

2016 Instructions for Schedule CA (540NR)

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2015**, and the California Revenue and Taxation Code (R&TC).

General Information

In general, for taxable years beginning on or after January 1, 2015, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2015. 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 FTB Pub. 1001, Supplemental Guidelines to California Adjustments, 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 instructions. Taxpayers should not consider the instructions as authoritative law.

Conformity

For updates regarding federal acts, go to ftb.ca.gov and search for **conformity**.

Registered Domestic Partners (RDP) – RDPs will compute their limitations based on the combined federal adjusted gross income (AGI) of each partner's individual tax return filed with the Internal Revenue Service (IRS). For column A, line 7 through line 21, and line 23 through line 35, combine your federal amounts from each partner's individual federal tax return. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

The combined federal AGI used to compute limitations is different from the recalculated federal AGI used on Form 540NR, California Resident or Part-Year Resident Income Tax Return, line 13. In situations where RDPs have no RDP adjustments, these amounts may be the same.

Military Personnel – Servicemembers domiciled outside of California and their spouses may exclude the servicemember's military compensation from gross income when computing the tax rate on nonmilitary income. Requirements for military servicemembers domiciled in California remain unchanged. Military servicemembers domiciled in California must include their military pay in total income. In addition, they must include their military pay as California source income when stationed in California. However, military pay is not California source income when a servicemember is permanently stationed outside of California. Beginning 2009, the federal Military Spouses Residency Relief Act may affect the California income tax filing requirements for spouses of military personnel. For more information, get FTB Pub. 1032, Tax Information for Military Personnel.

Single Member Limited Liability Company (SMLLC) – If you are a single member limited liability company, that is organized or doing business in California, or registered with the California Secretary of State (SOS), you are required to file Form 568, Limited Liability Company Return of Income, pay the annual tax and LLC Fee (if applicable), in addition to filing on your tax return. Get the Limited Liability Company Tax Booklet for more information.

Amended Tax Returns – If you are an active duty military servicemember domiciled outside California and you included your military compensation in income from all sources, you may file an amended tax return for tax years with an open statute of limitations. For more information, get FTB Pub. 1032 and Form 540X, Amended Individual Income Tax Return.

Part-Year Residents – Complete the Part-Year Resident Worksheet on page 10 to determine the amounts to enter on Part II, line 7 through line 22a, column E.

Avoid Common Mistakes on this Schedule.

Column A – Copy the amounts from your federal tax return. Use the (a) amounts on line 8 and line 9 and the (b) amounts on line 15, line 16, and line 20, from your federal tax return. Form 1040, U.S. Individual Income Tax Return, line 37, should equal Sch CA (540NR), California Adjustments - Nonresidents and Part-Year Residents, line 37, column A.

Column B (line 7 through line 21) – Subtract income that is not taxable to a California resident such as California lottery winnings and social security benefits. **Do not use column B to deduct** income that was earned while a nonresident of California or from sources outside of California. There **must** be a difference in state and federal tax law. Generally, if a full-year California resident cannot subtract income in column B, a nonresident or part-year resident may not subtract income in column B.

Column C (line 7 through line 21) – Add income that was not taxed on your federal tax return but is taxable to a California resident such as foreign income or interest/dividends from non-California municipal bonds.

Column D – Combine the columns (column A - column B + column C). Line 37, column D, should equal Long Form 540NR, line 17. The amounts in this column represent income earned from all sources as if you were a full-year California resident, after applying California and federal law differences.

Column E – Enter all income from all sources while a resident of California and income from California sources while a nonresident.

Purpose

Use Schedule CA (540NR), California Adjustments - Nonresidents or Part-Year Residents, to determine California taxable income by doing the following:

- Identify the domiciles and also, current and past residency information.
- Enter the amounts of income and deductions reported on your federal tax return.
- Adjust the income and deductions reported on your federal tax return for differences in California and federal law.
- Determine the portion of income reported on your federal tax return that was earned or received while you were a California resident.
- Determine the portion of income reported on your federal tax return that was earned or received from California sources while you were a nonresident.
- Determine your allowable standard deduction or itemized deductions.

Specific Line Instructions for Part I Residency Information

Answer all the questions in this part for you and your spouse/RDP. If a question does not apply, then leave the line **blank**. For more information get:

- FTB Pub. 1031, Guidelines for Determining Resident Status
- FTB Pub. 1032, Tax Information for Military Personnel

Use the two letter state abbreviations to complete this section. If you do not know your state abbreviation, visit the United States Postal Service website at <https://www.usps.com/send/official-abbreviations.htm> for assistance. If you did not reside in the United States or a U.S. Possession, use the code "FC." The code "FC" is the abbreviation for foreign country.

Line 2 – Domicile and Military

If you served in the military, your state of domicile is generally the state where you were living when you first entered military service. If you were not in the military, your domicile is the place you consider your permanent home, the place to which you, whenever absent, intend to return.

Line 6 – The number of days I spent in California

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

Line 7 – I owned a home/property in California

This includes property owned directly or indirectly through a trust or other entity.

Line 8 – Before 2016: I was a California resident for the period of

Enter your most recent period of California residency. If you became a nonresident during taxable year 2016, use December 31, 2015 as your end date.

Specific Line Instructions for Part II Income Adjustment Schedule

Column A – Federal Amounts

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

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

Line 7 through Line 21

Enter on line 7 through line 21 the same amounts you entered on federal Form 1040, line 7 through line 21; Form 1040A, U.S. Individual Income Tax Return, line 7 through line 14b; Form 1040EZ, Income Tax Return for Single and Joint Filers with No Dependents, line 1, line 2, and line 3; or Form 1040NR, U.S. Nonresident Alien Income Tax Return, line 8 through line 21 for the same types of income.

Line 22a – Total

Combine the amounts on line 7 through line 21. Enter the total on line 22a. This number should be the same as the amount on federal Form 1040, line 22; Form 1040A, line 15; Form 1040EZ, line 4; or Form 1040NR, line 23.

Line 22b – Balance Carried Forward

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

Line 23 through Line 30 and Line 32 through Line 35

Enter the same amounts you entered on federal Form 1040, line 23 through line 30 and line 32 through line 35; Form 1040A, line 16 through line 19; or Form 1040NR, line 24 through line 34.

Line 31a and Line 31b

Enter on line 31a the same amount entered on federal Form 1040, line 31a. Enter on line 31b the social security number (SSN) or individual taxpayer identification number (ITIN) and last name of the person to whom you paid alimony.

Line 36

Add line 23 through line 31a and line 32 through line 35. This amount should be the same as the amount on federal Form 1040, line 36; Form 1040A, line 20; or Form 1040NR, line 35. However, if you made any of the adjustments described in the instructions for federal Form 1040, line 36, or if you claimed the foreign housing deduction from federal Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion, enter the amount from Form 1040, line 36 on this line.

