

2021 Instructions for Schedule CA (540NR)

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

What's New

Reporting Requirements – For taxable years beginning on or after January 1, 2021, taxpayers who benefited from the exclusion from gross income for the Paycheck Protection Program (PPP) loans forgiveness, other loan forgiveness, the Economic Injury Disaster Loan (EIDL) advance grant, restaurant revitalization grant, or shuttered venue operator grant, and related eligible expense deductions under the federal Coronavirus Aid, Relief and Economic Security (CARES) Act, Paycheck Protection Program and Health Care Enhancement Act, Paycheck Protection Program Flexibility Act of 2020, the American Rescue Plan Act (ARPA) of 2021, the Consolidated Appropriations Act (CAA), 2021, or the PPP Extension Act of 2021, should file form FTB 4197, Information on Tax Expenditure Items, as part of the Franchise Tax Board's (FTB) annual reporting requirement. For more information, get form FTB 4197.

American Rescue Plan Act (ARPA) of 2021 – The ARPA was enacted on March 11, 2021. In general, California Revenue and Taxation Code (R&TC) does not conform to the changes. California taxpayers continue to follow the Internal Revenue Code (IRC) as of the specified date of January 1, 2015, with modifications.

COBRA Premium Assistance – The ARPA allows an exclusion from gross income for COBRA premium assistance subsidies received by eligible individuals for the COBRA coverage period beginning on April 1, 2021, and ending on September 30, 2021. California law does not conform to this federal provision. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section B, line 8z.

Employer-Provided Dependent Care Assistance Exclusion – California conforms to the employer-provided dependent care assistance exclusion from gross income as of the specified date of January 1, 2015, without any modifications. The ARPA of 2021 enacted on March 11, 2021, temporarily increases the amount of the exclusion from gross income from \$5,000 to \$10,500 (and half of that amount for married filing separate) for employer-provided dependent care assistance. CA law does not conform to this change under the federal ARPA. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section A, line 1.

Expanded Definition of Qualified Higher Education Expenses – For taxable years beginning on or after January 1, 2021, California law conforms to the expanded definition of qualified higher education expenses associated with participation in a registered apprenticeship program and payment on the principal or interest of a qualified education loan under the federal Further Consolidated Appropriations Act, 2020.

Consolidated Appropriations Act (CAA), 2021 – The CAA, 2021, was enacted on December 27, 2020. In general, the R&TC does not conform to the changes under the act. California taxpayers continue to follow the IRC as of the specified date of January 1, 2015, with modifications. California law **does not** conform to the following federal provisions under the CAA, 2021:

- Increased limitations and carryovers for charitable contributions that were made during 2020 and 2021.
- Exclusion from gross income of emergency financial aid grants made on or after March 27, 2020.
- Temporary elimination of the 50% limitation on the deduction of expenses for food or beverages provided by a restaurant that are paid or incurred after December 31, 2020, and before January 1, 2023.
- Temporary special rules for health and dependent care Flexible Spending Arrangements

California Venues Grant – For taxable years beginning on or after September 1, 2020, and before January 1, 2030, California law allows an exclusion from gross income for grant allocations received by a taxpayer pursuant to the California Venues Grant Program that is administered by the Office of Small Business Advocate (CalOSBA). For more information, see R&TC Section 17158 and Schedule CA (540NR) specific line instructions in Part II, Section B, line 8z.

California Microbusiness COVID-19 Relief Grant – For taxable years beginning on or after January 1, 2020, and before January 1, 2023, California law allows an exclusion from gross income for grant allocations received by a taxpayer pursuant to the California Microbusiness COVID-19 Relief Program that is administered by CalOSBA. Federal law has no similar exclusion. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section B, line 8z.

Other Loan Forgiveness – For taxable years beginning on or after January 1, 2019, California law allows an exclusion from gross income for borrowers of forgiveness of indebtedness described in Section 1109(d)(2)(D) of the CARES Act as stated by section 278, Division N of the federal CAA, 2021. The CAA, 2021, allows deductions for eligible expenses paid for with covered loan amounts. California law conforms to this federal provision, with modifications. For California purposes, these deductions generally do not apply to an ineligible entity. "Ineligible entity" means a taxpayer that is either a publicly-traded company or does not meet the 25% reduction from gross receipts requirements under Section 311 of the CAA, 2021. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section B, line 3 or go to ftb.ca.gov and search for **AB 80**.

Shuttered Venue Operator Grant – For taxable years beginning on or after January 1, 2019, California law allows an exclusion from gross income for amounts awarded as a shuttered venue operator grant under the CAA, 2021. The CAA, 2021, allows deductions for eligible expenses paid for with grant amounts. California law conforms to this federal provision, with modifications. For California purposes, these deductions do not apply to an ineligible entity. "Ineligible entity" means a taxpayer that is either a publicly-traded company or does not meet the 25% reduction from gross receipts requirements under Section 311 of Division N of the CAA, 2021. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section B, line 3, or R&TC Section 17158.3.

Income Exclusion for Rent Forgiveness – For taxable years beginning on or after January 1, 2020, and before January 1, 2025, gross income shall not include a tenant's rent liability that is forgiven by a landlord or rent forgiveness provided through funds grantees received as a direct allocation from the Secretary of the Treasury based on the federal CAA, 2021. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section B, line 8z.

Moving Expense Deduction – For taxable years beginning on or after January 1, 2021, taxpayers should file California form FTB 3913, Moving Expense Deduction, to claim moving expense deductions. Attach the completed form FTB 3913 to Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section C, line 14, and get form FTB 3913.

Paycheck Protection Program (PPP) Loans Forgiveness – For taxable years beginning on or after January 1, 2019, California law allows an exclusion from gross income for covered loan amounts forgiven under the federal CARES Act, Paycheck Protection Program and Health Care Enhancement Act, Paycheck Protection Program Flexibility Act of 2020, the CAA, 2021, or the PPP Extension Act of 2021.

Also, the ARPA expands PPP eligibility to include "additional covered nonprofit entities" which includes certain Code 501(c) nonprofit organizations and Internet-only news publishers and Internet-only periodical publishers. California law does not conform to this expansion of PPP eligibility. For more information, see specific line instructions for Schedule CA (540NR) in Part II, Section B, line 3.

The CAA, 2021, allows deductions for eligible expenses paid for with covered loan amounts. California law conforms to this federal provision, with modifications. For California purposes, these deductions do not apply to an ineligible entity. "Ineligible entity" means a taxpayer that is either a publicly-traded company or does not meet the 25% reduction from gross receipts requirements under Section 311 of Division N of the CAA, 2021. For more information, see specific line instructions for Schedule CA (540NR) in Part II, Section B, line 3 or R&TC Section 17131.8 or go to ftb.ca.gov and search for **AB 80**.

Revenue Procedure 2021-20 allows taxpayers to make an election to report the eligible expense deductions related to a PPP loan on a timely filed original 2021 tax return including extensions. If a taxpayer makes an election for federal purposes, California will follow the federal treatment for California tax purposes.

Advance Grant Amount – For taxable years beginning on or after January 1, 2019, California law conforms to the federal law regarding the treatment for an emergency Economic Injury Disaster Loan (EIDL) grant under the federal CARES Act or a targeted EIDL advance under the CAA, 2021.

General Information

In general, for taxable years beginning on or after January 1, 2015, California law conforms to the IRC as of January 1, 2015. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California R&TC in the instructions. Taxpayers should not consider the instructions as authoritative law.

Conformity

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

Setting Every Community Up for Retirement Enhancement (SECURE) Act

– The SECURE Act was enacted on December 20, 2019. In general, California R&TC does not conform to the changes. California taxpayers continue to follow the IRC as of the specified date of January 1, 2015, with modifications.

SECURE Act repeal of maximum age 70½ – The SECURE Act repealed the maximum age of 70½ for traditional IRA contributions. California law **does not** conform to this federal provision. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section C, line 20.

Coronavirus Aid, Relief, and Economic Security (CARES) Act – The federal CARES Act was enacted on March 27, 2020. In general, California R&TC does not conform to the changes. California taxpayers continue to follow the IRC as of the specified date of January 1, 2015, with modifications. California law **does not** conform to the following federal provisions under the CARES Act:

- Charitable contributions changes
- Exclusion for certain employer payment of student loans
- Business interest limitations
- Health-savings account changes

California law conforms to the following federal provision under the CARES Act:

- Temporarily increases the amount of loans allowable from a qualified employer plan to \$100,000 for coronavirus-related relief and delays by one year the due date for any repayment for an outstanding loan from a qualified employer plan if requirements are met.

