

Supplement CA

California Tax Forms Guide 2010 Edition

The Basics
Changes You Should Note
Installation and Start-up
Translating the Federal Return
Printouts for the FTB
Form by Form Details

This document is not a stand-alone manual. It is a special supplement to the User's Guide for HowardSoft's Tax Preparer and the Tax Forms Guide for the 2010 Edition of HowardSoft's Form 1040 software, and relies on those guides as the main source of instructions for the California Supplement software. This document and the associated software are based on information compiled and interpreted by HowardSoft late in 2009 and early 2010, including the latest information from the Franchise Tax Board (FTB), but their complete accuracy cannot be guaranteed. Neither HowardSoft nor Dr. J. E. Howard assumes any responsibility for any consequential damages resulting from their use.

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California Supplement (2010 Edition)

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* included in Premium Level software only.

** included in Standard and Premium Level software only.

The Basics

What it is. The *California Supplement (2010 Edition)* is a special supplement to the regular 2010 Edition of *Tax Preparer*®. It adds to the regular edition (for preparing Form 1040 returns), the ability to prepare California FTB Form 540 returns. It uses data from the computer-prepared federal (Form 1040) return as the starting point for the California return through its built-in “translate” feature, resulting in the computer-automated preparation and printing of state tax returns for the same tax year. The state forms that are built-in are comparable to the federal forms in the regular edition, as seen in Table CA-1.

This document supplements the Tax Forms Guide 2010 Edition. This document adds instructions for California forms to the *Tax Forms Guide 2010 Edition*. However, where calculations and instructions are the same as the comparable federal forms, this document refers to the regular Tax Forms Guide.

IMPORTANT CAUTIONS

You MUST Prepare the federal return FIRST. To use the California Supplement you must prepare the federal return *first*. Once the federal return is complete and final calculations for it have been performed, the California Supplement can translate the federal data into a California return. You do not need to enter any data manually except where California law requires different entries from those that appear on the federal return.

Translate from federal return, then view all translated worksheets. Because of the complexity of the tax forms, *we strongly recommend that you start every California return by translation from the federal return, no matter how simple the return.* Because a California return is largely based on adjustments to the federal return, there are numerous entries from the federal return that are required on our forms, even when they do not appear on the official FTB California forms. The only sure way of preventing errors from overlooking these entries is to translate the return. *Once you translate, you must also view all translated worksheets.* There are two important reasons for this:

- (1) worksheet entries are updated in accordance with California law only once you view them, since supporting worksheets are not included in the final recalculation of a return, and
- (2) the federal worksheets do not always contain all the information required on a California return, so you may have to make new entries. You do not need to enter any data manually except where California law requires different entries from those that appear on the federal return.

The viewing and revising of translated worksheets is especially important for the W-2 Worksheets for Form 540, the Qualifying Person Worksheets for Form 3506, and all worksheets for Form 3885A (Depreciation).

Not intended for nonresidents nor fiscal filers. California law is especially different from federal law for nonresidents and part-year residents of California. *CAUTION: You, and spouse if filing jointly, must have been a resident of California for the entire year to use Form 540, for which this software is specifi-*

ally designed. If either you or spouse was a nonresident *AT ANYTIME* during the tax year, you must file Form 540NR instead of Form 540. Although this software will provide the necessary calculations for most supporting forms and schedules, it does not provide Form 540NR, which is unique in its prorationing of incomes and tax among states. In addition, individuals who use a tax year other than a calendar year cannot use this software because it does not provide the necessary prorationing among years. See the official FTB instructions for more details.

Table CA-1. Forms Provided in California Supplement

CALIFORNIA FORM/SCHED	TITLE OF CALIFORNIA FORM/SCHEDULE	FEDERAL EQUIVALENT
Control	Automation Control Form	Control
Form 540	California Long Form	Form 1040
Schedule CA	California Adjustments	Form 1040
Schedule D	Capital Gain or Loss Adjustment	Schedule D
Schedule D-1	Sales of Business Property	Form 4797
*Schedule G-1	Tax on Lump Sum Distributions	Form 4972
Sch. P, pg 1	Alternative Minimum Tax	Form 6251
Sch. P, pg 2	Credit Limitations	None
Schedule S	Other State Tax Credit	None
Sch. W-2 CG	Wage and Withholding Summary	None
*Form 3501	Employer Child Care Pgm/Contribn Credit	None
Form 3506	Child & Dependent Care Expenses Credit	Form 2441
*Form 3510	Credit for Prior Year AMT	Form 8801
Form 3519	Payment Voucher for Automatic Extension	Form 4868
*Form 3521	Low-Income Housing Credit	Form 8586
*Form 3523	Research Credit	Form 6765
**Form 3526	Investment Interest Expense Deduction	Form 4952
*Form 3533	Change of Address	Form 8822
Form 3540	Credit Carryover Summary	None
*Form 3548	Disabled Access Credit	Form 8826
*Form 3553	Enterprise Zone Employee Credit	None
Form 3800	Tax for Children with Investment Income	Form 8615
Form 3801	Passive Activity Loss Limitations	Form 8582
Form 3803	Election for Child's Interest/Dividends	Form 8814
Form 3805E	Installment Sale Income	Form 6252
Form 3805P	Add'l Tax on Qlfd Plans (IRAs, etc)	Form 5329
*Form 3805V	NOL Comp'n/NOL & Disaster Loss Limits	Form 3621
*Form 3805Z	Enterprise Zone Deductn & Credit Summary	None
*Form 3806	LARZ Deduction and Credit Summary	None
Form 3885A	Depreciation & Amortization Adjustments	Form 4562
Form 5805	Underpayment of Estimated Tax	Form 2210
& 5805-F	Underpayment by Farmers and Fishermen	& 2210-F
Form 5805	Pt III, Annualized Installment Schedule	2210, SchAI
*Form 5870A	Tax on Accumulation Distribn of Trusts	Form 4970
Worksheet A	Itemized Deductions	Schedule A
Worksheet B	Interest and Dividends	Schedule B
Worksheet C	Business Income	Schedule C
Worksheet E	Supplemental Income	Schedule E
Worksheet F	Farm Income	Schedule F
worksht 4835	Farm Rental Income	Form 4835
Form 540-ES	Estimated Tax Worksheet	Fm 1040-ES
Form 540X	Amended Individual Income Tax Return	Form 1040X
**e-file form	Form 8453, 3582, etc.	e-file form
**Form 8454	e-file Opt-Out Record	None

Forms not built into the software are available from the FTB through links on their web page www.ftb.ca.gov/forms.

*Included in Premium Level program only. Instructions for these forms appears in a separate Premium Level Supplement.

**Included in Standard and Premium Level programs only.

FTB enforces strict printing rules for paper returns: *NO MORE TEXT-MODE FACSIMILES!* At the end of 1997, the FTB banned all use of non-graphic forms for tax returns, *including all supporting schedules and forms.* This means that you now have only the following options for filing:

1. Computer-printed graphics using HowardSoft's Windows or Laser printing. (Standard and Premium Level versions contain graphics for all forms; Economy Level version contains graphics for only Form 540 and Schedule W-2.)
2. Electronic filing using the e-file capability that is built into all Standard and Premium Level versions of our California software.
3. Computer-printed data on plain paper, photocopied using transparent overlay versions of HowardSoft's graphic forms. (This is a viable option for those who use the Economy Level or do not have a compatible printer.)
4. Fill-in by computer of FTB forms using the pdf files available from the FTB at www.ftb.ca.gov/forms (since nearly all forms for Form 540 returns are available there in a fill-in format). This option requires you to enter on the FTB forms the data you see on our facsimile or draft printouts, or our on-screen PREVIEW of them. (This is a labor-intensive option for those who use the Economy Level or do not have a compatible printer.)
5. Hand-prepared forms using the pre-printed FTB official forms. (This is also a labor-intensive option, but may suit you if you can write faster than you can type.)

The current FTB rules are a consequence of the large investment the FTB has made in automated equipment that relies on graphic lines and symbols, neither of which can be reproduced by text-mode dot-matrix printers. Moreover, the FTB recommends the use of laser printers or high-quality ink-jet printers for computer-generated forms, so that its automated equipment can quickly align the form. While it may seem that this only results in more money for the software vendors like HowardSoft, *we were strongly opposed to the change because it creates a hardship for professionals with a small tax practice or individuals who have little time for manual transferring of numbers onto FTB forms.* But we must abide by the FTB rules in order for our printouts to be approved by the FTB.

Changes You Should Note

Several taxes and credits indexed with inflation. The indexing for 2009 returns is -1.5% relative to 2008 returns (in other words, 1.5% deflation). As a result, several calculations have changed, including:

Standard deductions decreased from \$3,692 to \$3,637 for taxpayers filing single or married filing separately, and from \$7,384 to \$7,274 for all others.

Personal exemptions decreased from \$99 to \$98 for each exemption.

Dependent exemptions decreased tremendously from \$309 to \$98 for each exemption due to legislation that makes the dependent exemptions the same as personal exemptions for tax years 2009 and 2010.

Thresholds for phaseout of exemptions and itemized deductions decreased from \$163,187 to \$160,739 for single and married filing separately, from \$244,785 to \$241,113 for head of household, and from \$326,379 to \$321,483 for married filing jointly and qualifying widow(er).

Ceiling for joint custody head of household credit and dependent parent credit decreased from \$393 to \$387. The credit remains at 30% of net tax.

Ceiling for qualified senior head of household credit decreased from \$1,203 to \$1,185, and the AGI to which it applies decreased from \$63,831 to \$62,874. The credit remains at 2% of taxable income.

Tax brackets indexed with inflation and a 0.25% surtax added. The tax brackets for the tax rate schedules, upon which the tax tables are based, have been indexed with inflation as well, resulting in brackets that are lower than last year due to the deflation. However, the tax rates for all brackets have been increased by 0.25%. The old and new rates are compared in Table CA-2.

Table CA-2. Tax Rate Schedules

TAX RATE	TAXABLE INCOME ABOVE WHICH TAX RATE STARTS		
	single & mfs	mfj & qw	h of h
FOR TAX YEAR 2009:			
1.25%	\$ 0	0	0
2.25%	7,060	14,120	14,130
4.25%	16,739	33,478	33,479
6.25%	26,419	52,838	43,157
8.25%	36,675	73,350	53,412
9.55%	46,349	92,698	63,089
FOR TAX YEAR 2008			
1.0%	\$ 0	0	0
2.0%	7,168	14,336	14,345
4.0%	16,994	33,988	33,989
6.0%	26,821	53,642	43,814
8.0%	37,233	74,466	54,225
9.3%	47,055	94,110	64,050

AGI ceiling for Renter's Credit lowered. For tax year 2009 no Renter's Credit is allowed if California AGI exceeds \$68,824 for married taxpayers (\$34,412 for single and married filing separately). These figures are up from \$69,872 and \$34,936 for 2008. Full credit is allowed below these amounts; there is no gradual phaseout.

Alternative minimum tax (AMT) exemptions raised. Unlike changes in the federal AMT, changes in the state AMT have been gradual and controlled, with consistent annual indexing with inflation. The exemption amounts for 2009 are \$59,114 for single or head of household, \$78,817 for married filing jointly or qualifying widow(er), and \$39,407 for married filing separately. (Exemptions were \$60,014, \$80,017, and \$40,007 for 2008.) These exemptions phase out with rising income starting at \$221,674 for single or head of household, \$295,564 for married filing jointly or qualifying widow(er), and \$147,781 for married filing separately. (These levels were \$225,050, \$300,065, and \$150,031 for 2008.)

One credit expired and one added. The Farmworker Housing Credit has expired and is not available for tax year 2009 and later, but carryovers from prior years can now be claimed for this credit (via Form 3540 or Schedule P, Part III). A New Jobs Credit has been added, and appears in section A2 of the new Schedule P, Part III. (A New Home Credit was also legislated, but it was claimed separately from the Form 540 tax return and its funding was so limited that it is not available for those who haven't already claimed it.)

Form 540 expanded to 3 pages and lines renumbered drastically. The main form is now 3 pages long, with the signature block at the bottom of page 1 instead of its traditional place at the bottom of the last page of the form. And line numbers now range from 1 to 117, in sharp contrast to last year's range of 1 to 68. Only a few lines have actually been added to the form, so the renumbering includes many large gaps.

California has NOT conformed to the federal special first-year 30% or 50% special depreciation allowance, which has appeared sporadically over the past several years, nor recent large increase in section 179 ceiling. California has a good record in recent years of bringing California law into conformance with federal law to simplify the preparation of a California return. However, this conformance has not reached to depreciation, which has experienced extreme changes by the federal government in the last seven years. *There will therefore now be a big difference between federal and California depreciation deductions for most tangible property placed in service after September 10, 2001.*

Installation and Start-up

Use User's Guide for installation instructions. The installation and start-up in the introductions of the separate User's Guide apply to this California Supplement as well. *The standard installation puts all edition years and all supplements in the same hard disk subdirectory C:\TAX*, and all programs for the same tax year share the same custom settings, program settings, and start-up programs. With this standard installation, you are greeted upon start-up by a menu that gives you a choice of which version or edition to start. The California Supplement (2010 Edition) adds the California supplement as a choice for the 2010 Edition year. For example, if you have the current-year regular edition and California Supplement installed in the same subdirectory, you are given the choices

1 Federal (Form 1040 returns)

2 California (Form 540 returns)

You must press 2 (or mouse-click onto choice 2) to select the California Supplement. (If you make no choice after a short pause, the software will choose the federal 1040 version for you.) After you make your choice the selected version is started and soon appears on the screen.

Add a California tax directory first. Since California Supplement contains no pre-stored data, *you must add a tax directory to the Storage Disk the first time you use the California Supplement for the new tax year.* If you don't remember how, refer to Chapter 9 of the separate User's Guide. The tax directory you create by this process is completely independent of any tax directory created with any other edition of any other type or year.

Translating the Federal Return

Translation is the key to a successful return. Because the California return uses numerous results from your federal return, it is essential to start a California return ONLY after the federal return is complete and fully calculated. You should use the built-in “translate” feature, which will copy all relevant information from the federal return into a state file (which will remain separate from the federal return thereafter).

Preview of the process. Federal returns are used to generate California returns through a 3-step process:

- 1 Translation.** A copy of the federal file is generated in the California format, ready for use with the California Supplement.
- 2 Adjustment.** Any federal data that needs to be altered for the California return, or new data that have to be added, are entered next using supporting forms and worksheets when available. *CAUTION: We strongly recommend that you view all translated worksheets to ensure that they are recalculated under California law and that you will make any necessary adjustments.*
- 3 Calculation.** The entire return is finally recalculated from beginning to end using the California state tax laws.

The return is then ready to be printed, signed, and filed with the FTB.

Translation: Let Chapter 9 of User's Guide be your guide. Once your hard disk or separate Storage Disk has a California tax directory on it, you can proceed with the translation using the instructions at the end of Chapter 9 of the separate User's Guide, with the following exceptions:

- Where those instructions call for a Prior-Year Storage Disk, interpret it as the Current-Year Federal Storage Disk.
- Where those instructions call for a Current-Yr Storage Disk, interpret it as the Current-Year California Storage Disk (to which you must add a California tax directory to hold the translated return).
- When asked if you want to “Transfer all prior \$ amounts?” *you MUST answer YES to produce a valid California return* from the federal data. (Unlike translation from prior-year returns, the translation from federal returns to California returns almost always uses the original federal numbers without modification.)
- When asked if you want to “Transfer supp'g statements?” you should answer Yes so that the California return will have all the detailed support that is relevant to it. *A Yes answer is mandatory for returns with passive activity losses* because the supporting worksheets contain details required for the proper interaction with California Form 3801 (the equivalent of federal Form 8582).

Adjustment: Enter differences from federal entries. Because California law now closely parallels federal law, it is often possible to produce a valid California return with little or no adjustment to the entries from the translated federal return. (We recommend FTB Publication 1001, *Supplemental Guidelines to California Adjustments*, to help you determine where adjustments may

be necessary. This and other FTB publications cited in this document are available for free downloading from the FTB through a link on our web page at www.howardsoft.com.)

CRITICAL REQUIREMENT: View all worksheets after translation. You MUST view all translated worksheets to ensure that they are calculated under California laws. This is especially critical for depreciation, dependent, and W-2 worksheets. California did not conform with federal depreciation before 1987 nor since September 11, 2001, so you will likely need to make adjustments because of the differences between federal and state law.

- Access every worksheet translated to California Form 3885A to let the computer know the depreciation methods and basis to use for nearly all assets. While California had conformed in many areas of depreciation and section 179 expense up to 2001, it has NEVER conformed with the federal 30% and 50% bonus depreciation (named the “special allowance” by the IRS), which was a required first-year depreciation allowance for most property until 2005 unless you elected out of it (and reappeared in 2008 for most tangible property). Furthermore, California has never conformed to federal rules for Indian Reservation Property nor depreciation for nonresidential rentals, and now differs markedly in its limitations on Sec. 179 expense. You will therefore have to make adjustments on worksheets for the appropriate copy of Form 3885A if any of these situations apply to you.
- Access every W-2 Worksheet (above Form 540 line 12, one set for you and one set for spouse) in order to calculate limitations on SDI deductions and ensure that the translated amounts for SDI wages and SDI withheld are correct. SDI wages are translated from the line for social security wages on the federal W-2 Worksheet because no line for SDI wages exists in the federal software. SDI tax withheld is taken from your entry on line 14a of the federal W-2 Worksheet, so if you had an SDI entry on another part of line 14, or reported it on line 19, or used line 14a for a different purpose, you must revise the amount translated to the worksheet. Your attention to these items ensures that any excess SDI tax collected (for having more than one employer) is properly computed at line 74 of Form 540.
- Access every Dependent Worksheet (at Form 540, line 10) to ensure that the dependent’s name is properly formatted. The 2-line entry on the federal Dependent Worksheet (with a maximum of 10 characters for the first name and 15 characters for the last name) is combined into a single 25-character entry during translation. If you file a paper return, you must shorten the entry to a meaningful 19 characters, because only the first 19 characters of your entry are printed on the form, followed by a space and the relationship (11-characters maximum). entry for relationship. For an e-file return you will not generally have to make any adjustment because the entire 25-character entry for name is sent with the e-file return. (Note that our space is greatly expanded relative to the FTB form, which has room for only 13 characters for the name and relationship combined!)

Translating the Federal Return

- Access every Qualifying Person Worksheet (at line 2 of Form 3506) so that the SSNs on the worksheets are carried back to Form 3506 and then posted to Form 540, as required by the FTB.

If you have to make a large number of adjustments, you may find it helpful to print "prior-data input sheets" for the translated files, as described in Chapter 11 (page 11-5) of the separate User's Guide. These input sheets show the translated data with blank lines alongside for noting changes.

Additional changes may be needed for scannable Form 540. The format for the address block of Form 540 is especially constrained on a scannable Form 540. You must generally use the same rules of abbreviation for entering your name and address as the FTB-provided address labels. In addition, if one of the taxpayers is deceased, you must supply the date deceased, and the executor's name if there is no surviving spouse. The software provides additional entries for these additional items, as detailed later.

Calculation. Calculations for the return must be completed before you can produce an official printout. REMINDER: No recalculation is involved in the Translation Phase. You must cause recalculation yourself either by entering the return and allowing it to recalculate when you exit, by pressing the Recalculate Key (Shift-F8 or ctrl-B), or by choosing the Recalculate option from the Prepare Returns Menu (Figure 10-1 in Chapter 10 of the User's Guide).

CAUTION: If you amend the federal return, you must amend the California return. Once you have copied all federal data into a California data file by means of "translation," you must remember that the California return is now based on that federal data. The translation ensures that the California return is consistent with the federal return automatically. However, if you change any entries on the federal return AFTER you have translated it into a California return, you will have to make a corresponding change in the California return manually yourself to ensure that the two are still consistent.

Printouts for the FTB

Strict requirements for FTB printouts. Official printouts for the FTB can be generated once the final calculations are complete. However, FTB requirements for printouts are much stricter than IRS requirements. In summary, Form 540 returns must follow these rules:

Form 540. For computer-prepared forms the FTB requires a scannable Form 540. A conventional Form 540 is designed for hand-prepared returns, not computer-prepared returns. A computer-prepared, scannable Form 540 must be printed using a laser, ink-jet, or other high-quality printer. This format is automatically provided by the software, for which the graphics of the scannable Form 540 are built-in. Although the software can also print a facsimile Form 540 in the conventional Form 540 format, it cannot be filed with the FTB. If you cannot meet the printing requirements for a scannable Form 540, as highlighted on the next page, you must file a manually-prepared conventional Form 540 as printed and distributed by the FTB. (The software provides a fill-in mode to aid you in this effort when you choose NO for "Bypass alignment dots.") *CAUTION: Additional care is required in your entries for taxpayer information when you use the scannable Form 540 because the printed format must follow strict guidelines like those that the FTB uses when it generates mailing labels for taxpayers. You must also follow the special rules detailed later when you assemble the return for filing.*

Forms 540-V, 3519, 3582 (e-file only), and 540-ES. The FTB also requires that all computer-prepared payment vouchers be scannable vouchers. These vouchers include a scannable area with taxpayer information in the same format as the scannable Form 540. The vouchers printed by this software using the Laser-graphic or Windows-graphic capabilities that are built into our Standard Level and Premium Level software satisfy this requirement. If you cannot print by these methods you must send hand-prepared vouchers instead.

Form 540-X. While it doesn't have a complete scanband like Form 540, a computer-prepared Form 540-X must use the scannable 540 format for taxpayer information at the top of page 1 of the form. The form printed by this software using the Laser-graphic or Windows-graphic capabilities that are built into our Standard Level and Premium Level software satisfy this requirement. If you cannot print by these methods you must file a hand-prepared Form 540-X.

All other forms and schedules. While the other forms and schedules do not have a scannable data area like the scannable Form 540, they still must be FTB-approved graphic forms. All FTB forms and schedules now have a special registration marks and a document ID that identifies the software that prints the form. The FTB requires that all computer-generated forms be generated with high-quality graphics on a laser or high-quality ink-jet printer. Text-mode facsimiles are no longer acceptable, and our facsimile printouts now carry the slogan

DO NOT FILE THIS FORM, as required by the FTB. (We still produce facsimile forms that duplicate the layout of the FTB graphic forms, which you can use for your or your clients' files, but the FTB will no longer accept them for filing.)

Federal return. California has in recent years required that a copy of the complete federal Form 1040 and its schedules be submitted with the California return whenever you file Form 540. However, *you do not have to attach the federal forms if you had to file no more than Schedules A and B with the federal return.* **SPECIAL RULE:** *If the filing status on the California return is different from that on the federal return, you will have to recompute the federal AGI based on the California filing status and data. You must then file with your Form 540 return BOTH the official Form 1040 you filed with the IRS and this recomputed Form 1040.*

Scannable Form 540 required for computer-generated returns. Thanks to the automated equipment that the Franchise Tax Board (FTB) now uses for processing returns, the requirements for printouts you file with the FTB are quite different than they were just a few years ago. There are now only two ways to file Form 540:

1. Computer-prepared Scannable Form 540 using HowardSoft's Laser-graphic or Windows-graphic capabilities, or overlay forms.
2. Manually-prepared official Form 540 as printed and distributed by the FTB.

The scannable Form 540 includes a special scan patch that calibrates the automated equipment, and a scan band area where summary data is printed by the computer. *If you use a computer to print the form, it must be the scannable Form 540. Conversely, if you do not use a computer to print the form, you cannot use the scannable Form 540.* This California Supplement fully supports the FTB form, whether you use pre-printed forms, overlays, or Laser-graphic or Windows-graphic capabilities for printing the official return that you file with the FTB. Whenever you choose to produce a fill-in Form 540, the printout is designed for the scannable Form 540 as long as your program settings show "Yes" for "Bypass alignment dots." But there are additional requirements imposed by the FTB:

1. Printer must be laser, ink jet, daisy wheel, or letter-quality dot-matrix.
2. Entries must be printed in upper case using standard pica Courier typeface (10 characters per inch across and 6 lines per inch down). (Upper casing is automatic with HowardSoft software).
3. Only original printed output is accepted, except for overlays, which must be copied with a high-quality output.
4. Forms must be printed on one side of paper only.
5. Overlays or preprinted pin-fed forms must be approved for the software being used. (HowardSoft has received FTB approval for its Laser-graphic or Windows-graphic printouts.)

If you cannot meet these requirements plus the additional requirements detailed later under "Printouts for the FTB," you must file a manually prepared

official Form 540 instead. To aid you in this effort, the software provides non-fileable paper copies in the format of the non-computer official Form 540 when you choose to print a facsimile Form 540, or when your program settings show "No" for "Bypass alignment dots." (Alignment dots are not allowed on the scannable Form 540 because they could interfere with the special scan patch.)

Assembling the return. The FTB-preferred order for assembling the forms is:

1. Form 540,
2. Schedule W-2 CG with copies of required withholding forms attached if the schedule is not filled in,
3. Schedule CA and all remaining California schedules in alphabetical order,
4. all California forms in numerical order, excluding Form 5805 and Form 5805-F
5. if required, a complete copy of the federal (Form 1040) return filed with the IRS (and, if the filing status is different on the California return, a Form 1040 recomputed using the California filing status).
6. Form 5805 and Form 5805-F.

Note that *you do not have to send a copy of your federal return if you had to file only Schedules A and/or Schedule B with your federal return.*

Additional rules for scannable Form 540. Because the scannable Form 540 is read by automated equipment, a number of additional rules must be followed when preparing the return for filing:

Do not use FTB address label. The software will print the taxpayer information in FTB-approved format. However, you must enter names and addresses using the same abbreviations and omission of punctuation as used on the FTB-provided address labels.

Do not make corrections on printed return. You must print the return anew if any changes are made to ensure that the computer-generated summary in the scan band is consistent with the final return.

Do not print on both sides of the paper. Only one-sided printing is allowed so that the automated equipment does not have to contend with bleed-through from the second side.

Do not include any correspondence. Even a simple transmittal letter will slow processing.

Do not file a photocopy except when using an overlay. When using an overlay, the alignment must be nearly perfect and the photocopy must be clear and dark.

Do not staple payment. Contrary to former requirements to staple the payment to page 1 of Form 540, the FTB now wants you to enclose but NOT staple any payment.

If the new Schedule W-2 CG is not filled in, staple W-2s and 1099s, and other forms showing withholding to the schedule. If the schedule is not filled in, either because you are not qualified to use it or you opt out, you must staple to the back of this schedule copies of all forms

that show California withholding, including Form(s) W-2, 592-B, 293-B, 594, and 1099.

Staple supporting forms or schedules behind Schedule W-2 CG. All other attachments, including other California forms and any required federal forms, must be placed behind and stapled to Schedule W. *Be sure to place Form 5805 or 5805-F last.*

Staple Form 540 Side 2 to the entire return. You should staple ONLY side 2 of Form 540 to the rest of the return, stapling the assembly together in the upper-left corner. *Side 1 should remain loose.*

In addition, you must *mail the completed return only to the special addresses* shown at lines 111 and 115 of the scannable Form 540. (Both addresses differ from those in FTB-printed forms and those in the FTB's Form 540 booklets.)

Tab adjustments are for hand-prepared Form 540 ONLY. Contrary to the IRS, the FTB allows no variation in the printing of a computer-prepared Form 540. The computer-prepared Form 540 must be printed as a scannable form with computer-read data printed in the upper half of page 1 in accordance with strict FTB specifications. As a result, there are no tab adjustments allowed for the scannable Form 540. The tab adjustments that we traditionally provide for printing onto pre-printed forms are therefore applicable only to a hand-prepared Form 540, not a computer-generated Form 540. These tab adjustments are therefore of use only to those who do not have a compatible Windows printer that can print our graphic Form 540 or who use the limited DOS version of our software. In order to use these tabs for printing onto an FTB-printed Form 540, you must have set your Program Settings for Fill-in or Graphic printing set to 0 for "Special (1=HPLaser...)" and No for "Bypass alignment dots," in which case the graphic form is not attempted. Instead, the printing starts with alignment dots for overlaying the pre-printed Form 540. (If you want alignment dots for page 2 as well, you must answer Yes to "Stop at end of each page?") The software is delivered with pre-sets for the tabs, which are activated by entering 1 for "Enter 1=facs & FTB official." The presets delivered in the original release are shown in Figure CA-1, and provide a reasonable compromise in alignment with the official FTB form. (Alignment can never be perfect because the FTB form is NOT designed for computer fill-in and therefore does not fol-

FORM 540 TABS		
Enter 1=facs & FTB official:		1
or ZERO to set tabs below:		
VERTICAL-Fiscal year to name..		.33
Address to Prior Name.		.67
in Line 35 to 40(pg2 top)		2.17
inches Line 40 to line 41....		.50
Line 79 to line 91....		.50
HORIZ-Paper edge to F/S boxes.		1.10
..to line 6 box.....		6.60
..to line 7 box.....		6.
..to line 13 decimal..		7.80
..to ln31 TaxTable box		2.60
..to ln31 Tax Rate box		3.30
..to ln34 Sch. G-1 box		3.20
..to line 40 decimal..		7.80
..to line 42 decimal..		6.10
..to ln 43 credit name		2.10

Figure CA-1. Tabs for manually-prepared form ONLY

low the strict pica spacing that would make alignment good.) However, if you want to adjust the tabs for a different compromise, you must first enter 0 for "Enter 1=facs & FTB official" or else your changes will not be saved when you exit the Program Settings. (*CAUTION: The tab adjustments also affect the text-based draft (facsimile) printouts of Form 540. Therefore, if you change the settings for a fill-in printout, you should return them to their original settings, shown above, for an accurate draft printout of Form 540.*)

Form by Form Details

Remainder of document supplements Tax Forms Guide. Details of the tax forms are reviewed in the remainder of this document. Where details are not given here explicitly for a form or worksheet, you can refer to the main *Tax Forms Guide 2010 Edition* for details on the comparable federal form. Only differences from that guide are detailed here.

Control Form

Purpose. Like the federal Control Form, the state Control Form controls the automation of the software, and includes the ability to block the automatic generation of certain forms, enter prior year amounts for the penalty form, and provide custom information for the cover and billing letters. Differences between the federal and state Control Forms are largely technical, so you should refer to the separate federal *Tax Forms Guide 2010 Edition* for most entries.

AUTOMATION CONTROL. This section includes tax year and auto-create control.

Tax year (enter 2009 or later). Although you could change it for California tax planning, we recommend that you do not change this entry, which is translated from the federal Control Form, because the California return is so closely tied to the federal return of the same tax year that the result could be unrealistic. Instead, if you want to perform California tax planning we recommend that you first perform tax planning with the federal return, with the tax year changed on the federal Control Form. Then, once the federal return is complete for tax planning, translate the return into a California return and perform California tax planning using the newly translated return.

Monetary amounts rounded to nearest \$? *(auto-calc)* For a California return, this entry is always Yes. Furthermore, you can no longer override this entry because the FTB now requires that all dollar amounts be rounded to the nearest dollar. In fact, most FTB forms now have their pennies columns pre-printed with 00.

Block auto-creation of forms. Like the Form 1040 software, you can block the automatic creation of some forms for special circumstances, but we strongly recommend against it. However, if you want the FTB to figure any underpayment penalty for you and send you a bill, you can answer Yes to "Block form 5805 auto-creation?" and the penalty will not be computed by the software. Also like the Form 1040 software, certain other forms are unconditionally created when they are needed to ensure a valid return, such as Schedule CA, Schedule D, Schedule D-1, and Schedule P, because they hold results from other forms that are not otherwise posted to Form 540 or Schedule CA. In addition, Schedule W-2 CG is unconditionally created when any W-2 Worksheet exists for the return, the printout of which can be used in place of W-2s received from employers.

STATE ESTIMATED TAX PAID. The four quarterly payments shown here are translated from the federal Control Form to these lines, then posted to line 71 of Form 540. You should *not* have to alter these entries if you properly completed the federal Control Form. Note that payments shown here are the four quarterly estimated tax payments made for the 2009 tax year, not all payments made in the 2009 calendar year. As a result, a payment made in January 2009 for the 4th quarterly 2008 estimated tax payment is not included, but a payment made in January 2010 for the 4th quarterly 2009 estimated tax payment is. *TIP: Note that the entry for the first quarter should include any amount applied from a refund on the California tax year 2008 return (as instructed in the Tax Forms Guide 2010 Edition).*

FORM 5805 CONTROL. This section is analogous to the Form 2210 Control for the federal (Form 1040) return. Entries in this section are used in California Form 5805 to minimize any underpayment penalty that may apply to the return. However, since the California return is translated from the *federal* return for the same tax year, none of the entries in this section are translated from the federal return other than the first line, below, because all amounts below relate to the *California* return for the prior year.

Filed full-year return for PRIOR year? This entry is translated from the federal Control Form, since you probably filed a full-year California return if you filed a federal one, and most certainly didn't file a full-year California return if you didn't file a federal one. This and the following entries from the 2008 California return are used in Form 5805 to minimize the penalty, when applicable.

2008 amounts entered for Form 5805? In order to fully automate the penalty Form 5805, amounts from the 2008 California return should be entered here from the indicated lines. If you did *NOT* file a full-year return in 2008, do NOT answer Yes to the question "2008 amounts entered for 5805," because you are not eligible for the penalty exceptions that are based on the prior-year taxes paid. Moreover, you should answer Yes here only if you actually complete the remaining lines in this section, or else the software will think that you are eligible for an exception for which you are not. You should always complete the 2008 amounts if you filed a full-year return and had a lower tax last year.

Remainder of form analogous to federal Control Form. The Tax Summary is based on results on Form 540, just as the federal Tax Summary is based on Form 1040. The cover and billing letter sections provide for a date, a fee, and optional text, just like the federal Control Form. Note that the tax preparation fee at the end of the Control Form relates only to the California billing letter, so you should enter an amount only if you plan to bill separately for the California return.

Form 540 / Main Form

Form 1040 is source of entries. The “translate” feature copies a number of entries from page 1 of the federal Form 1040 to California Form 540. Entries that come from other California forms and schedules, however, are transferred to Form 540 only after the California return is calculated.

Tax year from Control Form. *(Road Map line, supported by Control Form.)* This entry cannot be changed, but the line provides Road Map access to the Control Form, where the tax year is set.

NAME AND ADDRESS. Identifying information for printouts and certain calculations is supplied here. Names, social security numbers, and address are all transferred directly from the federal Form 1040, and are used in the print-out of all official forms. CAUTION: Because the FTB-supplied label cannot be used on a scannable Form 540, your entries must match the format that the FTB uses in its address label, including abbreviations and omission of punctuation. No spaces are allowed in the first name, and no titles like Mr., Dr., or Mrs. are allowed. The following additional entries appear in this section in order to generate label information in the format required by the FTB:

Apt. no. (or other type below). Although this entry is translated from the federal return, *California’s format is different*. California separates the descriptor from the actual number (and/or letters), so only the number should be entered here. Descriptors like Apt., Ste., etc., must be removed. Furthermore, this number can be no longer than 5 characters long.

Type (Apt, Ste, Sp, Rm, Fl, Bldg, or Un). The appropriate descriptor is entered here. You will not be allowed to make an entry here if there is no entry on the preceding line. If there is an entry on the preceding line but you make no entry here, the entry APT is made for you.

Private Mailbox Number (PMB). If you use a box that is NOT a U.S. Postal Service box, the FTB now requires you to enter the box number separately from the main address.

Filing status and above same as 2008 Form 540? If you answer Yes, a special ** code is printed above the taxpayer’s last name to tell the FTB that it can use the information from last year that is already in its computer.

PBA Code (from Schedule C, copy 1). *(auto-calc line, supported by Worksheet C)* This entry is taken from your entry for the federal Principal Business Activity (PBA) Code on the first copy of Worksheet C, which in turn is translated from your entry for line B of the federal Schedule C, Copy 1. This line is printed along with the taxpayer name and address at the top of Form 540, and is now mandatory. The FTB is authorized to disclose this PBA code, along with other personal information like SSN and address, to city tax officials under specific limited circumstances. CAUTION: If you will print using Laser-graphic or Window-graphic forms, you must make sure that the 6-digit code on Worksheet C, copy 1, contains no spaces so

that the code is printed in the proper format for the scannable Form 540. Spaces are appropriate only for a manually completed Form 540, in which you use the FTB form with hand-print boxes.

Special Handling. Additional entries not found on the federal Form 1040 are provided for further conformance with the FTB requirements for printing in the address label area of the scannable Form 540:

DISASTER LOSS? If you answer Yes, the code "9" is printed in the special code region near the upper right corner of page 1 of the scannable Form 540 to indicate to the FTB the need for special handling. You must itemize here to explain your claim for special handling, providing details of the disaster. (The word DISASTER appears above "Your SSN or ITIN" on a draft Form 540 printout in place of a code "9" in the code region.)

MILITARY? If you answer Yes, the code "U" is printed in the special code region near the upper right corner of page 1 of the scannable Form 540 to indicate to the FTB the need for special handling. Itemize this line to explain. (The word MILITARY appears above "Your SSN or ITIN" on a draft Form 540 printout in place of a code "U" in the code region.)

Executor, Guardian, etc. If the taxpayer is deceased or otherwise not capable of preparing the return, enter the name of the responsible person here. This name is printed to the right of your entry for "Additional address information" on the scannable Form 540.

For Decedent Returns. If the taxpayer (or spouse if filing jointly) is deceased, additional entries are required:

If YOU deceased, date (mm-dd-yy). Although this entry is translated from the federal return, it is reformatted as required by the FTB for their scannable forms. It appears in the scanband area of scannable Form 540, but in the taxpayer identification area of Forms 3519 and 540X. (*NOTE:* If the surviving spouse is preparing the return and has not remarried during the tax year, enter "Surviving spouse" next to the signature on Form 540.)

If SPOUSE deceased, enter date. This entry is reformatted for scannable forms as described above.

If signed by a representative, enter:

Representative type (1=Administrator, 2=Beneficiary, 3=Executor, 4=Spouse, 5=Trustee). If the taxpayer is deceased and you are signing the return, identify here the type of representative you are. Otherwise, leave the entry at zero. (*This entry is used only on e-filed returns.*)

PRIOR NAME – If filed in 2008 under a different last name. This entry is required if either spouse filed under a different name last year.

Your 2008 last name. Make an entry here *only* if your name differs from the one you used when filing your return last year.

Spouse 2008 last name. Make an entry here only if married filing jointly and spouse's name differs from the one used when filing his or her return last year.

If either of the above lines has an entry, your prior answer to "Filing status and above same as 2008 Form 540" is ignored and the code in the scanband of the printed Form 540 is based on a No answer.

FILING STATUS. Type 1 = Single, 2 = Married Filing Jointly, 3 = Married Filing Separate, 4 = Head of Household, 5 = Qualifying Widow(er). This entry is transferred from the federal return and should NOT normally be changed. By California law, your filing status on Form 540 MUST be the same as your filing status on Form 1040 with only three exceptions:

- A** if federal filing status is Married Filing Jointly and either spouse was an active member of U. S. armed forces (or an auxiliary), for California returns you may file either jointly or separately, and
- B** if federal filing status is Married Filing Jointly and either spouse was a non-resident and had no California income for the entire 2009 tax year, you may file separately on Form 540 (but if you file jointly you must use Form 540NR, a form designed for non-residents which is not built into our software).
- C** if federal filing status was Single, but the new rules for Registered Domestic Partners (RDPs) apply to you, you must file as Married/RDP Filing Separately or Married/RDP Filing Jointly. (Note that wherever you see the word "married" in our software or on the FTB forms, it is understood to applied to RDPs as well. See FTB Pub. 737 for details.)

California Filing Status different from federal? You must answer Yes if you used a different filing status, recognizing that there are only three conditions for which this is allowed, as detailed above.

All spouse entries are for RDP? Answer Yes only if filing jointly as an RDP couple. You must use filing status 2 if you answer Yes here. This answer is required for an e-file return, but is ignored for a paper return.

EXEMPTIONS. The qualifications are the same as those for the federal return, and are therefore transferred here automatically from line 6 of Form 1040 during the translation of the federal return.

YOU dependent on another's return? Translated from your answer to the same question on the federal Control Form.

SPOUSE dependent on another's return? Translated from your answer to the same question on the federal Control Form.

6 Dependent on another's return? (auto-calc) Automatically Yes if either of the above two answers is Yes. Like the federal return, a Yes answer affects the standard deduction for low-income taxpayers and results in no personal exemption for the taxpayer.

7 Personal. (auto-calc) Normally one if single, married filing separately, or head of household, and two otherwise; but one less than these

counts for each person who is claimed as a dependent on another person's return.

\$ amount of credit for line 7. *(auto-calc)* Computed as \$98 times the preceding number, this amount may be reduced at line 32 for high-income taxpayers.

You blind at year-end? Translated from your answer to the same question on the federal Control Form.

Spouse blind at year-end? Translated from your answer to the same question on the federal Control Form.

8 Blind. *(auto-calc)* Computed as the number of Yes answers on the preceding two lines. *You must attach a doctor's statement the first year a blind claim is made.*

\$ amount of credit for line 8. *(auto-calc)* Computed as \$98 times the preceding number, this amount may be reduced at line 32 for high-income taxpayers.

Your and spouse age at year-end. The age entries are used to determine eligibility for the senior exemption at line 9 of Form 540, eligibility for senior head of household credit in Part III of Schedule P, and various special calculations for children under 14. (The ages are translated from your age entries on the federal Form 1040.)

You are 65 or more at year-end. *(auto-calc)* Answered based on the preceding age entry.

Spouse is 65 or more at year-end. *(auto-calc)* Answered based on the preceding age entry.

9 Senior. *(auto-calc)* Computed as the number of Yes answers on the preceding two lines.

\$ amount of credit for line 9. *(auto-calc)* Computed as \$98 times the preceding number, this amount may be reduced at line 32 for high-income taxpayers.

10 Total number of dependents. *(Supported by the Dependents Worksheet.)* The names and relationships on the translated worksheets are taken directly from the corresponding worksheets for federal return. However, due to the different design for the federal Form 1040 compared with the California Form 540, the federal worksheets have separate 10-character entries for first and last name, whereas the California worksheets have a single 15-character entry. *As a result, the last name may be truncated during the translation, so you may prefer to reenter the name with a different abbreviation.*

Total dependent exemption credit. *(auto-calc)* Computed as \$98 times the preceding number, this amount may be reduced at line 32 for high-income taxpayers.

