Supplemental Guidelines to California Adjustments

What's New

Mortgage Forgiveness Debt Relief Extended – California law partially conforms to the federal Mortgage Forgiveness Debt Relief Act of 2007 and the Emergency Economic Stabilization Act of 2008 for discharges of indebtedness occurring on or after January 1, 2009. California limits the amount of qualified principal residence indebtedness to $800,000 ($400,000 for married/RDP filing separately)(the federal limit is $2,000,000/$1,000,000 for MFS) and debt relief to $500,000 ($250,000 for married/RDP filing separately). For more information, go to **ftb.ca.gov** and search for **mortgage forgiveness**.

Hokie Spirit Memorial Fund Exclusion – California law conforms to federal law to exclude from income any amount received from the Hokie Spirit Memorial Fund for the events at Virginia Polytechnic Institute and State University on April 16, 2007. The income is excluded from gross income for any taxable year and is thus retroactive in its application.

Income Exclusion of Federal Energy Grants – California law conforms to federal law to exclude from income any federal energy grants provided in lieu of federal energy credits.

Tax Computation for Certain Children with Investment Income – For taxable years beginning on or after January 1, 2010, California conforms to the provision of the Small Business and Work Opportunity Tax Act of 2007 which increased the age of children to 18 and under or a student under age 24 for elections made by parents reporting their child's interest and dividends.

Net Operating Loss – For taxable years beginning in 2010 and 2011, California suspended the net operating loss (NOL) carryover deduction. Taxpayers may continue to compute and carryover NOLs during the suspension period. However, taxpayers with modified adjusted gross income of less than $300,000 or with disaster loss carryovers are not affected by the NOL suspension rules.

Also, California modified the NOL carryback provision. For more information, see form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.

Income Exclusion for In-Home Supportive Services (IHSS) Supplementary Payments – For taxable years beginning on or after January 1, 2010, California law allows an exclusion from gross income for IHSS supplementary payments received by IHSS providers.

General Information

In general, for taxable years beginning on or after January 1, 2010, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2009. 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 **ftb.ca.gov** and search for **conformity**. Additional information can be found in 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.

Registered Domestic Partners (RDP) – Under California law, RDPs must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified.

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, you are required to file a California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status.

For purposes of California income tax, references to a spouse, husband, or wife also refer to a California 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.

Same-Sex Married Couples – Married couples must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. For more information, get FTB Pub. 776, Tax Information for Same-Sex Married Couples or go to **ftb.ca.gov** and search for **same sex married couples**.

Conformity

For updates regarding the following federal acts, go to **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
- Small Business and Work Opportunity Act of 2007
- Mortgage Forgiveness Debt Relief Act of 2007
- Economic Stimulus Act of 2008
- Heroes Earnings Assistance and Relief Tax (HEART) Act of 2008
- American Recovery and Reinvestment Act of 2009
- Health Care and Education Reconciliation Act of 2010
- Patient Protection and Affordable Care Act
- Small Business Jobs Act of 2010

Purpose

Use these guidelines to make adjustments to federal adjusted gross income that are necessary because of current year or prior year differences between California and federal law. Generally, you report these adjustments directly on Schedule CA (540), California Adjustments – Residents, or Schedule CA (540NR), California Adjustments – Nonresidents or Part-Year Residents. If required to make multiple adjustments for any one line on Schedule CA (540 or 540NR), attach a statement to your return summarizing these adjustments.

