Pension and Annuity Guidelines

A Introduction

This publication explains the most common differences between California and federal law with regard to pensions and annuities and how to report these differences on your California income tax return. It also provides information about IRAs, Keoghs and SEPs.

You must complete your federal return before starting your California return. If you need information on how to report your pension, annuity, IRA or Keogh on your federal return, refer to federal forms, instructions and publications.

Common terms used in this publication are:

AGI	– Adjusted Gross Income
Form 540A	– California Resident Income Tax Return
Form 540	– California Resident Income Tax Return
Form 540NR	– California Nonresident or Part-Year Resident Income Tax Return
Schedule CA (540)	– California Adjustments — Residents
Schedule CA (540NR)	– California Adjustments — Nonresidents or Part-Year Residents

The differences between federal and California AGI are reported as adjustments on:

- Schedule CA (540) for Form 540 filers;
- Schedule CA (540NR) for Form 540NR filers; and
- Form 540A, Part I, for Form 540A filers.

B Social Security and Railroad Retirement Benefits

California law differs from federal law in that California does not tax:

- social security benefits;
- the social security equivalent benefit (SSEB) portion of tier 1 railroad retirement benefits;
- the non-SSEB portion of tier 1 railroad retirement benefits; and
- tier 2 railroad retirement benefits and sick pay benefits under the Railroad Unemployment Insurance Act.

You must make an adjustment to exclude this income if any of the benefits listed above were included in your federal AGI. See the instructions for Schedule CA (540 or 540NR), line 7, line 16 and line 20b, or Form 540A, Part I for more information.

C Pension and Annuity Income

The California treatment of pension and annuity income is generally the same as the federal treatment. For example, California and federal law are the same regarding the ''General Rule,'' the ''Simplified General Rule'' (sometimes called the ''Safe Harbor Method''), rollovers and the lump-sum credit received by federal employees.

Pensions invested in U.S. Government securities. If you invested your pension in U.S. Government securities (with the exception of retirement bonds purchased through a qualified bond purchase plan as described in IRS Pub. 590, Individual Retirement Arrangements (IRAs)) or in mutual funds which invested in U.S. Government securities, you may **not** reduce the taxable portion of your pension distribution by the amount of interest attributable to the U.S. Government securities.

For information on the federal treatment of pensions and annuities, refer to federal Pub. 575, Pension and Annuity Income, federal Pub. 721, Tax Guide to U.S. Civil Service Retirement Benefits, or federal Pub. 939, Pension General Rule.

Three-Year Rule

The ''Three-Year Rule'' has been repealed for retirees whose annuity starting date is after December 31, 1986. However, if your annuity starting date was before January 1, 1987, and you elected to use the ''Three-Year Rule,'' you must continue to use this method.

Under the ''Three-Year Rule,'' amounts you receive are not taxed until your after-tax contributions are recovered. Once your contributions are recovered, your pension or annuity is fully taxable.

Generally, the California and federal taxable amounts are the same and you should not make an adjustment to your federal AGI. However, if your annuity starting date was after July 1, 1986, and before January 1, 1987, **AND** you elected to use the three-year recovery rule for California, you must make an adjustment to your federal AGI. Compute the adjustment by subtracting the federal taxable amount from the California taxable amount.

Form 540 or Form 540NR Filers. Enter the difference on Schedule CA (540 or 540NR), line 16b, column C.

Form 540A Filers. Enter the difference in brackets on Form 540A, Part I, line 6 and follow the specific instructions for Form 540A.

Nonresidents of California Receiving a California Pension

A pension attributable to services performed in California is California source income. California taxes this pension whether you are a resident or a nonresident of California at the time you receive it.

Example 1 — You worked 20 years in California. You retired and moved permanently to Nevada. While living in Nevada, you begin receiving your pension attributable to the services you performed in California. The taxable amount of your pension for federal purposes is $20,000.

Determination: As a nonresident of California, you are taxed only on your California source income. Because your pension is attributable to services you performed in California, your pension has a California source and is taxable by California. Enter $20,000 as the taxable amount of the pension on Schedule CA (540NR), line 16b, column E, and attach it to your Form 540NR when you file it. **Do not** make an adjustment on Schedule CA (540 or 540NR) to exclude the pension from total income in column A.

Allocation. A nonresident of California who receives a pension that is attributable to services performed in California and another state (or in other states) must make a reasonable allocation of the pension to California.

Example 2 — You worked 10 years in California and 5 years in Texas for the same company. You retired in Texas and began receiving your pension which is attributable to your services performed in both California and Texas. The taxable amount of your pension for federal purposes is $10,000.

Determination: As a nonresident of California, you are taxed only on your California source income. Because your pension is attributable to services you performed both in California and Texas, only part of your pension has a California source and is taxable by California.

An example of a reasonable allocation of the pension income to California would be to take a ratio of the years worked in California to the total years worked to earn the pension:

$$\frac{\text{10 years in California}}{\text{15 years total}} = .6667$$

$10,000 x .6667 = $6,667

Therefore, $6,667 of the pension would be taxable by California. Enter $6,667 as the taxable pension amount on Schedule CA (540NR) line 16b, column E. **Do not** make an adjustment on Schedule CA (540NR) to exclude any portion of the pension from total income, column A.

