

5-Hour CTEC Refresher

Individual Returns and Form 540 Series



IRS-APPROVED
CONTINUING EDUCATION
PROVIDER

Preamble

- This will be worth 5 CE credits in the California Tax Law category. The content is TY2024 law.
- This course is considered **Beginner** in difficulty, since it relies upon very little initial understanding of tax law terminology.
- The **refund policy** and **content update** policies are available online, or by request.
- Contact us at **(866) 357-2052 / (800) 399-6133** Monday through Friday, 9am to 6pm EDT.
- Course Number (CE): **6245-CE-00001**



Preamble

- Federal Direct Tax Services has been approved by the California Tax Education Council to offer continuing education courses that count as credit towards the annual “continuing education” requirement imposed by the State of California for CTEC Registered Tax Preparers. A listing of additional requirements to register as a tax preparer may be obtained by contacting CTEC at P.O. Box 2890, Sacramento, CA, 95812-2890, by phone toll-free at (877) 850-2832, or on the Internet at www.ctec.org.



Outline

- Discuss a broad swath of California tax law topics and provisions relating to individual taxes, namely at the most introductory levels regarding the specifics of filing an average resident return.
- **What this is not:** “How to” or walkthrough of filing a return, discussion on a specific filing scenario or an actual return.



Federal Conformity

- Generally speaking, California conforms to the Internal Revenue Code as of January 1st, 2015 per Assembly Bill 154. The State will still conform to other IRC provisions after that specific date.
- When such differences between Federal and State taxation occur, they can be found www.ftb.ca.gov under a search for “conformity” or inside **FTB Publication 1001, Supplemental Guidelines for California Adjustments.**



Residency

- Residency and filing requirements depend on a host of different factors. Depending on the source of income, the location of the taxpayers or their work, the duration of stay, the intentions of the taxpayer in regards to their living conditions, and military service; different forms and reporting procedures can result.
- Resident taxpayers file the **Form 540** and non-residents or part-year residents file **Form 540NR**.



Residency

- The relevant work is **FTB Publication 1031**, which contains essentially all of the rules regarding residency.
- For the state return, determination of residency is really important because it determines what income is considered taxable.
- There are also some safe harbor and month-based rules which allow some generalized default interpretations.



Residency

- The FTB considers a **resident** to be an individual who:
 - Is in California for other than a temporary or transitory purpose (including residents with domiciliary intent); or,
 - Domiciled in California, but outside of the State for temporary or transitory purposes.
- A **nonresident** is anyone who is not a resident.
- A **part-year resident** is someone who was or who *becomes* a resident part-way through the year.



Residency

- Domicile is different from residence in California tax law and has a very specific legal definition.
- **Domiciled** means the place where the taxpayer voluntarily establishes themselves and their family, not for a limited or special purpose, but for the purpose of making it a true, fixed, permanent home and principal establishment.
- A taxpayer can only have **one** domicile at a time.



Residency

- The State takes many separate factors into account with regard to the taxpayer's intent towards establishing their domicile.
 - Bills and expenses for living costs
 - Voting registration
 - Licenses, car plates, property registration
 - Children's schooling
 - And so on...

Residency

- California has a safe harbor provision for any taxpayer who leaves the State under any kind of employment contract for an uninterrupted period of 546 consecutive days. These individuals will be considered nonresidents so long as they:
 - Have \$200,000 or less in intangible income during the year in which the contract is in place; and,
 - The contract's purpose isn't for evading state tax liabilities.



Residency

- California is a **community property state**, which means that half of community income is split equitably between the spouses.
- In the case of a separate return, this can mean the moving of income, deductions, etc.
- This can also mean that separate returns, resident or not, can make some portion of the income nontaxable because it's due to your spouse and their filing obligations.



Residency

- If a taxpayer spends an aggregate of **six months or less** in California during the year, and is domiciled in another state, and does nothing while in California other than what a tourist, visitor, or guest would do, then there is a rebuttable **presumption of nonresidency**.
- This is known as the “**six-month rule**” and can be instructive for whether a taxpayer is considered a resident for state purposes.



Residency

- If a taxpayer spends an aggregate of **nine months or more** in California during the year, regardless of domicile in another state, then the State is going to presume that they are a **resident**, unless the taxpayer is able to provide evidence that they are in the State for a temporary or transitory purpose. This is the "**nine month rule.**"
- The look-back period for this presumption is contained *within* a single tax year.



Residency

- Taxpayers who move out of state will first have their residency determined on a facts and circumstances basis as to whether the move is temporary or transitory.
- If so, the taxpayer remains a resident despite being outside of the state.
- If not, they generally are considered to be a part-year resident starting the day that they leave the State for a new location.



Residency - Examples

- The taxpayer is a business executive and resides in New York with his family. Several times each year he travels to other states for business purposes, staying a couple of weeks. The time spent in California for the taxable year is less than six (6) weeks in the aggregate. His family usually remains in New York.
 - *Nonresident* – Taxed only on income sourced to the State, including services performed.



Residency - Examples

- In December of the prior tax year, the taxpayer moved to California on an indefinite job assignment. They rented an apartment and lived in California while working. They retained their original home and bank account until the spring of the current tax year (the one you are preparing), at which time they sold their home and transferred banks and other registration over to California.
 - *Resident* – The job assignment was indefinite, so they became a resident in December of the year prior. Income from all sources is taxable.



Residency - Examples

- A taxpayer was a local until fall, at which point they moved to Nevada where they maintain a summer home. They continue to spend six or seven months each year at their California home. They spend only three to four months in Nevada; the rest of the time traveling in other states or countries. They transferred their bank accounts to Nevada, but continue to maintain both social club/business connections in California afterwards.

Residency - Examples

- *Resident* – Declarations of residency are not enough to establish residency by themselves. The time spent, connections maintained, and other factors contribute to the presence in Nevada being temporary or transitory in nature. Therefore, all income is taxable to California.
- The determination is more than just a claim; it's based on intent, time, connections, etc.



Interactive Question 01

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Military Filers

- Military filers domiciled outside the State exclude their military compensation from gross income. The same rules apply to their spouse.
- Military taxpayers and their spouses who are domiciled in the State include their military pay in their gross income and have identical filing requirements while domiciled in California because they are considered residents for state tax purposes.



Military Filers

- If the taxpayer is permanently stationed outside of California, they don't include their military pay in California-source income.
- Taxpayers who are domiciled in California and who enter the military are considered:
 - Residents of California while stationed in California
 - Residents of California while stationed on temporary duty assignments (TDY) outside of California
 - Nonresidents while stationed outside of California on PCS or Permanent Change of Station orders



Military Filers

- Taxpayers who are domiciled outside the State and who enter the military remain nonresidents while stationed in California.
- The **Military Spouses Residency Relief Act** or MSRRA rules mean that a nonmilitary spouse of a military taxpayer does *not* gain or lose a residence or domicile for tax purposes due to residency within or outside of California to be with their military spouse serving under official orders if they have the same domicile.



Military Filers

- If this domicile is outside of California, regardless of whether either taxpayer is present in California, the income of the nonmilitary spouse is not considered California-source income. This stays the same as long as the nonmilitary spouse is with the military spouse under official orders and their shared domicile is outside the state of California.



Military Filers

- This only applies to taxpayers serving as a member of the Uniformed Services (e.g. Army, Marines, Navy, Air Force, etc.) but not to civilians who work with the military or to spouses not covered under the MSRRA. These taxpayers figure their residency and California-source income as explained earlier for residents and nonresidents.
- This also doesn't apply to people in the U.S. Foreign Services.



Military Filers

- State domicile; Stationed in California
 - Resident
- State domicile; outside state (TDY/TCS/TAD)
 - Resident
- State domicile; outside state (PCS)
 - Nonresident on day of departure
- State domicile and home port; sea duty
 - Resident



Military Filers

- Nonmilitary spouse; State domicile; Stays in California while military spouse is away
 - Resident; Separate income taxed, half of community income taxed if military spouse has State domicile too
- Nonmilitary spouse; State Domicile; Goes with military spouse on duty
 - Same as with TDY/PCS dichotomy from before, starting the day of departure*



Military Filers

- Military domiciled outside State
 - Stays nonresident unless domicile created
- Nonmilitary spouse; Domicile outside of State
 - Stays nonresident unless domicile created
- Double military filers
 - Each gets own treatment as an individual
- See **FTB Publication 1032** for more information



Filing Requirements

- Generally speaking, the “who” in “who needs to file a return” for California is based on the same metrics as the federal return:
 - Required to file a federal return; and,
 - Have income from a California source*; and,
 - Have income above a certain amount; or,
 - Need to file to pay or collect from special tax provisions.
- The values for it are different, but the principle behind it is the same.



Filing Requirements

- The first step is to see if California gross income from all sources is at or above the threshold level for the taxpayer's filing status, age, and number of dependents. If so, they have a filing requirement.
- California gross income includes all income from all sources in the form of money, goods, property, and services that are not exempt from tax by the state.



Filing Requirements

- The second step, if they do not have a need to file under the first set of requirements, is to see if their California adjusted gross income (federal AGI plus or minus California adjustments) reaches or exceeds the same thresholds.
- Gross income from business activity, rental activity, and stock sales minus any applicable deductions factors in here.
 - LLCs may have separate filing requirements.



Filing Requirements

- Single or Head of Household
 - Step 1 Gross Income (0 deps/**1 dep**/**2+ deps**)
 - **\$22,273** / **\$37,640** / **\$49,165**
 - **\$29,723** / **\$41,248** / **\$50,468** (Age 65+*)
 - Step 2 Cali AGI (0 deps/**1 dep**/**2+ deps**)
 - **\$17,818** / **\$33,185** / **\$44,710**
 - **\$25,268** / **\$36,793** / **\$46,013** (Age 65+*)



Filing Requirements

- Married / RDP Filing Jointly
 - Step 1 Gross Income (0 deps/1 dep/2+ deps)
 - \$44,550 / \$59,917 / \$71,442
 - \$52,000 / \$63,525 / \$72,745 (One 65+*)
 - \$59,450 / \$70,975 / \$80,195 (Both 65+*)
 - Step 2 Cali AGI (0 deps/1 dep/2+ deps)
 - \$35,642 / \$51,009 / \$62,534
 - \$43,092 / \$54,617 / \$63,837 (One 65+*)
 - \$50,542 / \$62,067 / \$71,287 (Both 65+*)



Filing Requirements

- Qualifying Surviving Spouse
 - Step 1 Gross Income (0 deps/**1 dep**/**2+ deps**)
 - **N/A / \$37,640 / \$49,165**
 - **N/A / \$41,428 / \$50,468** (Age 65+*)
 - Step 2 Cali AGI (0 deps/**1 dep**/**2+ deps**)
 - **N/A / \$33,185 / \$44,710**
 - **N/A / \$36,763 / \$46,013** (Age 65+*)
- Age 65 by January 1st, of the year after*



Filing Requirements

- MFS Filers combine income under the joint table. They may need to file returns even if only one spouse earned income.
- Dependents will need to file their own returns if their income is more than their Standard Deduction value.
- The calculation of the Standard Deduction for a dependent filer (from the Form 540 instructions) goes like this:
 - Take the larger of Earned Income or **\$1,300**.
 - Compare the above value to **\$5,540 / \$11,080** (Standard Deduction for California) and take the smaller of the second comparison.