In some cases you need to complete other forms or schedules to figure the adjustment to carry to Schedule CA (540 or 540NR). See "Order Forms and Publications" in your tax booklet for information about ordering forms or go to **ftb.ca.gov**.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
Income		
Wages, Salaries, Tips, etc.		
• Military pay	Special rules apply to active duty military pay and income from services performed by certain spouses of military personnel. Native Americans with military pay also see "Earnings of American Indians" on page 2.	Get FTB Pub. 1032, Tax Information for Military Personnel, for more information.
• Sick pay received under the Federal Insurance Contributions Act and Railroad Retirement Act	California excludes from income the sick pay received under these Acts.	Enter qualifying sick pay included in federal income on Schedule CA (540 or 540NR), line 7, column B.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Income exempted by U.S. treaties	Income exempted by treaty under federal law may be excluded for California only if the treaty specifically excludes the income for state purposes.	Enter the amount excluded from federal income on Schedule CA (540 or 540NR), line 7, column C.
• Employee income exclusions for ridesharing fringe benefits	Under federal law and the provisions administered by the Employment Development Department, qualified transportation benefits are excluded from gross income. Under the California Revenue and Taxation Code (R&TC), there are no monthly limits for the exclusion of these benefits and California's definitions are more expansive. Federal law provides an income exclusion for the value of qualified parking provided to an employee up to $230 per month. Also, federal law provides an income exclusion for commuter highway transportation and transit passes provided to an employee up to $230 per month. California law provides an income exclusion for compensation or the fair market value of other benefits (except for salary or wages) received for participation in a California ridesharing arrangement (subsidized parking, commuting in a third-party vanpool, a private commuter bus, a subscription taxipool, and monthly transit passes provided for employees and their dependents).	Enter the amount of ridesharing fringe benefits received and included in federal income on Schedule CA (540 or 540NR), line 7, column B.
• California Qualified Stock Options (CQSOs)	California law provides an income exclusion for California qualified stock options (issued on or after January 1, 1997, and before January 1, 2002), that are exercised by an individual who has earned income for the taxable year from the corporation granting the CQSO of $40,000 or less; and has exercised options for no more than 1,000 shares with a combined fair market value of less than $100,000 (determined at the time the options are granted). Get FTB Pub. 1004, Stock Option Guidelines, for more information.	Enter on Schedule CA (540 or 540NR), line 7, column B the amount included in federal income that qualifies for the California exclusion.
• Earnings of American Indians	Federal law taxes income received by Indians from reservation sources. California does not tax income earned by tribal members who live in Indian country affiliated with their tribe and receive earnings from the same tribal source of which they are members. Military compensation is considered income from tribal sources. For more information, get FTB 674, Frequently Asked Questions About the Income Taxation of Native Americans. Native Americans who are domiciled on an Indian reservation and receive military compensation must refigure any AGI percentage calculation(s) by first subtracting military compensation from Federal AGI.	Enter on Schedule CA (540 or 540NR), line 7, column B the earnings included in federal income that are exempt for California.
• Clergy housing exclusion	Both California and federal law allow members of the clergy an exclusion from income for either the rental value of a home furnished as part of their compensation or for a rental allowance paid as part of their compensation to the extent it is used to provide a home. Effective January 1, 2002, under federal law, the exclusion for the rental allowance is limited to the fair rental value of the home (including furnishings and a garage) and the cost of utilities. California does not limit the exclusion for the rental allowance to the fair rental value of the home.	Enter on Schedule CA (540 or 540NR), line 7, column B the excess housing allowance exclusion allowed for California over the federal exclusion.
• Housing exclusion for state-employed clergy	Effective January 1, 2003, for clergy members employed by the State of California, up to 50% of gross salary may be allocated for either the rental value of a home furnished or the rental allowance paid to them to rent or provide a home.	If the amount of your federal exclusion is less than your California exclusion, enter the adjustment on Schedule CA (540 or 540NR), line 7, column B. If the amount of your federal exclusion is greater than your California exclusion, enter the adjustment on Schedule CA (540 or 540NR), line 7, column C.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Nonresident employee compensation of merchant seamen, rail carriers, motor carriers, and air carriers	For California, nonresidents may exclude the following from gross income: compensation for the performance of duties of certain merchant seamen and compensation of an employee of a rail carrier, motor carrier, or air carrier.	Enter the amount included in federal income that qualifies for the California exclusion on Schedule CA (540NR), line 7, column B. Get Pub. 1031, Guidelines for Determining Resident Status, for more infomation.
• Employer-provided adoption benefits exclusion	Federal law increased the maximum amount of employer-provided adoption benefits exclusion per child to $13,170. California does not conform to the federal increase. The exclusion amount for California is $12,170.	Enter on Schedule CA (540 or 540NR), line 7, column C the excess employer-provided adoption benefits exclusion allowed for federal over the California exclusion.
• Exclusion for In-Home Supportive Services (IHSS) supplementary payments	California law allows an exclusion from gross income for IHSS supplementary payments received by IHSS providers.	Enter on Schedule CA (540 or 540NR), line 7, column B the IHSS supplementary payments included in federal wages.
• Adult children not qualified for tax-free medical coverage.	Federal law allows medical coverage provided through your employer that includes your adult children as tax-free. For California, adult children who provide more than one-half of their own financial support in the year are not qualified for tax-free medical coverage. Your employer should impute additional income for California on your federal Form W-2.	Enter on Schedule CA (540 or 540NR), line 7, column C the imputed income for California.
Taxable Interest Income		
• Non-California bonds:		
1) United States	Federal law requires the interest earned on federal bonds (U.S. obligations) to be included in gross income. California does not tax this interest income. The following are not considered U.S. obligations for California purposes: Federal National Mortgage Association (Fannie Mae); Government National Mortgage Association (Ginnie Mae); or Federal Home Loan Mortgage Corporation (Freddie Mac).	Enter the amount of federal bond interest included in federal income on Schedule CA (540 or 540NR), line 8, column B.
2) Other states	Federal law does not tax interest from state or local bonds. California taxes the interest from non-California state and local bonds.	Enter the interest from non-California state or local bonds on Schedule CA (540 or 540NR), line 8, column C.
• Loans made to a business located in an enterprise zone	California law allows a deduction from income for the amount of net interest received from loans made to a trade or business located within an enterprise zone. Federal law has no comparable deduction.	Use form FTB 3805Z, Enterprise Zone Deduction and Credit Summary. Transfer the net interest deduction from form FTB 3805Z to Schedule CA (540 or 540NR), line 8, column B. Write "FTB 3805Z" next to the dotted line on Form 540 or Long Form 540NR, line 14.
• Interest income received from settlement payments from individuals persecuted during the Ottoman Turkish Empire from 1915-1923	California law excludes from gross income, interest income received from settlement payments by individuals persecuted by the regime that was in control of the Ottoman Turkish Empire from 1915 until 1923, or the individual's heirs or estate.	Enter the interest on Schedule CA (540 or 540NR), line 8, column B.
• Exempt interest dividends (Mutual Funds)	California does not tax dividends paid by a fund attributable to interest received from U.S. obligations or California state or municipal obligations **IF** at least 50% of the fund's assets would be exempt from California tax when held by an individual. California taxes dividends derived from mutual funds that are paid from interest received from obligations (bonds) issued by non-California states or municipalities in other states. The fund will provide a statement regarding the dividends it pays.	If the value of U.S. and California state or municipal obligations is at least 50% of the fund's total assets, enter the amount of exempt interest dividends that are attributed to U.S. obligations included in federal income on Schedule CA (540 or 540NR), line 8, column B. If the taxpayer received any dividends from the fund attributable to obligations issued by non-California states or municipalities within other states that were excluded from the taxpayer's federal income, enter that excluded amount on Schedule CA (540 or 540NR), line 8, column C.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
