

TAXABLE YEAR

SCHEDULE

2016 California Adjustments – Residents

CA (540)

Important: Attach this schedule behind Form 540, Side 5 as a supporting California schedule.

Name(s) as shown on tax return

SSN or ITIN

Part I Income Adjustment Schedule

Section A – Income

	A Federal Amounts <small>(taxable amounts from your federal tax return)</small>	B Subtractions <small>See instructions.</small>	C Additions <small>See instructions.</small>
7 Wages, salaries, tips, etc. See instructions before making an entry in column B or C	7		
8 Taxable interest (b)	8(a)		
9 Ordinary dividends. See instructions. (b)	9(a)		
10 Taxable refunds, credits, 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 IRA distributions. See instructions. (a)	15(b)		
16 Pensions and annuities. See instructions. (a)	16(b)		
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc.	17		
18 Farm income or (loss)	18		
19 Unemployment compensation	19		
20 Social security benefits (a) <input checked="" type="radio"/>	20(b)		
21 Other income.		a <input checked="" type="radio"/> b <input checked="" type="radio"/> c <input checked="" type="radio"/> d <input checked="" type="radio"/> e <input checked="" type="radio"/> f <input checked="" type="radio"/>	a b c <input checked="" type="radio"/> d e f <input checked="" type="radio"/>
a California lottery winnings			
b Disaster loss deduction from FTB 3805V			
c Federal NOL (Form 1040, line 21)			
d NOL deduction from FTB 3805V			
e NOL from FTB 3805D, 3805Z, 3806, 3807, or 3809	21		
f Other (describe): <input checked="" type="radio"/>			
22 Total. Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B.	22		

Section B – Adjustments to Income

23 Educator expenses	23		
24 Certain business expenses of reservists, performing artists, and fee-basis government officials	24		
25 Health savings account deduction	25		
26 Moving expenses	26		
27 Deductible part of self-employment tax	27		
28 Self-employed SEP, SIMPLE, and qualified plans	28		
29 Self-employed health insurance deduction	29		
30 Penalty on early withdrawal of savings	30		
31a Alimony paid. (b) Recipient's: SSN <input checked="" type="radio"/>			
Last name <input checked="" type="radio"/>	31a		
32 IRA deduction	32		
33 Student loan interest deduction	33		
34 Tuition and fees	34		
35 Domestic production activities deduction	35		
36 Add line 23 through line 31a and line 32 through line 35 in columns A, B, and C. See instructions	36		
37 Total. Subtract line 36 from line 22 in columns A, B, and C. See instructions	37		



Part II Adjustments to Federal Itemized Deductions

38 Federal itemized deductions. Enter the amount from federal Schedule A (Form 1040), lines 4, 9, 15, 19, 20, 27, and 28 38

39 Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance, and state and local income tax, or General Sales Tax) and line 8 (foreign income taxes **only**). See instructions 39

40 Subtract line 39 from line 38 40

41 Other adjustments including California lottery losses. See instructions. Specify 41

42 Combine line 40 and line 41 42

43 Is your federal AGI (Form 540, 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 on line 42 to line 43.

 Yes. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 43 43

44 Enter the larger of the amount on line 43 or your standard deduction listed below
 Single or married/RDP filing separately. See instructions \$4,129
 Married/RDP filing jointly, head of household, or qualifying widow(er) \$8,258
 Transfer the amount on line 44 to Form 540, line 18 44

This space reserved for 2D barcode

The purpose of this form is to make adjustments to your client's federal adjusted gross income for differences between federal and California income or deductions.

Differences between California and Federal law for 2016:

California law does not conform to federal law for:

- The deduction allowed and interest earned on Health Savings Accounts (HSA). HSA contributions may not be deducted and any interest earned on the account is taxable to California.

Included for informational purposes: Mortgage Forgiveness Debt Relief Act amounts of indebtedness, debt relief: Indebtedness limit is \$800,000 for all except \$400,000 MFS. California limited debt relief to \$500,000 MFJ/RDP, Single, HOH, and qualifying widow(er), and \$250,000 MFS/RDP until 31 Dec 2012. California **extended** its exclusion to 2013, **but not 2014, 2015, or 2016**. Enter the amount of the excluded income on line 21f, column C.