The above lists are not intended to be all-inclusive of the federal and state conformities and differences. For more information, see specific line instructions or refer to the R&TC.

Worker Status: Employees and Independent Contractors – Some individuals may be classified as independent contractors for federal purposes and employees for California purposes, which may also cause changes in how their income and deductions are classified. Proposition 22 was operative as of December 16, 2020, and may affect a taxpayer's worker classification. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section A, line 1; Part II, Section B, line 3; Part II, Section C, line 15 and line 17; and Part III, line 4.

Rental Real Estate Activities – For taxable years beginning on or after January 1, 2020, the dollar limitation for the offset for rental real estate activities shall not apply to the low income housing credit program. For more information, see R&TC Section 17561(d)(1). Get form FTB 3801-CR, Passive Activity Credit Limitations, for more information.

R&TC Section 41 Reporting Requirements – Beginning in taxable year 2020, California allows individuals and other taxpayers operating under the personal income tax law to claim credits and deduction of business expenses paid or incurred during the taxable year in conducting commercial cannabis activity. Sole proprietors conducting a commercial cannabis activity that is licensed under California Medicinal and Adult-Use Cannabis Regulation and Safety Act (CA MAUCRSA), should file form FTB 4197. The FTB uses information from form FTB 4197 for reports required by the California Legislature. For more information, see Schedule CA (540NR) specific line instructions in Part II, Section B, line 3, and get form FTB 4197 for more information.

Net Operating Loss (NOL) Suspension – For taxable years beginning on or after January 1, 2020, and before January 1, 2023, California has suspended the NOL carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. **However**, taxpayers with net business income or modified adjusted gross income (AGI) of less than \$1,000,000 or with disaster loss carryovers are **not** affected by the NOL suspension rules.

The carryover period for suspended losses is extended by:

- Three years for losses incurred in taxable years beginning before January 1, 2020.
- Two years for losses incurred in taxable years beginning on or after January 1, 2020, and before January 1, 2021.
- One year for losses incurred in taxable years beginning on or after January 1, 2021, and before January 1, 2022.

For more information, see R&TC Section 17276.23, and get form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.

Excess Business Loss Limitation – The federal CARES Act made amendments to IRC Section 461(I) by eliminating the excess business loss limitation of noncorporate taxpayers for taxable year 2020 and retroactively removing the limitation for taxable years 2018 and 2019. California does **not** conform to those amendments. Also, California law does not conform to the federal changes in the ARPA that extends the limitation on excess business losses of noncorporate taxpayers for taxable years beginning after December 31, 2020, and ending before January 1, 2027. Complete form FTB 3461, California Limitation on Business Losses, if you are a noncorporate taxpayer and your net losses from all of your trades or businesses are more than \$262,000 (\$524,000 for married taxpayers filing a joint return). For more information, see Schedule CA (540NR) specific line instructions in Part II, Section B, line 8o, and get form FTB 3461.

Loophole Closure and Small Business and Working Families Tax Relief Act of 2019

– The Tax Cuts and Jobs Act (TCJA) signed into law on December 22, 2017, made changes to the IRC. California R&TC does not conform to all of the changes. In general, for taxable years beginning on or after January 1, 2019, California conforms to the following TCJA provisions:

- California Achieving a Better Life Experience (ABLE) Program
- Student loan discharged on account of death or disability
- Federal Deposit Insurance Corporation (FDIC) Premiums
- Excess employee compensation
- Excess business loss

Federal Tax Reform – In general, California R&TC **does not** conform to all of the changes under the TCJA. For adjustments due to the TCJA, see the specific line instructions for the following items:

- Combat zone extended to Egypt's Sinai Peninsula
- Moving expenses and reimbursements
- Limitation on deduction of business interest
- Limitation on employer's deduction for fringe benefit expenses
- Limitation on wagering losses
- Sexual harassment settlements
- IRC Section 965 deferred foreign income
- Global intangible low-taxed income (GILTI) under IRC Section 951A
- Qualified equity grants
- Expanded use of 529 account funds
- Living expenses for members of Congress
- Limitation on state and local tax deduction
- Mortgage and home equity indebtedness interest deduction
- Limitation on charitable contribution deduction
- College athletic seating rights
- Casualty or theft loss(es)
- Miscellaneous itemized deductions

Registered Domestic Partners (RDP) – RDPs will compute their limitations based on the combined federal AGI of each partner's individual tax return filed with the Internal Revenue Service (IRS).

For column A, Part II and Part III, combine each line item of your federal amounts from each partner's individual federal tax return. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners. The combined federal AGI used to compute limitations is different from the recalculated federal AGI used on Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, line 13. In situations where RDPs have no RDP adjustments, these amounts may be the same.

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

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

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

Part-Year Residents – Complete the Part-Year Resident Worksheet on page 14 to determine the amounts to enter on Part II, Section A, line 1 through line 7 and Section B, line 1 through line 10, column E.

Tips to avoiding common mistakes on this schedule:

- **Column A** – Copy the amounts from your federal tax return. Use the (b) amounts on line 2, line 3, line 4, line 5, and line 6, from your federal tax return. Form 1040, U.S. Individual Income Tax Return, line 11, or Form 1040-SR, U.S. Tax Return for Seniors, line 11, should equal Schedule CA (540NR), Part II, line 27, column A.
- **Column B (Part II, Section A, Line 1 through Line 7, and Section B, Line 1 through Line 7 and line 9a)** – Subtract income that is not taxable to a California resident such as California lottery winnings and social security benefits. **Do not use column B to deduct** income that was earned while a nonresident of California or from sources outside of California. There must be a difference in state and federal tax law. Generally, if a full-year California resident cannot subtract income in column B, a nonresident or part-year resident may not subtract income in column B.
- **Column C (Part II, Section A, Line 1 through Line 7, and Section B, Line 1 through Line 7 and line 9a)** – Add income that was not taxed on your federal tax return but is taxable to a California resident, such as foreign income or interest/dividends from non-California municipal bonds.
- **Column D** – Combine the columns (column A - column B + column C). Part II, line 27, column D, should equal Form 540NR, line 17. The amounts in this column represent income earned from all sources as if you were a full-year California resident, after applying California and federal law differences.
- **Column E** – Enter all income from all sources while a resident of California and income from California sources while a nonresident.

Purpose

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

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

Specific Line Instructions

Part I Residency Information

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

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

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

Line 2 – Domicile and Military

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

Line 6 – The number of days I spent in California

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

Line 7 – I owned a home/property in California

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

Line 8 – Before 2021: I was a California resident for the period of

Enter your most recent period of California residency. If you became a nonresident during taxable year 2021, use December 31, 2020 as your end date.

Part II Income Adjustment Schedule

Column A — Federal Amounts

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

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

Section A, Line 1 through Line 7, and Section B, Line 1 through Line 9a

Enter in Section A, line 1 through line 7, and Section B, line 1 through line 9a the same amounts you entered on federal Form 1040, 1040-SR, or 1040-NR, U.S. Nonresident Alien Income Tax Return, line 1 through line 7; and federal Schedule 1 (Form 1040), Additional Income and Adjustments to Income, line 1 through line 9.

Line 10 – Total

Combine the amounts in Section A, line 1 through line 7, and Section B, line 1 through line 7, line 9a, and line 9b4, as applicable. Enter the total on line 10. This number should be the same as the amount on federal Form 1040, 1040-SR, or 1040-NR, line 9.

Section C, Line 11 through Line 18 and Line 20 through Line 25

Enter the same amounts you entered on federal Schedule 1 (Form 1040), line 11 through line 18 and line 20 through line 25.

Line 19a and Line 19b

Enter on line 19a the same amount entered on federal Schedule 1 (Form 1040), line 19a. Enter on line 19b the social security number (SSN) or individual taxpayer identification number (ITIN) and last name of the person to whom you paid alimony.

Line 26 – Add line 11 through line 23 and line 25. This amount should be the same as the amount on federal Schedule 1 (Form 1040), line 26.

If you used federal Form 1040-NR and reported an amount on federal Form 1040-NR, line 10c for excluded scholarship and fellowship grants, enter the amount from federal Form 1040-NR, line 10d on this line.

Line 27 – Total

Subtract line 26 from line 10. This amount should be the same as the amount on federal Form 1040, 1040-SR, or 1040-NR, line 11.

Column B and Column C — Subtractions and Additions

Use these columns to enter subtractions and additions to federal amounts in column A that are necessary because of the differences between California and federal law. Enter all amounts in Section A, line 1 through line 7 and Section B and Section C, line 1 through line 26 as positive numbers.

