

Supplement CA

California Tax Forms Guide 2024 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 2024 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 2023 and early 2024, 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 (2024 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 (2024 Edition)* is a special supplement to the regular 2024 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 2024 Edition. This document adds instructions for California forms to the *Tax Forms Guide 2024 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:

   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

   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 (Child and Dependent Care), the *Qualifying Child Worksheets* for Form 3514 (California Earned Income Credit), 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 specifically 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

<u>CALIFORNIA FORM/SCHED</u>	<u>TITLE OF CALIFORNIA FORM/SCHEDULE</u>	<u>FEDERAL EQUIVALENT</u>
Control	Automation Control Form	Control
Form 540	California Resident Income Tax Return	Form 1040
Sch.CA,Part I	California Adjustments, Part I, Income Adjustments Schedule	Form 1040 & Schedule 1
Sch.CA,PartII	California Adjustments, Part II, Adjust- ments to Federal Itemized Deductions	Schedule A
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 (Sch. P, I&II)	Form 6251
Sch. P, pg 2	Credit Limitations (Sch. P, Part III)	None
Schedule S	Other State Tax Credit	None
Form 3506	Child & Dependent Care Expenses Credit	Form 2441
*Form 3510	Credit for Prior Year AMT	Form 8801
**Form 3514	California Earned Income Tax Credit	Schedule EIC
Form 3519	Payment Voucher for Automatic Extension	Form 4868
*Form 3523	Research Credit	Form 6765
**Form 3526	Investment Interest Expense Deduction	Form 4952
**Form 3532	Head of Household Filing Status Schedule	None
*Form 3533	Change of Address for Individuals	Form 8822
& 3533-B	Change of Address for Businesses	Form 8822-B
Form 3540	Credit Carryover and Recapture Summary	None
*Form 3548	Disabled Access Credit	Form 8826
**Form 3596	Paid Preparer's Due Diligence Checklist	Form 8867
Form 3800	Tax for Children with Investment Income	Form 8615
Form 3801	Passive Activity Loss Limitations	Form 8582
Form 3803	Parent's Election to Report Child's Interest and Dividends	Form 8814
Form 3805E	Installment Sale Income	Form 6252
Form 3805P	Add'l Tax on Qlfd Plans (IRAs, etc)	Form 5329
Form 3885A	Depreciation & Amortization Adjustments	Form 4562
Form 5805	Underpayment of Estimated Tax (5805 Parts I and II)	Form 2210
& 5805F	Underpayment by Farmers and Fishermen	& 2210-F
Form 5805-AI	Annualized Income Installment Method Schedule (5805 Part III)	Form 2210, Sch. AI
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
Schedule X	Explanation of Amended Return Changes	Form 1040X
**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 FTB e-file (no longer built into the software because the FTB no longer allows 3rd-party transmitters like PDP).
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 Courier typeface. 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.

Computer printing of entries on forms subject to strict FTB rules. FTB now requires that the printing of data on forms follow strict specifications:

1. **Absolute Positioning Forms.** The most unconventional format defined by the FTB is that for what they call Absolute Positioning Forms. These forms include Form 540, Schedule CA, Form FTB 3514, Form FTB 5805, and Schedule X. For these forms the FTB has specified the exact positioning of the data on the forms. With the sole exception of certain ratios and percentages, all numbers must be printed LEFT-justified within defined boxes on the graphic forms and must have NO punctuation (no commas nor decimal points). In addition, most text entries must not only be left-justified and upper case, but must be devoid of punctuation or symbols, with a few exceptions that allow slashes (/) and dashes (-). And all entries must be devoid of leading spaces and embedded spaces, except where specifically allowed.

2. Scannable Payment Forms/Voucher. These forms include the vouchers for Forms 540-ES and Form FTB-3519. The position of graphics, the wording for instructional text, and the position and format of names, addresses, and payment amounts are all specified. But, unlike the absolute positioning forms, the payment amount must be right-justified with a trailing decimal point (but no commas), with the position of the decimal point defined.

3. Substitue Forms. These forms include all FTB forms that are neither Absolute Position Forms nor Scannable Payment Forms/Vouchers. For these forms, the graphics should generally follow the official forms, however the precise position of printed data is not specified. However, all monetary amounts must be right-justified with neither commas nor decimal points.

The above requirements make some forms hard to read, especially left-justified numbers without commas, but failure to follow the FTB specifications means the forms will not be approved by the FTB.

Changes You Should Note

Continued nonconformance with federal tax reform. California has not adopted the changes made by the federal tax reform bill (the *Tax Cuts and Jobs Act of 2017*) that was signed into law at the end of 2017, with very few exceptions. As a result, several provisions that had conformed closely to federal law prior to 2018 are now *miles apart*. The most glaring example is in the handling of itemized deductions, but there are more subtle differences that can have large monetary impact, such as depreciation and the AMT (alternative minimum tax). You must therefore take greater care in preparing the California tax return because California now requires more data than is available from the federal return via translation.

Several taxes and credits indexed with inflation. The indexing for 2023 returns is 3.1% relative to 2022 returns (reflecting 3.1% inflation from June 2022 to June 2023 as measured by the California Consumer Price Index). As a result, several calculations have changed, including:

Standard deductions increased from \$5,202 to \$5,363 for 2023 for taxpayers filing single or married filing separately, and from \$10,404 to \$10,726 for all others.

Personal and senior exemptions increased from \$140 to \$144 for 2023 for each exemption.

Dependent exemptions increased from \$433 to \$446 for 2023 for each dependent.

Thresholds for phaseout of exemptions and itemized deductions increased from \$229,908 to \$237,035 for 2023 for single and married filing separately, from \$344,867 to \$355,558 for head of household, and from \$459,821 to \$474,075 for married filing jointly and qualifying surviving spouse. (On the federal return, there are now no exemptions at all and no high-income phaseout for itemized deductions.)

Ceiling for joint custody head of household credit and dependent parent credit increased from \$556 to \$573 for 2023 (or 30% of net tax, if less).

Ceiling for qualified senior head of household credit increased from \$1,695 to \$1,748 for 2023, and the AGI to which it applies increased from \$89,931 to \$92,719. The credit remains at 2% of taxable income.

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	TAX RATE	STARTS
	single & mfs	mjf & qw	h of h
FOR TAX YEAR 2022:			
1.00%	\$ 0	0	0
2.00%	10,099	20,198	20,212
4.00%	23,942	47,884	47,887
6.00%	37,788	75,576	61,730
8.00%	52,455	104,910	76,397
9.30%	66,295	132,590	90,240
10.30%	338,639	677,278	460,547
11.30%	406,364	812,728	552,658
12.30%	677,275	1,354,550	921,095
FOR TAX YEAR 2023 :			
1.00%	\$ 0	0	0
2.00%	10,412	20,824	20,839
4.00%	24,684	49,368	49,371
6.00%	38,959	77,918	63,644
8.00%	54,081	108,162	78,765
9.30%	68,350	136,700	93,037
10.30%	349,137	698,274	474,824
11.30%	418,961	837,922	569,790
12.30%	698,271	1,396,542	949,649

Alternative minimum tax (AMT) exemptions raised. The exemption amounts for 2023 (on Schedule P, page 1) are \$87,171 for single or head of household, \$116,229 for married filing jointly or qualifying surviving spouse, and \$58,111 for married filing separately. (Exemptions were \$84,550, \$112,734, and \$56,364 for 2022 .) These exemptions phase out with rising income starting at \$326,891 for single or head of household, \$435,855 for married filing jointly or qualifying surviving spouse, and \$217,924 for married filing separately. (These levels were \$317,062, \$422,750, and \$211,371 for 2022.)

Renter’s Credit income ceiling raised. For tax year 2023, no Renter’s Credit is allowed if California AGI exceeds \$101,492 if married filing jointly (\$50,746 for all others), up from \$98,440 and \$49,220 for 2022. Full credit is allowed below these amounts; there is no gradual phaseout.

Earned Income Tax Credit amounts and income ranges raised. For 2023 the income level (both earned income and adjusted gross income) above which no credit is allowed is \$30,950 (up from \$30,000) *irrespective of the number of qualifying children*. The maximum credits have increased from \$275 to \$285 for no children, from \$1,843 to \$1,900 for one child, from \$3,037 to \$3,137 for two children, and from \$3,417 to \$3,529 for three or more children. The unusual California phase-out pattern introduced for 2017 remains. In particular, unlike the federal Earned Income Credit, the maximum credits for California are reached at income levels far below the mid-point of their income range, phase out very quickly above that income level until they reach a very low credit -- \$237 for no children and \$596 for one or more children for 2023 -- at which point the credits phase out very slowly until the maximum of the

Changes You Should Note

income range is reached. (The inflection points were \$230 and \$579, respectively, for 2022.)

Young Child Tax Credit. This credit, introduced for the 2019 tax year, provides an extra credit if you have a California earned income tax credit and at least one child qualifying for the credit is younger than 6 years old. The credit is figured on Form FTB 3514 (*California Earned Income Tax Credit*). The maximum credit for 2023 is \$1,117 for a qualified taxpayer, and phases out starting at \$25,775 and ending at \$30,932 of earned income.

Foster Youth Tax Credit. This credit, introduced for the 2022 tax year, provides an extra credit for certain taxpayers of age 18 to 25 who are qualified for the *Earned Income Credit* and were in foster care at age 13 or older. Like the *Young Child Tax Credit* that was introduced for the 2019 tax year, the credit is figured on Form FTB 3514 (*California Earned Income Tax Credit*) and is figured in a similar manner. The maximum credit for 2023 is \$1,117 for a qualified taxpayer (\$2,234 if both spouses qualify on a joint return) and phases out starting at \$25,775 and ending at \$30,932 of earned income.

Two voluntary contribution funds are dropped. The list of voluntary charitable contributions you can make through Form 540 has contracted with the elimination of contributions to the *Prevention of Animal Homelessness and Cruelty Voluntary Tax Contribution Fund* and the *California Community and Neighborhood Tree Voluntary Tax Contribution Fund*.

Differences between federal and California depreciation are now bigger than ever. Prior to 2018, California had a good record of bringing California law into conformance with federal law to simplify the preparation of a California return, although often one year behind the IRS. But this conformance has *never* reached depreciation, which has experienced the most extreme differences in recent years because of bonus depreciation and huge increases in section 179 maximums. And since tax year 2018 the differences have been bigger than ever. Federal bonus depreciation is now 80% of the expense for most assets, but California provides *no* bonus depreciation at all. And the federal maximum dollar limitation on section 179 expenses is now \$1,160,000, whereas the California maximum remains at \$25,000. You should therefore continue to take special care when preparing California Form 3885A 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 **2024 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 Supplement tax directory first. Since the *California Supplement* contains no sample return (unlike the Form 1040 program), 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, with the exception of Economy Level software, which is restricted to one volume (volume 99). 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 often uses the original federal amounts 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 all dependents translated from the federal return are included, not just those who live with you.
- 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.
- Access every *Qualifying Child Worksheet* (at screen 2 of Form 3514) so that you can enter the additional information required by the FTB, including the exact "Date of birth" (IRS requires only "Year born"), "Number of days NOT alive in tax year" (IRS requires only number of months), "Number of days lived in your home" (IRS requires only number of months), "Number of days in your home NOT in U.S." (IRS re-

Translating the Federal Return

quires only number of months), "Number of days in your home NOT in California", *and the child's physical address*.

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 absolute positioning Form 540. The format for the address block of Form 540 is especially constrained on an absolute positioning 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 name of executor or 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 performed in the Translation Phase. Instead, for the worksheets, you must view all translated worksheets in order for them to recalculate under the California tax laws, but for the forms and schedules, you have three options for recalculating the entire return (excepting worksheets) at once: (1) choose "RECALC Tax Returns" from the "PREPARE 540 Tax Returns" menu, (2) press the Recalculate Key (ctrl-B or shift-F8) while viewing a data entry screen on any form, or (3) exit normally to the Main Menu after viewing a data entry screen on any form.*

CAUTION: If you amend the federal return, you must generally amend the California return as well. Once you have copied federal data into a California data file by means of "translation" and made all necessary adjustments, you must remember that the California return is now based on the federal data as it stood at the time of translation. 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 federal and California returns 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, and sometimes make the printouts harder for humans to read, in the interest of making them easier for machines to read. In summary, Form 540 returns must follow these rules:

Form 540. For computer-prepared forms the FTB requires an “absolute positioning” Form 540. A conventional Form 540 is designed for hand-prepared returns, not computer-prepared returns. A computer-prepared, Form 540 must be printed using a laser, ink-jet, or other high-quality printer and must have all entries printed in precise specified locations on the form in specified formats. Although the software can also print a non-graphic, text-based Form 540 that has a layout similar to the standard Form 540 for a hand-prepared return, it is really just a draft of the official form and cannot be filed with the FTB. If you cannot meet the printing requirements for an “absolute positioning” Form 540, you must file a manually-completed conventional Form 540 as printed and distributed by the FTB. *CAUTION: Additional care is required in your entries for taxpayer information when you use the “absolute positioning” 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 and 540-ES. The FTB also requires that all computer-prepared payment vouchers be scannable vouchers. These vouchers include a scannable area with taxpayer information in a format similar to that for the “absolute positioning” 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 FTB vouchers instead.

Other forms and schedules. While most other forms and schedules do not have “absolute positioning” like the “absolute positioning” Form 540, they still must be FTB-approved graphic forms. All FTB forms and schedules have 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 (draft printouts) are not acceptable, so our draft printouts carry the slogan DO NOT FILE THIS FORM, as required by the FTB.

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.

Absolute positioning 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 absolute positioning 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 "absolute positioning" Form 540 includes not only top-of-page and bottom-of-page symbols like other forms (to calibrate the automated equipment that reads it) but also a scan band area where detailed taxpayer information is printed, and the position of data printed on the graphic form is set by the FTB for all five pages of Form 540. If you use a computer to print the form, it must be the "absolute positioning" Form 540. Conversely, if you do not use a computer to print the form, you cannot use the "absolute positioning" Form 540. Whenever you choose to produce a graphic Form 540, the printout is designed for the "absolute positioning" Form 540 as long as your program settings show 1 or 2 for Special (1 = HP, 2 = Windows). 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. Monetary amounts must be rounded to the nearest dollar, printed without commas or decimal points, and left-justified.
4. Only original printed output is accepted.
5. 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 the latter effort, the software provides non-fileable paper copies in the format of the non-computer official Form 540 when you choose to print a draft (facsimile) Form 540, or when your program settings show 0 for "Special (1 = HP, 2 = Windows).

Assembly rules for Form 540 tax returns. Because the absolute positioning Form 540 is read by automated equipment, a number of rules that conflict with those in the FTB Form 540 instructions must be followed:

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.)*

Place Form(s) W-2 (and W-2G, 1099, 592-B, and 593, if applicable) directly behind Form 540 page 5. DO NOT ATTACH TO PAGE 1. Use the actual Form(s) W-2 received from employers, not copies thereof.

Place supporting forms behind the assembly. All other attachments, including other California forms and any required federal forms, must be placed behind Form 540 and the withholding forms. *Be sure to place Form 5805 or 5805F last (contrary to IRS requests to place Form 2210 or 2210-f first).*

Place federal return behind California assembly. If required, include 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.*

DO NOT STAPLE. Leave all forms and schedules loose. This instruction is contrary to the instructions in the FTB Form 540 booklet, but it is required when an absolute positioning Form 540 like the one produced by *Tax Preparer* is used.

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 "absolute positioning" Form 540.

Tab adjustments not allowed for Form 540. The FTB allows no variation in the printing of a computer-prepared Form 540. The computer-prepared Form 540 must be printed as an absolute positioning form with computer-read data printed in precise locations specified by the FTB for all five pages of Form

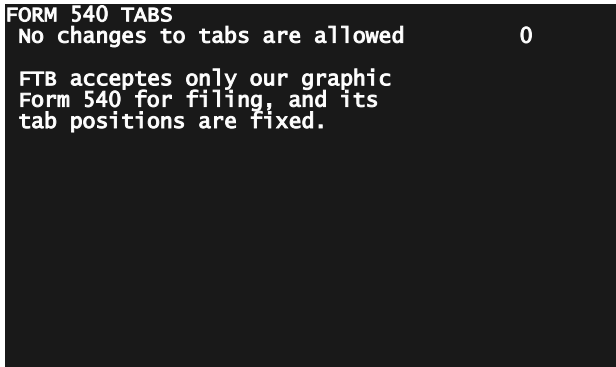


Figure CA-1. Tabs for Form 540

540.. As a result, there are no tab adjustments allowed for the absolute positioning 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 approximates the version of Form 540 that the FTB provides for manually-prepared returns.

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 2024 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 2024 Edition* for most entries.

AUTOMATION CONTROL. The first screen of the Control Form defines the tax year and controls the auto-creation of certain forms.

Tax year (enter 2023 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 cannot override this entry because the FTB requires that all dollar amounts be rounded to the nearest dollar for BOTH paper and e-file returns. In fact, most FTB-printed forms have their pennies columns pre-printed with 00.

Auto-creation of forms. Like the Form 1040 software, you can block the automatic creation of select forms for special circumstances. For the Form 540 software, you can block the auto-creation of only 3 forms, as described on the next page. All other auto-created forms are unconditionally created when they are needed to ensure a valid return (Schedules CA, D, D-1, and page 2 of P, and Forms 3514, 3596, and 3801), because they hold results that are not otherwise reflected on Form 540 or are mandatory for paid preparers. (Only Form 3596 is mandatory for paid preparers, and it is never auto-created if you answer Yes to "Omit paid preparer information?" at the end of this Control Form.)

Block Schedule P, page 1 auto-creation. If you don't want the software to automatically figure the alternative minimum tax, answer Yes here, *although we recommend against blocking this feature.*

Block Form 3801 auto-creation. If you don't want the software to automatically figure the passive losses limitations throughout the return, answer Yes here, *although we recommend against blocking this feature.*

Block Form 5805 auto-creation. If you want the FTB to figure any underpayment penalty for you and send you a bill, answer Yes here and the penalty will not be computed by the software.

STATE ESTIMATED TAX PAID. The second screen defines California income taxes for 2023 already paid, comprised of quarterly estimated tax payments and amount applied from a prior-year refund.

California tax applied from 2022. Enter the amount of any refund applied from tax year 2022. *Exception: If the return is translated from the federal return and you included this amount in your entry on the federal Control Form for "State 1st quarter estimated tax paid," as instructed in the main Tax Forms Guide 2024 Edition, you should make no entry here.*

California 1st quarter estimated tax paid. Enter the first quarterly payment to the state for the tax year. *TIP: If translated from the federal return, this entry will include the tax applied from the California 2022 tax return if you followed the instructions in the main Tax Forms Guide 2024 Edition.*

California 2nd quarter estimated tax paid. Enter the second quarterly payment to the state here for the tax year.

California 3rd quarter estimated tax paid. Enter the third quarterly payment to the state here for the tax year.

California 4th quarter estimated tax paid. Enter the fourth quarterly payment for the tax year, *even if paid in January 2024.* (January 15, 2024 is the normal due date for this payment.)

TOTAL for Form 540, line 72. *(auto-calc)* Computed as the sum of the preceding five lines.

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 2022 California return are used in Form 5805 to minimize the penalty, when applicable.

2022 amounts entered for Form 5805? In order to fully automate the penalty Form 5805, you should generally enter amounts from the 2022 California return on the lines that follow this question and answer Yes to the question. However, if you didn't file a *full-year* return for 2022, leave those lines blank and answer No to this question. (These entries are used to determine eligibility for specific penalty exceptions. However, you do *not* qualify for *any* of the exceptions if you did not file a full-year tax return for 2022.)

TAX SUMMARY. The Tax Summary is based on results on Form 540. It is used on printed cover letters to clients for the California tax return.

INCOME. *(auto-calc lines)* Income is summarized as follows:

Federal adjusted gross income. Posted from line 13 of Form 540, this is line 11 of the federal Form 1040.

California adjustments. Computed as Form 540, line 16 less Form 540, line 14, this is the net adjustment computed in California Schedule CA, Part I.

California adjusted gross income. Posted from line 17 of Form 540.

less deductions. Posted from line 18 of Form 540, this is the California itemized or standard deduction.

Taxable Income. Posted from line 19 of Form 540.

TAXES. *(auto-calc lines)* Taxes are summarized as follows:

Regular Tax. Posted from line 35 of Form 540.

less credits. Posted from line 47 Form 540.

plus other taxes. Computed as the sum of lines 61, 62, and 63 of Form 540.

Total 2023 Tax. Posted from line 64 of Form 540.

less payments. Posted from line 78 of Form 540.

Amount Overpaid. Posted from line 97 of Form 540.

Amount Underpaid. Posted from line 100 of Form 540.

Penalty and Contribution. Computed at the sum of lines 112 and 113 of Form 540 plus total voluntary contribution on line 110 of Form 540. (This and the preceding two lines are printed on the cover letter only if not zero.)

REFUND OR AMOUNT YOU OWE. *(auto-calc lines)*

TOTAL REFUND available. Computed from the preceding amounts as "Amount Overpaid" less "Amount Underpaid" less "Penalty and Contribution": Penalty, but no less than zero. (This line is printed on the cover letter only if greater than zero.)

TOTAL YOU OWE to F.T.B. Computed as "Amount Underpaid" plus "Penalty and Contribution" less "Amount Overpaid," but no less than zero. (This line is printed on the cover letter only if greater than zero.)

OPTIONS FOR PAID PREPARERS. The Tax Summary is based on results on Form 540, just as the federal Tax Summary is based on Form 1040. The cov-

Control Form

er 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 2024 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 initial entries. The “translate” feature copies a number of entries from the federal Form 1040 to California Form 540 through line 13 of Form 540. Except for withholding on Forms W-2 and Forms 1099-R, all remaining entries come from other California forms and schedules and subsequent calculations. However, amounts from other California forms and schedules do not appear on Form 540 until you navigate through the forms or the entire return is calculated (either by your press of the Recalc Key or your normal exit from the return).

Special requirements for entries on absolute positioning Form 540. Form 540 is among the FTB absolute positioning forms (including Schedule CA, Form FTB 3514, Form FTB 5805, and Schedule X) that must comply with strict FTB specifications, including position, format, and allowed characters:

- (1) Monetary data must be printed LEFT-justified within defined boxes on the graphic forms and must have NO punctuation (no commas nor decimal points).
- (2) Text data must be printed left-justified and upper case, and must generally be devoid of any punctuation or symbols, with a few specified exceptions that allow slashes (/) and dashes (-). And many of them must also be devoid of leading spaces and embedded spaces, including your entry for the first name of taxpayer and spouse.
- (3) The location of data on the printed form must be exactly as specified by the FTB. There is no allowance for extra lines for itemized lists or flags not specified by the FTB.

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. (If you want to change the tax year, such as for tax planning, you must do so on the Control Form, not here.)

Name, SSN, and address. Identifying information is supplied here. Names, social security numbers, and address are all translated 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 graphic 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 entries provide the additional information required 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 graphic 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 graphic Form 540 to indicate to the FTB the need for special handling. (On a draft printout, the phrase "DISASTER LOSS" appears above "Your SSN or ITIN" instead of a code.)

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 graphic Form 540 to indicate to the FTB the need for special handling. (On a draft printout, the word "MILITARY" appears above "Your SSN or ITIN" instead of a code.)

OUTSIDE U.S. on 4/15/2024? If you answer Yes, the code "O" is printed in the special code region near the upper right corner of page 1 of the graphic Form 540 to indicate to the FTB the need for special handling. (On a draft printout, the phrase "OUTSIDE U.S. on 4/15/2024" appears above "Your SSN or ITIN" instead of a code.)

IRC 965 income reported? (*Road Map line, supported by Schedule CA*) If you completed any *California Additional Income Worksheet* for line 8z of Schedule CA, Part I, Section B, that identifies the income as IRC 965 income (via a Yes answer on the last line of the worksheet), Yes will appear here and the code "E" is printed in the special code region near the upper right corner of page 1 of the graphic Form 540 to indicate to the FTB the need for special handling. (On a draft printout, the phrase "IRC 965 income reported" appears above "Your SSN or ITIN" instead of a code.)

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.

Preferred phone number. This optional entry is also printed in the signature block of Form 540. Be sure to include area code.

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 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. (To conform with FTB's printing requirements for the absolute positioning Form 540, do not include embedded spaces in your entry.)

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 print-out, 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. (*Required if you entered a deceased date*) If the taxpayer (or spouse, if filing jointly) is deceased or otherwise not capable of preparing the return, enter the first and last name of the responsible person who will sign the return here. This name is printed to the right of your entry for "Additional address information" on the absolute positioning Form 540. If the surviving spouse is the responsible person (if married filing jointly), enter the surviving spouse's name here followed by the words SPOUSE. Similarly, for other persons, specify the type of responsible person after the name, such as EXECUTOR, BENEFICIARY, ADMINISTRATOR, TRUSTEE, or GUARDIAN. (DO NOT use commas, nor any other punctuation in your entry, to conform with FTB specifications for this absolute positioning form.)

If filed in 2022 under a different last name. This entry is required if either spouse filed under a different name for tax year 2022.

HowardSoft

Form 540

Your 2022 last name. Make an entry here only if your name differs from the one you used when filing your return last year.

