofit corporation).
2. A certificate of good standing, issued within the last six (6) months by the agency where the corporation was formed. If the corporation is a nonprofit, the certificate of good standing also must indicate the corporation is a nonprofit or nonstock corporation.
3. A separate, non-refundable \$15 service fee also must be included, if the completed form is dropped off.

As previously noted corporations in California may have to pay a minimum \$800 yearly tax to the California Franchise Tax Board.

Special rules apply to foreign C corporations that participate in conventions or trade shows in California but normally do not do business in this state. A foreign corporation that is not qualified to do business in California is subject to the corporation income tax (8.84% of net income; no minimum franchise tax) if it meets all of the following requirements: (75)

1. It is not incorporated in California.
2. Its sole activity in this state is engaging in convention and trade show activities, as described in IRC Section 513(d)(3)(A), and during the income year:
 - a. It was in the state for seven or fewer calendar days.
 - b. It did not derive more than \$10,000 of gross income reportable to the state from its activities.

To incorporate a business or qualify a foreign corporation to doing business in California, the corporation should contact the Secretary of State, Business Filings at (916) 657-5448, or visit their website at: www.sos.ca.gov.

Refunds

A taxpayer will generally receive his or her state tax refund within 7 to 10 days if he or she e-filed the return or 8 to 12 weeks from the date he or she mailed the return. The taxpayer can request a direct deposit refund on the tax return whether he or she e-files or files a paper return. Another agency may notify the Fast Track Mediation (FTM) that the taxpayer owes them a delinquent debt. The Franchise Tax Board (FTB) will intercept all or part of the refund to pay that debt. If the FTM only intercepts part of the refund, they will mail the taxpayer a check for the remaining amount. If the taxpayer's debt was previously paid, his or her over payment will be refunded. The taxpayer should allow 3 to 4 months of processing time.

Tax Payments

The taxpayer has a number of options to make payment to the Franchise Tax Board (FTB) for taxes due. The FTB has divided these payment options into two categories. Individual taxpayers can use Web Pay, credit card, western union, check, money order, cash or installment agreements. The business taxpayer can use Web Pay for businesses, electronic funds transfer (EFT), check, money order, cash or installment agreement.

Individuals

Withholding

A taxpayer should verify that he or she does not have too much or too little state or Federal income tax withheld from his or her pay. To adjust wage withholding the taxpayer completes [FTB Form DE 4 - Employees Withholding Certificate](#) and gives it to his or her employer to make the changes to his or her withholding. Taxpayers performing Federal backup withholding must also withhold and remit 7% of a reportable payment to the Franchise Tax Board (FTB). State income tax withholding amounts will appear in box 17 of the taxpayer's [Form W-2 - Wage and Tax Statement](#).



Due Dates

When individuals file income taxes, they must submit forms and payments to the Franchise Tax Board (FTB). 2017 personal income tax returns and tax payments are due April 17, 2018 to avoid penalties and interest. The fast day for a taxpayer to file his or her 2017 personal income tax return with an automatic extension is October 15, 2018. FTB assess penalties and interest on any unpaid tax from the original due date of April 17, 2018.

Web Pay

A taxpayer can use Web Pay to make his or her personal or group nonresident/composite income tax payments online. He or she can pay today or schedule his or her payment up to one year in advance. Use web pay to: (79)

- Make an estimated tax payment (FTB Form 540-ES).
- Pay any personal income tax bill from the FTB.
- Pay the balance due on the current-year tax return.
- Make an amended return payment (Schedule X - California Explanation of Amended Return Changes).
- Make an extension payment (FTB Form 3519).
- Pay any amount owed for prior years.
- Pay any notice of proposed assessment.
- Make a pending audit tax deposit payment.
- Pay the balance due on Form 3834.



If the taxpayer cannot pay in full and need to make monthly payments, he or she must first request an Installment Agreement.

Credit Card

A taxpayer can pay his or her personal income tax bill by credit card. He or she can use Discover, MasterCard, Visa, or American Express Card to: (80)

- Pay the balance due on the current-year tax return.
- Make an extension payment (FTB Form 3519).
- Make an estimated tax payment (FTB Form 540-ES).
- Pay any amount owed for prior years.
- Pay any bill the taxpayer receives from the FTB that includes an insert about credit card payments.



The taxpayer cannot use a credit card to pay an amended tax return or a liability that is still pending based on a Notice of Proposed Assessment or Notice of Action.

The Official Payments Corporation charges a convenience fee for credit card payment. The fee is based on the amount of the taxpayer's tax payment as follows: (80)

- 2.3% of the tax amount charged (rounded to the nearest cent)
- Minimum fee: \$1
- Example of fee:
 - o Tax Payment = \$753.56
 - o Convenience Fee = \$17.33

Official Payments Corporation will tell the taxpayer the fee before he or she completes the credit card transaction. The taxpayer can decide whether or not to complete the transaction at that time.

Western Union

The taxpayer can make a payment to the Franchise Tax Board (FTB) through Western Union. The taxpayer should make an online inquiry to locate the nearest Western Union office. After making the payment, the taxpayer will receive a ten-digit Money Transfer Control Number. The taxpayer should record this number and save it for his or her records.



Check, Money Order or Cash Payments

To make a payment with check or money order the taxpayer should: (81)

1. Make his or her check or money order payable to the Franchise Tax Board.
2. Write his or her Social Security Number and tax year on the check or money order.
3. Mail the payment to:
FRANCHISE TAX BOARD
PO BOX 942867
SACRAMENTO CA 94267-0001

To make a cash payment the taxpayer should visit an FTB field office in person.

If a taxpayer filed his or her tax return electronically, has a balance due and would like to pay the balance due with check or money, he or she should include [FTB Form 3582 - Payment Voucher for Individual e-Filed Returns](#) with his or her payment. FTB Form 3582 should be mailed to the FTB with the taxpayer's payment for the full amount by April 17, 2018. If the taxpayer cannot pay the full amount he or she owes by April 17, 2018, he or she should pay as much as he or she can when he or she mails in FTB Form 3582 to minimize additional charges. (82)

Installment Agreement

The Franchise Tax Board (FTB) requires the taxpayer to immediately pay his or her tax liability (including interest and penalties) in full. A taxpayer may be able to borrow from private sources to immediately pay his or her liability in full. However, if the taxpayer cannot secure a private loan and is financially unable to pay the balance in full, he or she may be eligible to make payments in installments over time. The taxpayer should make the largest monthly payment possible because his or her tax liability will continue to accrue interest and applicable penalties until paid in full.

The taxpayer may be eligible for an installment agreement if the following conditions apply: (83)

- The tax liability he or she owes does not exceed \$25,000.
- The installment period for payment does not exceed 60 months.
- He or she has filed all required valid personal income tax returns.
- He or she is not in an existing installment agreement.
- He or she does not currently have an Order to Withhold, Continuous Order to Withhold, or Earnings Withholding Order for Taxes against him or her.

The taxpayer can request an installment agreement online, by phone or by completing and mailing [FTB Form 3567 - Installment Agreement Request](#).

Estimated Tax Payments

Generally, a person must make estimated tax payments if he or she expects to owe at least \$500 (\$250 if married/RDP filing separately) in tax for 2018 (after subtracting withholding and credits) and he or she expects withholdings and credits to be less than the smaller of: (83)

1. 90% of the tax shown on the 2018 tax return.
2. 100% of the tax shown on the 2017 tax return including Alternative Minimum Tax (AMT).

The taxpayer does not have to make estimated tax payments if he or she is a nonresident or new resident of California in 2018 and did not have a California tax liability in 2017. Also, if the taxpayer is military servicemember not domiciled in California, he or she does not include his or her military pay in his or her computation of estimated tax payments. If the taxpayer is the non-military spouse of a servicemember he or she may or may not need to include his or her pay in his or her computation of estimated tax payments.

Individuals who are required to make estimated tax payments, and whose 2017 California adjusted gross income is more than \$150,000 (or \$75,000 if married/RDP filing separately), must figure estimated tax based on the lesser of 90% of their tax for 2018 or 110% of their tax for 2017 including AMT. This rule does not apply to farmers or fishermen. Taxpayers with 2018 California adjusted gross income equal to or greater than \$1,000,000 (or \$500,000 if married/RDP filing separately), must figure estimated tax based on their tax for 2018.



Use [FTB Form 540-ES - Estimated Tax for Individuals](#), and the 2018 Estimated Tax Worksheet, to determine if a taxpayer owes estimated tax for 2018 and to figure the required amounts. Estimated tax is the tax the taxpayer expects to owe in 2018 after subtracting the credits he or she plans to take and the tax he or she expects to have withheld.

Estimated Payments and Percentages		
1st payment	April 17, 2018	30%
2nd payment	June 15, 2018	40%
3rd payment	September 17, 2018	0%
4th payment	January 15, 2019	30%

Table 6-4 - Estimated Tax Payment Schedule, FTB Form 540-ES - Estimated Tax for Individuals (2018)

The amounts due are thirty percent (30%) of the required annual payment for the 1st required installment, forty percent (40%) of the required annual payment for the 2nd required installment, no installment is due for the 3rd required installment, and thirty percent (30%) of the required annual payment for the 4th required installment.

If a taxpayer files his or her 2018 tax return by January 31, 2019, and pays the entire balance due, he or she does not have to make the last estimated tax payment. In addition, the taxpayer will not owe a penalty for the fourth installment.

A taxpayer is required to remit all their payments electronically once they make an estimate or extension payment exceeding \$20,000 or they file an original return with a total tax liability over \$80,000. Once the taxpayer meets the threshold, all subsequent payments regardless of amount, tax type, or taxable year must be remitted electronically. Individuals who do not send the payment electronically will be subject to a one percent (1%) noncompliance penalty. Electronic payments can be made using Web Pay on the Franchise Tax Board's (FTB's) website, electronic funds withdrawal (EFW) as part of the e-file return, or by credit card.

Failure to make estimated tax payments to California, or if any payment period is underpaid may result in the assessment of a penalty. The penalty is calculated on [FTB Form 5805 - Underpayment of Estimated Tax by Individuals and Fiduciaries](#). Refer to the instructions for FTB Form 5805 for more information.

If an individual does not make the required estimate payments, if he or she pays an installment after the date it is due, or if he or she underpays any installment, a penalty may be assessed on the portion of estimated tax that was underpaid from the due date of the installment to the date of payment or the due date of the tax return, whichever is earlier. The rates used to determine the amount of the taxpayer's penalty are established at various dates throughout the year. If an installment of estimated tax for any quarter remained unpaid or underpaid for more than one rate period, the penalty for that underpayment will be figured using more than one rate when applicable.

The following rate applies to the 2017 computation period:

- 4% for April 15, 17 through April 15, 2018.

For fiscal year filers the rates for the periods are July 1, 2018 through December 31, 2018 and January 1, 2019 through June 30, 2019 will be determined by the FTB in March 2018 and September 2018, respectively.

Penalties

An underpayment penalty will be charged when taxes are not paid by the due date. The penalty is 5% of the unpaid tax as of the due date plus 1/2 of 1% each month, or part of a month the tax remains unpaid, not to exceed 40 months. The maximum penalty is 25% of the total unpaid tax.

A delinquent penalty will be charged on unpaid taxes if a return is filed late. The penalty is 5% of the unpaid tax due for every month that the return is late, up to a maximum penalty of 25% of the unpaid tax. The minimum penalty for filing a tax return more than 60 days late is \$135 or 100% of the unpaid tax, whichever is less.

There are also other penalties that can be imposed such as for a check returned for insufficient funds, negligence, substantial understatement of tax and fraud.



Interest will be charged on any delinquent or late payment from the original due date of the return to the date paid. In addition, if other penalties are not paid within 15 days of the date of the notice, interest will be charged from the date of the billing notice until the date of payment. Interest compounds daily and the interest rate is adjusted twice a year.

Businesses

Business Entity Due Date Changes



Governor Brown signed AB 1775, which generally conforms due dates for California business entity tax returns to the changes to Federal due dates after the 2016 tax year. For 2017 returns due in 2018, partnership returns will be due the 15th day of the third month following the close of the taxable year (March 15, 2018 for calendar year partnerships). C Corporation tax returns will be due the 15th day of the fourth month (April 15, 2018, for calendar year corporations, extended to April 17 due to the 15th falling on a Sunday.) Due dates for Limited Liability Company (LLC) returns classified as partnerships will be the same as the partnership due date, LLC returns classified as corporations will be due on the corporation due date.

For Single-Member LLCs (SMLLCs) owned by pass-through entities (S corporations, partnerships, and LLCs classified as partnerships), the original due date of the return is the 15th day of the 3rd month following the close of the taxable year. For all other SMLLCs, the original due date of the return is the 15th day of the 4th month following the close of the taxable year of the owner.

Web Pay for Businesses

A business should use Web Pay for Businesses to make corporation, partnership, and limited liability company (LLC) payments online. After a one-time registration process, businesses can make payments 24 hours a day, 7 days a week. Businesses can pay today or schedule a payment up to one year in advance. Businesses cannot make real estate, resident/nonresident, backup withholding, or non-admitted insurance tax (NIT) payments through Web Pay. Sole proprietors must use Web Pay for Individuals to make tax payments. Payments for group nonresident/composite return must be made through Web Pay for Individuals. (84)

Electronic Funds Transfer (EFT) for Banks and Corporations

The Franchise Tax Board Electronic Funds Transfer (EFT) program provides a faster, more efficient method of paying taxes for banks and corporations. EFT allows financial institutions to transfer money from a bank account to the state's bank account electronically, eliminating the use of paper checks. Banks and corporations must use EFT if their quarterly estimated tax payment or extension payment exceeds \$20,000 or if their total tax liability exceeds \$80,000. Once a corporation remits a payment that meets the criteria for mandatory participation, the FTB will notify the corporation that all future payments must be made via EFT.

Banks and corporations may voluntarily remit payments by EFT after contacting FTB and receiving approval. To receive approval, [FTB Form 3815 - Authorization Agreement for Electronic Funds Transfer](#) must be completed and returned to FTB.

Check, Money Order or Cash Payments

To make a payment with check or money order the taxpayer should: (81)

1. Make his or her check or money order payable to the Franchise Tax Board.
2. Write the business' full name, tax account number and tax year being paid on the check or money order.
3. Mail the payment to:
FRANCHISE TAX BOARD
PO BOX 942867
SACRAMENTO CA 94267-0001

To make a cash payment the taxpayer should visit an FTB field office in person.

Installment Agreements

A business can enter an installment agreement if it cannot pay the total balance in 90 days due to a financial hardship. Under this program, the business would agree to pay a specified amount on a specified day each month.



To qualify for installment payments, the business: (85)

1. Must file all delinquent tax returns.
2. May need to complete a financial condition form and then send it to the FTB. If necessary, the FTB may require other financial documentation to process the installment agreement request.
3. Must pay a \$50 fee to set up an installment agreement. The FTB will add the fee to the business entity's balance due.

The Franchise Tax Board (FTB) will revoke an installment agreement if new liabilities accrue, payments are dishonored or a business entity repeatedly fails to make installment agreement payments. Also, the FTB may file a lien even if the business enters an installment agreement in order to secure the tax debt. Applicable penalties, fees, and interest accrue until the balance is paid. This increases the business' balance due.



Review

The following pages contain several review questions that are designed to help you learn the material you have just studied. Review questions are for instructional use only and you will not be graded on these questions. We also provide you the answers to each question and an explanation or feedback as to how we arrived at each answer.

Best practice suggests that you should try to answer these questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material. As with all self-study Qualifying Education (QE) courses, you can refer back to the course material to locate the answers, the so called 'open book' learning method is permissible.

Review Questions

Answers appear in [Review Feedback](#)

1. With respect to the "Kiddie Tax" and California reporting requirements, which of the following statements is correct?
 - A. The taxpayer is required to report the same as they did on their Federal return
 - B. If the taxpayer reported Federal Kiddie Tax on the parent's return, they can choose to report it on the child's return for California and vice versa
 - C. California treats the kiddie tax differently compared to Federal
 - D. California does not require treatment of kiddie tax
2. Starting with tax year 2005, an additional 1% Mental Health Services Tax is imposed on the portion of a taxpayer's income in excess of what amount?
 - A. \$500,000
 - B. \$1,000,000
 - C. \$1,200,000
 - D. \$1,500,000
3. Individuals who are required to make estimated tax payments, and whose 2017 California adjusted gross income is more than what amount must figure estimated tax based on the lesser of 90% of their tax for 2018 or 110% of their tax for 2017 including AMT?
 - A. \$100,000
 - B. \$125,000
 - C. \$140,000
 - D. \$150,000
4. Kiddie Tax is owed if all the following apply except:
 - A. The child is under the age of 17 or a student under age 24 at the end of the year
 - B. The child has investment income taxable by California of more than \$2,100
 - C. At least one of the child's parents was alive at the end of the year
 - D. The child does not have earned income that exceeds over half of their support
5. California motor vehicle license fees (based on value) less the vehicle license fee offset amounts and excluding which of the following fees are deductible personal property taxes?
 - A. Registration fees
 - B. Weight fees (trucks only)
 - C. County or district fees
 - D. All of the above
6. Victoria worked for two employers during 2017 and together they paid her \$98,880. What amount can Victoria take as a credit for excess SDI?
 - A. \$0
 - B. \$249.53
 - C. \$499.06
 - D. \$998.12



Review Feedback

[Return to Review Questions](#)

Question 1 - B. If the taxpayer reported Federal Kiddie Tax on the parent's return, they can choose to report it on the child's return for California and vice versa

The taxpayer is not required to report the same as Federal. For example, if the taxpayer reported Federal Kiddie Tax on the parent's return, they can choose to report it on the child's return for California and vice versa. Schedule CA adjustments would be needed. For example, if the parents elect to report a child's income on their Federal income tax return, but not on their California income tax return, they must be sure to make an adjustment on their Schedule CA (540 or 540NR), line 21f.

Question 2 - B. \$1,000,000

Starting with tax year 2005, an additional 1% income tax is imposed on the portion of a taxpayer's income in excess of \$1 million. Furthermore, personal income tax credits may not be applied against this added tax. Revenues raised from the additional tax will be used to support the provision of local government mental health services.

Question 3 - D. \$150,000

Individuals who are required to make estimated tax payments, and whose 2017 California adjusted gross income is more than \$150,000 (or \$75,000 if married/RDP filing separately), must figure estimated tax based on the lesser of 90% of their tax for 2018 or 110% of their tax for 2017 including AMT. This rule does not apply to farmers or fishermen.

Question 4 - A. The child is 17 and under or a student under age 24 at the end of the year

Kiddie Tax is owed if the child is under the age of 19 or a student under age 24 at the end of the year.

Question 5 - D. All of the above

California motor vehicle license fees less the vehicle license fee offset amounts and excluding registration fees, weight fees (trucks only), county or district fees, are based on value and are deductible as personal property taxes. The California Department of Motor Vehicles (DMV) can supply the amount of a taxpayer's deductible vehicle license fee.

Question 6 - A. \$0

California does not allow a deduction for the employee's tax under the state unemployment insurance law (commonly referred to as SDI). SDI is an allowable deduction on Federal returns. However, California does allow a credit for excess SDI if the taxpayer worked for at least two employers during 2017 and together they paid him or her more than \$110,902 in wages. Victoria's wages were only \$98,880 so she is not entitled to claim the credit for excess SDI.



California Professional Tax Preparer Ethics, Penalties

At the conclusion of this lesson you should have a basic knowledge of:

- Franchise Tax Board Administration
- California Registered Tax Preparer (CRTTP) Requirements
- Individual Tax Penalties
- Tax Preparer Penalties
- Statute of Limitations

In 1996 the California Legislature passed the Tax Preparers Act, Business and Professions Code 22250-22259, which regulates tax preparers. Those sections of the statute pertaining to California tax preparer ethics, professional conduct, conduct regarding bonding and penalties for breaking the law are listed below.

A California tax preparer is defined as “a person who, for a fee, assists with or prepares tax returns for another person or who assumes final responsibility for completed work on a return on which preliminary work has been done by another person, or who holds himself or herself out as offering those services.” (86)

A tax return is defined as “a return, declaration, statement, refund claim, or other document required to be made or filed in connection with state or Federal income taxes or state bank and corporation franchise taxes.”

The statute exempts the following: (86)

- An individual with a current valid license issued by the [California Board of Accountancy](#) (and his or her employees while functioning within the scope of his or her employment).
- An individual who is an active member of the State Bar of California (and his or her employees while functioning within the scope of his or her employment).
- Some employees of a trust company or business as defined in the statute, a financial institution and employees thereof who are regulated as defined in the statute.
- Enrolled Agents (and their employees while functioning within the scope of their employment).

Also, the law is limited to overseeing tax preparers who are preparing state and Federal tax returns for a fee within the State of California. Out-of-state tax preparers are not obligated to meet California requirements.

Administration

The California income tax law is administered by the Franchise Tax Board (FTB). The FTB is composed of the State Controller, the Director of the Department of Finance and the Chairman of the State Board of Equalization. The chief administrative officer is the Executive Officer of the Franchise Tax Board. The Franchise Tax Board has broad powers to prescribe necessary rules and regulations.



If an audit of a return is concluded with no change, the Franchise Tax Board will notify the taxpayer to this effect; this procedure is similar to the Federal process. The California Franchise Tax Board and the Federal Internal Revenue Service (IRS) have exchanged tax-related data for many years. When an audit is conducted by either the Franchise Tax Board or the IRS, the results are reported to each other.

California Registered Tax Preparers (CRTTP)

California law requires anyone who prepares tax returns for a fee and is not an exempt preparer to register as a tax preparer with the California Tax Education Council (CTEC). Exempt preparers are California certified public accountants (CPAs), enrolled agents (EAs), attorneys who are members of the State Bar of California, and certain specified banking or trust officials.



Requirements to become a California registered tax preparer (CRTP): (86)

- Must register as a tax preparer with the California Tax Education Council (CTEC).
- Must maintain a \$5,000 Tax Preparer Bond issued by a surety company admitted to do business in California. A tax preparer shall provide to the surety company proof that he or she is at least 18 years of age before a bond can be issued.
- Must identify to the surety company all preparers employed or associated with the tax preparer securing the bond.
- Must file an amendment to the bond within 30 days of any change in the information provided in the bond.
- Must not conduct business without having a current surety bond in effect.
- Must cease doing business as a tax preparer upon cancellation or termination of bond until a new bond is obtained.
- Must furnish evidence of a current bond upon the request of any state or Federal agency or law enforcement agency.
- Must, prior to rendering any tax preparation services, provide the customer, in writing, with the tax preparer's name, address, telephone number, and evidence of compliance with the bonding requirement.
- Must not make fraudulent, untrue, or misleading statements or representations which are intended to induce a person to use their tax preparation services.
- Must not obtain the signature of a customer on a tax return or authorizing document, which contains blank spaces to be filled in after it has been signed.
- Must not fail or refuse to give a customer, for their own records, a copy of any document requiring the customer's signature, within a reasonable time after the customer signs.
- Must not fail to maintain a copy of any tax return prepared for a customer for four years from the later of the due date of the return or the completion date of the return.
- Must not engage in advertising practices, which are fraudulent, untrue, or misleading, including assertions that the tax preparer bond in any way implies licensure or endorsement of a tax preparer by the State of California.
- Must not violate provisions of Sections 17530.5 or 7216 of Title 26 of the United States Code prohibiting tax preparers from disclosing any information obtained in the business of preparing Federal or state income tax returns unless:
 - o Consented to, in writing, by the taxpayer in a separate document.
 - o Expressly authorized by law.
 - o Necessary for the preparation of the return.
 - o Pursuant to court order.
- Must not fail to sign a customer's tax return when payment for services rendered has been made.
- Must not fail to return, upon the demand by or on behalf of a customer, records or other data provided to the tax preparer by the customer.
- Must not give false or misleading bond information to a consumer or give false or misleading information to a surety company in obtaining their tax preparer bond.
- Must register with CTEC for their Certificate of Completion within 18 months after completing their 60 hours of qualifying education from a CTEC approved provider.
- Must complete, on an annual basis, not less than 20 hours of continuing professional education from an approved curriculum provider (10 hours Federal tax law, 2 hours ethics, 3 hours Federal tax update and 5 hours California tax law).

Renewal

To annually renew CTEC registration, a tax preparer must: (87)

- Take a minimum of 20 hours continuing professional education from a CTEC approved provider, which must include 15 hours of Federal tax curriculum (which includes 2 hours of ethics) and 5 hours of California tax curriculum.
- Renew the PTIN number with the IRS each year.
- Maintain a \$5,000 tax preparer bond.
- Submit a renewal application and the annual registration fee before October 31st of each year to CTEC.
- Registration between November 1st and January 15th will result in a late fee.
- After January 15th, the tax preparer's registration will be suspended. A new registration can only be obtained through successful completion of a 60-Hour Qualifying Education (QE) course from an approved provider.



If a practitioner's CTEC registration has lapsed, he or she will be considered a new tax preparer and must complete a CTEC approved 60-Hour Qualifying Education (QE) course before he or she can register as a new California Registered Tax Preparer (CRTP).



Failure to Register

The California Franchise Tax Board (FTB) has the authority to identify and penalize unregistered tax preparers. Failure to register as a tax preparer with the California Tax Education Council, as required by [Section 22253](#) of the Business and Professions Code, unless it is shown that the failure was due to reasonable cause and not due to willful neglect, may result in the following penalties: (86)

- The amount of the penalty under this subdivision for the first failure to register is \$2,500. This penalty shall be waived if proof of registration is provided to the Franchise Tax Board within 90 days from the date notice of the penalty is mailed to the tax preparer.
- The amount of the penalty under this subdivision for a failure to register, other than the first failure to register, is \$5,000.

Violations

The California Franchise Tax Board (FTB) is required to notify the California Tax Education Council (CTEC) when it identifies an individual who has violated specific provisions regulating tax preparers. CTEC is required to notify the Attorney General, a district attorney, or a city attorney of the violation, and the entity so notified may do any of the following: (88)

- Cite individuals preparing tax returns in violation of provisions governing tax preparers.
- Levy a fine on such individuals not to exceed \$5,000 per violation.
- Issue a cease and desist order effective until the tax preparer is in compliance with the registration requirement.

Violators of other sections of the California Business & Professions Code [Section 22253.2](#), and California Revenue & Taxation Code [Section 19167](#) are guilty of a misdemeanor, which offense is punishable by a fine not exceeding \$1,000, or by imprisonment in a county jail for not more than one year, or by both. If a CRTTP fails to perform a duty specifically imposed upon him or her pursuant to this statute, any person may maintain an action for enforcement of those duties or to recover a civil penalty in the amount of \$1,000, or for both enforcement and recovery.



The Superior Court, in and for the county in which any person acts as a tax preparer in violation of the provisions of this statute, may, upon a petition by any person, issue an injunction or other appropriate order restraining the conduct.

Confidentiality

A tax preparer is prohibited, except in specified circumstances, from disclosing confidential information concerning a client or a prospective client without obtaining the client's written consent.

Exceptions to this prohibition are disclosures made by a tax preparer: (89)

- In compliance with a subpoena or a summons enforceable by an order of court.
- Regarding a client or prospective client to the extent the tax preparer reasonably believes it is necessary to maintain or defend himself or herself in a legal proceeding initiated by the client or prospective client.
- In response to an official inquiry from a Federal or State government regulatory agency.
- To another tax preparer in connection with a proposed sale or merger of the tax preparer's professional practice.
- To another tax preparer to the extent necessary for purposes of professional consultations.
- To organizations that provide professional standards review and ethics or quality control peer review.
- When specifically required by law.

Special safeguards are provided to prevent improper disclosure by the Franchise Tax Board of trade secrets or other confidential information with respect to any software that comes into the Franchise Tax Board's possession or control in connection with a tax return examination. Computer software source code and executable code are considered return information for disclosure purposes. Any person who willfully makes known to another person any computer software source code or executable code obtained in connection with a tax return examination may be punished by a fine or imprisonment or both.

Annual Filing Season Program (AFSP)

Annual Filing Season Program (AFSP) participants are included in a public database of return preparers that launched on



the IRS website in January 2015. The Directory of Federal Tax Return Preparers with Credentials and Select Qualifications will include the name, city, state, zip code, and credentials of all attorneys, CPAs, enrolled agents, enrolled retirement plan agents and enrolled actuaries with a valid PTIN, as well as all AFSP – Record of Completion holders.

Anyone who passed the Registered Tax Return Preparer test offered between November 2011 and January 2013 only needs to meet their original 15 hour continuing education requirement each year to obtain an AFSP – Record of Completion. Those who passed the RTRP test and certain other recognized national and state tests (including California) are exempt from the 6-hour Annual Federal Tax Refresher (AFTR) course with test.

For example, the IRS has exempted California Registered Tax Preparers (CRTP) from having to take the Annual Federal Tax Refresher (AFTR) course and passing the course's competency examination to obtain a Record of Completion because they have already demonstrated their competency by passing a 60-hour qualifying education (QE) course and annually maintaining their continuing professional education. In addition, their California Tax Education Council (CTEC) education requirements will meet the IRS requirements. Therefore, a CRTP in good standing will have already met all of the IRS requirements of the new program and will have a simplified process to obtain a Record of Completion. Keep in mind a CRTP does not qualify for the AFSP until he or she has successfully completed the CTEC 20 hours of continuing professional education and renews his or her registration with CTEC. The 60-Hour QE course does not count toward AFSP.

Also, a CRTP was granted the authority to represent, before the IRS, clients whose returns the CRTP prepared, as long as the CRTP is properly registered with CTEC for both the year the tax return was prepared as well as the year the review takes place.

As of 2016, there were changes to the representation rights of return preparers. Attorneys, CPAs, and enrolled agents will continue to be the only tax professionals with unlimited representation rights, meaning they can represent their clients on any matters including audits, payment/collection issues, and appeals. However, AFSP participants will have limited representation rights, meaning they can represent clients whose returns they prepared and signed, but only before revenue agents, customer service representatives, and similar IRS employees, including the Taxpayer Advocate Service.

Main California Penalties

The following list contains some of the tax penalties for individuals and tax preparers in California. Please use this list for reference purposes only. Penalties related to individuals: (90)

- *For failure to file a tax return without reasonable cause* -- 5% of the tax due, for each month of delinquency, plus $\frac{1}{2}$ of 1% each month, or part of a month the tax remains unpaid, not to exceed 40 months, up to a maximum of 25%.
- *Late filing penalty* - the penalty is 5% of the unpaid tax due for every month that the return is late, up to a maximum penalty of 25% of the unpaid tax. The minimum penalty is \$135 for tax years beginning on or after January 1, 2011, or 100% of the unpaid tax, whichever is less.
- *Fraudulent failure to file* - the penalty is 15% of the tax due per month, up to a maximum of 75%.
- *For failure to furnish any information* - either requested by the Franchise Tax Board or for failure to file a return after notice and demand from the Board -- without reasonable cause -- 25% of total tax liability assessed without regard to any payments or credits.
- *Failure to file a return upon demand* -- Any taxpayer failing to provide requested information, or failing to file a return after notice and demand -- 25% of total tax liability assessed without regard to any payments or credits.
- *For fraud* -- When there is clear and convincing evidence to prove that some part of the underpayment of tax was due to civil fraud the penalty is 75% of the resulting underpayment of tax.
- *For paying a tax liability with a bad check, credit card or electronic funds transfer* -- the lesser of \$25 or the amount of the payment, unless the payment is \$1250 or more, in which case the penalty is 2% of the amount of payment.
- *Electronic Funds Transfer (EFT) Penalty* -- Any person required to remit payment by EFT, but who makes payment by other means faces a 10% penalty of the amount paid by non-EFT.
- *Failure to Provide Information Requested* - 25% of total tax liability assessed without regard to any payments or credits.

Late Filing/Payment Penalty

An underpayment penalty will be charged when taxes are not paid by the due date. The penalty is 5% of the unpaid tax



as of the due date plus $\frac{1}{2}$ of 1% each month, or part of a month the tax remains unpaid, not to exceed 40 months. The maximum penalty is 25% of the total unpaid tax.

A delinquent penalty will be charged on unpaid taxes if a return is filed late. The penalty is 5% of the unpaid tax due for every month that the return is late, up to a maximum penalty of 25 percent of the unpaid tax. The minimum penalty is \$135 for tax years beginning on or after January 1, 2011, (before January 1, 2011 is \$100) or 100% of the unpaid tax, whichever is less.

There are also other penalties that can be imposed such as for a check returned for insufficient funds, negligence, substantial understatement of tax and fraud.

Interest will be charged on any delinquent or late payment from the original due date of the return to the date paid. In addition, if other penalties are not paid within 15 days of the date of the notice, interest will be charged from the date of the billing notice until the date of payment. Interest compounds daily and the interest rate is adjusted twice a year.

Tax Preparers Penalties

Understatement

When a preparer completes a return or claim for refund that results in the taxpayer's understatement based on an unreasonable position and the preparer knew or reasonably should have known of the unreasonable position the penalty is the greater of \$250 per return or 50% of income derived.

The preparer can avoid the penalty if the position is adequately disclosed and has a reasonable basis; if the position is not disclosed and is not a tax shelter and there is substantial authority for the position; or for a tax shelter position defined in IRC [Section 6662\(d\)](#) or a reportable transaction under IRC [Section 6011](#), if the preparer reasonably believes that the position is more-likely-than-not correct. If preparer pays at least 15% of the penalty within 30 days of the bill and files a claim for refund, the preparer may file an action in court within 30 days of the claim denial or deemed denial.

When a preparer completes a return or claim for refund that results in the taxpayer's understatement based on an undisclosed reportable transaction, a listed transaction, or a gross misstatement, the tax preparer faces a penalty of \$1,000 or 50% of the income derived (or to be derived) with respect to each return or claim.

The standard to avoid the penalty is more-likely-than-not. If the preparer pays at least 15% of the penalty within 30 days of the bill and files a claim for refund, the preparer may file an action in court within 30 days of the claim denial or deemed denial.

If the understatement of the taxpayer's tax is due to the preparer's willful attempt to understate the liability or any reckless or intentional disregard of rules or regulations, the tax preparer faces a penalty of the greater of \$5,000 or 50% of the income derived (or to be derived) with respect to each return or claim.

A preparer is not considered to have recklessly or intentionally disregarded a rule or regulation if the position has a reasonable basis and is adequately disclosed. If a regulation is at issue, there must be a good faith challenge. If the position is contrary to a revenue ruling or notice, the substantial authority standard applies. The same rules of paying 15% and filing a claim and suit in court apply.

Promotion of an Abusive Tax Shelter

Any person who engages in the organization of, or sale of any interest in, a partnership or other entity, an investment plan or arrangement, or any other plan or arrangement, if the person makes, furnishes, or causes another person to make or furnish false or fraudulent tax benefits statement as to a material matter or a gross valuation overstatement as to a material matter faces a penalty of \$1,000 or 100% of the gross income derived (or to be derived) by the person from the activity, whichever is less.

If the activity on which the penalty is imposed involves a false or fraudulent statement as to any matter pertaining to the tax shelter plan or arrangement, the penalty is 50% of the gross income the promoter derived (or was to derive) from promoting the activity. If a penalty is imposed with respect to a gross valuation overstatement, the penalty may be waived on a showing that there was a reasonable basis for the valuation and the valuation was made in good faith.



Additional Penalties

- For failure of tax return preparers to furnish a copy of the tax return to the taxpayer - \$50 per failure, not to exceed \$25,000 during any calendar year.
- For failure of tax return preparers to furnish an identifying number - \$50 per failure, not to exceed \$25,000 during any calendar year.
- For failure of tax return preparers to retain a required copy or list - \$50 per failure, not to exceed \$25,000 during any calendar year.
- For failing to file mandatory electronic return(s) - \$50 per non-electronic tax return.
- For failure of the tax preparer to register with California Tax Education Council (CTEC)--\$5,000 (\$2,500 for first offense).
- For a tax preparer negotiating or endorsing a client's refund check -- \$250 per check, plus criminal penalty (misdemeanor) of up to \$1,000 and/or up to 1 year in jail, and costs of prosecution.
- For aiding and abetting an understatement of tax liability -- \$1,000 (\$10,000 if the tax liability relates to a corporation).
- For filing a frivolous return -- \$5,000 if the return does not contain sufficient information or is based on a frivolous position or reflects an attempt to delay or impede administration of the tax laws.
- Failure to File Correct Information Return - \$50 for failure to file correct information returns, with respect to which such a failure occurs. Shall not exceed \$250,000 during any calendar year; \$100,000 for persons with gross receipts of not more than \$5 million. Higher penalties (without reduction for correction) apply in the case of intentional disregard, depending on type of information return.
- Statement That Results in Under-Withholding - \$500 for the statement.
- For failing to report personal services remuneration—disallowance of deduction; unreported amount multiplied by the highest personal income tax rate.
- Failure to File a Form Required for Nondeductible Contributions to Individual Retirement Accounts (IRA) - \$50 for each failure.

Statute of Limitations

California tax law has several common statutes of limitations (SOLs) for assessments and claims for refund or credit following a Federal action. This section summarizes the SOLs for these scenarios.

Statute of Limitations on Assessments

The general time limit for Franchise Tax Board (FTB) to assess additional California state income and franchise taxes is provided by [Section 19057](#) of the Revenue and Taxation Code (renumbered from Sections 18586 and 25663 of the Revenue and Taxation Code, effective January 1, 1994).

Assessments may be allowed after the general time limit in special circumstances, such as if the Internal Revenue Service made Federal adjustments, or if the taxpayer failed to report 25% or more of the gross income required to be reported on a tax return. The law generally requires FTB to mail a proposed deficiency assessment to the taxpayer within four years after the filing date of the taxpayer's return. Returns filed before the original due date of a personal income tax return (April 15 of the year after the tax year) are considered as filed on the original due date (Revenue and Taxation Code [Section 19066](#)).

For personal income taxpayers, the process of automatic paperless extensions began in the 1991 tax year and remains in effect. Under this process, the taxpayer is no longer required to request an extension on a paper form. If the taxpayer files a return on or before October 15, an extension is automatically granted. If the taxpayer fails to file a return by October 15, no extension exists. Under the paperless extension process, the return is timely if it is filed on or before October 15. For tax years 1992 and following FTB must assess tax within four years from the original April 15 due date of the return, if the taxpayer filed the return on or before that date. If the taxpayer did not file the return on or before the original April 15 due date, FTB has four years from the date the return was filed to assess tax.

Statutes of Limitations on Claims for Refund or Credit

R&TC [Section 19306](#) specifies that a claim for refund or credit must be filed no later than four years from the original due date of the return or four years from the date the return is filed if the return was filed within the automatic extension period. Additionally, a claim for refund or credit is timely with respect to payments made within one year of the claim filing date



(the look back provision). The postmarked date of the claim is the date it is considered filed, and the taxpayer has the burden of proving the claim is timely filed.

The following example illustrates the look back provision of R&TC [Section 19306](#). An individual taxpayer files a claim for refund for tax year 2003 on May 12, 2010. Since the taxpayer filed the claim more than four years after the original due date of the taxpayer's return (April 15, 2004), and more than four years after the latest date the taxpayer could have filed his return during the automatic extension period (October 15, 2004), the claim could not be allowed under the four-year provision. However, if the taxpayer made any payments for tax year 2003 during the year prior to the date the claim for refund was filed, the claim, if meritorious, could be allowed to the extent of payments made during that one-year period.

Statute to Issue an Assessment Following Federal Action

This is very much an issue or question of timing. The date the Franchise Tax Board (FTB) is notified of an adjustment by the Internal Revenue Service determines when the FTB may issue an assessment resulting from the Federal adjustment. Here are the details:

- If a taxpayer or the IRS reports a Federal adjustment to the FTB, or if a taxpayer files an amended California return reflecting the Federal adjustment, within six months after the final Federal determination date, the FTB may issue a proposed assessment within the later of two years after the date notice of the Federal adjustment was received, or the expiration of any other open SOL under California law. (Revenue and Taxation Code (R&TC) [Section 19059](#)).
- If notice of the Federal adjustment is reported to the FTB more than six months after the final Federal determination date, the FTB may issue a proposed assessment within the later of four years after the date notice of the Federal changes or corrections was received, or any open SOL under California law.
- If neither IRS nor the taxpayer reports a Federal change or correction, the FTB may issue a proposed assessment at any time.

Statute to Claim a Refund Following Federal Action

A taxpayer may file a claim for refund resulting from a Federal adjustment within the later of the general four-year SOL or two years from the final Federal determination date.

There are three important limitations on the scope of the claim for refund following Federal action.

1. A claim for refund is limited to overpayments resulting from the Federal adjustment. Generally, this means that the same issue or item adjusted by the IRS can be the basis of a California claim.
2. A claim for refund must be based on a Federal adjustment to an original or amended Federal return, AND the Federal adjustment must affect the tax shown on an original or an amended California return previously filed with the FTB. The original state or Federal return of a non-filer does not result from a Federal determination.
3. A Federal adjustment may result in a claim for refund for a tax year different from the tax year in which the Federal adjustment occurred. This commonly occurs where there is a Federal carry forward or carryback that is not applicable under California law or where there is a California-only credit or credit carry forward in the year of the Federal adjustment.

Power of Attorney

The Power of Attorney (POA) Declaration is an Franchise Tax Board (FTB) legal document that allows taxpayers to grant a specific person (a POA representative) permission to obtain their confidential information and/or represent that taxpayer on FTB matters.

A POA Declaration is required for the taxpayer's POA representative to: (91)

- Talk to the FTB about a taxpayer's account.
- Receive and inspect taxpayer's confidential tax information.
- Represent the taxpayer in FTB matters.
- Waive the California statute of limitations.
- Execute settlement and closing agreements.
- Request copies of information the FTB receives from the IRS.



The POA Declaration also allows POA representatives to: (91)

- Authorize additional privileges or restrict privileges for your representative.
 - When you authorize a representative the ability to add or delete a representative, any representative that is subsequently added to the POA Declaration will have the same authorizations to add or delete representatives. If you do not want subsequent representative to inherit the ability to add or delete representatives file a new POA Declaration.
- Have multiple representatives.
- Retain a prior POA Declaration if indicated on a new form and the previous POA Declaration is attached.

Taxpayers and representatives should submit an online POA Declaration through [MyFTB](#). Allow up to 30 business days for processing. If you file a POA Declaration by mail and meet one of the exceptions, allow up to 45 business days for processing. If you do not meet an exception, allow 90 business days for processing.

A 10-business day hold will be set on representative's access to their clients [MyFTB](#) account information once a POA Declaration is processed. The 10-business day hold will only affect POA Declarations submitted by representatives through [MyFTB](#) with an attachment or POA Declarations that are paper filed.

File a paper [FTB Form 3520 - Power of Attorney Declaration](#), if you meet one of the following exceptions: (91)

- Taxpayer or representative is located in a declared disaster area.
- Taxpayer has a documented physical/mental impairment.
- Taxpayer has a non-professional representative (relative, friend, etc.).
- Taxpayer is a first-time filer for the state of California.
- Out-of-state attorneys that do not have a PTIN, EFIN, or California CPA number, CTEC number, or California State Bar Number.
- Estates and trusts.
- Taxpayer or representative does not have computer availability.
- Active duty military member in a Combat Zone.
- Nontax debt issues.

If you meet one of the exceptions and file a paper [FTB Form 3520 - Power of Attorney Declaration](#): (91)

- Indicate the exception that qualifies you to file a paper POA Declaration by checking the appropriate box on the form.
- Mail POA Declarations separately from tax returns or other correspondence. A POA Declaration that is sent to a different FTB PO Box will take longer to process.
- Keep a copy of the POA Declaration for you records.
- After the FTB processes a valid POA Declaration, they will send a letter notifying the taxpayer that the POA Declaration has been processed. For security measures, a 10-day hold will be placed on representative's access to their clients [MyFTB](#) account information.
- Allow up to 45 business days for processing.

Mail to:

POA UNIT
FRANCHISE TAX BOARD
PO BOX 2828
RANCHO CORDOVA, CA 95741-2828

Other Acceptable Forms

The FTB strongly encourages you to use the online POA service through [MyFTB](#). If you meet the exceptions for filing on paper, the FTB recommends that you use the current FTB Form 3520 to ensure the required information for processing the POA Declaration is provided. However, the FTB will accept the following non-FTB forms with modifications:

When properly modified so they apply to FTB matters, other forms that are acceptable POA declarations include:

- [IRS Form 2848 - Power of Attorney and Declaration of Representative](#)



- [IRS Form 8821 - Tax Information Authorization](#)
- [BOE 392 - Power of Attorney](#)

The FTB also accepts handwritten, general, or durable POA declarations. However, the declarations must contain the following required information: (91)

- Taxpayer or business entity name.
- Mailing address.
- Social Security number or business entity identification number.
- Representative name, address, telephone number, fax number, and email address.
- Types of FTB matters involved.
- Specific tax years or income periods involved, which includes account period beginning and ending dates.
- Clear statement that grants a person or persons authority to represent him or her before the FTB and specifies the actions he or she authorizes.
- For estate tax matters, the decedent's name and death date, the representative's authorization, his or her signature and date for estate tax matters.

If the taxpayer filed [IRS Form 56 - Notice Concerning Fiduciary Relationship](#), he or she should attach a copy to FTB Form 3520.

Revoking a POA

Generally, a POA Declaration remains in effect until it is revoked. It is the taxpayer's responsibility to revoke a POA with FTB when they are no longer working with a representative. Representatives who no longer represent a taxpayer should revoke that POA Declaration to ensure they do not receive confidential information they are not entitled to access.

- Taxpayers and tax professionals/representatives can revoke their POA Declaration online through the enhanced [MyFTB](#) if it was submitted on or after October 1, 2014.
- POA Declarations filed on or after October 1, 2014 can be revoked through [MyFTB](#). This is the fastest way to revoke a POA Declaration. If you do not have access to [MyFTB](#) and would like to revoke a POA Declaration, contact us.
- POA Declarations filed prior to October 1, 2014 or that do not display on your [MyFTB](#) account, see instructions to the [FTB Form 3520 - Power of Attorney Declaration, Part 6 – Retention or Revocation of a Prior POA](#), for information on how to revoke your POA Declaration.

POA Changes Coming January 2018

Redesigned FTB Form 3520 - Power of Attorney Declaration:

- New separate forms by entity type (individual/Fiduciary and Business Entity/Group Nonresident).
- New separate revocation form.
- The FTB will not automatically revoke POA Declarations with overlapping periods.
- All POA Declarations filed on or after January 1, 2018, will expire after 6 years.
- Submit form by mail or representatives, use the online POA service in [MyFTB](#).
- The FTB will only accept the new FTB Power of Attorney Declarations/forms for processing.