If you used Form 1040NR and reported an amount on Form 1040NR, line 31 for excluded scholarship and fellowship grants, enter the amount from Form 1040NR, line 35 on this line.

Line 37 – Total

Subtract line 36 from line 22b. This amount should be the same as the amount on federal Form 1040, line 37; Form 1040A, line 21; Form 1040EZ, line 4; or Form 1040NR, line 36.

Column B and Column C – Subtractions and Additions

Use these columns to enter subtractions and additions to federal amounts in column A that are necessary because of the differences between California and federal law. Enter all amounts on line 7 through line 36 as positive numbers.

Do not deduct income that was earned while a nonresident of California or from sources outside of California. There **must** be a difference in tax law. Generally, if a California resident cannot subtract the income in column B, a nonresident or part-year resident may not subtract income from column B.

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

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

- 1001, Supplemental Guidelines to California Adjustments
- 1005, Pension and Annuity Guidelines
- 1031, Guidelines for Determining Resident Status
- 1032, Tax Information for Military Personnel
- 1100, Taxation of Nonresidents and Individuals Who Change Residency

To get forms and publications, go to ftb.ca.gov.

Line 7 – Wages, Salaries, Tips, etc.

Generally, no adjustments are made on this line. If you did not receive any of the following types of income, make no entry on this line in either column B or column C.

Military pay adjustment. Compensation for military service of a servicemember domiciled outside of California is exempt from California tax. It is excluded from adjusted gross income from all sources. For more information, get FTB Pub. 1032.

Active duty military servicemembers domiciled outside of California, may claim an adjustment for active duty military pay.

To claim the adjustment, write “MPA” to the left of column A or include it according to your software’s instructions and enter only the amount of your active duty military pay in column B. Exclude this amount from column E.

Sick pay received under the Federal Insurance Contributions Act and Railroad Retirement Act. California excludes these items from income. Enter in column B the amount of these benefits included in the amount in column A.

Ride-sharing fringe benefit differences. Under federal law, qualified transportation benefits are excluded from gross income. Under the California R&TC, there are no monthly limits for the exclusion of these benefits and California’s definitions are more expansive. Enter the amount of ridesharing benefits received and included in federal income on line 7, column B.

Foreign income. If you excluded income exempted by U.S. tax treaties on your federal Form 1040 (unless specifically exempt for state purposes), enter the excluded amount in column C. If you claimed foreign earned income or housing cost exclusion on your federal Form 1040 (under IRC Section 911), see the instructions for line 21.

Exclusion for compensation from exercising a California Qualified Stock Option (CQSO). To claim this exclusion:

- Your earned income is \$40,000 or less from the corporation granting the CQSO.
- The market value of the options granted to you must be less than \$100,000.
- The total number of shares must be 1,000 or less.
- The corporation issuing the stock must designate that the stock issued is a CQSO at the time the option is granted.

If you included in federal income an amount qualifying for this exclusion, enter that amount in column B.

Nonresident compensation of merchant seamen and employees of rail carriers, motor carriers, and air carriers. Exclude the following from gross income: compensation for the performance of duties of certain merchant seamen, rail carriers, motor carriers, and air carriers. Enter the amount included in federal income on line 7, column B. For more information, get FTB Pub. 1031.

Employer health savings account (HSA) contribution. Enter the amount of any employer HSA contribution from federal Form W-2, box 12, code W on line 7, column C.

Income exclusion for In-Home Supportive Services (IHSS) supplementary payments. If you are an IHSS provider who received IHSS supplementary payments that were included in federal wages, enter the IHSS supplementary payments on line 7, column B. IHSS providers only receive a supplementary payment if they paid a sales tax on the IHSS services they provide. The supplementary payment is equal to the sales tax paid plus any increase in the federal payroll withholding paid due to the supplementary payment.

Native American Income. 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. Enter in column B the earnings included in federal income that are exempt for California. Attach form FTB 3504 to the Form 540NR. For more information, get form FTB 3504, Enrolled Tribal Member Certification.

Line 8 – Taxable Interest

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

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

- U.S. saving bonds (except for interest from series EE U.S. savings bonds issued after 1989 that qualified for the Education Savings Bond Program exclusion).
- U.S. Treasury Bills, notes, and bonds.
- Any other bonds or obligations of the United States and its territories.
- Interest from Ottoman Turkish Empire settlement payments.
- Interest income from children under age 19 or students under age 24 included on the child’s federal tax return and reported on the California tax return by the parent. For more information, get form FTB 3803, Parents’ Election to Report Child’s Interest and Dividends.

Certain mutual funds pay “exempt-interest dividends.” If the mutual fund has at least 50% of its assets invested in tax-exempt U.S. obligations and/or in California or its municipal obligations, that amount of dividend is exempt from California tax. The proportion of dividends tax-exempt will be shown on your annual statement or statement issued with Form 1099-DIV, Dividends and Distributions. For more information, get FTB Pub. 1001.

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

- The federally exempt interest dividends from other states, or their municipal obligations and/or from mutual funds that do not meet the 50% rule above.
- Non-California state bonds.
- Non-California municipal bonds issued by a county, city, town, or other local government unit.
- Obligations of the District of Columbia issued after December 27, 1973.
- Non-California bonds if the interest was passed through to you from S corporations, trusts, partnerships, or Limited Liability Companies (LLCs).
- Interest or other earnings from a Health Savings Account (HSA) are not treated as tax deferred. Interest or earnings in an HSA are taxable in the year earned.
- Interest on any bond or other obligation issued by the Government of American Samoa.
- Interest income from children under the age of 19 or students under age 24 included on the parent's federal tax return and reported on the California tax return by the child.

Make no entries in either column B or column C for interest earned on Federal National Mortgage Association (Fannie Mae) Bonds, Government National Mortgage Association (Ginnie Mae) Bonds, and Federal Home Loan Mortgage Corporations (FHLMC) securities, or grants paid to low-income individuals.

Get FTB Pub. 1001, if you received interest income from the items listed above passed through to you from S corporations, trusts, partnerships, or LLCs.

Line 9 – Ordinary Dividends

Generally, no difference exists between the amount of dividends reported in column A and the amount reported using California law. However, California taxes dividends derived from other states and their municipal obligations.

Enter in column B dividend income from children under age 19 and students under age 24, **included** on the parent's or child's federal tax return and reported on the California tax return by the opposite taxpayer.

Enter in column C dividend income from children under age 19 and students under age 24, **excluded** on the parent's or child's federal tax return and reported on the California tax return by the opposite taxpayer.

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

- Noncash patronage dividends from farmers' cooperatives or mutual associations.
- A controlled foreign corporation (CFC).
- Distribution of pre-1987 earnings from S corporations.
- Undistributed capital gains for regulated investment company (RIC) shareholders.