11 Add line 7 through line 10. *(auto-calc)* Computed as the sum of monetary amounts on lines 7, 8, 9, and 10.

The result on line 11 is used in computing the exemption credits at line 32 of Form 540.

TAXABLE INCOME. Taxable income is computed from the federal AGI and deductions with certain adjustments from Schedule CA taken into account.

YOUR and SPOUSE state wages (W-2). *(Supported by W-2 Worksheets.)* A separate set of worksheets is provided for each spouse. They are translated from the federal W-2 worksheets that support lines 7a and 7b of Form 1040. W-2 wages reported on the federal W-2 Worksheets are posted to both the federal and State lines of the State W-2 Worksheets. ***CAUTION: If the State wages in box 16 of your W-2 differs from the federal wages in box 1, you MUST itemize and view all worksheets to ensure that the state amounts on line 16 are posted back to Form 540. In addition, you must ensure that the proper state SDI amount appears at line 14 of the worksheet, not elsewhere. If you do not indicate that you do NOT want Schedule W-2 CG completed for you, you must also supply ALL information shown on these worksheets, even though they may not affect the computations of the return.*** (Wages earned in ALL states combined must be entered, not just those earned in California. Double-taxed income is adjusted on Schedule S.)

YOUR and SPOUSE federal wages. *(auto-calc lines)* Taken from box 1 of all W-2 worksheets, separately for you and spouse.

YOUR and SPOUSE California tax withheld. *(auto-calc lines)* The amount from box 17 of the federal W-2 Worksheet is translated to the line "California tax withheld," and the totals are carried to Form 540 for use in computing line 71. ***If the translated amount includes payments to other states, you must remove the withholding for other states from the California W-2 worksheets.***

YOUR and SPOUSE California SDI wages. *(auto-calc lines)* Taken from the line after line 16 of the W-2 Worksheet but limited to no more than \$90,669 for each worksheet (for 2009), this is the amount legally deducted by all employers combined. If this amount exceeds \$90,669, you may have a deduction at line 74 for excess SDI.

YOUR and SPOUSE California SDI withheld. *(auto-calc lines)* The amount on the federal W-2 Worksheet line 14a is translated to the SDI line on the California W-2 Worksheet. ***CAUTION: If you did not enter SDI on line 14a of the federal W-2 Worksheet, you must change the translated amount on line 14 of the California W-2 Worksheet to reflect the proper amount.*** The maximum for which you are liable is 1.1% of all state wages combined up to a maximum of \$90,669 for wages paid in 2009. (The rate was 0.8% for 2008, on state wages up to \$86,689.) Any excess is automatically claimed at line 74 of Form 540. (Note that any one employer who deducts more than the prescribed percentages or applies the percentages to more than \$90,669 of your wages from that employer must reimburse you for any excess. You cannot claim an excess from any one employer on line 74. The software ensures that overwithholding by

any one employer is not included in line 74 *provided you view each and every W-2 worksheet before completing the return.*)

12 State wages from Form W-2. (*auto-calc*) Computed as the sum of state wages above for you and spouse.

e-file CAUTIONS. If you had to make ANY changes on the W-2 Worksheets for line 12, you MUST make the corresponding changes on the separate W-2 Worksheets that are attached to California Form 8453 (accessible from screen 3 of California's Form 8453). In addition, because of certain shortcomings of the FTB e-file error checking system, state amounts must be rounded to the nearest dollar. Consequently, *if you included pennies in your entries for SDI, state wages, and state tax withheld, you must change the entries on the W-2 Worksheets for both Form 540 and Form 8453 to rounded amounts* (on lines 14a, 16, and 17 of the worksheets).

Other earned income in Schedule CA, line 7. (*Road Map line, supported by Schedule CA.*) Other earned income that is included in line 7 of Form 1040, but not on W-2 Worksheets, appears here, as adjusted on Schedule CA.

Earned income on worksheet C. (*Road Map line, supported by Worksheet C.*) Originally taken from federal Form 1040 line 12, adjustments on California Worksheet C may change this entry.

Earned income on worksheet E. (*Road Map line, supported by Worksheet E.*) Originally taken from the Partnership/S-corp Worksheets on Schedule E, adjustments on California Worksheet E may change this entry.

Earned income on worksheet F. (*Road Map line, supported by Worksheet F.*) Originally taken from federal Form 1040 line 18, adjustments on California Worksheet F may change this entry.

Total California earned income. (*auto-calc*) Sum of the above five lines (the state wages from Form W-2 plus the other four lines of earned income). This total is used in special calculations on Schedule P.

Total federal earned income. This amount is translated from the earned income amounts on the federal Form 1040. It will often differ from the state amount when you have self-employment income because half the federal self-employment tax is used to reduce earned income for federal purposes, but there is no similar deduction for the state. Earned income is used in determining the proper standard deduction for dependent filers at line 18. The earned income from Worksheets C, E, and F are used in Schedule P as well, to determine whether you are excepted from the minimum tax because your business income is less than \$1 million.

13 Federal AGI on Form 1040, line 37. Automatically taken from Form 1040 as indicated. *CAUTION: If the filing status on the California return is different from that on the federal return, you will have to recompute the federal AGI based on the California filing status, and enter the revised amount here.* (See page CA-20 for the only legiti-

mate reasons for a difference in filing status between federal and California returns.)

- 14 California adjustments -- subtractions.** *(Road Map line, supported by Schedule CA.)* Schedule CA is the collection point for adjustments for all investments, businesses, and itemized deductions. The total *subtractions* from AGI due to differences between federal and state law are posted here from Schedule CA based on the results in columns B and C of line 37 of Schedule CA.
- 15 Subtract line 14 from line 13.** *(auto-calc)* Computed as indicated, allowing both negative and positive results.
- 16 California adjustments -- additions.** *(Road Map line, supported by Schedule CA.)* The total *additions* to AGI due to differences between federal and state law are posted here from Schedule CA based on the results in columns B and C of line 37 of Schedule CA.
- 17 California adjusted gross income.** *(auto-calc)* Computed as line 15 plus line 16.

If Married Filing Separately, does spouse itemize? Taken from line 39b of Form 1040, a Yes answer will cause itemized deductions to be used whether or not the standard deduction is more, because both you and spouse must make the same election -- that is, both must use itemized deductions or both must use the standard deduction.

Itemized deductions on Schedule CA. *(Road Map line, supported by Schedule CA.)* The amount of federal itemized deductions modified by California adjustments is posted here from line 43 of Schedule CA.

Standard deduction. *(auto-calc)* The standard deduction for 2009 is \$3,637 for taxpayers filing single or married filing separately, and \$7,274 for all others, but special limitations apply for dependent filers (which are automatically applied by the software).

Itemized deductions used. *(auto-calc)* This entry is automatically Yes when itemized deductions exceed the standard deduction as long as you answered No to the question below line 17, "If MFS, spouse itemizes?"

- 18 California standard or California itemized deduction.** *(auto-calc)* When the preceding answer is Yes, the itemized deductions from Schedule CA are used here. Otherwise the standard deduction is used.

Taxable income to Schedule P. *(auto-calc)* Computed as line 17 less line 18, allowing a negative result when line 18 exceeds line 17 as required for calculations on Schedule P.

- 19 Taxable income.** *(auto-calc)* Computed as line 17 less line 18, but no less than zero.

The tax is computed on the basis of this adjusted taxable income.

TAX. Tax computations are figured in a similar manner as the federal tax.

Tax from:

Tax Table. *(auto-calc)* Normally computed from the FTB Tax Table when taxable income is \$100,000 or less, but zero if an amount from Form 3800 appears below.

Tax Rate Schedule. *(auto-calc)* Normally computed from the FTB Tax Rate Schedule when taxable income exceeds \$100,000, but zero if an amount from Form 3800 appears below.

FTB Form 3800. *(Road Map line, supported by Form 3800.)* If a Form 8615 existed on the federal return, Form 3800 will exist on the California return automatically. The result, however, is assured of full validity only upon the final recalculation of the return. Any result that appears here is used in line 31 in place of any other tax results.

FTB Form 3803. *(Road Map line, supported by Form 3803.)* If you chose to include a child's interest and dividend income in your own income rather than filing a return for the child, you must use Form 3803 to determine the amount of additional tax you owe. It is fully analogous to federal Form 8814, and produces an additional tax for most parents. (Some taxpayers choose to file a return for the child, even though it involves additional work, because it generally results in a slightly lower combined tax for the child and parent.)

CAUTION: *California has not conformed to the change in age threshold from 14 to 18 last year for Form 3803, nor the recent increases to 19 or 24 for some children. You may therefore have to change the answer translated to California Form 3803 for "Child 14 or more on 1/1/09?" because it is translated from the question for age 18 on the federal Form 8814. Even if the answer is Yes as a result of your change, you should retain the Form 3803 in order for the proper adjustments to be made automatically by the software. It will be omitted from a complete official printout of the return.*

31 Tax. *(auto-calc)* Computed as either the tax table or Form 3800 amount, whichever applies, plus the add-on tax from Form 3803. An X will appear in the box on the printed Form 540 for the tax method(s) used.

Exemptions from:

Line 11. *(auto-calc lines)* Exemption credits are determined automatically based on the number of exemptions appearing on lines 7, 8, 9, and 10. In the simplest case, the credit is just the amount on line 11. When this simple case applies, a Yes appears here. But for those with higher incomes, special limitations apply.

AGI Limit Worksheet. *(auto-calc lines)* When the high income limitation applies, a Yes appears here and the credit is computed based on a scheduled phaseout of credits for high federal AGI. (For tax year 2009, the phaseout starts at a federal AGI of \$160,739 for single and married/RDP filing separately, \$241,113 for head of household, and \$321,483 for married/RDP filing jointly or qualifying widow(er). The former alternative minimum tax limitation no longer applies.)

- 32 Exemption credits.** *(auto-calc lines)* Computed as explained for the one of the two preceding questions that is answered Yes by the software.
- 33 Subtract line 32 from line 31.** *(auto-calc)* As indicated, but no less than zero.
- 34 Tax from Schedule G-1 and Form 5870A.** Line 34 is comprised of two entry lines for additional special taxes from forms not built into the software. Schedule G-1 is the FTB equivalent of federal Form 4972 for taxing lump sum distributions from qualifying retirement plans. Form 5870A is the FTB equivalent of federal Form 4970 for an additional tax on accumulation distribution of trusts. *(Both forms will be built into the software for the Premium Level in a future release.)*
- 35 Add line 33 and line 34.** *(auto-calc)* Computed as indicated.

SPECIAL CREDITS. Numerous credits are available by California tax laws that have no parallel by federal tax law.

Itemize here for Schedule P, Page 2. *(Road Map line, supported by Schedule P Page 2.)* Schedule P, page 2 is used to consolidate credits from numerous sources. The credit names and amounts are automatically posted to lines 43 and 44 of Form 540 for the first two credits claimed. The total of all other credits is posted to line 45, and the individual names and amounts appear only on Schedule P.

Itemize here for Form 3540. *(Road Map line, supported by Form 3540.)* Form 3540 is an additional form for consolidating credit carryovers. If no Schedule P exists for the return, any credit carryovers entered on Form 3540 are posted here in the same way as described for Schedule P, above. However, if more than two credits are claimed, you *MUST* use Schedule P, so the software will automatically generate Schedule P in this case, based on the entries on Form 3540, and will print Schedule P instead of Form 3540 when you choose to print the complete official return. (The software will also automatically generate Schedule P when required for the alternative minimum tax.)

43 through 45, Credit names, codes, and amounts. *(Auto-calc lines, supported by Schedule P Page 2 and Form 3540.)* Credit names and amounts are posted here from Form 3540 or Schedule P Page 2 as described above.

Number qualified for renter's credit. The FTB provides a full page of instruction to help you determine if you are qualified in their 2009 Personal Income Tax Booklet (listed in their Table of Contents under the heading *Nonrefundable Renter's Credit Qualification Record*). Qualifications include being a resident of California for the entire 2009 tax year and paying rent for at least half the year on your principal residence in California. Qualifications based on income and filing status are enforced at the next line.

Tentative renter's credit. *(auto-calc)* The nominal credit is \$60 times the preceding number. However, for 2009 the credit is disallowed if California AGI on line 17 is more than \$34,412 if single or married filing separately (\$68,824 for all other filing statuses). *HINT: If married/RDP filing separately and both spouses/RDPs lived in the same rental property and qualified for the credit, one spouse may claim the entire \$120 (with the other spouse/RDP claiming none) rather than both claiming \$60.*

46 Nonrefundable renter's credit. *(auto-calc)* For most taxpayers this line will be the same as the preceding line. However, the credit may be limited by tentative minimum tax on Schedule P. Therefore, *if a Schedule P exists for the return, the limited amount is taken from column (b) of line 15 of Schedule P, page 2 upon the final recalculation of the return.*

47 Add lines 43 through 46. Total credits. *(auto-calc)* Computed as indicated.

IRC Section 453 or 453A interest. If you owe interest on deferred tax from installment obligations, enter the amount of additional tax here. The special rules that impose this interest apply to nondealer sales exceeding \$150,000. An entry here will cause the phrase "IRC SECTION 453 INTEREST" or "IRC SECTION 453A INTEREST" to be printed on the dotted line for line 48 with the amount.

48 Subtract line 47 from line 40. *(auto-calc)* Computed as indicated, plus the above special tax, but no less than zero.

OTHER TAXES. Two additional taxes are reported here:

61 Alternative minimum tax (Schedule P). *(Road Map line, supported by Schedule P, Page 1.)* Although Schedule P is automatically created and completed upon final recalculation of the return when needed, you will generally have to access the schedule yourself if you have any tax preferences other than the ones on Schedules A and D, such as accelerated depreciation or depletion.

62 Mental Health Services Tax. *(auto-calc)* Computed as 1% of taxable income (Form 540, line 19) if more than \$1 million; otherwise, zero.

Tax on IRAs and other qualified retirement plans: Form 3805P. *(Road Map line, supported by Form 3805P.)* California law conforms to federal law for the tax on early distributions, but the penalty percentage is different and other differences apply. You must complete Form 3805P, Part I, which is the FTB equivalent of federal Form 5329, Part I, to determine the proper entry for this line. If an entry appears on this line, and none appears on the next line, "3805P" is printed on the Official Form 540 to the left of line 63 to indicate to the FTB that the total for line 63 is a tax from this form. (If there is an entry on the next line as well, this tax will appear in a supporting statement for line 63.)

Additional taxes from OTHER. This line is provided for other taxes, including various recapture taxes. You must report any tax for this

line in a supporting statement that identifies the associated form (such as 3501, 3805Z, etc.) in the description column and the dollar amount in the amount column. If only one tax is identified in the support (and none appears on the preceding line from Form 3805P), it is printed on the Official Form 540 to the left of line 63. Otherwise, the taxes will be printed in a supporting statement for this line. Among the taxes that should be reported here are the recapture of credits from the recapture sections of the following FTB forms (not built into the software except for selected forms that may be built into the Premium Level software):

Form 3501, Employer Child Care Program/Contribution Credit (*to be built into a future release of the Premium Level software*),

Form 3805Z, Enterprise Zone/Program Area Deduction and Credit Summary (*built into the software for the Premium Level, but not automatically posted to line 63*),

Form 3806, Los Angeles Revitalization Zone Deduction and Credit Summary (*to be built into a future release of the Premium Level software*),

Form 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary,

Form 3808, Manufacturing Enhancement Area Credit Summary, and Form 3809, Targeted Tax Area Deduction and Credit Summary.

63 Other taxes and credit recapture. *(auto-calc)* Computed as the sum of the preceding two entries.

64 Add lines 48, 61, 62, and 63. Total tax. *(auto-calc)* Computed as indicated.

PAYMENTS. Withholding and other tax payments already made are reported here.

California income tax withheld on Form W-2. *(auto-calc)* Computed as the sum of California income tax withheld for you and spouse, as reported on W-2 worksheets attached to the lines above line 12.

California income tax withheld on Form W-2G. If there was any California state income tax withheld on any Forms W-2G (Gambling Winnings) received for 2009, you must enter that amount here (as shown in box 14 of Form W-2G).

California income tax withheld on Form 1099-R. If there was any California state income tax withheld on any Forms 1099-R (Distributions from Pensions, Profit-Sharing Plans, IRAs, etc.) received for 2009, you must enter that amount here (as shown in box 10 of Form 1099-R). (*This amount is translated from the federal return based on your entries on 1099-R worksheets for federal Form 1040 lines 15 and 16.*)

California income tax withheld elsewhere (itemize). If any other California income tax was withheld for 2009 and not included in the preceding three lines, such as "backup withholding," enter that amount in a supporting statement for this line, identifying the form

on which it was reported to you (e.g., Form 1099-MISC, Form 1099-INT, Form 1099-DIV, etc.)

71 California income tax withheld. *(auto-calc)* Computed as the sum of the above three lines.

Refund applied, if not below. This line is intended for the amount identified on the prior-year California return as the part of any refund to apply to 2009 estimated tax payments. However, *you should not make an entry on this line if you included the amount in your entry on our Control Form for first quarter state estimated taxes, as we recommend.* (EXCEPTION: *If any California estimated tax payments were made on your behalf by an estate or trust, or you have payments to include in line 72 other than those identified here, you must itemize THIS line to explain the payment and report the amount.*)

Quarterly estimated tax payments. *(Road Map lines, supported by Control Form.)* The four quarterly payments for California estimated tax for 2009 are *taken from the corresponding lines on the Control Form.*

Tax paid with Form FTB 3519. *(Road Map line, supported by Form 3519.)* Although you no longer have to formally apply for a filing extension, you must remit any tax due by the regular filing deadline (April 15, 2010 this year) with a payment voucher, FTB 3519.

72 2009 estimated tax payments and other payments. *(auto-calc)* Computed as the sum of the above six tax payment entries. The separate amounts are also used in the automation of Form 5805, excluding the payments with the filing extension.

73 Real estate withholding. The withholding for this line should appear on a Form 592-B, 593-B, or 594 you receive when you sell real estate in California. Enter here only the California withholding. If you make an entry here, you must attach a copy of the referenced form(s) to the new Schedule W-2 CG, to be placed behind Form 540 when you file the return. If the return includes any Schedule(s) W-2, you must also attach copies of those schedules and answer Yes to "Choose to attach real W-2s?" on our Schedule W-2 CG. *(If no W-2s exist for the return, you will have to manually print a blank Schedule W-2 CG for your use as a cover sheet to the forms you attach. To do this, from the Main Menu choose:*

- 3 PRINT Official returns
- 3 PRINT on Printer or Disk
- 2 GRAPHIC Printouts Only
- 5 BLANK Forms Only
- 10 Sch W-2

and a blank Schedule W-2 CG will print.)

74 Excess SDI. *(auto-calc)* Computed as the excess withheld because of withholding from more than one employer based on the the FTB's Excess SDI (or VDPI) Worksheet, using amounts entered on the W-2 Worksheets that support line 12 of Form 540.

Child and Dependent Care Expenses Credit. This credit is similar to the federal credit on Form 2441, but the percentages are different and some of the rules are different and California requires additional information not available from the federal return. The credit is claimed on Form 3506, which is translated from federal Form 2441 and accessible by itemizing line 77 or line 78.

75 SSN of 1st qualifying child. *(auto-calc, supported by Form 3506)* The SSN of the first child you identified on Form 3506 appears here after you view the worksheets for Form 3506.

76 SSN of 2nd qualifying child. *(auto-calc, supported by Form 3506)* The SSN of the second child you identified on Form 3506 appears here after you view the worksheets for Form 3506.

77 Federal child care credit. *(Road Map line, supported by Form 3506.)* Form 3506 is translated from the federal Form 2441, and the California form deviates little from the intent of the federal form. As a result, the credit is nearly automatic for most taxpayers. However, there are additional questions you must answer on Form 3506, including California residency questions, and you MUST view the translated worksheets at line 2 of Form 3506 so that the children's SSNs will appear below line 2 on the screen and on lines 75 and 76 of Form 540, above. The amount that appears on this line is generally the same as the credit on federal Form 2441. However, no limitation to federal tax is applied for the purposes of this form.

78 California child care credit. *(Road Map line, supported by Form 3506.)* Taken from Form 3506, this credit is generally 50% of the federal credit for California AGI up to \$40,000, 43% from \$40,000.01 to \$70,000, 34% from \$70,000.01 to \$100,000, and zero above \$100,000.

79 Total payments. **Add lines 71, 72, 73, 74, and 78.** *(auto-calc)* Computed as indicated.

OVERPAID TAX OR TAX DUE. Preliminary results are summarized here.

91 Overpaid tax. *(auto-calc)* Computed as line 92 less line 72, but no less than zero.

2010 estimated tax from Form 540-ES. *(Road Map line, supported by Form 540-ES.)* This line is not a part of the Official Form 540, but is provided to access Form 540-ES for determining the estimated tax payments required for the next tax year. The amount shown here is the total estimated tax due. If you plan to apply any or part of the excess payment on line 91 to estimated tax payments for 2010, the percentage you enter below will control the maximum amount to be applied. If you complete no Form 540-ES but you want to apply some of the refund to next year's estimated tax, enter 100% below and the dollar amount to apply here. HINT: If you know beforehand that you will want to apply the *entire* refund, you can enter any unreasonably large amount here to force the application, since this line is not printed on the Form 540 that is filed with the FTB.

Percent of above estimated tax to prepay. This entry controls the amount of any overpayment appearing on line 91 that will be applied to 2010 estimated taxes via line 92, below. If you complete a Form 540-ES, you will typically enter 25% here so that the first quarter's estimated tax payment is automatically made. Or, if you prefer, you could pay up to the amount of estimated taxes for the entire year by entering 100% here.

- 92 Amount of line 91 to apply to your 2010 estimated tax.** *(auto-calc)* Computed as the lesser of the above percentage of the 540-ES estimate and the amount on line 91, but zero if the result is less than \$5.
- 93 Overpaid tax available this year.** *(auto-calc)* Computed as line 91 less line 92.
- 94 Tax due.** *(auto-calc)* Computed as line 64 less line 79, but no less than zero.

USE TAX. Although widely overlooked by taxpayers, California requires you to pay sales tax on purchases from other states, but gives you credit for any sales tax paid to that other state.

- 95 Use Tax.** For out-of-state purchases only, enter the sales tax that would have applied if you had bought the item in California, but reduced by any sales tax you paid to the other state for the item. See FTB instructions for a worksheet and a table of sales tax rates for all California counties to help you make this calculation.

CONTRIBUTIONS. California provides for a means for you to contribute directly to certain special state funds. The funds are now identified on the form by codes (400 through 414 this year), and the line numbers have been dropped. Contributions to the first fund are limited to the amount of senior exemption claimed on line 9.

You and/or spouse elects to contribute to Seniors Special Fund? Anyone who claims the seniors' exemption credit on line 9 can contribute any even dollar amount up to a maximum of his or her exemption to this special fund, which provides services and advocacy for seniors. Your entries are therefore rounded to even dollar amounts and limited to no more than \$98 for each spouse, and your entry is zeroed for any spouse who does not claim a senior exemption on line 9.

- 400 CA Seniors Special Fund.** *(auto-calc)* Computed as the sum of the above two entries for you and spouse.

Contributions to the remaining funds can be made in any *whole dollar* amounts. Your contributions will increase the tax you owe (or decrease your refund) by the amount of the contribution.

- 401 Alzheimer's Disease/Related Disorders Fund.** For researching the cause, cure, and treatment of Alzheimer's disease and related disorders.
- 402 CA Fund for Senior Citizens.** For direct services to senior citizens and to support the California Senior Legislature.

- 403 Rare and Endangered Species Preservation Program.** For the conservation of endangered and rare fish, wildlife, and plants.
- 404 State Children's Trust Fund for Prevention of Child Abuse.** To fund programs for the prevention of child abuse and neglect.
- 405 CA Breast Cancer Research Fund.** To fund programs for the cure, screening, and treatment of breast cancer.
- 406 CA Firefighters' Memorial Fund.** For the construction of a memorial to California firefighters at the state capitol.
- 407 Emergency Food for Families Fund.** To help local food banks feed hungry people in California.
- 408 CA Peace Officer Memorial Foundation Fund.** To maintain and annually update a memorial on State Capitol grounds.
- 409 CA Military Family Relief Fund.** To aid members of the California National Guard who are called to active duty.
- 410 CA Sea Otter Fund.** To fund research and programs related to the near-shore ecosystem and increased investigation, prevention, and enforcement of sea otter protection.
- 411 CA Ovarian Cancer Research.** To fund research on the cause, cure, and prevention of ovarian cancer.
- 412 Municipal Shelter Spay-Neuter Fund.** To fund low-cost or free spay-neuter services.
- 413 CA Cancer Research Fund.** To fund research on the causes, detection, and prevention of cancer and to expand various education programs.
- 414 ALS/Lou Gehrig's Disease Research Fund.** To fund research on the cause, cure, and prevention of ALS.

110 Total contributions. *(auto-calc)* Computed as the sum of contributions for contribution codes 400 through 414.

Note that these contributions are not deductible on the return, but are merely a direct means of contributing to the funds.

AMOUNT YOU OWE. The Voluntary Contributions are reflected in the final amounts below.

111 AMOUNT YOU OWE. *(auto-calc)* Computed as the sum of lines 94, 95, and 110 less line 93, but no less than zero. (Reference to line 93 is omitted from the FTB label for this line, but the FTB instructions make it clear that it is required in the way we use it.)

In spite of the FTB label for this line, interest and penalties are not reflected in this result, but are added in the next section instead.

INTEREST AND PENALTIES. The FTB will generally compute penalties for you and bill you, but you can get a complete picture of the tax bite by reflecting them here yourself.

112 Interest, late return penalties, and late payment penalties. Enter here only the amount included in the payment enclosed with the return that is to be applied to any late penalties and interest. This is *NOT* the penalty for underwithholding or underpayment of estimated tax, but the penalties and interest for not filing or paying on time.

Interest is charged for taxes not paid by April 15th and an additional penalty is charged for not filing by October 15th (the extension filing date). The interest is typically 5% of the tax not paid plus ½ % per month or part thereof that the return is late. The late filing penalty is generally 25% of the tax not paid. In addition, interest is charged on the penalties until they are paid at rates that are adjusted twice a year by the FTB.

Is Form 5805 attached? *(auto-calc, supported by Form 5805/5805-F.)*
Automatically Yes if a Form 5805/5805-F exists for the return and you do *NOT* qualify for 5805-F.

Is Form 5805-F attached? *(auto-calc, supported by Form 5805/5805-F.)* Automatically Yes if a Form 5805/5805-F exists for the return and you qualify for 5805-F because of your farm income.

113 Underpayment of estimated tax (Form 5805). *(Road Map line, supported by Form 5805.)* Form 5805 is automatically generated when a penalty may exist, unless you answered No to the auto-create question in the first section of Form 540. However, if you are a farmer or fisherman, you should supply additional information on Form 5805 so that the software can determine whether you qualify for the more liberal Form 5805-F. (You need not complete Form 5805 or 5805-F if you want the FTB to figure the penalty for you and send you a bill.)

114 Total amount due. *(auto-calc)* Computed as the sum of lines 94, 95, 110, 112, and 113 less line 93, but no less than zero, this is the total check that must be written to the Franchise Tax Board, not just the amount on line 111. (Note that we use the formula in the FTB instructions rather than the less complete formula on the FTB form.)

Are you paying the full amount due? You may choose to pay less than the full amount due, and penalties will apply only to the balance not paid. If you will be paying the full amount shown on the preceding line, answer Yes here.

Amount to be paid. If you answered Yes above, the total due appears here. But if you answered No, you must enter the amount you will pay. If you choose a direct debit from your account, below, this is the amount by which your account will be debited.

NEW: Form 540-V Payment Voucher. For computer-generated returns, the FTB has introduced a payment voucher to accompany any payment by check or money order of tax due for a Form 540 return. The voucher is printed with Form 540 or a complete return if there is an amount on "Amount to be paid," above, and you answer Yes to "Print 540-V if owe tax?" when asked. The voucher must be included with the payment and the Form 540 return and mailed to the address above the voucher, which is a special address for scannable forms.

REFUND AND DIRECT DEPOSIT. Complete the following lines to direct the FTB to deposit any refund directly in your account.

115 REFUND or NO AMOUNT DUE. *(auto-calc)* Computed as line 93 less the sum of lines 94, 95, 110, 112, and 113, but no less than zero. (Note that we deduct penalties and interest as indicated in the FTB instructions but not the FTB form.)

Depositing refund into two accounts. You can specify to have the automatic deposit of your refund split among two bank accounts. If you enter information for a second account, you must also specify the amount to deposit into that account at line 117, as described in the following.

Routing number 1. This number tells where to send a wire transfer of funds. If a checking account, the number is the first set of computer numbers printed at the bottom of your checks, and should be 9 digits long. Otherwise you must get the number from your bank.

Account type 1: Checking? You must identify whether the account to which you want the refund deposited is a checking account or a savings account. However, if you do not supply a routing number, above, of at least 9 characters length, a Yes answer will not be allowed here and both this and the next entry will be No. *(For e-file, if you chose a RAL or QIK funds on our federal e-file form, the routing number for the bank that processes the RAL or QIK appears above and a Yes answer appears here. You must therefore change the entry to the taxpayer's own account unless the RAL or QIK applies to the California return as well.)*

Account type 1: Savings? *(auto-calc)* Automatically the opposite of the preceding answer if you entered a routing number of at least 9 characters, and No otherwise.

Account number 1. Enter full account number, including the bank's branch number. If a checking account, the number is the second set of numbers printed at the bottom of your checks. (Be sure not to include the last set of numbers, which is your check number.)

116 Direct deposit amount 1. *(auto-calc)* Incomplete bank information will not be accepted by the FTB, so no amount will appear here if anything is missing in your entries. For example, the routing number must be 9 digits starting with 01 through 12 or 21 through 32, you must identify the type of account by a Yes for either checking or savings, and you must enter an account number. *If you satisfy all these conditions, the full amount on line 115 will appear here unless you specified a second bank,* below, for a portion of the refund.

Second account for direct deposit. If you have a refund on line 115 and use direct deposit for your refund, you can now instruct the FTB to put a portion of the refund in a second account rather than the entire amount in the account identified above. Once you enter valid routing and account numbers for the second account, below, you can *enter an amount on line 117 and the*

amount for line 116 will be automatically reduced so that the sum of lines 116 and 117 matches line 115.

Routing number 2. See our instructions for "routing number 1."

Account type 2: Checking? See our instructions for "account type 2."

Account type 2: Savings? *(auto-calc)* Automatically the opposite of the preceding answer if you entered a routing number of at least 9 characters, and No otherwise.

Account number 2. See our instructions for "account number 1."

117 Direct deposit amount 2. Enter here the amount of refund you want deposited in the second account. You can enter no more than the amount on line 115, and the amount on line 116 will be reduced accordingly. *You will not be allowed to make an entry here until you have entered valid routing and account numbers for account 2.*

THIRD PARTY DESIGNEE. Information you supply below will appear at the bottom of page 2 of the official printout of Form 540, designating another person to be allowed to discuss your return with the IRS. *CAUTION: This information is NOT translated from the federal Form 1040 because you must separately affirm your choice of a designee for the purposes of the California Form 540 alone.*

Do you want to allow another person to discuss this return with the FTB? *(auto-calc)* This answer is automatic based on your entry of a designee's name or phone number below. If you make no entries below, the answer is No. If you make any entry, the answer is Yes. This answer is used to make the proper check-box at the bottom of page 2 of the official printout of Form 540.

Designee's name. Enter the name in 25 characters or less. The designee can be anyone you choose to allow to communicate with the FTB for you, including a friend or relative. The person you designate here is allowed to give the FTB any missing information from the return, to call the FTB for information about the processing or status of the return, and respond to FTB notices concerning errors in the preparation of the return, but does not otherwise represent you before the FTB. *However, if you want the paid preparer who signs the return to be the designee, just enter the word PREPARER here and enter the preparer's phone number below, in accordance with FTB instructions.*

Designee's phone number. Enter the phone number complete with area code in 15 characters or less.

Fed return attachment required. *(auto-calc)* Automatically Yes if the return contains a California Worksheet C, E, or F, a California Schedule D, D-1, or P, or a California Form 3800, 3801, 3805E, 3805P, or 3885A. You MUST send a copy of the federal return when you file the California return if this answer is Yes. If the answer here is Yes, the phrase "ATT FED RET" will be printed in the upper right area of the scannable Form 540 printout. Otherwise, the phrase "DO NOT ATT FED RET" will be printed.

Schedule CA / California Adjustments

Collection point for all adjustments to federal AGI. This schedule consolidates the differences between federal and California amounts for most federal forms and schedules. The line numbers follow those for federal Form 1040. Results from all investment and business activities flow through this form, including all adjustments to the amounts on federal Schedules A, B, C, D, E, and F, and Forms 2106, 2119, 3903, 4562, 4684, 4797, 4835, 6252, 8582, and 8829. Other income and deductions treated differently by California are also reported here.

PART I, INCOME ADJUSTMENT SCHEDULE. The first part collects all differences that affect California AGI. Each line contains three parts: column A for amounts on federal Form 1040, column B for amounts to be subtracted from A for California returns, and column C for amounts to be added to A for California returns.

Section A -- Income. The first section corresponds to the income section of Form 1040.

Federal W-2 wages in Form 1040, line 7. Translated from the federal return, this is the total of wages reported on the W-2 Worksheets for the federal return and included in the total for Form 1040, line 7. CAUTION: This entry is critical. Therefore, if you did not follow our strong recommendation to start the return by translation from the federal return, you must enter the total from Form 1040, line 7 here yourself.

California adjustment to federal W-2 wages. (auto-calc) Computed as Form 540, line 12, less the preceding entry. This result could be incorrect if you did not verify the California wages reported on the W-2 Worksheets for line 12 of Form 540. The result here represents only W-2 wages for California. If there are other wages not included here, such as wages from other states, or some of the California W-2 wages are not taxable for special reasons, use the adjustment line, below, for "California other adjustments for Schedule CA, line 7" and explain in a supporting statement for that line.

Other income for Schedule CA line 7:

Other income in Form 1040, line 7. The next few lines are translated from the special extra lines that contribute to the line 7 total in our Form 1040. They are amounts that are treated like wages by the IRS but are *NOT* reported to you on a W-2 form, such as certain taxable scholarships and excess reimbursements from employers for employee expenses, child care, and moving expenses. You should not alter these translated amounts unless you altered the federal return after translating it to the California return.

TOTAL federal other income in line 7. (auto-calc) Computed as the sum of the above other income not reported on W-2 forms. This total plus the entry for "Federal W-2 wages in Form 1040, line 7" should match the total on Form 1040, line 7 of the federal return.

California other adjustments for Schedule CA, line 7. This line is *rarely used, but important for certain special taxpayers*. ALL wages must be reflected in Schedule CA line 7, including those from other states. Valid adjustments include adjustments for active-duty military pay, ride-sharing benefits, sick pay received under the Federal Insurance Contributions and Railroad Unemployment Insurance Acts, income exempted by U.S. treaties, and federal source income under IRC Section 911. See FTB Pub. 1001 for more detail on the adjustment to make here. *Adjustments for wages to other states are not handled here. Instead, the potential for double taxation is handled through California's Schedule S in which you are given credit for taxes paid to other states.* A positive entry on this adjustment line increases wages for the California return, and a negative entry reduces wages for the California return. Note that California allows a subtraction from income for graduate-level education expenses paid by employers if that income was taxable on the federal return.

7 Wages, salaries, tips, etc. (*Auto-calc lines, supported by Form 540.*)

The first part of this line is the amount for column A, computed as the "W-2 wages in Form 1040, line 7" plus "TOTAL federal other income in Form 1040, line 7." This amount should match the amount on Form 1040, line 7 for the federal return that was translated. The remaining two parts are computed from the sum of the two California adjustments: "California adjustment to federal W-2 wages" *plus* "California adjustment to other income." A negative result is used as a subtraction adjustment for column B and a positive result is used as an addition adjustment for column C.

8, Taxable income and tax-exempt interest. (*Road Map lines, supported by Worksheet B.*) These lines reflect interest taxed on the federal return but not the California return, such as excluded U.S. savings bonds and treasury bills, and interest taxed on the California return but not the federal return, such as state and municipal bonds for areas outside of California, as identified on the 1099-INT Worksheets for the federal Schedule B.

9 Dividend income. (*Road Map lines, supported by Worksheet B.*) These lines reflect dividends taxed differently on the federal return than the California return, as identified in Worksheet B.

10 State tax refund. Column A is translated from Form 1040, line 10, and is the state income tax refund or tax rebate you received in the tax year and included as income on the federal return. The amount is automatically posted to column B because a state refund is not income on a California return (because the corresponding overpayment was not deductible on the California return).

11 Alimony received. Column A is translated from Form 1040, line 11. You must enter an amount in column C if a nonresident alien and received any alimony not reported on federal Form 1040, line 11.

12 Business income or (loss). (*Road Map lines, supported by Worksheet C.*) The total on federal Form 1040, line 12, is translated to column

- A, and adjustments resulting from Worksheet C, which relates to federal Schedule C, are posted to columns B and C.
- 13 Capital gain or (loss).** (*Road Map lines, supported by Schedule D.*) The total on federal Form 1040, line 13, is translated to column A, and adjustments resulting from Schedule D are posted to columns B and C.
- 14 Other gains or (losses).** (*Road Map lines, supported by Schedule D-1.*) The total on federal Form 1040, line 14, is translated to column A, and adjustments resulting from Schedule D-1 are posted to columns B and C.
- 15 IRA distribution (a) and Taxable amount (b).** Because California law differed from federal law before 1987 on the amount of IRA contributions that could be deducted, the amount that is taxed when you receive benefits can often be less on a California return. You would therefore generally have a subtraction for column B. The gross distribution and the taxable amount for column A are translated from the federal Form 1040, lines 15a and 15b, but you must make any required adjustments to the taxable amount in columns B and C. See FTB Pub. 1005 for details.
- 16 Pensions & annuities (a) and Taxable amount (b).** Even though California uses similar methods for computing the taxable amount, differences exist depending on when contributions were made to the pensions and annuities. The gross distribution and taxable amount for column A are translated from federal Form 1040, lines 16a and 16b, but you must make any required adjustments to the taxable amount in columns B and C. See FTB Pub. 1005 for details.
- 17 Rentals, royalties, partnerships, estates, trusts, etc.** (*Road Map lines, supported by Worksheet E.*) The total on federal Form 1040, line 17, is translated to column A, and adjustments resulting from Worksheet E, which relates to federal Schedule E, are posted to columns B and C.
- 18 Farm income or (loss).** (*Road Map lines, supported by Worksheet F.*) The total on federal Form 1040, line 18, is translated to column A, and adjustments resulting from Worksheet F, which relates to federal Schedule F, are posted to columns B and C.
- 19 Unemployment compensation.** Unemployment compensation is not taxable on the California return, so the amount from federal Form 1040, line 19, is translated to column A and repeated at column B.
- 20 Social security benefits (a) and Taxable amount (b).** Social security benefits are not taxable on the California return, so the amount from federal Form 1040, line 20b, is translated to column A, and column A is posted to column B.
- 21 Other income (federal).** The total on federal Form 1040, line 21, is translated to column A. Adjustments to this total are separated into several parts, as follows.
- a California lottery winnings (column B).** Enter any winnings from the California Lottery which were reported as income in line 21 of Form

1040. They are not taxable on the California return and will therefore be reported in column B.

- b Disaster loss carryover from FTB 3805V (column B).** Disaster losses are no longer allowed except as carried over from the prior year's return. Enter only the carryover from a 2008 Form FTB 3805V (as a positive number).
- c NOL carryover on Form 1040 line 21 (column C).** This entry must be the entire net operating loss (NOL) deduction that was included in line 21 of the federal Form 1040. (The California NOL deduction is different from the federal NOL deduction, so the federal amount is added back here and California amounts are deducted through lines 21d and 21e.)
- d NOL carryover from FTB 3805V (column B).** Enter as a positive number the net operating loss (NOL) carryover from Part III, line 5 of California Form FTB 3805V.

NOL from FTB 3805D. Enter the NOL carryover from Form 3805D, *NOL Carryover Computation and Limitation -- Pierce's Disease*.

NOL from FTB 3805Z, line 5b. (Premium Level: Road Map line, supported by Form 3805Z) Unless you use the Premium Level software, you must enter here the result on line 5b of Form 3805Z, *Enterprise Zone Deduction and Credit Summary*.

NOL from FTB 3806, line 3b. Enter the NOL carryover from line 3b of Form 3806, Los Angeles Revitalization Zone Deduction and Credit Summary. (*Form 3806 will be built into the Premium Level software in a future release. Once installed, the form will then be accessible through the Road Map from this line.*)

NOL from FTB 3807, line 5b. Enter the NOL carryover from line 5b of Form 3807, *Local Agency Military Base Recovery Area Deduction and Credit Summary*.

NOL from FTB 3809, line 3b. Enter the NOL carryover from line 3b of Form 3809, *Targeted Tax Area Deduction and Credit Summary*.

- e NOL from FTB 3805D, 3805Z, 3806, 3807, or 3809 (column B).** (auto-calc) Computed as the sum of the above five NOL amounts, this total acts as a subtraction for line 21 of Schedule CA.

- f Other (describe).** (Supported by the California Adjustments Worksheet.) Other additions or subtractions must be entered in the worksheets that support this line, with the sole exception of amounts from Form 3803, which are posted automatically. See FTB instructions for information on what else qualifies. The total additions and subtractions are summed from the worksheets to columns B and C. You must complete a separate worksheet for each separate item, describing each item in just 15 characters so that they appear on the printout as desired by the FTB. (CAUTION: If any of the adjustments entered here involve passive activities, you may also need to use the Passive Loss Worksheets on Form 3801 to report adjustments to passive activity gains and losses for lines 1 and 2 of Form

3801.) Note that reparation payments for forced or slave labor during World War II are not taxable on the California return, and should therefore be entered as a subtraction here if they were taxable on the federal return.

Subtractions/Additions from Form 3803. (*Road Map lines, supported by Form 3803*) If you elect to report your children's income on your own return, the income after the first \$1,900 is included in line 21 of federal Form 1040. Any California adjustments to this amount are posted here from the fifteen copies of Form 3803 that are built into the software (for reporting income from up to fifteen children).