Dividend Income		
• Noncash patronage dividend from farmers' cooperatives or mutual associations	Federal law taxes the dividend in the year of receipt. California permits an election to include the dividend in gross income either when received or when redeemed. Once an election is made, this method must be followed unless a change in the method of reporting is approved by the Franchise Tax Board (FTB).	If you elect or elected to include the dividend in the year redeemed, enter the amount received on Schedule CA (540 or 540NR), line 9, column B. Enter the amount redeemed on Schedule CA (540 or 540NR), line 9, column C.
• Controlled Foreign Corporation (CFC)	California taxes CFC dividends in the year distributed rather than in the year earned.	If CFC dividends are earned in one year and distributed in a later year, enter the dividends included in federal income for the year earned on Schedule CA (540 or 540NR), line 9, column B and enter the dividends for the year distributed on Schedule CA (540 or 540NR), line 9, column C.
• Distributions of pre-1987 earnings from S corporations	Prior to 1987, California treated all federal S corporations as C corporations. So when a federal S corporation first becomes a California S corporation, its initial accumulated adjustments account (AAA) has a zero balance regardless of the federal AAA balance. If distributions from the S corporation exceed the California balance in the AAA, you have a distribution from pre-1987 earnings.	Enter distributions from pre-1987 earnings (or earnings in any later year that the corporation was a federal S corporation and a California C corporation) on Schedule CA (540 or 540NR), line 9, column C.
• Regulated Investment Company (RIC)	California taxes the undistributed capital gain from a RIC in the year distributed rather than in the year earned.	If capital gain from a RIC is earned in one year and distributed in a later year, enter the capital gain included in federal income for the year earned on Schedule CA (540 or 540NR), line 9, column B and enter the capital gain for the year distributed on Schedule CA (540 or 540NR), line 9, column C.
Taxable Refunds, Credits, or Offsets of Local Income Taxes		
• State income tax refund	Federal law includes the state income tax refund in income. California excludes the state income tax refund from income.	Enter the amount of state income tax refund included in federal income on Schedule CA (540 or 540NR), line 10, column B.
Alimony Received		
• Alimony received by a nonresident alien	For a nonresident alien, alimony received which was not included on the federal return must be included on the California return.	Enter the amount not included in federal income on Schedule CA (540 or 540NR), line 11, column C.
Business Income or (Loss) — Depreciation, Amortization, and Property Expensing		
• Income from a business, trade, or profession conducted partially in California	If a nonresident owns a business, trade, or profession carried on within California that is an integral part of a unitary business carried on both within and outside California, the amount of such income having its source in California is determined in accordance with the provisions of R&TC Sections 25120 through 25141.	Gross income from the entire business, trade, or profession is included in the nonresident's adjusted gross income from all sources. The nonresident's California source business income is generally determined by an apportionment formula. Refer to Cal. Code Regs., tit. 18, section 17951.
• Deferred income under IRC Section 108(i)	Federal law allows an election to defer the discharge of indebtedness income in connection with the reacquisition of an applicable debt instrument occurring in 2009 and 2010. The deferred income shall be includible in gross income ratably over a 5-taxable year period beginning with the fifth taxable year following the taxable year in which a 2009 reacquisition occurred and the fourth taxable year following the taxable year in which a 2010 reacquisition occurred as described in IRC Section 108(i). California does not conform.	Enter on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C, the deferred income elected on your federal return.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Asset expense election (IRC Section 179)	Federal law allows an expense election up to $500,000 of the cost of certain business property in lieu of depreciation. California allows an expense election up to $25,000. The federal Section 179 property cost phaseout starts at $2,000,000. The California phaseout starts at $200,000. For qualified section 179 Gulf Opportunity Zone property, the maximum deduction is higher than the deduction for most section 179 property. Federal law allows a Section 179 expense election for off-the-shelf software and certain qualified real property; California does not conform.	Use form FTB 3885A, Depreciation and Amortization Adjustments, to figure the adjustment to make on Schedule CA (540 or 540NR).
• MACRS recovery period for nonresidential real property	For federal purposes, the recovery period for nonresidential real property is 39 years. California conformed to this provision on January 1, 1997. The California recovery period of 31.5 years should be used for property placed in service on or after May 13, 1993, and before January 1, 1987.	Use form FTB 3885A to figure the adjustment to make on Schedule CA (540 or 540NR).
• Depreciation of assets acquired prior to January 1, 1987	Federal law allowed the rapid write-off of tangible personal property and buildings over recovery periods which were shorter than economic useful lives under the Accelerated Cost Recovery System (ACRS). California law in general did not conform to federal law but did allow ACRS for certain residential rental property constructed in California on or after July 1, 1985, and before January 1, 1987.	Use form FTB 3885A to figure the adjustment to make on Schedule CA (540 or 540NR).
• Additional depreciation (IRC Section 168(k))	Federal law allows an additional 30% first-year depreciation deduction and AMT depreciation adjustment for property placed in service after September 10, 2001. The first-year depreciation deduction is increased to 50% for property placed in service after May 5, 2003. For assets placed in service on or after September 11, 2001, and before January 1, 2005, California did not conform to these provisions. Federal law allows an additional 50% first year special depreciation for certain qualified property acquired on or after January 1, 2007, and before January 1, 2011. California did not conform to this provision.	Use form FTB 3885A to figure the adjustment to make on Schedule CA (540 or 540NR).
• Depreciation of qualified leasehold improvements and qualified restaurant property acquired before January 1, 2006	Federal law requires a 15-year recovery period. For California purposes, qualified leasehold improvements and qualified restaurant property must be recovered over a 39 year recovery period.	Use form FTB 3885A to figure the adjustment to make on Schedule CA (540 or 540NR).
• Amortization of goodwill and certain other intangibles	Property classified as IRC Section 197 property under federal law is also Section 197 property for California purposes. However, for Section 197 property acquired before January 1, 1994, the California basis as of January 1, 1994, must be amortized over the remaining federal amortization period.	Use form FTB 3885A to figure the adjustment to make on Schedule CA (540 or 540NR).
• Business property moves into California	Depreciation methods and useful lives of trade or business property must be acceptable to California.	If an unacceptable method was used before the move into California, use the straight-line method to compute the basis in the property.
• Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), or Targeted Tax Area (TTA) business expense deduction	Federal law has no comparable deduction. A California enterprise zone business may elect to immediately expense up to $40,000 of the cost of qualified property. A California LAMBRA business may elect to immediately expense up to $40,000 of the cost of qualified property. A California TTA business may elect to immediately expense up to $40,000 of the cost of qualified property. For California purposes, you may not take an IRC Section 179 deduction on any asset used to calculate the business expense deduction.	Use form FTB 3805Z, form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary, or form FTB 3809, Targeted Tax Area Deduction and Credit Summary. Enter the business expense deduction from form FTB 3805Z, form FTB 3807, or form FTB 3809 on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column B. Use form FTB 3885A to figure any depreciation adjustment to make on Schedule CA (540 or 540NR).