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

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

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

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

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

Section A – Income

Line 1 – Wages, Salaries, Tips, etc.

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

Employer-provided dependent care assistance exclusion – The ARPA temporarily increases the amount of the exclusion from gross income from \$5,000 to \$10,500 (and half of that amount for married filing separate) for employer-provided dependent care assistance. California law does not conform to this federal provision. Figure the difference between the amounts allowed using federal law and California law. For California purposes, enter the difference on line 1, column C.

Employees and independent contractors – Some taxpayers may be classified as independent contractors for federal purposes and as employees for California purposes. If the taxpayer is classified as an employee for California purposes, enter the amount reported as gross income of the business from federal Schedule C (Form 1040), Profit or Loss from Business, line 7, as wages on line 1, column C.

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

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

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

Combat zone foreign earned income exclusion – For taxable years beginning on and after January 1, 2018, California does not conform to the federal foreign earned income exclusion for amounts received by certain U.S. citizens or resident aliens with an abode in the U.S., specifically contractors or employees of contractors supporting the U.S. Armed Forces in designated combat zones. Enter the amount excluded from federal income on line 8d, column C.

Combat zone extended to Egypt’s Sinai Peninsula – Federal law extended combat zone tax benefits to the Sinai Peninsula of Egypt. California does not conform. Enter the amount of combat pay excluded from federal income on line 1, column C. Get FTB Pub. 1032 for more information.

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

Ride-sharing fringe benefit differences – Under federal law, certain qualified transportation benefits are excluded from gross income. Under the California R&TC, there are no monthly limits for the exclusion of these benefits and California’s definitions are more expansive. Enter the amount of ridesharing benefits received and included in federal income on line 1, column B.

Foreign income – If you excluded income exempted by U.S. tax treaties on your federal Form 1040 or 1040-SR (unless specifically exempt for state purposes), enter the excluded amount in column C. If you claimed foreign earned income or housing cost exclusion on your federal Form 1040 or 1040-SR (under IRC Section 911), see the instructions for line 8d.

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

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

If you included in federal income an amount qualifying for this exclusion, enter that amount on line 1, column B.

Nonresident compensation of merchant seamen and employees of rail carriers, motor carriers, and air carriers – Exclude the following from gross income: compensation for the performance of duties of certain merchant seamen, rail carriers, motor carriers, and air carriers. Enter the amount included in federal income on line 1, column B. For more information, get FTB Pub. 1031.

Employer health savings account (HSA) contribution – Enter the amount of any employer HSA contribution from federal Form W-2, Wage and Tax Statement, box 12, code W on line 1, column C.

Income exclusion for In-Home Supportive Services (IHSS) supplementary payments – If you are an IHSS provider who received IHSS supplementary payments that were included in federal wages, enter the IHSS supplementary payments on line 1, column B. IHSS providers only receive a supplementary payment if they paid a sales tax on the IHSS services they provide. The supplementary payment is equal to the sales tax paid plus any increase in the federal payroll withholding paid due to the supplementary payment.

Native American earned income exemption – California does not tax federally recognized tribal members living in California Indian country who earn income from any federally recognized California Indian country. Military compensation is considered income from reservation sources. Enrolled members who receive reservation source per capita income must reside in their affiliated tribe’s Indian country to qualify for tax exempt status. Enter on line 1, column B the earnings included in federal income that are exempt for California. Attach form FTB 3504, Enrolled Tribal Member Certification, to Form 540NR. For more information, get form FTB 3504.

Line 2 – Taxable Interest

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

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

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

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

Enter in column C, the interest you identified as tax-exempt interest on your federal Form 1040, 1040-SR, or 1040-NR, line 2a; **and** which you received from:

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

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

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

Line 3 – Ordinary Dividends

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

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

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

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

- Noncash patronage dividends from farmers’ cooperatives or mutual associations.

- A controlled foreign corporation (CFC).
- Distribution of pre-1987 earnings from S corporations.
- Undistributed capital gains for regulated investment company (RIC) shareholders.

Line 4a and b – IRA Distributions

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

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

If the taxable amount using California law is:

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

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

Coverdell Education Savings Account (ESA) formerly known as Education (ED) IRA – If column A includes a taxable distribution from an ED IRA, you may owe additional tax on that amount. Get form FTB 3805P, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.

Line 5a and b – Pensions and Annuities

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

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

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

You may have to pay an additional tax if you received a taxable distribution from a qualified retirement plan before reaching age 59½ and the distribution was not rolled over into another qualified plan. Get form FTB 3805P for more information.

Line 6 – Social Security Benefits

California excludes U.S. social security benefits or equivalent Tier 1 railroad retirement benefits from taxable income. Enter in column B the amount of taxable U.S. social security benefits or equivalent Tier 1 railroad retirement benefits shown in column A, line 6(b).

Line 7 – Capital Gain or (Loss)

Generally, no adjustments are made on this line. California taxes long and short term capital gains as regular income. No special rate for long term capital gains exists. However, the California basis of the assets listed below may be different from the federal basis due to differences between California and federal laws. If there are differences, use Schedule D (540NR), California Capital Gain or Loss Adjustment, to calculate the amount to enter on line 7:

- Gain on the sale of qualified small business stock under IRC Section 1045 and IRC Section 1202.
- Basis amounts resulting from differences between California and federal law in prior years.
- Gain or loss on stock and bond transactions.
- Installment sale gain reported on form FTB 3805E, Installment Sale Income.
- Gain on the sale of personal residence where depreciation was allowable.
- Pass-through gain or loss from partnerships, fiduciaries, S corporations, or LLCs.
- Capital loss carryover from your 2020 California Schedule D (540NR).
- Capital gain from children under age 19 or students under age 24 included on the parent's or child's federal tax return and reported on the California tax return by the opposite taxpayer. For more information, get form FTB 3803.

Get FTB Pub. 1001 for more information about:

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

Section B – Additional Income

Line 1 – Taxable Refunds, Credits, or Offsets of State and Local Income Taxes

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

Line 2a – Alimony Received

Under federal law (TCJA), alimony and separate maintenance payments are not includable in the income of the receiving spouse, if made under any divorce or separation agreement executed after December 31, 2018, or executed on or before December 31, 2018, and modified after that date (if the modification expressly provides that the amendments apply). California does not conform. If you received alimony not included in your federal income, enter the alimony received in column C.

If you are a nonresident alien and received alimony not included in your federal income, enter the alimony on this line in column C.

Line 3 – Business Income or (Loss)

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

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

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

Use form FTB 3801, Passive Activity Loss Limitations, to figure the total adjustment for line 3 if you have:

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

Use form FTB 3885A to figure the total adjustment for line 3 if you have:

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

Other loan forgiveness – Under federal law, the CAA, 2021, allows deductions for eligible expenses paid for with covered loan amounts. California law conforms to this federal provision, with modifications. For California purposes, if you are an ineligible entity and deducted eligible expenses for federal purposes, enter the total amount of those expenses deducted on line 3, column C.

Paycheck Protection Program loans forgiveness – Under federal law, the CAA, 2021, allows deductions for eligible expenses paid for with covered loan amounts. California law conforms to this federal provision with modifications. For California purposes, if you are an ineligible entity and deducted eligible expenses for federal purposes, enter the total amount of those expenses deducted on line 3, column C.

Also, the ARPA expands PPP eligibility to include “additional covered nonprofit entities” which includes certain Code 501(c) nonprofit organizations and Internet-only news publishers and Internet-only periodical publishers. California law does not conform to this expansion of PPP eligibility. If you met the PPP eligibility requirements and excluded the amount from gross income for federal purposes, enter the excluded amount on line 3, column C.

Shuttered venue operator grant – Under federal law, the CAA, 2021, allows deductions for eligible expenses paid for with grant amounts. California law conforms to this federal provision with modifications. For California purposes, if you are an ineligible entity and deducted eligible expenses for federal purposes, enter the total amount of those expenses deducted on line 3, column C.

Employees and independent contractors – Some taxpayers may be classified as independent contractors for federal purposes and as employees for California purposes. If the taxpayer is classified as an employee for California purposes, enter the amount of federal business income from line 3, column A, on line 3, column B. Enter the amount of federal business loss from line 3, column A, on line 3, column C.

Commercial cannabis activity – Under federal law, deductions for business expenses of a trade or business paid or incurred during the taxable year in conducting commercial cannabis activity are disallowed. California does not conform. California allows cannabis business licensed under California Medicinal and Adult-Use Cannabis Regulation and Safety Act (CA MAUCRSA) to claim these expenses. Enter the amount of these expenses on line 3, column B.

