

Income Adjustment Schedule		A	B	C	D	E
Section B — Adjustments to Income		Federal Amounts (taxable amounts from your federal return)	Subtractions See instructions	Additions See instructions	Total Amounts Using CA Law (subtract column B from column A; add column C to the result)	CA Amounts (income earned or received as CA resident and income earned or received from CA sources as a nonresident)
22b	Enter totals from Schedule CA (540NR), Side 1, line 22a, column A through column E	22b				
23a	Your IRA deduction	a				
b	Spouse's IRA deduction	b				
24	Moving expenses	24				
25	One-half of self-employment tax	25				
26	Self-employed health insurance deduction	26				
27	Keogh and self-employed SEP plans	27				
28	Penalty on early withdrawal of savings	28				
29	Alimony paid. Enter recipient's: SSN _____ Last name _____	29				
30	Add line 23a through line 29 in each column, A through E	30				
31	Total. Subtract line 30 from line 22b in each column, A through E	31				

32 Ratio. Divide line 31, column E by line 31, column D.
Carry the decimal to five places. Then round it to four places by dropping amounts 4 and under (.44454 becomes .4445) and rounding up to the next number for amounts 5 and over (.44455 becomes .4446). This number may be greater than 1.0000.
Enter the result here and on Form 540NR, line 25a. Note: If the result is zero or less, enter -0- on Form 540NR, line 25a

Part III Adjustments to Federal Itemized Deductions

33	Federal itemized deductions. Add the amounts on federal Schedule A (Form 1040), lines 4, 9, 14, 18, 19, 26, and 27 (or Schedule A (Form 1040NR), lines 3, 7, 8, 15 and 16)	33	_____
34	Enter total of federal Schedule A, line 5 (state and local income tax and State Disability Insurance) and line 8 (foreign taxes only)	34	_____
35	Subtract line 34 from line 33	35	_____
36	Other adjustments including California lottery losses. See instructions. Specify _____	36	_____
37	Combine line 35 and line 36	37	_____

38 California itemized deductions

<p>Is your federal AGI (Form 540NR, line 13) more than the amount shown below for your filing status?</p> <p>If single or married filing separate \$111,695</p> <p>If head of household \$167,542</p> <p>If married filing joint or qualifying widow(er) \$223,390</p> <p>NO. Transfer the amount on line 37 to line 38.</p> <p>YES. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540NR), line 38.</p>	<p>Is the amount you entered on line 38 more than your standard deduction below?</p> <p>Single or married filing separate \$2,527</p> <p>Married filing joint, head of household or qualifying widow(er) \$5,054</p> <p>YES. Transfer the amount on line 38 to Form 540NR, line 18</p> <p>NO. Enter your standard deduction on Form 540NR, line 18.</p>	<p>} 38 _____</p>
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Instructions for Schedule CA (540NR)

These instructions are based on the Internal Revenue Code (IRC) as of **January 1, 1993**, and the California Revenue and Taxation Code (R&TC).

General Information

Differences Between California and Federal Law

In general, California did not conform its law to changes made to the Internal Revenue Code (IRC) by the federal Revenue Reconciliation Act of 1993 (Public Law 103-66). California legislation during 1994 and 1996 did adopt a few provisions of the 1993 federal changes. All other references in these instructions are to the IRC as it existed on January 1, 1993.

California Conforms on Moving Expense

California law and federal law are the same for moving expenses paid or incurred in 1996. If you incurred moving expenses before 1996, received reimbursement in 1996 and did not deduct those expenses on a prior year's return, see page 4.

California does not conform to federal law on the following:

IRC Section 179 expense deduction. The California maximum deduction is \$10,000; the federal maximum deduction is \$17,500. In many cases, this difference also affects the California basis and depreciation deduction for qualifying assets. Use form FTB 3885A, Depreciation and Amortization Adjustments, to figure the adjustment.

Nonresidential rental property placed in service on or after May 13, 1993 (IRC Section 168). The California recovery period is 31.5 years; the federal recovery period is 39 years. Use form FTB 3885A to figure the adjustment.

IRC Section 197 property. Property qualifying as Section 197 property for federal purposes is also Section 197 property for California purposes. However, for qualifying property acquired before January 1, 1994, the California adjusted basis as of January 1, 1994, must be amortized over the remaining federal amortization period. Use form FTB 3885A to figure the adjustment.

Material participation in rental real estate activities. Beginning with the 1994 tax year, federal law provides that eligible taxpayers who materially participate in rental real estate activities will no longer be subject to the limitations on the deduction of passive activity losses. California does not conform to this provision, and these activities will still be considered passive under California law. See form FTB 3801, Passive Activity Loss Limitations, for more information.