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Accelerated depreciation for property on Indian reservations	Under federal law, certain property on Indian reservations placed in service after January 1, 1994, and before January 1, 2010, will be subject to special MACRS recovery periods. California did not conform to this provision. See federal Publication 3991, Highlights of the Job Creation and Worker Assistance Act of 2002.	Use form FTB 3885A to figure the depreciation adjustment to make on Schedule CA (540 or 540NR).
• Amortization of pollution control facilities	Both California and federal law provide for accelerated write-off of pollution control facilities. California law only allows the write-off of facilities located in California.	Enter the amortization for the California facilities on form FTB 3885A. Compare the California amortization to the federal amortization and enter the difference on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C.
• Expenditure for tertiary injectants incurred in the crude oil industry	Federal law allows a deduction for the cost of tertiary injectants which are part of a tertiary recovery system. California law allows a depreciation deduction if the tertiary injectant qualifies as property used in a trade or business or is held for the production of income.	Enter the amount of tertiary injectants deducted on your federal return on Schedule CA (540 or 540NR), line 12, column C. Attach a schedule reflecting the depreciation computation of tertiary injectants placed in service during the taxable year. Then complete form FTB 3885A.
• Reduced recovery periods for fruit bearing grapevines replaced in a California vineyard on or after January 1, 1992, as a result of phylloxera infestation on or after January 1, 1997, as a result of Pierce's disease	Federal law generally requires a 10-year recovery period for fruit bearing vines for purposes of accelerated cost recovery and a 20-year recovery period for those vines under an alternative depreciation system. California law allows 5 and 10-year recovery periods, respectively.	Prepare a schedule reflecting the depreciation computation of grapevines placed in service on or after January 1, 1992, (for phylloxera infestation), and placed in service on or after January 1, 1997, (for Pierce's disease). Then complete form FTB 3885A and attach it and your depreciation schedule to your return.
• Income forecast method of depreciation	For assets placed in service after August 5, 1997, federal law limits the income forecast method of depreciation to film, video tape, sound recordings, copyrights, books, patents, and other property to be specified by federal regulations. California conformed to this limitation for assets placed in service after December 31, 1997.	Use form FTB 3885A to figure the depreciation adjustment to enter on Schedule CA (540 or 540NR).
• Clean fuel and electric vehicles classified as luxury automobiles	For electric vehicles and automobiles equipped to qualify as clean-burning fuel vehicles placed in service after August 5, 1997, and before January 1, 2005, federal law allows a modified depreciation limitation equivalent to triple the IRC Section 280F limitation for other luxury automobiles. California conformed to this provision for assets placed in service after December 31, 1997.	Use form FTB 3885A to figure the depreciation adjustment to enter on Schedule CA (540 or 540NR).
• First-year depreciation for qualified vehicles placed in service in 2010	For qualified vehicles placed in service in 2010, federal law increased first-year depreciation by $8,000. California does not conform to federal increase.	Use form FTB 3885A to figure the depreciation adjustment to enter on Schedule CA (540 or 540NR).
• Startup expenses (IRC Section 195)	For tax years beginning on or after January 1, 2010, federal law increased the deduction for startup expenses under IRC Section 195 from $5,000 to $10,000 and the phaseout threshold from $50,000 to $60,000. California does not conform to federal increases. For both federal and California, start expenses not deducted are amortized ratably over a 180-month period.	Use form FTB 3885A to figure the depreciation adjustment to enter on Schedule CA (540 or 540NR).
• Cellular phones	For tax years beginning on or after January 1, 2010, federal law removed cellular phones (and similar telecommunications equipment) from the definition of listed property under IRC Section 280F. California does not conform to federal increases.	Use form FTB 3885A to figure the amortization adjustment to enter on Schedule CA (540 or 540NR).
Business Income or (Loss) — Adjustments to Basis or Business Deductions		
• Donated agricultural products transportation credit	Federal law has no comparable credit. Under California law, deductions are not allowed for the portion of expenses equal to the credit.	Enter on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C, the portion of the deduction claimed on your federal return that was used to claim the California credit.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Farmworker housing credit	Federal law has no comparable credit. Under California law, deductions are not allowed for the portion of expenses equal to the credit.	Enter on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C, the portion of the deduction claimed on your federal return that was used to claim the California credit.
• Rice straw credit	The Rice Straw Credit is expired. The credit was allowed for each taxable year beginning on January 1, 1997, and before January 1, 2008. The credit carryover is allowed for up to ten taxable years after the credit was generated or until the credit is exhausted, whichever occurs first. Federal law has no comparable credit.	Get form FTB 3540, Credit Carryover Summary.
• Clean fuel vehicles first year deduction	California has not conformed with federal law for the first year deduction on Clean Air Fuel.	Add the amount deducted from federal income to the total on Schedule CA (540 or 540NR), line 36, column B.
• Basis adjustment for sales or use tax credit for property used in an Enterprise Zone (EZ), a LAMBRA, the Targeted Tax Area (TTA), or the former LARZ.	Federal law has no comparable credit, but IRC Section 164(a) requires an increase in basis for the amount of sales or use tax paid. Under California law, depreciation is computed based on cost, without regard to the sales or use tax allowed as a credit. Federal and state basis will differ due to the increase in federal basis by the addition of the sales or use tax.	Use form FTB 3805Z, form FTB 3807, form FTB 3809, or form FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary, to claim the sales or use tax credit for property used in an Enterprise Zone, a LAMBRA, the TTA, or the former LARZ. Complete form FTB 3885A, Part III if you are depreciating the cost of the property in excess of the allowable credit.
• Credit for employer-paid child care center and services	Federal law allows a deduction for all ordinary and necessary trade or business expenses. Under California law, employers may claim a credit of 30% of the costs for establishing a child care program or contributing to a child care referral service. Deductions are not allowed for that portion of expenses equal to the credit. Reduce the basis of any child care facility by the amount of the credit attributable to the facility in the year the credit is allowed.	Enter 30% of the amount of deductions claimed on your federal return to operate a child care program or contribute to the referral service on Schedule CA (540 or 540NR), line 12, column C. Then complete form FTB 3885A.
• Credit for employer-paid child care plan	Federal law allows a deduction for all ordinary and necessary trade or business expenses. Under California law, employers and building owners may claim a credit of 30% of contributions to a qualified care plan on behalf of any dependent under the age of 12 of the employer's California employee. Deductions are not allowed for that portion of the expenses equal to the amount of the credit. If the contribution to the plan is used at a facility owned by the employer, the basis of the facility must be reduced by the amount of the credit attributable to the facility in the year the credit is allowed.	Enter 30% of the amount of deductions claimed on your federal return for costs paid for contributions to a qualified care plan made on behalf of a California employee's dependent(s) under the age of 12 on Schedule CA (540 or 540NR), line 12, column C. Then complete form FTB 3885A.
• Enhanced oil recovery credit	Federal law allows a credit for up to 15% of qualified costs attributable to qualified enhanced recovery oil projects. The basis of the enhanced recovery oil projects must be reduced by the amount of the credit. California conforms to this provision, except that only California projects qualify for the state credit, and the amount of the credit is limited to 1/3 of the federal credit amount.	Get form FTB 3546, Enhanced Oil Recovery Credit.
