State and Federal Differences

California does not tax:

- Interest income from U.S. savings bonds, U.S. Treasury Bills, or any other bonds of the U.S. or U.S. Territories.
- State income tax refunds.
- Unemployment compensation and paid family medical leave in lieu of unemployment.
- Social security benefits.
- Tier 1 and tier 2 railroad retirement benefits.
- California lottery winnings.

California does tax:

- Foreign earned income.
- Interest income from non-California state and local bonds.
- Interest income from District of Columbia bonds issued after December 27, 1973.
- Interest income from municipal bonds issued by a county, city, town, or other local government unit in a state other than California.
- Foreign social security income.

Itemized Deductions

California law differs from federal law with regard to certain itemized deductions. California disallows some of the federal adjustments to gross income. California offers partial conformity to federal provisions. Refer to FTB 1001, *Supplemental Guidelines to California Adjustments,* for important differences. California allows contributions to many different funds.

Under federal law, a spouse may seek relief in instances where a refund on a joint return is used to pay (offset) a debt of the other spouse. California does not conform to this provision.

Example: In 2016, Sam was a full-time student and Sally was employed. Sam and Sally filed a joint tax return. Sam and Sally's refund was used to offset past-due child support owed by Sam. For federal purposes, Sally is an injured spouse. Thus, Sally may claim her share of the refund on federal Form 8379, *Injured Spouse Allocation*. California does not conform to this provision.

California tax credits include:

- Nonrefundable Renter's Credit.
- Child and Dependent Care Expenses.
- Joint Custody Head of Household.
- Refundable Earned Income Tax Credit.
- Dependent Parents.
- Senior Head of Household.
- Child Adoption.
- As well as many other special credits. See Form 540 instruction booklet for a complete list of available credits.

Additional Information

General Filing Requirements

If in doubt about if a return needs to be filed or not, file a tax return. By filing a tax return, your client avoids penalties for failure to file.

If a client may be claimed as a dependent on someone else's tax return, file a tax return if gross income exceeds the standard deduction. Use the "Standard Deduction Worksheet for Dependents" to figure the deduction amount.

Remember, even if your client does not have a filing requirement, file a tax return to claim a refund if:

- There is California withholding on Form W-2 or 1099s.
- The client paid estimated tax payments to the State of California.
- The client paid out of pocket child care expenses.

Deceased Taxpayers

If a tax return is normally required, file a final tax return for individuals who died during 2016. If there is no administrator or executor appointed, file a joint tax return with the surviving spouse/RDP as long as the spouse/RDP did not remarry during 2016. Write "surviving spouse/RDP" next to their signature on the tax return.

If your client is not the surviving spouse/RDP, and claims a refund due a deceased taxpayer, attach to the tax return federal Form 1310, *Statement of Person Claiming Refund Due a Deceased Taxpayer,* and a copy of the death certificate.