

# Instructions for Schedule CA (540)

These instructions are based on the Internal Revenue Code (IRC) as of **January 1, 2001** and the California Revenue and Taxation Code (R&TC).

## General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2001. However, there are continuing differences between California and federal law. It should be noted that California does not always conform to the entire provisions of a public law. California has conformed to some of the changes made to the Internal Revenue Code after January 1, 2001, including some provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16), the Victims of Terrorism Tax Relief Act of 2001 (Public Law 107-134), and the Job Creation and Worker Assistance Act of 2002 (Public Law 107-147). California has not conformed to any of the provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (Public Law 108-27) and the Military Family Tax Relief Act of 2003 (Public Law 108-121).

### Differences Between California and Federal Law for 2003:

California law does not conform to federal law for:

- The tax incentives for "renewal communities." California law does, however, provide a variety of independent area tax incentives to encourage revitalization of specially designated areas. The Government Code provides for the designation of Enterprise Zones, Local Agency Military Base Recovery Areas (LAMBRAs), a Targeted Tax Area (TTA), and Manufacturing Enhancement Areas (MEAs). California law conforms to the general federal rules for expensing IRC Section 179 property with the exception that California law only allows a maximum deduction of \$25,000. In lieu of this deduction, the California Personal Income Tax Law allows a taxpayer with a business in an "Economic Development Area" to elect to expense \$20,000 to \$40,000 (depending on the designation) of certain specified equipment used in the business.
- The increased IRC Section 179 expense. Although federal law increased the IRC Section 179 expense to \$100,000, the maximum deduction amount under California law is \$25,000.
- Rebates or vouchers received from a local water agency, energy agency, or energy supplier. This includes a rebate, voucher or other financial incentive from the California Energy Commission, the Public Utility Commission, or a local publicly owned electric utility company for any expenses paid or incurred by a taxpayer for the purchase or installation of a thermal, solar or wind energy/fuel generating system.
- Interest deduction allowed for interest paid on any loan or indebtedness from a utility company to purchase energy efficient equipment and products for California residents.
- Net Operating Loss - Pierce's disease.
- The additional 30% or 50% first year depreciation allowance for qualified property.
- Educator Expense or the Tuition and Fees deduction.
- The Student loan interest deduction.
- The Clean Air Fuel first year deduction. You will need to report this adjustment on line 33, column B as part of your subtractions.

**NOTE:** Net Operating Losses have been suspended for 2002 and 2003.

### California law is the same as federal law in the following areas:

**Roth IRAs.** The contribution rules and distribution rules are the same.

**Self-employed health insurance deduction.** The percentage for 2003 is 100%.

**Note:** For instructions regarding registered domestic partners, see page 4, line 29.

**Holocaust Restitution Payments.** An exclusion is provided for Holocaust reparations received by eligible individuals, their heirs or estate for Holocaust restitution payments, distributions or excludable trust.

## Purpose

Use this schedule to make adjustments to your federal adjusted gross income and to your federal itemized deductions using California law.

## Part I – Specific Line Instructions

### Column A – Federal Amounts

**Line 7 through Line 21** – Enter on line 7 through line 21 the same amounts you entered on your federal Form 1040, line 7 through line 21; Form 1040A, line 7 through line 14b; or Form 1040EZ line 1, line 2, and line 3. Also enter the following if applicable:

- The total ordinary and qualified dividends received on line 9(b);
- The total capital gain or (loss) received on line 13(b);
- The total IRA distribution received on line 15(a);

- The total pension or annuity distribution received on line 16(a); and
- The total social security retirement benefit received on line 20(a).

### Line 22 – Total

Combine the amounts on line 7 through line 21.

**Line 23 through Line 31** – Enter the same amounts you entered on your federal Form 1040, line 23 through line 31 or Form 1040A, line 16 through line 19.

**Line 32a and Line 32b** – Enter on line 32a the same amount you entered on your federal Form 1040, line 32a. Enter on line 32b the social security number and last name of the person to whom you paid alimony.

**Line 33** – Add line 23 through line 32a. However, if you made any of the adjustments described in the instructions for federal Form 1040, line 33 or if you claimed the foreign housing deduction from federal Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion, enter the amount from Form 1040, line 33 on this line.