Military Pension. A military pension received by a nonresident is taxable by California to the extent the pension has a California source. The military pension has a California source for the portion of time you served in California **only** if you were a California resident. Get FTB Pub. 1032, Tax Information for Military Personnel.

Example 3 — You served 5 years in California out of your 20 years in the military. You were a California resident while serving in California. You retired from the military and are a resident of another state. Your military pension included in federal AGI is $30,000.

Determination: Allocate your military pension to California as follows:

$$\frac{\text{5 years served in California as a resident}}{\text{20 years total military service}} = .25$$

$30,000 × .25 = $7,500

Therefore, $7,500 of the pension would be taxable by California. Enter $7,500 as the taxable pension amount on Schedule CA (540NR), line 16b, column E. **Do not** make an adjustment on Schedule CA (540NR) to exclude any portion of the pension from total income.

Residents of California Receiving an Out-of-State Pension

California residents are taxed on ALL income, including income from sources outside of California. Therefore, a pension attributable to services performed outside California but received after you become a California resident is taxable in its entirety by California.

Example 1 — You worked 10 years in Texas, moved to California and worked an additional 5 years for the same company. You retired in California and began receiving your pension, which is attributable to your services performed in both California and Texas. The taxable amount of your pension for federal purposes is $10,000.

Determination: You are a full-year resident of California. As a California resident, you are taxed on all your income, regardless of its source. Therefore, the amount taxable for California purposes is $10,000, even though a portion of the pension is for the services you performed in Texas. **Do not** make an adjustment on Schedule CA (540), or Form 540A, Part I to exclude any of the pension from your income.

Example 2 — You worked in New York for 20 years. You retired and moved permanently to California on January 1. While living in California, you begin receiving your pension attributable to the services performed in New York.

Determination: You are a full-year resident of California. As a California resident, you are taxed on all your income, regardless of its source. Therefore, your pension is taxable by California, even though the pension has a New York source. **Do not** make an adjustment on Schedule CA (540), or Form 540A, Part I to exclude your New York pension from your income.

Example 3 — In December 1994, you retired and moved permanently to California. Prior to your move, you elected to receive your pension as a lump-sum distribution. Your pension is attributable solely to services you performed in Washington prior to your move. You received the lump-sum distribution in February 1995, after you became a California resident. The taxable amount of the lump-sum distribution for federal purposes is $80,000.

Determination: You are a full-year California resident in 1995. As a California resident, you are taxed on all income, regardless of its source. Although the lump-sum distribution is attributable to services you performed in Washington, the full $80,000 is taxable by California because you are a resident when you receive the distribution.

Example 4 — You worked in Georgia for 20 years. You retired and began receiving your monthly pension on January 1. Your pension is $2,000 a month. Because you did not contribute to the plan, your pension is fully taxable. On May 1, you moved permanently to California.

Determination: You are a part-year resident of California. While you are a nonresident, only your California source income is taxable by California. While you are a resident, all your income, regardless of its source, is taxable by California. Because your pension is attributable to services you performed in Georgia, your pension has a Georgia source. None of the pension received while you were a nonresident is taxable by California. However, the pension received during the period when you are a California resident (May 1 through December 31) is taxable by California. Therefore, $16,000 ($2,000 × 8 months) is the taxable portion of the pension to enter on Schedule CA (540NR), line 16b, column E. **Do not** make an adjustment on Schedule CA (540NR) to exclude any portion of the Georgia pension from total income.

Military Pension. A California resident is taxed on all income, regardless of source. Therefore, a military pension received by a California resident is taxable by California, regardless of where the military service was performed.

Example 5 — You are a California resident receiving your military pension. You served 20 years in the military. You were never stationed in California during your military career. Your military pension included in federal AGI is $30,000.

Determination. Your military pension of $30,000 is taxable by California even though your pension does not have a California source. As a California resident, you are taxed on all income from all sources.

D Individual Retirement Arrangements (IRAs)

The California treatment of IRAs is generally the same as the federal treatment. For information on the federal treatment of IRAs, refer to federal Pub. 590, Individual Retirement Arrangements (IRAs).

California IRA Deduction

The following is a summary of the California IRA deductions allowed.

Years	IRA Deduction
1987 – through 1995	California law is the same as federal law. The IRA deduction is the lesser of $2,000 or 100 percent of your compensation. If you are covered by an employer's retirement plan or if you file a joint return with your spouse who is covered by such a plan, you may be entitled to only a partial deduction or no deduction at all, depending on your income. See the federal instructions for more information. You can elect to designate otherwise deductible contributions as nondeductible. However, you do not have to elect the same treatment for California purposes that you did for federal purposes.
1982 – through 1986	California law was different from federal law. The maximum federal deduction for an individual was $2,000 and was available to active participants in qualified or government retirement plans and to persons who contributed to tax-sheltered annuities. The California IRA deduction was the lesser of $1,500 or 15 percent of compensation with an additional deduction for a nonworking spouse, for a maximum deduction of $1,750. An IRA deduction was not allowed if you were an active participant in a qualified or government retirement plan or contributed to a tax sheltered annuity.
1976 – through 1981	California law was the same as federal law. The IRA deduction for an individual was the lesser of $1,500 or 15 percent of compensation. An IRA deduction was not allowed if you were an active participant in a qualified or government retirement plan or contributed to a tax-sheltered annuity.
1975 –	California law was different from federal law. California did not allow an IRA deduction. Therefore, income earned in 1975 and 1976 on the 1975 contribution was taxable. The federal deduction was the same as for years 1976-1981.

