

Understanding Your State Income Taxes

The Franchise Tax Board (FTB) is the agency responsible for collecting state personal income taxes in California. The revenues FTB collects are placed in the state's general fund to help pay for items, such as roads, parks, law enforcement, and schools. California's state income tax system is based on the principle of voluntary compliance. Voluntary compliance is a system of taxation that relies on individual citizens to properly report their income, calculate their tax liability, and file their tax returns timely.

State personal income tax, like federal income tax, is a tax imposed on wages, tips, interest, dividends, pensions, capital gains, and other types of income. First imposed in 1936, state personal income tax is the largest single source of revenue in California. Personal income tax is based on the amount of taxable income that people receive annually. Taxable income is less than total income, due to tax deductions.

California taxpayers that earn more than the amount defined by California law each year must pay state income tax. In California, as in the federal system, your income taxes are generally **prepaid** in the form of "tax withholding." One common example of tax withholding is employee wage withholding, which occurs when your employer takes money out of your paycheck each time you are paid. A portion of this money is sent to the state to be applied against your state income tax liability.

When starting a new job, your employer will provide you with a federal Form W-4. Your employer uses information from the W-4 to determine how much federal and state income tax to withhold from your paycheck.

To calculate your state income tax, use your federal income tax return amounts, make adjustments, and claim your state credits.

Important Reminders

- Your state income tax return begins with your federal adjusted gross income, which is calculated and shown on your federal tax return.
- In general, you must use the same filing status on your state tax return as you did on your federal tax return. (Exceptions include military personnel and cases where one spouse was a nonresident for the whole year.)
- You cannot claim a personal exemption credit if someone can claim you as a dependent (for example, your parents).
- The earlier you file your income tax return, the faster you will get your refund.

Reference Materials

IRS | Internal Revenue Services
(Federal Taxes)
800.829.1040
800.829.4933 (Business and Specialty Tax)
irs.gov

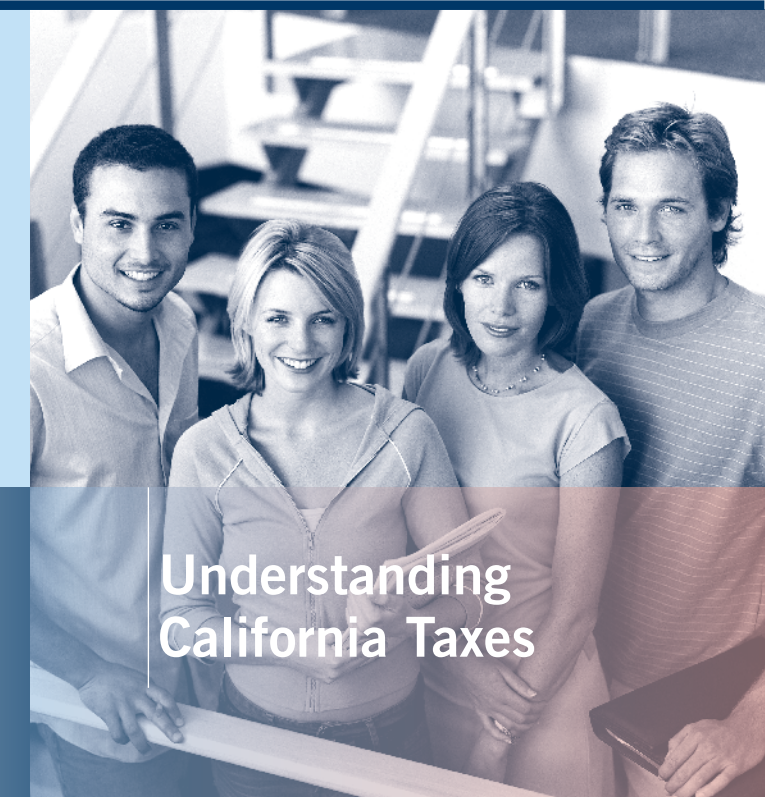
FTB | Franchise Tax Board
(State Income Tax)
800.852.5711
ftb.ca.gov

EDD | Employment Development Department
(State Employment Tax)
888.745.3886
edd.ca.gov

CDTFA | California Department of Tax and Fee Administration
(California Sales and Use Tax / Special Taxes and Fees)
800.400.7115
cdtfa.ca.gov



The California Department of Tax and Fee Administration, Employment Development Department, and Franchise Tax Board (the three California state tax agencies) partnered to create this brochure to provide information for California state tax filing requirements for new residents. The three California state tax agencies along with the Internal Revenue Service have come together to create and maintain the California Tax Service Center (CTSC) website at **taxes.ca.gov**. The CTSC website contains links to various government and nongovernment sites that provide information on the various types of taxes California residents may incur and lists the resources available, including information for starting a new California business. Potential new business owners can research information and find resources on different aspects of starting, running, and closing a business in California.



Understanding California Taxes

Sales/Use/Special Taxes and Fees

The California Department of Tax and Fee Administration (CDTFA) administers California's sales and use taxes, fuel taxes, and other tax and fee programs including the Electronic Waste Recycling (eWaste) Fee, California Tire Fee, alcoholic beverage tax, and cigarette and tobacco products taxes.