• Solar or wind energy system credit	The Solar or wind energy system credit is expired. The credit was allowed for each taxable year beginning on January 1, 2001, and before January 1, 2006. The credit carryover is allowed for up to eight taxable years after the credit was generated or until the credit is exhausted, whichever occurs first.	Get form FTB 3540.
• Joint Strike Fighter wage credit/Joint Strike Fighter property credit	The Joint Strike Fighter Credits (JSFC) are expired. The credits were allowed for each taxable year beginning on January 1, 2001, and before January 1, 2006. The credit carryover is allowed for eight taxable years succeeding the taxable year for which the credits are generated or until the credits are exhausted, whichever occurs first. Federal law has no similar credit.	Get form FTB 3540.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Disabled access credit for eligible small businesses	Federal law allows a credit of 50% for the cost of making a business accessible to disabled individuals. No deduction is permitted for any amount for which a disabled access credit is allowed. California conforms to this provision, but the maximum credit is $125 (50% of eligible expenses up to $250).	Get form FTB 3548, Disabled Access Credit for Eligible Small Businesses.
• Indian employment credit	Under federal law, a nonrefundable credit is available to employers for certain wages and health insurance costs paid or incurred by the employer after January 1, 1994, for certain full-time or part-time employees who also are enrolled members of an Indian tribe or are spouses of enrolled members. California did not conform to this provision.	Enter the amount of business expense denied under federal law on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column B.
• Abandonment or tax recoupment fees for open-space easements and timberland preserves	Federal law allows a deduction for expenses incurred in a trade or business or for the production of income. California denies a deduction for fees paid by California property owners on termination of open-space easements or timberland preserve status.	Enter the amount of fees incurred and deducted on your federal return on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C.
• Enterprise Zone (EZ), LAMBRA, or Manufacturing Enhancement Area (MEA) hiring credit	Under California law, employers may claim a hiring credit related to an Enterprise Zone, a LAMBRA, or an MEA. Deductions for the wages upon which the credit is based must be reduced by the amount of credit.	Enter the amount of wages (from form FTB 3805Z, form FTB 3807, or form FTB 3808) equal to the amount of your California credit on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C.
• Real Estate Professionals – Material participation in a rental real estate activity	Beginning with the 1994 tax year and for federal purposes only, rental real estate activities conducted by persons in a real property business are not automatically treated as passive activities. California did not conform to this provision and these activities are still considered passive under California law.	To figure the adjustment to make on Schedule CA (540 or 540NR), line 12 or line 17, use form FTB 3801, Passive Activity Loss Limitations, and include these activities when completing the California Passive Activity Worksheet and the California Adjustment Worksheets in the instructions for form FTB 3801.
• Research credit	Federal law allows a credit for research expenses and requires that the deduction for research expenses be reduced by the amount of the credit allowed. California conforms to federal law, but requires the amount of research expenses to be reduced by the amount of the California credit. In addition, California law requires the use of the California tax bracket when determining the elective credit amount.	Enter the amount of research expenses deducted on your federal return on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C. Enter the amount of California research expenses after reduction for California research credit on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column B.
• Property for which a public utility provided an energy conservation subsidy on or after January 1, 1995, and before January 1, 1997	Federal law allows an exclusion from income for any subsidy provided directly or indirectly by a public utility for the purchase or installation of any energy conservation measure with respect to a dwelling unit. The adjusted basis of the property must be reduced by the amount excluded from income. California does not conform for amounts received after December 31, 1994, and before January 1, 1997.	Use form FTB 3885A to figure the adjustment to enter on Schedule CA (540 or 540NR).
• Employer wage expenses for Work Opportunity Credit and Welfare-To-Work Credit	Federal law allows a Work Opportunity Credit and a Welfare-To-Work Credit for employers that hire individuals from certain target groups and recipients of long-term family assistance. Employers that claim these credits must reduce their wage expense by the amount of the credits. California has no similar credits.	Enter the amount of the federal Work Opportunity Credit or Welfare-To-Work Credit that reduced the federal deduction for wages on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column B.
• Qualified clinical testing expenses	Federal law allows an Orphan Drug Credit for qualified clinical testing expenses incurred in testing drugs for rare diseases or conditions. A business must reduce its deduction for qualified clinical testing expenses by the amount of the credit.	Enter the amount of the federal Orphan Drug Credit that reduced the federal deduction for qualified clinical testing expenses on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column B.
• Business expense	California does not allow a deduction for business expenses incurred at a club that discriminates.	Enter on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C, the amount taken as a federal deduction.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Commercial revitalization deduction	Federal law allows a deduction of one-half of any qualified revitalization expenditures chargeable to capital account with respect to any qualified revitalization building for the taxable year in which the building is placed in service or a deduction for all such expenditures ratably over the 120-month period beginning with the month in which the building is placed in service. California does not allow this deduction.	Enter on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C, the amount taken as a federal deduction.
Capital Gains and Losses		
• Gain on sale or disposition of a qualified assisted housing development to low-income residents or to specified entities who maintain housing for low-income residents	Federal law does not allow special treatment on gains related to the sale of certain assisted housing. California law permits the deferral of such gain, under certain conditions, if the proceeds are reinvested in residential real property (other than a personal residence) within two years of the sale.	Enter the transaction on California Schedule D (540 or 540NR), California Capital Gain or Loss Adjustment, line 1. In column (e) enter "-0- R&TC Section 18041.5." Reduce the basis of replacement property by the gain deferred. Attach a schedule to your return reflecting computation of basis in the replacement property, or a statement of intent to replace within the replacement period.
• Gain on sale of personal residence	For sale or exchanges after May 6, 1997, federal law allows an exclusion of gain on the sale of a personal residence in the amount of $250,000 ($500,000 if married filing jointly). The taxpayer must have owned and occupied the residence as a principal residence for at least 2 of the 5 years before the sale. California conforms to this provision. However, California taxpayers who served in the Peace Corps during the 5 year period ending on the date of the sale may reduce the 2 year period by the period of service, not to exceed 18 months.	If there is a difference between the amounts excluded (or depreciated, if recapture applies) for federal and California, complete California Schedule D (540 or 540NR). Transfer the amount from California Schedule D, line 12a, to Schedule CA (540 or 540NR), line 13, column B (if gain is less than federal). Transfer the amount from California Schedule D, line 12b, to Schedule CA (540 or 540NR), line 13, column C (if gain is more than federal).
• Undistributed capital gains for regulated investment company (RIC) shareholders	Federal law requires certain undistributed capital gains reported on federal Form 2439 to be included in the gross income of the mutual fund shareholder and allows a tax credit for the capital gains tax paid by the RIC. California has no similar provision.	Do not enter the amount of undistributed capital gains on California Schedule D (540 or 540NR).
• Gain or loss on sale of property inherited before January 1, 1987	Federal gain or loss may differ from the California gain or loss due to differences in the basis of property. For more information, get FTB Pub. 1039, Basis of Property-Decedent and Surviving Spouse/RDP. For property inherited on or after January 1, 1987, the California basis and the federal basis are the same.	Report the amount of California capital gains and losses on California Schedule D (540 or 540NR).
