

Supplement CA

California Tax Forms Guide 2015 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 2015 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 2014 and early 2015, 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 (2015 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 (2015 Edition)* is a special supplement to the regular 2015 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 2015 Edition. This document adds instructions for California forms to the *Tax Forms Guide 2015 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-*

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cally 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	Wage and Tax Statement	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 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 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 Deduct & 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	Form 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.

**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.)
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

New credits created, old credits repealed or expired, and other obsolete forms. New forms include FTB 3554 for the newly created *New Employment Credit* (Credit Code 234 on Schedule P) and FTB 3840 for *California Like-Kind Exchanges*. Forms that are now obsolete include FTB 3527 (*New Jobs Credit*, Credit Code 220, which has been replaced by the *New Employment Credit* with different requirements), FTB 3553 (*Enterprise Zone Employee Credit*, Credit Code 169), and FTB 3549 (*New Home/First-Time Buyer Credit*, Credit Code 221, for which both the credits and their carryovers have expired). In addition, Form 540-V (*Payment Voucher for Form 540 Returns*) no longer exists because the FTB no longer needs it to process payments with tax returns. New credits for which no new FTB form was created include the *College Access Credit* (Credit Code 235), for which you must obtain a certificate from the California Educational Facilities Authority, and the *California Competes Credit* (Credit Code 233), which businesses must negotiate with the Governor's Office of Business and Economic Development and must be approved by the California Competes Tax Credit Committee. And repealed credits for which no FTB form existed include the *Local Agency Military Base Recovery Area Sales or Use Tax Credit* (LAMBRA, Credit Code 198). (In addition to the new position of the *New Jobs Credit* on Schedule P and its addition to Form 3540, its prominent appearance on lines 41 and 42 of Form 540 has been eliminated.)

Keying symbols changed for a few forms. Only a handful of forms are affected by keying symbols this year, most notably page 2 of Schedule P. These symbols, which are the encircled black dots that precede select data entries, are intended to help data entry personnel at the FTB locate data that they must key into the FTB computers. (These symbols are rather distracting to everyone but the FTB personnel that depend on them, and they reduce the data entry space available on the forms by one character on most lines.)

Several taxes and credits indexed with inflation. The indexing for 2014 returns is 2.2% relative to 2013 returns (reflecting 2.2% inflation from June 2013 to June 2014 for the California Consumer Price Index). As a result, several calculations have changed, including:

Standard deductions increased from \$3,906 to \$3,992 for taxpayers filing single or married filing separately, and from \$7,812 to \$7,984 for all others.

Personal exemptions increased from \$106 to \$108 for each exemption.

Dependent exemptions increased from \$326 to \$333 for each dependent.

Thresholds for phaseout of exemptions and itemized deductions increased from \$172,615 to \$176,413 for single and married filing separately, from \$258,927 to \$264,623 for head of household, and from \$345,235 to \$352,830 for married filing jointly and qualifying widow(er).

Changes You Should Note

Ceiling for joint custody head of household credit and dependent parent credit increased from \$416 to \$425. The credit remains at 30% of net tax.

Ceiling for qualified senior head of household credit increased from \$1,272 to \$1,300, and the AGI to which it applies increased from \$67,520 to \$69,005. The credit remains at 2% of taxable income.

Ceiling for state disability insurance (SDI) increased from \$100,880 to \$101,636, which is the income below which an SDI tax of 1.0% applies. This increase is much larger than the 1.7% inflation rate because this ceiling is separately legislated.

Tax brackets indexed with inflation. 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 slightly higher than last year. The old and new schedules 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 2014:			
1.00%	\$ 0	0	0
2.00%	7,749	15,498	15,508
4.00%	18,371	36,742	36,743
6.00%	28,995	57,990	47,366
8.00%	40,250	80,500	58,621
9.30%	50,869	101,738	69,242
10.30%	259,844	519,688	353,387
11.30%	311,812	623,624	424,065
12.30%	519,687	1,039,374	706,774
FOR TAX YEAR 2013:			
1.00%	\$ 0	0	0
2.00%	7,582	15,164	15,174
4.00%	17,976	35,952	35,952
6.00%	28,371	56,742	46,346
8.00%	39,384	78,768	57,359
9.30%	49,774	99,548	67,751
10.30%	254,250	508,500	345,780
11.30%	305,100	610,200	414,936
12.30%	508,500	1,017,000	691,560

AGI ceiling for Renter's Credit raised. For tax year 2014 no Renter's Credit is allowed if California AGI exceeds \$75,536 for married taxpayers (\$37,768 for single and married filing separately). These figures are up from \$73,910 and \$36,955 for 2013. 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 2013 (on Schedule P, page 1) are \$64,878 for single or head of household, \$86,502 for married filing jointly or qualifying widow(er), and \$43,250 for married filing separately. (Exemptions were \$63,481, \$84,640, and \$42,319 for 2013.) These exemptions phase out with rising income starting at

\$243,288 for single or head of household, \$324,384 for married filing jointly or qualifying widow(er), and \$162,191 for married filing separately. (These levels were \$238,051, \$317,401, and \$158,700 for 2013)

Three new credits added, an expired one removed, and changed position of repealed or expired credits. The repealed *Enterprise Zone Employee Credit* (Credit Code 169) and the expired *2010 New Home Credit* (Credit Code 221) have been removed from their reserved spots in Section A1 of Schedule P, Part III, and three new credits have been added to Section A2. At the same time, two repealed credits (*LAMBRA Sales or Use Tax*, Code 198, and *New Jobs Credit*, Code 220) have been moved to the repealed portion of Section A2..

Two credits removed from Form 3540 and one added. The repealed *Los Angeles Revitalization Zone (LARZ) Hiring Credit Carryover and Sales or Use Tax Credit Carryover* (Credit Code 159) and the expired *Targeted Tax Area (TTA) Sales or Use Tax Credit Carryover* (Credit Code 210) have been removed from Form 3540 and must now be reported directly on Schedule P. Conversely, the repealed *New Jobs Credit* (Credit Code 220) has been added to Form 3540.

Three new voluntary contribution funds added and one dropped. The list of voluntary charitable contributions you can make through Form 540 has changed with the elimination of five of them and the addition of three new ones: *California Senior Legislative Fund* (Code 427), *Habitat for Humanity Fund* (Code 428), and *California Sexual Violence Victim Services Fund* (Code 429).

Form 3805Z greatly revised. Enterprise Zone (EZ) Incentives were repealed for tax year 2014 and later, so the form has been revised to eliminate current-year deductions. However, carryovers and credit for hiring before 2014 still applies, so the form remains complex in spite of some simplification of page 1.

California has NOT conformed to the federal special first-year 30%, 50%, or 100% special depreciation allowance, which has appeared sporadically over the past several years, nor recent large increases 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, although they are often one year behind the IRS. However, this conformance has not reached to depreciation, which has experienced the most extreme changes by the federal government in the last eight years. *There is therefore a big difference between federal and California depreciation deductions for most tangible property placed in service after September 10, 2001.*

Installation and Start-up

See **User's Guide for installation instructions**. The installation and start-up described in Chapter 1 of the latest revision of the separate *User's Guide* apply to this Partnership Edition as well. The steps shown in Chapter 1 differ only in the selection of documents to install. The standard installation puts all edition years and all supplements in the same hard disk folder (usually C:\Program Files (x86)\HowardSoft Tax Preparer), and all programs for the same tax year share the same custom settings, program settings, and start-up programs. To start a particular edition or supplement, you only need to double-click the icon for the one you want. For this California Supplement, the icon placed on the desktop is labeled

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whereas the icon in the *HowardSoft Tax Preparer* program group is labeled **2015 California Individual 540**

Whichever icon you click, the current-year *California Supplement* is started, with two *Tax Preparer* windows -- the *Tax Preparer Control Panel* and the *Tax Preparer Main Window* -- as shown in Figure 1-9 of the *User's Guide* (Rev. January 2015).

Add a California partnership tax directory first. Since the *California Supplement* contains no pre-stored data, you must add a tax directory to the Storage Disk the first time you use the Partnership Edition for the new tax year. This tax directory can hold up to 99 volumes of data with 15 returns in each volume. If you don't remember how, refer to *Starting a New Tax Volume* in 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.

IMPORTANT: Always start a California return by translating the federal (Form 1040) return. Because California's Franchise Tax Board (FTB) has designed their Form 540 return as an adjustment to the corresponding Form 1040 return, using *Tax Preparer's* translate feature is by far the easiest and most reliable way to start a California return. It is therefore advisable to complete the federal return first, so that you will not have to make adjustments to the California return every time you make a change to the federal return. If you translate only after the federal return is final, you will be able to complete the California without manually entering data from the federal return. Tips and details follow.

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:

- A** Where those instructions call for a Prior-Year Storage Disk, interpret it as the Current-Year Federal Storage Disk.
- B** 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).
- C** 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.)
- D** 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 nec-

essary. 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%, 50%, or 100% 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 rel-

ative to the FTB form, which has room for only 13 characters for the name and relationship combined!)

- 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 3519, 3582 (e-file only), and 540-ES. The FTB also requires that all computer-prepared payment-prepared 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 manually-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 manually-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 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 ink-jet printer. Text-mode facsimiles are not acceptable, and our facsimile printouts 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.
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.* Whenever you choose to produce a graphic or 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 a laser or ink jet printer.
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.
4. Forms must be printed on one side of paper only.

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. Form(s) W-2.
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). *You are not required to send a copy of your federal return if you had to file only Schedules A and/or Schedule B with your federal return.*
6. Form 5805 and Form 5805-F.

Leave Form 540, page 1 loose and staple together the rest of the assembled return (from Form 540, page 2 through Form 5805 or 5805-F). If paying by check, also leave loose the payment and Form 1040-V (the payment voucher).

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.

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

Do not staple anything to page 1 of Form 540. The FTB wants you to enclose but NOT staple any supplementary forms or payment.

Do not staple payment. The FTB wants you to enclose but NOT staple any payment. *(Note that the FTB has eliminated Form 540-V, which they formerly wanted to be enclosed with any payment.)*

Attach Form(s) W-2 directly behind Form 540 page 3. DO NOT ATTACH TO PAGE 1. Attach copies of the actual Form(s) W-2 received from employers

Attach supporting forms. All other attachments, including other California forms and any required federal forms, must be placed behind and stapled to the above assembled Form 540 pages 2 and 3. *Be sure to place Form 5805 or 5805-F last* (contrary to IRS requests to place Form 2210 or 2210-f first).

Place Form 540 page 1 in front of the assembly, but DO NOT STAPLE. You should staple ONLY sides 2 and 3 of Form 540 to the rest of the return, stapling the assembly together in the upper-left corner. *Side 1 should remain loose.*

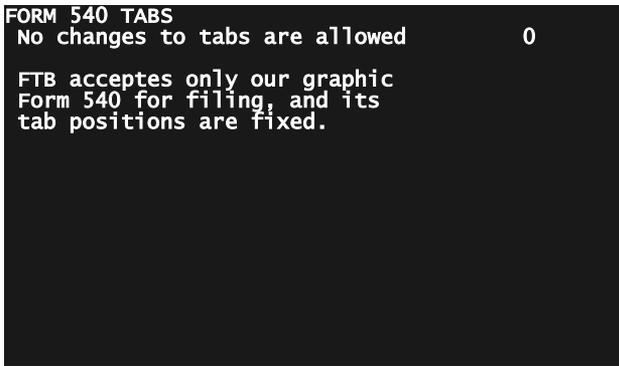
Do not print on both sides of the paper. Form 540, page 1 must be printed alone with side 2 blank. The remainder of the return may be printed two-sided, but the FTB prefers one-sided printing so that the automated equipment does not have to contend with bleed-through from the second side.

Do not file a photocopy. The FTB requires computer-printed forms with no reduction to fit margins. Photocopies are generally not accurate enough for the FTB's equipment.

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

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 no longer allowed for Form 540. 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 two-thirds of page 1 in accordance with



strict FTB specifications. As a result, there are no tab adjustments allowed for the scannable Form 540. In addition, the FTB redesign of a manually-prepared Form 540 since 2013 has made it incompatible with printing with standard typewriters or

computers at 6 lines per inch. As a result, there is no use for tab adjustments for 2013 and later, and the screen for Form 540 Tabs appears as shown in Figure CA-1. The draft (text-based facsimile) printout of Form 540 now approximates the version of Form 540 that the FTB prints for manually-prepared returns, but does not perfectly align with the FTB form.

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 2015 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 2015 Edition* for most entries.

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

Tax year (enter 2014 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 for BOTH paper and e-file returns*. 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 logically 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 (Schedules CA, D, D-1, and page 2 of Schedule P), because they hold results from other forms that are not otherwise posted to Form 540 or Schedule CA.