Purpose

Use this schedule to identify income being taxed by California; and to compute the ratio of your **California adjusted gross income (AGI) to total AGI from all sources using California law**; and to adjust your federal itemized deductions using California law. The parts of the ratio are defined as follows:

- **Total AGI from all sources using California law** is all of your income from all sources, including income from inside and outside California. You compute it by adjusting federal AGI for the differences between federal and California law.
- **California AGI** is:
 - All income from all sources (inside and outside California) for any part of the year

during which you were a California resident; and

- All income from California sources while you were a nonresident of California.

Once you compute the ratio, you transfer it to Form 540NR to determine your California nonresident or part-year resident tax liability.

Specific Line Instructions for PART I Residency Information

Answer all the questions in this part for you and your spouse. If a question does not apply, please enter "NA" on the line for the answer. It may be helpful to get FTB Pub. 1031, Guidelines for Determining Resident Status, for more information.

Line 1 – I was in the military

If either spouse was in the military, your state of domicile is generally the state where you were living when you first entered the military.

Line 5 – The number of days I spent in CA

The total number of days in California should include all days in California for any purpose including residency, business and vacation.

Specific Line Instructions for PART II Income Adjustment Schedule

Column A – Federal Amounts

Enter all taxable amounts shown on your federal return on the corresponding lines in column A.

If you are married filing separate under either exception described in the instructions for Form 540NR and are filing a separate California return, enter in column A the amounts you would have reported on a separate federal return. Attach a statement to the return showing how the income and expenses were split between you and your spouse.

Line 7 through Line 21

Enter on line 7 through line 21 the same amounts you entered on your federal Form 1040, line 7 through line 21 (or on your Form 1040A, line 7 through line 13b; your Form 1040EZ, line 1, line 2 and line 3; or your Form 1040NR, line 8 through line 21 for the same types of income).

Also enter the following if applicable:

- The total IRA distribution received on line 15(a);
- The total pension or annuity distribution received on line 16(a); and
- The total social security retirement benefit received on line 20(a).

If you used Form 1040A, refer to line 11a and line 13a. If you used Form 1040NR, refer to line 16a and line 17a.

Line 22a – Total

Combine the amounts on line 7 through line 21. Enter the total on line 22a. This number should be the same as the amount on your federal Form 1040, line 22 (or your Form 1040A, line 14; or your Form 1040EZ, line 4; or your Form 1040NR, line 23).

Line 22b – Balance Carried Forward

Enter on line 22b the total from Side 1, line 22a, column A.

Line 23a through Line 29

Enter the same amounts you entered on your federal Form 1040, line 23a through line 29 (or your Form 1040A, line 15a and line 15b; or your Form 1040NR, line 24 through line 29).

Line 30 – Add line 23a through line 29. This amount should be the same as the amount on your federal Form 1040, line 30 (or your Form 1040A, line 15c; or your Form 1040NR, line 30). However, if you made any of the adjustments described in the instructions for federal Form 1040, line 30 or if you claimed the foreign housing deduction from federal Form 2555, enter the amount from Form 1040, line 30 on this line.

Line 31 – Total

Subtract line 30 from line 22b. This amount should be the same as the amount on your federal Form 1040, line 31 (or your Form 1040A, line 16; or your Form 1040EZ, line 4; or your Form 1040NR, line 31).

Column B and Column C – Subtractions and Additions

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

Do not use these columns to make adjustments for income earned outside of California during periods of nonresidency.

Note: If you are a nonresident alien, use column B and column C to include income from all sources, even if you were not required to report it on your federal return. California does not have special rules limiting total AGI from all sources to U.S. source or effectively connected income of nonresident aliens.

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

- 1001, Supplemental Guidelines to California Adjustments;
- 1005, Pension and Annuity Guidelines; or
- 1032, Tax Information for Military Personnel.

To order a publication or form, see the back cover of your tax booklet.

Line 7 – Wages, Salaries, Tips, etc.

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

Active duty military pay — Special rules apply to active duty military taxpayers. Get FTB Pub. 1032 for more information.

Note: In 1996, federal tax rules changed for the military in a combat zone. Legislation made California rules the same as federal.

Ride-sharing benefits or sick pay received under the Federal Insurance Contributions Act and Railroad Retirement Act — California excludes these items from income. Enter in column B the amount of these benefits included in the amount in column A.