Filing Requirements

- California did not conform to the changes to “Kiddie Tax” on the federal return due to the TCJA changes, so the federal repeal brings the State back into compliance and California taxes thusly:
 - Children that do not itemize pay taxes on unearned income between \$1,300 and \$2,600 at single rates, and at their parents’ top tax rates if over \$2,600. Earned income is taxed at single rates.



Filing Requirements

- Parents can use **FTB Form 3803** to include their children's unearned income up to \$12,999, but not under \$1,300 (TY2024).
- California also has a computation form for the income tax that is attached to the *child's* Form 540 or 540NR known as the **FTB Form 3800**.
 - It takes the amounts from both the child's and the parent's returns in order to calculate the amount of tax due. This is attached to the child's return with the "FTB Form 3800" box marked.



Filing Requirements

- Taxpayers may have other requirements to file, even if they don't meet the above income thresholds:
 - If the taxpayer is married/RDP filing separately with separate property income and owes tax.
 - Owing tax on lump-sum distributions, QRPs like IRAs and MSAs, AMT, recapture taxes, deferred tax on certain installment obligations, taxes on accumulated distributions from trusts, and tax from children with investment income above \$2,600.



Interactive Question 02

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Filing Statuses

- On the federal return, the primary determinant of filing status is the taxpayer's marital status at the end of the tax year.
- For the purposes of California returns, this is essentially the same. However, California also has **Registered Domestic Partners** or **RDPs** are a form of civil union which does not have the same effect as being legally married on a federal return.



Filing Statuses

- Taxpayers in an RDP are able to file jointly for their State return, or they can file separately.
- While taxpayers in an RDP might not be considered “married” for federal tax filing purposes, their income will most likely still be subject to the rules regarding **community income** for reporting and apportionment purposes on the federal return and require **Form 8958**.



Filing Statuses

- California taxpayers must use the same status on their state return as they use (or would use) on their federal return.
 - RDPs who file separate federal returns must use either joint or separate RDP status on their state returns.
- Taxpayers are also bound, when filing separately, to use the same deduction methods for each return, just like on the federal return.



Filing Statuses

- Taxpayers who file as Head of Household on their federal returns may only file as Head of Household on their State returns if they meet the conditions of *considered unmarried* or they are *considered not in a domestic partnership*.
- Taxpayers can choose to file separately if either spouse was an active member of the Armed Forces or any auxiliary military branch during the year, regardless of their federal filing status.



Filing Statuses

- Individuals who file as Head of Household on their state return must attach **FTB Form 3532** in order to show how they reached their determination of the status.
- There is no federal equivalent form, but HOH status on the federal return is part of the scope of required due diligence for **Form 8867**, so the information should mirror nicely.



Filing Statuses

- California also allows for an exception to matching the federal status for taxpayers who have nonresident alien spouses with no CA source income. Individuals with a nonresident alien spouse who themselves have no state income can choose to file separate state returns.
 - If the nonresident spouse is domiciled in a community property state, it will be split between the spouses and they will not qualify for this exception for the NRA spouse.

Filing Statuses

- **Example:** *Two taxpayers in an RDP file separate tax returns as Single on the federal level. One of the two itemizes their federal return. At the state level, they file jointly and decide to take the Standard Deduction instead of itemizing. Why can they do this?*
 - An RDP isn't marriage to federal, but it is to the State for the filing status; and,
 - Itemizing for each return is independent, when comparing to jurisdiction.

Filing Statuses

- **Example:** Same as before, but the taxpayers get legally married during the year and still file separately, both itemizing. At the state level, they file separately, but decide to take the standard deduction.
 - Itemizing for each return is independent, when comparing to jurisdiction.
 - They were required to both itemize at the federal level as soon as one did.



Common Law Marriage

- California has both legal marriages and registered domestic partners, or RDPs. The State, however, does not have or allow the creation of **common law marriages**.
- Common law marriages are marriages which are allowed mostly due to “presentation” to one’s community.
- While the state doesn’t allow them, they recognize them if imported as valid from outside of the state.

RDP Equivalents

- If taxpayers are joined together in a same-sex legal union, but not legally married, in another state and then have a California filing need; they are treated as though they are in an RDP.
- For the purposes of State law, any taxpayer in an RDP is treated as though they are functionally married. If a law or tax position in the State is predicated on marriage; it works for those in RDPs.



RDP Adjustments

- Under California law, RDPs must file their returns either jointly or separately. RDPs alone are not allowed to use a married filing status on the Federal return. Oftentimes, the income limitations of a single and joint filer are the same, as opposed to half that same value for separate filers. In order to get the correct figures for the California return, an RDP might be required to reduce the amount of a deduction reflected on a federal tax return.



RDP Adjustments

- Another frequent adjustment involves rules on substantive transfers between taxpayers who are married or in an RDP. Generally, there is no gain recognized when a spouse transfers property to the other spouse. The same applies to RDPs, at least for the California return. The Federal return is not likely to have this same treatment for most things.



RDP Adjustments

- RDP adjustments include, but are not limited to the following:
 - Division of community property
 - Capital losses and gains, sales of personal residences, rental real estate passive losses
 - Dependent care assistance and medical expenses
 - Treatment of investment, education loan, equity loan, and real property acquisition interest
 - IRAs and other retirement vehicles



Interactive Question 03

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Income Taxable By California

- For resident taxpayers; **all** income received is considered taxable.
- For nonresident taxpayers; only income that is considered **sourced** to California is considered taxable. Also, any pension received after the 31st of December, 1995 is nontaxable.
- For part-year taxpayers; all income received **while a resident** is taxable, and so is all California source income received while a nonresident.



Wages, Salaries, and Tips

- Residents* are taxed on all wages, salaries, and tips regardless of where they worked.
 - *This includes the portion of the year where a part-year resident was considered a resident.
- Sourcing is only important for part-year residents and nonresidents, and the location where the services were performed is the key piece of info on whether the income was considered to have been California source income.



Interest and Dividends

- Interest and dividend income is typically sourced where the taxpayer is considered a resident. However, there are certain circumstances which may change the source of these types of payments for California income tax purposes. If an account or security is used in connection to a trade or business or used as collateral for a loan for which the proceeds are used for trade or business in California then the income is considered California source income.



Business Income and Loss

- Businesses are considered to have a California source if they operate a trade, business, or profession within California.
- It may also be considered California-sourced if the benefit of the services, intangible property, or goods is to the benefit of California residents regardless of the location of the provider of such trade or business.
 - *Just out of state, but all business in CA?...*



Business Income and Loss

- The same application of income treatment can be said to potentially apply to all rental, royalty, sale, or lease income from property within California.
 - Rental, royalty, stock sales, pass-throughs, etc.
- There are also considerations for business licenses, which generally need to be obtained based on the local laws of your clients' jurisdiction.



Business Income and Loss

- Regarding nonresidents, the portion of business considered California-sourced is a distinct entity from the business activity conducted elsewhere. Income and loss from this activity may be apportioned between California and non-California sources. Without a waiver or exemption of some kind; Withholding may be required on this income from nonresidents engaged in a California source trade, business, or profession



Real Estate / Property Sales

- Sales of real estate at either a gain or loss have a source where the property is located. Generally speaking, California property sold is considered California source income regardless of the residency status of the taxpayer. Any gains would therefore be considered taxable. Sales of intangible property are considered California source if the sale occurred during the period where the taxpayer was considered a resident.



Installment Sale Income

- Real property sold has the source determined based on its location and intangible property on the residency status of the taxpayer at the time of the sale. If the taxpayer was always a nonresident, the income is not taxable by California unless it is sourced to California and residents are taxed on all income as normal.
- Otherwise, normal rules for reporting installment sales apply, treating it as normal installment gain.



Installment Sale Income

- Former residents are taxed on California sourced property if the property is sold before becoming a nonresident. If the property is sold before the taxpayer moved out of state, and the property was an out-of-state property; the income is nontaxable to California unless the sale and subsequent installment sale income occurred prior to 2002.



Installment Sale Income

- Residents who move into California during the year are taxed by California on California source property sold regardless of the date of the move. If they sell an out-of-state property before moving to California that income is considered taxable by California unless the sale and subsequent installment sale income occurred prior to 2002.



1065/1120S/LLC/Trust Income

- Residents are taxed fully on these types of income. Nonresidents are taxed only on the portion of these types of income that are considered to be California sourced. Part-year residents have to divide their year into two distinct portions; the portion where they are a resident and where they are a nonresident. They include all items of income and loss for the resident portion of the year and only the State-sourced portion of income and loss for the nonresident part of the year.



Pension and Annuity Income

- As usual, residents are fully taxed on all employer-sponsored and self-employment pensions, profit-sharing plans, deferred compensation arrangements, and stock bonus plans regardless of where the services were performed.
- Nonresidents, however, are not taxed on these distributions for pensions received after December 31st of 1995.



Lump Sum Distributions

- Residents continue to have this type of income considered taxable, regardless of where the services were performed and whether or not the services were performed and distributions accrued before becoming a California resident.
- Nonresidents consider this income nontaxable by California, unless income consists of distributions from nonqualified plans with a California source.



IRA/SEP/Keogh Distributions

- IRA, Roth IRA, SIMPLE IRA, SEP, and Keogh distributions received after becoming a nonresident of California are not considered taxable.
- Distributions from a SEP that has accrued contributions made after 1986 are taxed by California the same way as pension and Keogh distributions. Those distributions made from any contributions made before 1987 are taxed by California in the same manner as IRA distributions.



Moving Expense/Stocks & Bonds

- Moving expense reimbursements are sourced to the location where the taxpayer finished their move, regardless of their residency at the time that the move began.
- Sales of stocks and bonds are sourced to where the taxpayer was a resident at the time of the sale. If the sale of stocks and bonds is a facet of the taxpayer's business; refer to the earlier slide on sourcing business income for guidance.



Moving Expense & TCJA

- The TCJA eliminated the adjustment for moving expenses (calculated on federal Form 3903) for virtually all taxpayers except certain active duty members of the Armed Forces. The State does not conform to this treatment.
- Instead, non-military taxpayers complete the new **FTB 3913** to determine the amount of their allowable adjustment and then translate this over to their Schedule CA.



Interactive Question 04

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Sourcing Issues – NR/PY

- Generally speaking, income (and by extension the deductions allowable and associable to that income) follow the general guidelines to income source apportionment for nonresidents and part-year residents as described under the residency section earlier.
- When completing the Schedule CA for part-year residents, make sure to appropriately place the true California source figures on the Schedule.



Sourcing Issues – NR/PY

- In particular, this means that on Form 540NR version of the Schedule CA, the rightmost column E figures should contain the California source amounts to calculate the pro rata amounts for finishing the Form 540NR.
- This will be primarily related to the income and adjustments, since deductions lack cols. D/E.
- Federal itemized deductions are modified by conformity adjustments, and then the amounts are modified by the math of the Part IV calcs.



Community Property

- Community property laws are laws which assign items of income and expense equitably between spouses and RDPs.
- The domicile of the spouse* determines the division of income between spouses* when separate returns are filed. Each must follow the laws respective to their own domicile, whether the state is a separate property or community property law state.



Community Property

- Generally speaking, all income within community property states is broken into **community income** and **separate income**.
- Community income is income generated from community property. It also includes compensation if the spouse* earns the income while domiciled in a community property state.
- Community income is distributed equitably between spouses*, as are connected expenses.