Limitation on deduction of business interest – Under federal law, every business, regardless of its form, is generally subject to a disallowance of a deduction for net interest expense in excess of 50% of the business's adjustable taxable income. California does not conform. Figure the difference between the amounts allowed using federal law and California law. Enter the difference on line 3, column B.

Limitation on employer's deduction for fringe benefit expenses – Under federal law, deductions for entertainment expenses are disallowed; the current 50% limit on the deductibility of business meals is expanded to meals provided through an in-house cafeteria or otherwise on the premises of the employer; the 50% limitation does not apply to expenses for food or beverages provided by a restaurant that are paid or incurred after December 31, 2020, and before January 1, 2023; deductions for employee transportation fringe benefits (e.g., parking and mass transit) are denied; and no deduction is allowed for transportation expenses that are the equivalent of commuting for employees (e.g., between the employee's home and the workplace), except as provided for the safety of the employee. California does not conform. Figure the difference between the amounts allowed using federal law and California law. Enter the difference on line 3, column B or column C.

Limitation on wagering losses – Under federal law, all deductions for expenses incurred in carrying out wagering transactions, and not just gambling losses, are limited to the extent of gambling winnings. California does not conform. Figure the difference between the amounts allowed using federal law and California law. Enter the difference on line 3, column B.

Sexual harassment settlements – Under federal law, no deduction is allowed for any settlement, payout, or attorney fees related to sexual harassment or sexual abuse if such payments are subject to a nondisclosure agreement. California does not conform. Enter the amount received and included in federal income on line 3, column B.

Penalty assessed by professional sports league – California does not allow a business expense deduction for any fine or penalty paid or incurred by an owner of a professional sports franchise assessed or imposed by the professional sports league that includes that franchise. If the fine or penalty was deducted for federal purposes, enter this amount on line 3, column C.

Business expense deduction disallowance – California disallows a deduction for a business expense related to a payment to the Edge College and Career Network, LLC, to a taxpayer who meets all of the following:

- They are charged as a defendant in any of several specified criminal complaints as listed in R&TC Section 17275.4.
- There is a final determination of their guilt with regard to a violation of any offense arising out of that criminal complaint.
- There is a finding that they took the deduction unlawfully.

For more information, see R&TC Section 17275.4. Enter the amount of this deduction on line 3, column C.

Get FTB Pub. 1001 for more information about:

Income related to:

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

Basis adjustments related to:

- Property acquired prior to becoming a California resident.
- Sales or use tax credit for property used in a former Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), Targeted Tax Area (TTA), or Los Angeles Revitalization Zone (LARZ).

- Reduced recovery periods for fruit-bearing grapevines replaced in a California vineyard on or after January 1, 1992, as a result of phylloxera infestation; or on or after January 1, 1997, as a result of Pierce's disease.
- Expenditures for tertiary injectants.
- Property placed in service on an Indian reservation after December 31, 2017, and before January 1, 2022.
- Amortization of pollution control facilities.
- Discharge of real property business indebtedness.
- Vehicles used in an employer-sponsored ridesharing program.
- An enhanced oil recovery system.
- Joint Strike Fighter property costs.
- The cost of making a business accessible to disabled individuals.
- Property for which you received an energy conservation subsidy from a public utility on or after January 1, 1995, and before January 1, 1997.
- Research and experimental expenditures.
- Reduction of capitalized costs attributable to the Work Opportunity Credit.

Business deductions related to:

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

Line 4 – Other Gains or (Losses)

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

Line 5 – Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, etc.

Adjustments to federal income or loss you reported in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis used to figure California depreciation may be different from the recovery period or amount used for federal purposes. For more information, see the instructions for Schedule CA (540NR), column B and column C, line 3.

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

Use form FTB 3801, to figure the total adjustment for line 5 if you have:

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

Use form FTB 3885A, to figure the total adjustment for line 5 if you have:

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

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

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

Line 6 – Farm Income or (Loss)

Adjustments to federal income or loss you report in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, NOLs, and accelerated write-offs. As a result, the recovery period or the basis you should use to figure California depreciation may be different from the amount used for federal purposes, and you may need to make an adjustment to your farm income or loss. For more information about the types of income and adjustments that often require adjustments, see the instructions for Schedule CA (540NR), column B and column C, line 3.

Use form FTB 3801, to figure the total adjustment for line 6 if you have:

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

Use form FTB 3885A, to figure the total adjustment for line 6 if you have:

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

Line 7 – Unemployment Compensation

California excludes unemployment compensation from taxable income. Enter on line 7, column B, the amount of unemployment compensation shown in column A.

Paid Family Leave Insurance (PFL) benefits, also known as, Family Temporary Disability Insurance – Payments received from the PFL Program are reported on federal Form 1099-G, Certain Government Payments. California excludes payments received from the PFL program from taxable income. Enter on line 7, column B, the amount of PFL program payments shown in column A. For more information, get FTB Pub. 1001.

Line 8 – Other Income

a. Federal Net Operating Loss – Enter the amount of the federal NOL included on line 8a, column A, as a positive number in column C. Get form FTB 3805V, to figure the allowable California NOL.

b. Gambling Income

California lottery winnings – California excludes California lottery winnings from taxable income. Enter in column B the amount of California lottery winnings included in the federal amount on line 8b, column A.

Make no adjustment for lottery winnings from other states. They are taxable by California. If you reduced gambling income for California lottery income, you may need to reduce the losses included in the federal itemized deductions on Part III, line 16, column A. Enter these losses on Part III, line 16, column B.

c. Cancellation of Debt

Mortgage forgiveness debt relief – California law does not conform to federal law regarding the exclusion of income from discharge of indebtedness from the disposition of your principal residence occurring after December 31, 2017. Enter the amount of discharge on line 8c, column C.

Certain employer payments of student loans – California does not conform to the federal CARES Act regarding the exclusion of student loan payments made on behalf of an employee by an employer. Enter the amount of loan payment on line 8c, column C.

d. Foreign Earned Income Exclusion from federal Form 2555

Federal foreign earned income or housing exclusion – Enter in column C the amount excluded from federal income on federal Schedule 1 (Form 1040), line 8d.

Combat zone foreign earned income exclusion – Enter the amount excluded from federal income on line 8d, column C.

e. Taxable Health Savings Account Distribution

Health savings account (HSA) distributions for unqualified medical expense – Distributions from an HSA not used for qualified medical expenses, and included in federal income, are not taxable for California purposes. Enter the distribution not used for qualified medical expenses on line 8e, column B.

Taxable Archer MSA distributions – Enter the amount of taxable Archer MSA distributions included on line 8e, column A, in column B. See instructions for line 8z for more information.

- m. IRC Section 951(a) Inclusion** – Under federal law, if you are a U.S. shareholder of a controlled foreign corporation, you must include IRC Section 951(a) amount in your income. California does not conform. If you included the amount as income on your federal Schedule 1 (Form 1040), enter the amount on line 8m, column B.
- n. IRC Section 951A(a) Inclusion** – Under federal law, if you are a U.S. shareholder of a CFC, you must include your GILTI in your income. California does not conform. If you included GILTI on your federal Schedule 1 (Form 1040), enter the amount on line 8n, column B.
- o. IRC Section 461(I) Excess Business Loss Adjustment** – For taxable years beginning after December 31, 2018, California law generally conforms to the changes under the TCJA in regard to the disallowance of excess business loss deductions of non-corporate taxpayers. For California purposes, any disallowed loss will be treated as a carryover excess business loss instead of an NOL carryover for the subsequent taxable year. Also, California does **not** conform to amendments under the federal CARES Act and the ARPA. See General Information for more information. Complete form FTB 3461, if you are a noncorporate taxpayer and your net losses from all of your trades or businesses are more than \$262,000 (\$524,000 for married taxpayers filing a joint return). Enter the amount from form FTB 3461, line 16 or line 17, whichever applies, on line 8o, column C. Attach form FTB 3461 to the tax return.

See line 8z for further instructions on how to report the excess business loss adjustment.

z. Other income

Identify the type of income reported in the space provided. If there is more than one item to report on line 8z, attach a statement that lists each item and enter the total of all individual items in column B or column C as instructed below.

Taxable Archer MSA distributions – Enter the amount of taxable Archer MSA distributions included on line 8e, column A, on line 8z, column C and write “MSA” on the space provided.

Excess business loss adjustment – Enter the amount of the federal excess business loss adjustment (ELA) included on line 8o, column A, on line 8z, column B. Write “ELA” on the space provided on line 8z.