Income exempted by U.S. tax treaties (unless specifically exempt for state purposes also)

If you excluded this income from your federal return, enter the excluded amount in column C. If you claimed foreign earned income or housing cost exclusion under IRC Section 911, see the instructions for line 21. Get FTB Pub. 1001 for more information.

Line 8 – Taxable Interest Income

If you did not receive any of the kinds of income listed below, make no entry on this line in either column B or column C. Otherwise, follow the instructions below.

Enter in column B, the interest that you received from:

- United States saving bonds;
- United States treasury bills;
- Any other bonds or obligations of the United States and its territories;

Get FTB Pub. 1001 if you received interest income from sources listed below.

- A. Loans made in an enterprise zone, program area or the Los Angeles Revitalization Zone (LARZ);
- B. Merchant marine construction fund deposits by ship contractors;
- C. Original issue discount (OID) for bonds issued by Poland; and
- D. Items listed above passed through to you from S corporations, trusts, partnerships or limited liability companies.

Do not make entries in either column B or column C for interest you earned on Federal National Mortgage Association (Fannie Mae) Bonds, Government National Mortgage Association (Ginnie Mae) Bonds, and Federal Home Loan Mortgage Corporations (FHLMC) securities.

Enter in column C, the interest you identified as tax-exempt interest on your federal Form 1040 (or 1040A), line 8b; or Form 1040NR, line 9b which you received from:

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

Line 9 – Dividend Income

Generally, you will not make an adjustment on this line. However, certain mutual funds are qualified to pay "exempt-interest dividends" if at least 50% of their assets consist of tax-exempt government obligations. The portion of the dividend income that is tax-exempt will be shown on your annual statement from the mutual fund.

If the California exempt-interest amount is more than the federal exempt-interest amount, enter the difference in column B.

Get FTB Pub. 1001 if you received dividend income from:

- Noncash patronage dividends from farmers' cooperatives or mutual associations;
- A federal S corporation that is a California C corporation;
- A controlled foreign corporation;
- Distribution of pre-1987 earnings from S corporations;

- Undistributed capital gains for regulated investment company (RIC) shareholders; or
- Distributed capital gain dividends.

Line 10 – State Tax Refund

California does not tax the state income tax refund you received in 1996. Enter in column B, the amount of state tax refund you entered in column A.

Line 11 – Alimony Received

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

Line 12 – Business Income or (Loss)

You may need to adjust federal business income or loss you reported in column A because of the difference between California and federal law relating to depreciation methods, special credits and accelerated write-offs. As a result, the recovery period or the basis you should use to figure California depreciation may be different from the amount used for federal purposes. Adjustments are figured on form FTB 3885A and are most commonly necessary because:

Before January 1, 1987, California did not allow depreciation under the federal accelerated cost recovery system, and you must continue to figure California depreciation for those assets in the same manner as prior years.

On or after January 1, 1987, California provides special credits and accelerated write-offs that affect the California basis of qualifying assets. Refer to the bulleted list below. Also, California does not conform to certain federal provisions. See the items listed under "General Information."

Note: If any of your business activities is a passive activity that produces a loss, complete form FTB 3801, Passive Activity Loss Limitations (PALS), to figure the passive activity loss allowable under California law.

If you are engaged in more than one business activity, use a separate form FTB 3885A to report the adjustments for each activity.

Get FTB Pub. 1001 for more information about:

Income related to:

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

Basis adjustments related to:

- Property acquired prior to becoming a California resident;
- Sales or use tax credit for property used in an enterprise zone, program area, LARZ or Local Agency Military Base Recovery Area (LAMBRA);
- Manufacturer's Investment Credit (MIC);
- Reduced recovery periods for fruitbearing grapevines replaced in a California vineyard on or after 1/1/92 as a result of phylloxera infestation;
- Expenditures for tertiary injectants;
- Certain property placed in service on an Indian reservation after 1/1/94 and before 12/31/2003;
- Amortization of pollution control facilities;
- Discharge of real property business indebtedness;

- Employer-paid child care center and services;
- Employer-paid child care plan;
- Vehicles used in an employer-sponsored ridesharing program;
- An enhanced oil recovery system;
- The cost of making a business accessible to disabled individuals; or
- Property for which you received an energy conservation subsidy from a public utility on or after 1/1/95.

Business expense deductions related to:

- Wages paid in an enterprise zone, program area, LARZ or LAMBRA; or
- Certain employer costs for employees who are also enrolled members of Indian tribes;
- Abandonment or tax recoupment fees for open-space easements and timberland preserves;
- Indirect political contributions;
- Club dues or payments made to a club which restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry or national origin;
- Lobbying expenses denied under IRC Section 162;
- A business located in an enterprise zone, program area, LARZ or LAMBRA;
- Research expense; or
- Employer wage expense for Work Opportunity Credit.