Community Property

- Separate property consists of:
 - Property owned before marriage*
 - Property received as gifts and inheritances
 - Property purchased with separate property funds
 - Earnings while domiciled in a separate property state
 - All property declared separate in a valid agreement
- Separate income is income derived from any separate property.



Community Property

- Separate income retains its character so long as the property, income, or funds do not become **commingled**, which generates an interest for the other spouse* and can change the character of any separate property and income into community property or income.
- Deductions between community items are split equally, while those which are separate are taken by the spouse* who owns the separate property.



Community Property

- If the nature of an item is not determinable, then the default assumption is an equal split between the spouses* if paid from community funds and per spouse* if paid from separate funds.
- Dependents can be arranged between spouses* however they agree to, but none of the amounts for any one dependent can be split.
- On the federal level, community property is reported on a **Form 8958**.



Form 540 Side 01

- The first page of the Form 540 is pretty much straightforward in its completion. The top half is dedicated to the identifying information for the taxpayer and spouse, if any.
- Most are self-explanatory. There is a line for "Additional information" and "PBA codes" which may need to be filled out in connection to certain, specific tax circumstances.



Form 540 Side 01

- Line(s) 1-5 are used to indicate the filing status that is being used on the return.
- There's an indicator above this section for when the federal and state filing status differs.
- Taxpayers who check Line 3 or 5 will need to provide the full TIN and name of the spouse on the provided fields.
 - Checking Line 5 will also require placing the year that the spouse/RDP passed away.



Form 540 Side 01

- Taxpayers who can be claimed as a dependent on another return – regardless of whether or not the other taxpayer actually did so – check the spot on Line 6 to indicate that they can be claimed by another person.
- In a general sense, this will make the taxpayer not able to claim most credits and will impact the amount of their personal exemptions to be "0" in most cases.*



Form 540 Side 01 - Exemptions

- Unlike the federal return, California is not compliant with the loss of the personal exemption, but they were also never in compliance fully with the same method. Instead, California provides **exemption credits** instead of reductions of taxable income.
- California provides these exemption credits in much the same way that the Feds calculated pre-TCJA exemption values.



Form 540 Side 01 - Exemptions

- Taxpayers and spouses each get one (1) exemption.
- If the taxpayer or spouse is age sixty-five (65) by the first day of the following calendar year; they get another one (1) for their age.
- If either are legally blind, they receive an additional one (1) exemption.
- These exemptions stack together.
- These are totaled on Form(s) 540 and 540NR, line(s) 7-9 and then multiplied by **\$149** on the lines next to the boxes.



Form 540 Side 02 - Exemptions

- On the spots for Line 10; place the name, TIN, and relationship for up to three (3) dependents on the second page. Afterwards, total the number of them on the return and place it in the box, multiplying that total by **\$461** and placing it then into the line.
- If there are more than three (3) dependents on the return, attach a statement to return containing the same information as above for the rest of them and make sure that they are factored into the total.



Form 540 Side 02 - Exemptions

- If a dependent dies during the year and was not issued a TIN, place "Died" on the SSN line and then attach a death certificate, birth certificate, and/or any hospital records. The documents must support that the child was born alive.
- The first year that a blindness exemption is claimed, the taxpayer must attach a doctor's statement showing that they are legally blind. If the taxpayer is able to be claimed as a dependent, they cannot take this.



Form 540 Side 02 - Exemptions

- Taxpayers who are able to be claimed as a dependent are also not able to take an exemption on their return unless they are filing jointly and only one spouse is able to be claimed as a dependent.
- Take the totals for all of these exemption credits from Line(s) 7-10 and total them together. They are placed on Line 11, on the top of Side 02 of FTB Form 540.



Interactive Question 05

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Form 540 Side 02

- The Side 02 starts with the Line 10 dependents and the total tentative amount of the available exemption credits on Line 11. These carry over to Line 32, but may be limited there due to high AGI.
- The limitations begin when Federal AGI meets or exceeds certain amounts of income. In this case, the reduction is equal to an amount per “band” of income.



Exemption Credit Limitations

- The limitation begins when the Federal AGI meets or exceeds:
 - Single / Separate - **\$244,857**
 - Joint / QSS - **\$489,719**
 - HOH - **\$367,291**
- The difference between the Federal AGI and this threshold is divided by **\$2,500** (or **\$1,250** for separated filers), rounded up to the next, nearest whole number.



Exemption Credit Limitations

- This number is multiplied by **\$6**. Afterwards, it is multiplied by the total exemption count from Line(s) 7-9 and Line 10, separately.
- The first total is subtracted from the **personal exemptions** down to, but not less than, **\$0**.
- The second total is subtracted from the **dependent exemptions** down to, but not less than, **\$0**.
- These two totals are then combined.



Exemption Credit Limitations

- **Example:** Joint taxpayer (under 65, not blind) with three children; Federal AGI of \$575,000.
 - \$575,000 minus \$489,719 = **\$85,281**.
 - \$85,281 divided by \$2,500 is **35**, rounded up.
 - $35 \times \$6 = \mathbf{\$210}$.
 - Line 7-9 exemption(s) total 2 for **\$298**; Line 10 total exemptions 3 for **\$1,383**.
 - $\$210 \times 2 = \mathbf{\$420}$; $\$210 \times 3 = \mathbf{\$630}$.
 - $(\$298 - \$420) + (\$1,383 - \$630) = \mathbf{\$753}$



Exemption Credit Limitations

- **Example:** Separated taxpayer (under 65, not blind) no children; Federal AGI of \$325,000.
 - \$325,000 minus \$244,857 = **\$80,143**
 - \$80,143 divided by \$1,250 is **65**, rounded up.
 - $65 \times \$6 = \mathbf{\$390}$.
 - Line 7-9 exemption(s) total 1 for **\$149**.
 - $\$390 \times 1 = \mathbf{\$390}$.
 - $(\$149 - \$390) = -\$241$, round up to **\$0**.



Form 540 Side 02

- On Line 12, the totals for “State Wages” are placed on the line. Generally, this should be the combined totals of all Form W-2 wages for California listed in Form W-2, Box 16.
 - If there are wages which are not represented on Form(s) W-2, or wages for where no Form W-2 was received timely; Taxpayers may complete a FTB Form 3525 substitute form and attach to their return, on or after February 1st of the filing season.



Form 540 Side 02

- On Line 13, the Federal AGI from Form(s) 1040 and 1040NR Line 11 is ported over.
- Line 14 contains adjustments from the Schedule CA, Part I, Line 27, Column B. (Subtractions)
- On Line 15, Line 14 is subtracted from Line 13, and the answer is placed regardless of sign.
 - Negative values are in parentheses.
- Line 16 contains adjustments from the Schedule CA, Part I, Line 27, Column C. (Additions)



Form 540 Side 02

- Line 17 combines the amounts of Line(s) 15 and 16 to arrive at **California Adjusted Gross Income** or **California AGI**.
- Like the Federal return, a California taxpayer has the option of taking the higher of the **standard deduction** or their **itemized deductions**.
- Federally, some disaster losses are allowed for those taking the standard deduction. On the State return, only those who itemize take disaster losses.



Standard and Itemized Deductions

- Taxpayers in California must follow the deduction schema used by their spouse or RDP if filing separately.
- Dependent filers may use either way, whichever results in the greatest tax savings.
- Taxpayers can itemize their State return even if they did not itemize their Federal return. Either way, it starts with completing a Federal Schedule A and Part II or the Schedule CA.



Standard Deductions

- The amounts of the California **standard deduction** are as follows:
 - Single / Separate - **\$5,540**
 - Joint / HOH / QSS - **\$11,080**
- Dependent filers also have a value:
 - Take the *larger* of **Earned Income** or **\$1,300**.
 - Take the *smaller* of the above compared to the amount for their filing status.



Itemized Deductions

- Taxpayers who itemize in California start with the Federal Schedule A and then check the box and complete Part II of the Schedule CA to figure the difference between the totals.
- Once these differences are figured, the totals of the Schedule CA, Part II, Line(s) 1 through 30 are placed onto the Form 540, Line 18.
- Both the Federal Schedule A and the Schedule CA are attached to and sent with the return.



Form 540 Side 02

- Once the taxpayers have figured which type of deduction to use, this total is placed on Line 18.
- Next, this is subtracted from the State AGI total on Line 17 to arrive at the **taxable income** value. If this value is less than zero, then the value is \$0 and doesn't carry into the negative.
- This value is then placed on Line 19.
 - Taxpayers reduce Line 19 by any amounts of CCF deduction claimed on the Federal return.



Interactive Question 06

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Form 540 Side 02

- The Form 540, while on Side 02, skips from Line 19 down to Line 31 to figure tax on the amount of the taxable income.
- For the most part, if taxpayers have taxable income of less than **\$100,000** then they use the tax table in the Form 540 instructions to figure the values for Line 31. Otherwise, they use the **tax rate schedule**. Either choice has a box.
 - There are also boxes for the **3800** and **3803**.



Income Tax

- Taxes in California are broken into nine (9) marginal tax brackets; 1%, 2%, 4%, 6%, 8%, 9.3%, 10.3%, 11.3%, and 12.3%.
- Like the Federal return, they are broken into income ranges based on the filing status of the taxpayer as a **progressive** tax system.
- Once the tax amount has been calculated, the value is placed on Line 31.



Income Tax Brackets (TY2024)

Tax Rate	Income Range for S/MFS (RDP) Filers	Income Range for MFJ/QSS (RDP) Filers	Income Range for HOH Filers
1.0%	\$0 to \$10,755	\$0 to \$21,511	\$0 to \$21,526
2.0%	\$10,756 to \$25,498	\$21,512 to \$50,997	\$21,527 to \$50,999
4.0%	\$25,499 to \$40,244	\$50,998 to \$80,489	\$51,000 to \$65,743
6.0%	\$40,245 to \$55,865	\$80,490 to \$111,731	\$65,744 to \$81,363
8.0%	\$55,866 to \$70,605	\$111,732 to \$141,211	\$81,364 to \$96,106
9.3%	\$70,606 to \$360,658	\$141,212 to \$721,317	\$96,107 to \$490,492
10.3%	\$360,659 to \$432,786	\$721,318 to \$865,573	\$490,493 to \$588,592
11.3%	\$432,787 to \$721,313	\$865,574 to \$1,442,627	\$588,593 to \$980,986
12.3%	\$721,314 or more	\$1,442,628 or more	\$980,987 or more



Income Tax Chart

- In the presentation, the chart and the brackets calculations from the Form 540 Booklet will be shown. As always, this document can be found on the FTB's website [here \(html\)](#) or Up



Form 540 Side 02

- The exemption credits calculated earlier on Line 11 are brought down to Line 32, limited – if necessary – by the AGI limitations.
- Line 33 is calculated by reducing the Line 31 tax value by the Line 32 exemption credits down to, but not less than, **\$0**.
- Line 34 contains a place for the calculation of additional taxes from FTB Form 5870A and/or Schedule G-1.



Form 540 Side 02

- Taxpayers who receive a qualified lump-sum distribution who were born before January 2, 1936, get Schedule G-1, to figure tax by special methods that may result in less tax.
- Taxpayers who receive accumulation distributions from foreign trusts or from certain domestic trusts get Form FTB 5870A to figure the additional tax.
- The Schedule/Form is attached to the return.



Form 540 Side 02/03

- Once the additional tax from Schedule G-1 and Form 5870A – if any – is added to Line 34, the totals of income tax from Line(s) 33-34 are added together and then placed on Line 35.
- The Form 540 skips then to Line 40, and Lines 43 through Line 48 to calculate **special credits**.
 - Line 40 is the **Nonrefundable Child and Dependent Care Expenses Credit**.
 - Line 46 is the **Nonrefundable Renter's Credit**.