Generally, your California IRA deduction will be the same as your federal IRA deduction, and you should not make an adjustment to your federal AGI. However, differences in the amount of IRA deduction you can claim may occur if there is a difference between your federal self-employment income and your California self-employment income. A difference may also occur if you elected to treat a contribution differently for California purposes than for federal purposes. If the federal deduction is greater, enter the difference on Schedule CA (540), line 23a or line 23b, column B.

If you file Form 540NR, your IRA deduction on Schedule CA (540NR), line 23a or line 23b, column E, is limited to the **lesser** of:

- the IRA deduction allowed on your federal return; or
- the compensation reported on your Schedule CA (540NR), column E.

Example 1 — You are a nonresident of California. During the year, you worked temporarily in California. Your California compensation is $1,000, which you reported on Schedule CA (540NR), column E. Your allowable IRA deduction on your federal return is $2,000.

Determination: Your allowable IRA deduction you must report on Schedule CA (540NR) is $1,000. This is the lesser of (1) the $2,000 IRA deduction allowed on your federal return or (2) the $1,000 of compensation you reported on your Schedule CA (540NR), column E.

Distribution

Your IRA distribution is fully taxable if your IRA contributions were fully deductible. If your IRA contributions were partially or fully nondeductible, then the nondeductible contributions are not taxed when distributed to you. Your basis is the amount of your nondeductible contributions. How you recover your basis depends on when your nondeductible contributions were made.

IRA invested in U.S. Government securities. If you invested your IRA in U.S. Government securities (with the exception of retirement bonds described in IRS Pub. 590, Individual Retirement Arrangements (IRAs)) or in mutual funds which invested in U.S. Government securities, you may **not** reduce the taxable portion of your IRA distribution by the amount of interest attributable to the U.S. Government securities.

Nondeductible Contributions Made After 1986. If you made nondeductible contributions after 1986, a part of each distribution is considered a return of your basis and is not taxable. The California taxable amount will generally be the same as the federal taxable amount and you should not make an adjustment to your federal AGI.

However, if you elected to treat a contribution differently for federal purposes than for California purposes, the taxable amounts will differ. Compute the California taxable amount using the federal instructions. When making the computation, do not treat your nondeductible contributions made before 1987 as nondeductible contributions. The nondeductible contributions made before 1987 will be recovered as explained in the following paragraph. Compute the adjustment to federal AGI by comparing your federal taxable amount with the California taxable amount. If the federal amount is greater, enter the difference on Schedule CA (540 or 540NR), line 15b, column B, or Form 540A, Part I, line 5. If the federal amount is less, enter the difference on Schedule CA (540 or 540NR), line 15b, column C. Form 540A filers, enter the difference in brackets on Part I, line 5.

Nondeductible Contributions Made Before 1987. If you made nondeductible contributions before 1987, none of your distribution is taxed until you have recovered your basis. Because all contributions made before 1987 were deductible for federal purposes, there may be a difference in the California and federal taxable amounts. If there is a difference, you must make an adjustment to reduce your federal AGI to the correct taxable amount for California.

Your adjustment is the lesser of your:

- pre-1987 California basis; or
- IRA distribution included in federal AGI.

Use Worksheet 1 – Part A on page 7 to compute your pre-1987 California basis. Then use Worksheet I – Part B to compute your adjustment to federal AGI and your remaining pre-1987 California basis. Use Worksheet II as a summary of your California basis and its recovery.

If you have more than one IRA account, combine all your IRAs to complete the worksheet. If both you and your spouse have IRAs, you each must complete a separate worksheet based on your own IRA contributions, deductions and distributions.

Example 2 – In 1995, you received an IRA distribution of $800. The only other distribution received from your IRA was in 1994. The amount of the 1994 distribution was $700. You made the following contributions and deductions in prior years:

Year	Contributions	Federal Deductions	California Deductions
1981	$1,500	$1,500	$1,500
1982	2,000	2,000	1,500
1983	2,000	2,000	1,500
Total	$5,500	$5,500	$4,500

Determination: You would complete Worksheet I as follows.

Worksheet I — Part A Pre-1987 California Basis — **Example 2**

(If you have already computed your California basis as of 12/31/94; skip to Part B.)