CAUTION: *California has not conformed to the change in age threshold from 14 to 18 for Form 3803. You may therefore have to change the answer translated to California Form 3803 for "Child 14 or more on 1/1/09?" because it is translated from the question for age 18 on the federal Form 8814. Even if the answer is Yes as a result of your change, you should retain the Form 3803 in order for the proper adjustments to be made automatically by the software. It will be omitted from a complete official printout of the return.*

Total other subtractions/additions. (*auto-calc lines.*) Computed as the adjustment totals from the above worksheets and Form 3803.

22 TOTAL. (*auto-calc lines*) Summed separately in columns B and C as the sum of lines 7 through 21f.

Section B -- Adjustments to Income. The second section corresponds to the adjustments section of Form 1040. Each line in this section contains a column A for reporting the amount deducted on Form 1040 (translated from the federal return). Each line may also contain a column B and/or C as well to report differences between federal and California law. Column B is used for subtractions (the part of the federal deduction not allowed under California law), and column C is used for additions (additional deductions allowed under California law). California conforms fully with federal law for the amounts on some lines in this section; the corresponding amounts are taken directly from Form 1040 and posted to column A for these lines, and columns B and C do not appear for these lines because they can never have an amount. However, other lines can be different under California law, as highlighted below. (In the following, all lines that do not include a column letter in the heading for the line are understood to refer the federal amount, which is printed in column A of the official printout of Schedule CA.)

23 Educator expenses. California does *not* allow a deduction for educator expenses, so *any amount translated to this line from the federal Form 1040 appears in both column A and column B on the printed Schedule A*, and reflected as a subtraction for line 36.

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. You will generally have an adjustment to the federal amount because of differences between federal and California law for depreciation.

- B – Business expense subtraction.** Enter here any deductions allowed under federal law but not under California law, such as first-year depreciation amounts.
- C – Business expense addition.** Enter here any deductions allowed under California law but not under federal law.
- 25 Health savings account deduction.** California does *not* allow this deduction, so this amount will appear in column B as well as column A of the printed Schedule CA.
- 26 Moving expenses.** California fully conforms to the federal law for moving expenses, so no adjustment appears in column B nor column C of the printed Schedule CA.
- 27 One-half of self-employment tax.** California fully conforms to the federal law, so no adjustment appears in column B nor column C of the printed Schedule CA.
- 28 Self-employed SEP, SIMPLE, qualified plans.** California fully conforms to the federal law, so no adjustment appears in column B nor column C of the printed Schedule CA.
- 29 Self-employed health insurance deduction.** California fully conforms to the federal law, so no adjustment appears in column B nor column C of the printed Schedule CA.
- 30 Penalty on early withdrawal of savings.** California fully conforms to the federal law, so no adjustment appears in column B nor column C of the printed Schedule CA.
- 31a Alimony paid.** The amount in column A is translated from the corresponding line on the federal Form 1040. The SSN of the recipient is also translated, but *you must enter the last name of the recipient as well for the California return*. California law generally conforms to federal law, but *if you are a nonresident alien and did not deduct alimony on the federal return, enter the amount in column C*, since it is allowed on the California return.
- 32 IRA deduction.** Although California generally conforms to the federal method for computing the deduction, there is now a difference in the phase-out levels because California has not conformed with increases from indexing with inflation. As a result, the deduction for California could be lower, so an adjustment in column B could be necessary. An adjustment is necessary ONLY if you or spouse are covered by a retirement plan in addition to the IRA (that is, you answered Yes to our question above line 32 of Form 1040), and your income is within the phaseout region under California or federal law. The California phase-out region for single and head of household is \$50,000 to \$60,000 (vs. \$53,000 to \$63,000 under federal law). The California phase-out region for married/RDP filing joint and qualifying widow(er) is \$80,000 to \$100,000 (vs. \$85,000 to \$105,000 under federal law). The California phase-out region for a couple for which only one spouse is covered by a retirement plan is \$150,000 to \$160,000 (vs. \$159,000 to \$169,000 under federal law).

- B – IRA deduction subtraction.** To determine the adjustment to enter here, you must recompute your IRA deduction using the federal IRA Deduction Worksheet, but using California phaseout amounts, then compare the result with the federal result. If the California result is lower, enter the difference here. (The California result cannot be higher because the phase-out of the deduction starts at lower income levels under California law. *Special exception: If an active duty military member domiciled outside of California and your IRA deduction was subject to the phase-out, you could have an additive adjustment because you do not have to count the military pay as income. However, you must enter this adjustment in a supporting statement for line 36, not here at line 32, in accordance with FTB instructions for line 36.*)
- 33 Student loan interest deduction.** California now conforms with federal law except for one special case, described below.
- C – Student loan interest addition.** A spouse of a military taxpayer not domiciled in California will have to make an addition adjustment here based on a calculation that includes the military income. For details, see the FTB *Student Loan Interest Deduction Worksheet* in the instructions for Schedule CA and FTB Pub. 1032 (*Tax Information for Military Personnel*).
- 34 Tuition and fees deduction.** California does *not* allow a deduction for tuition and fees, so *any amount translated to this line from the federal Form 1040 appears in both column A and column B on the printed Schedule A*, and reflected as a subtraction for line 36.
- 35 Domestic production activities deduction.** California does *not* allow a deduction for domestic production activities, so any amount translated to this line from the federal Form 1040 appears in both column A and column B on the printed return, and reflected as a subtraction for line 36.
- Other adjustment in 1040 line 36.** This amount, translated from the federal return, is the amount included in line 36 of federal Form 1040, but not in lines 23 through 35 or the federal “write-in” amount above line 36. It includes certain employee expenses from federal Form 2106, foreign housing deductions from federal Form 2555, plus any other amounts shown or itemized on the lines above line 36 of Form 1040.
- Adjustment for part from Form 2555.** This amount is the part of the above federal adjustment that stems from a foreign housing deduction from Form 2555, but shown as a negative amount because it is a subtraction adjustment on the California return. If there is no additional adjustment on the next line, this amount and the flag “Form 2555” will be printed above the label for line 36 of Schedule CA. Otherwise it will appear in a supporting statement along with the supporting statement for the following line.
- ITEMIZE other adjustments.** If there are any other adjustments to the “write-in” amount on the federal return, you must report the differ-

ence in a supporting statement for this line. Be sure to enter the appropriate positive or negative adjustment to the preceding amount in the amount column of the supporting statement. The negative or positive adjustment is then reflected in column B or C for this line. *(This is also the place to enter the additive adjustment for your IRA deduction for the special military exception described at line 32. Enter "MPA Adjustment" in the description column and the positive adjustment in the amount column.)*

36 Add lines 23 through 35. *(auto-calc lines)* The main line should be the same as line 36 of the federal Form 1040, and is the sum of lines 23 through 35, plus "Other adjustment in 1040 line 36," for column A. Columns B and C are summed separately as the subtractive and additive adjustments, respectively, for lines 23 through 35, plus the preceding itemized adjustment and Form 2555 adjustment.

37 TOTAL. *(auto-calc lines)* Line 36 is subtracted from line 22 separately in columns A, B and C. Column A is federal AGI, and columns B and C are California adjustments to federal AGI.

Summary of lines 23 through 37. The required posting of adjustments to Form 540 is determined in the remainder of this section:

Schedule CA, line 37. *(auto-calc)* Taken from the preceding total for column A of line 37, this is the federal AGI as computed on Schedule CA.

1040 line 37 on Form 540 line 13. *(auto-calc)* Taken from line 13 of Form 540, this is the AGI translated from the federal return to Form 540. It should agree with the preceding amount computed for Schedule CA, line 37, column A.

**** DISCREPANCY between Schedule CA and Form 540.** *(auto-calc)* An amount will appear here if the federal AGI you reported on Form 540 differs from the federal AGI you reported on Schedule CA. *Any discrepancy here must be eliminated for a valid return.* Since all amounts in column of A of Schedule CA are translated from the federal return automatically, there should not be any discrepancy here unless you manually changed an entry.

B-Total subtractions. *(auto-calc)* This is line 37, column B, computed as line 22, column B, less line 36, column B, this result could be negative if there is a greater subtraction for Section B (Adjustments to Income) than there is for Section A (Income).

C-Total additions. *(auto-calc)* This is line 37, column C, computed as line 22, column C, less line 36, column C, this result could be negative if there is a greater addition for Section B (Adjustments to Income) than there is for Section A (Income).

Subtraction for Form 540, line 14. *(auto-calc)* Computed as line 37(B) less line 37(C), but no less than zero. This and the following computation ensure that amounts on the two adjustment lines of Form 540 are never negative.

Addition for Form 540, line 16. *(auto-calc)* Computed as line 37(C) less line 37(B), but no less than zero.

Passive vs. Nonpassive adjustments. *(auto-calc)* Adjustments for all passive activities are summarized here. They are posted here from Worksheets C, E, and F, and Schedules D and D-1, whether or not they are reported on Form 3801. (Form 3801 is required by the FTB only when passive activities with losses are reported on the return. The automation of the return, however, requires a knowledge of all passive amounts whether or not Form 3801 is filed.) The result of this section is the "Total California nonpassive adjustment," which is the nonpassive part of line 22 of Schedule CA. This result is provided for information only, and is not used directly in the return.

PART II, ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS. The second part collects all differences from federal Schedule A.

38 Federal itemized deductions. *(Road Map line, supported by Worksheet A.)* Total federal itemized deductions BEFORE limitation for high incomes is posted here from Worksheet A.

39 State, local, SDI, and foreign income taxes. *(Road Map line, supported by Worksheet A.)* Only adjustments for income taxes deducted on the federal return are posted here from Worksheet A.

40 Subtract line 39 from line 38. *(auto-calc)* Computed as indicated.

41 Other adjustments (Worksheet A). *(Road Map line, supported by Worksheet A.)* All adjustments from Worksheet A not posted to line 39, above, are posted here. This includes depreciation and passive activity adjustments that are relevant to federal Schedule A alone.

Specify for line 41. If an amount appears above from Worksheet A, this entry is automatically "See Worksheet A" so that the FTB will know where to look for details. However, if you decide not to send Schedule A, you must remove it from the return with our File Manager (Chapter 9 of the User's Guide) then return to this line and enter your own explanation on this line or a supporting statement for it. **CAUTION: For an e-file return you MUST explain any amount on line 41 in a supporting statement for this line because our Worksheet A is not accepted as support for e-file.** (You must use the F10 key to access the support here because this is a text entry line.)

42 Combine line 40 and line 41. *(auto-calc)* Computed as the sum of lines 40 and 41.

Federal AGI on Form 540, line 13. *(auto-calc)* Taken from Form 540 as indicated.

Schedule A line 4, 13, 20, and gambling. *(Road Map line, supported by Worksheet A.)* The part of itemized deductions NOT subject to the high income limitations is posted here from Worksheet A. The amount posted here is the California-adjusted version of the federal amounts cited.

Part of line 42 disallowed. *(auto-calc)* Computed from the preceding three lines using the FTB Itemized Deductions Worksheet.

43 California itemized deductions. *(auto-calc)* Computed as line 42 less the above disallowed amount.

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Schedule CA

Standard deduction. *(auto-calc)* The standard deduction for your filing status appears here automatically (generally \$3,637 or \$7,274 for 2009).

44 Larger of line 43 or standard deduction. *(auto-calc)* Computed as indicated.

The result on line 44 is posted to Form 540, line 18.

Extra line for personal memos. Provided for supporting statements that will not be printed with the official return.

Schedule D / Capital Gain or Loss Adjustment

Conformity in the law, but not the form. California law conforms closely to federal law in the reporting of capital gains and losses, but details of the forms are glaringly different. Nevertheless, you can refer to the section for Schedule D in Chapter 2 of the regular *Tax Forms Guide 2010 Edition* for many details. However, California has defined a different procedure than the IRS for reporting sec. 1202 exclusions (sec. 18152.5 of the California code). In addition, California does not provide favorable taxation for long-term capital gains, so the California schedule does not have separate sections for long-term and short-term transactions. Moreover, California has separate columns for gains and losses, unlike the federal Schedule D where only net results are shown. As a result, translation of amounts from the federal Schedule D is not always straightforward.

Translation from the federal return is complete ... ALMOST. As far as the net gain or loss on Schedule D is concerned, the translation from the federal return automatically produces the proper bottom line as long as there are no adjustments for basis or carryovers from prior years, and no difference in the sec. 1202 exclusion claimed. Lines 1, 2, and 3, and their supporting worksheets, are translated automatically from the federal return. As far as *computations* are concerned you need make entries only if

- there is a capital loss carryover from the 2008 California Schedule D, which you must enter on line 6, or
- you claimed a section 1202 exclusion on federal Schedule D, and the exclusion for the corresponding California section 18152.5 is not allowed because 80% of the corporations employment and spending is not in California, or
- some items reported on the translated worksheets, or other forms that support line 1, have a different basis under California rules (which is likely if you claimed depreciation before 1987 for the sold property, you claimed bonus depreciation or section 179 expenses in recent years, or you claimed Special California Credits that require you to reduce the basis by the amount of the credit).

However, even if none of the above apply, extra effort must be taken in preparing the California Schedule D in order to conform with its different format.

MANDATORY extra steps: View ALL Gain/Loss Worksheets after their translation from the federal return. Since 1997, the federal Schedule D does not separately show gains and losses. Therefore, when we translate the federal worksheets, no amounts are translated to the separate loss and gain lines of the California worksheets (columns d and e on the California Schedule D). As a result, you must view all California worksheets after they are translated in order for the separate losses and gains to show up on the worksheet and on the printouts for line 1. (Unlike forms, worksheets recalculate whenever you view them, so the mere access to a worksheet is enough to cause the gain and loss lines to calculate to their proper amounts. The computed results for the schedule are correct even if you don't view the worksheets because the software merely assigns a net loss to the loss column and a net gain to the gain column, ensuring the proper mathematics in the final net result.)

Itemized sales for line 1a. Line 1a is a catch-all for all short-term and long-term gains and losses on the federal Schedule D, except for those reported to you on a Schedule K-1 (form partnerships, etc.).

Amounts supported by worksheets on the federal Schedule D. The first set of lines are translated from the worksheets that support lines 1 and 8 of the federal Schedule D:

ST net gain or loss. *(Supported by Gain/Loss Worksheets)* The net short-term gain or loss from federal Schedule D, line 1 appears here. Remember to view the translated worksheets that are attached to this line to ensure that gains and losses appear in the separate gain and loss columns of the California Schedule D.

ST capital sales (d) loss. *(auto-calc, supported by Gain/Loss Worksheets)* Once you view the worksheets, the sum of losses on those worksheets appears on this line. Until then, any loss seen on the above net line appears here as a positive amount.

ST capital sales (e) gain. *(auto-calc, supported by Gain/Loss Worksheets)* Once you view the worksheets, the sum of gains on those worksheets appears on this line. Until then, any gain seen on the above net line appears here as a positive amount.

LT net gain or loss. *(Supported by Gain/Loss Worksheets)* The net long-term gain or loss from federal Schedule D, line 8 appears here. Remember to view the translated worksheets that are attached to this line to ensure that gains and losses appear in the separate gain and loss columns of the California Schedule D.

LT capital sales (d) loss. *(auto-calc, supported by Gain/Loss Worksheets)* Once you view the worksheets, the sum of losses on those worksheets appears on this line. Until then, any loss seen on the above net line appears here as a positive amount.

LT capital sales (e) gain. *(auto-calc, supported by Gain/Loss Worksheets)* Once you view the worksheets, the sum of gains on those worksheets appears on this line. Until then, any gain seen on the above net line appears here as a positive amount.

Amounts supported by forms on the federal Schedule D. The next set of lines show amounts that are *not* reported on worksheets for the federal Schedule D, but are reported on separate federal forms, with only the totals shown on the federal Schedule D (lines 4 and 11). However, *California requires that all of these amounts be reported in the chart for line 1a, so they must be reported on our worksheets for line 1a.* We have therefore devised a semi-automatic procedure for accomplishing this task. In the following lines, all amounts either translated from components of lines 4 and 11 of the federal Schedule D or transferred from separate California forms. To get these amounts onto worksheets, as the FTB requires, you must itemize the worksheet line that follows the totals for a particular form below. However, you do not enter anything on the worksheet you access; you merely view them then exit. They are completed automatically for you based on the totals, with the proper description that applies:

Business property gain (Schedule D-1). (*Road Map line, supported by Schedule D-1.*) The long-term gain in Part I of Schedule D-1 appears here, analogous to the federal Form 4797 amount that contributes to line 11 of federal Schedule D.

Schedule D-1 amount for line 1a. (*Supported by Gain/Loss Worksheets*) If an amount appears on the preceding line you **MUST** itemize this line in order for the amount to be properly reported in the FTB chart for line 1a. Once you see the amount on the worksheet you can return here and proceed to the next line.

Installment sales gain (Form 3805E). (*Road Map line, supported by Form 3805E.*) The gain from Form 3805E appears here, analogous to the federal Form 6252 amounts that contribute to lines 4 and 11 of federal Schedule D.

FTB 3805E amount for line 1a. (*Supported by Gain/Loss Worksheets*) If an amount appears on the preceding line you **MUST** itemize this line in order for the amount to be properly reported in the FTB chart for line 1a. Once you see the amount on the worksheet you can return here and proceed to the next line.

**** Itemizing discrepancy above.** (*auto-calc*) If an amount appears on this line it means that you have failed to itemize to the supporting worksheets above when required. You must return to the preceding lines and itemize the worksheet line that follows a non-zero amount.

Casualty net (Form 4684) in Federal Schedule D, line 4. The short-term gain or loss on Form 4684 that was included in line 4 of federal Schedule D is translated here from the federal return.

Casualty net (Form 4684) in Federal Schedule D, line 11. The long-term gain or loss on Form 4684 that was included in line 11 of federal Schedule D is translated here from the federal return.

Form 4684 amount for line 1a. (*Supported by Gain/Loss Worksheets*) If an amount appears on either of the preceding two lines you **MUST** itemize this line in order for the amounts to be properly reported in the FTB chart for line 1a. Once you see the amount on the worksheet you can return here and proceed to the next line.

Section 1256 net (Form 6781) in Federal Schedule D, line 4. The short-term gain or loss on Form 6781 that was included in line 4 of federal Schedule D is translated here from the federal return.

Section 1256 net (Form 6781) in Federal Schedule D, line 11. The long-term gain or loss on Form 6781 that was included in line 11 of federal Schedule D is translated here from the federal return.

Form 6781 amount for line 1a. (*Supported by Gain/Loss Worksheets*) If an amount appears on either of the preceding two lines you **MUST** itemize this line in order for the amounts to be properly reported in the FTB chart for line 1a. Once you see the amount on the worksheet you can return here and proceed to the next line.

Like-kind exchange net (Form 8824) in Federal Schedule D, line 4.

The short-term gain or loss on Form 8824 that was included in line 4 of federal Schedule D is translated here from the federal return.

Like-kind exchange net (Form 8824) in Federal Schedule D, line 11.

The long-term gain or loss on Form 8824 that was included in line 11 of federal Schedule D is translated here from the federal return.

Form 8824 amount for line 1a. (*Supported by Gain/Loss Worksheets*) If an amount appears on either of the preceding two lines you **MUST** itemize this line in order for the amounts to be properly reported in the FTB chart for line 1a. Once you see the amount on the worksheet you can return here and proceed to the next line.

RIC or REIT gain (Form 2439) in Federal Schedule D, line 11. The long-term gain on Form 2439 that was included in line 11 of federal Schedule D is translated here from the federal return.

Form 2439 amount for line 1a. (*Supported by Gain/Loss Worksheets*) If an amount appears on either of the preceding two lines you **MUST** itemize this line in order for the amounts to be properly reported in the FTB chart for line 1a. Once you see the amount on the worksheet you can return here and proceed to the next line.

**** Itemizing discrepancy above.** (*auto-calc*) If an amount appears on this line it means that *you have failed to itemize to the supporting worksheets above when required* (on the current screen). You must return to the preceding lines and itemize the worksheet line that follows a non-zero amount.

1b Sec. 18152.5 exclusion. This line is the FTB's answer to the federal Section 1202 exclusion. For stocks that qualify the rules are the same for California: up to 50% of qualifying sec. 1202 gain can be excluded from income on your return. However, to qualify for California exclusion the corporation issuing the stock must have 80% of its employment and spending in California. Consequently, some of the exclusion claimed on the federal return may not be available for the California return.

1b Net sec. 18152.5 exclusion. (*Supported by Sec. 18152.5 Gain Worksheet, Figure CA-2.*) The worksheet for this line is preformatted to implement the reporting format defined by the FTB for sec.

18152.5 exclusions. Unfortunately, the FTB-defined format is not the same as the IRS-defined format, so to fully comply with the FTB instructions you will have to remove the worksheets translated to line 1a for sec. 1202 transactions, and reenter all their data here instead. Moreover, the FTB wants all sec. 1202 transactions combined so that line 1b shows the combined result of the exclusion or adjustment to be reported, with column (a) showing only "Section 18152.5 exclusion." You are therefore not allowed to create more than one worksheet for this line. As explained when the worksheet is described, later, the result of the worksheet is the total sec.

1202 exclusions allowed by California law in column (d) and the total sec. 1202 gain before exclusion in column (e).

Schedule D

- (d) **California exclusion.** *(auto-calc)* This is the amount on line d of the above worksheet, and is the total sec. 1202 exclusions allowed by California law.
- (e) **Entire gain.** *(auto-calc)* This is the total of all sec. 1202 gain before exclusion.

Sec. 18152.5 Gain Worksheet. (Figure CA-2)	SEC 18152.5 GAIN	SECTION 18152.5 EXCLUSION
This single worksheet is designed to consolidate the reporting of all federal sec. 1202 gains and exclusions, as adjusted for California law under FTB section 18152.5. While it is not necessary to use this worksheet to	a. Description	
	For Capital Gain Dist'ns:	
	Section 1202 gain in CGD.	0
	Amt qlfd for Cal exclusion	0
	For other than CGD:	
	If more than one date, bypass date checking & enter	VARIOUS.
	Bypass date checking...? No	
	Date acquired(mm/dd/yy)	
	Date sold (mm/dd/yy)	
	b. Sales price	0
c. Cost or other basis...	0	
NET (your entry if b=c=0).	0	
Amt qlfd for Cal exclusion	0	
Summary:		
d. Loss	0	
e. Gain	0	

Figure CA-2. Section 18152.5 Gain Worksheet

achieve a valid computation of the return, its use is required to comply strictly with the FTB format for this reporting. However, if you choose to comply with the FTB format by using this worksheet, you MUST not only complete this worksheet but also remove from line 1a any worksheets related to sec. 1202 gains.

a. Description. *(auto-calc)* This line is automatically "Section 18152.5 exclusion," as required by the FTB.

For Capital Gain Distributions. Once you view this worksheet, any section 1202 gain from box 2d of Form 1099-DIV that is included in line 3 of Schedule D is automatically removed from that line, as the FTB prefers. You must then identify on this worksheet the amount that qualifies for exclusion, and the rest is automatic.

Section 1202 gain in CGD. *(auto-calc)* This is the total of all sec. 1202 gains before exclusion that are shown above line 3 of Sch. D. This amount will be included in line e, below.

Amount qualified for California exclusion. Enter the amount to exclude on the California return, which is up to 50% of the preceding amount. This amount will be included in line d, below.

For other than CGD. The remaining entries relate to all other sec. 1202 gains, and must be removed from the worksheets for line 1a. If you have more than one sec. 1202 gain to report, you enter Yes for "Bypass date checking?" and skip the dates, sales price, and cost entries, and use only the NET entry described below.

Bypass date checking? A Yes here allows you to omit the following date entries.

Dates acquired and sold. You should enter dates only if you are reporting only one sale on this worksheet.

b. Sales price. You should enter the sales price only if you are reporting only one sale on this worksheet.

c. Cost or other basis. You should enter the basis only if you are reporting only one sale on this worksheet.

NET (your entry if $b=c=0$). If you made no entries on b and c, enter here the full sec. 1202 gain reported on the federal return, before applying any exclusions. If you did make an entry on line b or c, the net gain will appear here automatically. This amount will be included in line e, below.

Amount qualified for California exclusion. Enter the amount to exclude on the California return, which is up to 50% of the preceding amount. This amount will be included in line d, below.

Summary:

d. Loss. *(auto-calc)* Computed as the sum of two lines above for amount qualified for California exclusion.

e. Gain. *(auto-calc)* Computed as the sum of sec. 1202 gain in CGD and the NET gain above.

1a and 1b combined. *(auto-calc lines)* All gains and losses are separately summed for all of the preceding lines and the total is shown here. This is the net amount reported in the chart for line 1 of California Schedule D.

K-1 gains and losses for line 2. Line 2 is designed for gains and losses reported to you on a Schedule K-1, from partnerships, S corporations, fiduciaries, and limited liability companies. The amount for this line is translated from the worksheets that support lines 5 and 12 of the federal Schedule D. However, you should note that amounts reported to you by partnerships and fiduciaries may be different for the state return, so you must carefully read the Schedules K-1 you receive from them.

ST net gain or loss on K-1. *(Supported by Sch. K-1 Gain/Loss Worksheets)* The net short-term gain or loss from federal Schedule D, line 5 appears here. Remember to view the translated worksheets that are attached to this line to ensure that gains and losses appear in the separate gain and loss columns of the California Schedule D.

ST partnership/S-corp/fiduciary (d) loss. *(auto-calc, supported by Sch. K-1 Gain/Loss Worksheets)* Once you view the worksheets, the sum of losses on those worksheets appears on this line. Until then, any loss seen on the above net line appears here as a positive amount.

ST partnership/S-corp/fiduciary (e) gain. *(auto-calc, supported by Sch. K-1 Gain/Loss Worksheets)* Once you view the worksheets, the sum of gains on those worksheets appears on this line. Until then, any gain seen on the above net line appears here as a positive amount.

LT net gain or loss on K-1. *(Supported by Sch. K-1 Gain/Loss Worksheets)* The net long-term gain or loss from federal Schedule D, line 12 appears here. Remember to view the translated worksheets that

are attached to this line to ensure that gains and losses appear in the separate gain and loss columns of the California Schedule D.

LT partnership/S-corp/fiduciary (d) loss. (*auto-calc, supported by Sch. K-1 Gain/Loss Worksheets*) Once you view the worksheets, the sum of losses on those worksheets appears on this line. Until then, any loss seen on the above net line appears here as a positive amount.

LT partnership/S-corp/fiduciary (e) gain. (*auto-calc, supported by Sch. K-1 Gain/Loss Worksheets*) Once you view the worksheets, the sum of gains on those worksheets appears on this line. Until then, any gain seen on the above net line appears here as a positive amount.

2 Net shown on K-1s, (d) loss and (e) gain. (*auto-calc lines*) Computed separately for column (d) and (e), this is the sum from all short-term and long-term worksheets for this line.

Passive Activity Details. The rules for passive activity losses are the same for California returns as they are for federal returns, so Form 3801 is handled just like federal Form 8582. (See FTB instructions for special rules on the sale of California small business stock and California basis determination.) Loss amounts are automatically reduced by any proportionate disallowances from Form 3801. You should refer to the regular *Tax Forms Guide 2010 Edition* for details. CAUTION: In order for the amounts on the worksheets to reflect the proper disallowances from Form 3801, you must view all worksheets after the final recalculation of the return to ensure that they are updated with the proper prorated share of disallowed losses. Otherwise the amounts printed in the chart for line 1 may disagree with the total losses seen in line 4 of this schedule.

3 Capital gain distributions. All amounts in this section are translated from the federal return, but the reporting format defined by the FTB differs from that defined by the IRS. Whereas the IRS instructs you to include ALL capital gains distributions on line 13 of federal Schedule D (box 2a of Forms 1099-DIV), the FTB instructs you to exclude the part identified in box 2d of Forms 1099-DIV as section 1202 gain. However, if you view the California Schedule D before accessing the Sec. 18152.5 Gain Worksheet, line 3 will not yet have the sec. 1202 gain excluded. Nevertheless, the results for the return will still be valid if the exclusion taken on the federal return is valid for the California return. But as soon as you view the Sec. 18152.5 Worksheet, the sec. 1202 gain is removed from this line and any allowed exclusion must be entered on the worksheet.

Capital Gain Distributions on Form 3803. (*Road Map line, supported by Form 3803.*) The amount from Form 3803 for capital gain distributions distributed to the taxpayer's child is posted here.

Sec. 1202 part of the above. (*Road Map line, supported by Form 3803.*) The part of the above capital gain distribution that is sec. 1202 gain (as identified in box 2d of Forms 1099-DIV) appears here.

Other reportable Capital Gain Distributions. All other amounts included in line 13 of federal Schedule D are translated to this line, including any amounts on federal Schedule B.

Sec. 1202 part of the above. The part of the above capital gain distribution that is sec. 1202 gain (as identified in box 2d of Forms 1099-DIV) is translated to this line.

Total sec. 1202 gain in CGD. *(auto-calc)* Computed as the sum of the above two sec. 1202 gains.

Amount reported on 1b instead. *(auto-calc)* Once you create a Sec. 18152.5 Worksheet, the preceding total appears at line 1b, column (e), and is posted here so that it can be automatically removed from the total at line 3, below.

3 Capital gain distributions. *(auto-calc)* Computed as the sum of "Capital Gain Distributions on Form 3803" plus "Other reportable Capital Gain Distributions" less "Amount reported on 1b instead."

4 Total 2009 gains from all. *(auto-calc)* Computed as the sum of gains on all worksheets and lines above -- column (e) of Schedule D.

5 2009 loss. Add column d of lines 1 and 2. *(auto-calc)* Computed as the sum of losses on all worksheets and lines above -- column (d) of Schedule D -- less any passive loss disallowed from Form 3801.

6 California capital loss carryover from 2008, if any. Carryover for California will almost always be different from any carryover for a federal return because the laws have differed greatly in the past. *Consequently, no carryover amount is translated from the federal return.* You must enter the carryover here yourself based on prior California returns.

7 Total 2009 loss. Add lines 5 and 6. *(auto-calc)* Computed as indicated.

8 Combine line 4 and line 7. *(auto-calc)* Computed as line 4 less line 7, this is the net gain or loss before the annual limitation on loss deductions.

9 If line 8 is a loss, the smaller of line 8 and \$3,000 (\$1,500 if MFS). *(auto-calc)* Computed as indicated.

10 Amount from federal Form 1040, line 13. This entry is translated from federal Schedule D, which is posted to Form 1040, line 13, of the federal return.

11 California gain on 8 or loss on 9. *(auto-calc)* Computed as line 8 if a gain, or line 9 (as a negative amount) if line 8 is a loss. .

12 Adjustment (a) decrease or (b) increase for Schedule CA. *(auto-calc lines)* A net adjustment is computed as line 11 less line 10. If the result is less than zero it is shown as a positive number on line 12a and posted to line 13 column B of Schedule CA. If it is greater than zero it is shown on line 12b and posted to line 13 column C of Schedule CA.

Carryover to 2010. *(auto-calc lines)* Ordinarily, the carryover to 2010 is just the full loss on line 8 less the deductible amount on line 9. But if the deductible loss would make taxable income less than zero, a corresponding extra amount can be carried over to next year. The 8-line calculation that appears here, which follows the California Capital Loss Carryover Worksheet that appears in the FTB instructions for Schedule D, ensures the maximum allowed carryover.

Schedule D

Reconciliation with Form 3801. *(auto-calc lines)* The final lines show the passive part of the adjustment, which is needed for special AGI calculations on Form 3801. The line labeled "Negative of federal passive net" is computed from amounts translated from federal Schedule D, and will be the negative of the line that precedes it labeled "Total passive net on D" if there are no differences between federal and California amounts reported.

Schedule D-1 / Sales of Business Property

California law conforms well to federal law. Conformity between California Schedule D-1 and federal Form 4797 is complete as far as the law is concerned. You can therefore refer to the section on Form 4797 in Chapter 2 of the regular *Tax Forms Guide 2010 Edition* for most details. In addition, for the first time in years, the California Schedule D-1 follows the same format as federal Form 4797, eliminating the former omission of lines for like-kind exchanges and the former separate columns for gains and losses.

Translation from the federal return is virtually complete. Because California now conforms to the federal format, the translation from the federal return automatically produces the proper bottom line as long as there are no adjustments for basis. As a result, you need to make adjustments to translated amounts only if

- some items reported on the translated worksheets or other forms that support Form 4797 have a different basis under California rules, which is likely if you claimed depreciation before 1987 for the sold property or you claimed Special California Credits that require you to reduce the basis by the amount of the credit, or
- you are reporting sales of Section 1250 or 1254 property in Part III of Schedule D-1, for which California lagged changes in federal law by one year. (Dates for certain lines are one year later on the California return than they are on the federal return, for pre-1977 events).

Except for the above adjustments, you need not view the Gain/Loss Worksheets for the California Schedule D-1 in order for the schedule to compute the proper gains and losses.

Schedule G-1* / Tax on Lump-Sum Distributions

*** Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the California Supplement.

Purpose. This form, which is analogous to federal Form 4972, is used to figure the favorable tax on a total distribution from a qualified plan, including a pension, profit-sharing, or stock bonus plan, but not an IRA plan. Like Form 4972, the plan participant (you or your benefactor) must have been born before January 2, 1936 in order to qualify for the favorable treatment afforded by this form. Two copies of Schedule G-1 are available, one for each spouse you received a distribution. *Schedule G-1 is accessible through the Road Map at the Schedule G-1 component of line 34 of Form 540.*

Changes required only if you choose different elections on the California return. All entries on screens 1 and 2 of our Schedule G-1 are translated from the analogous federal Form 4972, and the remainder of the schedule is automatic. However, because the tax rates are different on the California schedule, you may prefer different elections for the California return at the bottom of screen 2. You can choose the elections that result in the lowest tax, irrespective of your choices on the federal Form 4972.

Refer to instructions for federal Form 4972 for most details. California law conforms with federal law, and California Schedule G-1 largely parallels federal Form 4972. In fact, Schedule G-1 is nearly identical to Form 4972 through line 17, and details thereafter reflect mainly differences between federal and California tax rates and calculations. Significant differences include:

- Schedule G-1 combines the questions on lines 5a and 5b of the federal Form 4972 into a single compound question at line 5, so the question is answered Yes if either line 5a or 5b is Yes on the federal form.
- Schedule G-1 provides no deduction for federal estate tax, so the lump-sum distribution is not reduced by the amount of federal estate tax attributable to the distribution (line 18 on federal Form 4972).
- The capital gain election on Schedule G-1 is for a 5.5% rate, in contrast with the 20% rate on federal Form 4972.
- The tax rate table used for Schedule G-1 lines 19 and 25 consists of 11 tax brackets ranging from 1% to 11% in contrast with the 15-bracket table ranging from 11% to 50% for Form 4972 lines 24 and 27.

All of these differences are handled automatically by the software. However, as noted in the above box, you may want to change your elections on screen 2 because of the different trade-offs implied by the different tax rates. Otherwise, you can refer to the section on Form 4972 in Chapter 2 of the regular *Tax Forms Guide 2010 Edition* for most details. *The result of Schedule G-1, line 7 or 28, is posted to the Schedule G-1 component of Form 540, line 34.*

Schedule P / Alternative Minimum Tax and Credit Limitations

Purpose. Schedule P serves two purposes: to compute the alternative minimum tax (Parts I and II, on page 1) and to consolidate and limit credits (Part III, on page 2). Both pages of the schedule are automatically created when needed, based on separate requirements. Schedule P, page 1 is automatically created and completed upon the final recalculation of the return when you are liable for the alternative minimum tax (unless you specified the blocking of its auto-creation through the question on the Control Form). (The determination to create the form is made independently of the federal return because it is possible to be liable for the California minimum tax even though a federal Form 6251 was not required.) Unless further modified by page 2 of Schedule P, the result on line 26 is automatically posted to line 61 of Form 540. Schedule P, page 1 is also automatically created when Schedule P, page 2 exists, and Schedule P, page 2 is created when a credit that is subject to limitation through Schedule P is claimed.

PARTS I and II - ALTERNATIVE MINIMUM TAX. Page 1 of Schedule P no longer closely parallels federal Form 6251 because the IRS redesigned Form 6251 for 2002 and the FTB has not conformed to the new design. However, differences between California and federal law are similar to the past:

- Federal Form 6251 has no equivalent for the preference at line 13a of California Schedule P, Appreciated contributions.
- California Schedule P has no equivalent for the preference at line 17 of federal Form 6251, Electing large partnerships.
- The preference at line 13l of Schedule P, which is analogous to line 14 of Form 6251, is 50% of the sec. 18152.5 exclusion taken on California Schedule D rather than 7% of the sec. 1202 exclusion taken on federal Schedule D. This difference is automatically reflected in Schedule P once California Schedule D is completed.
- Federal Form 6251 has no equivalent for the AMTI exclusion at line 17 of Schedule P, which is detailed next.
- The thresholds for phaseout of itemized deductions at line 18 and the exemption amount at line 22 are different from the federal counterparts, but the computational methods are identical. (*Note that the federal equivalent of Sch. P, line 18 no longer appears on Form 6251, but is instead reflected in the computation for line 1. The federal equivalent of Sch. P, line 22 is Form 6251, line 30.*)
- The computation of the alternative minimum tax is more complex for federal Form 6251 than California Schedule P because of the 2-tier percentages used and the special computations required because of the reduced capital gains tax on the federal return.

Except for these items, you can refer to the section on Form 6251 in Chapter 2 of the regular *Tax Forms Guide 2010 Edition* for most details. This part of Schedule P is already complete for many taxpayers as a result of the software's translation from the federal return to the California return. Adjust-

Schedule P

ments for differences in itemized deductions and the standard deduction are automatic as well. You may have to change some entries, however, to reflect remaining differences, especially if you have any ownership interest in a trade or business. You should take particular care to read the FTB instructions for Schedule P if you have any entries for lines 7 (Investment interest expense), 8 (Post-1986 depreciation), 9 (Adjusted gain or loss), 13a (Appreciated contributions), 13d (Depreciation pre-1987), 13e (Installment sales), or 13g (Long-term contracts). The amounts automatically translated from the federal return will often not be the same as the proper California amounts. *CAUTION: The federal 30% and 50% special allowance for first-year depreciation carries with it a forgiveness of the tax preference of accelerated depreciation for the property. Therefore, since California has not conformed with the special allowance, you must generally make an adjustment at line 8 of Schedule P for new tangible property even when you have no such adjustment on the analogous line 19 of federal Form 6251.*

Exclusion for small businesses. California has a special exclusion for some taxpayers, for which there is no federal equivalent. If the taxpayer's gross income from all trades or businesses combined is less than \$1 million, no amounts related to those trades or businesses is to be used on Schedule P in computing the alternative minimum tax. If you qualify, you should enter no adjustments or preferences related to those trades or businesses in Part I of Schedule P. The software will remove the taxable income from those trades or businesses, if the aggregate net is greater than zero, at line 17 in Part I of Schedule P, as follows:

Gross income on California C, E, F. *(auto-calc)* Taken from the worksheets built into the software for figuring adjustments to federal Schedules C, E, and F. The three amounts posted here are: gross income on line 1 of Worksheet C, partnership/S Corp self-employment gross on Worksheet E, and gross income on line 1 of Worksheet F.

Sales on Sch. D-1 lines 2 and 10. *(auto-calc)* Taken from Schedule D-1 as indicated.

Other sales on Sch. D-1. Since the above amounts reflect ONLY the sales entered in the gain/loss worksheets for lines 2 and 10, and do NOT include gross receipts for partnerships or for sales reported in Part III of Schedule D-1, you must enter the gross sales for these other items here.

Other trade or business gross income. Enter here all gross income from trades or businesses not included in the above lines. For the purposes of the AMTI exclusion, gross income is gross receipts less returns and allowances for all trades and businesses you own (or your proportional share for trades and businesses in which you have an ownership interest).

Aggregate gross income. *(auto-calc)* Computed as the sum of the above four amounts of gross income.

Net income on California C, E, F. *(auto-calc)* Taken from the worksheets built into the software for figuring adjustments to federal Schedules C, E, and F. The three amounts posted here are: California net profit or loss on line 5 of Worksheet C, partnership/S Corp self-employment net on Worksheet E, and California net profit or loss on line 5 of Worksheet F.

Net on Sch. D-1 line 7 or 9, and line 18(b)(2). *(auto-calc)* Taken from Schedule D-1, this total includes both the long-term capital gains that are posted to Schedule D and the ordinary gains retained on Schedule D-1.

Other trade or business net income. Enter here all net taxable income from trades or businesses not included in the above lines (or your proportional share for trades and businesses in which you have an ownership interest).

Aggregate taxable income. *(auto-calc)* Computed as the sum of the above three amounts of net income.

Qualified for AMTI exclusion. *(auto-calc)* Automatically Yes if the "Aggregate gross income" is under \$1,000,000, and No otherwise.

17 AMTI exclusion. *(auto-calc)* Computed as the "Aggregate taxable income" if the above answer is Yes, and zero otherwise.

CAUTION: *For a consistent return, if the answer to "Qualified for AMTI exclusion" is Yes, you must remember to OMIT from your entries in Part I of Schedule P any adjustments or preferences related to any trades or businesses included above.*

Itemize for Parts III (Credits). *(Road Map line.)* This line provides direct access to the remainder of Schedule P, which is page 2 of the schedule. The schedule is split in the software because of its unusually high length. The remainder of the schedule is therefore accessed as a separate form even though it calculates and prints as a continuation of Schedule P, page 1.

PART III - CREDITS THAT REDUCE TAX. Part III of this schedule is used to consolidate tax credits and limit them in a systematic way to remaining tax balances. In addition, some of the credits are further limited when a tentative minimum tax (line 24 of Schedule P, page 1) or an alternative minimum tax (line 26 of Schedule P, page 1) exists. There is no federal equivalent to this page of the schedule, and the California rules for most credits differ substantially from the federal rules.

1 Amount from Form 540, line 35. *(auto-calc)* Computed as line 35 of Form 540 refigured using the exemption credits on line 5, above.

Does the business tax credit limitation apply? For tax years 2008 and 2009, there is a new limitation on business credits for those whose net business income is \$500,000 or more. If you determine that you must answer Yes, then you may have to override some computed lines on this form if your business credits add up to more than half the amount on line 1, above. See the shaded box on the next page for details on what constitutes business income and how to determine what overrides to make, if any.

