



STATE OF CALIFORNIA  
**Franchise Tax Board**

# Taxation of Nonresidents and Individuals Who Change Residency

**FTB Publication 1100**  
**(REV 10-2024)**

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## A. Introduction

This publication provides information on the current method for computing tax if you:

- Have always been a California nonresident.
- Change residency from California (move out).
- Change residency to California (move in).

FTB Publication 1031, *Guidelines for Determining Resident Status*, will help you determine your residency status and whether your income is taxable by California.

### Key

State abbreviations used in this publication:

|                 |              |
|-----------------|--------------|
| CA – California | WY – Wyoming |
| NY – New York   | TX – Texas   |
| WA – Washington | NV – Nevada  |
| FL – Florida    |              |

## B. Tax Computation Method

If you are a nonresident or a part-year resident, you determine your California tax by multiplying your California taxable income by an effective tax rate. The effective tax rate is the California tax on all income as if you were a California resident for the current taxable year and for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions, divided by that income. Use the following formula:

Prorated tax =

$$\text{CA taxable income} \times \frac{\text{Tax on total taxable income}}{\text{Total taxable income}}$$

## Key Definitions

### California Taxable Income

California adjusted gross income (AGI) less California itemized or standard deductions.

### California AGI

Gross income and deductions derived from California sources for any part of the taxable year during which you were a nonresident **plus** all items of gross income and all deductions, regardless of source, for any part of the taxable year during which you were a resident.

### Total AGI

The adjusted gross income from all sources for the entire taxable year.

### California Itemized or Standard Deductions

Determined by applying the ratio of California AGI to total AGI to **all** itemized or standard deductions allowed to California residents.

### Total Taxable Income

The entire taxable income determined as if you were a California resident for the current taxable year **and** for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions.

### Restate

To refigure prior year carryovers or pass-through entity basis amounts to determine the allowable amount in the current year. Prior year tax returns are not amended.

### Registered Domestic Partner (RDP)

Two persons who filed a Declaration of Domestic Partnership with the California Secretary of State.

# Percentage Calculations

Apply ratios as described for the following items to determine the CA amount.

**Itemized or Standard Deductions** — Divide the California AGI by the total AGI (the result cannot exceed 1.0):

$$\frac{\text{CA AGI}}{\text{Total AGI}}$$

**Tax Rate** — Divide the tax on total taxable income by the total taxable income:

$$\frac{\text{Tax on total taxable income}}{\text{Total taxable income}}$$

**Credits** — Divide the California taxable income by the total taxable income:

$$\frac{\text{CA taxable income}}{\text{Total taxable income}}$$

This percentage does not apply to renter's credit, other state tax credit, or credits conditional upon a transaction occurring wholly within California. California allows these credits in full.

The following example shows how the calculation works.

## Example 1

You were a Florida resident until March 31, 2023. While a Florida resident, you earned and received wage income of \$15,000 and interest income of \$1,000. On April 1, 2023, you permanently moved to California. While a California resident, you earned and received wage income of \$65,000 and interest income of \$3,000. You are single and had the following itemized deductions in 2023:

|                           |                               |
|---------------------------|-------------------------------|
| Real estate taxes:        | \$ 1,200 (CA house)           |
|                           | 800 (FL house)                |
| Mortgage interest:        | 17,000 (CA house)             |
|                           | 3,500 (FL house)              |
| Charitable contributions: | 1,500 (NY Firefighters' Fund) |
|                           | <u>\$24,000</u>               |

**Determination:** Calculate your 2023 California tax liability as follows:

|                              |                                                              |
|------------------------------|--------------------------------------------------------------|
| CA AGI:                      | \$65,000 (CA wages)                                          |
|                              | + 3,000 (Interest earned while a CA resident)                |
|                              | <u>\$68,000</u>                                              |
| Total AGI:                   | \$80,000 (Wages from all sources)                            |
|                              | + 4,000 (Interest income from all sources)                   |
|                              | <u>\$84,000</u>                                              |
| CA itemized deductions:      | \$24,000 (Total itemized deductions)                         |
|                              | x .8095 (CA AGI ÷ Total AGI)                                 |
|                              | <u>\$19,428</u>                                              |
| CA taxable income:           | \$68,000 (CA AGI)                                            |
|                              | - 19,428 (CA itemized deductions)                            |
|                              | <u>\$48,572</u>                                              |
| Total taxable income:        | \$84,000 (Total AGI)                                         |
|                              | - 24,000 (Total itemized deductions)                         |
|                              | <u>\$60,000</u>                                              |
| Tax on total taxable income: | \$ 2,341 (Tax table)                                         |
| Prorated tax:                | \$48,572 (CA taxable income)                                 |
|                              | x .0390 (Tax on total taxable income ÷ total taxable income) |
|                              | <u>\$ 1,894</u>                                              |
| Prorated exemption credit:   | \$ 144 (Personal exemption credit*)                          |
|                              | x .8095 (CA taxable income ÷ total taxable income)           |
|                              | <u>\$ 117</u>                                                |
| Tax liability:               | \$ 1,894 (Prorated tax)                                      |
|                              | - 117 (Prorated exemption credit)                            |
|                              | <u>\$ 1,777</u>                                              |

## C. Installment Sales

California taxes installment gains received by a nonresident from the sale of tangible property and intangible property that is sourced to California. California taxes real property based upon where the property is located. Installment gains from the sale of intangible property are generally sourced to the recipient's state of residence at the time of the sale. California taxes residents on all income regardless of source.

### Always a Nonresident

California taxes the installment proceeds received by a nonresident to the extent the income from the sale was from a California source.

#### Example 2

You have always been a nonresident of California. On March 1, 2022, you sold a California rental property in an installment sale. During 2022 and 2023, you received installment proceeds comprised of capital gain income and interest income.

##### Determination:

The capital gain income is taxable by California in both 2022 and 2023, because the property was located in California. The interest income is not taxable by California and has a source in your state of residence.

#### Example 3

You have always been a nonresident of California. On June 4, 2022, you sold a parcel of land located in Idaho on an installment basis. During 2022 and 2023, you received installment proceeds comprised of capital gain income and interest income.

##### Determination:

Your capital gain income is not taxable by California because the source of the gain is Idaho. The interest income is not taxable by California and has a source in your state of residence.

## Change of Residency to California (move in)

If you are a California resident who sold property located outside California on the installment basis while a nonresident, your installment proceeds while a California resident are taxable by California.

### Example 4

On July 1, 2022, while a nonresident of California, you sold a Texas rental property in an installment sale. On May 15, 2023, you became a California resident and on August 1, 2023, you received installment proceeds comprised of capital gain income and interest income.

#### Determination:

Your capital gain income and interest income received on August 1, 2023, are taxable by California because you were a California resident when you received the proceeds.

### Example 5

On September 1, 2021, while a nonresident of California, you sold stock (intangible property) in an installment sale. On June 1, 2023, you became a California resident and on October 1, 2023, you received installment proceeds comprised of capital gain income and interest income.

#### Determination:

Your capital gain income and interest income received on October 1, 2023, are taxable by California because you were a California resident when you received the proceeds.

## Change of Residency From California (move out)

If you are a former California resident, your installment proceeds from the sale of property located outside California that you sold while you were a California resident are not taxable by California.

### Example 6

In June 2022, while a California resident, you sold a parcel of real property located in Washington in an installment sale. On March 1, 2023, you became an Ohio resident, and on June 1, 2023, you received installment proceeds comprised of capital gain income and interest income.

#### Determination:

The capital gain income is not taxable by California because the property was not located in California. The interest income is not taxable by California because you were a nonresident of California when you received the proceeds.

