California Tax Law Update

Presented by Franchise Tax Board VITA
Objectives

• Tax Cuts and Jobs Act of 2017 - CA Update
  ➢ Where California conforms
  ➢ Where California does not conform

• CA Return - Using TaxSlayer software
Tax Cuts and Jobs Act of 2017
Where California Conforms
Medical Expense Deductions

California conforms to Federal allowing 7.5% above AGI deduction.
Investment Income Limit for Earned Income Tax Credit

California conforms to the $3,500 limitation of investment income with modifications.
Tax Cuts and Jobs Act of 2017
Where California does not Conform
Personal Exemption

• California does not conform to the elimination of personal exemption or dependent exemptions.

• California allows personal exemption tax credits:
  • $118 for Single or HOH
  • $237 for Joint or Widow(er)
  • $367 for each dependent
Standard Deductions

• California does not conform to the federal standard deduction amounts.

• California has different standard deduction amounts for each filing status:
  ➢ $4,401 for Single
  ➢ $8,802 for Joint, HOH, Widow(er)
State and Local Tax

- SALT – Your **State And Local Tax**
- California allows the full deduction for real estate and personal property taxes paid.
- California does not allow deductions of local and state income taxes.
Moving Expenses

• California does not conform to the suspended deduction.

• California allows deductions of moving expenses or exclusions of reimbursement from income.
Mortgage Interest

• California does not conform to the $750,000 cap on mortgage loans.

• California conforms to the $1 million cap.
Home Equity Loan Interest

- California does not conform to the new federal rules of interest deduction.
- California allows deductions of interest on a Home Equity Loan up to $100,000.
Charitable Contributions

- California conforms to charitable contributions deductions.

- California does not conform to the 10% increase.
Miscellaneous Itemized Deductions

• California does not conform to the suspension of all miscellaneous itemized deductions.

• California allows miscellaneous itemized deductions subject to the 2%.
Child Tax Credit

California does not conform and has no similar credit.
California Earned Income Tax Credit (CalEITC)

- CalEITC changed for tax year 2018 from age 25-64 to 18 and older.

- Form 3514 has to be completed and submitted with return.
## CalEITC

<table>
<thead>
<tr>
<th>Number of Qualifying Children</th>
<th>CA Maximum AGI</th>
<th>CalEITC (Up to)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>$16,751</td>
<td>$232</td>
</tr>
<tr>
<td>1</td>
<td>$24,951</td>
<td>$1,554</td>
</tr>
<tr>
<td>2</td>
<td>$24,951</td>
<td>$2,505</td>
</tr>
<tr>
<td>3 or more</td>
<td>$24,951</td>
<td>$2,879</td>
</tr>
</tbody>
</table>
Head Of Household

- Form 3532 is required for the California return.
- HOH status will be denied without this form.
Qualified Business Income

- California does not conform to the new federal deduction for certain businesses.
- New Federal Provision:
  - Under certain circumstances a deduction of 20% of certain qualified business income is allowed on line 9 of 1040.
Combat-Injured Veterans Tax Fairness Act of 2016

• Federal allows certain veterans, who received lump sum disability severance payments after January 17, 1991, additional time to file a claim for credit or refund of an overpayment attributable to the disability severance payment.

• California does not conform to the federal statute of limitation for the income inclusion.

• California allows taxpayers two years to file claim after the final federal determination.
VITA Training Videos
FTB launched a series of 11 videos sharing information volunteers need to get certified.

- Training videos are available for 2018.
- You may access the training videos at: www.ftb.ca.gov.
California Tax Return using TaxSlayer Software
Click on the “Add State Return” button to create a California return.

Your Federal Return is Complete!
Congratulations! You have completed your Federal Return.

We’re ready to add your state return. We’ll automatically transfer all the necessary information into your state return for you.

Please choose from the following options:
- Add a State Return to your account.
  The following states do not have state income tax returns that can be filed through TaxSlayer Pro: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming
- Skip the State Return process and Continue to the Summary.
- Return to the Federal Section to review or make changes to your Federal Return.

Return to Federal Section

Add State Return(s)

Continue to Summary
Click on the state map or select “California” from the drop down menu to start a California return.

Select your State Return
Please select the state that you would like to complete below.

Only states that accept tax returns for which you have not already created a state tax return are listed here. The following states do not have individual income tax returns:
Select the type of California return you prepare (in most cases this will be a resident return).

