

# Instructions for Form 540 — California Resident Income Tax Return

These instructions are based on the Internal Revenue Code (IRC) as of **January 1, 1998**, and the California Revenue and Taxation Code (R&TC).

## Before You Begin

You must complete your federal income tax return (Form 1040, 1040A, 1040EZ or federal TeleFile Tax Record) before you begin your California Form 540. You will use information from your federal income tax return to complete your Form 540. Be sure to complete and mail Form 540 by April 15, 1999. If you cannot mail your return by the due date, see page 7.

## Step 1 Name and Address

If there is a label on the front of your booklet, attach the label to your return after you have completed it. Make sure that the information on your label is correct. Cross out any errors and print the correct information.

If there is no label, print your name and address in the spaces provided at the top of Form 540. See page 8, Helpful Hints, "Filling in your return."

## Step 1a Social Security Number

Enter your social security number(s) in the spaces provided. To protect your privacy, your social security number(s) are **not** printed on your label. If you file a joint return, show the social security numbers in the same order that you show both names. **Note:** If you do not have a social security number because you are a nonresident or resident alien for federal tax purposes, and the IRS issued you an IRS Individual Taxpayer Identification Number (ITIN), enter the ITIN in the spaces provided for the social security number.

## Step 2 Filing Status

Check only one of the boxes on line 1 through line 5. Be sure to enter the required additional information if you check a box on line 3 or line 5.

Your filing status for California must be the same as the filing status you used on your federal income tax return. **Exception:** Married taxpayers who file a joint federal income tax return may file either a joint return or separate returns if either spouse was:

- An active member of the United States armed forces (or any auxiliary military branch) during 1998; or
- A nonresident for the entire year and had no income from California sources during 1998.

However, if you file a joint return and if either spouse was a nonresident in 1998, you must file Form 540NR, California Nonresident or Part-Year Resident Income Tax Return.

### If You Are Married and File a Separate Return

Enter your spouse's name on line 3 and social security number in the space provided in "Step 1a."

**Note:** Community property rules apply to the separation of income if you use the married filing separate status. For more information, get FTB Pub. 1031, Guidelines for Determining Resident Status and FTB Pub. 1051A, Guidelines for Married Filing Separate Returns.

### If You File as Head of Household

Do not claim yourself or a nonrelative as the qualifying person. See page 19 for more information.

## Line 8 — Blind Exemptions

The first year you claim this exemption credit, you must attach a doctor's statement to the back of Form 540 indicating you or your spouse are visually impaired. You are visually impaired if you cannot see better than 20/200 while wearing glasses or contact lenses, or if your field of vision is not more than 20 degrees.

**Caution:** An individual who is someone else's dependent may not claim this credit.

## Line 9 — Senior Exemptions

If you were 65 years of age or older by December 31, 1998, you should claim an additional exemption credit on line 9. If you are married, each spouse 65 years of age or older should claim an additional credit.

**Caution:** An individual who is someone else's dependent may not claim this credit.

## Line 11 — Dependent Exemptions

To claim an exemption credit for each of your dependents, write each dependent's name and relationship to you in the space provided. The persons you list as dependents on your Form 540 must be the same persons you listed as dependents on your federal income tax return. Count the number of dependents listed and enter the total on line 11.

## Step 4 Taxable Income

Refer to your completed federal income tax return to complete "Step 4."

## Line 12 — State Wages

Enter the total amount of your state wages from all states from each of your Form(s) W-2. This amount should be in box 17 of Form W-2.

## Line 14 — California Adjustments — Subtractions (from Schedule CA (540), line 33, column B)

If there are differences between your federal and California income or deductions, you must complete Schedule CA (540), California Adjustments — Residents. Follow the instructions for Schedule CA (540) beginning on page 43. Enter on this line the amount from Schedule CA (540), line 33, column B.

## Line 15 — Subtotal

Subtract the amount on line 14 from the amount on line 13. Enter the result on line 15. If the amount on line 13 is less than zero, combine the amounts on line 13 and line 14 and enter the result in parentheses. For example: "(12,325)."