Schedule P

2 Tentative minimum tax from Part II, line 24. *(auto-calc)* Taken from line 24 of Schedule P, page 1.

3 Subtract line 2 from line 1. *(auto-calc)* Computed as indicated, but no less than zero, this is "excess tax" -- the amount by which the tax before credits on Form 540 exceeds the tentative minimum tax on Schedule P page 1.

Line 3 is the tax balance that may be offset by credits in Section A.

Business tax credit limitation. Your business credits may be limited more than the software provides if your business income (defined below) is \$500,000 or more. All business credits combined cannot exceed 50% of the amount on line 1 (in contrast with the normal limit to 100% of the amount on line 3).

- ◆ Business income for the purpose of this limit is the amount on lines 12 and 18 of Schedule CA as adjusted for California, the amount on lines 26, 32, and 40 of federal Schedule E as adjusted for California, and the amount on line 9 of federal Form 4797 as adjusted for California.
- ◆ Business credits to which the limit applies are all credits on this schedule excluding credits for household and dependent care, adoption costs, renters, personal exemptions, joint custody head of household, dependent parent, senior head of household, and excess contributions of unemployment compensation.

If the limitation applies, you must first add the amounts computed for "Credit used this year" for all business credits. If that total exceeds half of line 1, you must then reduce the computed amounts by the excess. Starting at the end of the form, you must override the computed amounts, reducing each until the entire excess is used.

SECTION A - CREDITS THAT REDUCE EXCESS TAX. The current-year claims for the credits in this section are not allowed to exceed line 3, above, in the aggregate. That is, they cannot reduce tax to any less than the amount of tentative minimum tax.

A1 Credits that reduce excess tax and have no carryover provisions. The credits in this section *can be used ONLY in the current year*. Any amount of credit not allowed this year for these credits cannot be carried over to any other year. Each credit is therefore printed on the official Schedule P in a 3-column format as follows, even though not all lines are shown on the screen for all credits.

Total credit amount (column a). The gross (tentative) credit is entered or calculated on the numbered line that describes the credit, and is printed in column (a) of the official Schedule P.

Credit used this year (column b). *(auto-calc)* Computed as the lesser of the preceding total credit amount (column a) and the tax balance that exists in column (c) before this credit is applied. This entry is printed in column (b) of the official Schedule P.

Tax Balance. *(auto-calc, not shown on the screen)* Computed as the tax balance after subtracting the above credit used this year, column (b), from the tax balance in column (c) of the previous allowed

credit. This entry is printed in column (c) of the official Schedule P. Subsequent credits are limited to this amount.

All credits on lines 4, 5, and 6 follow the above printed format, and the computation of the last two lines, above, is identical in every case (and so these two lines are not detailed below for these credits). However, the data entry required varies, as follows:

- 4 Code 162, Prison inmate labor credit.** You may claim a credit for as much as 10% of the wages paid to prison inmates under a qualifying plan. You must file Form 3507 (not built into the software) with the return, and enter the result from that form here.
- 5 Code 169, Enterprise zone employee credit.** (*Road Map line for Premium Level only, supported by Form 3553.*) Once you complete FTB Form 3553, the credit before limitation appears here if you use the Premium Level software. Otherwise, you must enter here the result on line 14 of Form 3553.
- 6 Code 219, New Home Credit.** This new credit provided taxpayers with a credit of \$10,000 (proportionately less if the purchase price was less than \$200,000) for the purchase of a new home from March 1, 2009 through March 1, 2010. However, the credit was so underfunded that the entire funded amount was allocated to taxpayers by July 2, 2009, on a first-come, first-served basis. The FTB sent a *Certificate of Allocation* to each homeowner who applied for the credit in time to be funded. Therefore, in order to claim a credit on this line you must have received a Certificate of Allocation from the FTB. The credit is spread over a 3-year period, so you can claim only one-third of the credit in each tax year. Therefore, the maximum amount you can enter here is \$3,333.

A2 Credits that reduce excess tax and have carryover provisions. Unused credits on these lines can be carried over to the next year. And for some of them the carryover can even be used in section B2 first, where they may be allowed in the current year. Internally, the computation of current-year amounts and carryovers involves the following four lines, even though typically only the first two lines appear on the screen.

Total credit amount. The gross (tentative) credit is entered on, calculated at, or posted from Form 3540 to the line that describes the credit, and is printed in column (a) of the official Schedule P at line 7, 8, 9, or 10, described later.

Credit used this year. (*auto-calc*) Computed as the lesser of the preceding total credit amount and the tax balance that exists before this credit is applied. This entry is printed in column (b) of the official Schedule P at line 7, 8, 9, or 10, described later.

Tax balance. (*auto-calc*) Computed as the tax balance after subtracting the above credit used this year from the tax balance of the previous allowed credit. This entry is printed in column (c) of the official Schedule P at line 7, 8, 9, or 10, described later.

Credit carryover. (*auto-calc*) Computed as the total credit amount less the credit used this year. This is the amount that can be claimed next year, or, in some cases, carried over to Section B2, and is printed in column (d) of the official Schedule P at line 7, 8, 9, or 10, described later.

All of the following credits follow the above format, and all auto-calc lines are computed the same, so only the lines for the total credit amounts are detailed in the following.

Order of credits arranged for maximum credit this year. For credits not specifically listed on the official preprinted FTB form, the taxpayer is now free to claim the credits in any order. As a result, we have chosen, in designing the software, the order that maximizes the amount that can be claimed in the current year. This means that credits that have the most severe limitations are claimed first, and those with the least severe limitations are claimed last. With this in mind, we have organized the credits for sections A2, B, and C into five groups, and ordered them from the most restricted group to the least restricted group. Within each group we have arranged the credits alphabetically (as they are in the current FTB instructions for Schedule P).

Current credits that reduce excess tax and can be carried over to next year. The first group of credits is comprised of current credits (for 2009 expenses), and the amounts not used this year are carried over to next year:

Code 209, Community Development Financial Institution Investments.

You may claim as much as 20% of each qualified investment, but you must obtain certification from California Organized Investment Network (COIN). For more information, go to the COIN web page on the internet at www.insurance.ca.gov/0250-insurers/0700-coin or contact COIN at (916) 492-3525 or California Organized Investment Network, California Department of Insurance, 300 Capitol Mall, 16th Floor, Sacramento, CA 95814.

Code 205, Disabled access. (*Road Map line for Premium Level only, supported by Form 3548.*) This credit is similar to the comparable federal credit, but is limited to \$125 or half of the qualified expenditures that do not exceed \$250, whichever is less. If not using the Premium Level software, you must manually enter here the result on line 8 of Form 3548.

Code 204, Donated agricultural products transportation. This credit allows a credit up to 50% of the costs paid or incurred for the transporting of agricultural products donated to nonprofit charitable organizations. You must complete FTB 3547 (not built into the software), and enter the result from that form here.

Employer child care. You must complete FTB 3501 (*built into the software only for the Premium Level*) and enter the appropriate amount for the next two credits:

Code 190, Employer child care contribution. (*Road Map line for Premium Level only, supported by Form 3501.*) 30% of your contributions to

a qualified child care plan are reimbursed here as a credit. If not using the Premium Level software, you must manually enter here the result from Part II, line 6, of Form 3501.

Code 189, Employer child care program. (Road Map line for Premium Level only, supported by Form 3501.) 30% of the costs of establishing a child care program or constructing a childcare facility are reimbursed here as a credit. If not using the Premium Level software, you must manually enter here the result from Part I, line 11, of Form 3501.

Code 203, Enhanced oil recovery. This credit is similar to the comparable federal credit, but the credit is only one-third of the federal credit and is limited to qualified projects located within California, as figured on FTB 3546 (not built into the software).

Code 218, Environmental tax. A credit of five cents per gallon of ultra low sulfur diesel fuel is available to small refiners in California, as figured on FTB 3511 (not built into the software).

Code 198, Local agency military base recovery (LAMBRA) hiring and sales and use tax. Enter here your business incentives for LAMBRAAs figured on FTB 3807 (not built into the software), which you must file with the return.

Code 211 Manufacturing Enhancement Area (MEA) Hiring. This credit is a percentage of qualified wages paid to the disadvantaged. It is claimed through FTB Form 3808 (not built into the software).

Code 220 New Jobs Credit. This new credit for employers provides a \$3,000 credit per employee for each full-time employee hired in excess of the prior year. It is claimed through FTB Form 3527 (not built into the software). Enter here the amount from line 14 of Form 3527. The credit you claim on the current return will be shown in the Section A2 Summary (lines 7 through 10 of Schedule P, Part III), which you must enter on line 15 of Form 3527.

Repealed credits that reduce excess tax and have carryover provisions. (Road Map lines, supported by Form 3540.) These credits have all expired, but carryover of unused credit from prior years is still available. If you complete a Form 3540, the carryover you enter there will be posted here automatically. Otherwise you can enter the amounts here directly. The amounts not used this year are carried over to next year.

Code 175, Agricultural products. Originally figured on FTB 3534.

Code 194, Employee ridesharing. Originally figured on Form 3572.

Code 182, Energy conservation. Originally figured on FTB 3514.

Code 207, Farmworkers housing construction. Originally based on certification from the California Tax Credit Allocation Committee.

Code 215, Joint Strike Fighter -- Wages. Originally figured on FTB 3534.

Code 216, Joint Strike Fighter -- Property. Originally figured on FTB 3534.

Code 191, Employer ridesharing: Large employer program. Originally figured on FTB 3518.

- Code 192, Employer ridesharing: Small employer program.** Originally figured on FTB 3518.
- Code 193, Employer ridesharing: Transit pass credit.** Originally figured on FTB 3518.
- Code 160, Low-emission vehicles.** Originally as much as 55% of the cost of converting to low-emission vehicles, but you had to obtain certification from the California Energy Commission.
- Code 184, Political contributions.** Originally figured on Schedule P.
- Code 174, Recycling equipment.** Originally figured on FTB 3514, you could formerly claim as much as 40% of the cost of qualified equipment purchased before 1994.
- Code 186, Residential rental and farm sales.** Originally figured on FTB 3529.
- Code 206, Rice Straw.** You were formerly able to claim as much as \$15 per ton of certified purchased rice straw grown in California.
- Code 171, Ridesharing.** The credit expired years ago.
- Code 200, Salmon & steelhead trout habitat restoration.** This credit expired just before the current tax year.
- Code 179, Solar pump.** The credit expired years ago, and is available only to farmers. It applies only to measures installed in 1981 through 1984.
- Code 217, Solar Energy System.** This credit expired at the end of 2005, so only carryovers from prior years are now allowed.
- Code 178, Water conservation.** The credit expired years ago, and applies only to measures installed in 1980 through 1982.
- Code 161, Young infant.** Originally figured on Schedule P.

7 through 10, Section A2 Summary. Up to four credits used above are consolidated into lines 7 through 10. Each of the four lines consists of the following five columns:

- Code and Credit Name.** *(auto-calc)* Credit code numbers and credit names are generated here when any one or more of the above credits is claimed in section A2.
- Credit amount.** *(auto-calc)* The total credit is shown here and printed in column (a) of the official Schedule P.
- Credit used this year.** *(auto-calc)* Computed as the lesser of the credit amount for this line, column (a), and the tax balance for the last numbered line used on the schedule, column (c), and printed in column (b) of this line.
- Credit carryover.** *(auto-calc)* Computed as "credit amount" for this line, column (a), less "credit used this year" for this line, column (b). This is the amount that can be claimed next year, and is printed in column (d) of this line.
- Overflow credits.** If more than four credits have been claimed this year in section A2, so that there are more credits used this year in section A2 than can fit on lines 7 through 10, the total used this year for these additional credits is shown here. You must, in a supporting

statement for this line, provide the same detail for these additional credits as appears in line 7 through 10. The additional amount used this year will be shown on the official printout below line 11(b) with a reference to the supporting statement.

11 Code 188, Credit for prior year minimum tax. You may claim this credit if you paid alternative minimum tax last year but have no alternative minimum tax this year.

Credit amount. (*Road Map line for Premium Level only, supported by Form 3510.*) If not using the Premium Level software, you must manually enter here the result from line 32 of FTB Form 3510 (if greater than zero). This entry is printed in column (a) of Schedule P.

Credit used this year. (*auto-calc*) Computed as the lesser of the credit amount for this line, 11(a), and the tax balance for the last numbered line used on the schedule and printed in column (b) of line 11. (This result is the same as line 38 of Form 3510.)

Credit carryover. (*auto-calc*) Computed as "credit amount" for line 11(a) less "credit used this year" for line 11(b). This is the amount that can be claimed next year, and is printed as line 11(d). (This result is the same as line 39 of Form 3510.)

SECTION B - CREDITS THAT MAY REDUCE TAX BELOW TENTATIVE MINIMUM TAX. The current-year claims for the credits in this section are allowed to exceed line 1, but they cannot reduce tax any more than the amount of alternative minimum tax.

12 Line 1, or line 2 plus last tax balance. (*auto-calc*) If line 3 is zero, line 1 is used here. Otherwise, line 2 plus the tax balance on line 11 (column c) is used.

Line 12 is the tax balance that may be offset by credits in Section B.

B1 Credits that reduce net tax and have no carryover provisions. Credits in this section were formerly carryovers from Section A1. However, because of the change in California law, they now appear *only* here. Unused credits in this section are lost forever.

Qualify for Joint Custody Credit? You qualify for the credit if you could have filed under the filing status Joint Custody Head of Household had California not eliminated this category. This means that you must furnish more than half of the household expenses for a qualifying child, stepchild, or grandchild for at least 146 days, but no more than 219 days. You must also file single (or, if married filing separately, must have lived apart from spouse the entire year, as answered on Form 540). Note that the child need not be your dependent unless the child is married. See FTB Form 540 instructions for lines 43 through 45 for details.

13 Code 170, Credit for joint custody head of household. (*auto-calc*) If you answered Yes to the above qualifying question, and otherwise qualify based on filing status, this line is computed as 30% of an adjusted tax, but no more than \$387 for 2009; otherwise, zero.

The adjusted tax is the tax on line 35 of Form 540 less the amount of FTB 5870A tax included in line 34 of Form 540.

Credit used this year. *(auto-calc)* Computed as the lesser of the full credit amount and the tax balance for the last numbered line used on the schedule, and printed in column (b) of line 13.

Qualify for Dependent Parent Credit? You may be eligible for this credit if you were married at the end of the tax year, your spouse was not a member of your household during the last six months of the year, you file a separate return (filing status 3), and you furnished over half of the household expenses for your dependent parent's home. If you qualify, answer Yes to this question.

14 Code 173, Credit for dependent parent. *(auto-calc)* If you answered Yes to the above qualifying question, and otherwise qualify based on filing status, this line is computed as 30% of an adjusted tax, but no more than \$387 for 2009; otherwise, zero. The adjusted tax is the tax on line 35 of Form 540 less the amount of FTB 5870A tax included in line 34 of Form 540.

Credit used this year. *(auto-calc)* Computed as the lesser of the full credit amount and the tax balance for the last numbered line used on the schedule, and printed in column (b) of line 14.

Meet age requirements for Senior Head of Household Credit. *(auto-calc)* Automatically Yes only if a senior exemption is claimed at line 9 of Form 540.

Meet death and filing requirements for Senior Head of Household Credit? You should answer Yes ONLY if you qualified as head of household in 2007 or 2008, and the person who qualified you for this filing status died during 2007 or 2008.

15 Code 163, Credit for senior head of household. *(auto-calc)* Computed based on the above two answers using the worksheet in the Form 540 instructions. The credit is the lesser of \$1,185 (for 2009) and 2% of taxable income on line 19 of Form 540. However, *NO* credit is allowed when AGI on line 17 of Form 540 exceeds \$62,874.

Credit used this year. *(auto-calc)* Computed as the lesser of the full credit amount and the tax balance for the last numbered line used on the schedule, and printed in column (b) of line 15.

16 Nonrefundable renter's credit. You may claim a credit for as much as \$120, as explain in our details for line 46 of Form 540. *You claim the credit by entering the number of qualifying persons above line 46 of Form 540*, and the software does the rest, recomputing Schedule P and posting the result for the next line on Form 540 upon the final recalculation of the return.

Credit used this year. *(auto-calc)* Computed as the lesser of the full credit amount and the tax balance for the last numbered line used on the schedule, and printed in column (b) of line 16. This result is posted to line 46 of Form 540.

B2 Credits that reduce net tax and have carryover provisions. All of these credits are carried over to the next year except for the last two, which are applied to Section C.

Current Credits that reduce net tax and have carryover provisions. The following credits are credits for 2009 expenses:

<p>Code 197, Child adoption. <i>(Supported by the Child Adoption Credit Worksheet, Figure CA-3.)</i> In the year of adoption, half of the cost of adopting a child is reimbursed as a credit, up</p>	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <th align="left" colspan="3" style="text-align: left; padding: 2px;">CHILD ADOPTION CREDIT</th> </tr> <tr> <td style="padding: 2px;">Child's name</td> <td></td> <td></td> </tr> <tr> <td style="padding: 2px;">Citizen or legal res of US? No</td> <td></td> <td></td> </tr> <tr> <td style="padding: 2px;">In custody of qlfd. agency? No</td> <td></td> <td></td> </tr> <tr> <td style="padding: 2px;">Cred carryover fr prior yr</td> <td align="right">0</td> <td></td> </tr> <tr> <td style="padding: 2px;">If adoption order THIS yr:</td> <td></td> <td></td> </tr> <tr> <td style="padding: 2px;">Fees of the qlfd. agency..</td> <td align="right">0</td> <td></td> </tr> <tr> <td style="padding: 2px;">Unreimbursed medical expns</td> <td align="right">0</td> <td></td> </tr> <tr> <td style="padding: 2px;">Adoptive family travel exp</td> <td align="right">0</td> <td></td> </tr> <tr> <td style="padding: 2px;">Total allowable credit:</td> <td></td> <td></td> </tr> <tr> <td style="padding: 2px;">1 Total qualified expenses..</td> <td align="right">0</td> <td></td> </tr> <tr> <td style="padding: 2px;">2 Credit percentage - 50%..</td> <td></td> <td align="right">.50</td> </tr> <tr> <td style="padding: 2px;">Credit before limitation..</td> <td align="right">0</td> <td></td> </tr> <tr> <td style="padding: 2px;">3 Credit amount.....</td> <td align="right">0</td> <td></td> </tr> <tr> <td style="padding: 2px;">Carryover to next year....</td> <td align="right">0</td> <td></td> </tr> </table>	CHILD ADOPTION CREDIT			Child's name			Citizen or legal res of US? No			In custody of qlfd. agency? No			Cred carryover fr prior yr	0		If adoption order THIS yr:			Fees of the qlfd. agency..	0		Unreimbursed medical expns	0		Adoptive family travel exp	0		Total allowable credit:			1 Total qualified expenses..	0		2 Credit percentage - 50%..		.50	Credit before limitation..	0		3 Credit amount.....	0		Carryover to next year....	0	
CHILD ADOPTION CREDIT																																														
Child's name																																														
Citizen or legal res of US? No																																														
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Fees of the qlfd. agency..	0																																													
Unreimbursed medical expns	0																																													
Adoptive family travel exp	0																																													
Total allowable credit:																																														
1 Total qualified expenses..	0																																													
2 Credit percentage - 50%..		.50																																												
Credit before limitation..	0																																													
3 Credit amount.....	0																																													
Carryover to next year....	0																																													

Figure CA-3. Child Adoption Credit Worksheet

to a maximum of \$2,500 for each qualified adoption. Supporting worksheets compute the credit allowable credit for you. Because the limitation is applied separately for each child, you must use a separate worksheet for each separate adopted child. The worksheet helps determine your eligibility for the credit through selected questions, and provides data entry lines for the only expenses that are qualified: fees to a qualified agency, unreimbursed medical expenses for the child, and travel expenses for the adoptive family. See FTB Form 540 instructions for lines 43 through 45 for other details.

Code 176, Enterprise zone hiring & sales and use tax. *(Road Map line for Premium Level only, supported by Form 3805Z.)* Once you complete Form FTB 3805Z, the credit before limitation appears here if you use the Premium Level software. Otherwise, you must enter here, from Schedule Z of Form 3805Z, the sum of (1) the lesser of line 8B column (d) and 8B column (e), and (2) the lesser of line 9B column (d) and 9B column (e). (Note that column (f) of Schedule Z is not entered here because that column reflects the tax limitation determined after Schedule P is completed. Also note that the former Program Area Hiring & Sales or Use Tax Credit is now a part of the Enterprise Zone Hiring and Use Tax Credit.)

Code 172, Low-income housing. You must file FTB 3521 *(built into the software for the Premium Level)* with the return, and enter the result of that form here.

Code 210 Targeted Tax Area (TTA) Hiring & Sales or Use Tax. This business incentive for targeted areas is claimed through FTB Form 3809 (not built into the software).

Code 213, Natural heritage preservation. You must file FTB 3503 (not built into the software) with the return, and enter the result of that form here.

Code 183, Research. (*Road Map line for Premium Level only, supported by Form 3523.*) If not using the Premium Level software, you must manually enter here the result from line 46 of FTB Form 3523.

Repealed credits that reduce net tax and have carryover provisions. (*Road Map lines, supported by Form 3540.*) These credits have all expired, but carryover of unused credit from prior years is still available. *If you complete a Form 3540, the carryover you enter there will be posted here automatically.* Otherwise you can enter the amounts here directly.

Code 199, Manufacturers' investment. Originally figured on FTB 3535.

Code 196, Commercial solar electric system. Originally figured on FTB 3556.

Code 159, Los Angeles Revitalization Zone (LARZ) hiring & sales and use tax. Originally figured on FTB 3806.

Code 185, Orphan drug. Originally figured on FTB 3528.

Repealed credits carried over first to Section B2, then to Section C. (*Road Map lines, supported by Form 3540.*) These credits have all expired, but carryover of unused credit from prior years is still available. *Any amounts not used in section B2 can be carried over to Section C, which is less limited than Section B2. If you complete a Form 3540, the carryover you enter there will be posted here automatically.* Otherwise you can enter the amounts here directly.

Code 180, Solar energy. Originally figured on FTB 3805L, but expired on January 1, 1987.

Code 181, Commercial solar energy. Originally figured on FTB 3805L.

17 through 20, Section B2 Summary. Up to four credits used above are consolidated into lines 17 through 20. Each of the four lines consists of the following five columns:

Code and Credit Name. (*auto-calc*) Credit code numbers and credit names are generated here when any one or more of the above credits is claimed in section B2.

Credit amount. (*auto-calc*) The total credit is shown here and printed in column (a) of the official Schedule P.

Credit used this year. (*auto-calc*) Computed as the lesser of the credit amount for this line, (a), and the tax balance for the last numbered line used on the schedule, (c), and printed in column (b) of this line.

Tax balance. (*auto-calc*) Computed as "tax balance" for the last numbered line used on the schedule, column (c), less "credit used this year" for this line, column (b), and printed in column (c) of this line.

Credit carryover. (*auto-calc*) Computed as "credit amount" (a) for this line, less "credit used this year" (b). This is the amount that can be claimed next year, and is printed in column d of this line.

Overflow credits. more than four credits have been claimed this year in section B2, so that there are more credits used this year in section B2 than can fit on lines 17 through 20, the total used this year for these additional credits is shown here. You must, in a supporting statement for this line, provide the same detail for these additional credits as appears in line 17 through 20. The additional amount used this year will be shown on the official printout below line 20(b) with a reference to the supporting statement.

B3 Credits that reduce net tax and have no carryover provisions. For the sole line in this part of Section B, the unused credit cannot be carried over to the next year:

21 Code 187, Other state tax credit. (*Road Map line, supported by Schedule S.*) Five copies of Schedule S are built into the software, for reporting income tax paid to up to five states. The result on line 12 of all Schedules S combined is posted to column (a) of this line.

Credit used this year. (*auto-calc*) Computed as the lesser of the full credit amount (line 21(a)) and the tax balance for the last numbered line used on the schedule, and printed in column (b) of line 21.

SECTION C - CREDITS THAT MAY REDUCE ALTERNATIVE MINIMUM TAX.

Claims for solar energy credits are allowed to reduce the alternative minimum tax. They are carried over from Section B2 to lines 23 and 24, below.

22 AMT from Schedule P Part II, line 26. (*auto-calc*) The result on Schedule P page 1 before reduction by these credits is posted here.

23 Code 180, Solar energy credit carryover from Section B2. (*auto-calc*) The carryover is posted here automatically.

Credit used this year. (*auto-calc*) Computed as the lesser of the above total credit for line 23 and the amount on line 23.

Credit carryover. (*auto-calc*) Computed as the total credit on line 23 less the above "credit used this year." This is the amount that is carried over to next year.

24 Code 181, Commercial solar energy credit carryover from Section B2. (*auto-calc*) The carryover is posted here automatically.

Credit used this year. (*auto-calc*) Computed as the lesser of the above total credit for line 24 and the tax balance at line 23.

Credit carryover. (*auto-calc*) Computed as the total credit on line 24 less the above "credit used this year." This is the amount that is carried over to next year.

25 Adjusted AMT. (*auto-calc*) Computed as the tax balance at line 24.

The result at line 25 is posted to Schedule P page 1 and used in place of line 26 of Schedule P page 1 for posting to line 61 of Form 540.

ALLOCATION TO FORM 540. (*auto-calc lines*) The current-year totals are reflected in lines 43 through 46 of Form 540. The name and amount for the first two credits are posted to lines 43 and 44, and the total of any remaining current-year credits, except for the renter's credit, is posted to line 45. The renter's credit at line 16 of Schedule P, Part III, is posted to line 46 of Form 540.

Schedule S / Other State Tax Credit

Purpose is to avoid double taxation. This schedule is used to report income taxes paid to another state on income that is taxed by California as well. The portion of tax paid to the other state on income taxed by both states is used to offset the portion of tax computed on the California return for the same income. NOTE: You must attach to your California return a copy of the tax return filed with the other state. Five copies of Schedule S are built into the software so that you can report double-taxed income for as many as five states.

PART I - DOUBLE TAXED INCOME. Details on double taxed income are reported here.

- 1 **Total double taxed by California.** *(Supported by the Double Taxed Income Worksheet, Figure CA-4.)* You must complete a separate supporting worksheet for each double taxed income item.
- 1 **Total double taxed by other state.** *(Supported by the Double Taxed Income Worksheet, Figure CA-4.)* The same set of worksheets supports this line as well.

DOUBLE TAXED INCOME WRKSHT	
a. Income item des	
b. Taxable by California	0
c. Taxable other state.....	0

Double Taxed Income Worksheet. *(Figure CA-4)* This worksheet is just a simple itemized list, but with two amount columns:

a Income item

Figure CA-4. Double Taxed Income Worksheet

description. Enter a description (up to 25 characters) for each double taxed income item on a separate worksheet page.

b California amount. Enter California amount for the item.

c Other state amount. Enter the other state amount for the item.

The total of line b from all worksheets is used in line 3, below, and the total of line c from all worksheets is used in line 8.

PART II - OTHER STATE TAX CREDIT. The computation of credit to be posted to Schedule P is computed here:

- 2 **California tax liability.** *(auto-calc)* Computed as the tax balance on line 35 of Form 540, less total credits on line 47 of Form 540 (but with any Other State Tax Credit included in line 47 removed).
- 3 **Double taxed income taxable by California.** *(auto-calc)* Taken from the total for California at line 1, above.
- AGI on Form 540, line 17.** *(auto-calc)* As indicated.
- Lump sum distributions on Schedule G-1.** If you used Schedule G-1 to compute tax you must report the income taxed here, since it is not included in AGI.
- 4 **California adjusted gross income.** *(auto-calc)* Computed as the sum of the above two lines.
- 5 **Divide line 3 by line 4 (100 % maximum).** *(auto-calc)* Computed as indicated, expressed as a percentage limited to no more than 100%.

- 6 Multiply line 2 by % on line 5.** *(auto-calc)* As indicated.
- 7 Income tax paid to.** Enter here the name of the other state here.
- 7 Amount paid to above state.** Enter here the dollar amount of tax paid to the other state for the same tax year the income is taxed by California.
- 8 Double taxed income taxable by other state.** *(auto-calc)* Taken from the total for other state at line 1, above.
- 9 Adjusted gross income taxable by other state.** Enter the AGI for the income tax return you file with the other state.
- 10 Divide line 8 by line 9 (100 % maximum).** *(auto-calc)* Computed as indicated, expressed as a percentage limited to no more than 100%.
- 11 Multiply line 7 by % on line 10.** *(auto-calc)* Computed as indicated.
- 12 Other state tax credit.** *(auto-calc)* Computed as the lesser of line 6 or line 11, and posted to line 21 of Schedule P, Part III.

Schedule W-2 CG / Wage and Withholding Summary

Purpose. Schedule W-2 CG was designed by the FTB to eliminate the need for attaching copies of the actual Form(s) W-2 to the return, providing all required information is printed on Schedule W-2 CG. However, there are circumstances in which information should *NOT* be printed on the schedule, and you can choose not to have it printed in order to minimize your data entry. *CAUTION: The FTB requires you to file Schedule W-2 CG with your return whether or not you choose to have the W-2 information printed directly on the schedule. If you file a blank Schedule W-2 CG you must attach actual copies of Form(s) W-2 to this schedule and place the attachment behind page 2 of Form 540 when filing.*

Automatically created and completed. Your *Tax Preparer* software automatically creates and completes Schedule W-2 CG for you upon the final recomputation of the return if you have any W-2 Worksheets supporting line 12 of Form 540. However, *no more than four W-2s per spouse are allowed for the automatic completion of the schedule*, and you must ensure that all data required for Schedule W-2 CG are entered on the appropriate lines of the California W-2 Worksheets:

- **View every W-2 Worksheet translated from the federal return** and attached to line 12 of Form 540. (Unless California wages are different from federal wages, you may be accustomed to skipping this step, even though we always recommend it. However, it is required for the proper automation of Schedule W-2 CG.)
- **Verify that all entries required for Schedule W-2 CG appear on the W-2 Worksheets...** including employer's name, EIN, and state IDN, as well as recipient's SSN, state wages, and social security wages. (Unless you e-file the return, you are not normally required to enter all this information on the federal return, so it is common for the information to be omitted.)
- **Verify that state SDI appears on line 14 of every California W-2 Worksheet.** Unless you entered the SDI on line 14a of the federal W-2 Worksheet, it will not appear on the translated California W-2 Worksheet. You **MUST** enter all SDI on line 14 of the California W-2 Worksheet, irrespective of whether it appears in box 14 or box 19 of the actual Form W-2.
- **If you have any W-2s from states other than California...** you must access Schedule W-2 CG yourself to answer the corresponding question on the screen. The FTB does not want Schedule W-2 CG filled in when there are wages from other states, and your proper answer here ensures that the schedule is printed as a blank form for use as a cover sheet instead. (You must use the Forms Menu to access Schedule W-2 CG because it is not available through the Road Map.)
- **You must still attach actual copies of Form(s) W-2 when...** the limit of four Form(s) W-2 per spouse is exceeded or some W-2s are from other states. You can also elect to attach the copies by answering the cor-

responding question on the screen for Schedule W-2 CG. The software will then print a blank Schedule W-2 CG for your use as a cover sheet for your attached forms, as required by the FTB.

Note that Schedule W-2 CG is required to be placed behind Form 540 and in front of Schedule CA, with copies of actual Form(s) W-2 attached to it only when the schedule is left blank. (The software ensures the proper order when you choose to print the entire return at once.)

Only two data entry lines require your attention. Because the schedule and its printing is automatic, you only need to view the schedule if you need to change the default No answers to the following two questions:

Any W-2s from other states? The FTB wants Schedule W-2 CG completed only if all W-2s are from California. In fact, the summary at the bottom of the schedule assumes that all wages are California wages. Therefore, if any Form(s) W-2 are from other states, you must answer Yes here so that the schedule will not be completed.

Choose to attach real W-2s? The FTB allows you to submit actual copies of Form(s) W-2 attached to a blank Schedule W-2 CG even when you are qualified to complete it. You may prefer to do this if you did not enter information on our W-2 Worksheets that is not essential to the calculations, such as taxpayer's SSN, employer's EIN, employer's name, and state. Answer Yes, and the Schedule W-2 CG that is printed with the return will have no information printed in the W-2 charts on the schedule. (*You should answer Yes if you have any other forms that show California tax withheld, and should attach them along with the W-2s to the blank Schedule W-2 CG.*)

The rest is automatic. Only summary information appears on the screen:

A. State wages on your W-2s. *(auto-calc)* Computed as the sum of line 16 of all W-2 Worksheets for you that support line 12 of Form 540.

No. of W-2s on Form 540 for you. *(auto-calc)* Computed as the number of W-2 Worksheets completed for you at line 12 of Form 540.

B. State wages on spouse's W-2s. *(auto-calc)* Computed as the sum of line 16 of all W-2 Worksheets for spouse that support line 12 of Form 540.

No. of W-2s on Form 540 for spouse. *(auto-calc)* Computed as the number of W-2 Worksheets completed for spouse at line 12 of Form 540.

C. California wages from all W-2s. *(auto-calc)* Computed as the sum of lines A and B.

WILL W-2 INFO PRINT ON W-2 CG? *(auto-calc)* Answered Yes only if the number of W-2s is less than 5 per spouse and you answered No to both questions above.

If the final answer is Yes, complete details from your W-2 worksheets will appear on the official printed Schedule W-2 CG that prints with the return.

Form 3501* / Employer Child Care Program/Contribution Credit

* Included in Premium Level software ONLY. This form is only built into the Premium Level version of the California Supplement.

Purpose. This form is used by employers to claim credit for childcare activities on behalf of employees and used by landlords to claim credit for providing facilities for their tenants' employees. Qualified expenses include startup expenses of establishing a program or constructing a facility, contributions to information and referral services, and contributions to a qualified plan. The credit is generally 30% of expenses, but a \$50,000 cap on expenses applies for the first two types of expenses. The form is also used to figure the recapture of credit previously claimed on a child care facility that ceased operation within 5 years of its establishment. *Form 3501 is accessible through the Road Map from Schedule P, page 2, at the lines for credits 189 and 190 in Section A2 of Part III.* (Part I of Form 3501 applies to credit 189, and Part II applies to credit 190.)

CAUTION: You must reduce deductions elsewhere on return when you claim a credit here. If you deduct expenses reported here elsewhere on the return (such as Schedule C), you must reduce the deductions by the amount of credit you claim here (line 12 in Part I and line 7 in Part II). Similarly, if you depreciate the facilities reported here, you must reduce the basis for the depreciation by the portion of credit you claim here (line 12 in Part I and line 7 in Part II) that is attributable to the facilities. Neither reduction is performed automatically and you must decide yourself whether it is more beneficial to claim the credit or to claim the full deduction or depreciation. (You can use the software to help with this decision by preparing the return both ways.)

PART I – EMPLOYER CHILDCARE PROGRAM CREDIT. Use this part to claim a credit for startup expenses in establishing a childcare program or constructing a childcare facility for children of your or your tenants' employees, or to figure the recapture of previously claimed startup expenses. (Use Part II to claim a credit for contributions made on behalf of your employees' dependents to a childcare plan.)

Section A – Number of Children:

1a Number of children the childcare facility(ies) will legally accommodate. Enter the capacity of the facility (or facilities). There is no minimum requirement for this entry.

1b Number of children served by these facilities. Enter the number of children actually served during the tax year, which should generally be no more than your entry for line 1a.

1c Number of children of employers served by the qualified child care plan. Enter the number of children entered in line 1b who are children of employers served by the plan.

Section B – Credit Computation:

- 2 Costs paid or incurred for startup expenses of establishing a child-care program or constructing a childcare facility in California.** Enter the amount you actually paid or incurred during the tax year. If you shared the costs with other employers (other than a spouse), enter only the amount you paid here. (Spouses or RDPs who file separately may each claim half the costs, or either may claim the entire cost, rather than claiming the portion each actually paid.) If you own a commercial building, you can claim the credit if you established the program or constructed the facility for tenants' employees *provided you are not required by local ordinance to do so*.
- 3 Costs paid or incurred this year for contributions to California child-care information and referral services.** Enter the amount you paid or incurred for providing information to employees on local childcare services, resources, and referrals.
- 4 Add line 2 and line 3.** *(auto-calc)* Computed as indicated.
- 5 Multiply line 4 by 30% (.30).** *(auto-calc)* Computed as indicated.
- 6 Pass-through credit from Schedule K-1.** Enter the amount reported to you on a Schedule K-1 from a corporation, fiduciary, partnership, or limited liability company (associated with a Form 100S, 541, 565, or 568, respectively).
- 7 Add lines 5 and 6.** *(auto-calc)* Computed as indicated but no more than \$50,000. Any amount not allowed here cannot be carried over to future years. **CAUTION:** *The \$50,000 limit was not enforced prior to release 2010.01f. Therefore, if the amount on this line exceeds \$50,000 you should update to the latest release and temporarily change the entry for line 6 so that line 7 will be properly limited.*
- 8 S corporations: Enter (.333) of the amount on line 7.** *(auto-calc)* Computed as zero because this line is not relevant to a Form 540 return.
- 9 Credit carryover from 2008.** Enter the amount on Part I, line 15, of the prior-year Form 3501, if any.
- 10 Tentative Credit.** *(auto-calc)* Computed as the sum of lines 7 and 9.
- 11 Tentative available credit.** *(auto-calc)* Computed as the lesser of line 10 and \$50,000. Any amount not allowed here can be carried over to future years.
- Tax balance available on Schedule P.** *(auto-calc)* Computed as the tax balance remaining on Schedule P (in column (c) of Part III of Schedule P) after deducting credits 162, 169, 219, 209, 205, 204, and 190, which are the credits deducted before credit 189 (this credit) can be claimed.
- 12 Amount of credit claimed on the current year tax return.** *(auto-calc)* Computed as the lesser of the above tax balance and the amount on line 10. This is the amount that will be shown in column (c) of Part III of Schedule P for credit 189 (the credit code for this credit). This amount will vary as the return is being prepared because the above tax balance may change as the tax on Form 540, line 35, changes.
- 13 Subtract line 12 from line 11.** *(auto-calc)* Computed as indicated.

- 14 **Excess available credit.** *(auto-calc)* Computed as line 10 less line 11, but no less than zero.
- 15 **Credit carryover available for future years.** *(auto-calc)* Computed as the sum of lines 13 and 14.

Section C – Credit Recapture:

16a and 16b. These lines are shown on the screen only on the worksheets that support line 16c, below. You must use these worksheets to figure and report the recapture of credit claimed in Part I, Section B, of a prior Form 3501.

16c Credit recapture (itemize). *(Supported by the Program Credit Recapture Worksheet, Figure CA-5.)* The worksheet for this line is preformatted to implement the reporting format defined by the FTB for Section C of this form. The total on this line is the sum on line c of all worksheets combined. *See the CAUTION at the bottom of this page for instructions on reporting this amount on Form 540.*

Program Credit Recapture Worksheet. *(Figure CA-5)* If a facility for which a credit for startup costs was claimed in the past ceases to be qualified within 5 years of the original claim, some of the credit must now be recaptured as a tax. The recapture amount is the fraction of time in the 5-year period by which the qualification falls short of 60 months. You will generally use only one worksheet (and only one is allowed for e-file), but additional worksheets are provided for different childcare programs started at different times.

PROGRAM CREDIT RECAPTURE	
(1 childcare program per w/s.)	
a. Credit claimed all years	0
Months facility operated	0
b. Proration percentage	0
c. Credit recapture amount	0

a. Credit claimed for all years. Enter the total of line 12 of all prior Forms 3501 for the facility.

Months facility operated. Enter the number of months the facility actually operated.

- b. **Proration percentage.** *(auto-calc)* Computed as 60 less the preceding number of months, but no less than zero, divided by 60, times 100%. This is the percentage of prior claims that must be repaid to the FTB.
- c. **Credit recapture amount.** *(auto-calc)* Computed as the dollar amount on line a times the percentage on line b divided by 100%.

CAUTION: You must manually report on Form 540 any recapture shown for line 16c of Form 3501. If a recapture applies, as shown on line 16c, you must include the amount as an additional tax on Form 540. To do so, use a supporting statement for the line above line 63 of Form 540, entering Form 3501 in the description column and the amount on line 16c of Form 3501 in the amount column. *The amount is NOT automatically posted to Form 540.*

PART II – EMPLOYER CHILDCARE CONTRIBUTION CREDIT. Use this part to claim a credit for contributions made on behalf of your employees' dependents to a qualified childcare plan.

1 Credit amount (itemized). *(Supported by the Childcare Contribution Credit Worksheet, Figure CA-6.)* The worksheet for this line is preformatted to implement the reporting format defined by the FTB for Part II of this form. The total on this line is the sum on line e of all worksheets combined.

2 Pass-through credit from Schedule K-1. Enter the amount reported to you on a Schedule K-1 from a corporation, fiduciary, partnership, or limited liability company (associated with a Form 100S, 541, 565, or 568, respectively).

3 Total current year credits. *(auto-calc)* Computed as the sum of lines 1 and 2.

4 S corporations: Enter (.333) of the amount on line 3. *(auto-calc)* Computed as zero because this line is not relevant to a Form 540 return.

5 Credit carryover from 2008. Enter the amount on Part II, line 8, of the prior-year Form 3501, if any.

6 Total available credit. *(auto-calc)* Computed as the sum of lines 3 and 5.

Tax balance available on Schedule P. *(auto-calc)* Computed as the tax balance remaining on Schedule P (in column (c) of Part III of Schedule P) after deducting credits 162, 169, 219, 209, 205, and 204, which are the credits deducted before credit 190 (this credit) can be claimed.

7 Amount of credit claimed on the current year tax return. *(auto-calc)* Computed as the lesser of the above tax balance and the amount on line 6. This is the amount that will be shown in column (c) of Part III of Schedule P for credit 190 (the credit code for this credit). This amount will vary as the return is being prepared because the above tax balance may change as the tax on Form 540, line 35, changes.

8 Credit carryover available for future years. *(auto-calc)* Computed as line 6 less line 7, but no less than zero.

Extra line for personal memos. Provided for supporting statements that will not be printed with the official return.

Childcare Contribution Credit Worksheet. (Figure CA-6) You can claim a credit of up to \$360 per employee's dependent for up to 42 weeks of care each year for which you contributed to a qualified care plan on behalf of the dependent.

a. **Name of employee's dependent.** Two lines are provided for your entry. The first line is intended for the first name in 10 characters or less, and the second line is intended for the last name in 15 characters or less.