### Example 7

In March 2022, while a California resident, you sold a parcel of real property located in California in an installment sale. On June 1, 2023, you became a Washington resident, and on August 1, 2023, you received installment proceeds comprised of capital gain income and interest income.

#### Determination:

The capital gain income is taxable by California because the property you sold was located in California. The interest income is not taxable by California because you were a nonresident of California when you received the proceeds.

### Example 8

In September 2022, while a California resident, you sold stock (intangible property) in an installment sale. On February 1, 2023, you became a Florida resident, and on May 1, 2023, you received installment proceeds comprised of capital gain income and interest income.

#### Determination:

The capital gain income from the sale of the stock is taxable by California because you were a California resident when you sold the stock. The interest income is not taxable by California because you were a nonresident of California when you received the proceeds.

## D. Individual Retirement Accounts, Employer-Sponsored Retirement Plans, and Compensation

### Nonresident

California does not tax the IRA distributions, qualified pension, profit sharing, and stock bonus plans of a nonresident. California taxes compensation received by a nonresident for performance of services in California.

#### Example 9

You are a nonresident of California and live and work in Wyoming. Your Wyoming employer temporarily assigns you to California for four months to complete a project. You continue to receive your paycheck from your employer's Wyoming headquarters. You earn \$5,000 per month.

#### Determination:

Because you performed four months of services in California, \$20,000 (\$5,000 x 4 months) of your compensation has a source in California and is taxable by California.

#### Example 10

You lived and worked exclusively in California until you retired on December 31, 2022. You moved to Nevada on January 1, 2023. Your former California employer pays its employees on the 5th of every month. On January 10, 2023, you received in the mail your last paycheck of \$4,000 from your former California employer.

#### Determination:

The \$4,000 of compensation is taxable by California because the income has a source in California, the state where you performed your services.

## Employer-Sponsored Retirement Plans

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California taxes residents on all income regardless of source.

### Example 11

You permanently moved from Florida to California on January 1, 2022. You received pension income during 2022 through a qualified plan from your former Florida employer.

#### Determination:

Your qualified pension income is taxable by California because you were a California resident when you received the income.

## Compensation

California taxes residents on all income regardless of source.

### Example 12

You lived and worked in New York until April 30, 2023. You permanently moved to California on May 1, 2023. Your former New York employer pays their employees on the 5th of every month. On May 8, 2023, you received in the mail your last paycheck of \$3,000 from your former New York employer.

#### Determination:

The \$3,000 of compensation is taxable by California because you were a California resident when you received the income. If you also paid tax to New York on this compensation, you are allowed a credit for taxes paid.

Get California Schedule S, *Other State Tax Credit*, for more information.



## E. Stock Options

### Nonresident

California taxes the wage income received by a nonresident from employee stock options on a source basis, whether you were always a nonresident or were formerly a California resident.

**Example 13**

On February 1, 2020, while a California resident, you were granted nonstatutory stock options. You performed all of your services in California from February 1, 2020, to May 1, 2023, the date you left the company and permanently moved to Texas. On June 1, 2023, you exercised your nonstatutory stock options.

**Determination:**

The income resulting from the exercise of your nonstatutory stock options is taxable by California because the income is compensation for services having a source in California, the state where you performed all of your services.

# Change of Residency to California (move in)

If you exercise nonstatutory stock options while a California resident, the resulting compensation is taxable by California because the wage income is recognized while you are a California resident.

If you dispose of statutory stock options in a disqualifying disposition, the resulting compensation and capital gain, if any, are taxable by California because the wage income and capital gain are recognized while you are a California resident.

California also taxes the capital gain income received by a former nonresident from the sale of stock in a qualifying disposition of statutory stock options because the stock is sold while the taxpayer is a resident.

## **Example 14**

On March 1, 2019, while a Nevada resident, you were granted nonstatutory stock options. On April 1, 2023, you retired and permanently moved to California. On May 1, 2023, you exercised your options.

### **Determination:**

The compensation resulting from the exercise of your nonstatutory stock options is taxable by California because you were a California resident when the income was recognized.

California also taxes the capital gain income received by a former nonresident from the sale of stock in a qualifying disposition of statutory stock options because the stock is sold while the taxpayer is a resident.

## **Example 15**

On February 1, 2019, while a Texas resident, you were granted incentive stock options. On February 1, 2022, you exercised your options. On December 1, 2022, you permanently moved to California and sold your stock on March 1, 2023, for a gain.

### **Determination:**

The resulting capital gain is taxable by California because you were a California resident when you sold the stock.

Get FTB Publication 1004, *Stock Option Guidelines*, for additional information on the California taxation of stock options.

## F. Deferred Gains and Losses (like-kind exchanges)

When you exchange one kind of property for the same kind of property under the requirements of Internal Revenue Code (IRC) Section 1031, you realize a gain or loss on the transaction and defer paying tax on the gain or claiming the loss until the property is sold or otherwise disposed of. A gain or loss from the sale or exchange of real or tangible personal property located in California is sourced to California at the time the gain or loss is realized.

### California Property Exchanged for Out-of-State Property

If you are a nonresident and exchange real or tangible property located within California for real or tangible property located outside California, the realized gain or loss will be sourced to California. Taxation will not occur until the gain or loss is recognized.

For taxable years beginning on or after January 1, 2014, California Revenue and Taxation Code (R&TC) Sections 18032 and 24953 require California resident and nonresident taxpayers who defer gain on the sale or exchange of California property for out-of-state replacement property under IRC Section 1031 to file an annual information return with FTB. All taxpayers, regardless of residence status or commercial domicile, who exchange real property located in California for like-kind property located outside of California, must file form FTB 3840 with their California tax return. Taxpayers who exchange multiple assets involving both real and personal property located in California for like-kind property located outside of California are also subject to this requirement. Taxpayers who exchange only personal property assets are not required to file form FTB 3840.

#### **Example 16**

As a resident of Texas, you exchanged a condominium located in California for like-kind property located in Texas. You realized a gain of \$15,000 on the exchange that was properly deferred under IRC Section 1031. You then sold the Texas property in a nondeferred transaction and recognized a gain of \$20,000.

#### **Determination:**

The \$15,000 deferred gain (the lesser of the deferred gain or the gain recognized at the time you disposed of the Texas property) has a source in California and is taxable by California.

# Out-of-State Property Exchanged for California Property

If you exchange real or tangible property located outside California for real or tangible property located within California, the gain recognized when you sell or otherwise dispose of the California property in a nondeferred transaction has a California source and is taxable by California.

## Example 17

As a resident of Nevada, you exchanged Nevada business property for like-kind California business property. You realized a \$10,000 gain on the exchange that was properly deferred under IRC Section 1031. You then sold the California business property in a nondeferred transaction and recognized a gain of \$50,000.

### Determination:

\$40,000 of gain has a California source and is taxable by California.

## Example 18

While a resident of Kansas, you exchanged real property located in Kansas for like-kind real property located in California. You realized a \$12,000 gain on the exchange that was properly deferred under IRC Section 1031. You then became a California resident and, while a resident, you sold the California property in a nondeferred transaction and recognized a gain of \$40,000.

### Determination:

California taxes the \$40,000 gain because you were a California resident at the time of the sale. If you paid tax to Kansas on the \$12,000 deferred gain, you are allowed a credit for taxes paid.

## G. Gains and Losses From the Sale of Trade or Business Property

When you sell property used in a trade or business or certain involuntary conversions (IRC Section 1231 property), losses are netted against gains. If Section 1231 losses exceed Section 1231 gains, the losses receive ordinary tax treatment. If Section 1231 gains exceed Section 1231 losses, the gains receive capital gain tax treatment. Section 1231 gains and losses retain this characterization regardless of whether you change your residency status.