COBRA premium assistance – The ARPA allows an exclusion from gross income for COBRA premium assistance subsidies received by eligible individuals for the COBRA coverage period beginning on April 1, 2021, and ending on September 30, 2021. California law does not conform to this federal provision. For California purposes, enter the amount excluded from federal income on line 8z, column C.

Emergency financial aid grants – The CAA, 2021, allows an exclusion from gross income for emergency financial aid grants. California does not conform to this federal provision. For California purposes, enter the amount excluded from federal income on line 8z, column C.

California microbusiness COVID-19 relief grant – California law allows an exclusion from gross income for grant allocations received by a taxpayer pursuant to the California Microbusiness COVID-19 Relief Program that is administered by CalOSBA. Federal law has no similar exclusion. Enter on line 8z, column B the amount of this type of income.

California venues grant – California law allows an exclusion from gross income for grant allocations received by a taxpayer pursuant to the California Venues Grant Program that is administered by the CalOSBA. Federal law has no similar exclusion. Enter on line 8z, column B the amount of this type of income.

Small Business COVID-19 Relief Grant Program – California law allows an exclusion from gross income for grant allocations received by a taxpayer pursuant to the COVID-19 Relief Grant under Executive Order No. E 20/21-182 and the California Small Business COVID-19 Relief Grant Program established by Section 12100.83 of the Government Code. If you included any amount as income for federal purposes on line 8z, column A, enter the amount on line 8z, column B.

Income exclusion for rent forgiveness – If for federal purposes gross income includes a tenant's rent liability that is forgiven by a landlord or rent forgiveness provided through funds grantees received as a direct allocation from the Secretary of the Treasury, enter in line 8z, column B the amount of this type of income included in line 8z, column A.

IRC Section 965 deferred foreign income – If you included IRC 965 deferred foreign income on your federal Schedule 1 (Form 1040), enter the amount on line 8z, column B and write “IRC 965” on line 8z and at the top of Form 540NR.

Qualified equity grants – California does not conform to federal law regarding the election to defer the recognition of income attributable to qualified stock. If you elected to defer income for federal purposes, make an adjustment on line 8z, column C.

Expanded use of 529 account funds – California does not conform to federal law regarding the IRC Section 529 account funding for elementary and secondary education or to the maximum distribution amount. If the amount was excluded for federal purposes, make an adjustment on line 8z, column C.

Native American earned income exemption – California does not tax federally recognized tribal members living in California Indian country who earn income from any federally recognized California Indian country. Military compensation is considered income from reservation sources. Enrolled members who receive reservation sourced per capita income must reside in their affiliated tribe's Indian country to qualify for tax exempt status. For more information, see form FTB 3504. Enter on line 8z, column B the income included in federal income that is exempt for California and write "FTB 3504" on line 8z. Attach form FTB 3504 to the Form 540NR.

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

If the amount of your child's income you are reporting on your California income tax return is different than the amount you reported on your federal income tax return, enter the difference on line 8z, column B or column C and write "FTB 3803" on line 8z. Get form FTB 3803 for more information.

Reward from a crime hotline – Enter in column B the amount of a reward authorized by a government agency received from a crime hotline established by a government agency or nonprofit organization that is included in the amount on line 8z, column A.

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

Beverage container recycling income – Enter in column B the amount of recycling income included in the amount on line 8z, column A.

Rebates or vouchers from a local water agency, energy agency, or energy supplier – California law allows an income exclusion for rebates or vouchers from a local water agency, energy agency, or energy supplier for the purchase and installation of water conservation appliances and devices. Enter in column B the amount of this type of income included in the amount on line 8z, column A.

Financial incentive for seismic improvement – California law allows an income exclusion for loan forgiveness, grant, credit, rebate, voucher, or other financial incentive issued by the California Residential Mitigation Program or California Earthquake Authority to assist a residential property owner or occupant with expenses paid, or obligation incurred for earthquake loss mitigation. Enter in column B the amount of this type of income included in the amount on line 8z, column A.

Original issue discount (OID) for debt instruments issued in 1985 and 1986 – In the year of sale or other disposition, you must recognize the difference between the amount reported on your federal tax return and the amount reported for California purposes. **Issuers:** Enter the difference between the federal deductible amount and the California deductible amount on line 8z, column B. **Holders:** Enter the difference between the amount included in federal gross income and the amount included for California purposes on line 8z, column C.

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

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

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

Grants paid to low-income individuals – California excludes grants paid to low-income individuals to construct or retrofit buildings to make them

more energy efficient. Federal has no similar exclusion. Enter on line 8z, column B the amount of this type of income.

California National Guard Surviving Spouse & Children Relief Act of 2004 – Death benefits received from the State of California by a surviving spouse/RDP or member-designated beneficiary of certain military personnel killed in the performance of duty are excluded from gross income. Military personnel include the California National Guard, State Military Reserve, or the Naval Militia. If you reported a death benefit on line 8z, column A, enter the death benefit amount in column B.

Ottoman Turkish Empire settlement payments – If you received settlement payments as a person persecuted by the regime that was in control of the Ottoman Turkish Empire from 1915 until 1923 your gross income does not include those excludable settlement payments, or interest, received by you, your heirs, or your estate for payments received on or after January 1, 2005. If you reported settlement payments on line 8z, column A, enter the amount of settlement payments in column B.

Line 9b1 – Disaster Loss Deduction from Form FTB 3805V

If you have a California disaster loss carryover deduction and there is income in the current taxable year, enter the total amount from your 2021 form FTB 3805V, Part III, line 2 and/or line 3, column (f), as a positive number in column B.

NOL Attributable to a Qualified Disaster – If you deduct a 2021 disaster loss in the 2021 taxable year and have remaining disaster loss that results in an NOL, the NOL can be carried forward. Get form FTB 3805V for more information.

Line 9b2 – NOL Deduction from Form FTB 3805V

The allowable NOL carryover under California law is different from the allowable NOL carryover under federal law. If you have a California NOL carryover from prior years, enter the total allowable California NOL carryover deduction for the current year from form FTB 3805V, Part III, line 2, column (f), as a positive number in column B.

Line 9b3 – NOL from Forms FTB 3805Z, FTB 3807, or FTB 3809

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

- FTB 3805Z, Enterprise Zone Deduction and Credit Summary, line 3b
- FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary, line 3b
- FTB 3809, Targeted Tax Area Deduction and Credit Summary, line 3b

Line 9b4 – Student Loan Discharged Due to Closure of a For-Profit School

California law allows an income exclusion for income that would result from the discharge of any student loan of an eligible individual. An individual is eligible for the exclusion if **any** of the following apply during the taxable year.

1. The individual is granted a discharge of any student loan because:
 - a. The individual successfully asserts that the school did something wrong or failed to do something that it should have done.
 - b. The individual could not complete a program of study due to the school closing.
2. The individual attended a Brightwood College school on or before December 5, 2018, and is granted a discharge of any student loan made in connection with attending that school, and that discharge is not covered under item 1.
3. The individual attended a location of The Art Institute of California and is granted a discharge of any student loan made in connection with attending that school, and that discharge is not covered under item 1.

Enter in column B the amount of this type of income if it was included on Part II, line 8c, column A, as income for federal purposes.

Line 10 – Total

Add Section A, line 1 through line 7, and Section B, line 1 through line 7, line 9a and line 9b1 through line 9b4 in column B, and line 1 through line 7 and line 9a, in column C. Enter the totals on line 10.

Section C – Adjustments to Income

Line 11 through Line 19a and Line 20 through Line 23 and Line 25

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

- **Line 11 Educator Expenses** – California does not conform to federal law regarding educator expenses. Enter the amount from column A, line 11, in column B, line 11.
- **Line 12 Certain Business Expenses of Reservists, Performing Artists, and Fee-Basis Government Officials** – If claiming a depreciation deduction as an unreimbursed employee business expense on federal Form 2106, Employee Business Expenses, you may have an adjustment in column B or column C. For more information, get Pub. 1001.

Federal law eliminated the \$3,000 deduction for living expenses for members of Congress while away from home. California does not conform. Enter the amount of living expenses on line 12, column C.

- **Line 13 Health Savings Account (HSA) Deduction** – Federal law allows the taxpayer a deduction for contributions to an HSA account. California does not conform. Transfer the amount from column A, line 13 to column B, line 13.

- **Line 14 Moving Expenses** – California does not conform to federal law regarding the suspension of the deduction for moving expenses, except for members of the Armed Forces on active duty.