### Line 34 – Total

Subtract line 33 from line 22.

### Column B and Column C – Subtractions and Additions

Use these columns to enter subtractions and additions to the federal amounts in column A that are necessary because of differences between California and federal law. Enter all amounts as positive numbers unless instructed otherwise.

You may need one of the following FTB publications to complete column B and column C:

- 1001, Supplemental Guidelines to California Adjustments;
- 1005, Pension and Annuity Guidelines;
- 1031, Guidelines for Determining Resident Status;
- 1032, Tax Information for Military Personnel; or
- 1100, Taxation of Nonresidents and Individuals Who Changed Residency.

To order a publication or form visit our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) or see the back cover of your tax booklet.

### Line 7 – Wages, Salaries, Tips, etc.

Generally, you will not make any adjustments on this line. If you did not receive any of the following types of income, make no entry on this line in either column B or column C.

**Active duty military pay.** If you are an active duty military member and domiciled in a community property state (California, Arizona, Idaho, Louisiana, Nevada, Texas, New Mexico, Washington, Wisconsin, or the commonwealth of Puerto Rico) and your spouse is a California resident, your spouse is entitled to claim an adjustment for one-half of your military pay. For married filing separately, the California resident makes the adjustment on Form 540 by writing 17140.5 MPA on the left of column A and entering one-half of the military pay in column B, line 7.

For married filing jointly, report the adjustment on Form 540NR, Nonresident or Part-Year Resident, by writing 17140.5 on the left of column A and entering one-half of the military pay in column B, line 7.

If the military member is domiciled in a separate property state, do not make an entry in column B. Get FTB Pub 1032 for more information.

**Sick pay received under the Federal Insurance Contributions Act and Railroad Retirement Act.** California excludes this items from income. Enter in column B the amount of these benefits included in the amount in column A.

### Ridesharing fringe benefit differences.

Under federal law, qualified transportation benefits are excluded from gross income. Under the Revenue and Taxation Code, there are no monthly limits for the exclusion of these benefits and California's definitions are more expansive. Enter the amount of ridesharing benefits received and included in federal income on line 7, column B.

**Income exempted by U.S. tax treaties (unless specifically exempt for state purposes also).** If you excluded this income from your federal return, enter the excluded amount in column C. If you claimed foreign earned income or housing cost exclusion under IRC Section 911, see the instructions for line 21. Get FTB Pub. 1001 for more information.

**Exclusion for Medical Expenses.** California allows an exclusion from gross income for employer-provided accident, health insurance, and medical expense reimbursement for registered domestic partners and the partner's dependents if expenses were not previously deducted. Self-employed individuals may also claim a deduction for health insurance costs paid for themselves, their spouses, and dependents. In addition, self-employed individuals may also claim this deduction for health insurance costs paid for registered domestic partner and the domestic partner's dependents.

**Employer-Provided Adoption Assistance Exclusion.** With regard to adoption of children with special needs, California has not conformed to the federal provisions providing for a potential increase in the exclusion for the year in which the adoption becomes final or the limitation based upon the aggregate amount paid in all years. For more information, get form FTB 5123, Employer Provided Adoption Assistance Exclusion, or FTB Pub. 1001, Supplemental Guidelines to California Adjustments (2003).

**Exclusion for compensation from exercising a California Qualified Stock Option (CQSO).** To claim this exclusion, your earned income from the corporation granting the CQSO must be \$40,000 or less; the market value of the options granted to you must be \$100,000 or less; the total number of shares must be 1,000 or less; and the corporation issuing the stock must designate that the stock issued is a California qualified stock option at the time the option is granted. If you included in federal income an amount qualifying for this exclusion, enter that amount in column B.

#### **Line 8 – Taxable Interest Income**

If you did not receive any of the kinds of income listed below, do not make an entry on this line in either column B or column C.

Enter in column B the interest you received from:

- U.S. savings bonds (except for interest from series EE U.S. savings bonds issued after 1989 that qualified for the Education Savings Bond Program exclusion);
- U.S. Treasury bills, notes, and bonds; or
- Any other bonds or obligations of the United States and its territories.