For purposes of computing California taxable income, net only California source Section 1231 gains and losses.

### Example 19

You are a resident of Washington. In 2023, your California and non-California source Section 1231 gains and losses included a \$3,000 California gain, a \$2,000 California loss, a \$4,000 Washington gain, and a \$5,000 Washington loss.

#### Determination:

Based upon the netting of your total and California source Section 1231 gains and losses, determine your capital gain or ordinary loss as follows:

| <b>Taxable Year 2023:</b> | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|---------------------------|---------------------------------|------------------------------|
| CA Section 1231 gain      | \$ 3,000                        | \$ 3,000                     |
| CA Section 1231 loss      | (2,000)                         | (2,000)                      |
| WA Section 1231 gain      | 4,000                           |                              |
| WA Section 1231 loss      | (5,000)                         |                              |
| Capital gain              | \$ 0                            | \$1,000                      |

### Example 20

You are a resident of Florida. In 2023, your California and non-California source Section 1231 gains and losses included a \$2,500 California gain, a \$3,000 California loss, a \$1,000 Florida gain, and a \$500 Florida loss.

#### Determination:

Based upon the netting of your total and California source Section 1231 gains and losses, determine your capital gain or ordinary loss as follows:

| <b>Taxable Year 2023:</b> | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|---------------------------|---------------------------------|------------------------------|
| CA Section 1231 gain      | \$ 2,500                        | \$ 2,500                     |
| CA Section 1231 loss      | (3,000)                         | (3,000)                      |
| FL Section 1231 gain      | 1,000                           |                              |
| FL Section 1231 loss      | ( 500)                          |                              |
| Ordinary loss             | \$ 0                            | \$ ( 500)                    |

## H. Capital Gains and Losses

### Always a Nonresident

If you have always been a nonresident of California, you determine capital loss carryovers and capital loss limitations based only upon California source income and loss items in order to compute California taxable income.

#### Example 21

You have always been a New York resident. In 2022, your California and non-California source capital gains and losses included California capital gains of \$2,000, California capital losses of \$6,000, New York capital gains of \$5,000, and New York capital losses of \$2,000. You had no capital loss carryovers prior to 2022.

#### Determination:

Net your capital gains and losses to determine the capital losses allowed in 2022 (the \$3,000 limitation applies) and the capital loss carryover to 2023.

| <b>Taxable Year 2022:</b>      | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|--------------------------------|---------------------------------|------------------------------|
| CA capital gain                | \$ 2,000                        | \$ 2,000                     |
| CA capital loss                | (6,000)                         | (6,000)                      |
| NY capital gain                | 5,000                           |                              |
| NY capital loss                | (2,000)                         |                              |
| Total                          | <u>\$(1,000)</u>                | <u>\$(4,000)</u>             |
| Capital loss allowed in 2022   | 1,000                           | 3,000                        |
| Capital loss carryover to 2023 | \$ 0                            | \$(1,000)                    |

# Change of Residency to California (move in)

If you have capital loss carryovers and were a nonresident of California in prior years, the capital loss carryovers need to be restated as if you had been a California resident for all prior years.

## Example 22

Assume the same facts as Example 21. On January 1, 2023, you become a California resident. During 2023, you sell property located in Wyoming for a capital gain of \$5,000 and incur a \$4,000 capital loss from the sale of property located in California.

### Determination:

**Step 1:** Restate your 2022 capital loss carryover as if you had been a California resident for all prior years.

| 2022 Restatement:              | Total Taxable Income |
|--------------------------------|----------------------|
| CA capital gain                | \$ 2,000             |
| CA capital loss                | (6,000)              |
| NY capital gain                | 5,000                |
| NY capital loss                | (2,000)              |
| Total                          | <u>\$(1,000)</u>     |
| Capital loss allowed in 2022   | <u>1,000</u>         |
| Capital loss carryover to 2023 | \$ 0                 |

**Step 2:** Net your capital gains and losses to determine the amount of capital gain income to include in total taxable income.

| Taxable Year 2023:     | Total Taxable Income |
|------------------------|----------------------|
| CA capital loss        | \$ (4,000)           |
| WY capital gain        | 5,000                |
| Capital loss carryover | <u>0</u>             |
| Capital gain income    | \$ 1,000             |

# Change of Residency From California (move out)

If you have capital loss carryovers and you become a nonresident of California, your capital loss carryovers need to be restated as if you had been a nonresident of California for all prior years.

## Example 23

Assume the same facts as Examples 21 and 22. On January 1, 2024, you become a nonresident of California again. During 2024, you sell property located in Texas for a capital gain of \$8,000, sell property located in California for a \$9,000 capital gain, and incur a \$5,000 capital loss from the sale of property located in California.

### Determination:

**Step 1:** Restate your capital loss carryovers as if you had been a nonresident of California for all prior years by netting your capital gains and losses from California sources only.

| <b>2022 Restatement:</b>       | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|--------------------------------|---------------------------------|------------------------------|
| CA capital gain                | \$ 2,000                        | \$ 2,000                     |
| CA capital loss                | (6,000)                         | (6,000)                      |
| NY capital gain                | 5,000                           |                              |
| NY capital loss                | (2,000)                         |                              |
| Total                          | \$(1,000)                       | \$(4,000)                    |
| Capital loss allowed in 2022   | 1,000                           | 3,000                        |
| Capital loss carryover to 2023 | \$ 0                            | \$(1,000)                    |

| <b>2023 Restatement:</b>         | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|----------------------------------|---------------------------------|------------------------------|
| CA capital loss, 2023            | \$ (4,000)                      | \$ (4,000)                   |
| WY capital gain                  | 5,000                           |                              |
| Capital loss carryover from 2022 |                                 | (1,000)                      |
| Capital gain or loss             | \$ 1,000                        | \$ (5,000)                   |
| Capital loss allowed in 2023     |                                 | 3,000                        |
| Capital loss carryover to 2024   | \$ 0                            | \$ (2,000)                   |

**Step 2:** Net your capital gains and losses to determine the amount of capital gain income to include in total taxable income and California taxable income.

| <b>Taxable Year 2024:</b>        | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|----------------------------------|---------------------------------|------------------------------|
| CA capital gain                  | \$ 9,000                        | \$ 9,000                     |
| CA capital loss                  | (5,000)                         | (5,000)                      |
| TX capital gain                  | 8,000                           |                              |
| Total                            | \$ 12,000                       | \$ 4,000                     |
| Capital loss carryover from 2023 | 0                               | (2,000)                      |
| Capital gain income              | \$ 12,000                       | \$ 2,000                     |



# Part-Year Resident

If you changed your residency, compute income and deductions using resident rules for the period of the year you were a California resident and nonresident rules for the period of the year you were a nonresident. Compute any prior year carryover loss as if you were a California resident for all prior years **and** as if you were a nonresident for all prior years. Prorate both capital loss carryover amounts based upon the period of California residency and the period of nonresidency during the year.

## Example 24

You became a California resident on July 1, 2022. Your total and California source capital gains and losses for 2022 are as follows:

### Before July 1, 2022

|                          |           |
|--------------------------|-----------|
| Total capital gains      | \$ 10,000 |
| CA source capital gains  | 7,000     |
| Total capital losses     | (2,000)   |
| CA source capital losses | (1,000)   |

### After July 1, 2022

|                          |          |
|--------------------------|----------|
| Total capital gains      | \$ 8,000 |
| CA source capital gains  | 4,000    |
| Total capital losses     | (3,000)  |
| CA source capital losses | (3,000)  |

Your capital loss carryover from 2021 was \$7,000, as if you had been a California resident for all prior years and \$5,000, as if you had been a nonresident for all prior years.