Line 10 – Taxable Refunds, Credits, or Offsets of State and Local Income Taxes

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

Line 11 – Alimony Received

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

Line 12 – Business Income or (Loss)

Adjustments to federal business income or loss you reported in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis used to figure California depreciation may be different from the amount used for federal purposes.

Adjustments are figured on form FTB 3885A, Depreciation and Amortization Adjustments, and are most commonly necessary because of the following:

- **Before January 1, 1987**, California did not allow depreciation under the federal accelerated cost recovery system. Continue to figure California depreciation for those assets in the same manner as prior years.
- **On or after January 1, 1987**, California provides special credits and accelerated write-offs that affect the California basis of qualifying assets. Refer to the bulleted list below.

Use form FTB 3801, Passive Activity Loss Limitations, to figure the total adjustment for line 12 if you have:

- One or more passive activities that produce a loss.

- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule C (Form 1040), Profit or Loss From Business.

Use form FTB 3885A to figure the total adjustment for line 12 if you have:

- Only nonpassive activities which produce either gains or losses (or a combination of gains and losses).
- Passive activities that produce gains.

Penalty Assessed by Professional Sports League – For taxable years beginning on or after January 1, 2014, California does not allow a business expense deduction for any fine or penalty paid or incurred by an owner of a professional sports franchise assessed or imposed by the professional sports league that includes that franchise. If the fine or penalty was deducted for federal purposes, enter this amount in column C.

Cancellation of Debt Income (CODI). California **did not** conform to the federal election under IRC Section 108(i) to defer the recognition of CODI in connection with the reacquisition of an applicable debt instrument after December 31, 2008, and before January 1, 2011. The deferral period is five taxable years for CODI generated in 2009, or four taxable years for CODI generated in 2010.

For federal tax purposes, at the end of the deferral period the income is reported ratably over the next five years (taxable years beginning on or after January 1, 2014 and before January 1, 2019). If for California purposes, the CODI had been included in income during previous taxable years and you recognized the CODI for federal tax purposes in the current year, enter the federal CODI amount on line 12, column B.

Get FTB Pub. 1001 for more information about:

Income related to:

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

Basis adjustments related to:

- Property acquired prior to becoming a California resident.
- Sales or use tax credit for property used in a former EZ, Local Agency Military Base Recovery Area (LAMBRA), Targeted Tax Area (TTA), or LARZ.
- Reduced recovery periods for fruit-bearing grapevines replaced in a California vineyard on or after January 1, 1992, as a result of phylloxera infestation; or on or after January 1, 1997, as a result of Pierce's disease.
- Expenditures for tertiary injectants.
- Property placed in service on an Indian reservation after January 1, 1994, and before January 1, 2014.
- Amortization of pollution control facilities.
- Discharge of real property business indebtedness.
- Vehicles used in an employer-sponsored ridesharing program.
- An enhanced oil recovery system.
- Joint Strike Fighter property costs.
- The cost of making a business accessible to disabled individuals.
- Property for which you received an energy conservation subsidy from a public utility on or after January 1, 1995, and before January 1, 1997.
- Research and experimental expenditures.
- Reduction of capitalized costs attributable to the Work Opportunity Credit.

Business deductions related to:

- Wages paid in a former EZ, LAMBRA, Manufacturing Enhancement Area (MEA), or TTA.
- Certain employer costs for employees who are also enrolled members of Indian tribes.
- Abandonment or tax recoupment fees for open-space easements and timberland preserves.
- Research expense.
- Employer wage expense for the Work Opportunity Credit.
- Pro-rata share of deductions received from a CFC by a U.S. shareholder.
- Interest paid on indebtedness in connection with company-owned life insurance policies.
- Premiums paid on life insurance policies, annuities or endowment contracts issued after June 8, 1997, where the owner of the business is directly or indirectly a policy beneficiary.
- Commercial Revitalization Deductions for Renewal Communities.
- Small Employer Health Insurance Credit

Line 13 – Capital Gain or (Loss)

Generally, no adjustments are made on this line. California taxes long and short term capital gains as regular income. No special rate for long term capital gains exists. However, the California basis of the assets listed below may be different from the federal basis due to differences between California and federal laws. If there are differences, use Schedule D (540NR), California Capital Gain or Loss Adjustment, to calculate the amount to enter on line 13:

- Gain on the sale of qualified small business stock under IRC Section 1045 and IRC Section 1202.
- Basis amounts resulting from differences between California and federal law in prior years.
- Gain or loss on stock and bond transactions.
- Installment sale gain reported on form FTB 3805E, Installment Sale Income.
- Gain on the sale of personal residence where depreciation was allowable.
- Pass-through gain or loss from partnerships, fiduciaries, S corporations, or LLCs.
- Capital loss carryover from your 2015 California Schedule D (540NR).
- Capital gain from children under age 19 or students under age 24 included on the parent's or child's federal tax return and reported on the California tax return by the opposite taxpayer. For more information, get form FTB 3803.

Get FTB Pub. 1001 for more information about:

- Disposition of S corporation stock acquired before 1987.
- Capital gain exclusion for sale of principal residence by a surviving spouse.
- Gain on the sale or disposition of a qualified assisted housing development to low-income residents or to specified entities maintaining housing for low-income residents.
- Undistributed capital gain for RIC shareholders.
- Gain or loss on the sale of property inherited before January 1, 1987.
- Capital loss carrybacks.

Line 14 – Other Gains or (Losses)

Generally, no adjustments are made on this line. However, the California basis of your other assets may differ from your federal basis due to differences between California and federal law. Therefore, you may have to adjust the amount of other gains or losses. Get Schedule D-1, Sales of Business Property, for more information.

Line 15 – IRA Distributions

Beginning with tax year 2002, calculate your IRA basis as if you were a California resident for all prior years. Generally, no adjustments are made on this line. However, there may be significant differences in the taxable amount of a distribution (including a distribution from conversion of a traditional IRA to a Roth IRA) depending on when you made your IRA contributions. California did not conform to the \$2,000 or 100% of compensation annual contribution limit permitted under federal law from 1982 through 1986. During these years, California limited the deduction to the lesser of 15% of compensation or \$1,500 and disallowed a deduction altogether to individuals who were active participants in qualified government plans. Any amount an individual contributed in excess of California deduction limits during these years creates a basis in the IRA.

Differences also occur if your California IRA deductions were different from your federal deductions because of differences between California and federal self-employment income.

If the taxable amount using California law is:

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

Get FTB Pub. 1005, for more information and worksheets for figuring the adjustment to enter on this line, if any.

Coverdell Education Savings Account (ESA) formerly known as

Education (ED) IRA – If column A includes a taxable distribution from an ED IRA, you may owe additional tax on that amount. Get form FTB 3805P, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts. Report the difference between the federal taxable amount and the California taxable amount in column B or column C.

