

What's New and Other Important Information for 2003?

Differences Between California and Federal Law

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2001. However, there are continuing differences between California and federal law. It should be noted that California does not always conform to the entire provisions of a public law. California has conformed to some of the changes made by the Internal Revenue Code after January 1, 2001, including some provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16), the Victims of Terrorism Tax Relief Act of 2001 (Public Law 107-134), and the Job Creation and Worker Assistance Act of 2002 (Public Law 107-147). California has not conformed to any of the provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (Public Law 108-27) and the Military Family Tax Relief Act of 2003 (Public Law 108-121).

2003 Tax Law Changes

Use Tax – For taxable years beginning on or after January 1, 2003, if you made a purchase from an out-of-state or Internet seller and did not pay California use tax, you may now report the California use tax on your personal income tax return. For more information, see Additional Information on page 66.

Mandatory e-file – If you are a tax practitioner who prepared more than 100 individual income tax returns during the calendar year that began on or after January 1, 2003, and in the current calendar year, you prepare one or more individual income tax returns using tax preparation software, then for that calendar year and for each subsequent calendar year thereafter, all income tax returns you prepare shall be electronically filed (e-file) with the Franchise Tax Board. For additional information regarding e-file, visit our Website at www.ftb.ca.gov.

Other Important Information

Reduction in Services

As a result of the reduced funding we have received due to the State's budget problems, the Franchise Tax Board must reduce the level of some of its public services in 2004. Please be aware of the following proposed changes in our services:

- Reduced hours of operation in our telephone service
- Longer wait time for telephone assistance
- Longer time to process your tax return and get your refund to you if you file your return on paper instead of e-filing
- Longer time to respond to correspondence inquiries.

If you access our convenient online services you can still get the information you need 24 hours a day, every day through our Website at www.ftb.ca.gov. In addition, we encourage you to e-file your tax return to get your tax refund quickly. You can find the best way to e-file your California return by checking our Website.

Southern California Wildfires – If you were a victim of the Southern California Wildfires, get Pub. 1034, California Disaster Relief Tax Provisions and Pub. 1034A-4, Southern California Wildfires, for more information.

Enclose, but do not staple, any payment – To help reduce our processing costs, please enclose but do not staple your payment to your return. Or pay online at www.ftb.ca.gov, select payment options.

Employer-Provided Adoption Assistance Exclusion – With regard to adoption of children with special needs, California has not conformed to the federal provisions providing for a potential increase in the exclusion for the year in which the adoption becomes final or the limitation based upon the aggregate amount paid in all years. For more information, get form FTB 5123, Employer Provided Adoption Assistance Exclusion.

Rental Allowance for State-Employed Clergy Members – The housing exclusion allowed to state-employed members of the clergy (priests, ministers, religious practitioners or similar functionaries of a religious denomination or religious organization) has been increased. Effective January 1, 2003, up to 50% of gross salary may be allocated for either the rental value of a home furnished, or the rental allowance paid to him or her to rent or provide a home. For more information, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments.

Teacher Retention Credit – The Teacher Retention Credit is available for tax year 2003.

Natural Heritage Preservation Tax Credit – The Natural Heritage Preservation tax credit is available starting July 1, 2003.

Child and Dependent Care Expenses Refundable Credit/ Treatment of never married persons – Parents who are not married are treated the same as divorced or separated parents for purposes of the California Child and Dependent Care Expenses Credit. For more information, please refer to the instructions for form FTB 3506 on page 57.

Net Operating Loss (NOL) – For taxable years 2002 and 2003, the NOL carryover deduction was suspended. Taxpayers may continue to compute and carryover an NOL during the suspension period. The deduction for disaster losses is not affected by the NOL suspension rules.

The carryover period for suspended losses is extended by two years for losses incurred before January 1, 2002, and by one year for losses incurred after January 1, 2002, and before January 1, 2003.

After the suspension period, the Net Operating Loss deduction will be allowed at 100%.

For more information, get form FTB 3805V.

Withholding on Real Property Sales – Effective January 1, 2003, the 3¹/₃% withholding requirement of the sales price for transfer of California real property was expanded to include sales made by California residents. Exemptions from withholding include the sale of a principal residence that qualifies for an exclusion of a gain, a sale that will produce a loss for tax purposes, and sales that qualify for tax deferred treatment under IRC Section 1031, like-kind exchange.

For more information on the new real estate withholding rules, get FTB Pub. 1016, Real Estate Withholding Guidelines. If you had California income tax withheld from the sale of your California real estate during 2003, report the tax withheld on Form 540, line 40.

Tax on Early Distributions – Federal and California law provide for an additional tax on early distributions from annuity plans, self-employed plans, Individual Retirement Arrangements (IRAs), and Modified Endowment contracts. The additional tax is imposed only on the amount of the distribution that is includible in income. For California purposes, the additional tax rate is 2½%.

Exclusions for Registered Domestic Partners – Several taxpayer benefits now apply to a taxpayer's registered "domestic partner" and their dependent(s) for medical expenses and health benefits that occur on or after January 1, 2003. These benefits include:

- The exclusion from gross income for employer-provided accident and health insurance.
- An exclusion from gross income for medical expense reimbursement if the expense was not previously deducted.
- Medical expenses deductible as an itemized deduction.
- Long-term health care insurance deductible as a medical expense.
- A deduction by self-employed individuals for health insurance costs paid for themselves, their spouses, and dependents. The deduction may **not** exceed the net earnings from the trade or business in which the insurance plan is established.