### Determination:

**Step 1:** Net your total capital gains and losses for the period of residency and your California source capital gains and losses for the period of nonresidency.

|                                          |          |
|------------------------------------------|----------|
| CA capital gains, before July 1, 2022    | \$ 7,000 |
| CA capital losses, before July 1, 2022   | (1,000)  |
| Total capital gains, after July 1, 2022  | 8,000    |
| Total capital losses, after July 1, 2022 | (3,000)  |
| Capital gain before carryover losses     | \$11,000 |

**Step 2:** Prorate your capital loss carryover amounts based upon periods of California residency and nonresidency during 2022.

#### Period of Residency

|                                                         |           |
|---------------------------------------------------------|-----------|
| 2021 carryover, as if a CA resident for all prior years | \$(7,000) |
| CA resident days ÷ total days                           |           |
| 184 ÷ 365                                               | x .5041   |
| Prorated 2021 capital loss carryover                    | \$(3,529) |

#### Period of Nonresidency

|                                                         |           |
|---------------------------------------------------------|-----------|
| 2021 carryover, as if a nonresident for all prior years | \$(5,000) |
| Nonresident days ÷ total days                           |           |
| 181 ÷ 365                                               | x .4959   |
| Prorated 2021 capital loss carryover                    | \$(2,479) |

**Step 3:** Compute your capital gain or loss to include in California taxable income.

#### Taxable Year 2022:

|                                            |
|--------------------------------------------|
| Capital gain before carryover losses       |
| Capital loss carryover, resident period    |
| Capital loss carryover, nonresident period |
| Capital gain, 2022                         |

#### CA Taxable Income

|          |
|----------|
| \$11,000 |
| (3,529)  |
| (2,479)  |
| \$ 4,992 |

Get California 540NR, *Nonresident or Part-Year Resident Booklet*, for more information regarding the reporting of capital gains and losses.

# I. Passive Activities

## Always a Nonresident

If you have always been a nonresident of California, you determine the allowed passive activity losses and suspended losses based only upon California source passive income and loss items to compute California taxable income. Only California source passive losses carry forward into the following year.

### Example 25

You have always been a resident of Texas. Prior to 2022, you were not engaged in any passive activities. During 2022, you purchased rental properties in both California and Texas. In 2022, your California and non-California source passive income and losses included California rental income of \$2,000, California rental losses of \$30,000, and Texas rental income of \$4,000.

#### Determination:

Based upon the netting of your passive income and losses and the allowance of up to \$25,000 for rental losses, determine your passive losses allowed in 2022 and suspended to 2023 as follows:

| <b>Taxable Year 2022:</b> | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|---------------------------|---------------------------------|------------------------------|
| CA rental income          | \$ 2,000                        | \$ 2,000                     |
| CA rental losses          | (30,000)                        | (30,000)                     |
| TX rental income          | 4,000                           |                              |
| Total                     | \$ (24,000)                     | \$ (28,000)                  |
| Allowed rental losses     | 24,000                          | 25,000                       |
| Suspended loss to 2023    | \$ 0                            | \$ (3,000)                   |

**Example 26**

You have always been a resident of New York. Prior to 2022, you were not engaged in any passive activities. During 2022, you became engaged in California and non-California passive activities. In 2022, your passive income and losses included California source partnership income of \$2,000, California source S corporation losses of \$8,000, and New York partnership income of \$3,000.

**Determination:**

Based upon the netting of your passive income and losses, determine your suspended losses to be carried forward to 2023 as follows:

| <b>Taxable Year 2022:</b> | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|---------------------------|---------------------------------|------------------------------|
| CA partnership income     | \$ 2,000                        | \$ 2,000                     |
| CA S corporation loss     | (8,000)                         | (8,000)                      |
| NY partnership income     | 3,000                           |                              |
| Suspended loss to 2023    | \$ (3,000)                      | \$ (6,000)                   |

## Change of Residency to California (move in)

If you had suspended passive losses and were a nonresident of California in prior years, the suspended passive losses need to be restated as if you had been a California resident for all prior years.

**Example 27**

Assume the same facts as Example 26. On January 1, 2023, you become a California resident. In 2023, your passive income and losses include California source partnership income of \$3,000, California source S corporation losses of \$1,000, and New York source partnership income of \$7,000.

**Determination:**

**Step 1:** Restate your 2022 suspended passive loss as if you had been a California resident for 2022.

| <b>2022 Restatement:</b>          | <b>Total Taxable<br/>Income</b> |
|-----------------------------------|---------------------------------|
| CA partnership income             | \$ 2,000                        |
| CA S corporation loss             | (8,000)                         |
| NY partnership income             | 3,000                           |
| Suspended passive loss<br>to 2023 | \$ (3,000)                      |

**Step 2:** Net your passive income and losses to determine the amount of passive income to include in total taxable income.

| <b>Taxable Year 2023:</b>    | <b>Total Taxable<br/>Income</b> |
|------------------------------|---------------------------------|
| CA partnership income        | \$ 3,000                        |
| CA S corporation loss        | (1,000)                         |
| NY partnership income        | 7,000                           |
| Total                        | \$ 9,000                        |
| Suspended passive loss, 2022 | (3,000)                         |
| Passive income, 2023         | \$ 6,000                        |

# Change of Residency From California (move out)

If you have suspended passive losses and you become a nonresident of California, your suspended passive losses need to be restated as if you had been a nonresident of California for all prior years.

## Example 28

Assume the same facts as Examples 26 and 27. On January 1, 2024, you become a nonresident of California again. During 2024, your passive income and losses include California source partnership income of \$15,000, California source S corporation losses of \$7,000, and New York source partnership income of \$2,000.

### Determination:

**Step 1:** Restate your suspended passive losses as if you had been a nonresident of California for all prior years by netting passive income and passive losses from California sources only.

| <b>2022 Restatement:</b>       | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|--------------------------------|---------------------------------|------------------------------|
| CA partnership income          | \$ 2,000                        | \$ 2,000                     |
| CA S corporation loss          | (8,000)                         | (8,000)                      |
| NY partnership income          | 3,000                           |                              |
| Suspended passive loss to 2023 | \$ (3,000)                      | \$ (6,000)                   |

| <b>2023 Restatement:</b>       | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|--------------------------------|---------------------------------|------------------------------|
| CA partnership income          | \$ 3,000                        | \$ 3,000                     |
| CA S corporation loss          | (1,000)                         | (1,000)                      |
| NY partnership income          | 7,000                           |                              |
| Total                          | \$ 9,000                        | \$ 2,000                     |
| Suspended loss from 2022       | (3,000)                         | (6,000)                      |
| Income or suspended loss, 2023 | \$ 6,000                        | \$ (4,000)                   |

**Step 2:** Net your passive income and losses to determine the amount of passive income to include in total taxable income and California taxable income.

| <b>Taxable Year 2024:</b> | <b>Total Taxable<br/>Income</b> | <b>CA Taxable<br/>Income</b> |
|---------------------------|---------------------------------|------------------------------|
| CA partnership income     | \$ 15,000                       | \$ 15,000                    |
| CA S corporation loss     | (7,000)                         | (7,000)                      |
| NY partnership income     | 2,000                           |                              |
| Total                     | \$ 10,000                       | \$ 8,000                     |
| Suspended loss from 2023  | 0                               | (4,000)                      |
| Passive income, 2024      | \$ 10,000                       | \$ 4,000                     |

# Part-Year Resident

If you changed your residency, compute income and deductions using resident rules for the period of the year you were a California resident and nonresident rules for the period of the year you were a nonresident. Compute any suspended passive losses as if you were a California resident for all prior years **and** as if you were a nonresident for all prior years. Prorate both suspended passive loss amounts based upon the period of California residency and the period of nonresidency during the year.