Line 13 – Capital Gain or (Loss)

Generally, you will not make any adjustments on this line if you do not have any of the items listed below.

Use Schedule D, California Capital Gain or Loss Adjustment, if you have differences from:

- Basis differences resulting from differences between California and federal law in prior years;
- Gain or loss on stock and bond transactions;
- Installment sale gain reported on form FTB 3805E, Installment Sale Income;
- Gain on the sale of personal residence where depreciation was allowable;
- Flow-through gain or loss from partnerships, fiduciaries, S corporations or limited liability companies;
- Gain from involuntary conversion of capital assets not held for business profit; and
- Capital loss carryover from your 1995 California Schedule D.

Get FTB Pub. 1001 for more information about:

- Disposition of S corporation stock acquired before 1987;
- Gain on the sale or disposition of a qualified assisted housing development to low income residents or to specified entities maintaining housing for low income residents;
- Gain on certain vessels transferred to and exchanged with the Maritime Administration or realized in connection with construction of new vessels;
- Gain on the sale of personal residence where depreciation was allowable;
- Undistributed capital gain for regulated investment company (RIC) shareholders;
- Gain or loss on the sale of property inherited before 1/1/87;
- Capital loss carrybacks; and
- Rollover gain from the sale of publicly traded securities into specialized small business investment companies.

Line 14 – Other Gains or (Losses)

The California basis of your other assets may be different than the federal basis due to differences between California and federal law. Therefore, you may have to adjust the amount of other gains or losses. Get Schedule D-1, Sales of Business Property, to figure the adjustment.

Note: California does not conform to federal legislation enacted in 1996 which permits electing not to recognize gain on the involuntary conversion of business property in connection with a disaster declared by the President. Get Pub. 1001 for more information.

Line 15 – IRA Distribution

Generally, you will not make any adjustments on this line. However, there may be significant differences in the taxable amount depending on when you made your contributions to the IRA. Differences may also occur if you changed your residency status after you first began making contributions to your IRA or if your California IRA deductions were different from your federal deductions because of differences between California and federal self-employment income.

If the taxable amount using California law is:

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

Get FTB Pub. 1005 for more information.

Line 16 – Pensions and Annuities

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

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

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

Line 17 – Rental Real Estate, Royalties, Partnerships, S corporations, Trusts, etc.

You may need to adjust federal income or loss you reported in column A because of the difference between California and federal law relating to depreciation methods, special credits and accelerated write-offs. As a result, the recovery period or the basis you should use to figure California depreciation may be different from the amount used for federal purposes. For more information about the types of income and adjustments that often require adjustments, see the instructions for Schedule CA (540NR), line 12.

Note: If any of your activities is a passive activity that produces a loss, complete form FTB 3801, Passive Activity Loss Limitations (PALS), to figure the passive activity loss allowable under California law.

Note: Limited liability companies (LLCs) classified as partnerships for California purposes and limited liability partnerships (LLPs) are subject to the same rules as other partnerships. LLCs report distributive items to members on Schedule K-1 (568), Member's Share of Income, Deduc-

tions, Credits, etc. LLPs report to their partners on Schedule K-1 (565), Partners Share of Income, Deductions, Credits, etc.

Get FTB Pub 1001 for more information about:

- Payments to retired or deceased partners; or
- Accumulation distribution to beneficiaries for which the trust was not required to pay California tax because the beneficiary's interest was contingent.

Line 18 – Farm Income or Loss

You may need to adjust federal income or loss you report in column A because of the difference between California and federal law relating to depreciation methods, special credits and accelerated write-offs. As a result, the recovery period or the basis you should use to figure California depreciation may be different from the amount used for federal purposes. For more information about the types of income and adjustments that often require adjustments, see the instructions for Schedule CA (540NR), line 12.

Note: If your farm activity is a passive activity which produces a loss, complete form FTB 3801, Passive Activity Loss Limitations (PALS), to figure the passive activity loss allowable under California law.

Line 19 – Unemployment Compensation

Enter on line 19, column B, the amount of unemployment compensation shown on line 19, column A.

Line 20 – Social Security Benefits

Enter in column B the amount of social security benefits or equivalent tier 1 railroad retirement benefits shown on this line in column A.

Line 21 – Other Income

a. California Lottery Winnings

Enter in column B the amount of California Lottery winnings included in the federal amount on line 21 in column A.