• Capital loss carrybacks	Federal law allows a deduction for carrybacks of certain capital losses. California has no similar provision.	Report the amount of California capital gains and losses on California Schedule D (540 or 540NR).
• Exclusion of gain on the sale of qualified small business stock	California law does not conform to federal law changes regarding the increase in the percentage of the gain exclusion for the sales of qualified small business stock acquired after February 17, 2009. California law allows an exclusion of 50% of any gain from the sale or exchange of qualified small business stock held for more than 5 years. For California purposes, 80% of the issuing corporation's payroll must be attributable to employment located within California (at time of issuance). Also, at least 80% of the value of the corporation's assets must be used by the corporation to actively conduct one or more qualified trades or businesses. R&TC Section 18038.5 also provides for the deferral of gain from the sale of small business stock that has been held for six months or more, if qualified replacement stock is purchased within 60 days after the sale giving rise to the gain. Report gain deferred from the sale of qualified small business stock in accordance with the instructions contained in Revenue Procedure 98-48. For more information, go to **ftb.ca.gov** and search for **qsbs**.	Use California Schedule D (540 or 540NR) if you claim the federal IRC Section 1045 deferral or IRC Section 1202 exclusion on your federal return.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Capital gain on Cash for Clunkers rebates under the federal Car Allowance Rebate System (CARS) program	Under federal law, Cash for Clunkers rebates are not taxable. For California, if the the amount of the rebate is greater than the basis of the used vehicle relinquished there is a California capital gain.	Enter the amount of California capital gains on California Schedule D (540 or 540NR), line 1a.
Other Gains or Losses		
• Basis differences of business property	The California basis of assets may be different than the federal basis due to differences between California and federal law, which may affect the gain or loss on disposition.	Get Schedule D-1, Sales of Business Property, to figure the adjustment to make on Schedule CA (540 or 540NR).
IRA Distribution		
• IRA basis adjustments	There may be differences in the taxable amount of the distribution depending on when the contributions were made, if you changed residency status after you first began making contributions to your IRA, or made different deductions for California because of differences between your California and federal self-employment income. You will need to calculate your IRA basis as if you were a California resident for all prior years.	Get FTB Pub. 1005, Pension and Annuity Guidelines, for more information.
• Roth IRAs	Federal law and California law are the same regarding contributions, conversions, and distributions. However, the taxable amount of a distribution may not be the same because of basis differences.	Get FTB Pub. 1005 for more information.
Pensions and Annuities		
• Railroad retirement benefits	California does not tax railroad retirement benefits reported on federal Form RRB-1099-R, Annuities or Pensions by the Railroad Retirement Board, or RRB-1099, Payments by the Railroad Retirement Board.	Enter on Schedule CA (540 or 540NR), line 16, column B, the amount of tier 1 (non-Social Security equivalent) or tier 2 railroad retirement benefits included in adjusted gross income on your federal return. Get FTB Pub. 1005, for more information.
• Pension plan – small business tax credit for new retirement plan expenses	Federal law allows an income tax credit for 50% of the first $1,000 in administrative and retirement-education expenses for any small business that adopts a new qualified defined benefit or defined contribution plan. The federal deduction is reduced by the amount of the credit. California has no similar credit.	Enter the amount of the income tax credit on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column B.
• Employer-sponsored pensions and annuities (for annuity starting dates after July 1, 1986, and before January 1, 1987) if you elected to use the "three-year rule" for California	Under federal law, no "three-year rule" is allowed for any individual whose annuity starting date is after July 1, 1986. Under California law, an individual whose annuity starting date was after July 1, 1986, and before January 1, 1987, could elect to use the "three-year rule" if: 1) the employer paid part of the cost and 2) during the three years from the date of the first annuity payment, the total amount receivable will equal or exceed the cost (investment) in the contract.	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, an adjustment is required. Enter the difference on Schedule CA (540 or 540NR), line 16, column C. Get FTB Pub. 1005 for more information.
• Canadian Registered Retirement Savings Plans (RRSP)	Under both federal and California law, the RRSP does not qualify as an Individual Retirement Account (IRA) and does not receive IRA treatment. The federal treaty that allows taxpayers to elect to defer taxation on their RRSP earnings until the time of distribution does not apply for California income tax purposes. California residents must include their RRSP earnings in their taxable income in the year earned.	Enter on Schedule CA (540 or 540NR), line 8, line 9, or line 13, column C, the earnings from the RRSP.
Health Savings Account (HSA)		
• Contributions	Federal law allows taxpayers a deduction for contributions to an HSA account. Contributions made on behalf of an eligible individual by an employer are excluded from W-2 wages. California does not conform to this provision.	Enter the amount from Schedule CA (540 or 540NR), column A, line 25, in column B, line 25. Enter the amount of any employer contribution from federal Form W-2, line 12, code W on Schedule CA (540 or 540NR), line 7, column C.
• Distributions	Distributions that are not used for qualified medical expenses are includible in federal gross income. The amount taxable under federal law, less interest and dividend income previously taxed by California, is not taxable by California.	Enter the required adjustment from Schedule CA, line 21f, column A, in line 21f, column B.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Interest/Dividend Income	Federal law allows taxpayers to exclude from gross income the interest and dividends earned on HSAs. California does not conform. Therefore, all interest earned and any taxable dividends earned on HSAs are taxable in the year earned. As a result of this tax treatment, the taxpayer has a California basis in the HSA account.	Enter the current year interest earned as an adjustment on Schedule CA, line 8, column C. Enter the current year taxable dividends as an adjustment on Schedule CA, line 9, column C.
• Archer Medical Savings Account (Archer MSA) Distribution	Generally, federal law and California law are the same. However, since California does not recognize Health Savings Accounts (HSAs), a rollover from an MSA to an HSA is treated as a distribution not used for qualified medical expense. For California, the distribution is included in California taxable income and the additional 10% tax applies (R&TC Section 17215).	Enter the amount distributed, less interest or dividend earnings previously taxed by California, on line 21f, column C.
Rents, Royalties, Partnerships, Estates, Trusts, etc.		
• Pass-through of income and deductions from partnerships, S corporations, estates, and trusts	Items of income and deduction from pass-through entities may differ due to various differences between federal and state law. Refer to federal Schedule K-1 (1065), or federal Schedule Q (Form 1066) in the case of REMICs, to determine items of income and deduction for federal purposes. Refer to California Schedules K-1 (100S, 541, 565, or 568) to determine items of income and deduction from pass-through entities for California purposes.	Follow the instructions for Schedules K-1 (100S, 541, 565, or 568). Some items are reported directly on Schedule CA (540 or 540NR), line 17, and some items must be reported on other forms and schedules. **Note:** Part-year residents must allocate income between the period of residency and the period of nonresidency in a manner that reflects the actual date of realization of partnership, S corporation and certain trust income. In the absence of information that reflects the actual date of realization, the taxpayer must allocate an annual amount on a proportional basis between the two periods, using a daily pro-rata methodology. Get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency, for more information.