New FTB Form 3534 - Tax Information Authorization (TIA):

- TIA representatives can get information only, for all tax years.
- Does not allow a TIA representative to act on behalf of the taxpayer.
- Valid for 13 months.
- Submit form by mail or representatives revoke TIA client online through [MyFTB](#).

New FTB Form 3535 - Revoke Tax Information Authorization:

- New form to revoke relationship.
- Submit form by mail or representatives, revoke TIA client online through [MyFTB](#).

The FTB will not process these new forms until after January 2, 2018. Online submission through [MyFTB](#) will be available January 2, 2018.



Review

The following pages contain several review questions that are designed to help you learn the material you have just studied. Review questions are for instructional use only and you will not be graded on these questions. We also provide you the answers to each question and an explanation or feedback as to how we arrived at each answer.

Best practice suggests that you should try to answer these questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material. As with all self-study Qualifying Education (QE) courses, you can refer back to the course material to locate the answers, the so called 'open book' learning method is permissible.

Review Questions

Answers appear in [Review Feedback](#)

1. An underpayment penalty will be charged when taxes are not paid by the due date. The penalty is 5% of the unpaid tax as of the due date plus $\frac{1}{2}$ of 1% each month, or part of a month the tax remains unpaid, not to exceed 40 months. The maximum penalty is what amount of the total unpaid tax?
 - A. 10%
 - B. 20%
 - C. 25%
 - D. 30%
2. Which, of the following are exempt from the California Tax Education Council (CTEC) requirements?
 - A. Enrolled Agents
 - B. An individual who is an active member of the State Bar of California
 - C. California certified public accountants
 - D. All of the above
3. A CRTP must complete, on an annual basis, not less than how many hours of continuing education from a CTEC approved continuing education provider?
 - A. 10 hours
 - B. 15 hours
 - C. 20 hours
 - D. 25 hours
4. How many months does a CRTP candidate have to register for their Certificate of Completion after completing their 60 hours of qualifying education?
 - A. Within 6 months
 - B. Within 12 months
 - C. Within 18 months
 - D. Within 24 months



Review Feedback

Return to [Review Questions](#)

Question 1 - C. 25%

An underpayment penalty will be charged when taxes are not paid by the due date. The penalty is 5% of the unpaid tax as of the due date plus $\frac{1}{2}$ of 1% each month, or part of a month the tax remains unpaid, not to exceed 40 months. The maximum penalty is 25% of the total unpaid tax.

Question 2 - D. All of the above

California law requires anyone who prepares tax returns for a fee and is not an exempt preparer to register as a tax preparer with the California Tax Education Council (CTEC). Exempt preparers are California certified public accountants (CPAs), enrolled agents (EAs), attorneys who are members of the State Bar of California, and certain specified banking or trust officials.

Question 3 - C. 20 hours

To annually renew CTEC registration, a tax preparer must take a minimum of 20 hours continuing education from a CTEC approved provider, which must include 15 hours of Federal tax curriculum (which includes 2 hours of ethics) and 5 hours of California tax curriculum.

Question 4 - C. Within 18 months

The individual tax preparer is responsible for completing the registration requirement whether or not the employer provided or paid for a surety bond and CTEC registration. The unregistered tax preparer is personally liable for any penalties, not the employer. The CRTP candidate must register for their Certificate of Completion within 18 months after completing their 60 hours of qualifying education from an approved provider.



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To Find Your Tax:

- Read down the column labeled "If Your Taxable Income Is ..." to find the range that includes your taxable income from Form 540, line 19.
- Read across the columns labeled "The Tax For Filing Status" until you find the tax that applies for your taxable income and filing status.

Filing status: 1 or 3 (Single; Married/RDP Filing Separately)					2 or 5 (Married/RDP Filing Jointly; Qualifying Widow(er))					4 (Head of Household)				
If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status		
At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is
\$1	\$50	\$0	\$0	\$0	6,451	6,550	65	65	65	12,951	13,050	178	130	130
51	150	1	1	1	6,551	6,650	66	66	66	13,051	13,150	180	131	131
151	250	2	2	2	6,651	6,750	67	67	67	13,151	13,250	182	132	132
251	350	3	3	3	6,751	6,850	68	68	68	13,251	13,350	184	133	133
351	450	4	4	4	6,851	6,950	69	69	69	13,351	13,450	186	134	134
451	550	5	5	5	6,951	7,050	70	70	70	13,451	13,550	188	135	135
551	650	6	6	6	7,051	7,150	71	71	71	13,551	13,650	190	136	136
651	750	7	7	7	7,151	7,250	72	72	72	13,651	13,750	192	137	137
751	850	8	8	8	7,251	7,350	73	73	73	13,751	13,850	194	138	138
851	950	9	9	9	7,351	7,450	74	74	74	13,851	13,950	196	139	139
951	1,050	10	10	10	7,451	7,550	75	75	75	13,951	14,050	198	140	140
1,051	1,150	11	11	11	7,551	7,650	76	76	76	14,051	14,150	200	141	141
1,151	1,250	12	12	12	7,651	7,750	77	77	77	14,151	14,250	202	142	142
1,251	1,350	13	13	13	7,751	7,850	78	78	78	14,251	14,350	204	143	143
1,351	1,450	14	14	14	7,851	7,950	79	79	79	14,351	14,450	206	144	144
1,451	1,550	15	15	15	7,951	8,050	80	80	80	14,451	14,550	208	145	145
1,551	1,650	16	16	16	8,051	8,150	81	81	81	14,551	14,650	210	146	146
1,651	1,750	17	17	17	8,151	8,250	82	82	82	14,651	14,750	212	147	147
1,751	1,850	18	18	18	8,251	8,350	84	83	83	14,751	14,850	214	148	148
1,851	1,950	19	19	19	8,351	8,450	86	84	84	14,851	14,950	216	149	149
1,951	2,050	20	20	20	8,451	8,550	88	85	85	14,951	15,050	218	150	150
2,051	2,150	21	21	21	8,551	8,650	90	86	86	15,051	15,150	220	151	151
2,151	2,250	22	22	22	8,651	8,750	92	87	87	15,151	15,250	222	152	152
2,251	2,350	23	23	23	8,751	8,850	94	88	88	15,251	15,350	224	153	153
2,351	2,450	24	24	24	8,851	8,950	96	89	89	15,351	15,450	226	154	154
2,451	2,550	25	25	25	8,951	9,050	98	90	90	15,451	15,550	228	155	155
2,551	2,650	26	26	26	9,051	9,150	100	91	91	15,551	15,650	230	156	156
2,651	2,750	27	27	27	9,151	9,250	102	92	92	15,651	15,750	232	157	157
2,751	2,850	28	28	28	9,251	9,350	104	93	93	15,751	15,850	234	158	158
2,851	2,950	29	29	29	9,351	9,450	106	94	94	15,851	15,950	236	159	159
2,951	3,050	30	30	30	9,451	9,550	108	95	95	15,951	16,050	238	160	160
3,051	3,150	31	31	31	9,551	9,650	110	96	96	16,051	16,150	240	161	161
3,151	3,250	32	32	32	9,651	9,750	112	97	97	16,151	16,250	242	162	162
3,251	3,350	33	33	33	9,751	9,850	114	98	98	16,251	16,350	244	163	163
3,351	3,450	34	34	34	9,851	9,950	116	99	99	16,351	16,450	246	164	164
3,451	3,550	35	35	35	9,951	10,050	118	100	100	16,451	16,550	248	166	165
3,551	3,650	36	36	36	10,051	10,150	120	101	101	16,551	16,650	250	168	167
3,651	3,750	37	37	37	10,151	10,250	122	102	102	16,651	16,750	252	170	169
3,751	3,850	38	38	38	10,251	10,350	124	103	103	16,751	16,850	254	172	171
3,851	3,950	39	39	39	10,351	10,450	126	104	104	16,851	16,950	256	174	173
3,951	4,050	40	40	40	10,451	10,550	128	105	105	16,951	17,050	258	176	175
4,051	4,150	41	41	41	10,551	10,650	130	106	106	17,051	17,150	260	178	177
4,151	4,250	42	42	42	10,651	10,750	132	107	107	17,151	17,250	262	180	179
4,251	4,350	43	43	43	10,751	10,850	134	108	108	17,251	17,350	264	182	181
4,351	4,450	44	44	44	10,851	10,950	136	109	109	17,351	17,450	266	184	183
4,451	4,550	45	45	45	10,951	11,050	138	110	110	17,451	17,550	268	186	185
4,551	4,650	46	46	46	11,051	11,150	140	111	111	17,551	17,650	270	188	187
4,651	4,750	47	47	47	11,151	11,250	142	112	112	17,651	17,750	272	190	189
4,751	4,850	48	48	48	11,251	11,350	144	113	113	17,751	17,850	274	192	191
4,851	4,950	49	49	49	11,351	11,450	146	114	114	17,851	17,950	276	194	193
4,951	5,050	50	50	50	11,451	11,550	148	115	115	17,951	18,050	278	196	195
5,051	5,150	51	51	51	11,551	11,650	150	116	116	18,051	18,150	280	198	197
5,151	5,250	52	52	52	11,651	11,750	152	117	117	18,151	18,250	282	200	199
5,251	5,350	53	53	53	11,751	11,850	154	118	118	18,251	18,350	284	202	201
5,351	5,450	54	54	54	11,851	11,950	156	119	119	18,351	18,450	286	204	203
5,451	5,550	55	55	55	11,951	12,050	158	120	120	18,451	18,550	288	206	205
5,551	5,650	56	56	56	12,051	12,150	160	121	121	18,551	18,650	290	208	207
5,651	5,750	57	57	57	12,151	12,250	162	122	122	18,651	18,750	292	210	209
5,751	5,850	58	58	58	12,251	12,350	164	123	123	18,751	18,850	294	212	211
5,851	5,950	59	59	59	12,351	12,450	166	124	124	18,851	18,950	296	214	213
5,951	6,050	60	60	60	12,451	12,550	168	125	125	18,951	19,050	298	216	215
6,051	6,150	61	61	61	12,551	12,650	170	126	126	19,051	19,150	300	218	217
6,151	6,250	62	62	62	12,651	12,750	172	127	127	19,151	19,250	302	220	219
6,251	6,350	63	63	63	12,751	12,850	174	128	128	19,251	19,350	304	222	221
6,351	6,450	64	64	64	12,851	12,950	176	129	129	19,351	19,450	306	224	223

Continued on next page.

2017 California Tax Table – Continued

Filing status: 1 or 3 (Single; Married/RDP Filing Separately)						2 or 5 (Married/RDP Filing Jointly; Qualifying Widow(er))					4 (Head of Household)				
If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status			
At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	
19,451	19,550	308	226	225	26,451	26,550	588	366	365	33,451	33,550	922	506	505	
19,551	19,650	312	228	227	26,551	26,650	592	368	367	33,551	33,650	928	508	507	
19,651	19,750	316	230	229	26,651	26,750	596	370	369	33,651	33,750	934	510	509	
19,751	19,850	320	232	231	26,751	26,850	600	372	371	33,751	33,850	940	512	511	
19,851	19,950	324	234	233	26,851	26,950	604	374	373	33,851	33,950	946	514	513	
19,951	20,050	328	236	235	26,951	27,050	608	376	375	33,951	34,050	952	516	515	
20,051	20,150	332	238	237	27,051	27,150	612	378	377	34,051	34,150	958	518	517	
20,151	20,250	336	240	239	27,151	27,250	616	380	379	34,151	34,250	964	520	519	
20,251	20,350	340	242	241	27,251	27,350	620	382	381	34,251	34,350	970	522	521	
20,351	20,450	344	244	243	27,351	27,450	624	384	383	34,351	34,450	976	524	523	
20,451	20,550	348	246	245	27,451	27,550	628	386	385	34,451	34,550	982	526	525	
20,551	20,650	352	248	247	27,551	27,650	632	388	387	34,551	34,650	988	528	527	
20,651	20,750	356	250	249	27,651	27,750	636	390	389	34,651	34,750	994	530	529	
20,751	20,850	360	252	251	27,751	27,850	640	392	391	34,751	34,850	1,000	532	531	
20,851	20,950	364	254	253	27,851	27,950	644	394	393	34,851	34,950	1,006	534	533	
20,951	21,050	368	256	255	27,951	28,050	648	396	395	34,951	35,050	1,012	536	535	
21,051	21,150	372	258	257	28,051	28,150	652	398	397	35,051	35,150	1,018	538	537	
21,151	21,250	376	260	259	28,151	28,250	656	400	399	35,151	35,250	1,024	540	539	
21,251	21,350	380	262	261	28,251	28,350	660	402	401	35,251	35,350	1,030	542	541	
21,351	21,450	384	264	263	28,351	28,450	664	404	403	35,351	35,450	1,036	544	543	
21,451	21,550	388	266	265	28,451	28,550	668	406	405	35,451	35,550	1,042	546	545	
21,551	21,650	392	268	267	28,551	28,650	672	408	407	35,551	35,650	1,048	548	547	
21,651	21,750	396	270	269	28,651	28,750	676	410	409	35,651	35,750	1,054	550	549	
21,751	21,850	400	272	271	28,751	28,850	680	412	411	35,751	35,850	1,060	552	551	
21,851	21,950	404	274	273	28,851	28,950	684	414	413	35,851	35,950	1,066	554	553	
21,951	22,050	408	276	275	28,951	29,050	688	416	415	35,951	36,050	1,072	556	555	
22,051	22,150	412	278	277	29,051	29,150	692	418	417	36,051	36,150	1,078	558	557	
22,151	22,250	416	280	279	29,151	29,250	696	420	419	36,151	36,250	1,084	560	559	
22,251	22,350	420	282	281	29,251	29,350	700	422	421	36,251	36,350	1,090	562	561	
22,351	22,450	424	284	283	29,351	29,450	704	424	423	36,351	36,450	1,096	564	563	
22,451	22,550	428	286	285	29,451	29,550	708	426	425	36,451	36,550	1,102	566	565	
22,551	22,650	432	288	287	29,551	29,650	712	428	427	36,551	36,650	1,108	568	567	
22,651	22,750	436	290	289	29,651	29,750	716	430	429	36,651	36,750	1,114	570	569	
22,751	22,850	440	292	291	29,751	29,850	720	432	431	36,751	36,850	1,120	572	571	
22,851	22,950	444	294	293	29,851	29,950	724	434	433	36,851	36,950	1,126	574	573	
22,951	23,050	448	296	295	29,951	30,050	728	436	435	36,951	37,050	1,132	576	575	
23,051	23,150	452	298	297	30,051	30,150	732	438	437	37,051	37,150	1,138	578	577	
23,151	23,250	456	300	299	30,151	30,250	736	440	439	37,151	37,250	1,144	580	579	
23,251	23,350	460	302	301	30,251	30,350	740	442	441	37,251	37,350	1,150	582	581	
23,351	23,450	464	304	303	30,351	30,450	744	444	443	37,351	37,450	1,156	584	583	
23,451	23,550	468	306	305	30,451	30,550	748	446	445	37,451	37,550	1,162	586	585	
23,551	23,650	472	308	307	30,551	30,650	752	448	447	37,551	37,650	1,168	588	587	
23,651	23,750	476	310	309	30,651	30,750	756	450	449	37,651	37,750	1,174	590	589	
23,751	23,850	480	312	311	30,751	30,850	760	452	451	37,751	37,850	1,180	592	591	
23,851	23,950	484	314	313	30,851	30,950	766	454	453	37,851	37,950	1,186	594	593	
23,951	24,050	488	316	315	30,951	31,050	772	456	455	37,951	38,050	1,192	596	595	
24,051	24,150	492	318	317	31,051	31,150	778	458	457	38,051	38,150	1,198	598	597	
24,151	24,250	496	320	319	31,151	31,250	784	460	459	38,151	38,250	1,204	600	599	
24,251	24,350	500	322	321	31,251	31,350	790	462	461	38,251	38,350	1,210	602	601	
24,351	24,450	504	324	323	31,351	31,450	796	464	463	38,351	38,450	1,216	604	603	
24,451	24,550	508	326	325	31,451	31,550	802	466	465	38,451	38,550	1,222	606	605	
24,551	24,650	512	328	327	31,551	31,650	808	468	467	38,551	38,650	1,228	608	607	
24,651	24,750	516	330	329	31,651	31,750	814	470	469	38,651	38,750	1,234	610	609	
24,751	24,850	520	332	331	31,751	31,850	820	472	471	38,751	38,850	1,240	612	611	
24,851	24,950	524	334	333	31,851	31,950	826	474	473	38,851	38,950	1,246	614	613	
24,951	25,050	528	336	335	31,951	32,050	832	476	475	38,951	39,050	1,252	616	616	
25,051	25,150	532	338	337	32,051	32,150	838	478	477	39,051	39,150	1,258	620	620	
25,151	25,250	536	340	339	32,151	32,250	844	480	479	39,151	39,250	1,264	624	624	
25,251	25,350	540	342	341	32,251	32,350	850	482	481	39,251	39,350	1,270	628	628	
25,351	25,450	544	344	343	32,351	32,450	856	484	483	39,351	39,450	1,276	632	632	
25,451	25,550	548	346	345	32,451	32,550	862	486	485	39,451	39,550	1,282	636	636	
25,551	25,650	552	348	347	32,551	32,650	868	488	487	39,551	39,650	1,288	640	640	
25,651	25,750	556	350	349	32,651	32,750	874	490	489	39,651	39,750	1,294	644	644	
25,751	25,850	560	352	351	32,751	32,850	880	492	491	39,751	39,850	1,300	648	648	
25,851	25,950	564	354	353	32,851	32,950	886	494	493	39,851	39,950	1,306	652	652	
25,951	26,050	568	356	355	32,951	33,050	892	496	495	39,951	40,050	1,312	656	656	
26,051	26,150	572	358	357	33,051	33,150	898	498	497	40,051	40,150	1,318	660	660	
26,151	26,250	576	360	359	33,151	33,250	904	500	499	40,151	40,250	1,324	664	664	
26,251	26,350	580	362	361	33,251	33,350	910	502	501	40,251	40,350	1,330	668	668	
26,351	26,450	584	364	363	33,351	33,450	916	504	503	40,351	40,450	1,336	672	672	

Continued on next page.

2017 California Tax Table – Continued

Filing status: 1 or 3 (Single; Married/RDP Filing Separately)						2 or 5 (Married/RDP Filing Jointly; Qualifying Widow(er))						4 (Head of Household)					
If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status					
At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is			
40,451	40,550	1,342	676	676	47,451	47,550	1,858	956	956	54,451	54,550	2,425	1,236	1,320			
40,551	40,650	1,348	680	680	47,551	47,650	1,866	960	960	54,551	54,650	2,434	1,240	1,326			
40,651	40,750	1,354	684	684	47,651	47,750	1,874	964	964	54,651	54,750	2,444	1,244	1,332			
40,751	40,850	1,360	688	688	47,751	47,850	1,882	968	968	54,751	54,850	2,453	1,248	1,338			
40,851	40,950	1,366	692	692	47,851	47,950	1,890	972	972	54,851	54,950	2,462	1,252	1,344			
40,951	41,050	1,372	696	696	47,951	48,050	1,898	976	976	54,951	55,050	2,472	1,256	1,350			
41,051	41,150	1,378	700	700	48,051	48,150	1,906	980	980	55,051	55,150	2,481	1,260	1,356			
41,151	41,250	1,384	704	704	48,151	48,250	1,914	984	984	55,151	55,250	2,490	1,264	1,362			
41,251	41,350	1,390	708	708	48,251	48,350	1,922	988	988	55,251	55,350	2,499	1,268	1,368			
41,351	41,450	1,396	712	712	48,351	48,450	1,930	992	992	55,351	55,450	2,509	1,272	1,374			
41,451	41,550	1,402	716	716	48,451	48,550	1,938	996	996	55,451	55,550	2,518	1,276	1,380			
41,551	41,650	1,408	720	720	48,551	48,650	1,946	1,000	1,000	55,551	55,650	2,527	1,280	1,386			
41,651	41,750	1,414	724	724	48,651	48,750	1,954	1,004	1,004	55,651	55,750	2,537	1,284	1,392			
41,751	41,850	1,420	728	728	48,751	48,850	1,962	1,008	1,008	55,751	55,850	2,546	1,288	1,398			
41,851	41,950	1,426	732	732	48,851	48,950	1,970	1,012	1,012	55,851	55,950	2,555	1,292	1,404			
41,951	42,050	1,432	736	736	48,951	49,050	1,978	1,016	1,016	55,951	56,050	2,565	1,296	1,410			
42,051	42,150	1,438	740	740	49,051	49,150	1,986	1,020	1,020	56,051	56,150	2,574	1,300	1,416			
42,151	42,250	1,444	744	744	49,151	49,250	1,994	1,024	1,024	56,151	56,250	2,583	1,304	1,422			
42,251	42,350	1,450	748	748	49,251	49,350	2,002	1,028	1,028	56,251	56,350	2,592	1,308	1,428			
42,351	42,450	1,456	752	752	49,351	49,450	2,010	1,032	1,032	56,351	56,450	2,602	1,312	1,434			
42,451	42,550	1,462	756	756	49,451	49,550	2,018	1,036	1,036	56,451	56,550	2,611	1,316	1,440			
42,551	42,650	1,468	760	760	49,551	49,650	2,026	1,040	1,040	56,551	56,650	2,620	1,320	1,446			
42,651	42,750	1,474	764	764	49,651	49,750	2,034	1,044	1,044	56,651	56,750	2,630	1,324	1,452			
42,751	42,850	1,482	768	768	49,751	49,850	2,042	1,048	1,048	56,751	56,850	2,639	1,328	1,458			
42,851	42,950	1,490	772	772	49,851	49,950	2,050	1,052	1,052	56,851	56,950	2,648	1,332	1,464			
42,951	43,050	1,498	776	776	49,951	50,050	2,058	1,056	1,056	56,951	57,050	2,658	1,336	1,470			
43,051	43,150	1,506	780	780	50,051	50,150	2,066	1,060	1,060	57,051	57,150	2,667	1,340	1,476			
43,151	43,250	1,514	784	784	50,151	50,250	2,074	1,064	1,064	57,151	57,250	2,676	1,344	1,482			
43,251	43,350	1,522	788	788	50,251	50,350	2,082	1,068	1,068	57,251	57,350	2,685	1,348	1,488			
43,351	43,450	1,530	792	792	50,351	50,450	2,090	1,072	1,074	57,351	57,450	2,695	1,352	1,494			
43,451	43,550	1,538	796	796	50,451	50,550	2,098	1,076	1,080	57,451	57,550	2,704	1,356	1,500			
43,551	43,650	1,546	800	800	50,551	50,650	2,106	1,080	1,086	57,551	57,650	2,713	1,360	1,506			
43,651	43,750	1,554	804	804	50,651	50,750	2,114	1,084	1,092	57,651	57,750	2,723	1,364	1,512			
43,751	43,850	1,562	808	808	50,751	50,850	2,122	1,088	1,098	57,751	57,850	2,732	1,368	1,518			
43,851	43,950	1,570	812	812	50,851	50,950	2,130	1,092	1,104	57,851	57,950	2,741	1,372	1,524			
43,951	44,050	1,578	816	816	50,951	51,050	2,138	1,096	1,110	57,951	58,050	2,751	1,376	1,530			
44,051	44,150	1,586	820	820	51,051	51,150	2,146	1,100	1,116	58,051	58,150	2,760	1,380	1,536			
44,151	44,250	1,594	824	824	51,151	51,250	2,154	1,104	1,122	58,151	58,250	2,769	1,384	1,542			
44,251	44,350	1,602	828	828	51,251	51,350	2,162	1,108	1,128	58,251	58,350	2,778	1,388	1,548			
44,351	44,450	1,610	832	832	51,351	51,450	2,170	1,112	1,134	58,351	58,450	2,788	1,392	1,554			
44,451	44,550	1,618	836	836	51,451	51,550	2,178	1,116	1,140	58,451	58,550	2,797	1,396	1,560			
44,551	44,650	1,626	840	840	51,551	51,650	2,186	1,120	1,146	58,551	58,650	2,806	1,400	1,566			
44,651	44,750	1,634	844	844	51,651	51,750	2,194	1,124	1,152	58,651	58,750	2,816	1,404	1,572			
44,751	44,850	1,642	848	848	51,751	51,850	2,202	1,128	1,158	58,751	58,850	2,825	1,408	1,578			
44,851	44,950	1,650	852	852	51,851	51,950	2,210	1,132	1,164	58,851	58,950	2,834	1,412	1,584			
44,951	45,050	1,658	856	856	51,951	52,050	2,218	1,136	1,170	58,951	59,050	2,844	1,416	1,590			
45,051	45,150	1,666	860	860	52,051	52,150	2,226	1,140	1,176	59,051	59,150	2,853	1,420	1,596			
45,151	45,250	1,674	864	864	52,151	52,250	2,234	1,144	1,182	59,151	59,250	2,862	1,424	1,602			
45,251	45,350	1,682	868	868	52,251	52,350	2,242	1,148	1,188	59,251	59,350	2,871	1,428	1,608			
45,351	45,450	1,690	872	872	52,351	52,450	2,250	1,152	1,194	59,351	59,450	2,881	1,432	1,614			
45,451	45,550	1,698	876	876	52,451	52,550	2,258	1,156	1,200	59,451	59,550	2,890	1,436	1,620			
45,551	45,650	1,706	880	880	52,551	52,650	2,266	1,160	1,206	59,551	59,650	2,899	1,440	1,626			
45,651	45,750	1,714	884	884	52,651	52,750	2,274	1,164	1,212	59,651	59,750	2,909	1,444	1,632			
45,751	45,850	1,722	888	888	52,751	52,850	2,282	1,168	1,218	59,751	59,850	2,918	1,448	1,638			
45,851	45,950	1,730	892	892	52,851	52,950	2,290	1,172	1,224	59,851	59,950	2,927	1,452	1,644			
45,951	46,050	1,738	896	896	52,951	53,050	2,298	1,176	1,230	59,951	60,050	2,937	1,456	1,650			
46,051	46,150	1,746	900	900	53,051	53,150	2,306	1,180	1,236	60,051	60,150	2,946	1,460	1,656			
46,151	46,250	1,754	904	904	53,151	53,250	2,314	1,184	1,242	60,151	60,250	2,955	1,464	1,662			
46,251	46,350	1,762	908	908	53,251	53,350	2,322	1,188	1,248	60,251	60,350	2,964	1,468	1,668			
46,351	46,450	1,770	912	912	53,351	53,450	2,330	1,192	1,254	60,351	60,450	2,974	1,472	1,674			
46,451	46,550	1,778	916	916	53,451	53,550	2,338	1,196	1,260	60,451	60,550	2,983	1,476	1,680			
46,551	46,650	1,786	920	920	53,551	53,650	2,346	1,200	1,266	60,551	6						

2017 California Tax Table – Continued

Filing status: 1 or 3 (Single; Married/RDP Filing Separately)					2 or 5 (Married/RDP Filing Jointly; Qualifying Widow(er))					4 (Head of Household)				
If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status		
At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is
61,451	61,550	3,076	1,516	1,740	68,451	68,550	3,727	1,935	2,286	75,451	75,550	4,378	2,355	2,873
61,551	61,650	3,085	1,521	1,746	68,551	68,650	3,736	1,941	2,294	75,551	75,650	4,387	2,361	2,882
61,651	61,750	3,095	1,527	1,752	68,651	68,750	3,746	1,947	2,302	75,651	75,750	4,397	2,367	2,891
61,751	61,850	3,104	1,533	1,758	68,751	68,850	3,755	1,953	2,310	75,751	75,850	4,406	2,373	2,900
61,851	61,950	3,113	1,539	1,764	68,851	68,950	3,764	1,959	2,318	75,851	75,950	4,415	2,379	2,910
61,951	62,050	3,123	1,545	1,770	68,951	69,050	3,774	1,965	2,326	75,951	76,050	4,425	2,385	2,919
62,051	62,150	3,132	1,551	1,776	69,051	69,150	3,783	1,971	2,334	76,051	76,150	4,434	2,391	2,928
62,151	62,250	3,141	1,557	1,782	69,151	69,250	3,792	1,977	2,342	76,151	76,250	4,443	2,397	2,938
62,251	62,350	3,150	1,563	1,790	69,251	69,350	3,801	1,983	2,350	76,251	76,350	4,452	2,403	2,947
62,351	62,450	3,160	1,569	1,798	69,351	69,450	3,811	1,989	2,358	76,351	76,450	4,462	2,409	2,956
62,451	62,550	3,169	1,575	1,806	69,451	69,550	3,820	1,995	2,366	76,451	76,550	4,471	2,415	2,966
62,551	62,650	3,178	1,581	1,814	69,551	69,650	3,829	2,001	2,374	76,551	76,650	4,480	2,421	2,975
62,651	62,750	3,188	1,587	1,822	69,651	69,750	3,839	2,007	2,382	76,651	76,750	4,490	2,427	2,984
62,751	62,850	3,197	1,593	1,830	69,751	69,850	3,848	2,013	2,390	76,751	76,850	4,499	2,433	2,993
62,851	62,950	3,206	1,599	1,838	69,851	69,950	3,857	2,019	2,398	76,851	76,950	4,508	2,439	3,003
62,951	63,050	3,216	1,605	1,846	69,951	70,050	3,867	2,025	2,406	76,951	77,050	4,518	2,445	3,012
63,051	63,150	3,225	1,611	1,854	70,051	70,150	3,876	2,031	2,414	77,051	77,150	4,527	2,451	3,021
63,151	63,250	3,234	1,617	1,862	70,151	70,250	3,885	2,037	2,422	77,151	77,250	4,536	2,457	3,031
63,251	63,350	3,243	1,623	1,870	70,251	70,350	3,894	2,043	2,430	77,251	77,350	4,545	2,463	3,040
63,351	63,450	3,253	1,629	1,878	70,351	70,450	3,904	2,049	2,438	77,351	77,450	4,555	2,469	3,049
63,451	63,550	3,262	1,635	1,886	70,451	70,550	3,913	2,055	2,446	77,451	77,550	4,564	2,475	3,059
63,551	63,650	3,271	1,641	1,894	70,551	70,650	3,922	2,061	2,454	77,551	77,650	4,573	2,481	3,068
63,651	63,750	3,281	1,647	1,902	70,651	70,750	3,932	2,067	2,462	77,651	77,750	4,583	2,487	3,077
63,751	63,850	3,290	1,653	1,910	70,751	70,850	3,941	2,073	2,470	77,751	77,850	4,592	2,493	3,086
63,851	63,950	3,299	1,659	1,918	70,851	70,950	3,950	2,079	2,478	77,851	77,950	4,601	2,499	3,096
63,951	64,050	3,309	1,665	1,926	70,951	71,050	3,960	2,085	2,486	77,951	78,050	4,611	2,505	3,105
64,051	64,150	3,318	1,671	1,934	71,051	71,150	3,969	2,091	2,494	78,051	78,150	4,620	2,511	3,114
64,151	64,250	3,327	1,677	1,942	71,151	71,250	3,978	2,097	2,502	78,151	78,250	4,629	2,517	3,124
64,251	64,350	3,336	1,683	1,950	71,251	71,350	3,987	2,103	2,510	78,251	78,350	4,638	2,523	3,133
64,351	64,450	3,346	1,689	1,958	71,351	71,450	3,997	2,109	2,518	78,351	78,450	4,648	2,529	3,142
64,451	64,550	3,355	1,695	1,966	71,451	71,550	4,006	2,115	2,526	78,451	78,550	4,657	2,535	3,152
64,551	64,650	3,364	1,701	1,974	71,551	71,650	4,015	2,121	2,534	78,551	78,650	4,666	2,541	3,161
64,651	64,750	3,374	1,707	1,982	71,651	71,750	4,025	2,127	2,542	78,651	78,750	4,676	2,547	3,170
64,751	64,850	3,383	1,713	1,990	71,751	71,850	4,034	2,133	2,550	78,751	78,850	4,685	2,553	3,179
64,851	64,950	3,392	1,719	1,998	71,851	71,950	4,043	2,139	2,558	78,851	78,950	4,694	2,559	3,189
64,951	65,050	3,402	1,725	2,006	71,951	72,050	4,053	2,145	2,566	78,951	79,050	4,704	2,565	3,198
65,051	65,150	3,411	1,731	2,014	72,051	72,150	4,062	2,151	2,574	79,051	79,150	4,713	2,571	3,207
65,151	65,250	3,420	1,737	2,022	72,151	72,250	4,071	2,157	2,582	79,151	79,250	4,722	2,577	3,217
65,251	65,350	3,429	1,743	2,030	72,251	72,350	4,080	2,163	2,590	79,251	79,350	4,731	2,583	3,226
65,351	65,450	3,439	1,749	2,038	72,351	72,450	4,090	2,169	2,598	79,351	79,450	4,741	2,589	3,235
65,451	65,550	3,448	1,755	2,046	72,451	72,550	4,099	2,175	2,606	79,451	79,550	4,750	2,595	3,245
65,551	65,650	3,457	1,761	2,054	72,551	72,650	4,108	2,181	2,614	79,551	79,650	4,759	2,601	3,254
65,651	65,750	3,467	1,767	2,062	72,651	72,750	4,118	2,187	2,622	79,651	79,750	4,769	2,607	3,263
65,751	65,850	3,476	1,773	2,070	72,751	72,850	4,127	2,193	2,630	79,751	79,850	4,778	2,613	3,272
65,851	65,950	3,485	1,779	2,078	72,851	72,950	4,136	2,199	2,638	79,851	79,950	4,787	2,619	3,282
65,951	66,050	3,495	1,785	2,086	72,951	73,050	4,146	2,205	2,646	79,951	80,050	4,797	2,625	3,291
66,051	66,150	3,504	1,791	2,094	73,051	73,150	4,155	2,211	2,654	80,051	80,150	4,806	2,631	3,300
66,151	66,250	3,513	1,797	2,102	73,151	73,250	4,164	2,217	2,662	80,151	80,250	4,815	2,637	3,310
66,251	66,350	3,522	1,803	2,110	73,251	73,350	4,173	2,223	2,670	80,251	80,350	4,824	2,643	3,319
66,351	66,450	3,532	1,809	2,118	73,351	73,450	4,183	2,229	2,678	80,351	80,450	4,834	2,649	3,328
66,451	66,550	3,541	1,815	2,126	73,451	73,550	4,192	2,235	2,687	80,451	80,550	4,843	2,655	3,338
66,551	66,650	3,550	1,821	2,134	73,551	73,650	4,201	2,241	2,696	80,551	80,650	4,852	2,661	3,347
66,651	66,750	3,560	1,827	2,142	73,651	73,750	4,211	2,247	2,705	80,651	80,750	4,862	2,667	3,356
66,751	66,850	3,569	1,833	2,150	73,751	73,850	4,220	2,253	2,714	80,751	80,850	4,871	2,673	3,365
66,851	66,950	3,578	1,839	2,158	73,851	73,950	4,229	2,259	2,724	80,851	80,950	4,880	2,679	3,375
66,951	67,050	3,588	1,845	2,166	73,951	74,050	4,239	2,265	2,733	80,951	81,050	4,890	2,685	3,384
67,051	67,150	3,597	1,851	2,174	74,051	74,150	4,248	2,271	2,742	81,051	81,150	4,899	2,691	3,393
67,151	67,250	3,606	1,857	2,182	74,151	74,250	4,257	2,277	2,752	81,151	81,250	4,908	2,697	3,403
67,251	67,350	3,615	1,863	2,190	74,251	74,350	4,266	2,283	2,761	81,251	81,350	4,917	2,703	3,412
67,351	67,450	3,625	1,869	2,198	74,351	74,450	4,276	2,289	2,770	81,351	81,450	4,927	2,709	3,421
67,451	67,550	3,634	1,875	2,206	74,451	74,550	4,285	2,295	2,780	81,451	81,550	4,936	2,715	3,431
67,551	67,650	3,643	1,881	2,214	74,551	74,650	4,294	2,301	2,789	81,551	81,650	4,945	2,721	3,440
67,651	67,750	3,653	1,887	2,222	74,651	74,750	4,304	2,307	2,798	81,651	81,750	4,955	2,727	3,449
67,751	67,850	3,662	1,893	2,230	74,751	74,850	4,313	2,313	2,807	81,751	81,850	4,964	2,733	3,458
67,851	67,950	3,671	1,899	2,238	74,851	74,950	4,322	2,319	2,817	81,851	81,950	4,973	2,739	3,468
67,951	68,050	3,681	1,905	2,246	74,951	75,050	4,332	2,325	2,826	81,951	82,050	4,983	2,745	3,477
68,051	68,150	3,690	1,911	2,254	75,051	75,150	4,341	2,331	2,835	82,051	82,150	4,992	2,751	3,486
68,151	68,250	3,699	1,917	2,262	75,151	75,250	4,350	2,337	2,845	82,151	82,250	5,001	2,757	3,496
68,251	68,350	3,708	1,923	2,270	75,251	75,350	4,359	2,343	2,854	82,251	82,350	5,010	2,763	3,505
68,351	68,450	3,718	1,929	2,278	75,351	75,450	4,369	2,349	2,863	82,351	82,450	5,020	2,769	3,514

Continued on next page.

2017 California Tax Table – Continued

Filing status: 1 or 3 (Single; Married/RDP Filing Separately) 2 or 5 (Married/RDP Filing Jointly; Qualifying Widow(er)) 4 (Head of Household)														
If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status		
At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is
82,451	82,550	5,029	2,775	3,524	88,951	89,050	5,634	3,237	4,128	95,451	95,550	6,238	3,757	4,733
82,551	82,650	5,038	2,781	3,533	89,051	89,150	5,643	3,245	4,137	95,551	95,650	6,247	3,765	4,742
82,651	82,750	5,048	2,787	3,542	89,151	89,250	5,652	3,253	4,147	95,651	95,750	6,257	3,773	4,751
82,751	82,850	5,057	2,793	3,551	89,251	89,350	5,661	3,261	4,156	95,751	95,850	6,266	3,781	4,760
82,851	82,950	5,066	2,799	3,561	89,351	89,450	5,671	3,269	4,165	95,851	95,950	6,275	3,789	4,770
82,951	83,050	5,076	2,805	3,570	89,451	89,550	5,680	3,277	4,175	95,951	96,050	6,285	3,797	4,779
83,051	83,150	5,085	2,811	3,579	89,551	89,650	5,689	3,285	4,184	96,051	96,150	6,294	3,805	4,788
83,151	83,250	5,094	2,817	3,589	89,651	89,750	5,699	3,293	4,193	96,151	96,250	6,303	3,813	4,798
83,251	83,350	5,103	2,823	3,598	89,751	89,850	5,708	3,301	4,202	96,251	96,350	6,312	3,821	4,807
83,351	83,450	5,113	2,829	3,607	89,851	89,950	5,717	3,309	4,212	96,351	96,450	6,322	3,829	4,816
83,451	83,550	5,122	2,835	3,617	89,951	90,050	5,727	3,317	4,221	96,451	96,550	6,331	3,837	4,826
83,551	83,650	5,131	2,841	3,626	90,051	90,150	5,736	3,325	4,230	96,551	96,650	6,340	3,845	4,835
83,651	83,750	5,141	2,847	3,635	90,151	90,250	5,745	3,333	4,240	96,651	96,750	6,350	3,853	4,844
83,751	83,850	5,150	2,853	3,644	90,251	90,350	5,754	3,341	4,249	96,751	96,850	6,359	3,861	4,853
83,851	83,950	5,159	2,859	3,654	90,351	90,450	5,764	3,349	4,258	96,851	96,950	6,368	3,869	4,863
83,951	84,050	5,169	2,865	3,663	90,451	90,550	5,773	3,357	4,268	96,951	97,050	6,378	3,877	4,872
84,051	84,150	5,178	2,871	3,672	90,551	90,650	5,782	3,365	4,277	97,051	97,150	6,387	3,885	4,881
84,151	84,250	5,187	2,877	3,682	90,651	90,750	5,792	3,373	4,286	97,151	97,250	6,396	3,893	4,891
84,251	84,350	5,196	2,883	3,691	90,751	90,850	5,801	3,381	4,295	97,251	97,350	6,405	3,901	4,900
84,351	84,450	5,206	2,889	3,700	90,851	90,950	5,810	3,389	4,305	97,351	97,450	6,415	3,909	4,909
84,451	84,550	5,215	2,895	3,710	90,951	91,050	5,820	3,397	4,314	97,451	97,550	6,424	3,917	4,919
84,551	84,650	5,224	2,901	3,719	91,051	91,150	5,829	3,405	4,323	97,551	97,650	6,433	3,925	4,928
84,651	84,750	5,234	2,907	3,728	91,151	91,250	5,838	3,413	4,333	97,651	97,750	6,443	3,933	4,937
84,751	84,850	5,243	2,913	3,737	91,251	91,350	5,847	3,421	4,342	97,751	97,850	6,452	3,941	4,946
84,851	84,950	5,252	2,919	3,747	91,351	91,450	5,857	3,429	4,351	97,851	97,950	6,461	3,949	4,956
84,951	85,050	5,262	2,925	3,756	91,451	91,550	5,866	3,437	4,361	97,951	98,050	6,471	3,957	4,965
85,051	85,150	5,271	2,931	3,765	91,551	91,650	5,875	3,445	4,370	98,051	98,150	6,480	3,965	4,974
85,151	85,250	5,280	2,937	3,775	91,651	91,750	5,885	3,453	4,379	98,151	98,250	6,489	3,973	4,984
85,251	85,350	5,289	2,943	3,784	91,751	91,850	5,894	3,461	4,388	98,251	98,350	6,498	3,981	4,993
85,351	85,450	5,299	2,949	3,793	91,851	91,950	5,903	3,469	4,398	98,351	98,450	6,508	3,989	5,002
85,451	85,550	5,308	2,957	3,803	91,951	92,050	5,913	3,477	4,407	98,451	98,550	6,517	3,997	5,012
85,551	85,650	5,317	2,965	3,812	92,051	92,150	5,922	3,485	4,416	98,551	98,650	6,526	4,005	5,021
85,651	85,750	5,327	2,973	3,821	92,151	92,250	5,931	3,493	4,426	98,651	98,750	6,536	4,013	5,030
85,751	85,850	5,336	2,981	3,830	92,251	92,350	5,940	3,501	4,435	98,751	98,850	6,545	4,021	5,039
85,851	85,950	5,345	2,989	3,840	92,351	92,450	5,950	3,509	4,444	98,851	98,950	6,554	4,029	5,049
85,951	86,050	5,355	2,997	3,849	92,451	92,550	5,959	3,517	4,454	98,951	99,050	6,564	4,037	5,058
86,051	86,150	5,364	3,005	3,858	92,551	92,650	5,968	3,525	4,463	99,051	99,150	6,573	4,045	5,067
86,151	86,250	5,373	3,013	3,868	92,651	92,750	5,978	3,533	4,472	99,151	99,250	6,582	4,053	5,077
86,251	86,350	5,382	3,021	3,877	92,751	92,850	5,987	3,541	4,481	99,251	99,350	6,591	4,061	5,086
86,351	86,450	5,392	3,029	3,886	92,851	92,950	5,996	3,549	4,491	99,351	99,450	6,601	4,069	5,095
86,451	86,550	5,401	3,037	3,896	92,951	93,050	6,006	3,557	4,500	99,451	99,550	6,610	4,077	5,105
86,551	86,650	5,410	3,045	3,905	93,051	93,150	6,015	3,565	4,509	99,551	99,650	6,619	4,085	5,114
86,651	86,750	5,420	3,053	3,914	93,151	93,250	6,024	3,573	4,519	99,651	99,750	6,629	4,093	5,123
86,751	86,850	5,429	3,061	3,923	93,251	93,350	6,033	3,581	4,528	99,751	99,850	6,638	4,101	5,132
86,851	86,950	5,438	3,069	3,933	93,351	93,450	6,043	3,589	4,537	99,851	99,950	6,647	4,109	5,142
86,951	87,050	5,448	3,077	3,942	93,451	93,550	6,052	3,597	4,547	99,951	100,000	6,654	4,115	5,149
87,051	87,150	5,457	3,085	3,951	93,551	93,650	6,061	3,605	4,556	OVER \$100,000 YOU MUST COMPUTE YOUR TAX USING THE TAX RATE SCHEDULES.				
87,151	87,250	5,466	3,093	3,961	93,651	93,750	6,071	3,613	4,565					
87,251	87,350	5,475	3,101	3,970	93,751	93,850	6,080	3,621	4,574					
87,351	87,450	5,485	3,109	3,979	93,851	93,950	6,089	3,629	4,584					
87,451	87,550	5,494	3,117	3,989	93,951	94,050	6,099	3,637	4,593					
87,551	87,650	5,503	3,125	3,998	94,051	94,150	6,108	3,645	4,602					
87,651	87,750	5,513	3,133	4,007	94,151	94,250	6,117	3,653	4,612					
87,751	87,850	5,522	3,141	4,016	94,251	94,350	6,126	3,661	4,621					
87,851	87,950	5,531	3,149	4,026	94,351	94,450	6,136	3,669	4,630					
87,951	88,050	5,541	3,157	4,035	94,451	94,550	6,145	3,677	4,640					
88,051	88,150	5,550	3,165	4,044	94,551	94,650	6,154	3,685	4,649					
88,151	88,250	5,559	3,173	4,054	94,651	94,750	6,164	3,693	4,658					
88,251	88,350	5,568	3,181	4,063	94,751	94,850	6,173	3,701	4,667					
88,351	88,450	5,578	3,189	4,072	94,851	94,950	6,182	3,709	4,677					
88,451	88,550	5,587	3,197	4,082	94,951	95,050	6,192	3,717	4,686					
88,551	88,650	5,596	3,205	4,091	95,051	95,150	6,201	3,725	4,695					
88,651	88,750	5,606	3,213	4,100	95,151	95,250	6,210	3,733	4,705					
88,751	88,850	5,615	3,221	4,109	95,251	95,350	6,219	3,741	4,714					
88,851	88,950	5,624	3,229	4,119	95,351	95,450	6,229	3,749	4,723					



Tax Return Preparation Instructions

The following pages contain several California tax return scenarios that are designed to help you learn the material you have just studied. Tax return preparation questions are for instructional use only and you will not be graded on these questions. We also provide you the answers to each question and an explanation or feedback as to how we arrived at each answer.

You should use the information provided in the 2017 tax tables in the appendix at the back of the course and on the 2017 forms and schedules included with each scenario to complete each return exercise. For the tax return preparation scenarios, best practice suggests that you should try to answer the questions on your own first, and only then refer to the answer key and feedback to see how well you did in terms of learning the material.