1	Enter your total federal deductions claimed prior to 1987	1	$ 5,500
2	Enter your total California deductions claimed prior to 1987	2	4,500
3	Total California basis. Subtract line 2 from line 1	3	$ 1,000
4	Enter your California basis recovered in prior years	4	700
5	California basis as of 12/31/94. Subtract line 4 from line 3	5	$ 300

Worksheet I — Part B Adjustment to Federal AGI and Remaining Pre-1987 California Basis — **Example 2**

1	Enter your taxable distribution from your Federal Form 1040, line 15b (or line 16b), Form 1040A, line 10b (or line 11b)	1	$ 800
2	Enter your California basis as of 12/31/94	2	$ 300
3	Enter the smaller of line 1 or line 2. Enter this amount on Schedule CA (540 or 540NR), line 15b or line 16b, column B, or Form 540A, Part I, line 5 or line 6	3	$ 300
4	Remaining California basis as of 12/31/95. Subtract line 3 from line 2	4	$ 0

Included in your federal AGI is the $800 IRA distribution. Only $500 ($800 – $300) of the distribution is taxable by California in 1995. Your adjustment to federal AGI is $300. Your California basis has now been fully recovered. When you receive a distribution in later years, the amount of the distribution taxable for federal purposes will also be the amount taxable by California. No adjustment to federal AGI will be necessary.

Example 3 – In 1995, you received your first IRA distribution. The distribution was $1,000. For federal purposes, you included $800 in income and $200 was treated as the nontaxable recovery of your federal basis. You made the following contributions and deductions in prior years:

	Contributions		Federal Deductions	California Deductions	
Year	Before 1987	After 1986		Before 1987	After 1986
1984	$2,000		$2,000	$ 0	
1985	2,000		2,000	0	
1986	2,000		2,000	0	
1987		$2,000	0		$ 0
Total	$6,000	$2,000	$6,000	$ 0	$ 0

Determination: You would complete Worksheet I as follows.

Worksheet I — Part A Pre-1987 California Basis — **Example 3**

(If you have already computed your California basis as of 12/31/94; skip to Part B.)

1	Enter your total federal deductions claimed prior to 1987	1	$ 6,000
2	Enter your total California deductions claimed prior to 1987	2	0
3	Total California basis. Subtract line 2 from line 1	3	$ 6,000
4	Enter your California basis recovered in prior years	4	0
5	California basis as of 12/31/94. Subtract line 4 from line 3	5	$ 6,000

Worksheet I — Part B **Adjustment to Federal AGI and Remaining Pre-1987 California Basis (Example 3 – continued)**

1	Enter your taxable distribution from your Federal Form 1040, line 15b (or line 16b), Form 1040A, line 10b (or line 11b)	**1**	$ 800
2	Enter your California basis as of 12/31/94	**2**	$6,000
3	Enter the smaller of line 1 or line 2. Enter this amount on Schedule CA (540 or 540NR), line 15 or line 16, column B, or Form 540A, Part I, line 5 or line 6	**3**	$ 800
4	Remaining California basis as of 12/31/95. Subtract line 3 from line 2	**4**	$5,200

Because your California basis is more than the distribution, none of your IRA distribution will be taxed by California in 1995. Your adjustment to federal AGI is $800. You have a remaining California IRA basis of $5,200. You will recover your remaining California basis in later years. Use Worksheet II on page 7, to keep track of your California basis and its recovery. You would complete Worksheet II as follows:

Worksheet II – **Summary of California Basis (Example 3 – continued)**

Taxable Year	**Pre-1987 Contributions**	**Deduction Federal**	**Deduction California**	**California Basis in Contribution**	**Total Distribution**	**Federal Taxable Amount**	**California Basis Recovered**	**Remaining California Basis**
1984	$2,000	$2,000	$0	$2,000				$2,000
1985	2,000	2,000	0	2,000				4,000
1986	2,000	2,000	0	2,000				6,000
1994					$1,000	$800	$800	5,200

Change of Residency

If you are a:

- resident when you make your IRA contributions, but are a nonresident when you receive your IRA distribution; or
- nonresident when you make your IRA contributions, but are a resident when you receive your IRA distribution,

your California basis is computed differently than previously explained.

Compute your **California basis** by subtracting your federal nondeductible contributions (federal basis) from the total of (1) your contributions not allowed as a deduction for California; and (2) the earnings on the IRA while you were a nonresident of California.

You recover your California basis before any of the distribution is taxable. The taxable amount of your IRA distribution is the total of your California deductible contributions plus all the earnings on your IRA while you are a California resident.

Example 4 —

You became a California resident on January 1, 1986. In 1985 while you were a nonresident, the earnings on your IRA were $200. You received your first distribution from your IRA in 1995. The distribution was $4,000, all of which was taxable for federal purposes. You made the following IRA contributions and deductions in prior years:

Year	**Contributions**	**Deductions Federal**	**Deductions California**	**Earnings While A Nonresident**	**California IRA Basis**
1985	$2,000	$2,000	$ 0	$200	$2,200
1986	2,000	2,000	1,500		500
1987	2,000	2,000	2,000		
1988	2,000	2,000	2,000		
					$2,700

Determination: Your California basis is $2,700 (your $2,500 nondeductible contributions plus your $200 in earnings while you were a nonresident of California). Therefore, $2,700 of the $4,000 IRA distribution is not taxable by California. Your adjustment to federal AGI is $2,700. Your California basis has now been fully recovered. When you receive a distribution in later years, the amount of the distribution taxable for federal purposes will also be the amount taxable by California. No adjustment to federal AGI will be necessary.

