

What's New and Other Important Information for 2006

Differences between California and Federal Law

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, go to our Website at www.ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

2006 Tax Law Changes

Direct Deposit of Refund – More Choices

For taxable years beginning on or after January 1, 2006, individual taxpayers may request that his or her refund be electronically deposited into more than one checking or savings account. This allows more options for managing your refund. For example, you can request part of your refund go to your checking account to use now and the rest to your savings account to save for later.

Heroes Earned Retirement Opportunities Act

California conforms to the Federal Heroes Earned Retirement Opportunities Act that allows members of the Armed Forces serving in a combat zone to make contributions to their individual retirement plans even if the compensation on which such contribution is based is excluded from gross income.

Conformity

For updates regarding the following federal acts, go to our Website at www.ftb.ca.gov and search for **conformity**.

- Tax Increase Prevention and Reconciliation Act of 2005
- Federal Energy Policy Act of 2005
- Pension Protection Act of 2006

Voluntary Contributions

For taxable years beginning on or after January 1, 2006, you may make contributions to the California Sea Otter Fund.

Registered Domestic Partners

Beginning with the 2007 tax year, registered domestic partners are required to file a joint California return or separate returns using the same rules applicable to spouses. If you are a registered domestic partner, you may choose to modify your withholding or estimated tax payments for 2007 in anticipation of this change.

Retirement Income

Recent Federal law provisions prohibit states from taxing the retirement income of nonresidents and includes a prohibition on taxing retirement income paid by a partnership to a nonresident retired partner under any written plan, program, or arrangement in effect immediately before retirement begins. This is applicable to amounts received after December 31, 1995.

Northern California Rainstorms and Related Events

For tax treatment information for victims of the northern California severe rainstorms and related events that occurred December 2005 to

January 2006, and March 2006 to April 2006, get FTB Pub. 1034, How to Claim a State Tax Deduction for Your Disaster Loss.

San Bernardino Wildfires

For tax treatment information for victims of the San Bernardino wildfires that occurred July 2006, get FTB Pub. 1034, How to Claim a State Tax Deduction for Your Disaster Loss.

Withholding on California Real Estate

For transactions occurring on or after January 1, 2007 that require withholding, a seller of California real estate may elect an alternative to withholding 3 1/3 percent of the total sales price. The seller may elect an alternative withholding amount based on the maximum tax rate for individuals, corporations, or banks and financial corporations, as applied to the gain on the sale. The seller is required to certify under penalty of perjury the alternative withholding amount to the Franchise Tax Board. For real estate installment sales, if a buyer receives seller's certification as to an alternative withholding election, the buyer would be required to withhold either the full alternative withholding amount at the time of sale or an alternative withholding percentage on the amount of each installment payment.

Employer Child Care Program Credit and the Employer Child Care Contribution Credit

The Employer Child Care Program Credit and the Employer Child Care Contribution Credit has been extended to taxable years beginning before January 1, 2012.

The California Community Development Financial Institution Tax Credit (CDFI)

The CDFI Credit has been extended to taxable years beginning before January 1, 2012.

Teacher Retention Credit

The Teacher Retention Credit is suspended for taxable year 2006.

Other Important Information

Tax Shelter

If the individual was involved in a reportable transaction, including a listed transaction, the individual may have a disclosure requirement. Attach the federal Form 8886 to the back of the California return along with any other supporting schedules. If this is the first time the reportable transaction is disclosed on the return, send a duplicate copy of the federal Form 8886 to the address below. The FTB may impose penalties if the individual fails to file federal Form 8886, or any other required information.

TAX SHELTER FILING MS F385
FRANCHISE TAX BOARD
PO BOX 1673
SACRAMENTO CA 95812-1673

Individuals must still file federal Form 8271, Investor Reporting of Tax Shelter Registration Number, with their California tax return that claims or reports any income or deduction, loss, credit, or other tax benefit from a registration-required tax shelter. For more information, see federal Form 8271 Instructions, IRS Notice 2004-80 (2004-50 I.R.B. 963), or go to our Website at www.ftb.ca.gov and search for **tax shelters**.

Katrina Tax Relief Act

For more information related to Hurricane Katrina, go to our Website at www.ftb.ca.gov and search for **disaster**.