2017 tax year forms are provided following each of the scenarios. All the tax forms provided may not be necessary for the particular scenario. As part of the return preparation, you will need to determine which forms to use for each unique situation. You can also access California tax forms that you can populate and complete online by clicking the links below:

- [Form 540 - California Resident Income Tax Return](#)
- [Form 540NR - California Nonresident or Part-Year Resident Income Tax Return](#)
- [Schedule CA - California Adjustments - Residents](#)
- [Schedule CA NR - California Adjustments - Nonresidents or Part-Year Residents](#)
- [Schedule G-1 - Tax on Lump-Sum Distributions](#)
- [Schedule P - Alternative Minimum Tax and Credit Limitations - Residents](#)
- [Schedule S - Other State Tax Credit](#)

Scenario 9

For this scenario refer to the information and completed Federal tax return in Scenario 1 for Robin Wright. As a reminder, she is a 30-year-old single taxpayer with annual earnings of \$35,979 which is reported to her on a *Form W-2 - Wage and Tax Statement*. Robin does not have children or other dependents. Additionally, she cannot be claimed as a dependent on someone else's tax return. \$3,600 was withheld from her wages for Federal taxes. Robin also had \$100 of California income tax withheld during the tax year. She owns her own home and paid \$11,000 of mortgage interest and \$2,200 in property taxes. Robin's Social Security number is 132-45-6789 and her address is 141 Sunset Blvd, Hollywood, CA, 90038. Use this information, her completed Federal tax return, the California tax tables in the back of the course and the California tax forms immediately following the scenario, to prepare a California tax return for Robin.

Scenario 9 Questions

Answers appear in [Scenario 9 Feedback](#)

1. Robin would want to use the California standard deduction amount on her return?
 - A. True
 - B. False
2. What amount of deductions should Robin report on line 18 of her Form 540?
 - A. \$0
 - B. \$3,906
 - C. \$7,812
 - D. \$13,200
3. What is Robin's taxable income on line 19 of her Form 540?
 - A. \$13,200
 - B. \$22,779
 - C. \$32,094
 - D. \$36,000



4. What amount of tax is shown on line 31 of Robin's Form 540?
 - A. \$111
 - B. \$371
 - C. \$440
 - D. \$4,044

5. What is Robin's exemption credit amount on line 32 of her Form 540?
 - A. \$0
 - B. \$108
 - C. \$114
 - D. \$115

6. What is the outcome of Robin's return?
 - A. Robin will receive a \$226 refund
 - B. Robin owes a \$226 tax
 - C. Robin will receive a \$461 refund
 - D. Robin owes a \$461 tax

7. If Robin did not own her home she would most likely use the California standard deduction.
 - A. True
 - B. False

8. If Robin used the California standard deduction what amount would she show on line 18 of her Form 540?
 - A. \$109
 - B. \$461
 - C. \$4,236
 - D. \$8,258



Scenario 9 Feedback

[Return to Scenario 9 Questions](#)

Question 1 - B. False

Robin should complete Schedule CA and enter her Federal itemized deductions on line 38. She does not have any California adjustments so she can enter \$13,200 on line 43. The Federal itemized deduction amount of \$13,200 is more than the \$4,236 California standard deduction for a single taxpayer. Robin should use her itemized deduction amount. Refer to Lesson 4 in the California tax law course for more information on the California standard deduction and Schedule CA.

Question 2 - D. \$13,200

Line 18 on Form 540 is the itemized deduction amount from Schedule CA. In Robin's case the amount is \$13,200. Refer to Lesson 2 in the California tax law course for more information on Form 540.

Question 3 - B. \$22,779

Robin's total taxable income appears on line 19 of her Form 540. Subtract her itemized deduction amount of \$13,200 on line 18 from her California adjusted gross income of \$35,979 on line 17 to arrive at the total. Enter \$22,779 on line 19. Refer to Lesson 3 in the California tax law course for more information about California taxable income.

Question 4 - C. \$440

Use the 2017 California tax table to determine Robin's tax. A single filing taxpayer with taxable income of \$22,779 owes \$440 tax. Refer to Lesson 6 in the California tax law course for more information about California tax rates.

Question 5 - C. \$114

The California exemption credit amount for single, separate, and head of household taxpayers for 2017 is \$114. Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 6 - B. Robin owes a \$226 tax

Robin's total tax from line 64 of her Form 540 is \$326. Her total payments from line 92 equal \$100. Subtract line 92 from line 64 to determine the amount Robin owes. Enter \$226 on line 97. Refer to Lesson 6 in the California tax law course for more information on tax payments.

Question 7 - A. True

Because Robin owns her home she uses Schedule A to itemize her \$2,200 property tax and \$11,000 of mortgage interest. She can enter \$13,200 on her Schedule CA line 32. Robin does not make any adjustments to this amount. Without her property tax and mortgage interest deduction Robin would not have to use Schedule CA and would take the California standard deduction. Refer to Lesson 4 in the California tax law course for more information on the California standard deduction and Schedule CA.

Question 8 - C. \$4,236

The 2017 California standard deduction amounts for single or married/RDP filing separately is \$4,236. Refer to Lesson 4 in the California tax law course for more information on the California standard deduction.

2017 California Resident Income Tax Return**540**

Fiscal year filers only: Enter month of year end: month _____ year 2018.

☐ Check here if this is an AMENDED return.

Your first name	Initial	Last name	Suffix	Your SSN or ITIN	☐ A ☐ R ☐ RP
If joint tax return, spouse's/RDP's first name	Initial	Last name	Suffix	Spouse's/RDP's SSN or ITIN	
Additional information (see instructions)				PBA code	
Street address (number and street) or PO box				Apt. no/ste. no.	PMB/private mailbox
City (If you have a foreign address, see instructions)				State	ZIP code
Foreign country name		Foreign province/state/county		Foreign postal code	

Date of Birth	Your DOB (mm/dd/yyyy)	Spouse's/RDP's DOB (mm/dd/yyyy)
Prior Name	If you filed your 2016 tax return under a different last name, write the last name only from the 2016 tax return.	
	Your prior name	Spouse's/RDP's prior name
Filing Status	1 ☐ Single	4 ☐ Head of household (with qualifying person). See instructions.
	2 ☐ Married/RDP filing jointly. See inst.	5 ☐ Qualifying widow(er) with dependent child. Enter year spouse/RDP died
	3 ☐ Married/RDP filing separately. Enter spouse's/RDP's SSN or ITIN above and full name here	
	If your California filing status is different from your federal filing status, check the box here ☐	
6	If someone can claim you (or your spouse/RDP) as a dependent, check the box here. See inst. ☐	

► For line 7, line 8, line 9, and line 10: Multiply the amount you enter in the box by the pre-printed dollar amount for that line. **Whole dollars only**

7 Personal: If you checked box 1, 3, or 4 above, enter 1 in the box. If you checked box 2 or 5, enter 2, in the box. If you checked the box on line 6, see instructions.		X \$114 =	
8 Blind: If you (or your spouse/RDP) are visually impaired, enter 1; if both are visually impaired, enter 2		X \$114 =	
9 Senior: If you (or your spouse/RDP) are 65 or older, enter 1; if both are 65 or older, enter 2		X \$114 =	
10 Dependents: Do not include yourself or your spouse/RDP.			

Exemptions

	Dependent 1	Dependent 2	Dependent 3
First Name			
Last Name			
SSN			
Dependent's relationship to you			

Total dependent exemptions X \$353 = 11 **Exemption amount:** Add line 7 through line 10. Transfer this amount to line 32. \$

Your name:

Your SSN or ITIN:

Taxable Income

- 12 State wages from your Form(s) W-2, box 16. ● 12 .00
- 13 Enter federal adjusted gross income from Form 1040, line 37; 1040A, line 21; or 1040EZ, line 4. ● 13 .00
- 14 California adjustments – subtractions. Enter the amount from Schedule CA (540), line 37, column B ● 14 .00
- 15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses. See instructions 15 .00
- 16 California adjustments – additions. Enter the amount from Schedule CA (540), line 37, column C. ● 16 .00
- 17 California adjusted gross income. Combine line 15 and line 16. ● 17 .00
- 18 Enter the **larger of** {
 Your California **itemized deductions** from Schedule CA (540), line 44; **OR**
 Your California **standard deduction** shown below for your filing status:
 • Single or Married/RDP filing separately. \$4,236
 • Married/RDP filing jointly, Head of household, or Qualifying widow(er) \$8,472
 If Married/RDP filing separately or the box on line 6 is checked, STOP. See instructions . . .
 } ● 18 .00
- 19 Subtract line 18 from line 17. This is your **taxable income**. If less than zero, enter -0- ● 19 .00

Tax

- 31 Tax. Check the box if from: ☐ Tax Table ☐ Tax Rate Schedule
☐ FTB 3800 ☐ FTB 3803 ● 31 .00
- 32 Exemption credits. Enter the amount from line 11. If your federal AGI is more than \$187,203, see instructions ● 32 .00
- 33 Subtract line 32 from line 31. If less than zero, enter -0- ● 33 .00
- 34 Tax. See instructions. Check the box if from: ● ☐ Schedule G-1 ● ☐ FTB 5870A. ● 34 .00
- 35 Add line 33 and line 34 ● 35 .00

Special Credits

- 40 Nonrefundable Child and Dependent Care Expenses Credit. See instructions ● 40 .00
- 43 Enter credit name code ● and amount ● 43 .00
- 44 Enter credit name code ● and amount ● 44 .00
- 45 To claim more than two credits, see instructions. Attach Schedule P (540). ● 45 .00
- 46 Nonrefundable renter's credit. See instructions ● 46 .00
- 47 Add line 40 through line 46. These are your total credits. ● 47 .00
- 48 Subtract line 47 from line 35. If less than zero, enter -0- ● 48 .00

Other Taxes

- 61 Alternative minimum tax. Attach Schedule P (540) ● 61 .00
- 62 Mental Health Services Tax. See instructions. ● 62 .00
- 63 Other taxes and credit recapture. See instructions. ● 63 .00
- 64 Add line 48, line 61, line 62, and line 63. This is your total tax ● 64 .00

Your name:

Your SSN or ITIN:

Payments

- | | | | |
|-----------|--|-------------|-----|
| 71 | California income tax withheld. See instructions | ● 71 | .00 |
| 72 | 2017 CA estimated tax and other payments. See instructions | ● 72 | .00 |
| 73 | Withholding (Form 592-B and/or 593). See instructions | ● 73 | .00 |
| 74 | Excess SDI (or VPD) withheld. See instructions | ● 74 | .00 |
| 75 | Earned Income Tax Credit (EITC) | ● 75 | .00 |
| 76 | Add lines 71 through 75. These are your total payments. See instructions | ● 76 | .00 |

Use Tax

- | | | | |
|-----------|---|-------------|-----|
| 91 | Use Tax. Do not leave blank. See instructions | ● 91 | .00 |
|-----------|---|-------------|-----|

If line 91 is zero, check if:

☐

No use tax is owed.

☐

You paid your use tax obligation directly to CDTFA.

Overpaid Tax/Tax Due

- | | | | |
|-----------|--|-------------|-----|
| 92 | Payments balance. If line 76 is more than line 91, subtract line 91 from line 76 | ● 92 | .00 |
| 93 | Use Tax balance. If line 91 is more than line 76, subtract line 76 from line 91 | ● 93 | .00 |
| 94 | Overpaid tax. If line 92 is more than line 64, subtract line 64 from line 92 | ● 94 | .00 |
| 95 | Amount of line 94 you want applied to your 2018 estimated tax | ● 95 | .00 |
| 96 | Overpaid tax available this year. Subtract line 95 from line 94 | ● 96 | .00 |
| 97 | Tax due. If line 92 is less than line 64, subtract line 92 from line 64 | ● 97 | .00 |

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Your name:

Your SSN or ITIN:

Contributions

	<u>Code</u>	<u>Amount</u>
California Seniors Special Fund. See instructions	● 400	.00
Alzheimer's Disease/Related Disorders Fund	● 401	.00
Rare and Endangered Species Preservation Voluntary Tax Contribution Program	● 403	.00
California Breast Cancer Research Voluntary Tax Contribution Fund	● 405	.00
California Firefighters' Memorial Fund	● 406	.00
Emergency Food for Families Voluntary Tax Contribution Fund	● 407	.00
California Peace Officer Memorial Foundation Fund	● 408	.00
California Sea Otter Fund	● 410	.00
California Cancer Research Voluntary Tax Contribution Fund	● 413	.00
School Supplies for Homeless Children Fund	● 422	.00
State Parks Protection Fund/Parks Pass Purchase	● 423	.00
Protect Our Coast and Oceans Voluntary Tax Contribution Fund	● 424	.00
Keep Arts in Schools Voluntary Tax Contribution Fund	● 425	.00
State Children's Trust Fund for the Prevention of Child Abuse	● 430	.00
Prevention of Animal Homelessness and Cruelty Fund	● 431	.00
Revive the Salton Sea Fund	● 432	.00
California Domestic Violence Victims Fund	● 433	.00
Special Olympics Fund	● 434	.00
Type 1 Diabetes Research Fund	● 435	.00
California YMCA Youth and Government Voluntary Tax Contribution Fund	● 436	.00
Habitat for Humanity Voluntary Tax Contribution Fund	● 437	.00
California Senior Citizen Advocacy Voluntary Tax Contribution Fund	● 438	.00
Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund	● 439	.00
Rape Backlog Kit Voluntary Tax Contribution Fund	● 440	.00
110 Add code 400 through code 440. This is your total contribution	● 110	.00

Your name:

Your SSN or ITIN:

111 AMOUNT YOU OWE. If you do not have an amount on line 96, add line 93, line 97, and line 110. See instructions. **Do not send cash.**

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942867

SACRAMENTO CA 94267-0001

● 111

Pay online – Go to ftb.ca.gov/pay for more information.

Amount
You Owe

112 Interest, late return penalties, and late payment penalties

112

113 Underpayment of estimated tax. Check the box: ● ☐ **FTB 5805 attached**

●

☐ **FTB 5805F attached**

● 113

114 Total amount due. See instructions. Enclose, but **do not** staple, any payment.

114

Interest and
Penalties

115 REFUND OR NO AMOUNT DUE. Subtract the sum of line 110, line 112 and line 113 from line 96. See instructions.

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942840

SACRAMENTO CA 94240-0001

● 115

Fill in the information to authorize direct deposit of your refund into one or two accounts. **Do not** attach a voided check or a deposit slip. See instructions. **Have you verified the routing and account numbers?** Use whole dollars only.

All or the following amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 116 Direct deposit amount

The remaining amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 117 Direct deposit amount

Refund and Direct Deposit

IMPORTANT: See the instructions to find out if you should attach a copy of your complete federal tax return.

To learn about your privacy rights, how we may use your information, and the consequences for not providing the requested information, go to ftb.ca.gov/forms and search for **1131**. To request this notice by mail, call 800.852.5711. Under penalties of perjury, I declare that I have examined this tax return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature

Date

Spouse's/RDP's signature (if a joint tax return, both must sign)

**Sign
Here**

It is unlawful
to forge a
spouse's/RDP's
signature.

Joint tax return?
(See instructions)

● Your email address. Enter only one email address.

● Preferred phone number

Paid preparer's signature (**declaration of preparer is based on all information of which preparer has any knowledge**)

Firm's name (or yours, if self-employed)

● PTIN

Firm's address

● FEIN

Do you want to allow another person to discuss this tax return with us? See instructions. . . ● ☐ Yes ● ☐ No

Print Third Party Designee's Name

Telephone Number

2017 California Adjustments — Residents**CA (540)****Important:** Attach this schedule behind Form 540, Side 5 as a supporting California schedule.

Names(s) as shown on tax return

SSN or ITIN

Part I Income Adjustment Schedule**Section A — Income**

	A Federal Amounts (taxable amounts from your federal tax return)	B Subtractions See instructions	C Additions See instructions
7 Wages, salaries, tips, etc. See instructions before making an entry in column B or C 7	☐	☐	☐
8 Taxable interest (b) 8(a)	☐	☐	☐
9 Ordinary dividends. See instructions. (b) 9(a)	☐	☐	☐
10 Taxable refunds, credits, offsets of state and local income taxes 10	☐	☐	
11 Alimony received 11	☐		☐
12 Business income or (loss) 12	☐	☐	☐
13 Capital gain or (loss). See instructions. 13	☐	☐	☐
14 Other gains or (losses) 14	☐	☐	☐
15 IRA distributions. See instructions. (a) 15(b)	☐	☐	☐
16 Pensions and annuities. See instructions. (a) 16(b)	☐	☐	☐
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc 17	☐	☐	☐
18 Farm income or (loss) 18	☐	☐	☐
19 Unemployment compensation 19	☐	☐	
20 Social security benefits (a) ☐ 20(b)	☐	☐	
21 Other income.		a ☐ b ☐ c ☐ d ☐ e ☐ f ☐	a ☐ b ☐ c ☐ d ☐ e ☐ f ☐
a California lottery winnings b Disaster loss deduction from FTB 3805V c Federal NOL (Form 1040, line 21) d NOL deduction from FTB 3805V e NOL from FTB 3805Z, 3806, 3807, or 3809 f Other (describe): ☐	21 ☐		
22 Total. Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B. 22	☐	☐	☐

Section B — Adjustments to Income

23 Educator expenses 23	☐	☐	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials 24	☐	☐	☐
25 Health savings account deduction 25	☐	☐	
26 Moving expenses 26	☐		
27 Deductible part of self-employment tax 27	☐		
28 Self-employed SEP, SIMPLE, and qualified plans 28	☐		
29 Self-employed health insurance deduction 29	☐		
30 Penalty on early withdrawal of savings 30	☐		
31a Alimony paid. (b) Recipient's: SSN ☐ — — — — —			
Last name ☐ 31a	☐		☐
32 IRA deduction 32	☐		
33 Student loan interest deduction 33	☐		☐
34 Reserved 34			
35 Domestic production activities deduction 35	☐	☐	
36 Add line 23 through line 31a and line 32 through line 35 in columns A, B, and C. See instructions 36	☐	☐	☐
37 Total. Subtract line 36 from line 22 in columns A, B, and C. See instructions 37	☐	☐	☐

Part II Adjustments to Federal Itemized Deductions

38 Federal itemized deductions. Enter the amount from federal Schedule A (Form 1040), lines 4, 9, 15, 19, 20, 27, and 28 ☐ **38**

39 Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance, and state and local income tax, or General Sales Tax) and line 8 (foreign income taxes **only**). See instructions ☐ **39**

40 Subtract line 39 from line 38 ☐ **40**

41 Other adjustments including California lottery losses. See instructions. Specify ☐ **41**

42 Combine line 40 and line 41 ☐ **42**

43 Is your federal AGI (Form 540, line 13) more than the amount shown below for your filing status?
Single or married/RDP filing separately **\$187,203**
Head of household **\$280,808**
Married/RDP filing jointly or qualifying widow(er) **\$374,411**

No. Transfer the amount on line 42 to line 43.

Yes. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 43 ☐ **43**

44 Enter the larger of the amount on line 43 or your standard deduction listed below
Single or married/RDP filing separately. See instructions. **\$4,236**
Married/RDP filing jointly, head of household, or qualifying widow(er) **\$8,472**

Transfer the amount on line 44 to Form 540, line 18 ☐ **44**

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2017**Alternative Minimum Tax and
Credit Limitations — Residents****P (540)**

Attach this schedule to Form 540.

Name(s) as shown on Form 540

Your SSN or ITIN

Part I Alternative Minimum Taxable Income (AMTI) Important: See instructions for information regarding California/federal differences.

1	If you itemized deductions, go to line 2. If you did not itemize deductions, enter your standard deduction from Form 540, line 18, and go to line 6	1	00
2	Medical and dental expense. Enter the smaller of Schedule A (Form 1040), line 4, or 2½% (.025) of Form 1040, line 37	2	00
3	Personal property taxes and real property taxes. See instructions	3	00
4	Certain interest on a home mortgage not used to buy, build, or improve your home. See instructions	4	00
5	Miscellaneous itemized deductions. See instructions	5	00
6	Refund of personal property taxes and real property taxes. See instructions.	6	(00)
Do not include your state income tax refund on this line.			
7	Investment interest expense adjustment. See instructions.	7	00
8	Post-1986 depreciation. See instructions.	8	00
9	Adjusted gain or loss. See instructions	9	00
10	Incentive stock options and California qualified stock options (CQSOs). See instructions	10	00
11	Passive activities adjustment. See instructions	11	00
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 12a	12	00
13	Other adjustment and preferences. Enter the amount, if any, for each item, a through l, and enter the total on line 13. See instructions.		
a	Circulation expenditures	g	Mining costs
b	Depletion	h	Patron's adjustment.
c	Installment sales	i	Pollution control facilities
d	Intangible drilling costs	j	Research and experimental
e	Long-term contracts	k	Tax shelter farm activities
f	Loss limitations	l	Related adjustments
		13	00
14	Total Adjustments and Preferences. Combine line 1 through line 13	14	00
15	Enter taxable income from Form 540, line 19. See instructions	15	00
16	Net operating loss (NOL) deductions from Schedule CA (540), line 21b, line 21d, and line 21e, column B. Enter as a positive amount.	16	00
17	AMTI exclusion. See instructions.	17	(00)
18	If your federal adjusted gross income (AGI) is less than the amount for your filing status (listed below), skip this line and go to line 19. If you itemized deductions and your federal AGI is more than the amount for your filing status, see instructions.	18	(00)
	Single or married/RDP filing separately \$187,203		
	Married/RDP filing jointly or qualifying widow(er) \$374,411		
	Head of household \$280,808		
19	Combine line 14 through line 18	19	00
20	Alternative minimum tax NOL deduction. See instructions	20	00
21	Alternative Minimum Taxable Income. Subtract line 20 from line 19 (if married/RDP filing separately and line 21 is more than \$355,690, see instructions).	21	00

Part II Alternative Minimum Tax (AMT)**22 Exemption Amount.** (If this schedule is for a certain child under age 24, see instructions.)

If your filing status is:

And line 21 is not over:

Enter on line 22:

Single or head of household

\$258,168

\$68,846

Married/RDP filing jointly or qualifying widow(er)

\$344,225

\$91,793

Married/RDP filing separately

\$172,110

\$45,895

If Part I, line 21 is more than the amount shown above for your filing status, see instructions.

22

00

23 Subtract line 22 from line 21. If zero or less, enter -0-. **23** 00**24** Tentative Minimum Tax. Multiply line 23 by 7.0% (.07) **24** 00**25** Regular tax before credits from Form 540, line 31 **25** 00

26 Alternative Minimum Tax. Subtract line 25 from line 24. If zero or less, enter -0- here and on Form 540, line 61. If more than zero, enter here and on Form 540, line 61. If you make estimated tax payments for taxable year 2018, enter amount from line 26 on the 2018 Form 540-ES, Estimated Tax Worksheet, line 16. (Exception: If you have carryover credit for solar energy or commercial solar energy, first enter the result on Side 2, Part III, Section C, line 22 or 23) **26** 00

Part III Credits that Reduce Tax **Note:** Be sure to attach your credit forms to Form 540.

1	Enter the amount from Form 540, line 35.	☐ 1		00
2	Enter the tentative minimum tax from Side 1, Part II, line 24.	☐ 2		00

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
Section A – Credits that reduce excess tax.				
3	Subtract line 2 from line 1. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits.		☐	
A1 Credits that reduce excess tax and have no carryover provisions.				
4	Code: 162 Prison inmate labor credit (FTB 3507)	☐		
5	Code: 232 Child and dependent care expenses credit (FTB 3506)	☐		
A2 Credits that reduce excess tax and have carryover provisions. See instructions.				
6	Code: ☐ Credit Name:	☐		☐
7	Code: ☐ Credit Name:	☐		☐
8	Code: ☐ Credit Name:	☐		☐
9	Code: ☐ Credit Name:	☐		☐
10	Code: 188 Credit for prior year alternative minimum tax.	☐		☐
Section B – Credits that may reduce tax below tentative minimum tax.				
11	If Part III, line 3 is zero, enter the amount from line 1. If line 3 is more than zero, enter the total of line 2 and the last entry in column (c).		☐	
B1 Credits that reduce net tax and have no carryover provisions.				
12	Code: 170 Credit for joint custody head of household.	☐		
13	Code: 173 Credit for dependent parent	☐		
14	Code: 163 Credit for senior head of household	☐		
15	Nonrefundable renter's credit	☐		
B2 Credits that reduce net tax and have carryover provisions. See instructions.				
16	Code: ☐ Credit Name:	☐		☐
17	Code: ☐ Credit Name:	☐		☐
18	Code: ☐ Credit Name:	☐		☐
19	Code: ☐ Credit Name:	☐		☐
B3 Other state tax credit.				
20	Code: 187 Other state tax credit	☐		
Section C – Credits that may reduce alternative minimum tax.				
21	Enter your alternative minimum tax from Side 1, Part II, line 26.		☐	
22	Code: 180 Solar energy credit carryover from Section B2, column (d)	☐		☐
23	Code: 181 Commercial solar energy credit carryover from Section B2, column (d) ..	☐		☐
24	Adjusted AMT. Enter the balance from line 23, column (c) here and on Form 540, line 61		☐	

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2017 Other State Tax Credit**S**

Attach to Form 540, Long Form 540NR, or Form 541.

Name(s) as shown on your California tax return

SSN, ITIN, or FEIN

Part I Double-Taxed Income (Read specific line instructions for Part I before completing.)

(a) Income item(s) description	(b) Double-taxed income taxable by California	(c) Double-taxed income taxable by other state
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
1 Total double-taxed income	☐ _____	☐ _____

Part II Figure Your Other State Tax Credit (Read specific line instructions for Part II before completing.)

2 California tax liability. See instructions	☐ 2 _____	00
3 Double-taxed income taxable by California. Enter the amount from Part I, line 1, column (b)	☐ 3 _____	00
4 California adjusted gross income. See instructions	☐ 4 _____	00
5 Divide line 3 by line 4. Do not enter more than 1.0000	☐ 5 _____	
6 Multiply line 2 by line 5.	☐ 6 _____	00
7 Income tax liability paid to name of other state (use state's abbreviation) ☐ _____ See instructions	☐ 7 _____	00
8 Double-taxed income taxable by other state. Enter the amount from Part I, line 1, column (c)	☐ 8 _____	00
9 Adjusted gross income taxable by other state. See instructions.	☐ 9 _____	00
10 Divide line 8 by line 9. Do not enter more than 1.0000	☐ 10 _____	
11 Multiply line 7 by line 10	☐ 11 _____	00
12 Other state tax credit. Enter the smaller of line 6 or line 11. Use Credit Code 187 . See instructions	☐ 12 _____	00

2017 Tax on Lump-Sum Distributions**G-1****Attach to Form 540, Long Form 540NR, or Form 541. Use this form only for lump-sum distributions from qualified plans.**

Name(s) as shown on tax return

SSN, ITIN, or FEIN

Part I**Complete this part to see if you can use Schedule G-1.****Yes No**

- 1** Was this a distribution of a plan participant's entire balance from all of an employer's qualified plans of one kind (pension, profit-sharing, or stock bonus)? If "No," **do not** use this form **1** ☐ ☐
- 2** Did you roll over any part of the distribution? If "Yes," **do not** use this form **2** ☐ ☐
- 3** Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936? **3** ☐ ☐
- 4** Were you **(a)** a plan participant who received this distribution, **(b)** born before January 2, 1936, **and (c)** a participant in the plan for at least 5 years before the year of distribution? **4** ☐ ☐
If you answered "No" to both questions **3** and **4**, **do not** use this form.
- 5** Did you use Schedule G-1 in a prior year for any distribution received after 1986 for the same plan participant, including yourself, for whom the 2017 distribution was made? If "Yes," **do not** use this form **5** ☐ ☐

Part II**Complete this part to choose the 5.5% capital gain election. See instructions.**

- 6** Capital gain from federal Form 1099-R, box 3. If you are taking the death benefit exclusion, see instructions. **6** _____ | 00
- 7** Multiply line 6 by 5.5% (.055) and enter here. If you elect to use Part III, go to line 8. Otherwise, enter the amount from line 7 on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b . . . **7** _____ | 00

Part III**Complete this part to choose the 10-year averaging method. See instructions.**

- 8** If you completed Part II, enter the amount from federal Form 1099-R, box 2a minus box 3. If you did not complete Part II, enter the amount from federal Form 1099-R, box 2a. See instructions **8** _____ | 00
- 9** Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996. See instructions **9** _____ | 00
- 10** Total taxable amount. Subtract line 9 from line 8 **10** _____ | 00
- 11** Current actuarial value of annuity, if applicable, from federal Form 1099-R, box 8. See instructions **11** _____ | 00
- 12** Adjusted total taxable amount. Add line 10 and line 11. If this amount is \$70,000 or more, skip line 13 through line 16, and enter this amount on line 17. **12** _____ | 00
- 13** Multiply line 12 by 50% (.50), but **do not** enter more than \$10,000 **13** _____ | 00
- 14** Subtract \$20,000 from line 12 and enter the difference.
If the result is zero or less, enter -0- **14** _____ | 00
- 15** Multiply line 14 by 20% (.20) **15** _____ | 00
- 16** Minimum distribution allowance. Subtract line 15 from line 13 **16** _____ | 00
- 17** Subtract line 16 from line 12. **17** _____ | 00
- 18** Multiply line 17 by 10% (.10) **18** _____ | 00
- 19** Tax on amount on line 18. Use the Tax Rate Schedule on page 2 of the instructions **19** _____ | 00
- 20** Multiply line 19 by ten (10). If line 11 is blank, skip line 21 through line 26 and enter this amount on line 27. Otherwise, continue to line 21 **20** _____ | 00
- 21** Divide line 11 by line 12 (rounded to at least three places). See instructions **21** ____ . ____ . ____
- 22** Multiply line 16 by the decimal amount on line 21 **22** _____ | 00
- 23** Subtract line 22 from line 11. **23** _____ | 00
- 24** Multiply line 23 by 10% (.10) **24** _____ | 00
- 25** Tax on amount on line 24. Use the Tax Rate Schedule on page 2 of the instructions **25** _____ | 00
- 26** Multiply line 25 by ten (10) **26** _____ | 00
- 27** Subtract line 26 from line 20. **27** _____ | 00
- 28** Tax on lump-sum distribution. Add Part II, line 7 and Part III, line 27. Enter here and on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b. Multiple recipients see instructions. **28** _____ | 00



Scenario 10

For this scenario refer to the information and completed Federal tax return in Scenario 2 for Steve Tyler. As a reminder, Steve Tyler is a 36-year-old single taxpayer. He lives in Washington state but earned \$33,989 for services performed in California which was reported on *Form W-2 - Wage and Tax Statement*. His Form W-2 also showed that \$3,400 was withheld for Federal income taxes and \$1,000 withheld for California income taxes. Steve does not have children or other dependents. Additionally, he cannot be claimed as a dependent on someone else's tax return. He lives in an apartment with annual rent of \$10,800. He has his savings invested in fixed income securities issued by the WA Trust Company which paid him \$400 in ordinary dividends and \$1,550 in taxable interest. Also, remember Steve lives in the state of Washington. Use this information, his completed Federal tax return, the California tax tables in the back of the course and the California tax forms immediately following the scenario, to prepare a California tax return for Steve.

Scenario 10 Questions

Answers appear in [Scenario 10 Feedback](#)

1. What amount is the Federal adjusted gross income (AGI) shown on Steve's Form 540NR?
 - A. \$32,044
 - B. \$33,989
 - C. \$35,939
 - D. \$36,000
2. What amount is the standard deduction for which Steve is eligible?
 - A. \$0
 - B. \$3,992
 - C. \$4,236
 - D. \$8,258
3. What is the taxable income shown on Steve's Form 540NR?
 - A. \$31,703
 - B. \$34,000
 - C. \$35,950
 - D. \$36,000
4. From the 2017 California tax table, what amount is Steve's tax before his exemptions on his Form 540NR?
 - A. \$111
 - B. \$810
 - C. \$814
 - D. \$955
5. What amount is Steve's tax after his exemptions on his Form 540NR?
 - A. \$111
 - B. \$700
 - C. \$917
 - D. \$955
6. What amount appears on line 86 for total payments on Steve's Form 540NR?
 - A. \$0
 - B. \$1,000
 - C. \$3,400
 - D. \$4,400



7. What is the outcome of Steve's return?
- A. Steve will receive a \$105 refund
 - B. Steve owes a \$105 tax
 - C. Steve will receive a \$300 refund
 - D. Steve owes a \$300 tax
8. Lines 1-19 of Form 540 and Form 540NR (long form) follow the same basic format.
- A. True
 - B. False
9. Steve's California adjusted gross income would be the same if he is a resident or a nonresident.
- A. True
 - B. False



Scenario 10 Feedback

[Return to Scenario 10 Questions](#)

Question 1 - C. \$35,939

Steve shows Federal adjusted gross income (AGI) on line 13 of his Form 540NR. He does not have any California adjustments so his California adjusted gross income from all sources is \$35,939. Refer to Lesson 3 in the California tax law course for more information about California adjusted gross income (AGI).

Question 2 - C. \$4,236

The California standard deduction for single or married filing separate taxpayers for 2017 is \$4,236. Refer to Lesson 4 in the California tax law course for more information about the California standard deduction.

Question 3 - A. \$31,703

Steve subtracts his California standard deduction of \$4,236 (single filing taxpayer) from his California adjusted gross income on line 17. He enters \$31,703 as his total taxable income on line 19. Refer to Lesson 3 in the California tax law course for more information about California taxable income.

Question 4 - C. \$814

Using the 2017 California tax table, Steve determines his tax to be \$814 based on his nonresident, single filing status and \$31,703 taxable income. Refer to Lesson 6 in the California tax law course for more information about California tax rates.

Question 5 - B. \$700

Steve has \$114 of exemption credits. He subtracts this amount from his tax and enters \$700 on line 40. He does not include a Schedule G-1 or FTB Form 5870A so his tax on line 42 is \$700. Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 6 - B. \$1,000

Steve had \$1,000 of California income tax withheld from his wages. He did not pay estimated tax, did not have real estate or other withholding, did not have excess SDI withheld so his total payments on line 86 are \$1,000. Refer to Lesson 6 in the California tax law course for more information about withholding.

Question 7 - C. Steve will receive a \$300 refund

Steve's total tax from line 74 of his Form 540NR is \$700. His total payments from line 86 equal \$1,000. Subtract line 74 from line 86 to determine the amount Steve will receive. Enter \$300 on line 101. Refer to Lesson 6 in the California tax law course for more information about refunds.

Question 8 - A. True

Form 540 and Form 540NR (long form) use lines 1-19 to determine filing status, exemptions and taxable income. Refer to Lesson 2 in the California tax law course for more information about Form 540 and Form 540NR.

Question 9 - A. True

All of Steve's income came from California sources and none of his income items are adjusted therefore California adjusted gross income would be the same if he is a resident or a nonresident. Refer to Lesson 2 in the California tax law course for more information about nonresident filing.

Fiscal year filers only: Enter month of year end: month _____ year 2018. ☐ Check here if this is an AMENDED return.

Your first name	Initial	Last name	Suffix	Your SSN or ITIN		A R RP
If joint tax return, spouse's/RDP's first name	Initial	Last name	Suffix	Spouse's/RDP's SSN or ITIN		
Additional information (See instructions)					PBA code	
Street address (number and street) or PO box			Apt. no./ste. no.	PMB/private mailbox		
City (If you have a foreign address, see instructions)			State	ZIP code		
Foreign country name		Foreign province/state/county			Foreign postal code	

Prior Name	Date of Birth

● Your DOB (mm/dd/yyyy) _____ ● Spouse's/RDP's DOB (mm/dd/yyyy) _____

If you filed your 2016 tax return under a different last name, write the last name only from the 2016 tax return.

● Your prior name _____ ● Spouse's/RDP's prior name _____

Filing Status

1 ☐ Single
 2 ☐ Married/RDP filing jointly. See inst.
 3 ☐ Married/RDP filing separately. Enter spouse's/RDP's SSN or ITIN above and full name here _____
 If your California filing status is different from your federal filing status, check the box here ☐

4 ☐ Head of household (with qualifying person). See instructions.
 5 ☐ Qualifying widow(er) with dependent child. Enter year spouse/RDP died _____

6 If someone can claim you (or your spouse/RDP) as a dependent, check the box here. See inst ● **6** ☐

► For line 7, line 8, line 9, and line 10: Multiply the amount you enter in the box by the pre-printed dollar amount for that line. **Whole dollars only**

7 **Personal:** If you checked box 1, 3, or 4 above, enter 1 in the box. If you checked box 2 or 5, enter 2. If you checked the box on line 6, see instructions. 7 ☐ X \$114 = \$

8 Blind: If you (or your spouse/RDP) are visually impaired, enter 1;
if both are visually impaired, enter 2 **8** ☐ X \$114 = **\$**

9 Senior: If you (or your spouse/RDP) are 65 or older, enter 1; if both are 65 or older, enter 2. ● 9 X \$114 = ● \$

10 Dependents: Do not include yourself or your spouse/RDP.

Exemptions

	Dependent 1	Dependent 2	Dependent 3
First Name			
Last Name			
SSN			
Dependent's relationship to you			

Total dependent exemptions ● 10 X \$353 = ● \$

11 Exemption amount: Add line 7 through line 10 **11**

12	Total California wages from your Form(s) W-2, box 16	● 12	00
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13 Enter federal AGI from Form 1040, line 37; 1040A, line 21; 1040EZ, line 4; 1040NR, line 36;
or 1040NR-EZ, line 10 **13**

14 California adjustments – subtractions. Enter the amount from Schedule CA (540NR), line 37, column B ● **14**

15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses. See instructions **15**

16	California adjustments – additions. Enter the amount from Schedule CA (540NR), line 37, column C.	●	16	00
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17 Adjusted gross income from all sources. Combine line 15 and line 16..... ● **17** 00

18 Enter the **larger** of: Your California **itemized deductions** from Schedule CA (540NR), line 44; **OR** Your California **standard deduction**. See instructions ● 18

19 Subtract line 18 from line 17. This is your **total taxable income**. If less than zero, enter -0-..... **19**

Your name: _____ Your SSN or ITIN: _____

CA Taxable Income	31	Tax. Check the box if from: ☐ Tax Table ☐ Tax Rate Schedule ☒ ☐ FTB 3800 ☒ ☐ FTB 3803	31	00
	32	CA adjusted gross income from Schedule CA (540NR), Part IV, line 45	32	00
	35	CA Taxable Income from Schedule CA (540NR), Part IV, line 49	35	00
	36	CA Tax Rate. Divide line 31 by line 19	36	
	37	CA Tax Before Exemption Credits. Multiply line 35 by line 36	37	00
	38	CA Exemption Credit Percentage. Divide line 35 by line 19. If more than 1, enter 1.0000	38	
	39	CA Prorated Exemption Credits. Multiply line 11 by line 38. If the amount on line 13 is more than \$187,203, see instructions	39	00
	40	CA Regular Tax Before Credits. Subtract line 39 from line 37. If less than zero, enter -0-	40	00
	41	Tax. See instructions. Check the box if from: ☒ ☐ Schedule G-1 ☒ ☐ FTB 5870A	41	00
	42	Add line 40 and line 41	42	00
Special Credits	50	Nonrefundable Child and Dependent Care Expenses Credit. See instructions. Attach form FTB 3506	50	00
	51	Credit for joint custody head of household. See instructions	51	00
	52	Credit for dependent parent. See instructions	52	00
	53	Credit for senior head of household. See instructions	53	00
	54	Credit percentage. Enter the amount from line 38 here. If more than 1, enter 1.0000. See instructions	54	
	55	Credit amount. See instructions	55	00
	58	Enter credit name _____ code _____ and amount	58	00
	59	Enter credit name _____ code _____ and amount	59	00
	60	To claim more than two credits. See instructions	60	00
	61	Nonrefundable renter's credit. See instructions	61	00
62	Add line 50 and line 55 through 61. These are your total credits	62	00	
63	Subtract line 62 from line 42. If less than zero, enter -0-	63	00	
Other Taxes	71	Alternative minimum tax. Attach Schedule P (540NR)	71	00
	72	Mental Health Services Tax. See instructions	72	00
	73	Other taxes and credit recapture. See instructions	73	00
	74	Add line 63, line 71, line 72, and line 73. This is your total tax	74	00
Payments	81	California income tax withheld. See instructions	81	00
	82	2017 CA estimated tax and other payments. See instructions	82	00
	83	Withholding (Form 592-B and/or 593). See instructions	83	00
	84	Excess SDI (or VPD) withheld. See instructions	84	00
	85	Earned Income Tax Credit (EITC)	85	00
	86	Add lines 81 through 85. These are your total payments. See instructions	86	00
Overpaid Tax/Due	101	Overpaid tax. If line 86 is more than line 74, subtract line 74 from line 86	101	00
	102	Amount of line 101 you want applied to your 2018 estimated tax	102	00
	103	Overpaid tax available this year. Subtract line 102 from line 101	103	00
	104	Tax due. If line 86 is less than line 74, subtract line 86 from line 74	104	00

Your name: _____ Your SSN or ITIN: _____

Contributions

	Code	Amount
California Seniors Special Fund. See instructions	● 400	_____ 00
Alzheimer's Disease/Related Disorders Fund	● 401	_____ 00
Rare and Endangered Species Preservation Voluntary Tax Contribution Program	● 403	_____ 00
California Breast Cancer Research Voluntary Tax Contribution Fund	● 405	_____ 00
California Firefighters' Memorial Fund	● 406	_____ 00
Emergency Food for Families Voluntary Tax Contribution Fund	● 407	_____ 00
California Peace Officer Memorial Foundation Fund	● 408	_____ 00
California Sea Otter Fund	● 410	_____ 00
California Cancer Research Voluntary Tax Contribution Fund.	● 413	_____ 00
School Supplies for Homeless Children Fund	● 422	_____ 00
State Parks Protection Fund/Parks Pass Purchase.	● 423	_____ 00
Protect Our Coast and Oceans Voluntary Tax Contribution Fund	● 424	_____ 00
Keep Arts in Schools Voluntary Tax Contribution Fund	● 425	_____ 00
State Children's Trust Fund for the Prevention of Child Abuse	● 430	_____ 00
Prevention of Animal Homelessness and Cruelty Fund	● 431	_____ 00
Revive the Salton Sea Fund	● 432	_____ 00
California Domestic Violence Victims Fund	● 433	_____ 00
Special Olympics Fund.	● 434	_____ 00
Type 1 Diabetes Research Fund	● 435	_____ 00
California YMCA Youth and Government Voluntary Tax Contribution Fund	● 436	_____ 00
Habitat for Humanity Voluntary Tax Contribution Fund	● 437	_____ 00
California Senior Citizen Advocacy Voluntary Tax Contribution Fund	● 438	_____ 00
Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund	● 439	_____ 00
Rape Backlog Kit Voluntary Tax Contribution Fund	● 440	_____ 00
120 Add code 400 through code 440. This is your total contribution	● 120	_____ 00

Your name: _____ Your SSN or ITIN: _____

Amount You Owe Interest and Penalties	121 AMOUNT YOU OWE. Add line 104 and line 120. See instructions. Do not send cash. Mail to: FRANCHISE TAX BOARD, PO BOX 942867, SACRAMENTO CA 94267-0001 ● 121 00 Pay Online – Go to ftb.ca.gov/pay for more information.
	122 Interest, late return penalties, and late payment penalties. 122 00
	123 Underpayment of estimated tax. Check the box: ● ☐ FTB 5805 attached ● ☐ FTB 5805F attached . ● 123 00
	124 Total amount due. See instructions. Enclose, but do not staple, any payment 124 00

Refund and Direct Deposit	125 REFUND OR NO AMOUNT DUE. Subtract line 120 from line 103. Mail to: FRANCHISE TAX BOARD, PO BOX 942840, SACRAMENTO CA 94240-0001 ● 125 00 Fill in the information to authorize direct deposit of your refund into one or two accounts. Do not attach a voided check or a deposit slip. See instructions. Have you verified the routing and account numbers? Use whole dollars only. All or the following amount of my refund (line 125) is authorized for direct deposit into the account shown below: ☐ Checking ● Routing number ● Type ● Account number ● 126 Direct deposit amount The remaining amount of my refund (line 125) is authorized for direct deposit into the account shown below: ☐ Checking ● Routing number ● Type ● Account number ● 127 Direct deposit amount
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IMPORTANT: Attach a copy of your complete federal return.

To learn about your privacy rights, how we may use your information, and the consequences for not providing the requested information, go to **ftb.ca.gov/forms** and search for **1131**. To request this notice by mail, call 800.852.5711.

Under penalties of perjury, I declare that I have examined this tax return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature	Date	Spouse's/RDP's signature (if a joint tax return, both must sign)
X		X

● Your email address. Enter only one email address. ● Preferred phone number

Sign Here

It is unlawful to forge a spouse's/RDP's signature.

Joint tax return? (See instructions)

Paid preparer's signature (declaration of preparer is based on all information of which preparer has any knowledge)	
Firm's name (or yours, if self-employed)	● PTIN
Firm's address	● FEIN
Do you want to allow another person to discuss this tax return with us? See instructions. . . . ● ☐ Yes ☐ No	
Print Third Party Designee's Name	Telephone Number

2017**California Adjustments —
Nonresidents or Part-Year Residents****CA (540NR)****Important:** Attach this schedule behind Long Form 540NR, Side 4 as a supporting California schedule.