Spouse 2022 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 absolute positioning 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 Surviving Spouse/RDP. This entry is transferred from the federal return and should NOT normally be changed. By California law, your filing status on Form 540 must generally be the same as your filing status on Form 1040 with few exceptions and you must provide the same extra information for MFS and QW filing status:

- 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 2023 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 rules for Registered Domestic Partners (RDPs) apply to you, you must file as Married/RDP Filing Separately or Married/RDP Filing Jointly. (Note that wherever you see the word "married" in our software or on the FTB forms, it is understood to applied to RDPs as well. See FTB Pub. 737 for details.)
- D** if federal filing status was Head of Household, but you are married or an RDP, you may file as Head of Household for California only if you meet California requirements to be considered unmarried or not a RDP.

The extra information required by the IRS for Married Filing Separately (MFS) and Qualifying Surviving Spouse/RDP is also required by the FTB, but the FTB requires more information than the IRS for Head of Household filing status, which is now reported on a separate form: the new Form 3532, described in the below shaded box.

MFS: Spouse lived APART ALL year? Answer Yes only if you used filing status 3 and were married all year but did not live with your spouse at any time during the tax year.

MFS: Spouse/RDP full name. Enter the name only if you used filing status 3.

HoH: Supported by Form 3532 (ITEMIZE)? (*If Standard or Premium Level, Road Map line supported by Form 3532.*) After you supply the required information on our Form 3532, eligibility for filing status 4 will be indicated by a Yes on this line. But if No, you must not use

filing status 4 for this return. **CAUTION:** Form 3532 is *mandatory* for all returns filed with the head of household filing status. See the shaded box on the next page for more information.

QSS: Enter year spouse/RDP died. To qualify for filing status 5, you must have a *qualifying child* and your spouse/RDP must have died in either of the two *prior* tax years. Therefore the only valid entries here are 2021 and 2022 for a return for tax year 2023.

QSS: Non-dependent child's name. If your qualifying child is *not* claimed as your dependent, you must enter the child's full name here.

CAUTION: Special entries are required for each filing status. When you claim any filing status other than single, you must provide additional information to make the claim. Conditions that can lead to an incomplete return include:

MFJ. Spouse's SSN is not entered on Form 540, screen 1 (or has zeroes at position 1 or positions 5 and 6).

MFS. Spouse's SSN is not entered on Form 540, screen 1 (or has zeroes at position 1 or positions 5 and 6), or the entry for "MFS: Spouse/RDP full name" (above) is blank.

H-of-H. The answer to "HOH: Supported by Form 3532 (ITEMIZE)" (above) is not Yes.

QSS. There is no claim for a dependent child who lived with you and you entered no name for "QSS: Non-dependent child's name," or your entry for "QSS: Enter year spouse died" is neither 2021 nor 2022.

ALL. Taxpayer's SSN is not entered on Form 540, screen 1 (or has zeroes at position 1 or positions 5 and 6).

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.

CAUTION: FTB requires Form 3532 if you file as Head of Household. Introduced for the 2016 filing season, you must complete FTB Form 3532 (*Head of Household Filing Status Schedule*) and file it with your return whenever you choose Head of Household as your filing status. The information on the form is used by the FTB to help them determine your qualifications for the head of household filing status. This form is built into our software for the Standard and Premium Levels, accessible through the Road Map at a line below your data entry for filing status on screen 3 of Form 540. While the FTB did not design the form for the taxpayer to determine his or her own eligibility, the software does that for you with answers to additional questions so that you can confirm eligibility.

HoH: Supported by Form 3532 (ITEMIZE)? (*If Standard or Premium Level, Road Map line supported by Form 3532.*) Once you complete Form 3532, Yes appears here if your entries on Form 3532 support your claim to use the head of household filing status. Otherwise, a No appears here and you must change your filing status for the return to be valid.

EXEMPTIONS. The qualifications are the same as those for the federal return, and are therefore transferred here automatically by 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 \$144 times the preceding number for 2023, 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 \$144 times the preceding number for 2023, 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 \$144 times the preceding number for 2023, 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 used on Form 540. However, the extra information is used on the translated worksheets on Form 3514 (Earned Income Tax Credit), but, *unlike the federal Form 1040 and Schedule EIC, the two worksheets are not linked* on the California return.

Total dependent exemption credit. *(auto-calc)* Computed as 446 times the preceding number for 2023, 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, Part I, 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 line 1 of Form 1040 for you and spouse. 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 entries appear at line 14a of the worksheet, not elsewhere, as described in the box below.* (Wages earned in ALL states combined must be entered, not just those earned in California. Double-taxed income is adjusted on Schedule S.)

How to enter SDI. California SDI (State Disability Insurance) deducted from wages must always appear at line 14a of the W-2 Worksheets, not elsewhere, irrespective of how the employee reported it to you on the Form W-2. Therefore, if the W-2 Worksheet you completed for the federal return has the California SDI entered on a different line, you must remove it from that line and reenter it on line 14a along with the type. **TIP:** *Entries on line 14a that are recognized by the FTB for type of disability plan include SDI, CASDI, VD, VP, VPDI, and VI.*

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 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 14a of the California W-2 Worksheet to reflect the proper amount.* The maximum for which you are liable for 2023 is 0.9% of all state wages combined up to a maximum of \$153,164 for wages paid in 2023. 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 \$118,371 of your wages from that employer must reimburse you for any excess. You cannot claim an excess from any one employer on line 74. The software ensures that overwithholding by any one employer is not included in line 74 *provided you view each and every W-2 worksheet before completing the return.*)

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

Other earned income in Schedule CA, Part I, Section A, line 1z. *(Road Map line, supported by Schedule CA.)* Other earned income that is included in line 1z of Form 1040, but not on W-2 Worksheets, appears here, as adjusted in Schedule CA, Part I, Section A.

Earned income on worksheets C, E, and F. *(auto-calc, supported by Worksheets C, E, and F.)* Originally translated from federal Schedule C, Partnership/S-corp Worksheets on Schedule E, and federal Schedule F, 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 11. Automatically taken from Form 1040 as indicated. **CAUTION:** *If the filing status on the California return is different from that on the federal return, you will have to recompute the federal AGI based on the California filing status, and enter the revised amount here.* (See page CA-20 for the only legiti-

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

- 14 California adjustments -- subtractions.** *(Road Map line, supported by Schedule CA, Part I.)* Schedule CA, Part I, is the collection point for adjustments for all investments, businesses, and other income. 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 23 of Schedule CA, Part I, Section C.
- 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, Part I.)* 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 23 of Schedule CA, Part I, Section C.
- 17 California adjusted gross income.** *(auto-calc)* Computed as line 15 plus line 16.

If Married Filing Separately, does spouse itemize? Answer Yes only if the other spouse itemizes on his or her California tax return. 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, Part II, line 29. *(Road Map line, supported by Schedule CA, Part II.)* California itemized deductions are posted here from line 29 of Schedule CA, Part II.

Standard deduction. *(auto-calc)* The standard deduction for tax year 2023 is \$5,363 for taxpayers filing single or married filing separately, and \$10,726 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, Part II, 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 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 2023, the phaseout starts at a federal AGI of \$237,035 for single and married/RDP filing separately, \$355,558 for head of household, and \$474,075 for married/RDP filing jointly or qualifying surviving spouse.

- 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 to 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, this credit is not included in lines 43 through 45, below, because it has its own line on Form 540 (line 46).*

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 slightly more than a page of instruction to help you determine if you are qualified in the *2023 Form 540 Personal Income Tax Booklet* (on pages 25 and 26, titled *Nonrefundable Renter's Credit Qualification Record*). Qualifications include being a resident of California for the entire 2023 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 2023 the credit is disallowed if California AGI on line 17 is more than \$50,746 if single or married filing separately (\$101,492 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.

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 NODC. If you received income under a nonqualified deferred compensation (NODC) plan or discounted stock options and stock appreciation rights (under federal IRC 409A), you will generally be subject to a 5% tax on the amount required to be included in income plus interest. You must enter that amount here. Any entry you make here will be automatically identified to the FTB by the code "NODC" either to the left of line 63 or 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*).

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.

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

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

PAYMENTS. Withholding and other tax payments 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 in line 17 of the 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 2023, you must enter that amount here (as shown in box 15 of 2023 Form W-2G).

California income tax withheld on Form 1099-R. If there was any California state income tax withheld on any Forms 1099-R (*Distributions from Pensions, Profit-Sharing Plans, IRAs, etc.*) received for 2023, you must enter that amount here (as shown in box 14 of Form 1099-R).

California income tax withheld elsewhere - ITEMIZE. Except for withholding on Forms 592-B and 593, which is reported on line 73, if any other California income tax was withheld for 2023 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. **TIP:** *Acronyms that are recognized by the FTB for forms that report withholding include W-2GU, 1099A, 1099B, 1099C, 1099DIV, 1099G, 1099INT, 1099LTC, 1099MISC, 1099MSA, 1099OID, 1099PATR, 1099Q, 1099S, 1099SSA, and 1099RRB.*

If not reported to you on a Form W-2 or 1099, explain. The FTB also requires a brief explanation for why any withholding you entered for the preceding line was not reported to you and a W-2 or 1099 type form. Your entry here (35 characters or less) is printed above the label for line 71 on the official printout of Form 540.

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

2023 estimated tax payments plus 2022 refund applied. *(Road Map lines, supported by Control Form.)* The four quarterly payments for California estimated tax for 2023 and the tax refund applied from

the 2022 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, 2024).

72 2023 estimated tax payments and other payments. (*auto-calc*) Computed as the sum of the preceding two lines. The individual quarterly amounts are also used in the automation of Form 5805.

73 Withholding (Form 592-B and/or 593). When you sell real estate in California, you should receive a Form 592-B or 593 that reports any withholding deducted from your proceeds. You must enter that withholding on the appropriate line below. Withholding on any other form is reported on line 71 instead.

California income tax withheld on Form 592-B. Enter here the sum of amounts on lines 2 and 3 of Part IV of California Form 592-B (*Resident and Nonresident Withholding Tax Statement*). If you make an entry here, you must attach a copy of the Form 592-B behind Form 540 when you file the return.

California income tax withheld on Form 593. Enter here the amount on line 5 of Part III of California Form 593 (*Real Estate Withholding Tax Statement*). If you make an entry here, you must attach a copy of the Form 593 behind Form 540 when you file the return.

73 Withholding (Form 592-B and/or 593). (*auto-calc*) Computed as the sum of the preceding two amounts.

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 Earned income tax credit (EITC). (*If Standard or Premium Level, Road Map line, supported by Form 3514.*) This credit is similar to the federal Earned Income Credit (EIC), but the income limitations are much tighter and the credit is much smaller. Furthermore, you must always file FTB Form 3514 to claim it, whether or not you have a qualifying child. *Form 3514 is automatically created if you qualify for the childless version of the EIC. However, unlike the federal Schedule EIC, FTB Form 3514 is not automatically created and completed when a dependent qualifies you for the credit, since the Dependent Worksheet for California has minimal information. On the other hand, for a California return translated from a federal return, Form 3514 will be created when Schedule EIC exists for the federal return, but you must supply additional information not available from the federal return on Form 3514 and its worksheets.*

76 Young Child Tax Credit (YCTC). *(If Standard or Premium Level, Road Map line, supported by Form 3514.)* This line is used to claim a special credit for taxpayers who have at least one qualifying child under 6 years old. This credit, introduced in 2019, can amount to as much as \$1,117 for low-income taxpayers. It is claimed on FTB Form 3514, like the Earned Income Tax Credit (EITC), and requires that you qualify for the EITC before you can claim this Young Child Tax Credit.

77 Foster Youth Tax Credit (FYTC). *(If Standard or Premium Level, Road Map line, supported by Form 3514.)* This line is used to claim a special credit for certain taxpayers of age 18 through 25 who qualify for the Earned Income Credit (EITC) and were in foster care at age 13 or more. This credit, which was introduced for the 2022 tax year, can amount to as much as \$1,117 for low-income taxpayers (\$2,234 if both spouses qualify on a joint return). It is claimed on FTB Form 3514, like the Earned Income Tax Credit and the Young Child Tax Credit.

78 Total payments. Add lines 71 through 77. *(auto-calc)* Computed as indicated.

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

91 Use Tax. For out-of-state purchases only, enter the sales tax that would have applied if you had bought the item in California, but reduced by any sales tax you paid to the other state for the item. See FTB instructions for a worksheet and a table to help you make this calculation. *TIP: The use tax you pay through this line is intended for personal purchases, not business purchases. Instead, you must generally pay use tax on business purchases directly to the California Department of Tax and Fee Administration (CDTFA), which you can contact at cdtfa.ca.gov or 1-800-400-7115.*

If line 91 is zero... If you enter zero for line 91, you must explain why by choosing one of the following:

You paid your use tax obligation directly to CDTFA. If you owe use tax and do not pay it with your return through line 91, you must pay it directly to the California Department of Tax and Fee Administration (CDTFA) like businesses do. Answer Yes here if you choose that option instead of paying through Form 540 via the amount on line 91. (You cannot answer Yes here unless line 91 is zero.)

No use tax is owed. *(auto-calc)* Answered as Yes only when line 91 is zero and the preceding answer is No. Otherwise, answered as No. *A Yes answer is required for this question or the preceding one whenever line 91 is zero. For this reason, we ensure the required answer here based on your entries above.*

ISR PENALTY. If you do not maintain minimum essential health care coverage, you may owe an Individual Shared Responsibility (ISR) penalty.

92 Did you and your household have full-year health care coverage?

If No, see form FTB 3853 to determine if you owe an ISR penalty. .

Individual Shared Responsibility (ISR) Penalty. If you answered No above, enter your individual shared responsibility penalty from form FTB 3853.

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

93 Payments balance. *(auto-calc)* Computed as line 78 less line 91, but no less than zero.

94 USE TAX BALANCE. *(auto-calc)* Computed as line 91 less line 78, but no less than zero.

95 Payments after ISR Penalty. *(auto-calc)* Computed as line 93 less line 92, but no less than zero.

96 ISR Penalty Balance. *(auto-calc)* Computed as line 92 less line 93, but no less than zero.

97 Overpaid tax. *(auto-calc)* Computed as line 95 less line 64, but no less than zero.

2024 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 97 to estimated tax payments for 2024, 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 97 that will be applied to 2024 estimated taxes via line 95, 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.

98 Amount of line 97 to apply to your 2024 estimated tax. *(auto-calc)* Computed as the lesser of the above percentage of the 540-ES estimate and the amount on line 97.

99 Overpaid tax available this year. *(auto-calc)* Computed as line 97 less line 98, but no less than zero.

100 Tax due. *(auto-calc)* Computed as line 64 less line 95, but no less than zero.

CONTRIBUTIONS. California provides for a means for you to *voluntarily* contribute directly to certain special state funds through your tax return. The funds are identified on the form by codes (400 through 445 for 2023), 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? This fund provides services and advocacy for seniors. Anyone who claims the seniors' exemption credit on line 9 can contribute any even dollar amount up to the amount of his or her exemption. Accordingly, your entries are rounded to even dollar amounts and limited to no more than \$144 for each spouse for 2023, and are 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. (For more detail on any of these funds, see *Voluntary Contribution Fund Descriptions* on page 27 of the *2023 Personal Income Tax Booklet*.)

401 Alzheimer's Disease and Related Dementia 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.

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.
- 431 Prevention of Animal Homelessness and Cruelty Fund.** To support programs to prevent and eliminate animal homelessness and cruelty, research to explore new methods, and prosecution of animal cruelty and neglect.
- 438 California Senior Citizen Advocacy Fund.** To conduct the sessions of the California Senior Legislature and support its ongoing activities on behalf of older people.
- 439 Native California Wildlife Rehabilitation Fund.** To support the recovery and rehabilitation of native wildlife and conservation education.
- 440 Rape Backlog Kit Fund.** For DNA testing in the processing of rape kits.
- 441 Organ and Tissue Donor Registry Fund.** To fund the Donate Life California Organ and Tissue Registrar for maintaining the registry.
- 442 National Alliance on Mental Illness Fund.** To fund the Crisis Intervention Team Program for training peace officers to deal with people with mental illness.
- 444 Suicide Prevention Fund.** To fund crisis center programs for suicide prevention.

110 Total contributions. *(auto-calc)* Computed as the sum of contributions for contribution codes 400 through 444.

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, 96, 100, and 110 less line 99, but no less than zero.

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. The late payment penalty (penalty for not paying by April 15) is 5% of the tax due. In addition, interest is charged at 1/2% per month (or part of a month) until paid. The late filing penalty (penalty for not fil-

ing by October 15) is 25% of the tax due. (Because an automatic 6-month extension is available, there is no penalty for not filing by April 15.)

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

Is Form 5805F attached? *(auto-calc, supported by Form 5805/5805F.)* Automatically Yes if a Form 5805/5805F exists for the return and you qualify for 5805F 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 5805F. (You need not complete Form 5805 or 5805F 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 93, 97, 110, 112, and 113 less line 96, 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.

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. (If you pay by check, you must send your check to the FTB *without* a voucher. The last year for which the FTB issued a voucher for tax due on a paper Form 540 return was 2013. On the other hand, vouchers are still required for extensions (FTB 3519) and estimated tax payments (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 99 less the sum of lines 94, 96, 100, 110, 112, and 113, but no less than zero.

CAUTION: Do not complete the following entries if there is no refund. If you receive the message "is NOT calculated!" when you attempt to print a return could be an indication that you have an amount due on the return but have entries for routing number and account number below. You must remove any entries on these lines if there is no refund 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.*

VOTER INFORMATION. This section refers you to FTB instructions and a special website.

Do you need voter registration information? If Yes, go to sos.ca.gov/elections for comprehensive information on voter regis-

tration. *CAUTION: Answering Yes here does NOT register you to vote; it merely reminds you to get information through the internet.*

HEALTH CARE COVERAGE INFORMATION. This section authorizes *Covered California* (the state agency that gives you access to affordable health insurance) to contact you based on limited information from the FTB.

Do you want information on no-cost or low-cost health care coverage-need voter registration information? If Yes, the FTB will share with *Covered California* your name (and spouse/RDP's name if filing jointly), your mailing address, the number and age of dependents who live with you, and your gross income.

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 California FTB.*

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. You must enter the name of the designee 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 or your paid preparer. 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. (*CAUTION: The FTB no longer allows you the just enter PREPARER here when the paid preparer for the return is the designee.*)

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

AMENDED RETURN. After you have successfully filed an original return for the tax year, you can file an amended return thereafter. To do so, you must complete the new Schedule X, which you can access below or as form 43 from the Forms Menu.

Is this an AMENDED RETURN (Schedule X). (*Road Map line, supported by Schedule X.*) Schedule X (*California Explanation of Amended Return Changes*) is required to file an amended return. The amended return consists of a revised Form 540 return accompanied by Schedule X. If the answer to "Schedule X properly completed?" on the last screen of Schedule X is Yes, Yes will appear here. Otherwise, the answer is no and Schedule X will not be printed with the return.

Federal 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 absolute positioning Form 540 printout. Otherwise, the phrase "DO NOT ATTACH FEDERAL RETURN" will be printed.

Schedule CA / California Adjustments

California adjustments to federal AGI and itemized deductions. This schedule consolidates the differences between federal and California amounts for most federal forms and schedules. *Part I* is used to determine the net adjustment to federal AGI for use in computing California AGI (Form 540, line 17). *Part II* is used to determine the California itemized or standard deduction for use in computing California taxable income (Form 540, line 18). The two parts of the schedule are handled in the software as two separate forms: Schedule CA, Part I, is form 3 on the Forms Menu and Schedule CA, Part II, is form 4. *Part I of Schedule CA is accessible through the Road Map from lines 14 and 16 of Form 540. Part II of Schedule CA is accessible through the Road Map from the line "Itemized deduction, CA,II,29" above line 18 of Form 540.*

Special requirements for entries on absolute positioning Schedule CA.

Schedule CA is among the FTB absolute positioning forms (including Form 540, Form FTB 3514, Form FTB 5805, and Schedule X) that must comply with strict FTB specifications, including position, format, and allowed characters:

- (1) Monetary data must be printed LEFT-justified within defined boxes on the graphic forms and must have NO punctuation (no commas nor decimal points).
- (2) Text data must be printed left-justified and upper case, and must generally be devoid of any punctuation or symbols, with a few specified exceptions that allow slashes (/) and dashes (-). And many of them must also be devoid of leading spaces and embedded spaces, including your entry for the first name of taxpayer and spouse.
- (3) The location of data on the printed form must be exactly as specified by the FTB. There is no allowance for extra lines for itemized lists or flags not specified by the FTB.

PART I, INCOME ADJUSTMENT SCHEDULE. The first part of Schedule CA, *accessed through the Road Map from lines 14 and 16 of Form 540* and identified on the Forms Menu as form 3 (CA Part I), collects all differences that affect California AGI. Income and deductions from wages, investments, businesses, and other activities affect this schedule. Adjustments to federal AGI are computed here in order to determine California AGI (Form 540, line 17) by appropriately adjusting federal AGI (Form 540, line 13) for California purposes. Each line in Part I contains three parts: column A for amounts on federal Form 1040, column B for amounts to be subtracted from column A for California returns, and column C for amounts to be added to column A for California returns.

Section A -- Income from federal Form 1040. The first section is based on income reported on lines 1a through 7 of federal Form 1040. Most lines are translated directly from Form 1040, but others are translated indirectly from federal Schedules B and D.

1a Total from Form(s) W-2, box 1. *(auto-calc)* Taken from the W-2 Worksheets you completed for line 12 of Form 540, this is the total amount reported in box 1 of the Forms W-2. **CAUTION:** *If the amount on line 1a of federal Form 1040 is less than this amount, you must use the Override Key (F8 or ctrl-O) to access this line and change it to match the federal amount. The mismatch occurs because, in spite of the IRS and FTB labels for this line, line 1a must exclude here nonqualified deferred compensation and/or prison inmate wages that are included in box 1. Instead, these amounts are reported as income on lines 1t and 1u of federal Schedule 1 and California Schedule CA, Part I, Section B.*

B-Wage subtraction. *(auto-calc)* Computed as the above amount on line 1a less the state wages shown on line 12 of Form 540 (from Form(s) W-2, box 16), but no less than zero. **CAUTION:** *If an amount appears on this line because state wages are less than federal wages, and you had to override the above amount on line 1a, you will have to override this line as well so that nonqualified deferred compensation and/or prison inmate wages are not included in the computation.*

C-Wage addition. *(auto-calc)* Computed as the state wages shown on line 12 of Form 540 less the above amount on line 1a, but no less than zero. You may automatically have an amount here if you are classified by California as an employee and have an amount in box 16 of Form(s) W-2, but are classified as an independent contractor for federal purposes, and so have no amount in box 1 of Form(s) W-2. *But if this case applies to you and you received no Form W-2, you must override this line with the amount from line 7 (Gross income) of your federal Schedule C.* **CAUTION:** *If an amount appears here because you overrode line 1a to reduce the amount by nonqualified deferred compensation and/or prison inmate wages, you must override this line as well, usually to zero.*

1b Household employee wages not reported on Form(s) W-2. Translated from federal Form 1040, line 1b.

B-Wage subtraction. Enter any amount in line 1b that is not taxable by California.

C-Wage addition. Enter any amount not included in line 1b that is taxable by California.

1c Tip income not reported on line 1a. Translated from federal Form 1040, line 1c.

B-Wage subtraction. Enter any amount in line 1c that is not taxable by California.

- C-Wage addition.** Enter any amount not included in line 1c that is taxable by California.
- 1d Medicaid waiver payments not reported on Form(s) W-2.** Translated from federal Form 1040, line 1d.
- B-Wage subtraction.** Enter any amount in line 1d that is not taxable by California. *TIP: If line 1d, above, includes California IHSS supplementary payments, enter those payments here. (IHSS providers receive an IHSS payment for sales tax they may have paid on IHSS services they provide.)*
- C-Wage addition.** Enter any amount not included in line 1c that is taxable by California.
- 1e Taxable dependent care benefits from federal Form 2441, line 26.** Translated from federal Form 1040, line 1e.
- B-Wage subtraction.** Enter any amount in line 1e that is not taxable by California.
- C-Wage addition.** Enter any amount not included in line 1e that is taxable by California.
- 1f Adoption benefits on federal Form 8839, line 29.** Translated from federal Form 1040, line 1f.
- B-Wage subtraction.** Enter any amount in line 1f that is not taxable by California.
- C-Wage addition.** Enter any amount not included in line 1f that is taxable by California.
- 1g Wages from federal Form 8919, line 6.** Translated from federal Form 1040, line 1g.
- B-Wage subtraction.** Enter any amount in line 1g that is not taxable by California.
- C-Wage addition.** Enter any amount not included in line 1g that is taxable by California.
- 1h Other earned income.** Translated from federal Form 1040, line 1h.
- B-Wage subtraction.** Enter any amount in line 1b that is not taxable by California. *TIP: You may have an entry for this line if line 1h includes certain sick pay benefits, ridesharing fringe benefits, or compensation from exercising a California Qualified Stock Option. See FTB instructions for this line for details.*
- C-Wage addition.** Enter any amount not included in line 1b that is taxable by California. *TIP: If box 12 of a Form W-2 includes an amount identified as Code W (for employer HSA contributions), enter that amount here.*
- 1i Nontaxable combat pay election.** Your entry here applies *only* to column C of Schedule CA, Part I, Section A. It is *not* shown in column A because it is *not* included in taxable income on the federal return. In fact, it appears on Form 1040, line 1i, *only* for information purposes and only if you claimed the federal *Earned Income Credit (EIC)* and elected to include the combat pay in earned income when computing that credit. By contrast, *combat pay is not nontaxable for*

California, so it must be reported here for use in Column C, irrespective of whether it appears on Form 1040, line 1i. **CAUTION:** *If no amount appears here but you have federally nontaxable combat pay, you must enter the amount yourself.* (The amount appears here automatically when translated from the federal return only if you claimed the EIC and elected to include it in the computation of that credit.)

