

- They received a retirement annuity between July 1, 1986, and January 1, 1987, and elected to use the three year rule for California purposes. The federal taxable amount is less than the California taxable amount.
- They receive federally nontaxable foreign social security income.

**Standard and Itemized Deductions**

Your client deducts the larger of the standard or itemize deduction. Use the method that gives your client the larger deduction. Your client may itemize for state, federal, or both.

Clients over age 65, who take the federal standard deduction, may receive a greater state deduction if they itemize.

If your clients are married/RDP and filing separate tax returns, the client and their spouse/RDP must either both itemize their deductions or both take the standard deduction.

**The Standard Deduction**

If your client takes the standard deduction on their federal tax return, in many cases the state standard deduction will be greater than the allowable itemized deductions.

Any dependent, filing their individual tax return, must use the “California Standard Deduction Worksheet for Dependents” in this chapter.

**Line 6** – If your client completed the square on line 6, indicating possible dependent status on someone else’s tax return, complete the “California Standard Worksheet for Dependents” below.

1.	Earned income. For purposes of the standard deduction, earned income includes only wages.	\$400
2.	Enter \$350.	\$350
3.	Add line 1 and line 2.	\$750
4.	Minimum standard deduction (\$1,050 for tax year 2016).	\$1,050
5.	Enter the larger of line 3 or line 4.	\$1,050
6.	California standard deduction for the filing status.	\$4,129
7.	Allowable standard deduction. Enter the smaller of line 5 or line 6.	\$1,050

## Itemized Deductions

Your clients may itemize for federal, state, or both.

If your client claims itemized deductions on their state tax return, adjust the amount from their federal Schedule A. If your client files Form 540, complete and attach Schedule CA (540) Part II – Adjustments to Federal Itemized Deductions. Complete state itemized deductions using the “California Itemized Deductions Worksheet” below.

If your client or their spouse/RDP claims additional standard deduction amounts on their federal tax return because your client or their spouse/RDP is age 65 or older, then your client may benefit from itemizing on their state tax return even if they took the federal standard deduction.

To itemize for just the state, complete Form 1040, Schedule A following federal rules, and then complete the “California Itemized Deductions Worksheet” or Schedule CA (540), Part II – Adjustments to Federal Itemized Deductions. Do not attach the federal Schedule A to your client’s tax return.

<b>Schedule CA, Part II, Adjustment to Federal</b>	
1. Enter the amount of itemized deductions from federal Schedule A, line 28, Itemized Deductions.	
2. Enter the amount from federal Schedule A, line 5, line 7, <b>and</b> only the portion relating to foreign income taxes from line 8. Be sure to include any amount deducted for State Disability Insurance (SDI), California Lottery losses claimed as a federal itemized deduction, and any Mortgage Insurance premiums (PMI) claimed on the federal Schedule A.	
3. Subtract line 2 from line 1. This amount is your client’s total <b>itemized deductions for California</b> .	
4. Enter the <b>Standard Deduction</b> for your client’s filing status.	
5. Compare the amounts on line 3 and line 4 above. Enter the larger of the two amounts here and on Form 540, line 18.	
<b>If your client can be claimed as a dependent on someone else’s tax return, complete the “Standard Deduction Worksheet for Dependents.” Enter the amount from line 7 of that worksheet on line 4 of this worksheet.</b>	

## Tax and Credits

### Tax

Determine your client’s tax by using the tax table in the 540 Booklet or in this manual. If you are filing a paper Form 540 2EZ, the tax tables are specially calculated to include the standard deduction and exemption credit. Do not use the Form 540 2EZ tax tables for Form 540.