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 2014 tax year, not all payments made in the 2014 calendar year. As a result, a payment made in January 2014 for the 4th quarterly 2013 estimated tax payment is not included, but a payment made in January 2015 for the 4th quarterly 2014 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 2013 return (as instructed in the Tax Forms Guide 2015 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 2013 California return are used in Form 5805 to minimize the penalty, when applicable.

2013 amounts entered for Form 5805? In order to fully automate the penalty Form 5805, amounts from the 2013 California return should be entered here from the indicated lines. If you did *NOT* file a full-year return in 2013, do NOT answer Yes to the question "2013 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 2013 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. Therefore, you can refer to the end of the details for the Control Form in Chapter 2 of the regular *Tax Forms Guide 2015 Edition* for details. 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 printout 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.

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 phrase DISASTER LOSS 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.)

Other personal information. Additional entries not found on the federal Form 1040 are provided for further conformance with the FTB requirements:

Your email address. This optional entry is printed in the signature block of Form 540.

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.

Your date-of-birth (mm-dd-yyyy). The FTB requires the date format to be exactly as shown in the label for the entry. The software automatically reformats your entry into the FTB-required format if you use any standard date format for your entry (such as mm-dd-yy, m/d/yy, etc.). Your entry is printed below the taxpayer's address on page 1 of Form 540.

Spouse's RDP's DOB (mm-dd-yyyy). See the instructions for the preceding entry. Your entry is printed below the taxpayer's address on page 1 of Form 540, to the right of the preceding entry.

Information for decedent returns (and others who cannot sign). If the taxpayer (or spouse if married filing jointly) is not capable of signing the return, you must make an entry for "Executor or Guardian" to identify the signer. If the taxpayer (or spouse if married filing jointly) died during the tax year, you must supply the other information in this section. *CAUTION for translated decedent returns: You must also remove DECD from the deceased person's name on screen 1, which you had to add for the federal tax return. (The FTB instead uses your deceased date entry to identify the deceased spouse.)*

If YOU deceased, date (mm-dd-yy). Although you can enter the date in any standard format, the software will reformat your entry into the FTB-required format (mm-dd-yyyy). For the graphic Form 540 printout, it appears in the scanband area of Form 540 to the far right of the taxpayer's name. (It also appears in the taxpayer identification area of Forms 3519 and 540X.)

If SPOUSE deceased, enter date. *(only if married filing jointly)* Same as above except that it is printed to the far right of the spouse's name in the scanband of a graphic Form 540.

Executor or Guardian. (*MANDATORY for e-file if you entered a deceased date*) If the taxpayer is deceased or otherwise not capable of preparing the return, enter the first and last 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. If the surviving spouse is the responsible person (if married filing jointly), enter the surviving spouse's name here and write "Surviving spouse" next to the signature on the printed Form 540. *CAUTION for e-file: For an e-filed decedent return, you must enter the first name only in the first 10 characters of the entry and enter the last name in the right 15 characters of your entry. Both names are mandatory for e-file.*

If signed by a representative, enter:

Representative type (1=Administrator, 2=Beneficiary, 3=Executor, 4=Spouse/RDP, 5=Trustee). (*MANDATORY for e-file if you entered a deceased date*) For an e-file return, you must identify here the type of representative for the person identified above. If the person is the surviving spouse, enter 4 even if that person is also the administrator, beneficiary, or executor of the estate. (*This entry is not used for paper returns.*)

If filed in 2013 under a different last name. This entry is required if either spouse filed under a different name for tax year 2013.

Your 2013 last name. Make an entry here *only* if your name differs from the one you used when filing your return last year.

Spouse 2013 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.

Although the prior names are shown in their own section below the address area for a hand-prepared Form 540, they are printed within the address block on the scannable Form 540 that the software prints, without any labels to let you know what they mean.

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 2014 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 be 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 \$108 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 \$108 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 certain children under 18, or under 24 and a student. (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 \$108 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. No other information on the federal *Dependents Worksheet* is relevant to a California return. *TIP:* Note that the data entry fields provided for the name entries are longer for California (15 characters for the first name and 25 characters for the last name), so you need not use abbreviations you had to use on the federal *Dependents Worksheet* (which allowed only 10 characters for the first name and 15 characters for the last name).

Total dependent exemption credit. *(auto-calc)* Computed as \$333 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 14a of the worksheet, not elsewhere.*** (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 \$101,636 for each worksheet (for 2014), this is the amount legally deducted by all employers combined. If this amount exceeds \$101,636, 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 1.0% of all state wages combined up to a maximum of \$101,636 for wages paid in 2014. 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 \$101,636 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 over-withholding 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. 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 should 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 worksheets C, E, and F. *(auto-calc, supported by Worksheets C, E, and F.)* Originally taken from federal Form 1040 line 12, Partnership/S-corp Worksheets on Schedule E, and federal Form 1040 line 18, adjustments on California Worksheets C, E, and F may change this entry.

Total California earned income. *(auto-calc)* Sum of the above three lines (the state wages from Form W-2 plus the other two 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 legitimate 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 2014 is \$3,992 for taxpayers filing single or married filing separately, and \$7,984 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, exception that California does not have favorable treatment for capital gains or qualified dividends.

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 r 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.)

- 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 2014, the phaseout starts at a federal AGI of \$176,413 for single and married/RDP filing separately, \$264,623 for head of household, and \$352,830 for married/RDP filing jointly or qualifying widow(er).

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.

Tax from:

Schedule G-1. *(Premium Level Road Map line, supported by Schedule G-1.)* Schedule G-1 is the FTB equivalent of federal Form 4972 for taxing lump sum distributions from qualifying retirement plans.

Form FTB 5870A. Form 5870A is the FTB equivalent of federal Form 4970 for an additional tax on accumulation distribution of trusts.

34 Tax from Schedule G-1 and Form 5870A. *(auto-calc)* Computed as the sum of the preceding two lines, these are additional special taxes on special plans.

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.)

40 Nonrefundable child and dependent care credit. *(Road Map line, supported by Form 3506.)* This credit is a nonrefundable credit, so it is subject to tax liability limitations on Schedule P, page 2. Taken from Form 3506, this credit is generally 50% of the federal credit (from IRS Form 2441) 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. Although Form 3506 is translated from the federal Form 2441, and the California form deviates little from the intent of the federal form, there are additional entries unique ton

Form 3506, including a list of the sources of household income other than the earned income used for figuring the credit. *TIP: Although shown on Schedule P, it is not included in lines 43 through 45, below, because it has its own line on Form 540.*

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 Schedule P, Part III, which appears on page 2 of Schedule P (or from Form 3540 if no Schedule P, page 2, exists for the return). See our details for Schedule P, Part III, and Form 3540 for more information.

Number qualified for renter's credit. The FTB provides a full page of instruction to help you determine if you are qualified in their 2014 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 2014 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 2014 the credit is disallowed if California AGI on line 17 is more than \$37,768 if single or married filing separately (\$75,536 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 16 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.

NEW: IRC Section 453 or 453A interest moved. If you owed interest on deferred tax from installment obligations, you would formerly enter the amount of additional tax here, to be included in line 48. However, the FTB has moved the reporting of this tax to line 63, where it must be entered in a supporting statement for that line with the acronym S453 or S453A.

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.*) Only page 1 of Schedule P relates to the alternative minimum tax; page 2 relates to credits. Schedule P, page 1, is automatically created and completed upon final recalculation of the return when the software determines it is needed. Nevertheless, you will generally have to make entries on Schedule P, page 1, 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/recapture from Form 3540. (*Road Map line, supported by Form 3805P.*) Taken from the line "Recapture for Form 540, line 63" on Form 3540 (*Credit Carryover and Recapture Summary*), this is the sum of amounts in column (c) of Part II of Form 3540 (recapture of the *Employer Childcare Program Credit*, code 189, and the *Farmworker Housing Credit*, code 207). If an entry appears on this line and none appears on the other lines for line 63, "3540" is printed on the Official Form 540 to the left of line 63. Otherwise, it appears in a supporting statement for line 63.

Tax/recapture from Form 3805P on IRAs and other qualified retirement plans: Form 3805P. (*Road Map line, supported by Form 3805P.*) Taken from the line "Total tax for Form 540, line 63" on Form 3805P (*Additional Taxes on Qualified Plans (including IRAs)*), this is the sum of taxes computed in Parts I, II, and III of the form. These taxes are essentially penalty taxes stemming from early distributions from retirement plans, excess distributions from tax-favored education and tuition accounts (amounts not used for educational expenses), and excess distributions from tax-favored medical savings accounts (amounts not used for medical expenses). If an entry appears on this line and none appears on the other lines for line 63, "3805P" is printed on the Official Form 540 to the left of line 63. Otherwise, it appears in a supporting statement for line 63.

Tax/recapture from Form 3805Z. (*Premium Level Road Map line, supported by Form 3805Z.*) Taken from Worksheet IA, Section B, line 2 ("Total amount of credit recapture") of the FTB 2014 Booklet for 3805 (*Enterprise Zone Business Booklet*). The worksheet does not appear on the official FTB form, but it is shown on screen 3 of our on-screen Form 3805Z. If an entry appears on this line and none appears on the other lines for line 63, "3805Z" is printed on the Official Form 540 to the left of line 63. Otherwise, it appears in a supporting statement for line 63.

Tax/recapture from Other. This line is provided for other taxes, including recapture taxes. You must report any tax for this line in a supporting statement that identifies the associated form in 6 characters or less in the description column (3807, 3808, etc.) and the

dollar amount in the amount column. If only one tax is identified in the support (and none appears on the preceding line), 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 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary (*enter only 3807 in the description column*), Form 3808, Manufacturing Enhancement Area Credit Summary (*enter only 3808 in the description column*), and Form 3809, Targeted Tax Area Deduction and Credit Summary (*enter only 3809 in the description column*).

NEW for 2015: Section 453 or 453A interest. If you owe interest on deferred tax from installment obligations, you must enter the amount of additional tax here. The special rules that impose this interest apply to nondealer sales exceeding \$150,000. In the description column *enter only S453 or S453A*, depending on whether the interest is IRC Section 453 interest or IRC Section 453A interest. (*This tax was formerly included in line 48 of Form 540, but the FTB finally changed its position to this more logical location.*)

CAUTION for e-file: *The FTB is very strict about how you must identify the additional tax for an e-file return. Only the following acronyms are allowed in the support for this line:* 3549A, 3807, 3808, 3809, IRC197, NQDC, S453, S453A, and Other.

- 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 2014, you must enter that amount here (as shown in box 14 of Form W-2G). *For an e-file return, you must also complete the W-2G Worksheet that is accessible on our e-file form.*

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 2014, you must enter that amount here (as shown in box 10 of Form

1099-R). *For an e-file return, you must also complete the 1099-R Worksheet that is accessible on our e-file form.*

California income tax withheld elsewhere - ITEMIZE. If any other California income tax was withheld for 2014 and not included in the preceding three lines, such as backup withholding from Forms 1099-INT, 1099-DIV, or 1099-B, you must enter it in a supporting statement for this line. **CAUTION:** *This is quite different from the IRS requirements for the Federal return, where the need to itemize is extremely rare because amounts from several 1099s are included automatically and special lines are provided for K-1s and all other 1099s.* For California, only amounts on the preceding three lines are absolved from itemizing. For all other withholding, enter in the support for this line the name of the form in the description column and the California state income tax withholding in the amount column. **Additional CAUTION for e-file:** *The FTB is very strict about how you must identify the form from which you determined the withholding to report. Only the following acronyms are allowed in the support for this line: W-2GU, 1099A, 1099B, 1099C, 1099DIV, 1099G, 1099INT, 1099LTC, 1099MISC, 1099MSA, 1099OID, 1099PATR, 1099Q, 1099S, 1099SSA, 1099RRB, and Other.*

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

2014 estimated tax payments plus 2013 refund applied. *(Road Map lines, supported by Control Form.)* The four quarterly payments for California estimated tax for 2014 and the tax refund applied from the 2013 return are *taken from you entries on screen 2 of 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, 2015) with a payment voucher, FTB 3519.

72 2014 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 behind Form 540 when you file the return.

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

75 Total payments. Add lines 71, 72, 73, and 74. *(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.

2015 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 2015, 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 2015 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 2015 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. THIS IS NOT A TOTAL LINE. 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. (The FTB reference to a total line is a recognition of taxpayer confusion about this line, evidently confusing it with the sum of taxes less credits on lines 31 through 75.)

CONTRIBUTIONS. California provides for a means for you to contribute directly to certain special state funds. The funds are identified on the form by codes (400 through 426 for 2014), and no line numbers apply to these funds. (The total line for all funds combined is line 110.) 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 \$108 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. *This total is not shown on the screen because of space limitations, but appears on all printouts of Form 540 and is used in the calculations.*

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.