Form 540 Side 02/03

- Line 43 through 45 are for **additional special credits**. The first two lines have spots to place the name and credit **code**, if only one or two credits apply to the tax return.
- If more than two credits apply, complete **Schedule P, Part III** and any supporting schedules and put the total of the credit value on Line 45 of Form 540.
- The totals of Line(s) 40 through 46 are totaled and placed on Line 47 to figure **total credits**.



Interactive Question 07

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Nonrefundable Credits

- The nonrefundable **Child and Dependent Care Expense Credit** is comparable to the Federal equivalent calculated on Federal **Form 2441**, but is calculated on **FTB 3506**, which is attached to the return.
- The credit is available for taxpayers who paid for dependent care for their child, spouse/RDP, or dependent in order to work.
- Taxpayers must have **earned income** for the credit.



Nonrefundable Credits

- Specifics for the credit fairly closely mirror the Federal equivalent, with a few differences. The largest difference is the limit on Federal AGI for the State credit is **\$100,000**.
- Like the Federal credit, the limit on expenses is **\$3,000** for one (1) child, and **\$6,000** for two (2) or more children.
- This credit is a percentage of the Federal credit calculated on the Form 2441.



Nonrefundable Credits

- Employer dependent care benefits are not placed in taxable income on the Federal return or the State return. However, they still count against the amount of expenses that are allowable for claiming the credit.
- Care must be provided in California.
- Nonresident filers must have California-source income for their earned income to qualify.
- Military income is considered to qualify regardless of the domicile.



Nonrefundable Credits

- **Credit For Joint Custody Head Of Household (170):**
To claim this credit, a taxpayer must:
 - File a return as Single or Separately (so long as they didn't live with the spouse during the entire year); and,
 - Provided more than half of household expenses for their child, step-child, or grandchild for at least 146, but not more than 219 days of the year. This child, if married, must be able to be claimed on a return as a dependent; and,



Nonrefundable Credits

- The child and the attendant custody arrangement must be part of a decree of dissolution or legal separation or a written agreement where the proceedings have been initiated but not finalized.
- The credit itself is **30%** of the Line 35 tax total or **\$592**, whichever is less. (TY2024)
- Taxpayers cannot claim both the Dependent Parent Credit and the Credit for Joint Custody Head of Household.



Nonrefundable Credits

- **Credit for Dependent Parent (173):** To claim this credit, a taxpayer must:
 - File a married* return separately; and,
 - Not live with their spouse* for the last six (6) months of the year; and,
 - Must support more than half the living expenses for the dependent parent, regardless of their location; and,
 - Complete the worksheet for the credit amount.
- Taxpayers cannot claim both the Dependent Parent Credit and the Credit for Joint Custody Head of Household.



Nonrefundable Credits

- **Senior Head of Household (163):** This credit is available to:
 - Taxpayers age 65 years or older on the last day of the tax year; and,
 - Taxpayers that qualified as HOH in either of the two previous tax years by providing a home for a qualifying individual that died during either of the two previous tax years; and,
 - Taxpayers that did not have an AGI over **\$95,779** for the tax year 2024. (TY2024).
- If all of the above conditions are met, HOH status is not necessary to claim the credit.



Nonrefundable Credits

- The credit itself is equal to **2%** of the amount from Form 540, Line 19, up to a maximum of **\$1,806**, whichever is less. (TY2024)
- Taxpayers who have a birthday on January 1st of the calendar year following the tax year are considered age sixty-five (65) for the previous tax year and therefore meet the qualifications to be considered eligible for this credit.



Nonrefundable Credits

- **Child Adoption Costs Credit (197):** To claim this credit, a taxpayer must adopt a child who:
 - Was a US Citizen or legal resident, and;
 - In the custody of a California agency or political subdivision.
- The taxpayer must have spent money on:
 - Dept. of Social Services or licensed adoption agency fees, and/or;
 - Unreimbursed medical costs, and/or;
 - Travel expenses



Nonrefundable Credits

- Costs can include costs connected to an unsuccessful adoption attempt that was later successful, even with a different child.
- The total costs are multiplied by 50%, up to a maximum of **\$2,500** a year, with any excess carried over into future years until the credit is used up.
- This total either goes on Line(s) 43-44 or placed on the Schedule P for totaling on Line 45.



Nonrefundable Credits

- Taxpayers who pay rent while living in California may be able to take the **Nonrefundable Renter's Credit** on Form 540, Line 46. In order to take this credit, the taxpayer must meet the following conditions:
 - Lived in California the whole year, and;
 - Had California AGI of **\$52,421** (Single, MFS) / **\$104,842** (MFJ, HOH, QSS) or less, and;
 - Paid rent for more than half of the year for property in the State as a principal residence, and;



Nonrefundable Credits

- Cannot be claimed as a dependent or, if they are a dependent, they cannot have lived with the person claiming them for more than half of the year, and;
- The property was not tax-exempt, and;
- They did not claim a homeowner's property tax exemption, with exceptions (See 540 instructions).
 - *These exceptions mainly apply to couples who do not live together with one another.*



Nonrefundable Credits

- If these conditions are satisfied, the taxpayer(s) may enter a value on Line 46.
 - Single - **\$60**
 - Head of Household - **\$120**
 - Married/RDP Filing Separately - **\$120**, either in full by one or split into **\$60** apiece if they qualify for separate residence exceptions.
 - Married/RDP Joint - **\$120**, or **\$60** if the exception involving the homeowner's credit applies.



Taxes Paid to Other States

- Taxpayers can get a credit for income taxed to both California and an outside state by completing the **Schedule S** and attaching it to the return along with a copy of that other state's income tax return.
- The Schedule S basically does a comparison between California double-source income, tax liability, and AGI, and compares to the same measures of the other state, using apportioning to generate a credit.



Taxes Paid to Other States

- Residents can claim this only if the income taxed by the other state has a source within the other state under California law.
 - This does not apply for dual-resident estates and trusts.
- No credit is allowed if the other state allows California residents a credit for net income taxes paid to California.
 - One or the other, but not both.



Taxes Paid to Other States

- Nonresidents can claim this only for net income taxes imposed by and paid to the resident state.
- Also, this applies for nonresident taxpayers only if those states do not allow their own residents a credit for net income taxes paid to California.
- The instructions for the Schedule S contain a list of states and U.S. Possessions for which the other state credit is available.
 - It also contains an income source section.



Taxes Paid to Other States

- Credits are allowed for the net income taxes paid to the other state (excluding any tax that is equivalent to California's AMT) on income that is also subject to California tax. The credit itself is applied against California net tax, minus any relevant credits.
 - The credit value cannot be applied against California AMT.



Taxes Paid to Other States

- Joint California filers use the entire amount of taxes paid to the other state in figuring the credit, regardless of which spouse* paid it and regardless of the filing status(es) in the other state.
- When the other state return is filed jointly, and California is filed separately; the credit is allowed in proportion to the income reported on each separate California tax return.



Taxes Paid to Other States

- Income sourcing does have some general rules:
 - Compensation is sourced where services are performed.
 - Self-employment compensation is sourced where the benefit of the services are received.
 - Income from tangible personal property and real estate is based on the property's location.
 - Intangible property income is where the owner resides.
 - Business income is sourced to where the benefit of the services are received.



Taxes Paid to Other States

- This credit uses **Code 187** when reporting on the Form(s) 540.
- The instructions for the Schedule S have lists of which states are eligible for this type of treatment, and in which type of residency capacity.
- It also contains some generalized exceptions to the usual rules for sourcing of income that apply just to the treatment of this particular credit on the return.



Form 540 Side 02/03

- There are many other types of nonrefundable credits which are not detailed here, but they likewise are placed on the return according to the instructions just given.
 - Some of these have rollover provisions for future tax years, while others lose their excess.
- The totals from Line 47 are subtracted from the tax total on Line 35 down to, but not below **\$0** and placed on Line 48.



Interactive Question 08

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Form 540 Side 03

- The second section of Side 03 contains Line(s) 61 through 64, which total the **other taxes**.
- Line 61 is for reporting the total of **Alternative Minimum Tax** from the Schedule P.
- Line 62 is for the **Mental Health Services Tax**.
- Line 63 is for other special taxes and recapture.
- Line 64 is for totaling these other taxes with the amount of the leftover income tax (if any) from earlier, by adding Line(s) 48 and 61-63 to arrive at **total tax**.



Alternative Minimum Tax

- **Alternative Minimum Tax, or AMT,** is a special type of tax that is used to make sure that the effect of various credits, deductions, and exclusions do not benefit high-earning taxpayers so greatly that their marginal tax rate is unfairly advantaged over lower-income taxpayers. If taxpayers claimed certain credits, exclusions, and deductions and are over certain income limits based on their filing status; they may need to calculate AMT on their return.



Alternative Minimum Tax

- Taxpayers with certain types of deductions, credits, and exclusions may owe AMT if their Line 19 taxable income exceeds certain values. (These values are also the same as the base **AMT Exemption** values (TY2024)):
 - Single, Head of Household - **\$90,048**
 - Jointly, Surviving Spouse - **\$120,065**
 - Separate - **\$60,029**
- Children under 19, or students under 24, who have Line 19 income plus preference items on Schedule P may owe AMT if the total is more than **\$9,450** and their earned income.



Alternative Minimum Tax

- Taxpayers must exclude income, positive and negative adjustments, and preference items attributable to any trade or business when they are calculating their **alternative minimum taxable income** or **AMTI** (including for AMT carryover) if their aggregate gross receipts from **all** business activity (in which they have an ownership interest) is less than **\$1,000,000**.
- Schedule P Parts I and II must be completed and attached. Part II, Line 26 has the AMT Total for Line 61.
- The AMT tax rate is **7%**.



Alternative Minimum Tax

- The taxpayer starts this process by adding their standard deduction, or selected components of an itemized deduction total to the totals of investment interest expenses, post-1986 depreciation totals, adjusted gains or losses, ISOs and CQSOs, passive activity adjustments, some estate/trust Schedule K-1 values, and other miscellaneous items.
- This is then added to taxable income, NOL deductions, and the AMTI exclusion.



Alternative Minimum Tax

- This total is then potentially modified by itemized deduction limitations if the taxpayer's federal AGI is above:
 - Single or Married* Separately – **\$244,857**
 - Married* Jointly or QSS* – **\$487,719**
 - Head of Household – **\$367,291**
- In the case that the taxpayer's federal AGI is higher than those totals, an adjustment limits the various components made from itemized deductions.



Alternative Minimum Tax

- Then, any potential modifications to the NOL are calculated and used to modify the earlier totals to arrive at **Alternative Minimum Taxable Income** or **AMTI (TY2024)**.
- This total is compared to a threshold to determine the full value of the AMT exemption.
 - Single or Head of Household – **\$337,678**
 - Married* Jointly or QSS* – **\$450,238**
 - Married* Separately – **\$225,115**



Alternative Minimum Tax

- If the value is under the threshold, then the taxpayer gets the base base **AMT Exemption** applied against AMTI. Otherwise, it's reduced.
- The exemption is taken away from the AMTI and the difference is taxed at **7%** to form the **Tentative Minimum Tax**.
- Then, the Form 540, line 31 tax totals are taken away from this and the difference, if positive, is applied to Form 540, line 61.