1z Add lines 1a through 1i. *(auto-calc)* Computed as "Federal W-2 wages in Form 1040, line 1" plus "TOTAL federal other income in Form 1040, line 1," this is the amount for column A (federal amounts). It should match the amount on Form 1040, line 1 for the federal return that was translated.

B-Wage subtraction. *(auto-calc)* If the sum of "California adjustment to federal W-2 wages" and "California other adjustments for Schedule CA, line 1" is less than zero, computed as that amount expressed as a positive number. Otherwise, zero.

C-Wage addition. *(auto-calc)* If the sum of "California adjustment to federal W-2 wages" and "California other adjustments for Schedule CA, line 1" is greater than zero, computed as that amount. Otherwise, zero.

2 Taxable interest b. *(Road Map line, supported by Worksheet B.)* Taken from our Worksheet B, which handles taxable and nontaxable interest and dividends reported on federal Schedule B, this is the interest income taxable on the federal return, and is the amount for column A (federal amounts).

B-Interest subtraction. *(Road Map line, supported by Worksheet B.)* This is the amount computed on Worksheet B for interest taxed by federal law but not California law.

C-Interest addition. *(Road Map line, supported by Worksheet B.)* This is the amount computed on Worksheet B for interest taxed by California law but not federal law.

a Tax-exempt interest. This is federal tax-exempt interest translated from Form 1040, line 2a. It appears on Schedule CA for informational purposes only and is not used in any California calculations.

3 Ordinary dividends b. *(Road Map line, supported by Worksheet B.)* Taken from our Worksheet B, which handles taxable and nontaxable interest and dividends reported on federal Schedule B, this is the dividend income taxable on the federal return, and is the amount for column A (federal amounts).

B-Interest subtraction. *(Road Map line, supported by Worksheet B.)* This is the amount computed on Worksheet B for dividends taxed by federal law but not California law.

C-Interest addition. *(Road Map line, supported by Worksheet B.)* This is the amount computed on Worksheet B for dividends taxed by California law but not federal law.

- α Qualified dividends.** This is federal qualified dividends translated from Form 1040, line 3a, which receive favorable treatment on the federal return but not the California return. It appears on Schedule CA for informational purposes only and is not used in any California calculations.
- 4 IRA distributions α.** Translated from federal Form 1040, line 4a, this is the total of IRA distributions received as reported on Form 1099-R Worksheets for Form 1040. distributions.
- A-Federal taxable amount b.** Translated from federal Form 1040, line 4b, this is the part of IRA distributions that is taxable on the federal return.
- B-Part NOT California taxable.** 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 be less on a California return, resulting in an amount for this line. You could also have an amount for this line if the past deductions on your California return were less than those on your federal return or you had conversions that were treated differently under California law. See the *FTB 2023 Instructions for Schedule CA* and *FTB Pub. 1005 (Pension and Annuity Guidelines)* for guidelines on determining the amount to enter here.
- C-Additional NOT federal taxable.** You could also have an amount for this line if the past deductions on your California return were more than those on your federal return or you had conversions that were treated differently under California law. See the *FTB 2023 Instructions for Schedule CA* and *FTB Pub. 1005 (Pension and Annuity Guidelines)* for guidelines on determining the amount to enter here.
- 5 Pensions and annuities α.** Translated from federal Form 1040, line 5a, this is the total of distributions from pensions and annuities.
- A-Federal taxable amount b.** Translated from federal Form 1040, line 5b, this is the part of distributions from pensions and annuities that is taxable on the federal return.
- B-Part NOT California taxable.** Because California law differs from federal law for certain types of pensions, you could have an amount for this line. See the *FTB 2023 Instructions for Schedule CA* and *FTB Pub. 1005 (Pension and Annuity Guidelines)* for guidelines on determining the amount to enter here.
- C-Additional NOT federal taxable.** Because California law differs from federal law for certain types of pensions, you could have an amount for this line. See the *FTB 2023 Instructions for Schedule CA* and *FTB Pub. 1005 (Pension and Annuity Guidelines)* for guidelines on determining the amount to enter here.
- 6 Social security benefits α.** Translated from federal Form 1040, line 5a, this is the total amount of benefits received.

Taxable amount b. Translated from federal Form 1040, line 5b, this is the taxable part of benefits received. This amount appears in column A (federal amounts) of Schedule CA.

B-Amount NOT California taxable. (*auto-calc*) California does not tax social security benefits, so the above taxable amount for column A is used for column B as well and no amount appears in column C.

7 Capital gain or (loss). (*Road Map line, supported by Schedule D.*) Taken from California Schedule D, which is translated from federal Schedule D, this is the taxable capital gain or loss on the federal return, and is the amount for column A (federal amounts)..

B-Capital gain subtraction. (*Road Map line, supported by Worksheet D.*) This is the amount computed on Schedule D for capital gains taxed by federal law but not California law.

C-Capital gain addition. (*Road Map line, supported by Worksheet D.*) This is the amount computed on Schedule D for capital gains taxed by California law but not federal law.

Section B -- Additional Income from federal Schedule 1. The second section is based on income reported on federal Schedule 1, lines 1 through 9. Some lines are translated directly from federal Schedule 1, but most are translated indirectly from federal Form 4797 and Schedules C, E, and F, through California Schedule D-1 and our Worksheets C, E, and F.

1 Taxable refunds of state/local income taxes. Column A is translated from Schedule 1, line 1, and is the state income tax refund or tax rebate you received in the tax year and included as income on the federal return. The amount is *automatically posted to column B* because a state refund is not income on a California return (because the corresponding overpayment was not deductible on the California return).

2α Alimony received. Column A is translated from Schedule 1, line 2a. You must enter an amount in column C if a nonresident alien and received any alimony not reported on the federal return.

3 Business income or (loss). (*Road Map lines, supported by Worksheet C.*) The total on federal Schedule 1, line 3, is translated to column A by way of our Worksheet C, which is translated from federal Schedule C. Adjustments resulting from Worksheet C are posted to columns B and C. In addition, adjustments to passive activity losses are stated separately for use in completing California Form 3801 (*Passive Activity Loss Limitations*). **CAUTION:** *If you are classified as an independent for federal purposes but classified as an employee for California purposes, you must enter an adjustment on the supporting Worksheet C so that California net profit or loss from the business is zero, which will result in a corresponding adjustment in column B or C of this line. In addition, you must override line 1a, column C, of Schedule A, Part I, Section A, with the amount of gross income on line 7 of your federal Schedule C (which is reported on line 1 of our Worksheet C).*

4 Other gains or (losses). (*Road Map lines, supported by Schedule D-1.*)

The total on federal Schedule 1, line 4, is translated to column A by way of California Schedule D-1, which is translated from federal Form 4797, and adjustments resulting from Schedule D-1 are posted to columns B and C.

5 Rentals, royalties, partnerships, estates, trusts, etc. (*Road Map lines, supported by Worksheet E.*)

The total on federal Schedule 1, line 5, is translated to column A by way of our Worksheet E, which is translated from federal Schedule E, and adjustments resulting from Worksheet E are posted to columns B and C. In addition, adjustments to passive activity losses are stated separately for use in completing California Form 3801 (*Passive Activity Loss Limitations*).

6 Farm income or (loss). (*Road Map lines, supported by Worksheet F.*)

The total on federal Schedule 1, line 6, is translated to column A by way of our Worksheet F, which is translated from federal Schedule F, and adjustments resulting from Worksheet F are posted to columns B and C. In addition, adjustments to passive activity losses are stated separately for use in completing California Form 3801 (*Passive Activity Loss Limitations*).

7 Unemployment compensation. Unemployment compensation is not taxable on the California return, so the amount translated from federal Schedule 1, line 7, is translated to column A and repeated at column B.

8 Other income. Lines 8a through 8z, below, are translated from federal Schedule 1, lines 8a through 8z for column A. .total are separated into several parts, as follows.

8a Federal net operating loss. Translated from the federal return as a negative amount, this amount is also used as a positive addition for column C because it is not relevant to California returns. Instead, California has its own net operating loss (NOL) deductions, figured on California forms FTB 3805V, 3805Z, 3807, and 3809, and reported in column B of Schedule CA, Part I, Section B, lines 9b2 and 9b3, *not here*.

8b Gambling. Translated from the federal return, all of this income is taxable by California with the sole exception of California lottery winnings.

B-California lottery winnings in above. Enter the amount included above that stems from a California lottery. (Only *California* lotteries qualify for exclusion from California income.)

8c Cancellation of debt. Translated from the federal return, you may have to enter adjustments in column B or column C..

B-Part not taxable for California. If the above amount includes a student loan discharged due to the closure of a for-profit school, see FTB instructions to see if you meet the conditions to exclude it here.

C-Additional amount for California. California does not conform with the exclusion from income of certain federal mortgage debt relief,

certain student loan forgiveness, nor certain employer payments of student loans. See FTB instructions determine what to enter here.

8d Foreign earned income exclusion. Translated as a negative amount from the federal return, California does not conform with the foreign earned income or housing exclusion figured on federal Form 2555.

C-Not deductible for California. (*auto-calc*) Computed as the preceding amount as a positive number. You may have to override this result to increase this addition to income by the amount of combat zone foreign earned income excluded from the federal return.

8e Income from federal Form 8853. Translated from the federal return, California does not conform with all exclusions reflected in federal Form 8853.

C-Additional amount for California. California does not conform with exclusions stemming from rollovers from an Archer MSA to an HSA, not exclusions for MSA distributions used for menstrual care products. Enter those amounts here.

8f Income from federal Form 8889. Translated from the federal return, California does not conform with all exclusions reflected in federal Form 8889.

B-Part not taxable for California. California does not conform with the taxation of HSA distributions not used for qualified medical expenses, so enter those amounts here if included above.

8g Alaska Permanent Fund dividends. Translated from the federal return, no adjustment is required.

8h Jury duty pay. Translated from the federal return, no adjustment is required.

8i Prizes and awards. Translated from the federal return, no adjustment is required.

8j Activity not engaged in for profit income. Translated from the federal return, no adjustment is required.

8k Stock options. Translated from the federal return.

C-Additional amount for California. California does not conform with the federal election to defer the recognition of income from qualified equity grants. Enter any such amount here.

8l Rental of personal property. Translated from the federal return, no adjustment is required.

8m Olympic and Paralympic medals and USOC prize money. Translated from the federal return, no adjustment is required.

8n IRC Section 951(a) inclusion. Translated from the federal return.

B-Part not taxable for California. (*auto-calc*) California does not conform with this inclusion, so it is used as a subtraction here.

8o IRC Section 951A(a) inclusion. Translated from the federal return.

B-Part not taxable for California. (*auto-calc*) California does not conform with this inclusion, so it is used as a subtraction here.

8p IRC Section 461(l) excess business loss adjustment. Translated from the federal return.

B-Part not taxable for California. (*auto-calc*) California does not conform with the federal adjustment, so it is used as a subtraction here. However, California has a related adjustment to be entered for column C, next.

C-Additional amount from FTB 3461. If your net losses from all your trades and businesses exceeds \$270,000 (\$540,000 if married filing jointly), complete form FTB 3461 and enter the amount from line 16 or 17 of that form here.

8q Taxable distributions from an ABLE account. Translated from the federal return, no adjustment is required.

8r Scholarship and fellowship grants not reported on Form(s) W-2. Translated from the federal return, no adjustment is required.

8s Nontaxable amount of Medicaid waiver payments included on federal Form 1040, line 1a or 1d. Translated from the federal return as a negative number, no adjustment is required. *TIP: Be sure to include California IHSS supplementary payments in Schedule CA, Part I, Section A, line 1d, Column C, as detailed in our instructions for that line.*

8t Nonqualified deferred compensation distribution. Translated from the federal return, no adjustment is required. *TIP: Be sure to exclude this amount from line 1a of Schedule CA, Part I, Section A, as detailed in our instructions for that line.*

8u Wages earned while incarcerated. Translated from the federal return, no adjustment is required. *TIP: Be sure to exclude this amount from line 1a of Schedule CA, Part I, Section A, as detailed in our instructions for that line.*

8z Other income. List type and amount. (*Supported by the California Additional Income Worksheet.*) Translated from the federal return, you must itemize this line and use our worksheet to make adjustments to be posted to columns B and C of this line. The FTB provides numerous examples of adjustments that must be made here on pages 8 and 9 of their *2023 Instructions for Schedule CA (540)*. Consult those instructions for details.

B-Subtractions from worksheets. (*auto-calc line, supported by the California Additional Income Worksheet*) Computed as the sum of line B of all supporting worksheets combined.

C-Addition from worksheets. (*auto-calc line, supported by the California Additional Income Worksheet*) Computed as the sum of line C of all supporting worksheets combined.

IRC 965 income in worksheets. (*auto-calc line, supported by the California Additional Income Worksheet*) Answered Yes if IRC 965 income is indicated on *any* of the supporting worksheets. A Yes here will cause the phrase "IRC 965 income reported?" on screen 2 of Form 540 to be answered Yes, and a corresponding code for the FTB to be printed in the Special Handling area in the top half of Form 540, page 1.

Federal Schedule 1, line 8z. Translated from the federal return, this is the total for line 8z of federal Schedule 1.

DISCREPANCY between California and federal line 8z. (*auto-calc*) If an amount appears here, you must return to the worksheets for line 8z, above, and revise your entries for federal amounts for column A. Column A of Schedule CA, Part I, Section B, line 8z, must agree with the amount on federal Schedule 1, line 8z. *Any discrepancy here must be eliminated for a valid return.* **TIP:** See the next 3 lines, which appear at the top of screen 8 of Schedule CA, Part I, for amounts from form FTB 3803 that must be included in the worksheets.

CAUTION: Manual entry required on for amounts from Form 3803. Because there is no dedicated line on Schedule CA for income adjustments from Form 3803, YOU MUST **MANUALLY COMPLETE A WORKSHEET** for line 8z of Schedule CA, Part I, Section B. On the worksheet, enter the following:

Description. Enter "FTB 3803" on this line.

A Federal amount (on 1040). Enter the amount shown for "Income on federal Form 8814, line 12" on screen 4 of Form 3803. This amount is also shown at the top of screen 8 of Schedule CA, Part I.

Adjustment for Schedule CA, Part I, line 8z. Enter the amount shown for "Adjustment for Schedule CA, I, line 8z" on screen 4 of Form 3803.

The income subtraction and income addition for Schedule CA will then be shown on lines B and C of the worksheet, respectively, and should match the amounts shown for lines B and C at the top of screen 8 of Schedule CA, Part I. *If you do not create this worksheet, a **DISCREPANCY** will be shown at the bottom of screen 7 of Schedule CA, Part I.*

Include a line 8z worksheet for... Income and adjustment for Form 3803 must be made on a worksheet for line 8z, as highlighted above, using the following amounts from all Forms 3803 combined (shown at the top of screen 8 of Schedule CA, Part I).

A-Federal income from Form 3803. (*Road Map lines, supported by Form 3803*) Taken from your entry for "Income on federal Form 8814, line 12" following line 6 of our on-screen form FTB 3803, this is the income from federal Form 8814 that is included in line 8z of federal Schedule 1.

B-Subtractions from Form 3803. (*Road Map lines, supported by Form 3803*) If "Adjustment for CA, I, In 8z" below line 6 of our on-screen Form 3803 is negative, taken as that amount expressed as a positive number. Otherwise, zero.

C-Additions from Form 3803. (*Road Map lines, supported by Form 3803*) If "Adjustment for CA, I, In 8z" below line 6 of our on-screen Form 3803 is positive, taken as that amount. Otherwise, zero

- 9a Total other income. Add lines 8a through 8z.** *(auto-calc)* Computed as indicated, this is the amount on federal Schedule 1, Part I, line 9. It is used for column A on California Schedule CA.
- B-Total other income subtraction.** *(auto-calc)* Computed as the sum of all amounts for column B in lines 8a through 8z, which is comprised solely of the column B amounts for lines 8b, 8c, 8f, 8n, 8o, 8p, and 8z.
- C-Total other income addition.** *(auto-calc)* Computed as the sum of all amounts for column C in lines 8a through 8z, which is comprised solely of the column C amounts for lines 8a, 8c, 8d, 8e, 8k, 8p, and 8z .
- 9b1 Disaster loss deduction from FTB 3805V.** Used only for column B, enter as a positive number the disaster loss carryover *from the prior year*, which is the amount on the 2022 Form FTB 3805V, Part III, line 6.
- 9b2 NOL deduction from FTB 3805V.** Used only for column B, enter as a positive number the net operating loss (NOL) carryover *from the prior year*, which is the amount on the 2022 Form FTB 3805V, Part III, line 5.
- NOL from FTB 3805Z, line 3b.** Enter the NOL carryover from line 3b of Form 3805Z, *Enterprise 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*.
- 9b3 NOL from FTB 3805Z, 3807, or 3809.** *(auto-calc)* Used only for column B, computed as the sum of the above three NOL amounts.
- 10 TOTAL.** *(auto-calc lines)* Summed separately in columns A, B, and C as the sum of Section A lines 1z through 7 and Section B lines 1 through 7, 9a, 9b1, 9b2, and 9b3.

Section C -- Adjustments to Income from federal Schedule 1 (Form 1040). The third section is *based on adjustments reported on federal Schedule 1, lines 11 through 26*. All lines in column A of this section are translated directly from federal Schedule 1.

- 11 Educator expenses.** California does *not* allow a deduction for educator expenses, so *any amount translated to this line from the federal Schedule 1 appears in both column A and column B on the printed Schedule A*, and reflected as a subtraction from adjustments.
- 12 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.
- 13 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.
- 14 Moving expenses.** California does *not* conform to the federal restriction on moving expense deductions to military taxpayers. As a result, non-military taxpayers may have moving expenses that are deductible on the California return but not the federal return, and a corresponding amount for column C. Non-military taxpayers can figure the amount to enter in column C by completing a federal Form 3903 for the California return without regard to the restrictions to military personnel.
- 15 Deductible part of self-employment tax.** If you have a federal deduction for this line, but you are classified by California as an employee rather than an independent contractor for this business, you must enter the amount as a subtraction for column B.
- 16 Self-employed SEP, SIMPLE, qualified plans.** California fully conforms to the federal law, so no adjustment is necessary.
- 17 Self-employed health insurance deduction.** If you have a federal deduction for this line, but you are classified by California as an employee rather than an independent contractor for this business, you must enter the amount as a subtraction for column B.
- 18 Penalty on early withdrawal of savings.** California fully conforms to the federal law, so no adjustment is necessary.
- 19α Alimony paid.** The amount in column A is translated from the corresponding line on the federal Schedule 1. The SSN of the recipient is also translated, but *you must manually enter the last name of the recipient because it is not available from the federal return.* California has *not* conformed with the federal law that generally disallows a deduction for divorces of separations executed after 2018, nor the federal law that does not allow the deduction for nonresident aliens. In either case, enter in column C the amount not deducted on the federal return.
- 20 IRA deduction.** California generally conforms to the federal method for computing the deduction with a couple of exceptions. **Exception 1:** California has *not* conformed with the federal repeal of the age limit for contributions; the maximum age is still 70-1/2 for California. Therefore, older taxpayers who deducted contributions on their federal return must enter that amount as a subtraction for column B of Schedule CA. **Exception 2:** If your deduction is limited because you are covered by an employer's plan, you can elect to treat the disallowed amount as a nondeductible contribution. However, you do not have to make the same election on the California return as you do

for the federal return. Therefore, you may have to enter either a subtraction for column B or an addition for column C.

21 Student loan interest deduction. California conforms with federal law except for one special case, described below.

C-Student loan interest addition. A spouse of a military taxpayer not domiciled in California will have to make an addition adjustment here based on a calculation that includes the military income. For details, see the FTB *Student Loan Interest Deduction Worksheet* in the instructions for Schedule CA and FTB Pub. 1032 (*Tax Information for Military Personnel*).

22 Reserved for future use. No longer used on the federal return, this line was formerly used for the federal tuition and fees deduction, to which California never conformed.

23 Archer MSA deduction. Translated from the federal return, no adjustment is required.

24 Other adjustments. Lines 24a through 24z are translated from federal Schedule 1, lines 24a through 24z for column A. But adjustments may be necessary and require your entries for columns B and/or C.

24a Jury duty pay. Translated from the federal return, no adjustment is necessary.

24b Deductible expenses related to income reported on line 8l. California generally conforms with federal law, but you may still have an adjustment for column B or C here.

24c Nontaxable amount of Olympic and Paralympic medals and USOC prize money reported on line 8m. California does not allow this deduction, so the federal amount translated to column A appears in column B as well.

24d Reforestation amortization and expenses. California allows this deduction only for qualified timber property located in California. Therefore, you must enter in column B the part of the federal amount translated to column A that applies to property outside of California.

24e Repayment of supplemental unemployment benefits. Translated from the federal return, no adjustment is necessary.

24f Contributions to section 501(c)(18)(D) pension plans. You may have to enter an adjustment for either column B or column C. See FTB Pub. 1005 for more information.

24g Contributions by certain chaplains to section 403(b) plans. You may have to enter an adjustment for either column B or column C. See FTB Pub. 1005 for more information.

24h Attorney fees and court costs for actions involving certain unlawful discrimination claims. Translated from the federal return, no adjustment is necessary.

24i Attorney fees and court costs for claiming an award from the IRS for information you provided. California does not allow this deduction, so the federal amount translated to column A appears in column B as well.

24j Housing deduction from Form 2555. California does not allow this deduction, so the federal amount translated to column A appears in column B as well.

24k Excess deductions of section 67(e) expenses. Translated from the federal return, no adjustment is necessary.

24z Other adjustments. List type and amount. (*Supported by the California Adjustments Worksheet.*) The total for column A is posted to this line, but you must itemize and computed the supporting worksheets to detail the contributions to this line and the necessary California adjustments. When you return from the worksheets, this line is computed as the sum of line A of all supporting worksheets

B-Subtractions from worksheets. (*auto-calc line, supported by the California Adjustments Worksheet*) Computed as the sum of line B of all supporting worksheets combined.

C-Addition from worksheets. (*auto-calc line, supported by the California Adjustments Worksheet*) Computed as the sum of line C of all supporting worksheets combined.

Federal Schedule 1, line 24z. Translated from the federal return as indicated, this is the total the must appear in column A of California Schedule CA, Part I, Section B, line 24z, for a valid return.

DISCREPANCY between California and federal line 24z. (*auto-calc*) Computed as the amount on Schedule CA, line 24z, column A, less the above amount from federal Schedule 1, an amount will appear here *only* if the sum of amounts you entered in line A of the worksheets differs from the amount reported on federal Schedule 1 for line 24z. *Any discrepancy here must be resolved for a valid return by correcting the California worksheet(s).*

25 Total other adjustments. Add lines 24a through 24z. (*auto-calc lines*) Computed as indicated, separately in each column.

26 Add lines 11 through 23 and line 25. (*auto-calc lines*) Computed as indicated, separately in each column. Column A should be the same as federal Schedule 1, line 26.

Summary of Schedule CA, Part I:

27 TOTAL. Subtract line 26 from line 10 (column A). (*auto-calc*) Computed as line 10 (column A) less line 26 (column A) this is federal AGI as computed on Schedule CA, Part I, which should match federal AGI reported on federal Form 1040, line 11.

Line 10 (column B) less line 26 (column B). (*auto-calc*) Computed as indicated, this result could be negative if there is a greater subtraction for Section B (Adjustments to Income) than there is for Section A (Income).

Line 10 (column C) less line 26 (column C). (*auto-calc*) Computed as indicated, this result could be negative if there is a greater addition for Section B (Adjustments to Income) than there is for Section A (Income).

B-Subtraction for Form 540, line 14. *(auto-calc)* Computed as the sum of "Line 10 (column B) less line 26 (column B)" (if it is positive) minus "Line 10 (column C) less line 26 (column C)" (if it is negative), this result will always be positive and is used for the official printout of line 27, column B.

C-Addition for Form 540, line 16. *(auto-calc)* Computed as the sum of "Line 10 (column C) less line 26 (column C)" (if it is positive) minus "Line 10 (column B) less line 26 (column B)" (if it is negative), this result will always be positive and is used for the official printout of line 27, column C.

Discrepancy check:

Schedule CA, line 27, column A. *(auto-calc)* Taken from line 27 as indicated, this is federal AGI as reported on Schedule CA.