Enter in column C the interest you identified as tax-exempt interest on your federal Form 1040 (or Form 1040A), line 8b **and** which you received from:

- Non-California state bonds;
- Non-California municipal bonds issued by a county, city, town, or other local government unit;
- Obligations of the District of Columbia issued after December 27, 1973; and
- Non-California bonds if the interest was passed through to you from S corporations, trusts, partnerships, or Limited Liability Companies (LLCs).

**Note: Do not** make entries in either column B or column C for interest you earned on Federal National Mortgage Association (Fannie Mae) Bonds, Government National Mortgage Association (Ginnie Mae) Bonds, and Federal Home Loan Mortgage Corporations (FHLMC) securities, or grants paid to low income individuals.

Get FTB Pub. 1001 if you received interest income from the following sources:

- Loans made in an enterprise zone (EZ); or
- Items listed above passed through to you from S corporations, trusts, partnerships, or LLCs.

#### **Line 9 – Ordinary dividends**

Generally, you will not have a difference between the amount of dividends reported in Column A and the amount reported using California law. However, California taxes dividends that are derived from other states and their municipal obligations. In addition, certain mutual funds pay "exempt-interest dividends". If the mutual fund has at least 50% of its assets invested in tax-exempt U.S. obligations and/or in California or its municipal obligations, that amount of dividend is exempt from California tax. The proportion of dividends that are tax-exempt will be shown on your annual statement or statement issued with Form 1099.

Add dividends received from the following and enter in column B:

- The portion of exempt interest dividends from mutual funds that meets the 50% rule above.
- Non-cash patronage dividends from farmers' cooperatives or mutual associations.

Add dividends received from the following and enter in column C:

- The federally exempt interest dividends from other states, or their municipal obligations and/or from mutual funds that do not meet the 50% rule above.
- Controlled foreign corporation dividends in the year distributed;
- Regulated investment company (RIC) capital gains in the year distributed;
- Distributions of pre-1987 earnings from an S corporation;
- Non-cash patronage dividends from farmers' cooperatives or mutual associations.

Get FTB Pub. 1001 if you received dividends from:

- Non-cash patronage dividends from farmers' cooperatives or mutual associations;
- A controlled foreign corporation;
- Distributions of pre-1987 earnings from S corporations; or
- Undistributed capital gains for regulated investment company (RIC) shareholders.

**Line 10 – Taxable refunds, credits, or offsets of state and local income taxes**  
California does not tax the state income tax refund you received in 2003. Enter in column B the amount of state tax refund you entered in column A.

#### **Line 11 – Alimony Received**

If you are a nonresident alien and received alimony that was not included in your federal income, enter the alimony on this line in column C. Otherwise, make no entry on this line.

#### **Line 12 – Business Income or (Loss)**

Adjustments to federal business income or loss you reported in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis you use to figure California depreciation may be different from the amount used for federal purposes.

Adjustments are figured on form FTB 3885A, Depreciation and Amortization Adjustments, and are most commonly necessary because of the following:

- **Before January 1, 1987**, California did not allow depreciation under the federal accelerated cost recovery system. You must continue to figure California depreciation for those assets in the same manner as prior years.
- **On or after January 1, 1987**, California provides special credits and accelerated write-offs that affect the California basis of qualifying assets. Refer to the bulleted list below.

Use form FTB 3801, Passive Activity Loss Limitation, to figure the total adjustment for line 12 if you have:

- One or more passive activities that produce a loss; or
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule C.

Use form FTB 3885A to figure the total adjustment for line 12 if you have:

- Only nonpassive activities which produce either gains or losses (or combination of gains and losses); or
- Passive activities that produce gains.

Get FTB Pub. 1001 for more information about:

#### **Income related to:**

- Business, trade, or profession carried on within California that is an integral part of a unitary business carried on both within and outside California; or
- Pro-rata share of income received from a controlled foreign corporation by a U.S. shareholder.