Name(s) as shown on tax return

SSN or ITIN

Part I Residency Information. Complete all lines that apply to you and your spouse/RDP for taxable year 2017.**During 2017:****1 My California (CA) Residency (Check one)****a** Myself: ☐ Nonresident ☐ Part-Year Resident ☐ Resident**b** Spouse: ☐ Nonresident ☐ Part-Year Resident ☐ Resident

	Yourself	Spouse/RDP
2 a I was domiciled in (enter two letter code, see instructions)	☐ ____	☐ ____
b I was in the military and stationed in (enter two letter code)	☐ ____	☐ ____
3 I became a CA resident (enter state of prior residence and date (mm/dd/yyyy) of move) . . .	☐ ____ / ____ / ____	☐ ____ / ____ / ____
4 I became a CA nonresident (enter new state of residence and date (mm/dd/yyyy) of move) . .	☐ ____ / ____ / ____	☐ ____ / ____ / ____
5 I was a CA nonresident the entire year (enter state of residence)	☐ ____	☐ ____
6 The number of days I spent in CA for any purpose was:	☐ ____	☐ ____
7 I owned a home/property in CA (enter Y for Yes, N for No)	☐ ____	☐ ____
8 Before 2017: I was a CA resident for the period of	☐ ____ / ____ / ____ - ____ / ____ / ____	☐ ____ / ____ / ____ - ____ / ____ / ____

Part II Income Adjustment Schedule**Section A — Income**

	A Federal Amounts (taxable amounts from your federal tax return)	B Subtractions See instructions (difference between CA & federal law)	C Additions See instructions (difference between CA & federal law)	D Total Amounts Using CA Law As If You Were a CA Resident (subtract col. B from col. A; add col. C to the result)	E CA Amounts (income earned or received as a CA resident and income earned or received from CA sources as a nonresident)
7 Wages, salaries, tips, etc. See instructions before making an entry in col. B or C. 7	☐	☐	☐	☐	☐
8 Taxable interest. (b) 8(a)	☐	☐	☐	☐	☐
9 Ordinary dividends. See instructions. (b) ☐ 9(a)	☐	☐	☐	☐	☐
10 Taxable refunds, credits, or offsets of state and local income taxes. 10	☐	☐			
11 Alimony received. See instructions. 11	☐		☐	☐	☐
12 Business income or (loss) 12	☐	☐	☐	☐	☐
13 Capital gain or (loss). See instructions . . . 13	☐	☐	☐	☐	☐
14 Other gains or (losses) 14	☐	☐	☐	☐	☐
15 IRA distributions. See instructions. (a) ☐ 15(b)	☐	☐	☐	☐	☐
16 Pensions and annuities. See instructions. (a) ☐ 16(b)	☐	☐	☐	☐	☐
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc 17	☐	☐	☐	☐	☐
18 Farm income or (loss) 18	☐	☐	☐	☐	☐
19 Unemployment compensation 19	☐	☐			
20 Social security benefits. (a) ☐ 20(b)	☐	☐			
21 Other income. a California lottery winnings b Disaster loss deduction from FTB 3805V c Federal NOL (Form 1040, line 21) d NOL deduction from FTB 3805V 21 e NOL from FTB 3805Z, FTB 3806, FTB 3807, or FTB 3809 f Other (describe): _____	☐ { a ☐ b ☐ c ☐ d ☐ e ☐ f ☐	a _____ b _____ c ☐ d _____ e _____ f ☐	21 ☐	21 ☐	
22 a Total: Combine line 7 through line 21 in each column. Continue to Side 2 22a	☐	☐	☐	☐	☐

Income Adjustment Schedule		A	B	C	D	E
Section B — Adjustments to Income		Federal Amounts (taxable amounts from your federal tax return)	Subtractions See instructions (difference between CA & federal law)	Additions See instructions (difference between CA & federal law)	Total Amounts Using CA Law As If You Were a CA Resident (subtract col. B from col. A; add col. C to the result)	CA Amounts (income earned or received as a CA resident and income earned or received from CA sources as a nonresident)
22	b Enter totals from Side 1, line 22a, col. A through col. E. 22b	☐	☐	☐	☐	☐
23	Educator expenses. 23	☐	☐			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials 24	☐	☐	☐	☐	☐
25	Health savings account deduction 25	☐	☐			
26	Moving expenses 26	☐			☐	☐
27	Deductible part of self-employment tax . . . 27	☐			☐	☐
28	Self-employed SEP, SIMPLE, and qualified plans 28	☐			☐	☐
29	Self-employed health insurance deduction 29	☐			☐	☐
30	Penalty on early withdrawal of savings . . . 30	☐			☐	☐
31a	Alimony paid. b Enter recipient's: SSN ☐ - - - - - Last name ☐ . 31a	☐		☐	☐	☐
32	IRA deduction 32	☐			☐	☐
33	Student loan interest deduction 33	☐		☐	☐	☐
34	Reserved 34					
35	Domestic production activities deduction . 35	☐	☐			
36	Add line 23 through line 35 in each column, A through E 36	☐	☐	☐	☐	☐
37	Total. Subtract line 36 from line 22b in each column, A through E. See instructions. . . . 37	☐	☐	☐	☐	☐

Part III Adjustments to Federal Itemized Deductions

38 **Federal Itemized Deductions.** Enter the amount from federal Schedule A (Form 1040), lines 4, 9, 15, 19, 20, 27, and 28 (or Schedule A (Form 1040NR), lines 1, 5, 6, 13, and 14). ☐ 38

39 Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance, and state and local income tax, or General Sales Tax), and line 8 (foreign taxes **only**) (or Schedule A (Form 1040NR), line 1). See instructions. ☐ 39

40 Subtract line 39 from line 38. ☐ 40

41 Other adjustments including California lottery losses. See instructions. Specify ☐ 41

42 Combine line 40 and line 41. ☐ 42

43 **Is your federal AGI (Long Form 540NR, line 13) more than the amount shown below for your filing status?**
Single or married/RDP filing separately \$187,203
Head of household \$280,808
Married/RDP filing jointly or qualifying widow(er) \$374,411
No. Transfer the amount on line 42 to line 43.
Yes. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540NR), line 43 ☐ 43

44 Enter the larger of the amount on line 43 or your standard deduction. See instructions ☐ 44

Part IV California Taxable Income

45 **California AGI.** Enter your California AGI from line 37, column E. ☐ 45

46 Enter your deductions from line 44 ☐ 46

47 **Deduction Percentage.** Divide line 37, column E by line 37, column D. Carry the decimal to four places. If the result is greater than 1.0000, enter 1.0000. If less than zero, enter -0- ☐ 47

48 **California Itemized/Standard Deductions.** Multiply line 46 by the percentage on line 47 ☐ 48

49 **California Taxable Income.** Subtract line 48 from line 45. Transfer this amount to Long Form 540NR, line 35. If less than zero, enter -0- ☐ 49

2017**Alternative Minimum Tax and
Credit Limitations — Residents****P (540)**

Attach this schedule to Form 540.

Name(s) as shown on Form 540

Your SSN or ITIN

Part I Alternative Minimum Taxable Income (AMTI) Important: See instructions for information regarding California/federal differences.

1	If you itemized deductions, go to line 2. If you did not itemize deductions, enter your standard deduction from Form 540, line 18, and go to line 6	1	00
2	Medical and dental expense. Enter the smaller of Schedule A (Form 1040), line 4, or 2½% (.025) of Form 1040, line 37	2	00
3	Personal property taxes and real property taxes. See instructions	3	00
4	Certain interest on a home mortgage not used to buy, build, or improve your home. See instructions	4	00
5	Miscellaneous itemized deductions. See instructions	5	00
6	Refund of personal property taxes and real property taxes. See instructions.	6	(00)
Do not include your state income tax refund on this line.			
7	Investment interest expense adjustment. See instructions.	7	00
8	Post-1986 depreciation. See instructions.	8	00
9	Adjusted gain or loss. See instructions	9	00
10	Incentive stock options and California qualified stock options (CQSOs). See instructions	10	00
11	Passive activities adjustment. See instructions	11	00
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 12a	12	00
13	Other adjustment and preferences. Enter the amount, if any, for each item, a through l, and enter the total on line 13. See instructions.		
a	Circulation expenditures	g	Mining costs
b	Depletion	h	Patron's adjustment.
c	Installment sales	i	Pollution control facilities
d	Intangible drilling costs	j	Research and experimental
e	Long-term contracts	k	Tax shelter farm activities
f	Loss limitations	l	Related adjustments
		13	00
14	Total Adjustments and Preferences. Combine line 1 through line 13	14	00
15	Enter taxable income from Form 540, line 19. See instructions	15	00
16	Net operating loss (NOL) deductions from Schedule CA (540), line 21b, line 21d, and line 21e, column B. Enter as a positive amount.	16	00
17	AMTI exclusion. See instructions.	17	(00)
18	If your federal adjusted gross income (AGI) is less than the amount for your filing status (listed below), skip this line and go to line 19. If you itemized deductions and your federal AGI is more than the amount for your filing status, see instructions.	18	(00)
	Single or married/RDP filing separately \$187,203		
	Married/RDP filing jointly or qualifying widow(er) \$374,411		
	Head of household \$280,808		
19	Combine line 14 through line 18	19	00
20	Alternative minimum tax NOL deduction. See instructions	20	00
21	Alternative Minimum Taxable Income. Subtract line 20 from line 19 (if married/RDP filing separately and line 21 is more than \$355,690, see instructions).	21	00

Part II Alternative Minimum Tax (AMT)**22 Exemption Amount.** (If this schedule is for a certain child under age 24, see instructions.)

If your filing status is:

And line 21 is not over:

Enter on line 22:

Single or head of household

\$258,168

\$68,846

Married/RDP filing jointly or qualifying widow(er)

\$344,225

\$91,793

Married/RDP filing separately

\$172,110

\$45,895

If Part I, line 21 is more than the amount shown above for your filing status, see instructions.

22

00

23 Subtract line 22 from line 21. If zero or less, enter -0-. **23** 00**24** Tentative Minimum Tax. Multiply line 23 by 7.0% (.07) **24** 00**25** Regular tax before credits from Form 540, line 31 **25** 00

26 Alternative Minimum Tax. Subtract line 25 from line 24. If zero or less, enter -0- here and on Form 540, line 61. If more than zero, enter here and on Form 540, line 61. If you make estimated tax payments for taxable year 2018, enter amount from line 26 on the 2018 Form 540-ES, Estimated Tax Worksheet, line 16. (Exception: If you have carryover credit for solar energy or commercial solar energy, first enter the result on Side 2, Part III, Section C, line 22 or 23) **26** 00

Part III Credits that Reduce Tax **Note:** Be sure to attach your credit forms to Form 540.

1	Enter the amount from Form 540, line 35.	☐ 1		00
2	Enter the tentative minimum tax from Side 1, Part II, line 24.	☐ 2		00

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
Section A – Credits that reduce excess tax.				
3	Subtract line 2 from line 1. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits.		☐	
A1 Credits that reduce excess tax and have no carryover provisions.				
4	Code: 162 Prison inmate labor credit (FTB 3507)	☐		
5	Code: 232 Child and dependent care expenses credit (FTB 3506).	☐		
A2 Credits that reduce excess tax and have carryover provisions. See instructions.				
6	Code: ☐ Credit Name:	☐		☐
7	Code: ☐ Credit Name:	☐		☐
8	Code: ☐ Credit Name:	☐		☐
9	Code: ☐ Credit Name:	☐		☐
10	Code: 188 Credit for prior year alternative minimum tax.	☐		☐
Section B – Credits that may reduce tax below tentative minimum tax.				
11	If Part III, line 3 is zero, enter the amount from line 1. If line 3 is more than zero, enter the total of line 2 and the last entry in column (c).		☐	
B1 Credits that reduce net tax and have no carryover provisions.				
12	Code: 170 Credit for joint custody head of household.	☐		
13	Code: 173 Credit for dependent parent	☐		
14	Code: 163 Credit for senior head of household	☐		
15	Nonrefundable renter's credit	☐		
B2 Credits that reduce net tax and have carryover provisions. See instructions.				
16	Code: ☐ Credit Name:	☐		☐
17	Code: ☐ Credit Name:	☐		☐
18	Code: ☐ Credit Name:	☐		☐
19	Code: ☐ Credit Name:	☐		☐
B3 Other state tax credit.				
20	Code: 187 Other state tax credit	☐		
Section C – Credits that may reduce alternative minimum tax.				
21	Enter your alternative minimum tax from Side 1, Part II, line 26.		☐	
22	Code: 180 Solar energy credit carryover from Section B2, column (d)	☐		☐
23	Code: 181 Commercial solar energy credit carryover from Section B2, column (d).	☐		☐
24	Adjusted AMT. Enter the balance from line 23, column (c) here and on Form 540, line 61		☐	

This space reserved for 2D barcode

2017 Other State Tax Credit**S**

Attach to Form 540, Long Form 540NR, or Form 541.

Name(s) as shown on your California tax return

SSN, ITIN, or FEIN

Part I Double-Taxed Income (Read specific line instructions for Part I before completing.)

(a) Income item(s) description	(b) Double-taxed income taxable by California	(c) Double-taxed income taxable by other state
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
1 Total double-taxed income	☐ _____	☐ _____

Part II Figure Your Other State Tax Credit (Read specific line instructions for Part II before completing.)

2 California tax liability. See instructions	☐ 2 _____	00
3 Double-taxed income taxable by California. Enter the amount from Part I, line 1, column (b)	☐ 3 _____	00
4 California adjusted gross income. See instructions	☐ 4 _____	00
5 Divide line 3 by line 4. Do not enter more than 1.0000	☐ 5 _____	
6 Multiply line 2 by line 5.	☐ 6 _____	00
7 Income tax liability paid to name of other state (use state's abbreviation) ☐ _____ See instructions	☐ 7 _____	00
8 Double-taxed income taxable by other state. Enter the amount from Part I, line 1, column (c)	☐ 8 _____	00
9 Adjusted gross income taxable by other state. See instructions.	☐ 9 _____	00
10 Divide line 8 by line 9. Do not enter more than 1.0000	☐ 10 _____	
11 Multiply line 7 by line 10	☐ 11 _____	00
12 Other state tax credit. Enter the smaller of line 6 or line 11. Use Credit Code 187 . See instructions	☐ 12 _____	00

2017 Tax on Lump-Sum Distributions

G-1

Attach to Form 540, Long Form 540NR, or Form 541. Use this form only for lump-sum distributions from qualified plans.

Name(s) as shown on tax return

SSN, ITIN, or FEIN

Part I

Complete this part to see if you can use Schedule G-1.

Yes No

- 1 Was this a distribution of a plan participant's entire balance from all of an employer's qualified plans of one kind (pension, profit-sharing, or stock bonus)? If "No," **do not** use this form 1 ☐ ☐
 - 2 Did you roll over any part of the distribution? If "Yes," **do not** use this form 2 ☐ ☐
 - 3 Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936? 3 ☐ ☐
 - 4 Were you (a) a plan participant who received this distribution, (b) born before January 2, 1936, and (c) a participant in the plan for at least 5 years before the year of distribution? 4 ☐ ☐
- If you answered "No" to both questions 3 and 4, **do not** use this form.
- 5 Did you use Schedule G-1 in a prior year for any distribution received after 1986 for the same plan participant, including yourself, for whom the 2017 distribution was made? If "Yes," **do not** use this form 5 ☐ ☐

Part II

Complete this part to choose the 5.5% capital gain election. See instructions.

- 6 Capital gain from federal Form 1099-R, box 3. If you are taking the death benefit exclusion, see instructions. 6 00
- 7 Multiply line 6 by 5.5% (.055) and enter here. If you elect to use Part III, go to line 8. Otherwise, enter the amount from line 7 on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b . . . 7 00

Part III

Complete this part to choose the 10-year averaging method. See instructions.

- 8 If you completed Part II, enter the amount from federal Form 1099-R, box 2a minus box 3. If you did not complete Part II, enter the amount from federal Form 1099-R, box 2a. See instructions 8 00
- 9 Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996. See instructions 9 00
- 10 Total taxable amount. Subtract line 9 from line 8 10 00
- 11 Current actuarial value of annuity, if applicable, from federal Form 1099-R, box 8. See instructions 11 00
- 12 Adjusted total taxable amount. Add line 10 and line 11. If this amount is \$70,000 or more, skip line 13 through line 16, and enter this amount on line 17. 12 00
- 13 Multiply line 12 by 50% (.50), but **do not** enter more than \$10,000 13 00
- 14 Subtract \$20,000 from line 12 and enter the difference. If the result is zero or less, enter -0- 14 00
- 15 Multiply line 14 by 20% (.20) 15 00
- 16 Minimum distribution allowance. Subtract line 15 from line 13 16 00
- 17 Subtract line 16 from line 12. 17 00
- 18 Multiply line 17 by 10% (.10) 18 00
- 19 Tax on amount on line 18. Use the Tax Rate Schedule on page 2 of the instructions 19 00
- 20 Multiply line 19 by ten (10). If line 11 is blank, skip line 21 through line 26 and enter this amount on line 27. Otherwise, continue to line 21 20 00
- 21 Divide line 11 by line 12 (rounded to at least three places). See instructions 21
- 22 Multiply line 16 by the decimal amount on line 21 22 00
- 23 Subtract line 22 from line 11. 23 00
- 24 Multiply line 23 by 10% (.10) 24 00
- 25 Tax on amount on line 24. Use the Tax Rate Schedule on page 2 of the instructions 25 00
- 26 Multiply line 25 by ten (10) 26 00
- 27 Subtract line 26 from line 20. 27 00
- 28 Tax on lump-sum distribution. Add Part II, line 7 and Part III, line 27. Enter here and on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b. Multiple recipients see instructions. 28 00



Scenario 11

For this scenario refer to the information and completed Federal tax return in Scenario 3 for Vera Wang. As a reminder, Vera Wang is a 28-year-old unmarried taxpayer with a 6-year-old son, Tim. Tim lives with Vera in her home that she rents. She provides over 50% of the cost of his support. Vera received alimony of \$100 per month and child support of \$75 per month from her son's father for all twelve months of the year. She also collected taxable interest income of \$475. She earned \$47,990 last year which was reported on *Form W-2 - Wage and Tax Statement*. Her Form W-2 also showed that \$4,000 was withheld for Federal income taxes and \$500 withheld for California income taxes. Vera does not have other children or other dependents. Additionally, she cannot be claimed as a dependent on someone else's tax return. Use this information, her completed Federal tax return, the California tax tables in the back of the course and the California tax forms immediately following the scenario, to prepare a California tax return for Vera.

Scenario 11 Questions

Answers appear in [Scenario 11 Feedback](#)

1. What amount is the dependent exemption for Vera's son, Tim, on her Form 540?
 - A. \$0
 - B. \$111
 - C. \$353
 - D. \$446
2. What is Vera's total exemption amount on her Form 540?
 - A. \$0
 - B. \$111
 - C. \$344
 - D. \$467
3. What is the taxable income shown on Vera's Form 540?
 - A. \$7,812
 - B. \$41,193
 - C. \$47,568
 - D. \$48,000
4. What amount is Vera's tax before her exemptions on her Form 540?
 - A. \$305
 - B. \$432
 - C. \$515
 - D. \$704
5. What amount is Vera's tax after her exemptions on her Form 540?
 - A. \$237
 - B. \$432
 - C. \$715
 - D. \$737
6. What amount appears on line 92 for total payments on Vera's Form 540?
 - A. \$0
 - B. \$500
 - C. \$1,000
 - D. \$1,500



7. What is the outcome of Vera's return?
 - A. Vera will receive a \$263 refund
 - B. Vera owes a \$263 tax
 - C. Vera will receive a \$305 refund
 - D. Vera owes a \$305 tax
8. If Vera owned her home and paid interest of \$8,000 and property tax of \$2,000 she would itemize her deductions.
 - A. True
 - B. False
9. Vera should have withheld more from her paychecks for payment of California income tax.
 - A. True
 - B. False
10. Even though Vera used the head of household for her Federal return she should use the single filing status on her California return.
 - A. True
 - B. False



Scenario 11 Feedback

[Return to Scenario 11 Questions](#)

Question 1 - C. \$353

The California dependent exemption credit for 2017 is \$353. Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 2 - D. \$467

Along with the \$353 dependent exemption credit, Vera can claim the \$114 personal exemption credit amount for single, separate, and head of household taxpayers for a total exemption amount of \$467. She shows this amount on line 11 of her Form 540. Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 3 - B. \$41,193

Vera subtracts her California standard deduction of \$8,472 (head of house taxpayer) from her California adjusted gross income on line 17. She enters \$41,193 as her total taxable income on line 19. Refer to Lesson 3 in the California tax law course for more information about California taxable income.

Question 4 - D. \$704

Using the 2017 California tax table, Vera determines her tax to be \$704 based on her head of household filing status and \$41,193 taxable income. Refer to Lesson 6 in the California tax law course for more information about California tax rates.

Question 5 - A. \$237

Vera has \$467 of exemption credits. She subtracts this amount from her tax of \$704 and enters \$237 on line 33. She does not include a Schedule G-1 or FTB Form 5870A so her tax on line 35 is \$237. Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 6 - B. \$500

Vera had \$500 of California income tax withheld from her wages. She did not pay estimated tax, did not have real estate or other withholding, did not have excess SDI withheld so her total payments on line 92 are \$500. Refer to Lesson 6 in the California tax law course for more information about withholding.

Question 7 - A. Vera will receive a \$263 refund

Vera's total tax from line 64 of her Form 540 is \$237. Her total payments from line 92 equal \$500. Subtract line 64 from line 92 to determine the amount Vera will receive. Enter \$263 on line 92. Refer to Lesson 6 in the California tax law course for more information about refunds.

Question 8 - A. True

If Vera owned her home she would use Schedule A to itemize her \$2,000 property tax and \$8,000 of mortgage interest. She would be able to enter \$10,000 on her Schedule CA line 32. Vera's standard deduction of \$8,472 would be less than her itemized deduction so she would elect to use her itemized deductions from Schedule CA. Refer to Lesson 4 in the California tax law course for more information on the California standard deduction and Schedule CA.

Question 9 - B. False

Vera's tax for 2017 is \$223. Her withholding for California income tax was \$500. She overpaid her taxes this year so she would not want to increase her withholding. Refer to Lesson 6 in the California tax law course for more information about withholding.

Question 10 - B. False

A taxpayer would be hard-pressed to find any significant financial benefits from using the single filing status, especially if he or she qualifies for the head of household filing status. The California head of household filing status provides a lower tax rate and a higher standard deduction than either the single or married/RDP filing separately filing status. Vera should choose head of household filing status for her California return. Refer to Lesson 2 in the California tax law course for more information on the California head of household filing status.

2017 California Resident Income Tax Return**540**

Fiscal year filers only: Enter month of year end: month _____ year 2018.

☐ Check here if this is an AMENDED return.

Your first name	Initial	Last name	Suffix	Your SSN or ITIN	☐ A ☐ R ☐ RP
If joint tax return, spouse's/RDP's first name	Initial	Last name	Suffix	Spouse's/RDP's SSN or ITIN	
Additional information (see instructions)				PBA code	
Street address (number and street) or PO box				Apt. no/ste. no.	PMB/private mailbox
City (If you have a foreign address, see instructions)				State	ZIP code
Foreign country name		Foreign province/state/county		Foreign postal code	

Date of Birth	Your DOB (mm/dd/yyyy)	Spouse's/RDP's DOB (mm/dd/yyyy)
Prior Name	If you filed your 2016 tax return under a different last name, write the last name only from the 2016 tax return.	
	Your prior name	Spouse's/RDP's prior name
Filing Status	1 ☐ Single	4 ☐ Head of household (with qualifying person). See instructions.
	2 ☐ Married/RDP filing jointly. See inst.	5 ☐ Qualifying widow(er) with dependent child. Enter year spouse/RDP died
	3 ☐ Married/RDP filing separately. Enter spouse's/RDP's SSN or ITIN above and full name here	
	If your California filing status is different from your federal filing status, check the box here ☐	
6	If someone can claim you (or your spouse/RDP) as a dependent, check the box here. See inst. ☐	

► For line 7, line 8, line 9, and line 10: Multiply the amount you enter in the box by the pre-printed dollar amount for that line. **Whole dollars only**

7 Personal: If you checked box 1, 3, or 4 above, enter 1 in the box. If you checked box 2 or 5, enter 2, in the box. If you checked the box on line 6, see instructions.		X \$114 =	
8 Blind: If you (or your spouse/RDP) are visually impaired, enter 1; if both are visually impaired, enter 2		X \$114 =	
9 Senior: If you (or your spouse/RDP) are 65 or older, enter 1; if both are 65 or older, enter 2		X \$114 =	
10 Dependents: Do not include yourself or your spouse/RDP.			

Exemptions

	Dependent 1	Dependent 2	Dependent 3
First Name			
Last Name			
SSN			
Dependent's relationship to you			

Total dependent exemptions X \$353 = 11 **Exemption amount:** Add line 7 through line 10. Transfer this amount to line 32. \$

Your name:

Your SSN or ITIN:

Taxable Income

- 12 State wages from your Form(s) W-2, box 16. ● 12 .00
- 13 Enter federal adjusted gross income from Form 1040, line 37; 1040A, line 21; or 1040EZ, line 4. ● 13 .00
- 14 California adjustments – subtractions. Enter the amount from Schedule CA (540), line 37, column B ● 14 .00
- 15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses. See instructions 15 .00
- 16 California adjustments – additions. Enter the amount from Schedule CA (540), line 37, column C. ● 16 .00
- 17 California adjusted gross income. Combine line 15 and line 16. ● 17 .00
- 18 Enter the **larger of** {
 Your California **itemized deductions** from Schedule CA (540), line 44; **OR**
 Your California **standard deduction** shown below for your filing status:
 • Single or Married/RDP filing separately. \$4,236
 • Married/RDP filing jointly, Head of household, or Qualifying widow(er) \$8,472
 If Married/RDP filing separately or the box on line 6 is checked, STOP. See instructions . . .
 } ● 18 .00
- 19 Subtract line 18 from line 17. This is your **taxable income**. If less than zero, enter -0- ● 19 .00

Tax

- 31 Tax. Check the box if from: ☐ Tax Table ☐ Tax Rate Schedule
☐ FTB 3800 ☐ FTB 3803 ● 31 .00
- 32 Exemption credits. Enter the amount from line 11. If your federal AGI is more than \$187,203, see instructions ● 32 .00
- 33 Subtract line 32 from line 31. If less than zero, enter -0- ● 33 .00
- 34 Tax. See instructions. Check the box if from: ● ☐ Schedule G-1 ● ☐ FTB 5870A. ● 34 .00
- 35 Add line 33 and line 34 ● 35 .00

Special Credits

- 40 Nonrefundable Child and Dependent Care Expenses Credit. See instructions ● 40 .00
- 43 Enter credit name code ● and amount ● 43 .00
- 44 Enter credit name code ● and amount ● 44 .00
- 45 To claim more than two credits, see instructions. Attach Schedule P (540). ● 45 .00
- 46 Nonrefundable renter's credit. See instructions ● 46 .00
- 47 Add line 40 through line 46. These are your total credits. ● 47 .00
- 48 Subtract line 47 from line 35. If less than zero, enter -0- ● 48 .00

Other Taxes

- 61 Alternative minimum tax. Attach Schedule P (540) ● 61 .00
- 62 Mental Health Services Tax. See instructions. ● 62 .00
- 63 Other taxes and credit recapture. See instructions. ● 63 .00
- 64 Add line 48, line 61, line 62, and line 63. This is your total tax ● 64 .00

Your name:

Your SSN or ITIN:

Payments

- | | | | |
|-----------|--|-------------|-----|
| 71 | California income tax withheld. See instructions | ● 71 | .00 |
| 72 | 2017 CA estimated tax and other payments. See instructions | ● 72 | .00 |
| 73 | Withholding (Form 592-B and/or 593). See instructions | ● 73 | .00 |
| 74 | Excess SDI (or VPD) withheld. See instructions | ● 74 | .00 |
| 75 | Earned Income Tax Credit (EITC) | ● 75 | .00 |
| 76 | Add lines 71 through 75. These are your total payments. See instructions | ⊙ 76 | .00 |

Use Tax

- | | | | |
|-----------|---|-------------|-----|
| 91 | Use Tax. Do not leave blank. See instructions | ● 91 | .00 |
|-----------|---|-------------|-----|

If line 91 is zero, check if:

☐

No use tax is owed.

☐

You paid your use tax obligation directly to CDTFA.

Overpaid Tax/Tax Due

- | | | | |
|-----------|--|-------------|-----|
| 92 | Payments balance. If line 76 is more than line 91, subtract line 91 from line 76 | ⊙ 92 | .00 |
| 93 | Use Tax balance. If line 91 is more than line 76, subtract line 76 from line 91 | ⊙ 93 | .00 |
| 94 | Overpaid tax. If line 92 is more than line 64, subtract line 64 from line 92 | ⊙ 94 | .00 |
| 95 | Amount of line 94 you want applied to your 2018 estimated tax | ● 95 | .00 |
| 96 | Overpaid tax available this year. Subtract line 95 from line 94 | ● 96 | .00 |
| 97 | Tax due. If line 92 is less than line 64, subtract line 92 from line 64 | ⊙ 97 | .00 |

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Your name:

Your SSN or ITIN:

Contributions

	<u>Code</u>	<u>Amount</u>
California Seniors Special Fund. See instructions	● 400	.00
Alzheimer's Disease/Related Disorders Fund	● 401	.00
Rare and Endangered Species Preservation Voluntary Tax Contribution Program	● 403	.00
California Breast Cancer Research Voluntary Tax Contribution Fund	● 405	.00
California Firefighters' Memorial Fund	● 406	.00
Emergency Food for Families Voluntary Tax Contribution Fund	● 407	.00
California Peace Officer Memorial Foundation Fund	● 408	.00
California Sea Otter Fund	● 410	.00
California Cancer Research Voluntary Tax Contribution Fund	● 413	.00
School Supplies for Homeless Children Fund	● 422	.00
State Parks Protection Fund/Parks Pass Purchase	● 423	.00
Protect Our Coast and Oceans Voluntary Tax Contribution Fund	● 424	.00
Keep Arts in Schools Voluntary Tax Contribution Fund	● 425	.00
State Children's Trust Fund for the Prevention of Child Abuse	● 430	.00
Prevention of Animal Homelessness and Cruelty Fund	● 431	.00
Revive the Salton Sea Fund	● 432	.00
California Domestic Violence Victims Fund	● 433	.00
Special Olympics Fund	● 434	.00
Type 1 Diabetes Research Fund	● 435	.00
California YMCA Youth and Government Voluntary Tax Contribution Fund	● 436	.00
Habitat for Humanity Voluntary Tax Contribution Fund	● 437	.00
California Senior Citizen Advocacy Voluntary Tax Contribution Fund	● 438	.00
Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund	● 439	.00
Rape Backlog Kit Voluntary Tax Contribution Fund	● 440	.00
110 Add code 400 through code 440. This is your total contribution	● 110	.00

Your name:

Your SSN or ITIN:

111 AMOUNT YOU OWE. If you do not have an amount on line 96, add line 93, line 97, and line 110. See instructions. **Do not send cash.**

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942867

SACRAMENTO CA 94267-0001

● 111

Pay online – Go to **ftb.ca.gov/pay** for more information.

Amount
You Owe

112 Interest, late return penalties, and late payment penalties

112

113 Underpayment of estimated tax. Check the box: ● ☐ **FTB 5805 attached**

●

☐ **FTB 5805F attached**

● 113

114 Total amount due. See instructions. Enclose, but **do not** staple, any payment.

114

Interest and
Penalties

115 REFUND OR NO AMOUNT DUE. Subtract the sum of line 110, line 112 and line 113 from line 96. See instructions.

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942840

SACRAMENTO CA 94240-0001

● 115

Fill in the information to authorize direct deposit of your refund into one or two accounts. **Do not** attach a voided check or a deposit slip. See instructions. **Have you verified the routing and account numbers?** Use whole dollars only.

All or the following amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 116 Direct deposit amount

The remaining amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 117 Direct deposit amount

Refund and Direct Deposit

IMPORTANT: See the instructions to find out if you should attach a copy of your complete federal tax return.

To learn about your privacy rights, how we may use your information, and the consequences for not providing the requested information, go to **ftb.ca.gov/forms** and search for **1131**. To request this notice by mail, call 800.852.5711. Under penalties of perjury, I declare that I have examined this tax return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature

Date

Spouse's/RDP's signature (if a joint tax return, both must sign)

**Sign
Here**

It is unlawful
to forge a
spouse's/RDP's
signature.

Joint tax return?
(See instructions)

● Your email address. Enter only one email address.

● Preferred phone number

Paid preparer's signature (**declaration of preparer is based on all information of which preparer has any knowledge**)

Firm's name (or yours, if self-employed)

● PTIN

Firm's address

● FEIN

Do you want to allow another person to discuss this tax return with us? See instructions. . . ● ☐ Yes ● ☐ No

Print Third Party Designee's Name

Telephone Number

2017 California Adjustments — Residents**CA (540)****Important:** Attach this schedule behind Form 540, Side 5 as a supporting California schedule.

Names(s) as shown on tax return

SSN or ITIN

Part I Income Adjustment Schedule**Section A — Income**

	A Federal Amounts (taxable amounts from your federal tax return)	B Subtractions See instructions	C Additions See instructions
7 Wages, salaries, tips, etc. See instructions before making an entry in column B or C 7	☐	☐	☐
8 Taxable interest (b) 8(a)	☐	☐	☐
9 Ordinary dividends. See instructions. (b) 9(a)	☐	☐	☐
10 Taxable refunds, credits, offsets of state and local income taxes 10	☐	☐	
11 Alimony received 11	☐		☐
12 Business income or (loss) 12	☐	☐	☐
13 Capital gain or (loss). See instructions. 13	☐	☐	☐
14 Other gains or (losses) 14	☐	☐	☐
15 IRA distributions. See instructions. (a) 15(b)	☐	☐	☐
16 Pensions and annuities. See instructions. (a) 16(b)	☐	☐	☐
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc 17	☐	☐	☐
18 Farm income or (loss) 18	☐	☐	☐
19 Unemployment compensation 19	☐	☐	
20 Social security benefits (a) ☐ 20(b)	☐	☐	
21 Other income.		a ☐ b ☐ c ☐ d ☐ e ☐ f ☐	a ☐ b ☐ c ☐ d ☐ e ☐ f ☐
a California lottery winnings b Disaster loss deduction from FTB 3805V c Federal NOL (Form 1040, line 21) d NOL deduction from FTB 3805V	e NOL from FTB 3805Z, 3806, 3807, or 3809 f Other (describe): ☐		
22 Total. Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B. 22	☐	☐	☐

Section B — Adjustments to Income

23 Educator expenses 23	☐	☐	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials 24	☐	☐	☐
25 Health savings account deduction 25	☐	☐	
26 Moving expenses 26	☐		
27 Deductible part of self-employment tax 27	☐		
28 Self-employed SEP, SIMPLE, and qualified plans 28	☐		
29 Self-employed health insurance deduction 29	☐		
30 Penalty on early withdrawal of savings 30	☐		
31a Alimony paid. (b) Recipient's: SSN ☐ — — — — —			
Last name ☐ 31a	☐		☐
32 IRA deduction 32	☐		
33 Student loan interest deduction 33	☐		☐
34 Reserved 34			
35 Domestic production activities deduction 35	☐	☐	
36 Add line 23 through line 31a and line 32 through line 35 in columns A, B, and C. See instructions 36	☐	☐	☐
37 Total. Subtract line 36 from line 22 in columns A, B, and C. See instructions 37	☐	☐	☐

Part II Adjustments to Federal Itemized Deductions

38 Federal itemized deductions. Enter the amount from federal Schedule A (Form 1040), lines 4, 9, 15, 19, 20, 27, and 28 ☐ **38**

39 Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance, and state and local income tax, or General Sales Tax) and line 8 (foreign income taxes **only**). See instructions ☐ **39**

40 Subtract line 39 from line 38 ☐ **40**

41 Other adjustments including California lottery losses. See instructions. Specify ☐ **41**

42 Combine line 40 and line 41 ☐ **42**

43 Is your federal AGI (Form 540, line 13) more than the amount shown below for your filing status?

Single or married/RDP filing separately **\$187,203**

Head of household **\$280,808**

Married/RDP filing jointly or qualifying widow(er) **\$374,411**

No. Transfer the amount on line 42 to line 43.

Yes. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 43 ☐ **43**

44 Enter the larger of the amount on line 43 or your standard deduction listed below

Single or married/RDP filing separately. See instructions. **\$4,236**

Married/RDP filing jointly, head of household, or qualifying widow(er) **\$8,472**

Transfer the amount on line 44 to Form 540, line 18 ☐ **44**

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2017**Alternative Minimum Tax and
Credit Limitations — Residents****P (540)**

Attach this schedule to Form 540.

Name(s) as shown on Form 540

Your SSN or ITIN

Part I Alternative Minimum Taxable Income (AMTI) Important: See instructions for information regarding California/federal differences.

1	If you itemized deductions, go to line 2. If you did not itemize deductions, enter your standard deduction from Form 540, line 18, and go to line 6	1	00
2	Medical and dental expense. Enter the smaller of Schedule A (Form 1040), line 4, or 2½% (.025) of Form 1040, line 37	2	00
3	Personal property taxes and real property taxes. See instructions	3	00
4	Certain interest on a home mortgage not used to buy, build, or improve your home. See instructions	4	00
5	Miscellaneous itemized deductions. See instructions	5	00
6	Refund of personal property taxes and real property taxes. See instructions.	6	(00)
Do not include your state income tax refund on this line.			
7	Investment interest expense adjustment. See instructions.	7	00
8	Post-1986 depreciation. See instructions.	8	00
9	Adjusted gain or loss. See instructions	9	00
10	Incentive stock options and California qualified stock options (CQSOs). See instructions	10	00
11	Passive activities adjustment. See instructions	11	00
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 12a	12	00
13	Other adjustment and preferences. Enter the amount, if any, for each item, a through l, and enter the total on line 13. See instructions.		
a	Circulation expenditures	g	Mining costs
b	Depletion	h	Patron's adjustment.
c	Installment sales	i	Pollution control facilities
d	Intangible drilling costs	j	Research and experimental
e	Long-term contracts	k	Tax shelter farm activities
f	Loss limitations	l	Related adjustments
		13	00
14	Total Adjustments and Preferences. Combine line 1 through line 13	14	00
15	Enter taxable income from Form 540, line 19. See instructions	15	00
16	Net operating loss (NOL) deductions from Schedule CA (540), line 21b, line 21d, and line 21e, column B. Enter as a positive amount.	16	00
17	AMTI exclusion. See instructions.	17	(00)
18	If your federal adjusted gross income (AGI) is less than the amount for your filing status (listed below), skip this line and go to line 19. If you itemized deductions and your federal AGI is more than the amount for your filing status, see instructions.	18	(00)
	Single or married/RDP filing separately \$187,203		
	Married/RDP filing jointly or qualifying widow(er) \$374,411		
	Head of household \$280,808		
19	Combine line 14 through line 18	19	00
20	Alternative minimum tax NOL deduction. See instructions	20	00
21	Alternative Minimum Taxable Income. Subtract line 20 from line 19 (if married/RDP filing separately and line 21 is more than \$355,690, see instructions).	21	00

Part II Alternative Minimum Tax (AMT)**22 Exemption Amount.** (If this schedule is for a certain child under age 24, see instructions.)**If your filing status is:****And line 21 is not over:****Enter on line 22:**

Single or head of household

\$258,168

\$68,846

Married/RDP filing jointly or qualifying widow(er)

\$344,225

\$91,793

Married/RDP filing separately

\$172,110

\$45,895

If Part I, line 21 is more than the amount shown above for your filing status, see instructions.

22

00

23 Subtract line 22 from line 21. If zero or less, enter -0-. **23** 00**24** Tentative Minimum Tax. Multiply line 23 by 7.0% (.07) **24** 00**25** Regular tax before credits from Form 540, line 31 **25** 00

26 Alternative Minimum Tax. Subtract line 25 from line 24. If zero or less, enter -0- here and on Form 540, line 61. If more than zero, enter here and on Form 540, line 61. If you make estimated tax payments for taxable year 2018, enter amount from line 26 on the 2018 Form 540-ES, Estimated Tax Worksheet, line 16. (Exception: If you have carryover credit for solar energy or commercial solar energy, first enter the result on Side 2, Part III, Section C, line 22 or 23) **26** 00

Part III Credits that Reduce Tax **Note:** Be sure to attach your credit forms to Form 540.

1	Enter the amount from Form 540, line 35.	☐ 1		00
2	Enter the tentative minimum tax from Side 1, Part II, line 24.	☐ 2		00

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
Section A – Credits that reduce excess tax.				
3	Subtract line 2 from line 1. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits.		☐	
A1 Credits that reduce excess tax and have no carryover provisions.				
4	Code: 162 Prison inmate labor credit (FTB 3507)	☐		
5	Code: 232 Child and dependent care expenses credit (FTB 3506)	☐		
A2 Credits that reduce excess tax and have carryover provisions. See instructions.				
6	Code: ☐ Credit Name:	☐		☐
7	Code: ☐ Credit Name:	☐		☐
8	Code: ☐ Credit Name:	☐		☐
9	Code: ☐ Credit Name:	☐		☐
10	Code: 188 Credit for prior year alternative minimum tax.	☐		☐
Section B – Credits that may reduce tax below tentative minimum tax.				
11	If Part III, line 3 is zero, enter the amount from line 1. If line 3 is more than zero, enter the total of line 2 and the last entry in column (c).		☐	
B1 Credits that reduce net tax and have no carryover provisions.				
12	Code: 170 Credit for joint custody head of household.	☐		
13	Code: 173 Credit for dependent parent	☐		
14	Code: 163 Credit for senior head of household	☐		
15	Nonrefundable renter's credit	☐		
B2 Credits that reduce net tax and have carryover provisions. See instructions.				
16	Code: ☐ Credit Name:	☐		☐
17	Code: ☐ Credit Name:	☐		☐
18	Code: ☐ Credit Name:	☐		☐
19	Code: ☐ Credit Name:	☐		☐
B3 Other state tax credit.				
20	Code: 187 Other state tax credit	☐		
Section C – Credits that may reduce alternative minimum tax.				
21	Enter your alternative minimum tax from Side 1, Part II, line 26.		☐	
22	Code: 180 Solar energy credit carryover from Section B2, column (d)	☐		☐
23	Code: 181 Commercial solar energy credit carryover from Section B2, column (d)	☐		☐
24	Adjusted AMT. Enter the balance from line 23, column (c) here and on Form 540, line 61		☐	

This space reserved for 2D barcode

2017 Other State Tax Credit**S**

Attach to Form 540, Long Form 540NR, or Form 541.

Name(s) as shown on your California tax return

SSN, ITIN, or FEIN

Part I Double-Taxed Income (Read specific line instructions for Part I before completing.)

(a) Income item(s) description	(b) Double-taxed income taxable by California	(c) Double-taxed income taxable by other state
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
1 Total double-taxed income	☐ _____	☐ _____

Part II Figure Your Other State Tax Credit (Read specific line instructions for Part II before completing.)

2 California tax liability. See instructions	☐ 2 _____	00
3 Double-taxed income taxable by California. Enter the amount from Part I, line 1, column (b)	☐ 3 _____	00
4 California adjusted gross income. See instructions	☐ 4 _____	00
5 Divide line 3 by line 4. Do not enter more than 1.0000	☐ 5 _____	
6 Multiply line 2 by line 5.	☐ 6 _____	00
7 Income tax liability paid to name of other state (use state's abbreviation) ☐ _____ See instructions	☐ 7 _____	00
8 Double-taxed income taxable by other state. Enter the amount from Part I, line 1, column (c)	☐ 8 _____	00
9 Adjusted gross income taxable by other state. See instructions.	☐ 9 _____	00
10 Divide line 8 by line 9. Do not enter more than 1.0000	☐ 10 _____	
11 Multiply line 7 by line 10	☐ 11 _____	00
12 Other state tax credit. Enter the smaller of line 6 or line 11. Use Credit Code 187 . See instructions	☐ 12 _____	00

2017 Tax on Lump-Sum Distributions

G-1

Attach to Form 540, Long Form 540NR, or Form 541. Use this form only for lump-sum distributions from qualified plans.

Name(s) as shown on tax return

SSN, ITIN, or FEIN

Part I

Complete this part to see if you can use Schedule G-1.

Yes No

- 1 Was this a distribution of a plan participant's entire balance from all of an employer's qualified plans of one kind (pension, profit-sharing, or stock bonus)? If "No," **do not** use this form 1 ☐ ☐
 - 2 Did you roll over any part of the distribution? If "Yes," **do not** use this form 2 ☐ ☐
 - 3 Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936? 3 ☐ ☐
 - 4 Were you (a) a plan participant who received this distribution, (b) born before January 2, 1936, and (c) a participant in the plan for at least 5 years before the year of distribution? 4 ☐ ☐
- If you answered "No" to both questions 3 and 4, **do not** use this form.
- 5 Did you use Schedule G-1 in a prior year for any distribution received after 1986 for the same plan participant, including yourself, for whom the 2017 distribution was made? If "Yes," **do not** use this form 5 ☐ ☐

Part II

Complete this part to choose the 5.5% capital gain election. See instructions.

- 6 Capital gain from federal Form 1099-R, box 3. If you are taking the death benefit exclusion, see instructions. 6 00
- 7 Multiply line 6 by 5.5% (.055) and enter here. If you elect to use Part III, go to line 8. Otherwise, enter the amount from line 7 on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b . . . 7 00

Part III

Complete this part to choose the 10-year averaging method. See instructions.

- 8 If you completed Part II, enter the amount from federal Form 1099-R, box 2a minus box 3. If you did not complete Part II, enter the amount from federal Form 1099-R, box 2a. See instructions 8 00
- 9 Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996. See instructions 9 00
- 10 Total taxable amount. Subtract line 9 from line 8 10 00
- 11 Current actuarial value of annuity, if applicable, from federal Form 1099-R, box 8. See instructions 11 00
- 12 Adjusted total taxable amount. Add line 10 and line 11. If this amount is \$70,000 or more, skip line 13 through line 16, and enter this amount on line 17. 12 00
- 13 Multiply line 12 by 50% (.50), but **do not** enter more than \$10,000 13 00
- 14 Subtract \$20,000 from line 12 and enter the difference. If the result is zero or less, enter -0- 14 00
- 15 Multiply line 14 by 20% (.20) 15 00
- 16 Minimum distribution allowance. Subtract line 15 from line 13 16 00
- 17 Subtract line 16 from line 12. 17 00
- 18 Multiply line 17 by 10% (.10) 18 00
- 19 Tax on amount on line 18. Use the Tax Rate Schedule on page 2 of the instructions 19 00
- 20 Multiply line 19 by ten (10). If line 11 is blank, skip line 21 through line 26 and enter this amount on line 27. Otherwise, continue to line 21 20 00
- 21 Divide line 11 by line 12 (rounded to at least three places). See instructions 21
- 22 Multiply line 16 by the decimal amount on line 21 22 00
- 23 Subtract line 22 from line 11. 23 00
- 24 Multiply line 23 by 10% (.10) 24 00
- 25 Tax on amount on line 24. Use the Tax Rate Schedule on page 2 of the instructions 25 00
- 26 Multiply line 25 by ten (10) 26 00
- 27 Subtract line 26 from line 20. 27 00
- 28 Tax on lump-sum distribution. Add Part II, line 7 and Part III, line 27. Enter here and on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b. Multiple recipients see instructions. 28 00



Scenario 12

For this scenario refer to the information and completed Federal tax return in Scenario 4 for Gwen and Andy Smith. As a reminder, Gwen and Andy Smith are both 50 years old. Gwen earned \$43,974 last year and Andy earned \$40,000 reported to them on *Form W-2 - Wage and Tax Statement* from which \$4,400 and \$4,000 respectively was withheld for Federal income taxes. They had \$600 of California income taxes withheld. The Smiths do not have children or other dependents. Additionally, they cannot be claimed as dependents on someone else's tax return. They own their own home and paid \$15,000 of mortgage interest, \$3,000 of property tax and \$800 for homeowners insurance. They also had \$250 they paid for preparation of their tax return. Use this information, their completed Federal tax return, the California tax tables in the back of the course and the California tax forms immediately following the scenario, to prepare a California tax return for the Smiths.