CHILDCARE CONTRIB'N CREDIT	
a. Name employee's dependent	
b. Contribution amount.....	0
c. 30% of (b), \$360 max.	0
No. of weeks of care	0
d. No. weeks/42, 100% max.	0
e. Credit amount, (c) by (d)	0

Figure CA-6. Childcare Contribution Credit Worksheet

Use abbreviations if necessary. **CAUTION:** *Only California employees' dependents under the age of 12 qualify.*

- b. **Contribution amount.** Enter the amount you actually contributed during the tax year. If you shared the costs with other employers (other than a spouse), enter only the amount you paid here. (Spouses or RDPs who file separately may each claim half the costs, or either may claim the entire cost, rather than claiming the portion each actually paid.)
- c. **30% of (b), but not more than \$360.** (*auto-calc*) Computed as indicated.
- Number of weeks of care.** Enter the number of weeks of the tax year that the care was provided. Only 42 weeks of care qualify for the credit rather than the entire year.
- d. **Number of weeks / 42, but not more than 100%.** (*auto-calc*) Computed as indicated.
- e. **Credit amount, column (c) by column (d).** (*auto-calc*) Computed as indicated, this is the tentative credit available for this dependent.

Form 3506 / Child & Dependent Care Expenses Credit

Child care credit has its own form. California provides its own form for the child care credit. Since the credit is generally just a percentage of the federal credit (federal Form 2441), the computation of the credit on this form duplicates the computation on the federal form until the percentage is applied. The percentage ranges from 50% for California AGI of \$40,000 or less to zero for California AGI above \$100,000. The credit and related information are posted to Form 540 lines 75 through 78.

CAUTION: Additional reporting requirements. There are a number of required entries that do not appear on the federal Form 2441, so you must supply additional details:

- (1) California requires that the SSNs of the first two qualifying children appear on Form 540. While the SSNs exist on the worksheets for line 2 of federal Form 2441, and are therefore translated to the California worksheets, the SSNs do NOT appear on Form 2441 itself, and therefore cannot be translated to the California Form 3506 itself. Therefore, after translation from the federal return you must access and view each Qualifying Person Worksheet for line 2 of Form 3506 so that the SSNs can be posted to Form 3506 itself.
- (2) You must provide the telephone number of each care provider and identify whether the care provider is a person or an organization.
- (3) You must provide the year of birth of each child, or, if disabled, identify the child as disabled.
- (4) You must enter the percentage of time spent in your California home.

CAUTION: Some taxpayers do not qualify. While the software automatically translates this form from the Form 2441 in the federal return and gives most taxpayers a credit if their Form 2441 showed a credit, there is one important condition you must meet to qualify for the credit. The care must have been provided in California. If not, you must zero out the translated form, then remove it from the return with out File Manager. (The requirement for the care to take place in California has replaced the former residency requirement. You no longer have to maintain a home in California in order to take the credit. However, you must have earned wages or self-employment income in California.)

Form 3510* / Credit for Prior Year Alternative Minimum Tax

*** Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the California Supplement.

Purpose. This form, which is analogous to federal Form 8801, provides a credit for prior-year AMT when the current-year AMT is zero. *Form 3510 is accessible through the Road Map from line 11 of Schedule P, page 2 -- the line for credit 188 in Section A2 of Schedule P, Part III.*

CAUTION: Translation based on federal Form 8801 is only a starting point. California Form 3510 is translated from federal Form 8801 of the same tax year. However, adjustments to the translated entries are often necessary because of differences between the prior-year California Schedule P and the prior-year federal Form 6251. Furthermore, a credit may apply for California and not for the federal return, or vice versa, due to differences in the respective returns. Therefore, it is very important that you check that all entries on screens 1 and 2 match the amounts on the prior-year Schedule P. (If there is no prior-year Schedule P, you do not qualify for Form 3510.)

INFORMATION FROM 2008. Entries from the prior-year California Schedule P are entered here. Form 3510 is then completed automatically based on these entries. However, you may have to make an entry on line 3 of Form 3510 yourself if you have an AMT credit net operating loss deductions.

2008 filing status. Translated from the federal Form 8801, you will have to change this entry only if the filing status for the 2008 California tax return was different from that for the 2008 federal tax return (or there was no federal Form 8801 for 2009).

2008 Schedule P, Part I, line 1. *No amount is translated to this line, so you must manually enter the amount from your prior Schedule P.* If you itemized deductions on the California return for 2008, your entry should be zero. Otherwise, your entry should be your standard deduction for 2008.

2008 Schedule P, Part I, line 2. If you itemized deductions on the federal return for 2008, the amount translated from the federal Form 8801 is the medical and dental expense deducted on federal Schedule A, line 4, but no more than 2.5% of federal AGI. If you itemized deductions on the California return, this amount is proper for California as well. If you did NOT itemize deductions on the California return, enter zero.

2008 Schedule P, Part I, line 3. If you itemized deductions on the federal return for 2008, the amount translated from the federal Form 8801 is the amount on line 9 of federal Schedule A. If you itemized deductions on the California return, this amount will likely be too high for California return because only the part of line 9 that stems from lines 6 and 7 applies to California. You must therefore reduce

the translated amount by the amounts on lines 5 and 8 of the federal 2008 Schedule A. If you did NOT itemize deductions on the California return, enter zero.

2008 Schedule P, Part I, line 4. If you itemized deductions on the federal return for 2008, the amount translated from the federal Form 8801 is a portion of certain home mortgage interest. If you itemized deductions on the California return, this amount may be too low for the California return because the reductions on lines 3 and 4 of the IRS 2008 Home Mortgage Interest Adjustment Worksheet (on page 2 of the IRS 2008 Instructions for Form 6251) are not allowed by California. If you did NOT itemize deductions on the California return, enter zero.

2008 Schedule P, Part I, line 5. If you itemized deductions on the federal return for 2008, the amount translated from the federal Form 8801 is line 27 of the 2008 Schedule A. If you itemized deductions on the California return, you may have to alter the entry because of differences between California and federal law for amounts included in federal line 27. If you did NOT itemize deductions on the California return, enter zero.

2008 Schedule P, Part I, line 6. The amount translated from the federal Form 8801 is line 8 of the 2008 Form 6251, which includes refunds of state and local income taxes in addition to property and real taxes. For California, only refunds of taxes of the type included in line 3 are allowed. You must reduce this entry by any amount attributable to refunds of income tax and sales tax.

2008 Schedule P, Part I, line 7. The amount translated from the federal Form 8801 is line 9 of the 2008 Form 6251, which is the difference between the investment interest expense deduction for the regular tax and that for the AMT. You may have to adjust this amount for California because of past differences between California and federal law, especially relating to depreciation. See FTB instructions for line 7 of 2008 Schedule P for details. If you did NOT itemize deductions on the California return, enter zero unless you reported investment interest expense on federal Schedule E (rather than federal Schedule A).

2008 Schedule P, Part I, line 13a. There is no federal equivalent to this entry, so you must manually enter any amount on your 2008 Schedule P, line 13a. This entry represents carryovers of contributions of appreciated property from years prior to 2002, which are a tax preference for California because California did not conform to federal law prior to 2002.

2008 Schedule P, Part I, line 13c. The amount translated from the federal Form 8801 is line 10 of the 2008 Form 6251, which is the difference between depletion for the regular tax and that for the AMT. You may have to adjust this amount for California because of past differences between California and federal law.

2008 Schedule P, Part I, line 13I. The amount translated from the federal Form 8801 is computed from line 13 of the 2008 Form 6251 rather than a direct translation. The preference on the federal Form 6251 is just 7% of the excluded gain on qualified small business stock, whereas the preference on California Schedule P is 50% of the excluded gain. As a result, the amount for this line is computed as the federal amount times 50 divided by 7 (resulting in a multiplier of approximately 7.14). However, you will have to make an adjustment to this amount if the excluded gain for California differs from that for the federal return.

Other exclusion items. Enter here any 2008 exclusion items not reflected above. Although the corresponding entry on screen 1 of our 2009 Form 8801 is translated here, you will have to make an adjustment to this amount if any additional exclusion items entered do not apply to California, or exclusions not applicable for the federal return apply.

The sum of all amounts entered above is used for line 2 of California Form 3510, so see FTB instructions for that line for more information.

The next four entries are used for line 1 of California Form 3510:

2008 Schedule P, Part I, line 15. The amount translated from the federal Form 8801 is line 1 of the 2008 Form 6251, which is generally AGI less itemized deductions (if you itemized deductions). By contrast, the amount for California is California taxable income, which is AGI less itemized deductions or the standard deduction, depending on which deduction you used. Therefore, you will have to make an adjustment to the translated amount if California AGI differs from federal AGI OR you used the standard deduction on either return.

2008 Schedule P, Part I, line 16. The amount translated from the federal Form 8801 is line 11 of the 2008 Form 6251, which is the NOL deduction reflected in line 21 of the 2008 Form 1040. Therefore, you will have to make an adjustment to the translated amount if the California NOL deduction reflected in line 21 of the 2008 Schedule CA differs from the federal deduction.

2008 Schedule P, Part I, line 17. There is no federal equivalent to this amount, so no amount is translated to this line. You must enter here your 2008 taxable trade or business income (but no less than zero) because California instructs you to exclude such income when figuring AMTI.

2008 Schedule P, Part I, line 18. The amount translated from the federal Form 8801 is line 6 of the 2008 Form 6251, which is the amount by which federal itemized deductions were limited due to high income. You will have to make an adjustment to the translated amount if the California itemized deduction limitation differs from the federal one. If you did NOT itemize deductions on the California return, enter zero.

The sum of the first two amounts less the sum of the last two amounts is used for line 1 of Form 3510.

The next three lines are not translated from the federal Form 8801 because they are always very different from the analogous federal amounts:

2008 Schedule P, Part II, line 25. This is the regular tax before credits on the 2008 California return. You must manually enter the amount from line 25 in Part II of the 2008 Schedule P. This entry is used for line 12 of the current Form 3510.

2008 Schedule P, Part II, line 26. This is the AMT on the 2008 California return. You must manually enter the amount from line 26 in Part II of the 2008 Schedule P. This entry is used for line 28 of the current Form 3510.

2008 Schedule P, Part III, line 10(d). This is the unused credit for prior-year AMT on the 2008 California return. It is shown on line 39 of the 2008 Form 3510 and column (d) of line 10 in Part III of the 2008 Schedule P. You must manually enter the amount from Part III, line 10, column (d) of the 2008 Schedule P. This entry is used for line 31 of the current Form 3510. (Note that the FTB instructions for line 31 of the 2009 Form 3510 erroneously refer to line 11 of the 2008 Schedule P instead of line 10.)

The remaining lines in this section are used only for taxpayers who were under 14 years old at the end of 2008:

Your 2008 earned income. The amount translated from the federal Form 8801 is the primary taxpayer's federal earned income for 2008. You will have to make an adjustment to this entry only if California earned income is different.

Adjustment for special businesses. The amount translated from the federal Form 8801 is the allowance for personal services rendered, as explained in the IRS instructions for line 29 of Form 6251.

Earned Income for Exemption Worksheet. (auto-calc) Computed as the sum of the preceding two amounts, this is the amount of earned income used in applying the special limitations for children at line 9 of Form 3510.

YOUR age on 2008 Form 540. (auto-calc) Computed as the age you entered on our 2009 Form 540 less one year, this is your age on January 1, 2009.

Both parents died before 2009? Translated from the federal Form 8801, the answer should be Yes only if neither parent was alive on January 1, 2009.

PART I, NET ALTERNATIVE MINIMUM TAX ON EXCLUSIONS. All adjustments and preferences that increase taxable income for the purposes of the AMT are either deferral items or exclusion items. The prior-year AMT attributable to exclusion items is computed here. It is subtracted from the full amount of AMT in Part II in order to arrive at the part of the prior-year AMT that is qualified for a credit. Your entry is required at line 3 (AMT credit NOL); all other lines are completed for you based on the entries you made on the first two screens of Form 3510:

- 1 Combine amounts from 2008 Schedule P, Part I, lines 15 through 18.** *(auto-calc)* Computed from the corresponding lines entered on screen 2, this is the prior-year income to which prior-year exclusions are added in order to determine the prior-year AMT attributable to exclusions.
- 2 Adjustments and preferences treated as exclusion items.** *(auto-calc)* Computed from your entries on screen 1, this is the sum of 2008 Schedule P, Part I, amounts for lines 1, 2, 3, 4, 5, 7, 13a, 13c, and 13l, plus "Other exclusion items" less the 2008 Schedule P, Part I, line 6..
- 3 AMT credit net operating loss deductions.** Although translated from line 3 of federal Form 8801, see FTB instructions for this line for details on the computation for this line. You will have to *make an adjustment to this line if the deduction is different for California*.
- 4 Combine lines 1 through 3.** *(auto-calc)* Normally computed as line 1 *plus* line 2 *less* line 3. However, if married filing separately for 2008 and this result exceeds \$310,060, an additional amount is added to this result in accordance with the worksheet in the FTB instructions for this line.
- 5 Amount from 2008 Schedule P, line 22, Exemption Worksheet, line 1.** *(auto-calc)* Using the 2008 filing status on screen 1, computed as \$80,017 for filing status 2 or 5, \$60,014 for 1 or 4, or \$40,007 for 3.
- 6 Amount from 2008 Schedule P, line 22, Exemption Worksheet, line 3.** *(auto-calc)* Using the 2008 filing status on screen 1, computed as \$300,065 for filing status 2 or 5, \$225,050 for 1 or 4, or \$150,031 for 3.
- 7 Subtract line 6 from line 4.** *(auto-calc)* Computed as indicated, but no less than zero.
- 8 Multiply line 7 by 25% (.25).** *(auto-calc)* Computed as indicated.
Limitation for child applied. *(auto-calc)* Answered Yes only if your age was under 14 for the 2008 return and at least one parent was alive in 2008. If Yes, line 9 may be less than the amount indicated by the label for the line.
- 9 Subtract line 8 from line 5.** *(auto-calc)* Normally computed as indicated, but no less than zero. However, if the preceding answer is Yes, this result is limited to no more than "Earned Income for Exemption Worksheet" *plus* \$6,400.
- 10 Subtract line 9 from line 4.** *(auto-calc)* Computed as indicated, but no less than zero.
- 11 Tentative minimum tax on exclusions.** *(auto-calc)* Computed as 7% of line 10.
- 12 Regular tax before credits.** *(auto-calc)* Taken from your entry on screen 2 for 2008 Schedule P, Part I, line 25, this is the amount on the 2008 Form 540, line 20.
- 13 Net AMT on exclusions.** *(auto-calc)* Computed as line 11 less line 12, but no less than zero.

14 through 27. These lines apply only to Long Form 540NR filers, not the Form 540 filers for which this software is designed. As a result, these lines do not appear on the screen and are left blank on the official printouts.

PART II, CREDIT COMPUTATION. The credit is computed here based on prior-year AMT less the part attributed to exclusion items plus any carryover from the prior-year Form 3510. All lines in this part are completed automatically:

28 AMT from 2008 Schedule P, Part II, line 26. (auto-calc) Taken from your entry on screen 2, this is the California AMT on the prior-year return.

29 Net AMT on exclusions. (auto-calc) Taken from line 13, this is the part of line 28 attributable to exclusion items.

30 Adjusted net AMT. (auto-calc) Computed as line 28 less line 29, with a negative result allowed.

31 Carryover of unused AMT credit from 2008. (auto-calc) Taken from your entry on screen 2 for "2008 Schedule P, Part III, line 10(d)," this is the carryforward to 2009 computed on the prior-year Schedule P (also shown on line 39 of the prior-year Form 3510). *(The FTB instructions for line 31 of the 2009 Form 3510 erroneously refer to line 11 of the 2008 Schedule P instead of line 10.)*

32 Combine line 30 and line 31. (auto-calc) Computed as indicated. If negative, there is no credit (nor credit carryover) from this form. This is the credit from Form 3510 before tax limitations are applied, and is posted to Schedule P, Part III, line 11, column (a).

AMT CREDIT for Schedule P, Part III, line 11(a). (auto-calc) Computed as line 32, but no less than zero. This is the credit from Form 3510 before tax limitations are applied, and is posted to Schedule P, Part III, line 11, column (a).

33 through 39. (auto-calc) These lines are valid only upon the final recalculation of the return, and show the part of the above credit actually used this year (at line 38) and the remainder carried over to the next year (at line 39). However, these lines are redundant when Schedule P exists, as it does for the software (since Schedule P is automatically generated and completed upon the final recalculation of the return once Form 3510 is completed). The credit actually used this year is computed on Schedule P at Part III, line 11, column (b). The remainder carried over to the next year is computed on Schedule P at Part III, line 11, column (d). These amounts will agree with the amounts on lines 38 and 39 of Form 3510 upon the final recalculation of the return.

Extra line for personal memos. The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

Form 3519 / Automatic Extension

An extension of time to file is automatic, without this form. Unlike the IRS, California's FTB no longer requires you to apply for an extension of time to file. Instead, a 6-month extension of time to file is automatic as long as you file by October 15, 2010. However, an extension of time to file does not give you extension of time to pay! You still must pay any remaining tax due by April 15, 2010, enclosing the Form 3519 voucher with your payment, in order to avoid penalties and interest.

California Form 3519 is similar to federal Form 4868 in the software. Even though the filing requirements are different for the California form, the operation of the software is quite similar to that for Form 4868. It is used to estimate the tax liability when the return is not yet complete and could be far from the final version. As a result, we do not complete this form automatically but give you helpful guidance instead. It is up to you to make the final determination of estimates to use in determining how much you need to pay to the FTB. (See the section on Form 4868 in Chapter 2 of the regular *Tax Forms Guide 2010 Edition* for details of the analogous federal form.)

Data entry differences from the federal form are few. Because California requires this form only if more tax is due, this form has its sections in a different order than the federal form.

Tax payment worksheet. The first section is the estimate of tax liability. Like the federal form, the amounts that exist on the return in its current state appear above the data entry lines for Form 3519 as guidance. But since these amounts could be far from what you expect the final return to reflect, you are free to enter any amounts on the data entry lines below them.

When to file Form 3519. You must normally file this form with the tax due by April 15, 2010. However, if you are living or traveling outside the U.S. on that date, you have until June 16th to file and pay all tax due. Unlike the federal Form 4868, it is *NOT* necessary to work outside the U.S. or be in military service outside the U.S. Travel alone is a sufficient excuse for delayed filing. However, if you do not pay all tax due by June 16, you will be subject to the usual penalties and interest. (Note that the extension is a 6-month extension from your regular due date. Therefore, those who qualify for a regular filing date of June 16 have until December 15 to file their return.)

Print Form 3519 voucher to enclose with payment. (Standard and Premium Levels only) The FTB now requests that you enclose the scannable voucher that is built into our software when you send payment for a return you will file later. Because Form 3519 is not a part of the return, you must print it separately from the return as a stand-alone form. You must send the voucher along with your payment only to the FTB address shown on the page on which the voucher is printed.

Form 3521* / Low-Income Housing Credit

*** Included in Premium Level software ONLY.** Once installed, this form will be only built into the Premium Level version of the California Supplement.

Not yet complete. At the time this supplement was written, this form was not yet installed in the software and its instructions were not yet complete. Be sure to "Check for Updates" frequently from the *Tax Preparer Control Panel* to keep your software and this supplement up-to-date.

Purpose. This form, which is analogous to federal Form 8586, provides a credit for placing in service a building with a qualified amount of low-income housing. *When available, Form 3521 will be accessible through the Road Map from Schedule P, page 2, at the line for credit 172 in Section B2 of Part III.*

Form 3523* / Research Credit

* **Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the California Supplement.

Purpose. This form, which is analogous to federal Form 6765, provides a credit for increasing the technological research performed by your company. *Form 3523 is accessible through the Road Map from Schedule P, page 2, at the line for credit 183 in Section B2 of Part III.*

California vs. federal. Until recently, California law conformed closely with federal law, and FTB Form 3523 was nearly the same, line-by-line, with federal Form 6765. However, California has not conformed with federal changes made by the 2005 Energy Tax Act, the Tax Relief and Health Care Act of 2006, nor the Economic Stimulus Act of 2008, so the federal form now differs appreciably from the California form. The most significant changes were the introduction of a more liberal credit for energy research consortium and the addition of an Alternative Simplified Credit, neither of which appear on the current California form. In fact, the California form is closer to the 2005 Form 6765 than the 2009 Form 6765. The California form gives you a choice between a Regular Credit and an Alternative Incremental Credit, whereas the federal form gives you a choice between a Regular Credit and an Alternative Simplified Credit. (The latter alternative was introduced on the 2006 Form 6765 while retaining the Alternative Incremental Credit as a third choice. But the Alternative Incremental Credit, to which California many years ago, was dropped from the federal form for 2009.) In spite of these differences, data entry for California Form 3523 closely parallels that for federal Form 6765, except for this omission of entries not applicable to California. However, you must follow the instructions provided here for computational details rather than those for federal Form 6765 in Chapter 2 of the *Tax Forms Guide 2010 Edition*.

Only Part I of this two-part form applies. Form 3523 consists of Part I (Credit Computation) and Part II (Credit Carryover). However, Part II applies only to returns with no Schedule P (as indicated on the FTB label for Part II). With *Tax Preparer*, Schedule P is essential because the credit from Form 3523 flows through Part III of Schedule P to line 43, 44, or 45 of Form 540. Accordingly, *Schedule P is always automatically created once you create Form 3523 (upon final recalculation of the return), so Part II can never apply to Tax Preparer.* Part II is therefore omitted from the on-screen form.

ENTRIES AND ELECTIONS. The entries you provide on the first screen are used to complete the computation of the Regular Credit (Section A, lines 1 through 17b) or the Alternative Incremental Credit (Section B, lines 18 through 39b), depending on your election of which method to use. The remainder of the form (lines 40 through 48) is then completed based on the results of lines 1 through 39b and your entries on the last screen of the form (involving passive activities and carryovers).

FEIN. Enter the Federal Employer Identification Number, if applicable, in its standard xx-xxxxxxx format.

Secretary of State file number. Enter the SOS file number here, if applicable.

Qualified research expenses. Most of the following entries apply to both alternative credit computations, so they appear here once to avoid any need for double entry. *These entries are translated from the federal Form 6765, so you rarely need to change them for a properly translated return.*

Wages for qualified services. Enter only wages related to qualified in-house research.

Cost of supplies. Enter only the cost of supplies related to qualified in-house research.

Rental or lease costs of computers. Enter only the amount paid or incurred for the rental or lease of computers used in qualified research. *CAUTION: Qualifications for this entry are very narrow. The computer you rent or lease must not be located on your premises and cannot be operated by you or primarily used by you.*

Contract research expenses. Enter the full amount paid or incurred for qualified outside research. This amount is reduced to 65% of your entry when used in Section A or B of Form 3523, unless you make an entry on the following line.

Part to a qualified research consortium. Enter the part of "Contract research expenses" that was used for a qualified research consortium. The amount you enter here is subject to a reduction to 75% (instead of 65%) of your entry when used in Section A or B. See FTB instructions for Form 3523, line 8, for details.

Fixed-based percentage. *(Required only for Section A)* If you will compute the credit by the regular method (Section A), you must make an entry here that reflects the history of the company and its past research expenses. See the FTB Instructions for Form 3523, line 10, for details. Your entry here is rounded to the nearest .01% and cannot exceed 16%.

Average annual gross receipts. For the business to which the research relates, enter the average annual gross receipts (reduced by returns and allowances) for the 4 tax years that precede the tax year of the return. This will generally be the average of line 3 of the federal Schedule C for the last four years for this business. See the FTB Instructions for Form 3523, line 11, for details.

IRC Section 280C election. This election is described in *Section 280C(c)(3) of the Internal Revenue Code.*

Elect the reduced credit? When you claim the full credit you are required to reduce any deductions for research expenses on your return (such as Schedule C) by the amount of this credit. However, if you elect the reduced credit (which is 90.45% of the full credit for Form 540 returns), you are not required to reduce your deductions at all. *CAUTION: If you do NOT elect the reduced credit, you must provide to the FTB, in a supporting statement for the line "Schedule*

of reduced deductions” on the last screen of our Form 3523, a schedule of the reduced deductions you implemented because of this rule. TIP: Although your answer is translated from the federal Form 6765, you may want to change a No answer from the federal return to a Yes answer for the California return because the required reduction is only 9.55% of the total credit for California (in contrast with a reduction of 35% of the total federal credit).

Section B election. This election no longer exists on the federal form, so you must make your choice here even for a translated return.

Elect Alternative Incremental Credit? If you want to elect the alternative incremental method, answer Yes here. Before deciding whether to answer Yes or No, you may want to see the results for each choice by looking at the result on line 46 of this form for each choice. *CAUTION: This answer is NOT translated from the federal Form 6765, since this alternative method has been dropped from the federal form.*

Did you elect section B previously (answer No if revoking it now)? Contrary to recent federal law, the election to use the Alternative Incremental Credit is generally a lifetime election. You must receive FTB consent to revoke your election. Therefore, if you elected it previously and have not received consent from the FTB to change it, you must answer Yes here. *CAUTION: This answer is NOT translated from the federal Form 6765, since this alternative method has been dropped from the federal form.*

Section B to be used. *(auto-calc)* Answered Yes if either of the preceding two answers is Yes and you do not elect the alternative simplified credit, below. If Yes, Section B is used to compute the credit; otherwise Section A is used. *REMINDER: If Section A is used, you must enter a percentage for the line “Fixed-base percentage” described previously.*

SECTION A, REGULAR CREDIT. *(Fully automatic; no manual entries required in this section.)* The regular credit is based on a simple computation in which all research credits are combined and one rate is applied to the overall eligible expense. This version of the credit is computed unless you elected to use Section B instead (or elected it in the past and have not received FTB consent to revoke it).

1 through 4. *(auto-calc)* These lines do not appear on the screen and are always zero on the printed form because they apply only to corporations, as instruction on the FTB form.

5 Wages for qualified services. *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.

6 Cost of supplies. *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.

7 Rental or lease costs of computers. *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.

- 8 Applicable percentage of contract research expenses.** *(auto-calc)* If Section A is used, computed from your prior entries for contract research expenses 75% of your entry for "Part to a qualified research consortium" *plus* 65% of the balance ("Contract research expenses" *less* "Part to a qualified research consortium").
- 9 Total qualified research expenses.** *(auto-calc)* Computed as the sum of lines 5 through 8.
- 10 Fixed-base percentage.** *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.
- 11 Average annual gross receipts.** *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.
- 12 Base amount. Multiply line 11 by the percentage on line 10.** *(auto-calc)* Computed as indicated.
- 13 Subtract line 12 from line 9.** *(auto-calc)* Computed as indicated, but no less than zero.
- 14 Multiply line 9 by 50%.** *(auto-calc)* Computed as indicated.
- 15 Smaller of line 13 or line 14.** *(auto-calc)* Computed as indicated.
- 16 Multiply line 15 by 15%.** *(auto-calc)* Computed as indicated.
- Sum of lines 4 and 16.** *(auto-calc)* Taken as line 16, since line 4 applies only to corporations.
- 17a Regular credit.** *(auto-calc)* The result of "Sum of lines 4 and 16" will appear here only if you did not elect the reduced credit on screen 1. Otherwise, zero. **CAUTION:** *If an amount appears here, you must reduce deductions for related expenses throughout the return and identify those reductions in a supporting statement for the line "Schedule of reduced deductions" on the last screen of the form.*
- 17b Reduced regular credit.** *(auto-calc)* 90.45% of the result of "Sum of lines 4 and 16" will appear here only if you elected elect the reduced credit on screen 1. Otherwise, zero. If an amount appears here, the phrase "Section 280C(c)" will be printed on the official form next to line 17b.

SECTION B, ALTERNATIVE INCREMENTAL CREDIT. *(Fully automatic; no manual entries required in this section.)* The alternative credit involves separate computations for various parts of the credit, and may result in more or less credit than computed in Section A. This version of the credit is used if you elected this alternative on screen 2 (or previously elected and do not revoke the election).

- 18 through 21.** *(auto-calc)* These lines do not appear on the screen and are always zero on the printed form because they apply only to corporations, as instruction on the FTB form.
- 22 Wages for qualified services.** *(auto-calc)* Taken from your prior entry for this category if Section B is used; otherwise zero.
- 23 Cost of supplies.** *(auto-calc)* Taken from your prior entry for this category if Section B is used; otherwise zero.

- 24 Rental or lease costs of computers.** *(auto-calc)* Taken from your prior entry for this category if Section B is used; otherwise zero.
- 25 Applicable percentage of contract research expenses.** *(auto-calc)* If Section B is used, computed from your prior entries for contract research expenses as 75% of your entry for "Part to a qualified research consortium" *plus* 65% of the balance ("Contract research expenses" *less* "Part to a qualified research consortium").
- 26 Total qualified research expenses.** *(auto-calc)* Computed as the sum of lines 22 through 25.
- 27 Average annual gross receipts.** *(auto-calc)* Taken from your prior entry for this category if Section B is used; otherwise zero.
- 28 Multiply line 27 by 1%.** *(auto-calc)* Computed as indicated.
- 29 Subtract line 28 from line 26.** *(auto-calc)* Computed as indicated, but no less than zero.
- 30 Multiply line 27 by 1.5%.** *(auto-calc)* Computed as indicated.
- 31 Subtract line 30 from line 26.** *(auto-calc)* Computed as indicated, but no less than zero.
- 32 Subtract line 31 from line 29.** *(auto-calc)* Computed as indicated.
- 33 Multiply line 27 by 2%.** *(auto-calc)* Computed as indicated.
- 34 Subtract line 33 from line 26.** *(auto-calc)* Computed as indicated, but no less than zero.
- 35 Subtract line 34 from line 31.** *(auto-calc)* Computed as indicated.
- 36 Multiply line 32 by 1.49% (.0149).** *(auto-calc)* Computed as indicated.
- 37 Multiply line 35 by 1.98% (.0198).** *(auto-calc)* Computed as indicated.
- 38 Multiply line 34 by 2.48% (.0248).** *(auto-calc)* Computed as indicated.
- Sum of lines 21, 36, 37, and 38.** *(auto-calc)* Computed as the sum of lines 36 through 38, since line 21 applies only to corporations.
- 39a Alternative incremental credit.** *(auto-calc)* The result of "Sum of lines 21, 36, 37, and 38" will appear here only if you did not elect the reduced credit on screen 1. Otherwise, zero. **CAUTION:** *If an amount appears here, you must reduce deductions for related expenses throughout the return and identify those reductions in a supporting statement for the line "Schedule of reduced deductions" on the last screen of the form.*
- 39b Reduced alternative incremental credit.** *(auto-calc)* 90.45% of the result of "Sum of lines 21, 36, 37, and 38" will appear here only if you elected elect the reduced credit on screen 1. Otherwise, zero. If an amount appears here, the phrase "Section 280C(c)" will be printed on the official form next to line 39b.

AVAILABLE CREDIT. Passive limitations to the credit from Section A or Section B are applied here and added to credit from pass-through entities and non-passive carryovers to arrive at the total available research credit for Schedule P.

- 40 Credit for increasing research from partnerships, S corporations, estates, and trusts.** Enter any Form 6765 credits allocated to you from a pass-through entity as shown on Schedule K-1 (Form 1120S) from

an S corporation, Schedule K-1 (Form 1065) from a partnership, or Schedule K-1 (Form 1041) from an estate or trust. **CAUTION:** *Although translated from the federal return, you may have to reduce the entry for this line because of the taxable income limitation detailed in the FTB instructions for line 40. (This limitation is applied on Form 3800 for the federal return, not Form 6765 from which FTB Form 3523 is translated.)*

41 Current year research credit. *(auto-calc)* Computed as the sum of line 17a, 17b, 39a, or 39b (whichever is nonzero) and line 40, this is the total research credit before carryovers and limitations.

ITEMIZED DEDUCTIONS REQUIRED?. *(auto-calc)* Answered No if you elected the reduced credit (via a Yes answer to "Elect the reduced credit?" on screen 1). Otherwise, Yes.

Your credit on line 41 (less line 40). *(auto-calc)* Computed as line 41 less line 40, this is the amount by which you must reduce deductions on your return if the preceding answer is Yes. When you claim the full credit, you are required to reduce any deductions for research expenses you report on your return (such as Schedule C) by this amount.

Schedule of reduced deductions. If the answer to "ITEMIZED DEDUCTIONS REQUIRED" is Yes, you are required to attach a schedule showing in detail where you reduced your deductions. You must provide the schedule in a supporting statement for this line so that it is printed with the return and cross-referenced on the official printed Form 3523. The total from your support appears on this line and should match the amount on line 41 (less line 40), even if the credit is later limited by passive loss or tax liability limitations. Where the cross-reference is printed depends on the elections made for Form 3523, as follows. *(If the answer to "ITEMIZED DEDUCTIONS REQUIRED" is No, any support you provide for this line will be ignored and will not be made a part of the official printout of Form 3523.)*

Schedule of reduced deductions is referenced in Section A. *(auto-calc)* If "ITEMIZED DEDUCTIONS REQUIRED" is Yes and you did not elect to use Section B, the total from your "Schedule of reduced deductions" appears here, and the support will be cross-referenced beside the line 17a amount on the official printout of Form 3523. Otherwise, zero will appear here and no cross-reference will be printed beside line 17a.

Schedule of reduced deductions is referenced in Section B. *(auto-calc)* If "ITEMIZED DEDUCTIONS REQUIRED" is Yes and you elected to use Section B, the total from your "Schedule of reduced deductions" appears here, and the support will be cross-referenced beside the line 39a amount on the official printout of Form 3523. Otherwise, zero will appear here and no cross-reference will be printed beside line 391.

- 42 Amount on line 41 from passive activities.** Enter the credit from passive activities included in line 41. If you enter an amount here you must complete FTB Form 3801-CR to determine the allowable amount (to be entered at line 44). *CAUTION: This amount is not translated from the federal Form 6765 because the passive limitations are applied on federal Form 3800, not Form 6765.*
- 43 Subtract line 42 from line 41.** *(auto-calc)* Computed as indicated, this is the current-year credit without passive credits.
- 44 Allowable credit from passive activities.** You must complete FTB Form 3801-CR to determine the amount to enter here. *CAUTION: This amount is not translated from the federal Form 6765 because the passive limitations are applied on federal Form 3800, not Form 6765.*
- 45 Non-passive activity credit carryover from prior year.** Prior-year carryovers can result from the prior-year tax liability limitation, which is applied in Part III of the 2008 Schedule P. Carryovers from passive activities are reflected on Form 3801-CR, not here. *CAUTION: This amount is not translated from the federal Form 6765 because the carryovers are applied on federal Form 3800, not Form 6765. You may have to reduce the entry for this line because of the taxable income limitation detailed in the FTB instructions for line 40.*
- 46 Total available research credit.** *(auto-calc)* Computed as the sum of lines 43 through 45, this is the total credit to be subjected to the tax liability limitation on Schedule P.

The amount on line 46 is posted to the Credit Code 183 line of Schedule P, Part III, where it is subjected to the tax liability limitation before being reflected on Form 540.

Lines 47 and 48 omitted. Lines 47 and 48 (Part II of Form 3523) apply only to returns without a Schedule P. However, Schedule P is automatically created by *Tax Preparer* after you create a Form 3523 (upon final recalculation of the return), so these lines do not apply.

Extra line for personal memos. The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

Form 3526 / Investment Interest Expense Deduction**

**** Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of the California Supplement.

Purpose. This form, which is analogous to federal Form 4952, is used to figure the amount of interest expense you can deduct for investment loans. The form closely parallels federal Form 4952 and is translated from that form when the California return is started by translation, as we recommend. If you start with a translated return, you will have to make additional entries only when California amounts differ from federal amounts. Form 3526 is accessible through the Road Map from our Worksheet A at the line "Investment adjustment on California Form 3526," and is reflected in the adjustment at line 41 of Schedule CA. Although line-by-line details of the California form are provided here, you should consult the section on the analogous federal Form 4952 in Chapter 2 of the regular *Tax Forms Guide 2010 Edition* for more information on the investment interest expense deduction.

INVESTMENT INTEREST EXPENSE. The interest you want to consider for deduction is reported here:

Federal investment interest expense for 2009. Translated from line 1 of federal Form 4952.

California adjustment. Generally zero, you should make an entry here only if some types of expense reported on federal Form 4952 are not allowed by California for Form 3526.

- 1 Investment interest expense paid or accrued in 2009.** *(auto-calc)*
Computed as the sum of the above two lines, but no less than zero.
- 2 Disallowed investment interest expense from 2008 form FTB 3526, line 7.** Although translated from the federal Form 4952, you may have to change this entry if line 7 of the prior-year California Form 3526 differs from line 2 of the current-year federal Form 4952.
- 3 Total investment interest expense.** *(auto-calc)* Computed as the sum of lines 1 and 2.

NET INVESTMENT INCOME. The income that can be used to justify the interest expense is determined here:

Interest on Form 1040, line 8a. *(auto-calc)* Taken from Schedule CA, line 8, column A.

Subtraction on Schedule CA, line 8(B). *(auto-calc)* Taken from Schedule CA, line 8, column B.

Addition on Schedule CA, line 8(C). *(auto-calc)* Taken from Schedule CA, line 8, column C.

Interest on Form 1040, line 9a. *(auto-calc)* Taken from Schedule CA, line 9(a), column A.

Subtraction on Schedule CA, line 9a(B). *(auto-calc)* Taken from Schedule CA, line 9(a), column B.

Addition on Schedule CA, line 9a(C). *(auto-calc)* Taken from Schedule CA, line 9(a), column C.

Child interest and dividends in Form 1040, line 21. *(auto-calc)* Taken from the line on the last screen of our California Form 3803 labeled "Income on federal 8814, line 12," this is the amount of your children's interest and dividend income that you are reporting on your federal return to avoid having to file returns for the children.

CA adjustment to the above. *(auto-calc)* Taken from the line on the last screen of our California Form 3803 labeled "Adjustment for CA, line 21f."

Other gross investment income. Translated from the corresponding line on our federal Form 4952, this is all other qualified investment interest, including nonpassive royalty income and annuities.

CA adjustment to the above. Generally zero, you should make an entry here only if some types of other investment income reported on federal Form 4952 are not allowed on California Form 3526.

4a Gross investment income. *(auto-calc)* Computed as the sum of all preceding lines except the two subtraction lines, which are subtracted instead of added.

Net gain on federal Form 4952, line 4d. Translated from line 4d of federal Form 4952.

CA adjustment to the above. You should make an entry here if net gain on the California return from the disposition of investment property differs from that on the federal return. A difference is common here because of past differences in depreciation rules for California, which affect the computation of net gain.

4b Net gain from the disposition of property held for investment. *(auto-calc)* Computed as the sum of the preceding two lines, but no less than zero.

Capital gain distributions (Schedule D, line 13). Translated from the corresponding line above line 4e of federal Form 4952.

Other long-term capital gain or loss from investment property. Translated from the corresponding line above line 4e of federal Form 4952.

Net short-term capital gain or loss from investment property. Translated from the corresponding line above line 4e of federal Form 4952.

Federal capital gain from investment property. *(auto-calc)* Computed as the sum of the first two lines above less any loss in the preceding line, but no less than zero.

CA adjustment to the above. You should make an entry here if net capital gain on the California return from the disposition of investment property differs from that on the federal return. A difference is common here because of past differences in depreciation rules for California, which affect the computation of net gain.

4c Net capital gain from the disposition of property held for investment. *(auto-calc)* Computed as the sum of the preceding two lines.

4d Subtract line 4c from line 4b. *(auto-calc)* Computed as indicated, but no less than zero.

Federal election on Form 4952, line 4g. Translated from line 4g of federal Form 4952.

CA adjustment to the above. You should make an entry here if you want to elect a different amount on the California return in order to minimize the tax on your California return.

4e Amount on line 4c that you elect to include in investment income. *(auto-calc)* Computed as the sum of the preceding two lines, but no less than zero and no more than line 4b, this is the amount of qualified net capital gain that you want to include in California investment income for tax purposes.

4f Investment income. *(auto-calc)* Computed as the sum of lines 4a, 4d, and 4e.

Federal investment expenses on Form 4952, line 5. Translated from line 5 of federal Form 4952.

CA adjustment to the above. Generally zero, since line 5 of federal Form 4952 already reflects all aspects of the FTB instructions for line 5 *except one*, as follows. If you are a military servicemember domiciled outside of California *and* the amount on line 5 of federal Form 4952 includes investment expenses from federal Schedule A, line 23, you must recompute the amount for California using a lower AGI. AGI for the purposes of this recomputation must exclude military pay, so the recomputed Schedule A, line 27, will be lower (since it is an amount that exceeds 2% of AGI). If the recomputed Schedule A, line 27, is lower than the investment expenses in Schedule A, line 23, the amount allowed for line 5 of Form 3526 will be lower than that for federal Form 4952. If so, enter the difference here as a negative amount.

5 Investment expenses. *(auto-calc)* Computed as the sum of the preceding two lines.

6 Net investment income. *(auto-calc)* Computed as line 4f less line 5, but no less than zero, this is the maximum amount of interest you can deduct this year.

INTEREST EXPENSE DEDUCTION. The final result is computed here:

7 Disallowed investment interest expense. *(auto-calc)* Computed as line 3 less line 6, but no less than zero, this is the amount disallowed this year but carried forward to your Form 3526 for tax year 2010.

8 Investment interest expense deduction. *(auto-calc)* Computed as the smaller of line 3 or line 6, this is the amount you can deduct on your California tax return for tax year 2009.

9 Amount from federal Form 4952, line 8. Translated from federal Form 4952, as indicated.

10 California investment interest expense deduction adjustment. *(auto-calc)* Computed as line 8 less line 9, this is the difference between federal and California allowed deductions. A positive result means that a higher deduction is allowed on the California return,

and a negative result means that a lower deduction is allowed on the California return.

ALLOCATION OF LINE 10. Where you report the deduction adjustment depends on the specifics of the interest expenses:

Not-at-risk activities on federal return. Translated from the corresponding line below line 8 of our federal Form 4952, this is the amount not allowed to be deducted because of the at-risk rules, as determined from federal Form 6198.

CA adjustment to the above. You should make an entry here if the amount allowed for activities limited by the at-risk rules is different for California. You must prepare a federal Form 6198 using California amounts in order to determine whether an adjustment is necessary here.