Note: Do not include lottery winnings from other states. They are taxable to California.

b. Disaster Loss Carryover from FTB 3805V

If you have a California disaster loss carryover from your 1995 form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations, enter that amount as a positive number in column B.

c. Federal NOL Deduction from Form 1040, line 21

If the amount on line 21 in column A includes a federal net operating loss (NOL) deduction, enter the amount of the federal NOL deduction as a positive number in column C. Get form FTB 3805V to figure the allowable California NOL deduction.

d. NOL Carryover from FTB 3805V

The allowable NOL carryover under California law is different from the allowable NOL carryover under federal law. Use form FTB 3805V to figure the allowable California NOL deduction and enter it as a positive number in column B.

Note: If your 1995 form FTB 3805V has both disaster loss carryovers and NOL carryovers, you will need to separately state these two amounts. See line 21b, for disaster loss carryovers.

e. NOL Deduction from FTB 3805Z, FTB 3806 or FTB 3807

If you have an NOL deduction on form:

- FTB 3805Z, Enterprise Zone/Program Area Deduction and Credit Summary, line 8b; or
- FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary, line 4b; or
- FTB 3807, Local Agency Military Base Recovery Area (LAMBRA) Deduction and Credit Summary, line 4b.

Enter in column B the total NOL deduction figured on these forms.

f. Other (describe)

Death benefit exclusion. Enter in column B the death benefit amount included in federal income in column A and received by the beneficiary or estate of a deceased employee who died after August 20, 1996. This amount cannot exceed \$5,000.

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

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

Payments for alternative transportation.

Enter in column B the amount that you received from your employer, other than salaries or wages, for participating in an alternative transportation method and is included in the amount on line 21 in column A. For more information, refer to R&TC Section 17149.

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

Payment from a living benefit contract.

Enter in column B the income from such a contract that you included in the amount on line 21 in column A.

Beverage container recycling income.

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

Rebates from water agencies or suppliers.

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

Original issue discount (OID) for debt instruments issued in 1985 and 1986. In the year of sale or other disposition, you must recognize the difference between the amount reported on your federal return and the amount reported for California purposes.

Issuers: Enter the difference between the federal deductible amount and the California deductible amount on line 21f in column B.

Holders: Enter the difference between the amount included in federal gross income and the amount included for California purposes on line 21f in column C.

Foreign income of nonresident aliens.

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

Energy conservation subsidies. Enter in column C the amount of any energy conservation subsidy provided, either directly or indi-

rectly, by public utilities for the purchase or installation of an energy conservation measure that was not included in column A.

Line 22a – Total

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

Line 22b – Balance Carried Forward

Enter the totals from Side 1, line 22a, column B and column C.

Line 24 – Moving Expenses

Expenses incurred during 1996: California law and federal law are the same beginning in 1996. Make no entry on this line.

Expenses incurred before 1996: If you incurred moving expenses before 1996, received reimbursement in 1996 and did not deduct those expenses on a prior year's tax return, get 1995 form FTB 3596, California Moving Expenses, to find out if you may deduct those expenses. Then make the adjustment indicated by form FTB 3596 on your 1996 Schedule CA(540NR), line 24. See the back cover of your tax booklet for information on ordering forms.

Line 26 – Self-Employed Health Insurance Deduction

California law allows the deduction for self-employed health insurance. If you qualify for the federal deduction, you also qualify for the California deduction. However, the amount of the deduction will be different for California and you must figure the deduction using the lower California percentage of 25%. Complete the following worksheet to figure your California deduction and to make the necessary adjustment on Schedule CA (540NR):

1. Enter the total amount paid in 1996 for you, your spouse and dependents. Do not include amounts for any month you were eligible to participate in an employer-sponsored plan. 1 _____
2. Multiply line 1 by 25% (.25) 2 _____
3. Enter your net profit and any other earned income from the business under which the insurance plan is established, minus any deductions you claim on Form 1040, line 25 or line 27 3 _____
4. Enter your federal self-employed health insurance deduction from Form 1040, line 26. 4 _____
5. California self-employed health insurance deduction. Enter the smaller of line 2 or line 3 5 _____
6. Subtract line 5 from line 4. Enter the result on line 26 in column B. 6 _____

Line 29 – Alimony Paid

Enter the social security number and last name of the person to whom you paid alimony.

Note: If you are a nonresident alien and you did not deduct alimony on your federal return, enter the amount you paid on this line in column C.

Line 30 – Add line 23a through line 29 in column B and column C. Enter the totals on this line in the appropriate columns.