Column A

Enter in Column A, lines 7 through 21, the same amounts you entered on federal Form 1040, lines 7 through 21 (or your client's federal Form 1040A, line 7 through 14b).

Columns B and C

Line 7 Wages, Salaries, Tips, Etc.

Generally, you will not make any adjustments on this line unless your clients received any of the types of income listed below:

- Ride sharing benefits
- Sick pay received under the Federal Insurance Contributions and Railroad Retirement Acts
- California Qualified Stock Options (CQSO)
- Employer provided RDP and RDP's dependent health and accident insurance and medical expense reimbursements

If your client received any income from the sources listed above, figure the difference between the taxable amounts reported on this line in column A and the taxable amount using California law. Enter the result on line 7, column B. If your client received any income exempted by U.S. tax treaties (unless specifically exempt for state purposes also) or employer provided HSA contributions and excluded the amount on their federal tax return, enter the excluded amount on line 7, column C. Find employer HSA contribution amounts on the W-2, box 12, code W. State exempt tax treaty

income is substantiated by a copy of the treaty obtained by the taxpayer from their embassy.

Line 8

Taxable Interest Income

Enter on line 8, **column B**, interest from column A that your client received from the following:

- United States Savings Bonds
- United States Treasury Bills
- Any other bonds or obligations of the U.S. and its territories
- Interest income from children reported on the parent's tax return

See FTB 1001, *Supplemental Guidelines to California Adjustments*, for detailed information.

Enter on line 8, **column C**, interest identified as tax exempt interest on Form 1040, line 8b (or Form 1040A, line 8b), and from the following sources:

- Non-California state bonds
- District of Columbia obligations issued after December 27, 1973
- Non-California municipal bonds issued by a county, city, town, or other local government unit
- Interest from a health savings account

Line 9

Ordinary Dividends

Generally, make no adjustment on this line. However, certain mutual funds qualify to pay "exempt interest dividends" if at least 50 percent of their assets consist of tax-exempt government obligations. **Find the tax-exempt part of the dividend on your client's annual statement.**

For California tax purposes, a mutual fund may qualify to pay tax-exempt interest dividends if, at the end of each quarter, at least 50 percent of the funds' assets are invested in federal or **California** state or local obligations. The federal and California obligations may be combined to meet the 50 percent test. Individual shareholders do **not** include tax-exempt interest or dividends in income.

Important Note: Interest dividends from agency bonds such as **FNMA** (Fannie Mae) and **GNMA** (Ginny Mae) are **not** considered federal obligations, and are not tax-exempt. Only federal obligations that would be exempt from California taxation if held by the individual taxpayer qualify for tax-exempt treatment.

The amount designated by the mutual fund as an exempt interest dividend may contain items that are not exempt from California tax (e.g. non-California state obligations or non-deductible interest expenses). In this case, only a percentage of the dividend will be exempt for California purposes.

If the California exempt-interest amount is more than the federal exempt-interest amount, enter the difference on line 9, **column B**.

Health Savings Account dividends line 9, **column C**.

Line 10

State Tax Refund

California does not tax state income tax refunds. Enter in column B the amount of any state tax refund also entered in column A. The software will automatically make this adjustment.

Line 11

Alimony Received

Only a nonresident alien who received alimony not included in their federal income would make an entry on this line in **column C**. Otherwise, make no adjustment.

Line 12

Business Income or Loss

Business income or loss adjustment is beyond the scope of the VITA/TCE volunteer program. Make no entry in **column B or C**.

Line 13

Capital Gain or Loss

Generally, there is no difference between the amount of capital gain or loss in column A and the amount to report using California law. California taxes long and short term capital gains as regular income. Get FTB 1001, *Supplemental Guidelines for California Adjustments*, for more information.

Important Note: For Capital loss carryovers, all information flows automatically from the federal to the California tax return.

Use Schedule D, *California Gain or Loss Adjustment*, if there are differences from any of the following. Basis amounts resulting from differences between California and federal law in prior years. Gain or loss from stock and bond transactions, installment sale gain from FTB 3805E, *Installment Sale Income*, gain on sale of personal residence claiming depreciation in a prior

year, and capital loss carryover. If your client thinks there is an adjustment to their federal capital gain or loss amount, refer them to:

- FTB Pub 1001.
- Franchise Tax Board's toll-free public assistance number, **800.852.5711**.