Scenario 12 Questions

Answers appear in [Scenario 12 Feedback](#)

1. What is Smiths total exemption amount on their Form 540?
 - A. \$0
 - B. \$111
 - C. \$228
 - D. \$445
2. What is the Smiths deduction amount shown on line 18 of their Form 540?
 - A. \$4,129
 - B. \$8,258
 - C. \$12,600
 - D. \$18,000
3. If the Smiths paid \$8,000 in mortgage interest they would still want to itemize their deductions.
 - A. True
 - B. False
4. What is the taxable income shown on line 19 of the Smiths Form 540?
 - A. \$7,812
 - B. \$18,000
 - C. \$65,974
 - D. \$84,000
5. What amount is the Smiths tax before their exemptions on their Form 540?
 - A. \$216
 - B. \$1,530
 - C. \$1,742
 - D. \$1,785
6. What is the outcome of the Smiths return?
 - A. The Smiths will receive a \$957 refund
 - B. The Smiths owe a \$957 tax
 - C. The Smiths will receive a \$1,910 refund
 - D. The Smiths owe a \$1,910 tax



7. What would the Smiths exemption amount be if they had a dependent?
- A. \$414
 - B. \$432
 - C. \$581
 - D. \$644
8. If the interest paid on their mortgage was \$4,500 the Smiths would still want to itemize their deductions.
- A. True
 - B. False



Scenario 12 Feedback

[Return to Scenario 12 Questions](#)

Question 1 - C. \$228

The 2017 exemption credit for taxpayers who are married/registered domestic partner (RDP) filing jointly is \$228 (\$114 x 2). Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 2 - D. \$18,000

Line 18 on Form 540 is the itemized deduction amount from Schedule CA. In the Smiths case the amount is \$18,000. Refer to Lesson 4 in the California tax law course for more information about Schedule CA.

Question 3 - A. True

If the Smiths paid \$8,000 in mortgage interest, instead of \$15,000, their itemized deduction amount would be \$11,000. This amount is still greater than the California standard deduction of \$8,472 for married/RDP taxpayers filing jointly. Refer to Lesson 4 in the California tax law course for more information about the California standard deduction and itemized deductions.

Question 4 - C. \$65,974

The Smiths subtract their itemized deduction of \$18,000 (from Schedule CA) from their California adjusted gross income on line 17. They enter \$65,974 as their total taxable income on line 19. Refer to Lesson 3 in the California tax law course for more information about California taxable income.

Question 5 - D. \$ 1,785

Using the 2017 California tax table, the Smiths determine their tax to be \$1,785 based on their married filing jointly status and \$65,974 taxable income. Refer to Lesson 6 in the California tax law course for more information about California tax rates.

Question 6 - B. The Smiths owe a \$957 tax

The Smiths total tax from line 64 of their Form 540 is \$1,557. Their total payments from line 92 equal \$600. Subtract line 92 from line 64 to determine the amount the Smiths owe. Enter \$957 on line 97. Refer to Lesson 6 in the California tax law course for more information about tax payments.

Question 7 - C. \$581

The exemption credit amount for a dependent is \$353. If the Smiths had a dependent they could claim their exemption credit for taxpayers who are married/registered domestic partner (RDP) filing jointly of \$228 (\$114 x 2) and the dependent exemption credit for a total of \$581. Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 8 - B. False

If the interest paid on the Smiths mortgage was \$4,500 their total itemized deductions would be \$7,500. As a married couple filing jointly their California standard deduction would be \$8,472 so it is more advantageous for the Smiths to take the standard deduction. Refer to Lesson 4 in the California tax law course for more information about the California standard deduction and itemized deductions.

2017 California Resident Income Tax Return**540**

Fiscal year filers only: Enter month of year end: month _____ year 2018.

☐ Check here if this is an AMENDED return.

Your first name	Initial	Last name	Suffix	Your SSN or ITIN	☐ A ☐ R ☐ RP
If joint tax return, spouse's/RDP's first name	Initial	Last name	Suffix	Spouse's/RDP's SSN or ITIN	
Additional information (see instructions)				PBA code	
Street address (number and street) or PO box				Apt. no/ste. no.	PMB/private mailbox
City (If you have a foreign address, see instructions)				State	ZIP code
Foreign country name		Foreign province/state/county		Foreign postal code	

Date of Birth	Your DOB (mm/dd/yyyy)	Spouse's/RDP's DOB (mm/dd/yyyy)
Prior Name	If you filed your 2016 tax return under a different last name, write the last name only from the 2016 tax return.	
	Your prior name	Spouse's/RDP's prior name
Filing Status	1 ☐ Single	4 ☐ Head of household (with qualifying person). See instructions.
	2 ☐ Married/RDP filing jointly. See inst.	5 ☐ Qualifying widow(er) with dependent child. Enter year spouse/RDP died
	3 ☐ Married/RDP filing separately. Enter spouse's/RDP's SSN or ITIN above and full name here	
	If your California filing status is different from your federal filing status, check the box here ☐	
6	If someone can claim you (or your spouse/RDP) as a dependent, check the box here. See inst. ☐	

► For line 7, line 8, line 9, and line 10: Multiply the amount you enter in the box by the pre-printed dollar amount for that line. **Whole dollars only**

7 Personal: If you checked box 1, 3, or 4 above, enter 1 in the box. If you checked box 2 or 5, enter 2, in the box. If you checked the box on line 6, see instructions. ☐ 7 X \$114 = ☐ \$

8 Blind: If you (or your spouse/RDP) are visually impaired, enter 1; if both are visually impaired, enter 2 ☐ 8 X \$114 = ☐ \$

9 Senior: If you (or your spouse/RDP) are 65 or older, enter 1; if both are 65 or older, enter 2 ☐ 9 X \$114 = ☐ \$

10 Dependents: Do not include yourself or your spouse/RDP.

	Dependent 1	Dependent 2	Dependent 3
First Name			
Last Name			
SSN			
Dependent's relationship to you			

Total dependent exemptions ☐ 10 X \$353 = ☐ \$

11 Exemption amount: Add line 7 through line 10. Transfer this amount to line 32. ☐ 11 \$

Your name:

Your SSN or ITIN:

Taxable Income

- 12 State wages from your Form(s) W-2, box 16. ● 12 .00
- 13 Enter federal adjusted gross income from Form 1040, line 37; 1040A, line 21; or 1040EZ, line 4. ● 13 .00
- 14 California adjustments – subtractions. Enter the amount from Schedule CA (540), line 37, column B ● 14 .00
- 15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses. See instructions 15 .00
- 16 California adjustments – additions. Enter the amount from Schedule CA (540), line 37, column C. ● 16 .00
- 17 California adjusted gross income. Combine line 15 and line 16. ● 17 .00
- 18 Enter the **larger of** {
 Your California **itemized deductions** from Schedule CA (540), line 44; **OR**
 Your California **standard deduction** shown below for your filing status:
 • Single or Married/RDP filing separately. \$4,236
 • Married/RDP filing jointly, Head of household, or Qualifying widow(er) \$8,472
 If Married/RDP filing separately or the box on line 6 is checked, STOP. See instructions . . .
 } ● 18 .00
- 19 Subtract line 18 from line 17. This is your **taxable income**. If less than zero, enter -0- ● 19 .00

Tax

- 31 Tax. Check the box if from: ☐ Tax Table ☐ Tax Rate Schedule
☐ FTB 3800 ☐ FTB 3803 ● 31 .00
- 32 Exemption credits. Enter the amount from line 11. If your federal AGI is more than \$187,203, see instructions ● 32 .00
- 33 Subtract line 32 from line 31. If less than zero, enter -0- ● 33 .00
- 34 Tax. See instructions. Check the box if from: ● ☐ Schedule G-1 ● ☐ FTB 5870A. ● 34 .00
- 35 Add line 33 and line 34 ● 35 .00

Special Credits

- 40 Nonrefundable Child and Dependent Care Expenses Credit. See instructions ● 40 .00
- 43 Enter credit name code ● and amount ● 43 .00
- 44 Enter credit name code ● and amount ● 44 .00
- 45 To claim more than two credits, see instructions. Attach Schedule P (540). ● 45 .00
- 46 Nonrefundable renter's credit. See instructions ● 46 .00
- 47 Add line 40 through line 46. These are your total credits. ● 47 .00
- 48 Subtract line 47 from line 35. If less than zero, enter -0- ● 48 .00

Other Taxes

- 61 Alternative minimum tax. Attach Schedule P (540) ● 61 .00
- 62 Mental Health Services Tax. See instructions. ● 62 .00
- 63 Other taxes and credit recapture. See instructions. ● 63 .00
- 64 Add line 48, line 61, line 62, and line 63. This is your total tax ● 64 .00

Your name:

Your SSN or ITIN:

Payments

- | | | | | |
|-----------|--|-------------|----------------------|-----|
| 71 | California income tax withheld. See instructions | ● 71 | <input type="text"/> | .00 |
| 72 | 2017 CA estimated tax and other payments. See instructions | ● 72 | <input type="text"/> | .00 |
| 73 | Withholding (Form 592-B and/or 593). See instructions | ● 73 | <input type="text"/> | .00 |
| 74 | Excess SDI (or VPD) withheld. See instructions | ● 74 | <input type="text"/> | .00 |
| 75 | Earned Income Tax Credit (EITC) | ● 75 | <input type="text"/> | .00 |
| 76 | Add lines 71 through 75. These are your total payments. See instructions | ● 76 | <input type="text"/> | .00 |

Use Tax

- | | | | | |
|-----------|---|-------------|----------------------|-----|
| 91 | Use Tax. Do not leave blank. See instructions | ● 91 | <input type="text"/> | .00 |
|-----------|---|-------------|----------------------|-----|

If line 91 is zero, check if:

☐

No use tax is owed.

☐

You paid your use tax obligation directly to CDTFA.

Overpaid Tax/Tax Due

- | | | | | |
|-----------|--|-------------|----------------------|-----|
| 92 | Payments balance. If line 76 is more than line 91, subtract line 91 from line 76 | ● 92 | <input type="text"/> | .00 |
| 93 | Use Tax balance. If line 91 is more than line 76, subtract line 76 from line 91 | ● 93 | <input type="text"/> | .00 |
| 94 | Overpaid tax. If line 92 is more than line 64, subtract line 64 from line 92 | ● 94 | <input type="text"/> | .00 |
| 95 | Amount of line 94 you want applied to your 2018 estimated tax | ● 95 | <input type="text"/> | .00 |
| 96 | Overpaid tax available this year. Subtract line 95 from line 94 | ● 96 | <input type="text"/> | .00 |
| 97 | Tax due. If line 92 is less than line 64, subtract line 92 from line 64 | ● 97 | <input type="text"/> | .00 |

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Your name:

Your SSN or ITIN:

Contributions

	<u>Code</u>	<u>Amount</u>
California Seniors Special Fund. See instructions	● 400	.00
Alzheimer's Disease/Related Disorders Fund	● 401	.00
Rare and Endangered Species Preservation Voluntary Tax Contribution Program	● 403	.00
California Breast Cancer Research Voluntary Tax Contribution Fund	● 405	.00
California Firefighters' Memorial Fund	● 406	.00
Emergency Food for Families Voluntary Tax Contribution Fund	● 407	.00
California Peace Officer Memorial Foundation Fund	● 408	.00
California Sea Otter Fund	● 410	.00
California Cancer Research Voluntary Tax Contribution Fund	● 413	.00
School Supplies for Homeless Children Fund	● 422	.00
State Parks Protection Fund/Parks Pass Purchase	● 423	.00
Protect Our Coast and Oceans Voluntary Tax Contribution Fund	● 424	.00
Keep Arts in Schools Voluntary Tax Contribution Fund	● 425	.00
State Children's Trust Fund for the Prevention of Child Abuse	● 430	.00
Prevention of Animal Homelessness and Cruelty Fund	● 431	.00
Revive the Salton Sea Fund	● 432	.00
California Domestic Violence Victims Fund	● 433	.00
Special Olympics Fund	● 434	.00
Type 1 Diabetes Research Fund	● 435	.00
California YMCA Youth and Government Voluntary Tax Contribution Fund	● 436	.00
Habitat for Humanity Voluntary Tax Contribution Fund	● 437	.00
California Senior Citizen Advocacy Voluntary Tax Contribution Fund	● 438	.00
Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund	● 439	.00
Rape Backlog Kit Voluntary Tax Contribution Fund	● 440	.00
110 Add code 400 through code 440. This is your total contribution	● 110	.00

Your name:

Your SSN or ITIN:

111 AMOUNT YOU OWE. If you do not have an amount on line 96, add line 93, line 97, and line 110. See instructions. **Do not send cash.**

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942867

SACRAMENTO CA 94267-0001

● 111

Pay online – Go to **ftb.ca.gov/pay** for more information.

Amount
You Owe

112 Interest, late return penalties, and late payment penalties

112

113 Underpayment of estimated tax. Check the box: ● ☐ **FTB 5805 attached**

●

☐ **FTB 5805F attached**

● 113

114 Total amount due. See instructions. Enclose, but **do not** staple, any payment.

114

Interest and
Penalties

115 REFUND OR NO AMOUNT DUE. Subtract the sum of line 110, line 112 and line 113 from line 96. See instructions.

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942840

SACRAMENTO CA 94240-0001

● 115

Fill in the information to authorize direct deposit of your refund into one or two accounts. **Do not** attach a voided check or a deposit slip. See instructions. **Have you verified the routing and account numbers?** Use whole dollars only.

All or the following amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 116 Direct deposit amount

The remaining amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 117 Direct deposit amount

Refund and Direct Deposit

IMPORTANT: See the instructions to find out if you should attach a copy of your complete federal tax return.

To learn about your privacy rights, how we may use your information, and the consequences for not providing the requested information, go to **ftb.ca.gov/forms** and search for **1131**. To request this notice by mail, call 800.852.5711. Under penalties of perjury, I declare that I have examined this tax return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature

Date

Spouse's/RDP's signature (if a joint tax return, both must sign)

**Sign
Here**

It is unlawful
to forge a
spouse's/RDP's
signature.

Joint tax return?
(See instructions)

● Your email address. Enter only one email address.

● Preferred phone number

Paid preparer's signature (**declaration of preparer is based on all information of which preparer has any knowledge**)

Firm's name (or yours, if self-employed)

● PTIN

Firm's address

● FEIN

Do you want to allow another person to discuss this tax return with us? See instructions. . . ● ☐ Yes ● ☐ No

Print Third Party Designee's Name

Telephone Number

2017 California Adjustments — Residents**CA (540)****Important:** Attach this schedule behind Form 540, Side 5 as a supporting California schedule.

Names(s) as shown on tax return

SSN or ITIN

Part I Income Adjustment Schedule**Section A — Income**

	A Federal Amounts (taxable amounts from your federal tax return)	B Subtractions See instructions	C Additions See instructions
7 Wages, salaries, tips, etc. See instructions before making an entry in column B or C 7	☐	☐	☐
8 Taxable interest (b) 8(a)	☐	☐	☐
9 Ordinary dividends. See instructions. (b) 9(a)	☐	☐	☐
10 Taxable refunds, credits, offsets of state and local income taxes 10	☐	☐	
11 Alimony received 11	☐		☐
12 Business income or (loss) 12	☐	☐	☐
13 Capital gain or (loss). See instructions. 13	☐	☐	☐
14 Other gains or (losses) 14	☐	☐	☐
15 IRA distributions. See instructions. (a) 15(b)	☐	☐	☐
16 Pensions and annuities. See instructions. (a) 16(b)	☐	☐	☐
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc 17	☐	☐	☐
18 Farm income or (loss) 18	☐	☐	☐
19 Unemployment compensation 19	☐	☐	
20 Social security benefits (a) ☐ 20(b)	☐	☐	
21 Other income.		a ☐	a
a California lottery winnings		b ☐	b
b Disaster loss deduction from FTB 3805V		c	c ☐
c Federal NOL (Form 1040, line 21)		d ☐	d
d NOL deduction from FTB 3805V		e ☐	e
e NOL from FTB 3805Z, 3806, 3807, or 3809	21 ☐	f ☐	f ☐
f Other (describe): ☐			
22 Total. Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B. 22	☐	☐	☐

Section B — Adjustments to Income

23 Educator expenses 23	☐	☐	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials 24	☐	☐	☐
25 Health savings account deduction 25	☐	☐	
26 Moving expenses 26	☐		
27 Deductible part of self-employment tax 27	☐		
28 Self-employed SEP, SIMPLE, and qualified plans 28	☐		
29 Self-employed health insurance deduction 29	☐		
30 Penalty on early withdrawal of savings 30	☐		
31a Alimony paid. (b) Recipient's: SSN ☐ - - - - -			
Last name ☐ 31a	☐		☐
32 IRA deduction 32	☐		
33 Student loan interest deduction 33	☐		☐
34 Reserved 34			
35 Domestic production activities deduction 35	☐	☐	
36 Add line 23 through line 31a and line 32 through line 35 in columns A, B, and C. See instructions 36	☐	☐	☐
37 Total. Subtract line 36 from line 22 in columns A, B, and C. See instructions 37	☐	☐	☐

Part II Adjustments to Federal Itemized Deductions

38 Federal itemized deductions. Enter the amount from federal Schedule A (Form 1040), lines 4, 9, 15, 19, 20, 27, and 28 ☒ **38**

39 Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance, and state and local income tax, or General Sales Tax) and line 8 (foreign income taxes **only**). See instructions ☒ **39**

40 Subtract line 39 from line 38 ☒ **40**

41 Other adjustments including California lottery losses. See instructions. Specify ☒ **41**

42 Combine line 40 and line 41 ☒ **42**

43 Is your federal AGI (Form 540, line 13) more than the amount shown below for your filing status?
Single or married/RDP filing separately **\$187,203**
Head of household **\$280,808**
Married/RDP filing jointly or qualifying widow(er) **\$374,411**

No. Transfer the amount on line 42 to line 43.

Yes. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 43 ☒ **43**

44 Enter the larger of the amount on line 43 or your standard deduction listed below
Single or married/RDP filing separately. See instructions. **\$4,236**
Married/RDP filing jointly, head of household, or qualifying widow(er) **\$8,472**

Transfer the amount on line 44 to Form 540, line 18 ☒ **44**

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2017**Alternative Minimum Tax and
Credit Limitations — Residents****P (540)**

Attach this schedule to Form 540.

Name(s) as shown on Form 540

Your SSN or ITIN

Part I Alternative Minimum Taxable Income (AMTI) Important: See instructions for information regarding California/federal differences.

1	If you itemized deductions, go to line 2. If you did not itemize deductions, enter your standard deduction from Form 540, line 18, and go to line 6	1	00
2	Medical and dental expense. Enter the smaller of Schedule A (Form 1040), line 4, or 2½% (.025) of Form 1040, line 37	2	00
3	Personal property taxes and real property taxes. See instructions	3	00
4	Certain interest on a home mortgage not used to buy, build, or improve your home. See instructions	4	00
5	Miscellaneous itemized deductions. See instructions	5	00
6	Refund of personal property taxes and real property taxes. See instructions.	6	(00)
Do not include your state income tax refund on this line.			
7	Investment interest expense adjustment. See instructions.	7	00
8	Post-1986 depreciation. See instructions.	8	00
9	Adjusted gain or loss. See instructions	9	00
10	Incentive stock options and California qualified stock options (CQSOs). See instructions	10	00
11	Passive activities adjustment. See instructions	11	00
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 12a	12	00
13	Other adjustment and preferences. Enter the amount, if any, for each item, a through l, and enter the total on line 13. See instructions.		
a	Circulation expenditures	g	Mining costs
b	Depletion	h	Patron's adjustment.
c	Installment sales	i	Pollution control facilities
d	Intangible drilling costs	j	Research and experimental
e	Long-term contracts	k	Tax shelter farm activities
f	Loss limitations	l	Related adjustments
		13	00
14	Total Adjustments and Preferences. Combine line 1 through line 13	14	00
15	Enter taxable income from Form 540, line 19. See instructions	15	00
16	Net operating loss (NOL) deductions from Schedule CA (540), line 21b, line 21d, and line 21e, column B. Enter as a positive amount.	16	00
17	AMTI exclusion. See instructions.	17	(00)
18	If your federal adjusted gross income (AGI) is less than the amount for your filing status (listed below), skip this line and go to line 19. If you itemized deductions and your federal AGI is more than the amount for your filing status, see instructions. 18 (00)		
	Single or married/RDP filing separately		\$187,203
	Married/RDP filing jointly or qualifying widow(er)		\$374,411
	Head of household		\$280,808
19	Combine line 14 through line 18	19	00
20	Alternative minimum tax NOL deduction. See instructions	20	00
21	Alternative Minimum Taxable Income. Subtract line 20 from line 19 (if married/RDP filing separately and line 21 is more than \$355,690, see instructions).	21	00

Part II Alternative Minimum Tax (AMT)**22 Exemption Amount.** (If this schedule is for a certain child under age 24, see instructions.)**If your filing status is:****And line 21 is not over:****Enter on line 22:**

Single or head of household

\$258,168

\$68,846

Married/RDP filing jointly or qualifying widow(er)

\$344,225

\$91,793

Married/RDP filing separately

\$172,110

\$45,895

If Part I, line 21 is more than the amount shown above for your filing status, see instructions.

22

00

23 Subtract line 22 from line 21. If zero or less, enter -0-. **23** 00**24** Tentative Minimum Tax. Multiply line 23 by 7.0% (.07) **24** 00**25** Regular tax before credits from Form 540, line 31 **25** 00

26 Alternative Minimum Tax. Subtract line 25 from line 24. If zero or less, enter -0- here and on Form 540, line 61. If more than zero, enter here and on Form 540, line 61. If you make estimated tax payments for taxable year 2018, enter amount from line 26 on the 2018 Form 540-ES, Estimated Tax Worksheet, line 16. (Exception: If you have carryover credit for solar energy or commercial solar energy, first enter the result on Side 2, Part III, Section C, line 22 or 23) **26** 00

Part III Credits that Reduce Tax **Note:** Be sure to attach your credit forms to Form 540.

1	Enter the amount from Form 540, line 35.	☐ 1		00
2	Enter the tentative minimum tax from Side 1, Part II, line 24.	☐ 2		00

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
Section A – Credits that reduce excess tax.				
3	Subtract line 2 from line 1. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits.		☐	
A1 Credits that reduce excess tax and have no carryover provisions.				
4	Code: 162 Prison inmate labor credit (FTB 3507)	☐		
5	Code: 232 Child and dependent care expenses credit (FTB 3506).	☐		
A2 Credits that reduce excess tax and have carryover provisions. See instructions.				
6	Code: ☐ Credit Name:	☐		☐
7	Code: ☐ Credit Name:	☐		☐
8	Code: ☐ Credit Name:	☐		☐
9	Code: ☐ Credit Name:	☐		☐
10	Code: 188 Credit for prior year alternative minimum tax.	☐		☐
Section B – Credits that may reduce tax below tentative minimum tax.				
11	If Part III, line 3 is zero, enter the amount from line 1. If line 3 is more than zero, enter the total of line 2 and the last entry in column (c).		☐	
B1 Credits that reduce net tax and have no carryover provisions.				
12	Code: 170 Credit for joint custody head of household.	☐		
13	Code: 173 Credit for dependent parent	☐		
14	Code: 163 Credit for senior head of household	☐		
15	Nonrefundable renter's credit	☐		
B2 Credits that reduce net tax and have carryover provisions. See instructions.				
16	Code: ☐ Credit Name:	☐		☐
17	Code: ☐ Credit Name:	☐		☐
18	Code: ☐ Credit Name:	☐		☐
19	Code: ☐ Credit Name:	☐		☐
B3 Other state tax credit.				
20	Code: 187 Other state tax credit	☐		
Section C – Credits that may reduce alternative minimum tax.				
21	Enter your alternative minimum tax from Side 1, Part II, line 26.		☐	
22	Code: 180 Solar energy credit carryover from Section B2, column (d)	☐		☐
23	Code: 181 Commercial solar energy credit carryover from Section B2, column (d).	☐		☐
24	Adjusted AMT. Enter the balance from line 23, column (c) here and on Form 540, line 61		☐	

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2017 Other State Tax Credit**S**

Attach to Form 540, Long Form 540NR, or Form 541.

Name(s) as shown on your California tax return

SSN, ITIN, or FEIN

Part I Double-Taxed Income (Read specific line instructions for Part I before completing.)

(a) Income item(s) description	(b) Double-taxed income taxable by California	(c) Double-taxed income taxable by other state
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
1 Total double-taxed income	☐ _____	☐ _____

Part II Figure Your Other State Tax Credit (Read specific line instructions for Part II before completing.)

2 California tax liability. See instructions	☐ 2 _____	00
3 Double-taxed income taxable by California. Enter the amount from Part I, line 1, column (b)	☐ 3 _____	00
4 California adjusted gross income. See instructions	☐ 4 _____	00
5 Divide line 3 by line 4. Do not enter more than 1.0000	☐ 5 _____	
6 Multiply line 2 by line 5.	☐ 6 _____	00
7 Income tax liability paid to name of other state (use state's abbreviation) ☐ _____ See instructions	☐ 7 _____	00
8 Double-taxed income taxable by other state. Enter the amount from Part I, line 1, column (c)	☐ 8 _____	00
9 Adjusted gross income taxable by other state. See instructions.	☐ 9 _____	00
10 Divide line 8 by line 9. Do not enter more than 1.0000	☐ 10 _____	
11 Multiply line 7 by line 10	☐ 11 _____	00
12 Other state tax credit. Enter the smaller of line 6 or line 11. Use Credit Code 187 . See instructions	☐ 12 _____	00

2017 Tax on Lump-Sum Distributions**G-1****Attach to Form 540, Long Form 540NR, or Form 541. Use this form only for lump-sum distributions from qualified plans.**

Name(s) as shown on tax return

SSN, ITIN, or FEIN

Part I**Complete this part to see if you can use Schedule G-1.****Yes No**

- 1** Was this a distribution of a plan participant's entire balance from all of an employer's qualified plans of one kind (pension, profit-sharing, or stock bonus)? If "No," **do not** use this form **1** ☐ ☐
- 2** Did you roll over any part of the distribution? If "Yes," **do not** use this form **2** ☐ ☐
- 3** Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936? **3** ☐ ☐
- 4** Were you **(a)** a plan participant who received this distribution, **(b)** born before January 2, 1936, **and (c)** a participant in the plan for at least 5 years before the year of distribution? **4** ☐ ☐
If you answered "No" to both questions **3 and 4**, **do not** use this form.
- 5** Did you use Schedule G-1 in a prior year for any distribution received after 1986 for the same plan participant, including yourself, for whom the 2017 distribution was made? If "Yes," **do not** use this form **5** ☐ ☐

Part II**Complete this part to choose the 5.5% capital gain election. See instructions.**

- 6** Capital gain from federal Form 1099-R, box 3. If you are taking the death benefit exclusion, see instructions. **6** _____ | 00
- 7** Multiply line 6 by 5.5% (.055) and enter here. If you elect to use Part III, go to line 8. Otherwise, enter the amount from line 7 on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b . . . **7** _____ | 00

Part III**Complete this part to choose the 10-year averaging method. See instructions.**

- 8** If you completed Part II, enter the amount from federal Form 1099-R, box 2a minus box 3. If you did not complete Part II, enter the amount from federal Form 1099-R, box 2a. See instructions **8** _____ | 00
- 9** Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996. See instructions **9** _____ | 00
- 10** Total taxable amount. Subtract line 9 from line 8 **10** _____ | 00
- 11** Current actuarial value of annuity, if applicable, from federal Form 1099-R, box 8. See instructions **11** _____ | 00
- 12** Adjusted total taxable amount. Add line 10 and line 11. If this amount is \$70,000 or more, skip line 13 through line 16, and enter this amount on line 17. **12** _____ | 00
- 13** Multiply line 12 by 50% (.50), but **do not** enter more than \$10,000 **13** _____ | 00
- 14** Subtract \$20,000 from line 12 and enter the difference.
If the result is zero or less, enter -0- **14** _____ | 00
- 15** Multiply line 14 by 20% (.20) **15** _____ | 00
- 16** Minimum distribution allowance. Subtract line 15 from line 13 **16** _____ | 00
- 17** Subtract line 16 from line 12. **17** _____ | 00
- 18** Multiply line 17 by 10% (.10) **18** _____ | 00
- 19** Tax on amount on line 18. Use the Tax Rate Schedule on page 2 of the instructions **19** _____ | 00
- 20** Multiply line 19 by ten (10). If line 11 is blank, skip line 21 through line 26 and enter this amount on line 27. Otherwise, continue to line 21 **20** _____ | 00
- 21** Divide line 11 by line 12 (rounded to at least three places). See instructions **21** ____ . ____ . ____
- 22** Multiply line 16 by the decimal amount on line 21 **22** _____ | 00
- 23** Subtract line 22 from line 11. **23** _____ | 00
- 24** Multiply line 23 by 10% (.10) **24** _____ | 00
- 25** Tax on amount on line 24. Use the Tax Rate Schedule on page 2 of the instructions **25** _____ | 00
- 26** Multiply line 25 by ten (10) **26** _____ | 00
- 27** Subtract line 26 from line 20. **27** _____ | 00
- 28** Tax on lump-sum distribution. Add Part II, line 7 and Part III, line 27. Enter here and on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b. Multiple recipients see instructions. **28** _____ | 00



Scenario 13

For this scenario refer to the information and completed Federal tax return in Scenario 5 for Mike Jordan. As a reminder, Mike Jordan is a 53-year-old self-employed contractor who remodels houses. During the tax year, he had total revenues of \$125,000, paid wages of \$25,000 and spent \$25,000 for supplies. He made estimated tax payments to the IRS of \$5,000 for each quarter. He also made California estimated tax payments of \$750 per quarter. He did not have any other withholding for his California income tax. He is single and has no other income. Mike is a calendar year taxpayer and does not have children or other dependents. Additionally, he cannot be claimed as dependents on someone else's tax return. Use this information, his completed Federal tax return, the California tax tables in the back of the course and the California tax forms immediately following the scenario, to prepare a California tax return for Mike.

Scenario 13 Questions

Answers appear in [Scenario 13 Feedback](#)

1. What is Mike's total exemption amount on his Form 540?
 - A. \$109
 - B. \$114
 - C. \$222
 - D. \$441
2. If Mike had one dependent what would be his exemption amount?
 - A. \$104
 - B. \$111
 - C. \$222
 - D. \$467
3. What amount is Mike's California adjusted gross income shown on line 17 of his Form 540?
 - A. \$65,795
 - B. \$69,701
 - C. \$125,000
 - D. \$150,000
4. What is Mike's deduction amount shown on line 18 of his Form 540?
 - A. \$4,236
 - B. \$8,472
 - C. \$12,700
 - D. \$18,000
5. What amount is Mike's tax before he subtracts his exemptions credit on his Form 540?
 - A. \$3,376
 - B. \$3,448
 - C. \$3,782
 - D. \$3,906
6. What is the outcome of Mike's return?
 - A. Mike will receive a \$334 refund
 - B. Mike owes a \$334 tax
 - C. Mike will receive a \$3,419 refund
 - D. Mike owes a \$3,419 tax



7. If Mike was married his amount of taxable income would be what amount?
- A. \$61,229
 - B. \$62,889
 - C. \$65,795
 - D. \$69,701
8. Assuming Mike is a renter, he is eligible for the nonrefundable renter's credit.
- A. True
 - B. False



Scenario 13 Feedback

[Return to Scenario 13 Questions](#)

Question 1 - B. \$114

The 2017 personal exemption credit amount for single, separate, and head of household taxpayers is \$114. Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 2 - D. \$467

The 2017 dependent exemption credit is \$353. Mike's total exemption amount would be \$467 (\$114 + \$353) if he had one dependent. Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 3 - B. \$69,701

Mike shows his Federal adjusted gross income of \$69,701 on line 13 of his Form 540. He does not have any California adjustments so his California adjusted gross income on line 17 is also \$69,701. Refer to Lesson 3 in the California tax law course for more information about California adjusted gross income (AGI).

Question 4 - A. \$4,236

Mike uses the 2017 standard deduction for single or married/RDP filing separately taxpayers of \$4,236. Refer to Lesson 4 in the California tax law course for more information about the California standard deduction.

Question 5 - B. \$3,448

Using the 2017 California tax table, Mike determines his tax to be \$3,448 based on his single filing status and \$65,465 taxable income before he subtracts his \$114 exemption credit. Refer to Lesson 6 in the California tax law course for more information about California tax rates.

Question 6 - B. Mike owes a \$334 tax

Mike's total tax from line 64 of his Form 540 is \$3,334. His total payments from line 92 equal \$3,000 (4 estimated tax payments of \$750 each). Subtract line 92 from line 64 to determine the amount Mike owes. Enter \$334 on line 97. Refer to Lesson 6 in the California tax law course for more information about tax payments.

Question 7 - A. \$61,229

The 2017 standard deduction amounts for married/RDP filing jointly, head of household, or qualifying widow(er) taxpayers is \$8,472. If Mike was married he could subtract this amount from his California adjusted gross of \$69,701 for a total taxable income of \$61,229. Refer to Lesson 4 in the California tax law course for more information about the California standard deduction.

Question 8 - B. False

The nonrefundable, non-carryover credit for renters is available for single or married/RDP filing separately with a California AGI of \$40,078 or less. Refer to Lesson 5 in the California tax law course for more information about the nonrefundable renter's credit.

2017 California Resident Income Tax Return**540**

Fiscal year filers only: Enter month of year end: month _____ year 2018.

☐ Check here if this is an AMENDED return.

Your first name	Initial	Last name	Suffix	Your SSN or ITIN	☐ A ☐ R ☐ RP
If joint tax return, spouse's/RDP's first name	Initial	Last name	Suffix	Spouse's/RDP's SSN or ITIN	
Additional information (see instructions)				PBA code	
Street address (number and street) or PO box				Apt. no/ste. no.	PMB/private mailbox
City (If you have a foreign address, see instructions)				State	ZIP code
Foreign country name		Foreign province/state/county		Foreign postal code	

Date of Birth	Your DOB (mm/dd/yyyy)	Spouse's/RDP's DOB (mm/dd/yyyy)
Prior Name	If you filed your 2016 tax return under a different last name, write the last name only from the 2016 tax return.	
	Your prior name	Spouse's/RDP's prior name
Filing Status	1 ☐ Single	4 ☐ Head of household (with qualifying person). See instructions.
	2 ☐ Married/RDP filing jointly. See inst.	5 ☐ Qualifying widow(er) with dependent child. Enter year spouse/RDP died
	3 ☐ Married/RDP filing separately. Enter spouse's/RDP's SSN or ITIN above and full name here	
	If your California filing status is different from your federal filing status, check the box here ☐	
6	If someone can claim you (or your spouse/RDP) as a dependent, check the box here. See inst. ☐	

► For line 7, line 8, line 9, and line 10: Multiply the amount you enter in the box by the pre-printed dollar amount for that line. **Whole dollars only**

7 Personal: If you checked box 1, 3, or 4 above, enter 1 in the box. If you checked box 2 or 5, enter 2, in the box. If you checked the box on line 6, see instructions. ☐ 7 X \$114 = ☐ \$

8 Blind: If you (or your spouse/RDP) are visually impaired, enter 1; if both are visually impaired, enter 2 ☐ 8 X \$114 = ☐ \$

9 Senior: If you (or your spouse/RDP) are 65 or older, enter 1; if both are 65 or older, enter 2 ☐ 9 X \$114 = ☐ \$

10 Dependents: Do not include yourself or your spouse/RDP.

	Dependent 1	Dependent 2	Dependent 3
First Name			
Last Name			
SSN			
Dependent's relationship to you			

Total dependent exemptions ☐ 10 X \$353 = ☐ \$

11 Exemption amount: Add line 7 through line 10. Transfer this amount to line 32. ☐ 11 \$

Your name:

Your SSN or ITIN:

Taxable Income

- 12 State wages from your Form(s) W-2, box 16. ● 12 .00
- 13 Enter federal adjusted gross income from Form 1040, line 37; 1040A, line 21; or 1040EZ, line 4. ● 13 .00
- 14 California adjustments – subtractions. Enter the amount from Schedule CA (540), line 37, column B ● 14 .00
- 15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses. See instructions 15 .00
- 16 California adjustments – additions. Enter the amount from Schedule CA (540), line 37, column C. ● 16 .00
- 17 California adjusted gross income. Combine line 15 and line 16. ● 17 .00
- 18 Enter the **larger of** {
 Your California **itemized deductions** from Schedule CA (540), line 44; **OR**
 Your California **standard deduction** shown below for your filing status:
 • Single or Married/RDP filing separately. \$4,236
 • Married/RDP filing jointly, Head of household, or Qualifying widow(er) \$8,472
 If Married/RDP filing separately or the box on line 6 is checked, STOP. See instructions . . .
 } ● 18 .00
- 19 Subtract line 18 from line 17. This is your **taxable income**. If less than zero, enter -0- ● 19 .00

Tax

- 31 Tax. Check the box if from: ☐ Tax Table ☐ Tax Rate Schedule
☐ FTB 3800 ☐ FTB 3803 ● 31 .00
- 32 Exemption credits. Enter the amount from line 11. If your federal AGI is more than \$187,203, see instructions ● 32 .00
- 33 Subtract line 32 from line 31. If less than zero, enter -0- ● 33 .00
- 34 Tax. See instructions. Check the box if from: ● ☐ Schedule G-1 ● ☐ FTB 5870A. ● 34 .00
- 35 Add line 33 and line 34 ● 35 .00

Special Credits

- 40 Nonrefundable Child and Dependent Care Expenses Credit. See instructions ● 40 .00
- 43 Enter credit name code ● and amount ● 43 .00
- 44 Enter credit name code ● and amount ● 44 .00
- 45 To claim more than two credits, see instructions. Attach Schedule P (540). ● 45 .00
- 46 Nonrefundable renter's credit. See instructions ● 46 .00
- 47 Add line 40 through line 46. These are your total credits. ● 47 .00
- 48 Subtract line 47 from line 35. If less than zero, enter -0- ● 48 .00

Other Taxes

- 61 Alternative minimum tax. Attach Schedule P (540) ● 61 .00
- 62 Mental Health Services Tax. See instructions. ● 62 .00
- 63 Other taxes and credit recapture. See instructions. ● 63 .00
- 64 Add line 48, line 61, line 62, and line 63. This is your total tax ● 64 .00

Your name:

Your SSN or ITIN:

Payments

- | | | | |
|-----------|--|-------------|-----|
| 71 | California income tax withheld. See instructions | ● 71 | .00 |
| 72 | 2017 CA estimated tax and other payments. See instructions | ● 72 | .00 |
| 73 | Withholding (Form 592-B and/or 593). See instructions | ● 73 | .00 |
| 74 | Excess SDI (or VPD) withheld. See instructions | ● 74 | .00 |
| 75 | Earned Income Tax Credit (EITC) | ● 75 | .00 |
| 76 | Add lines 71 through 75. These are your total payments. See instructions | ● 76 | .00 |

Use Tax

- | | | | |
|-----------|---|-------------|-----|
| 91 | Use Tax. Do not leave blank. See instructions | ● 91 | .00 |
|-----------|---|-------------|-----|

If line 91 is zero, check if:

☐

No use tax is owed.

☐

You paid your use tax obligation directly to CDTFA.

Overpaid Tax/Tax Due

- | | | | |
|-----------|--|-------------|-----|
| 92 | Payments balance. If line 76 is more than line 91, subtract line 91 from line 76 | ● 92 | .00 |
| 93 | Use Tax balance. If line 91 is more than line 76, subtract line 76 from line 91 | ● 93 | .00 |
| 94 | Overpaid tax. If line 92 is more than line 64, subtract line 64 from line 92 | ● 94 | .00 |
| 95 | Amount of line 94 you want applied to your 2018 estimated tax | ● 95 | .00 |
| 96 | Overpaid tax available this year. Subtract line 95 from line 94 | ● 96 | .00 |
| 97 | Tax due. If line 92 is less than line 64, subtract line 92 from line 64 | ● 97 | .00 |

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Your name:

Your SSN or ITIN:

Contributions

	<u>Code</u>	<u>Amount</u>
California Seniors Special Fund. See instructions	● 400	.00
Alzheimer's Disease/Related Disorders Fund	● 401	.00
Rare and Endangered Species Preservation Voluntary Tax Contribution Program	● 403	.00
California Breast Cancer Research Voluntary Tax Contribution Fund	● 405	.00
California Firefighters' Memorial Fund	● 406	.00
Emergency Food for Families Voluntary Tax Contribution Fund	● 407	.00
California Peace Officer Memorial Foundation Fund	● 408	.00
California Sea Otter Fund	● 410	.00
California Cancer Research Voluntary Tax Contribution Fund	● 413	.00
School Supplies for Homeless Children Fund	● 422	.00
State Parks Protection Fund/Parks Pass Purchase	● 423	.00
Protect Our Coast and Oceans Voluntary Tax Contribution Fund	● 424	.00
Keep Arts in Schools Voluntary Tax Contribution Fund	● 425	.00
State Children's Trust Fund for the Prevention of Child Abuse	● 430	.00
Prevention of Animal Homelessness and Cruelty Fund	● 431	.00
Revive the Salton Sea Fund	● 432	.00
California Domestic Violence Victims Fund	● 433	.00
Special Olympics Fund	● 434	.00
Type 1 Diabetes Research Fund	● 435	.00
California YMCA Youth and Government Voluntary Tax Contribution Fund	● 436	.00
Habitat for Humanity Voluntary Tax Contribution Fund	● 437	.00
California Senior Citizen Advocacy Voluntary Tax Contribution Fund	● 438	.00
Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund	● 439	.00
Rape Backlog Kit Voluntary Tax Contribution Fund	● 440	.00
110 Add code 400 through code 440. This is your total contribution	● 110	.00

Your name:

Your SSN or ITIN:

111 AMOUNT YOU OWE. If you do not have an amount on line 96, add line 93, line 97, and line 110. See instructions. **Do not send cash.**

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942867

SACRAMENTO CA 94267-0001

● 111

Pay online – Go to ftb.ca.gov/pay for more information.

Amount
You Owe

112 Interest, late return penalties, and late payment penalties

112

113 Underpayment of estimated tax. Check the box: ● ☐ **FTB 5805 attached**

●

☐ **FTB 5805F attached**

● 113

114 Total amount due. See instructions. Enclose, but **do not** staple, any payment.

114

Interest and
Penalties

115 REFUND OR NO AMOUNT DUE. Subtract the sum of line 110, line 112 and line 113 from line 96. See instructions.

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942840

SACRAMENTO CA 94240-0001

● 115

Fill in the information to authorize direct deposit of your refund into one or two accounts. **Do not** attach a voided check or a deposit slip. See instructions. **Have you verified the routing and account numbers?** Use whole dollars only.

All or the following amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 116 Direct deposit amount

The remaining amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 117 Direct deposit amount

Refund and Direct Deposit

IMPORTANT: See the instructions to find out if you should attach a copy of your complete federal tax return.

To learn about your privacy rights, how we may use your information, and the consequences for not providing the requested information, go to ftb.ca.gov/forms and search for **1131**. To request this notice by mail, call 800.852.5711. Under penalties of perjury, I declare that I have examined this tax return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature

Date

Spouse's/RDP's signature (if a joint tax return, both must sign)

**Sign
Here**

It is unlawful
to forge a
spouse's/RDP's
signature.

Joint tax return?
(See instructions)

● Your email address. Enter only one email address.

● Preferred phone number

Paid preparer's signature (**declaration of preparer is based on all information of which preparer has any knowledge**)

Firm's name (or yours, if self-employed)

● PTIN

Firm's address

● FEIN

Do you want to allow another person to discuss this tax return with us? See instructions. . . ● ☐ Yes ● ☐ No

Print Third Party Designee's Name

Telephone Number

2017 California Adjustments — Residents**CA (540)****Important:** Attach this schedule behind Form 540, Side 5 as a supporting California schedule.

Names(s) as shown on tax return

SSN or ITIN

Part I Income Adjustment Schedule**Section A — Income**

	A Federal Amounts (taxable amounts from your federal tax return)	B Subtractions See instructions	C Additions See instructions
7 Wages, salaries, tips, etc. See instructions before making an entry in column B or C 7	☐	☐	☐
8 Taxable interest (b) 8(a)	☐	☐	☐
9 Ordinary dividends. See instructions. (b) 9(a)	☐	☐	☐
10 Taxable refunds, credits, offsets of state and local income taxes 10	☐	☐	
11 Alimony received 11	☐		☐
12 Business income or (loss) 12	☐	☐	☐
13 Capital gain or (loss). See instructions. 13	☐	☐	☐
14 Other gains or (losses) 14	☐	☐	☐
15 IRA distributions. See instructions. (a) 15(b)	☐	☐	☐
16 Pensions and annuities. See instructions. (a) 16(b)	☐	☐	☐
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc 17	☐	☐	☐
18 Farm income or (loss) 18	☐	☐	☐
19 Unemployment compensation 19	☐	☐	
20 Social security benefits (a) ☐ 20(b)	☐	☐	
21 Other income.		a ☐ b ☐ c ☐ d ☐ e ☐ f ☐	a ☐ b ☐ c ☐ d ☐ e ☐ f ☐
a California lottery winnings b Disaster loss deduction from FTB 3805V c Federal NOL (Form 1040, line 21) d NOL deduction from FTB 3805V e NOL from FTB 3805Z, 3806, 3807, or 3809 f Other (describe): ☐	21 ☐		
22 Total. Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B. 22	☐	☐	☐

Section B — Adjustments to Income

23 Educator expenses 23	☐	☐	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials 24	☐	☐	☐
25 Health savings account deduction 25	☐	☐	
26 Moving expenses 26	☐		
27 Deductible part of self-employment tax 27	☐		
28 Self-employed SEP, SIMPLE, and qualified plans 28	☐		
29 Self-employed health insurance deduction 29	☐		
30 Penalty on early withdrawal of savings 30	☐		
31a Alimony paid. (b) Recipient's: SSN ☐ — — — — —			
Last name ☐ 31a	☐		☐
32 IRA deduction 32	☐		
33 Student loan interest deduction 33	☐		☐
34 Reserved 34			
35 Domestic production activities deduction 35	☐	☐	
36 Add line 23 through line 31a and line 32 through line 35 in columns A, B, and C. See instructions 36	☐	☐	☐
37 Total. Subtract line 36 from line 22 in columns A, B, and C. See instructions 37	☐	☐	☐

Part II Adjustments to Federal Itemized Deductions

38 Federal itemized deductions. Enter the amount from federal Schedule A (Form 1040), lines 4, 9, 15, 19, 20, 27, and 28 ☒ **38**

39 Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance, and state and local income tax, or General Sales Tax) and line 8 (foreign income taxes **only**). See instructions ☒ **39**

40 Subtract line 39 from line 38 ☒ **40**

41 Other adjustments including California lottery losses. See instructions. Specify ☒ **41**

42 Combine line 40 and line 41 ☒ **42**

43 Is your federal AGI (Form 540, line 13) more than the amount shown below for your filing status?
Single or married/RDP filing separately **\$187,203**
Head of household **\$280,808**
Married/RDP filing jointly or qualifying widow(er) **\$374,411**

No. Transfer the amount on line 42 to line 43.