Royalties on federal return. Translated from the corresponding line below line 8 of our federal Form 4952, this is the part of line 8 reported on federal Schedule E as a royalty-related interest expense.

CA adjustment to the above. You should make an entry here if the amount attributable to royalties is different for the California return. If you enter an amount here, you must reflect this adjustment in your entry for "Cal royalty profit" on screen 1 of our Worksheet E.

Nonpassive business on federal return. Translated from the corresponding line below line 8 of our federal Form 4952, this is the part of line 8 attributable to a nonpassive trade or business, and is therefore already reflected on the federal form or schedule where income and expenses for the trade or business are reported.

CA adjustment to the above. You should make an entry here if the amount attributable to nonpassive businesses is different for the California return. If you enter an amount here, you must reflect this adjustment in your entries for Worksheet C, E, or F, whichever applies.

Other not for Schedule A on federal return. Translated from the corresponding line below line 8 of our federal Form 4952, this is the part of line 8 attributable to an activity for which a deduction on Schedule A is not appropriate.

CA adjustment to the above. You should make an entry here if the amount attributable to other activities not allowed as an itemized deduction is different for the California return. If you enter an amount here, you must reflect this adjustment in the appropriate form for the activity.

Part of line 8 allowed as a California itemized deduction. (auto-calc) Computed as line 8 less the sum of the preceding 8 lines, but no less than zero.

Part of line 9 allowed as a federal itemized deduction. (auto-calc) Computed as line 9 less the sum of the lines identified above for the federal return, this is the amount deducted on line 14 of the federal Schedule A.

Part of line 10 allowed as an adjustment to Schedule CA, line 41. (auto-calc) Computed as "Part of line 8 allowed as a California itemized

deduction" less "Part of line 9 allowed as a federal itemized deduction" but no less than zero.

The result on the last line is posted to our Worksheet A (to the line "Investment adj on Cal 3526") and reflected on line 41 of Schedule CA.

CAUTION. Except for Worksheet A, no amounts in the preceding allocations are posted elsewhere automatically. You must enter the appropriate amounts elsewhere yourself, such as Schedules C, E, and F.

Extra line for personal memos. The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

Form 3533* / Change of Address

*** Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the California Supplement.

Purpose. This form, which is analogous to federal Form 8822, is used to report to the FTB any change of address for your business or personal tax returns. It is not attached to the associated returns, but is sent by itself to the FTB. As a result, it is not printed with the official return, and is not accessible through the Road Map. Rather, it is a stand-alone form and is accessible only from the Forms Menu.

Nearly identical to federal Form 8822. This form closely follows the design of the analogous federal form. The only significant difference is that the federal form includes additional entries for gift tax returns and employee plan returns. All data entry lines of the California Form 3533 are translated from the federal Form 8822. As a result, if you prepared a federal Change of Address form before translating the federal return to the California return, the California form will already be complete and ready to print. However, if you are completing Form 3533 anew, see the section on Form 8822 in Chapter 2 of the federal *Tax Forms Guide 2010 Edition* for data entry details.

Where to file. You must print the completed Form 3533 separately from the return and mail it to:

**FRANCHISE TAX BOARD
PO BOX 942840
SACRAMENTO, CA 94240-0002**

Alternatively, you can report your change of address to the FTB by phone at 1-800-852-5711.

Form 3540 / Credit Carryover Summary

Consolidates carryovers from expired credits. This form replaces a number of forms for expired credits. Forms for expired credits typically live long after their credits due to carryover provisions for unused credits. However, instead of retaining the old forms, the FTB uses this one form for reporting credit carryovers from a number of unrelated credits. Unless you file Schedule P, this form is required if you claim any of the carryover credits listed in the instructions for this form. If you file Form 3540 and there is no Schedule P for the return, the credits used this year on this form are automatically posted to Form 540 lines 43 through 45. *CAUTION: Lines on Schedule P Part V that are supported by this form through the Road Map will get their entries from this form when this form exits, and override any entries you make directly on Schedule P.*

Schedule P may automatically replace Form 3540. If you have more than two credits or are subject to the alternative minimum tax, you are required to complete Schedule P, where the credits on these and other forms are consolidated before posting to Form 540. In fact, the software automatically generates Schedule P when it appears to be necessary. If a Schedule P exists, the credits entered on Form 3540 are consolidated with any other credits entered on Schedule P, and the calculations for amounts claimed this year, tax balances, and carryovers are performed on Schedule P instead of Form 3540. In addition, Form 3540 is intentionally omitted from the official printout in this case, as required by the FTB, and all required information is shown on Schedule P instead. *When a Schedule P, page 2, exists for the return, the question on Form 3540 labeled "See Schedule P for claims/carryovers" will be automatically answered Yes* and no calculations will appear on Form 3540.

All carryovers follow the same format. Entries are provided for nearly two dozen credit carryovers, for credits listed in the FTB instructions for the form. One data entry line and three auto-calc lines are provided for each credit. This corresponds to the FTB's 3-column format with an added line showing the ongoing tax balance in each part:

a Carryover from prior years. Enter here the carryover from the prior tax return for this credit. This carryover can be found on the prior-year form for the credit or Part V of last year's Schedule P. If a Schedule P, Part V, exists *this* year for the return, this entry is posted there and the below lines are left blank.

b Amount claimed on current year tax return. *(auto-calc)* Normally computed as the lesser of the above carryover and the tax balance remaining after the preceding credit in the FTB order is claimed. However, if Schedule P page 2 exists for this return, no calculation appears here.

Tax balance. *(auto-calc)* Normally computed as the prior tax balance less the above credit, but zero if Schedule P page 2 exists for this return.

c Carryover to future years. *(auto-calc)* Normally computed as the carryover entered in line a less the credit used this year (line b), but zero if Schedule P page 2 exists for this return.

Note that two of the carryovers listed in the FTB instructions apply only to corporations -- credit carryovers for Technological Property Contribution, code 201, and Contribution of Computer Software, code 202 -- and so they are not included.

Summary. The names and amounts for the claimed credits are shown on the last screen of Form 3540 just like they are on Schedule P. Moreover, if Schedule P page 2 exists, the amounts shown in the Schedule P summary override the ones that would be computed from Form 3540 alone. The resulting entries are posted to Form 540 lines 43 and 44. If more than two credits are claimed on Form 3540, Schedule P page 2 is automatically generated and completed upon the final recalculation of the return.

Form 3548* / Disabled Access Credit for Eligible Small Businesses

*** Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the California Supplement.

Purpose. This form provides a 50% credit on the first \$250 of expenditures for providing access to the disabled at your place of business. The form also provides for credits from pass-through entities reported to you on Schedules K-1 and carryover of disallowed credits from prior years. The related federal Form 8826 provides a 50% credit for expenditures after the first \$250 (up to \$10,000), so the federal credit complements the California credit. Form 3548 is *accessible through the Road Map through Schedule P, page 2, at the line for credit 205 in Section A2 of Part III.*

Eligibility. The credit is available only to small businesses, so the first test is qualification as a small business as defined for this form.

For tax year 2008. The test for qualification as a small business is *based on the year prior to the year of the expenditures*. You can qualify based on either level of sales or number of employees:

Gross receipts for business. For the business for which the disabled access was provided, enter the gross income *reduced by returns and allowances*. For example, if you report the income for this business on federal Schedule C, enter the amount from line 3 of federal Schedule C for 2008. If \$1 million or less, the business qualifies as a small business for the purposes of Form 3548 (irrespective of the number of employees).

Number of full-time employees. Enter the number of employees who worked at least 30 hours per week for 20 or more weeks in 2008. If 30 or less, the business qualifies as a small business for the purposes of Form 3548 (irrespective of the gross receipts).

For tax year 2009. The expenditures must have been made or incurred during the tax year of the return:

Comply with Americans with Disabilities Act of 1990? Answer Yes only if the expenditures you plan to claim on Form 3548 comply with the federal *Americans with Disabilities Act of 1990*.

ELIGIBLE FOR THIS CREDIT? *(auto-calc)* Answered Yes only if the answer to the last question is Yes and either "Gross receipts for business" is \$1 million or less or "Number of full-time employees" is 30 or less. If the answer is No, you do not qualify for a credit based on your 2009 expenditures; however, you may still have a credit from pass-through entities or from a carryover from prior years.

Location. Enter the street address of the facility for which the expenditures to be claimed were made:

Address (number and street). Enter the street address in 35 characters or less. Your entry must be the physical location of the facility, not a postal box or company headquarters, if different.

City. Enter the city in 22 characters or less.

State. Enter the standard 2-letter state code.

ZIP Code. Enter the ZIP code in the standard xxxxx-xxxx format.

Credit Computation. The credit is computed here and posted to Schedule P.

2009 disabled access expenses. Enter only expenses paid or incurred during the tax year to comply with the *Americans with Disabilities Act of 1990*. See FTB instructions for Form 3548 for a list of eligible access expenditures.

1 Total eligible access expenditures. *(auto-calc)* Taken as the preceding entry only if the answer on screen 1 to "ELIGIBLE FOR THIS CREDIT?" is Yes; otherwise, zero.

2 Maximum amount of eligible access expenditures. *(auto-calc)* Always computed as \$250 here, and preprinted on the official form.

3 Smaller of line 1 or line 2. *(auto-calc)* Computed as indicated.

4 Multiply line 3 by 50% (.50). *(auto-calc)* Computed as indicated, this is the current year credit for qualified 2009 expenses for your business. Although this amount will be zero if the answer on screen 1 to "ELIGIBLE FOR THIS CREDIT?" is No, you may still have a credit from pass-through entities (line 5) or carryovers from 2008 (line 7).

5 Pass-through disabled access credit(s) from Schedule K-1(s). Enter the credit reported to you on Schedules K-1 from partnerships, S corporations, estates or trusts, or LLCs classified as partnerships. In a supporting statement for this line, for each Schedule K-1 received enter the entity's name and EIN (employer identification number) in the description column and the amount of credit in the amount column.

6 Add line 4 and line 5, but do not enter more than \$125. *(auto-calc)* Computed as indicated, this is the total current-year disabled access credit. The maximum allowed credit from your own expenses plus those of all pass-through entities combined is \$125, with no carryover of disallowed amounts.

7 Credit carryover from prior year. Enter the amount from line 10 of the 2008 Form 3548. You could have an amount from 2008 if a prior claim was reduced by the tax liability limit.

8 Add lines 6 and 7. *(auto-calc)* Computed as indicated, this is the total available disabled access credit. This amount could be greater than \$125 because of a carryover from the prior year.

ACCESS CREDIT for Schedule P, Part III, Section A2. *(auto-calc)* Computed as the lesser of line 8 or \$125. This amount is posted to the line on Schedule P identified as "205 Disabled access" (in Section A2 of Part III of Schedule P).

9 Amount of credit claimed on the current year tax return. *(auto-calc, supported by Schedule P)* The result on this line is valid only upon the final recalculation of the return. It is taken from the line on Schedule P directly below "205 Disabled access" in Section A2 of Part III of Schedule P ("Credit used this year").

10 Credit carryover available for future years. *(auto-calc)* Computed as line 8 less line 9, this is the amount to be claimed on line 7 of the 2010 Form 3548.

The credit on line 9 is reflected in line 7, 8, 9, or 10 of Schedule P, Part III, and line 43, 44, or 45 of Form 540.

Extra line for personal memos. The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

Form 3553* / Enterprise Zone Employee Credit

* **Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the California Supplement.

Purpose. This form provides a credit to employees who work within a California enterprise zone. The credit is generally 5% of up to \$10,500 of qualified wages per spouse, but is reduced by 9% of the amount by which AGI exceeds the claimed wages. In addition, the credit is limited to the income tax on qualified wages. *Form 3553 is accessible through the Road Map through line 5 of Schedule P, page 2 -- the line for credit 169 in Section A1 of Part III.*

FTB instructions critical. Employment only in designated areas of California on designated dates qualifies. Page 1 of the FTB instructions for Form 3553 provides tables of designated enterprise zones and eligible dates as of early 2010. Note that some designations expired before 2009 and some expired at various times in 2009. However, many more designations carry expiration dates after 2020! If your employment in 2009 was not in any of the listed areas within the specified date ranges, you do not qualify for the credit.

QUALIFICATION CHECKLIST. The FTB provides a Qualification Checklist on page 3 of their instructions for Form 3553. This checklist is used on screen 1 to determine eligibility for credit from Form 3553.

- 1 **Did you work in an enterprise zone during 2009?** See FTB instructions for a list of zones and eligible dates. Your employer can also verify whether its business operates in an enterprise zone. If you answer No, you do not qualify for the credit.
- 2 **Do you work for the United States government, the state of California, or a city or county government located in California?** Government employees do not qualify for the credit.
- 3 **Was 50% or more of the hours you worked for your employer performed at your employer's location in the enterprise zone?** Your employment must have been performed in the enterprise zone. It is not enough that the business is in the enterprise zone.
- 4 **Were 90% or more of the hours you worked for your employer related to your employer's business activity located in the enterprise zone?** Your employment must have been predominantly for work in the enterprise zone.
- 5 **Are you filing as single, head of household, or qualifying widow(er)?** *(auto-calc)* Answered automatically based on the filing status your entered on Form 540. This answer affects the phaseout of credit for AGI higher than the qualifying wages.
- 6 **Did you and spouse both work in an enterprise zone and qualify for the credit?** If Yes, the AGI level at which the phaseout begins is doubled.
- 7 **Is your California AGI equal to or more than \$16,334?** If Yes, and only one spouse qualified, no credit is allowed.

8 Is your California AGI equal to or more than \$32,667? If Yes, you do not qualify for the credit.

QUALIFIED FOR FORM 3553 CREDIT. *(auto-calc)* Answered Yes only if the answers to lines 1, 3, and 4 are Yes, the answer to line 2 is No, and the answer to line 7 or 8 is No (depending on the answers to line 5 and 6). *TIP: Because the answers to lines 7 and 8 depend on AGI, the answer to "QUALIFIED FOR FORM 3553 CREDIT" may not be valid until the return is final and complete.*

A credit will be computed on this form only if the final answer, above, is Yes.

WAGES AND RELATED EXPENSES. The entries you provide here are used to complete the official Form 3553 for you.

For ALL work in 2009. These wages are not used in Form 3553, but are shown here to guide you in your later entries for enterprise zone wages:

Wages you earned. *(auto-calc)* Taken as the part of Form 540, line 12, attributable to you, this is the total of all of your wages for 2009.

Wages spouse earned. *(auto-calc)* Taken as the total California wages reported for spouse above Form 540, line 12, this is the total of all of spouse's wages for 2009. (This amount will be reflected in Form 540, line 12, only if married filing jointly.)

For work in 2009 in an enterprise zone shown in FTB instructions. You must enter here *only* wages for work performed in designated enterprise zones within designated date ranges as shown in the FTB instructions for Form 3553. These wages are used in computing lines 1 and 2 of Form 3553:

Wages you earned. Enter only qualifying wages for your work in 2009. You can enter no more than the California wages included in line 12 of Form 540 for you. *This amount is used in the computation for line 1 of Form 3553.*

Wages spouse earned. Enter only qualifying wages for spouse's work in 2009. You can enter no more than the California wages your reported for spouse above line 12 of Form 540. *If married filing jointly, this amount is used in the computation for line 2 of Form 3553.*

TOTAL wages in zone. *(auto-calc)* Computed as the sum of the preceding two entries only if married filing jointly. Otherwise taken as your entry for "Wages you earned" alone. *This total is used for line 10 of Form 3553.*

Qualified employee business expenses. Enter here *only* deductible employee business expenses associated with the wages included in "TOTAL wages in zone." This will generally be the amount you deduct through IRS Form 2106 if all work was performed in the zone. Otherwise you must enter the proper lesser amount associated with work in the enterprise zone alone. *This entry is used for line 11 of Form 3553.*

COMPUTATION OF CREDIT. This section is fully automatic based on your prior entries, and is the entire Form 3553 to be filed with the FTB.

- 1 **Wages you earned working in an enterprise zone.** *(auto-calc)* If "QUALIFIED FOR FORM 3553 CREDIT" is Yes, computed as the lesser of \$10,500 and your entry for "Wages you earned" on screen 2. Otherwise, zero. (Only the first \$10,500 of qualifying wages are considered in computing the credit.)
- 2 **If you file a joint return, wages your spouse earned working in an enterprise zone.** *(auto-calc)* If married filing jointly and "QUALIFIED FOR FORM 3553 CREDIT" is Yes, computed as the lesser of \$10,500 and your entry for "Wages spouse earned" on screen 2. Otherwise, zero.
- 3 **Add line 1 and line 2.** *(auto-calc)* Computed as indicated. If zero, no credit will result on this form. This total can be no more than \$10,500 (\$21,000 if married filing jointly).
- 4 **Multiply line 3 by 5% (.05).** *(auto-calc)* Computed as indicated, this is the credit before limitations.
- 5 **Amount from Form 540, line 17.** *(auto-calc)* Taken from Form 540, as indicated, this is the California AGI reported on the return.
- 6 **If the amount on line 5 is either of the following:**
 - * **Equal to or less than the amount on line 3, enter -0- here and skip to line 10.**
 - * **More than the amount on line 3, enter the amount from line 3.** *(auto-calc)* The amount on line 3 will appear here only if California AGI exceeds the total wages taken into account for the credit. Otherwise, zero.
- 7 **Subtract line 6 from line 5.** *(auto-calc)* Computed as line 5 less line 3 but no less than zero. *(Although the FTB form indicates the use of line 6, line 6 is not necessary for the proper computation of the form. Our calculations, which ignore line 6, provide the same result without requiring the skipping of any lines.)*
- 8 **Multiply line 7 by 9% (.09).** *(auto-calc)* Computed as indicated.
- 9 **Subtract line 8 from line 4.** *(auto-calc)* Computed as indicated, but no less than zero.
- 10 **Total amount of enterprise zone wages.** *(auto-calc)* Taken as the result on "TOTAL wages in zone" on screen 2, this is the total wages before limitation to \$10,500 per employee.
- 11 **Total amount of employee business expenses that you paid relating to your work in the enterprise zone.** *(auto-calc)* Taken from your entry for "Qualified employee business expense" on screen 2.
- 12 **Net enterprise zone wage income.** *(auto-calc)* Computed as line 10 less line 11, but no less than zero.
- 13 **Amount of tax for the amount on line 12.** *(auto-calc)* Computed as the California income tax on the amount on line 12 (as if line 12 were the taxable income), using the California tax tables or tax rate schedule, whichever applies. (The credit is not allowed to reduce tax on any income other than the qualified wages claimed for this form.)

14 Total available enterprise zone employee credit. *(auto-calc)* Computed as the smaller of line 9 or line 13, this is the credit for 2009 before limitation by tax liability. This result is posted to line 5 of Schedule P, Part III, line 5, column (a), which is the credit available for 2009 for credit code 169.

The credit actually used this year is computed on Schedule P and shown in column (b) of line 5 of Schedule P, Part III. If this result is less than line 14, the remainder is lost forever because this credit has no carryover provisions.

Extra line for personal memos. The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

Form 3800 / Tax for Children with Investment Income

Children must be taxed at parent's tax rate on some income. Like federal Form 8615, this form is used to compute tax for certain children who have unearned income of more than \$1,900. However, California has not conformed to the recent changes in federal law that raised the age threshold from 14 to 18 years of age for 2007 and extended it to some 19 through 24 year olds for 2008. As a result, a child who is liable for this tax on the federal return may not be liable on the California return. However, *the software handles this difference automatically based on the age entered on Form 540*. Zero tax will result on this form, even though translated from the federal return, when the age of the taxpayer is 14 or more but less than 18.

Form 3800 matches federal Form 8615, but adjustments necessary. Even though the California form closely matches the federal equivalent (except for the child's qualifications), the incomes translated from the federal Form 8615 may require readjustment if the parent or other children had any adjustments on their California Schedule CA. The most likely adjustments are highlighted here, but you should refer to the details for Form 8615 in Chapter 2 of the *Tax Forms Guide 2010 Edition* for other details.

Parent's taxable income. Translated from line 6 of federal Form 8615, this entry will have to be readjusted if the parent's California taxable income is different from the parent's federal taxable income. This entry should match line 19 on the parent's Form 540.

1 Child's investment income. *(auto-calc)* Computed from:

Child's AGI on Form 540, line 17. *(auto-calc)* Taken from Form 540 as indicated.

Child's California earned income. *(auto-calc)* Posted from "Total Calif. earned income" on screen 4 of Form 540.

Other adjustments. If the total AGI less the computed total earned income, above, does not reflect the entire investment income for the child, enter any additional adjustment here.

Line 1 is then the AGI less the earned income plus the above adjustment.

2 If DID NOT itemize, \$1,900. *(auto-calc)* Computed from:

Itemized deductions on Form 540. *(auto-calc)* This is the amount posted to Form 540 from line 43 of Schedule CA.

Itemized deduction, if used. *(auto-calc)* Identical to the preceding amount if the itemized deduction is used at line 18 of Form 540 rather than the standard deduction. Otherwise, zero.

Investment part of itemized deductions. Translated from the corresponding entry on federal Form 8615, this entry will have to be modified if any of the adjustments on line 41 of Schedule CA relate to the investment part of itemized deductions.

If you itemize deductions, line 2 is computed based on a formula that involves the last of the above three entries. Otherwise the result is \$1,900.

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7 Form 3800, line 5 for all other children. Translated from line 7 of federal Form 8615, this entry will have to be readjusted if the California taxable income for any of the children is different from their federal taxable income.

Tax computations automatic. The rest of the form is automatic. The result of this form is posted to Form 540 and used as the tax on line 31, in place of the tax table amount, if the taxpayer is liable for the Form 3800 tax.

Form 3801 / Passive Activity Loss Limitations

Conformity, but not simplicity. Because California had conformed to the federal passive activity loss limitations until 2002, Form 3801 formerly paralleled federal Form 8582 even to the point of line numbers on page 1. However, California has NOT conformed to the federal provision for Commercial Revitalization Deductions from Rental Real Estate Activities. Furthermore, because California amounts can differ from federal amounts *before* application of the passive activity rules, the FTB has designed its own set of worksheets to complete. As a result, the form is even more complex than the federal form. In fact, California adjustments are often necessary for businesses and investors because of the past differences in the depreciation laws.

Page 1 is fully automatic for most returns. When a federal Form 8582 exists with the return, Form 3801 is translated from that form. However, because of adjustments for law differences, it is possible for Form 3801 to be required even when the federal Form 8582 is not. If you made any entries directly on Form 8582 for "Other passive activities," you may have to adjust those translated entries. However, entries from federal Schedules C, D, E, F, and Forms 4797 and 4835 are automatically readjusted when the California return is completed. Like the federal equivalent, this form may not be complete and accurate until the final recalculation of the return, because it involves amounts from several other forms and worksheets. For further details, refer to the details for Form 8582 in Chapter 17 of the main manual.

Entry at line 6 required if no federal Form 8582 exists. In the unusual case where a California Form 3801 is required while a federal Form 8582 is not, you will have to make an entry above line 6 for "Federal modified AGI." See the details for Form 8582 in Chapter 2 of the *Tax Forms Guide 2010 Edition* for more information on how to determine this entry. Note that California uses the federal amount directly, rather than an adjusted version based on California amounts.

Page 2 is unique to California. In addition to page 1 of Form 3801, which is similar to page 1 of federal Form 8582, California now requires you to file a second page that shows how differences between federal and California amounts affect individual activities, forms, and schedules. Because *Tax Preparer* is already fully automated, the second page is not required for any calculations in the return. It is therefore included in the software only to comply with the FTB instructions to include it with the return.

Passive Activity Worksheets. *(Figure CA-7)* The first part of page 2 of Form 3801 is a table that shows California adjustments to activities before application of the passive activity rules. We provide a set of Passive Activity Worksheets in the same format as this table, allowing you to provide the data the FTB requests if you so desire. Nevertheless, the calculations and validity of the return are unaffected if you fail to complete these worksheets. All amounts for these worksheets are visible on screens 2 through 6 of California Form 3801 and federal Form 8582. We recommend that you generate our

quick-print printouts, which show all information on the screens, for each of these forms, and complete the worksheets as follows: (A quick-print printout is generated by pressing the Quick-Print Key, F6 or ctrl-P, while viewing a screen of the form you want to print.)

PASSIVE ACTIVITY WORKSHEET		
a.	Passive Activity	
b.	Federal Schedule.....	
c.	Calif. Schedule.....	
d.	Federal Amount.....	0
e.	Calif. Adjustment.....	0
f.	Calif. Amount.....	0

a. Passive Activity.
Enter an appropriate description based on the title on the screen for the section you are reporting here. Use Table CA-3 as a guideline. You can group like items together.

Figure CA-7. Passive Activity Worksheet

For example, if you report rental real estate in Part I of federal Schedule E and you sold the property, you can combine the operating income on Schedule E with the sale income on Form 4797 (California Schedule D-1), using a single Passive Activity Worksheet for the entire activity.

- f. Federal Schedule.** Most items on federal Form 8582 relate to a particular form or schedule and are identified in the titles on the screen. If you combined amounts from different forms for the same activity onto one worksheet, list all such forms, such as E & 4797 for the preceding example.
- g. Calif. Schedule.** Most items on California Form 3801 have no official California form to which they relate. You can leave the entry blank for those cases. But you should enter D, D-1, and 3805P when they apply.
- h. Federal Amount.** For activities whose amounts are shown on screens 2 and 3 of Form 8582, enter the total of "Gain for line 1a" minus "Loss for line 1b" minus "Prior unallowed for 1c." For all other activities enter the analogous total for lines 2a, 2b, and 2c.
- i. California Adjustment.** For activities whose amounts are shown on screens 2 and 3 of FTB 3801, enter the total of "Gain for line 1a" minus "Loss for line 1b" minus "Prior unallowed for 1c" minus the preceding entry for line d. For all other activities enter the analogous total for lines 2a, 2b, and 2c less line d, above.
- j. California Amount.** *(auto-calc)* Computed as line d less line e.

Table CA-3. Entries for column (a) of Passive Activity Worksheets

FTB3801 screen	Transfers from	Suggested entry for line a of Passive Activity worksheet
2	Sch. E Part I	Rental real estate
2	Sch. E Part II	Partnership rental real
2	Sch. E Part III	Estate/trust rental real
3	Schedule D-1	Rental real estate (or describe property sold)
3	fed Form 4835	Farm rental income
3	Form 3805E	Rental real estate (or describe property sold in installments)
4	Schedule C	Business
4	Schedule D	(describe property sold)
5	Sch. E Part I	Rental real estate
5	Sch. E Part II	Partnership rental real
5	Sch. E Part III	Estate/trust rental real
5	Schedule F	Farm
6	Schedule D-1	(describe property sold)
6	fed Form 4835	Farm rental income
6	Form 3805E	(describe property sold under installment sale)

California Adjustment Worksheets. The remainder of the page 2 of Form 3801 summarizes passive and nonpassive adjustments *after* application of the passive loss rules for activities that are reported on Schedules C, E, and F. This reporting is desired by the FTB because California has no equivalent to these schedules, so their adjustments appear only as grand totals on Schedule CA. *Tax Preparer* has worksheets in this California Supplement to show the details of the adjustments. All amounts for the California Adjustment Worksheet are therefore available from a viewing of Worksheets C, E, and F. The California Adjustment Worksheets are therefore fully automated and require no manual entry.

Form 3803 / Parent's Election to Report Child's Interest and Dividends

Full conformity to federal Form 8814. California Form 3803 conforms to the federal equivalent except for the tax rate and the qualification of the child. California taxes the first \$950 of the child's interest and dividend income at 1%, in contrast with the federal 15% rate. You can therefore consult the details for federal Form 8814 in Chapter 2 of the *Tax Forms Guide 2010 Edition*. *Form 3803 is accessible through the Road Map above line 31 of Form 540.*

CAUTION: *California has not conformed to the federal changes in age threshold from 14 to 18 for 2007 and the extension to some 19 to 24 year olds for 2008. As a result, some children who qualify on the federal return may not qualify on the California return. The software handles the difference automatically because the child's age is translated from the federal Form 8814, and the age test is applied under California rules on the California Form 3803. However, even if the child does not qualify for the California form, you should retain the Form 3803 in the software in order for the proper adjustments to be made automatically by the software. It will be omitted from a complete official printout of the return.*

Form 3805E / Installment Sale Income

Near conformity to federal Form 6252. California Form 3805E *appears* to conform fully with the federal equivalent, even to the extent of line numbers and descriptions. However, looks are deceiving because California has not yet conformed to recent changes in the federal law. California has conformed to few of the changes to the Internal Revenue Code by the Restructuring and Reform Act of 1998, none of the Tax and Trade Relief Extension Act of 1998, none of the Miscellaneous Trade and Technical Corrections Act of 1999, and none of the Ticket to Work and Work incentives Improvement Act of 1999. In particular, California does not conform to the federal modification of the pledge rules per the Ticket to Work and Work Incentives Act of 1999. (California did not conform to the federal disallowance of the installment method for accrual basis taxpayers, but the federal government has since retroactively repealed that disallowance.) Note also that interest on deferred tax (Section 453, 453A) should be included on Form 540, line 64 as an additional tax. *Form 3803E is accessible through the Road Map at line 1a of Schedule D and lines 4, 10, and 15 of Schedule D-1.*

Automatic for most taxpayers. In spite of the specific differences cited above, California law is in general conformance with federal law. As a result, the form is automatically translated from the federal form, and is automatically linked with Schedule D-1 in the same way as federal Form 6252 is automatically linked with Form 4797. As a result any adjustments on Schedule D-1 for differences between California and federal law are automatically reflected in Form 3805E. It should therefore not be necessary to make adjustments to Form 3805E for most sales in 1987 or later. Nevertheless, *if Part II is used for sales prior to 1987, you may have to make adjustments to reflect past differences in the law.* Since the form is so much like federal Form 6252, see the details for Form 6252 in Chapter 2 of the main *Tax Forms Guide 2010 Edition* for more information. (CAUTION: You must pay interest on deferred tax on certain installment obligations, but this interest is not figured on Form 3805E. See FTB instructions for details.)

Form 3805P / Additional Tax on Qualified Plans (IRAs, etc)

Only distributions are taxed, unlike federal Form 5329. This form is used to compute an additional tax on certain withdrawals (distributions) from IRAs and other retirement plans, annuities, modified endowment contracts, and medical savings accounts (MSAs). It is used to enforce the tax rules for such plans, assessing a penalty for not following the rules. However, whereas the federal Form 8615 assesses penalties for excess contributions and accumulations in addition to distributions, California Form 3805P assesses penalties only for distributions. Early distributions are reported in Part I, Ed IRA distributions not used for allowed education purposes are reported in Part II, and MSA distributions not used for allowed medical purposes are reported in Part III. See FTB instructions for Form 3805P for details. *Form 3805P is accessible through the Road Map at line 63 of Form 540.*

California Form 3805P Parts I and II match federal Form 5329 Parts I and II. Parts I and II of California Form 3805P reproduce Parts I and II of federal Form 5329 line for line, except for the tax rates applied at lines 4 and 8. The amounts subject to penalty are therefore taken automatically from the federal Form 5329 through our translation of that form. The tax rate applied for California at line 4 is 2-1/2% for most retirement plans, or 6% for SIMPLE plans, in contrast with the federal rates of 10% and 25%, respectively. The tax rate applied at line 8 is 2-1/2%, in contrast with the federal rate of 10%. See the details for Form 5329 in Chapter 2 of the *Tax Forms Guide 2010 Edition* for more information on Parts I and II of Form 3805P.

Part III, Tax on distributions from Archer Medical Savings Accounts (MSAs). This part is unique to the California form, but depends on federal Form 8853 (Medical Savings Accounts and Long-Term Care Insurance Contracts) for its entries.

9 Taxable MSA distribution from federal Form 8853, line 8. Enter amount from the federal form as indicated.

10a Do you meet any of the exceptions to the 10% tax? California conforms fully to the federal exceptions. Answer Yes here only if you checked the box on federal Form 8853, line 11a. See the IRS Instructions for federal Form 8853 for details.

10b If not, multiply line 9 by 10%. *(auto-calc)* Computed as one-tenth of line 9 if the above answer is No. Otherwise, computed as zero.

Summary of Parts I through III. The results from all three parts of Form 3805P are summed here.

Total tax for Form 540, line 63. *(auto-calc)* Computed as the sum of lines 4, 8, and 10b, this result is posted to Form 540 for inclusion in line 63 (along with other taxes).

Extra line for personal memos. Provided for supporting statements that will not be printed with the official return.

Form 3805V* / NOL Computation & NOL & Disaster Loss Limitations

*** Included in Premium Level software ONLY.** Once installed, this form will be only built into the Premium Level version of the California Supplement.

Not yet complete. At the time this supplement was written, this form was not yet installed in the software and its instructions were not yet complete. Be sure to "Check for Updates" frequently from the *Tax Preparer Control Panel* to keep your software and this supplement up-to-date.

Purpose. This form, which is analogous to federal Form 3621, is used to figure a deduction from income as a result of carryovers from years with a negative taxable income. *When available, Form 3805V will be accessible through the Road Map at lines 21b and 21d of Schedule CA.*

Form 3805Z* / Enterprise Zone Deduction and Credit Summary

*** Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the California Supplement.

Purpose. This form is used to figure deductions, credits, recapture, and NOL carryover for business expenses in a California enterprise zone. The details are so complex that the FTB provides a 31-page booklet, complete with seven additional worksheets, to explain qualifications and computations for Form 3805Z. Because there are so many facets to this form, amounts computed on this form are reported in several places on the return. Only two of these amounts are automatically posted elsewhere on the return: (1) credit from this form is posted to Schedule P (Part III), and (2) NOL carryover is posted to line 21e of Schedule CA. All other amounts must be entered elsewhere on the return on the lines to which they apply. For example, credit recapture must be entered in a supporting statement for the line above line 63 of Form 540. Business expenses and interest related to the EZ zone must be deducted on the forms to which they apply, and their recapture must be reported as income in a supporting statement for line 21f of Schedule CA (as an additive adjustment). *Form 3805Z is accessible through the Road Map at line 21e of Schedule CA and Credit 176 in Part III of Schedule P (on screen 7 of Schedule P, page 2).*

GENERAL INFORMATION. The enterprise zone business is identified here.

Secretary of State file number. Enter the SOS file number here, if applicable.

A Entity type: Individual. (*auto-calc*) Automatically Yes because this form is being prepared with this software for use in a Form 540 return.

B Name of enterprise zone business. Enter the name in 35 characters or less.

C Address where business is conducted. Enter the address on the two 35-character line fields provided.

D Name of the enterprise zone. Enter the government-assigned name of the enterprise zone in which the business and/or investment activity is located.

E Principal Business Activity Code. Except for the Long Beach Enterprise Zone, enter the 6-digit Principal Business Activity (PBA) code from the FTB chart on pages 27 through 30 of the 2009 Form 3805Z booklet. For Long Beach, enter the 4-digit Standard Industrial Classification (SIC) code from the list on page 27 of the Form 3805Z booklet. (Although the 6-digit PBA codes are based on the same system as the IRS uses for federal Schedule C, the FTB does not subdivide the categories so finely as the IRS. You should therefore use the FTB table for this entry.)

F Total number of employees in the enterprise zone. Enter the number of employees in the entire zone.

G Number of employees included in the computation of the hiring credit, if claimed. The hiring credit applies only to employees hired after the final designation of the enterprise zone but before the expiration of the designation. See the Form 3805Z booklet for other requirements.

H Number of new employees included in the computation of the hiring credit, if claimed. Enter the number of employees in line G that were hired during tax year 2009.

I Gross annual receipts of the business. Enter the gross income for tax year 2009.

J Total asset value of the business. Enter the asset value at the end of tax year 2009 (or the end of the EZ designation, if earlier).

WORKSHEETS. Before you can complete Form 3805Z, you must complete the FTB worksheets in the FTB's 3805Z booklet. These worksheets are not a part of the official FTB form, and do not print with the return. However, you can get a hard copy of your entries by using the Quick Print or Quick Copy printouts, which are available during the preparation of the return.

WORKSHEET I – HIRING CREDIT AND RECAPTURE. The first worksheet relates to claims for the hiring credit and the recapture thereof, and appears on page 7 of the Form 3805Z booklet for 2009.

Section A – Credit Computation:

1 Qualified wages paid or incurred for year of employment. *(Supported by the Hiring Credit Worksheet, Figure CA-8.)* You must enter the wage history for each qualifying employee for their first 5 years of employment so that the proper percentage can be applied to each year. When you return from the worksheets, the total wages for all years and employees appears on this line.

2 Total. The totals for the first 5 years of all employees combined appears here based on the worksheet entries.

b 1st year. *(auto-calc line, supported by the Hiring Credit Worksheet, Figure CA-8)* Summed from line b of all worksheets combined.

c 2nd year. *(auto-calc line, supported by the Hiring Credit Worksheet, Figure CA-8)* Summed from line c of all worksheets combined.

d 3rd year. *(auto-calc line, supported by the Hiring Credit Worksheet, Figure CA-8)* Summed from line d of all worksheets combined.

e 4th year. *(auto-calc line, supported by the Hiring Credit Worksheet, Figure CA-8)* Summed from line e of all worksheets combined.

f 5th year. *(auto-calc line, supported by the Hiring Credit Worksheet, Figure CA-8)* Summed from line f of all worksheets combined.

3 Multiply line 2 by the percentage for each column. The percentage of wages that count for the hiring credit is 50% for the 1st year, and falls 10% each year thereafter.

b 50%. (auto-calc) Computed as 50% of line 2b.

c 40%. (auto-calc) Computed as 40% of line 2c.

d 30%. (auto-calc) Computed as 30% of line 2d.

e 20%. (auto-calc) Computed as 20% of line 2e.

f 10%. *(auto-calc)* Computed as 10% of line 2f.

4 Add the amounts on line 3, columns (b) through (f). *(auto-calc)* Computed as indicated.

LAMRRA credit (on Schedule P). *(auto-calc line, supported by Schedule P)*

This is the credit used this year on Schedule P for credit 198, *Local Agency Military Base Recovery Area Hiring & Sales or Use Tax Credit*.

Federal Work Opportunity Tax Credit. Enter the federal credit claimed *for employees hired during calendar year 2005 only*.

5 Total California and federal jobs tax credit. *(auto-calc)* Computed as the sum of the preceding two lines.

6 Subtract line 5 from line 4. *(auto-calc)* Computed as indicated, this credit is used in Schedule Z of Form 3805Z, where limitations on the credit are applied.

Hiring Credit Summary:

Current-year credit from line 6. *(auto-calc)* Taken from line 6 of Worksheet I, above.

Carryover from prior year. Enter the amount not claimed in the prior year because of limitations to EZ income and tax liability.

Total credit before limitations. *(auto-calc)* Computed as the sum of the preceding lines, this is the total credit to be used in line 8 of Schedule Z, where the amount to report in Part III of Schedule P is determined.

Hiring Credit Worksheet. *(Figure CA-8)* This worksheet supports line 1 of FTB Worksheet I. Use a separate worksheet for each employee, entering only wages for the first 5 years of employment.

HIRING CREDIT WORKSHEET	
a. Employee name...	
Qlfd. wages paid/incurred	
For year of employment:	
b. 1st year wages	0
c. 2nd year wages	0
d. 3rd year wages	0
e. 4th year wages	0
f. 5th year wages	0
TOTAL (all 5 years).....	0

Figure CA-8. Hiring Credit Worksheet

a. Employee name.

Enter the name of each employee in 25 characters or less.

b. 1st year wages.

Enter only qualifying wages paid or incurred for this employee for the first year of his or her employment.

c. 2nd year wages.

Enter only qualifying

wages paid or incurred for this employee for the second year of his or her employment.

d. 3rd year wages. Enter only qualifying wages paid or incurred for this employee for the third year of his or her employment.

e. 4th year wages. Enter only qualifying wages paid or incurred for this employee for the fourth of his or her employment.

f. 5th year wages. Enter only qualifying wages paid or incurred for this employee for the fifth year of his or her employment.

TOTAL (all 5 years). *(auto-calc)* Computed as the sum of lines b through f.

Section B – Credit Recapture:

1 Itemize terminated employees. You must pay a recapture tax for employees who you terminated within a specified time period (generally within 270 days of initial employment) if you previously claimed a hiring credit for the employee. See the FTB instructions for line 1b of Form 3805Z (on page 6 of the Form 3805Z booklet for 2009) for detailed information on the time periods that apply. In a supporting statement for this line, enter the name of the terminated employee in the description column, and the amount of credit previously claimed in the amount column. The total amount of credit you enter in the support appears here when you return to the form.

2 Total amount of credit recapture. *(auto-calc)* Computed as the total on line 1, this is the recapture tax for the hiring credit.

Where to report the result on line 2. The amount on line 2 represents a recapture tax that must be included in Form 540, line 63 (Other taxes and credit recapture). It is not included automatically. *You must itemize the line above Form 540 line 63 (Add'l taxes from OTHER), entering 3805Z in the description column and the amount on line 2 in the amount column.* This tax will then be properly identified on the official printout of Form 540 and the return's e-file output.

WORKSHEET II – SALES OR USE TAX CREDIT. The second worksheet in the 3805Z Booklet relates to claims for the sales or use tax credit, and appears on page 9 of the Form 3805Z booklet for 2009.

1 Itemize property purchased. *(Supported by the Sales or Use Tax Credit Worksheet, Figure CA-9.)* In the supporting worksheets for this line, you must identify each property and show the amount you paid for it and the amount of sales or use tax that applied.

2 Total amounts in columns (b) and (c). *(auto-calc lines, supported by the Sales or Use Tax Credit Worksheet, Figure CA-9)* Summed from line the worksheets that support line 1:

b Total costs. *(auto-calc)* Summed from line b of all worksheets combined. If this total exceeds \$1 million, no credit is allowed. See the CAUTION below for more information.

c Total sales or use tax. *(auto-calc)* Normally summed from line c of all worksheets combined, but set to zero if line 2b, above, exceeds \$1 million.

CAUTION:

Is line 2b greater than \$1 million? *(auto-calc)* If Yes, no credit is computed at line 2c, above. You cannot claim credit on more than \$1 million of purchases. You must therefore return to the worksheets for line 1 and remove enough worksheets to bring the total for line 2b down to \$1 million or less.