Example 5 —

You became a nonresident of California on December 31, 1986. In March 1995, you received a total distribution from your IRA of $3,150. You had made the following IRA contributions and deductions.

Year	**Contributions**	**Deductions Federal**	**Deductions California**	**Earnings While A Nonresident**	**California IRA Basis**
1986	$2,000	$2,000	$ $1,500	$ 0	$ 500
1987 – 1995				1,150	1,150
					$1,650

Determination: Your California basis is $1,650 (your $500 nondeductible contribution plus your $1,150 in earnings while you were a nonresident of California). Therefore, $1,650 of the $3,150 IRA distribution is not taxable by California. Your Schedule CA (540NR), line 15b, column B, adjustment is $1,650. Your IRA distribution that you must report on Schedule CA (540NR), line 15b, column E is $1,500 ($3,150 - $1,650).

Simplified Employee Pension (SEP)

Deduction. Beginning with taxable year 1987, your allowable California SEP deduction is generally the same as your federal deduction. However, there may be a difference in the amount of the SEP deduction you can claim if there is a difference between your federal self-employment income and your California self-employment income.

If you file Form 540 and the allowable SEP deductible amount for California is less than the federal allowable amount, enter the difference on Schedule CA (540), line 27, column B.

If you file Form 540NR, your SEP deduction on Schedule CA (540NR), column E is based upon the percentage of self-employment income from Schedule CA (540NR), column E to total self-employment income computed according to California law on Schedule CA (540NR), column D. See Example 1 in Section E of this publication.

California Basis. Your California basis is the amount of your SEP contributions that were not allowed as a deduction on your California return, and any contributions and earnings attributable to periods of nonresidency.

Distributions. The distribution of a SEP is treated the same as the distribution of an IRA. Your distribution is first considered a nontaxable return of your California basis. Once your California basis is recovered, your distribution will be reported the same as federal.

Use Worksheet I – Part A on page 7 to compute your pre-1987 California basis. Then use Worksheet I – Part B to compute your adjustment to federal AGI and your remaining pre-1987 California basis. Use Worksheet II as a summary of your California basis and its recovery.

E Self-Employed Retirement Plans (KEOGHs)

The California treatment of Keoghs is generally the same as the federal treatment. For information on the federal treatment of Keoghs, refer to federal Pub. 560, Self-Employed Retirement Plans.

Deductions

Beginning with taxable year 1987, your allowable California Keogh deduction is generally the same as your federal Keogh deduction. However, there may be a difference in the amount of the Keogh deduction you can claim if there is a difference between your federal self-employment income and your California self-employment income.

If you file Form 540 and the allowable Keogh deductible amount for California is less than the federal allowable amount, enter the difference on Schedule CA (540), line 27, column B.

If you file Form 540NR, your Keogh deduction on Schedule CA (540NR), column E is based upon the percentage of self-employment income from Schedule CA (540NR), column E to total self-employment income computed according to California law on Schedule CA (540NR), column D.

Example 1 — You are a part-year resident of California. Your total self-employment income for the year is $300,000, and the amount to be reported on Schedule CA (540NR), line 12, column E, is $100,000. Your Keogh deduction for federal purposes is $15,000. Your Keogh deduction to be reported on Schedule CA (540NR), line 27, column E is computed as follows:

$$\frac{\text{\$100,000 self-employment income from Schedule CA (540NR), column E}}{\text{\$300,000 total self-employment income from Schedule CA (540NR), column D}} = .3333$$

$15,000 × .3333 = $5,000

Therefore, you must report $5,000 of your Keogh deduction on Schedule CA (540NR), line 27, column E.

Distribution

The taxable amount of your Keogh distribution for California will be different from the federal taxable amount if you have a California basis to recover.

California Basis. Your California basis is the amount of contributions you made for which you were not allowed a deduction on your California return. You may not have been allowed a deduction of the full amount of your contributions because the maximum California Keogh deduction was less than the federal deduction prior to 1987.

Recovery of California Basis. Your Keogh distribution is first considered to be a nontaxable return of your California basis. Therefore, when you receive your distribution, none of the distribution will be taxed until you have recovered your California basis. Once you have recovered your California basis, your distribution must be reported the same as for federal purposes.

If you have received a distribution and you have a California basis, you must make an adjustment on Schedule CA (540 or 540NR) to reduce your federal AGI to the correct taxable amount for California. Your Schedule CA (540 or 540NR) adjustment is the lesser of your:

- pre-1987 California basis; or
- Keogh distribution included in federal AGI.

Use Worksheet I – Part A on page 7 to compute your pre-1987 California basis. Then use Worksheet I – Part B to compute your adjustment to federal AGI and your remaining pre-1987 California basis. Use Worksheet II as a summary of your California basis and its recovery.