403 Rare and Endangered Species Preservation Program. For the conservation of endangered and rare fish, wildlife, and plants.

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.

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.

413 CA Cancer Research Fund. To fund research on the causes, detection, and prevention of cancer and to expand various education programs.

419 Child Victims of Human Trafficking Fund. To provide grants to community-based organizations that provide services to minors who are victims of human trafficking.

422 School Supplies for Homeless Children Fund. To provide school supplies and health products to homeless children.

- 423 State Parks Protection Fund/Parks Pass Purchase.** To protect and preserve California's state parks and help fund the Vehicle Day Use Annual Pass.
- 424 Protect Our Coast and Oceans Fund.** For grants and programs that preserve, protect, or enhance coastal resources and promote coastal and marine educational activities for underserved communities.
- 425 Keep Arts in Schools Fund.** For grants for administering arts programs in preschool through 12th grade.
- 426 American Red Cross, California Chapters Fund.** For planning and implementing programs for disaster relief in California.
- 427 CA Senior Legislative Fund.** To conduct sessions of the California Senior Legislature and its support of older persons.
- 428 Habitat for Humanity Fund.** To build affordable housing in California.
- 429 CA Sexual Violence Victim Services Fund.** To further the services of California's rape crisis centers.

110 Total contributions. *(auto-calc)* Computed as the sum of contributions for contribution codes 400 through 429.

Note that these contributions are not deductible on the return, but rather increase your tax liability (or reduce your refund). They 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.

FTB eliminates 540-V Payment Voucher. The FTB no longer requires a payment voucher to be enclosed with payment for a Form 540 return, and has therefore eliminated the form starting with tax year 2014. **CAUTION: Other vouchers still required:** *In spite of the elimination of Form 540-V, the FTB still requires that payment vouchers accompany payment for extensions (FTB 3519), e-file (FTB 3582), and estimated tax (FTB 540-ES).*

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.)

CAUTION: Do not complete the following entries if there is no refund. This caution is especially important for an e-file return because it could lead to inconsistencies that would prevent your calculations from being complete. If your calculations remained incomplete, you would be unable to print the return or generate e-file output until you remove the below entries when they are not relevant to the return because no refund is available.

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.

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 below, the answer is Yes. This answer is used to mark the proper check-box at the bottom of page 5 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 telephone 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 should 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 "ATTACH FEDERAL RETURN" will be printed in the upper right area of the scannable Form 540 printout. Otherwise, the phrase "DO NOT ATTACH FEDERAL RETURN" will be printed. *(For e-file, a copy of the federal return is always included for the FTB.)*

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 to-

tal 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. Line 8(b) (Tax-exempt interest) appears on Schedule CA for informational purposes only and is not used in any California calculations.

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. Line 9(b) (Qualified dividends) appears on Schedule CA for informational purposes only and is not used in any California calculations.

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 in-

come 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 2013 Form FTB 3805V (as a positive number).

c Federal 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 4b. (*Premium Level: Road Map line, supported by Form 3805Z in a future release*) Unless you use the Premium Level software, you must enter here the result on line 4b of Form 3805Z, *Enterprise Zone Deduction and Credit Summary*.

NOL from FTB 3806, line 3b. (*Premium Level: Road Map line, supported by Form 3806 in a future release*) Enter the NOL carryover from line 3b of Form 3806, *Los Angeles Revitalization Zone Deduction and Credit Summary*.

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 4b. Enter the NOL carryover from line 4b 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 \$2,000 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).

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 Deductible part of self-employment tax.** California conforms to the federal law for 2014, where the deduction for this line is exactly one-half of the self-employment tax on line 56 of Form 1040, 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 now fully conforms to the federal law, so no adjustment appears in column B nor column C of the printed Schedule CA. (California did not previously allow any deduction for the coverage of your adult children.)
- 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.** California now fully conforms to the federal method for computing the deduction with just one exception. If an active duty military member domiciled outside of California and your IRA deduction was subject to 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 the line above line 36, not here at line 32*, in accordance with FTB instructions for line 36. *See our italicized instructions at the end of our instructions for “ITEMIZE other adjustments” above 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 in-

structions 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 difference 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 Federal Schedule A, lines 5 and 8. *(Road Map line, supported by Worksheet A.)* Only adjustments for income taxes deducted on the

federal return are posted here from Worksheet A, including state, local, SDI, and foreign income taxes.

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 prefer not to send our Worksheet A with the return, 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. (You must use the F10 key to access the support here because this is a text entry line.) **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.**

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, 14, 20, and gambling. *(Road Map line, supported by Worksheet A.)* The part of itemized deductions *NOT* subject to high income limitations on the California return 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's *Itemized Deductions Worksheet* in their 2014 *Instructions for Schedule CA (540)*. An amount can appear on this line only if your federal adjusted gross income for 2014 (shown on Form 540, line 13) exceeds \$352,830 if married filing jointly or qualifying widow(er), \$176,413 if single or married filing separately, or \$264,623 if head of household.

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

Standard deduction. *(auto-calc)* The standard deduction for your filing status appears here automatically (generally \$3,992 or \$7,984 for 2014).

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 because details of transactions are now on a separate form (Form 8949) for the federal return. Nevertheless, because you provide the details on worksheets for the federal Schedule D as you did before the days of Form 8949, you can still refer to the section for Schedule D in Chapter 2 of the regular *Tax Forms Guide 2015 Edition* for many details relevant to the California return. However, keep in mind that: **(a)** California does not provide favorable taxation for long-term capital gains, so the California schedule does not separate long-term transactions from short-term transactions; **(b)** California no longer allows the equivalent of an IRC sec. 1202 exclusions (sec. 18152.5 of the California code).

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 sec. 1202 exclusion claimed on the federal return. 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 2013 California Schedule D, which you must enter on line 6, or
- you claimed a section 1202 exclusion on federal Schedule D, for which there is no longer a California equivalent, 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 losses and gains to show up on the worksheet and on the printouts for line 1. (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.)

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 are 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.

Exclusion for qualified small business stock eliminated. California has long had a special deferral and exclusion of gain on the sale of certain small business stock under R & TC Section 18152.5 similar to the federal IRC Section 1202 exclusion. However, the California law required that 80% of employment and assets were in California – a restriction that the California Court of Appeals ruled unconstitutional in 2013. As a result, *our former special line for Sec. 18152.5 exclusions no longer applies.*

1 Totals. (d) loss and (e) gain. (*auto-calc lines*) All gains and losses are separately summed for all of the preceding lines and the totals are shown here.

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, the amounts reported to you may be different for the state return, so you should carefully read the Schedules K-1 to ensure the proper entries.

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 2015 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:

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.

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.

3 Capital gain distributions. *(auto-calc)* Computed as the sum of the preceding two lines.

4 Total 2014 gains from all. *(auto-calc)* Computed as the sum of gains on all worksheets and lines above -- column (e) of Schedule D.

5 2014 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 2013, 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 2014 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.

Schedule D may be omitted from a printout of the complete return. California instructs you not to file Schedule D if it results in no California adjustment. As a result, it is omitted from an official printout of the complete return when lines 12(a) and 12(b) are both zero. This action *applies to an e-filed return as well* in order to avert a rejection of the return by the FTB.

Carryover to 2015. *(auto-calc lines)* Ordinarily, the carryover to 2015 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.

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.

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

Schedule D-1 / Sales of Business Property

California law conforms well to federal law. California law has conformed well with federal law for the sales of business property since tax year 2010. Moreover, California Schedule D-1 is nearly identical in format to federal Form 4797, except for an added section for California adjustments to be reflected on Schedule CA. You can therefore refer to the section on Form 4797 in Chapter 2 of the regular *Tax Forms Guide 2015 Edition* for most details.

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 D-1 may be omitted from a printout of the complete return. California instructs you not to file Schedule D-1 if it results in no California adjustment. As a result, it is omitted from an official printout of the complete return when lines 21(a) and 21(b) are both zero. This action *applies to an e-filed return as well* in order to avert a rejection of the return by the FTB.

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 to 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 it 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 federal 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 2015 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.

Schedule P, Page 1:

PARTS I and II - ALTERNATIVE MINIMUM TAX. Page 1 of Schedule P does not conform well to federal Form 6251 because the IRS redesigned Form 6251 for 2002 and the FTB has not conformed to the new design. In addition, California and the IRS each have tax preferences that are unique to each. The most significant differences are:

- California has not conformed with the Federal change in threshold for medical and dental expenses on Schedule A. (The Federal threshold was raised from 7.5% to 10% for 2014 if both you and spouse are under 65 years of age.) As a result, the preference at line 2 of Schedule P remains at 2.5%.
- California has no equivalent for the preference at line 13 of federal Form 6251, Qualified small business stock (IRC sec. 1202), starting tax year 2012. The former California equivalent (R & TC sec. 18152.5) was dropped because the California Court of Appeals ruled that it was unconstitutional. This is a significant change because the tax preference was 50% of the exclusion taken (in contrast with 7% on federal Form 6251).
- California has no equivalent for the preference at line 16 of federal Form 6251, Electing large partnerships.
- Federal Form 6251 has no equivalent for the AMTI exclusion at line 17 of Schedule P, which is detailed in the shaded box starting on the next page.
- The exemption amount at Schedule P, line 22, is different from the federal counterpart (Form 6251, line 29), but the computational methods are identical.
- 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 for the reduced capital gains tax on the federal return (page 2 of Form 6251).

Except for these items, you can refer to the section on Form 6251 in Chapter 2 of the regular *Tax Forms Guide 2015 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. Adjustments for differences in itemized deductions and the standard deduction are automatic as well. However, *you may have to change some entries 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), 13c (Installment sales), or 13e (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%, 50%, and 100% 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 18 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 complexity and independent nature (relative to the alternative minimum tax). 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.

Schedule P, Page 2:

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)* Taken from Form 540 as indicated, this is total tax before credits are applied.

2 Tentative minimum tax from Part II, line 24. *(auto-calc)* Taken from line 24 in Part II 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.

Line 2 is the lowest amount to which total tax can be reduced by credits.

SECTION A - CREDITS THAT REDUCE EXCESS TAX. The current-year claims for the credits in this section are not allowed to reduce tax to any less than the amount of tentative minimum tax on line 2. The FTB enforces this rule by defining the following excess tax:

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. Credits in this section are not allowed to reduce the excess tax below zero. It is in column c of the official Schedule P, which carries the running tax balance as credits are applied.

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:

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.

The credits on lines 4 and 5 follow the above printed format, and the computation for the last two lines is identical in every case. There are only two data entry lines in this section:

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.

Credit used this year. *(auto-calc)* Computed as the lesser of the preceding total credit amount and the amount on line 3.

5 Code 232, Child and dependent care expenses credit. *(Road Map line, supported by Form 3506.)* Once you complete FTB Form 3506, the credit before any tax limitation appears here.

Credit used this year. *(auto-calc)* Computed as the lesser of the preceding total credit amount and the tax balance that remains after reducing line 3 by the "Credit used this year" on line 4. This amount is posted to line 40 of Form 540. Except for the nonrefundable renter's credit (detailed later), no other credit on Schedule P has its own line on Form 540. The only reason the credit appears on Schedule P is so that the amount used this year can be coordinated with other credits on this schedule. That is, the tax liability limit applied to subsequent credits on this schedule is first reduced by the credit on this line.

A2 Credits that reduce excess tax and have carryover provisions. Unlike the credits in Section A1, the unused credits in this section 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 6, 7, 8, or 9, 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 6, 7, 8, or 9, 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 6, 7, 8, or 9, 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 6, 7, 8, or 9, described later.

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

Order of credits arranged for maximum credit this year. For credits not specifically listed on the official preprinted FTB form, the taxpayer is free to claim the credits in any order. However, the FTB form is already designed to maximize 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 appear in the 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 2014 expenses), and the amounts not used this year are carried over to next year:

Code 223, California Motion Picture and Television Production Credit.

This credit is allocated and certified by the California Film Commission (CFC). Therefore, you can claim no credit unless you received certification for 2014 from the CFC. See form FTB 3541 for details.

Code 235, College Access Credit. This credit is allocated and certified by the California Educational Facilities Authority, for taxpayers who contribute to the College Access Tax Credit Fund. Therefore, you can claim no credit unless you received certification for 2014 from the authority.

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.

Code 224, Donated Fresh Fruits or Vegetables Credit. You may claim 10% of the cost of your donation of fresh fruits and fresh vegetables to the California food bank. See form FTB 3811 for details.