Line 14

Other Gains and Losses

This is beyond the scope of the VITA/TCE volunteer program.

Line 15

Total IRA Distributions

Generally, make no adjustments on this line. However, there may be significant differences in the taxable amount of a distribution depending on when your client made their contributions to the IRA. Restate the IRA basis for individuals who in prior years contributed to an IRA as nonresidents (see FTB 1100). For additional information on Individual Retirement Accounts, refer to the General Information section and FTB 1005, *Pension and Annuity Guidelines*.

Line 16

Total Pensions and Annuities

California and federal law generally treat pension and annuity income the same. However, if your client receives tier 2 railroad retirement benefits or partially taxable distributions from a pension, you may need to make an adjustment.

If your client receives Form RRB-1099-R and included some or all of these benefits in federal adjusted gross income, enter the taxable benefit amount in **column B**.

If your client 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.

Enter additional tax on an early distribution from an IRA or pension plan on Form 540, line 63.

Important Note: The tax software will automatically generate the additional tax on line 63 based on information entered from the 1099-R.

Line 17

Rental Real Estate, Royalties, Partnerships, S Corporations, and Trusts

This is beyond the scope of the VITA/TCE program. The exception is Royalty income reported on a K-1. Royalty income reported on a 1099-MISC is out of scope. When the federal Schedule E and K-1 are complete, the tax software automatically flows royalty information from the federal to the state tax return.

Line 18

Farm Income or Loss

This is beyond the scope of the VITA/TCE program.

Line 19

Unemployment Compensation

California does not tax unemployment compensation or paid family medical leave reported on Form 1099-G. Enter the amount of unemployment compensation from line 19, column A on line 19, column B.

Line 20

Social Security Benefits

Enter in column B the amount of social security benefits or equivalent tier 1 railroad retirement benefits shown in column A. Column A only includes the federal taxable amount. These amounts can be found on Form 1040, line 20b.

Line 21

Other Income

Line a – California Lottery Winnings

California does not tax California lottery winnings. Enter the amount of California lottery winnings included in the amount on line 21, column A on line 21, column B.

Important Note: Do not make adjustments for lottery winnings from other states. These winnings are taxable to California.

Lines b through e - Disaster loss carryover and net operating loss (NOL)

These adjustments are beyond the scope of the VITA/TCE volunteer program.

Line f Other

Include on line f, column B, income that you included in your client's federal income on Form 1040 from:

- Beverage container recycling
- Rebates from local water agencies, energy agencies, or energy suppliers
- Reward from a crime hotline
- Compensation for false imprisonment
- Cost-share payments received by forest landowners
- Grants paid to low income individuals to retrofit or construct buildings
- Health Savings Account distributions for unqualified medical expenses
- Death benefits received from the State of California by a surviving spouse/RDP or beneficiary of certain military personnel killed in the performance of duty. Military personnel include the California National Guard, State Military Reserve, or the Naval Militia
- Rebate for turf removal
- Rebate for seismic improvement

Line f Other Cont'd.

Include on line f, column C, income that you excluded from your client's federal income on Form 1040:

- Federal foreign earned income or housing exclusion.
- Foreign income exempted by U.S. Tax Treaties.
- Mortgage forgiveness debt relief

Line 22

Total Income

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

Part I Section B

Use this section of the Schedule CA (540) for adjustments to entries made on Form 1040, lines 23 through 36. If your clients have no adjustments to income on these lines on their Form 1040, skip to line 37.

Column A

Enter in column A, lines 23 through 36, the same amounts you entered on your client's federal Form 1040, lines 23 through 36.

Columns B and C

Line 23 through Line 31

Below is a description of any adjustment necessary for columns B and C. California law is the same as federal unless otherwise noted.

Line 24

Certain Business Expenses of Reservists, Performing Artists, and Fee Basis Government Officials

See Publication 1001 for more information on possible adjustments to California gross income. If there are allowable adjustments, enter the amount from line 24, column A, to line 24, column B.

Line 25

Health Savings Account

Enter the amount from line 25, column A, to line 25, column B.

Line 26

Moving Expenses

No adjustment necessary.

Line 27

Self-Employment Tax

No adjustment necessary.

Line 28

Self-employed, SIMPLE, and Qualified Plans

No adjustment necessary.

Line 29

Self Employed Health Insurance Deduction

No adjustment necessary.