Note: If you claimed the foreign housing deduction, include that amount in the total you enter in column B, line 30. Enter the amount and "foreign

housing deduction" on the dotted line next to line 30.

Line 31 – Total

Subtract line 30 from line 22b in column B and column C. Enter the totals on this line in the appropriate column.

Column D – Total Amounts Using California Law

Use this column to show the amount remaining after adjustments (subtractions or additions).

For each line, 7 through 31:

1. Subtract the amounts in column B from the amounts in column A.
2. Add the amounts in column C to the result of the calculation made in 1 above.
3. Enter the total in column D.

Note: In some cases the total on line 31 in column B or column C will be a negative number. Please read the caution note when you get to line 32.

If you made any adjustments on line 21 in column B or column C:

- Step 1 Add the adjustments in column B, lines a, b, d, e and f.
- Step 2 Subtract that total from line 21, column A.
- Step 3 Add the adjustments in column C, lines c and f.
- Step 4 Add that total to the result of Step 2; then continue as instructed above for all other lines.

Column E – California Amounts

In this column, identify the amounts that you earned from all sources while you were a California resident and that you received from sources within California while you were a nonresident.

At the end of this column you will compute the ratio of the California adjusted gross income (line 31, column E) to the adjusted gross income from all sources (line 31, column D). You will use the resulting decimal amount to determine your tax.

Refer to instructions for each line below to be sure you are including the right amounts.

Line 7 – Wages, Salaries, Tips, Etc.

Enter all wages, salaries, tips and other compensation you earned while you were a California resident. And, if you performed work in California while you were a nonresident, include the portion of wages or other compensation earned in California. Include moving expense reimbursement for moves into California.

Line 8 – Taxable Interest Income

Enter the interest that you received while you were a California resident. For more information, refer to the instructions for column B and column C, line 8.

Line 9 – Dividend Income

Enter all dividends you received while you were a California resident. Include dividends you received from federal S corporations that have elected to be treated as C corporations for California tax purposes.

Line 11 – Alimony Received

Enter the alimony that you received while you were a California resident.

Line 12 – Business Income or (Loss)

Enter the total amount of profits or losses (computed using California law) from all businesses

you conducted while you were a California resident and from all businesses you conducted in California while you were a nonresident of California. If you reported PALS activities in column D, and only some of them must be included in column E, complete a second form FTB 3801 to compute the California portion of any PALS.

If, as a nonresident you derived income from a business, trade or profession conducted partly within California and partly outside California, only income from the part conducted within California is considered California source income that you must report on this line in column E. If there is any business relationship between the parts within and outside California (flow of goods, etc.), you must apportion the gross income or loss from the entire business. To determine the portion of income or loss from businesses engaged in multistate activities that you must report in column E, use the apportionment formula described in Schedule R, Apportionment and Allocation of Income.

Line 13 – Capital Gain or (Loss)

Complete Schedule D, California Capital Gain or Loss Adjustment, to report all transactions that occurred while you were a California resident and those transactions that were related to property located in California while you were a nonresident. Complete Schedule D through line 8 only. Enter the gain from line 7 or the loss from line 8, whichever applies, on this line in column E.

Line 15 – IRA Distributions (Taxable Amount)

Enter the taxable portion of IRA distributions you received while you were a California resident. This includes regular distributions, premature distributions and any other money or property you received from your IRA account or annuity. Get FTB Pub. 1005 for more information.

Line 16 – Pensions and Annuities (Taxable Amount)

Enter the portion of your taxable pension and annuity income you received while you were a resident of California.

Line 17 – Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, Etc.

Enter your 1996 profit or loss from all rents, royalties, partnerships, S corporations, LLCs, estates and trusts that occurred while you were a California resident and profit or loss related to property or business located in California while you were a nonresident of California. If you reported PALS activities in column D and only some of them must be included in column E, complete a second form FTB 3801 to compute the California portion of any PALS.

If you owned an interest in a partnership, an LLC characterized as a partnership or an S corporation and you were a California resident on the last day of the partnership's or LLC's taxable year or S corporation's income year, you must include your entire distributive share of the partnership's or LLC's profit or loss or your entire pro rata share of the S corporation's profit or loss.

If you were a nonresident of California on the last day of the partnership's or LLC's taxable year or S corporation's income year, include the portion of your distributive share of the profit or loss derived from California sources from the partnership or the LLC, or your pro rata share of the profit or loss derived from California sources from the S corporation.

Your Schedule K-1 (100S, 541 or 565) will indicate the amount of partnership, S corporation, estate, LLC or trust profit or loss that you must include on this line in column E.