## Line 16 — California Adjustments — Additions (from Schedule CA (540), line 33, column C)

If there are differences between your federal and California income or deductions, you must complete Schedule CA (540), California Adjustments — Residents. Follow the instructions for Schedule CA (540) beginning on page 43. Enter on this line the amount from Schedule CA (540), line 33, column C.

## Line 18 — Standard Deduction OR Itemized Deductions

You must decide whether to take the standard deduction or itemize your charitable contributions, medical expenses, interest paid, taxes, etc. Your California income tax will be less if you take the **larger** of:

- Your California itemized deductions; or
- Your California standard deduction.

If you are married and file a separate return, both you and your spouse must either itemize your deductions or take the standard deduction.

**Itemized deductions.** Figure your California itemized deductions by completing Schedule CA (540), Part II, line 35 through line 40. Enter the result on Form 540, line 18. **Note:** If you did not itemize deductions on your federal income tax return but will itemize deductions for your California Form 540, first complete a



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## Step 3 Exemptions

### Line 6 — Dependent Check Box



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Check the box on line 6 if your parent (or someone else) can claim you as a dependent on his or her tax return. For example, if your parent (or someone else) could claim you as a dependent on his or her tax return but he or she chose not to claim you, you must still check the box on line 6.

### Line 7 — Personal Exemptions

Did you check the box on line 6?

**No** Follow the instructions on Form 540, line 7.  
**Yes** Ignore the instructions on Form 540, line 7. Instead, enter the amount shown below for your filing status:

- Single or married filing separate, enter -0-;
- Head of household, enter -0-;
- Married filing joint and both you and your spouse can be claimed as dependents, enter -0-; or
- Married filing joint and only one spouse can be claimed as a dependent, enter 1.

federal Schedule A, Itemized Deductions. Then complete Schedule CA (540), Part II, line 35 through line 40.

**Standard deduction.** Most people can find their standard deduction by looking at the California Standard Deduction Chart For Most People, below. But, if you checked the box on Form 540, line 6, you must use the California Standard Deduction Worksheet For Dependents.

adjusted gross income (AGI). And it may also be limited by California tentative minimum tax (TMT). To find out if your exemption credits may be affected by one or both of these limitations, use the following flowchart. The flowchart will help you determine if you need to complete a worksheet or complete Schedule P (540) to figure the amount of exemption credits available to reduce your tax. See "Order Forms" on the back cover for how to get Schedule P (540).

**California Standard Deduction Chart For Most People**

Do not use this chart if your parent, or someone else, can claim you as a dependent on his or her tax return.

Your Filing Status	Enter On Line 18
1 - Single . . . . .	\$2,642
2 - Married filing joint return . . . . .	\$5,284
3 - Married filing separate return . . . . .	\$2,642
4 - Head of household . . . . .	\$5,284
5 - Qualifying widow(er) . . . . .	\$5,284

**Note:** The California standard deduction amounts are less than the federal standard deduction amounts.

**California Standard Deduction Worksheet For Dependents**

Use this worksheet only if your parent, or someone else, can claim you as a dependent on his or her tax return.

- Enter your earned income from: line 1 of the federal "Standard Deduction Worksheet for Dependents" in the instructions for federal Form 1040A or Form 1040; or from line A of the worksheet found on the back of federal Form 1040EZ. If you used federal TeleFile, add \$250 to the total of your wages from all Form(s) W-2, box 1. Enter the result here. . . . . **1** \_\_\_\_\_
- Minimum standard deduction . . . . . **2** \$700.00
- Compare the amounts on line 1 and line 2. Enter the **larger** of the two amounts here . . . . . **3** \_\_\_\_\_
- Enter the amount shown below for your filing status.
  - Single or married filing separate, enter \$2,642
  - Married filing joint, head of household or qualifying widow(er), enter \$5,284**4** \_\_\_\_\_
- Standard deduction.** Compare the amounts on line 3 and line 4. Enter the **smaller** of the two amounts here and on Form 540, line 18. . . . . **5** \_\_\_\_\_

**Step 5 Tax**

When you figure your tax, be sure to use the correct filing status and taxable income amount.