• Accumulation distribution to beneficiaries on which the required California taxes have not been paid by a trust	Federal law taxes the accumulated income of a trust under IRC Sections 665-668. If a trust has a California resident trustee or beneficiary, the beneficiary is non-contingent, and the trust has not filed a California return and paid California tax as the income was accumulated, then the full amount of the accumulation distribution is taxable to the beneficiary in the year the accumulation distribution is received.	If you received a federal Schedule J (1041) and did not receive a California Schedule J (541), Trust Allocation of an Accumulation Distribution, an adjustment is required because the trust did not file a California return and pay the tax as the income was accumulated. The accumulation distribution from federal Schedule J (1041) must be adjusted for California purposes. This information must be provided by the trustee.
• Accumulation distribution to beneficiaries on which the trust was not required to pay California tax because the beneficiaries' interest was contingent	Federal law taxes the accumulated income of a trust under IRC Sections 665-668. If a trust has a California resident trustee or beneficiary, the beneficiary is contingent, and the trust has not filed a California return and paid California tax as the income was accumulated, then the beneficiary is entitled to the benefit of income averaging under the provisions of R&TC Sections 17745(b) and (d).	Use California form FTB 5870A, Tax on Accumulation Distribution of Trusts, to compute the part of the accumulation distribution includable in your California adjusted gross income.
• Amounts included in gross income of United States shareholders from foreign corporations	Under federal law, IRC Section 951, if a foreign corporation is a controlled foreign corporation (CFC) for an uninterrupted period of 30 days or more during any taxable year, then U.S. shareholders who own stock in a CFC on the last day of the taxable year in which it was a CFC must include in gross income their pro-rata share of income. The pro-rata shares are included in the income of U.S. shareholders even though there may be intervening entities in a chain between a CFC and such shareholders. California has no similar provision.	Enter the amount of income received from a CFC and included in federal income on Schedule CA (540 or 540NR), line 17, column B.
Unemployment Compensation		
• Unemployment compensation	California does not tax unemployment compensation.	Enter on Schedule CA (540 or 540NR), line 19, column B, the amount of unemployment compensation you included in adjusted gross income on your federal return.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Paid Family Leave (PFL) program is part of the state disability insurance program administered by the Employment Development Department (EDD)	Compensation paid from the PFL Program is not taxable by California. However, it is taxable for federal purposes.	Enter the amount on Schedule CA (540 or 540NR), line 19, column B.
Social Security Benefits		
• Social security benefits and equivalent tier 1 railroad retirement benefits	California does not tax social security benefits and equivalent tier 1 railroad retirement benefits.	Enter on Schedule CA (540 or 540NR), line 20, column B, the amount of social security benefits and equivalent tier 1 railroad retirement benefits you included in adjusted gross income on your federal return.
Other Income/Loss		
• California lottery winnings	California does not tax California lottery winnings. California taxes lottery winnings from other states.	Enter on Schedule CA (540 or 540NR), line 21a, column B, the amount of California lottery winnings included in adjusted gross income on your federal return.
• Net Operating Loss (NOL)		
1) Disaster loss carryover	The allowable disaster loss carryover under California law is different than the allowable disaster loss carryover under federal law.	Enter as a positive number on Schedule CA (540 or 540NR), line 21b, column B, the amount from your 2009 form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.
2) Federal NOL	Due to differences between federal and California law, you must refigure your NOL carryover for California purposes.	Enter as a positive number on Schedule CA (540 or 540NR), line 21c, column C, the federal NOL. Use form FTB 3805V to figure the California NOL carryover.
3) California NOL carryover	The allowable NOL carryover under California law is different than the allowable NOL carryover under federal law. There is no NOL carryback under California law. You may be required to elect specific NOL characterization for California which may exclude from consideration from realized losses.	Use form FTB 3805V to figure the allowable California NOL and enter the result as a positive number on Schedule CA (540 or 540NR), line 21d, column B.
4) NOL from Enterprise Zones (EZ), LAMBRAs, the TTA, the former LARZ, or Pierce's disease	Federal law has no comparable deduction.	Use form FTB 3805Z, form FTB 3807, form FTB 3809, form FTB 3806, or form FTB 3805D, Net Operating Loss (NOL) Carryover Computation and Limitation – Pierce's Disease, to figure the NOL and enter the result as a positive number on Schedule CA (540 or 540NR), line 21e, column B.
• Reward from a crime hotline	California does not tax a reward authorized by a government agency and received from a crime hotline established by a government agency or nonprofit organization.	Enter on Schedule CA (540 or 540NR), line 21f, column B, the amount of such a reward you included in adjusted gross income on your federal return.
• Foreign-earned income and housing expense exclusion	Under federal law, IRC Section 911, a qualified individual may elect to exclude certain foreign-earned income and an employer-provided housing allowance. California has no similar provision.	Enter the amount of foreign-earned income and housing allowance excluded under IRC Section 911 on Schedule CA (540 or 540NR), line 21f, column C.
• Income received from a recycling center or location for empty beverage containers	Federal law taxes beverage container recycling income. California law does not tax income received by a consumer for recycling empty beverage containers.	Enter the amount of beverage container recycling income reported on your federal return on Schedule CA (540 or 540NR), line 21f, column B.
• Rebates or vouchers from a local water agency, energy agency, or energy supplier	California law allows an income exclusion for rebates or vouchers from a local water agency, energy agency, or energy supplier for the purchase and installation of water conservation appliances and devices. Federal law has no similar exclusion.	Enter the amount included in federal AGI on Schedule CA (540 or 540NR), line 21f, column B.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Original issue discount (OID) for debt instruments issued (and loans made) in 1985 and 1986	In the taxable year in which the debt instrument matures, is sold, exchanged, or otherwise disposed of, you must recognize the difference between the amount reported on your federal return and the amount reported for California purposes.	**Issuer (debtor)** – Enter the difference between the federal deductible amount and the California deductible amount on Schedule CA (540 or 540NR), line 21f, column B. **Holder (lender)** – Enter the difference between the amount included in federal gross income and the amount included for California purposes on Schedule CA (540 or 540NR), line 21f, column C.
• Foreign income of nonresident aliens	Federal Form 1040NR, U.S. Nonresident Alien Income Tax Return, and federal Form 1040NR-EZ, U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents, requires that only United States source income be reported. California requires the reporting of adjusted gross income from all sources.	Adjust federal income to reflect worldwide income computed under California statutes. Enter losses from foreign sources on Schedule CA (540 or 540NR), line 21f, column B. Enter foreign source income on Schedule CA (540 or 540NR), line 21f, column C.
• Income exempted by U.S. tax treaties	California is not affected by U.S. treaties with foreign countries unless they specifically apply to state income taxes. If a treaty does not specifically exempt income from state income tax, California requires the reporting of adjusted gross income from all sources.	Adjust federal income to reflect worldwide income computed under California statutes. Enter losses from foreign sources on Schedule CA (540 or 540NR), line 21f, column B. Enter foreign source income on Schedule CA (540 or 540NR), line 21f, column C.
• Payments made for wrongful incarceration	California law allows an income exclusion for payments made due to a determination of wrongful incarceration under Section 4904 of the Penal Code.	Enter the amount included in federal AGI on Schedule CA (540 or 540NR), line 21f, column B.
• Grants paid to low-income individuals	California law allows an income exclusion for grants paid to low-income individuals to construct or retrofit buildings to be more energy efficient. Federal law has no similar exclusion.	Enter the amount included in federal AGI on Schedule CA (540 or 540NR), line 21f, column B.