Line 18 – Farm Income or (Loss)

Enter your profit or loss from all farming activity while you were a California resident **and** for farming activity conducted in California while you were a nonresident of California. If you have PALS activities in column D and only some of them must be included in column E, complete a second form FTB 3801 to figure the California portion of any PALS.

Line 21 – Other Income

Enter the amounts derived from California sources or which you accrued, earned or received while you were a California resident that are not included in line 7 through line 18 of column E.

Line 22a – Total

Add line 7 through line 21 in column E. Enter the result on this line.

Line 22b – Balance Carried Forward

Enter the total from Side 1, line 22a, column E on this line.

Line 24 – Moving Expenses

California law and federal law are the same for moving expenses. If you moved:

- Into California in connection with your new job, enter the amount from column A, line 24 in column E, line 24.
- Out of California in connection with your new job, enter zero on line 24.

Exception: If you moved out of California in connection with your new job and received compensation from that job attributable to a California source, your moving expense adjustment will be limited by the ratio of California source compensation from the new job to total compensation from the new job.

Note: If you incurred moving expenses before 1996, received reimbursement in 1996 and did not deduct those expenses on a prior year's tax return, get 1995 form FTB 3596, California Moving Expenses, to find out if you may deduct those expenses. Then make the adjustment indicated by form FTB 3596 on your 1996 Schedule CA(540NR). See the back cover of your tax booklet for information on ordering forms.

Line 23a, line 23b and line 27 – IRA, Keogh and SEP Deduction

The amount of the California deduction for IRA, Keogh and SEP contributions is the same as the federal deduction. However, the deduction may be limited by your California compensation or by your California self-employment income.

Example: A taxpayer moved into California on December 1. She made contributions to her IRA and claimed a deduction of \$2,000 on her federal return. Her California wages were \$500. Her allowable deduction is the lesser of:

- The federal deduction of \$2,000; or
- The California compensation of \$500.

Therefore, she must enter \$500 on line 23a of column E. She will have made no entry in column B or column C.

Keogh and SEP deductions are limited to a percentage of the federal deduction. That percentage is the ratio of:

Self-employment income reported in column E \div Total self-employment income reported in column D = California ratio

Total self-employment income reported in column D

Get FTB Pub. 1005 for further information.

Line 25 – One-half of Self-Employment Income

If you claimed a deduction in column A for self-employment tax paid, your California deduction is limited to a percentage of the federal deduction. That percentage is the ratio of:

Self-employment income reported in column A from all sources while a CA resident	+	Self-employment income reported in column A from CA sources while a nonresident
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Total self-employment income reported in column A

Line 26 – Self-Employed Health Insurance Deduction

If you claimed a deduction in column A for payments you made to a health insurance plan while you were self-employed, your California deduction is limited to a percentage of the federal deduction. That percentage is the ratio of:

Total self-employment income reported in column E \div Total self-employment income reported in column D = California ratio

Total self-employment income reported in column D

Line 28 – Penalty on Early Withdrawal of Savings

Enter the interest penalties charged to you while you were a California resident.

Line 29 – Alimony Paid

Enter alimony or separate maintenance payments that you made while you were a California resident.

Line 30 – Add line 23a through line 29 in column E. Enter the result on this line.

Line 31 – Total

Subtract line 30 from line 22b in column E. This is your California adjusted gross income (AGI). Enter the result on this line. Also enter this amount on Form 540NR, Side 1, line 20.

Line 32 – Ratio

Ratio = $\frac{\text{California AGI}}{\text{Total AGI from all sources}}$

Divide the amount on line 31, column E by the amount on line 31, column D. Enter the result on this line and on Form 540NR, Side 1, line 25a.

Also, transfer the amounts from:

- Line 31, column B to Form 540NR, Side 1, line 14;
- Line 31, column C to Form 540NR, Side 1, line 16; and
- Line 31, column E to Form 540NR, Side 1, line 20.

Caution: If the amount on Schedule CA (540NR) line 31:

- **Column B** is a negative number, do not transfer it to Form 540NR, line 14. Instead, transfer the amount as a positive number to Form 540NR, line 16; or

- **Column C** is a negative number, do not transfer it to Form 540NR, line 16. Instead, transfer the amount as a positive number to Form 540NR, line 14.

Specific Line Instructions for PART III Adjustments to Federal Itemized Deductions

Line 33 – Federal Itemized Deductions

Enter the total amount of itemized deductions from your federal Schedule A, line 4, 9, 14, 18, 19, 26 and 27 or Schedule A (Form 1040NR), line 3, 7, 8, 15 and 16.