Generally, sales tax applies to taxable sales of tangible property (clothing, appliances, toys, and furniture, for example) which take place in California. The seller is responsible for the payment of sales tax to CDTFA, but the retailer may charge and collect tax reimbursement from its customer. When sales tax does not apply, the law requires use tax to be paid on items purchased for use in California. Generally, use tax is owed on Internet or mail-order purchases from out-of-state retailers. Use tax is owed by the person purchasing the property for use in California when the out-of-state retailer does not collect the California tax.

Be sure to review your receipts for Internet and other out-of-state purchases to determine if tax was charged. If tax was not charged, you may owe use tax.

Other tax and fees administered by CDTFA may apply to your business depending on the business type.

Registering with CDTFA is easy, secure, and free using a convenient online registration system. The system guides you through the process to register for the permits, licenses, and accounts needed with CDTFA. Most businesses file their tax returns online and CDTFA offers convenient payment methods.

If you are interested in starting your own business or need to know what taxes and fees apply to your business, go to cdtfa.ca.gov to access helpful tax guides, industry specific publications, and other resources available in multiple languages. In addition, you may view online seminars, sign up for tax classes and seminars, request a taxpayer education consultation, find a field office near you, look up a tax or fee rate and use their convenient online services. To speak to a representative, call CDTFA's Customer Service Center at 1.800.400.7115. Staff is available weekdays from 8:00 a.m. to 5:00 p.m. (Pacific Time), except state holidays.

State Spending

- K through 12 Education
- Health and Human Services
- Higher Education
- Corrections and Rehabilitation
- Legislative, Judicial, and Executive
- Natural Resources
- Transportation
- Business, Consumer Services and Housing
- General Government
- Labor and Workforce Development
- Environmental Protection
- Government Operations

Payroll Taxes

The Employment Development Department (EDD) collects payroll taxes from California employers. Disability insurance contributions and personal income taxes are withheld from your paycheck and submitted to EDD by your employer. Your employer also pays unemployment insurance (UI) taxes on your wages. If you become unemployed through no fault of your own, you may be eligible for UI benefits based on the wages you earned as a former employee.

The EDD also provides learning opportunities and assistance for new employers through tax seminars, online services, and many publications. If you have employees in California, you may be required to register with EDD. For additional information on EDD services, go to edd.ca.gov or call EDD's Taxpayer Assistance Center at 888.745.3886.

Questions and Answers

Q: Do I need to file a state income tax return?

A: Generally, an individual must file a tax return if either their gross income or adjusted gross income was more than the amount defined by California law. Go to ftb.ca.gov and search for **income thresholds**.

Q: When is my state income tax return due?

A: Generally, an individual's tax return and any required payment is due April 15.

Q: What tax form do I need to file?

A: Either CA Form 540 or Form 540 2EZ. You should file Form 540NR if you are a nonresident or part-year resident.

Q: Can I file electronically?

A: Yes. Go to ftb.ca.gov and search for **CalFile**.

Q: Can I get an extension to file my state tax return?

A: Yes. FTB allows an automatic six-month extension from the original due date of the tax return (April 15). Receiving an extension to file your income tax return is not the same as an extension to pay your income taxes. Your taxes are still due on April 15.

Q: How long should I keep my tax information?

A: FTB may request information from you regarding your California income tax return within the California statute of limitations period, which is usually the later of four years from the tax return due date or the date the tax return is filed. As a general rule, you should keep your tax information for seven years.

Q: Who must obtain a seller's permit?

A: Individuals as well as corporations, partnerships, and limited liability companies must apply for a seller's permit if you:

- Are engaged in business in California and
- Intend to sell or lease tangible personal property that would ordinarily be subject to sales tax if sold at retail.

Q: Is my seller's permit the same as a business license?

A: No. You should contact your city and/or county business license department to obtain a separate business license.

Q: When do I file and pay my sales and use tax return?

A: CDTFA will inform you when your sales and use tax return and payment is due. For most businesses, we offer a free online filing system. CDTFA recommends you keep the taxes you collect for your business in a separate bank account and make a payment using our online payment options. Keep your tax returns and records for at least four years.

Q: Should I be registered to pay other taxes or fees, and do I need to register my business with other government agencies?

A: In addition to a sales and use tax permit, you may be required to hold other permits, licenses, or accounts with CDTFA. CDTFA's online registration system will guide you through the registration process and provide you information about any applicable filing requirements and deadlines. You should also check with other state, federal, and local taxing and licensing authorities about any registration requirements they may have.

The Governor's Office of Business and Economic Development offers extensive information on federal, state, and local permit requirements. For a listing of its assistance centers, visit the agency's website at calgold.ca.gov. Also, see California's Tax Service Center, taxes.ca.gov.

Q: What is the rate for California sales and use tax? What is the rate for my city and county?

A: The sales tax and use tax rates are the same. Generally, the rate of use tax is determined by where the property will be used, stored or consumed, regardless of where the sale takes place. To find your tax rate, go to cdtfa.ca.gov.