Yes. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 43 ☒ **43**

44 Enter the larger of the amount on line 43 or your standard deduction listed below
Single or married/RDP filing separately. See instructions. **\$4,236**
Married/RDP filing jointly, head of household, or qualifying widow(er) **\$8,472**

Transfer the amount on line 44 to Form 540, line 18 ☒ **44**

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2017**Alternative Minimum Tax and
Credit Limitations — Residents****P (540)**

Attach this schedule to Form 540.

Name(s) as shown on Form 540

Your SSN or ITIN

Part I Alternative Minimum Taxable Income (AMTI) Important: See instructions for information regarding California/federal differences.

1	If you itemized deductions, go to line 2. If you did not itemize deductions, enter your standard deduction from Form 540, line 18, and go to line 6	1	00
2	Medical and dental expense. Enter the smaller of Schedule A (Form 1040), line 4, or 2½% (.025) of Form 1040, line 37	2	00
3	Personal property taxes and real property taxes. See instructions	3	00
4	Certain interest on a home mortgage not used to buy, build, or improve your home. See instructions	4	00
5	Miscellaneous itemized deductions. See instructions	5	00
6	Refund of personal property taxes and real property taxes. See instructions.	6	(00)
Do not include your state income tax refund on this line.			
7	Investment interest expense adjustment. See instructions.	7	00
8	Post-1986 depreciation. See instructions.	8	00
9	Adjusted gain or loss. See instructions	9	00
10	Incentive stock options and California qualified stock options (CQSOs). See instructions	10	00
11	Passive activities adjustment. See instructions	11	00
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 12a	12	00
13	Other adjustment and preferences. Enter the amount, if any, for each item, a through l, and enter the total on line 13. See instructions.		
a	Circulation expenditures	g	Mining costs
b	Depletion	h	Patron's adjustment.
c	Installment sales	i	Pollution control facilities
d	Intangible drilling costs	j	Research and experimental
e	Long-term contracts	k	Tax shelter farm activities
f	Loss limitations	l	Related adjustments
		13	00
14	Total Adjustments and Preferences. Combine line 1 through line 13	14	00
15	Enter taxable income from Form 540, line 19. See instructions	15	00
16	Net operating loss (NOL) deductions from Schedule CA (540), line 21b, line 21d, and line 21e, column B. Enter as a positive amount.	16	00
17	AMTI exclusion. See instructions.	17	(00)
18	If your federal adjusted gross income (AGI) is less than the amount for your filing status (listed below), skip this line and go to line 19. If you itemized deductions and your federal AGI is more than the amount for your filing status, see instructions.	18	(00)
	Single or married/RDP filing separately \$187,203		
	Married/RDP filing jointly or qualifying widow(er) \$374,411		
	Head of household \$280,808		
19	Combine line 14 through line 18	19	00
20	Alternative minimum tax NOL deduction. See instructions	20	00
21	Alternative Minimum Taxable Income. Subtract line 20 from line 19 (if married/RDP filing separately and line 21 is more than \$355,690, see instructions).	21	00

Part II Alternative Minimum Tax (AMT)**22 Exemption Amount.** (If this schedule is for a certain child under age 24, see instructions.)**If your filing status is:****And line 21 is not over:****Enter on line 22:**

Single or head of household

\$258,168

\$68,846

Married/RDP filing jointly or qualifying widow(er)

\$344,225

\$91,793

Married/RDP filing separately

\$172,110

\$45,895

If Part I, line 21 is more than the amount shown above for your filing status, see instructions.

22

00

23 Subtract line 22 from line 21. If zero or less, enter -0-. **23** 00**24** Tentative Minimum Tax. Multiply line 23 by 7.0% (.07) **24** 00**25** Regular tax before credits from Form 540, line 31 **25** 00

26 Alternative Minimum Tax. Subtract line 25 from line 24. If zero or less, enter -0- here and on Form 540, line 61. If more than zero, enter here and on Form 540, line 61. If you make estimated tax payments for taxable year 2018, enter amount from line 26 on the 2018 Form 540-ES, Estimated Tax Worksheet, line 16. (Exception: If you have carryover credit for solar energy or commercial solar energy, first enter the result on Side 2, Part III, Section C, line 22 or 23) **26** 00

Part III Credits that Reduce Tax **Note:** Be sure to attach your credit forms to Form 540.

1	Enter the amount from Form 540, line 35.	☐ 1		00
2	Enter the tentative minimum tax from Side 1, Part II, line 24.	☐ 2		00

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
Section A – Credits that reduce excess tax.				
3	Subtract line 2 from line 1. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits.		☐	
A1 Credits that reduce excess tax and have no carryover provisions.				
4	Code: 162 Prison inmate labor credit (FTB 3507)	☐		
5	Code: 232 Child and dependent care expenses credit (FTB 3506).	☐		
A2 Credits that reduce excess tax and have carryover provisions. See instructions.				
6	Code: ☐ Credit Name:	☐		☐
7	Code: ☐ Credit Name:	☐		☐
8	Code: ☐ Credit Name:	☐		☐
9	Code: ☐ Credit Name:	☐		☐
10	Code: 188 Credit for prior year alternative minimum tax.	☐		☐
Section B – Credits that may reduce tax below tentative minimum tax.				
11	If Part III, line 3 is zero, enter the amount from line 1. If line 3 is more than zero, enter the total of line 2 and the last entry in column (c).		☐	
B1 Credits that reduce net tax and have no carryover provisions.				
12	Code: 170 Credit for joint custody head of household.	☐		
13	Code: 173 Credit for dependent parent	☐		
14	Code: 163 Credit for senior head of household	☐		
15	Nonrefundable renter's credit	☐		
B2 Credits that reduce net tax and have carryover provisions. See instructions.				
16	Code: ☐ Credit Name:	☐		☐
17	Code: ☐ Credit Name:	☐		☐
18	Code: ☐ Credit Name:	☐		☐
19	Code: ☐ Credit Name:	☐		☐
B3 Other state tax credit.				
20	Code: 187 Other state tax credit	☐		
Section C – Credits that may reduce alternative minimum tax.				
21	Enter your alternative minimum tax from Side 1, Part II, line 26.		☐	
22	Code: 180 Solar energy credit carryover from Section B2, column (d)	☐		☐
23	Code: 181 Commercial solar energy credit carryover from Section B2, column (d).	☐		☐
24	Adjusted AMT. Enter the balance from line 23, column (c) here and on Form 540, line 61		☐	

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2017 Other State Tax Credit**S**

Attach to Form 540, Long Form 540NR, or Form 541.

Name(s) as shown on your California tax return

SSN, ITIN, or FEIN

Part I Double-Taxed Income (Read specific line instructions for Part I before completing.)

(a) Income item(s) description	(b) Double-taxed income taxable by California	(c) Double-taxed income taxable by other state
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
1 Total double-taxed income	☐ _____	☐ _____

Part II Figure Your Other State Tax Credit (Read specific line instructions for Part II before completing.)

2 California tax liability. See instructions	☐ 2 _____	00
3 Double-taxed income taxable by California. Enter the amount from Part I, line 1, column (b)	☐ 3 _____	00
4 California adjusted gross income. See instructions	☐ 4 _____	00
5 Divide line 3 by line 4. Do not enter more than 1.0000	☐ 5 _____	
6 Multiply line 2 by line 5.	☐ 6 _____	00
7 Income tax liability paid to name of other state (use state's abbreviation) ☐ _____ See instructions	☐ 7 _____	00
8 Double-taxed income taxable by other state. Enter the amount from Part I, line 1, column (c)	☐ 8 _____	00
9 Adjusted gross income taxable by other state. See instructions.	☐ 9 _____	00
10 Divide line 8 by line 9. Do not enter more than 1.0000	☐ 10 _____	
11 Multiply line 7 by line 10	☐ 11 _____	00
12 Other state tax credit. Enter the smaller of line 6 or line 11. Use Credit Code 187 . See instructions	☐ 12 _____	00

2017 Tax on Lump-Sum Distributions**G-1****Attach to Form 540, Long Form 540NR, or Form 541. Use this form only for lump-sum distributions from qualified plans.**

Name(s) as shown on tax return

SSN, ITIN, or FEIN

Part I**Complete this part to see if you can use Schedule G-1.****Yes No**

- 1** Was this a distribution of a plan participant's entire balance from all of an employer's qualified plans of one kind (pension, profit-sharing, or stock bonus)? If "No," **do not** use this form **1** ☐ ☐
- 2** Did you roll over any part of the distribution? If "Yes," **do not** use this form **2** ☐ ☐
- 3** Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936? **3** ☐ ☐
- 4** Were you **(a)** a plan participant who received this distribution, **(b)** born before January 2, 1936, **and (c)** a participant in the plan for at least 5 years before the year of distribution? **4** ☐ ☐
If you answered "No" to both questions **3 and 4**, **do not** use this form.
- 5** Did you use Schedule G-1 in a prior year for any distribution received after 1986 for the same plan participant, including yourself, for whom the 2017 distribution was made? If "Yes," **do not** use this form **5** ☐ ☐

Part II**Complete this part to choose the 5.5% capital gain election. See instructions.**

- 6** Capital gain from federal Form 1099-R, box 3. If you are taking the death benefit exclusion, see instructions. **6** _____ | 00
- 7** Multiply line 6 by 5.5% (.055) and enter here. If you elect to use Part III, go to line 8. Otherwise, enter the amount from line 7 on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b . . . **7** _____ | 00

Part III**Complete this part to choose the 10-year averaging method. See instructions.**

- 8** If you completed Part II, enter the amount from federal Form 1099-R, box 2a minus box 3. If you did not complete Part II, enter the amount from federal Form 1099-R, box 2a. See instructions **8** _____ | 00
- 9** Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996. See instructions **9** _____ | 00
- 10** Total taxable amount. Subtract line 9 from line 8 **10** _____ | 00
- 11** Current actuarial value of annuity, if applicable, from federal Form 1099-R, box 8. See instructions . . . **11** _____ | 00
- 12** Adjusted total taxable amount. Add line 10 and line 11. If this amount is \$70,000 or more, skip line 13 through line 16, and enter this amount on line 17. **12** _____ | 00
- 13** Multiply line 12 by 50% (.50), but **do not** enter more than \$10,000 **13** _____ | 00
- 14** Subtract \$20,000 from line 12 and enter the difference.
If the result is zero or less, enter -0- **14** _____ | 00
- 15** Multiply line 14 by 20% (.20) **15** _____ | 00
- 16** Minimum distribution allowance. Subtract line 15 from line 13 **16** _____ | 00
- 17** Subtract line 16 from line 12. **17** _____ | 00
- 18** Multiply line 17 by 10% (.10) **18** _____ | 00
- 19** Tax on amount on line 18. Use the Tax Rate Schedule on page 2 of the instructions **19** _____ | 00
- 20** Multiply line 19 by ten (10). If line 11 is blank, skip line 21 through line 26 and enter this amount on line 27. Otherwise, continue to line 21 **20** _____ | 00
- 21** Divide line 11 by line 12 (rounded to at least three places). See instructions **21** ____ . ____ . ____
- 22** Multiply line 16 by the decimal amount on line 21 **22** _____ | 00
- 23** Subtract line 22 from line 11. **23** _____ | 00
- 24** Multiply line 23 by 10% (.10) **24** _____ | 00
- 25** Tax on amount on line 24. Use the Tax Rate Schedule on page 2 of the instructions **25** _____ | 00
- 26** Multiply line 25 by ten (10) **26** _____ | 00
- 27** Subtract line 26 from line 20. **27** _____ | 00
- 28** Tax on lump-sum distribution. Add Part II, line 7 and Part III, line 27. Enter here and on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b. Multiple recipients see instructions. **28** _____ | 00



Scenario 14

Tiffany Clooney is 33 years old and is married to George, who is 35 years old. They own their own home and have a daughter 2-year-old, Jennifer. They paid \$15,000 in mortgage interest and \$4,000 in property taxes. George earned \$65,000 that was reported on *Form W-2 - Wage and Tax Statement* which also showed \$5,000 withheld for Federal income taxes and \$500 withheld for California state income taxes. They received \$1,000 of taxable interest on their savings during the year. Tiffany has a small tax business that had gross revenues of \$10,000 and expenses of \$350 for supplies, \$200 for software and \$100 per month for a cell phone used 50% for business. She made estimated payments for Federal taxes of \$500 for each quarter. She did not make estimated payments for California income taxes. The Mr. and Mrs. Clooney do not have other children or other dependents. Additionally, they cannot be claimed as dependents on someone else's tax return. Tiffany's Social Security number is 951-62-7845. George's Social Security number is 753-86-1245. Their address is 1023 Valley Road, Modest, CA, 95350. Using the tax tables in the back of the course and the forms immediately following the scenario, prepare both the Federal and the California tax returns for Mr. and Mrs. Clooney.

Scenario 14 Questions

Answers appear in [Scenario 14 Feedback](#)

1. Which of the following schedules, if any, should Mr. and Mrs. Clooney complete and include with their California tax return?
 - A. Schedule CA
 - B. Schedule S
 - C. Schedule G-1
 - D. None of the above
2. What is the Clooney's total exemption amount on their Form 540?
 - A. \$114
 - B. \$228
 - C. \$353
 - D. \$581
3. What amount is the Clooney's California adjusted gross income shown on line 17 of their Form 540?
 - A. \$55,225
 - B. \$65,000
 - C. \$74,225
 - D. \$75,000
4. What amount do Mr. and Mrs. Clooney report as itemized deductions on line 18 of their Form 540?
 - A. \$4,236
 - B. \$8,472
 - C. \$19,000
 - D. \$19,500
5. What amount is the Clooney's total tax on line 64 of their Form 540?
 - A. \$538
 - B. \$683
 - C. \$1,337
 - D. \$7,812
6. What is the outcome of Mr. and Mrs. Clooney income tax return?
 - A. Mr. and Mrs. Clooney will receive a \$183 refund
 - B. Mr. and Mrs. Clooney owe a \$183 tax
 - C. Mr. and Mrs. Clooney will receive a \$769 refund
 - D. Mr. and Mrs. Clooney owe a \$769 tax



7. George and Tiffany could lower their California income tax by contributing to a traditional IRA.
- A. True
 - B. False
8. If either George or Tiffany collected unemployment compensation they would include the unemployment compensation in California taxable income.
- A. True
 - B. False



Scenario 14 Feedback

[Return to Scenario 14 Questions](#)

Question 1 - A. Schedule CA

Mr. and Mrs. Clooney should use Schedule CA (540), California Adjustments – Residents, to make adjustments to their Federal adjusted gross income and to their Federal itemized deductions using California law. Refer to Lesson 4 in the California tax law course for more information about Schedule CA and California itemized deductions.

Question 2 - D. \$581

The 2017 personal exemption credit amount for joint filers is \$228 ($\$114 \times 2$). The 2017 dependent exemption credit is \$353. The Clooney's total exemption amount would be \$581 ($\$228 + \$353$) for the current tax year. Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 3 - C. \$74,225

Mr. and Mrs. Clooney show their Federal adjusted gross income on line 13 of their Form 540. They arrived at \$74,225 using Form 1040, Schedule A, Schedule C and Schedule SE. They do not have any California adjustments so their California adjusted gross income is \$74,225. Refer to Lesson 3 in the California tax law course for more information about California adjusted gross income (AGI).

Question 4 - C. \$19,000

Mr. and Mrs. Clooney used Federal Schedule A to determine their Federal itemized deduction amount of \$19,500 and enter that amount on California Schedule CA line 38. They add the state and local income tax (including limited partnership tax and income or franchise tax paid by corporations), State Disability Insurance (SDI) or state and local general sales tax and foreign income taxes from Federal Schedule A and enter on line 39. In this case the amount is \$500. Then they subtract line 39 from line 38 to arrive at California itemized deduction amount on \$19,000. Refer to Lesson 4 in the California tax law course for more information about Schedule CA and California itemized deductions.

Question 5 - B. \$683

Using the 2017 California tax table, Mr. and Mrs. Clooney determine their tax to be \$1,264 based on their married, filing jointly status and \$55,225 taxable income. They reduce the tax by their exemption credits of \$581 to arrive at \$683. They do not have any other credits, so they enter total tax of \$683 on line 64. Refer to Lesson 6 in the California tax law course for more information about California tax rates.

Question 6 - B. Mr. and Mrs. Clooney owe a \$183 tax

The Clooney's total tax from line 64 of their Form 540 is \$683. Their total payments from line 92 equal \$500. Subtract line 92 from line 64 to determine the amount they owe. Enter \$83 on line 97. Refer to Lesson 6 in the California tax law course for more information about tax payments.

Question 7 - A. True

California taxable income starts with Federal adjusted gross income on line 13 of Form 540. Line 13 shows the total from line 37 of the Form 1040. If Mr. and Mrs. Clooney contributed to a traditional IRA they could take the IRA deduction on line 32 of Form 1040 thus reducing their Federal adjusted gross income on line 37 of their Form 1040 and line 13 of their Form 540. Since Federal adjusted income is decreased then California taxable income will also decrease. Refer to Lesson 3 in the California tax law course for more information about IRAs and California taxable income.

Question 8 - B. False

California excludes unemployment compensation from taxable income. On their Schedule CA, the Clooneys enter on line 19, column B the amount of unemployment compensation shown in column A. Refer to Lesson 3 in the California tax law course for more information about unemployment compensation.

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning

, 2017, ending

, 20

See separate instructions.

Your first name and initial

Last name

Your social security number

If a joint return, spouse's first name and initial

Last name

Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions.

Apt. no.

▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Presidential Election CampaignCheck here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Foreign country name

Foreign province/state/county

Foreign postal code

Filing Status1 ☐ Single2 ☐ Married filing jointly (even if only one had income)3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶4 ☐ Head of household (with qualifying person). (See instructions.)

If the qualifying person is a child but not your dependent, enter this child's name here. ▶

5 ☐ Qualifying widow(er) (see instructions)

Check only one box.

Exemptions6a ☐ Yourself. If someone can claim you as a dependent, do not check box 6a b ☐ Spouse**c Dependents:**

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ☒ if child under age 17 qualifying for child tax credit (see instructions)
				☐
				☐
				☐
				☐

If more than four dependents, see instructions and check here ☐

d Total number of exemptions claimed

Boxes checked on 6a and 6b

No. of children on 6c who:

• lived with you
• did not live with you due to divorce or separation (see instructions)

Dependents on 6c not entered above

Add numbers on lines above ▶

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2

8a **Taxable** interest. Attach Schedule B if required b **Tax-exempt** interest. Do not include on line 8a

8b

9a Ordinary dividends. Attach Schedule B if required

b Qualified dividends

9b

10 Taxable refunds, credits, or offsets of state and local income taxes

11 Alimony received

12 Business income or (loss). Attach Schedule C or C-EZ

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐

14 Other gains or (losses). Attach Form 4797

15a IRA distributions

16a Pensions and annuities

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E

18 Farm income or (loss). Attach Schedule F

19 Unemployment compensation

20a Social security benefits

21 Other income. List type and amount

22 Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Adjusted Gross Income

23 Educator expenses

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ

25 Health savings account deduction. Attach Form 8889

26 Moving expenses. Attach Form 3903

27 Deductible part of self-employment tax. Attach Schedule SE

28 Self-employed SEP, SIMPLE, and qualified plans

29 Self-employed health insurance deduction

30 Penalty on early withdrawal of savings

31a Alimony paid b Recipient's SSN ▶

32 IRA deduction

33 Student loan interest deduction

34 Tuition and fees. Attach Form 8917

35 Domestic production activities deduction. Attach Form 8903

36 Add lines 23 through 35

37 Subtract line 36 from line 22. This is your **adjusted gross income** ▶

Tax and Credits**Standard Deduction for—**

• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.

• All others:
Single or Married filing separately, \$6,350
Married filing jointly or Qualifying widow(er), \$12,700
Head of household, \$9,350

38	Amount from line 37 (adjusted gross income)	38	
39a	Check ☐ You were born before January 2, 1953, ☐ Blind. Total boxes checked ▶ 39a ☐		
	if: ☐ Spouse was born before January 2, 1953, ☐ Blind.		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	
41	Subtract line 40 from line 38	41	
42	Exemptions. If line 38 is \$156,900 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42	
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
44	Tax (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐	44	
45	Alternative minimum tax (see instructions). Attach Form 6251	45	
46	Excess advance premium tax credit repayment. Attach Form 8962	46	
47	Add lines 44, 45, and 46	47	
48	Foreign tax credit. Attach Form 1116 if required	48	
49	Credit for child and dependent care expenses. Attach Form 2441	49	
50	Education credits from Form 8863, line 19	50	
51	Retirement savings contributions credit. Attach Form 8880	51	
52	Child tax credit. Attach Schedule 8812, if required	52	
53	Residential energy credits. Attach Form 5695	53	
54	Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐	54	
55	Add lines 48 through 54. These are your total credits	55	
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	

Other Taxes

57	Self-employment tax. Attach Schedule SE	57	
58	Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919	58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60a	Household employment taxes from Schedule H	60a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
61	Health care: individual responsibility (see instructions) Full-year coverage ☐	61	
62	Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s)	62	
63	Add lines 56 through 62. This is your total tax	63	

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	
65	2017 estimated tax payments and amount applied from 2016 return	65	
66a	Earned income credit (EIC)	66a	
b	Nontaxable combat pay election 66b ☐		
67	Additional child tax credit. Attach Schedule 8812	67	
68	American opportunity credit from Form 8863, line 8	68	
69	Net premium tax credit. Attach Form 8962	69	
70	Amount paid with request for extension to file	70	
71	Excess social security and tier 1 RRTA tax withheld	71	
72	Credit for federal tax on fuels. Attach Form 4136	72	
73	Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐	73	
74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	

Refund

Direct deposit? See instructions.

75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	
76a	Amount of line 75 you want refunded to you . If Form 8888 is attached, check here ☐	76a	
b	Routing number	c	Type: ☐ Checking ☐ Savings
d	Account number		

Amount You Owe

77	Amount of line 75 you want applied to your 2018 estimated tax	77	
78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78	
79	Estimated tax penalty (see instructions)	79	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶	Phone no. ▶	Personal identification number (PIN) ▶
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Sign Here

Joint return? See instructions. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶				Firm's EIN ▶
Firm's address ▶				Phone no.

**SCHEDULE A
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on Form 1040

Itemized Deductions► Go to www.irs.gov/ScheduleA for instructions and the latest information.

► Attach to Form 1040.

Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 28.

OMB No. 1545-0074

2017Attachment
Sequence No. **07**

Your social security number

Medical and Dental Expenses	Caution: Do not include expenses reimbursed or paid by others.			
1	Medical and dental expenses (see instructions)	1		
2	Enter amount from Form 1040, line 38 2	2		
3	Multiply line 2 by 7.5% (0.075)	3		
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4		
Taxes You Paid	5 State and local (check only one box):			
	a ☐ Income taxes, or	5		
	b ☐ General sales taxes	6		
	6 Real estate taxes (see instructions)	6		
	7 Personal property taxes	7		
	8 Other taxes. List type and amount ►	8		
	9 Add lines 5 through 8	9		
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098	10		
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	11		
Note: Your mortgage interest deduction may be limited (see instructions).	12 Points not reported to you on Form 1098. See instructions for special rules	12		
	13 Reserved for future use	13		
	14 Investment interest. Attach Form 4952 if required. See instructions	14		
	15 Add lines 10 through 14	15		
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions.	16		
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17		
If you made a gift and got a benefit for it, see instructions.	18 Carryover from prior year	18		
	19 Add lines 16 through 18	19		
Casualty and Theft Losses	20 Casualty or theft loss(es) other than net qualified disaster losses. Attach Form 4684 and enter the amount from line 18 of that form. See instructions	20		
Job Expenses and Certain Miscellaneous Deductions	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions. ►	21		
	22 Tax preparation fees	22		
	23 Other expenses—investment, safe deposit box, etc. List type and amount ►	23		
	24 Add lines 21 through 23	24		
	25 Enter amount from Form 1040, line 38 25	25		
	26 Multiply line 25 by 2% (0.02)	26		
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27		
Other Miscellaneous Deductions	28 Other—from list in instructions. List type and amount ►	28		
Total Itemized Deductions	29 Is Form 1040, line 38, over \$156,900? ☐ No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. ☐ Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.	29		
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here			

Name(s) shown on return

▶ Attach to Form 1040A or 1040.

► Go to www.irs.gov/ScheduleB for instructions and the latest information.

OMB No. 1545-0074

2017
Attachment
Sequence No. 08

[illegible]

SCHEDULE C
(Form 1040)Department of the Treasury
Internal Revenue Service (99)**Profit or Loss From Business**
(Sole Proprietorship)

► Go to www.irs.gov/ScheduleC for instructions and the latest information.
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2017
Attachment
Sequence No. **09**

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see instructions)**B** Enter code from instructions**C** Business name. If no separate business name, leave blank.**D** Employer ID number (EIN) (see instr.)**E** Business address (including suite or room no.) ►

City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►**G** Did you "materially participate" in the operation of this business during 2017? If "No," see instructions for limit on losses ☐ Yes ☐ No**H** If you started or acquired this business during 2017, check here ☐**I** Did you make any payments in 2017 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☐ No**J** If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No**Part I Income**

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked	☐	1		
2	Returns and allowances		2		
3	Subtract line 2 from line 1		3		
4	Cost of goods sold (from line 42)		4		
5	Gross profit. Subtract line 4 from line 3		5		
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		6		
7	Gross income. Add lines 5 and 6		7		

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18		
9	Car and truck expenses (see instructions).	9		19	Pension and profit-sharing plans	19		
10	Commissions and fees	10		20	Rent or lease (see instructions):			
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a		
12	Depletion	12		b	Other business property	20b		
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13		21	Repairs and maintenance	21		
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22		
15	Insurance (other than health)	15		23	Taxes and licenses	23		
16	Interest:			24	Travel, meals, and entertainment:			
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a		
b	Other	16b		b	Deductible meals and entertainment (see instructions)	24b		
17	Legal and professional services	17		25	Utilities	25		
				26	Wages (less employment credits)	26		
				27a	Other expenses (from line 48)	27a		
				b	Reserved for future use	27b		

28 **Total expenses** before expenses for business use of home. Add lines 8 through 27a**29** Tentative profit or (loss). Subtract line 28 from line 7**30** Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions).**Simplified method filers only:** enter the total square footage of: (a) your home: _____

and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30

31 **Net profit or (loss).** Subtract line 30 from line 29.

- If a profit, enter on both **Form 1040, line 12** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3**.

- If a loss, you **must** go to line 32.

32 If you have a loss, check the box that describes your investment in this activity (see instructions).

- If you checked 32a, enter the loss on both **Form 1040, line 12**, (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on **Form 1041, line 3**.

- If you checked 32b, you **must** attach **Form 6198**. Your loss may be limited.

32a ☐ All investment is at risk.**32b** ☐ Some investment is not at risk.

Part III Cost of Goods Sold (see instructions)

33	Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)		
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation	☐ Yes	☐ No
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	
36	Purchases less cost of items withdrawn for personal use	36	
37	Cost of labor. Do not include any amounts paid to yourself	37	
38	Materials and supplies	38	
39	Other costs	39	
40	Add lines 35 through 39	40	
41	Inventory at end of year	41	
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42	

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43	When did you place your vehicle in service for business purposes? (month, day, year) ▶ / /	
44	Of the total number of miles you drove your vehicle during 2017, enter the number of miles you used your vehicle for:	
a	Business _____	
b	Commuting (see instructions) _____	
c	Other _____	
45	Was your vehicle available for personal use during off-duty hours?	☐ Yes ☐ No
46	Do you (or your spouse) have another vehicle available for personal use?.	☐ Yes ☐ No
47a	Do you have evidence to support your deduction?	☐ Yes ☐ No
b	If "Yes," is the evidence written?	☐ Yes ☐ No

Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

48	Total other expenses. Enter here and on line 27a	48

**SCHEDULE D
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)**Capital Gains and Losses**▶ **Attach to Form 1040 or Form 1040NR.**▶ **Go to www.irs.gov/ScheduleD for instructions and the latest information.**▶ **Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.**

OMB No. 1545-0074

2017
Attachment
Sequence No. **12**

Name(s) shown on return

Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b .				
1b Totals for all transactions reported on Form(s) 8949 with Box A checked				
2 Totals for all transactions reported on Form(s) 8949 with Box B checked				
3 Totals for all transactions reported on Form(s) 8949 with Box C checked				
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 .				4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions				6 ()
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back				7

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b .				
8b Totals for all transactions reported on Form(s) 8949 with Box D checked				
9 Totals for all transactions reported on Form(s) 8949 with Box E checked				
10 Totals for all transactions reported on Form(s) 8949 with Box F checked				
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				14 ()
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then go to Part III on the back				15

Part III Summary

16 Combine lines 7 and 15 and enter the result	16	
• If line 16 is a gain, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below. • If line 16 is a loss, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22. • If line 16 is zero, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.		
17 Are lines 15 and 16 both gains? ☐ Yes. Go to line 18. ☐ No. Skip lines 18 through 21, and go to line 22.		
18 If you are required to complete the 28% Rate Gain Worksheet (see instructions), enter the amount, if any, from line 7 of that worksheet ►	18	
19 If you are required to complete the Unrecaptured Section 1250 Gain Worksheet (see instructions), enter the amount, if any, from line 18 of that worksheet ►	19	
20 Are lines 18 and 19 both zero or blank? ☐ Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). Don't complete lines 21 and 22 below. ☐ No. Complete the Schedule D Tax Worksheet in the instructions. Don't complete lines 21 and 22 below.		
21 If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the smaller of: • The loss on line 16 or • (\$3,000), or if married filing separately, (\$1,500) } 	21 ()	
Note: When figuring which amount is smaller, treat both amounts as positive numbers.		
22 Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b? ☐ Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). ☐ No. Complete the rest of Form 1040 or Form 1040NR.		

SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

► Go to www.irs.gov/ScheduleSE for instructions and the latest information.
► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

2017
Attachment
Sequence No. **17**

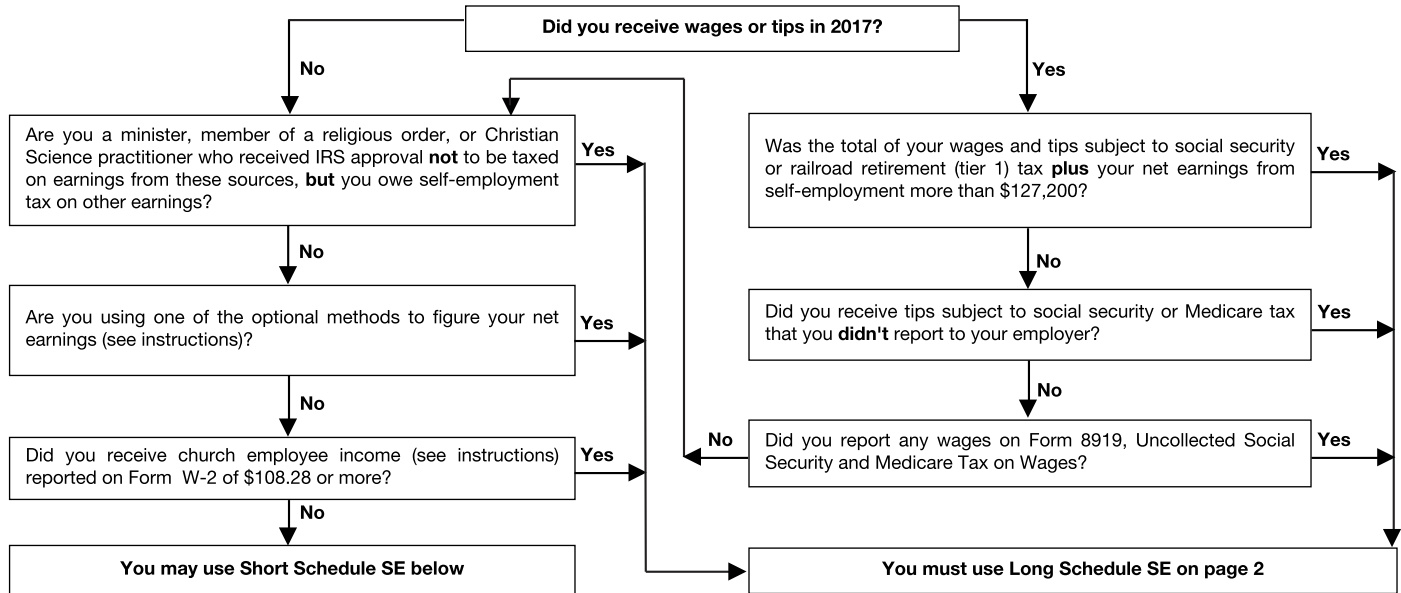
Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)

Social security number of person
with **self-employment** income ►

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note: Use this flowchart **only if** you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a		
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b	(	)
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2		
3	Combine lines 1a, 1b, and 2	3		
4	Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; don't file this schedule unless you have an amount on line 1b. ► Note: If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	4		
5	Self-employment tax. If the amount on line 4 is: • \$127,200 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55 • More than \$127,200, multiply line 4 by 2.9% (0.029). Then, add \$15,772.80 to the result. Enter the total here and on Form 1040, line 57, or Form 1040NR, line 55	5		
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6		

Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)Social security number of person
with **self-employment** income ►**Section B—Long Schedule SE****Part I Self-Employment Tax****Note:** If your only income subject to self-employment tax is **church employee income**, see instructions. Also see instructions for the definition of church employee income.

A	If you are a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here and continue with Part I ☐		
1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. Note: Skip lines 1a and 1b if you use the farm optional method (see instructions)	1a	
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b	()
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. Note: Skip this line if you use the nonfarm optional method (see instructions)	2	
3	Combine lines 1a, 1b, and 2	3	
4a	If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	4a	
b	If you elect one or both of the optional methods, enter the total of lines 15 and 17 here	4b	
c	Combine lines 4a and 4b. If less than \$400, stop ; you don't owe self-employment tax. Exception: If less than \$400 and you had church employee income , enter -0- and continue ►	4c	
5a	Enter your church employee income from Form W-2. See instructions for definition of church employee income	5a	
b	Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-	5b	
6	Add lines 4c and 5b	6	
7	Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2017	7	127,200 00
8a	Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$127,200 or more, skip lines 8b through 10, and go to line 11	8a	
b	Unreported tips subject to social security tax (from Form 4137, line 10)	8b	
c	Wages subject to social security tax (from Form 8919, line 10)	8c	
d	Add lines 8a, 8b, and 8c	8d	
9	Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11	9	
10	Multiply the smaller of line 6 or line 9 by 12.4% (0.124)	10	
11	Multiply line 6 by 2.9% (0.029)	11	
12	Self-employment tax. Add lines 10 and 11. Enter here and on Form 1040, line 57, or Form 1040NR, line 55	12	
13	Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	13	

Part II Optional Methods To Figure Net Earnings (see instructions)

Farm Optional Method. You may use this method only if (a) your gross farm income ¹ wasn't more than \$7,800, or (b) your net farm profits ² were less than \$5,631.			
14	Maximum income for optional methods	14	5,200 00
15	Enter the smaller of: two-thirds (² / ₃) of gross farm income ¹ (not less than zero) or \$5,200. Also include this amount on line 4b above	15	
Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits ³ were less than \$5,631 and also less than 72.189% of your gross nonfarm income, ⁴ and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. Caution: You may use this method no more than five times.			
16	Subtract line 15 from line 14	16	
17	Enter the smaller of: two-thirds (² / ₃) of gross nonfarm income ⁴ (not less than zero) or the amount on line 16. Also include this amount on line 4b above	17	

¹ From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.² From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.³ From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.⁴ From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

Qualified Adoption Expenses

OMB No. 1545-0074

2017Department of the Treasury
Internal Revenue Service (99)▶ **Attach to Form 1040 or 1040NR.**▶ **Go to www.irs.gov/Form8839 for instructions and the latest information.**Attachment
Sequence No. **38**

Name(s) shown on return

Your social security number

Part I Information About Your Eligible Child or Children—You must complete this part. See instructions for details, including what to do if you need more space.

1	(a) Child's name		(b) Child's year of birth	Check if child was—			(f) Child's identifying number	(g) Check if adoption became final in 2017 or earlier
	First	Last		(c) born before 2000 and disabled	(d) a child with special needs	(e) a foreign child		
Child 1				☐	☐	☐		☐
Child 2				☐	☐	☐		☐
Child 3				☐	☐	☐		☐

Caution: If the child was a foreign child, see **Special rules** in the instructions for line 1, column (e), before you complete Part II or Part III. If you received **employer-provided adoption benefits**, complete Part III on the back next.**Part II Adoption Credit**

	Child 1		Child 2		Child 3		
2 Maximum adoption credit per child	2	\$13,570 00	\$13,570 00	\$13,570 00			
3 Did you file Form 8839 for a prior year for the same child? ☐ No. Enter -0-. ☐ Yes. See instructions for the amount to enter. }	3						
4 Subtract line 3 from line 2	4						
5 Qualified adoption expenses (see instructions)	5						
6 Enter the smaller of line 4 or line 5	6						
7 Enter modified adjusted gross income (see instructions)	7						
8 Is line 7 more than \$203,540? ☐ No. Skip lines 8 and 9, and enter -0- on line 10. ☐ Yes. Subtract \$203,540 from line 7	8						
9 Divide line 8 by \$40,000. Enter the result as a decimal (rounded to at least three places). Do not enter more than 1.000	9						x .
10 Multiply each amount on line 6 by line 9	10						
11 Subtract line 10 from line 6	11						
12 Add the amounts on line 11	12						
13 Credit carryforward, if any, from prior years. See your Adoption Credit Carryforward Worksheet in the 2016 Form 8839 instructions	13						
14 Add lines 12 and 13	14						
15 Enter the amount from line 5 of the Credit Limit Worksheet in the instructions	15						
16 Adoption Credit. Enter the smaller of line 14 or line 15 here and on Form 1040, line 54, or Form 1040NR, line 51. Check box c on that line and enter " 8839 " in the space next to box c . If line 15 is smaller than line 14, you may have a credit carryforward (see instructions)	16						

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 22843L

Form **8839** (2017)

Part III Employer-Provided Adoption Benefits

		Child 1		Child 2		Child 3		
17	Maximum exclusion per child	17	\$13,570 00		\$13,570 00		\$13,570 00	
18	Did you receive employer-provided adoption benefits for a prior year for the same child? ☐ No. Enter -0-. ☐ Yes. See instructions for the amount to enter.	18						
19	Subtract line 18 from line 17	19						
20	Employer-provided adoption benefits you received in 2017. This amount should be shown in box 12 of your 2017 Form(s) W-2 with code T	20						
21	Add the amounts on line 20	21						
22	Enter the smaller of line 19 or line 20. But if the child was a child with special needs and the adoption became final in 2017, enter the amount from line 19	22						
23	Enter modified adjusted gross income (from the worksheet in the instructions)	23						
24	Is line 23 more than \$203,540? ☐ No. Skip lines 24 and 25, and enter -0- on line 26. ☐ Yes. Subtract \$203,540 from line 23	24						
25	Divide line 24 by \$40,000. Enter the result as a decimal (rounded to at least three places). Do not enter more than 1.000	25						
26	Multiply each amount on line 22 by line 25	26						
27	Excluded benefits. Subtract line 26 from line 22	27						
28	Add the amounts on line 27	28						
29	Taxable benefits. Is line 28 more than line 21? ☐ No. Subtract line 28 from line 21. Also, include this amount, if more than zero, on line 7 of Form 1040 or line 8 of Form 1040NR. On the dotted line next to line 7 of Form 1040 or line 8 of Form 1040NR, enter "AB." ☐ Yes. Subtract line 21 from line 28. Enter the result as a negative number. Reduce the total you would enter on line 7 of Form 1040 or line 8 of Form 1040NR by the amount on Form 8839, line 29. Enter the result on line 7 of Form 1040 or line 8 of Form 1040NR. Enter "SNE" on the dotted line next to the entry line.	29						

You may be able to claim the adoption credit in Part II on the front of this form if any of the following apply.



- You paid adoption expenses in 2016, those expenses were not fully reimbursed by your employer or otherwise, and the adoption was not final by the end of 2016.
- The total adoption expenses you paid in 2017 were not fully reimbursed by your employer or otherwise, and the adoption became final in 2017 or earlier.
- You adopted a child with special needs and the adoption became final in 2017.

Social security number or taxpayer identification number

2017 California Resident Income Tax Return**540**

Fiscal year filers only: Enter month of year end: month _____ year 2018.

☐ Check here if this is an AMENDED return.

Your first name	Initial	Last name	Suffix	Your SSN or ITIN	☐ A ☐ R ☐ RP
If joint tax return, spouse's/RDP's first name	Initial	Last name	Suffix	Spouse's/RDP's SSN or ITIN	
Additional information (see instructions)				PBA code	
Street address (number and street) or PO box				Apt. no/ste. no.	PMB/private mailbox
City (If you have a foreign address, see instructions)				State	ZIP code
Foreign country name		Foreign province/state/county		Foreign postal code	

Date of Birth	Your DOB (mm/dd/yyyy)	Spouse's/RDP's DOB (mm/dd/yyyy)
Prior Name	If you filed your 2016 tax return under a different last name, write the last name only from the 2016 tax return.	
	Your prior name	Spouse's/RDP's prior name
Filing Status	1 ☐ Single	4 ☐ Head of household (with qualifying person). See instructions.
	2 ☐ Married/RDP filing jointly. See inst.	5 ☐ Qualifying widow(er) with dependent child. Enter year spouse/RDP died
	3 ☐ Married/RDP filing separately. Enter spouse's/RDP's SSN or ITIN above and full name here	
	If your California filing status is different from your federal filing status, check the box here ☐	
6	If someone can claim you (or your spouse/RDP) as a dependent, check the box here. See inst. ☐	

► For line 7, line 8, line 9, and line 10: Multiply the amount you enter in the box by the pre-printed dollar amount for that line. **Whole dollars only**

7 Personal: If you checked box 1, 3, or 4 above, enter 1 in the box. If you checked box 2 or 5, enter 2, in the box. If you checked the box on line 6, see instructions. ☐ 7 X \$114 = ☐ \$

8 Blind: If you (or your spouse/RDP) are visually impaired, enter 1; if both are visually impaired, enter 2 ☐ 8 X \$114 = ☐ \$

9 Senior: If you (or your spouse/RDP) are 65 or older, enter 1; if both are 65 or older, enter 2 ☐ 9 X \$114 = ☐ \$

10 Dependents: Do not include yourself or your spouse/RDP.

	Dependent 1	Dependent 2	Dependent 3
First Name			
Last Name			
SSN			
Dependent's relationship to you			

Total dependent exemptions ☐ 10 X \$353 = ☐ \$

11 Exemption amount: Add line 7 through line 10. Transfer this amount to line 32. ☐ 11 \$

Your name:

Your SSN or ITIN:

Taxable Income

- 12 State wages from your Form(s) W-2, box 16. ● 12 .00
- 13 Enter federal adjusted gross income from Form 1040, line 37; 1040A, line 21; or 1040EZ, line 4. ● 13 .00
- 14 California adjustments – subtractions. Enter the amount from Schedule CA (540), line 37, column B ● 14 .00
- 15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses. See instructions 15 .00
- 16 California adjustments – additions. Enter the amount from Schedule CA (540), line 37, column C. ● 16 .00
- 17 California adjusted gross income. Combine line 15 and line 16. ● 17 .00
- 18 Enter the **larger of** {
 Your California **itemized deductions** from Schedule CA (540), line 44; **OR**
 Your California **standard deduction** shown below for your filing status:
 • Single or Married/RDP filing separately. \$4,236
 • Married/RDP filing jointly, Head of household, or Qualifying widow(er) \$8,472
 If Married/RDP filing separately or the box on line 6 is checked, STOP. See instructions . . .
 } ● 18 .00
- 19 Subtract line 18 from line 17. This is your **taxable income**. If less than zero, enter -0- ● 19 .00

Tax

- 31 Tax. Check the box if from: ☐ Tax Table ☐ Tax Rate Schedule
☐ FTB 3800 ☐ FTB 3803 ● 31 .00
- 32 Exemption credits. Enter the amount from line 11. If your federal AGI is more than \$187,203, see instructions ● 32 .00
- 33 Subtract line 32 from line 31. If less than zero, enter -0- ● 33 .00
- 34 Tax. See instructions. Check the box if from: ● ☐ Schedule G-1 ● ☐ FTB 5870A. ● 34 .00
- 35 Add line 33 and line 34 ● 35 .00

Special Credits

- 40 Nonrefundable Child and Dependent Care Expenses Credit. See instructions ● 40 .00
- 43 Enter credit name code ● and amount ● 43 .00
- 44 Enter credit name code ● and amount ● 44 .00
- 45 To claim more than two credits, see instructions. Attach Schedule P (540). ● 45 .00
- 46 Nonrefundable renter's credit. See instructions ● 46 .00
- 47 Add line 40 through line 46. These are your total credits. ● 47 .00
- 48 Subtract line 47 from line 35. If less than zero, enter -0- ● 48 .00

Other Taxes

- 61 Alternative minimum tax. Attach Schedule P (540) ● 61 .00
- 62 Mental Health Services Tax. See instructions. ● 62 .00
- 63 Other taxes and credit recapture. See instructions. ● 63 .00
- 64 Add line 48, line 61, line 62, and line 63. This is your total tax ● 64 .00

Your name:

Your SSN or ITIN:

Payments

- | | | | |
|-----------|--|-------------|-----|
| 71 | California income tax withheld. See instructions | ● 71 | .00 |
| 72 | 2017 CA estimated tax and other payments. See instructions | ● 72 | .00 |
| 73 | Withholding (Form 592-B and/or 593). See instructions | ● 73 | .00 |
| 74 | Excess SDI (or VPD) withheld. See instructions | ● 74 | .00 |
| 75 | Earned Income Tax Credit (EITC) | ● 75 | .00 |
| 76 | Add lines 71 through 75. These are your total payments. See instructions | ⊙ 76 | .00 |

Use Tax

- | | | | |
|-----------|---|-------------|-----|
| 91 | Use Tax. Do not leave blank. See instructions | ● 91 | .00 |
|-----------|---|-------------|-----|

If line 91 is zero, check if:

☐

No use tax is owed.