Mental Health Services Tax

- The Mental Health Services Tax Rate is **1%** for all taxable income in **excess of \$1,000,000**. This tax applies to all filing statuses and without regard to any credits. The funds are collected and transferred to the California Mental Health Services Fund. The total goes to Form 540, Line 62.
- Since this tax is calculated without regard to filing status, it carries a “marriage penalty” in that it affects returns indiscriminately.



Other Taxes / Credit Recapture

- Taxpayers who received an early distribution of a qualified retirement plan and were required to report additional tax on the Federal tax return may also be required to report additional tax on their California tax return. Taxpayers use Form FTB 3805P to calculate this additional tax. Taxpayers who are required to report this additional tax, place it on Form 540, Line 63 and write "FTB 3805P" to the left of the amount.



Other Taxes / Credit Recapture

- California conforms to federal law for income received under IRC Section 409A on a nonqualified deferred compensation (NQDC) plan and discounted stock options and stock appreciation rights. Income received under IRC Section 409A is subject to an additional 5% tax of the amount required to be included in income, plus interest. Include the additional tax, if any, also on Form 540, Line 63. Write "NQDC" on the dotted line to the left of the amount.



Other Taxes / Credit Recapture

- Taxpayers who owe interest on deferred tax from installment obligations include the additional tax, if any, in the amount entered on Form 540, Line 63. "IRC Section 453A interest" is placed next to the amount on the left of the dotted line on Form 540, Line 63.
- Taxpayers who used certain forms must include the additional tax for credit recapture, placing the amount and the Form number on Form 540, Line 63.



Other Taxes / Credit Recapture

- The list of forms is as follows:
 - FTB 3531, California Competes Tax Credit – Enter only the recaptured amount used. Get the instructions for form FTB 3531, Part III, Credit Recapture, for more information.
 - FTB 3540, Credit Carryover and Recapture Summary
 - FTB 3554, New Employment Credit



Form 540 Side 03

- The totals for Line(s) 61 through 63 are combined together along with the total amount of tax on Line 48 and then placed on Line 64. This figure is known as **total tax**.
- The Form 540 jumps from Line 64 to Line 71. Line(s) 71 through 78 combine to form the **payments** section of the Form 540.
- This will be “where the money is” on the return in the form of withholdings and credits.



Tax Withheld

- Line 71 totals the amount of California income tax that is withheld on the return. Total the amounts from:
 - Form W-2, box 17
 - Form W-2G, box 15
 - Form 1099-DIV, box 16
 - Form 1099-INT, box 17
 - Form 1099-K, box 8
 - Form 1099-MISC, box 16
 - Form 1099-NEC, box 5
 - Form 1099-OLD, box 14
 - Form 1099-R, box 14



Tax Withheld

- Do not include city, local, or county tax withheld, tax withheld by other states, or nonconsenting nonresident (NCNR) member's tax from Schedule K-1 (568), line 15e.
- Do not include withholding from Form(s) 592-B, Resident and Nonresident Withholding Tax Statement, or Form(s) 593, Real Estate Withholding Tax Statement, on Form 540, Line 71.
- These both go on Form 540, later.



Interactive Question 09

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Form 540 Side 03

- Line 72 contains the totals for:
 - Estimated tax payments made through Form 540-ES.
 - Overpayment for a prior year return applied to estimated payments of the following year.
 - Extension payments sent with Form FTB 3519.
 - California estimated tax payments made on the taxpayer's behalf by an estate, trust, or S Corps on Schedule(s) K-1 (541) or K-1 (100S).



Estimated Taxes

- Taxpayers who owe, or expect to owe, more than \$500 in state tax by the end of the year should make estimated payments during the year to avoid penalty for underpayment.
- The estimated payment dates are the same* as those for federal purposes; 4/15, 6/15, and 9/15 for the tax year, and 1/15 of the following tax year.
- Unlike the federal return, the percentage to withhold is not 25% split equally.



Estimated Taxes

- Instead, the FTB expects:
 - 30% First quarter
 - 40% Second quarter
 - 0% Third quarter
 - 30% Fourth quarter
- Estimated taxes can be paid online, through vouchers, etc. (Basically the same way that you can pay taxes due.)



Estimated Taxes

- In regards to community property laws for married and RDP taxpayers, estimated taxes paid and/or owed are assigned to the spouse on the basis of the income that generated the tax liability, in lieu of direct assignment or request.
- Community income and property splits the tax burden, while separate income and property is solely to the spouse* who will report it on their own return(s).



Estimated Taxes

- If a joint taxpayer paid joint estimated taxes but they are now filing separately, either party may claim the whole amount or part of it. Taxpayers should contact the FTB in advance to allocate any amounts they want changed.
- The FTB will accept any divorce agreement, court-ordered settlement, or statement showing the allocation of the payments along with a notarized signature for both taxpayers.



Estimated Taxes

- These statements can be sent to:

Joint Estimate Credit Allocation MS F283
Taxpayer Services Center
Franchise Tax Board
PO Box 942840
Sacramento, CA 94240-0040

- If two taxpayers made separate estimated tax payments, but are now filing a joint income tax return, add the values together and attach a statement to the return.



Estimated Taxes

- This statement should notify the FTB that the estimated payments were made under both SSNs. If e-filing, taxpayers should attach any requested forms, schedules, and documents in accordance with the software's instructions.
- If a taxpayer is a new resident or nonresident of California and did not have a prior year liability, they do not need to make estimated payments to avoid the penalty for underpayment.



Estimated Taxes

- The **Form FTB 5805** is analogous to the federal Form 2210 and is used in much the same way. The same thresholds even apply to percentages of withholding.
 - 90% of anticipated current year liability; or,
 - 100% of last year's liability (110% if AGI is higher than \$150k/\$75k MFS).
- Taxpayers also have the option of just letting the FTB calculate the penalty themselves.



Form FTB 5805

- In the presentation, the Form FTB 5805 will be shown and discussed. As always, this document can be found on the FTB's website [here \(form\)](#) or [here \(instructions\)](#).



Form 540 Side 03

- Line 73 contains the totals for withheld amounts through **Form(s) 592-B** and **593**.
- **Form 592-B** is used to report the amount of withholding for amounts of any payments and/or distributions made to taxpayers, often through any pass-through entities or trusts and for any type of backup withholding.
- **Form 593** is used to report withholding on real estate transactions.



592-B Withholding

- This form is used for reporting the withholding for the following:
 - Payments to contractors, and;
 - Trust and estate distributions, and;
 - Rents or royalties, and;
 - Elective withholding, including Indian Tribe withholding, and;
 - Distributions from Partnerships and S-Corps, among others.



Backup Withholding

- California generally requires backup withholding for any item of income where there is also a federal requirement for backup withholding, with certain limited exceptions.
- The State imposes a backup withholding rate of **7%** on these withheld amounts.
- Payees who have had amounts withheld must report the amount withheld on their tax return for that year in order to receive the credit for it.



Form FTB 592-B

- In the presentation, the Form FTB 592-B will be shown and discussed. As always, this document can be found on the FTB's website [here \(form\)](#).



Real Estate Withholding

- California requires sellers of real estate to withhold the appropriate amount of tax on the sale of real estate. This is done by completing the **FTB Form 593**. This previous series of forms has been combined into one solitary form.
- The form is used for:
 - Reporting withholding
 - Certifying full/partial exemption
 - Calculating the gain/loss
 - Reporting installment sales
 - Remitting payments



Real Estate Withholding

- The general withholding rate for real estate transactions is **3 and 1/3rd%** of the sales price.
 - \$500,000 sale = **\$16,667**
- There are also options to certify for different types and rates of calculation.
- This form series is similar to the **FTB Form 592** series of forms for withholding on payments like trust distributions, rents, royalties, pass-through income, and estate distributions.



Real Estate Withholding

- Taxpayers who wish to receive credit for the withholding on real estate transactions take the value from the Form(s) 593 and then place them on the Form 540, line 73.
 - This is the same place for Form 592-B, as well.
- Usually, with realtors, lawyers, and others, the Form 593s will be completed by the appropriate agent as part of the sale process and sellers will not have to necessarily do them on their own.



Form FTB 593

- In the presentation, the Form FTB 593 will be shown and discussed. As always, this document can be found on the FTB's website [here \(form\)](#) and [here \(instructions\)](#).



Interactive Question 10

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Excess SDI or VPDI

- Taxpayers with earned income are responsible for paying into California's **State Disability Insurance (SDI)** or **Voluntary Plan for Disability Insurance (VPDI)** during the year.
- Employers are responsible for withholding the **1.1% (TY2024)** of SDI or VPDI from employee pay.
- Taxpayers who have too much withheld are supposed to have their employers fix the issue individually from TY2024 onwards.



Excess SDI or VPD

- Taxpayers who had too much SDI or VPD withheld from their pay may claim a credit for the excess. To qualify, they:
 - Must have **two or more** employers; and,
 - Received more than **\$153,164** (TY2023) in gross wages; and,
 - The amounts of SDI or VPD are on Form(s) W-2
- Take the total SDI/VPD, subtract **\$1,378.48** and then place the excess on Form 540, line 74.



Excess SDI or VPD

- From TY2024 onwards, there is no longer a limit on the amount of wages and there is no longer a cap on the maximum amount of SDI and/or VPD that can be collected.
- Taxpayers who have nonetheless paid more than their fair share can contact their employers to rectify the over-withholding or can fill out the EDD's [Form DE 1964](#) to request a refund of the excess withholdings.



Form 540 Side 03

- Lines 75, 76, and 77 are used to total the amount of credit received for the **California Earned Income Tax Credit** or **CalEITC**, the **Young Child Tax Credit** or **YCTC**, and the **Foster Youth Tax Credit** or **FYTC** respectively.
- These credits require the completion of and the attachment of **Form 3514** to the return. CalEITC comes from Form 3514, **Line 20**, YCTC from **Line 28**, and FYTC from **Line 39**.



California EITC

- **CalEITC** is a mirror of the Federal EITC credit in many ways; the credit is based on the taxpayer's age, filing status, income amount and type, and their family composition.
- First and foremost, taxpayers may qualify for CalEITC if they:
 - Are at least eighteen (18) years old or have a **qualifying child**, and;
 - Have **earned income** within certain limits.



California EITC

- “Qualifying child” and “Earned Income” have virtually the same definition as Federal law, with a few exceptions:
 - Wage income must be subject to California withholding to qualify.
 - California AGI must be under **\$31,951**. (TY2024)
 - Individuals without children qualify at eighteen (18)
 - Including nontaxable military combat pay can be separate from equivalent Federal treatment.
- Taxpayers additionally cannot have more than **\$4,674** in investment income during the year. (TY2024).



California EITC

- California has, since TY2020, expanded EITC and YCTC to include any taxpayer or dependent with either an SSN or an ITIN on the return. If requested, taxpayers should give the FTB any documents they need. SSNs can also be of any type, not just the ones which are valid for employment. Once a taxpayer receives a SSN, they should contact the FTB to let them know in the appropriate manner.



California EITC

- California has also adopted the federal rule that allows EITC for a married* taxpayer not filing a joint return (with a qualifying child living with them for over half the year) if **either** of the following is true:
 - They lived apart from their spouse* for the last six months, or;
 - They are legally separated under California law under a written separation agreement / decree of separate maintenance and did not live in the same household as their spouse* at the end of the year.