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

**** DISCREPANCY between Schedule CA and Form 540.** *(auto-calc)* An amount will appear here only if the federal AGI you reported on Form 540 differs from the federal AGI computed on this Schedule CA. Any discrepancy here must be resolved for a valid return. Since most amounts in column of A of Schedule CA are translated from the federal return, discrepancies should be rare. See our instructions for Schedule Ca lines 1a and 8z for possible differences that can be resolved there.

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 9 of Schedule CA, Part I, Section B.

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

PART II, ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS. The second part of Schedule CA, accessed through the Road Map from the line above line 18 of Form 540 labeled "Itemized deduction, CA,II,29" and identified on the Forms Menu as form 4 (CA Part II), collects all differences from federal Schedule A. It is used to compute California itemized deductions and to determine whether or not they will be used in place of the standard deduction at Form 540, line 18. *Although federal amounts for column A of lines 1 through 17 of this part are translated from federal Schedule A, subsequent lines (18 through 29) have no federal equivalent, including deductions that were eliminated by the federal tax reform. Furthermore, most taxpayers who itemize deductions on the California return will not itemize deductions on the federal return because of the very high standard deduction on the federal return, so there will not be a federal Schedule A from which to translate amounts to this Schedule CA.*

Federal NOT itemized but WILL itemize for California? Answer Yes if you used the standard deduction on the federal return but are completing Schedule CA, Part II. A Yes answer is common because California did not conform with the new federal restrictions on itemized deductions that make itemizing now rare on the federal return. *If you answer Yes, you must complete a federal Schedule A for use with the California return alone and include a copy of it with your California return. TIP: If you complete federal Schedule A as a part of your federal return before you translate the federal return to the California return, column A of Schedule CA, Part II, lines 1 through 17 are completed for you. (Federal Schedule A will be omitted from a printout of the complete federal return if it is not used in place of the standard deduction, so you will have to print it alone if needed for the California return.)*

MEDICAL AND DENTAL EXPENSE. Adjustments to line 4 of federal Schedule A are handled here. *Note that the FTB has designed Schedule CA, Part II, to skip lines 1 through 3 in the 3-column format, and deals directly with the total on line 4 instead. The amounts for lines 1, 2, and 3. appear separately on the form for reference only.*

1 Medical and dental expenses. Translated from federal Schedule A, line 1, this is the total of expenses claimed on the federal return, all of which are allowed on the California return.

2 Amount from federal Form 1040, line 11. (auto-calc) Taken from Form 540, line 13, this is federal AGI. California fully conforms with the limitations on the federal return, even to the extent of using federal AGI rather than California AGI.

3 Multiply line 2 by 7.5%. (auto-calc) Computed as indicated.

4 Subtract line 3 from line 1. (auto-calc) Computed as indicated, but no less than zero, this is the unmodified amount on federal Schedule A, line 4 and appears in column A of the official printout.

Tax-free HSA distributions for qualified medical expenses. This amount is not allowable as an itemized deduction on the federal re-

turn because it is tax-free income on the federal. However, the income is taxable on the California return, so it is allowable as an itemized deduction on the California return *but only to the extent that it exceeds 7.5% of federal AGI*. Your entry here is used only in computing an amount for line 4, column C, below.

Part in excess of 7.5% of AGI. (*auto-calc*) Computed as your entry for "Tax-free HSA distributions for qualified medical expenses" (above line 1) less the amount on line 3, but no less than zero. This result is used for column C of line 4.

TAXES YOU PAID. Adjustments to line 7 of federal Schedule A are handled here:

5a State and local income or general sales tax. Translated from federal Schedule A, line 5a, this amount is allowed as a deduction on the federal return but not the California return. It appears in column A of the official printout as well as the following two subtraction lines.

B-Amount for line 5a, column B. (*auto-calc*) Taken as the preceding line, this amount appears as a subtraction for column B because it is not allowed as a deduction on the California return.

C-Amount for line 5e, column B. (*auto-calc*) Taken as the preceding line because it is the only amount contributing to column B from 5a through 5d.

5b State and local real estate tax. Translated from federal Schedule A, line 5b, this amount is allowed as a deduction on both the federal return and the California return, so it appears only in column A of the official printout.

5c State and local personal property tax. Translated from federal Schedule A, line 5c, this amount is allowed as a deduction on both the federal return and the California return, so it appears only in column A of the official printout.

5d Add lines 5a through 5c. (*auto-calc*) Computed as indicated, this is the total for line 5d on the federal return. It affects the calculation for line 5e, column C, but is otherwise not used in the California return.

5e Smaller of line 5d and \$10,000. (*auto-calc*) Computed for as indicated for most filing statuses, but computed as the smaller of line 5d and \$5,000 if married filing separately. It matches line 5e on federal Schedule A and therefore appears on the printout in column A of line 5e.

B-Amount from line 5a. (*auto-calc*) Taken from line 5a, column A, this line does not appear on the screen (since it is already shown below line 5a) but appears in column B of the official printout.

C-Line 5d less line 5e for line 5e, column C. (*auto-calc*) Computed as line 5d, column A, less line 5e, column A, this is the part of the total deduction on line 5d that is disallowed on the federal return but is still allowed on the California return.

6 Other taxes (ITEMIZE). Translated from line 6 of federal Schedule A, the federal amount can include foreign income taxes and GST tax, neither of which is allowed as a deduction for California. ***CAUTION:** No supporting statement is translated to this line because only one of the three contributing lines on federal Schedule A will generally have a supporting statement. You must therefore create your own supporting statement for this line, including all amounts included in federal Schedule A, line 6.*

B-Foreign income and GST tax included in line 6. California does not allow a deduction for foreign income taxes or generation-skipping transfer taxes, so you must enter here any such amounts included in the preceding line.

C-Foreign property taxes. A deduction for foreign property taxes is no longer allowed as an itemized deduction on the federal return, but is still allowed on the California return. You must therefore enter the amount here in order for it to be reflected as an addition for column C of line 6.

Federal Schedule 1, line 6. Translated from the federal return as indicated, this is the total that must appear in column A of California Schedule CA, Part I, Section C, line 6, for a valid return.

DISCREPANCY between California and federal line 6. *(auto-calc)* Computed as the amount on Schedule CA, line 6, column A, less the above amount from federal Schedule 1, an amount will appear here *only* if the sum of amounts you entered in line A of the worksheets differs from the amount reported on federal Schedule A for line 6. *Any discrepancy here must be resolved for a valid return by correcting the California worksheet(s).*

7 Add lines 5e and 6. *(auto-calc)* Computed as indicated for all 3 columns, it is the total for federal Schedule A, line 7, in column A, the amount in that total *not* allowed for California in column B, and the amount *not* included in that total that *is* allowed for California in column C.

INTEREST YOU PAID. Adjustments to line 10 of federal Schedule A are handled here:

8a Home mortgage interest and points on Form 1098. Translated from federal Schedule A, line 8a, this is the amount allowed on the federal return after deducting any amount that exceeds the new federal limits and any exclusion from Form 8396, line 3. This entry is shown in column A of the official printout of Schedule CA, Part II.

C-Additional not allowed on federal return. Translated from the federal Schedule A lines above line 8a labeled "Amount exceeding limit" and "Exclusion on Form 8396, line 3," this entry is shown in column C of the official printout of Schedule CA, Part II.

8b Home mortgage interest and points not on Form 1098. Translated from federal Schedule A, line 8b, this is the amount allowed on the federal return after deducting any amount that exceeds the new fed-

eral limits. This entry is shown in column A of the official printout of Schedule CA, Part II.

C-Additional not allowed on federal return. Translated from the federal Schedule A lines above line 8b labeled "Amount exceeding limit," this entry is shown in column C of the official printout of Schedule CA, Part II.

8c Points not on Form 1098. Translated from federal Schedule A, line 8c, this is the amount allowed on the federal return. This entry is shown in column A of the official printout of Schedule CA, Part II.

C-Additional not allowed on federal return. No disallowed amounts are entered on the federal Schedule A, line 8c, so no amount is translated to this line. It is included here only for any unlikely amount disallowed on the federal return but allowed on the California return.

8d Reserved for future use. This line is not used for 2023. It was formerly used to report mortgage insurance premiums, but they are no longer deductible on the federal return (and were never deductible on the California return).

8e Add lines 8a through 8c. *(auto-calc)* Computed as indicated for column A amounts, the result appears in column A of the official printout.

B-Add lines 8a through 8c in column B. *(auto-calc)* Computed as zero for 2023.

C-Add lines 8a through 8c in column C. *(auto-calc)* Computed as indicated for column C amounts, the result appears in column C of the official printout.

9 Investment interest. Translated from federal Schedule A, line 9, this is the amount allowed on the federal return and is shown in column A of the official printout of Schedule CA, Part II.

Adjustment on California Form 3526, line 10. *(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. Note that this amount will not be the entire amount on line 10 of Form 3526 if allocated elsewhere.

B-Subtraction from FTB 3526. *(auto-calc)* If the preceding adjustment is negative, taken as that amount expressed as a positive number. Otherwise, zero.

C-Addition from FTB 3526. *(auto-calc)* If the adjustment positive, taken as that amount. Otherwise, zero.

10 Add lines 8e and 9. *(auto-calc)* Computed as indicated for column A.

B-Amount on line 9 in column B. *(auto-calc)* Computed as the "Subtraction from FTB 3526," above, this is the amount for line 10, column B.

C-Amount on lines 8e and 9 in column C. *(auto-calc)* Computed as the "Subtraction from FTB 3526," above, this is the amount for line 10, column C.

GIFTS TO CHARITY. Adjustments to line 14 of federal Schedule A are handled here:

11 Gifts by cash or check. Translated from the federal Schedule A, line 11, this is the federal amount for column A.

B-Amount not allowed for California. You could have an amount for this line if contributions exceed 50% of AGI, since most contributions up to 60% of AGI are now allowed on the federal return. You could also have an amount for this line if you claimed the *College Access Tax Credit* on both the federal and California returns, since the California credit is generally less than the federal credit. This entry appears in column B of the official printout.

C-Additional amount not allowed for federal return. You could have an amount for this line if you contributed to a higher education institution in exchange for college athletic seating, since the contribution is no longer allowed on the federal return, but is still allowed on the California return. This entry appears in column C of the official printout.

12 Other than by cash or check. Translated from the federal Schedule A, line 12, this is federal amount for column A.

B-Amount not allowed for California. You could have an amount for this line if contributions exceed 50% of AGI, since most contributions up to 60% of AGI are now allowed on the federal return. This entry appears in column B of the official printout.

C-Additional amount not allowed for federal return. Enter any additional amount allowed for California. This entry appears in column C of the official printout.

13 Carryover from prior year. Translated from the federal Schedule A, line 13, this is federal amount for column A.

B-Amount not allowed for California. You could have an amount for this line if you had a carryover from contributing appreciated stock to a private foundation, since California law was stricter than federal law prior to 2002. This entry appears in column B of the official printout.

C-Additional amount not allowed for federal return. Enter any additional amount allowed for California. This entry appears in column C of the official printout.

14 Add lines 11 through 13. *(auto-calc)* Computed as indicated for column A.

B-Amount not allowed for California. *(auto-calc)* Computed as the sum of amounts for column B of lines 11, 12, and 13, this is the amount for line 14, column B.

C-Amount on lines 8e and 9 in column C. *(auto-calc)* Computed as the sum of amounts for column C of lines 11, 12, and 13, this is the amount for line 14, column C.

CASUALTY AND THEFT LOSSES. Adjustments to line 15 of federal Schedule A are handled here:

15 Casualty or theft loss. (Form 4684). Translated as indicated, this the amount of personal casualty and theft loss claimed on the federal return from line 18 of Form 4684.

B-Amount not allowed for California. Differences in basis for damaged or destroyed property can lead to a subtraction adjustment for this line. You should prepare a Form 4684 under California law using California amounts to determine whether there is a subtraction adjustment for this line. This entry appears in column B of the official printout.

C-Additional amount not allowed for federal return. Only disaster losses are now allowed on the federal return, but California still allows most other personal casualty and theft losses, so an addition adjustment for this line is common. In addition, differences in basis for damaged or destroyed property can lead to an addition adjustment for this line. You should prepare a Form 4684 under California law using California amounts to determine whether there is an addition adjustment for this line. This entry appears in column C of the official printout.

OTHER ITEMIZED DEDUCTIONS. Adjustments to line 16 of federal Schedule A are handled here:

Allowed gambling losses. Translated from federal Schedule A, this amount is included in the total for column A of line 16. If this amount includes any California lottery losses, include that amount in the line that follows line 16 labeled "Amount not allowed for California," which is a subtraction adjustment for column B.

Disabled's expense (Form 2106). Translated from federal Schedule A, this amount is included in the total for column A of line 16. You may have a subtraction or addition adjustment if your deduction included any depreciation or included travel expenses as a federal employee on temporary duty status. Include any adjustment in the appropriate line that follows line 16.

Federal Form 4684, line 32 and 38b. Translated from federal Schedule A, this amount is included in the total for column A of line 16. For casualties and theft of business or income property that is treated differently for California, include any adjustment in the appropriate line that follows line 16.

Federal Form 4797, line 18a. Translated from federal Schedule A, this amount is included in the total for column A of line 16. If this amount differs from the amount on California Schedule D-1, line 18a, include any adjustment in the appropriate line that follows line 16.

Net qualified disaster loss. Translated from federal Schedule A, this amount is included in the total for column A of line 16. For federally qualified disaster losses, include any adjustment in the appropriate line that follows line 16.

Standard deduction claimed with the above. Translated from federal Schedule A, this amount is included in the total for column A of line 16. This amount appears on the federal Schedule A only if the preceding amount is deducted without actually filing Schedule A, as allowed on the federal return. California has no such special provision, so this amount is *not* deductible on California returns. Therefore, *you must include this amount in the line that follows line 16 labeled "Amount not allowed for California," which is a subtraction adjustment for column B.*

Other allowed deductions. Translated from federal Schedule A, this amount is included in the total for column A of line 16. For amounts in this line treated differently on the California return, include any adjustment in the appropriate line that follows line 16. See the FTB tips for federal estate tax and claim of right in their *2023 Instructions for Schedule CA* for examples of amounts that could be included in this line and need adjustment. Include any adjustment in the appropriate line that follows line 16.

16 Total other itemized deductions. *(auto-calc)* Computed as the sum of the preceding seven amounts, this is the federal deduction for column A.

B-Amount not allowed for California. Enter here any subtraction adjustment to the above total for line 16, using the guidance provided above and in the FTB *2023 Instructions for Schedule CA*. This entry will appear in column B on the official printout.

C-Additional amount not allowed for federal return. Enter here any addition adjustment to the above total for line 16, using the guidance provided above and in the FTB *2023 Instructions for Schedule CA*. This entry will appear in column C on the official printout.

17 Add lines 4, 7, 10, 14, 15, and 16. *(auto-calc)* Computed as indicated for column A.

B-4, 7, 10, 14, 15, and 16 in column B. *(auto-calc)* Computed as indicated for column B. (Note that there is no amount for line 4, column B, in spite of the FTB label.)

C-4, 7, 10, 14, 15, and 16 in column C. *(auto-calc)* Computed as indicated for column C. (Note that the amount for line 4, column C, is shown on-screen above line 1 as the new entry for "Tax-free HSA for qualified medical expense.")

18 Total Adjustments to Federal Itemized Deductions. *(auto-calc)* Computed as line 17, column A, plus line 17, column C, less line 17, column B, this is the California itemized deductions so far. *TIP: The FTB label for this line is misleading because this amount is not itself an adjustment but rather is the result of an adjustment applied to the federal deduction.*

JOB EXPENSES AND CERTAIN MISCELLANEOUS DEDUCTIONS. The deductions handled in this section are no longer allowed on the federal return because of tax reform, but are still allowed for California. They are miscella-

neous deductions that were formerly allowed to the extent that they exceeded 2% of federal AGI. Since California did not conform with their suspension, they are added here as formerly treated on the federal return, including the 2% of federal AGI threshold.

19 Unreimbursed employee expenses. These are work-related expenses that are no longer allowed on the federal return. They do *not* include impairment-related work expenses, which are included in line 16 of Schedule CA, Part II. And they do *not* include work-related expenses for Armed Forces reservists, qualified performing artists, or fee-basis state or local government officials, which are reported on line 11 of Schedule CA, Part I, Section C. For all other work-related expenses, you must complete a separate federal Form 2106, using California amounts, for employee expenses no longer deductible on the federal return, and enter here the result on line 10 of that Form 2106.

20 Tax preparation fee. Enter any fee paid for preparing your tax return, which is no longer allowed as a deduction on the federal return but is still allowed on the California return.

21 Other expenses. Enter the total of all other allowed expenses here. Do not itemize this line. If you have more than one expense for this line, itemize the next line instead. This procedure is necessary to satisfy FTB specifications for the printing of line 21.

List type for line 21. Enter the type for the amount in line 21 *in 14 characters or less*. If there is more than one type, leave this line blank and press F10 or ctrl-Y to itemize this text line (since pressing I will not work on a text line). Enter the type in the text column and amount in the numbers column, making sure that the sum of all amounts in this itemized list matches the amount you entered for line 21, above.

22 Add lines 19 through 21. *(auto-calc)* Computed as indicated.

23 Federal Form 1040, line 11. *(auto-calc)* Taken from line 13 of Form 540, this is federal AGI. (The FTB uses federal AGI here, not California AGI!)

24 Multiply line 23 by 2% (.02). *(auto-calc)* Computed as indicated, this is 2% of federal AGI.

25 Subtract line 24 from line 22. *(auto-calc)* Computed as indicated, but no less than zero, this is total deduction allowed on the California return for expenses formerly allowed on the federal return to the extent that they exceeded 2% of federal AGI.

CALIFORNIA ITEMIZED DEDUCTIONS. The final itemized deduction for the California return is determined here:

26 TOTAL ITEMIZED DEDUCTIONS. *(auto-calc)* Computed as the sum of lines 18 and 25, this is the California itemized deduction before special other adjustments and limitations for high AGI.

27 Other adjustments (ITEMIZE). In a supporting statement for this line, enter any adjustments that don't fit any of the categories on other lines of Schedule CA, Part II. You can enter a negative or positive

amount for each adjustment. For example, you would enter a negative amount for a California credit on Form 540 for the same items you claimed as an itemized deduction on Schedule CA, and you would add a positive amount for expenses relating to taxable income that is not taxable on the federal return. See the last page of the *FTB 2023 Instructions for Schedule CA* for specific examples (under the heading *Line 27 -- Other Adjustments*).

28 Combine lines 26 and 27. *(auto-calc)* Computed as the sum of lines 26 and 27, but no less than zero.

Schedule A, lines 4, 9, 15, and gambling losses in 16. *(auto-calc)* Computed as the sum of the cited amounts on federal Schedule A (which is the same as the corresponding lines in column A of Schedule CA, Part II), this is the part of line 28 not subject to the high-income phase-out of itemized deductions.

Part of line 28 disallowed. *(auto-calc)* Computed in accordance with the Itemized Deductions Worksheet on the last page of the *FTB 2023 Instructions for Schedule CA*, this is the amount by which the California itemized deduction total at line 28 must be reduced. For 2023, this disallowance will be zero if your federal AGI is no more than \$237,035 if single or married/RDP filing separately, \$355,558 if head of household, or \$474,075 if married/RDP filing jointly or qualifying surviving spouse. *TIP: Line 1 of the worksheet is line 28 of Schedule CA, Part II. Line 2 of the worksheet is the preceding amount. Line 9 of the worksheet is the amount shown here based on the calculations on lines 3 through 8 of the worksheet. Line 10 of the worksheet is the result on the next line.*

29 California itemized deductions. *(auto-calc)* Computed as line 28 less the preceding "Part of line 28 disallowed," this is the final itemized deductions for California. This result is posted to one of the lines above line 18 of Form 540 for comparison to the standard deduction, but the same comparison is performed on line 30, below.

Standard deduction. *(auto-calc)* Taken from the standard deduction shown on the on-screen line above line 18 of Form 540, this amount is generally \$5,363 if single or married filing separately and \$10,726 for all others for 2023. *Exception: If married filing separately and you indicated on Form 540 (above line 18) that the other spouse itemizes, this amount will be zero since you and spouse must both itemize if one of you does.*

30 Larger of line 29 or standard deduction. *(auto-calc)* Computed as the larger of line 29 and the preceding amount, this is the deduction for Form 540, line 18, that is subtracted from California AGI (Form 540, line 17) to arrive at California taxable income (Form 540, line 19).

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 2024 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). *Schedule D is accessible through the Road Map from all 3 parts of Schedule CA, Part I, Section A, line 6.*

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 2022 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 print-outs 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 2024 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 2023 gains from all. *(auto-calc)* Computed as the sum of gains on all worksheets and lines above -- column (e) of Schedule D.

5 2023 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 2022, if any. Capital loss carryover for California is inevitably different from the federal amount because of past differences in the laws. Therefore, no carryover is translated from the federal return, so you must enter the carryover here based on prior California returns.

7 Total 2023 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 6. This entry is translated from federal Schedule D, which is posted to Form 1040, line 6, 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 a Adjustment decrease or b Adjustment increase for Schedule CA. *(auto-calc lines)* A net adjustment is computed as line 11 less line 10. If less than zero it is shown as a positive number on line 12a and posted to line 6, column B of Schedule CA, Part I, Section A. If greater than zero it is shown on line 12b and posted to line 6, column C.

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*.

Carryover to 2024. *(auto-calc lines)* Ordinarily, the carryover to 2024 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, Part I, Section B, line 4. You can therefore refer to the section on Form 4797 in Chapter 2 of the regular *Tax Forms Guide 2024 Edition* for most details. *Schedule D-1 is accessible through the Road Map from all 3 parts of Schedule CA, Part I, Section B, line 4.*

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.

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 2024 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, is accessible through the Road Map from line 61 of Form 540. Schedule P, page 2, is accessible through the Road Map from the "Itemize" line above line 40 of Form 540.*

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 changes in threshold for medical and dental expenses on Schedule A over the years. As a result, the preference at line 2 of Schedule P remains at 2.5%, even though there is no such preference for 2023 on the federal Form 6251..
- 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 2024 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.* (For more information, see **item G** on page 2 of the FTB 2023 Instructions for Schedule P (540).)

Itemize for Part 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). This 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 qualify-

ing 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 2023 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) for tax years starting on or after January 1, 2011 and before 2016, as indicated by a certificate number no higher than 4999. See form FTB 3541 for details.

Code 247, Cannabis Equity Tax Credit. This credit, new for 2023, is available for a taxpayer that is an equity licensee approved for the fee waiver and deferral program administered by the DCC. See form FTB 3821 for details.

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 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 246, High-Road Cannabis Tax Credit. This credit, new for 2023, is available for a taxpayer who that is a commercial cannabis business that has a Type-10 or Typ2-12 license issued by the DCC and has requested a tentative credit reservation from the FTB. See form FTB 3820 for details.

Code 244, Homeless Hiring Tax Credit. This credit is available to qualified taxpayers that hire eligible individuals. The employer must have certification of the employee's homeless status from a qualifying or-

ganization and must request a tentative credit reservation from the FTB.

Code 237, New California Motion Picture and Television Production Credit. This credit is allocated and certified by the California Film Commission (CFC) and is really an extension of the preceding credit (code 223, above) for tax years starting on or after January 1, 2016. You can claim no credit unless you received certification for 2023 from the CFC with a certificate number 5000 or higher. See form FTB 3541 for details.

Code 238 New Donated Fresh Fruits or Vegetables This credit replaced the code 224 credit (shown in the next section). It amounts to 15% of qualified value.

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 224, Donated Fresh Fruit or Vegetables Credit. Originally figured on FTB 3811.

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 218, Environmental tax. For small refiners of ultra low sulfur diesel fuel, carryover must be from taxable years starting after July 1, 2005 and before 2018.

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

Code 198, Local agency military base recovery area (LAMBRA) hiring and sales and use taxes. These LAMBRA incentives were originally figured on FTB 3807. *CAUTION: Unlike 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 240, Main Street Small Business Tax. Originally a credit for net increase in qualified employees hired, a credit is allowed here only if a carryover is available from taxable year 2020.

Code 241, Main Street Small Business Tax II. Originally a credit for net increase in qualified employees hired, a credit is allowed here only if a carryover is available from taxable year 2021.

Code 211, Manufacturing Enhancement Area (MEA) Hiring. Originally figured on FTB Form 3808.

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 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 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 \$573 for 2023; 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 \$573 for 2023; 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 2021 or 2022, and the person who qualified you for this filing status died during 2021 or 2022.

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 \$1,748 (for 2023) 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 \$89,931.

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 2023 expenses:

Code 233, California competes. This credit 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. It is claimed on FTB Form 3592, which was new for 2015.

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

CHILD ADOPTION CREDIT		
	Child's name	
	Citizen or legal res of US? No	
	In custody of qld. agency? No	
	Cred carryover fr prior yr	0
	If adoption order THIS yr:	
	Fees of the qld. agency..	0
	Unreimbursed medical expns	0
	Adoptive family travel exp	0
	Total allowable credit:	
1	Total qualified expenses..	0
2	Credit percentage - 50%...	.50
	Credit before limitation..	0
3	Credit amount.....	0
	Carryover to next year....	0

Figure CA-2. Child Adoption Credit Worksheet

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 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 2023 from

the authority. The credit is claimed on FTB Form 3592, which was new for 2015.