Line 16 – Pensions and Annuities

Generally, no adjustments are made on this line. However, if you received Tier 2 railroad retirement benefits or partially taxable distributions from a pension plan, you may need to make the adjustments.

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

If you began receiving a retirement annuity between July 1, 1986, and January 1, 1987, and elected to use the three-year rule for California purposes and the annuity rules for federal purposes, enter in column C the amount of the annuity payments you excluded for federal purposes.

You may have to pay an additional tax if you received a taxable distribution from a qualified retirement plan before reaching age 59½ and the distribution was not rolled over into another qualified plan. See Long Form 540NR, line 73 instructions; or form FTB 3805P.

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

Adjustments to federal income or loss you reported in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis used to figure California depreciation may be different from the recovery period or amount used for federal purposes. For more information, see the instructions for Schedule CA (540NR), column B and column C, line 12.

California law does not conform to federal law for material participation in rental real estate activities. Beginning in 1994, and for federal purposes only, rental real estate activities conducted by persons in real property businesses are not automatically treated as passive activities. Get form FTB 3801, for more information.

Use form FTB 3801, to figure the total adjustment for line 17 if you have:

- One or more passive activities that produce a loss.
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule E (Form 1040), Supplemental Income and Loss.

Use form FTB 3885A, to figure the total adjustment for line 17 if you have:

- Only nonpassive activities which produce either gains or losses (or a combination of gains and losses).
- Passive activities that produce gains.

LLCs that are classified as partnerships for California purposes and limited liability partnerships (LLPs) are subject to the same rules as other partnerships. LLCs report distributive items to members on Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc. LLPs report to partners on Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc.

Get FTB Pub. 1001, for more information about accumulation distributions to beneficiaries for which the trust was not required to pay California tax because the beneficiary's interest was contingent.

Line 18 – Farm Income or (Loss)

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

Use form FTB 3801, to figure the total adjustment for line 18 if you have:

- One or more passive activities that produce a loss.
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule F (Form 1040), Profit or Loss From Farming.

Use form FTB 3885A, to figure the total adjustment for line 18 if you have:

- Only nonpassive activities which produce either gains or losses (or a combination of gains and losses).
- Passive activities that produce gains.

Line 19 – Unemployment Compensation

California excludes unemployment compensation from taxable income. Enter on line 19, column B, the amount of unemployment compensation shown in column A.

Paid Family Leave Insurance (PFL) benefits, also known as, Family Temporary Disability Insurance. California excludes payments received from the PFL program from taxable income. Enter on line 19, column B, the amount of PFL program payments shown in column A. For more information, get FTB Pub. 1001.

Line 20 – Social Security Benefits

California excludes U.S. social security benefits or equivalent Tier 1 railroad retirement benefits from taxable income. Enter in column B the amount of taxable U.S. social security benefits or equivalent Tier 1 railroad retirement benefits shown in column A, line 20(b).

Line 21 – Other Income**a. California Lottery Winnings**

California excludes California lottery winnings from taxable income. Enter in column B the amount of California lottery winnings included in the federal amount on line 21 in column A.

Make no adjustment for lottery winnings from other states. They are taxable by California.

California and federal laws allow gambling losses only to the extent you report gambling income. If you reduced gambling income for California lottery income, you may need to reduce the losses included in the federal itemized deductions on line 38. Enter these losses on line 41 as a negative number.

b. Disaster Loss Deduction

If you have a California disaster loss carryover deduction and there is income in the current taxable year, enter the total amount from your 2015 form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts, Part III, line 6 as a positive number in column B.

NOL Attributable to a Qualified Disaster – If you deduct a 2016 disaster loss in the 2016 taxable year that results in an NOL, then the NOL must be carried back or elected to be carried forward. Get FTB 3805V for more information.

c. Federal NOL from Form 1040, line 21

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

d. NOL Carryover from Form FTB 3805V, Part III, line 5

The allowable NOL carryover under California law is different from the allowable NOL carryover under federal law. If you have a California NOL carryover from your 2015 form FTB 3805V, enter it as a positive number in column B.

e. NOL from Forms FTB 3805D, FTB 3805Z, FTB 3806, FTB 3807, or FTB 3809

Enter in column B the total NOL figured on the following forms.

- FTB 3805D, Net Operating Loss (NOL) Carryover Computation and Limitation – Pierce's Disease, line 7, column C.
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary, line 3b.
- FTB 3806, Los Angeles Revitalization Zone Net Operating Loss (NOL) Carryover line 2b.
- FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary, line 3b.
- FTB 3809, Targeted Tax Area Deduction and Credit Summary, line 3b.

f. Other (describe)

Identify the type of income reported in the space provided. If there is more than one item to report on line 21f, attach a statement that lists each item and enter the total of all individual items in column B or column C as instructed below.

Olympic Medals and Prize Money. If you excluded the value of any award, medal, or prize money on your federal Form 1040, enter the excluded amount on line 21f, column C. For more information, get FTB Pub. 1001.

Native American Income. California does not tax reservation sourced income earned or received from the same Indian country in which you live and are an enrolled member. For more information, see form FTB 3504, Enrolled Tribal Member Certification. Enter in column B the income included in federal income that is exempt for California and write "FTB 3504" on line 21f. Attach form FTB 3504 to the Form 540NR.

Parents' Election to Report Child's Interest and Dividends. California conforms to federal law for elections made by parents reporting their child's interest and dividends. Parents may elect to report their child's income on their California income tax return by completing form FTB 3803, Parents' Election to Report Child's Interest and Dividends. If you make this election, the child will not have to file a tax return. You may report your child's income on your California income tax return even if you do not do so on your federal income tax return.

If the amount of your child's income you are reporting on your California income tax return is different than the amount you reported on your federal income tax return, enter the difference on line 21f, column B or column C and write "FTB 3803" on line 21f. Get form FTB 3803 for more information.

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

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

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

Beverage container recycling income. Enter in column B the amount of recycling income included in the amount on line 21, column A.

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

Financial Incentive for Turf Removal – California law allows an income exclusion for rebates, vouchers or other financial incentive issued by a local water agency or supplier in a turf removal water conservation program. Enter in column B the amount of this type of income included in the amount on line 21, column A.

Financial Incentive for Seismic Improvement – For taxable years beginning on or after July 1, 2015, California law allows an income exclusion for loan forgiveness, grant, credit, rebate, voucher, or other financial incentive issued by the California Residential Mitigation Program or California Earthquake Authority to assist a residential property owner or occupant with expenses paid, or obligation incurred for earthquake loss mitigation. Enter in column B the amount of this type of income included in the amount on line 21, column A.

Original issue discount (OID) for debt instruments issued in 1985 and 1986. In the year of sale or other disposition, you must recognize the difference between the amount reported on your federal tax return and the amount reported for California purposes. **Issuers:** Enter the difference between the federal deductible amount and the California deductible amount on line 21f in column B. **Holders:** Enter the difference between the amount included in federal gross income and the amount included for California purposes on line 21f in column C.