California EITC

CalEITC Maximum Credit and AGI Range

Condition	AGI for Max Credit	Max Credit Value
One qualifying child	\$6,751 - \$6,800	\$1,958
Two qualifying children	\$9,501 - \$9,550	\$3,239
Three or more qualifying children	\$9,501 - \$9,550	\$3,644
No qualifying children	\$4,501 - \$4,550	\$294

- The full chart of credit values per AGI band and number of dependents is contained inside the instructions for the Form 3514.

California EITC

- Part-year filers filling out Form 540NR will use their CA Exemption Credit Percentage on the Form 3514 in order to figure out how to reduce their CalEITC for Form 3514, Side 3, Part VI, Line(s) 21 and 22.
- This exemption credit percentage is a decimal multiple of the value as if the taxpayer was a full resident and modifies the amount of the credit which will ultimately go to Form 540NR, line 85.
 - Instructions to Form 3514 or software*



Young Child Tax Credit

- For any return with CalEITC which also has a dependent younger than six (6) at the end of the tax year; the taxpayer is eligible for up to **\$1,154** in YCTC. The qualifying person for this credit must be claimed as one of the children to qualify for CalEITC on the Form 3514.
- Taxpayers with **\$26,626 or less** in earned income receive the full credit. Otherwise, the credit is reduced by **\$21.67** for each \$100 in earned income over the threshold, up to **\$31,951 (TY2024)**, max.



Young Child Tax Credit

- Nonresidents or part-year residents use the CA Exemption Credit Percentage from earlier to calculate the amount, if any, of the credit that they can receive on Form 3514, Side 3, Part VIII, Line(s) 29 and 30.
- Like the CalEITC, taxpayers use Form 3514 to calculate the amount of this credit. The amount from Form 3514, Line 28 is carried over to Form 540, Line 76, to add to the other credits.



Young Child Tax Credit

- Since TY2022, California expanded the YCTC eligibility to include an eligible individual with a qualifying child who would otherwise have been allowed the California EITC but:
 - The individual has earned income of \$0 or less, and;
 - They don't have net losses in excess of \$34,602 (TY2024), and;
 - They do not have wages, salaries, tips, and other employee compensation in excess of \$34,602 (TY2024) in the taxable year.



Foster Youth Tax Credit

- Created new for TY2022, the Foster Youth Tax Credit is available for taxpayers with the following set of circumstances:
 - Taxpayer and/or their spouse/RDP are of age eighteen (18) to twenty-five (25), and;
 - They are allowed the CalEITC, and;
 - They were in foster care at age thirteen (13) or older and placed through the California foster care system.



Foster Youth Tax Credit

- The maximum amount of the credit available for TY2024 is **\$1,154** per taxpayer.
- The credit phases out as the earned income exceeds **\$26,626** and completely phases out once the earned income reaches **\$31,951**.
- The FYTC also uses FTB Form 3514 to calculate the amount of this credit. The relevant sections are on Side(s) 3/4, Part(s) IX-X, Line(s) 31-41.



Foster Youth Tax Credit

- The credit phases out through a calculation section of the Form 3514 from Line(s) 36-38. The amount from Form 3514, Line 39 is carried over to Form 540, Line 77, to add to the other credits.
- Nonresidents or part-year residents use the CA Exemption Credit Percentage from earlier to calculate the amount, if any, of the credit that they can receive on Form 3514, Side 4, Part X, Line(s) 40 and 41.



Form FTB 3514

- In the presentation, the Form FTB 3514 will be shown and discussed. As always, this document can be found on the FTB's website [here \(form\)](#) and [here \(instructions\)](#).



Form 540 Side 03

- Line(s) 71 through 77 are totaled together to arrive at **total payments**. This total is placed on Form 540, Line 78.
- For the most part, this total consists of only what has been discussed. If the taxpayer is claiming the tax credit for a Claim of Right under IRC Sec. 1341 on their return; they take the amount from Schedule CA, Part II, Line 16 to Line 78 and write "IRC 1341" and the credit to the left of the column.



Interactive Question 11

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Use Tax

- The Form 540 jumps again, this time down to Line 91 for **Use tax**.
- Use tax is tax collected in lieu of sales taxes for any purchases made from within the state to retailers that are from outside the state and did not collect sales tax.
- Line 91 needs to have one of the following:
 - A tax value, or;
 - A selection indicating that no use tax is due, or;
 - A selection indicating that the use tax obligation was paid directly to CDTFA.



Use Tax

- Taxpayers who make purchases for which use tax is due for business purposes generally will report and pay use tax directly to CDTFA. However, under certain conditions these taxpayers can report directly on their return:
 - They do not have or are not required to have a California seller's permit, and;
 - Have under \$100,000 per year in gross receipts from the State, and;
 - Are not otherwise registered or required to be registered with CDTFA to report use tax.



Use Tax

- Taxpayers can use the estimated use tax lookup table or they can calculate the amount of use tax due by using the worksheet in the Form 540 instructions.
- When calculating on the price of purchased items instead of the estimated lookup table, include the value of:
 - Non-business items purchased over \$1,000, and;
 - Items purchased for business use*, and;
 - Foreign purchases carried into the country and declared via US customs, minus an \$800 personal exemption.



Use Tax

- Use tax is allowed a deduction for sales and use taxes paid to other states and jurisdictions, up to the maximum amount of California use tax that the taxpayer would have been liable for.
 - The use tax value can never become a negative and therefore create a credit.
- Individual non-business purchases under \$1,000 are never assessed a liability for use tax for those choosing to use the worksheet.



Use Tax

- Use tax purchases do not include the following:
 - Vehicles/vessels/trailers registered with the DMV, or;
 - Mobile homes or commercial coaches registered annually as required by the Health and Safety Code, or;
 - Vessels documented with the U.S. Coast Guard, or;
 - Aircraft, or;
 - Rental receipts from leasing tangible personal property to customers, or;
 - Cigarettes and tobacco products when the purchaser is registered with the CDTFA as a cigarette and/or tobacco products consumer.



ISR Penalty Balance

- Similar to the (now repealed) individual shared responsibility payment (ISRP) from the federal returns during the beginning years of the post-PPACA tax regime; California now has its own equivalent, the **Individual Shared Responsibility Penalty** or ISR Penalty.
- This penalty is essentially a penalty which applies to those taxpayers who do not obtain minimum essential coverage under State law.



ISR Penalty Balance

- **Minimum essential coverage** for California (also called **qualifying health care coverage**) is a metric used in conjunction with completion of **Form FTB 3853** to report the coverage, coverage periods, and exceptions to the ISR penalty for those individuals on the return who are required to be covered by an appropriate healthcare plan.
- The ISR Penalty comes from Form FTB 3853, Part IV, Line 1 and goes to Form 540, Line 92.



Form 540 Side 03/04

- Line 93 through 100 are for either **overpaid tax** or **tax due** and the calculations required to get there. This part of the return is going to determine whether the taxpayer has a liability that they will need to pay or if they will receive a refund.
- Line 93 is the payments balance. If Line 78 is more than the total of Line 91, subtract Line 91 from Line 78 and place the total here.
- Line 94 is the Use Tax Balance. If Line 91 (Use Tax) is more than Line 78, subtract Line 78 from Line 91.



Form 540 Side 03

- Line(s) 95 and 96 are used in conjunction with the amounts from the Line 92 ISR Penalty value to modify later lines.
- If Line 93 is more than Line 92, subtract Line 92 from Line 93 and place the total on Line 95.
- If Line 92 is more than Line 93, subtract Line 93 from Line 92 and then place the total on Line 96.
 - You will use one of these in the next section.



Form 540 Side 03/04

- Line 97 is overpaid tax. If the total of Line 95 is more than the total of Line 64 total tax, subtract Line 64 from Line 95.
- Line 98 is the amount of overpaid tax from Line 97 that the taxpayer wants to apply to their estimated tax balance for the next tax year.
 - Once an election to use overpaid tax in this manner is made; it is considered binding. This amount cannot be used to cover a deficiency after the due date of the return.



Form 540 Side 04

- Line 99 is the overpaid tax available to the taxpayer for the year. This amount includes the total from Line 97 minus the amount of any estimated tax from Line 98. This amount can be taken in full on the fifth page as a refund, or can be placed into voluntary funds contributions.
- Line 100 is the amount of **tax due**. If Line 95 is less than the Line 64 total tax, subtract Line 95 from Line 64 and place the total here.



Form 540 Side 04/05

- Line 100 is for tax due, but does not include the amount of any penalties which may come from underpayment or late filing which go on Line(s) 112 and 113.
- In general, taxpayers may owe penalty if any of the following are true:
 - The amount of tax owed is \$500 or more, or;
 - The amount of tax owed is \$250 or more and the taxpayer is filing separately, or;
 - The amount of withholding on Line 71 is less than 90% of the total on Line 64 total tax.



Form 540 Side 04/05

- Taxpayers who end up owing a penalty on their return due to this underpayment will possibly need to calculate an amount of penalty on Line 113 of Form 540, Side 5.
- Taxpayers in this situation or who predict this could occur can:
 - Make estimated payments to cover the deficit, or;
 - Complete EDD Form DE 4 and provide it to your employer's payroll staff to adjust withholding.



Interactive Question 12

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Form 540 Side 04 – Vol. Funds

- Most of Form 540, Side 04 contains the various contribution funds for a variety of different state-based funds that total on Line 110.
- Taxpayers who contribute \$195 or more to the State Parks Protection Fund/Parks Pass Purchase will have their information forwarded to the DPR who will issue a single Vehicle Day Use Annual Pass. Anything less will be treated as a charitable contribution for future tax purposes.



Voluntary Contributions

- California has several different charitable funds that taxpayers can donate to through election when filing their tax returns.
- Taxpayers can contribute using:
 - Their own funds (payments and credits) in excess of their tax liability; or,
 - All or part of a refund; or,
 - Payment by check or credit card if they're not due a refund or overpaid tax is not sufficient to cover the elected amount.



Voluntary Contributions

- Code 400, California Seniors Special Fund
- Code 401, Alzheimer's Disease and Related Dementia Voluntary Tax Contribution Fund
- Code 403, Rare and Endangered Species Preservation Voluntary Tax Contribution Program
- Code 405, California Breast Cancer Research Voluntary Tax Contribution Fund
- Code 406, California Firefighters' Memorial Fund



Voluntary Contributions

- Code 407, Emergency Food for Families Voluntary Tax Contribution Fund
- Code 408, California Peace Officer Memorial Foundation Fund
- Code 410, California Sea Otter Fund
- Code 413, California Cancer Research Voluntary Tax Contribution Fund
- Code 422, School Supplies for Homeless Children Fund



Voluntary Contributions

- Code 423, State Parks Protection Fund/Parks Pass Purchase
- Code 424, Protect Our Coast and Oceans Voluntary Tax Contribution Fund
- Code 425, Keep Arts in Schools Voluntary Tax Contribution Fund
- Code 431, Prevention of Animal Homelessness and Cruelty Voluntary Tax Contribution Fund
- Code 438, California Senior Citizen Advocacy Voluntary Tax Contribution Fund



Voluntary Contributions

- Code 439, Native California Wildlife Rehabilitation Voluntary Tax Contribution Fund
- Code 445, Mental Health Crisis Prevention Voluntary Tax Contribution Fund
- Code 447, California ALS Research Network Voluntary Tax Contribution Fund
- These funds are identified and placed in their own section of the Form 540 and totaled on Line 110. The available funds listed are different from year to year.