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 239, Program 3.0 California Motion Picture and Television Production Credit. This credit is allocated and certified by the California Film Commission (CFC) and is similar to earlier credits of the same type (codes 223 and 237), but for tax years starting on or after January 1, 2020. See form FTB 3541 for details.

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 245, Soundstage Filming Tax Credit. This credit is a descendent of earlier motion picture credits (codes 223, 237, and 239), but with more restrictions. See form FTB 3541 for details.

Code 243, State Historic Rehabilitation Tax Credit. This credit is allocated by the California Tax Credit Allocation Committee for the rehabilitation of certified historic structures and other qualified structures for individuals. See form FTB 3835 for details.

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 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 176, Enterprise zone hiring credit. Enter here, from Schedule Z of Form 3805Z, the lesser of line 8B column (e) and 8B column (f). (Note that column (f) of Schedule Z is not entered here because that column reflects the tax limitation determined after Schedule P is completed.)

Code 176, Enterprise zone sales & use tax credit. Enter here, from Schedule Z of Form 3805Z, the lesser of line 9B column (e) and 9B column (f).

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

Code 210 Targeted Tax Area (TTA) Hiring & Sales or Use Tax. This business incentive for targeted areas was original claimed through FTB Form 3809.

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*

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Schedule P

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 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 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* (for which there are separate lines on Form 540: 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*.
- 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" shown on Schedule P, Part III, except the credits shown above for Form 540 lines 40, 43, and 44, and the credit shown be-

Schedule P

low 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	
a. Income item des	
b. Taxable by California	0
c. Taxable other state.....	0

Double Taxed Income Worksheet. *(Figure CA-3)*

This worksheet is just a simple itemized list, but with two amount columns:

α Income 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:

- (1) You must 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.
- (2) You must provide the telephone number of each care provider and identify whether the care provider is a person or an organization.
- (3) In addition to the address of the care provider, you must enter the address where the care was actually provided. Only *California* addresses qualify.
- (4) If the care is employer-provided (reported in box 10 of Form W-2), you must not leave the *Care Provider Worksheet* blank except for employer's name and "See W-2" flag (contrary to the federal instructions). Instead, you must enter employer's EIN, telephone number, identity as an organization, and the address where the care is provided.
- (5) You must provide the date of birth of each child, or, if disabled, identify the child as disabled. **CAUTION:** *If you answer Yes for "Disabled?" you should leave the date-of-birth entry blank.*
- (6) You must enter the percentage of physical custody of the child (which is the percentage of time the child 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 2022. 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. **CAUTION:** *Most of the lines in the section are not translated from the federal Form 8801 because tax reform eliminated most of the analogous federal lines. As a result, you must manually enter most amounts from 2022.*

2022 filing status. Translated from the federal Form 8801, you will have to change this entry only if the filing status for the 2022 California tax return was different from that for the 2022 federal tax return (or there was no federal Form 8801 for 2022).

2022 Schedule P, Part I, line 1. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* If you itemized deductions on the California return for 2022, your entry should be zero. Otherwise, your entry should be your standard deduction for 2022.

2022 Schedule P, Part I, line 2. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* If you itemized deductions on your California return for 2022, this is medical and dental expense deductible on federal Schedule A, line 4, but no more than 2.5% of federal AGI, whether or not you itemized deductions on the federal return. Otherwise, zero.

2022 Schedule P, Part I, line 3. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* If you itemized deductions on your California return for 2022, this

is deductible personal property taxes and real property taxes. Otherwise, zero.

2022 Schedule P, Part I, line 4. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* If you itemized deductions on your California return for 2022, this is certain interest on a home mortgage not used to buy, build, or improve your home. Otherwise, zero.

2022 Schedule P, Part I, line 5. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* If you itemized deductions on your California return for 2022, this is miscellaneous itemized deductions. Otherwise, zero.

2022 Schedule P, Part I, line 6. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* If you itemized deductions on your California return for 2022, this is refunds of personal and real property taxes. Otherwise, zero.

2022 Schedule P, Part I, line 7. Translated from the federal Form 8801, the translated amount is line 2c of the 2022 Form 6251, which is the difference between the investment interest expense deduction for the regular tax and that for the AMT on the federal return. *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 2022 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).

2022 Schedule P, Part I, line 13b. Translated from the federal Form 8801, the translated amount is line 2d of the 2022 Form 6251, which is the difference between depletion for the regular tax and that for the AMT on the federal return. *You may have to adjust this amount for California because of past differences between California and federal law.*

2022 Schedule P, Part I, line 13i. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* This is the preference for pollution control facilities on the 2022 Schedule P.

Other exclusion items. Enter here any 2022 exclusion items not reflected above. Although the corresponding entry on screen 1 of our 2022 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, 13i, and "other exclusion items" less line 6, is used for line 2 of California Form 3510.

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

2022 Schedule P, Part I, line 15. Translated from the federal Form 8801, the translated amount is line 1 of the 2022 Form 6251, which is federal AGI less itemized deductions or the standard deduc-

tion. By contrast, the amount for California is California AGI less California itemized deductions or the standard deduction. Therefore, you will generally have to make an adjustment to the translated amount even if federal and California AGI are the same, since the amounts for itemized deductions and standard deduction will almost certainly differ.

2022 Schedule P, Part I, line 16. Translated from the federal Form 8801, the translated amount is line 2e of the 2022 Form 6251, which is the NOL deduction reflected in income on the 2022 Form 1040. Therefore, you will have to make an adjustment to the translated amount if the California NOL deduction differs from the federal deduction.

2022 Schedule P, Part I, line 17. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* There is no federal equivalent to this amount, which is your 2022 taxable trade or business income (but no less than zero).

2022 Schedule P, Part I, line 18. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* The amount relates to the phase-out of California itemized deductions for high-income taxpayers.

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:

2022 Schedule P, Part II, line 25. This is the regular tax before credits on the 2022 California return. You must manually enter the amount from line 25 in Part II of the 2022 Schedule P. This entry is used for line 12 of the current Form 3510.

2022 Schedule P, Part II, line 26. This is the AMT on the 2022 California return. You must manually enter the amount from line 26 in Part II of the 2022 Schedule P. This entry is used for line 28 of the current Form 3510.

2022 Schedule P, Part III, line 10(d). This is the unused credit for prior-year AMT on the 2022 California return. It is shown on line 39 of the 2022 Form 3510 and column (d) of line 10 in Part III of the 2022 Schedule P. You must manually enter the amount from Part III, line 10, column (d) of the 2022 Schedule P. This entry is used for line 31 of the current Form 3510.

2022 Schedule P, Part III, line 22(b). This is the solar energy credit carryover used in 2022. You must manually enter the amount from line 22, column (b), in Part III of the 2022 Schedule P. This entry is used in the computation of line 28 of the current Form 3510.

2022 Schedule P, Part III, line 23(b). This is the commercial solar energy credit carryover used in 2022. You must manually enter the amount from line 23, column (b), in Part III of the 2022 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 2022:

Your 2022 earned income. The amount translated from the federal Form 8801 is the primary taxpayer's federal earned income for 2022. 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 2022.

Full-time student in 2022? Answer Yes if enrolled as a full-time student in any 5 month period in 2022.

YOUR age on 2022 Form 540. *(auto-calc)* Computed as the age you entered on our 2022 Form 540 less one year, this is your age on January 1, 2022.

Both parents died before 2023? Translated from the federal Form 8801, the answer should be Yes only if neither parent was alive on January 1, 2023.

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 2022 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 2022 Schedule P, Part I, amounts for lines 1, 2, 3, 4, 5, 7, 13b, and 13i, plus "Other exclusion items" less the 2022 Schedule P, Part I, line 6.

3 AMT credit net operating loss deductions. *No amount is translated to this line, so you must manually enter the amount from your prior-year Schedule P.* See FTB instructions for this line for details on the computation for this line.

- 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 2022 and this result exceeds \$436,827, an additional amount is added to this result in accordance with the worksheet in the FTB instructions for this line.
- 5 **Amount from 2022 Schedule P, line 22, Exemption Worksheet, line 1.** *(auto-calc)* Using the 2022 filing status on screen 1, computed as \$112,734 for filing status 2 or 5, \$84,550 for 1 or 4, or \$56,364 for 3.
- 6 **Amount from 2022 Schedule P, line 22, Exemption Worksheet, line 3.** *(auto-calc)* Using the 2022 filing status on screen 1, computed as \$422,750 for filing status 2 or 5, \$317,062 for 1 or 4, or \$211,371 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 2022 return, at least one parent was alive in 2022, your filing status was not married filing jointly for 2022, and either your age was under 18 at the end of 2022 or you provided no more than half your support and were either 18 at the end of 2022 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* \$7,500.
- 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 2022 Schedule P, Part II, line 25, this is the amount on the 2022 Form 540, line 31.
- 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 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 2022 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 22(b) and 23(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 2022 Schedule P, Part II, line 26.** *(auto-calc)* Computed as “AMT on 2022 Schedule P, Part II, line 26” less “Solar carryover reduction,” this is the AMT that was reported on line 61 of the 2022 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 2022. But the FTB instructions confirm that it should be the reduced amount. The label would more properly be “AMT from 2022 Form 540, line 61” or “AMT from 2022 Schedule P, Part III, line 24(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 2022.** *(auto-calc)* Taken from your entry on screen 2 for “2022 Schedule P, Part III, line 10(d),” this is the carryforward to 2023 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 before 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 3514** / California Earned Income Tax Credit

**** Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of the California Supplement. ***CAUTION:*** *For a California return translated from a federal return, Form 3514 will be created when Schedule EIC exists for the federal return. Nevertheless, for a valid California return, you must supply additional information on Form 3514 and its worksheets.*

Earned Income Tax Credit similar to federal EIC, but for lower income levels. This credit is analogous to the federal *Earned Income Credit (EIC)*, but is named the *California Earned Income Tax Credit* and abbreviated *EITC* rather than EIC. The income levels to which the California credit applies and the amount of tax credit available are both much lower than the federal version. The California credit is now allowed only if your *federal* investment income is no more than \$4,525 (for 2023). And the qualifying children must have *lived with you in California for more than half of the tax year*. If all qualifications are met, at least some credit will exist if both *California* earned income and federal adjusted gross income are less than \$30,951 for 2023 and earned income is at least \$1. More details are compared with the federal credit in Table CA-3 (*Federal EIC vs. California EITC*), which follows. The credit is *claimed at line 75 of Form 540, where it is accessible through the Road Map*.

NEW FOR 2019: Additional credit for a child younger than 6. An additional refundable credit of as much as \$1,117 is available for 2023 for taxpayers who qualify for the EITC and have at least one qualifying child under 6 years of age. The credit phases out when earned income exceeds \$25,775, reducing to zero at \$30,932. See Part VII of this form for details.

NEW FOR 2022: Additional credit for a certain taxpayers who were foster children. An additional refundable credit of as much as \$1,117 is available for 2023 for certain taxpayers who qualify for the EITC, were age 18 through 25 in 2023, and were in foster care at age 13 or above. The credit phases out when earned income exceeds \$25,775, reducing to zero at \$30,932. See Part IX of this form for details.

MANDATORY for Paid Preparers: Returns signed by a paid preparer must include Form 3596 with the return. Just as the IRS requires Form 8867, the FTB requires that paid preparers file FTB Form 3596 (*Paid Preparer's Due Diligence Checklist for California Earned Income Tax Credit*) with any return signed by them for which the California EITC is claimed. ***CAUTION:*** *Although FTB Form 3596 is automatically created when you claim the EITC, you must manually complete the first few entries in of Part I of Form 3596. The remainder of the form is translated from federal Form 8867 when possible. (You can access Form 3596 through the Road Map from the bottom of the first and sixth screens of Form 3514.)*

California Supplement (2024 Edition)

Form 3514

Table CA-3. Federal EIC vs. California EITC for 2023

Feature	Federal EIC	California EITC
Generation of forms: Earned income credit Due diligence reporting by paid preparers Documentation required for paid preparers	Automatic based on Form 1040 Dependent Worksheets Form 8867 requires manual answers to confirm procedures Proof of residency, disability, and self-employment	Requires completion of worksheets on Form 3514 Form 3596 also requires manual answers to analogous questions Proof of <u>California</u> residency, disability, and self-employment
Reporting requirements: Form(s) to file with return Documentation required for paid preparers Identity of paid preparer Child's date of birth Time with you test Address of child	Schedule EIC required <u>only</u> if credit based on children Form 8867 required if paid preparer involved Proof of residency, disability, and self-employment Name and PTIN <u>only</u> required on Form 8867 Year born No. of <u>months</u> in country <u>Not</u> required	Form 3514 required <u>whether or not</u> children are claimed Form 3596 required if paid preparer involved Proof of <u>California</u> residency, disability, and self-employment Name, PTIN, type of license, authorizing state, license number required on 3596 Date of birth (xx/xx/xxxx) No. of <u>days</u> in California Physical address required
Income considered: Earned income Adjusted gross income	All wages and self-employment income Federal AGI	<u>California</u> wages and self-employment income Federal AGI
Residency	U.S.A.	California
Max. income if MFJ: No child One qualifying child Two qualifying children Three or more children Max. income if <u>not</u> MFJ: No child One qualifying child Two qualifying children Three or more children	\$24,209.99 \$53,119.99 \$59,477.99 \$63,397.99 \$17,639.99 \$46,559.99 \$52,917.99 \$56,837.99	\$30,950 \$30,950 \$30,950 \$30,950 same as MFJ, above
Max. credit available for: No child One qualifying child Two qualifying children Three or more children	\$600 \$3,995 \$6,604 \$7,430	\$285 \$1,900 \$3,137 \$3,529

Translated from federal Schedule EIC to minimize data entry required to claimed California EITC. If you claimed the Earned Income Credit on the federal Form 1040 return, and you started the California return by translating the federal return, the entries and worksheets on federal Schedule EIC are translated to California Form 3514 and its worksheets. As a result, you will generally only need to adjust a few entries and supply some additional information not found on the federal form, although that can include appreciable data entry, as implied by Table CA-3. *TIP: For the federal return, information on each child is supplied on the lengthy Dependent Worksheets for Form 1040, and you cannot see the worksheets from Schedule EIC. However, the California Dependent Worksheets are minimal, so you must supply the required information on the worksheets accessible only from Form 3514.*

Special requirements for entries on absolute positioning Form FTB 3514.

Form 3514 is among the FTB absolute positioning forms (including Form 540, Schedule CA, Form FTB 5805, and Schedule X) that must comply with strict FTB specifications, including position, format, and allowed characters:

- (1) Monetary data must be printed LEFT-justified within defined boxes on the graphic forms and must have NO punctuation (no commas nor decimal points).
- (2) Text data must be printed left-justified and upper case, and must generally be devoid of any punctuation or symbols, with a few specified exceptions that allow slashes (/) and dashes (-). And many of them must also be devoid of leading spaces and embedded spaces, including your entry for the first name of taxpayer and spouse.
- (3) The location of data on the printed form must be exactly as specified by the FTB. There is no allowance for extra lines for itemized lists or flags not specified by the FTB.

PRELIMINARY QUALIFICATIONS. Before considering income and qualifying children, there are certain requirements for all forms of the credit that must be satisfied first:

Do you file Form 2555? You must answer Yes if there is an amount on line 8d or 24j of federal Schedule 1 stemming from Form 2555 (*Foreign Earned Income*). If Yes, you cannot take the credit.

Your SSN on Form 540. *(auto-calc)* Taken from Form 540, screen 1.

Spouse SSN on Form 540. *(auto-calc)* From Form 540, screen 1.

You have the required SSN(s)? *(auto-calc)* You (and spouse, if married) must have a social security card that qualifies you to work. A card that just identifies you, such as cards with numbers starting with 9, are not enough. The software therefore answers No here unless you supplied on our Form 540 an SSN for you (and spouse, if married) ranging from 1xx-xx-xxxx to 8xx-xx-xxxx.

Married filing separately and satisfy Special Rule? If married filing separately, you cannot claim the EITC unless you satisfy the Special Rule detailed in the FTB 2023 *Instructions for Form FTB 3514* under

Step 1d on page 2. If so, answer Yes. Otherwise, No. (Your answer is forced to No if not married filing separately, but is ignored in determining qualification for EITC.)

You nonresident alien any part of 2023? If Yes, you cannot take the California EITC unless married filing jointly.

Spouse nonresident alien any part of 2023? If Yes, you cannot take the California EITC unless the preceding answer is No.

Nonresident alien any part of 2023? *(auto-calc)* Answered Yes if the answer for YOU (or SPOUSE if married filing jointly) is Yes.

ELIGIBLE SO FAR? *(auto-calc)* Answered Yes only if the answer to the Form 2555 question is No, the answer to the SSN question is Yes, the answer to the last nonresident alien question is No, and, if married filing separately, the answers to the MFS question is Yes. *Exception: If married filing jointly, Yes is allowed for the nonresident alien question if the answer is No for one of the spouses.*

If the answer to "ELIGIBLE SO FAR?" is No, do not complete the rest of this form because you do not qualify for the credit under any circumstances.

INFORMATION FROM FEDERAL RETURN. Select information from the federal return is used on Form 3514. It is entered here so that the official form can be automatically completed.

Federal EIC investment income. The amount for this entry is translated from screen 1 of the federal Schedule EIC, which is computed from amounts throughout the federal return in accordance with Worksheet 1 of IRS Pub. 596. California uses this federal investment income for the purposes of the California EITC rather than California investment income.

Federal AGI on Form 1040, line 11. *(auto-calc)* Taken from column A of Schedule CA, Part I, Section C, line 27, this amount should match the amount on federal Form 1040, line 11. Although the California credit is based on California wages plus federal business income for the earned income part of the credit computation, it is based on federal AGI rather than California AGI for the AGI part of the credit computation.

Federal Earned Income Credit--Form 1040, line 27. The credit for federal Form 1040 is translated here from federal Schedule EIC for use on line 3 of Form 3514, but is intended for reference only and is not used in any computations on the California form.

Has the IRS previously disallowed the Earned Income Credit (EIC)? The IRS may disallow earned income credit for up to 10 years after disallowing a credit for reasons other than a math or clerical error.

Has the FTB previously disallowed the California EITC? The FTB has similar restrictions when the answer is Yes.

Total nontaxable combat pay. Translated from our special screen for nontaxable income following Part I of Schedule 1, this total includes nontaxable combat pay from both you (and spouse if filing jointly),

whether or not you elected to include it in earned income on the federal return. It is used in computing line 23a of Form 3514.

INFORMATION ON PAID PREPARER. This section is used only to remind paid preparers of the additional reporting requirements that apply to them.

Was this return prepared by a paid preparer? If Yes, the FTB *requires* additional information to confirm that the preparer has or seeks out the information necessary to make a valid claim for the credit. In this case, you must supply this information on the FTB Form 3596 (*Paid Preparer's Due Diligence Checklist for California Earned Income Tax Credit*).

Itemize to access Form 3596. (*Road Map line, supported by Form 3596*)

You can access FTB Form 3596 by itemizing this line. However, we recommend that you complete Form 3514 before completing Form 3596.

WITH QUALIFYING CHILD. If you have any qualifying children, your credit will be considerably higher than it would without a qualifying child. For a return translated from the federal return, much (but not all) of the required information on your qualifying children will already appear on the worksheets you access below. However, you must provide additional information not found on the federal return.

ITEMIZE qualifying children. (*Supported by the Qualifying Child Worksheet, Figures CA-4a, 4b, and 4c.*) For a translated return, the number that appears here is the number of children qualifying for the federal EIC. However, once you complete the worksheets with the additional required information, this number may change and will be the number of children qualified for the California EITC. Because the worksheets are translated from the federal *Dependent Worksheets*, you may see worksheets for children who do not qualify you for the credit in addition to those who do qualify you for the credit. However, the extra worksheets are ignored in all calculations and are omitted from official printouts, so they have no negative impact.

Number used for Schedule EIC (3 maximum). (*auto-calc*) You get credit for no more than 3 children, so the FTB requires information on no more than 3 qualifying children. The software therefore prints on the official Schedule EIC only information on the first three *Qualifying Child Worksheets* that have qualifying children and all other worksheets are ignored.

ELIGIBLE FOR CHILD CREDIT? (*auto-calc*) Answered Yes if eligibility is confirmed on screen 1 by the answer to "ELIGIBLE SO FAR?" and the preceding number used is 1, 2, or 3. If No, you may be eligible for a childless credit, described later.

QUALIFYING CHILD YOUNGER THAN 6? (*auto-calc, supported by the Qualifying Child Worksheet, Figures CA-4a, 4b, and 4c.*) Answered Yes if any qualifying children on the worksheets is younger than 6 years old. If Yes, there may be an additional credit in Part VII of this form.

Qualifying Child Worksheet, Figures CA-4a, 4b, and 4c. Using one worksheet for each child, qualification for use in the EITC is determined separately on each worksheet. For a translated return, many entries are already completed for you based on the worksheets for federal Schedule EIC (which is tied to the Dependent Worksheets for Form 1040). However, additional information not available from the federal return must be supplied for the FTB on these worksheets, including California residency and exact dates. The necessity of all entries on this form may not be clear if you aren't familiar with all the requirements for a qualifying child, but the law is complex and some entries relate only to relatively rare exceptions. For example, while a child generally need not qualify as your dependent in order to qualify you for the EITC, it may be required for a married child. The FTB's *Instructions for Form FTB 3514* are rather terse, so not all subtleties of the requirements appear there. However, many subtleties in IRS Pub. 596 (*Earned Income Credit*) apply to the California credit as well. TIP: For a translated return, all Dependent Worksheets for Form 1040 are translated here, including both qualified and disqualified children. However, the software ignores disqualified children in all calculations and printouts, so you need not remove the worksheets for those children. The line numbers on this worksheet refer to the line numbers in Part III of the official FTB Form 3514.

5 First Name.

Enter the child's first name in 11 characters or less.

6 Last Name.

Enter the child's last name in 17 characters or less.

This and the preceding line may seem unduly restrictive,

but the FTB requires that the lengths of these entries be no more than the cited lengths for this absolute positioning form.

Year born. Enter year of birth as a 4-digit number, such as 1998. This entry is translated from the federal return, but the FTB also requires a knowledge of the month and day born, which are not available from the federal return.

Month born. Enter the month for the date of birth. CAUTION: If you make no entry here, the child is assumed to be born in January.

QUALIFYING CHILD WORKSHEET	
5	1st name.....
6	Last name.....
	Year born..... 0
	Month born..... 0
	Day born..... 0
7	SSN.....
8	Date of birth (mm/dd/yyyy)
	Child's age at end of 2023..... 0
	Younger than you or spouse? Yes
	# days NOT alive in 2023.. 0
	Perm/tot. disabled in 2023? No
	Gross income under \$4,700.? No
	Student 5mos. or more 2023? No
9a	Stud.und24 at end of 2023.. No
9b	Disabled any part of 2023.. No
10	Relation to you
	[Press PageDown for more info]

Figure CA-4a. Qualifying Child Worksheet, Screen 1

Day born. Enter the day for the date of birth. *CAUTION: If you make no entry here, the child is assumed to be born on the first day of the month.*

7 SSN. Enter the child's social security number in the standard xxx-xx-xxxx format (or, if you enter 9 digits without spaces or dashes, the software will reformat the entry for you). A valid SSN is required here with only one exception: If you do not have an SSN for the child because the child was born and died during the tax year, you can enter DIED here in place of an SSN; you must also attach a copy of the birth and death certificates or hospital records to the return. *TIP: The child will not qualify for the credit if the SSN you enter here does not qualify the child to work. Accordingly, an ITIN or ATIN cannot be used and the software will disqualify the child for any SSN that starts with the number 9.*

8 Date of birth (mm/dd/yyyy). *(auto-calc)* The date is automatically formatted into the standard date format based on your entries above for *Year born*, *Month born*, and *Day born*.

Child's age at end of 2023. *(auto-calc)* Computed as the tax year less "Year born," this result must generally be less than 19 (or less than 24 if a student) to qualify you for the EITC, unless disabled. If this number is less than 6, you may qualify for an additional \$1,083 credit for 2023 from the *Young Child Tax Credit* in Part VII of Form 3514.

Younger than you or spouse? *(semi auto-calc)* The child must be younger than the taxpayer (*or* spouse if filing jointly) to qualify. This entry is *fully automatic if you entered the date of birth for the taxpayer (and taxpayer's spouse if filing jointly) on screen 2 of Form 540*. If you did *not* enter date(s) of birth but *did* enter age(s) on screen 4 of Form 540, the entry is automatic as long as the child is more than one year older or younger than the taxpayer(s). Otherwise, you must answer the question manually.

No. of days NOT alive in 2023. If a child was born or died during the tax year, tests that involve length of time living with you are modified to relate only to the days the child was alive. Enter the number of days from 0 to 365. *TIP: The federal worksheet specifies only the number of months not alive. As a result, for a translated return, the software estimates the entry for this line by multiplying "Months NOT alive in tax year" on by 30.417. Therefore, you may have to change the translated entry to reflect the actual number of days.*

Permanently and totally disabled in any part of 2023? If disabled, the age test need not be met. Otherwise, the child must be under age 19 or a student under age 24.