☐

You paid your use tax obligation directly to CDTFA.

Overpaid Tax/Tax Due

- | | | | |
|-----------|--|-------------|-----|
| 92 | Payments balance. If line 76 is more than line 91, subtract line 91 from line 76 | ⊙ 92 | .00 |
| 93 | Use Tax balance. If line 91 is more than line 76, subtract line 76 from line 91 | ⊙ 93 | .00 |
| 94 | Overpaid tax. If line 92 is more than line 64, subtract line 64 from line 92 | ⊙ 94 | .00 |
| 95 | Amount of line 94 you want applied to your 2018 estimated tax | ● 95 | .00 |
| 96 | Overpaid tax available this year. Subtract line 95 from line 94 | ● 96 | .00 |
| 97 | Tax due. If line 92 is less than line 64, subtract line 92 from line 64 | ⊙ 97 | .00 |

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Your name:

Your SSN or ITIN:

Contributions

	<u>Code</u>	<u>Amount</u>
California Seniors Special Fund. See instructions	● 400	.00
Alzheimer's Disease/Related Disorders Fund	● 401	.00
Rare and Endangered Species Preservation Voluntary Tax Contribution Program	● 403	.00
California Breast Cancer Research Voluntary Tax Contribution Fund	● 405	.00
California Firefighters' Memorial Fund	● 406	.00
Emergency Food for Families Voluntary Tax Contribution Fund	● 407	.00
California Peace Officer Memorial Foundation Fund	● 408	.00
California Sea Otter Fund	● 410	.00
California Cancer Research Voluntary Tax Contribution Fund	● 413	.00
School Supplies for Homeless Children Fund	● 422	.00
State Parks Protection Fund/Parks Pass Purchase	● 423	.00
Protect Our Coast and Oceans Voluntary Tax Contribution Fund	● 424	.00
Keep Arts in Schools Voluntary Tax Contribution Fund	● 425	.00
State Children's Trust Fund for the Prevention of Child Abuse	● 430	.00
Prevention of Animal Homelessness and Cruelty Fund	● 431	.00
Revive the Salton Sea Fund	● 432	.00
California Domestic Violence Victims Fund	● 433	.00
Special Olympics Fund	● 434	.00
Type 1 Diabetes Research Fund	● 435	.00
California YMCA Youth and Government Voluntary Tax Contribution Fund	● 436	.00
Habitat for Humanity Voluntary Tax Contribution Fund	● 437	.00
California Senior Citizen Advocacy Voluntary Tax Contribution Fund	● 438	.00
Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund	● 439	.00
Rape Backlog Kit Voluntary Tax Contribution Fund	● 440	.00
110 Add code 400 through code 440. This is your total contribution	● 110	.00

Your name:

Your SSN or ITIN:

111 AMOUNT YOU OWE. If you do not have an amount on line 96, add line 93, line 97, and line 110. See instructions. **Do not send cash.**Mail to: **FRANCHISE TAX BOARD****PO BOX 942867****SACRAMENTO CA 94267-0001**

● 111

Pay online – Go to **ftb.ca.gov/pay** for more information.Amount
You OweInterest and
Penalties**112** Interest, late return penalties, and late payment penalties
113 Underpayment of estimated tax. Check the box: ● ☐ **FTB 5805 attached** ● ☐ **FTB 5805F attached** ● 113
114 Total amount due. See instructions. Enclose, but **do not** staple, any payment.
115 REFUND OR NO AMOUNT DUE. Subtract the sum of line 110, line 112 and line 113 from line 96. See instructions.Mail to: **FRANCHISE TAX BOARD****PO BOX 942840****SACRAMENTO CA 94240-0001**

● 115

Refund and Direct Deposit

Fill in the information to authorize direct deposit of your refund into one or two accounts. **Do not** attach a voided check or a deposit slip. See instructions.**Have you verified the routing and account numbers?** Use whole dollars only.

All or the following amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 116 Direct deposit amount

The remaining amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 117 Direct deposit amount

IMPORTANT: See the instructions to find out if you should attach a copy of your complete federal tax return.To learn about your privacy rights, how we may use your information, and the consequences for not providing the requested information, go to **ftb.ca.gov/forms** and search for **1131**. To request this notice by mail, call 800.852.5711. Under penalties of perjury, I declare that I have examined this tax return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature

Date

Spouse's/RDP's signature (if a joint tax return, both must sign)

**Sign
Here**It is unlawful
to forge a
spouse's/RDP's
signature.Joint tax return?
(See instructions)

● Your email address. Enter only one email address.

● Preferred phone number

Paid preparer's signature (**declaration of preparer is based on all information of which preparer has any knowledge**)

Firm's name (or yours, if self-employed)

● PTIN

Firm's address

● FEIN

Do you want to allow another person to discuss this tax return with us? See instructions. . . ● ☐ Yes ● ☐ No

Print Third Party Designee's Name

Telephone Number

2017 California Adjustments — Residents**CA (540)****Important:** Attach this schedule behind Form 540, Side 5 as a supporting California schedule.

Names(s) as shown on tax return

SSN or ITIN

Part I Income Adjustment Schedule**Section A — Income**

	A Federal Amounts (taxable amounts from your federal tax return)	B Subtractions See instructions	C Additions See instructions
7 Wages, salaries, tips, etc. See instructions before making an entry in column B or C 7	☐	☐	☐
8 Taxable interest (b) 8(a)	☐	☐	☐
9 Ordinary dividends. See instructions. (b) 9(a)	☐	☐	☐
10 Taxable refunds, credits, offsets of state and local income taxes 10	☐	☐	
11 Alimony received 11	☐		☐
12 Business income or (loss) 12	☐	☐	☐
13 Capital gain or (loss). See instructions. 13	☐	☐	☐
14 Other gains or (losses) 14	☐	☐	☐
15 IRA distributions. See instructions. (a) 15(b)	☐	☐	☐
16 Pensions and annuities. See instructions. (a) 16(b)	☐	☐	☐
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc 17	☐	☐	☐
18 Farm income or (loss) 18	☐	☐	☐
19 Unemployment compensation 19	☐	☐	
20 Social security benefits (a) ☐ 20(b)	☐	☐	
21 Other income.		a ☐ b ☐ c ☐ d ☐ e ☐ f ☐	a ☐ b ☐ c ☐ d ☐ e ☐ f ☐
a California lottery winnings b Disaster loss deduction from FTB 3805V c Federal NOL (Form 1040, line 21) d NOL deduction from FTB 3805V e NOL from FTB 3805Z, 3806, 3807, or 3809 f Other (describe): ☐	21 ☐		
22 Total. Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B. 22	☐	☐	☐

Section B — Adjustments to Income

23 Educator expenses 23	☐	☐	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials 24	☐	☐	☐
25 Health savings account deduction 25	☐	☐	
26 Moving expenses 26	☐		
27 Deductible part of self-employment tax 27	☐		
28 Self-employed SEP, SIMPLE, and qualified plans 28	☐		
29 Self-employed health insurance deduction 29	☐		
30 Penalty on early withdrawal of savings 30	☐		
31a Alimony paid. (b) Recipient's: SSN ☐ — — — — —			
Last name ☐ 31a	☐		☐
32 IRA deduction 32	☐		
33 Student loan interest deduction 33	☐		☐
34 Reserved 34			
35 Domestic production activities deduction 35	☐	☐	
36 Add line 23 through line 31a and line 32 through line 35 in columns A, B, and C. See instructions 36	☐	☐	☐
37 Total. Subtract line 36 from line 22 in columns A, B, and C. See instructions 37	☐	☐	☐

Part II Adjustments to Federal Itemized Deductions

38 Federal itemized deductions. Enter the amount from federal Schedule A (Form 1040), lines 4, 9, 15, 19, 20, 27, and 28 ☐ **38**

39 Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance, and state and local income tax, or General Sales Tax) and line 8 (foreign income taxes **only**). See instructions ☐ **39**

40 Subtract line 39 from line 38 ☐ **40**

41 Other adjustments including California lottery losses. See instructions. Specify ☐ **41**

42 Combine line 40 and line 41 ☐ **42**

43 Is your federal AGI (Form 540, line 13) more than the amount shown below for your filing status?
Single or married/RDP filing separately **\$187,203**
Head of household **\$280,808**
Married/RDP filing jointly or qualifying widow(er) **\$374,411**

No. Transfer the amount on line 42 to line 43.

Yes. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 43 ☐ **43**

44 Enter the larger of the amount on line 43 or your standard deduction listed below
Single or married/RDP filing separately. See instructions. **\$4,236**
Married/RDP filing jointly, head of household, or qualifying widow(er) **\$8,472**

Transfer the amount on line 44 to Form 540, line 18 ☐ **44**

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2017**Alternative Minimum Tax and
Credit Limitations — Residents****P (540)**

Attach this schedule to Form 540.

Name(s) as shown on Form 540

Your SSN or ITIN

Part I Alternative Minimum Taxable Income (AMTI) Important: See instructions for information regarding California/federal differences.

1	If you itemized deductions, go to line 2. If you did not itemize deductions, enter your standard deduction from Form 540, line 18, and go to line 6	1	00
2	Medical and dental expense. Enter the smaller of Schedule A (Form 1040), line 4, or 2½% (.025) of Form 1040, line 37	2	00
3	Personal property taxes and real property taxes. See instructions	3	00
4	Certain interest on a home mortgage not used to buy, build, or improve your home. See instructions	4	00
5	Miscellaneous itemized deductions. See instructions	5	00
6	Refund of personal property taxes and real property taxes. See instructions.	6	(00)
Do not include your state income tax refund on this line.			
7	Investment interest expense adjustment. See instructions.	7	00
8	Post-1986 depreciation. See instructions.	8	00
9	Adjusted gain or loss. See instructions	9	00
10	Incentive stock options and California qualified stock options (CQSOs). See instructions	10	00
11	Passive activities adjustment. See instructions	11	00
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 12a	12	00
13	Other adjustment and preferences. Enter the amount, if any, for each item, a through l, and enter the total on line 13. See instructions.		
a	Circulation expenditures	g	Mining costs
b	Depletion	h	Patron's adjustment.
c	Installment sales	i	Pollution control facilities
d	Intangible drilling costs	j	Research and experimental
e	Long-term contracts	k	Tax shelter farm activities
f	Loss limitations	l	Related adjustments
		13	00
14	Total Adjustments and Preferences. Combine line 1 through line 13	14	00
15	Enter taxable income from Form 540, line 19. See instructions	15	00
16	Net operating loss (NOL) deductions from Schedule CA (540), line 21b, line 21d, and line 21e, column B. Enter as a positive amount.	16	00
17	AMTI exclusion. See instructions.	17	(00)
18	If your federal adjusted gross income (AGI) is less than the amount for your filing status (listed below), skip this line and go to line 19. If you itemized deductions and your federal AGI is more than the amount for your filing status, see instructions.	18	(00)
	Single or married/RDP filing separately \$187,203		
	Married/RDP filing jointly or qualifying widow(er) \$374,411		
	Head of household \$280,808		
19	Combine line 14 through line 18	19	00
20	Alternative minimum tax NOL deduction. See instructions	20	00
21	Alternative Minimum Taxable Income. Subtract line 20 from line 19 (if married/RDP filing separately and line 21 is more than \$355,690, see instructions).	21	00

Part II Alternative Minimum Tax (AMT)**22 Exemption Amount.** (If this schedule is for a certain child under age 24, see instructions.)**If your filing status is:****And line 21 is not over:****Enter on line 22:**

Single or head of household

\$258,168

\$68,846

Married/RDP filing jointly or qualifying widow(er)

\$344,225

\$91,793

Married/RDP filing separately

\$172,110

\$45,895

If Part I, line 21 is more than the amount shown above for your filing status, see instructions.

22

00

23 Subtract line 22 from line 21. If zero or less, enter -0-. **23** 00**24** Tentative Minimum Tax. Multiply line 23 by 7.0% (.07) **24** 00**25** Regular tax before credits from Form 540, line 31 **25** 00

26 Alternative Minimum Tax. Subtract line 25 from line 24. If zero or less, enter -0- here and on Form 540, line 61. If more than zero, enter here and on Form 540, line 61. If you make estimated tax payments for taxable year 2018, enter amount from line 26 on the 2018 Form 540-ES, Estimated Tax Worksheet, line 16. (Exception: If you have carryover credit for solar energy or commercial solar energy, first enter the result on Side 2, Part III, Section C, line 22 or 23) **26** 00

Part III Credits that Reduce Tax **Note:** Be sure to attach your credit forms to Form 540.

1	Enter the amount from Form 540, line 35.	☐ 1		00
2	Enter the tentative minimum tax from Side 1, Part II, line 24.	☐ 2		00

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
Section A – Credits that reduce excess tax.				
3	Subtract line 2 from line 1. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits.		☐	
A1 Credits that reduce excess tax and have no carryover provisions.				
4	Code: 162 Prison inmate labor credit (FTB 3507)	☐		
5	Code: 232 Child and dependent care expenses credit (FTB 3506)	☐		
A2 Credits that reduce excess tax and have carryover provisions. See instructions.				
6	Code: ☐ Credit Name:	☐		☐
7	Code: ☐ Credit Name:	☐		☐
8	Code: ☐ Credit Name:	☐		☐
9	Code: ☐ Credit Name:	☐		☐
10	Code: 188 Credit for prior year alternative minimum tax.	☐		☐
Section B – Credits that may reduce tax below tentative minimum tax.				
11	If Part III, line 3 is zero, enter the amount from line 1. If line 3 is more than zero, enter the total of line 2 and the last entry in column (c).		☐	
B1 Credits that reduce net tax and have no carryover provisions.				
12	Code: 170 Credit for joint custody head of household.	☐		
13	Code: 173 Credit for dependent parent	☐		
14	Code: 163 Credit for senior head of household	☐		
15	Nonrefundable renter's credit	☐		
B2 Credits that reduce net tax and have carryover provisions. See instructions.				
16	Code: ☐ Credit Name:	☐		☐
17	Code: ☐ Credit Name:	☐		☐
18	Code: ☐ Credit Name:	☐		☐
19	Code: ☐ Credit Name:	☐		☐
B3 Other state tax credit.				
20	Code: 187 Other state tax credit	☐		
Section C – Credits that may reduce alternative minimum tax.				
21	Enter your alternative minimum tax from Side 1, Part II, line 26.		☐	
22	Code: 180 Solar energy credit carryover from Section B2, column (d)	☐		☐
23	Code: 181 Commercial solar energy credit carryover from Section B2, column (d) ..	☐		☐
24	Adjusted AMT. Enter the balance from line 23, column (c) here and on Form 540, line 61		☐	

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2017 Other State Tax Credit**S**

Attach to Form 540, Long Form 540NR, or Form 541.

Name(s) as shown on your California tax return

SSN, ITIN, or FEIN

Part I Double-Taxed Income (Read specific line instructions for Part I before completing.)

(a) Income item(s) description	(b) Double-taxed income taxable by California	(c) Double-taxed income taxable by other state
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
1 Total double-taxed income	☐ _____	☐ _____

Part II Figure Your Other State Tax Credit (Read specific line instructions for Part II before completing.)

2 California tax liability. See instructions	☐ 2 _____	00
3 Double-taxed income taxable by California. Enter the amount from Part I, line 1, column (b)	☐ 3 _____	00
4 California adjusted gross income. See instructions	☐ 4 _____	00
5 Divide line 3 by line 4. Do not enter more than 1.0000	☐ 5 _____	
6 Multiply line 2 by line 5.	☐ 6 _____	00
7 Income tax liability paid to name of other state (use state's abbreviation) ☐ _____ See instructions	☐ 7 _____	00
8 Double-taxed income taxable by other state. Enter the amount from Part I, line 1, column (c)	☐ 8 _____	00
9 Adjusted gross income taxable by other state. See instructions.	☐ 9 _____	00
10 Divide line 8 by line 9. Do not enter more than 1.0000	☐ 10 _____	
11 Multiply line 7 by line 10	☐ 11 _____	00
12 Other state tax credit. Enter the smaller of line 6 or line 11. Use Credit Code 187 . See instructions	☐ 12 _____	00

2017 Tax on Lump-Sum Distributions

G-1

Attach to Form 540, Long Form 540NR, or Form 541. Use this form only for lump-sum distributions from qualified plans.

Name(s) as shown on tax return

SSN, ITIN, or FEIN

Part I

Complete this part to see if you can use Schedule G-1.

Yes No

- 1 Was this a distribution of a plan participant's entire balance from all of an employer's qualified plans of one kind (pension, profit-sharing, or stock bonus)? If "No," **do not** use this form 1 ☐ ☐
 - 2 Did you roll over any part of the distribution? If "Yes," **do not** use this form 2 ☐ ☐
 - 3 Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936? 3 ☐ ☐
 - 4 Were you (a) a plan participant who received this distribution, (b) born before January 2, 1936, and (c) a participant in the plan for at least 5 years before the year of distribution? 4 ☐ ☐
- If you answered "No" to both questions 3 and 4, **do not** use this form.
- 5 Did you use Schedule G-1 in a prior year for any distribution received after 1986 for the same plan participant, including yourself, for whom the 2017 distribution was made? If "Yes," **do not** use this form 5 ☐ ☐

Part II

Complete this part to choose the 5.5% capital gain election. See instructions.

- 6 Capital gain from federal Form 1099-R, box 3. If you are taking the death benefit exclusion, see instructions. 6 00
- 7 Multiply line 6 by 5.5% (.055) and enter here. If you elect to use Part III, go to line 8. Otherwise, enter the amount from line 7 on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b . . . 7 00

Part III

Complete this part to choose the 10-year averaging method. See instructions.

- 8 If you completed Part II, enter the amount from federal Form 1099-R, box 2a minus box 3. If you did not complete Part II, enter the amount from federal Form 1099-R, box 2a. See instructions 8 00
- 9 Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996. See instructions 9 00
- 10 Total taxable amount. Subtract line 9 from line 8 10 00
- 11 Current actuarial value of annuity, if applicable, from federal Form 1099-R, box 8. See instructions . . . 11 00
- 12 Adjusted total taxable amount. Add line 10 and line 11. If this amount is \$70,000 or more, skip line 13 through line 16, and enter this amount on line 17. 12 00
- 13 Multiply line 12 by 50% (.50), but **do not** enter more than \$10,000 13 00
- 14 Subtract \$20,000 from line 12 and enter the difference. If the result is zero or less, enter -0- 14 00
- 15 Multiply line 14 by 20% (.20) 15 00
- 16 Minimum distribution allowance. Subtract line 15 from line 13 16 00
- 17 Subtract line 16 from line 12. 17 00
- 18 Multiply line 17 by 10% (.10) 18 00
- 19 Tax on amount on line 18. Use the Tax Rate Schedule on page 2 of the instructions 19 00
- 20 Multiply line 19 by ten (10). If line 11 is blank, skip line 21 through line 26 and enter this amount on line 27. Otherwise, continue to line 21 20 00
- 21 Divide line 11 by line 12 (rounded to at least three places). See instructions 21
- 22 Multiply line 16 by the decimal amount on line 21 22 00
- 23 Subtract line 22 from line 11. 23 00
- 24 Multiply line 23 by 10% (.10) 24 00
- 25 Tax on amount on line 24. Use the Tax Rate Schedule on page 2 of the instructions 25 00
- 26 Multiply line 25 by ten (10) 26 00
- 27 Subtract line 26 from line 20. 27 00
- 28 Tax on lump-sum distribution. Add Part II, line 7 and Part III, line 27. Enter here and on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b. Multiple recipients see instructions. 28 00



Scenario 15

For this scenario refer to the information and completed Federal tax return in Scenario 7 for Thomas and Maureen Jefferson. As a reminder, Thomas Jefferson, age 35, is a self-employed real estate agent. He had gross income of \$70,000. Tom is a calendar year taxpayer. During the current tax year he paid \$1500 for advertising, \$200 for his real estate license and \$100 per month for a cell phone which he uses 60% for business. He owns a car that he used to travel 800 miles for personal use and 2,000 miles for business that are documented in his mileage log book. He uses actual expenses of \$1,413 instead of the standard mileage deduction method for the vehicle. He made estimated tax payments of \$4,000 for each quarter. He does not take deduction for a home office. His wife, Maureen, who is 30-years-old earned \$40,000 for which she received a *Form W-2 - Wage and Tax Statement* that also showed \$4,000 had been withheld for Federal income taxes. Additionally, Maureen had \$2,000 of California income tax withheld. They own their own home and paid \$15,000 for mortgage interest, \$3,500 for property taxes and \$900 for homeowners insurance. Maureen contributed \$3,000 to an IRA during the year. The Jeffersons do not have any children or other dependents. Additionally, they cannot be claimed as dependents on someone else's tax return. Use this information, their completed Federal tax return, the California tax tables in the back of the course and the California tax forms immediately following the scenario, to prepare a California tax return for Mr. and Mrs. Jefferson.

Scenario 15 Questions

Answers appear in [Scenario 15 Feedback](#)

1. What is the Jefferson's total exemption amount on their Form 540?
 - A. \$111
 - B. \$228
 - C. \$344
 - D. \$566
2. What is the Jefferson's income before section B adjustments on Schedule CA?
 - A. \$40,000
 - B. \$66,167
 - C. \$98,492
 - D. \$106,167
3. What is the amount of California state wages on the Jefferson's Form 540?
 - A. \$18,500
 - B. \$40,000
 - C. \$79,992
 - D. \$98,492
4. What amount is the Jefferson's California adjusted gross income shown on line 17 of their Form 540?
 - A. \$18,500
 - B. \$40,000
 - C. \$79,992
 - D. \$98,492
5. What amount do the Jeffersons report as itemized deductions on line 18 of their Form 540?
 - A. \$3,906
 - B. \$7,812
 - C. \$18,000
 - D. \$18,500



6. What amount is the Jefferson's total tax on line 64 of their Form 540?
- A. \$218
 - B. \$2,397
 - C. \$2,819
 - D. \$7,812
7. What is the outcome of the Mr. and Mrs. Jefferson income tax return?
- A. Mr. and Mrs. Jefferson will receive a \$397 refund
 - B. Mr. and Mrs. Jefferson owe a \$397 tax
 - C. Mr. and Mrs. Jefferson will receive a \$2,750 refund
 - D. Mr. and Mrs. Jefferson owe a \$2,750 tax
8. Assuming Mr. and Mrs. Jefferson filed their return electronically, what form would they use to send their check or money order payment to the Franchise Tax Board (FTB)?
- A. Form 540-A
 - B. Form 540-V
 - C. Form 3582
 - D. Form 3760



Scenario 15 Feedback

[Return to Scenario 15 Questions](#)

Question 1 - B. \$228

The 2017 personal exemption credit amount for joint filers is \$228 ($\$114 \times 2$). Refer to Lesson 2 in the California tax law course for more information about California exemption credits.

Question 2 - D. \$106,167

Section A of the Jefferson's Schedule CA includes \$40,000 for Maureen's wages and \$66,167 for Thomas' business income. Refer to Lesson 3 in the California tax law course for more information about Schedule CA.

Question 3 - B. \$40,000

California state wages of \$40,000 from Maureen's Form W-2 are shown on line 12 of the Jefferson's Form 540. Refer to Lesson 6 in the California tax law course for more information about withholding.

Question 4 - D. \$98,492

The Jeffersons show their Federal adjusted gross income of \$98,492 on line 13 of their Form 540. They do not have any California adjustments so their California adjusted gross income on line 17 is also \$98,492. Refer to Lesson 3 in the California tax law course for more information about California adjusted gross income (AGI).

Question 5 - D. \$18,500

The Jeffersons use Schedule CA to determine their California itemized deduction amount of \$18,500 and enter that amount on line 18 of Form 540. Refer to Lesson 4 in the California tax law course for more information about California itemized deductions.

Question 6 - B. \$2,397

Using the 2017 California tax table, the Jeffersons determine their tax to be \$2,625 based on their married, filing jointly status and \$79,992 taxable income. They reduce the tax by their exemption credits of \$228 to arrive at \$2,397. They do not have any other credits so they enter total tax of \$2,397 on line 64. Refer to Lesson 6 in the California tax law course for more information about California tax rates.

Question 7 - B. Mr. and Mrs. Jefferson owe a \$397 tax

The Jefferson's total tax from line 64 of their Form 540 is \$2,397. Their total payments from line 92 equal \$2,000. Subtract line 92 from line 64 to determine the amount the Jeffersons owe. Enter \$397 on line 97. Refer to Lesson 6 in the California tax law course for more information about tax payments.

Question 8 - C. Form 3582

If a taxpayer would like to send a check or money order payment to the Franchise Tax Board (FTB), he or she should use [FTB Form 3582 - Payment Voucher for Individual e-filed Returns](#) to remit the payment if he or she filed his or her tax return electronically and he or she has a balance due. Refer to Lesson 6 in the California tax law course for more information about Form 3582.

2017 California Resident Income Tax Return**540**

Fiscal year filers only: Enter month of year end: month _____ year 2018.

☐ Check here if this is an AMENDED return.

Your first name	Initial	Last name	Suffix	Your SSN or ITIN	☐ A ☐ R ☐ RP
If joint tax return, spouse's/RDP's first name	Initial	Last name	Suffix	Spouse's/RDP's SSN or ITIN	
Additional information (see instructions)				PBA code	
Street address (number and street) or PO box				Apt. no/ste. no.	PMB/private mailbox
City (If you have a foreign address, see instructions)				State	ZIP code
Foreign country name		Foreign province/state/county		Foreign postal code	

Date of Birth	Your DOB (mm/dd/yyyy)	Spouse's/RDP's DOB (mm/dd/yyyy)
Prior Name	If you filed your 2016 tax return under a different last name, write the last name only from the 2016 tax return.	
	Your prior name	Spouse's/RDP's prior name
Filing Status	1 ☐ Single	4 ☐ Head of household (with qualifying person). See instructions.
	2 ☐ Married/RDP filing jointly. See inst.	5 ☐ Qualifying widow(er) with dependent child. Enter year spouse/RDP died
	3 ☐ Married/RDP filing separately. Enter spouse's/RDP's SSN or ITIN above and full name here	
	If your California filing status is different from your federal filing status, check the box here ☐	
6	If someone can claim you (or your spouse/RDP) as a dependent, check the box here. See inst. ☐	

► For line 7, line 8, line 9, and line 10: Multiply the amount you enter in the box by the pre-printed dollar amount for that line. **Whole dollars only**

7 Personal: If you checked box 1, 3, or 4 above, enter 1 in the box. If you checked box 2 or 5, enter 2, in the box. If you checked the box on line 6, see instructions.		X \$114 =	
8 Blind: If you (or your spouse/RDP) are visually impaired, enter 1; if both are visually impaired, enter 2		X \$114 =	
9 Senior: If you (or your spouse/RDP) are 65 or older, enter 1; if both are 65 or older, enter 2		X \$114 =	
10 Dependents: Do not include yourself or your spouse/RDP.			

Exemptions

	Dependent 1	Dependent 2	Dependent 3
First Name			
Last Name			
SSN			
Dependent's relationship to you			

Total dependent exemptions X \$353 = 11 **Exemption amount:** Add line 7 through line 10. Transfer this amount to line 32. \$

Your name:

Your SSN or ITIN:

Taxable Income

- 12 State wages from your Form(s) W-2, box 16. ● 12 .00
- 13 Enter federal adjusted gross income from Form 1040, line 37; 1040A, line 21; or 1040EZ, line 4. ● 13 .00
- 14 California adjustments – subtractions. Enter the amount from Schedule CA (540), line 37, column B ● 14 .00
- 15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses. See instructions 15 .00
- 16 California adjustments – additions. Enter the amount from Schedule CA (540), line 37, column C. ● 16 .00
- 17 California adjusted gross income. Combine line 15 and line 16. ● 17 .00
- 18 Enter the **larger of** {
 Your California **itemized deductions** from Schedule CA (540), line 44; **OR**
 Your California **standard deduction** shown below for your filing status:
 • Single or Married/RDP filing separately. \$4,236
 • Married/RDP filing jointly, Head of household, or Qualifying widow(er) \$8,472
 If Married/RDP filing separately or the box on line 6 is checked, STOP. See instructions . . .
 } ● 18 .00
- 19 Subtract line 18 from line 17. This is your **taxable income**. If less than zero, enter -0- ● 19 .00

Tax

- 31 Tax. Check the box if from: ☐ Tax Table ☐ Tax Rate Schedule
☐ FTB 3800 ☐ FTB 3803 ● 31 .00
- 32 Exemption credits. Enter the amount from line 11. If your federal AGI is more than \$187,203, see instructions ● 32 .00
- 33 Subtract line 32 from line 31. If less than zero, enter -0- ● 33 .00
- 34 Tax. See instructions. Check the box if from: ● ☐ Schedule G-1 ● ☐ FTB 5870A. ● 34 .00
- 35 Add line 33 and line 34 ● 35 .00

Special Credits

- 40 Nonrefundable Child and Dependent Care Expenses Credit. See instructions ● 40 .00
- 43 Enter credit name code ● and amount ● 43 .00
- 44 Enter credit name code ● and amount ● 44 .00
- 45 To claim more than two credits, see instructions. Attach Schedule P (540). ● 45 .00
- 46 Nonrefundable renter's credit. See instructions ● 46 .00
- 47 Add line 40 through line 46. These are your total credits. ● 47 .00
- 48 Subtract line 47 from line 35. If less than zero, enter -0- ● 48 .00

Other Taxes

- 61 Alternative minimum tax. Attach Schedule P (540) ● 61 .00
- 62 Mental Health Services Tax. See instructions. ● 62 .00
- 63 Other taxes and credit recapture. See instructions. ● 63 .00
- 64 Add line 48, line 61, line 62, and line 63. This is your total tax ● 64 .00

Your name:

Your SSN or ITIN:

Payments

- | | | | |
|-----------|--|-------------|-----|
| 71 | California income tax withheld. See instructions | ● 71 | .00 |
| 72 | 2017 CA estimated tax and other payments. See instructions | ● 72 | .00 |
| 73 | Withholding (Form 592-B and/or 593). See instructions | ● 73 | .00 |
| 74 | Excess SDI (or VPD) withheld. See instructions | ● 74 | .00 |
| 75 | Earned Income Tax Credit (EITC) | ● 75 | .00 |
| 76 | Add lines 71 through 75. These are your total payments. See instructions | ● 76 | .00 |

Use Tax

- | | | | |
|-----------|---|-------------|-----|
| 91 | Use Tax. Do not leave blank. See instructions | ● 91 | .00 |
|-----------|---|-------------|-----|

If line 91 is zero, check if:

☐

No use tax is owed.

☐

You paid your use tax obligation directly to CDTFA.

Overpaid Tax/Tax Due

- | | | | |
|-----------|--|-------------|-----|
| 92 | Payments balance. If line 76 is more than line 91, subtract line 91 from line 76 | ● 92 | .00 |
| 93 | Use Tax balance. If line 91 is more than line 76, subtract line 76 from line 91 | ● 93 | .00 |
| 94 | Overpaid tax. If line 92 is more than line 64, subtract line 64 from line 92 | ● 94 | .00 |
| 95 | Amount of line 94 you want applied to your 2018 estimated tax | ● 95 | .00 |
| 96 | Overpaid tax available this year. Subtract line 95 from line 94 | ● 96 | .00 |
| 97 | Tax due. If line 92 is less than line 64, subtract line 92 from line 64 | ● 97 | .00 |

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Your name:

Your SSN or ITIN:

Contributions

	<u>Code</u>	<u>Amount</u>
California Seniors Special Fund. See instructions	● 400	.00
Alzheimer's Disease/Related Disorders Fund	● 401	.00
Rare and Endangered Species Preservation Voluntary Tax Contribution Program	● 403	.00
California Breast Cancer Research Voluntary Tax Contribution Fund	● 405	.00
California Firefighters' Memorial Fund	● 406	.00
Emergency Food for Families Voluntary Tax Contribution Fund	● 407	.00
California Peace Officer Memorial Foundation Fund	● 408	.00
California Sea Otter Fund	● 410	.00
California Cancer Research Voluntary Tax Contribution Fund	● 413	.00
School Supplies for Homeless Children Fund	● 422	.00
State Parks Protection Fund/Parks Pass Purchase	● 423	.00
Protect Our Coast and Oceans Voluntary Tax Contribution Fund	● 424	.00
Keep Arts in Schools Voluntary Tax Contribution Fund	● 425	.00
State Children's Trust Fund for the Prevention of Child Abuse	● 430	.00
Prevention of Animal Homelessness and Cruelty Fund	● 431	.00
Revive the Salton Sea Fund	● 432	.00
California Domestic Violence Victims Fund	● 433	.00
Special Olympics Fund	● 434	.00
Type 1 Diabetes Research Fund	● 435	.00
California YMCA Youth and Government Voluntary Tax Contribution Fund	● 436	.00
Habitat for Humanity Voluntary Tax Contribution Fund	● 437	.00
California Senior Citizen Advocacy Voluntary Tax Contribution Fund	● 438	.00
Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund	● 439	.00
Rape Backlog Kit Voluntary Tax Contribution Fund	● 440	.00
110 Add code 400 through code 440. This is your total contribution	● 110	.00

Your name:

Your SSN or ITIN:

111 AMOUNT YOU OWE. If you do not have an amount on line 96, add line 93, line 97, and line 110. See instructions. **Do not send cash.**

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942867

SACRAMENTO CA 94267-0001

● 111

Pay online – Go to **ftb.ca.gov/pay** for more information.

Amount
You Owe

112 Interest, late return penalties, and late payment penalties

112

113 Underpayment of estimated tax. Check the box: ● ☐ **FTB 5805 attached**

●

☐ **FTB 5805F attached**

● 113

114 Total amount due. See instructions. Enclose, but **do not** staple, any payment.

114

Interest and
Penalties

115 REFUND OR NO AMOUNT DUE. Subtract the sum of line 110, line 112 and line 113 from line 96. See instructions.

Mail to: **FRANCHISE TAX BOARD**

PO BOX 942840

SACRAMENTO CA 94240-0001

● 115

Fill in the information to authorize direct deposit of your refund into one or two accounts. **Do not** attach a voided check or a deposit slip. See instructions. **Have you verified the routing and account numbers?** Use whole dollars only.

All or the following amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 116 Direct deposit amount

The remaining amount of my refund (line 115) is authorized for direct deposit into the account shown below:

● Type

● Routing number

☐

Checking

☐

Savings

● Account number

● 117 Direct deposit amount

Refund and Direct Deposit

IMPORTANT: See the instructions to find out if you should attach a copy of your complete federal tax return.

To learn about your privacy rights, how we may use your information, and the consequences for not providing the requested information, go to **ftb.ca.gov/forms** and search for **1131**. To request this notice by mail, call 800.852.5711. Under penalties of perjury, I declare that I have examined this tax return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature

Date

Spouse's/RDP's signature (if a joint tax return, both must sign)

**Sign
Here**

It is unlawful
to forge a
spouse's/RDP's
signature.

Joint tax return?
(See instructions)

● Your email address. Enter only one email address.

● Preferred phone number

Paid preparer's signature (**declaration of preparer is based on all information of which preparer has any knowledge**)

Firm's name (or yours, if self-employed)

● PTIN

Firm's address

● FEIN

Do you want to allow another person to discuss this tax return with us? See instructions. . . ● ☐ Yes ● ☐ No

Print Third Party Designee's Name

Telephone Number

2017 California Adjustments — Residents**CA (540)****Important:** Attach this schedule behind Form 540, Side 5 as a supporting California schedule.

Names(s) as shown on tax return

SSN or ITIN

Part I Income Adjustment Schedule**Section A — Income**

	A Federal Amounts (taxable amounts from your federal tax return)	B Subtractions See instructions	C Additions See instructions
7 Wages, salaries, tips, etc. See instructions before making an entry in column B or C 7	☐	☐	☐
8 Taxable interest (b) 8(a)	☐	☐	☐
9 Ordinary dividends. See instructions. (b) 9(a)	☐	☐	☐
10 Taxable refunds, credits, offsets of state and local income taxes 10	☐	☐	
11 Alimony received 11	☐		☐
12 Business income or (loss) 12	☐	☐	☐
13 Capital gain or (loss). See instructions. 13	☐	☐	☐
14 Other gains or (losses) 14	☐	☐	☐
15 IRA distributions. See instructions. (a) 15(b)	☐	☐	☐
16 Pensions and annuities. See instructions. (a) 16(b)	☐	☐	☐
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc 17	☐	☐	☐
18 Farm income or (loss) 18	☐	☐	☐
19 Unemployment compensation 19	☐	☐	
20 Social security benefits (a) ☐ 20(b)	☐	☐	
21 Other income.		a ☐ b ☐ c ☐ d ☐ e ☐ f ☐	a ☐ b ☐ c ☐ d ☐ e ☐ f ☐
a California lottery winnings b Disaster loss deduction from FTB 3805V c Federal NOL (Form 1040, line 21) d NOL deduction from FTB 3805V e NOL from FTB 3805Z, 3806, 3807, or 3809 f Other (describe): ☐	21 ☐		
22 Total. Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B. 22	☐	☐	☐

Section B — Adjustments to Income

23 Educator expenses 23	☐	☐	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials 24	☐	☐	☐
25 Health savings account deduction 25	☐	☐	
26 Moving expenses 26	☐		
27 Deductible part of self-employment tax 27	☐		
28 Self-employed SEP, SIMPLE, and qualified plans 28	☐		
29 Self-employed health insurance deduction 29	☐		
30 Penalty on early withdrawal of savings 30	☐		
31a Alimony paid. (b) Recipient's: SSN ☐ — — — — —			
Last name ☐ 31a	☐		☐
32 IRA deduction 32	☐		
33 Student loan interest deduction 33	☐		☐
34 Reserved 34			
35 Domestic production activities deduction 35	☐	☐	
36 Add line 23 through line 31a and line 32 through line 35 in columns A, B, and C. See instructions 36	☐	☐	☐
37 Total. Subtract line 36 from line 22 in columns A, B, and C. See instructions 37	☐	☐	☐

Part II Adjustments to Federal Itemized Deductions

38 Federal itemized deductions. Enter the amount from federal Schedule A (Form 1040), lines 4, 9, 15, 19, 20, 27, and 28 ☒ **38**

39 Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance, and state and local income tax, or General Sales Tax) and line 8 (foreign income taxes **only**). See instructions ☒ **39**

40 Subtract line 39 from line 38 ☒ **40**

41 Other adjustments including California lottery losses. See instructions. Specify ☒ **41**

42 Combine line 40 and line 41 ☒ **42**

43 Is your federal AGI (Form 540, line 13) more than the amount shown below for your filing status?
Single or married/RDP filing separately **\$187,203**
Head of household **\$280,808**
Married/RDP filing jointly or qualifying widow(er) **\$374,411**

No. Transfer the amount on line 42 to line 43.

Yes. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 43 ☒ **43**

44 Enter the larger of the amount on line 43 or your standard deduction listed below
Single or married/RDP filing separately. See instructions. **\$4,236**
Married/RDP filing jointly, head of household, or qualifying widow(er) **\$8,472**

Transfer the amount on line 44 to Form 540, line 18 ☒ **44**

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2017**Alternative Minimum Tax and
Credit Limitations — Residents****P (540)**

Attach this schedule to Form 540.

Name(s) as shown on Form 540

Your SSN or ITIN

Part I Alternative Minimum Taxable Income (AMTI) Important: See instructions for information regarding California/federal differences.

1	If you itemized deductions, go to line 2. If you did not itemize deductions, enter your standard deduction from Form 540, line 18, and go to line 6	1	00
2	Medical and dental expense. Enter the smaller of Schedule A (Form 1040), line 4, or 2½% (.025) of Form 1040, line 37	2	00
3	Personal property taxes and real property taxes. See instructions	3	00
4	Certain interest on a home mortgage not used to buy, build, or improve your home. See instructions	4	00
5	Miscellaneous itemized deductions. See instructions	5	00
6	Refund of personal property taxes and real property taxes. See instructions.	6	(00)
Do not include your state income tax refund on this line.			
7	Investment interest expense adjustment. See instructions.	7	00
8	Post-1986 depreciation. See instructions.	8	00
9	Adjusted gain or loss. See instructions	9	00
10	Incentive stock options and California qualified stock options (CQSOs). See instructions	10	00
11	Passive activities adjustment. See instructions	11	00
12	Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 12a	12	00
13	Other adjustment and preferences. Enter the amount, if any, for each item, a through l, and enter the total on line 13. See instructions.		
a	Circulation expenditures	g	Mining costs
b	Depletion	h	Patron's adjustment.
c	Installment sales	i	Pollution control facilities
d	Intangible drilling costs	j	Research and experimental
e	Long-term contracts	k	Tax shelter farm activities
f	Loss limitations	l	Related adjustments
		13	00
14	Total Adjustments and Preferences. Combine line 1 through line 13	14	00
15	Enter taxable income from Form 540, line 19. See instructions	15	00
16	Net operating loss (NOL) deductions from Schedule CA (540), line 21b, line 21d, and line 21e, column B. Enter as a positive amount.	16	00
17	AMTI exclusion. See instructions.	17	(00)
18	If your federal adjusted gross income (AGI) is less than the amount for your filing status (listed below), skip this line and go to line 19. If you itemized deductions and your federal AGI is more than the amount for your filing status, see instructions.	18	(00)
	Single or married/RDP filing separately \$187,203		
	Married/RDP filing jointly or qualifying widow(er) \$374,411		
	Head of household \$280,808		
19	Combine line 14 through line 18	19	00
20	Alternative minimum tax NOL deduction. See instructions	20	00
21	Alternative Minimum Taxable Income. Subtract line 20 from line 19 (if married/RDP filing separately and line 21 is more than \$355,690, see instructions).	21	00

Part II Alternative Minimum Tax (AMT)**22 Exemption Amount.** (If this schedule is for a certain child under age 24, see instructions.)**If your filing status is:****And line 21 is not over:****Enter on line 22:**

Single or head of household

\$258,168

\$68,846

Married/RDP filing jointly or qualifying widow(er)

\$344,225

\$91,793

Married/RDP filing separately

\$172,110

\$45,895

If Part I, line 21 is more than the amount shown above for your filing status, see instructions.

22

00

23 Subtract line 22 from line 21. If zero or less, enter -0-. **23** 00**24** Tentative Minimum Tax. Multiply line 23 by 7.0% (.07) **24** 00**25** Regular tax before credits from Form 540, line 31 **25** 00

26 Alternative Minimum Tax. Subtract line 25 from line 24. If zero or less, enter -0- here and on Form 540, line 61. If more than zero, enter here and on Form 540, line 61. If you make estimated tax payments for taxable year 2018, enter amount from line 26 on the 2018 Form 540-ES, Estimated Tax Worksheet, line 16. (Exception: If you have carryover credit for solar energy or commercial solar energy, first enter the result on Side 2, Part III, Section C, line 22 or 23) **26** 00

Part III Credits that Reduce Tax **Note:** Be sure to attach your credit forms to Form 540.

1	Enter the amount from Form 540, line 35.	☐ 1		00
2	Enter the tentative minimum tax from Side 1, Part II, line 24.	☐ 2		00

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
Section A – Credits that reduce excess tax.				
3	Subtract line 2 from line 1. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits.		☐	
A1 Credits that reduce excess tax and have no carryover provisions.				
4	Code: 162 Prison inmate labor credit (FTB 3507)	☐		
5	Code: 232 Child and dependent care expenses credit (FTB 3506).	☐		
A2 Credits that reduce excess tax and have carryover provisions. See instructions.				
6	Code: ☐ Credit Name:	☐		☐
7	Code: ☐ Credit Name:	☐		☐
8	Code: ☐ Credit Name:	☐		☐
9	Code: ☐ Credit Name:	☐		☐
10	Code: 188 Credit for prior year alternative minimum tax.	☐		☐
Section B – Credits that may reduce tax below tentative minimum tax.				
11	If Part III, line 3 is zero, enter the amount from line 1. If line 3 is more than zero, enter the total of line 2 and the last entry in column (c).		☐	
B1 Credits that reduce net tax and have no carryover provisions.				
12	Code: 170 Credit for joint custody head of household.	☐		
13	Code: 173 Credit for dependent parent	☐		
14	Code: 163 Credit for senior head of household	☐		
15	Nonrefundable renter's credit	☐		
B2 Credits that reduce net tax and have carryover provisions. See instructions.				
16	Code: ☐ Credit Name:	☐		☐
17	Code: ☐ Credit Name:	☐		☐
18	Code: ☐ Credit Name:	☐		☐
19	Code: ☐ Credit Name:	☐		☐
B3 Other state tax credit.				
20	Code: 187 Other state tax credit	☐		
Section C – Credits that may reduce alternative minimum tax.				
21	Enter your alternative minimum tax from Side 1, Part II, line 26.		☐	
22	Code: 180 Solar energy credit carryover from Section B2, column (d)	☐		☐
23	Code: 181 Commercial solar energy credit carryover from Section B2, column (d).	☐		☐
24	Adjusted AMT. Enter the balance from line 23, column (c) here and on Form 540, line 61		☐	

This space reserved for 2D barcode

2017 Other State Tax Credit**S**

Attach to Form 540, Long Form 540NR, or Form 541.

Name(s) as shown on your California tax return

SSN, ITIN, or FEIN

Part I Double-Taxed Income (Read specific line instructions for Part I before completing.)

(a) Income item(s) description	(b) Double-taxed income taxable by California	(c) Double-taxed income taxable by other state
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
☐ _____	☐ _____	☐ _____
1 Total double-taxed income	☐ _____	☐ _____

Part II Figure Your Other State Tax Credit (Read specific line instructions for Part II before completing.)

2 California tax liability. See instructions	☐ 2 _____	00
3 Double-taxed income taxable by California. Enter the amount from Part I, line 1, column (b)	☐ 3 _____	00
4 California adjusted gross income. See instructions	☐ 4 _____	00
5 Divide line 3 by line 4. Do not enter more than 1.0000	☐ 5 _____	
6 Multiply line 2 by line 5.	☐ 6 _____	00
7 Income tax liability paid to name of other state (use state's abbreviation) ☐ _____ See instructions	☐ 7 _____	00
8 Double-taxed income taxable by other state. Enter the amount from Part I, line 1, column (c)	☐ 8 _____	00
9 Adjusted gross income taxable by other state. See instructions.	☐ 9 _____	00
10 Divide line 8 by line 9. Do not enter more than 1.0000	☐ 10 _____	
11 Multiply line 7 by line 10	☐ 11 _____	00
12 Other state tax credit. Enter the smaller of line 6 or line 11. Use Credit Code 187 . See instructions	☐ 12 _____	00

2017 Tax on Lump-Sum Distributions

G-1

Attach to Form 540, Long Form 540NR, or Form 541. Use this form only for lump-sum distributions from qualified plans.