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 area (LAMBRA) hiring. Enter here your business incentives for LAMBRA hiring figured on FTB 3807 (not built into the software), which you must file with the return. (Note that only LAMBRA hiring carries a current credit. LAMBRA sales and use tax incentives have been repealed, so only carryovers are now allowed, as noted later.)

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 234 New Employment Credit. This new credit is available only to taxpayers who have received a tentative credit reservation for hiring a full-time employee in a designated census tract or economic development area. See FTB 3554 for details.

Repealed credits that reduce excess tax and have carryover provisions. (*Road Map lines, supported by Form 3540, for all but one credit.*) 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 190, Employer child care contribution. Originally figured in Part II of Form 3501.

Code 189, Employer child care program. Originally figured in Part I of Form 3501.

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 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 198, Local agency military base recovery area (LAMBRA) sales and use tax. This portion of LAMBRA incentives has been repealed, and was originally figured on FTB 3807. A current credit is still available for LAMBRA hiring, as described previously. *CAUTION: Unlike all other credits in this section, this credit carryover cannot be claimed on Form 3540. You must therefore enter the carryover directly on this Schedule P.*

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 220 New Jobs Credit. Originally figured on FTB 3527.

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.

6 through 9, Section A2 Summary. Up to four credits used above are consolidated into lines 6 through 9. Each of the four lines consists of the following five parts (only four of which are shown on the screen):

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.

Tax balance. *(auto-calc, but not shown on the screen)* Computed as the tax balance at line 5(c) less the "credit used this year" for this

credit and all credits that precede this one in this section, this is the tax balance that can be reduced by subsequent credits. It is printed in column (c) 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 6 through 9, 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 6 through 9. The additional amount used this year will be shown on the official printout below line 10(b) with a reference to the supporting statement.

10 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 this line.

Credit used this year. *(auto-calc)* Computed as the lesser of "credit amount" for line 10(a) and the tax balance for the last numbered line used on the schedule. It is printed in column (b) of this line and is the same as line 38 of Form 3510.

Tax balance. *(auto-calc, but not shown on the screen)* Computed as the tax balance for the last numbered line used on the schedule less the above "credit used this year." This is the tax balance that can be reduced by subsequent credits. It is printed in column (c) of this line.

Credit carryover. *(auto-calc)* Computed as "credit amount" for line 10(a) less "credit used this year" for line 10(b). This is the amount that can be claimed next year, and is printed as line 10(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 3, but they cannot exceed line 1.

11 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 last tax balance in column c is used.

Line 11 is the tax balance that may be offset by credits in Section B.

B1 Credits that reduce net tax and have no carryover provisions. 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.

12 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 \$425 for 2014; 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 12.

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.

13 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 \$425 for 2014; 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.

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 2012 or 2013, and the person who qualified you for this filing status died during 2012 or 2013.

14 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 \$1,300 (for 2014) 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 \$69,005.

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.

15 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 15. 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 of this schedule.

Current Credits that reduce net tax and have carryover provisions. The following credits are credits for 2014 expenses:

Code 233, California competes. This credit, new for 2014, is an incentive for businesses to come to California or to stay and grow in California. The credit is negotiated by the governor's office and approved by the California Competes Tax Credit Committee, and you must have been awarded a contract by the committee to claim a credit.

Code 197, Child adoption. *(Supported by the Child Adoption Credit Worksheet, Figure CA-2.)* In the year of adoption, half of the

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

cost of adopting a child is reimbursed as a credit, up 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 with the return, and enter the result of that form here.

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.

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).

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

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

Code 210 Targeted Tax Area (TTA) Sales or Use Tax. This business incentive for targeted areas was originally figured on FTB Form 3809 (not built into the software) just like the *TTA Hiring Credit*, cited earlier, which has not expired.

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

Code 180, Solar energy. (*Road Map line, supported by Form 3540.*) Originally figured on FTB 3805L, but expired on January 1, 1987.

Code 181, Commercial solar energy. (*Road Map line, supported by Form 3540.*) Originally figured on FTB 3805L.

16 through 19, Section B2 Summary. Up to four credits used above are consolidated into lines 16 through 19. 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, but not shown on the screen*) 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 16 through 19, 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 16 through 19. The additional amount used this year will be shown on the official printout below line 19(b) with a reference to the supporting statement.

B3 Other state tax credit. For the sole line in this part of Section B, the unused credit cannot be carried over to the next year:

20 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 20(a)) and the tax balance for the last numbered line used on the schedule (column (b)).

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 22 and 23, below.

21 AMT from Schedule P Part II, line 26. (*auto-calc*) The alternative minimum tax computed on Schedule P, page 1, is posted here before modification by the credits computed here.

22 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 gross credit for line 22 and the amount on line 21.

Credit carryover. (*auto-calc*) Computed as the gross credit on line 22 less the above "credit used this year." This is the amount that is carried over to next year.

23 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 gross credit for line 23 and the AMT on line 21 less the "credit used this year" at line 22.

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

24 Adjusted AMT. (*auto-calc*) Computed as the tax balance after any credit at line 23 is applied.

The result at line 24 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 credits used this year on Schedule P, Part III, are reflected in lines 40 through 46 of Form 540, as shown here.

Child/dependent care credit for Form 540, line 40. *(auto-calc)* Taken from "Credit used this year" at line 5 of Schedule P, Part III, this is California's *Child and Dependent Care Expenses Credit* allowed this year.

Credit type for Form 540, line 43. *(auto-calc)* Taken as the credit code and name for the first nonzero credit among lines 4 through 23 of Schedule P, Part III, excluding the *Child and Dependent Care Expenses Credit* and the *Nonrefundable Renter's Credit* (because there are separate lines on Form 540 for reporting those credits: lines 40 and 46).

Amount of credit for Form 540, line 43. *(auto-calc)* Taken as the "Credit used this year" that appears below the credit code and name for the preceding credit type.

Credit type for Form 540, line 44. *(auto-calc)* Taken as the credit code and name for the second nonzero credit among lines 4 through 23 of Schedule P, Part III, excluding the *Child and Dependent Care Expenses Credit* and the *Nonrefundable Renter's Credit* (because there are separate lines on Form 540 for reporting those credits: lines 40 and 46).

Amount of credit for Form 540, line 44. *(auto-calc)* Taken as the "Credit used this year" that appears below the credit code and name for the preceding credit type.

Balance for Form 540, line 45. *(auto-calc)* The sum of all "Credits used this year" that are shown on Schedule P, Part III, except the credits shown above for Form 540 lines 40, 43, and 44, and the credit shown below for Form 540, line 46, this is balance of credits on Schedule P, Part III, not shown elsewhere on Form 540.

Renter's credit for Form 540, line 46. *(auto-calc)* Taken from "Credit used this year" at line 15 of Schedule P, Part III, this is California's nonrefundable *Renter's Credit* allowed this year.

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-3.)* 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-3.)* The same set of worksheets supports this line as well.

DOUBLE TAXED INCOME WRKSHT		Double Taxed Income Worksheet. <i>(Figure CA-3)</i>
a.	Income item des	This worksheet is just a simple itemized list, but with two amount columns:
b.	Taxable by California	α Income
c.	Taxable other state.....	

Figure CA-3. Double Taxed Income Worksheet

item 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.

Schedule S

- 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, this is the credit for this copy of Schedule S.

The sum of credits on line 12 of all Schedules S combined is posted to line 20 of Schedule P, Part III.

Form 3506 / Child & Dependent Care Expenses Credit

California credit similar to federal credit. California provides a form similar to federal Form 2441 for deducting child and dependent care expenses for parents who work. The credit is generally just a percentage of the federal credit (50% or less), so the computation of the credit on this form duplicates the computation on the federal form until this percentage is applied (at line 9). This percentage ranges from 50% for federal AGI of \$40,000 or less to zero for federal AGI above \$100,000. Since tax year 2011, the credit has been a nonrefundable credit. In other words, it is subject to tax liability limitations, which are applied at line 48 of Form 540. *Form 3506 is accessible through the Road Map at line 40 of Form 540 and line 7 of Schedule P, Part III (on page 2 of Schedule P).*

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 you to report, in Part I of the form, any income you received that is not earned income but was used to help support your family. There is no federal equivalent to Part I. (Earned income is reported on lines 4 and 5, analogous to federal Form 2441.)
- (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. *CAUTION: If you answer Yes for "Disabled?" be sure to leave the date-of-birth entry blank.*
- (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 our File Manager. (The requirement for the care to take place in California has replaced the former residency requirement for the taxpayer. 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 10 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 2013. Entries from the prior-year California Schedule P are entered here. Form 3510 is then completed automatically based on these entries except for line 3. You will have to make an entry on line 3 of Form 3510 if you have an AMT credit net operating loss (NOL) deduction.

2013 filing status. Translated from the federal Form 8801, you will have to change this entry only if the filing status for the 2013 California tax return was different from that for the 2013 federal tax return (or there was no federal Form 8801 for 2014).

2013 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 2013, your entry should be zero. Otherwise, your entry should be your standard deduction for 2013.

2013 Schedule P, Part I, line 2. If you itemized deductions on the federal return for 2013, 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.*

2013 Schedule P, Part I, line 3. If you itemized deductions on the federal return for 2013, the amount translated from the federal Form 8801 is the amount on lines 5, 6, and 8 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 8 applies to California. You must therefore reduce the translated amount by the amounts on lines 5 and 8 of the federal 2013 Schedule A. If you did NOT itemize deductions on the California return, enter zero.

2013 Schedule P, Part I, line 4. If you itemized deductions on the federal return for 2013, 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 2013 *Home Mortgage Interest Adjustment Worksheet* (on page 2 of the IRS 2013 Instructions for Form 6251) are not allowed by California. If you did NOT itemize deductions on the California return, enter zero.

2013 Schedule P, Part I, line 5. If you itemized deductions on the federal return for 2013, the amount translated from the federal Form 8801 is line 27 of the 2013 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.

2013 Schedule P, Part I, line 6. The amount translated from the federal Form 8801 is line 8 of the 2013 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.

2013 Schedule P, Part I, line 7. The amount translated from the federal Form 8801 is line 9 of the 2013 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 2013 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).

2013 Schedule P, Part I, line 13b. The amount translated from the federal Form 8801 is line 9 of the 2013 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.

Other exclusion items. Enter here any 2013 exclusion items not reflected above. Although the corresponding entry on screen 1 of our 2014 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 the above Schedule P lines 1 through 5, 7, 13b, and "other exclusion items" less line 6, is used for line 2 of California Form 3510. **CAUTION:** FTB instructions for line 2 of Form 3510 are wrong. The FTB's 2014 Instructions for Form FTB 3510 indicate that 2013 Schedule P, Part I, 13i should be included in line 2 of Form 3510. However, that instruction is a holdover from the prior year's instructions, when line 13i of the 2011 Schedule P was the preference for qualified small business stock. That line does not exist on the 2013 Schedule P because the exclusion was ruled unconstitutional by the courts, but the FTB failed to remove the reference to it in the 2014 Form 3510 instructions. (Line 13i of the 2013 Schedule P is the preference for research and experimental credit, which is not an exclusion for Form 3510.)

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

2013 Schedule P, Part I, line 15. The amount translated from the federal Form 8801 is line 1 of the 2013 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.

2013 Schedule P, Part I, line 16. The amount translated from the federal Form 8801 is line 11 of the 2013 Form 6251, which is the NOL deduction reflected in line 21 of the 2013 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 2013 Schedule CA differs from the federal deduction.

2013 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 2013 taxable trade or business income (but no less than zero) because California instructs you to exclude such income when figuring AMTI.

2013 Schedule P, Part I, line 18. The amount translated from the federal Form 8801 is line 6 of the 2013 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 five lines are NOT translated from the federal Form 8801 because either they have no federal equivalent or they are very different from the analogous federal amounts:

2013 Schedule P, Part II, line 25. This is the regular tax before credits on the 2013 California return. You must manually enter the amount

from line 25 in Part II of the 2013 Schedule P. This entry is used for line 12 of the current Form 3510.

2013 Schedule P, Part II, line 26. This is the AMT on the 2013 California return. You must *manually enter the amount from line 26 in Part II of the 2013 Schedule P.* This entry is used for line 28 of the current Form 3510.

2013 Schedule P, Part III, line 12(d). This is the unused credit for prior-year AMT on the 2013 California return. It is shown on line 39 of the 2013 Form 3510 and column (d) of line 12 in Part III of the 2013 Schedule P. You must *manually enter the amount from Part III, line 12, column (d) of the 2013 Schedule P.* This entry is used for line 31 of the current Form 3510.

2013 Schedule P, Part III, line 24(b). This is the solar energy credit carryover used in 2013. You must *manually enter the amount from line 24, column (b), in Part III of the 2013 Schedule P.* This entry is used in the computation of line 28 of the current Form 3510.