• Death benefits received from the State of California for military members killed in the line of duty	California allows an exclusion from gross income, death benefits received from the state of California National Guard, State Military Reserve, or Naval Militia who dies or is killed after March 1, 2003, while on duty.	Enter on Schedule CA (540 or 540NR), line 21f, column B, the amount of death benefits received and reported in federal income.
• Settlement payments received by persons persecuted by the regime that was in control of the Ottoman Turkish Empire from 1915 until 1923	California law provides an income exclusion for settlement payments received by an eligible individual, defined as a person persecuted by the Regime that was in control of the Ottoman Turkish Empire from 1915 until 1923, or the individual's heirs or estate.	Enter on Schedule CA (540 or 540NR), line 21f, column B, the settlement payments amount reported in federal income that qualifies for the California exclusion.
• Mortgage forgiveness debt relief	For taxable years 2007 through 2012, federal law allows an exclusion of income from discharge of indebtedness from the disposition of your principal residence. Federal law limits the amount of qualified principal residence indebtedness to $2,000,000 ($1,000,000 for married filing separate). See federal Publication 544, Sales and Other Disposition of Assets, for more information. California partially conforms to the federal provisions for discharges of indebtedness occurring on or after January 1, 2009. California law limits the amount of qualified principal residence indebtedness to $800,000 ($400,000 for married/RDP filing separate) and debt relief to $500,000 ($250,000 for married/RDP filing separate).	If the amount of debt relief for federal purposes is more than the California limit, include the amount in excess of the California limit on Schedule CA (540 or 540NR), line 21f, column C.
• Survivor benefits received for a public safety officer killed in the line of duty	Federal law provides an exclusion from gross income, for survivor benefits attributable to service by a public safety officer who is killed in the line of duty before January 1, 1997, California does not conform.	Enter on Schedule CA (540 or 540NR), line 21f, column C, the amount of survivor benefits that qualifies for the federal exclusion.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
• Federal subsidies for prescription drug plans	Federal law provides an exclusion from gross income of certain federal subsidies for prescription drug plans. California does not conform.	Enter on Schedule CA (540 or 540NR), line 21f, column C, the amount that qualifies for the federal exclusion.
• American Indians per capita payments	Federal law taxes per capita distributions regardless of where the tribal member resides. California does not tax per capita distributions received by tribal members who live in Indian country affiliated with their tribe that are sourced from the same Indian country where they are a member. California does not tax per capita distributions received by a nonresident. California taxes per capita distributions received by California resident tribal members who reside outside their affiliated tribal Indian country. Get FTB 674, Frequently Asked Questions About the Income Taxation of American Indians, for more information.	Enter on Schedule CA (540 or 540NR), line 21f, column B the per capita distributions included in federal income that are exempt for California.
Adjustment to Income		
• Educator expense	Federal law allows a deduction for teachers, instructors, counselors, principals, or aides for K-12 grades. California has not conformed.	Enter the amount on Schedule CA (540 or 540NR), line 23, column B.
• Certain business expenses of reservists, performing artists, and fee-basis governmental officials	California law conforms to federal law in the tax treatment of expenses for reservists, performing artists, and fee-basis governmental officials. However, there could be continuing differences in the depreciation deduction such as IRC Section 179 or bonus depreciation.	If the federal depreciation deduction is more than the California depreciation deduction, enter the difference on line 24, column B. If the federal depreciation deduction is less than the California depreciation, enter the difference in column C.
• Alimony paid by a nonresident alien	Alimony expense paid by a nonresident alien that was not deducted on the federal return is a deduction on the California return.	Enter the amount not included on your federal return on Schedule CA (540 or 540NR), line 31a, column C.
• Self-employed health insurance deduction	Federal law allows a deduction for medical coverage of your adult children. For California, adult children who provide more than one-half of their own financial support in the year are not qualified for the deduction.	Enter the adult child's portion of the medical insurance cost on Schedule CA (540 or 540NR), line 29, column B.
• Student loan interest deduction	California conforms to federal law regarding student loan interest deduction except for non California domiciled military taxpayers and a spouse/RDP of a non California domiciled military taxpayer residing in a community property state.	Enter the amount on Schedule CA (540 or 540NR), line 33, column C.
• Tuition and fees deduction	Federal law allows a deduction from income up to $4,000 for qualified higher education expenses paid. California has not conformed.	Enter the amount on Schedule CA (540 or 540NR), line 34, column B.
• Domestic production activities	Federal law allows a deduction for the Domestic production activities. California has not conformed.	Enter the amount on Schedule CA (540 or 540NR), line 35, column B.
Itemized Deductions		
• Taxes		
1) Annual tax paid by a limited partnership	Federal law allows a deduction for the annual tax paid by a limited partnership. California specifically disallows this deduction.	Include the amount of your federal deduction for the annual tax paid on Schedule CA (540 or 540NR), line 39.
2) Franchise tax or income taxes paid by an S corporation	Federal law allows a deduction for franchise taxes or income taxes paid under the Corporation Tax Law. California specifically disallows this deduction.	Include the amount of your federal deduction for franchise taxes paid on Schedule CA (540 or 540NR), line 39.
3) State, local, and foreign income taxes paid	California does not allow a deduction for state, local, or foreign income taxes paid, including amounts paid for State Disability Insurance (SDI). Federal law allows taxpayers to elect to claim state and local general sales and use taxes as an itemized deduction, instead of claiming an itemized deduction for state and local income taxes. Taxpayers have a choice of deducting actual taxes or a tabular amount, increased by certain actual taxes. California does not conform.	Include the amount of your federal deduction for state, local, and foreign taxes paid on Schedule CA (540 or 540NR), line 39. If you deduct general sales taxes on your federal Schedule A (Form 1040), line 5, enter this amount on Schedule CA (540 or 540NR), line 39.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
4) New motor vehicle taxes	Federal law allows a deduction for new motor vehicle taxes paid on a purchase of a qualified new motor vehicle. California does not conform.	Include the amount of your federal deduction for new motor vehicle taxes paid on Schedule CA (540 or 540NR), line 39.
• Other adjustments	Adjustments to itemized deductions include: adoption related expenses, mortgage interest credit, nontaxable income expense, employee business expense, investment interest expense, gambling losses, federal estate tax, generation skipping transfer tax, state legislator's travel expenses, qualified charitable contributions, prior year charitable contribution carryovers, health savings account distributions, carryover deduction of appreciated stock contributed to a private foundation prior to 1/1/2002, interest on loans from utility companies, private mortgage insurance, claim of right, certain disaster losses, personal casualty and theft losses, charitable contributions for the 2010 Haiti earthquake disaster, and adult children health insurance deduction.	See Schedule CA (540 or 540NR), line 41, for more information.
Standard Deduction		
• New motor vehicle taxes	For federal purposes, taxpayers claiming the standard deduction may increase their deduction by the new motor vehicle taxes paid on a purchase of a qualified new motor vehicle. California does not conform.	Do not increase your California standard deduction by the new motor vehicle taxes paid.
• Disaster losses	For federal purposes, taxpayers claiming the standard deduction may increase their deduction by the net disaster losses from a federally declared disaster area. California does not conform.	Do not increase your California standard deduction by the disaster losses. To claim a deduction for disaster losses, you must itemize your deductions. See for federal Schedule A (Form 1040) for more information.