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

Cost-share payments received by forest landowners. Enter in column B the cost-share payments received from the Department of Forestry and Fire Protection under the California Forest Improvement Act of 1978 or from the United States Department of Agriculture, Forest Service, under the Forest Stewardship Program and the Stewardship Incentives Program, pursuant to the Cooperative Forestry Assistance Act.

Compensation for false imprisonment. California excludes compensation for false imprisonment from income. Enter the amount of compensation on line 21f, column B.

Coverdell ESA distributions. If you received a distribution from a Coverdell ESA, report the difference between the federal taxable amount and the California taxable amount in column B or column C.

Grants paid to low-income individuals. California excludes grants paid to low-income individuals to construct or retrofit buildings to make them more energy efficient. Federal has no similar exclusion. Enter on line 21f, column B the amount of this type of income.

Health Savings Account (HSA) distributions for unqualified medical expense. Distributions from an HSA not used for qualified medical expenses and included in federal income, are not taxable for California purposes. Enter the distribution not used for qualified medical expenses on line 21f, column B.

California National Guard Surviving Spouse & Children Relief Act of 2004. Death benefits received from the State of California by a surviving spouse/RDP or member-designated beneficiary of certain military personnel killed in the performance of duty is excluded from gross income. Military personnel include the California National Guard, State Military Reserve, or the Naval Militia. If you reported a death benefit on line 21, column A, enter the death benefit amount in column B.

Ottoman Turkish Empire settlement payments. If you received settlement payments as a person persecuted by the regime that was in control of the Ottoman Turkish Empire from 1915 until 1923 your gross income does not include those excludable settlement payments, or interest,

received by you, your heirs, or your estate for payments received on or after January 1, 2005. If you reported settlement payments on line 21, column A, enter the amount of settlement payments in column B.

Mortgage forgiveness debt relief. California law does not conform to federal law regarding the discharge of indebtedness from the disposition of your principal residence occurring on or after January 1, 2014. Enter the amount of discharge on line 21f, column C.

Line 22a – Total

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

Line 22b – Balance Carried Forward

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

Line 23 through Line 31a and Line 32 through Line 35

California law is the same as federal with the exception of the following:

- Line 23 (Educator Expenses) – California does not conform to federal law regarding educator expenses. Enter the amount from column A, line 23 to column B, line 23.
- Line 24 (Certain Business Expense of Reservists, Performing Artists, and Fee Basis Government Officials) – If claiming a depreciation deduction as an unreimbursed employee business expense on federal Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses, you may have an adjustment in column B or column C. For more information, get Pub. 1001.
- Line 25 (Health Savings Account (HSA) Deduction) – Federal law allows the taxpayer a deduction for contributions to an HSA account. California does not conform to this provision. Transfer the amount from column A, line 25, to column B, line 25.
- Line 31a (Alimony Paid) – Enter the SSN or ITIN and last name of the person to whom you paid alimony. If you are a nonresident alien and you did not deduct alimony on your federal tax return, enter the amount you paid on this line in column C.
- Line 32 (IRA Deduction) – If you are an active duty military servicemember domiciled outside of California, you may have an adjustment. See line 36 instructions.
- Line 33 (Student Loan Interest Deduction) – California conforms to federal law regarding student loan interest deduction except for non-California domiciled military taxpayers. Military taxpayers use the Student Loan Interest Deduction Worksheet to compute the amount to enter on line 33. For more information, get FTB Pub. 1032.

Student Loan Interest Deduction Worksheet

- 1 Enter the total amount from Schedule CA (540NR), line 33, column A. If the amount on line 1 is zero, STOP. You are not allowed a deduction for California **1** _____
- 2 Enter the total interest you paid in 2016 on qualified student loans but not more than \$2,500 here **2** _____
- 3 From Form 1040, add line 33 (student loan interest deduction) to line 37 (AGI). Enter the result here **3** _____
- 4 Enter the total military income included in federal adjusted gross income (get FTB Pub. 1032) **4** _____
- 5 Subtract line 4 from line 3. **5** _____
- 6 Enter the amount shown below for your filing status.
 - Single, head of household, or qualifying widow(er) – \$60,000
 - Married/RDP filing jointly – \$120,000. **6** _____
- 7 Is the amount on line 5 more than the amount on line 6?
 - ☐ **No.** Skip lines 7 and 8, enter -0- on line 9, and go to line 10.
 - ☐ **Yes.** Subtract line 6 from line 5 **7** _____
- 8 Divide line 7 by \$15,000 (\$30,000 if married/RDP filing jointly). Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000. **8** _____
- 9 Multiply line 2 by line 8. **9** _____
- 10 **Student loan interest deduction.** Subtract line 9 from line 2. Enter the result here and on, Schedule CA (540NR), line 33, column D **10** _____
- 11 **Student loan interest adjustment.** Enter the result here. If line 1 is less than line 10, enter the difference on Schedule CA (540NR), line 33, column C. **11** _____

- Line 34 (Tuition and Fees) – California does not conform to federal law regarding the tuition and fees deduction. Enter the amount from column A, line 34 to column B, line 34.
- Line 35 (Domestic production activities deduction) – California does not conform to the federal law regarding the domestic production activities deduction. Enter the amount from column A, line 35, to column B, line 35.

Line 36 – Add line 23 through line 31a and line 32 through line 35 in column B and column C. Enter the totals on this line in the appropriate columns.

If you claimed the foreign housing deduction, include that amount in the total you enter in column B, line 36. Enter the amount on “Form 2555” or “Form 2555-EZ” on the dotted line next to line 36.

If you are active duty military and not domiciled in California and your IRA deduction was limited because of a federal AGI limitation, recalculate your deduction excluding your active duty military pay. If the recalculated amount is larger than the amount on line 32, column A, enter the difference between the two amounts in column C, line 36. Enter the amount and “MPA Adjustment” on the dotted line next to line 36.

Line 37 – Total

Subtract line 36 from line 22b in column B and column C. Enter the totals on this line in the appropriate column. These amounts should be the same as Long Form 540NR, line 14 and line 16, respectively.

In some cases the total on line 37 in column B or column C will be a negative number. Read the caution note when you get to line 37, column E.

Column D — Total Amounts Using California Law

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

For each line, 7 through 37:

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

Line 21 – Other Income

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

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

The total on line 37, column D should be the same as the amount on Long Form 540NR, line 17.

Column E — California Amounts

Column E is used to show how much of the amount of income reported on Schedule CA (540NR), column D is taxable by California. The taxable amount depends on your residency status.