#### **Basis adjustments related to:**

- Property acquired prior to becoming a California resident;
- Sales or use tax credit for property used in an EZ, Local Agency Military Base Recovery Area (LAMBRA), Targeted Tax Area (TTA), or former LARZ;
- Reduced recovery periods for fruit-bearing grapevines replaced in a California vineyard on or after 1/1/92 as a result of phylloxera infestation; or on or after 1/1/97 as a result of Pierce's disease;
- Expenditures for tertiary injectants;
- Property placed in service on an Indian reservation after 1/1/94 and before 12/31/03;
- Amortization of pollution control facilities;
- Discharge of real property business indebtedness;
- Employer-paid child care program;
- Employer-paid child care plan;
- Vehicles used in an employer-sponsored ridesharing program;
- An enhanced oil recovery system;
- Joint Strike Fighter property costs;
- The cost of making a business accessible to disabled individuals;
- Property for which you received an energy conservation subsidy from a public utility on or after 1/1/95 and before 1/1/97; or
- Research and experimental expenditures.

#### **Business expense deductions related to:**

- Wages paid in an EZ, LAMBRA, Manufacturing Enhancement Area (MEA), or TTA;
- Certain employer costs for employees who are also enrolled members of Indian tribes;
- Abandonment or tax recoupment fees for open-space easements and timberland preserves;
- Business located in an EZ, LAMBRA, or TTA;
- Research expense;
- Employer wage expense for the Work Opportunity Credit and Welfare-to-Work Credit;
- Pro-rata share of deductions received from a controlled foreign corporation by a U.S. shareholder;
- Interest paid on indebtedness in connection with company-owned life insurance policies; or

- Premiums paid on life insurance policies, annuities, or endowment contracts issued after 6/8/97 where the owner of the business is directly or indirectly a policy beneficiary.

### Line 13 – Capital Gain or (Loss)

Generally, you will not make any adjustments on this line. However, if you have any of the items listed below, use Schedule D (540), California Capital Gain or Loss Adjustment, to calculate the amount to enter on this line.

- Gain on the sale of qualified small business stock which qualifies for the gain exclusion under IRC Section 1202;
- Basis amounts resulting from differences between California and federal law in prior years;
- Gain or loss on stock and bond transactions;
- Installment sale gain reported on form FTB 3805E, Installment Sale Income;
- Gain on the sale of personal residence where depreciation was allowable;
- Flow-through gain or loss from partnerships, fiduciaries, S corporations, or LLCs; or
- Capital loss carryover from your 2002 California Schedule D (540).

Get FTB Pub. 1001 for more information about:

- Disposition of S corporation stock acquired before 1987;
- Gain on sale or disposition of qualified assisted housing development to low-income residents or to specified entities maintaining housing for low-income residents;
- Undistributed capital gain for RIC shareholders;
- Gain or loss on the sale of property inherited before 1/1/87; or
- Capital loss carrybacks.

### Line 14 – Other Gains or (Losses)

Generally, you will not make any adjustments on this line. However, the California basis of your other assets may be different from the federal basis due to differences between California and federal law. Therefore, you may have to adjust the amount of other gains or losses. Get Schedule D-1, Sales of Business Property.

### Line 15 – Total IRA Distributions

Generally, you will not make any adjustments on this line. However, there may be significant differences in the taxable amount of a distribution (including a distribution from conversion of a traditional IRA to a Roth IRA), depending on when you made your contributions to the IRA. Differences may also occur if your California IRA deductions were different from your federal deductions because of differences between California and federal self-employment income.

If the taxable amount using California law is:

- Less than the amount taxable under federal law, enter the difference in column B; or
- More than the amount taxable under federal law, enter the difference in column C.

Get FTB Pub. 1005 for more information and worksheets for figuring the adjustment to enter on this line, if any.

**Caution:** If you have an IRA basis and were a nonresident in prior years, you may need to restate your California IRA basis. Get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

**Coverdell ESA formerly known as Education (ED) IRA** – If column A includes a taxable distribution from an ED IRA, you may owe additional tax on that amount. Get form FTB 3805P, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts. Report only the taxable amount of the distribution on line 21f.

### Line 16 – Total Pensions and Annuities

Generally, you will not make any adjustments on this line. However, if you received Tier 2 railroad retirement benefits or partially taxable distributions from a pension plan, you may need to make the following adjustments.

If you received a federal Form RRB 1099-R for railroad retirement benefits and included all or part of these benefits in taxable income in column A, enter the taxable benefit amount in column B.

If you began receiving a retirement annuity between 7/1/86 and 1/1/87 and elected to use the three-year rule for California purposes and the annuity rules for federal purposes, enter in column C the amount of the annuity payments you excluded for federal purposes.