Sales or Use Tax Credit Summary:

Current-year credit from line 2c. *(auto-calc)* Taken from line 2c of Worksheet II, above.

Carryover from prior year. Enter the amount not claimed in the prior year because of limitations to EZ income and tax liability.

Total credit before limitations. *(auto-calc)* Computed as the sum of the preceding lines, this is the total credit to be used in line 9 of Schedule Z, where the amount to report in Part III of Schedule P is determined.

Sales or Use Tax Credit Worksheet. *(Figure CA-9)* This worksheet supports line 1 of FTB Worksheet II. Use a separate worksheet for each property purchased for which you want to claim the credit.

SALES OR USE TAX CREDIT		α Property description.
a. Property description.....:		Describe the property purchased in 30 characters or less.
Property location.....:		Property location. Enter the physical location in 30 characters or less.
b. Cost.....	0	b Cost. Enter the
c. Sales or use tax.....	0	

Figure CA-9. Sales or Use Tax Credit Worksheet

cost of the property.

c **Sales or use tax.** Enter the amount of sales or use tax paid or incurred.

WORKSHEET III – BUSINESS EXPENSE DEDUCTION AND RECAPTURE. The third worksheet relates to claims for the business expense deduction and the recapture thereof, and appears on page 10 of the Form 3805Z booklet for 2009.

Section A – Deduction Computation:

Current tax year. *(auto-calc)* Taken from the Control Form, this is the tax year of the return.

Year of designation. Enter the year the enterprise zone was designated.

1 Maximum aggregate deduction. *(auto-calc)* Computed as \$40,000 if the year of designation is the current tax year or one year earlier, \$30,000 if two or three years earlier, and \$20,000 if four or more years earlier.

2 Itemize property cost. In a supporting statement for this line, list the property for which you are claiming the business expense deduction, describing the property and its location in the description column and entering the cost in the amount column. The total cost you enter in the support appears here when you return to the form.

3 Total. Add the amounts in line 2. *(auto-calc)* Computed as the total on line 2.

4 Multiply line 3 by 40%. *(auto-calc)* Computed as indicated.

5 Smaller of line 1 or line 4. *(auto-calc)* Computed as indicated, this is the maximum amount deductible as a business expense.

CAUTION: If the amount on line 5 is less than the business expense deduction claimed for this Enterprise Zone activity on the federal return, you must enter the difference as an additive adjustment on the income line on

Schedule CA to which it applies. If it is not applicable to lines 7 through 20 of Schedule CA, enter it in a supporting statement for line 21f.

Section B – Deduction Recapture:

1 Itemize recapture by property. In a supporting statement for this line, itemize previously deducted property that, before the end of the second taxable year after it was placed in service, no longer qualifies for Enterprise Zone treatment. Describe the property in the description column of the support, and enter the amount that must be recaptured in the amount column. See page 10 of the 2009 Form 3805Z booklet for more information.

2 Total recapture amount. *(auto-calc)* Computed as the total recapture reported on line 1.

CAUTION: The amount on line 2 income that must be reported as an additive adjustment in a supporting statement for line 21f of Schedule CA.

WORKSHEET IV – NET INTEREST DEDUCTION FOR LENDERS. The fourth worksheet is used to determine the amount of net interest received that can be deducted from income. It appears on page 12 of the Form 3805Z booklet for 2009, with instructions for it on page 11.

1 Itemize net interest received. *(Supported by the Net Interest for Lenders Worksheet, Figure CA-10.)* In the supporting worksheets for this line, you must identify the interest received on loans you made and direct expenses incurred in making the loans.

2 Total. Amounts in column (f). *(auto-calc)* Computed as the sum of amounts on line f of all supporting worksheets combined. This is the net income from interest that can be deducted from the income reported on the federal return.

CAUTION: The amount on line 2 is a negative adjustment for the income section of Schedule CA. This amount must be reflected in column B of the line on Schedule CA on which income from the enterprise zone business is reported. If that line is a Road Map line (that is, supported by another form or worksheet), such as lines 12 and 18, you must report the amount as a subtractive adjustment on the supporting form (such as Worksheet C or Worksheet F).

Net Interest for Lenders Worksheet. *(Figure CA-10)* This worksheet supports line 1 of FTB Worksheet IV. Use a separate worksheet for separate loan you made.

<p>a Name borrower's business. Enter the name of the business to which the loan was made in 30 characters or less. Location of this business. Enter</p>	<p style="text-align: center;">NET INTEREST FOR LENDERS</p> <p>a. Name borrower's business : Location of this business :</p> <p>b. Date of loan..... c. Amount of loan..... 0 d. Interest received..... 0 e. Direct expenses incurred 0 f. Net interest (d)-(e) █ 0</p>
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Figure CA-10. Net Interest for Lenders Worksheet

the location of the borrower's business in 30 characters or less.

b Date of loan. Enter the date the loan was made in the standard mm/dd/yyyy format.

c Amount of loan. Enter the amount loaned to the business.

d Interest received. Enter the amount of interest received from the business.

e Direct expenses incurred. Enter only expenses directly related to the loan, such as commissions to a loan representative and costs of funding the loan.

f Net interest (d) – (e). *(auto-calc)* Computed as line d less line e, but no less than zero. This is the net interest income that is not taxable on the California return.

WORKSHEET V – INCOME OR LOSS APPORTIONMENT. This worksheet is used to determine the average apportionment percentage to enter in Part IV of Form 3805Z (described later). *This worksheet is not needed if the business lies entirely within the enterprise zone, since the apportionment percentage is always 100% in this case.* But if the business is only partially within the enterprise zone, you must manually complete the worksheet on pages 15 and 16 of the Form 3805Z booklet in order to determine the percentage.

WORKSHEET VI – NET OPERATING LOSS (NOL) COMPUTATION AND LOSS LIMITATIONS. This worksheet is used to determine the entries for Part V of Form 3805Z (described later). *This worksheet is not needed if the business does not or did not have a net operating loss.* But if it applies, you must manually complete the worksheet on pages 18, 19, and 20 of the Form 3805Z booklet.

MAIN FORM. Once you have completed the preceding worksheets, you are ready to complete the 5-part form and its Schedule Z. Parts I, II, and III are fully automatic based on your entries on Worksheets I through IV plus your entries on Schedule Z that are detailed later. You must complete Parts IV and V based on your manual preparation of Worksheets V and VI., when applicable. You must complete Part I of Schedule Z in order to determine the business income limitation on credits. The rest of Schedule Z is automatic based on your prior entries (and the results on Schedule P upon the final recalculation of the return).

PART I – CREDITS AND RECAPTURE. The Enterprise Zone Credit and the recapture thereof are summarized in this part.

1 Hiring and sales or use tax credits claimed on the current year return:

a Hiring credit from Schedule Z, line 8A, column (f) or line 10, column (f).

(auto-calc) Once you have completed Schedule Z, detailed later, the amount on line 8A(f) appears here. This result will be meaningful only after Schedule P and the final recalculation of the return are complete. (Line 10 applies only to S corporations, and is therefore not applicable to this Form 540 return.)

b Hiring credit recapture from Worksheet I, Section B, line 2, column (b).

(auto-calc) Taken from your previously completed Worksheet I, Sec-

tion B, line 2. **CAUTION:** *As previously detailed in our instructions for Worksheet I, the amount on this line must be reported in a supporting statement for the line above line 63 of Form 540 as an additional tax.*

- c Sales or use tax credit from Schedule Z, line 9A, column (f) or line 11, column (f).** *(auto-calc)* Once you have completed Schedule Z, detailed later, the amount on line 9A(f) appears here. This result will be meaningful only after Schedule P and the final recalculation of the return are complete. (Line 11 applies only to S corporations, and is therefore not applicable to this Form 540 return.)
- d Add line 1a and line 1c.** *(auto-calc)* Computed as indicated, this is the total Enterprise Zone Credit used this year. This result will be meaningful only after Schedule P and the final recalculation of the return are complete.

PART II – BUSINESS EXPENSE DEDUCTION AND RECAPTURE. The business expense deduction allowed and the recapture thereof are summarized in this part.

- 2a Cost of qualified property purchased for the enterprise zone that is being deducted as a current year business expense from Worksheet III, Section A, line 5, column (b).** *(auto-calc)* Taken from your previously completed Worksheet III, as indicated.
- b Business expense deduction recapture from Worksheet III, Section B, line 2, column (b).** *(auto-calc)* Taken from your previously completed Worksheet III, Section B, line 2. **CAUTION:** *As previously detailed in our instructions for Worksheet III, the amount on this line must be reported as an addition adjustment to income on Schedule CA.*

PART III – NET INTEREST DEDUCTION FOR LENDERS. The amount of interest income that is nontaxable is reported here.

- 3 Net interest received on loans to businesses located in the enterprise zone from Worksheet IV, line 2, column (f).** *(auto-calc)* Taken from your previously completed Worksheet IV, line 2. **CAUTION:** *As previously detailed in our instructions for Worksheet IV, the amount on this line must be reported as a subtraction adjustment to income on Schedule CA.*

PART IV – PORTION OF BUSINESS ATTRIBUTABLE TO THE ENTERPRISE ZONE. The result of a manually prepared Worksheet V is reported here.

- 4 Average apportionment percentage of your business that is in the enterprise zone from Worksheet V, Section A, line 4.** If the business is entirely in the Enterprise Zone, enter 100. Otherwise, enter the result from a manually-prepared Worksheet V, as indicated.

PART V – NET OPERATING LOSS (NOL) CARRYOVER AND DEDUCTION. The result of a manually prepared Worksheet VI is reported here.

- 5a Enter the enterprise zone NOL carryover from prior years from Worksheet VI, Section C, line 27, column (b).** See the instructions on pages 17 through 20 of the FTB Form 3805Z Booklet.

- b Total enterprise zone NOL deduction used in the current year from Worksheet VI, Section C, line 27, column (c). The amount you enter here is automatically posted to line 21e of Schedule CA as a subtraction adjustment to income.
- c Enterprise zone NOL carryover to future years from Worksheet VI, Section C, line 27, column (e). This is the amount you will use on next year's Form 3805Z.

SCHEDULE Z – COMPUTATION OF CREDIT LIMITATIONS. This schedule is used to determine the limitation on credit due to the enterprise zone business income, and to summarize the credit used this year on Schedule P.

Part I – Computation of Credit Limitations:

- 1 Trade or business income. If you had to complete Worksheet V, enter the amount on line 14, column (c), of Section C of the worksheet. Otherwise, enter the overall net income or loss for the business, including capital gain or loss, rental income, and allowable business expenses. See Section C of Worksheet V on page 16 of the FTB Form 3805Z Booklet.
- 2 Corporations: Average apportionment percentage from Worksheet V, Section A, line 4. *(auto-calc)* Always zero because it does not apply to a Form 540 return.
- 3 Multiply line 1 by line 2. *(auto-calc)* Contrary to the FTB label for this line, the amount on line 1 is used for line 3 as well for individuals.
- 4 Enterprise zone NOL deduction from Worksheet VI, Section C, line 27, column (c). If you had to complete Worksheet VI, enter the cited amount from that worksheet.
- 5 Enterprise zone taxable income. *(auto-calc)* Computed as line 3 less line 4.
- 6a Amount of tax due using the amount on line 5. *(auto-calc)* Computed using the FTB tax table or tax rate schedule for 2009, whichever applies, as if the amount on line 5 was your entire taxable income.
- 6b Amount of tax from Form 540, line 35. *(auto-calc)* Taken from Form 540, as indicated.
- 7 Smaller of line 6a or line 6b. *(auto-calc)* Computed as indicated, this is the limitation on credit for 2009 based on your enterprise zone business income.

Total credit for Schedule P:

Part II of Schedule Z requires a knowledge of the tax limitations imposed on the enterprise zone credit in Part III of Schedule P. Therefore, the credit after applying the limitation shown on line 7, above, must be posted to Schedule P, then the amount used this year after applying the limitations on Schedule P is returned to this form, as summarized in this section.

Hiring credit from Worksheet I. *(auto-calc)* Taken from our Hiring Credit Summary at the top of screen 3, this is the current-year credit plus carryover from the prior year before applying any limitations due to enterprise zone business income or tax balance.

Sales or use tax credit from Worksheet II. *(auto-calc)* Taken from our Sales or Use Tax Credit Summary at the bottom of screen 4, this is the current-year credit plus carryover from the prior year before applying any limitations due to enterprise zone business income or tax balance.

TOTAL credit before limitation. *(auto-calc)* Computed as the sum of the preceding two amounts.

Limitation based on EZ income. *(auto-calc)* Taken from line 7 of Schedule Z, in the preceding section.

Credit for Schedule P, column (a). *(auto-calc)* Computed as the lesser of the preceding two lines, this is the amount of credit for column (a) of Schedule P, Part III, Section B, Subsection B2 for credit code 176, which is the Enterprise Zone Hiring & Sales or Use Tax Credit.

Limitation based on net tax. *(auto-calc)* Taken from Schedule P, this is the tax balance after claiming all credits that are taken *before* the code 176 credit on Schedule P.

Credit used on Schedule P, column (b). *(auto-calc)* Computed as the lesser of the preceding two lines, this is the amount of code 176 credit used this year. This result is used in determining the amount for column (f) of Schedule Z, Part II, lines 8A and 9A, below.

Part II – Limitation of Credits for Individuals:

8 Hiring credit:

A(e) Limitation based on EZ business income. *(auto-calc)* Taken from line 7 of Schedule Z, Part I.

(f) Used on Schedule P. *(auto-calc)* Computed as the lesser of "Hiring credit from Worksheet I," "Limitation based on net tax," and the above amount on line 8A(e).

B(b) Credit amount. *(auto-calc)* Taken from line 6 of Worksheet I, Section A, this is the current-year hiring credit before EZ income and tax balance limitations.

(c) Total prior year carryover. *(auto-calc)* Taken from your corresponding entry in our Hiring Credit Summary at the top of screen 3, this is the carryover of hiring credit before EZ income and tax balance limitations.

(d) Total credit, column (b) plus column (c). *(auto-calc)* Computed as the sum of the preceding two lines.

(e) Limitation based on EZ business income. *(auto-calc)* Contrary to the implications of the FTB label, this amount is taken from line 8A(f), which includes the limitation to tax balance in addition to the limitation based on EZ business income, so that the carryover on line (g) is not understated.

(g) Carryover, column (d) minus column (e). *(auto-calc)* Computed as indicated, this is the amount of hiring credit that can be carried over to 2010.

9 Sales or use tax credit:

A(e) Limitation based on EZ business income. *(auto-calc)* Computed as the amount on line 8A(e) less than amount on line 8B(e), this is the part of the EZ business income limitation not used for the hiring credit, and therefore available for the sales and use tax credit.

(f) Used on Schedule P. *(auto-calc)* Computed as the lesser of "Sales or use tax credit from Worksheet II," "Limitation based on net tax" less line 8A(f), and the above amount on 9A(e).

B(b) Credit amount. *(auto-calc)* Taken from line 2c of Worksheet II, this is the current-year sales or use tax credit before EZ income and tax balance limitations.

(c) Total prior year carryover. *(auto-calc)* Taken from your corresponding entry in our Sales or Use Tax Credit Summary at the bottom of screen 4, this is the carryover of sales or use tax credit before EZ income and tax balance limitations.

(d) Total credit, column (b) plus column (c). *(auto-calc)* Computed as the sum of the preceding two lines.

(e) Limitation based on EZ business income. *(auto-calc)* Contrary to the implications of the FTB label, this amount is taken from line 9A(f), which includes the limitation to tax balance in addition to the limitation based on EZ business income, so that the carryover on line (g) is not understated.

(g) Carryover, column (d) minus column (e). *(auto-calc)* Computed as indicated, this is the amount of sales or use tax credit that can be carried over to 2010.

Part III – Limitation of Credits for S corporations only. Not applicable to Form 540 returns.

Part IV – Limitation of Credits for C corporations and S corporations Subject to Paying Only the Minimum Franchise Tax. Not applicable to Form 540 returns.

Extra line for personal memos. Provided for supporting statements that will not be printed with the official return.

Form 3806* / LARZ Deduction and Credit Summary

* Included in Premium Level software ONLY. This form is only built into the Premium Level version of the California Supplement.

Purpose. This form is used to figure a credit carryover and/or a Net Operating Loss (NOL) deduction for activities in a Los Angeles Revitalization Zone (LARZ) from May 1, 1992 through December 1, 1998. The credit carryover figured here is claimed on Schedule P (Part III, Section B2) and the NOL deduction carryover figured here is claimed on Schedule CA (line 21e). *Form 3806 is accessible through the Road Map at three locations in the software: (a) the Credit 159 line of Schedule P, Part III, Section B2, (b) the Credit 159 line of Form 3540, and (c) the Form 3806 component of line 21e of Schedule CA.* (As an expired credit, the credit carryover can be reported on Form 3540. However, unlike other expired credits, you are required to file Form 3806 and Schedule P with the return in order to claim the credit carryover. Therefore the role of Form 3540 is superfluous for this credit. The FTB instructs you to complete a separate Form 3806 for each separate business or investment that operates in the LARZ. Since the software provides only one copy of Form 3806, you must manually enter the results of multiple Forms 3806 created separately from the return you are going to file.)

GENERAL INFORMATION. The enterprise zone business is identified here.

Secretary of State file number. Enter the SOS file number here, if applicable.

A Entity type: Individual. *(auto-calc)* Automatically Yes because this form is being prepared with this software for use in a Form 540 return.

B Name of the LARZ business. Enter the name in 35 characters or less. You must complete a separate Form 3806 for each separate business you operated in the LARZ.

C Address where the LARZ business is conducted. Enter the address of the actual location on the two 35-character line fields provided.

D Name of the community within the LARZ in which the activity is located. Enter the name of the community in which the business and/or investment activity is located.

E Principal Business Activity Code. Enter the 6-digit Principal Business Activity (PBA) code for the LARZ business that you report on your federal Schedule C (Form 1040), line B. *(This line does not apply if your credit or NOL deduction stems only from a pass-through entity.)*

F Gross annual receipts of the business. Enter the gross income for tax year 2009. *(This line does not apply if your credit or NOL deduction stems only from a pass-through entity.)*

G Total asset value of the business. Enter the asset value at the end of tax year 2009. *(This line does not apply if your credit or NOL deduction stems only from a pass-through entity.)*

CREDIT CARRYOVER FROM 2008. The credit carryover portion of this form requires information from your 2008 Form 3806. Only credit not yet claimed because of limitations to tax balance are considered, and are shown in the last column of lines in Schedule Z, Part II of the prior-year Form 3806.

Construction hiring carryover. Enter the amount from column (e) of Schedule Z, line 8B, of the 2008 Form 3806.

General hiring carryover. Enter the amount from column (e) of Schedule Z, line 9B, of the 2008 Form 3806.

Sales or use tax carryover. Enter the amount from column (e) of Schedule Z, line 10B, of the 2008 Form 3806.

TOTAL credit before limitation. (*auto-calc*) Computed as the sum of the preceding three lines, this is the total credit stemming from 1992 through 1998 that has not yet be claimed due to tax liability limitations.

These entries are used in Schedule Z, Part II, of the current Form 3806 in order to determine amounts allowed this year and amounts to be carried over to next year.

WORKSHEETS I AND II. Before the current Form 3806 can be completed, you must supply the results from two FTB worksheets in the FTB's 3806 booklet:

Worksheet I (Income or Loss Apportionment) is used to determine the percentage of your business that is in the LARZ and the corresponding portion of trade or business income attributable to the LARZ. These results are used for both credit carryovers and NOL carryover and deduction. **TIP:** If your entire business operates within the LARZ, you do not need to complete Worksheet I, but you do need to enter amounts on the following lines, as instructed below.

Worksheet I, Section A, line 4. If your entire business operates within the LARZ, enter 100 here. If your use of Form 3806 stems from pass-through entities, skip this line (leaving the entry as zero). Otherwise, complete the worksheet on page 4 of the FTB 2009 Form 3806 instructions *using only California amounts* and enter the result from line 4. This is the percentage (from 0 to 100) of your business attributable to the LARZ, averaged between property percentage and payroll percentage. (Because only California amounts apply, the result will be 100 if all income and wages outside of the LARZ are also outside of California.)

Worksheet I, Section B, line 14. If your entire business operates within the LARZ, enter your entire business income or loss. Otherwise, complete the worksheet on page 6 of the FTB 2009 Form 3806 instructions *using only California amounts* and enter the result from line 14. This is the trade or business income attributable to the LARZ.

Worksheet II (NOL Carryover and Carryover Limitations) is used to determine the NOL carryover available for consideration for 2009, the amount to be used this year, and the amount to be carried over to 2010. If you

have no NOL carryover, skip this worksheet and enter zero on all of the following lines.

Worksheet II, line 15, column (b). Complete the worksheet on page 7 of the FTB 2009 Form 3806 instructions and enter the result from line 15(b). This is the total NOL carryover stemming from business in the LARZ (when it existed, from 1992 through 1998).

Worksheet II, line 15, column (c). Complete the worksheet on page 7 of the FTB 2009 Form 3806 instructions and enter the result from line 15(c). This is the NOL carryover deducted in 2009.

Worksheet II, line 15, column (e). Complete the worksheet on page 7 of the FTB 2009 Form 3806 instructions and enter the result from line 15(e). This is the NOL carryover to be carried over to 2010.

These entries are used in Parts II and III of Form 3806 and in Part I of Schedule Z of Form 3806.

MAIN FORM. Once you have supplied the preceding information, Form 3806 is completed for you automatically. There are no additional entries to be made. The following details are provided only to help you understand the completion of the form.

PART I – CREDIT CARRYOVERS USED. The amounts for this part of the form are computed on Schedule Z of the form, which appears on page 2 of the form (and the last two screens of the on-screen form).

1 Hiring and sales or use tax credit carryovers claimed on the current year return:

a Construction hiring credit carryover from Schedule Z, line 8A, column (d) or line 11, column (c). *(auto-calc)* The amount on line 8A(d) of Schedule Z, detailed later, appears here. However, this result will be meaningful only after Schedule P and the final recalculation of the return are complete. (Line 11 applies only to S corporations, and is therefore not applicable to this Form 540 return.)

b General hiring credit carryover from Schedule Z, line 9A, column (d) or line 12, column (c). *(auto-calc)* The amount on line 9A(d) of Schedule Z, detailed later, appears here. However, this result will be meaningful only after Schedule P and the final recalculation of the return are complete. (Line 12 applies only to S corporations, and is therefore not applicable to this Form 540 return.)

c Sales or use tax credit carryover from Schedule Z, line 10A, column (d) or line 13, column (c). *(auto-calc)* The amount on line 10A(d) of Schedule Z, detailed later, appears here. However, this result will be meaningful only after Schedule P and the final recalculation of the return are complete. (Line 13 applies only to S corporations, and is therefore not applicable to this Form 540 return.)

d Add line 1a, 1b, and line 1c. *(auto-calc)* Computed as indicated, this is the total LARZ credit carryover used this year. However, this result will be meaningful only after Schedule P and the final recalculation of the return are complete.

The amount on line 1d will also appear in Section B2 of Schedule P, Part III, as the credit used this year for Credit Code 159. It will generally appear in column (c) of line 17, 18, 19, or 20 of Schedule 1 P and will be reflected in line 43, 44, or 45 of Form 540. *No posting is performed to or from this part of Form 3806. All posting is performed to or from Schedule Z, detailed later.*

PART II – PORTION OF BUSINESS ATTRIBUTABLE TO THE FORMER LARZ.

The result of Worksheet I, Section A, is reported here.

- 2 Average apportionment percentage of your business that is in the former LARZ from Worksheet I, Section A, line 4.** *(auto-calc)* Taken from your prior entry for the indicated line.

PART III – NET OPERATING LOSS (NOL) CARRYOVER AND DEDUCTION. The result of a manually prepared Worksheet VI is reported here.

- 3a Total LARZ NOL carryover from prior years from Worksheet II, line 15, column (b).** *(auto-calc)* Taken from your prior entry for the indicated line.
- b Total LARZ NOL carryover deduction used in the current year from Worksheet II, line 15, column (c).** *(auto-calc)* Taken from your prior entry for the indicated line.
- c LARZ NOL carryover to future years from Worksheet II, line 15, column (e).** *(auto-calc)* Taken from your prior entry for the indicated line.

The amount on line 3b is posted to line 21e of Schedule CA as an NOL deduction from Form 3806.

SCHEDULE Z – COMPUTATION OF CREDIT LIMITATIONS. This schedule is used to determine the limitation on credit due to the LARZ business income and to apply this limitation and the tax liability limitations from Schedule P to each of the three LARZ credits.

Part I – Computation of Limitations:

- 1 Trade or business income from Worksheet I, Section B, line 14.** *(auto-calc)* Taken from your entry on screen 2, this is the total traded or business income attributable to activities in the LARZ.
- 2 Corporations: Average apportionment percentage from Worksheet I, Section A, line 4.** *(auto-calc)* Always zero because it does not apply to a Form 540 return.
- 3 Multiply line 1 by line 2.** *(auto-calc)* Contrary to the FTB label for this line, the amount on line 1 is used for line 3 as well for individuals.
- 4 LARZ NOL carryover deduction from Worksheet II, line 15, column (c).** *(auto-calc)* Taken from your entry on screen 2, this is the total amount of LARZ NOL carryover from prior years actually deducted this year.
- 5 LARZ taxable income.** *(auto-calc)* Computed as line 3 less line 4.
- 6a Amount of tax due using the amount on line 5.** *(auto-calc)* Computed using the FTB tax table or tax rate schedule for 2009, whichever applies, as if the amount on line 5 was your entire taxable income.

6b Amount of tax from Form 540, line 35. *(auto-calc)* Taken from Form 540, as indicated.

7 Limitation based on LARZ income. *(auto-calc)* Computed as the smaller of line 6a or line 6b, this is the limitation on credit carryover for 2009 based on your LARZ business income.

Application of LARZ income and net tax limitations:

Part II of Schedule Z requires a knowledge of the tax limitations imposed on the LARZ credit in Part III of Schedule P. Therefore, the credit after applying the limitation shown on line 7, above, must be posted to Schedule P, then the amount used this year after applying the limitations on Schedule P is returned to this form, as summarized in this section. The application of the limitations to each of the three parts of the LARZ credit is then performed in Part II of Schedule Z.

Carryovers before limitations. *(auto-calc)* Taken from "TOTAL credit before limitation" on screen 2, this is the sum of the three LARZ credit carryovers, which are not separately shown on Schedule P.

Credit for Schedule P, column (a). *(auto-calc)* Computed as the lesser of the preceding total and the amount on line 7 of Schedule Z, Part I, this is the tentative credit carryover limited to the LARZ income for the business. This amount is posted to column (a) of Schedule P, Part III, Section B, Subsection B2 for credit code 159, which is the LARZ Hiring & Sales or Use Tax Credit.

Limitation based on net tax. *(auto-calc)* Taken from Schedule P, this is the tax balance after claiming all credits that are taken *before* the code 159 credit on Schedule P.

CREDIT USED ON SCHEDULE P, COLUMN (B). *(auto-calc)* Computed as the lesser of the preceding two lines, this is the amount of code 159 credit used this year, which will agree with the amount in column (b) of Schedule P, Part III, Section B, Subsection B2 for credit code 159 (computed independently on Schedule P). This amount is allocated among the three Form 3806 credits at column (d) of Schedule Z, Part II, lines 8A, 9A, and 10A, below.

Part II – Limitation of Credit Carryovers for Individuals:

As noted above, the credit posted to Schedule P is the sum of the three Form 3806 credits, and the tax balance limitation is applied to that sum. Accordingly, only amounts for all three credits combined are shown on Schedule P for credit before limitation, credit used this year, and carryover to next year. By contrast, the limitations are applied separately on Form 3806 to each of the three credits in Part II of Schedule Z. LARZ income and tax balance limitations are applied first to the construction hiring credit at line 8, then to the general hiring credit at line 9, then to the sales or use tax credit at line 10.

8 Construction hiring credit:

A(c) Limitation based on LARZ business income. *(auto-calc)* Taken from line 7 of Schedule Z, Part I.

(d) Used on Schedule P. *(auto-calc)* Computed as the lesser of the preceding amount, your entry for "Construction hiring carryover" on screen 2, and the result on screen 4 for "Limitation based on net tax."

B(b) Total prior-year credit carryover. *(auto-calc)* Taken from your entry for "Construction hiring carryover" on screen 2, this is the current-year hiring credit before LARZ business income and tax balance limitations.

(c) Limitation based on LARZ business income. *(auto-calc)* Contrary to the implications of the FTB label, this amount is taken from line 8A(d), which includes the limitation to tax balance in addition to the limitation based on EZ business income, so that the carryover on line (e) is not understated.

(e) Carryover, column (b) minus column (c). *(auto-calc)* Computed as indicated, this is the amount of construction hiring credit carryover that can be carried over to 2010.

9 General hiring credit:

A(c) Limitation based on LARZ business income. *(auto-calc)* Computed as the amount on line 8A(c) less than amount on line 8B(c), this is the part of the LARZ business income limitation not used for the construction hiring credit, and therefore available for the general hiring credit.

(d) Used on Schedule P. *(auto-calc)* Computed as the lesser of the preceding amount, your entry for "General hiring carryover" on screen 2, and "Limitation based on net tax" (on screen 4) less line 8A(d).

B(b) Total prior-year credit carryover. *(auto-calc)* Taken from your entry for "General hiring carryover" on screen 2, this is the current-year general hiring credit before LARZ business income and tax balance limitations.

(c) Limitation based on LARZ business income. *(auto-calc)* Contrary to the implications of the FTB label, this amount is taken from line 9A(d), which includes the limitation to tax balance in addition to the limitation based on EZ business income, so that the carryover on line (e) is not understated.

(e) Carryover, column (b) minus column (c). *(auto-calc)* Computed as indicated, this is the amount of general hiring credit carryover that can be carried over to 2010.

10 Sales or use tax credit:

A(c) Limitation based on LARZ business income. *(auto-calc)* Computed as the amount on line 9A(c) less the amount on line 9B(c), this is the part of the LARZ business income limitation not used for either of the two hiring credits, and therefore available for the sales and use tax credit.

(d) Used on Schedule P. *(auto-calc)* Computed as the lesser of the preceding amount, your entry for "Sales or use tax carryover" on

screen 2, and "Limitation based on net tax" (on screen 4) less line 8A(d).

B(b) Total prior-year credit carryover. *(auto-calc)* Taken from your entry for "Sales or use tax carryover" on screen 2, this is the current-year sales or use tax carryover before LARZ business income and tax balance limitations.

(c) Limitation based on LARZ business income. *(auto-calc)* Contrary to the implications of the FTB label, this amount is taken from line 10A(d), which includes the limitation to tax balance in addition to the limitation based on LARZ business income, so that the carryover on line (e) is not understated.

(e) Carryover, column (b) minus column (c). *(auto-calc)* Computed as indicated, this is the amount of sales or use tax credit carryover that can be carried over to 2010.

Part III – Limitation of Credit Carryovers for S Corporations Only. Not applicable to Form 540 returns.

Part IV – Limitation of Credit Carryovers for Corporations and S Corporations Subject to Paying Only the Minimum Franchise Tax. Not applicable to Form 540 returns.

Extra line for personal memos. Provided for supporting statements that will not be printed with the official return.

Form 3885A / Depreciation and Amortization Adjustments

Little conformity since September 11, 2001, to recent federal legislation from 1987 through Jan. 1, 1993, and starting January 1, 1997, but not otherwise. California adopted the ACRS method for property placed in service in 1987 or later, bringing it into conformity with the federal laws for several years. Conformity was less perfect in 1993 through 1996, but California caught up with the federal laws in 1997. However, since September 11, 2001, California has adopted few of the federal changes. Most notably, California has never adopted the special "bonus" depreciation that has appeared off and on since 2001, including the huge increases in section 179 expensing for 2008 and the special "bonus" depreciation for most tangible property in 2008. This means that depreciation claimed on the federal return for newly acquired property will typically be much higher than that claimed on the California return for most property. And depreciation adjustments for property placed in service before 1987 are necessary because California still followed the federal pre-1981 depreciation methods up until 1987. As a result, the translation from the federal Form 4562 is a good starting point but is seldom the whole picture.

Multi-scheduling conforms to federal return. The requires that a separate Form 4562 be completed for each separate business. The translation from the federal return therefore creates a separate Form 3885A for each separate copy of Form 4562 on the federal return. The automatic linking with the return matches the federal approach through the special California Worksheets A, C, E, F, and 4835. The copy number, the indication of the supported worksheet, and the business activity are therefore all automatically translated from the corresponding copy of Form 4562. By contrast, the FTB instructs filers to omit Form 3885A when the activity is passive and reported on Form 3801. Nevertheless, the detail on Form 3885A is required in support of Form 3801 entries, so we retain the form even when the adjustments are passed through Form 3801. (**CAUTION:** Although any federal Form 4562 associated with a federal Form 2106 is translated to the California Form 3885A, any adjustments resulting on that copy of Form 3885A are not posted anywhere automatically. You must enter any adjustments on the appropriate lines of the return, such as on Worksheet A or Schedule CA.)

CAUTION: View all worksheets after translation. Because the California format differs from the federal format, you **MUST** view all translated worksheets for Form 3885A to ensure their proper calculation and posting. Moreover, whenever you view ONE worksheet attached to a particular line, you must view ALL worksheets attached to the same line in order to ensure that all translated worksheets are included in the totals for the line.

Reshuffling of worksheets may be necessary. Because of the differences between California and federal formats, *you may also need to remove some worksheets translated from the federal return and add others.* The California form separates new (2009) property from all other property, and California

law differed greatly from federal law before 1987. As a result there are three time periods into which we separate the form for data entry purposes: 2009 property, 1987 through 2008 property, and pre-1987 property. The federal form does not provide such a separation in some areas, however, so our translation of worksheets from the federal return may include translation of some worksheets to the wrong groups. You may therefore have to remove some translated worksheets (by means of the Remove Key, shift-F3 or ctrl-R) and reenter their data in worksheets attached to other lines. Areas where this must be done include the following:

Section 168 Property. The worksheets attached to line 15 of the federal Form 4562 are translated to the Section 168 Worksheets for line 5 of the California form. However, the federal line can include property placed in service during 2009. The worksheets for 2009 property must be removed from line 5 and their data must be reentered on a Section 168 Worksheet for line 3.

50-year Property. The worksheets attached to the line above line 22 of the federal Form 4562 are translated to the MACRS/ACRS worksheets for line 5 of the California form. However, the federal line can include property placed in service during 2009. The worksheets for 2009 property must be removed from line 5 and their data must be reentered on MACRS/ACRS Worksheets for line 3.

Listed Property. The worksheets attached to lines 25 through 29 of the federal Form 4562 are translated to the MACRS/ACRS worksheets for line 5 of the California form. However, the federal lines 25 through 29 and their attached worksheets may include property placed in service during 2009 and property placed in service before 1987. Those Listed Property Worksheets must be removed from line 5; the 2009 data must then be reentered on MACRS/ACRS Worksheets for line 3, and the pre-1987 data must be reentered on Pre-87 Depreciation Worksheets for line 5.

Other depreciation. Similar procedures may be necessary for the federal "other depreciation" line above line 16 of federal Form 4562, but only rarely. This line is used almost exclusively for pre-1981 property on the federal return. But for the rare special cases of newer property (1987 or newer) where ACRS depreciation methods are not allowed on the federal return, you may have to remove the worksheets and reenter them elsewhere.

Altering of entries on some other worksheets may also be necessary. Even for worksheets that are already translated to the proper lines, you may have to alter some entries on the worksheets because of past differences between federal and California law.

Pre-1987 property. Adjustments are almost always required for property placed in service before 1987, when California had not yet conformed to federal ACRS methods.

Post-1992 property. Adjustments are often required for property placed in service in 1993 or later if section 179 deductions were claimed.

The California ceiling remained at \$10,000 until 1997 while the federal ceiling rose to \$17,500 in that time; the California ceiling for 1997 was \$13,000 while the federal one was \$18,000; and the California ceiling for 1998 was \$16,000 while the federal one was \$18,500. (For 1999 both the California and federal ceilings were \$19,000, for 2000 both were \$20,000, for 2001 and 2002 both were \$24,000, but since 2003 the California ceiling has been \$25,000 while the federal ceiling is a whopping \$100,000 for 2003, \$102,000 for 2004, \$105,000 for 2005, \$108,000 for 2006, \$125,000 for 2007, and \$250,000 for 2008 and 2009.)

Post-9/10/01 property. California has no provision analogous to the federal special 30% or 50% special depreciation allowance for new property. Since this special allowance is mandatory unless you elect out of it, an adjustment to the depreciation basis will now almost always be necessary.

Nonresidential real property after May 12, 1993, but before January 1, 1997. Finally, adjustments are also necessary for nonresidential real property placed in service on or after May 13, 1993, but before January 1, 1997, when the federal recovery period was increased from 31.5 years to 39 years while the California recovery period remained at 31.5 years.

PART I, IDENTIFY THE ACTIVITY AS PASSIVE OR NONPASSIVE. A single Form 3885A applies to a single activity, and so relates to either a passive or a nonpassive activity. When the activity is identified as passive, adjustments are passed through Form 3801 and eventually reflected in Schedule CA through lines labeled as PAL adjustments. But when the activity is identified as nonpassive, adjustments are passed directly through Schedule CA.

I Completed for passive Activity? (*auto-calc*) The answer to the passive activity question is determined automatically based on your answers on the worksheet or schedule to which this copy of Form 3885A is attached. For an unattached copy or a copy for Schedule A, however, you may have to override the automatic entry.

Completed for nonpassive Activity? (*auto-calc*) Automatically the opposite of the above answer.

PART II, ELECTION TO EXPENSE CERTAIN TANGIBLE PROPERTY. California has an expensing provision similar to the federal provision for the year the property is first placed in service. However, the California ceiling is only \$25,000 for 2009, in sharp contrast with the federal ceiling of \$250,000.

FTB Sec. 179 Calculations. In order to determine the deductible amount for line 2 of Form 3885A, the FTB provides a worksheet in its instructions for Form 3885A which parallels the lines in Part I of federal Form 4562, but with different dollar limits and with qualified zone lines omitted. The worksheet appears on the screen, but you should refer to the instructions for Part I of Form 4562 that appear in Chapter 2 of the *Tax Forms Guide 2010 Edition* for details.

I Maximum dollar limitation. (*auto-calc*) Normally \$25,000 for 2009.

- MFS: cost of section 179 property for spouse.** If married filing separately, your spouse's property also counts for line 2.
- 2 Total cost of sec 179 property placed during the tax year.** *(auto-calc)* Computed as the total cost of assets for which you claim section 179 deductions at lines 6a (taken from your entries on the Section 179 Worksheets) and 6b (taken from your entries on the Listed Property Worksheets), plus, if married filing separately, all of the spouse's other Section 179 property.
- 3 Threshold cost before reduction in limitation.** *(auto-calc)* Automatically \$200,000.
- 4 Reduction in limitation.** *(auto-calc)* An excess cost is computed here as the total cost in line 2 less the threshold in line 3, but no less than zero.
- MFS: \$ deviation from 50/50 rule.** *(For MFS filing status ONLY.)* The dollar limitation is line 1 less line 4, but married taxpayers filing separately must split this amount between themselves. A 50/50 split is normal, but the FTB allows you to make a different split as long as the two of you deduct no more than the dollar limitation on both of your returns combined. This line is therefore provided to alter the split by allowing you to enter a dollar adjustment to the 50/50 split ranging from line 1 less line 4 to line 4 less line 1.
- 5 Dollar limitation for the tax year.** *(auto-calc)* Computed as line 1 less line 4, plus the preceding deviation if married filing separately, but no less than zero.
- 6 Other than listed property.** *(Supported by the Section 179 Worksheet.)* The claim for property placed in service in the current tax year is detailed here for all except listed property. The Section 179 Worksheets for this line are translated from the federal Section 179 Worksheets that support line 6 of federal Form 4562.
- 7 Listed property.** *(Supported by the Section 179 Worksheet.)* The claim for listed property is shown here. The Section 179 Worksheets for this line are translated from the federal Listed Property Worksheets that support lines 26 and 27 of federal Form 4562. All listed property worksheets are translated to this line, but only new property will have a section 179 deduction. You may therefore want to remove the extraneous worksheets with the Remove Key (shift-F3 or ctrl-R), but their presence will not affect the calculations for the return nor the official printouts for the FTB.
- 8 Total elected section 179 cost.** *(auto-calc)* Computed as line 6 plus line 7.
- 9 Tentative deduction.** *(auto-calc)* Computed as the lesser of line 5 or line 8. Limitations A and B on the second page of the Form 4562 section of Chapter 2 of the main *Tax Forms Guide 2010 Edition* are enforced here.
- 10 Carryover of disallowed deduction from 2008.** Enter here any amount of section 179 deduction disallowed on the California return

in 2008 because of the limitation of the deduction to taxable business income.

Adjustment to taxable income limitation. The software takes into account all wages and self-employment income throughout the return, but does not prorate it among separate Forms 4562. As a result, if you have more than one Form 3885A with Sec. 179 deductions, you will have to make a negative entry here to reduce the limitation on line 11 by the amount allocated to other Forms 3885A.

11 Taxable income limitation. *(auto-calc)* The limitation is applied here.

12 Section 179 expense deduction. *(auto-calc)* Computed as the lesser of line 11 or the sum of lines 9 and 10. This amount is carried to line 2 of Form 3885A, below.

13 Carryover of disallowed deduction to 2010. *(auto-calc)* Computed as line 9 plus line 10 less line 12, this is the amount disallowed due to the taxable income limitation on line 11, and can be used on next year's Form 3885A.

2 Amount from FTB worksheet. *(auto-calc)* Taken as line 12 of all the above FTB Sec. 179 Worksheets, this is the amount of the California deduction for section 179 expense. The adjustment relative to the federal amount is figured after line 8, because line 8 includes the federal Sec. 179 deduction in addition to all other depreciation.