Example 2 – In 1995, you received a Keogh distribution of $15,000. In 1994, you also received a Keogh distribution of $15,000. Your Keogh contributions were made in 1979 through 1983. The total contributions were $37,500. Your total California deductions were $12,500.

Determination: You would complete Worksheet I as follows.

Worksheet I — Part A **Pre-1987 California Basis**		**Example 2**
(If you have already computed your California basis as of 12/31/94; skip to Part B.)		
1 Enter your total federal deductions claimed prior to 1987	**1**	$ 37,500
2 Enter your total California deductions claimed prior to 1987	**2**	12,500
3 Total California basis. Subtract line 2 from line 1	**3**	$ 25,000
4 Enter your California basis recovered in prior years	**4**	15,000
5 California basis as of 12/31/94. Subtract line 4 from line 3	**5**	$ 10,000

Worksheet I — Part B **Adjustment to Federal AGI and Remaining Pre-1987 California Basis**		**Example 2**
1 Enter your taxable distribution from your Federal Form 1040, line 15b (or line 16b), Form 1040A, line 10b (or line 11b)	**1**	$ 15,000
2 Enter your California basis as of 12/31/94	**2**	$ 10,000
3 Enter the smaller of line 1 or line 2. Enter this amount on Schedule CA, (540 or 540NR), line 15b or line 16b, column B or Form 540A, Part I, line 5 or line 6	**3**	$ 10,000
4 Remaining California basis as of 12/31/95. Subtract line 3 from line 2	**4**	$ 0

Only $5,000 ($15,000 – $10,000) of the distribution is taxable by California in 1995. Your adjustment to federal AGI is $10,000. Your California basis has now been fully recovered. When you receive a distribution in later years, the amount of the distribution taxable for federal purposes will also be the amount taxable by California. No adjustment to federal AGI will be necessary.

Exception: If you made voluntary contributions that were not deductible on your federal and California returns, do not include the amount of the voluntary contributions in your California basis. The recovery of the voluntary contributions is treated the same for federal purposes. **Do not** make an adjustment on Schedule CA (540 or 540NR) or Form 540A, Part I, line 5 or line 6 to recover your voluntary contributions.

Lump-sum Distribution. If you received a qualified lump-sum distribution and are using Schedule G-1, follow the revised instructions below when completing Worksheet I – Part B:

- Line 1. Enter the taxable distribution from your federal Form 1099-R, box 2a.
- Line 3. Enter the smaller of line 1 or line 2. Compute the amounts to enter on Schedule G-1 as follows:

California taxable amount	=	federal Form 1099-R, box 2a	–	Worksheet I Part B, line 3

Enter the California taxable distribution on Schedule G-1, line 10 unless the capital gain election was made. If the capital gain election was made:

Sch. G-1, line 8	=	California taxable amount	X	federal Form 1099-R, box 3 / federal Form 1099-R, box 2a
Sch. G-1, line 10	=	California taxable amount	–	Sch. G-1, line 8

Change in Residency

California Resident. A California resident is taxed on all income, regardless of its source. If you are a California resident and receive a Keogh distribution attributable to your non-California self-employment income, your distribution minus your California basis is taxable by California.

Nonresident of California. A nonresident of California is taxed only on income from California sources. If you are a nonresident of California and receive a Keogh distribution attributable to your California self-employment income, your distribution minus your California basis is taxable by California. Your California basis includes contributions you made while you were a resident that were not deductible for California purposes.

Example 3 — While you were self-employed in California, you contributed $30,000 to your Keogh. Your California deduction was $2,500. You moved permanently to Oregon and made no further contributions to your Keogh. You received a Keogh distribution of $40,000 after moving to Oregon.

Determination: The part of the distribution that is the nontaxable recovery of your California basis is $27,500 ($30,000 – $2,500). Your adjustment on Schedule CA (540NR), line 16b, column B, is $27,500. The taxable amount of the distribution to report on Schedule CA (540NR), line 16b, column E, is $12,500 ($40,000 – $27,500).

F Tax On Early Distributions

California has a tax on early distributions from IRAs, any qualified retirement plans, annuities and modified endowment contracts. This tax is generally the same as federal except the California tax rate is 2½ percent rather than 10 percent. California does not have taxes similar to the federal tax on excess accumulations, tax on excess contributions, or tax on excess distributions.

Early Distributions. Early distributions are amounts you withdraw from your retirement plan before you are age 59½. The tax on early distributions is 2½ percent of the amount of the distribution included in income. The tax on early distribution is imposed in addition to any regular California income tax on the distribution. You must figure this tax on form FTB 3805P, Return for Additional Taxes Attributable to Qualified Retirement Plans (including IRAs), Annuities and Modified Endowment Contracts.

Exceptions: The tax on early distributions does not apply to:

- the portion of the distribution that is a return of basis;
- distributions made because you became disabled;
- distributions made as a part of a series of substantially equal payments made for the life (or joint lives) of you and your designated beneficiaries;
- distributions made after the death of the participant;
- distributions made to you after you separated from service with your employer in or after the year in which you reached age 55;
- distributions paid under a qualified domestic relations order; or
- distributions used to pay deductible medical expenses.