Non-military and military taxpayers prepare form FTB 3913. After completing form FTB 3913, if you are a non-military taxpayer and checked the No box on line 5 of form FTB 3913, enter the amount from line 5 of form FTB 3913 on Schedule CA (540NR), Part II, Section A, line 1, column C.

If you are a non-military taxpayer and checked the Yes box on line 5 of form FTB 3913, enter the amount from line 5 of form FTB 3913 on Schedule CA (540NR), Part II, line 14, column C.

- **Line 15 Deductible Part of Self-Employment Tax** – A taxpayer may be classified as an independent contractor for federal purposes and as an employee for California purposes. This deduction is not allowed to an employee. If for California purposes, the taxpayer is classified as an employee, an adjustment is needed in column B. Enter the amount from column A, line 15, in column B, line 15.

- **Line 17 Self-employed Health Insurance Deduction** – A taxpayer may be classified as an independent contractor for federal purposes and as an employee for California purposes. This deduction is not allowed to an employee. If for California purposes, the taxpayer is classified as an employee, an adjustment is needed in column B. Enter the amount from column A, line 17, in column B, line 17.

Note: A taxpayer classified as an employee for California purposes who makes an adjustment on this line may be able to claim this amount as a deduction for medical and dental expenses. For more information, see instructions for Part III, line 4.

- **Line 19a Alimony Paid** – Under federal law (TCJA), alimony and separate maintenance payments are not deductible by the payor spouse, if made under any divorce or separation agreement executed after December 31, 2018, or executed on or before December 31, 2018, and modified after that date (if the modification expressly provides that the amendments apply). California does not conform. If you paid alimony and did not deduct it on your federal tax return, enter the alimony paid in column C.

If you are a nonresident alien and did not deduct alimony on your federal tax return, enter the amount you paid in column C.

Line 19b (Recipient's SSN/Last Name) – Enter the SSN or ITIN and last name of the person to whom you paid alimony.

- **Line 20 IRA Deduction**

If you are active duty military and not domiciled in California and your IRA deduction was limited because of a federal AGI limitation, recalculate your deduction excluding your active duty military pay. If the recalculated amount is larger than the amount on line 20, column A, enter the difference between the two amounts in column C, line 20.

408 election – To take the election, the federal deduction is taken on line 20, column A. The election for California will be on line 20, column B or C. See Pub. 1005 for more information.

IRA age – If you report an IRA deduction on line 20, column A at age 70½ or older, include that amount deducted for federal in the total you enter on line 20, column B. See Pub. 1005 for more information.

- **Line 21 Student Loan Interest Deduction** – California conforms to federal law regarding student loan interest deduction except for non-California domiciled military taxpayers. Military taxpayers use the Student Loan Interest Deduction Worksheet in the next column to compute the amount to enter on line 21. For more information, get FTB Pub. 1032.

- **Line 22 (Reserved)** – For taxable years beginning after December 31, 2020, the tuition and fees deduction was repealed.

- **Line 24 – Other Adjustments**

b. Deductible expenses related to income reported on line 8k from the rental of personal property engaged in for profit – Generally, California law conforms with federal law and no adjustment is needed. However, if differences exist, enter the difference between the federal and California amount in column B or column C.

c. Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8l – Federal law allows an exclusion from gross income for the value of any medal awarded or prize money received from the U.S. Olympic Committee on account of competition in the Olympic Games or Paralympic Games. The exclusion does not apply to a taxpayer for any year in which the taxpayer's AGI exceeds \$1 million, or half of that amount in the case of a married individual filing a separate return. California does not conform. If you deducted the amount for federal purposes, enter that amount in column B.

Student Loan Interest Deduction Worksheet

1. Enter the total amount from Schedule CA (540NR), line 21, column A. If the amount on line 1 is zero, STOP. You are not allowed a deduction for California 1 _____
2. Enter the total interest you paid in 2021 on qualified student loans but not more than \$2,500 here 2 _____
3. Add federal Schedule 1 (Form 1040), line 21 (student loan interest deduction) to federal Form 1040 or 1040-SR, line 11 (AGI). Enter the result here . . . 3 _____
4. Enter the total military income included in federal AGI (get FTB Pub. 1032) . . . 4 _____
5. Subtract line 4 from line 3. 5 _____
6. Enter the amount shown below for your filing status.
 - Single, head of household, or qualifying widow(er) – \$60,000
 - Married/RDP filing jointly – \$120,000. 6 _____
7. Is the amount on line 5 more than the amount on line 6?
 - No.** Skip lines 7 and 8, enter -0- on line 9, and go to line 10.
 - Yes.** Subtract line 6 from line 5 7 _____
8. Divide line 7 by \$15,000 (\$30,000 if married/RDP filing jointly). Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000. 8 _____
9. Multiply line 2 by line 8. 9 _____
10. **Student loan interest deduction.** Subtract line 9 from line 2. Enter the result here and on Schedule CA (540NR), line 21, column D 10 _____
11. **Student loan interest adjustment.** If line 1 is less than line 10, enter the difference here and on Schedule CA (540NR), line 21, column C. 11 _____

d. Reforestation amortization and expenses – California law allows a deduction for reforestation amortization and expenses with respect to qualified timber property located in California. Enter the amount from column A that is for non-California qualified timber property in column B.

f. Contributions to IRC Section 501(c)(18)(D) pension plans – If the contribution amount for California is different than the federal amount, you will need to make an adjustment in column B or column C. For more information, get FTB Pub. 1005.

g. Contributions by certain chaplains to IRC Section 403(b) plans – If the contribution amount for California is different than the federal amount, you will need to make an adjustment in column B or column C. For more information, get FTB Pub. 1005.

i. Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations – California does not conform to federal law regarding the deduction of these attorney fees and court costs. Enter the amount from column A in column B.

j. Housing deduction from federal Form 2555 – If you claimed the foreign housing deduction for federal purposes, enter the amount from column A in column B.

Line 26 – Add line 11 through line 23 and line 25 in column B and column C. Enter the totals on this line in the appropriate columns.

Line 27 – Total
Subtract line 26 from line 10 in column B and column C. Enter the totals on this line in the appropriate column. These amounts should be the same as Form 540NR, line 14 and line 16, respectively.

In some cases the total on line 27 in column B or column C will be a negative number.

Column D — Total Amounts Using California Law

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

For each line, Section A, line 1 through line 7, and Sections B and C, line 1 through line 27 (See separate line instructions for lines 9b1 through 9b4.):

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

Lines 9b1–9b4

For each line, Section B, lines 9b1 through 9b4, enter the amount from column B in column D as a negative number.

The total on line 27, column D should be the same as the amount on Form 540NR, line 17.

Column E — California Amounts

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

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

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

Section A – Income

Line 1 – Wages, Salaries, Tips, Etc.

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

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

Line 2 – Taxable Interest

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

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

Line 3 – Ordinary Dividends

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

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

Line 4a and b – IRA Distributions

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

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

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

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

Line 5a and b – Pensions and Annuities (Taxable Amount)

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

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

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

For more information, get FTB Pub. 1005.

Line 7 – Capital Gain or (Loss)

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

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

Part-year resident amounts – Complete Schedule D (540NR) Worksheet for Nonresidents and Part-Year Residents. Enter the amount from column E, line 4 (if there is an overall gain) or line 5 (if there is a loss) of that worksheet on the Part-Year Resident Worksheet, Section A, line 7, column C, that is located at the end of the Schedule CA (540NR) instructions.

Section B – Additional Income

Line 2a – Alimony Received

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

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

Line 3 – Business Income or (Loss)

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

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

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

Line 4 – Other Gains or (Losses)

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

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

Line 5 – Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, Etc.

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

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

Part-year resident amounts – Allocate income between the period of residency and the period of non residency in a manner that reflects the actual date of realization of partnership, S corporation, and certain trust income. In the absence of information that reflects the actual date of realization, the taxpayer allocates an annual amount on a proportional basis between the two periods, using a daily pro-rata methodology. For more information, get FTB Pub. 1100.

Line 6 – Farm Income or (Loss)

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

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

Line 8z – Other Income

Identify the type of income reported in the space provided. If there is more than one item to report on line 8z, attach a statement that lists each item and enter the total of all individual items in column E.

Line 10 – Total

Add Section A, line 1 through line 7, and Section B, line 1 through line 7, line 9a, and line 9b1 through line 9b4, in column E. Enter the result on this line.

Section C – Adjustments to Income

Line 14 – Moving Expenses

California law and federal law are no longer the same for moving expenses. If you moved:

- Into California in connection with your new job, enter the amount from line 14, column D, in line 14, column E.
- Out of California in connection with your new job, enter -0- on line 14, column E.