### Line 17 – Rental Real Estate, Royalties, Partnerships, S Corporations, and Trusts, etc.

Adjustments to federal income or loss you reported in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis you use to figure California depreciation may be different from the recovery period or amount used for federal purposes, and you may need to make an adjustment to your income or loss. For more information, see the instructions for column B and column C, line 12.

**Note:** California law does not conform to federal law for material participation in rental real estate activities. Beginning in 1994, and for federal purposes only, rental real estate activities conducted by persons in real property business are not automatically treated as passive activities. Get form FTB 3801, Passive Activity Loss Limitations, for more information.

Use form FTB 3801, Passive Activity Loss Limitations, to figure the total adjustment for line 17 if you have:

- One or more passive activities that produce a loss; or
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule E.

Use form FTB 3885A, Depreciation and Amortization Adjustments, to figure the total adjustment for line 17 if you have:

- Only nonpassive activities which produce either gains or losses (or combination of gains and losses); or
- Passive activities that produce gains.

**Note:** LLCs that are classified as partnerships for California purposes and limited liability partnerships (LLPs) are subject to the same rules as other partnerships. LLCs report distributive items to members on Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc. LLPs report to partners on Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc.

Get FTB Pub. 1001 for more information about accumulation distributions to beneficiaries for which the trust was not required to pay California tax because the beneficiary's interest was contingent.

### Line 18 – Farm Income or (Loss)

Adjustments to federal income or loss you report in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis you use to figure California depreciation may be different from the amount used for federal purposes, and you may need to make an adjustment to your farm income or loss.

Use form FTB 3801, Passive Activity Loss Limitation, to figure the total adjustment for line 18 if you have:

- One or more passive activities that produce a loss; or
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule F.

Use form FTB 3885A, Depreciation and Amortization Adjustments, to figure the total adjustment for line 18 if you have:

- Only nonpassive activities which produce either gains or losses (or combination of gains and losses); or
- Passive activities that produce gains.

### Line 19 – Unemployment Compensation

California does not tax unemployment compensation. Enter on line 19, column B the amount of unemployment compensation shown in column A. **Note:** Do not include qualified state tuition program earnings.

### Line 20 – U.S. Social Security Benefits

California does not tax U.S. social security benefits or equivalent Tier 1 railroad retirement benefits. Enter in column B the amount of U.S. social security benefits or equivalent Tier 1 railroad retirement benefits shown in column A.

### Line 21 – Other Income

**a. California Lottery Winnings.** California does not tax California lottery winnings. Enter in column B the amount of California lottery winnings included in the federal amount on line 21 in column A.

**Note:** Do not include lottery winnings from other states. They are taxable by California. California and federal laws allow gambling losses only to the extent you report gambling income. If you reduced your gambling income for California lottery income, you may need to reduce the losses included in the federal itemized deductions on line 35. Enter these losses on line 38 as a negative number.

**b. Disaster Loss Carryover from form FTB 3805V, line 6.** If you have a California disaster loss carryover from your 2002 form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations, enter that amount as a positive number in column B.

**c. Federal NOL deduction from Form 1040, line 21.** If the amount on line 21 in column A includes a federal NOL, enter the amount of the federal NOL deduction as a positive number in column C. Get form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts, to figure the allowable California NOL deduction.

**d. NOL Carryover from form FTB 3805V, line 5.** This is suspended for 2002 and 2003.

**e. NOL deduction from form FTB 3805D, FTB 3805Z, FTB 3806, FTB 3807, or FTB 3809.** This is suspended for 2002 and 2003.

**f. Other (describe).**

**Reward from a crime hotline.** Enter in column B the amount of a reward authorized by a government agency that you received from a crime hotline established by a government agency or nonprofit organization and that is included in the amount on line 21 in column A.

**Note:** You may not make this adjustment if you are an employee of the hotline or someone who sponsors rewards for the hotline.

**Federal foreign earned income or housing exclusion.** Enter in column C the amount deducted from federal income on Form 1040, line 21.

**Beverage container recycling income.** Enter in column B the amount of this type of income that you included in the amount on line 21 in column A.