Form 540 Side 04/05

- Form 540, the end of Side 4 and Side 5 summarizes whether the taxpayer is due a refund or will owe, along with all of the necessary signature information on Side 5.
- Line 111 is for the "Amount You Owe" and is completed if the taxpayer has no value on Line 99 and has values on Line(s) 94, 96, 100, or 110. In that case, Line(s) 94, 96, 100, and 110 are totaled.
- Taxpayers have numerous options available to them in order to pay any balances due.



Payment Methods

- In order to avoid late filing penalties, taxpayers need to file by the extended due date, even if they cannot pay.
- Any time a return is over \$80,000 in balance due or if the first extension or estimated payment is made in a value of \$20,000 or more; the balance due on the return must be made electronically, with exceptions. Failure to abide by this requirement triggers a **1%** noncompliance penalty.



Payment Methods

- Taxpayers can request a waiver of this mandatory e-file requirement if one or more of the following is true:
 - The taxpayer has not made an estimated or extension tax payment of \$20,000 during the current or previous taxable year, or;
 - The prior year's tax liability did not reach or exceed \$80,000, or;
 - The amount paid is not representative of the taxpayer's true tax liability.



Payment Methods

- Electronic payments can be made using Web Pay on the FTB's website, electronic funds withdrawal as part of the e-filed return, or with a credit card.
- Electronic funds withdrawal (EFW) is the easiest method to do, and is pretty much innate inside any electronic filing system.
- Web Pay is available on the FTB's website at www.ftb.ca.gov/pay to pay balances.



Payment Methods

- Taxpayers can use credit cards to pay by calling the number (800) 272-9829 or by going to the website at www.officialpayments.com and using the jurisdiction code "1555." This service costs a convenience fee of 2.30% of the tax charge, with a minimum of \$1.
- In any of these prior methods, do not mail or send paper copies of the return or payment vouchers, or Form(s) 3519 or 3582.



Payment Methods

- If taxpayers wish to mail their balance due, either with the return or separately, they send a check or money order payable to the “Franchise Tax Board” using blue or black ink.
- If the return and payment are filed separately, include a copy of the payment voucher, Form 3582, by itself, to the address where the return would be mailed if it, too, was sent and filed by paper mail.



Form 540 Side 05

- Line 112 is for interest, late return penalties, and late payment penalties.
 - Interest is charged on any late filing or late payment from the original due date of the return until the date the amounts are paid. This interest compounds with rates of interest in use since 1976.
 - This line can include penalties for many other reasons, too, like substantial underpayment of tax, fraud, and negligence.



Penalties

- California has three (3) very significant return penalties related to filing and paying taxes due.
- The first is the penalty under R&TC Section 19133 for failing to file a return by the due date after receiving a Demand for Tax Return letter.
- The penalty for failing to file by the due date of the letter is **25% of the tax due**, regardless of the amount of any taxes paid or credits made on time prior to the due date.



Penalties

- The second and third are analogous to the federal failure to file and failure to pay penalties under IRC Section 6651.
- Under R&TC Section 19131, failure to file the tax return on time is a penalty equal to **5% of the amount due** from the original due date of the return, after applying amounts for any credit and payments made on or before the due date, for every month or part of a month, up to a maximum of **25%**.



Penalties

- If the late-filed tax return shows a balance due, the minimum penalty is the lesser of:
 - \$135; or,
 - 100% of the amount due.
- Under R&TC Section 19132, if you fail to pay the balance due at the time of filing a return, timely or not, the penalty is:
 - 5% of the unpaid tax; plus,
 - 0.5% of the unpaid tax for each month/part of a month for up to forty (40) months



Penalties

- Unlike the federal Section 6651 Failure to File and Failure to Pay penalties; the two are not exclusive, nor are they capped at 25% in the aggregate; They exist simultaneously.
- There are also other penalties:
 - Business-level FTF and FTP penalties
 - Mandatory e-Pay penalties
 - SOS Statement of Information FTF penalties
 - So on...



Form 540 Side 05

- Line 113 is the amount of penalty for any underpayment of estimated tax, as discussed earlier in this presentation.
- Line 114 is total of Line(s) 111 through 113, and represents the final amount that is due to the FTB for that tax year.
- In general, unless the software or taxpayer calculates Line(s) 112 and 113, Line 111 and 114 are the same value at the time of filing.



Form 540 Side 05

- Line 115 is for when a taxpayer has a refund or no amount due (a "Zero Return"). The total for this line is reached by subtracting Line 110, Line 112, and Line 113 from the amount on Line 99.
- Interest, late return, underpayment, and other penalties, plus the amount of any voluntary contributions, can reduce the amount of the original overpayment.



Form 540 Side 05

- The remaining two lines are duplicates of one another, used for placing the routing and account numbers, among other identifiers, along with the amount of deposit for up to two (2) separate bank accounts for any refund.
- If the taxpayer is utilizing refund products from a third party bank (known in the industry as “bank products”) then the information on this part of the return may be the bank’s.



Form 540 Side 05/06

- There are also two (2) checkboxes which exist for taxpayers regarding voting registration and whether or not the taxpayer(s) want the FTB to share limited information with Covered California to assist in obtaining healthcare.
- Both of these are optional.
- Afterwards, the top of Side 6 contains the signature section for the return.



Interactive Question 13

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Signing the Return

- The top half of the last page, as mentioned, is for the taxpayer and spouse to sign their return. It contains fields for both taxpayers' signatures, as well as fields for e-mail and preferred phone contact for the purpose of better customer service from the FTB.
- California mirrors the Federal return on needing each individual to sign and for each individual being jointly and severally liable for the return.



Signing the Return

- Paid preparers fill out the same information on the bottom of the California return that they would need to place on the Federal return, like their PTIN number, address of business, contact information, and EIN (if applicable).
- Paid preparers are also required to give a complete copy of the return to the taxpayer(s) when the return is complete, along with all original copies of their paperwork.



Filing Electronically

- Regardless of whether a return is or is not using a third party banking application to handle disbursement or payment, the rules for the signature and post-completion process are the same. The signature requirements are just handled differently.
- There are two (2) methods:
 - Self-Select PIN method
 - Practitioner PIN method



Filing Electronically

- The **Self-Select PIN** method may be completely paperless. In it, the taxpayer uses their PIN from the prior-year return and their AGI to authenticate their identity after reviewing the return.
 - If the taxpayer themselves enters their PIN and AGI after reviewing the return, then it can be sent without a printed and signed signature authorization form.
 - If the tax preparer enters it with taxpayer authorization or it ports from a prior-year in software, the taxpayer needs to sign a signature authorization form.



Filing Electronically

- The **Practitioner PIN** method involves the taxpayer and the tax preparer signing a signature authorization form (**Form 8879**) after entering a five digit PIN into the relevant signature fields of an electronic return.
- These numbers can be auto-generated, carried from prior years, entered by the taxpayer, or entered by the tax preparer.
- These PINs are electronic substitutes for signatures.



Filing Electronically

- The **Form 8879** essentially “ties together” the signatures to their relevant parties. It is **absolutely essential** for any e-Filed return which doesn’t use the taxpayer-driven version of the Self-Select PIN method to file a return.
- The **Form 8453-OL** is the same ‘type’ of form for online submissions of self-prepared returns like the type popularized by some tax software companies.



Filing Electronically

- Taxpayers who are opting to use the MeF system to file but are using third party banking applications to do so usually have additional forms to complete.
- This is not IRS requirement stuff; Each bank is different. And, generally, they do not co-opt either of the PIN systems and only use real signatures on printed paper as valid.
 - Look to the rules for you / your clients' banks for guidance to these requirements.



Power of Attorney

- The simple act of preparing a tax return does not grant a preparer the right to speak or act on behalf of the taxpayer in regards to that particular return. Just like on the Federal return, the taxpayer must authorize a specific individual to have **Power of Attorney** or **POA**.
- Taxpayers can authorize the right for individuals by completing **Form 3520-PIT**. Generally, these last for six (6) years.



Assembling the Return

- The Form 540, in order, completes the core of the main return when the return is being put together for mailing.
- California schedules go behind the Form 540.
- The Federal return goes behind that, if required.
- Other state returns go behind that.
- In the very front, place, but do not staple, any payment and copies of Form(s) W-2, W-2G, 1099s, 592-B, and 593.*



Statute of Limitations

- The FTB generally has four (4) years from either the due date of the return (original) or the date the return was actually filed, whichever is later, for the FTB to mail proposed deficiency assessments. (R&TC Section 19066)
- For returns which were never filed, the FTB has basically an unlimited amount of time to make a proposed deficiency assessment.



Statute of Limitations

- Taxpayers are required to notify the FTB for any federal determinations. The time-frame for this is six (6) months.
- If the IRS or the taxpayer notifies the FTB within that six (6) month window, the FTB has two (2) years from the date the final determination is made (per IRC Section 6203) to calculate any proposed deficiency assessments or calculate any other change on the return.



Statute of Limitations

- If the notification is after six (6) months, then the FTB's two-year window increases to four (4) years for them to calculate the change in tax.
- If neither the IRS or the taxpayer notify the FTB, the issue remains "open" and the FTB can make a proposed deficiency assessment or change items of income, tax, and credits at any time that they wish to do so.



Statute of Limitations

- If the changes result in a California refund, the taxpayer has to file a claim to refund within certain time limits in order to claim it. It must be filed within:
 - The normal statute of limitations; or,
 - One year from the date of the overpayment; or,
 - Two years from the final federal determination
- Taxpayers may choose from the later of those.
- See [FTB Publication 1008](#) for more information.



Form 540 and 540 Booklet

- In the presentation, a visual overview of the Form 540 and the Form 540 Booklet will occur. As always, these documents can be found on the FTB's website, with the form itself [here](#). The booklet can be found [here \(html\)](#) or [here \(pdf\)](#).



Interactive Question 14

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



New or Important for TY2024

- As mentioned earlier, the State of California is only conformal to Federal law as of January 1st, 2015. That being said, it means that California does not adhere to most of:
 - The Inflation Reduction Act (IRA) of 2022
 - The American Rescue Plan Act (ARPA) of 2021
 - The Consolidated Appropriations Act (CAA), 2021
 - The Coronavirus Aid, Relief, and Economic Security (CARES) Act
 - The Setting Every Community Up for Retirement Enhancement (SECURE) Act ("SECURE Act 1.0")



New or Important for TY2024

- For TY2019 through TY2025 returns, the Federal Disaster Tax Relief Act of 2023 allows an exclusion from gross income for any amount received by an individual as a qualified wildfire relief payment. Generally, California law does not conform. If any qualified amount was excluded from income for federal purposes and California law provides no similar exclusion, include that amount in income for California purposes on the Schedule CA.



New or Important for TY2024

- From TY2024 through TY2026, there is a **\$5,000,000** limitation on the application of business credits. The total of all business credits (including carryovers) may not reduce the “net tax” by more than \$5,000,000.
- This limitation does not apply to the Low-Income Housing Credit or the Pass-Through Entity Elective Tax Credit. The credit for prior year Alternative Minimum Tax is not subject to the credit limitation.
- Business credits should be applied against “net tax” before other credits.



New or Important for TY2024

- For those taxpayers who are forced to limit their total business credits; they may make an irrevocable election to receive an annual refundable credit amount, in future tax years, for business credits disallowed due to the \$5,000,000 limitation. The election must be made annually by completing form FTB 3870, Election for Refundable Credit, and attaching it to an original, timely filed tax return.