Important: If you did not itemize deductions on your federal tax return, but will itemize deductions on your California return, first complete federal Schedule A. Then complete Schedule CA (540NR), Part III, line 33 through line 38. Attach a copy of federal Schedule A to your Form 540NR.

Line 34 – State, Local and Foreign Income Taxes

Add the following amounts from federal Schedule A and enter on line 34:

- Line 5, state and local income tax (including limited partnership tax and income or franchise tax paid by corporations) and State Disability Insurance (SDI); and
- Line 8, foreign income taxes.

Line 36 – Other Adjustments

Adoption related expenses

If you deducted adoption related expenses on your federal Schedule A and are claiming the adoption cost credit on your Form 540NR, enter the amount of the adoption cost credit claimed as a negative number on line 36.

Moving Expenses

If you incurred moving expenses before 1996, received reimbursement in 1996 and did not deduct those expenses on a prior year's tax return, get 1995 form FTB 3596, California Moving Expenses, to find out if you may deduct those expenses. Then make the adjustment indicated by form FTB 3596 on your 1996 Schedule CA(540NR), line 36. See the back cover of your tax booklet for information on ordering forms.

Mortgage Interest Credit

If you reduced your federal mortgage interest deduction by the amount of your mortgage interest credit (from federal Form 8396, Mortgage Interest Credit), be sure to increase your California itemized deductions by the same amount. Enter the amount of your federal mortgage interest credit as a positive number on line 36.

Nontaxable Income Expenses

If, on federal Schedule A, you claim expenses related to producing income taxed under federal law but not taxed by California, enter the amount as a negative number on line 36.

You may claim expenses related to producing income taxed by California law but not taxed under federal law by entering the amount as a positive number on line 36.

Employee Business Expense

If you had assets placed in service before January 1, 1987, and if you completed federal Form 2106, Employee Business Expenses, also complete Form 2106 using California amounts. Compare line 10 on both Forms 2106. If the federal amount is larger, enter the difference as a

negative number on line 36. If the California amount is larger, enter the difference as a positive number on line 36.

Investment Interest Expense

Your California deduction for investment interest expense may be different from your federal deduction. You must use form FTB 3526, Investment Interest Expense Deduction, to figure the amount to enter on line 36.

Gambling Losses

California Lottery losses are not deductible for California. Enter the amount of California Lottery losses shown on federal Schedule A as a negative number on line 36.

Federal Estate Tax

Federal estate tax paid on income in respect of a decedent is not deductible for California. Enter the amount of federal estate tax shown on federal Schedule A as a negative number on line 36.

Generation Skipping Transfer Tax

Tax paid on generation skipping transfers is not deductible under California law. Enter the amount of expenses shown on federal Schedule A, line 23, as a negative number on line 36.

Contribution of Appreciated Stock to a Private Foundation

For contributions made after 6/30/96, enter the difference between the fair market value of the stock and the California basis as a negative number on line 36.

State Legislator's Travel Expenses

Under California law, deductible travel expenses for state legislators include only those incurred while away from their places of residence overnight. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference as a negative number on line 36.

Line 38 – California Itemized Deductions

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

Single or married filing separate	\$111,695
Married filing joint or qualifying widow(er)	\$223,390
Head of household	\$167,542

NO. Transfer the amount from line 37 to line 38. Do not complete the worksheet in the next column.

YES. Complete the Itemized Deductions Worksheet in the next column.

Itemized Deductions Worksheet

1. Enter the amount from Schedule CA (540NR), line 37 1 _____
2. Using California amounts, add the amounts on federal Schedule A (Form 1040), line 4, line 13 and line 19 plus any gambling losses included on line 27 (or on Schedule A (Form 1040NR), line 8 plus any investment interest expense included on line 11 and any gambling losses included on line 16) 2 _____
3. Subtract line 2 from line 1.
Note: If the result is zero or less, **stop.** Enter the amount from line 1 above on Schedule CA (540NR), line 38 3 _____
4. Multiply line 3 by 80% (.80) 4 _____
5. Enter the amount from Form 540NR, line 13 5 _____
6. Enter the amount shown to the left for your filing status 6 _____
7. Subtract line 6 from line 5.
Note: If the result is zero or less, **stop.** Enter the amount from line 1 above on Schedule CA (540NR), line 38 7 _____
8. Multiply line 7 by 6% (.06) 8 _____
9. Compare the amounts on line 4 and line 8. Enter the smaller amounts here 9 _____
10. Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule CA (540NR), line 38 10 _____