**Rebates or vouchers from a local water agency, energy agency, or energy supplier.** California law allows an income exclusion for rebates or vouchers from a local water agency, energy agency, or energy supplier for the purchase and installation of water conservation appliances and devices. Enter in column B the amount of this type of income that you included in the amount on line 21 in column A.

**Original issue discount (OID) for debt instruments issued in 1985 and 1986.** In the year of sale or other disposition, you must recognize the difference between the amount reported on your federal return and the amount reported for California purposes. **Issuers:** Enter the difference between the federal deductible amount and the California deductible amount on line 21f in column B. **Holders:** Enter the difference between the amount included in federal gross income and the amount included for California purposes on line 21f in column C.

**Foreign income of nonresident aliens.** Adjust federal income to reflect worldwide income computed under California law. Enter losses from foreign sources in column B. Enter foreign source income in column C.

**Cost-share payments received by forest landowners.** Enter in column B the cost-share payments received from the Department of Forestry and Fire Protection under the California Forest Improvement Act of 1978 or from the United States Department of Agriculture, Forest Service, under the Forest Stewardship Program and the Stewardship Incentives Program, pursuant to the Cooperative Forestry Assistance Act.

**Compensation for False Imprisonment.** California excludes compensation for false imprisonment from income. Enter the amount of compensation on line 21f, column B.

**Coverdell (ESA) Distributions.** If you received a distribution from a Coverdell ESA, you now report only the taxable amount of the distribution on line 21f.

**Grants paid to low-income individuals.** California excludes grants paid to low-income individuals to construct or retrofit buildings to make them more energy efficient. Federal has no similar exclusion. Enter on line 21f, column B the amount of this type of income.

**Line 22 – Total**

Add line 7 through line 21f in column B and column C. Enter the totals on line 22.

**Line 23 through Line 31 – California law is the same as federal law with the exception of the following:**

- Line 23 (Educator Expense), transfer the amount from column A, line 23, to column B, line 23.
- Line 25 (Student Loan Interest Deduction), California only allows a deduction for interest required to be paid in the first 60 months. California also has a different phase-out deduction amount. If you claimed the student loan interest deduction on your federal return, complete the worksheet to compute the amount to enter on line 25, column B.

**Student Loan Interest Deduction Worksheet**

1. Enter the total amount from Schedule CA, (540), line 25, Column A ..... 1. \_\_\_\_\_  
**Caution:** If the amount on line 1 is zero. STOP. Enter zero on Schedule CA (540), line 25, column B. You are not allowed a deduction for California.
2. Enter the total interest you paid in 2003 on qualified student loans. Do not include interest that was required to be paid after the first 60 months or interest for voluntary payments ..... 2. \_\_\_\_\_
3. Enter the smaller of line 2 or \$2,500 ..... 3. \_\_\_\_\_
4. Enter the amount from Form 540, line 13 (**Note:** Use the federal AGI NOT California AGI) ..... 4. \_\_\_\_\_
5. Add line 1 and line 4 ..... 5. \_\_\_\_\_
6. Did you file federal Form 2555, 2555-EZ, or 4563, or are you excluding income from sources within Puerto Rico or America Samoa from your federal income?  
**No.** Skip line 6a through 6d. Enter the amount from line 5 on line 7 and go to line 8.  
**Yes.** Continue to line 6a.
  - 6a. Enter any foreign earned income exclusion (federal Form 2555, line 40 or Form 2555-EZ, line 18) ..... 6a. \_\_\_\_\_
  - 6b. Enter any housing exclusion and/or deduction (federal Form 2555, line 34 and line 48) ..... 6b. \_\_\_\_\_
  - 6c. Enter the amount of income from Puerto Rico that you are excluding from federal income ..... 6c. \_\_\_\_\_
  - 6d. Enter the amount of income from American Samoa that you are excluding (federal Form 4563, line 15) ..... 6d. \_\_\_\_\_
7. Add line 5 through line 6d ..... 7. \_\_\_\_\_
8. Enter the amount shown below for your filing status
 

