

Do I Have to File?

Steps to Determine Filing Requirement

(If you are a nonresident of California and received income in 2007 with sources in California, follow the instructions below. For more details see page 6.)

Step 1: Is your gross income (gross income is computed under California law and consists of all income you received from all sources in the form of money, goods, property, and services, that is not exempt from tax) more than the amount shown in the California Gross Income chart below for your filing status, age, and number of dependents? If yes, you have a filing requirement. If no, go to Step 2.

Step 2: Is your adjusted gross income (adjusted gross income is computed under California law and consists of your federal adjusted gross income from all sources, reduced or increased by all California income adjustments) more than the amount shown in the California Adjusted Gross Income chart below for your filing status, age, and number of dependents? If yes, you have a filing requirement. If no, you do not have a filing requirement but you may be eligible for the federal EITC. See page 2 for more information..

Active duty military personnel, get FTB Pub. 1032, Tax Information for Military Personnel.

On 12/31/07, my filing status was:	and on 12/31/07, my age was: (If your 65th birthday is on January 1, 2008, you are considered to be age 65 on December 31, 2007)	California Gross Income			California Adjusted Gross Income		
		Dependents			Dependents		
		0	1	2 or more	0	1	2 or more
Single or Head of household	Under 65 65 or older	14,138	23,938	31,288	11,310	21,110	28,460
		18,838	26,188	32,068	16,010	23,360	29,240
Married/RDP filing jointly Married/RDP filing separately (The income of both spouses/RDPs must be combined; both spouses/RDPs may be required to file a tax return even if only one spouse/RDP had income over the amounts listed.)	Under 65 (both spouses/RDPs)	28,276	38,076	45,426	22,620	32,420	39,770
	65 or older (one spouse/RDP)	32,976	40,326	46,206	27,320	34,670	40,550
	65 or older (both spouses/RDPs)	37,676	45,026	50,906	32,020	39,370	45,250
Qualifying widow(er)	Under 65 65 or older		23,938	31,288		21,110	28,460
			26,188	32,068		23,360	29,240
Dependent of another person Any filing status	Any age	More than your standard deduction (Use the California Standard Deduction Worksheet for Dependents on page 16 to figure your standard deduction.)					

Requirements for Children with Investment Income

Federal law allows parents' election to report a child's interest and dividend income from a child under age 18 on their return. California allows you to report your child's interest and dividend income on your return if they are under age 14. For each child under age 14 who received more than \$1,700 of investment income in 2007, complete Form 540NR and form FTB 3800, Tax Computation for Children Under Age 14 with Investment Income, to figure the tax on a separate Form 540NR for your child.

If you qualify, you may elect to report your child's income of \$8,500 or less (but not less than \$850) on your return by completing form FTB 3803, Parents' Election to Report Child's Interest and Dividends. To make this election, your child's income must be **only** from interest and/or dividends. See "Order Forms and Publications" on page 59 or go to our Website at www.ftb.ca.gov.

Other Situations When You Must File

If you owe any of the following taxes for 2007, you must file Long Form 540NR.

- Tax on a lump-sum distribution.
- Tax on a qualified retirement plan including an Individual Retirement Arrangement (IRA) or an Archer Medical Savings Account (MSA).
- Tax for children under age 14 who have investment income greater than \$1,700 (see paragraph above).
- Alternative minimum tax.
- Recapture taxes.
- Deferred tax on certain installment obligations.
- Tax on an accumulation distribution from a trust.

Filing Status

Use the same filing status for California that you used for your federal income tax return, unless you are an RDP. If you are an RDP and file single for federal, you must file married/RDP filing jointly or married/RDP filing separately for California. If you are an RDP and file head of household for federal, you may file head of household for California only if you meet the requirements to be considered not in a domestic partnership.

Exception: If you file a joint return for federal, you may file separately for California if either spouse was:

- An active member of the United States armed forces or any auxiliary military branch during 2007.
- A nonresident for the entire year and had no income from California sources during 2007.

For additional RDP filing status information get FTB Pub. 737, Tax Information for Registered Domestic Partners.

Community Property States: If the spouse earning the California source income is domiciled in a community property state, community income will be split equally

between the spouses. Both spouses will have California source income and they will not qualify for the nonresident spouse exception. If you had no federal filing requirement, use the same filing status for California you would have used to file a federal income tax return.

Single – If **any** of the following was true on December 31, 2007:

- You were never married or an RDP.
- You were divorced under a final decree of divorce, legally separated under a final decree of legal separation, or terminated your registered domestic partnership.
- You were widowed before January 1, 2007, and did not remarry or enter into another registered domestic partnership in 2007.

Married/RDP Filing Jointly – If any of the following is true:

- You were married or an RDP as of December 31, 2007, even if you did not live with your spouse/RDP at the end of 2007.
- Your spouse/RDP died in 2007 and you did not remarry or enter another registered domestic partnership in 2007.
- Your spouse/RDP died in 2008 before you filed a 2007 return.

Married/RDP Filing Separately

- Community property rules apply to the division of income if you use the married/RDP filing separately status. For more information, get FTB Pub. 1031, Guidelines for Determining Resident Status, FTB Pub. 1051A, Guidelines for Married/RDP Filing Separate Returns, or FTB Pub. 1032, Tax Information for Military Personnel. See "Order Forms and Publications" on page 59.
- You cannot claim a personal exemption credit for your spouse/RDP even if your spouse/RDP had no income, is not filing a return, and is not claimed as a dependent on another person's return.
- You may be able to file as head of household if you had a child living with you and you lived apart from your spouse/RDP during the entire last six months of 2007.