## Example 29

You became a nonresident of California on October 1, 2023. Your passive activities did not include any rental properties. Your total and California source passive income and losses for 2023 were as follows:

### Before October 1, 2023

|                      |           |
|----------------------|-----------|
| Total passive income | \$ 13,500 |
| CA passive income    | 7,500     |
| Total passive losses | (3,000)   |
| CA passive losses    | (6,000)   |

### After October 1, 2023

|                      |          |
|----------------------|----------|
| Total passive income | \$ 4,500 |
| CA passive income    | 2,500    |
| Total passive losses | (1,000)  |
| CA passive losses    | (2,000)  |

Your suspended passive loss from 2022 was \$7,000, restated as if you had been a California resident for all prior years and \$5,000, restated as if you had been a nonresident for all prior years.

### Determination:

**Step 1:** Net your total passive income and losses for the period of residency and your California source passive income and losses for the period of nonresidency.

|                                              |          |
|----------------------------------------------|----------|
| Total passive income, before October 1, 2023 | \$13,500 |
| Total passive losses, before October 1, 2023 | (3,000)  |
| CA passive income, after October 1, 2023     | 2,500    |
| CA passive losses, after October 1, 2023     | (2,000)  |
| Passive income before suspended losses       | \$11,000 |

**Step 2:** Prorate your suspended passive loss carryover amounts based upon periods of California residency and nonresidency during 2023.

#### Period of Residency

|                                                              |           |
|--------------------------------------------------------------|-----------|
| 2022 suspended loss, as if a CA resident for all prior years | \$(7,000) |
| CA resident days ÷ total days                                |           |
| 273 ÷ 365                                                    | x .7479   |
| Prorated 2022 suspended loss                                 | \$(5,235) |

#### Period of Nonresidency

|                                                               |           |
|---------------------------------------------------------------|-----------|
| 2022 suspended loss, as if a non-resident for all prior years | \$(5,000) |
| Nonresident days ÷ total days                                 |           |
| 92 ÷ 365                                                      | x .2521   |
| Prorated 2022 suspended loss                                  | \$(1,260) |

**Step 3:** Compute your passive income or suspended loss for taxable year 2023.

#### Taxable Year 2023:

|                                            |
|--------------------------------------------|
| Passive income before suspended losses     |
| Suspended passive loss, resident period    |
| Suspended passive loss, nonresident period |
| Passive income, 2023                       |

#### CA Taxable Income

|          |
|----------|
| \$11,000 |
| (5,235)  |
| (1,260)  |
| \$ 4,505 |

Get FTB 3801, *Passive Activity Loss Limitations*, for more information regarding the reporting of passive activity losses.

# J. Net Operating Losses

Get FTB 3805V, *Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations-Individuals, Estates, and Trusts*, at [ftb.ca.gov](http://ftb.ca.gov) for more information regarding NOLs.

## Always a Nonresident

The NOL carryover computation for the California taxable income of a nonresident is not limited by the amount of net operating loss from all sources. Only your California sourced income and losses are considered in determining if you have a California NOL.

### Example 30

You are a resident of Nevada and operate two businesses. One business is conducted wholly within California and the other business is conducted wholly within Nevada.

In 2022 your businesses produced the following results:

| <b>Taxable Year 2022:</b> | <b>Total Taxable Income</b> | <b>CA Taxable Income</b> |
|---------------------------|-----------------------------|--------------------------|
| NV business               | \$ 9,000                    |                          |
| CA business               | (3,000)                     | \$ (3,000)               |
| Total                     | \$ 6,000                    | \$ (3,000)               |

### Determination:

Only your California sourced income and losses are considered in determining if you have a California NOL. For 2022, you have a California NOL of \$3,000. You may carry forward \$1,800 (60 percent of the \$3,000 NOL).

# Change of Residency to California (move in)

If you change residency to California and have NOL carryovers, you need to restate your carryover amounts as if you were a resident of California for all prior years.

## Example 31

You became a California resident on January 1, 2023, moving from Texas. You started a business in Texas in 2016 and opened a different business located in California in 2017. You had no income or loss from either business in 2017 through 2020. Under California law, the income and loss from each business are as follows:

| Business Location | 2016        | 2021        | 2022       | 2023     |
|-------------------|-------------|-------------|------------|----------|
| California        |             | \$250,000   | \$(25,000) | \$15,000 |
| Texas             | \$(125,000) | \$1,000,000 | \$ 50,000  | \$ 5,000 |

## Determination:

**Step 1:** First restate your NOL carryovers for prior years as if you were a California resident:

**Step 2:** Combine your business income from all sources to determine your NOL carryover to 2024.

| 2016 Restatement:     | Total Taxable Income |
|-----------------------|----------------------|
| 2016 NOL              | \$ (125,000)         |
| Allowable Percentage  | x 100%               |
| NOL carryover to 2017 | \$ (125,000)         |

## 2021 Restatement:

|                     |              |
|---------------------|--------------|
| Business Income     | \$ 1,250,000 |
| Prior NOL carryover | \$ (125,000) |

**Net business income exceeds \$1,000,000.  
Your NOL carryover deduction is suspended.**

## 2022 Restatement:

|                       |              |
|-----------------------|--------------|
| Business Income       | \$ 25,000    |
| Prior NOL carryover   | (125,000)    |
| NOL carryover to 2023 | \$ (100,000) |

| Taxable Year 2023:       | Total Taxable Income |
|--------------------------|----------------------|
| CA source income         | \$ 15,000            |
| TX source income         | 5,000                |
| Total                    | \$ 20,000            |
| Prior year NOL carryover | (100,000)            |
| NOL carryover to 2024    | (80,000)             |

# Change of Residency From California (move out)

If you change residence from California and have NOL carryovers, you need to restate your carryover amounts as if you were a nonresident of California for all prior years.

## Example 32

Assume the same facts as Example 31. You became a nonresident of California on January 1, 2024. Your Texas and California businesses earn income of \$3,000 and \$4,000 respectively.

### Determination:

Restate your NOL carryover as if you had been a nonresident of California for all prior years by netting business income and losses from California sources only.

| 2016 Restatement:                            | Total Taxable<br>Income | CA Taxable<br>Income |
|----------------------------------------------|-------------------------|----------------------|
| TX source business loss                      | \$ (125,000)            |                      |
| CA NOL carryover<br>allowed percentage, 2016 | x 100%                  |                      |
| NOL carryover to 2017                        | \$ (125,000)            | \$ 0                 |

| 2021 Restatement:         | Total Taxable<br>Income | CA Taxable<br>Income |
|---------------------------|-------------------------|----------------------|
| TX source business income | \$1,000,000             |                      |
| CA source business loss   | 250,000                 | \$250,000            |
| Total                     | \$1,250,000             | \$250,000            |
| Prior year NOL carryover  | \$ (125,000)            | \$0                  |

**You cannot use your NOL carryover in determining total taxable income because your net business income exceeds \$1,000,000. You do not have a California source NOL to carryover for California taxable income.**

| 2022 Restatement:         | Total Taxable<br>Income | CA Taxable<br>Income |
|---------------------------|-------------------------|----------------------|
| TX source business income | \$ 50,000               |                      |
| CA source business income | (25,000)                | \$(25,000)           |
| Total                     | 25,000                  | \$(25,000)           |
| Prior year NOL carryover  | (125,000)               | 0                    |
| Carryover to 2023         | \$(100,000)             | \$(25,000)           |

| 2023 Restatement:         | Total Taxable<br>Income | CA Taxable<br>Income |
|---------------------------|-------------------------|----------------------|
| TX source business income | \$ 5,000                |                      |
| CA source business loss   | 15,000                  | \$ 15,000            |
| Total                     | 20,000                  | 15,000               |
| Prior year NOL carryover  | (100,000)               | (25,000)             |
| Carryover to 2024         | \$(80,000)              | \$ 10,000            |



# Part-Year Resident

If you changed your residency during the year, compute your NOL deduction using resident rules for the period of the year you were a California resident and nonresident rules for the period of the year you were a nonresident. Compute any NOL carryovers as if you were a California resident for all prior years and as if you were a nonresident for all prior years. Prorate both NOL carryover amounts based upon the period of California residency and the period of nonresidency during the year.