- **Full-year California resident:** A resident is taxed on all income from all sources, including income from sources outside California. Follow the “California Resident Amounts” instructions for each line below. Full-year residents use Long Form 540NR if filing jointly with a spouse/RDP who is a nonresident or a part-year resident.
- **Full-year nonresident:** A nonresident is only taxed on income derived from California sources. Follow the “California Nonresident Amounts” instructions for each line below.
- **Part-year resident:** A part-year resident is taxed on all income from all sources while a resident and only on income derived from California sources while a nonresident. Follow the instructions as stated in the Part-Year Resident Worksheet instructions.

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

Line 7 – Wages, Salaries, Tips, Etc.

California resident amounts – Enter the wages, salaries, tips, or other compensation that you received while a California resident. Active duty military personnel, who are domiciled in California and stationed in California, report their military income here. Get FTB Pub. 1032 for more information.

California nonresident amounts – If you worked in California while a nonresident, enter the wages, salaries, tips, or other compensation received for those California services.

Line 8 – Taxable Interest

California resident amounts – Enter the interest income received while a California resident.

California nonresident amounts – Enter the interest income received while a nonresident from an account or security that was used in a trade or business or was pledged as security for a loan, the proceeds of which were used in a trade or business located in California.

Line 9 – Ordinary Dividends

California resident amounts – Enter the ordinary dividends received while a California resident.

California nonresident amounts – Enter the ordinary dividends received while a nonresident from an account or security that was used in a trade or business or was pledged as security for a loan, the proceeds of which were used in a trade or business located in California.

Line 11 – Alimony Received

California resident amounts – Enter the alimony received while a California resident.

California nonresident amounts – Alimony received by a nonresident is not taxable.

Line 12 – Business Income or (Loss)

California resident amounts – Enter the total profits or losses (including losses allowed from passive activities) from all businesses conducted while a California resident.

California nonresident amounts – Enter the total amount of profits or losses (including losses allowed from passive activities) from all businesses sourced to California while a nonresident of California. California uses a mandatory market assignment method and single-sales factor apportionment to apportion business income to California. A nonresident may have California sourced income or apportionable business income if receiving income from intangibles or services from California sources.

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

Line 13 – Capital Gain or (Loss)

California resident amounts – Enter capital gains and losses from all sources while a California resident.

California nonresident amounts – Enter capital gains and losses from sources within California while a nonresident. Complete Schedule D (540NR) Worksheet for Nonresidents and Part-Year Residents, to compute this amount.

Part-year resident amounts – Complete Schedule D (540NR) Worksheet for Nonresidents and Part-Year Residents. Enter the amount from column E, line 4 (if there is an overall gain) or line 5 (if there is a loss) of that worksheet on the Part-Year Resident Worksheet, line 13, column C, that is located at the end of the Sch. CA (540NR) instructions.

Line 14 – Other Gains or (Losses)

California resident amounts – Enter gains and losses (including losses allowed from passive activities) from all sources while a resident.

California nonresident amounts – Enter gains and losses from sources within California while a nonresident.

Line 15 – IRA Distributions (Taxable Amount)

California resident amounts – Enter the taxable portion of the IRA distributions received while a California resident. Include regular distributions, premature distributions, and any other money or property received from your IRA account or annuity.

For more information on traditional, Coverdell ESA, and Roth IRAs, get FTB Pub. 1005.

If this amount is a premature distribution and you owed the early distribution tax on your federal tax return, you generally owe this tax to California. Get form FTB 3805P, to figure any additional tax due on this amount.

California nonresident amounts – IRA distributions received by a nonresident are not taxable.

Line 16 – Pensions and Annuities (Taxable Amount)

California resident amounts – Enter the portion of taxable pension and annuity income received while a resident of California.

If this amount is a premature distribution and you owed the early distribution tax on your federal tax return, you generally owe this tax to California. Get form FTB 3805P to figure any additional tax due on this amount.

California nonresident amounts – Qualified retirement distributions received by a nonresident are not taxable.

For more information, get FTB Pub. 1005.

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

California resident amounts – Enter your profit or loss (including losses allowed from passive activities) from all rents, royalties, partnerships, S corporations, LLCs, estates, and trusts that accrued while a California resident.

California nonresident amounts – Enter your profit or loss related to property or business located in California while a nonresident of California. Your Schedule K-1 (100S, 541, 565, or 568) will indicate the amount of S corporation, estate, trust, partnership, or LLC profit or loss derived from California sources.

Part-year resident amounts – Allocate income between the period of residency and the period of non residency 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 allocates an annual amount on a proportional basis between the two periods, using a daily pro-rata methodology. For more information, get FTB Pub. 1100.

Line 18 – Farm Income or (Loss)

California resident amounts – Enter profit or loss (including losses allowed from passive activities) from all farming activity while a California resident.

California nonresident amounts – Enter profit or loss (including losses allowed from passive activities) for farming activity conducted in California while a nonresident of California.

Line 21 – Other Income

Identify the type of income reported in the space provided. If there is more than one item to report on line 21f, attach a statement that lists each item and enter the total of all individual items in column E.

Line 22a – Total

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

Line 22b – Balance Carried Forward

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

Line 26 – Moving Expenses

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

- Into California in connection with your new job, enter the amount from line 26, column A, in line 26, column E.
- Out of California in connection with your new job, enter -0- on line 26, column E.

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

Line 27 – Deductible part of Self-Employment Tax

If you claimed a deduction in column A for self-employment tax paid, your California deduction is limited to a percentage of the total California deduction, line 27, column D. That percentage is the ratio of:

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

Multiply your total California deduction, line 27, column D by the California ratio described above and enter the result on line 27, column E. If the California ratio is greater than 1.00, enter the amount from line 27, column D on line 27, column E. If the California ratio is less than zero, enter -0- on line 27, column E.

Line 28 and Line 32 – IRA, Keogh, SEP, and SIMPLE Deduction

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

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

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

Therefore, she enters \$500 on line 28, column E. She will make no entry in column B or column C.

Keogh, SEP, and SIMPLE deductions are limited to a percentage of the federal deduction.

$$\frac{\text{Self-employment income reported in column E}}{\text{Total self-employment income reported in column D}} = \text{California ratio}$$

Multiply federal deductions by the California ratio described above and enter the result on line 28, column E. If the California ratio is greater than 1.00, enter the amount from line 28, column D on line 28, column E. If the California ratio is less than zero, enter -0- on line 28, column E. Get FTB Pub. 1005 for more information.

Line 29 – Self-Employed Health Insurance Deduction

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

$$\frac{\text{Total self-employment income reported in column E}}{\text{Total self-employment income reported in column D}} = \text{California ratio}$$

Multiply your federal deduction on line 29, by the California ratio described above and enter the result on line 29, column E. If the California ratio is greater than 1.00, enter the amount from line 29, column D on line 29, column E. If the California ratio is less than zero, enter -0- on line 29, column E.