2013 Schedule P, Part III, line 25(b). This is the commercial solar energy credit carryover used in 2013. You must *manually enter the amount from line 25, column (b), in Part III of the 2013 Schedule P.* This entry is used in the computation of line 28 of the current Form 3510.

The remaining lines in this section are used only for taxpayers who were under 24 years old at the end of 2013:

Your 2013 earned income. The amount translated from the federal Form 8801 is the primary taxpayer's federal earned income for 2013. 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.

Earned Income more than half your support? Answer Yes only if the preceding amount is more than the support provided by all others combined in 2013.

Full-time student in 2013? Answer Yes if enrolled as a full-time student in any 5 month period in 2013.

YOUR age on 2013 Form 540. *(auto-calc)* Computed as the age you entered on our 2014 Form 540 less one year, this is your age on January 1, 2014.

Both parents died before 2014? Translated from the federal Form 8801, the answer should be Yes only if neither parent was alive on January 1, 2014.

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 2013 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 2013 Schedule P, Part I, amounts for lines 1, 2, 3, 4, 5, 7, and 13b, plus "Other exclusion items" less the 2013 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 2013 and this result exceeds \$327,976, an additional amount is added to this result in accordance with the worksheet in the FTB instructions for this line.
- 5 Amount from 2013 Schedule P, line 22, Exemption Worksheet, line 1.** *(auto-calc)* Using the 2013 filing status on screen 1, computed as \$84,640 for filing status 2 or 5, \$63,481 for 1 or 4, or \$42,319 for 3.
- 6 Amount from 2013 Schedule P, line 22, Exemption Worksheet, line 3.** *(auto-calc)* Using the 2013 filing status on screen 1, computed as \$317,401 for filing status 2 or 5, \$238,051 for 1 or 4, or \$158,700 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 you have an entry for your age on Form 540, your age was under 24 for the 2013 return, at least one parent was alive in 2013, your filing status was not married filing jointly for 2013, and either your age was under 18 at the end of 2013 or you provided no more than half your support and were either 18 at the end of 2013 or a student. 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 the amount for "Earned Income for Exemption Worksheet" *plus* \$7,150.
- 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 2013 Schedule P, Part I, line 25, this is the amount on the 2013 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*:

- AMT on 2013 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 before reduction by solar credit carryovers.
- Solar carryover reduction.** *(auto-calc)* Computed as the sum of amounts on screen 2 for Schedule P, Part III, lines 24(b) and 25(b), this is the amount by which the AMT computed in Part II of Schedule P is reduced before being used on Form 540. If an amount appears on this line, it is printed on the dotted line for Form 3510, line 28, to flag to the FTB that the AMT has been reduced.
- 28 **AMT from 2013 Schedule P, Part II, line 26.** *(auto-calc)* Computed as "AMT on 2013 Schedule P, Part II, line 26" less "Solar carryover reduction," this is the AMT that was reported on line 61 of the 2013 Form 540. *CAUTION: The FTB label for this line is misleading. The FTB label implies that the amount for this line is the amount computed in Part II of Schedule P, before reduction by any solar credit carryovers used in 2013. But the FTB instructions confirm that it should be the reduced amount. The label would more properly be "AMT from 2013 Form 540, line 61" or "AMT from 2013 Schedule P, Part III, line 26(c)."*
- 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 2013.** *(auto-calc)* Taken from your entry on screen 2 for "2013 Schedule P, Part III, line 12(d)," this is the carryforward to 2014 computed on the prior-year Schedule P (also shown on line 39 of the prior-year Form 3510).
- 32 **Combine line 30 and line 31.** *(auto-calc)* Computed as indicated. If negative, there is no credit (nor credit carryover) from this form.
- AMT CREDIT for Schedule P, Part III, line 10(a).** *(auto-calc)* Computed as line 32, but no less than zero. This is the credit from Form 3510 be-

fore tax limitations are applied, and is posted to Schedule P, Part III, line 10, 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, and 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 10, column (b). The remainder carried over to the next year is computed on Schedule P at Part III, line 10, 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. 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, 2015. However, an extension of time to file does NOT give you an extension of time to pay! You still must pay any remaining tax due by April 15, 2015, and enclose 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 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 guidance instead. It is up to you to make the final determination of estimates to report to the FTB. (See our details on Form 4868 in Chapter 2 of the regular *Tax Forms Guide 2015 Edition* for details.)

TAX PAYMENT WORKSHEET. The first section of the form is the estimate of remaining 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, 2015. However, if you are living or traveling outside the U.S. on that date, you have until June 15, 2015 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 15, 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 15 have until December 15 to file their return.)

Print Form 3519 voucher to enclose with payment. (*Standard and Premium Levels only*) The FTB 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 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 Form 3523 vs. federal Form 6765. There was a time when California law so closely conformed with federal law that California's FTB Form 3523 was nearly the same, line-by-line, as federal Form 6765. However, California never 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 to the federal form were the introduction of a more liberal credit for energy research consortium, the addition of an Alternative Simplified Credit, and eventually the phaseout of the Alternative Incremental Credit. But the California form remains similar to the pre-2005 federal form. Only Section A of Part I of the current forms (the section for the Regular Credit) is still similar. 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, which is nothing like the Alternative Incremental Credit. In spite of these differences, except for the omission of entries not applicable to California, data entry for California Form 3523 closely parallels that for federal Form 6765 because the data entry in *Tax Preparer* is not tied to the official form. Instead, *Tax Preparer* automatically completes the official form based on your choices in the data entry, including the choice of regular credit vs. incremental credit and the choice of full credit vs. reduced credit. Nevertheless, we provide separate instructions here for the California form because of the major differences in format and computation of the automatically completed forms.

ENTRIES AND ELECTIONS. The entries you provide here (on the first screen of Form 3523) 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 49) is then completed based on the results of lines 1 through 39b and your entries on the last screen of the form (concerning pass-through credits, 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. The number should consist of 12 digits starting with 19 or 20.

Qualified research expenses. Most of the following entries apply to *both* alternative credit computations. *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 generally reduced to 65% of your entry when used in Section A or B of Form 3523 (75% for the part you enter on the next 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. This answer is translated from the federal return, but it could be to your advantage to change it for the California return, as explained in the TIP that follows this question.*

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 87.7% 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 12.3% of the total credit for California, in contrast with a reduction of 35% of the total federal credit.

Section B election. This election is unique to California. It does not appear on the federal form. As a result, *these answers are not translated from the federal 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.

PART I, CREDIT COMPUTATION. All but 3 lines of Form 3523 lie in Part I of the 49-line FTB form.

SECTION A, REGULAR CREDIT. *(Fully automatic; no manual entries required.)*

The regular credit is based on a simple computation in which all research expenses are combined and one credit rate is applied to them all. 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 indicated 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 preceding total 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 on the last screen of this form.*
- 17b Reduced regular credit. *(auto-calc)*** 87.7% 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 at line 17b.

SECTION B, ALTERNATIVE INCREMENTAL CREDIT. *(Fully automatic through line 39b.)* 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). **CAUTION:** *The headings on the FTB form are misleading because lines 40 through 46 are included in Section B, yet they do NOT apply only to the alternative incremental credit. Lines 40 through 46 apply to both the regular credit in Section A and the alternative incremental credit in Section B. We therefore show these lines in a separate section on the last screen of the form labeled AVAILABLE CREDIT. That separate section requires additional data entry if you have any research credit from S corporations, estates, trusts, partnerships, or LLCs, or if the credit is subject to the rules for passive activities, or you have any carryover from the prior year.*

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)* 87.7% 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. **CAUTION:** *If you did not elect the reduced credit, you must reduce deductions elsewhere on the return and identify those reductions in a supporting statement for the line in this section labeled "Schedule of reduced deductions."*

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 the Form 6765 from which FTB Form 3523 is translated. As a result, the amount translated from the federal return will generally be too high.)*

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 REDUCTIONS 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. *(Supported by the Schedule of Reduced Deductions Worksheet, Figure CA-4.)* If the answer to "ITEM-

IZED 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. (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 or e-file output of Form 3523.) CAUTION: No support is translated from the federal Form 6765 because the format required by the IRS is incompatible with the format required by the FTB. You must therefore always create the support anew here when required.*

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 39a.

- 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 2014 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, section B2, where it is subjected to the tax liability limitation before being reflected on Form 540.

Schedule of Reduced Deductions Worksheet. *(Figure CA-4)*

The completion of this worksheet is mandatory if you chose not to take the reduced credit in either section of Form 3523.

SCH. OF REDUCED DEDUCTIONS	
Explanation of reduction..:	
where reduced on return:	
Name of FTB form.....	
Specific line on form	
Amount BEFORE reduction....	0
Amount of reduction.....	0

Figure CA-4. Schedule of Reduced Deductions Worksheet

Explanation of reduction. Give a brief identification of the deduction you reduced in 30 characters or less.

Where reduced on return:

Name of FTB form. Identify the California form or schedule on which you claim the deduction that you are reducing.

Specific line on form. Identify the line where you made the reduction.

Amount BEFORE reduction. Enter the deduction you would have made on the identified form if you had not reduced it for the research credit.

Amount of reduction. Enter the amount by which you reduced your deduction on the identified form.

The sum of amounts on the last line from all worksheets combined is shown when you return from the worksheets. This sum will match the amount on line 46 if you have properly accounted for all required reductions.

PART II, CARRYOVER COMPUTATION. Part II is comprised of just lines 47, 48, and 49, which summarize the part of line 46 that is allowed as a current credit on Schedule P and the balance available for carryover.

47 Amount of research credit claimed on current year tax return. (*auto-calc, supported by Schedule P, Part III*) The entry for this line comes from the part of Schedule P that relates to the code 183 credit on screen 8 of the on-screen Schedule P, page 2. The credit on line 46, above, is limited to the tax liability that remains after deducting credits that appear before it on the screen, and the result is shown as "Credit used this year." However, *this entry may not be accurate until the final recalculation of the return, since it depends on a tax balance that changes frequently as the return is prepared.*

48 Total credit assigned to other corporations within combined reporting group from Part III, column (g). (*auto-calc*) This line and Part III of the form apply only to certain corporations, and is therefore not relevant to this Form 540 tax return. As result, this line will always be zero.

49 Credit carryover available for use for future years. (*auto-calc*) Computed as line 46 less line 47, this amount will match the amount shown on screen 8 of Schedule P as "Credit carryover" for credit 183 *after the final recalculation of the return.*

PART III, CREDIT ALLOCATION AND CARRYOVER PER ENTITY – ONLY COMBINED REPORT FILERS. This new part of Form 3523 applies only to corporations that are assigned credits from multiple related corporations. It is therefore not relevant to this Form 540 tax return. It occupies the entire page 3 of Schedule P, so that page is omitted from the software.

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 in structure and is translated from that form when the California return is started by translation, as we recommend. However, you must manually enter California adjustments to several amounts translated from the federal return. 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 2015 Edition* for general information on the investment interest expense deduction and its requirements.

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

Federal investment interest expense for 2014. 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 2014. *(auto-calc)* Computed as the sum of the above two lines, but no less than zero.

2 Disallowed investment interest expense from 2013 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 2015.

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 2014.

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 Forms 8822 and 8822-B, 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.*

CAUTION: Create a separate return to use this form. Although you can complete a Form 3533 for the return you file, we recommend that you complete it on a return with a minimal number of forms. Otherwise, you may encounter *insufficient memory* messages while preparing, printing, or e-filing your return because of the unusually large number of long text entries on this form.

Similar to federal Forms 8822 and 8822-B combined. The federal Form 8822 was split into two forms starting tax year 2011, with the new Form 8822 applying only to a change in home address and Form 8822-B applying only to a change in business address or location. By contrast, California Form 3533 still uses a single form for both purposes. However, the FTB greatly expanded the form at the end of 2014 so that it is now a 2-page form in which page 1 is analogous to federal Form 8822 and page 2 is analogous to federal Form 8822-B. The form now also includes space for foreign address information, like the federal forms. However, significant differences remain. California provides splits the street address into smaller parts, with separate entries for apartment number and private mailbox number, and separates city and state entries. And for a change in business address, California requires that you supply your California Secretary of State file number, which is the number issued by the state when the business was formed, qualified, registered, or converted in California. As a result, *although a Form 3533 translated from the federal return is a good starting point, it will still require additional entries.* (If you are completing Form 3533 anew, see the section on Forms 8822 and 8822-B in Chapter 2 of the federal *Tax Forms Guide 2015 Edition* for other data entry details.)

Where to file. You must not send Form 3533 with your Form 540 return. Instead, 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 III 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 on-going tax balance in each part:

- (c) **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 III of last year's Schedule P. If a Schedule P, Part III, exists *this* year for the return, this entry is posted there and the below lines are left blank.
- (d) **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.