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

Line 15 – Deductible Part Of Self-Employment Tax

If you claimed a deduction in column A for self-employment tax paid, your California deduction is limited to a percentage of the total California deduction, line 15, column D. That percentage is the ratio of:

$$\frac{\begin{array}{l} \text{Self-employment income} \\ \text{reported} \\ \text{in column A} \\ \text{from all sources} \\ \text{while a CA resident} \end{array} + \begin{array}{l} \text{Self-employment} \\ \text{income reported} \\ \text{in column A} \\ \text{from CA sources} \\ \text{while a nonresident} \end{array}}{\begin{array}{l} \text{Total self-employment income} \\ \text{reported in column A} \end{array}} = \text{California ratio}$$

Multiply your total California deduction, line 15, column D by the California ratio described above and enter the result on line 15, column E. If the California ratio is greater than 1.00, enter the amount from line 15, column D on line 15, column E. If the California ratio is less than zero, enter -0- on line 15, column E.

Line 16 and Line 20 – IRA, Keogh, SEP, and SIMPLE Deduction

The amount of the California deduction for IRA, Keogh, SEP, and SIMPLE contributions is generally the same as the federal deduction. However, the California deduction may be limited by California compensation or by California self-employment income. The amount of the California deduction for IRA contributions may not be the same as the federal deduction due to the SECURE Act repeal of maximum age 70 ½ for traditional IRA contributions to which California does **not** conform. See Section C, line 20, instructions for more information.

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

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

Therefore, she enters \$500 on line 16, column E. She will make no entry in column B or column C.

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

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

Multiply federal deductions by the California ratio described above and enter the result on line 16, column E. If the California ratio is greater than 1.00, enter the amount from line 16, column D on line 16, column E. If the California ratio is less than zero, enter -0- on line 16, column E. Get FTB Pub. 1005 for more information.

Line 17 – Self-Employed Health Insurance Deduction

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

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

Multiply your federal deduction on line 17, by the California ratio described above and enter the result on line 17, column E. If the California ratio is greater than 1.00, enter the amount from line 16, column D on line 17, column E. If the California ratio is less than zero, enter -0- on line 17, column E.

Line 18 – Penalty on Early Withdrawal of Savings

Enter the interest penalties charged while a California resident.

Line 19a – Alimony Paid

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

$$\frac{\begin{array}{l} \text{California AGI (line 27, column E)} \\ \text{(without the alimony deduction)} \end{array}}{\begin{array}{l} \text{Total AGI (line 27, column D)} \\ \text{(without the alimony deduction)} \end{array}} = \text{California ratio}$$

California nonresident amounts – Multiply the deduction (line 19a, column D) by the California ratio (see above) and enter the amount in line 19a, column E. If the California ratio is greater than 1.00, enter the amount from line 19a, column D on line 19a, column E. If the California ratio is less than zero, enter -0- on line 19a, column E.

Part-year resident amounts – Multiply the alimony paid while a nonresident by the California ratio (see above) to determine the nonresident portion. If the California ratio is greater than 1.00, use 1.00 for the California ratio. If the California ratio is less than zero, your nonresident portion of alimony paid is zero. Add the nonresident portion of alimony paid to the alimony paid while a resident. Enter the total in line 19a, column E.

Line 26

Add line 11 through line 23 and line 25 in column E. Enter the result on this line.

Line 27 – Total

Subtract line 26 from Section B, line 10 in column E. This is your California AGI. Enter the result on this line. Also, enter this amount on Part IV, line 1.

Also, transfer the amount from:

- Line 27, column B to Form 540NR, line 14.
If column B is a negative number, transfer the amount as a positive number to Form 540NR, line 16.
- Line 27, column C to Form 540NR, line 16.
If column C is a negative number, transfer the amount as a positive number to Form 540NR, line 14.
- Line 27, column E to Form 540NR, line 32.
If you plan to itemize deductions, go to Part III.

Part III Adjustments to Federal Itemized Deductions

Important: If you did not itemize deductions on your federal tax return but will itemize deductions on your California tax return, first complete federal Schedule A (Form 1040), Itemized Deductions. Then check the box at the top of Schedule CA (540NR), Part III and complete line 1 through line 30. Attach a copy of federal Schedule A (Form 1040) to your Form 540NR.

Column A — Federal Amounts

Line 1 through Line 16

Enter on line 1 through line 16 the same amounts you entered on your federal Schedule A (Form 1040), line 1 through line 16.

Column B and Column C — Subtractions and Additions

Use these columns to enter subtractions and additions to the federal amounts in column A that are necessary because of differences between California and federal law. Enter all amounts as positive numbers unless instructed otherwise.

Line 1 through Line 4

Employees and independent contractors – Taxpayers classified as independent contractors for federal purposes and classified as employees for California purposes may claim the amount of self-employed health insurance deduction for federal purposes as a medical and dental expense deduction for California purposes. Combine the amount paid for self-employed health insurance with other medical and dental expenses (as applicable). The total amount of the medical and dental expenses is subject to the 7.5% of federal AGI threshold. Enter the difference between the medical and dental expense deduction allowed for California and federal on line 4, column C.

Health Savings Account (HSA) Distributions – If you received a tax-free HSA distribution for qualified medical expenses, enter the qualified expenses paid that exceed 7.5% of federal AGI on line 4, column C.

Line 5a – State and Local Taxes

California does not allow a deduction for state and local income tax (including limited partnership tax and income or franchise tax paid by corporations) and State Disability Insurance (SDI) or state and local general sales tax. Enter that amount on line 5a, column B.

Line 5e – The federal deduction for state and local tax is limited to \$10,000 (\$5,000 for married filing separate) for the aggregate of state and local

income taxes and property taxes. California does not conform. If your deduction was limited under federal law, enter an adjustment on line 5e, column C for the amount over the federal limit.

Line 6 – Other Taxes

California does not allow a deduction for foreign income taxes. Enter that amount on line 6, column B.

Federal law suspended the deduction for foreign property taxes. California does not conform. Enter the amount on line 6, column C.

Generation skipping transfer tax – Tax paid on generation skipping transfers is not deductible under California law. Enter the amount of generation skipping tax included in line 6, column A on line 6, column B.

Line 8 – Home Mortgage Interest

Federal law limited the mortgage interest deduction acquisition debt maximum from \$1,000,000 (\$500,000 for married filing separately) to \$750,000 (\$375,000 for married filing separately). California does not conform. If your deduction was limited under federal law, enter an adjustment on line 8, column C for the amount over the federal limit.

Federal law suspended the deduction on up to \$100,000 (\$50,000 for married filing separately) for interest on home equity indebtedness, unless the loan is used to buy, build, or substantially improve the taxpayer's home that secures the loan. California does not conform. If your deduction was limited under the federal law, enter an adjustment on line 8, column C for the amount over the federal limit.

Mortgage interest credit – If you reduced your federal mortgage interest deduction by the amount of your mortgage interest credit (from federal Form 8396, Mortgage Interest Credit), increase your California itemized deductions by the same amount. Enter the amount of your federal mortgage interest credit on line 8, column C.

Line 8d – Mortgage Insurance Premiums

California does not allow a deduction for mortgage insurance premiums. Enter the amount from column A, line 8d on column B, line 8d.

Line 9 – Investment Interest Expense

Your California deduction for investment interest expense may be different from your federal deduction. Use form FTB 3526, Investment Interest Expense Deduction, to figure the amount to enter on line 9, column B or column C.

Line 11 – Gifts By Cash Or Check

Qualified charitable contributions – Your California deduction may be different from your federal deduction. California limits the amount of your deduction to 50% of your federal AGI. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference on line 11, column B.

College athletic seating rights – Federal law no longer allows for a charitable deduction for amounts paid to an institution of higher education in exchange for college athletic seating rights. California does not conform. Enter the amount on line 11, column C.

College access tax credit – If you deducted a charitable contribution amount for the College Access Tax Credit Fund on your federal Schedule A (Form 1040) and are claiming the College Access Tax Credit on your Form 540NR, enter the amount used to calculate the College Access Tax Credit on line 11, column B.

Charitable contribution deduction disallowance – California disallows a charitable contribution deduction to an educational organization that is a postsecondary institution or to the Key Worldwide Foundation to a taxpayer who meets all of the following:

- They are charged as a defendant in any of several specified criminal complaints as listed in R&TC Section 17275.4.
- There is a final determination of their guilt with regard to a violation of any offense arising out of that criminal complaint.
- There is a finding that they took the deduction unlawfully.