## Example 33

You moved to California on May 1, 2023. Your total and California source income and losses from your Washington and California business operations for 2023 were as follows:

### Before May 1, 2023

|             |                 |
|-------------|-----------------|
| WA business | \$14,000        |
| CA business | (2,000)         |
| Total       | <u>\$12,000</u> |

### After May 1, 2023

|             |                    |
|-------------|--------------------|
| WA business | \$ (26,000)        |
| CA business | 10,000             |
| Total       | <u>\$ (16,000)</u> |

Your NOL carryover from prior years is \$6,000 as if you were a resident for all prior years and \$3,000 as if you were a nonresident for all prior years.

## Determination:

**Step 1:** Compute your current year NOL by netting your total business income and losses for the period of residency and your California source business income and losses for the period of nonresidency:

|                                          |                    |
|------------------------------------------|--------------------|
| CA business losses, before May 1, 2023   | \$ (2,000)         |
| Total business losses, after May 1, 2023 | <u>(16,000)</u>    |
| Total                                    | <u>(18,000)</u>    |
| Current year NOL, 2023                   | <u>\$ (18,000)</u> |

**Step 2:** Prorate your NOL carryover amounts based upon periods of California residency and nonresidency during 2023.

### Period of Residency

NOL carryover, as if a CA resident for all prior years

\$ (6,000)

### Period of Nonresidency

NOL carryover, as if a nonresident for all prior years

\$ (3,000)

CA resident days ÷ total days  
245 ÷ 366

x .6712

Prorated NOL carryover

\$ (4,027)

Nonresident days ÷ total days  
121 ÷ 366

x .3288

Prorated NOL carryover

\$ (986)

**Step 3:** Compute your prior year NOL carryover:

|                                                    |                   |
|----------------------------------------------------|-------------------|
| NOL carryover from prior years, resident period    | \$ (4,027)        |
| NOL carryover from prior years, nonresident period | <u>(986)</u>      |
| Total NOL carryover from 2023                      | <u>\$ (5,013)</u> |

## K. Basis in Pass-Through Entities

Pass-through entities include partnerships, S corporations, and limited liability companies that elect to be treated as partnerships.

### Always a Nonresident

Your basis in a pass-through entity for California purposes is equal to your federal tax basis adjusted for differences in federal and California law. For example, allowable depreciation or amortization expenses are different under California and federal law.

#### Example 34

You are a resident of Nevada. In 2022, you invested \$10,000 cash in a partnership and became a 50 percent partner. At the close of 2022, the partnership generated a \$4,000 federal loss and a \$2,000 California loss. This difference is due to federal depreciation expense being more than allowed under California law.

Compute your year-end California basis in the partnership as follows:

|                                                        |     | <b>Federal<br/>Law</b> | <b>Difference</b> | <b>California<br/>Law</b> | <b>Fed Basis</b> | <b>California<br/>Basis</b> |
|--------------------------------------------------------|-----|------------------------|-------------------|---------------------------|------------------|-----------------------------|
| 1/1/2022 Cash Contribution to Capital                  |     |                        |                   |                           | \$10,000         | \$10,000                    |
| Partnership's CA Loss                                  |     | \$ (4,000)             | \$ 2,000          | \$ (2,000)                |                  |                             |
| Partner's Percentage Interest                          | 50% | \$ (2,000)             | \$ 1,000          | \$ (1,000)                | \$ (2,000)       | \$ (1,000)                  |
| <b>Partner's 12/31/2022 CA Basis<br/>(to 1/1/2023)</b> |     |                        |                   |                           | <b>\$ 8,000</b>  | <b>\$ 9,000</b>             |

Because of the difference in allowable depreciation and amortization expenses, the Partner's California PTE Basis will be different than their federal PTE Basis.

# Change of Residency to California (move in)

Your California basis in a pass-through entity is equal to your federal tax basis adjusted for differences in federal and California law. For example, allowable depreciation or amortization expenses are different under California law than for federal. Your California basis is adjusted for your distributive share of flow-through items under California law.

## Example 35

Assume the same facts as Example 34. On January 1, 2023, you become a California resident. At the close of 2023, the partnership generates a \$3,000 loss under California law.

Compute your California basis in the partnership in the same manner as you would for federal purposes with adjustments for differences in California and federal law.

|                                                    |     | <b>Federal Law</b> | <b>Difference</b> | <b>California Law</b> | <b>Fed Basis</b> | <b>California Basis</b> |
|----------------------------------------------------|-----|--------------------|-------------------|-----------------------|------------------|-------------------------|
| 1/1/2022 Cash Contribution to Capital              |     |                    |                   |                       | \$10,000         | \$10,000                |
| Partnership's 2022 CA Loss                         |     | \$ (4,000)         | \$ 2,000          | \$ (2,000)            |                  |                         |
| Partner's Percentage Interest                      | 50% | \$ (2,000)         | \$ 1,000          | \$ (1,000)            | \$ (2,000)       | \$ (1,000)              |
| Partner's 12/31/2022 CA Basis (to 1/1/2023)        |     |                    |                   |                       | \$ 8,000         | \$ 9,000                |
| Partner's CA Basis (from 12/31/2022)               |     |                    |                   |                       |                  | \$ 9,000                |
| Partnership's 2023 CA Loss                         |     |                    |                   | \$ (3,000)            |                  |                         |
| Partner's Percentage Interest                      |     |                    |                   | \$ (1,500)            |                  | \$ (1,500)              |
| <b>Partner's 12/31/2023 CA Basis (to 1/1/2024)</b> |     |                    |                   |                       |                  | <b>\$ 7,500</b>         |

Because of the difference in allowable depreciation and amortization expenses, the Partner's California PTE Basis will be different than their federal PTE Basis.

# Change of Residency From California (move out)

Your California basis in a pass-through entity is equal to your federal tax basis adjusted for differences in federal and California law. For example, allowable depreciation or amortization expenses are different under California law than for federal. Your California basis is adjusted for your distributive share of flow-through items under California law.

## Example 36

Assume the same facts as examples 34 and 35. On January 1, 2024, you become a nonresident of California again. At the close of 2024, the partnership generates a \$5,000 loss.

Compute your California basis in the partnership in the same manner as you would for federal purposes with adjustments for differences in California and federal law.

|                                                    |     | <b>Federal Law</b> | <b>Difference</b> | <b>California Law</b> | <b>Fed Basis</b> | <b>California Basis</b> |
|----------------------------------------------------|-----|--------------------|-------------------|-----------------------|------------------|-------------------------|
| 1/1/2022 Cash Contribution to Capital              |     |                    |                   |                       | \$10,000         | \$10,000                |
| Partnership's 2022 CA Loss                         |     | \$ (4,000)         | \$ 2,000          | \$ (2,000)            |                  |                         |
| Partner's Percentage Interest                      | 50% | \$ (2,000)         | \$ 1,000          | \$ (1,000)            | \$ (2,000)       | \$ (1,000)              |
| Partner's 12/31/2022 CA Basis (to 1/1/2023)        |     |                    |                   |                       | \$ 8,000         | \$ 9,000                |
| Partner's 1/1/2023 CA Basis (from 12/31/2022)      |     |                    |                   |                       |                  | \$ 9,000                |
| Partnership's 2023 CA Loss                         |     |                    |                   | \$ (3,000)            |                  |                         |
| Partner's Percentage Interest                      | 50% |                    |                   | \$ (1,500)            |                  | \$ (1,500)              |
| Partner's 12/31/2023 CA Basis (to 1/1/2024)        |     |                    |                   |                       |                  | \$ 7,500                |
| Partner's 1/1/2024 CA Basis (from 12/31/2023)      |     |                    |                   |                       |                  | \$ 7,500                |
| Partnership's 2024 CA Loss                         |     |                    |                   | \$ (5,000)            |                  |                         |
| Partner's Percentage Interest                      | 50% |                    |                   | \$ (2,500)            |                  | \$ (2,500)              |
| <b>Partner's 12/31/2024 CA Basis (to 1/1/2025)</b> |     |                    |                   |                       |                  | <b>\$ 5,000</b>         |

Because of the difference in allowable depreciation and amortization expenses, the Partner's California PTE Basis will be different than their federal PTE Basis.