Gross income under 4,700? To qualify for an exemption, the child must generally have less than \$4,700 of income for 2023, this condition need not be met if the child is under age 19 or is a student under age 24.

Student 5 months or more in 2023? If the child is under age 24, the income test need not be met if you can answer Yes here or the child is disabled.

9a Student under 24 at the end of 2023? *(auto-calc)* Answered Yes if the child is at least 19 but less than 24 years of age and the preceding answer is Yes. Otherwise, No. *TIP: If under 19, the child is automatically qualified if all other conditions are met. On printouts, the Yes and No checkboxes are both left blank in this case, in accordance with FTB instructions.*

9b Disabled any part of 2023? *(auto-calc)* Answered Yes if the child is at least 19 and your answer to "Perm/tot. disabled in ?" is Yes. *TIP: If under 19, the child is automatically qualified if all other conditions are met. On printouts, the Yes and No checkboxes are both left blank in this case, in accordance with FTB instructions.*

10 Relation to you. Enter relationship. Relationships that qualify a child for the EITC are much narrower than those that qualify a child for an exemption. For the EITC, the relationship must be the taxpayer's son, daughter, stepchild, foster child, stepbrother, stepsister, half brother, half sister, or a descendant of any of these.

EXEMPTION QUALIFICATION. *(Figure CA-4b.)* The second screen reflects additional conditions that must be met for the child to qualify as your dependent. However, in most cases, the child may still qualify you for the EITC without qualifying as your dependent.

U.S. citizen or resident alien? To be qualified for an exemption, the answer for this or the next line must be Yes.

Resident of Canada or Mexico? A resident of Canada or Mexico qualifies for an exemption as well. However, it does not qualify the child for the EITC.

No. of days lived in your home. If the only absences of

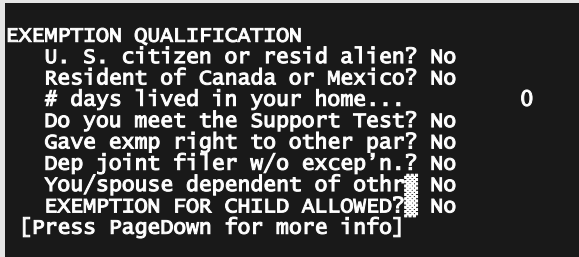


Figure CA-4b. Qualifying Child Worksheet, Screen 2

the child during the tax year were temporary, such as vacation or school, enter 365 (for the entire year). Otherwise, enter the actual number of days the child lived in your home, irrespective of the location of the home. (If you made an entry for "# days NOT alive in 2023," your entry can be no more than the remaining months alive in the tax year.) *TIP: The federal worksheet specifies only the number of months lived in your home. As a result, for a translated re-*

turn, the software estimates the entry for this line by multiplying "# months lived in your home" by 30.417. Therefore, you may have to change the translated entry to reflect the actual number of days.

Do you meet the Support Test? For an exemption, you must generally have provided more than half the support of the child.

Gave exemption right to other parent? If you don't claim the child as your dependent only because you gave the right to the other parent, you may still qualify for the Earned Income Credit even for a married child.

Dependent a joint filer without exception? If married filing jointly, the child generally cannot qualify as your dependent. *Exception: If the child filed jointly only for the purposes of getting a refund, answer No here.*

You or spouse dependent of another? (auto-calc) Automatically determined from your answers at the top of screen 4 of Form 540. If Yes, you cannot claim an exemption for this child. However, the child may still qualify you for the EITC.

EXEMPTION FOR CHILD ALLOWED. (auto-calc) Automatically Yes as long as the child qualifies as your dependent based on the above entries.

TIP: You may still qualify for the EITC even when this answer is No.

EITC QUALIFICATION. (Figure CA-4c.) The remaining entries for the worksheet are contained on the third screen of the worksheet and relate only to the EITC.

Meets relationship test. (auto-calc) Answered Yes only if the relationship to you is

- son,
- daughter,
- grandchild,
- stepchild,
- brother, sister,
- step-brother,
- stepsister,
- half brother,
- half sister,
- neice,
- nephew,
- foster child,
- or a descendant of one of them.

Dependent married? If married, the child qualifies you for the EITC only if (a) qualified to be your dependent, or (b) not qualified to be your dependent only because you gave the right to another parent.

```

EITC QUALIFICATION
Meets relationship test..... No
Dependent married.....? No
Unmarried or qlfd married... Yes
#days in your home NOT in US      0
#days in your home NOT in CA      0
11 Days w/you in CA in 2023... 0
Lived w/you ovr 1/2 yr in CA... No
Meets age or disabled test... No
EITC-qlfd to another taxpayer? No
Any of them w/higher mod AGI? No
Don't know AGI but claiming? No
Relationship to other person
Meets SSN test..... No
EARNED INCOME TAX CREDIT QLFD? No
12 Child's physical address
a. Address (no./street/apt.):
   (address cont'd):
b. City.....
c. State.....
d. ZIP code.....

```

Figure CA-4c. Qualifying Child Worksheet, Screen 3

Unmarried or qualified married. *(auto-calc)* Answered Yes only if (a) the child is unmarried, or (b) the child is married but you answered No to "Dependent a joint filer (or exception)?" and the child is your dependent (or not your dependent only because you gave the right to another parent).

No. of days lived in your home NOT in the U.S. Enter the number days when the child lived with you outside of the United States in 2023. Your entry can be no more than your entry for "# days lived in your home" on the preceding screen. *TIP: The federal worksheet specifies only the number of months lived in your home outside the U.S.. As a result, for a translated return, the software estimates the entry for this line by multiplying "# months in your home NOT in U.S." by 30.417. Therefore, you may have to change the translated entry to reflect the actual number of days.*

No. of days lived in your home NOT in California. Enter the number days when the child lived with you outside of California. Your entry can be *no more than* your entry for "# days lived in your home" on the preceding screen and *no less than* your entry for "# days in your home NOT in the U.S." Only days in which the child lived with you in your California home count in determining qualification for the EITC.

11 Days lived with you in California in 2023. *(auto-calc)* Generally computed as "# days lived in your home" less "# days in your home NOT in CA." However, if the child was born or died during the tax year, a special calculation applied. The FTB instructs you to enter "365" rather than the actual number of days for these cases if the result of the usual calculation is more than half of the time the child was alive during the year.

Lived with you over half of the year in California. *(auto-calc)* Answered Yes only if the preceding number is 183 or more for .

Meets age or disabled test. *(auto-calc)* Answered Yes only if (a) Permanently and totally disabled in tax year" is Yes, or (b) "Younger than you or spouse" is Yes and "Child's age at end of tax year" is either under 19, or, if older, is under 24 and "Student at least 5 months of year" is Yes.

EITC-qualified to another taxpayer(s)? Answer Yes if the child can qualify someone else for the California EITC (other than spouse/RDP, if filing jointly). If so, tiebreaker rules apply in determining which person can claim the credit.

Any of them with higher federal AGI? If the preceding answer is Yes and you know that at least one of the other claiming taxpayers has a higher federal AGI, you must generally answer Yes here and cannot claim the credit based on this child. *Exception: If none of the other taxpayers is a parent, but you are, answer No here irrespective of your AGI. You are the person who can claim the credit under the tiebreaker rules.*

Don't know AGI but claiming? If you don't know the AGI of the other qualifying person, you can still tentatively claim the credit by answering Yes here. However, the credit may later be disallowed by the IRS. *Exception:* If none of the other taxpayers is a parent, but you are, answer No for this and the preceding question, irrespective of your knowledge of the other person's AGI.

Relationship to other person. Enter the relationship of the child to the other qualifying person only if you entered Yes to "EIC-qualified to another taxpayer?" The relationship must be one of the relationships listed as qualifying for "Meets relationship test?" at the beginning of this section of the worksheet.

Meets SSN test. *(auto-calc)* Answered Yes only if the child's SSN is shown on line 7 of this worksheet in the standard xxx-xx-xxxx format and the first character of the entry is a number less than 9 (which indicates that this SSN does not qualify the child to work). *Exception:* If the child was born and died in the tax year, **DIED** is allowed as the entry for SSN and this question is answered Yes.

EARNED INCOME TAX CREDIT QUALIFIED. *(auto-calc)* Answered Yes only if the child qualifies based on all information on this worksheet.

12 Child's physical address. Enter the address of your main home in California where the child lived with you in 2023. If moved within California during the year, enter the address where the child lived with you the longest. *CAUTION:* This mandatory entry is unique to the California return and is not available from the translated federal return.

a. Address (number, street, and apt. no./ste. no.): Enter the street address in 35 characters or less, excluding any punctuation or symbols, except for "/" or "."

b. City. Enter the city in 17 characters or less, using abbreviations when necessary. (The entry is limited to 17 characters because of the FTB specifications for this absolute positioning form.)

c. State. Enter the standard 2-character acronym for the state.

d. ZIP code. Enter the ZIP code in the standard 5-character (xxxxx) or 10-character (xxxx-xxxx) format.

WITHOUT QUALIFYING CHILD. If you have no qualifying children, you may still qualify for the credit if you satisfy additional conditions.

YOUR main home in California 183 or more days of 2023? Answer Yes if your main home for 183 days or more was in California. "183 days or more" corresponds to "more than 1/2 year" for 2023.

SPOUSE main home in California 183 or more days of 2023? Answer Yes if spouse's main home for 183 days or more was in California.

Main home in California more than half of 2023? *(auto-calc)* Automatically Yes if either of the preceding two is Yes (except that the answer for spouse is ignored if not married filing jointly).

YOUR age on Form 540. *(auto-calc)* Taken from your entry on screen 4 of our Form 540.

SPOUSE age on Form 540. *(auto-calc)* Taken from your entry on screen 4 of our Form 540.

One age at least 18 years old? *(auto-calc)* Answered Yes if you (or spouse if married filing jointly) are 18 years old or more at the end of 2023. (Unlike the federal credit, California does not require you or spouse to be at least age 25 and under age 65 to claim the childless credit.)

Can you be the qualifying child of another? Answer Yes if you could be a qualifying child of someone else for the EITC, whether or not that person claims you. *This question applies only if not married filing jointly, so your entry is forced to No if married filing jointly, in accordance with FTB instructions.*

Can you be dependent on another return? Answer Yes if you could be claimed as a dependent on someone else's tax return, whether or not that person claims you. *This question applies only if not married filing jointly, so your entry is forced to No if married filing jointly, in accordance with FTB instructions.*

ELIGIBLE FOR CHILDLESS CREDIT? *(auto-calc)* Answered Yes only if "ELIGIBLE FOR CHILD CREDIT?" is No and the answers to the preceding four questions are Yes, Yes, No, and No, respectively.

CALIFORNIA INVESTMENT INCOME. The FTB provides a lengthy worksheet for determining investment income for Form 3514, but contrary to prior years, it now uses federal amounts instead of California amounts. Accordingly, it results in the same investment income as we compute for federal Schedule EIC, except for adjustments on California Schedule CA.

Federal EIC investment income. *(auto-calc)* Taken from your entry on screen 1, this amount is now used for California as well.

Adjustment for FTB 3514 line 4. Although we provide this entry for an adjustment to the above amount, you should not have to use it for any circumstance we can conceive, since California now uses federal investment income for Form 3514 rather than California investment income.

California EITC investment income. *(auto-calc)* Computed as federal "Federal EIC investment income" plus the preceding adjustment, this is the amount to be compared with the allowed maximum for 2023 of \$4,525, and is used for line 4 of Form 3514.

ELIGIBLE BASED ON INVESTMENT INCOME? *(auto-calc)* Answered Yes only if "California EITC investment income" is \$4,525 or less for 2023 *and either* "ELIGIBLE FOR CHILD CREDIT?" *or* "ELIGIBLE FOR CHILDLESS CREDIT?" is Yes. If No, do not complete the rest of this form because you are not qualified for any credit.

CALIFORNIA EARNED INCOME. In prior years, earned income for the purposes of this form was limited to wages. But now the FTB includes business income or loss in earned income for this form, so additional information may need to be entered here.

Wages, salaries, tips, and other compensation from Form 540, line 12. *(auto-calc)* Taken from Form 540, line 12, this is generally the sum of California state wages from box 16 of all Forms W-2 for this return.

Medicaid waiver and IHSS payments NOT in Form 540, line 12. Some employees include Medicare waiver payments and IHSS (California's In Home Supportive Services) payments in box 16 of Form(s) W-2. But for those who don't, enter the amount here. (These Medicaid waiver payments may be entered on line 1d of Form 1040.) This amount plus the above wages are used for line 13 of Form 3514.

Medicaid waiver and IHSS payments to exclude (if nontaxable on federal return). You can elect to exclude from California earned income any amount of these payments that are entered on the preceding line or included in Form 540, line 12, in order to maximize your EITC. Enter the total you elect to exclude here, but only to the extent that they are nontaxable for federal purposes. (Excludable Medicaid waiver payments may be entered on line 8s of federal Schedule 1, which reduces total income at line 9 of Schedule 1.) This amount is used for line 14 of Form 3514.

Prison inmate wages in Form 540, line 12. Enter wages included in Form 540, line 12, stemming from work as an inmate in a penal institution. This amount does not count as earned income for the EITC and is included in line 15 of Form 3514.

Nonqualified deferred compensation plan income in Form 540, line 12. Enter wages included in Form 540, line 12, stemming from a nonqualified deferred compensation plan or a nongovernmental Section 457 plan. This amount does not count as earned income for the EITC and is included in line 15 of Form 3514.

Net wages. *(auto-calc)* Computed as "Wages, salaries, tips, and other compensation" less the preceding three entries, this result also appears on line 16 of Form 3514.

Elected nontaxable combat pay. You can elect to include your (and/or spouse's) nontaxable military combat pay in earned income, which may be beneficial if your other income is minimal. You can check the result on line 20 of this form with and without an entry here in deciding whether to make the election. *TIP: Even though an amount may appear here by translation from the federal Schedule EIC, you do not have to make the same election on your California return as you do for your federal return.*

Business income on federal Schedule 1, line 3. *(auto-calc)* Taken from Schedule CA, Part I, Section B, line 3 (column A), this is the net income or loss from federal Schedule C (nonfarm self-employment income).

Business income on federal Schedule 1, line 6. *(auto-calc)* Taken from Schedule CA, Part I, Section B, line 6 (column A), this is the net in-

come or loss from federal Schedule F (farm self-employment income).

Self-employment income from partnerships. Enter income from partnerships that is taxed as self-employment income on the federal return. This amount is not explicitly identified on IRS forms, but can be seen in the software on Partnership/S Corp. Worksheets for Schedule E and special lines on the on-screen Schedule SE.

Deduction on federal Schedule 1, line 15. *(auto-calc)* Taken from Schedule CA, Part I, Section C, line 15 (column A), this is the deduction from income of half of federal self-employment tax.

Net business income or loss. *(auto-calc)* Computed as the sum of the amounts from federal Schedule 1, lines 3 and 6, and partnership self-employment, less the deduction from Schedule 1, line 14, this result is used for line 18 of Form 3514 in accordance with Worksheet 3 in the FTB 2023 *Instructions for Form FTB 3514*. (The FTB uses federal business income, not California business income, for the purposes of this form.)

California Earned Income. *(auto-calc)* Computed as the sum of "Net wages," "Nontaxable combat pay," and "Net business income or loss," this result also appears on line 19 of Form 3514.

ELIGIBLE BASED ON EARNED INCOME? *(auto-calc)* Answered Yes for only if "California Earned Income" is at least \$1 and less than \$30,001, *and either* "ELIGIBLE FOR CHILD CREDIT?" *or* "ELIGIBLE FOR CHILDLESS CREDIT?" is Yes. If No, do not complete the rest of this form because you are not qualified for any credit.

FEDERAL ADJUSTED GROSS INCOME. California uses federal AGI, not California AGI, when figuring the California EITC.

Federal AGI on Form 1040, line 11. *(auto-calc)* Taken from screen 1 of this form, this amount also appears on line 2 of Form 3514.

ELIGIBLE BASED ON FEDERAL AGI? *(auto-calc)* Answered Yes only if "Federal AGI on Form 1040, line 11, is less than \$30,001 for , *and either* "ELIGIBLE FOR CHILD CREDIT?" *or* "ELIGIBLE FOR CHILDLESS CREDIT?" is Yes. If No, do not complete the rest of this form because you are not qualified for any credit.

FINAL ELIGIBILITY. California uses federal AGI, not California AGI, when figuring the California EITC.

ELIGIBLE BASED ON ALL INFORMATION? *(auto-calc)* Answered Yes only if the answer is Yes to all three of the last three eligibility questions (for investment income, earned income, and adjusted gross income) and either eligible for the child credit or eligible for the childless credit. If No, no credit will be computed at line 20 of this form.

FTB FORM 3514. Most of Parts I through VI of the official FTB form is completed for you based on all preceding entries and the *Child EITC Worksheets*. However, if the return has any business income or loss, you must provide additional information about your business at line 18 in Part IV of the form. In addition, if a paid preparer, you must also complete FTB Form 3596, which is accessible from the bottom of the first sixth screens of Form 3514. Parts VII through X relate to the additional *Young Child* and *Foster Youth Tax Credits*, for which you may qualify if you has an *Earned Income Tax Credit* in Part V.

PART I, QUALIFYING INFORMATION. The FTB requires minimal information about your federal EIC. All entries in this part of the form come from screen 1 of this form (*INFO FROM FEDERAL RETURN*).

- 1a Has IRS previously disallowed your federal EIC?** *(auto-calc)* Taken from your answer on screen 1 of this form, your answer has no effect on the claimed credit.
- 1b Has FTB previously disallowed your California EITC?** *(auto-calc)* Taken from your answer on screen 1 of this form, your answer has no effect on the claimed credit.
- 2 Federal AGI.** *(auto-calc)* Taken from the amount on screen 1 of this form, which came from line 23, column A, of California Schedule CA, Part I, Section C. This amount is used for line 3 of the *California Earned Income Tax Credit Worksheet*, detailed later.
- 3 Federal EIC.** *(auto-calc)* Taken from your entry on screen 1 of this form. This information is required by the FTB but has no effect on the claimed California credit.

PART II, INVESTMENT INCOME INFORMATION.

- 4 Investment income.** *(auto-calc)* Taken from the result for "California EITC investment income" as previously described.

If the amount on line 4 exceeds \$4,525, you have no EITC for 2023.

PART III, QUALIFYING CHILD INFORMATION. This part consists entirely of information found on the *Child EITC Worksheets* detailed previously. This information is not repeated on-screen, but appears on the official printouts in the format defined by the FTB for lines 5 through 12 of FTB Form 3514 for up to 3 qualifying children. (Additional children beyond three have no effect on the credit, so their information is not printed with the return and is not wanted by the FTB.)

PART IV, CALIFORNIA EARNED INCOME. This part is completed for you based on the information you supplied on screen 3 of this form in the section titled *CALIFORNIA EARNED INCOME*.

- 13 Wages, salaries, tips, and other compensation, subject to California withholding.** *(auto-calc)* Computed as "Wages, salaries, tips, and other compensation from Form 540, line 12" plus "Medicaid waiver and IHSS payments NOT in Form 540, line 12."
- 14 IHSS payments.** *(auto-calc)* Taken from your entry on screen 3 for "Medicaid waiver and IHSS payments to exclude (if nontaxable on federal return)."

- 15 Prison inmate wages and/or pension or annuity from a nonqualified deferred compensation plan or a nongovernmental IRC Section 457 plan.** *(auto-calc)* Computed from your entries on screen 3 of this form as "Prison inmate wages in Form 540, line 12" plus "Nonqualified deferred compensation plan income in Form 540, line 12."
- 16 Line 13 less lines 14 and 15.** *(auto-calc)* Computed as indicated, this is the net wages included as earned income for Form 3514.
- 17 Nontaxable combat pay.** *(auto-calc)* Taken from your entry on screen 3 for "Elected nontaxable combat pay."
- 18 Business income or loss.** *(auto-calc)* Taken from the result on screen 3 of this form for "Net business income or loss". **CAUTION:** *If there is an amount on this line, you must supply the information on lines a through e, below.* If more than one business contributed to the amount on line 18, complete these lines for the business with the largest net profit.
- a Business name.** Enter the name of the business in 35 characters or less.
- b U.S. street address.** You must enter either a U.S. address or a foreign address. If a U.S. address, enter the street address here (in 35 characters or less) and the city, state and ZIP code in the next three lines.
- City.** Enter the city in 17 characters or less.
- State.** Enter the standard 2-letter code for the state, as listed in Table 2-5 of the *Tax Forms Guide 2024 Edition.*
- ZIP code.** Enter the 5-digit (nnnnn) or 9-digit (nnnnn-nnnn) ZIP code.
- OR Foreign address.** Make entries in this line and the following four lines *only* if you do not enter a U.S. address above.
- City.** Enter the city in 22 characters or less.
- Province or State.** Enter the province or state in 15 characters or less.
- Country code.** Enter the standard 2-letter code for the country as listed in Table 2-6 of the *Tax Forms Guide 2024 Edition.*
- Foreign postal code.** Enter the standard postal code for the country in 15 characters or less.
- c Business license number.** Enter the number from a government agency that permits you to conduct a business at the above address (in 18 characters or less). If none, leave blank.
- d SEIN.** Enter the California state employer identification number issued by the California Employment Development Department (in 8 characters or less). If none, leave blank.
- e Business code.** Enter the 6-digit business code you entered on Schedule C or Schedule F as shown on line B of either form.
- 19 CALIFORNIA EARNED INCOME.** *(auto-calc)* Computed as the sum of lines 16, 17, and 18.

The result on line 19 is used for line 1 of the *California Earned Income Tax Credit Worksheet*, where the earned income tax credit is computed for Part V of this form.

PART V, CALIFORNIA EARNED INCOME TAX CREDIT. This part is completed for you based on the information you previously supplied. The official form consists of only one line in this part, but the computation for this line involves the FTB's *California Earned Income Tax Credit Worksheet* and their 8-page *Earned Income Tax Credit Table*. These computations are fully automatic based on prior entries, and are summarized for you on-screen.

California Earned Income Tax Credit Worksheet. This worksheet, shown on page 5 of the FTB's *Instructions for Form 3514*, is completed for you based on prior entries and the FTB's *Earned Income Tax Credit Table* (on pages 6 through 13 of the instructions).

W1 California earned income. *(auto-calc)* Taken from line 19 in Part IV, this is total wages on Forms W-2 as adjusted plus elected nontaxable combat pay plus net business income.

W2 Amount for line W1 in the EITC table. *(auto-calc)* The amount on line W1 is found in the FTB table, then a credit is taken from the column that corresponds to the number of qualifying children that you are claiming.

W3 Amount from federal Form 1040, line 11. *(auto-calc)* Taken from line 2 of Form 3514, which stems from line 27, column A, of Schedule CA, Part I, Section C.

W4 Are amounts on lines W1 and W3 the same? *(auto-calc)* Answered as the label implies. If Yes, the computation is complete and the amount on line W2 is used for line W6 of this worksheet and line 20 of Form 3514. If No, you must proceed to line W5.

W5 Is line W3 less than defined threshold? *(auto-calc)* For 2023, if you have no qualifying children, answered Yes only if line W3 is less than \$4,380. If 1 qualifying child, answered Yes only if line W3 is less than \$6,577. If 2 or more qualifying children, answered Yes only if line W3 is less than \$9,232. These income thresholds correspond to the income levels for 2023 at which the greatest credit results for the number of children claimed.

Amount for line W3 in the EITC table. *(auto-calc)* If the answer to the preceding question is Yes, this calculation is skipped and the amount on line W2 is used for line W6. Otherwise, the amount on line W3 is found in the FTB table and shown here.

W6 California earned income credit. *(auto-calc)* If the answer for line W4 or line W5 is Yes, taken from line W2 of this worksheet. Otherwise, computed as the lesser of line W2 or line W5.

PART V, CALIFORNIA EARNED INCOME TAX CREDIT. The credit computed on the California EITC Worksheet is repeated here.

20 California EITC. *(auto-calc)* Taken from line W6 of the *California Earned Income Tax Credit Worksheet*, above, this amount is posted to line 75 of Form 540 as a refundable credit.

PART VI, NONRESIDENT OR PART-YEAR RESIDENT CALIFORNIA EARNED INCOME TAX CREDIT. This part applies only to Form 540NR tax returns, not Form 540 returns, so both lines in this part are zero.

If Paid Preparer, ITEMIZE HERE to complete FTB Form 3596. (*Road Map line, supported by Form 3596*) A paid preparer must complete FTB Form 3596 (*Paid Preparer's Due Diligence Checklist for California Earned Income Tax Credit*) to confirm that he or she has or seeks out the information necessary to make a valid claim for the credit. Although most of the form is completed for you if translated from federal Form 8867, additional information about the paid preparer must be supplied. You can itemize here to access the form.

PART VII, YOUNG CHILD TAX CREDIT. This part provides a refundable credit as much as \$1,117 for 2023 for a taxpayer with at least one child under six years of age. The taxpayer must qualify for the EITC to claim this credit and is phased out starting at earned income of \$25,775 (and fully phased out at \$30,932). This part is fully automatic based on prior screens.