Line 30

Penalty on Early Withdrawal of Savings

No adjustment necessary.

Line 31

Alimony Paid

Enter the name and social security number of the individual to whom your client paid alimony.

Line 32
IRA Deduction

No adjustment necessary. There is an exception for military spouse/RDP.

Line 33
Student Loan Interest Deduction

California conforms to federal law regarding student loan interest deduction. The tax software automatically calculates the California deduction amount correctly. There is an exception for military spouse/RDP.

Line 34
Tuition and Fees Deduction

California does not conform. Enter column A amount in column B on this line.

Line 35
Domestic Production Activities Deduction

This is beyond the scope of the VITA/TCE program.

Line 36
Add

Add line 23 through line 35 in column B and C.

Line 37
Total

Subtract line 36 from line 22 in column B and column C.

Important Note: Paper filers transfer any line 37, column B, negative numbers to Form 540, line 16, as a positive number. If line 37, column C is a negative number, transfer the amount to Form 540, line 14, as a positive number. The tax software automatically transfers appropriate amounts from the Schedule CA (540) to Form 540.

Part II
Adjustments to Federal Itemized Deductions

Line 38

Enter itemized deductions from federal Schedule A, lines 4, 9, 15, 19, 20, 27, and 28.

Line 39
State and Local Income Taxes

Enter the state and local tax (SDI), or sales tax, from federal Schedule A, line 5, and only the part relating to foreign income taxes from line 8. If your client deducts general sales tax, enter the amount of sales tax on this line.

Line 40

Subtract

Subtract line 39 from line 38. Enter the result here.

Line 41

Other Adjustments

Enter the amount of California lottery losses from your client's federal Schedule A. Some of the adjustments below are additions and some are subtractions. Find other line 41 adjustments below:

- Adoption- related expenses
- Mortgage interest credit
- Nontaxable income expenses
- Employee business expenses
- Investment interest expense
- Federal estate tax
- Generation skipping transfer tax
- HSA distributions
- Interest on loans from utility companies
- Private mortgage insurance (PMI)
- Qualified charitable contributions

Find more information about the California itemized deduction adjustments listed in the 540 Personal Income Tax Booklet and FTB 1001, *Supplemental Guidelines to California Adjustments*.

Line 42

Combine

Combine line 40 and line 41. This is the total amount of itemized deductions allowed on the state tax return. Compare this amount to the standard deduction allowed for your client's filing status. Take the larger of adjusted itemized deductions or the standard deduction and enter that amount on Form 540, line 18.

If your client can be claimed as a dependent on someone else's tax return, complete the "California Standard Deduction Worksheet for Dependents" available in the Personal Income Tax Booklet and in the General Information section of this manual.

The tax software automatically calculates California itemized deductions based on information from the federal Schedule A. **It is still important to review the return to make sure your client has access to all available**

deductions, and has made all necessary adjustments, on line 41 of the Schedule CA (540).

Line 43

CA Itemized Deductions

Is the amount on Form 540, line 13, more than the amount shown below for your client's filing status? Income amounts in excess of amounts listed on Schedule CA (540), line 43, and are outside the scope of the VITA program. If income is below this amount, transfer the amount of California itemized deductions from line 42 to line 43.

Single or married/RDP filing separately, \$182,459

Married filing jointly/RDP or qualifying widow(er), \$364,923

Head of household, \$273,692

Line 44

Larger of Standard Deduction or Itemized Deduction

Single or Married/RDP filing separately, \$4,129

Married/RDP filing jointly, head of household, or qualify widow(er), \$8,258

Enter the larger of the standard or itemized deductions on line 44 and transfer to Form 540, line 18.

Next, the software will calculate and paper filers turn their attention to:

Line 19 Taxable Income

Line 19 includes the California adjusted gross income minus the standard or itemized deduction amount. This is your client's taxable income.

Line 31

Tax

Determine your client's tax by using the tax table in your client's booklet or in the Tax Table section of this manual. For more information about tax, refer to the General Information section.

Tax Rate Schedule

Taxpayers with taxable income, line 19, of \$100,000 or more must use the Tax Rate Schedule to compute the amount of tax due. The tax rate schedule is beyond the scope of the VITA/TCE volunteer program. The tax software correctly calculates taxable income in excess of \$100,000.