The deductions are taken as an adjustment on the Schedule CA (540).

Holocaust Restitution Payments – An exclusion is provided for holocaust reparations received by eligible individuals, their heirs, or estate for holocaust restitution payments, distributions or excludable trust.

Energy Rebates – An exclusion is allowed for vouchers, rebates, or other financial incentives received from the California Energy Commission, the Public Utilities Commission, or a local publicly owned utility for the purchase and installation of specified energy production systems.

Military Service Benefits – Extensions of time are provided to members of the National Guard ordered into active service by the Governor of California or active federal service by the President of the United States for emergency purposes and to reservists called to active duty. The extensions apply to, among other things, court proceedings, contract obligations, rental agreements, taxes or assessments, and health or medical insurance.

In addition, California allows an exemption from taxes to any California taxpayer who dies on active duty with any branch of the armed forces of the United States.

New Voluntary Contribution Fund – You may make voluntary contributions to the California Missions Foundation Fund.

Federal Conformity Items

- California conforms to federal provisions regarding disallowance of club dues.
- California conforms to federal provisions regarding disallowance of lobbying and political expenses.
- California has conformed to the Victims of Terrorism Tax Relief Act of 2001 to allow victims who have died as a result of the terrorist attacks of September 11, 2001, and the anthrax incidents in 2001, a forgiveness of their state tax liability for the year immediately preceding the incident and all subsequent tax years until the date of death. For victims who died in 2001, this will result in a forgiveness of tax liability for tax year 2000 and 2001. For more information, get Form 540X, Amended Individual Income Tax Return, and instructions.

New Federal Non-Conformity Items

California does not conform to the provisions in the Military Family Tax Relief Act of 2003. For more information, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments (2003) and FTB Pub. 1032, Tax Information for Military Personnel (2003).

Common Errors and How to Prevent Them

Help us to process your return quickly and accurately. When we find an error, we must stop to verify the information on the return, which slows processing. The most common errors are wrong estimated tax payments, taking the wrong exemption credit, and tax computation errors.

To avoid these errors and help us to process your return faster, please use these helpful hints when preparing your return.

When claiming estimated payments:

- Verify that the amount of estimated payments claimed on your return matches what you sent to the FTB for that year. Check our Website at www.ftb.ca.gov and access the "Check Account Balance" feature to view your total estimate payments before you file your return.
- If the amount of estimated payments claimed on your tax return does not match FTB records, you will receive a Return Information Notice to explain the difference.

When totaling your exemptions:

- Be sure to add the exemption amounts correctly and transfer the total exemption amount to the correct line of the return. (See the individual line instructions for assistance).

When computing your tax:

- Check our website at www.ftb.ca.gov and access the automated tax table to compute your tax, or
- Make sure to locate the correct tax amount from the tax table and transfer it to your return correctly.

By using the helpful hints listed above, you can prevent delays in processing your return and unnecessary account adjustments.



INTERNET ASSISTANCE

We have made significant changes to our Website in an effort to help answer questions when completing your income tax return. Visit us at www.ftb.ca.gov to get helpful information such as:

- Getting a Customer Service Number.
- Tips for e-filing your tax return.
- Checking the status of your refund and making an account balance inquiry.
- Paying online with Web Pay (personal income tax, estimated tax, and bills). You choose the dates to pay.
- Completing and submitting requests to make monthly tax payments.
- Downloading tax forms and publications – sorted by year and by form number.
- Accessing legal notices, rulings, and regulations; also see FTB's analysis of pending legislation; and get current law/policy information by reading **Tax News Online**.
- Finding out if you can TeleFile.
- Viewing internal procedure manuals to learn how we administer the law.
- Checking your estimated tax payments.



AUTOMATED PHONE SERVICE SYSTEM

Get recorded answers to your tax questions, 24 hours a day, 7 days a week - at NO charge to you. Just call toll-free at **(800) 338-0505** and follow the instructions provided. For quicker service, first choose Spanish or English, then press 1-4-1 (allow 3 seconds for a prompt), then enter the three-digit **general information code** found wherever you see the phone symbol throughout this booklet. See the back cover for a list of general information topics and access codes.

\$\$\$ for You

Earned Income Credit (EIC) – If you earned less than \$34,692 (less than \$11,230 if you do not have any qualifying children), you may be eligible to get the EIC to reduce the federal tax you owe, or get a refund if you do not owe any federal tax. Call the IRS at (800) 829-4477 and enter topic 601 when instructed, or see your federal income tax booklet. There is no comparable state credit.

Refund of Excess State Disability Insurance (SDI) – You may be eligible for a refund of excess SDI if you had at least two employers during 2003 who together paid you more than \$56,916 in wages. See the instructions on page 13 (Form 540A) or on page 20 (Form 540).

Homeowner and Renter Assistance (HRA) – This California program provides a once-a-year state payment to qualifying homeowners and renters based on the property tax they paid in the prior year. See page 66.