23 CALIFORNIA EARNED INCOME. (*auto-calc*) Taken from line 19 if EITC on line 20 is greater than zero and the answer to "QUALIFYING CHILD YOUNGER THAN 6?" is Yes. Otherwise, zero.

a Total wages, salaries, tips, and other employee compensation. (*auto-calc*) Computed as the sum of wages on line 13, nontaxable combat pay on line 17, and the excess of total nontaxable combat pay shown on screen 1 over the amount elected to be included in California earned income on line 17. Business income or loss is not included in this line, so the amount that appears here can be greater than the above California earned income if the business operates at a loss. If this amount exceeds \$33,497 for 2023, you do not qualify for the Young Child Tax Credit, so the rest of this part of the form is zero.

b Does total federal net loss exceed \$33,497? In answering this question, consider by all losses on the federal return before any limitation. Answer Yes only if the total of all these losses exceeds total income by more than \$33,497 for 2023. This situation can arise if you have very large investment losses that more than offset your California earned income. If Yes, you do not qualify for the Young Child Tax Credit, so the rest of this part of the form is not used.

Does federal AGI exceed \$30,950? (*auto-calc*) Answered using the federal AGI from line 11 of Form 1040 as shown on line 17 of Schedule CA.

Box 23b to be checked? (*auto-calc*) Answered Yes if either of the answers to the preceding two questions is Yes, the label for the box at line 23b of the official FTB Form 3514 combines the preceding two questions.

24 AVAILABLE YOUNG CHILD TAX CREDIT. (*auto-calc*) Always \$1,117, this is the maximum total credit available for tax year 2023.

25 Excess earned income over threshold. (*auto-calc*) Computed as line 23 less \$25,775 for 2023, but no less than zero.

26 Divide line 25 by 100. (*auto-calc*) Computed as indicated.

27 REDUCTION AMOUNT. (*auto-calc*) Computed as line 26 times 21.66 for 2023.

28 YOUNG CHILD TAX CREDIT. *(auto-calc)* Computed as line 24 less line 27 (but no less than zero) rounded to the nearest dollar if more than \$1 and equal to \$1 if \$1 or less but greater than zero.

The result on line 28 is posted to line 76 of Form 540.

PART VIII, NONRESIDENT OR PART-YEAR RESIDENT YOUNG CHILD TAX CREDIT. This part applies only to Form 540NR tax returns, not Form 540 returns, so both lines in this part are zero.

PART IX, FOSTER YOUTH TAX CREDIT. This part provides a refundable credit as much as \$1,117 for 2023 for each taxpayer who **(a)** is at least 18 years old and younger than 26 years old, **(b)** was in foster care while 13 years old or more, **and (c)** was placed through the California foster care system. The taxpayer must qualify for the EITC to claim this credit, which is phased out starting at earned income of \$25,775 for 2023 (and fully phased out at \$30,932).

31 Who is claiming the FYTC? You and spouse, if married filing jointly, can each claim the credit, so the total credit is doubled if you both qualify.

a Primary taxpayer? Answer *Yes only if you were in foster care while 13 years old or older and you were placed through the California foster care system.* The software prevents you from answering Yes if your age at year-end shown on screen 4 of Form 540 is less than 18 or is 26 or more, or you have no EITC on line 20.

b Spouse/RDP? If married filing jointly, answer *Yes only if spouse/RDP was in foster care while 13 years old or older and was placed through the California foster care system.* The software prevents you from answering Yes if spouse's age at year-end shown on screen 4 of Form 540 is less than 18 or is 26 or more, or you have no EITC on line 20, or your filing status is not married filing jointly.

32 Qualifying foster youth information. *(auto-calc lines)* If the answer for line 31a or 31b is Yes, the first and last name of each person for whom you answered Yes appears here based on your entries on screen 1 of Form 540.

33 Certification and authorization. Each person for whom the credit is claimed must *either (a)* consent to allowing the appropriate state agency to disclose information to the FTB that it needs to determine eligibility, *or (b)* attach to the return a letter from the county or state agency that confirms the status of that person as a foster youth at or after age 13 and provides other proof of status.

a Primary taxpayer? Answer Yes if giving the consent described in **(a)** above. If No, you must provide the proof described in **(b)** above.

b Spouse/RDP? If married filing jointly, answer Yes if giving the consent described in **(a)** above. If No, you must provide the proof described in **(b)** above.

34 CALIFORNIA EARNED INCOME. *(auto-calc)* Taken from line 19 if EITC on line 20 is greater than zero and your answer to line 31a or 31b is Yes. Otherwise, zero.

35 AVAILABLE YOUNG CHILD TAX CREDIT. *(auto-calc)* Computed for 2023 as \$1,117 if only 31a *or* only 31b is answered Yes, or \$2,234 if both lines 31a and 31b are answered Yes. Otherwise, zero.

36 Excess earned income over threshold. *(auto-calc)* Computed as line 34 less \$25,775 for 2023, but no less than zero.

37 Divide line 36 by 100. *(auto-calc)* Computed as indicated.

38 REDUCTION AMOUNT. *(auto-calc)* Computed as line 37 times \$21.66 for 2023 if either line 31a *or* line 31b is answered Yes, but line 37 times \$43.32 if both lines 31a and 31b are answered Yes. Otherwise, zero..

39 FOSTER YOUTH TAX CREDIT. *(auto-calc)* Computed as line 35 less line 38 (but no less than zero) rounded to the nearest dollar if more than \$1 and equal to \$1 if \$1 or less but greater than zero.

The result on line 39 is posted to line 77 of Form 540.

PART X, NONRESIDENT OR PART-YEAR RESIDENT YOUNG CHILD TAX CREDIT. This part applies only to Form 540NR tax returns, not Form 540 returns, so both lines in this part are zero.

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. California's FTB no longer requires you to apply for an extension of time to file. Instead, a 6-month extension from the regular April 15, 2024 filing deadline is automatic as long as you file by October 15, 2024. 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 the deadline and enclose the Form 3519 voucher with your payment, in order to avoid penalties and interest.

NEWS: California extends the regular deadline for individuals and businesses in San Diego County from April 15, 2024 to June 17, 2024. In response to the severe storms and flooding that began on January 21, 2024 in San Diego County, the FTB has extended the deadline for individuals and businesses with their principal residence or place of business in San Diego County. And you don't have to apply for this extension. You will be assessed no penalty nor interest for filing later than April 15, 2024 as long as you file and pay by June 17, 2024. In spite of this change, *the FTB has not issued a revised Form 3519*, but the extension applies for declared area in spite of what the FTB Form 3519 and its FTB instructions state.

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 2024 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, 2024, but for 2024 the due date is June 17, 2024 for residents of San Diego County, as highlighted above, as it is for those who are living or traveling outside the U.S. on April 15, 2024. Those who qualify for the June 17 date for living or traveling outside the U.S. also qualify for an extension of time to file to December 16, 2024. But those who qualify for the June 17 date because of the storm/flooding disaster can only extend their filing date to October 15, 2024 like all other filers. (Note that an extension beyond the April 15 or June 17 date is only an extension for filing, it does not relieve you of penalties and interest after the April 15 or June 17 date, so you should pay what you can before the extended date..)

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).

California 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. (A file number is issued to you when you first register your company with the Secretary of State, which is mandatory for corporations.)

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.

SECTION C, AVAILABLE RESEARCH 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-5.)* 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 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 2022 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.

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

Schedule of Reduced Deductions Worksheet. *(Figure CA-5)* The completion of this worksheet is mandatory if you chose not to take the reduced credit in either section of Form 3523.

Explanation of reduction. Give a brief identification

Figure CA-5. Schedule of Reduced Deductions Worksheet

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 Schedule CA, Part II, at the line "Adjustment on Form 3526, line 10" below line 9 (column A) of Schedule CA, Part II. 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 2024 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 2023. 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 2023. *(auto-calc)* Computed as the sum of the above two lines, but no less than zero.

2 Disallowed investment interest expense from 2022 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 2b. *(auto-calc)* Taken from Schedule CA, Part I, Section A, line 2b, column A, which is taxable interest on the federal return.

Subtraction on Schedule CA, Part I, line 2b column B. *(auto-calc)* Taken from Schedule CA, Part I, Section A, line 2b, column B.

Addition on Schedule CA, Part I line 2b column C. *(auto-calc)* Taken from Schedule CA, Part I, Section A, line 2b, column C.

Dividends on Form 1040, line 3b. *(auto-calc)* Taken from Schedule CA, Section A, line 3b, column A, which is taxable dividends on the federal return..

Subtraction on Schedule CA, Part I, line 3b, column B. *(auto-calc)* Taken from Schedule CA, Part I, Section A, line 3b, column B.

Addition on Schedule CA, Part I, line 3b, column C. *(auto-calc)* Taken from Schedule CA, Part I, Section A, line 3b, column C.

Child interest and dividends in Schedule 1, line 8. *(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 8f."

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 2024.

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 2023.

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. Although the FTB instructs you to use this amount to determine your entry for Schedule CA, Part II, line 9, column B or C, some of this deduction may not be appropriate for that line, as detailed in the next section.

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, Part II, line 9.

(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."

The result on the last line is *posted to the line following Schedule CA, Part II, line 9 labeled "Adjustment on Form 3526, line 10."* If negative it will be used for Column B of line 9; if positive it will be used for column C of line 9.

CAUTION. Except for Schedule CA, Part II, *no amounts in the preceding allocations are posted elsewhere automatically.* You must enter the appropriate amounts elsewhere yourself, such as Worksheets 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 3532** / Head of Household Filing Status Schedule

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

NEW: Mandatory form for tax returns that use the head of household filing status. This new form is used to support your use of the head of household filing status on a California tax return. It helps the FTB in determining whether or not you are eligible for that filing status. Our on-screen form goes further than the FTB form by asking additional questions in order to automate the determination. To use this filing status, you must generally be an unmarried individual who provides a home for someone who can be claimed as a dependent. But there are exceptions for which married people can use the filing status. If you are claiming the head of household filing status but the conclusion of this on-screen form is that you are not eligible to use it, screen 3 of the on-screen Form 540 will display Yes for "INVALID F/S OR MISSING DATA," warning you to change the filing status. *Form 3532 is accessible through the Road Map at the line on screen 3 of Form 540 labeled "HOH:Supported by Form 3532 (ITEMIZE)?"*

PART I - MARITAL STATUS. You must answer Yes to the question on line 1 that most closely describes your marital status, from 1a through 1f. For line 1f, you must additionally identify any periods in 2023 when you lived with your spouse or RDP. If none applies, or if 1f applies but the dates you entered indicate being together sometime in the last half of the year, then you are not eligible to use this filing status.

I Answer Yes below to identify your marital status in 2023:

1a Not legally married/RDP during 2023?

1b Surviving spouse/RDP (spouse/RDP died before 01/01/2023)?

1c Marriage/RDP was annulled?

1d Received final decree of divorce, legal separation, dissolution, or termination of marriage/RDP by 12/31/2023?

1e Legally married/RDP and did not live with spouse/RDP during 2023?

1f Legally married/RDP and lived with spouse/RDP during 2023? If you answered Yes to this question, you must enter dates that identify the periods when you lived together during the tax year in a supporting statement for the following line:

If 1f is Yes, **ITEMIZE HERE.** (*Supported by the Date Period Worksheet, Figure CA-6.*) You must identify all periods that include 2023 in

DATE PERIOD WORKSHEET
 Define period you & spouse/RDP
 lived together any part of tax
 year 2023. USE SEPARATE WORK-
 SHEET FOR EACH SEPARATE PERIOD
 Date began living together
 Date ended living together
 Ever together in last 6 months No

Figure CA-6. Date Period Worksheet

which you and spouse/RDP lived together, using a separate work-sheet page for each separate period. If any of the periods include any of the last 6 months of the year, you are not eligible to use the head of household filing status.

If 1f is Yes, **apart 7/1 to 12/31?** (*auto-calc line, supported by the Date Period Worksheet, Figure CA-6.*) If any of the periods in the preceding support fall in or partially in the last 6 months of 2023, No will appear here. A No here disqualifies you to use the head of household filing status.

NONE apply or disqualified? (*auto-calc*) If all answers above are No, or line 1f is Yes but "apart 7/1 to 12/31" is No, you are not eligible and a Yes will appear here.

PART II - QUALIFYING PERSON. You must identify here your relationship to the person who qualifies you for the head of household filing status. Only the relationships listed in this part of the form are allowed.

2 Identify the relationship of the person that qualifies you for the head of household filing status:

- 2a Son, daughter, stepson, or stepdaughter?
- 2b Grandchild, brother, sister, half brother, half sister, stepbrother, stepsister, nephew, or niece?
- 2c Eligible foster child?
- 2d Father, mother, stepfather, or stepmother?
- 2e Grandfather, grandmother, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law, uncle, or aunt?

The first three may qualify for the rules for a qualifying child if other conditions are met, but the last two can only qualify as a qualifying relative. This distinction is important because a qualifying child does not have to meet the income test (gross income under \$4,700 for 2023) to qualify you for the head of household filing status.

NONE apply (disqualified)? (*auto-calc*) If you cannot answer Yes to any of the preceding questions, the person cannot qualify you for the head of household filing status.

PART III - QUALIFYING PERSON INFORMATION. You must identify the qualifying person here and answer a couple of questions about him or her.

3 Identify the qualifying person:

First name.Last Name.

SSN. If the person was born and died in 2023, you can enter DIED in place of the child's SSN here.

Date of Birth (mm/dd/yyyy).

Age at end of year. *(auto-calc)* Computed from the preceding date for the year 2023. The person is generally a qualifying child if under 19 years of age.

Full-time student - minimum 5 months? If the child is at least 19 but under 24 years of age, he or she may be a qualifying child if a full-time student in any part of at least 5 months of the tax year. In addition to traditional schools, technical, trade, or mechanical schools qualify as well as on-farm training conducted by a school or government agency.

Disabled anytime in the tax year? If Yes, the person may be considered a qualifying child irrespective of age.

Married or an RDP? If the person is married or an RDP, the person may be considered a qualifying child *only* if you are entitled to a Dependent Exemption Credit for that child.

Entitles you to a Dependency Exemption Credit? If the person is an unmarried qualifying child, you do not have to meet this test. Otherwise, a Yes is required here for the person to qualify you for the head of household filing status.

4 Qualifying person's gross income in 2023. Unless the person is a qualifying child, his or her gross income must be less than \$4,700 for 2023, to qualify you for the head of household filing status.

5 Number of days your qualifying person lived with you during 2023. The person must live with you in your main home for more than half of the year. Therefore, this entry must be at least 183 days for most years, but at least 184 for leap years.

Above person is disqualified? *(auto-calc)* This question is answered based on the entries in this part of the form. The person must be a qualifying child or a qualifying relative in order to qualify you for the head of household filing status.

FINAL QUALIFICATION TESTS. The final determination of your eligibility to use the head of household filing status is made here.

Disqualified based on Part I? *(auto-calc)* Answered Yes if the answer to "NONE apply or disqualified?" at the end of Part I is Yes.

Disqualified based on Part II? *(auto-calc)* Answered Yes if the answer to "NONE apply (disqualified)?" at the end of Part II is Yes.

Disqualified based on Part III? (*auto-calc*) Answered Yes if the answer to "Above person is disqualified?" at the end of Part III is Yes.

Additional questions. Other important requirements for a qualifying person are answered here:

Did you pay more than half of the qualifying person's support? If the person is a qualifying child, you can answer Yes here as long as the child did not provide more than half of his or her own support, even when the other half of his or her support was shared with someone else. But you must provide more than half of all support for a qualifying relative who is not your qualifying child.

Was the home where the qualifying person lived with you your main home? Only time with you in your *main* home counts for the qualification.

Did you pay more than 1/2 of the cost of keeping up that home? This requirement must be met whether the person is a qualifying child or a qualifying relative.

Disqualified based on the last questions? (*auto-calc*) Answered Yes if the answer to any of the preceding three questions is Yes.

Do you qualify for a special exception? The preceding entries allow us to test for nearly all conditions for qualification. However, there may be a very rare circumstance under which you may qualify to use the head of household filing. But before answering Yes here, you should study FTB Pub. 1540 (Tax Information for Head of Household Filing Status Tax Year 2023, Rev. 11/2023). It gives a clear explanation of all of the requirements to use the filing status and is a much better resource than the FTB instructions for Form 3532.

QUALIFY for head of household filing status? (*auto-calc*) Answered Yes only if the answer to all four of the preceding disqualification questions is No or the answer to the preceding question is Yes. This answer is posted to the line on screen 3 of Form 540 labeled "HOH: Supported by Form 3532 (ITEMIZE)?" if the answer is No, the answer to "INVALID F/S OR MISSING DATA" on the same screen will be Yes if you chose filing status 4, and you must select a different filing status.

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 & 3533-B / Change of Address for Individuals & Businesses

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

Purpose. These forms, which are analogous to federal Forms 8822 and 8822-B, are used to report to the FTB any change of address for your business or personal tax returns. *Neither form is attached to the associated return, but is sent by itself to the FTB.* As a result, they are not printed with the official return, and are not accessible through the Road Map. Rather, *they are stand-alone forms accessible only from the Forms Menu.*

CAUTION: Create a separate return to use this form. We recommend that you complete these forms separately from the return you file, but rather for a return that contains only Form 1040 with the name(s) and address completed. 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 these forms.

Similar to federal Forms 8822 and 8822-B. The FTB started the move last year, but now conforms with the analogous federal forms in separating the former FTB Form 3533 into two forms, with the new Form 3533 applying only to a change in home address and Form 3533-B applying only to a change in business address or location. 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 translated from the federal return is a good starting point, the California forms will still require additional entries.* (If you are completing Form 3533 or 3533-B anew, see the section on Forms 8822 and 8822-B in Chapter 2 of the federal *Tax Forms Guide 2024 Edition* for other data entry details.)

Where to file. You must not send Form 3533 or 3533-B with your Form 540 return. Instead, you must print the completed form(s) 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 2022:

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 for the preceding year 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 2022. 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 2022. 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 2023:

Comply with Americans with Disabilities Act of 1990? Answer Yes only if the expenditures that you are claiming here for 2023 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 for 2022. If the answer here is No, you do not personally qualify for a credit based on your 2023 expenditures. *However, you may have a credit from pass-through entities (line 5) or 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 35 characters or less. Your entry must be the physical location of the facility, not a postal box or company headquarters, if different.

City. Enter the city in 22 characters or less.

State. Enter the standard 2-letter state code.

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

Foreign address. Enter here the street address in 35 characters or less. Your entry must be the physical location of the facility, not a postal box or company headquarters, if different.

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 2024 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.

California Secretary of State file number. If the business was issued a file number, enter that number here. You are assigned a file number when you first register your business with the Secretary of State, which is required for corporations.

2023 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 2023 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 2022 (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.

- 6 Add line 4 and line 5, but do not enter more than \$125.** *(auto-calc)* Computed as indicated, this is the total current-year disabled access credit. The maximum allowed credit from your own expenses plus those of all pass-through entities combined is \$125, with no carryover of disallowed amounts.
- 7 Credit carryover from prior year.** Enter the amount from line 10 of the 2022 Form 3548. You could have an amount from 2022 if a prior claim or 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 2024 Form 3548. TIP: The carryover that appears on Schedule P, Part III, for this credit could be less because Form 3548 does not take into account the tax liability limit, which is enforced on Schedule P.

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 3596** / Paid Preparer's Due Diligence Checklist for Calif. EITC

**** Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of the California Supplement. *CAUTION: For a California return translated from a federal return, Form 3596 will be created when Form 8867 exists for the federal return. Nevertheless, for a valid California return, you must supply additional information on Form 3596.*

Documenting due diligence for EITC claims. Learning from the IRS's experience with its Earned Income Credit (EIC), *the FTB requires that paid preparers document their due diligence* in claiming California's *Earned Income Tax Credit (EITC)* by filing FTB Form 3596 with the tax return. Except for lines 1a through 1d, the FTB form generally conforms with the parts of federal Form 8867 that apply to the federal Earned Income Credit, so you can refer to the details for Form 8867 in the *Tax Forms Guide 2024 Edition* for most details. FTB Form 3596 is *accessible through the Road Map from the first and last screens of FTB Form 3514.*

MANDATORY for Paid Preparers: Returns signed by a paid preparer must include Form 3596 with the return. Just as the IRS requires Form 8867, the FTB requires that paid preparers file FTB Form 3596 with any return signed by them for which the California EITC is claimed. Accordingly, FTB Form 3596 is automatically created whenever a credit from Form 3514 is claimed on Form 540. However, it is printed with the complete return *only* if you have identified the return (on screen 1 of Form 3596) as signed by a paid preparer. *CAUTION: If required, you must manually provide additional information on lines 1a through 1d of Part I of Form 3596, as detailed here.*

Translated from federal Form 8867 but modified by your entries on California's FTB Form 3514. If you claimed the Earned Income Credit on the federal Form 1040 return, and you started the California return by translating the federal return, FTB Form 3596 will be included in the translated return.

Data entry for Form 3596. Even though much of the form is completed for you if a translated return, **you must manually complete the first few lines of the form and all of Parts II and III.**

EITC claimed on FTB Form 3514. (*auto-calc*) Answered Yes only if an amount appears on line 17 of Form 3514, which is the Earned Income Tax Credit (EITC) that is posted to line 75 of Form 540.

Return signed by Paid Preparer? You must answer Yes only if the bottom of page 5 of Form 540 is signed by a paid preparer. *TIP: For a translated return, your answer comes from your answer on federal Form 8867. Otherwise, the answer is Yes when the form is first created. Therefore, if you are completing this return for yourself, rather than a client, you will have to change the answer to No once Form 3596 ex-*

ists so that it will not be included with an official printout of the complete return.

Filing of Form 3596 required? *(auto-calc)* Answered Yes only if the answers for both of the preceding two questions are Yes. *If No, the form will not be printed with the official return when you choose to print the complete return or "ALL forms" because it is not required.*

PART I, DUE DILIGENCE REQUIREMENTS. You must complete all parts of line 1, but the rest of this part of the form is completed for you if translated from federal Form 8867.

Did a different paid preparer determine the EITC for this return? Answer Yes if a paid preparer *other than the one who signs the tax return* determined the EITC. If you answer Yes, complete lines 1a and 1b. Otherwise, skip lines 1a and 1b and the name and PTIN you entered in your *Program Settings* will be printed on those lines in the official printout of Form 3596.

1a Preparer's name. If you answered Yes to the preceding question, you must enter here the name of the preparer who determined the credit. Otherwise, any entry you make here will be erased and the name you entered for "*Name of preparer*" in the software's *Program Settings* will be used for this line in the official printout of FTB Form 3596.

1b Preparer's PTIN. If you answered Yes to the preceding question, you must enter here the 9-digit PTIN of the preparer. (The software will reformat your entry into the standard Pxx-xx-xxxx format if you do not include the dashes in your entry.) Otherwise, any entry you make here will be erased and the PTIN you entered for "*Preparer's PTIN (PXX-XX-XXXX)*" in the software's *Program Settings* will be used for this line in the official printout of FTB Form 3596.

1c Preparer type: 1=CPA, 2=EA, 3=Attorney, 4=CTEC, 5=Other. Enter a number from 1 to 5 that identifies the preparer's license, registration, or enrollment type. You must also use one or both of the next 2 lines to further identify the type.

If 5, specify: If you chose 5 (*Other*) as the preparer type, you must describe the type here in 25 characters or less.

If 1, 3, or 5, licensing state. If you chose 1 (*CPA*), 3 (*Attorney*), or 5 (*Other*) as the preparer type, you must identify the state that authorizes your practice using the standard 2-letter code for that state.

1d Preparer's license, registration, or enrollment number. Enter the authorized identification number for your practice in 25 characters or less.

The remainder of this part parallels Part I of federal Form 8867, except that there is no California equivalent for federal line 7. Lines 2 through 7 of California Form 3596 match lines 1 through 6 of federal Form 8867, and line 8 of Form 3596 matches line 8 of Form 8867. Therefore, you should refer to the *Tax Forms Guide 2024 Edition* for details.

PART II, DUE DILIGENCE QUESTIONS. This part parallels Part II of federal Form 8867 and is completed for you if translated from federal Form 8867. Therefore, you should refer to the *Tax Forms Guide 2024 Edition* for details.

PART III, CREDIT ELIGIBILITY CERTIFICATION. Although this part is analogous to the last part of federal Form 8867, it is not translated from the federal form because you are certifying that all parts of this California form are correct and complete. You must therefore always answer this last question manually.

10 Do you certify that all of the answers on this form FTB 3596 are to the best of your knowledge and belief, true, correct, and complete?

You must answer Yes for this Form 3596 to be accepted by the FTB. Even though the on-screen form provides a summary of the due diligence requirements above this question, you should read the full text on the official form before attesting to the validity of this form.

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 Unearned Income

Children must be taxed at parent's tax rate on unearned income above \$2,500. Like the analogous federal Form 8615, Form 3800 is used to compute tax for certain children who have unearned income of more than \$2,500 for 2023. California conforms with the federal law that raised the age threshold from 14 to 18 years of age for tax year 2007 and extended it to 19 through 24 year old students for tax year 2008, eliminating the last differences between the laws. However, because of federal tax reform at the end of 2017, *that's where the similarity ends*. That's because the default method of computing the child's tax on federal Form 8615 is now based on the tax rates for estates and trusts rather than the tax rates for the parent.