# L. Partnerships, S corporations, and Certain Trusts

## Nonresident

California taxes your distributive share of partnership, S corporation, and trust income derived from California sources if you are a nonresident of California. Income from a simple trust (one which distributes its income annually) is subject to these rules. Income from other trusts may also be subject to these rules.

### **Example 37**

You are a nonresident of California and hold a partnership interest in a California partnership. You received a Schedule K-1 from the California partnership that included net income of \$10,000 from California sources.

### **Determination:**

Your \$10,000 distributive share of partnership net income has a source in California and is taxable by California.

# Part-Year Resident

If you changed your residency California taxes your distributive share of partnership, S corporation, and certain trust income based upon your period of California residency and your period of nonresidency during the partnership's, S corporation's, or trust's taxable year.

The allocation of income between the period of residency and the period of nonresidency must be made in a manner that reflects the actual date of realization. In the absence of information that reflects the actual date of realization, you must allocate an annual amount on a proportional basis between the two periods, using a daily pro rata method.

## Example 38

You hold a 50 percent S corporation interest in a Washington S corporation that reports income and losses on a fiscal year ending October 31st of each year. On June 10, 2022, you became a nonresident of California. You obtained interim statements from the S corporation that include the following S corporation net income amounts:

### November 1, 2021 - June 9, 2022

|                  |              |
|------------------|--------------|
| WA net income    | \$ 5,600     |
| CA net income    | <u>4,000</u> |
| Total net income | \$ 9,600     |

### June 10, 2022 - October 31, 2022

|                  |              |
|------------------|--------------|
| WA net income    | \$ 4,400     |
| CA net income    | <u>2,000</u> |
| Total net income | \$ 6,400     |

## Determination:

**Step 1:** Compute your distributive share income based upon periods of California residency and nonresidency during the S corporation's taxable year.

### Period of Residency

|                                   |          |
|-----------------------------------|----------|
| Total net income                  | \$9,600  |
| percent interest in S corporation | x 50%    |
| 2022 distributive share           | \$ 4,800 |

### Period of Nonresidency

|                                   |          |
|-----------------------------------|----------|
| CA net income                     | \$ 2,000 |
| percent interest in S corporation | x 50%    |
| 2022 distributive share           | \$ 1,000 |

**Step 2:** Compute your distributive share income to include in California taxable income.

### Taxable Year 2022:

|                                            |              |
|--------------------------------------------|--------------|
| Distributive share, period of residency    | \$ 4,800     |
| Distributive share, period of nonresidency | <u>1,000</u> |
| Distributive share income, 2022            | \$ 5,800     |

### CA Taxable Income

|              |
|--------------|
| \$ 4,800     |
| <u>1,000</u> |
| \$ 5,800     |

**Example 39**

You hold a 60 percent interest in a Washington partnership that reports income and losses on a calendar year basis. On September 22, 2022, you became a nonresident of California. You obtained a copy of the partnership tax return for 2022. The total net income from the partnership consisted of the following capital gains on items sold during your periods of California residency and nonresidency:

**January 1, 2022 – September 21, 2022**

|                          |              |
|--------------------------|--------------|
| Sale of WA real property | \$ 15,200    |
| Sale of stock            | <u>2,000</u> |
| Total net income         | \$ 17,200    |

**September 22, 2022 – December 31, 2022**

|                          |               |
|--------------------------|---------------|
| Sale of WA real property | \$ 4,400      |
| Sale of CA real property | <u>10,300</u> |
| Total net income         | \$14,700      |

**Determination:**

**Step 1:** Compute your distributive share income based upon periods of California residency and nonresidency during the partnership's taxable year.

**Period of Residency**

|                                 |              |
|---------------------------------|--------------|
| Total net income                | \$17,200     |
| percent interest in partnership | <u>x 60%</u> |
| 2022 distributive share         | \$10,320     |

**Period of Nonresidency**

|                                 |              |
|---------------------------------|--------------|
| CA net income                   | \$10,300     |
| percent interest in partnership | <u>x 60%</u> |
| 2022 distributive share         | \$ 6,180     |

**Step 2:** Compute your distributive share income to include in California taxable income.

**Taxable Year 2022:****CA Taxable Income**

|                                            |              |
|--------------------------------------------|--------------|
| Distributive share, period of residency    | \$10,320     |
| Distributive share, period of nonresidency | <u>6,180</u> |
| Distributive share income, 2022            | \$16,500     |

**Example 40**

You hold a partnership interest in a Texas partnership that reports its income and losses on a calendar year basis. On April 1, 2022, you became a nonresident of California. You received a Schedule K-1 from the Texas partnership that included net income of \$10,000, comprised of \$4,000 from California sources and \$6,000 from Texas sources.

**Determination:**

**Step 1:** Determine the number of California resident days and nonresident days during the partnership's taxable year.

**CA Resident Days**

January 1, 2022, through March 31, 2022  
= 90 days

**CA Nonresident Days**

April 1, 2022, through December 31, 2022  
= 275 days

**Step 2:** Prorate your distributive share income based upon periods of California residency and nonresidency during the partnership's taxable year.

**Period of Residency**

|                                            |                 |
|--------------------------------------------|-----------------|
| Distributive share income from all sources | \$10,000        |
| CA resident days ÷ total days              | <u>90 ÷ 365</u> |
| Prorated 2022 distributive share           | <u>x .2466</u>  |
|                                            | \$ 2,466        |

**Period of Nonresidency**

|                                           |                  |
|-------------------------------------------|------------------|
| Distributive share income from CA sources | \$ 4,000         |
| Nonresident days ÷ total days             | <u>275 ÷ 365</u> |
| Prorated 2022 distributive share          | <u>x .7534</u>   |
|                                           | \$ 3,014         |

**Step 3:** Compute your distributive share income to include in California taxable income.

**Taxable Year 2022:****CA Taxable Income**

|                                            |              |
|--------------------------------------------|--------------|
| Distributive share, period of residency    | \$ 2,466     |
| Distributive share, period of nonresidency | <u>3,014</u> |
| Distributive share income, 2022            | \$5,480      |

**Example 41**

You hold an S corporation interest in a Florida S corporation that reports income and losses on a fiscal year ending May 31st of each year. On February 1, 2022, you became a resident of California. You received a Schedule K-1 from the Florida S corporation for fiscal year ending May 31, 2022, that included net income of \$10,000, comprised of \$4,000 from California sources and \$6,000 from Florida sources.

**Determination:**

**Step 1:** Determine the number of California resident days and nonresident days during the S corporation's taxable year.

**CA Resident Days**

February 1, 2022, through May 31, 2022  
= 120 days

**CA Nonresident Days**

June 1, 2021, through January 31, 2022  
= 245 days

**Step 2:** Prorate your distributive share income based upon periods of California residency and nonresidency during the S corporation's taxable year.