(e) 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 two screens 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 there are no more than two credits allowed this year. If more than two credits are allowed on Form 3540, Schedule P, Part III is automatically generated and completed upon the final recalculation of the return and the balance of credits after the first two are shown on Form 540, line 45.

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 2013. 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 2013. 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 2013. 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 2014. 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 here is No, you do not qualify for a credit based on your 2014 expenditures; however, *you may still have a credit from pass-through entities (line 5) or from a carryover from prior years (line 7).*

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

Street address. If located in the U.S., use this and the next 3 lines to enter the address. Enter here the street address in 25 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.

OR, if a foreign address, use these lines instead:

Foreign address. Enter here the street address in 25 characters or less. Your entry must be the physical location of the facility, not a postal box or company headquarters, if different.

Foreign city. Enter the city in 25 characters or less.

Foreign province or state. Enter the province or state in 25 characters or less.

Foreign country (2-letter code). Enter the IRS's 2-letter code for the foreign country. See Table 2-6 in the *Tax Forms Guide 2015 Edition*.

Foreign postal code. Enter the foreign postal code in 15 characters or less, using the customary format for the country.

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

2014 disabled access expenses. Enter only expenses paid or incurred during the tax year that 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 you are eligible for the credit based on your own facility, as shown by the answer on screen 1 for "ELIGIBLE FOR THIS CREDIT?" Otherwise, zero. Even if not eligible based on your own facility, you still qualify for a credit from a pass-through entity and a carryover from the prior year.

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 2014 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 2013 (line 7).

5 Pass-through disabled access credit(s) from Schedule K-1. You must report any credit reported to you on a Schedule K-1 (from a partnership, S corporation, estate, trust, or LLC classified as a partnership) in a supporting statement for this line. Your support must show the name and Federal Employer Identification Number (FEIN) of the entity and the amount of credit passed through to you from that entity.

Special format for e-file: For e-file, you must follow a specific format

in your support for this line in order for it to be accepted by the IRS. Each entity must be reported on just one line of the support, with the entity's name in the first 20 characters of the text column, the entity's FEIN in the last 10 characters of the text column, and the amount of passed-through 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 carry-over of disallowed amounts.

7 Credit carryover from prior year. Enter the amount from line 10 of the 2013 Form 3548. You could have an amount from 2013 if a prior claim or prior carryover was reduced by the tax liability limit imposed by Schedule P.

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), and is reflected in column (a) of the printed Schedule P.

9a 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"). (You can see the amount for this line based on the current amounts on the return by pressing the *Final Recalc* key, ctrl-B or shift-F8. However, the amount may change if tax liability changes, so any number you see here now may not be the final result for this line.)

9b Credit assigned to other corporations from form FTB 3544. (auto-calc) This line applies only to corporations, so it is always zero for Form 540 returns.

10 Credit carryover available for future years. (auto-calc) Computed as line 8 less the sum of lines 9a and 9b, this is the amount to be claimed on line 7 of the 2015 Form 3548. *TIP: The carryover that appears on Schedule P for this credit could be less because it reflects only the disallowance stemming from the tax liability limit imposed on no more than \$125 of the credit in line 8.*

The credit on line 9a is reflected in line 6, 7, 8, or 9 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 3800 / Tax Computation for Certain 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 \$2,000. Furthermore, California now conforms to the 2007 and 2008 federal legislation that raised the age to which this form applies, thereby eliminating the differences that applied for two years after the federal legislation passed. (The California form formerly applied only to children under 14 years of age. The form now conforms with the federal law that raised the age threshold from 14 to 18 years of age for 2007 and extended it to 19 through 24 year old students for 2008.)

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. In addition, there are a few entries required on the California Form 3800 that are not required on the federal Form 8615. Only differences from the federal form are highlighted here. For other details, refer to our details for Form 8615 in Chapter 2 of the *Tax Forms Guide 2015 Editions*. There are also two cases where the translation has no relevance to the California Form 3800:

Parent filed Form 8814 on federal return, but did not file Form 3803 on the California return. If a parent elected to report the child's income on his or her return through federal Form 8814 (*Parent's Election to Report Child's Interest and Dividends*), the child will have no federal return to translate. But if the parent does not make the same election for the California return (through FTB Form 3803), the child must file a return with a Form 3800. In that case you must create Form 3800 yourself and supply all entries anew, since there is no federal return for the child from which to translate.

Child had a Form 8615 on federal return, but parent filed Form 3803 on California return. If a parent did not elect to report the child's income on his or her federal return, the child will generally have a federal return, including Form 8615, from which to translate. However, if the parent does elect to report the child's income on his or her California return (by filing Form 3803), the translation of the child's return is irrelevant because the child should not file a California return at all.

PARENT INFORMATION. Although much of the information in this section is translated from the federal Form 8615, the following three entries will require your attention:

Parent's filing status. Although translated from the federal Form 8615, you will have to change the entry if the parent's filing status is dif-

ferent for the California return. If you have to change this entry, you may also have to change other entries for the parent. For example, if the parent's filing status for the federal return was married filing jointly but is married filing separately for the California return, you must use information for the person with the highest taxable income, even if not technically a parent. In that case, you may have to change every entry in the Parent Information section of this form.

Number of exemptions on parent's return. This entry is not translated from the federal Form 8615 because Form 8615 has no such entry. You must therefore supply the information here even though it is used on no calculations on California Form 3800.

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, which is common. This entry should match line 19 on the parent's Form 540.

Note that an entry for tax from the parent's Form 3803 is no longer necessary (to exclude it from line 10) because we compute the tax for line 10 based on the above taxable income without regard to Form 3803.

PART I, CHILD'S NET INVESTMENT INCOME. Although all unblocked data entry lines are translated from the federal Form 8615, you may have to make adjustments to these entries.

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 reduction to line 1. If the total AGI less the computed total earned income, above, does not accurately reflect the investment income for the child, enter an adjustment here. *CAUTION: The adjustment you enter here is taken as a reduction to the computed investment income, so if the computed amount is too low, you must enter your adjustment as a negative number.*

Line 1 is then the AGI less the earned income less the above adjustment.

2 If DID NOT itemize, \$2,000. *(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 \$2,000.

3 Subtract line 2 from line 1. *(auto-calc)* Computed as indicated, but no less than zero.

Child liability for Form 3800. The requirement to file Form 3800 is checked here based on information about the child.

Child's age from Form 1040. *(auto-calc)* Taken from the entry for "Your age at year-end" above line 9 of Form 540, you must have an entry here for the age checks to be valid.

Student 5 months or more. Unlike the federal Form 1040, the answer to this question does not appear on the California Form 540. As a result, you must answer this question yourself in order for the age checks to be valid.

Child liable for Form 3800 tax. *(auto-calc)* The answer will be Yes if line 3 is nonzero and either (a) the child is under 19 (whether a student or not), or (b) the child is under 24 and a student.

If the answer to the above question is No, the remainder of the form will be zero and Form 3800 will not be used for the tax on this return.

4 Child's TAXABLE income. *(auto-calc)* Normally taken from line 19 of Form 540, but zero if the child is not liable for Form 3800 tax.

5 Net investment income. *(auto-calc)* Computed as the smaller of line 3 or line 4, this is the part of the child's taxable income that must be taxed at the parent's tax rate (if higher than the child's).

PART II, TAX BASED ON PARENT'S TAX RATE. Although this part of the form is fully automatic for most taxpayers, you may have to adjust one entry:

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 (as shown on-screen above line 4).

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 (Parts I, II, and III) 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 2015 Edition* for more information on how to determine the amount for this entry. (Note that California uses the federal amount directly, rather than an adjusted version based on California amounts.)

Page 2 (California Worksheets) 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-5)* 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.)

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

PASSIVE ACTIVITY WORKSHEET		
a.	Passive Activity	
b.	Federal Schedule.....	
c.	Calif. Schedule.....	
d.	Federal Amount.....	0
e.	Calif. Adjustment.....	0
f.	Calif. Amount.....	0

Figure CA-5. Passive Activity Worksheet

can group like items together. 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.

- b. **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.
- c. **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.
- d. **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.
- e. **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.
- f. **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 now conforms fully to the federal equivalent except for the tax rates. California taxes the first \$2,000 of the child's interest and dividend income at a much lower rate, and no special capital gains tax rates apply for California. As a result, all data entry is performed for you automatically when you translate the federal return to the California return. You can therefore consult the details for federal Form 8814 in Chapter 2 of the *Tax Forms Guide 2015 Edition* for information on data entry. *Form 3803 is accessible through the Road Map above line 31 of Form 540.*

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*. For example, 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.*

Exclusion for qualified small business stock eliminated. California has long had a special deferral and exclusion of gain on the sale of certain small business stock under R & TC sec. 18152.5. However, the California Court of Appeals ruled in 2012 that it was unconstitutional. As a result, the exclusion, formerly reflected in line 15 of Form 3805E and labeled "Sec 18152.5 exclusion" (since the line is designed for the home exclusion), is no longer allowed.

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 2015 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 Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

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 2015 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 the box on federal Form 8853, line 9a is checked. 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.** This form is planned for a future release and will be only built into the Premium Level version of the California Supplement once it is completed.

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. Although California law conformed with federal law starting tax year 2010, California suspended the NOL carryover deduction for tax years 2010, 2011, and 2012. Therefore, 2013 is the first tax year where the California deduction parallels the federal deduction. *When included, 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

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

Purpose. This form was formerly used to figure deductions, credits, recapture, and NOL carryover for business expenses in a California Enterprise Zone. However, Enterprise Zone (EZ) Incentives were repealed for tax year 2014 and later, so the form has been revised to eliminate current-year deductions. Nevertheless, carryovers and credit for hiring before 2014 still applies, so the form remains complex in spite of some simplification of page 1. The details are so complex that the FTB provides a 25-page booklet, complete with five additional worksheets (some of them two pages long), 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 three of these amounts are automatically posted elsewhere on the return: (1) credit from this form is posted to Schedule P (Part III), (2) NOL carryover is posted to line 21e of Schedule CA, and (3) credit recapture from a worksheet in the instructions for this form is posted to line 63 of Form 540. All other amounts must be manually entered on the lines of the return to which they apply. For example, 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, Credit 176 in Part III of Schedule P (on screen 8 of Schedule P, page 2), and the Form 3805Z component of Form 540, line 63.*

GENERAL INFORMATION. The Enterprise Zone business is identified here.

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

The number should consist of 12 digits starting with 19 or 20.

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 Enterprise Zone (EZ) business. Enter the name in 35 characters or less.

C Address where the EZ business is conducted. Enter the street address for the EZ business on this line in 35 characters or less.

City. Enter the city in 22 characters or less.

State. Enter the standard 2-letter code for the state.

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

D Name of the EZ in which the business and/or investment activity is located. Enter the government-assigned name of the Enterprise Zone. The allowed names are listed on page 4 of the 2014 Form 3805Z booklet. *CAUTION for e-file: The FTB requires that your entry be precisely the same as one of the names in the booklet. This includes*

adherence to the upper-casing of the first letter of each word, and no spaces before or after dashes for names that have dashes. Otherwise, your return will be rejected.

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 28 through 30 of the 2014 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 EZ. 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 Gross annual receipts of the business. Enter the gross income for tax year 2014.

I Total asset value of the business. Enter the asset value at the end of tax year 2014 (or the end of the EZ designation, if earlier).

WORKSHEETS. Before you can complete Form 3805Z, you must complete the FTB worksheets that appear in the FTB's 3805Z booklet. These worksheets are not a part of the official FTB form, do not print with the official return, and should not be filed with the return. Instead, you must keep them with your records and be able to produce them if the IRS requests them. You can get a hard copy of all the data you entered for worksheets by generating Quick Copy printouts of Form 3805Z with support (described in Chapter 10 of the *User's Guide*). And you can get a formatted copy of the data you entered in support by choosing "PERSONAL & Other Support" in the "PRINT Official Returns" mode.

WORKSHEET IA – 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 2014.

Section A – Credit Computation:

1 Qualified wages paid or incurred for year of employment. *(Supported by the Hiring Credit Worksheet, Figure CA-6.)* 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-6)* Summed from line b of all worksheets combined.
 - c 2nd year. *(auto-calc line, supported by the Hiring Credit Worksheet, Figure CA-6)* Summed from line c of all worksheets combined.
 - d 3rd year. *(auto-calc line, supported by the Hiring Credit Worksheet, Figure CA-6)* Summed from line d of all worksheets combined.
 - e 4th year. *(auto-calc line, supported by the Hiring Credit Worksheet, Figure CA-6)* Summed from line e of all worksheets combined.
 - f 5th year. *(auto-calc line, supported by the Hiring Credit Worksheet, Figure CA-6)* 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 IA, 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-6*) This worksheet supports line 1 of FTB Worksheet IA. Use a separate worksheet for each employee, entering only wages for the first 5 years of employment.