Select your California Return Residency
Please choose a return type

- **Resident**: You are a resident of California if your domicile/permanent home is in California regardless of brief, infrequent absences.

- **Part Year**: You are a Part Year Resident of California if you have a permanent place to live in California during any part of the tax year.

- **Non-Resident**: You are a Nonresident of California if you do not maintain a permanent place to live in California during the tax year.

[Buttons: Cancel, Continue]
State Return in TaxSlayer

• Generally, income and above the line deductions will flow to the California return.

• However, some items have to be manually entered.
**Interest Income**: To subtract non-taxable interest for CA, enter the amount and the state in the appropriate boxes.
**Renter’s Credit:** Responses to the following questions triggers the software to determine if taxpayer is eligible and qualifies for the California renter’s credit.

**California Return**

Did your Name and Address change from your Prior Year tax return?

---Select--

The Renters Credit is automatically calculated if you answer YES below.

Do you qualify for the Renters Credit?

---Select--

CONTINUE
**Head of Household Filing Status:** Complete Form 3532 under the state basic information section.

**California Return**

**Basic Information**

*Your federal information has been successfully transferred to your State. There are just a few more items required to complete the state return.*

- Complete California Form 3532 (Head of Household)

**Additional Personal Information**

**Complete if you were Active Duty Military**

**Complete if the Taxpayer or Spouse listed on the return is deceased**
**In Home Supportive Services (IHSS) Payments:** If taxpayer and the person care is given to live together, the IHSS income is not taxable to taxpayer.
In Home Supportive Services (IHSS) Payments: Non-taxable IHSS income is entered on Form 3514 for California.

- Amount of any Medicaid waiver payments, In Home Supportive Services (IHSS) payments, or IHSS supplementary payments that are nontaxable for federal purposes that are included on the CA return. NOTE: Any amount entered will be subtracted from the CA Wages reported on the CA return.
Child and Dependent Care Credit: The information entered on the federal form 2441 is transferred to the CA Form 3506. The provider’s phone number is mandatory for California.
Schedule CA (540) Adjustments

In *TaxSlayer*, once you have filled out the federal section, under itemized deductions, the information should flow directly to the California return (540). If the taxpayer’s itemized deductions are higher than the standard deduction for California, *TaxSlayer* will automatically create the Schedule CA (540).
**Amended Return**: Starting with 2017TY, California amended return can be electronically filed.
**Schedule X**: Effective 2017TY Schedule X has replaced Form 540X.

<table>
<thead>
<tr>
<th>TAXABLE YEAR</th>
<th>California Explanation of Amended Return Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Attach this schedule to amended Form 540, Form 540 2EZ, or Long or Short Form 540NR</td>
</tr>
<tr>
<td></td>
<td>Name(s) as shown on amended tax return</td>
</tr>
</tbody>
</table>

### Part I: Financial Adjustments – Reconciliation

1. Enter the amount you owe, as shown on the amended tax return
2. Overpaid tax, if any, as shown on original tax return or as previously adjusted by the FTB. See instructions
3. Add line 1 and line 2
4. Enter the refund, as shown on the amended tax return
5. Tax paid with original tax return plus additional tax paid after it was filed. Do not include penalties and interest
6. Add line 4 and line 5
7. **AMOUNT YOU OWE**: If line 3 is more than line 6, subtract line 6 from line 3. See instructions
8. Penalties/Interest. See instructions: Penalties 8a Interest 8b
9. **REFUND**: If line 6 is more than line 3, subtract line 3 from line 6. See instructions

### Part II: Reason(s) for Amending

1. Check all that apply:
   - a. Protective claim for refund
   - b. Reservation source income adjustments
   - c. Pass-through entity adjustments
   - d. Federal audit and/or adjustments
   - e. FTB audit contact
   - f. NOL carryback
   - g. Error on original return
   - h. Credit adjustment
   - i. Earned income tax credit
   - j. Disaster Loss
   - k. Military HR 100
   - l. Informal claim
   - m. Other

2. If you checked boxes a, b, c, d, m or multiple boxes, provide further explanation of reason(s) for amending below. If needed, attach a separate sheet that includes your name and SSN or ITIN.
Questions

For questions, contact FTB’s VITA team:

**Phone:** 800-522-5665

**Email:** volunteercoordinator@ftb.ca.gov.
Training Evaluation

Please take a few minutes and tell me what you think of this training.

https://www.research.net/r/VITA_External_Training_Eval_2018
THANK YOU!