**Period of Residency**

|                                            |                |
|--------------------------------------------|----------------|
| Distributive share income from all sources | \$10,000       |
| CA resident days ÷ total days              |                |
| 120 ÷ 365                                  | <u>x .3288</u> |
| Prorated 2022 distributive share           | \$ 3,288       |

**Period of Nonresidency**

|                                           |                |
|-------------------------------------------|----------------|
| Distributive share income from CA sources | \$ 4,000       |
| Nonresident days ÷ total days             |                |
| 245 ÷ 365                                 | <u>x .6712</u> |
| Prorated 2022 distributive share          | \$ 2,685       |

**Step 3:** Compute your distributive share income to include in California taxable income.

**Taxable Year 2022:**

Distributive share, period of residency  
Distributive share, period of nonresidency  
Distributive share income, 2022

**CA Taxable Income**

|              |
|--------------|
| \$ 3,288     |
| <u>2,685</u> |
| \$ 5,973     |

**Example 42**

You are the sole beneficiary of a simple trust that reported your distributive share income for the short period of January 1, 2022, through September 30, 2022. On April 1, 2022, you became a resident of California. You received a Schedule K-1 from the trust that includes net income of \$10,000, comprised of \$4,000 from California sources and \$6,000 from Nevada sources.

**Determination:**

**Step 1:** Determine the number of California resident days and nonresident days during the trust's taxable year.

**CA Resident Days**

April 1, 2022, through September 30, 2022  
= 183 days

**CA Nonresident Days**

January 1, 2022, through March 31, 2022  
= 90 days

**Step 2:** Prorate your distributive share income based upon periods of California residency and nonresidency during the trust's taxable year.

**Period of Residency**

|                                            |                |
|--------------------------------------------|----------------|
| Distributive share income from all sources | \$10,000       |
| CA resident days ÷ total days              |                |
| 183 ÷ 273                                  | <u>x .6703</u> |
| Prorated 2022 distributive share           | \$ 6,703       |

**Period of Nonresidency**

|                                           |                |
|-------------------------------------------|----------------|
| Distributive share income from CA sources | \$ 4,000       |
| Nonresident days ÷ total days             |                |
| 90 ÷ 273                                  | <u>x .3297</u> |
| Prorated 2022 distributive share          | \$ 1,319       |

**Step 3:** Compute your distributive share income to include in California taxable income.

**Taxable Year 2022:**

Distributive share, period of residency  
Distributive share, period of nonresidency  
Distributive share income, 2022

**CA Taxable Income**

|              |
|--------------|
| \$ 6,703     |
| <u>1,319</u> |
| \$ 8,022     |



## M. Alternative Minimum Tax

The **California alternative minimum tax** of a nonresident or part-year resident is the amount by which the California tentative minimum tax exceeds the prorated regular tax. The computation is as follows:

$$\begin{array}{lcl} \text{CA alternative minimum tax} & = & \\ \text{CA tentative minimum tax} & - & \text{Prorated regular tax} \end{array}$$

The **California tentative minimum tax** is the California alternative minimum taxable income multiplied by a rate. The rate is the amount of tax on total tentative minimum tax divided by the total alternative minimum taxable income. The computation is as follows:

$$\begin{array}{lcl} \text{CA tentative minimum tax} & = & \\ \text{CA alternative} & & \\ \text{minimum taxable income} & \times & \frac{\text{Total tentative minimum tax}}{\text{Total alternative minimum taxable income}} \end{array}$$

The **California alternative minimum taxable income** is the combined total of the following:

- The alternative minimum taxable income derived from California sources for any part of the taxable year the taxpayer was a nonresident.
- The alternative minimum taxable income from all sources for any part of the taxable year the taxpayer was a resident.

For the period of nonresidency, any carryovers, deferred income, suspended losses, or suspended deductions are included or allowable only to the extent they were derived from California sources.

The **total alternative minimum taxable income** is the alternative minimum taxable income determined as if the nonresident or part-year resident were a California resident in both of the following:

- Current year.
- All prior years for any carryovers, deferred income, suspended losses, or suspended deductions.

**Total tentative minimum tax** is the tax on the total alternative minimum taxable income.

The following example shows how the calculation works:

**Example 43**

You and your spouse/RDP moved to California and became residents on May 1, 2022. Combined wages for the year totaled \$170,000. You received \$100,000 after your move to California. On October 1, 2022, you exercised an incentive stock option valued at \$90,000, for which you paid \$10,000 (preference amount \$80,000). Your total taxable income for the year was \$150,000, with \$20,000 in itemized deductions. Five thousand dollars (\$5,000) of the itemized deductions were real and personal property taxes, which are preference items. Your prorated regular tax was \$6,000.

**Determination****Total Alternative Minimum Taxable Income**

|                                                 |                |
|-------------------------------------------------|----------------|
| Real and personal property tax preference ..... | 5,000          |
| Plus: Incentive stock option preference .....   | + 80,000       |
| Plus: Total taxable income .....                | +150,000       |
| Total alternative minimum taxable income .....  | <b>235,000</b> |

**Total Tentative Minimum Tax**

|                                                |               |
|------------------------------------------------|---------------|
| Total alternative minimum taxable income ..... | 235,000       |
| Less: Exemption amount .....                   | - 78,817      |
|                                                | 156,183       |
| Alternative minimum tax rate .....             | x .07         |
| Total tentative minimum tax .....              | <b>11,323</b> |

**California Alternative Minimum Tax Adjusted Gross Income**

|                                                        |                |
|--------------------------------------------------------|----------------|
| CA (regular tax) adjusted gross income .....           | 100,000        |
| Plus: Incentive stock option preference amount .....   | + 80,000       |
| CA alternative minimum tax adjusted gross income ..... | <b>180,000</b> |

**Total Alternative Minimum Tax Adjusted Gross Income**

|                                                           |                |
|-----------------------------------------------------------|----------------|
| Total alternative minimum taxable income .....            | 235,000        |
| Total itemized deductions .....                           | 20,000         |
| Less: Real and personal property tax preference .....     | - 5,000        |
| Total alternative minimum tax itemized deductions .....   | + 15,000       |
| Total alternative minimum tax adjusted gross income ..... | <b>250,000</b> |

**California Alternative Minimum Taxable Income**

|                                                         |        |
|---------------------------------------------------------|--------|
| Total alternative minimum tax itemized deductions ..... | 15,000 |
| Multiply by the ratio:                                  |        |

$$\frac{\text{CA alternative minimum tax adjusted gross income}}{\text{Total alternative minimum tax adjusted gross income}} = \frac{180,000}{250,000} = \underline{x .7200}$$

|                                                            |                |
|------------------------------------------------------------|----------------|
| Prorated alternative minimum tax itemized deductions ..... | - 10,800       |
| CA alternative minimum taxable income .....                | <b>169,200</b> |

**California Alternative Minimum Tax**

|                                             |         |
|---------------------------------------------|---------|
| CA alternative minimum taxable income ..... | 169,200 |
| Multiply by the ratio:                      |         |

$$\frac{\text{Total tentative minimum tax}}{\text{Total alternative minimum taxable income}} = \frac{11,323}{235,000} = \underline{x .0482}$$

|                                           |              |
|-------------------------------------------|--------------|
| CA tentative minimum taxable income ..... | 8,561        |
| Less: Prorated regular tax .....          | - 6,000      |
| CA alternative minimum tax .....          | <b>2,561</b> |

Get California 540NR Schedule P, *Alternative Minimum Tax and Credit Limitations – Nonresidents and Part-Year Residents*, for more information regarding California alternative minimum tax.