- 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. **Employee name.** Enter the name of each employee in 25 characters or less.
- d. **1st year wages.** Enter only qualifying wages paid or incurred for this employee for the first year of his or her employment.
- e. **2nd year wages.** Enter only qualifying wages paid or incurred for this employee for the second year of his or her 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

- f. **2nd year wages.** Enter only qualifying wages paid or incurred for this employee for the second year of his or her employment.

Figure CA-6. Hiring Credit Worksheet

- g. **3rd year wages.** Enter only qualifying wages paid or incurred for this employee for the third year of his or her employment.
- h. **4th year wages.** Enter only qualifying wages paid or incurred for this employee for the fourth of his or her employment.
- i. **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 2014) 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. This recapture tax is posted to the Form 3805Z component of Form 540, line 63.

WORKSHEET IB – 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 2014.

1 Itemize property purchased. *(Supported by the Sales or Use Tax Credit Worksheet, Figure CA-7.)* 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-7)* 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 IB, 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-7)* This worksheet supports line 1 of FTB Worksheet IB. Use a separate worksheet for each property purchased for which you want to claim the credit.

a Property description. Describe the property in 30 characters or less.
Property location. Enter the physical location in 30 characters or less.

SALES OR USE TAX CREDIT	
a. Property description.....:	
Property location.....:	
b. Cost.....	0
c. Sales or use tax.....	0

Figure CA-7. Sales or Use Tax Credit Worksheet

b Cost. Enter the cost of the property.

c Sales or use tax. Enter the amount of sales or use tax paid or incurred.

WORKSHEET II – BUSINESS EXPENSE DEDUCTION RECAPTURE. The third worksheet relates to the recapture of prior business expenses deductions, and appears on page 9 of the 2014 3805Z booklet.

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. The amount to enter is the entire previous business deduction taken for this property.

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 III – INCOME OR LOSS APPORTIONMENT. This worksheet is used to determine the average apportionment percentage to enter in Part III 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 11 and 12 (instructions for which appear on pages 11 through 13) of the 2014 Form 3805Z booklet in order to determine the percentage.

WORKSHEET IV – COMPUTATION OF NOL CARRYOVER AND CARRYOVER LIMITATIONS. This worksheet is used to determine the entries for Part IV 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 15 (instructions for which appear on page 14) of the 2014 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 IA through III plus your entries on Schedule Z that are detailed later. You must complete Parts IV and V based on your manual preparation of Worksheets IV and V., 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 (g) or line 10, column (f). *(auto-calc)* Once you have completed Schedule Z, detailed later, the amount on line 8A(g) 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 IA, Section B, line 2, column (b). *(auto-calc)* Taken from your previously completed Worksheet IA, Section B, line 2.

c Sales or use tax credit from Schedule Z, line 9A, column (g) or line 11, column (f). *(auto-calc)* Once you have completed Schedule Z, detailed later, the amount on line 9A(g) 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 RECAPTURE. The recapture of prior business expense deductions is summarized in this part.

2 Business expense deduction recapture from Worksheet II, line 2, column (b). *(auto-calc)* Taken from your previously completed Worksheet II as indicated. **CAUTION:** *As previously detailed in our instructions for Worksheet II, the amount on this line must be reported as an addition adjustment to income on Schedule CA.*

PART III – PORTION OF BUSINESS ATTRIBUTABLE TO THE ENTERPRISE ZONE. The result of a manually prepared Worksheet III is reported here.

3 Average apportionment percentage of your business that is in the EZ from Worksheet III, Section A, line 4. If the business is entirely in the

Enterprise Zone, enter 100. Otherwise, enter the result from a manually-prepared Worksheet III, as indicated.

PART IV – NET OPERATING LOSS (NOL) CARRYOVER AND DEDUCTION. The result of a manually prepared Worksheet IV is reported here.

4a Enter the EZ NOL carryover from prior years from Worksheet IV, line 29, column (b). See the instructions on pages 13 and 14 of the FTB 2014 Form 3805Z Booklet.

b Total EZ NOL deduction used in the current year from Worksheet IV, line 29, column (c). The amount you enter here is automatically posted to line 21e of Schedule CA as a subtraction adjustment to income.

c EZ NOL carryover to future years from Worksheet IV, line 29, 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 III, enter the amount on line 14, column (c), of Section B 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 B of Worksheet III on page 12 of the FTB 2014 Form 3805Z Booklet and the instructions on pages 11 through 13.

2 Corporations: Average apportionment percentage from Worksheet III, 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 EZ NOL deduction from Worksheet IV, line 29, column (c). If you had to complete Worksheet IV, enter the cited amount from that worksheet.

5 EZ 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 2014, 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 2014 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 IA. *(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 IB. *(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 (g) of Schedule Z, Part II, lines 8A and 9A, below.

Part II – Limitation of Credits for Individuals:

8 Hiring credit:

A(f) Limitation based on EZ business income. *(auto-calc)* Taken from line 7 of Schedule Z, Part I.

(g) Used on Schedule P. *(auto-calc)* Computed as the lesser of “Hiring credit from Worksheet IA” (on screen 8), “Limitation based on net tax” (also on screen 8), and the above amount on line 8A(f).

B(b) Credit amount. *(auto-calc)* Taken from line 6 of Worksheet IA, 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 assigned from form FTB 3544 column (g). *(auto-calc)* *Always computed as zero* because this line applies only to corporations, not individuals filing a Form 540 tax return.

(e) Total credit, column (b) plus column (c) minus column (d). *(auto-calc)* Computed as indicated from the preceding three lines.

- (f) **Limitation based on EZ business income.** *(auto-calc)* Contrary to the implications of the FTB label, this amount is taken from line 8A(g), which includes the limitation to tax balance in addition to the limitation based on EZ business income, so that the carryover on line (h) is not understated.
- (h) **Carryover, column (e) minus column (f).** *(auto-calc)* Computed as indicated, this is the amount of hiring credit that can be carried over to 2015.

9 Sales or use tax credit:

- A(f) Limitation based on EZ business income.** *(auto-calc)* Computed as the amount on line 8A(f) less than amount on line 8B(f), 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.
- (g) **Used on Schedule P.** *(auto-calc)* Computed as the lesser of "Sales or use tax credit from Worksheet IB" (on screen 8), "Limitation based on net tax" (also on screen 8) less line 8A(g) (above), and the above amount on 9A(f).
- B(b) Credit amount.** *(auto-calc)* Taken from line 2c of Worksheet IB, 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 assigned from form FTB 3544 column (g).** *(auto-calc)* Always computed as zero because this line applies only to corporations, not individuals filing a Form 540 tax return.
- (e) **Total credit, column (b) plus column (c) minus column (d).** *(auto-calc)* Computed as indicated from the preceding three lines.
- (f) **Limitation based on EZ business income.** *(auto-calc)* Contrary to the implications of the FTB label, this amount is taken from line 9A(g), which includes the limitation to tax balance in addition to the limitation based on EZ business income, so that the carryover on line (h) is not understated.
- (h) **Carryover, column (e) minus column (f).** *(auto-calc)* Computed as indicated, this is the amount of sales or use tax credit that can be carried over to 2015.

Part III – Limitation of Credits for S corporations Only. Not applicable to Form 540 returns.

Part IV – Limitation of Credits 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 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 former 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 2014. *(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 2014. *(This line does not apply if your credit or NOL deduction stems only from a pass-through entity.)*

CREDIT CARRYOVER FROM 2013. The credit carryover portion of this form requires information from your 2013 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 2013 Form 3806.

General hiring carryover. Enter the amount from column (e) of Schedule Z, line 9B, of the 2013 Form 3806.

Sales or use tax carryover. Enter the amount from column (e) of Schedule Z, line 10B, of the 2013 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 II AND III. Before the current Form 3806 can be completed, you must supply the results from two FTB worksheets in the FTB's 3806 booklet. (Inexplicably, the FTB renumbered the worksheets for 2013 so that there is now no Worksheet I in the IRS instructions.)

Worksheet II (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 II, but you do need to enter amounts on the following lines, as instructed below.

Worksheet II, 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 5 of the FTB 2014 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 II, 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 2014 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 III (NOL Carryover and Carryover Limitations) is used to determine the NOL carryover available for consideration for 2014, the amount to be used this year, and the amount to be carried over to 2015. If you have no NOL carryover, skip this worksheet and enter zero on all of the following lines.

Worksheet III, line 14, column (b). Complete the worksheet on page 7 of the FTB 2014 Form 3806 instructions and enter the result from line 14(b). This is the total NOL carryover stemming from business in the LARZ (from 1993 through 1998).

Worksheet III, line 14, column (c). Complete the worksheet on page 7 of the FTB 2014 Form 3806 instructions and enter the result from line 14(c). This is the NOL carryover to be deducted in 2014.

Worksheet III, line 14, column (e). Complete the worksheet on page 7 of the FTB 2014 Form 3806 instructions and enter the result from line 14(e). This is the NOL carryover to be carried over to 2015.

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 (f) or line 11, column (c). *(auto-calc)* The amount on line 8A(f) 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 (f) or line 12, column (c). *(auto-calc)* The amount on line 9A(f) 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 (f) or line 13, column (c). *(auto-calc)* The amount on line 10A(f) 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 16, 17, 18, or 19 of Schedule P, Part III, 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 II, Section A, is reported here.

2 Average apportionment percentage of your business that is in the former LARZ from Worksheet II, 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 III is reported here.

3a Total LARZ NOL carryover from prior years from Worksheet III, line 14, 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 III, line 14, column (c). *(auto-calc)* Taken from your prior entry for the indicated line.

c LARZ NOL carryover to future years from Worksheet III, line 14, 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 II, 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 II, 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 III, 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 2014, 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 2014 based on your LARZ business income.

Application of LARZ income and net tax limitations:

Part II of Schedule Z requires 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 (f) 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(e) Limitation based on LARZ 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 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) Total credit assigned from form FTB 3544 column (g).** *(auto-calc)* Always computed as zero because this line applies only to corporations, not individuals filing a Form 540 tax return.
- (d) Total credit column (b) minus column (c).** *(auto-calc)* Taken as line (b) because line (c) is always zero for Form 540 tax returns.
- (e) Limitation based on LARZ 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 the carryover to next year, column (d) minus column (e), is not understated.

9 General hiring credit:

- A(e) Limitation based on LARZ 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 LARZ business income limitation not used for the construction hiring credit, and therefore available for the general hiring credit.
- (f) 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(f).
- 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) **Total credit assigned from form FTB 3544 column (g).** *(auto-calc)* Always computed as zero because this line applies only to corporations, not individuals filing a Form 540 tax return.
- (d) **Total credit column (b) minus column (c).** *(auto-calc)* Taken as line (b) because line (c) is always zero for Form 540 tax returns.
- (e) **Limitation based on LARZ 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 the carryover to next year, column (d) minus column (e), is not understated.

10 Sales or use tax credit:

- A(e) **Limitation based on LARZ business income.** *(auto-calc)* Computed as the amount on line 9A(e) less the amount on line 9B(e), 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.
- (f) **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(f).
- 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) **Total credit assigned from form FTB 3544 column (g).** *(auto-calc)* Always computed as zero because this line applies only to corporations, not individuals filing a Form 540 tax return.
- (d) **Total credit column (b) minus column (c).** *(auto-calc)* Taken as line (b) because line (c) is always zero for Form 540 tax returns.
- (e) **Limitation based on LARZ business income.** *(auto-calc)* Contrary to the implications of the FTB label, this amount is taken from line 10A(f), which includes the limitation to tax balance in addition to the limitation based on LARZ business income, so the carryover to next year, column (d) minus column (e), is not understated.

Part III – Limitation of Credit Carryovers for S Corporations Only. Not applicable to Form 540 returns.

Part IV – Limitation of Credits for Corporations and S Corps. 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 starting in 2008 and the special "bonus" depreciation for most tangible property starting 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 (2014) 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: 2014 property, 1987 through 2013 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 2014. The worksheets for 2014 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 2014. The worksheets for 2014 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 2014 and property placed in service before 1987. Those Listed Property Worksheets must be removed from line 5; the 2014 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, \$250,000 for 2008 and 2009, and \$500,000 for 2010 through 2014.)

Post-9/10/01 property. California has *no provision analogous to the federal special 30%, 50%, or 100% special depreciation allowance* for new property. Since this federal 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 2014, in sharp contrast with the nominal federal ceiling of \$500,000.*

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 2015 Edition* for details.