Form 3800 parallels Form 8615 once again. Prior to 2018, FTB Form 3800 had closely conformed with federal Form 8615. However, federal Form 8615 was completely redesigned for 2018 because of tax reform, using estate tax rates in place of the parent's tax rates and dropping the dependence on income of the parent and other siblings, and California did not conform. However, Congress rescinded a couple of years later and transitioned back to the former design in 2019 and 2020, and the transition is now complete. Federal Form 8615 and California Form 3800 now once again parallel each other, even to the extent of line numbers. Nevertheless, as detailed in the following shaded box, there are still differences of which you must be aware.

CAUTION: Translation from federal return is only a starting point. The differences in the details make it *always necessary to make adjustments or enter missing data on California Form 3800 because:*

- **Form 3800 depends on California taxable income of the parent and siblings, which always differs from federal taxable income.** Even if income and filing information about the parent and siblings were entered on the data entry lines we provide on the federal form, the translated income entries would have to be changed. That's because *federal taxable income differs greatly from California taxable income* because of the major differences between federal standard deduction and California standard deduction, as well as major differences between federal itemized deductions and California itemized deductions, largely because of the federal tax reform at the end of 2017.

PARENT INFORMATION. The parent's name and SSN are available from federal Form 8615 because they appear on the form. However, the parent's filing status and taxable income are translated *only if you supplied all information for the OPTIONAL method on federal Form 8615.*

Both parents deceased by year-end? Answer Yes only if *NEITHER* parent was alive at the end of the tax year. *You are not liable for this tax if neither parent was alive.*

Parent's first name and initial. Enter in 15 characters or less.

Parent's last name. Enter last name in 25 characters or less.

Parent's SSN/ITIN. Enter social security number or other identifying number appearing on the parent's Form 1040.

Parent's filing status. *CAUTION: If the parent's filing status is married filing separately for the California return, you must use information for the spouse with the highest taxable income, even if not technically a parent. In that case, you may have to change the translated entries for parent's name and SSN.*

Both parents deceased by year-end? This entry is translated from the federal Form 8615, if any, because it is used in determining qualification for federal Form 8615.

Parent's taxable income. You must enter the parent's California taxable income. This entry should match line 19 on the parent's Form 540. *CAUTION: If translated from the federal form, you must always adjust this entry because California taxable income is always different from federal taxable income.*

Taxable income for line 6. *(auto-calc)* Taken from the preceding line and used for line 6 of this Form 3800.

CHILD INFORMATION. Information on the child used to determine the requirement for FTB Form 3800 is translated from the federal Form 8615, and no modification should be necessary:

Age at end of year. *(auto-calc)* Taken from the entry for “Your age at year-end” above line 9 of Form 540, you **must** have an entry on that line of Form 540 for the age checks to be valid here.

Filing status. *(auto-calc)* Taken from your entry on Form 540 for filing status.

Earned more than half of support. Translated from federal Form 8615.

Student 5 months or more in 2023. Translated from federal Form 8615.

EXEMPT FROM FILING FORM 3800. *(auto-calc)* The answer will be Yes if any of the following are true: (a) Both parents were deceased by year-end, (b) child’s age is 24 or more by the end of 2023; (c) child’s filing status is married filing jointly; (d) child’s age is 19 or more (and under 24) at year-end and child is either not a student or earned more than half of his or her own support; or (e) child’s age is 18 or more (but under 19) at year-end and earned more than half of his or her own support. Otherwise, the answer is No. If the answer to the above question is Yes, the remainder of the form will be zero and Form 3800 will not be used for the tax on this return.

PART I, CHILD’S NET UNEARNED INCOME. Although some data entry lines are translated from the federal Form 8615, you may have to make adjustments to these entries.

1 Child’s unearned 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 5 of Form 540.

Other reduction to line 1. If the total AGI less the computed total earned income, above, does not accurately reflect the unearned income for the child for the California return, enter an adjustment here. **CAUTION:** *The adjustment you enter here is taken as a reduction to the computed unearned 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, \$2,500. *(auto-calc)* Computed from:

Itemized deductions on Form 540. *(auto-calc)* This is the amount posted to Form 540 from line 29 of Schedule CA, Part II.

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, if any, this entry will have to be modified if any of the adjustments on line 27 of Schedule CA, Part II, relate to the investment part of itemized deductions.

If you itemize deductions, line 2 is computed for 2023 as the larger of \$2,500 or the sum of \$1,250 plus the lesser of the preceding two amounts. Otherwise taken as \$2,500 for 2023.

3 Subtract line 2 from line 1. *(auto-calc)* Computed as indicated, but no less than zero. *TIP: If zero, this form is not used to compute your tax but you still must file it with the return if you are NOT exempt from filing Form 3800 and line 1 exceeds \$2,500.*

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 unearned 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, TENTATIVE TAX BASED ON PARENT'S TAX RATE. Although this part of the form is fully automatic for most taxpayers, *you will have to enter or adjust the amount for line 7* if any other children of the parent file Form 3800.

6 Parent's TAXABLE income. *(auto-calc)* Taken as the amount you entered on screen 1 for the parent, this is the amount on line 19 of the parent's Form 540 (but zero if the child is not liable for Form 3800 tax).

7 Form 3800, line 5 for all other children. You must enter here the net unearned income of all other children combined for all children of the parent who file Form 3800.

8 Add lines 5 through 7. *(auto-calc)* Computed as indicated.

9 Tax on line 8 based on PARENT'S filing status. *(auto-calc)* Computed using the California tax table or tax rate schedule, whichever applies, based on the parent's filing status you entered on screen 1 and using line 8 as the taxable income.

10 Parent's tax from Form 540, line 31. *(auto-calc)* Computed using the California tax table or tax rate schedule, whichever applies, based on the parent's filing status you entered on screen 1 and using line 6 as the taxable income. This computed amount will match the amount on the parent's Form 540, line 31, if you entered the proper filing status and taxable income for the parent on screen.

11 Subtract line 10 from line 9. *(auto-calc)* Computed as indicated.

12 a Add line 5 and line 7. *(auto-calc)* Computed as indicated.

12 b Divide line 5 by line 12a. *(auto-calc)* Computed as indicated rounded to 4 decimal places.

13 Multiply line 11 by line 12b. *(auto-calc)* Computed as indicated.

PART III, CHILD'S TAX. The final part of the form is fully automatic, with the resulting tax for line 31 of Form 540 shown on line 18.

14 Subtract line 5 from line 4. *(auto-calc)* Computed as indicated.

15 Tax on line 14 based on CHILD'S filing status. *(auto-calc)* Computed using the California tax table or tax rate schedule, whichever applies, based on the child's filing status and using line 14 as the taxable income.

16 Add line 13 and line 15. *(auto-calc)* Computed as indicated.

17 Tax on line 4 based on CHILD'S filing status. *(auto-calc)* Computed using the California tax table or tax rate schedule, whichever applies, based on the child's filing status and the child's actual taxable income shown on line 4. This is the tax that would result on Form 540, line 31, if there were no Form 3800 for the return.

18 LARGER of line 16 and line 17. *(auto-calc)* Computed as indicated. If greater than zero, this is the tax for Form 540, line 31. If zero, Form 3800 is not used for this return.

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

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 2024 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-7) The first part of page 2 of Form 3801 is a table that shows California adjustments to activities before application of the passive activity rules. We provide a set of Passive Activity Worksheets in the same format as this table, allowing you to provide the data the FTB requests if you so desire. Nevertheless, the calculations and validity of the return are unaffected if you fail to complete these worksheets. All

amounts for these worksheets are visible on screens 2 through 6 of California Form 3801 and federal Form 8582. We recommend that you generate our quick-print printouts, which show all information on the screens, for each of these forms, and complete the worksheets as follows: (A quick-print printout is generated by pressing the Quick-Print Key, F6 or ctrl-P, while viewing a screen of the form you want to print.)

a. Passive Activity.

Enter an appropriate description based on the title on the screen for the section you are reporting here. Use Table CA-4 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-7. 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.

- β. **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.
- χ. **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.
- δ. **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.
- ε. **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.
- φ. **California Amount.** *(auto-calc)* Computed as line d less line e.

Table CA-4. 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 de- scribe property sold in install- ments)
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

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, Part I. *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 \$2,500 (for 2023) 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 2024 Edition* for information on data entry. *Form 3803 is accessible through the Road Map above line 31 of Form 540.*

CAUTION: Manual entry required on Schedule CA. Because there is no dedicated line on Schedule CA for income adjustments from Form 3803, **YOU MUST MANUALLY COMPLETE A WORKSHEET** for line 8z of Schedule CA, Part I, Section B. On the worksheet, enter the following:

Description. Enter "FTB 3803" on this line.

A Federal amount (on 1040). Enter the amount shown for "Income on federal Form 8814, line 12" on screen 4 of Form 3803.

Adjustment for Schedule CA, Part I, line 8z. Enter the amount shown for "Adjustment for Schedule CA, I, line 8z" on screen 4 of Form 3803.

The income subtraction and income addition for Schedule CA will then be shown on lines B and C of the worksheet, respectively. *If you do not create this worksheet, a DISCREPANCY will be shown at the bottom of screen 7 of Schedule CA, Part I.*

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 2024 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 2024 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 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 Schedule CA, Part I or Part II.)

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 (2023) 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: 2023 property, 1987 through 2022 property, and pre-1987 property. However, the federal form does not provide such a separation in some areas, most notably for listed property, 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 2023. The worksheets for 2023 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 2023. The worksheets for 2023 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 2023 and property placed in service before 1987. Those Listed Property Worksheets must be removed from line 5; the 2023 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 was \$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 has increased annually since, with the ceiling for 2023 at a whopping \$1,160,000!)

Post-9/10/01 property. California has no provision analogous to the federal special depreciation allowance for new property. Since the federal special allowance is mandatory unless you elect out of it, an adjustment to the depreciation basis will 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, Part I, through lines labeled as PAL adjustments. But when the activity is identified as nonpassive, adjustments are passed directly through Schedule CA.

1 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 2023, in sharp contrast with the nominal federal ceiling of \$1,160,000 for 2023.

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 2024 Edition* for details.

- 1 Maximum dollar limitation.** *(auto-calc)* Normally \$25,000 for 2023.
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 2024 Edition* are enforced here.

10 Carryover of disallowed deduction from 2022. Enter here any amount of section 179 deduction disallowed on the California return in 2022 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 2024. *(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 2023. But the bulk of the calculations for the adjustments to be posted to Schedule CA, Part I, 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 2023.***

3 2023 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 2023. ***CAUTION: If the lines on the federal Form 4562 for 50-year Property or Listed Property include property newly placed in service in 2023, you must remove those worksheets from the set at line 5 and reenter the data anew on the worksheets for THIS line.***

2023 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 2023, 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.

2023 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 2023, 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 2023. 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-2023 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 2023, 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 2022 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 2024 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-2023 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 2022 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 2023. *(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, Part I, 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 2023 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 2023 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 2023. *(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-2023 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, Part I, 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, Part I. 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 non-passive 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, Part I, which those worksheets support through the Road Map. The passive parts are passed through Form 3801 before separate posting to Schedule CA, Part I.

Form 3885A may be omitted from a printout of the complete return. California instructs you not to file Form 3885A if it results in no California adjustment. As a result, it is omitted from an official printout of the complete return when lines 8(a), 8(b), 14(a), and 14(b) are *all zero*.

Form 5805/5805F / 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 2022 amounts, you must supply the information from the 2022 California return by completing screen 3 of the Control Form.*** That information is not available automatically because the return is translated from the 2023 federal return, not the 2022 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 5805F 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, 2024. 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 2022 or 2023, you must supply additional information on screen 3 in order to benefit from the favorable treatment of Form 5805F.
- (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.

- (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.

Special requirements for entries on absolute positioning Form FTB 5805.

Form 5805 is among the FTB absolute positioning forms (including Form 540, Schedule CA, Form FTB 3514, and Schedule X) that must comply with strict FTB specifications, including position, format, and allowed characters:

- (1) Monetary data must be printed LEFT-justified within defined boxes on the graphic forms and must have NO punctuation (no commas nor decimal points).
- (2) Text data must be printed left-justified and upper case, and must generally be devoid of any punctuation or symbols, with a few specified exceptions that allow slashes (/) and dashes (-). And many of them must also be devoid of leading spaces and embedded spaces, including your entry for the first name of taxpayer and spouse.
- (3) The location of data on the printed form must be exactly as specified by the FTB. There is no allowance for extra lines for itemized lists or flags not specified by the FTB.

INFORMATION FROM 2022 AND 2023. The first screens of this form collect information from the prior-year and current returns.

Information from 2022. The top of screen 1 shows two amounts from 2022 – 2022 tax liability less credits and 2022 withholding taxes – which are computed from the prior-year amounts you entered on screen 3 of the Control Form.

Information from 2023. 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, 2024 is entered for you, but you can change the date at any time. (Note that dates after April 15, 2024 are treated computationally the same as April 15, 2024 because Forms 5805 and 5805F are designed by the FTB only to compute a penalty up to that

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Form 5805/5805F

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 2022 or 2023 tax return? If so, you qualify for an exception.

a For 2023: Form 540, line 48 (excluding any Schedule G-1 and Form 5870A tax), 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 2023 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 2023 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 2022: Form 540, line 48 (excluding any Schedule G-1 and Form 5870A tax), 61, and 62 less line 74. *(auto-calc)* Taken from screen 1 of this form.

e 2022 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 2022 exception 1. *(auto-calc)* You qualify if line f is less than \$500 (\$250 if married filing separately).

2 Your 2022 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 2022: Form 540 line 48 (excluding any Schedule G-1 and Form 5870A tax), 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 "2022 amounts entered for Form 5805" on the Control Form.

3 Were 2023 estimated tax plus withholding payments at least 90% of 2023 tax or 100% of 2022 tax liability (110% if 2022 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.

2023 tax paid in required installments? You cannot qualify for the exception unless you can answer Yes.

- α 2023 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 2023 Form 540, line 48 (excluding any Schedule G-1 and Form 5870A tax), 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 2023.
- c Divide line α by line b.** *(auto-calc)* Computed as indicated.
- Qualify for 2023 exception 3.** *(auto-calc)* You qualify if line c is at least 0.9.
- d Tax on 2022 Form 540, line 48 (excluding any Schedule G-1 and Form 5870A tax), 61, and 62 less line 74.** *(auto-calc)* Taken from screen 1 of this form.
- e Divide line α by line d.** *(auto-calc)* Computed as indicated, but no more than 1.1.
- Qualify for 2022 exception 3.** *(auto-calc)* You generally qualify if line e is one or more (1.1 or more if 2022 AGI was more than \$150,000, or \$75,000 if married filing separately). However, if the 2023 California AGI is \$1,000,000 or more (\$500,000 or more if married/RDP filing separately), this exception based on 2023 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 2024 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 the penalty resulting on that worksheet on the last line of page 2 of Form 5805 (line 13 of Form 5805), which would otherwise be the penalty for the Short Method, and leave 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 2023) 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.

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, Part I, 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, Part I, line 2b, column A. The total on line 4 of federal Schedule B is translated to this line, which is posted to Schedule CA, Part I, Section A, line 2b, 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, Part I, line 2b, 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, Part I, Section A, line 2b, column B.

California taxable amount included in Form 1040, line 2a. 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, Part I, line 2b, column C. *(auto-calc)* Computed as the California taxable amount in 1040 line 2b

plus the preceding entry, this result is posted to Schedule CA, Part I, Section A, line 2b, column C.

DIVIDEND INCOME. Adjustments to dividends reported on federal Schedule B are computed here.

Federal taxable dividends for Schedule CA, Part I, line 3b, column A. The total on line 6 of federal Schedule B is translated to this line, which is posted to Schedule CA, Part I, Section A, line 3b, 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, Part I, Section A, line 3b, rather than Schedule CA, Part I, Section B, line 8f, 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, Part I, line 3b, column B. (auto-calc) Computed as the sum of the preceding two lines, this result is posted to Schedule CA, Part I, Section A, line 3b, 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, Part I, line 3b, column C. (auto-calc) Computed as the sum of the preceding two lines, this result is posted to Schedule CA, Part I, Section A, line 3b, 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 2024 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, Part I. (See the details for federal Schedule E in Chapter 2 of the main *Tax Forms Guide 2024 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, Part I, 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, Part I. The allocation of adjustments from all sections to Schedule CA is fully automatic. Amounts are separated into passive and nonpassive 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, Part I.

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 2024 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 2024 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 2024 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 2023), 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.

Schedule X / California Explanation of Amended Return Changes

Replaces former Form 540X with a new role. California had long conformed with the IRS approach to amended returns, requiring the filing of a Form 540X return backed by changes from the previously-file Form 540 return. But *starting with tax year 2017, you must file the revised Form 540 return marked "Amended Return" on page 1 of Form 540 and include Schedule X with the return.* Unlike federal Form 1040X, California Schedule X is subordinate to Form 540 and does not detail the changes. Instead, it provides only a reconciliation of the original refund or payment with the new amount due or refund, as reflected on the revised Form 540, determining any additional payment due or additional refund along the way, and a section for describing the reasons for filing an amended return. *Schedule X is accessible through the Road Map from the bottom of the last screen of Form 540.*

TIP: Create Schedule X before making changes to the Form 540 return. To minimize the manual entries you have to make on Schedule X, we recommend that you create Schedule X when the Form 540 return still reflects the entries on the Form 540 return as originally filed. If you do so, you will not have to make any entries on lines 1 through 7 of the schedule unless the FTB increased your refund after you filed the original return or you paid any additional amount after you filed the original return.

Special requirements for entries on absolute positioning Schedule X.

Schedule X is among the FTB absolute positioning forms (including Form 540, Schedule CA, Form FTB 3514, and Form FTB 5805) that must comply with strict FTB specifications, including position, format, and allowed characters:

- (1) Monetary data must be printed LEFT-justified within defined boxes on the graphic forms and must have NO punctuation (no commas nor decimal points).
- (2) Text data must be printed left-justified and upper case, and must generally be devoid of any punctuation or symbols, with a few specified exceptions that allow slashes (/) and dashes (-). And many of them must also be devoid of leading spaces and embedded spaces, including your entry for the first name of taxpayer and spouse.
- (3) The location of data on the printed form must be exactly as specified by the FTB. There is no allowance for extra lines for itemized lists or flags not specified by the FTB.

PART I, FINANCIAL ADJUSTMENTS - RECONCILIATION. As a direct result of California's new approach to amended returns, the only requirement for an amended return is to complete of the short Schedule X, including the required explanation of the changes.

1 Amount you owe. *(auto-calc)* Taken as the amount on line 111 of the revised Form 540, this line will be automatically updated as you make changes to the return.

Refund shown on original return. If you created this Schedule X before making any changes to the original Form 540 return, this entry will already be correct. Otherwise, you must enter the amount on line 111 of the original Form 540.

\$ applied to 2024 estimated tax. If you created this Schedule X before making any changes to the original Form 540 return, this entry will already be correct. Otherwise, you must enter the amount on line 95 of the original Form 540.

FTB adjustment, if any. If the FTB changed your original Form 540 return and the change resulted in an additional overpayment of tax, enter that amount here.

2 Overpaid tax on original return or as previously adjusted by the FTB. *(auto-calc)* Computed as the sum of the preceding three entries.

3 Add line 1 and line 2. *(auto-calc)* Computed as indicated.

4 Refund shown on Form 540, line 115. *(auto-calc)* Taken as the amount on line 115 of the revised Form 540, this is the refund on the amended return.

Amount paid with original return. If you created this Schedule X before making any changes to the original Form 540 return, this entry will be the lesser of the amount you owe on line 111 of the original Form 540 or the amount you indicated as paid on the on-screen line below line 114. If this is not the amount you actually paid, you must change this entry accordingly.

Additional paid after return was filed. If you paid any amount to the FTB after the original return was filed, enter that amount here.

5 Tax paid with original return and after it was filed. *(auto-calc)* Computed as the sum of the preceding two entries.

6 Add line 4 and line 5. *(auto-calc)* Computed as indicated.

7 AMOUNT YOU OWE. *(auto-calc)* Computed as line 3 less line 6 but no less than zero.

8 Penalties/interest. You must complete lines 8a and 8b if you choose to pay any penalties or interest with the amount on line 7. These are penalties and interest that accrue after the original return was filed, not amounts figured on Form 5805 or 5805F. If penalties and interest apply and you make no entries here, the FTB will figure the penalties and interest for you and send you a bill.

8a Penalties. If you make an entry here, you must identify the type of penalty, the applicable IRS or FTB code section, and how you computed it in the entries that follow.

Explain 8a here (required if 8a has any entry). Three 25-character data entry lines are provided for this purpose. For a paper return, you can itemize (by pressing F10) to provide more detail.

8b Interest. If you enter less interest than the FTB determines, the FTB will figure it for you and send you a bill.

8c Total interest and penalties. *(auto-calc)* Computed as the sum of lines 8a and 8b, this is the amount you are paying in addition to the amount on line 7.

9 REFUND SUBTOTAL. *(auto-calc)* Computed as line 6 less line 3 but no less than zero, this is the amount of refund to which you are entitled in addition to any refund shown on the original Form 540 return.

10 Amount you want to apply to your 2024 estimated tax. Enter the part of line 9 you want to apply to estimated taxes for next year's return. **CAUTION:** *Do not enter this amount on line 95 of the amended Form 540; the amount you enter here is the amount to apply in addition to any amount you entered on line 95 of the original Form 540.*

11 REFUND. *(auto-calc)* Computed as line 9 less line 10, but no less than zero, this is the amount of refund you will receive.

PART II, REASON(S) FOR AMENDING. In order for the amended return to be accepted by the FTB, you must explain here the reason for filing an amended return. The FTB provides checkboxes for the most common reasons and space for an explanation if more detail is required or none of the checkboxes apply.

1 Answer all that apply. You must answer Yes to at least one of the following 13 reasons for filing an amended return. You must also explain in a supporting statement for line 2 if you answered Yes to line a, b, c, d, m, or any two or more lines.

a Protective claim for refund?

b Reservation source income adjustments?

c Pass-through entity adjustments?

d Federal audit and/or adjustments

e FTB audit contact?

f NOL carryback?

g Error on original return?

h Credit adjustment?

i Earned income tax credit?

j Disaster loss?

k Military HR 100?

l Informal claim?

m Other?

2 If answered Yes for a, b, c, d, m, or multiple boxes, ITEMIZE HERE to explain. The FTB provides no specific format for providing the required further explanation of reason(s) for amending. However, the space provided on the form allows no more than 10 lines of explanation directly on the form. Accordingly, if you use no more than the first 10 lines of the 20-line form we provide for general support, it will all be printed directly on the form. Otherwise, it will be printed

in a separate supporting statement that is cross-referenced on the form. (Note that the dollar amount entries are ignored, so you must restrict your explanation to the 30-character wide description column of the support.)

Required explanations provided? Answer Yes if you supplied required information in line 2 and/or line 8a, if required. However, your answer is changed to No if you have an amount on line 8a with no explanation below it (either in the lines provided or a supporting statement), or you do not have a supporting statement for line 2 when required.

Schedule X properly completed? *(auto-calc)* Answered Yes only if the preceding answer is Yes and you have at least one Yes answer for lines 1a through 1m. *If Yes, the return will be flagged on page 1 of Form 540 as an amended return, and Schedule X will be printed with the complete official return.*

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

What, when, and where to file. Because Schedule X is an abbreviated form that is subordinate to Form 540 (unlike the prior Form 540X), the FTB requires you to file the revised Form 540 return along with Schedule X, not just the changed forms or schedules. This includes Forms W-2 and other forms that show withholding. You must generally file the amended return within 4 years of the original due date of the return, or within 1 year of any overpayment, whichever is later. However, you should file a California amended return within six months of filing a federal amended return (Form 1040X) if the federal changes affect the California return. If filing an amended return, mail the entire amended Form 540 return along with Schedule X to:

FRANCHISE TAX BOARD
P.O. BOX 942840
SACRAMENTO, CA 94240-0001

Note that this is the same address that is used for the original (not amended) Form 540 return only when you owe tax. *But for an amended return, this address is used even when you are claiming a refund on the amended return!*

Form 8454** / e-file Opt-Out Record

**** Included in Standard and Premium Level software ONLY.** This form 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 any tax year from 2003 to the present are generally required to e-file all eligible Form 540 returns for 2023 if they prepare any return for 2023 using tax preparation software. However, there are two exceptions to the requirement allowed:

1. The taxpayer can choose not to have their return e-filed by signing Form 8454 for the preparer's records. Giving a reason for this choice is optional.
2. The preparer can also choose not to e-file a return for "reasonable cause," which is also recorded on Form 8454. Reasonable includes an inability to resolve problems with a rejected e-file return or lack of support for e-file or a particular form or situation by the tax preparation software being used.

The preparer is required to retain the form for potential audit by the FTB but is instructed not to file it with any return. (FTB Form 8454 is analogous to federal Form 8948, *Preparer Explanation for Not Filing Electronically.*)