• Single, head of household, or qualifying widow(er) – \$41,600	} 8. _____
• Married filing jointly – \$62,400	
9. Is the amount on line 7 more than the amount on line 8?  
 **No.** Skip lines 9 and 10, enter -0- on line 11, and go to line 12.  
 **Yes.** Subtract line 8 from line 7 .. 9. \_\_\_\_\_
10. Divide line 9 by \$15,000. Enter the result as a decimal (rounded to at least three places). Do not enter more than "1.000" ..... 10. \_\_\_\_ . \_\_\_\_ \_\_\_\_
11. Multiply line 3 by line 10 ..... 11. \_\_\_\_\_
12. Student loan interest deduction. Subtract line 11 from line 3 ..... 12. \_\_\_\_\_
13. Student loan interest adjustment. Subtract line 12 from line 1. Enter the result here and on Schedule CA (540), line 25, column B ..... 13. \_\_\_\_\_

- Line 26 (Tuition and Fees deductions), transfer the amount from column A, line 26, to column B, line 26.
- Line 29 (Self-Employed Health Insurance Deduction), most people do not have an entry in column B or column C. For the purposes of this deduction, California allows you to treat your registered domestic partner as your spouse.

Enter on column C, line 29, the amount paid for health insurance coverage (established under your business) for your registered domestic partner and their dependents. Your total California deduction cannot exceed the limitations explained in the federal instructions. Do not include health insurance costs for any month you were eligible to participate in any subsidized health plan maintained by your or your domestic partner's employer.

Enter on column B, line 29, the amount of health insurance cost included in column A, line 29, for any month you were eligible to participate in any subsidized health plan maintained by your registered domestic partner's employer.

- Clean Air Fuel, first year deduction (this will be included in the total for Column B on line 33). See instructions below.

**Line 32a – Alimony Paid**

Enter the social security number and last name of the person to whom you paid alimony. **Note:** If you are a nonresident alien and did not deduct alimony on your federal return, enter the amount you paid in column C.

**Line 33** – Add line 23 through line 32a in column B and column C. If you claimed the Clean Air Fuel first year deduction, include that amount in the total you enter in column B, line 33. Enter the amount and "Clean Air Fuel" on the dotted line next to line 33. If you claimed the foreign housing deduction, include that amount in the total you enter in column B, line 33. Enter the amount and "Form 2555" or "Form 2555-EZ" on the dotted line next to line 33.

**Line 34 – Total**

Subtract line 33 from line 22 in column B and column C.

Transfer the amount from line 34:

- Column B to Form 540, Side 1, line 14; and
- Column C to Form 540, Side 1, line 16.

**Caution:** If Schedule CA (540), line 34:

- Column B is a negative number, do not transfer it to Form 540, line 14. Instead, transfer the amount as a positive number to Form 540, line 16; or
- Column C is a negative number, do not transfer it to Form 540, line 16. Instead, transfer the amount as a positive number to Form 540, line 14. If you plan to itemize deductions, go to Part II.

**Part II – Specific Line Instructions**

**Line 35 – Federal Itemized Deductions**

Enter the total amount of itemized deductions from your federal Form 1040, Schedule A, lines 4, 9, 14, 18, 19, 26, and 27. **Important:** If you did not itemize deductions on your federal tax return but will itemize deductions on your California tax return, first complete federal Schedule A. Then complete Schedule CA (540), Part II, line 35 through line 41.

**Line 36 – State, Local, and Foreign Income Taxes**

Enter the state and local income tax from federal Form 1040, Schedule A, line 5 and only the portion relating to foreign income taxes from line 8. Include state disability insurance (SDI), limited partnership tax, and income or franchise tax paid by S corporations.

**Line 38 – Other Adjustments**

**Adoption-Related Expenses.** If you deducted adoption-related expenses on your federal Form 1040, Schedule A and are claiming the adoption cost credit for the same amounts on your Form 540, enter the amount of the adoption cost credit claimed as a negative number on line 38.

**Mortgage Interest Credit.** If you reduced your federal mortgage interest deduction by the amount of your mortgage interest credit (from federal Form 8396, Mortgage Interest Credit), increase your California itemized deductions by the same amount. Enter the amount of your federal mortgage interest credit as a positive number on line 38.

**Nontaxable Income Expenses.** If, on federal Schedule A, you claim expenses related to producing income taxed under federal law but not taxed by California, enter the amount as a negative number on line 38. You may claim expenses related to producing income taxed by California law but not taxed under federal law by entering the amount as a positive number on line 38.