PART III, DEPRECIATION. All depreciation other than the Section 179 deduction is figured here. The only details actually printed on the California Form 3885A are those for property newly placed in service in 2009. But the bulk of the calculations for the adjustments to be posted to Schedule CA apply to earlier years, especially before 1987, when California differed most appreciably from federal law. *CAUTION: California has not conformed to federal provisions for a special "bonus" depreciation for property placed in service in 2009.*

3 2009 California depreciation. *(Supported by the MACRS/ACRS Worksheet.)* These worksheets are translated from the worksheets for lines 19a through 20c of federal Form 4562, all of which are used solely for property newly placed in service in 2009. *CAUTION: If the lines on the federal Form 4562 for 50-year Property or Listed Property include property newly placed in service in 2009, you must remove those worksheets from the set at line 5 and reenter the data anew on the worksheets for THIS line.*

2009 California section 168 property. *(Supported by the Section 168(f)(1) Worksheet.)* No federal worksheets are translated to this line, so if any property reported on line 15 of the federal Form 4562 was placed in service in 2009, you must remove the corresponding Section 168 Worksheet that is translated to line 5 and reenter its data on a worksheet attached to this line.

2009 California listed property. *(Supported by the Listed Property Worksheet.)* No federal worksheets are translated to this line, so if any property reported on lines 25 through 29 of the federal Form

4562 was placed in service in 2009, you must remove the corresponding Listed Property Worksheet that is translated to line 5 and reenter its data on a worksheet attached to this line.

4 Add amounts on line 3, column (f). *(auto-calc)* Computed as the sum of line (f) for the above depreciation worksheets, this is the total ONLY for newly placed property.

5 California depreciation for assets placed prior to 2009. A number of separate sets of worksheets support this line because of differences between the federal and California forms and laws over the years. The data for most worksheets for property placed in service after 1986 or before 1993 will not need to be modified because of close conformance of California law to federal law. But see the preceding shaded areas for exceptions.

Pre-2009 California section 168(f)(1) property. *(Supported by the Section 168(f)(1) Worksheet.)* Translated from line 15 of federal Form 4562, including all worksheets attached to the line. You must modify the translated worksheets only to reflect past differences in the law. Be sure to remove worksheets from this line for any property newly placed in service in 2009, and reenter it in Sec. 168 Worksheets for line 3. (This line is reserved for property you elect on the federal return to depreciate by the units-of-production method or any other method not based on a term of years.)

1987 to 2008 California ACRS property. *(Supported by the MACRS/ACRS Worksheet.)* Translated from line 17 of federal Form 4562. MACRS depreciation was allowed by California starting in 1987, so you will rarely have to modify the amounts translated to these worksheets from the federal Form 4562 unless you claimed section 179 deductions after 1992 or claimed depreciation for non-residential real property placed after May 12, 1993.

Pre-1987 California ACRS property. *(Supported by the Depreciation Worksheet for Pre-87 ACRS Property.)* Translated from the line two lines above line 16 of federal Form 4562. All ACRS Worksheets are translated to Depreciation Worksheets of the type described in the *Tax Forms Guide 2010 Edition* for "Other depreciation" at line 16 of Form 4562 because California did not allow ACRS depreciation methods before 1987. For each worksheet you must adjust the basis, enter past depreciation claimed on the California return, and select the depreciation method you have used for the property on the California return in the past.

Pre-2009 California other depreciation. *(Supported by the Depreciation Worksheet.)* Translated from the line above line 16 of federal Form 4562. For this line, you must often alter the entries for all translated worksheets to reflect past differences in the law.

1987 to 2008 California listed property. *(Supported by the Listed Property Worksheet.)* Translated from the worksheets that support lines 26 and 27 of federal Form 4562. MACRS depreciation was allowed by California starting in 1987, so you may not have to modify the

amounts translated to these worksheets from the federal Form 4562 for post-1986 property. However, because California limitations for section 179 deductions differed from federal limitations starting in 1993, you may have to change the depreciation basis for these properties. **CAUTION:** Because the federal form reports both new and old listed property on the same line, some worksheets for pre-1987 property may be translated to this line. The results for those worksheets will be automatically zeroed when you view the supporting pages, but you will have to reenter the data on the worksheets for the proper lines.

Pre-1987 listed property. *(Supported by the Depreciation Worksheet for Pre-87 Listed Property.)* The data for any Listed Property Worksheets, above, that is zeroed because it is for post-1986 property must be reentered on these worksheets. For each worksheet page for pre-1987 property you must adjust the basis as necessary, enter past depreciation claimed on the California return, and select the depreciation method you have used for the property on the California return in the past.

5 California depreciation for assets placed prior to 2009. *(auto-calc)* Computed as the results from all of the above worksheets.

6 Total California depreciation. *(auto-calc)* Computed as the sum of lines 2, 4, and 5.

7 Total federal depreciation. Translated from line 22 of federal Form 4562.

8 Depreciation adjustment. *(auto-calc lines)* Line 8a is computed as line 6 less line 7, but no less than zero, and line 8b is computed as line 7 less line 6, but no less than zero. Note that these adjustments are *NOT* necessarily posted directly to Schedule CA because of the involvement of Form 3801 for passive activities.

PART IV, AMORTIZATION. The amortization adjustment is nominally determined by comparing the deductions claimed in the following worksheet with those claimed on the federal form:

9 2009 amortization. *(Supported by the Amortization Worksheet.)* This line is translated from line 42 of federal Form 4562, which is used for reporting the amortization of 2009 property.

10 Total California amortization. *(auto-calc)* Computed as the sum of line (f) for all above amortization worksheets, this is the total ONLY for newly placed property.

11 California amortization for property placed before 2009. *(Supported by the Amortization Worksheet.)* This line is translated from line 43 of federal Form 4562, which is used for reporting the amortization of pre-2009 property. Several particulars of the California law differ from the federal law, especially for amortization initiated several years ago, so the worksheet entries transferred from the federal return may have to be altered.

- 12 Total California amortization.** *(auto-calc)* Computed as the sum of lines 10 and 11.
- 13 Total federal amortization.** Translated from total amortization at line 44 of federal Form 4562.
- 14 Amortization adjustment.** *(auto-calc)* Line 14a is computed as line 12 less line 13, but no less than zero. Line 14b is computed as line 13 less line 12, but no less than zero. Note that these adjustments are NOT necessarily posted directly to Schedule CA because of the involvement of Form 3801 for passive activities.

Extra line for personal memos. Provided for supporting statements that will not be printed with the official return.

Allocation to Schedule CA. The net adjustment from all activities is the sum of lines 8a and 14a less the sum of lines 8b and 14b from both the nonpassive and passive sections. Worksheets A, C, E, F, and 4835 are used to collect all adjustments from Form 3885A, then the nonpassive parts are posted directly to Schedule CA, which those worksheets support through the Road Map. The passive parts are passed through Form 3801 before separate posting to Schedule CA.

Form 5805/5805-F / Underpayment of Estimated Tax

HINT: It may be advisable NOT to file Form 5805. Thanks to an offer from the FTB, there is a strong impetus for not filing this form yourself. If you file Form 5805 and compute the penalty yourself, you must pay the penalty with the return; but if you let the FTB compute the penalty, you do NOT have to pay the penalty when you file, but only when the FTB bills you. Nevertheless, we provide the form with its full automation so that taxpayers are not caught unaware of a penalty they may owe.

Automatically generated. Note that a California Form 5805 is automatically created during translation if a federal Form 2210 was completed. You may not need to file this form, however, if there is no question of a penalty, and you may therefore have to remove the form from the California return. If no Form 2210 existed on the federal return, but you may be subject to a penalty on the California return, Form 5805 will be automatically generated and completed based on the information available on Form 540 (unless you specified on the Control Form the blocking of the auto-creation of Form 5805). ***CAUTION: In order for the automated Form 5805 to take into consideration the special exceptions that are based on 2008 amounts, you must supply the information from the 2008 California return that is requested on screen 1 of the Control Form.***

Farmers and fishermen get an extra break. Like federal Form 2210-F, qualifying farmers and fishermen can use Form 5805-F to compute the penalty rather than Form 5805. It provides more exceptions, and an ability to avoid all late-payment penalties if you file and pay all tax due by March 1, 2010. And, like Form 2210-F, Form 5805-F is built into the software and automatically used in place of Form 5805 when applicable.

Fully automatic unless you qualify for a special exception. The form is automatically completed and computed based on the withholding and estimated tax payments reported on Form 540. If you qualify for an exception based on your prior-year tax return, however, you must enter the additional information on the Control Form and Form 5805 to benefit from the exception. In addition, like the federal Form 2210, the software assumes that late payments are made on the next due date, not on some intermediate date, so you may have to override the computations if you make payments on other dates.

Information from 2008 and 2009. The following information is used to determine whether you qualify for any standard exceptions to the penalty. Amounts for 2008 are determined from your entries on the Control Form, and amounts for 2009 are determined from the current Form 540.

Full 12 months for 2008 included below? *(auto-calc)* If you supplied 2008 information on screen 1 of the Control Form and answered Yes to the corresponding question that appears there, a Yes will appear here and 2008 amounts will be considered in the following exceptions. Otherwise the worst case is assumed: that you do not

qualify for any reduction in payment requirements based in your 2008 tax.

2008 Form 540, line 30,* 31, and 32 less lines 39 and 43. *(auto-calc)*

Computed as indicated based on your entries on screen 2 of the Control Form, except that the amount for line 30 is modified by removing any Schedule G-1 tax included in line 23 of the 2008 Form 540.

2008 Form 540 lines 36 and 38. *(auto-calc)* Computed as indicated based on your entries on screen 2 of the Control Form.

2009 Form 540, line 48,* 61, and 62 less lines 74 and 78. *(auto-calc)*

Computed as indicated based on the current Form 540, except that the amount for line 48 is modified by removing any Schedule G-1 tax included in line 34 of the current Form 540.

2009 Form 540 lines 71 and 73. *(auto-calc)* Computed as indicated based on the current Form 540.

EXCEPTIONS. The exceptions that are unique to a California return are described here, because there is no parallel on the federal Form 2210. If you qualify for any of these exceptions, no penalty is computed. Only one entry is required here (the question at Exception 3). All other entries are automatically determined from the amounts shown on screen 1.

1 Were you required to pay LESS than \$500 (\$250 if MFS) with either your 2008 OR 2009 tax return? If so, you qualify for an exception.

a For 2009: Form 540, line 48 (less any G-1 tax in line 34), 61, and 62 less lines 74 and 78. *(auto-calc)* Taken from screen 1 of this form.

b 2009 Form 540 lines 71 and 73. *(auto-calc)* Taken from screen 1 of this form.

c Subtract line b from line a. *(auto-calc)* Computed as indicated.

Qualify for 2009 exception 1. *(auto-calc)* If line c is less than \$100 (\$50 if married filing separately), you qualify and the penalty on Form 5805 will be zero.

d For 2008: Form 540, line 30 (less any G-1 tax in line 23), 31, and 32 less lines 39 and 43. *(auto-calc)* Taken from screen 1 of this form.

e 2008 Form 540 lines 36 and 38. *(auto-calc)* Taken from screen 1 of this form.

f Subtract line e from line d. *(auto-calc)* Computed as indicated.

Qualify for 2008 exception 1. *(auto-calc)* If line f is less than \$500 (\$250 if married filing separately), you qualify and the penalty on Form 5805 will be zero.

2 Your 2008 return was for a full 12 months and you did not have any tax liability on that return? If so, you qualify for an exception.

a For 2008: Form 540 line 30 (less any G-1 tax in line 23), 31, and 32 less lines 39 and 43. *(auto-calc)* Taken from screen 1 of this form.

Qualify for exception 2. *(auto-calc)* You qualify if the above amount is zero AND you answered Yes to "2008 amounts entered for Form

5805" on the Control Form, and the penalty on Form 5805 will then be zero.

3 Were 2009 estimated tax plus withholding payments at least 90% of 2009 tax or 100% of 2008 tax liability (110% if 2008 AGI was more than \$150,000, \$75,000 if married filing separately)? If so, you may qualify for an exception, but further requirements apply as noted below.

2009 tax paid in required installments? You cannot qualify for the exception unless you can answer Yes.

a 2009 Form 540 lines 71, 73, 74, and estimated tax payments in 72. *(auto-calc)* Taken from screen 1 of this form, but adding estimated tax payments included in line 37 of the current Form 540. (Payments in line 37 that stem from a filing extension are excluded.)

b Tax on 2009 Form 540, line 48 (less any G-1 tax in line 34), 61, and 62 less lines 74 and 78. *(auto-calc)* Taken from screen 1 of this form.

c Divide line a by line b. *(auto-calc)* Computed as indicated.

Qualify for 2009 exception 3. *(auto-calc)* You qualify if line c is at least 0.9.

d Tax on 2008 Form 540, line 30 (less any G-1 tax in line 23), 31, and 32 less lines 39 and 43. *(auto-calc)* Taken from screen 1 of this form.

e Divide line a by line d. *(auto-calc)* Computed as indicated, but no more than 1.1.

Qualify for 2008 exception 3. *(auto-calc)* You qualify if line e is one or more (1.1 or more if 2008 AGI was more than \$150,000, or \$75,000 if married filing separately).

Remainder of form parallels federal Form 2210. The remaining parts of the basic Form 5805 parallel federal Form 2210, including Form 2210-F for farmers and fishermen, although certain percentages differ. The Annualized Method portion of Form 5805 also parallels corresponding portion of federal Form 2210, except for the omission of a self-employment section. You should therefore consult the detailed instructions for Form 2210 in Chapter 2 of the *Tax Forms Guide 2010 Edition* for additional help.

Form 5805 printout may be unintuitive when the Regular Method is used. Unlike the IRS, the FTB does not include the Regular Method on the Form 5805 to be filed. Instead, they provide a Worksheet II in the instructions and instruct you to enter line 16 of that worksheet on the last line of page 1 of Form 5805, which is line 13 of the Short Method section, with the rest of the Short Method section left blank. Although our on-screen displays more logically keep the Short Method screen (screen 7) and the Regular Method screens (screens 8 through 12) separate, the software follows the IRS instructions in the printing of the form to be filed with the FTB, as illogical as it may seem.

Form 5870A* / Tax on Accumulation Distribution of Trusts

*** Included in Premium Level software ONLY.** Once installed, this form will be only built into the Premium Level version of the California Supplement.

Not yet complete. At the time this supplement was written, this form was not yet installed in the software and its instructions were not yet complete. Be sure to "Check for Updates" frequently from the *Tax Preparer Control Panel* to keep your software and this supplement up-to-date.

Purpose. This form, which is analogous to federal Form 4970, is used to figure the additional tax on an accumulation distribution made by a foreign trust and certain domestic trusts. *When available, Form 5870A will be accessible through the Road Map at line 34 of Form 540.*

Worksheet A / Itemized Deductions

Collects adjustments to federal Schedule A. This worksheet is not an FTB form or schedule but is built into the software to make the automation of the return complete. It collects relevant data from federal Schedule A and the copy of California Form 3885A (Depreciation and Amortization Adjustment) that relates to federal Schedule A, then allocates the results to the proper adjustment lines on Schedule CA (California Adjustments Schedule). Several of the amounts shown here are also used in Part I of California Schedule P (adjustments and preferences for AMT). The worksheet is printed as a part of the return in support of the entries that appear on Schedule CA.

MEDICAL AND DENTAL EXPENSE. Adjustments to line 4 of federal Schedule A are handled here. In this and all subsequent sections, the line flagged by an arrow is the resulting California itemized deduction for each section.

Amount on federal Schedule A, line 1. Translated as indicated, this the amount of medical and dental expenses reported on the federal return before limitation to the amount that exceeds 7.5% of AGI.

Medical benefit paid for RDP. Because registered domestic partners (RDPs) are treated like spouses for the California return, but not the federal return, you can include here health insurance paid on behalf of the RDP. It could lead to a positive adjustment for Schedule CA once the AGI limit is exceeded. However, do not include any insurance you claimed at line 29 of Schedule CA.

Other adjustment to federal Schedule A, line 1. Most taxpayers would have no other adjustment, but this line is provided for unusual exceptions.

California adjustment to federal Schedule A, line 1. *(auto-calc)* Computed as the sum of the above two amounts.

Federal Schedule A, line 1 using California amounts. *(auto-calc)* Computed as the amount on federal Schedule A, line 1, plus the preceding adjustment.

Amount on Federal Schedule A, line 2. *(auto-calc)* Taken from line 13 of Form 540, this is the federal AGI for the return.

Amount on Federal Schedule A, line 3. *(auto-calc)* Computed as 7.5% of the preceding line, this is the floor below which no medical expenses are deductible. California conforms fully with this limitation, including the use of federal AGI rather than California AGI.

➔ **Federal Schedule A, line 4 using California amounts.** *(auto-calc)* Computed as the amount by which "Federal Schedule A, line 1 using California amounts" exceeds the preceding floor.

Amount on federal Schedule A, line 4. Translated as indicated, this the net amount of medical and dental expenses claimed on the federal return after applying the AGI-related limitation.

California adjustment to federal Schedule A, line 4. *(auto-calc)* Computed as "Federal Schedule A, line 4 using California amounts" less the amount on the preceding line.

TAXES YOU PAID. Adjustments to line 9 of federal Schedule A are handled here.

Amount on federal Schedule A, line 9. Translated as indicated, this is the total tax deducted on federal Schedule A.

State/local taxes on federal Schedule A, line 5. Translated from federal Schedule A as indicated, this is state and local income or sales tax deducted on the federal return, including state disability insurance (SDI).

1099 foreign taxes included in federal Schedule A, line 8. Translated from the line "1099 foreign inc tax in A, ln 8" on our federal Schedule A, this is the foreign tax elected to be deducted on Schedule A rather than claimed on Form 1116.

Other foreign income taxes included in federal Schedule A, line 8. Translated from the line "Other foreign inc tax in A, ln 8" on our federal Schedule A, this is all other foreign tax claimed as an itemized deduction on the federal return.

Other nondeductible taxes included in line 8. Translated from the line "Other fed-deductible" on our federal Schedule A, this is the part of line 8 identified on the federal return as deductible *ONLY* on the federal return (other than the preceding foreign taxes).

California adjustment to federal Schedule A, line 9. *(auto-calc)* Computed as the negative of the sum of the preceding four taxes from federal Schedule A, and reflected in Schedule CA line 38.

→ **Federal Schedule A, line 9 using California amounts.** *(auto-calc)* Computed as "Amount on federal Schedule A, line 9" plus the preceding adjustment.

INTEREST YOU PAID. Adjustments to line 15 of federal Schedule A are handled here.

Amount on federal Schedule A, line 14. Translated as indicated, this is the investment interest deducted on federal Schedule A.

Investment interest adjustment on California Form 3526. *(Road Map line for Standard and Premium Level software, supported by Form 3526.)* The difference between investment interest claimed on California Form 3526 and investment interest claimed on federal Form 4952 is reported here.

Federal Schedule A, line 14 using California amounts. *(auto-calc)* Computed as "Amount on federal Schedule A, line 14" plus the preceding adjustment.

Amount on federal Schedule A, line 15. Translated as indicated, this is the total interest deducted on federal Schedule A.

Mortgage interest credit on federal Form 8396. Translated from the line above line 10 of the federal Schedule A, this is mortgage interest credit on IRS Form 8396 that reduced your federal itemized deductions at line 10 of Schedule A.

Investment interest adjustment from California Form 3526. *(auto-calc)*

Taken from the earlier line that has the same label, this is the part of the adjustment to Schedule A, line 15 that stems from Schedule A, line 14.

Other interest adjustment. Enter any other interest adjustment here.

An example of interest reportable here but not deductible on the federal return is interest you paid on a loan from a utility company used to pay for energy-efficient products for California residences.

California adjustment to federal Schedule A, line 15. *(auto-calc)* Computed as the sum of the preceding three adjustments.

- **Federal Schedule A, line 15 using California amounts.** *(auto-calc)* Computed as "Amount on federal Schedule A, line 15" plus the preceding adjustment.

GIFTS TO CHARITY. Adjustments to line 19 of federal Schedule A are handled here.

Amount on federal Schedule A, line 16. Translated from the federal return as indicated, these are the contributions made by cash or check.

Amount on federal Schedule A, line 17. Translated from the federal return as indicated, these are the noncash contributions.

California carryover from prior year. Enter the carryover from prior years. This line is *NOT* translated from the federal return because federal and California limitations differed substantially before the California Tax Reform Act, so the carryovers are almost always different.

Maximum contribution by federal law. *(auto-calc)* Computed as 50% of the federal AGI on line 13 of Form 540.

- **Federal Schedule A, line 19 using California amounts.** *(auto-calc)* Computed as the sum of federal lines 16 and 17 plus the California carryover, but no more than the maximum contribution by federal law.

Amount on Federal Schedule A, line 19. Translated from the federal Schedule A as indicated, this is the net deduction claimed for contributions to charities on the federal return.

California adjustment to federal Schedule A, line 19. *(auto-calc)* Computed as "Federal Schedule A, line 19 using California amounts" less the preceding federal deduction.

CASUALTY AND THEFT LOSSES. Adjustments to line 20 of federal Schedule A are handled here.

Amount on federal Schedule A, line 20. Translated as indicated, this is the amount of casualty and theft loss claim on the federal return through Form 4684.

California adjustment to federal Schedule A, line 20. Most taxpayers would have no adjustment, but differences could arise if the basis of the property lost is different under California rules.

- ➔ **Federal Schedule A, line 20 using California amounts.** *(auto-calc)*
Computed as "Amount on federal Schedule A, line 20" plus the preceding adjustment.

JOB EXPENSE AND MOST OTHER. Depreciation, amortization, and other adjustments to line 27 of federal Schedule A are handled here.

Amount on federal Schedule A, line 24. Translated from the federal Schedule A as indicated, this is the federal deduction before limitation to the amount that exceeds 2% of AGI.

Form 4684 deduction in federal Schedule A, line 28. Translated from the federal Schedule A as indicated, this amount is subject to the 2% of AGI floor on the California return even though it is not on the federal return.

Depreciation adjustment (Form 3885A). *(Road Map line, supported by Form 3885A.)* The copy of Form 4562 that is attached to federal Schedule A is translated to Form 3885A and attached to California Worksheet A. The amount on that appears here relates to the depreciation and amortization deductions included in line 23 of federal Schedule A.

Other adjustments to federal Schedule A, line 24. Enter any other adjustments here, such as adjustments for employee business expenses and nontaxable income expenses. You will have an adjustment for employee business expenses if the car depreciation you used on federal Form 2106 is different by California rules, which is likely for cars placed in service before 1987. You will have a positive adjustment for nontaxable income expenses if you failed to deduct on federal Schedule A expenses related to producing income that is taxable by California law but not by federal law. You will have a negative adjustment for nontaxable income expenses if you deducted on federal Schedule A expenses related to producing income that is taxable by federal law but not by California law. If any entries here come from a refigured amount from Form 2106, you must attach to the California return a copy of Form 2106 with the modified amounts.

California adjustment to federal Schedule A, line 24. *(auto-calc)* Computed as the sum of the preceding three lines.

Federal Schedule A, line 24 using California amounts. *(auto-calc)*
Computed as "Amount on federal Schedule A, line 24" plus the preceding adjustment.

Amount on federal Schedule A, line 25. *(auto-calc)* Taken from line 13 of Form 540, this is the federal AGI for the return.

Amount on federal Schedule A, line 26. *(auto-calc)* Computed as 2% of the AGI on the preceding line, this is the floor below which no expenses in this section are deductible. California conforms fully with this limitation, including the use of federal AGI rather than California AGI.

Other adjustment to federal Schedule A, line 27. Enter any other adjustment here.

- ➔ **Federal Schedule A, line 27 using California amounts.** *(auto-calc)* Computed as the amount by which "Federal Schedule A, line 24 using California amounts" exceeds the "Amount on federal Schedule A, line 26," plus the preceding additional adjustment.

Amount on federal Schedule A, line 27. Translated from the federal Schedule A as indicated.

California adjustment to federal Schedule A, line 27. *(auto-calc)* Computed as "Federal Schedule A, line 27 using California amounts" less the preceding amount.

MISCELLANEOUS DEDUCTIONS. Adjustments to line 28 of federal Schedule A are handled here.

Gambling losses in federal Schedule A, line 28. Translated from the "Gambling losses" line on our federal Schedule A.

California lottery losses. Enter here any gambling losses in the above that stem from the California lottery. These losses are *NOT* deductible on the California return.

California lottery loss adjustment. *(auto-calc)* Computed as the negative of the preceding amount.

Other adjustment to gambling losses. Enter any other adjustment here.

California adjustment to gambling. *(auto-calc)* Computed as the sum of "California lottery loss adjustment" and the preceding amount.

California-allowed gambling loss. *(auto-calc)* Computed as "Gambling losses in federal Schedule A, line 28" plus the preceding adjustment.

Amount on federal Schedule A, line 28. Translated from the federal Schedule A as indicated, this is the total miscellaneous deductions claimed on the federal Schedule A that are not subject to the 2%-of-AGI floor.

California gambling adjustment to federal Schedule A, line 28. *(auto-calc)* Taken from the previously-computed "California adjustment to gambling."

California Form 4684 adjustment to federal Schedule A, line 28. *(auto-calc)* Computed as the negative of the amount from federal Form 4684 that was added to the preceding section (JOB EXPENSE AND MOST OTHER). This amount is subject to the 2%-of-AGI floor on a California return.

Other adjustment to federal Schedule A, line 28. Enter any other miscellaneous adjustments here.

California adjustment to federal Schedule A, line 28. *(auto-calc)* Computed as the sum of the preceding three adjustments.

- ➔ **Federal Schedule A, line 28 using California amounts.** *(auto-calc)* Computed as "Amount on federal Schedule A, line 28" plus the preceding adjustment.

ALLOCATION TO SCHEDULE CA. *(auto-calc lines)* The adjustments in the preceding sections are summarized here.

FEDERAL DEDUCTIONS FOR SCHEDULE CA, LINE 38. *(auto-calc)*

Computed as the sum of the amounts on federal Schedule A lines 4, 9, 15, 19, 20, 27, and 28, each of which is shown in one of the preceding seven sections. This is the total federal itemized deduction claimed before the limitation for high AGI was imposed.

TOTAL ADJUSTMENT FOR SCHEDULE CA, LINE 39. *(auto-calc)*

Taken as the "California adjustment to federal Schedule A, line 9," but expressed as a positive number, this is the amount of taxes that were deducted on the federal return but are not deductible on the California return. They are subtracted from the federal deductions at line 40 of Schedule CA.

TOTAL ADJUSTMENT FOR SCHEDULE CA, LINE 41. *(auto-calc)*

Computed as the sum of California adjustments for federal Schedule A lines 4, 9, 15, 19, 20, 27, and 28, each of which is shown in one of the preceding seven sections. This is the net adjustment to the federal deductions excluding the adjustment for taxes (which is applied separately via line 39 of Schedule CA).

For Itemized Deductions Worksheet for Schedule CA, line 43:

California amounts for lines 4, 14, 20, and gambling part of 28. *(auto-*

calc) Computed as indicated, as shown in the preceding sections, this amount is used in the indicated worksheet to determine the amount for Schedule CA, line 43 after the phaseout for high AGI is applied.

Extra line for personal memos. Provided for supporting statements that will not be printed with the official return.

Worksheet B / Interest and Dividends

Collects adjustments to federal Schedule B. This worksheet is not an FTB form or schedule but is built into the software to make the automation of the return complete. It collects relevant data on federal Schedule B and computes adjustments for California Schedule CA based on amounts that are taxed differently on federal and California returns.

INTEREST INCOME. Adjustments to interest reported on federal Schedule B are computed here.

Federal taxable interest for Schedule CA, line 8, column A. The total on line 4 of federal Schedule B is translated to this line, which is posted to Schedule CA, line 8, column A.

U. S. Savings Bonds on federal Schedule B, line 2. The indicated amount is translated from the federal Schedule B line labeled "US Savings bonds, etc," which is identified on the 1099-INT worksheets. California DOES NOT tax interest on bonds or obligations of the U. S. or its territories, even though the federal government does.

Bonds excluded on federal Schedule B, line 3. The indicated amount is translated from the indicated line of federal Schedule B. It is the part of the preceding amount that is NOT included in federal AGI.

U. S. Savings Bonds in federal AGI. *(auto-calc)* Computed as the total U. S. Savings Bond amount less the preceding exclusion.

Other amounts taxed by federal but not California. Enter here any other U. S. obligations that are included in line 2 of the federal Schedule B. Be sure to include tax-free interest passed through to you through S corporations, partnerships, and trusts, which are taxed on the federal return. Do not include, however, amounts that are taxable by California, such as all interest from FNMA bonds, GNMA bonds, and FHLMC securities.

INTEREST SUBTRACTION for Schedule CA, line 8, column B. *(auto-calc)* Computed as the U. S. Savings Bonds in federal AGI plus the preceding entry, this result is posted to Schedule CA, line 8, column B.

California taxable amount included in Form 1040 line 8b. The indicated amount is translated from the federal Schedule B line labeled "Taxable ONLY by state," which is identified on the 1099-INT worksheets. California DOES tax interest on state and municipal bonds or obligations issued by other states or localities within other states, including the District of Columbia.

Other amounts taxed by California but not federal. Enter here any interest from other non-California government obligations not included in federal AGI.

INTEREST ADDITION for Schedule CA, line 8, column C. *(auto-calc)* Computed as the California taxable amount in 1040 line 8b plus the preceding entry, this result is posted to Schedule CA, line 8, column C.

DIVIDEND INCOME. Adjustments to dividends reported on federal Schedule B are computed here.

Taxable dividends on federal Schedule B. The total on line 6 of federal Schedule B is translated to this line, which is posted to Schedule CA, line 9, column A.

Federal Form 8814, line 9 in above. Translated from the federal return, this is the amount of qualified dividends taxed through Schedule B instead of Form 8814 in accordance with a prorationing that is computed on Form 8814.

Qualified dividends in California Form 3803, line 6. (Road Map line, supported by Form 3803) This is the amount of income in Form 3803, line 6, that must be reflected in Schedule CA, line 8, rather than Schedule CA, line 21f, because it is qualified dividends.

Child's dividends for Federal return but not California return. (auto-calc) Computed as the amount by which federal Form 8814, line 9, exceeds the qualified dividends in Form 3803, line 6, if any, this is a subtraction adjustment for dividends.

Other taxed by Federal but not California. Enter any other amounts for a subtraction adjustment.

DIVIDEND SUBTRACTION for Schedule CA, line 9, column B. (auto-calc) Computed as the sum of the preceding two lines, this result is posted to Schedule CA, line 9, column B.

Child's dividends for California return but not Federal return. (auto-calc) Computed as the amount by which qualified dividends in California Form 3803, line 6, exceed the qualified dividends on federal Form 8814, line 9, if any, this is an addition adjustment for dividends.

Other taxed by California but not Federal. Enter any other amounts for an addition adjustment.

DIVIDEND ADDITION for Schedule CA, line 9, column C. (auto-calc) Computed as the sum of the preceding two lines, this result is posted to Schedule CA, line 9, column C.

Extra line for personal memos. Provided for supporting statements that will not be printed with the official return.

Worksheet C / Business Income

Collects adjustments to federal Schedule C. This worksheet is not an FTB form or schedule but is built into the software to make the automation of the return complete. It collects relevant data on each federal Schedule C and the results from Form 3801 (Passive Activity Loss Limitations) and Form 3885A (Depreciation and Amortization Adjustment), then allocates the results to the proper adjustment lines on Schedule CA (California Adjustments Schedule). Form 3801 and the copy of Form 3885A that is attached to this worksheet are accessible through Road Map lines on this worksheet. The worksheet is printed as a part of the return in support of the entries that appear on Schedule CA.

Fully automatic for a translated return. All lines on this worksheet are either translated lines, Road Map lines, or Auto-calc lines. As a result no manual entries are required. (See the details for federal Schedule C in Chapter 2 of the main *Tax Forms Guide 2010 Edition*.)

CAUTION: Federal business code required on this worksheet. This entry (on screen 1 of Schedule C) is translated from your entry for the federal Principal Business Activity (PBA) Code on line B of the federal Schedule C. The 6-digit number on this line for copy 1 of Worksheet C is printed along with the taxpayer name and address at the top of Form 540. Reporting the PBA number to the FTB *is now mandatory*. The FTB is authorized to disclose this PBA code, along with other personal information like SSN and address, to city tax officials under specific limited circumstances. *CAUTION: If you will print using Laser-graphic or Window-graphic forms, you must make sure that the 6-digit code that appears here contains no spaces so that the code is printed in the proper format for the scannable Form 540.* Spaces are appropriate only for a manually completed Form 540, in which you use the FTB form with hand-print boxes.

Worksheet E / Supplemental Income

Collects adjustments to federal Schedule E. This worksheet is not an FTB form or schedule but is built into the software to make the automation of the return complete. It collects relevant data on federal Schedule E and the results from Form 3801 (Passive Activity Loss Limitations) and Form 3885A (Depreciation and Amortization Adjustment), then allocates the results to the proper adjustment lines on Schedule CA (California Adjustments Schedule). Form 3801 and the copy of Form 3885A that is attached to this worksheet are accessible through Road Map lines on this worksheet. The worksheet is printed as a part of the return in support of the entries that appear on Schedule CA. (See the details for federal Schedule E in Chapter 2 of the main *Tax Forms Guide 2010 Edition*.)

Additional entries may be required. Although the form is automatically completed from translated lines and Road Map lines, further adjustment may be necessary; not all required information is available on the federal return, and amounts reported to you (from partnerships, etc.) on California Schedules K-1 may be different from amounts reported to you on federal Schedules K-1.

Part I, Rental Property. The allocation of rental property income and loss for federal Form 8582 does not separately reflect the allocation for the depreciation part of the income or loss. As a result, if you have an adjustment for depreciation for your rental properties (on the Form 3885A that is attached to this worksheet), you must alter the translated amounts destined to Form 3801 yourself to reflect the adjustment. When you fail to do so, a nonzero amount will appear on one of the lines labeled "ERROR in above gain allocation" or "ERROR in above loss allocation." Unless the ERROR is zero, the accuracy of Form 3801 cannot be assured.

Parts II and III, Partnerships, etc. Adjustments to the entries translated from the federal return are necessary in these two sections when the amounts reported to you on California Schedules K-1 are different from those reported to you on federal Schedules K-1. All Partnership and Estates/Trusts Worksheets from the federal return are translated, so only the K-1 lines need be changed. The losses disallowed from Form 3801 are computed automatically and reflected in the results for this section.

Part IV, Farm Rental Income. (Road Map lines, supported by Worksheet 4835.) Adjustments to Form 4835 are performed on the supporting worksheet, not here. The results are reported here rather than directly on Schedule CA only because the results for federal Form 4835 are reported on federal Schedule E. All adjustments on Worksheet 4835 are passed through Schedule E without modification.

Allocation to Schedule CA. The allocation of adjustments from all sections to Schedule CA is fully automatic. Amounts are separated into passive and non-passive parts to ensure the proper automation of the return.

Worksheet F / Farm Income

Collects adjustments to federal Schedule F. This worksheet is not an FTB form or schedule but is built into the software to make the automation of the return complete. It collects relevant data on each federal Schedule F and the results from Form 3801 (Passive Activity Loss Limitations) and Form 3885A (Depreciation and Amortization Adjustment), then allocates the results to the proper adjustment lines on Schedule CA (California Adjustments Schedule). Form 3801 and the copy of Form 3885A that is attached to this worksheet are accessible through Road Map lines on this worksheet. The worksheet is printed as a part of the return in support of the entries that appear on Schedule CA.

Fully automatic for a translated return. All lines on this worksheet are either translated lines, Road Map lines, or Auto-calc lines. As a result no manual entries are required. See the details for federal Schedule F in Chapter 2 of the regular *Tax Forms Guide 2010 Edition*.

Worksheet 4835 / Farm Rental Income

Collects adjustments to federal Form 4835. This worksheet is not an FTB form or schedule but is built into the software to make the automation of the return complete. It collects relevant data on federal Form 4835 and the results from Form 3801 (Passive Activity Loss Limitations) and Form 3885A (Depreciation and Amortization Adjustment), then allocates the results to the proper adjustment lines on Worksheet E. The adjustments then make their way to Schedule CA (California Adjustments Schedule) through Schedule E. Form 3801 and the copy of Form 3885A that is attached to this worksheet are accessible through Road Map lines on this worksheet. The worksheet is printed as a part of the return in support of the entries that appear on Schedule E and Schedule CA.

Fully automatic for most taxpayers for a translated return. Except for two lines for California adjustment, this worksheet is comprised of translated lines, Road Map lines, or Auto-calc lines. As a result only the adjustment lines may require your manual entry. See the details for federal Form 4835 in Chapter 2 of the regular *Tax Forms Guide 2010 Edition*.

Form 540-ES / Estimated Tax Worksheet

Parallels federal Form 1040-ES. With the exception of the difference described in the shaded box, below, the operation of this form parallels the operation of federal Form 1040-ES, so it is not separately detailed here. For most taxpayers the completion of the form will be fully automatic, based on expected changes translated from the federal Form 1040-ES and automatic transfers from the California Form 540. See the section for federal Form 1040-ES in Chapter 2 of the main *Tax Forms Guide 2010 Edition* for details.

Required payments no longer equal. Starting with 2009, required quarterly installments are no longer one-quarter of the annual shortfall of tax. Instead, the FTB will require the first two installments to be 30% of the required annual payment, leaving 20% of the required annual payment for the remaining two installments. Evidently the FTB is attempting to help California in its financial problems by accelerating the payment of estimated taxes! This change is reflected in the nominal amount computed by the software for each Form 540-ES voucher. You can use the adjustment lines at the bottom of screen 6 to reflect an uneven distribution of income over the year, but see the following caution first.

CAUTION: Adjustment for uneven income requires new calculations. If you expect to receive much more income later in the year than earlier in the year, you may be justified in adjusting your estimated tax payments accordingly. The FTB instructions for Form 540-ES erroneously refer you to the annualized income schedule in the 2009 form FTB 5805 to determine the adjustments. That form does not reflect the new law that requires an acceleration of payments. Therefore, you must modify the annualized income schedule (Part III of form FTB 5805) as follows when using it for this purpose:

- ◆ Change the percentages on line 15 from 22.5%, 45%, and 67.5% for columns (a), (b), and (c), respectively, to 27%, 54%, and 72%.
- ◆ Change the instructions on line 19 to: "Enter 30% of the required annual payment in columns (a) and (b), and 20% of the required annual payment in columns (c) and (d)." (The required annual payment is shown at the top of screen 6 of Form 540-ES.)

You can make adjustments on screen 6 of Form 540-ES to reflect the results on line 23, which shows the four payments required, as adjusted for annualized income. Make an entry in "Adjustment to 1st period" first, so that balances for subsequent periods are properly recomputed before you make your next adjustment. Make an entry in "Adjustment to 2nd period" next, then, finally, "Adjustment to 3rd period." The payment vouchers will then properly reflect the four payments required.

Form 540X / Amended Individual Income Tax Return

Operates like federal Form 1040X. The operation of this form closely parallels the operation of federal Form 1040X, so it is not separately detailed here. If you first create the form before you modify the return that you filed, Form 540X will be complete once you complete the Form 540 return. You will need to access Form 540X only if you need to supply supporting detail for any of the changes. See the section for federal Form 1040X in Chapter 2 of the main *Tax Forms Guide 2010 Edition* for details.

CAUTION: Notations for special handling. For certain special situations, the FTB instructs you to *write in red at the top of Form 540X* a phrase that flags the special situation to the FTB. For example, write "PROTECTIVE CLAIM" if filing while litigation is pending; write "Military HR 100" if filing to exclude military pay as a result of the Servicemembers Civil Rights Act; write "INFORMAL CLAIM" if making a claim while the tax, penalty, and interest are not yet paid. See the FTB *Instructions for Form 540X* for details.

e-file form** / Form 8453, 3582, etc.

**** Included in Standard and Premium Level software ONLY.** This form (and e-file) is only built into the Standard and Premium Level versions of the California Supplement.

Operates like federal e-file form with a few differences. Data entry for our California e-file form is very similar to that for our federal e-file form, so separate detailed instructions are not necessary. However, there are significant differences in the printouts that are provided and the role of Form 8453:

- ◆ **Form 8453 is still the signature form for California.** The Electronic Return Originator (you, the ERO) and the taxpayer must sign a paper Form 8453 to validate the return. However, you do not mail the form to the FTB but merely keep it with the ERO's records so that it is available in case of an FTB audit. Because you do not send Form 8453 to the FTB, there is no special convenience to electronic (PIN) signatures. We therefore do not currently support PIN signatures for the California e-file form. (The IRS now requires PIN signatures for all returns, and uses an unrelated Form 8453 as a cover letter for paper attachments, which the FTB does not support.)
- ◆ **Forms W-2, W-2G, and 1099-R are taken from the federal return, not the W-2 Worksheets that are attached to Form 540.** This deviation from our federal e-file form is intentional because the e-file versions of these forms must match the federal versions with few exceptions, in spite of any adjustments you may have to make on the W-2 Worksheets for Form 540. However, these forms are accessible to you here in case you have to move an entry for SDI deductions (in order for the entry to be recognized by the FTB's e-file program), or round certain entries to compensate for inadequacies in the FTB's verification process. *If you have to make a correction to Form W-2, W-2G, or 1099-R for a California e-file return, this is where you must do it. The worksheets attached to Form 540 are used for calculations only and are not transmitted with the e-file return.*
- ◆ **California has a separate payment voucher for e-file returns.** Whereas voucher Form 1040-V is used for all payments by check or money order, whether for a paper return or an e-file return, the FTB has a voucher designed specifically for an e-file return alone. The form (Form 3582) is automatically completed and printed with the other e-file forms unless you elect to omit it through your e-file form entries.

Everything else on California e-file form is similar to our federal e-file form, including the preliminary checks for eligibility for electronic filing, which are slightly different for California. See FTB Publication 1345 for the rules on the checks that are automated here. See the section for federal Form 8453 in Chapter 2 of the main *Tax Forms Guide 2010 Edition* for all other details.

Form 8454** / e-file Opt-Out Record

**** Included in Standard and Premium Level software ONLY.** This form (and e-file) is only built into the Standard and Premium Level versions of the California Supplement.

For recording reason a return was not e-filed. *(Available only for Standard and Premium Level.)* Paid preparers who prepared more than 100 Form 540 returns for tax year 2009 are required to e-file all eligible Form 540 returns for 2009. However, taxpayers can choose *not* to have their return e-filed by signing Form 8454 for the preparer's records. The preparer can also choose not to e-file a return for "reasonable cause," which is also recorded on Form 8454. The preparer is required to retain the form for potential audit by the IRS but is instructed *not* to file it with any return.