Head of Household is for unmarried individuals and certain married individuals or RDPs living apart who provide a home for a specified relative. You are entitled to use head of household filing status only if ALL of the following apply:

- You were unmarried and not in a registered domestic partnership, or you met the requirements to be considered unmarried or considered not in a registered domestic partnership on December 31, 2007.
- You paid more than one-half the cost of keeping up your home for the year in 2007.
- For more than half the year, your home was the main home for you and one of the specified relatives who by law can qualify you for head of household filing status.
- You were not a nonresident alien at any time during the year.

(continued on next page)

Do I Have to File? *(continued)*

Beginning in 2005, for a child to qualify as your foster child for head of household purposes, the child must either be placed with you by an authorized placement agency or by order of a court.

If you are unmarried, your unmarried child no longer qualifies you for head of household filing status if he or she is 19 years of age or older, is not a student, and has gross income equal to or greater than the federal exemption amount (\$3,400 in 2007). In addition, if you are unmarried, your unmarried child also no longer qualifies you for the status if he or she is under 19 years of age or a student under 24 and pays more than half of his or her own support.

For more information, go to our Website at www.ftb.ca.gov or get FTB Pub. 1540, California Head of Household Filing Status Information. See code 934 on page 59 to order FTB Pub.1540 by telephone.

What's New and Other Important Information for 2007

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, 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.

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.

2007 Tax Law Changes/What's New

Registered Domestic Partners (RDP) – Effective for taxable years beginning on or after January 1, 2007, RDPs under California law must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs will have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified.

If you are a domestic partner who has registered with the California Secretary of State, effective for taxable years beginning on or after January 1, 2007, you must file a California nonresident income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status.

If you entered into in a same sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, effective for taxable years beginning on or after January 1, 2007, you are required to file a California nonresident income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status. For more information on what states have legal unions that are considered substantially equivalent, go to our Website at www.ftb.ca.gov and search for **RDP**.

For purposes of California income tax, references to a spouse, a husband, or a wife also refer to a California Registered Domestic Partner (RDP), unless otherwise specified. When we use the initials (RDP) they refer to both a California Registered Domestic "Partner" and a California Registered Domestic "Partnership," as applicable. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

Round Cents to Dollars – Beginning with the 2007 tax forms, round cents to the nearest whole dollar. For example, round \$50.50 up to \$51 or round \$25.49 down to \$25. If you do not round, FTB will disregard the cents. This change helps process your returns quickly and accurately.

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

- Small Business and Work Opportunity Tax Act of 2007

Direct Deposit Refund – You can request a direct deposit refund on your tax return whether you e-file or file a paper return. Please be sure to fill in the routing and account numbers carefully and double-check the numbers for accuracy to avoid it being rejected by your bank.

Qualifying Widow(er) with Dependent Child

Fill in the circle on line 5 and use the joint return tax rates for 2007 if **all five** of the following apply

- Your spouse/RDP died in 2005 or 2006 and you did not remarry or enter into another registered domestic partnership in 2007.
- You have a child, stepchild, adopted child, or foster child whom you can claim as a dependent.
- This child lived in your home for all of 2007. Temporary absences, such as for vacation or school, count as time lived in the home.
- You paid over half the cost of keeping up your home for this child.
- You could have filed a joint return with your spouse/RDP the year he or she died, even if you actually did not do so.

IRC 409A Additional Taxes for Discounted Stock Options and Stock

Appreciation Rights – For those employees who exercised certain discounted stock options or stock appreciation rights in 2006 and whose employer participated in the Franchise Tax Board's 2007 Compliance Resolution Program described in FTB Notice 2007-1 and paid the additional IRC section 409A taxes on behalf of their employees, the additional taxes paid by the employer should be included as compensation in the employee's 2007 Form W-2.

El Dorado and Southern California Wildfires – For tax treatment information for victims of the wildfires that occurred in El Dorado, Santa Barbara, Ventura, Los Angeles, San Bernardino, Orange, Riverside, and San Diego counties, get FTB Pub. 1034, How to Claim a State Tax Deduction for Your Disaster Loss.

January 2007, Freezing Conditions – For tax treatment information for victims of the January 2007, freeze that occurred in El Dorado, Fresno, Imperial, Kern, Kings, Madera, Merced, Monterey, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, Santa Clara, Stanislaus, Tulare, Ventura, and Yuba counties, get FTB Pub. 1034, How to Claim a State Tax Deduction for Your Disaster Loss.

Teacher Retention Credit – For taxable years beginning on or after January 1, 2007, the Teacher Retention Credit has been repealed.

My FTB Account – Make tax time less taxing! Check My FTB Account for information about your estimated tax payments, FTB issued 1099-Gs, 1099-INTs, California wage and withholding data and more! Go to our Website at www.ftb.ca.gov and search for **My Account**.

Other Important Information

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.

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.

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, Reportable Transaction Disclosure Statement, 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, Reportable Transaction Disclosure Statement, to the address below. The FTB may impose penalties if the individual fails to file federal Form 8886, or any other required information.

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For more information, go to our Website at www.ftb.ca.gov and search for **tax shelters**.