For more information, see R&TC Section 17275.4. Enter the amount of this deduction on line 11, column B.

Line 12 – Other Than By Cash Or Check

Qualified charitable contributions – Your California deduction may be different from your federal deduction. California limits the amount of your deduction to 50% of your federal AGI. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference on line 12, column B.

Charitable contribution deduction disallowance – California disallows a charitable contribution deduction to an educational organization that is a postsecondary institution or to the Key Worldwide Foundation to a taxpayer who meets all of the following:

- They are charged as a defendant in any of several specified criminal complaints as listed in R&TC Section 17275.4.
- There is a final determination of their guilt with regard to a violation of any offense arising out of that criminal complaint.
- There is a finding that they took the deduction unlawfully.

For more information, see R&TC Section 17275.4. Enter the amount of this deduction on line 12, column B.

Line 13 – Carryover From Prior Year

Charitable contribution carryover deduction – If deducting a prior year charitable contribution carryover, and the California carryover is larger than the federal carryover, enter the additional amount on line 13, column C.

Carryover deduction of appreciated stock contributed to a private foundation prior to January 1, 2002 – If deducting a charitable contribution carryover of appreciated stock donated to a private operating foundation prior to January 1, 2002, and the fair market value allowed for federal purposes is larger than the basis allowed for California purposes, enter the difference on line 13, column B.

Line 15 – Casualty or Theft Loss(es)

Under federal law, the personal casualty and theft loss deduction is suspended, with exception for personal casualty gains. Federal allows a deduction for personal casualty and theft loss incurred in a federally declared disaster. California does not conform.

California allows personal casualty and theft loss and disaster loss deductions. If you have personal casualty and theft loss and/or disaster loss, complete another federal Form 4684, Casualties and Thefts, using California amounts. Enter the difference between the federal and California amount in column B or column C.

Line 16 – Other Itemized Deductions

Unreimbursed impairment-related work expenses – If you completed federal Form 2106, prepare a second set of forms reflecting your employee business expense using California amounts (i.e., following California law). Include your entertainment expenses, if any, on line 5 of federal Form 2106 for California purposes.

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

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

Compare federal Form 2106, line 10 and the form completed using California amounts. Enter the difference between the federal and California amount in column B or column C.

Gambling Losses – California lottery losses are not deductible for California. Enter the amount of California lottery losses included in line 16, column A on line 16, column B.

Federal estate tax – Federal estate tax paid on income in respect of a decedent is not deductible for California. Enter the amount of federal estate tax included in line 16, column A on line 16, column B.

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

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

Social security benefits are not taxable by California and the repayment would not qualify for claim of right deduction or credit. If you deducted the repayment of Social Security benefits on your federal tax return, enter the amount of the federal deduction on line 16, column B.

If you claimed a credit for the repayment on your federal tax return and are deducting the repayment for California, enter the allowable deduction on line 16, column C.

If you deducted the repayment on your federal tax return and are taking a credit for California, enter the amount of the federal deduction on line 16, column B. To help you determine whether to take a credit or deduction, see the Repayment section of federal Publication 525, Taxable and Nontaxable Income. Remember to use the California tax rate in your computations. If you choose to take the credit instead of the deduction for California, add the credit

amount on line 88, the total payment line, of the Form 540NR. To the left of the total, write "IRC 1341" and the amount of the credit.

Line 19 through Line 22 – Job Expenses and Certain Miscellaneous Deductions

Under federal law, the federal deduction for miscellaneous itemized deductions subject to the 2% floor is suspended. California does not conform.

Line 19 – Unreimbursed Employee Expenses

Prepare federal Form 2106 reflecting your employee business expense using California amounts (i.e., following California law). Include your entertainment expenses, if any, on line 5 of federal Form 2106 for California purposes.

Enter the amount from line 10 of federal Form 2106 on line 19.

Line 20 – Tax Preparation Fees

Enter the fees you paid for preparation of your tax return, including fees paid for filing your return electronically. If you paid your tax by credit or debit card, include the convenience fee you were charged on line 21 instead of this line.

Line 21 – Other Expenses

Enter the total amount you paid to produce or collect taxable income and manage or protect property held for earning income.

List the type of each expense next to line 21 and enter the total of these expenses on line 21. If you are filing a paper return and you can't fit all your expenses on the line next to line 21, attach a statement showing the type and amount of each expense.

Examples of expenses to include on line 21 are:

- Certain legal and accounting fees.
- Custodial fees (for example, trust account).
- Casualty and theft losses of property used in performing services as an employee from federal Form 4684, lines 32 and 38b, or federal Form 4797, line 18a.
- Deduction for repayment of amounts under a claim of right if \$3,000 or less.

Claim of right – If you had to repay an amount that you included in your income in an earlier year, because at the time you thought you had an unrestricted right to it, you may be able to deduct the amount repaid from your income for the year in which you repaid it. If the amount you repaid is less than \$3,000, the deduction is subject to the 2% AGI limit for California purposes. If you are deducting the repayment for California, enter the allowable deduction on line 21.

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

Line 27 – Other Adjustments

Adoption-related expenses – If you deducted adoption-related expenses on your federal Schedule A (Form 1040) and are claiming the adoption cost credit on your Form 540NR, enter the amount of the adoption cost credit claimed as a negative number on line 27.

Nontaxable income expenses – If, on federal Schedule A (Form 1040), you claim expenses related to producing income taxed under federal law but not taxed by California, enter the amount as a negative number on line 27.

You may claim expenses related to producing income taxed by California law but not taxed under federal law by entering the amount as a positive number on line 27.

State legislator's travel expenses – Under California law, deductible travel expenses for state legislators include only those incurred while away from their places of residence overnight. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference as a negative number on line 27.

Interest on loans from utility companies – Taxpayers are allowed a tax deduction for interest paid or incurred on a public utility company financed loan that is used to purchase and install energy efficient equipment or products, including zone-heating products for a qualified residence **located in California**. Federal law has no equivalent deduction. Enter the difference as a positive number on line 27.

Line 29 – California Itemized Deductions

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

Single or married/RDP filing separately	\$212,288
Head of household	\$318,437
Married/RDP filing jointly or qualifying widow(er)	\$424,581

NO Transfer the amount from line 28 to line 29. Do not complete the Itemized Deductions Worksheet.

YES Complete the Itemized Deductions Worksheet in the next column.

Note:

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

Itemized Deductions Worksheet	
1. Amount from Schedule CA (540NR), Part III, line 28.	1 _____
2. Add the amounts on federal Schedule A (Form 1040), line 4, line 9, and line 15 plus any gambling losses included on line 16, if applicable (or on Schedule A (Form 1040NR), line 6 plus any investment interest expense and gambling losses included on line 7, as applicable)	2 _____
3. Subtract line 2 from line 1. If the result is -0-, stop . Enter the amount from line 1 above on Schedule CA (540NR), Part III, line 29	3 _____
4. Multiply line 3 by 80% (.80).	4 _____
5. Enter the amount from Form 540NR, line 13	5 _____
6. Enter the amount from line 29 instructions in the previous column for your filing status	6 _____
7. Subtract line 6 from line 5. If the result is -0- or less stop . Enter the amount from line 1 above on Schedule CA (540NR), Part III, line 29	7 _____
8. Multiply line 7 by 6% (.06).	8 _____
9. Compare the amounts on line 4 and line 8. Enter the smaller amount here.	9 _____
10. Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule CA (540NR), Part III, line 29	10 _____

Line 30 – Amount from Line 29 or Standard Deduction

If your filing status is Married/RDP filing separately and your spouse itemizes, enter the amount from line 29 (even if the standard deduction is larger).

Part IV California Taxable Income

Line 1 – California AGI

Enter your California AGI from Part II, line 27, column E.

Line 3 – Deduction Percentage

Divide Part II, line 27, column E by Part II, line 27, column D. Carry the decimal to four places. This number may not be greater than 1.0000. If the result is greater than 1.0000, enter 1.0000.

Line 5 – California Taxable Income

Subtract line 4 from line 1. If less than zero, enter -0-. Enter this amount on Form 540NR, line 35.

Franchise Tax Board Privacy Notice on Collection

Our privacy notice can be found in annual tax booklets or online. Go to ftb.ca.gov/privacy to learn about our privacy policy statement, or go to ftb.ca.gov/forms and search for **1131** to locate FTB 1131 EN-SP, Franchise Tax Board Privacy Notice on Collection. To request this notice by mail, call 800.338.0505 and enter form code **948** when instructed.

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