Line 30 – Penalty on Early Withdrawal of Savings

Enter the interest penalties charged while a California resident.

Line 31a – Alimony Paid

If you claimed a deduction in column D for alimony payments, first compute your California ratio:

$$\frac{\text{California AGI (line 37, column E) (without the alimony deduction)}}{\text{Total AGI (line 37, column D) (without the alimony deduction)}} = \text{California ratio}$$

California nonresident amounts – Multiply the deduction (line 31a, column D) by the California ratio (see above) and enter the amount in line 31a, column E. If the California ratio is greater than 1.00, enter the amount from line 31a, column D on line 31a, column E. If the California ratio is less than zero, enter -0- on line 31a, column E.

Part-year resident amounts – Multiply the alimony paid while a nonresident by the California ratio (see above) to determine the nonresident portion. If the California ratio is greater than 1.00, use 1.00 for the California ratio. If the California ratio is less than zero, your nonresident portion of alimony paid is zero. Add the nonresident portion of alimony paid to the alimony paid while a resident. Enter the total in line 31a, column E.

Line 36

Add line 23 through line 31a and line 32 through line 35 in column E. Enter the result on this line.

Line 37 – Total

Subtract line 36 from line 22b in column E. This is your California adjusted gross income (AGI). Enter the result on this line. Also enter this amount on line 45.

Also, transfer the amount from:

- Line 37, column B to Long Form 540NR, line 14.

If column B is a negative number, transfer the amount as a positive number to Long Form 540NR, line 16.

- Line 37, column C to Long Form 540NR, line 16.
If column C is a negative number, transfer the amount as a positive number to Long Form 540NR, line 14.
- Line 37, column E to Long Form 540NR, line 32.
If you plan to itemize deductions, go to Part III.

Specific Line Instructions for Part III Adjustments to Federal Itemized Deductions

Line 38 – Federal Itemized Deductions

Enter the total amount of itemized deductions from your federal Schedule A (Form 1040), Itemized Deductions, lines 4, 9, 15, 19, 20, 27, and 28 or Schedule A (Form 1040NR), lines 1, 5, 6, 13, and 14.

Nonresident military servicemembers domiciled outside of California exclude military pay from federal AGI when calculating threshold limits for the following federal Schedule A (Form 1040) items: medical and dental expenses, gifts to charity, casualty and theft losses, and job expenses and most other miscellaneous deductions. Recalculate these amounts using the modified federal AGI amount. Subtract military pay from federal AGI, and then recalculate itemized deductions using the new threshold limits. Enter the recalculated Schedule A (Form 1040), total itemized deductions on Schedule CA (540NR), line 38.

Important: If you did not itemize deductions on your federal tax return but will itemize deductions on your California tax return, first complete federal Schedule A (Form 1040). Then complete Schedule CA (540NR), Part III, line 38 through line 44. Attach a copy of federal Schedule A (Form 1040) to your Long Form 540NR.

Line 39 – State, Local, and Foreign Income Taxes; General Sales Tax

Add the following amounts from federal Schedule A (Form 1040) and enter on line 39:

- Line 5, state and local income tax (including limited partnership tax and income or franchise tax paid by corporations), and State Disability Insurance (SDI) or state and local general sales tax.
- Line 8, foreign income taxes or Schedule A (Form 1040NR), line 1.

Line 41 – Other Adjustments

Medical and Dental Expense Deduction – For federal purposes, a deduction is allowed for unreimbursed allowable medical and dental expenses that exceeds 10% of federal AGI. California allows a deduction for medical and dental expenses that exceed 7.5% of federal AGI. To determine the amount of the itemized deduction adjustment:

- Calculate the medical and dental expense deduction for California.
- Calculate the medical and dental expense deduction for federal.
- Subtract the federal amount from the California amount. Enter the amount on line 41, as a positive number.

College Access Tax Credit – If you deducted a charitable contribution amount for the College Access Tax Credit Fund on your federal Schedule A (Form 1040) and are claiming the College Access Tax Credit on your Long Form 540NR, enter the amount used to calculate the College Access Tax Credit on line 41 as a negative number.

Adoption-related expenses – If you deducted adoption-related expenses on your federal Schedule A (Form 1040) and are claiming the adoption cost credit on your Long Form 540NR, enter the amount of the adoption cost credit claimed as a negative number on line 41.

Mortgage interest credit – If you reduced your federal mortgage interest deduction by the amount of your mortgage interest credit (from federal Form 8396, Mortgage Interest Credit), increase your California itemized deductions by the same amount. Enter the amount of your federal mortgage interest credit as a positive number on line 41.

Nontaxable income expenses – If, on federal Schedule A (Form 1040), you claim expenses related to producing income taxed under federal law but not taxed by California, enter the amount as a negative number on line 41.

You may claim expenses related to producing income taxed by California law but not taxed under federal law by entering the amount as a positive number on line 41.

Employee business expense – If you completed federal Form 2106 or Form 2106-EZ, prepare a second set of forms reflecting your employee business expense using California amounts (i.e., following California law).

Generally, California law conforms with federal law and no adjustment is needed. However, differences occur when:

- Assets (requiring depreciation) were placed in service before January 1, 1987. Figure the depreciation based on California law.
- Federal employees who were on temporary duty status. California does not conform to the federal provision that expanded temporary duties to include prosecution duties, in addition to investigative duties. Therefore, travel expenses paid or incurred in connection with temporary duty status (exceeding one year), involving the prosecution (or support of the prosecution) of a federal crime, should not be included in the California amount.

Compare federal Form 2106, line 10 or Form 2106-EZ, line 6 and the form completed using California amounts. If the federal amount is larger, enter the difference as a negative number on line 41. If the California amount is larger, enter the difference as a positive number on line 41.

Investment interest expense – Your California deduction for investment interest expense may be different from your federal deduction. Use form FTB 3526, Investment Interest Expense Deduction, to figure the amount to enter on line 41.

Gambling losses – California Lottery losses are not deductible for California. Enter the amount of California Lottery losses shown on federal Schedule A (Form 1040) as a negative number on line 41.

Federal estate tax – Federal estate tax paid on income in respect of a decedent is not deductible for California. Enter the amount of federal estate tax shown on federal Schedule A (Form 1040) as a negative number on line 41.

Generation skipping transfer tax – Tax paid on generation skipping transfers is not deductible under California law. Enter the amount of expenses shown on federal Schedule A (Form 1040) as a negative number on line 41.

State legislator's travel expenses – Under California law, deductible travel expenses for state legislators include only those incurred while away from their places of residence overnight. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference as a negative number on line 41.

Qualified charitable contributions – Your California deduction may be different from your federal deduction. California limits the amount of your deduction to 50% of your federal adjusted gross income. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference as a negative number on line 41.