Note: The last three exceptions do not apply to IRA distributions.

Prohibited Transactions. You may also owe tax on early distributions from an IRA or SEP if you enter into a prohibited transaction, If you enter into a prohibited transaction, your IRA ceases to be an IRA on the first day of the taxable year and you are considered to have received a distribution of the entire value of your IRA. If you are under age 59½ on the first day of the taxable year, you are subject to the tax on early distributions. Refer to form FTB 3805P for more information.

G California Credits

Other State Tax Credit

If you paid tax to California and to another state on the same pension income, you may qualify for a credit for taxes paid to another state. For more information refer to Schedule S, Other State Tax Credit.

Exemption Credit for Seniors Age 65 or Older

California allows an additional exemption credit for individuals age 65 or older rather than the larger standard deduction allowed on the federal return. Be sure to claim this credit on your California income tax return.

H Additional Information

Note: See page 8 for F.A.S.T. toll-free telephone service.

Letters. We can serve you quickly if you call us or visit a district office for information to complete your California income tax return, or to find out about your tax refund. However, you may want to write to us if you are replying to a notice we sent you, or to get a written reply. If you write to us, be sure to include your social security number, your daytime and evening telephone numbers and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942840
SACRAMENTO CA 94240-0040

We will acknowledge receipt of your letter within six to eight weeks. In some cases we may need to call you for additional information.

In Person. Addresses of Franchise Tax Board district offices are shown below. You can get information, copies of California tax forms and instructions, and you can resolve problems on your account. Our district offices are open Monday through Friday from 8:00 a.m. to 5:00 p.m.

Bakersfield	1430 Truxtun Avenue
Burbank	333 N. Glenoaks Blvd.
Fresno	2550 Mariposa Street
Long Beach	245 West Broadway
Los Angeles	300 So. Spring Street
Oakland	1970 Broadway
Sacramento	8745 Folsom Blvd.
San Bernardino	215 North D Street
San Diego	5353 Mission Center Road
San Francisco	50 Fremont Street
San Jose	96 North Third Street
Santa Ana	600 West Santa Ana Blvd.
Santa Barbara	360 South Hope Avenue
Santa Rosa	50 D Street
Stockton	31 East Channel Street
West Covina	100 North Barranca Street

Worksheet I — Part A **Pre-1987 California Basis**

(If you have already computed your California basis as of 12/31/94; skip to Part B.)

1 Enter your total federal deductions claimed prior to 1987 . . . . . **1** ______

2 Enter your total California deductions claimed prior to 1987 . . . . . **2** ______

3 Total California basis. Subtract line 2 from line 1 . . . . . **3** ______

4 Enter your California basis recovered in prior years . . . . . **4** ______

5 California basis as of 12/31/94. Subtract line 4 from line 3 . . . . . **5**

Worksheet I — Part B **Adjustment to Federal AGI and Remaining Pre-1987 California Basis**

1 Enter your taxable distribution from your Federal Form 1040, line 15b (or line 16b), Form 1040A, line 10b (or line 11b) . . . . . **1** ______

2 Enter your California basis as of 12/31/94 . . . . . **2** ______

3 Enter the smaller of line 1 or line 2. Enter this amount on Schedule CA, (540 or 540NR), line 16b or line 17b or Form 540A, Part I, line 5 or line 6 . . . . . **3** ______

4 Remaining California basis as of 12/31/95. Subtract line 3 from line 2 . . . . . **4**

Worksheet II — **Summary of California Basis**

Taxable Year	Pre-1987 Contributions	Deduction Federal	Deduction California	California Basis in Contribution	Total Distribution	Federal Taxable Amount	California Basis Recovered	Remaining California Basis

How to Get California Tax Information

(Keep This Page For Future Use)

F.A.S.T. Toll-Free Phone Service

Fast **A**nswers about **S**tate **T**axes is the F.A.S.T. toll-free phone service you can use to get recorded answers to many of your questions about California taxes. You can also order California tax forms by calling the F.A.S.T. number.

F.A.S.T. is available in English and Spanish to callers with touch-tone or rotary dial telephones.

When Is F.A.S.T. Available?
To answer your questions, F.A.S.T. is available 24 hours a day, seven days a week. To order forms or to find out about your tax refund, F.A.S.T. is available from 6:00 a.m. to 10:00 p.m. seven days a week, except state holidays.

How To Use F.A.S.T.

1. Have paper and pencil handy to take notes.
2. Call F.A.S.T.:
   From within the United States 1-800-338-0505
   From outside the United States
   (not toll-free) 1-916-845-6600

To Order Forms — Use F.A.S.T. to order forms listed below. To order a listed form, press the form's entry code (shown in parentheses below) in response to recorded instructions. If you have moved in the last year, you must call 1-800-852-5711 to get forms.