**Employee Business Expense.** If you completed federal Form 2106, Employee Business Expense, or Form 2106-EZ, Unreimbursed Employee Business Expense, also complete Form 2106 or Form 2106-EZ using California amounts.

Compare line 10 on both Forms 2106 (or line 6 if using Forms 2106-EZ). If the federal amount is larger, enter the difference as a negative number on line 38. If the California amount is larger, enter the difference as a positive number on line 38.

**Investment Interest Expense.** Your California deduction for investment interest expense may be different from your federal deduction. You must use form FTB 3526, Investment Interest Expense Deduction, to figure the amount to enter on line 38.

**Interest Expense Deduction.** Your California interest expense deduction may be different from your federal deduction. A deduction is allowed for interest paid on any loan or financed indebtedness from a utility company to purchase energy efficient equipment and products for California residences. Enter as a positive number on line 38.

**Gambling Losses.** California lottery losses are not deductible for California. Enter the amount of California lottery losses shown on federal Schedule A as a negative number on line 38.

**Federal Estate Tax.** Federal estate tax paid on income in respect of a decedent is not deductible for California. Enter the amount of federal estate tax shown on federal Schedule A as a negative number on line 38.

**Generation Skipping Transfer Tax.** Tax paid on generation skipping transfers is not deductible under California law. Enter the amount of expenses shown on federal Schedule A as a negative number on line 38.

**State Legislator's Travel Expenses.** Under California law, deductible travel expenses for state legislators include only those incurred while away from their place of residence overnight. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference as a negative number on line 38.

**Charitable Contribution Carryover Deduction.** If you are deducting a prior year charitable contribution carryover, and the California carryover is larger than the federal carryover, enter the additional amount as a positive number on line 38.

**Interest on loans from utility companies.** Taxpayers are allowed a tax deduction for interest paid or incurred on a public utility company financed loan that is used to purchase and install energy efficient equipment or products, including zone-heating products for a qualified residence **located in California**. Federal law has no equivalent deduction. Enter the amount as a positive number on line 38.

**Medical benefits paid on behalf of registered domestic partners.** Taxpayer benefits are extended to include the taxpayer's registered domestic partner and their dependent(s) for medical expenses and health insurance benefits that occur on or after January 1, 2002. Federal law does not include this provision. Enter the amount as a positive number on line 38.

**Line 40 – California Itemized Deductions**

Is the amount on Form 540, line 13 more than the amount shown below for your filing status?

Single or married filing separately	.....	\$135,714
Married filing jointly or qualifying widow(er)	.....	\$271,432
Head of household	.....	\$203,574

**NO** Transfer the amount from line 39 to line 40. Do not complete the worksheet.

**YES** Complete the Itemized Deductions Worksheet.

**Note:**

- If you are married and filing a separate return, you and your spouse must either both itemize your deductions or both take the standard deduction.
- Also, if someone else can claim you as a dependent, you may claim the greater of the standard deduction or your itemized deductions. See instructions for the "California Standard Deduction Worksheet for Dependents" to figure your standard deduction.

<b>Itemized Deductions Worksheet</b>	
1. Amount from Schedule CA (540), line 39	..... 1 _____
2. Using California amounts, add the amounts on federal Form 1040, Schedule A, line 4, line 13, and line 19 plus any gambling losses included on line 27	..... 2 _____
3. Subtract line 2 from line 1	..... 3 _____
<b>Note:</b> If -0-, stop. Enter the amount from line 1 on Schedule CA (540), line 40.	
4. Multiply line 3 by 80% (.80)	..... 4 _____
5. Amount from Form 540, line 13	..... 5 _____
6. Enter the amount shown above for your filing status	..... 6 _____
7. Subtract line 6 from line 5	..... 7 _____
<b>Note:</b> If -0- or less, stop. Enter the amount from line 1 on Schedule CA (540), line 40.	
8. Multiply line 7 by 6% (.06)	..... 8 _____
9. Compare line 4 and line 8. Enter the smaller amount here	..... 9 _____
10. Total itemized deductions. Subtract line 9 from line 1. Enter here and on Schedule CA (540), line 40	..... 10 _____