New or Important for TY2024

- If a taxpayer does not choose to make the election to receive future refundable credits, any business credits disallowed due to the limitation may be carried over. The carryover period for disallowed credits is extended by the number of taxable years the credit was not allowed.
- For more information, refer to R&TC Sections 17039.4 and 17039.5 and get form FTB 3870.



New or Important for TY2024

- California doesn't conform with the federal treatment of IRC Section 263(c) deductions for intangible drilling and development costs, the calculation of depletion as a percentage of gross income from the property for specified natural resources, and repealed the Enhanced Oil Recovery Credit from January 1st, 2024 onwards. See the Form 540 Booklet for more details.



New or Important for TY2024

- The federal CAA 2023 allows qualified IRC Section 529 tuition plans that have been maintained for 15 years to rollover to a Roth IRA without a tax or penalty. California does not conform.
- Rollover distributions from a 529 plan to a Roth are includible in California taxable income and subject to an additional tax of 2.5%.
- For more information, see Schedule CA (540) instructions and get form FTB 3805P.



New or Important for TY2024

- The federal CAA 2023, provides for the indexing for the \$1,000 catch-up contribution to an IRA and also increases certain contribution amounts, including catch-up contributions for individuals defined in IRC Section 414(v). California does not conform.
- Any amount contributed that exceeds California's limits may need to be included in state income. Any distribution from contributions in excess of the limit may become taxable when distributed.
- For more information, see Schedule CA (540) instructions and get FTB Pub. 1005.



New or Important for TY2024

- **Wildfire Mitigation Payments:** From TY2024 through TY2028, California allows qualified taxpayers to exclude from gross income any amount received as a California qualified wildfire loss mitigation payment through the California Wildfire Mitigation Financial Assistance Program.
- For more information, see Schedule CA (540) instructions and R&TC Section 17138.8.



New and Important for TY2024

- As mentioned earlier, the State of California is only conformal to Federal law as of January 1st, 2015. That being said, it means that California does not adhere to most of:
 - The Inflation Reduction Act (IRA) of 2022
 - The American Rescue Plan Act (ARPA) of 2021
 - The Consolidated Appropriations Act (CAA), 2021
 - The Coronavirus Aid, Relief, and Economic Security (CARES) Act
 - The Setting Every Community Up for Retirement Enhancement (SECURE) Act ("SECURE Act 1.0")



New and Important for TY2024

- From TY2023 through TY2028, taxpayers may not report business purchases subject to use tax on their **income tax return** if they make more than **\$10,000** in purchases subject to use tax per calendar year and have not paid use tax on those purchases to a retailer engaged in business in California or to a retailer authorized by the CDTFA to collect the tax. See R&TC Section 6225 or Form 540, Line 91 instructions.



New and Important for TY2024

- From TY2023 onward, the State allows taxpayer(s) to claim the **Low-Income Housing Credit** in the same tax year that the building goes into service and the Federal credit period begins, based upon taxpayer certification, even if the California Tax Credit Allocation Committee (CTCAC) has not yet issued a certificate.
 - If the later CTCAC credit is different than the taxpayer certified one; They will need to amend prior returns. See Form 3521 or R&TC Section 17058.



New and Important for TY2024

- The Federal Veterans Auto and Education Improvement Act (VAEIA) of 2022 made amendments to the federal Servicemembers Civil Relief Act (SCRA). From this, the State conforms to the following:
 - If a servicemember is placed on military orders and their spouse chooses to accompany them; that spouse does not gain or lose a residence or domicile for that choice. This applies equally to that spouse's person, property, or income. It doesn't matter whether this spouse becomes absent from some place or present in some new place, so long as that place is within any tax jurisdiction of the United States.



New and Important for TY2024

- For any taxable year of the marriage, a servicemember and their spouse may elect to use for purposes of taxation, regardless of the date on which their marriage occurred, any of the following:
 - The residence or domicile of the servicemember.
 - The residence or domicile of the spouse.
 - The permanent duty station of the servicemember.
- These changes open up and make less confusing a servicemember spouse's residency. See FTB Publication 1032 for more information.



New and Important for TY2024

- The Federal CAA 2023 contains the Federal SECURE 2.0 Act of 2022, to which California largely conforms in regards to the changes made to retirement provisions.
- California, however, doesn't disallow deductions for charitable conservation easement contributions when the amount of the contribution exceeds 2.5 times the sum of each partner's relevant basis in the partnership. (FTB Notice 2023-02)



New and Important for TY2023

- California Microbusiness COVID-19 Relief Grant gross income exclusion is extended through TY2024, expiring on January 1st, 2025.
- The sunset date for the deduction for disaster losses sustained in Governor declared disaster areas is extended until the end TY2028. For more information, get Form 3805V, and see R&TC Section 17207.14.



New and Important for TY2024

- From TY2023 through TY2025, the **New Employment Credit** is expanded for qualified taxpayers engaged in semiconductor manufacturing or semiconductor research and development, lithium production, manufacturing of lithium batteries, or electric airplane manufacturing. For more information, get FTB 3554, New Employment Credit Booklet, and see R&TC Section 17053.73.



New and Important for TY2024

- Since TY2020, California law allows the **Program 3.0 California Motion Picture and Television Production Credit** to reduce net tax below tentative minimum tax (TMT). See Form 3541 and R&TC Section 17039.
- Since TY2022, California law allows the **Soundstage Filming Tax Credit** to reduce net tax below the TMT. For more information, get Form 3541 and see R&TC Section 17039.



New and Important for TY2024

- The California HOPE for Children Trust Account Act created the California HOPE for Children Trust Account Program for the purpose of providing an eligible child with a HOPE trust account.
- From TY2023 on, California allows an exclusion from gross income for any funds deposited in, investment returns accrued within, and any accrued interest in a HOPE trust account.
- This exclusion also extends to any funds from a HOPE trust account that are either withdrawn or transferred by an eligible youth.



New and Important for TY2024

- For purposes of eligibility for CalEITC and the YCTC, any funds deposited, any investment returns accrued, and any accrued interest in a HOPE trust account and any funds from a HOPE trust account that are withdrawn or transferred by an eligible youth are **not** considered earned income.
- For more information, see Schedule CA (540) instructions and R&TC Section 17141.5.



New and Important for TY2024

- From TY2023 onwards, California allows for a gross income exclusion for any payments received due to the California Welfare and Institutions Code Section 8257 by members of the Interagency Council on Homelessness, its advisory committee, or its working groups who are or have been homeless.
 - See Schedule CA (540) instructions and R&TC Section 17131.13.



New and Important for TY2024

- From TY2020 through TY2027, the State allows a qualified taxpayer to exclude gross income for any qualified amount received in a settlement from Pacific Gas and Electric (PG&E) Company or its subsidiaries relating to either the **2019 Kincade Fire** or the **2020 Zogg Fire**.
 - For more information, see Schedule CA (540) instructions and R&TC Section 17139.2 or 17139.3



New and Important for TY2024

- From TY2023 through TY2027, the **High-Road Cannabis Tax Credit (HRCTC)** will be available to licensed commercial cannabis businesses that meet the qualifications.
- The credit is allowed to a qualified taxpayer in an amount equal to **25%** of qualified expenditures in the taxable year. The credit amount cannot exceed **\$250,000**. Unused credit may be carried forward up to eight (8) years. All types of entities, except for exempt organizations, are eligible to claim this credit.



New and Important for TY2024

- Taxpayer(s) must request a tentative credit reservation from the FTB in July for each taxable year or within thirty (30) days of the start of their taxable year if the taxpayer's taxable year begins from August 1st through December 31st of the year.
 - For more information, get Form 3820, see R&TC Section 17053.64, or go to ftb.ca.gov and search for "**hrctc**."



New and Important for TY2024

- From TY2023 through TY2027, a **Cannabis Equity Tax Credit (CETC)** is available to equity licensees that have received approval, including approval contingent upon the availability of funds, for the fee waiver and deferral program administered by the Department of Cannabis Control (DCC).
- The allowable credit is **\$10,000** per taxable year for each qualified taxpayer. Unused credit may be carried forward up to eight (8) years. All types of entities, except for exempt organizations, are eligible to claim this credit.
 - See Form 3821, see R&TC Section 17053.82, or go to ftb.ca.gov and search for "**cetc.**"



New and Important for TY2024

- **Discharge of Student Fees:** Since TY2022 and through TY2026, California allows an exclusion from gross income for any amount of unpaid fees due or owed by a student to a community college that was discharged pursuant to California Education Code Section 32527.
 - See Schedule CA (540) instructions and R&TC Section 17131.21.



New and Important for TY2024

- **Guaranteed Payment Pilot Program:** From June 30th, 2022 through TY2026, the State allows an exclusion from gross income for any payments received by an individual from a guaranteed income pilot program or project that receives a grant pursuant to California Welfare and Institution Code Section 18997.
 - See Schedule CA (540) instructions and R&TC Section 17131.12.



New and Important for TY2024

- Under **R&TC Section 41**, California requires taxpayers to report tax expenditure items as part of the FTB's annual reporting requirements.
- "Tax expenditure" means any credit, deduction, exclusion, exemption, or other tax benefit provided by the State.
- Taxpayers use Form FTB 4197 to report these expenditure items when they file their returns.



New and Important for TY2024

- The following individuals should file this form:
 - Those who excluded gross income from any settlement with PG&E or its subsidiaries for the Kincadee or Zogg fires (TY2020-2027)
 - Those who excluded gross income from certain emergency financial grants received by a post-secondary education student (TY2020-2027)
 - Those who benefited from the exclusion from gross income for the amount of student loans discharged under the ARPA (TY2021-2025)



New and Important for TY2024

- The following individuals should file this form:
 - Those who excluded gross income for any amount received in a settlement from Southern California Edison for claims relating to the 2017 Thomas Fire or the 2018 Woolsey Fire. (Any-TY2026)
 - Those who benefited from the exclusion of gross income for any amount received as a rebate, voucher, or other financial incentive issued by a public water system, local government, or state agency for participation in a turf replacement water conservation program. (TY2022-2026)



New and Important for TY2024

- The following individuals should file this form:
 - Those who benefited from the exclusion from gross income for the PPP loans forgiveness, EIDL advance grant, restaurant revitalization grant, or shuttered venue operator grant, and related eligible expense deductions. (TY2021+)
 - Any taxpayer operating a commercial cannabis activity that is licensed under California Medicinal and Adult-Use Cannabis Regulation and Safety Act (CA MAUCRSA). (TY2020+)



New or Important for TY2024

- The following individuals should file this form:
 - Those qualified taxpayers who benefited from the exclusion from gross income for any amount received as a California qualified wildfire loss mitigation payment through the California Wildfire Mitigation Financial Assistance Program.



Interactive Question 15

- At this time, the video will pause for viewers to answer a single interactive review question. All questions must be passed before the ability to take the review exam are allowed. Circumvention of this system will involve a revocation of credits or the absence of reporting them.



Final Thoughts

- California has a fairly robust and complicated tax code which may seem impenetrable to most newcomers.
- However, required education and registration makes it so that CRTPs are ahead of most in the country in regards to staying on top of the need to learn and relearn tax law.
- Do not fail to take advantage of the FTB's website at www.ftb.ca.gov.



Resources

- [IRS Main Site](#)
- [FTB Main Site](#)
- [FTB Form 540](#)
- [FTB Form 540 Instructions](#)