Name(s) as shown on tax return

SSN, ITIN, or FEIN

Part I

Complete this part to see if you can use Schedule G-1.

Yes No

- 1 Was this a distribution of a plan participant's entire balance from all of an employer's qualified plans of one kind (pension, profit-sharing, or stock bonus)? If "No," **do not** use this form 1 ☐ ☐
 - 2 Did you roll over any part of the distribution? If "Yes," **do not** use this form 2 ☐ ☐
 - 3 Was this distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936? 3 ☐ ☐
 - 4 Were you (a) a plan participant who received this distribution, (b) born before January 2, 1936, and (c) a participant in the plan for at least 5 years before the year of distribution? 4 ☐ ☐
- If you answered "No" to both questions 3 and 4, **do not** use this form.
- 5 Did you use Schedule G-1 in a prior year for any distribution received after 1986 for the same plan participant, including yourself, for whom the 2017 distribution was made? If "Yes," **do not** use this form 5 ☐ ☐

Part II

Complete this part to choose the 5.5% capital gain election. See instructions.

- 6 Capital gain from federal Form 1099-R, box 3. If you are taking the death benefit exclusion, see instructions. 6 00
- 7 Multiply line 6 by 5.5% (.055) and enter here. If you elect to use Part III, go to line 8. Otherwise, enter the amount from line 7 on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b . . . 7 00

Part III

Complete this part to choose the 10-year averaging method. See instructions.

- 8 If you completed Part II, enter the amount from federal Form 1099-R, box 2a minus box 3. If you did not complete Part II, enter the amount from federal Form 1099-R, box 2a. See instructions 8 00
- 9 Death benefit exclusion for a beneficiary of a plan participant who died before August 21, 1996. See instructions 9 00
- 10 Total taxable amount. Subtract line 9 from line 8 10 00
- 11 Current actuarial value of annuity, if applicable, from federal Form 1099-R, box 8. See instructions 11 00
- 12 Adjusted total taxable amount. Add line 10 and line 11. If this amount is \$70,000 or more, skip line 13 through line 16, and enter this amount on line 17. 12 00
- 13 Multiply line 12 by 50% (.50), but **do not** enter more than \$10,000 13 00
- 14 Subtract \$20,000 from line 12 and enter the difference. If the result is zero or less, enter -0- 14 00
- 15 Multiply line 14 by 20% (.20) 15 00
- 16 Minimum distribution allowance. Subtract line 15 from line 13 16 00
- 17 Subtract line 16 from line 12. 17 00
- 18 Multiply line 17 by 10% (.10) 18 00
- 19 Tax on amount on line 18. Use the Tax Rate Schedule on page 2 of the instructions 19 00
- 20 Multiply line 19 by ten (10). If line 11 is blank, skip line 21 through line 26 and enter this amount on line 27. Otherwise, continue to line 21 20 00
- 21 Divide line 11 by line 12 (rounded to at least three places). See instructions 21
- 22 Multiply line 16 by the decimal amount on line 21 22 00
- 23 Subtract line 22 from line 11. 23 00
- 24 Multiply line 23 by 10% (.10) 24 00
- 25 Tax on amount on line 24. Use the Tax Rate Schedule on page 2 of the instructions 25 00
- 26 Multiply line 25 by ten (10) 26 00
- 27 Subtract line 26 from line 20. 27 00
- 28 Tax on lump-sum distribution. Add Part II, line 7 and Part III, line 27. Enter here and on Form 540, line 34; Long Form 540NR, line 41; or Form 541, line 21b. Multiple recipients see instructions. 28 00



Examination Instructions - 60 Hour Qualifying Education

Passing the Qualifying Exam (QE) from a self-study course is contingent upon scoring 70% or higher on the exam questions related to the course material. This final examination covering California tax law contains 120 multiple-choice questions of which you must answer 84 correctly to pass.

The exam has no time limit, and is open book, so you are allowed to look up answers in the text we provide. You do not need to finish the exam in one continuous sitting as all of the answers you enter online are automatically saved. After you submit the online exam to us you will receive a pass/fail message.

If you should fail the exam on your first attempt, you will have the option to re-take the exam at no additional cost. If you score less than 70%, a message will be displayed at the bottom of the page along with a list of incorrect questions. You have unlimited attempts to pass an exam.

Upon successful completion of the full 60-Hour QE course, we will e-mail you a Certificate of Completion. Additionally, we notify the California Tax Education Council (CTEC) that you passed the Qualifying Education (QE) allowing you to apply for your CRTP registration online at www.CTEC.org.

We wish you every success and thank you for choosing Golden State Tax Training Institute, Inc.

Submit your exam:



How To:

- Log into www.GSTTI.com
- Enter your email address and your password
- Click link to take online exam
- Answer questions (There is no time limit)
- Submit answers (The exam does not need to be completed in one sitting)
- Get certificate by email within 24 hours
- We electronically notify CTEC that you earned Qualifying Education (QE) course credits

IMPORTANT: Just because you successfully completed the 60-hour qualifying education (QE) course does not mean you can prepare tax returns in the state of California. You must also complete the registration process with the California Tax Education Council (CTEC).

You have 18 months from the completion date listed on the 60-hour qualifying education (QE) completion certificate provided by your education provider to register with CTEC. If you do not register with CTEC within the allowed 18 months, you will be required to complete another 60-hour qualifying education course before being able to register.

CTEC registration **MUST** be completed online at <https://www.ctec.org/Preparer/>.



Examination Questions - 15 Hour California Tax Law

All questions pertain to Tax Year 2017 unless noted.

Lesson 1

1. Regarding the California Earned Income Tax Credit (CA EITC), earned income used to qualify for the credit includes all of the following except:
 - A. Employee compensation subject to California withholding
 - B. Passive Activity Income
 - C. Wages reported on a W-2 Form
 - D. Tips reported on a W-2 Form
2. For 2017, the Nonrefundable Renter's Credit is available for single filers with adjusted gross incomes of what amount or less?
 - A. \$37,000
 - B. \$37,995
 - C. \$40,078
 - D. \$80,156
3. Which of the following is incorrect regarding the ability of the following entities to claim the credit for prior year Alternative Minimum Tax (AMT)?
 - A. An individual who had an AMT credit carryover from 2016 qualifies to claim the credit for prior year AMT
 - B. Fiduciaries must complete FTB Form 3510 to claim the credit for prior year AMT
 - C. Corporations must complete FTB Form 3510 to claim the credit for prior year AMT
 - D. An individual who paid AMT for 2016, and had 2016 adjustments and tax preference items other than exclusions qualifies to claim the credit for prior year AMT
4. A taxpayer is required to remit all of his or her payments electronically if he or she makes an estimate or extension payment exceeding what amount?
 - A. \$20,000
 - B. \$40,000
 - C. \$50,000
 - D. \$80,000

Lesson 2

5. Jason is a California resident who lives and works as a computer consultant in Walnut Creek. He earned \$75,000 while working for XYZ LTD in 2017. Jason additionally had a contract job from ABC Co. based in Washington. His contract earnings totaled \$17,000 in 2017 and will total \$15,000 in 2018. On what income amount will Jason be taxed in 2017?
 - A. \$75,000
 - B. \$83,500
 - C. \$90,000
 - D. \$92,000
6. California law specifically provides that an individual whose permanent home is in California, but who is absent from the state for an uninterrupted period of at least how many days under an employment-related contract, will not be treated as a resident subject to California tax?
 - A. 500 days
 - B. 546 days
 - C. 600 days
 - D. 650 days



7. California tax law provides that an individual, who spends in the aggregate more than how many months of the taxable year in California, is presumed to be a resident?
- A. Six Months
 - B. Seven Months
 - C. Eight Months
 - D. Nine Months
8. A change of domicile requires all of the following except:
- A. Abandonment of the taxpayer's prior domicile
 - B. Filing a change of address with the post office
 - C. Physically moving to a new locality
 - D. Physically residing in a new locality
9. Under California law, Registered Domestic Partners (RDP) must file their California income tax returns using which filing status?
- A. Single
 - B. Married/RDP filing jointly
 - C. Married/RDP filing separately
 - D. Either B or C
10. Erin receives and accepts a permanent job offer in Spain. She and her spouse or registered domestic partner (RDP) sell their home in California, pack all of their possessions and move to Spain on May 5, 2017. Their children also relocate to Spain on the same date. They lease an apartment and enroll the children in school in Spain. They both obtain a driver's license from Spain and make numerous social connections in their new home. They have no intention of returning to California. Which of the following statements is true?
- A. Both Erin and her spouse or registered domestic partner are considered part-year residents of California
 - B. The entire family are considered full-year California residents
 - C. Erin is considered a part-year resident but her spouse or registered domestic partner is considered a full-year resident
 - D. All of the above
11. Jimmy is a business executive and resides in Washington with his family. Several times each year, he travels to other states for business purposes. His average stay is one or two weeks, and the entire time spent in California for any taxable year does not exceed six weeks. Jimmy's family usually remains in Washington while he is traveling for business purposes. Which of the following statements applies to Jimmy?
- A. Jimmy is not a California resident because his stays in California are temporary or transitory in nature
 - B. Jimmy is a California resident because he does business in California
 - C. Jimmy is a resident but is not taxed on his income from California sources
 - D. Jimmy is a California resident based on safe harbor rules
12. Joe and Kathy are married and domiciled in California. Joe works full-time in Arizona and has nonresident status while Kathy remains a California resident. Joe earned \$66,000 in 2017 and Kathy earned \$32,000. Which of the following statements is true with respect to Kathy and Joe?
- A. Kathy need only pay California income tax on her earnings of \$32,000
 - B. Kathy must pay income tax on all of her earnings plus one-half of Joe's earnings based on community income.
 - C. Kathy must pay California income tax on all of her earnings plus all of Joe's earnings based on community income
 - D. Kathy has no California filing obligation because of her husband's nonresident status
13. Return visits to California by a taxpayer that do not exceed a total of how many days during any taxable year covered by an employment contract are considered temporary and do not qualify the taxpayer as a resident?
- A. 20 days
 - B. 30 days
 - C. 45 days
 - D. 50 days



14. Phil is a California resident. He agreed to work overseas for one year. He returned to California after the employment contract expired and stayed for three months. Then, he signed another contract with the same employer to work overseas for another year. Which of the following is true regarding Phil's California residency status?
- A. He cannot be considered a nonresident under the safe harbor rule
 - B. He can be considered a nonresident under the safe harbor rule
 - C. He can combine the days he was overseas from the two separate contracts
 - D. He cannot be considered a nonresident because the principal purpose of his absence from California is to avoid personal income tax
15. Even if the taxpayer does not meet the California basic filing requirements, he or she should still file a tax return in order to get a refund if which of the following apply?
- A. California state income tax was withheld from his or her pay
 - B. He or she had income from an S corporation, partnership, or LLC
 - C. He or she made California estimated tax payments
 - D. All of the above
16. Until September 2017, Brad was a resident of California. At that time, he declared himself to be a resident of Nevada, where he has a summer home. He continues to spend six or seven months each year at his home in California, which he has retained. He spends only three to four months in Nevada and the rest of the time traveling in other states or countries. Brad transferred his bank accounts to Nevada. However, he continues to maintain his social club and business connections in California. Which of the following is true regarding Brad's move out of state?
- A. His declaration of residency in another state establishes residency in that state
 - B. His closest connections are to Nevada and he is, therefore, a resident of Nevada
 - C. His absence from California is permanent and he is, therefore, a resident of Nevada
 - D. His closest connections are to California and his absence from California is for temporary or transitory purposes and he is, therefore, a resident of California
17. Beverly is a resident of California and a single taxpayer. She accepts a three-year assignment in Japan. Her assignment in Japan covers the period January 1, 2015, through December 31, 2017. She rented out her residence and put her car and belongings in storage in California. She maintained her California bank accounts, driver's license, and voter registration. Upon completion of her assignment, she intends to return to California. She returned to California to visit family no longer than a total of 45 days during 2015 or 2016. If Beverly has less than what amount of intangible income during each year she will qualify for the safe harbor rule and be a nonresident during her absence from the state?
- A. \$200,000
 - B. \$250,000
 - C. \$300,000
 - D. \$400,000
18. Which of the following properties is defined as community property and subject to community property law?
- A. Property, real or personal, wherever situated, acquired by a married person during the marriage while domiciled in the state of California
 - B. Property received separately as gifts or inheritances
 - C. Property purchased with separate property funds
 - D. Property acquired prior to the marriage
19. Eduardo and Maria are residents of California. For the first six months of the year, Eduardo earned wages of \$30,000. Maria did not earn any income. On June 30, Eduardo and Maria physically separated with no intention of reconciliation. During the last six months, Eduardo earned wages of \$30,000 and Maria earned wages of \$10,000. They have decided to file separate returns. What amount must Eduardo and Maria each report as community income on their individual returns?
- A. \$10,000
 - B. \$15,000
 - C. \$25,000
 - D. \$40,000



20. Scott and Mary Jane are married and are residents of California. They lived together all year. Scott earned \$15,000 in wages. Mary Jane earned \$30,000. In addition to wages, Scott has stock that he inherited. The stock is in Scott's name only, and he keeps the stock and the dividend income separate from community funds. Scott received \$5,000 in dividends. He has decided to file separate returns. What is Scott's total income he will report on his tax return?
- A. \$15,000
 - B. \$20,000
 - C. \$22,500
 - D. \$27,500
21. Mixing or commingling separate property with community property will transmute the separate property into community property unless the separate property component can be traced. All of the following are options for tracing except:
- A. Allocating deposits between community property funds and separate property funds
 - B. Allocating payments between community property funds and separate property funds
 - C. Allocating interest between community property funds and separate property funds
 - D. Allocating payments so that community property substantially benefits or improves separate property
22. Olivia owned a house before her marriage. She sold it and used the proceeds as a down payment on another house after getting married. The mortgage payments on the new house are made during the marriage using the earnings of both Olivia and her spouse. The result is that the equity in the house is what type of property?
- A. Community property
 - B. Commingled property
 - C. Separate property
 - D. Individual property
23. Which of the following cannot be included in a prenuptial agreement?
- A. Whether particular items are considered community property or separate property
 - B. Ownership of the marital residence
 - C. Responsibility for premarital debts
 - D. Child support agreements
24. There are many circumstances when a prenuptial agreement may not be enforced including all of the following except:
- A. If the prenuptial agreement was signed voluntarily
 - B. If the prenuptial agreement is unconscionable
 - C. If there was no or insufficient financial disclosure
 - D. If there is fraud involved
25. Chris and his RDP, who are domiciled in California and are not permanently separated, buy a bond. The bond earns \$500 interest during the year. What amount of interest must Chris report on his tax return if he files separately?
- A. \$0
 - B. \$100
 - C. \$250
 - D. \$450
26. Pat Wright retired this year after 30 years of civil service. He and his Registered Domestic Partner (RDP) were domiciled in California during the past 15 years. Previously, they lived in a non-community property state. Mr. Wright receives \$1,000 a month in retirement pay. What amount is considered Pat's part of the community income?
- A. \$100
 - B. \$200
 - C. \$250
 - D. \$500



27. Income of a military service member's nonmilitary spouse for services performed in California is not California source income subject to state tax if which of the following is true?
- A. The spouse is in California to be with the service member serving in compliance with military orders
 - B. The service member and spouse have the same domicile in a state other than California
 - C. The active duty military service member and spouse file a joint Federal tax return and file separate tax returns for California
 - D. Both A and B
28. If a taxpayer files a joint Federal tax return, he or she may file separately for California if either spouse was which of the following?
- A. A nonresident for the entire year and had no income from California sources during the tax year
 - B. A nonresident for 6 months of the year and had no income from California sources during the tax year
 - C. A nonresident for 3 months of the year and had no income from California sources during the tax year
 - D. A nonresident for the entire year and had income only from California sources during the tax year
29. All of the following are true regarding California military members who leave California except:
- A. California military members who leave California under Permanent Change of Station (PCS) orders become nonresidents of California for income tax purposes when they leave California
 - B. All income received or earned prior to departure is subject to tax by California
 - C. After departure, only income from California sources is subject to tax by California
 - D. California military members who leave California under a temporary duty assignment (TDA) become nonresidents of California for income tax purposes when they leave California
30. Service members domiciled outside of California, and their spouses, exclude what type of income from gross income when computing the tax rate on nonmilitary income?
- A. The service member's military compensation
 - B. Salaries or wages from a second job held by a nonresident military member
 - C. Income from a trade or business located in California
 - D. Income from real or tangible personal property located in California
31. Seaman Abbott, a Montana resident, is stationed in San Diego. He works a part-time job at Hardware Store Inc. in the paint department. He earns \$9,000 from Hardware Store Inc. in the current year and \$19,000 from the US Navy. What amount is subject to California tax?
- A. \$0
 - B. \$9,000
 - C. \$17,000
 - D. \$19,000
32. Peyton is a California resident who is serving active military duty in California when he is transferred to North Carolina under Permanent Change of Station (PCS) orders. His salary is \$4,000 per month. Peyton is transferred on September 1 of the current year. How much of his income is taxable in California?
- A. \$0
 - B. \$4,000
 - C. \$16,000
 - D. \$32,000
33. Greg and Sue are married with two children under the age of 10 that are their only dependents. They are both 45 years of age and filing jointly. They had combined California gross income of \$64,500. Which of the following is true about their filing requirement in California?
- A. On the basis of gross income, they do not have an obligation to file a California return
 - B. Solely on the combination of their age and number of dependents means they must file a California return
 - C. Their combined California gross income exceeds the threshold given their age and dependent status, so they are required to file a California return
 - D. By filing jointly and having two dependents, they do not have to file a California return



34. Regarding the California exemption credit, nonresidents and part-year residents are allowed which of the following?
- A. The entire exemption credit regardless of taxable income
 - B. Reduced credits for personal exemptions on the basis of prorated taxable income
 - C. Reduced credits for personal exemptions on the basis of length of stay in California
 - D. Reduced credits for personal exemptions on the basis of another state's tax credit
35. Carolina is a single filing California taxpayer. In 2017 her Federal adjusted gross income (AGI) was \$188,000. For 2017, what is the amount of her California exemption credit?
- A. \$103
 - B. \$108
 - C. \$109
 - D. \$114
36. In California, living together for what amount of time creates a common law marriage?
- A. 5 years
 - B. 7 years
 - C. 10 years
 - D. California does not recognize common law marriage
37. Patricia is a 39-year-old single California resident and has a 12-year-old son named Luke. He lives with her during the 9-month school year in California and spends the 3 summer months with his father in Idaho. She provides approximately 75% of his support. Which of the following regarding Luke's dependency status is correct?
- A. Patricia must alternate claiming Luke as a dependent with his father
 - B. Based on Luke's relationship with Patricia, his age, and that he lives with her for more than half the year, she can claim him as a dependent
 - C. Based on the fact Luke lives with Patricia for only 9 months a year, she cannot claim him as a dependent
 - D. Since Patricia only provides 75% of Luke's support, she cannot claim him as a dependent
38. Jesse has his retired father-in-law, Vick, living with him and his wife Sue for the past three years and they provide approximately 90% of Vick's support each year. Vick has \$2,400 of gross income. Which of the following statements is accurate regarding Vick's dependency status?
- A. Vick cannot be claimed as a dependent based on his gross income
 - B. Vick fails the relationship test and is not a qualifying relative
 - C. Jesse and Sue only provide 90% of Vick's support and in order to meet the qualifying relative test they must provide 100%
 - D. Since Vick lives with Jesse and Sue full time, they provide more than half his support, and his income is less than \$4,000, he can be claimed as a dependent based on the qualifying relative test

Lesson 3

39. Generally, which of the following is true regarding a California personal income tax refund?
- A. Federal law includes the state income tax refund in income. California excludes the state income tax refund from income
 - B. Federal law excludes the state income tax refund from income. California includes the state income tax refund in income
 - C. Federal law and California includes the state income tax refund in income
 - D. Federal law and California excludes the state income tax refund from income
40. Even if a taxpayer did not receive a California Personal Income Tax Refund in the mail, he or she may still receive Form 1099-G for all of the following reasons except:
- A. The refund was directly deposited into his or her bank account
 - B. The refund was offset for other liabilities such as tax, penalties and interest
 - C. The refund was credited towards estimated tax payments
 - D. The refund did not appear on the taxpayer's bank statements



41. All of the following are true regarding the California tax on Social Security income except:
- A. California does not tax Social Security income from the United States
 - B. California does not tax Social Security income from survivor's benefits
 - C. California does not tax Social Security income from disability benefits
 - D. California partially taxes Social Security income from the United States
42. When making California adjustments on FTB Form 540 Line 14 for U.S. Social Security Benefits (and Tier 1 or Tier 2 Railroad Retirement Benefits) the taxpayer should include what amount if he or she used Form 1040EZ for his or her Federal tax return?
- A. \$0
 - B. 10% of total amount
 - C. 25% of total amount
 - D. 30% of total amount
43. California law differs from Federal law in that California does not tax any of the following except:
- A. Railroad benefits paid by individual railroads
 - B. Tier 1 railroad retirement benefits
 - C. Tier 2 railroad retirement benefits reported on Federal Form RRB 1099-R
 - D. Sick pay benefits under the Railroad Unemployment Insurance Act
44. A divorce decree showed James Tyler was to provide \$1,500 a month of "family support" to his ex-spouse. No amount of the family support is designated as child support. What amount of the payment is considered alimony?
- A. \$0
 - B. \$500
 - C. \$1,000
 - D. \$1,500
45. Jerry permanently moved from Florida to California on January 1, 2017. He received \$12,000 pension income during 2017 through a qualified plan from his former Florida employer. What amount of his qualified pension income is taxable by California?
- A. \$0
 - B. \$1,200
 - C. \$6,000
 - D. \$12,000
46. Chad lived and worked exclusively in California until he retired on December 31, 2016. He moved to Nevada on January 1, 2017. His former California employer pays its employees on the 5th of every month. On January 10, 2017, Chad received in the mail his last paycheck of \$4,000 from his former California employer. What amount of the compensation is taxable by California?
- A. \$0
 - B. \$1,000
 - C. \$2,000
 - D. \$4,000
47. Ewan is a nonresident of California and holds a partnership interest in a California partnership. He received a Schedule K-1 from the California partnership that included net income of \$10,000 from California sources. What amount of the distributive share of partnership net income is taxable by California?
- A. \$0
 - B. \$5,000
 - C. \$7,500
 - D. \$10,000



48. Calvin has always lived in Arizona. He owns a siding company in Arizona and in 2017 he earned \$120,000 including \$30,000 from a separate and distinct job in California. What amount of his income is taxable in California?
- A. \$0
 - B. \$15,000
 - C. \$30,000
 - D. \$120,000
49. A Nevada general partnership, with two 50% general partners living in Texas, owns a California apartment which generates \$100,000 of net income. Each partner receives what amount of taxable California-source income from the partnership?
- A. \$0
 - B. \$25,000
 - C. \$50,000
 - D. \$100,000
50. Antonia is a nonresident of California who is under 50 years of age. During the year, she worked temporarily in California. Her California compensation is \$1,000, which she reported on Schedule CA (540NR), column E. Her Federal compensation is \$10,000. Her allowable IRA deduction on her Federal return is \$5,000. Antonia's allowable California IRA deduction that she reports on Schedule CA (540NR), column E, is what amount?
- A. \$0
 - B. \$1,000
 - C. \$2,000
 - D. \$4,000
51. Tony is 29 years old and single. In 2017, he was covered by a retirement plan at work. His salary is \$88,500. His modified adjusted gross income (MAGI) is \$80,000. Tony makes a \$5,500 IRA contribution for 2017. What amount of his IRA contribution can Tony deduct on his California tax return?
- A. \$0
 - B. \$2,500
 - C. \$2,750
 - D. \$5,500
52. Regarding a resident of California's IRA distribution all of the following are true except:
- A. A distribution is fully taxable if the taxpayer's IRA contributions were fully deductible
 - B. If the taxpayer's IRA contributions were partially or fully nondeductible, then the nondeductible contributions are not taxed when they are distributed
 - C. If the taxpayer made nondeductible contributions after 1986, a part of each distribution is considered a return of his or her basis and is taxable
 - D. The taxpayer's basis is the amount of his or her nondeductible contributions
53. What is the maximum California capital gain tax rate?
- A. 10%
 - B. 12.3%
 - C. 13.3%
 - D. 15%
54. Lenore, a single California taxpayer, has taxable income before capital gains of \$78,000 and a long-term capital gain of \$5,000 on the sale of RSS stock. What is the total amount of California state tax Lenore will pay on the capital gain?
- A. \$0
 - B. \$465
 - C. \$750
 - D. \$1,215



55. All of the following are true regarding withholding requirements for sales of California real property closing on or after January 1, 2008 except:
- A. Real estate withholding is a prepayment of California state income tax for sellers of California real property
 - B. Real estate withholding is not an additional tax on the sale of real estate
 - C. The withholding rate is 5½% of the total sale price
 - D. Sellers who meet certain criteria may still qualify for a full or partial exemption
56. Three properties (parcels) are sold within the same escrow agreement. Property A is sold for \$50,000, Property B is sold for \$10,000 and Property C is sold for \$60,000. California real estate withholding is required because the total sale price of all three properties exceeds what amount?
- A. \$10,000
 - B. \$50,000
 - C. \$100,000
 - D. Real estate withholding is not required
57. Nora is completing her 2017 California tax return. She was a resident of California for all prior years and has a California capital loss carryover of \$1,000. What amount should she enter on her California tax return for the California capital loss carryover?
- A. \$0
 - B. \$250
 - C. \$500
 - D. \$1,000
58. Ivan claimed a Federal deduction of \$1,000 for carrybacks of a certain capital loss. What amount can he claim for the capital loss carrybacks on his California return?
- A. \$0
 - B. \$500
 - C. \$750
 - D. \$1,000
59. Interest on which of the following obligations are exempt from California tax?
- A. Interest received from District of Columbia bonds issues after 1974
 - B. Bonds issued by the United States
 - C. Bonds issued by the State of California
 - D. Both B and C
60. Certain mutual funds pay "exempt-interest dividends." If the mutual fund has at least what percentage of its assets invested in tax-exempt U.S. obligations and/or in California or its municipal obligations, that amount of dividend is exempt from California tax?
- A. 25%
 - B. 30%
 - C. 50%
 - D. 51%
61. Which of the following forms is a statement used to notify taxpayers of the amount of California Personal Income Tax Refund, Credit, or Offset they received for a specific tax year?
- A. Form 1099-G
 - B. Form 1099-INT
 - C. Form W-2
 - D. None of the above
62. Lana earned \$100 interest from a California municipal bond and \$30 from an Arizona municipal bond. What amount is taxable income for her California tax return that is not taxable on her Federal return?
- A. \$0
 - B. \$30
 - C. \$50
 - D. \$100



63. All of the following are true regarding California unemployment benefits except:
- A. Unemployment insurance (UI) provides temporary payments to individuals who are unemployed through no fault of their own
 - B. Unemployment insurance benefits are taxable income for Federal purposes
 - C. Unemployment insurance benefits are not taxable by the State of California
 - D. The Employment Development Department (EDD) sends a Form 1099-MISC to each individual for the total unemployment insurance benefits paid during the prior year
64. California excludes unemployment compensation from taxable income. To adjust taxable amounts, the taxpayer should enter the amount of unemployment compensation on which schedule?
- A. Schedule CA
 - B. Schedule D-1
 - C. Schedule G-1
 - D. Schedule P
65. Sonny won \$1,000 from the California State Lottery and \$600 from the Nevada State Lottery. What amount can he exclude from taxable income on his California tax return?
- A. \$0
 - B. \$600
 - C. \$1,000
 - D. \$1,600
66. Tricia had \$100,000 in mortgage debt forgiven through a short sale on her principal residence on her Federal income tax return. Generally, Tricia must include what amount of the discharge of indebtedness from the disposition of her principal residence when completing her Schedule CA for 2017?
- A. \$0
 - B. \$25,000
 - C. \$50,000
 - D. \$100,000
67. Generally, California law is the same as Federal law concerning passive activity losses (PAL) limitations. However, differences such as the special treatment for which of the following may cause the taxpayer's California PAL to be different from Federal PAL?
- A. Tax professionals
 - B. Real estate professionals
 - C. Estates
 - D. Trusts
68. California considers which of the following as income subject to state tax?
- A. Beverage container recycling income
 - B. Health savings account (HSA) distributions for unqualified medical expense
 - C. Gambling winnings
 - D. Rewards received from a government authorized crime hotline

Lesson 4

69. State income taxes may be deducted for Federal but not California purposes. This includes amounts paid through which of the following methods?
- A. Withholding
 - B. Estimated taxes
 - C. Prior year balance dues paid in the current year
 - D. All of the above



70. California law limits the standard deduction of a person who is claimed as a dependent. In 2017, the standard deduction for dependents in California is what amount?
- A. \$750
 - B. \$800
 - C. \$950
 - D. \$1,050
71. Which of the following may take the California standard deduction?
- A. An estate
 - B. A trust
 - C. A partnership
 - D. A married/RDP individual filing separately when the other spouse/RDP also takes the standard deduction
72. In computing the California adjusted gross income (AGI) of a nonresident's or part-year resident's taxable income, which of the following is true?
- A. Only deductions that are attributable to California are allowable
 - B. Only Federal deductions are allowed to compute their AGI
 - C. Both California and Federal deductions are allowed
 - D. Nonresidents or part year residents must use the standard deduction
73. Amanda was a Florida resident until March 31, 2017. While a Florida resident, she earned and received wage income of \$15,000. On April 1, 2017, she permanently moved to California. While a California resident, she earned and received wage income of \$65,000. Amanda is single and had itemized deductions from Florida and California totaling \$24,000. What is Amanda's California itemized deduction amount?
- A. \$4,500
 - B. \$5,000
 - C. \$15,000
 - D. \$19,500
74. Which expenses, subject to the 2% floor, can be itemized by a California-based individual taxpayer?
- A. Common office supplies such as paper
 - B. Occupational safety and health equipment
 - C. Fire extinguishers
 - D. Professional books, magazines, journals and periodicals
75. The itemized deductions of taxpayers in high-income brackets will be limited to the lesser of 6% of the excess of adjusted gross income over the threshold amount or 80% of the amount of itemized deductions otherwise allowable for the tax year. For 2017, the California threshold is what amount for a single taxpayer?
- A. \$159,700
 - B. \$169,730
 - C. \$172,615
 - D. \$187,203
76. Which of the following is true regarding how California conforms to Federal law concerning the deductibility of interest expenses?
- A. An above-the-line deduction is allowed for interest due and paid on qualified education loans up to a maximum of \$3,000
 - B. A deduction is allowed for investment interest up to the amount of net investment income
 - C. A deduction is allowed for interest paid on home equity debts with a maximum indebtedness of not more than \$200,000
 - D. Interest expense incurred to purchase or carry tax-exempt obligations is deductible
77. Arthur is a California resident. He was ordered to pay \$2,000 in alimony and \$3,000 in child support to his former spouse. He meets all the requirements when paying his support. What amount can Arthur take as a deduction for these payments?
- A. \$0
 - B. \$1,000
 - C. \$2,000
 - D. \$3,000



78. Substandard Housing is property in violation of the California state or local health and safety codes as determined by city or county regulatory agencies. Which of the following is true regarding deductions for expenses for substandard property?
- A. Deductions for expenses for substandard property are allowed
 - B. When the property is noncompliant for part of a year, the FTB disallows the deductions for the entire year
 - C. Deductions are allowed for a property only after the regulatory agency re-inspects the property and issues a Notice of Compliance
 - D. Deductions are allowed for a substandard property after repairs are complete
79. For which of the following reason(s) should a taxpayer use *FTB Form 3885A - Depreciation and Amortization Adjustments*?
- A. If there is a difference between the amount of depreciation and amortization allowed as a deduction using California law and the amount allowed using Federal law
 - B. If reporting a difference for assets related to a passive activity
 - C. If reporting depreciation expense from Federal *Form 2106 - Employee Business Expenses*
 - D. All of the above
80. California conforms to the Federal MACRS 39-year recovery period for nonresidential real property, but only for property placed in service after which year?
- A. 1987
 - B. 1996
 - C. 2001
 - D. 2006
81. Although Federal law made permanent the increased IRC Section 179 expense, for California purposes, the maximum IRC Section 179 expense deduction remained at what amount?
- A. \$25,000
 - B. \$50,000
 - C. \$100,000
 - D. \$200,000
82. Calendar-year taxpayers generally have until which date to amend their 2016 tax return to claim a disaster loss that occurred during 2017 (not including weekends or holidays)?
- A. December 31, 2017
 - B. February 1, 2018
 - C. April 15, 2018
 - D. The taxpayer cannot claim a loss he or she sustained in 2017 on his or her 2016 tax return
83. All of the following are true regarding individual voluntary contributions except:
- A. Voluntary contributions may be made on the return Form 540 2EZ
 - B. A taxpayer can make contributions of \$1 or more, in whole dollar amounts
 - C. The voluntary contribution can only be made on the original return
 - D. Voluntary contributions can be reversed on an amended return
84. In 2017, if a taxpayer is 65 years of age or older and claims the Senior Exemption Credit, he or she may make a total contribution of up to what amount to the California Seniors Special Fund?
- A. \$111
 - B. \$114
 - C. \$218
 - D. \$228
85. Susan moved into California on December 1. She made contributions to her IRA and claimed a deduction of \$2,000 on her Federal tax return. Her California wages were \$500. What is her allowable California deduction?
- A. \$0
 - B. \$500
 - C. \$1,906
 - D. \$3,906



86. Kristen reduced her Federal mortgage interest deduction by \$500 (the amount of her mortgage interest credit from Federal *Form 8396 - Mortgage Interest Credit*). When completing her California tax return she can increase the California itemized deductions for home mortgage interest by what amount?
- A. \$0
 - B. \$100
 - C. \$250
 - D. \$500

Lesson 5

87. To qualify for the Nonrefundable Renter's Credit a taxpayer must meet all of the following requirements except:
- A. He or she was a California resident in 2017
 - B. He or she paid rent for at least 3 months of 2017 for property in California that was his or her principal residence
 - C. He or she did not live with another person for more than half the year (such as a parent) who claimed him or her as a dependent in 2017
 - D. He or she is not a minor living with and under the care of a parent, foster parent, or legal guardian
88. Charlie is a single filing, California resident. He is renting a studio apartment that is his principal residence since May of 2017. Charlie's California adjusted gross income (AGI) is \$32,600. He meets all the other requirements. What is his maximum Nonrefundable Renter's Credit for 2017?
- A. \$0
 - B. \$30
 - C. \$40
 - D. \$60
89. For the 2017 tax year, the California Earned Income Tax Credit (CA EITC) is available to California households with two or more qualifying children with adjusted gross income (AGI) of less than what amount?
- A. \$6,718
 - B. \$15,008
 - C. \$22,309
 - D. \$25,270
90. When determining if a taxpayer qualifies for the Joint Custody Head of Household Credit, he or she must have kept up the taxpayer's home as a household that was the main home for the taxpayer's unmarried child, stepchild, or grandchild; or married child, stepchild, or child's descendant whom the taxpayer could claim as a dependent for at least how many days of the year?
- A. 100 days
 - B. 146 days
 - C. 150 days
 - D. 157 days
91. Lucia received \$2,000 cash under her employer's dependent care plan for 2017. The \$2,000 is shown in box 10 of her Form W-2. She incurred \$900 of qualified expenses in 2017 for the care of her 3-year-old dependent child. When claiming the Credit for Child and Dependent Care Expenses what amount should she report for dependent care benefits on Line 13 of her *FTB Form 3506 - Child and Dependent Care Expenses Credit*?
- A. \$0
 - B. \$900
 - C. \$1,100
 - D. \$2,000



92. Mahulay's daughter attends daycare so that he can work. The daycare expenses total \$3,000 for the year. Mahulay paid \$3,000 of these expenses, but his mother, the child's grandmother, reimbursed him \$3,000 for the payment of these expenses. What amount can Mahulay claim for the California Child and Dependent Care Expenses (CDC) Credit?
- A. \$0
 - B. \$1,500
 - C. \$2,000
 - D. \$2,500
93. Audrey claimed \$2,100 on her Federal tax return for her Child and Dependent Care Expenses Credit. Her Federal AGI was \$32,750 and she meets all other requirements. What amount can she claim for the California Child and Dependent Care Expenses (CDC) Credit?
- A. \$0
 - B. \$700
 - C. \$1,050
 - D. \$1,400
94. Tim rolls over \$1,250 from his Archer Medical Savings Account (MSA) to a Health Savings Account (HSA). What amount of the distribution is subject to California income tax?
- A. \$0
 - B. \$125
 - C. \$625
 - D. \$1,250
95. California law provides an income exclusion for compensation or the fair market value of other benefits (except salary or wages) received for participation in a California ridesharing arrangement including all of the following except:
- A. Subsidized parking
 - B. Commuting in a third-party van pool
 - C. Personal vehicle maintenance
 - D. A private commuter bus
96. A group of business associates comes from out of town to Greg's place of business to hold a substantial business discussion. Greg takes his associates out to dinner the evening before the business discussion and spends \$400. What amount can Greg deduct as a cost of business entertainment expense?
- A. \$0
 - B. \$100
 - C. \$200
 - D. \$300
97. The California Revenue and Taxation Code (CR&TC) provides that no trade or business expense deduction is allowed for expenditures made at, or payments made to, a club that restricts membership or the use of its services or facilities on the basis of which of the following:
- A. Gender
 - B. Race
 - C. Religion
 - D. All of the above



98. Zuri had specified costs of \$6,000 for the adoption of Imani, who is a U.S. citizen minor child who was in the custody of a California state public agency. All costs were directly related to the adoption and meet all other criteria. What amount can Zuri claim for the California Child Adoption Costs Credit?
- A. \$0
 - B. \$2,500
 - C. \$3,000
 - D. \$5,000
99. An income-tax credit is allowed for any excess employee contributions for disability insurance under the Unemployment Insurance Code. For 2017, the employee State Disability Insurance (SDI) was .9% and was taxed to a maximum withholding of what amount?
- A. \$900.50
 - B. \$925.80
 - C. \$998.12
 - D. \$1,025.14
100. Royce, a California resident receives \$20,000 from a rental building in Arkansas. Royce only reports the \$20,000 to Arkansas and pays \$2,000 net income tax to Arkansas. Since Royce is a California resident, California also taxes the \$20,000, but gives him a tax credit for what amount for the tax he paid to Arkansas?
- A. \$0
 - B. \$500
 - C. \$1,000
 - D. \$2,000
101. California residents are allowed a credit for net income taxes paid to another State on income also subject to the California income tax. However, the credit is not allowed for which of the following reasons?
- A. If the other state allows California residents a credit for net income taxes paid to California
 - B. If the income taxed by the other state has a source within the other state under California law
 - C. If such states do not allow their residents a credit for net income taxes paid to California
 - D. The amount of the credit is greater than the same proportion of the total California tax as the income taxed by both states bears to the total income taxed by California

Lesson 6

102. Fatin is a married, filing separately taxpayer. She expects her withholding and credits to be less than 90% of the tax shown on her 2018 California tax return. Therefore, Fatin must make estimated tax payments if she expects to owe at least what amount in taxes for 2018 (after subtracting withholding and credits)?
- A. \$100
 - B. \$250
 - C. \$500
 - D. \$1,000
103. Which of the following statement(s) concerning California taxes is correct?
- A. Numerous rulings and decisions over the years have held specific foreign taxes as deductible under the income tax prohibition
 - B. California allows a credit for excess SDI if two or more of the taxpayer's employers withheld more than the maximum amount for the year
 - C. A deduction is allowed for one-half of a taxpayer's Federal self-employment tax liability for the taxable year
 - D. Both B and C



104. Paula purchased a television for \$2,000 from an out-of-state retailer that did not collect use tax. Which of the following is true regarding the California use tax on the purchase?
- A. If a business is located outside of California, sales of physical products delivered to California locations are generally subject to the state's use tax and Paula must use the Use Tax Worksheet to calculate the Use Tax due on the price of the television
 - B. The purchase is only subject to use tax if the business has a permanent or temporary business location in California therefore Paula is not responsible to use the Use Tax Worksheet to calculate the Use Tax due on the price of the television
 - C. The purchase is only subject to use tax if the business has any kind of representative or agent in the state in California therefore Paula is not responsible to use the Use Tax Worksheet to calculate the Use Tax due on the price of the television
 - D. The purchase is only subject to use tax if the business installs or assembles merchandise in California therefore Paula is not responsible to use the Use Tax Worksheet to calculate the Use Tax due on the price of the television
105. California cities and counties are authorized by the Bradley-Burns Uniform Local Sales and Use Tax Law to impose an additional tax of what percent on the sale or use of tangible personal property sold within that city or county?
- A. 1%
 - B. 1.25%
 - C. 1.5%
 - D. 1.75%
106. Joel and Maria have a son named David who is a 20-year-old student at the University of Southern California. David received \$1,300 worth of investment income in 2017 and had earned income \$1,700 but that was far less than half of the support he received from his parents. Both Joel and Maria are still alive. Based on this information, what can be said about the tax liability in California?
- A. Both David's parents were alive at the end of the year, so the Kiddie Tax is owed
 - B. The Kiddie Tax is owed because David is a student under the age of 24
 - C. David had investment income less than \$2,100 so there is no tax obligation
 - D. David had earned income and must pay California taxes on his investment and earned income he received
107. If the child files their own return, the taxpayer uses *FTB Form 3800 – Tax Computation for Certain Children with Investment Income*, to compute the tax rate on all of the following except:
- A. Taxable interest
 - B. Dividends
 - C. Capital gains
 - D. Wages
108. Nancy is a California resident who is filing her taxes as a head of household. Her alternative minimum taxable (AMT) income for 2017 is \$179,000. What is her maximum alternative minimum tax (AMT) exemption amount?
- A. \$45,895
 - B. \$63,481
 - C. \$68,846
 - D. \$91,793
109. The alternative minimum taxable income (AMTI) exclusion is available to certain small business taxpayers who can exclude income, positive and negative adjustments, and preference items attributable to any trade or business when figuring AMTI. To qualify for this exemption, a taxpayer must own or have an ownership interest in a trade or business and have aggregate gross receipts, less returns and allowances, during the taxable year of less than what amount?
- A. \$1,000,000
 - B. \$2,000,000
 - C. \$3,000,000
 - D. \$4,000,000



110. California allows a credit in the form of a carryover to taxpayers who have incurred California alternative minimum tax in prior years but not in the current tax year. The credit is computed on *FTB Form 3510 - Credit for Prior Year Alternative Minimum Tax - Individuals or Fiduciaries*, and for a taxpayer claiming this credit for the first time, most of the figures needed for the computation come from Schedule P (540) of the prior year's California personal income tax return. Unused credits may be carried forward for how many years?
- A. 10 years
 - B. 12 years
 - C. 20 years
 - D. Indefinitely
111. If the taxpayer has already filed Form 540 with Form W-2 that included the amount of medical coverage for his or her nondependent adult children in his or her California wages, he or she should contact his or her employer to have them issue him or her Form W-2C excluding the amount from his or her California wages. The taxpayer should use which FTB Form as a substitute for Federal Form W-2C if his or her employer does not issue him or her a Form W-2C?
- A. Form 540
 - B. Form 540X
 - C. Form 3525
 - D. Form 3582
112. Which of the following is a false statement regarding *Form 1095-A - Health Insurance Marketplace Statement*?
- A. Form 1095-A is used to report certain information to the IRS about individuals who enroll in a qualified health plan through the Marketplace
 - B. Form 1095-A is furnished to individuals to allow them to claim the Premium Tax Credit
 - C. Form 1095-A is furnished to individuals to allow them to reconcile the credit on their returns with advance payments of the premium tax credit (advance credit payments)
 - D. Form 1095-A is used to report certain information to the IRS and to taxpayers about individuals who are covered by minimum essential coverage and therefore are not liable for the individual shared responsibility payment
113. Web Pay is an online application to make electronic payments from a taxpayer's bank account to pay personal and business income taxes. For which of the following would a California taxpayer **not** be able to use Web Pay?
- A. To make an estimated tax payment
 - B. To pay the balance due on his or her current-year tax return
 - C. To request an installment agreement
 - D. To make an amended return payment

Lesson 7

114. The minimum penalty for filing late in California is either 100% of the unpaid tax or what dollar amount, whichever is less?
- A. \$50
 - B. \$75
 - C. \$135
 - D. \$150
115. Interest will be charged on any delinquent or late payment from the original due date of the return to the date paid. In addition, interest will be charged from the date of the billing notice until the date of payment, if other penalties are not paid within how many days of the date of the notice?
- A. 10 days
 - B. 14 days
 - C. 15 days
 - D. 20 days



116. Any taxpayer failing to provide requested information or failing to file a return after notice and demand, faces a penalty of what percentage of total tax liability assessed without regard to any payments or credits?
- A. 10%
 - B. 20%
 - C. 25%
 - D. 30%
117. An individual taxpayer wants to file a claim for refund for tax year 2013. What is the latest date the taxpayer could be allowed the claim if the "look back" provision is not a factor?
- A. April 15, 2017
 - B. October 15, 2017
 - C. April 15, 2018
 - D. October 15, 2018
118. Evelyn filed her 2014 tax return on March 17, 2015. The statute of limitations for Franchise Tax Board (FTB) to assess tax for this tax year would therefore expire on what date?
- A. April 15, 2016
 - B. April 15, 2017
 - C. April 15, 2018
 - D. April 15, 2019
119. If a taxpayer or the IRS reports a Federal adjustment to the FTB, or if a taxpayer files an amended California return reflecting the Federal adjustment, within six months after the final Federal determination date, the FTB may issue a proposed assessment. The assessment can be issued within the later of: 1) how many years after the date notice of the Federal adjustment was received, or 2) the expiration of any other open statute of limitation (SOL) under California law?
- A. Two years
 - B. Three years
 - C. Four years
 - D. Five years
120. A Power of Attorney (POA) Declaration gives all of the following general privileges to the taxpayer's POA representative except:
- A. Talk to the Franchise Tax Board (FTB) about a taxpayer's account
 - B. Receive and inspect taxpayer's confidential tax information
 - C. Represent the taxpayer in Franchise Tax Board (FTB) matters
 - D. Receive and endorse a taxpayer's refund check



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Instructor (enter name)	5 4 3 2 1

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