Charitable contribution carryover deduction – If deducting a prior year charitable contribution carryover, and the California carryover is larger than the federal carryover, enter the additional amount as a positive number on line 41.

Health savings account (HSA) distributions – If you received a tax-free HSA distribution for qualified medical expenses, enter the qualified expenses paid that exceed 7.5% of federal AGI as an adjustment to itemized deductions. To determine the amount of the itemized deduction adjustment:

- Calculate the medical expense deduction for California.
- Calculate the medical expense deduction for federal.
- Subtract the federal amount from the California amount. Enter the difference on line 41, as a positive amount.

Carryover deduction appreciated stock contributed to a private foundation prior to January 1, 2002 – If deducting a charitable contribution carryover of appreciated stock donated to a private operating foundation made prior to January 1, 2002, and the fair market value allowed for federal purposes is larger than the basis allowed for California purposes, enter the difference as a negative number on line 41.

Interest on loans from utility companies – Taxpayers are allowed a tax deduction for interest paid or incurred on a public utility company financed loan that is used to purchase and install energy efficient equipment or products, including zone-heating products for a qualified residence **located in California**. Federal law has no equivalent deduction. Enter the difference as a positive number on line 41.

Private mortgage insurance (PMI) – If you took the deduction on federal Schedule A (Form 1040), line 13, then subtract the same amount on line 41.

Claim of right – If you had to repay an amount that you included in your income in an earlier year, because at the time you thought you had an unrestricted right to it, you may be able to deduct the amount repaid from your income for the year in which you repaid it. Or, if the amount you repaid is more than \$3,000, you may take a credit against your tax for the year in which you repaid it, whichever results in the least tax.

If the amount repaid was not taxed by California, then no deduction or credit is allowed.

If you claimed a credit for the repayment on your federal tax return and are deducting the repayment for California, enter the allowable deduction as a positive amount on Schedule CA (540NR), line 41. Deductions of \$3,000 or less are subject to the 2% federal AGI limit.

If you deducted the repayment on your federal tax return and are taking a credit for California, enter the amount of the federal deduction as a negative amount on Schedule CA (540NR), line 41. To help you determine whether to take a credit or deduction, see the Repayment section of federal Publication 525, Taxable and Nontaxable Income. Remember to use the California tax rate in your computations. If you choose to take the credit instead of the deduction for California, add the credit amount on line 86, the total payment line, of the Long Form 540NR. To the left of the total, write "IRC 1341" and the amount of the credit.

Line 43 – California Itemized Deductions

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

Single or married/RDP filing separately	\$182,459
Head of household	\$273,692
Married/RDP filing jointly or qualifying widow(er)	\$364,923

NO Transfer the amount from line 42 to line 43. Do not complete the worksheet on the following page.

YES Complete the Itemized Deductions Worksheet on the following page.

Note:

- If you are married/RDP and file a separate tax return, you and your spouse/RDP must either both itemize your deductions or both take the standard deduction.
- Also, if someone else can claim you as a dependent, claim the greater of the standard deduction or your itemized deductions. See the "California Standard Deduction Worksheet for Dependents" in your California 540NR Booklet to figure your standard deduction.
- Military pay of a servicemember domiciled outside of California cannot be used to reduce the amount of this deduction. Modify your federal adjusted gross income used to compute this limitation by subtracting your military pay from federal adjusted gross income. Get FTB Pub. 1032 for more information.

Line 44 – Amount from Line 43 or Standard Deduction

Enter the larger of the amount on line 43 or your standard deduction listed below:

Single or married/RDP filing separately	\$4,129
Married/RDP filing jointly, head of household, or qualifying widow(er)	\$8,258

If your filing status is Married/RDP filing separately and your spouse itemizes, enter the amount from line 43 (even if the standard deduction is larger).

Specific Line Instructions for Part IV California Taxable Income

Line 45 – California AGI

Enter your California AGI from line 37, column E.

Line 47 – Deduction Percentage

Divide line 37, column E by line 37, column D. Carry the decimal to four places. This number may not be greater than 1.0000. If the result is greater than 1.0000, enter 1.0000.

Line 49 – California Taxable Income

Subtract line 48 from line 45. If less than zero, enter -0-. Enter this amount on Long Form 540NR, line 35.

1. Amount from Schedule CA (540NR), line 42 **1** _____
2. Using California amounts, add the amounts on federal Schedule A (Form 1040), line 4, line 14, and line 20 plus any gambling losses included on line 28 (or on Schedule A (Form 1040NR), line 6 plus any investment interest expense included on line 9 and any gambling losses on line 14) **2** _____
3. Subtract line 2 from line 1. If the result is -0-, **stop**. Enter the amount from line 1 above on Schedule CA (540NR), line 43 **3** _____
4. Multiply line 3 by 80% (.80). **4** _____
5. Enter the amount from Long Form 540NR, line 13 **5** _____
6. Enter the amount from line 43 instructions on the previous page for your filing status **6** _____
7. Subtract line 6 from line 5. **7** _____
If the result is -0- or less **stop**. Enter the amount from line 1 above on Schedule CA (540NR), line 43
8. Multiply line 7 by 6% (.06). **8** _____
9. Compare the amounts on line 4 and line 8.
Enter the smaller amount here. **9** _____
10. Total itemized deductions. Subtract line 9 from line 1.
Enter the result here and on Schedule CA (540NR), line 43. **10** _____

Important: Part-year residents use this worksheet to determine the amounts to enter on Schedule CA (540NR), column E, line 7 through line 22a.

Important: Part-year residents use this worksheet to determine the amounts to enter on Schedule CA (540NR), column E, line 7 through line 22a.		California Resident Amounts	California Nonresident Amounts	Total Combine column A and column B
		Amounts reported on Schedule CA (540NR) column D earned or received while you were a CA resident	Amounts reported on Schedule CA (540NR) column D earned or received from CA sources while you were a nonresident	Transfer amounts to Schedule CA (540NR), column E
Income				
7 Wages, salaries, tips, etc.	7			
8 (a) Taxable interest	8(a)			
9 (a) Ordinary dividends. See instructions.	9(a)			
10 Taxable refunds, credits, or offsets of state and local income taxes.	10			
11 Alimony received	11			
12 Business income or (loss)	12			
13 Capital gain or (loss). See instructions	13			
14 Other gains or (losses)	14			
15 (b) IRA distributions. See instructions	15(b)			
16 (b) Pensions and annuities. See instructions	16(b)			
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. See instructions.	17			
18 Farm income or (loss)	18			
19 Unemployment compensation	19			
20 (b) Social security benefits	20(b)			
21 Other income. Identify _____	21			
22 a Totals: Combine line 7 through line 21 in column C. Transfer the amounts from column C, line 7 through line 22a, to Schedule CA (540NR), column E, line 7 through line 22a.	22a			

Important: If completing line 13 or line 17, see the column E, part-year resident instructions for those lines.