- 1 Maximum dollar limitation.** *(auto-calc)* Normally \$25,000 for 2014.
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 2015 Edition* are enforced here.

- 10 Carryover of disallowed deduction from 2013.** Enter here any amount of section 179 deduction disallowed on the California return in 2013 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 2015.** *(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 2014. 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 2014.*

- 3 2014 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 2014. *CAUTION: If the lines on the federal Form 4562 for 50-year Property or Listed Property include property newly placed in service in 2014, you must remove those worksheets from the set at line 5 and reenter the data anew on the worksheets for THIS line.*

2014 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 2014, 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.

2014 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 2014, 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 2014. 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-2014 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 2014, 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 2013 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 2015 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-2014 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 2013 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 2014. *(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 2014 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 2014 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 2014. *(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-2014 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.

<p>Form 3885A may be omitted from a printout of the complete return. California instructs you <u>not</u> to file Form 3885A if it results in no California adjustment. As a result, it is <u>omitted</u> from an official printout of the complete return <u>when lines 8(a), 8(b), 14(a), and 14(b) are all zero.</u> This action <i>applies to an e-filed return as well</i> in order to avert a rejection of the return by the FTB.</p>

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. A California Form 5805 is automatically created during translation if a federal Form 2210 was completed. However, you may not need to file this form if there is no question of a penalty, and you may therefore want to remove the form from the California return. If no Form 2210 existed on the federal return, but the software determines that you may be subject to a penalty on the California return, Form 5805 will be automatically generated and completed for you. However, you can block its auto-creation through our Control Form. ***CAUTION: In order for the automated Form 5805 to take into consideration the special exceptions that are based on 2013 amounts, you must supply the information from the 2013 California return by completing screen 3 of the Control Form.*** That information is not available automatically because the return is translated from the 2014 federal return, not the 2013 California return. Form 5805 is accessible through the Road Map from line 113 of Form 540.

Farmers and fishermen get an extra break. Like federal Form 2210-F, qualifying farmers and fishermen can use California's Form 5805-F to compute the penalty rather than Form 5805. It generally provides a lower penalty, more exceptions, and an ability to avoid all late-payment penalties if you file and pay all tax due by March 1, 2015. It is built into the software and automatically used in place of Form 5805 when applicable.

Fully automatic for most taxpayers. The form is automatically completed and computed based on the withholding and estimated tax payments reported on Form 540 and our Control Form, but there are some cases that may require your attention in order for the software to compute the lowest possible penalty:

- (1) If you qualify for an exception based on your prior-year tax return, you must enter information from the prior-year return on our Control Form in order to benefit from the exception.
- (2) If you were a farmer or fisherman in 2013 or 2014, you must supply additional information on screen 3 in order to benefit from the favorable treatment of Form 5805-F.
- (3) If you made any quarterly estimated tax payment before its due date, you will have to override penalty calculations in order to get credit for early payments because the software assumes that all payments are made on their due date.

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Form 5805/5805-F

- (4) If significantly more wages were earned in later quarters than initial quarters, you will have to override the equal amounts shown on screen 3 (above line 3) in order to minimize your penalty. Otherwise, the software assumes that all W-2 wages were earned uniformly throughout the year.
- (5) If you earned significantly more income later in the year than you did earlier in the year, you may benefit from the use of the annualized installment method, but will have to supply additional information on a separate form (accessed from screen 4).
- (6) If you qualify for a waiver of the penalty, usually due to involvement in a federally-declared disaster that prevented you from paying your estimated taxes on time, you must claim the waiver in a supporting statement for the first entry on screen 4.

INFORMATION FROM 2013 AND 2014. The first screens of this form collect information from the prior-year and current returns.

Information from 2013. The top of screen 1 shows two amounts from 2013 – 2013 tax liability less credits and 2013 withholding taxes – which are computed from the prior-year amounts you entered on screen 3 of the Control Form.

Information from 2014. The remainder of screen 1 shows critical amounts from the current Form 540, including AGI, withholding taxes, amount you owe, and the amount you are paying or paid with the return when filed, plus the following data entry line that you must complete:

Date return filed. You must enter the date the Form 540 return will be filed in the standard mm/dd/yy format so that the software will compute the penalty only up to that date. If you make no entry here, the date April 15, 2015 is entered for you, but you can change the date at any time. (Note that dates after April 15, 2015 are treated computationally the same as April 15, 2015 because Forms 5805 and 5805-F are designed by the FTB only to compute a penalty up to that date. Penalties that apply after that date are computed only by the FTB, and a bill for the amount they compute is sent to you.)

EXCEPTIONS. Three exceptions to the underpayment are available for a California return for which there is no parallel for a federal return. They are represented by the three bullets in the box at the top of the official FTB Form 5805. The third screen of Form 5805 shows whether or not you are qualified for any of these exceptions. If you are, Form 5805 does not apply to you and no penalty is computed. Except for a question you must answer to claim the 3rd exception, these screens are fully automatic. If you qualify for any of these 3 exceptions, your penalty will be zero.

1 Were you required to pay LESS than \$500 (\$250 if MFS) with either your 2013 or 2014 tax return? If so, you qualify for an exception.

α For 2014: Form 540, line 48 (less any G-1 tax in line 34), 61, and 62 less line 74. (auto-calc) Taken from the last line on screen 1 of this form, this is the current-year tax upon which the penalty is based.

b 2014 Form 540 lines 71 and 73. *(auto-calc)* Computed from the amounts on screen 1 of this form, this is the sum of withholding from wages and other sources.

c Subtract line b from line a. *(auto-calc)* Computed as indicated.

Qualify for 2014 exception 1. *(auto-calc)* If line c is less than \$500 (\$250 if married filing separately), you qualify and the penalty on Form 5805 will be zero.

d For 2013: Form 540, line 48 (less any G-1 tax in line 34), 61, and 62 less line 74. *(auto-calc)* Taken from screen 1 of this form.

e 2013 Form 540 lines 71 and 73. *(auto-calc)* Taken from screen 1 of this form.

f Subtract line e from line d. *(auto-calc)* Computed as indicated.

Qualify for 2013 exception 1. *(auto-calc)* You qualify if line f is less than \$500 (\$250 if married filing separately).

2 Your 2013 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 2013: Form 540 line 48 (less any G-1 tax in line 34), 61, and 62 less lines 74. *(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 "2013 amounts entered for Form 5805" on the Control Form.

3 Were 2014 estimated tax plus withholding payments at least 90% of 2014 tax or 100% of 2013 tax liability (110% if 2013 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.

2014 tax paid in required installments? You cannot qualify for the exception unless you can answer Yes.

a 2014 Form 540 lines 71, 73, and estimated tax payments in 72. *(auto-calc)* Computed as withholding on screen 1 of this form, but adding estimated tax payments included in line 72 of the current Form 540. (Payments in line 72 that stem from a filing extension are excluded.)

b Tax on 2014 Form 540, line 48 (less any G-1 tax in line 34), 61, and 62 less line 74. *(auto-calc)* Taken from the last line on screen 1 of this form, which is the result of the special worksheet for 2014.

c Divide line a by line b. *(auto-calc)* Computed as indicated.

Qualify for 2014 exception 3. *(auto-calc)* You qualify if line c is at least 0.9.

d Tax on 2013 Form 540, line 48 (less any G-1 tax in line 34), 61, and 62 less line 74. *(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 2013 exception 3. *(auto-calc)* You generally qualify if line e is one or more (1.1 or more if 2013 AGI was more than \$150,000, or \$75,000 if married filing separately). However, if the 2014 California AGI is \$1,000,000 or more (\$500,000 or more if married/RDP

filing separately), this exception based on 2013 amounts is not allowed.

Remainder of form parallels federal Form 2210 and is fully automatic unless you request a waiver, choose the Annualized Income Installment Method, or claim nonuniform withholding. 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 2015 Edition* for additional understanding about the remainder of the form.

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 penalty resulting on that worksheet (line 16 for 2014) on the last line of page 2 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 keeps the Short Method screen (screen 7) and the Regular Method screens (screens 8 through 11 for 2014) separate, the software follows the FTB 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.** This form is planned for a future release and will be only built into the Premium Level version of the California Supplement once it is completed.

Purpose. This form used to figure the additional tax on an accumulation distribution made by a foreign trust and certain domestic trusts. Page 1 of Form 5870A is analogous to federal Form 4970 and is identical in structure, line for line, thanks to a change in California law that conformed with federal law (IRC section 667) starting tax year 2010. The only differences from the federal form are income entries and tax calculations. Page 2 of Form 5870A is unique to California and relates to the prior law (R & TC sections 17745(b) and (d)), which still applies for certain contingent beneficiaries. Furthermore, when both IRC section 667 and R & TC section 17745(b) seem to apply, you must complete only page 2 and not page one. *When included, 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 is 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.

Federal Schedule A, line 3 using California law. *(auto-calc)* Computed as 7.5% of the preceding line, this is the floor below which no medical expenses are deductible for California. California has not conformed with the federal raise of the threshold for 2014 from 7.5% of AGI to 10% of AGI (for all but elderly taxpayers).

➔ **Federal Schedule A, line 4 using California law.** *(auto-calc)* Computed as the amount by which "Federal Schedule A, line 1 using California amounts" exceeds the preceding threshold for California.

Amount on federal Schedule A, line 4. Translated as indicated, this is 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.

Negative of amount on federal Schedule A, line 13. This is the amount for mortgage insurance premiums deducted on the federal Schedule A, which is not allowed for California and is therefore shown as a negative.

Other adjustment to federal Schedule A, line 15. 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 four 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.

Other adjustment to federal Schedule A, line 19. Enter any other adjustment to gifts to charity here.

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.

Federal taxable dividends for Schedule CA, line 9, column A. 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 2015 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.

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 2015 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 2015 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 2015 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 2015 Edition* for details.

Required payments no longer equal. *Starting with 2009*, unlike federal Form 1040-ES, required quarterly installments are no longer one-quarter of the annual shortfall of tax for California Form 540-ES. The FTB started the change with the 2009 Form 540-ES, requiring that the first two installments be 30% of the required annual payment, leaving 20% for each of the last two installments. The FTB changed the requirements again for the 2010 Form 540-ES (and it remains that way for 2014), requiring 30% of the required annual payment for the first and last installment, 40% for the second installment, and zero for the third installment. 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.

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 2015 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 and approve any electronic deposit to or withdrawal from a bank account for any refund or tax due. California Form 8453 summarizes the return and shows the bank information used for any direct deposit of a return or electronic withdrawal for tax due, including an option for paying quarterly estimated taxes electronically. 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. Consequently, we 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-2G and 1099-R are taken from the federal return, not from any lines of Form 540 or Schedule CA.** Form 540 does not have any W-2G or 1099-R Worksheets attached to any lines of the form, so they are translated only to our e-file form. They are required to be included with the return only if they show withholding for California income tax, in which case you must also enter that withholding above line 71 of the on-screen Form 540. The worksheets are accessible here only for making changes required for the California 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 for a federal return, whether for a paper return or an e-file return, the FTB has a paper voucher designed specifically for an e-file return. 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 or you choose to pay any tax due by electronic withdrawal from a bank account (as described on the next page).

Except for additional options for paying quarterly estimated taxes electronically (described on the next page), 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 the section

for federal Form 8453 in Chapter 2 of the main *Tax Forms Guide 2015 Edition* for all other details.

Form W-2 for e-file now taken from the W-2 Worksheets that support line 12 of Form 540. There is no separate W-2 Worksheet for the e-file form. You must make any changes on the worksheets for Form 540 and they will be automatically reflected in the version that is included with the e-file return.

Unique California option for scheduling quarterly estimated tax payments. In addition to paying any tax due electronically, the FTB allows you to schedule electronic payments for quarterly estimated taxes. To choose this option you must specify the amounts and payment dates on screen 5 of our e-file form in the Estimated Tax Payments section and supply the required bank account information on screen 6 in the Direct Debit section. (The bank information in the Direct Debit section is shared by estimated tax payments and any payment for an amount due on the Form 540 return.) ***CAUTION:** Although screens 5 and 6 collect your information, the information actually sent to the FTB in the e-file return is shown on the last screen of the e-file form.* Among the reasons why a scheduled payment is not shown on the last screen are lack of date entries that specify the withdrawal date, omission of a 9-digit routing number, omission of an account number, or failure to specify the type of account (checking or savings). ***TIP:** Support for electronic withdrawal for an e-file return, whether for paying the tax due for the Form 540 return or scheduling quarterly estimated tax payments, was implemented in the software with release 2015.01c. Earlier releases supported only the electronic deposit of a refund.*

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 2014 are required to e-file all eligible Form 540 returns for 2014. 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.