(900) California Resident Income Tax Forms and Instructions. Includes:
Form 540, Resident Income Tax Return
Form 540A, Resident Income Tax Return
Form 540EZ, Resident Income Tax Return
(903) Schedule CA (540), California Adjustments (Including FTB 3885A, Depreciation & Amortization Adjustments and Schedule D, California Capital Gain or Loss Adjustment)
(907) 540-ES, Estimated Tax for Individuals
(908) 540X, Amended Income Tax Return
(910) Schedule G-1, Tax on Lump-Sum Distribution
(911) Schedule P (540), AMT and Credit Limitations
(913) Schedule S, Other State Tax Credit
(914) California Nonresident Income Tax Forms and Instructions. Includes:
Form 540NR, Nonresident or Part-Year Resident Income Tax Return
(917) Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents
(918) Schedule P (540NR), AMT and Credit Limitations

You may also order the following 1995 federal forms:

(902) Form 1040 Booklet	(904) Form 1040A	(906) Form 1040X
(915) Form 1040EZ Booklet	(931) Form 1040-ES	(933) Form 2119
(912) Form 2106	(932) Form 4562	(935) Pub. 17
(916) Schedule C (Form 1040)	(905) Schedule SE (Form 1040)	

To Find Out About Your Tax Refund — You should wait at least eight weeks after you file your tax return before you call to find out about your refund. To use F.A.S.T. you must know the first social security number shown on your tax return, and the exact dollar amount of your refund.

To Get Information — If you need an answer to any of the following questions, enter the correct code after you reach the F.A.S.T. number:

Code – Filing Assistance:
100 – Do I need to file a return?
101 – What form do I use?
200 – Where can I pick up a form today?
201 – How can I get an extension to file?
202 – There is no envelope in the booklet. Where do I send my return?
203 – How much do I get for renter's credit?
204 – I never received a Form W-2. What do I do?
205 – I have no withholding taken out. What do I do?
206 – Do I have to attach a copy of my federal return?
207 – Should I file my return even though I do not have the money to pay?
208 – How do I figure my estimate tax payments?
209 – I lived in California for part of the year. Do I have to file a return?
210 – I do not live in California. Why do I have to file a return?
211 – How do I figure my IRA deduction?
212 – How do I claim my disaster related loss?
213 – How do I file using Form 540-ADS?
215 – Who qualifies me to use the head of household filing status?
216 – I'm due a refund. Do I still need to file a return?
217 – I am currently/was in the military. Do I have to file a California return?
218 – I'm in the military. Do I have to use the same filing status as federal?
219 – I sold my personal residence. How do I report the sale to California?
220 – There is no difference in my state and federal depreciation, business income and capital gain income. What do I do?
221 – What is community property?
222 – How much can I deduct for vehicle license fees?
239 – Where can I get help with filing my income tax return?
240 – Does a tax return have to be filed for a deceased taxpayer?

Refunds:
300 – My spouse has passed away. You sent a refund with both our names on it. What do I do?
301 – I got a letter saying you sent my refund to another agency. Why?

Penalties:
400 – I have an extension of time to file my return. Why did I get a penalty?
401 – I filed my return on time. Why did I get a penalty?
402 – How can I protest a penalty?

Notices and Bills:
500 – I received a bill and I cannot pay it in full. What do I do?
501 – Why didn't you give me credit for my withholding?
502 – You didn't give me credit for my dependent. What do I do?
503 – I don't have a homeowner's exemption. Why did you deny my renter's credit?
504 – I'm head of my house. Why was I denied head of household filing status?
505 – Why was my IRA deduction denied?
506 – How can I get information about my Form 1099-G?
507 – Why did I receive a questionnaire?
508 – I received a notice that didn't show all payments made. How do I get credit for them?

Tax For Children Under 14:
601 – Can my child take a personal exemption credit when I claim her or him as a dependent on my return?
602 – Federal law limits the standard deduction. Is the state law the same?

Miscellaneous:
610 – Can I pay my taxes with a credit card?
611 – What address do I send my payment to?
612 – I mailed my return and haven't heard anything. Should I send a copy of my return?
613 – I forgot to attach my Form(s) W-2 when I mailed my return. What do I do?
614 – I forgot to attach a copy of my federal return. What do I do?
615 – How do I get a copy of my state tax return?
616 – What should I do if my federal tax return was examined or changed by the IRS?
617 – What are the current interest rates?

Regular Toll-Free Phone Service

Our regular toll-free phone service is available 7:00 a.m. to 8:00 p.m. Monday through Friday from January 2 through April 15, 1996. The best times to call are between 7:00 and 10:00 in the morning and between 6:00 and 8:00 in the evening. Service is also available on Saturdays, April 6 and April 13, from 8:00 a.m. to 5:00 p.m. After April 15, service is available Monday through Friday, between 8:00 a.m. and 5:00 p.m.

From within the United States 1-800-852-5711
From outside the United States . . . . 1-916-845-6500 (not toll-free)
For hearing impaired with TDD 1-800-822-6268

For federal tax questions, call the IRS at 1-800-829-1040.

Bilingual Assistance
Para obtener servicio bilingüe de información sobre impuestos o formularios, llame al número de teléfono (anotado arriba) que le corresponde.