**Line 20 - Tax**

To figure your tax, use one of the following methods and check the corresponding box on line 20:

- **Tax Table.** If your taxable income on line 19 is \$50,000 or less, you must use the tax table beginning on page 50. Be sure you use the correct filing status column in the tax table.
- **Tax Rate Schedules.** If your taxable income on line 19 is over \$50,000, you must use the tax rate schedules on page 53.
- **FTB 3800.** Generally, you must use form FTB 3800, Tax Computation for Children With Investment Income, to figure the tax on a separate Form 540 for your child who was under age 14 on January 1, 1999, and who had more than \$1,400 of investment income. Attach form FTB 3800 to the child's Form 540.
- **FTB 3803.** If, as a parent, you elect to report your child's interest and dividend income of \$7,000 or less (but not less than \$700) on your return, complete form FTB 3803, Parents' Election to Report Child's Interest and Dividends. You must file a separate form FTB 3803 for each child whose income you elect to include on your Form 540. Add the amount of tax, if any, from each form FTB 3803, line 9, to the amount of your tax from the tax table or tax rate schedules and enter the result on Form 540, line 20. Check the box labeled "FTB 3803." Attach form(s) FTB 3803 to your return.

**Line 21 - Exemption Credits**

Exemption credits may reduce your tax, but the amount of the credits may be limited in two ways. It may be limited by federal

**1** If your filing status is: Is Form 540, line 13 more than:

Single or married filing separate . . . . .	\$116,777
Married filing joint or qualifying widow(er) . . . . .	\$233,556
Head of household . . . . .	\$175,166

**Yes** Complete Worksheet I on the next page.  
**No** Go to box 2 ↓

**2** Did you complete federal Schedule C, D, E or F and claim or receive any of the following:

- Accelerated depreciation in excess of straight-line;
- Intangible drilling costs;
- Depletion;
- Circulation expenditures;
- Research and experimental expenditures;
- Mining exploration/development costs;
- Amortization of pollution control facilities;
- Income/loss from tax shelter farm activities;
- Income/loss from passive activities;
- Income from long-term contracts using the percentage of completion method;
- Pass-through AMT adjustment from an estate or trust reported on Schedule K-1 (541); or
- Excluded gain on the sale of qualified small business stock

**Yes** Get and complete Schedule P (540) through Part IV, line 5 to figure the amount of your exemption credits.  
**No** Go to box 3 ↓

**3** Did you claim or receive any of the following:

- Investment interest expense ☑ 226;
- Income from incentive stock options in excess of the amount reported on your return. ☑ 225;
- Charitable contribution deduction for appreciated property. ☑ 224;
- Income from installment sales of certain property; or
- Net operating loss deduction or disaster loss carryover reported on form(s) FTB 3805V, 3805Z, 3806 or 3807.

**Yes** Get and complete Schedule P (540) through Part IV, line 5 to figure the amount of your exemption credits.  
**No** Go to box 4 ↓

**4** If your filing status is: Is Form 540, line 17 more than:

Single or head of household . . . . .	\$42,945
Married filing joint or qualifying widow(er) . . . . .	\$57,260
Married filing separate . . . . .	\$28,630

**No** Complete the following worksheet to determine your total exemption credits:

<b>a</b> Multiply \$70 by the amount on Form 540, line 10 . . . . .	<b>a</b> _____
<b>b</b> Multiply \$253 by the amount on Form 540, line 11 . . . . .	<b>b</b> _____
<b>c</b> Total exemption credits. Add line a and line b. Enter the result on Form 540, line 21. Check the box labeled "Flowchart." . . . . .	<b>c</b> _____

**Yes** Go to box 5 ↓

**5** If your filing status is: Is Form 540, line 17 more than:

Single or head of household . . . . .	\$161,044
Married filing joint or qualifying widow(er) . . . . .	\$214,725
Married filing separate . . . . .	\$107,362

**Yes** Get and complete Schedule P (540) through Part IV, line 5 to figure the amount of your exemption credits.  
**No** Go to box 6 ↓

**6** Did you itemize deductions?

**Yes** Complete Worksheet III.  
**No** Complete Worksheet II.

**WORKSHEET I —  
Limiting the exemption credit by federal AGI**

**a** Enter the amount from Form 540, line 13 . . . . . **a** \_\_\_\_\_

**b** Enter the amount for your filing status on line b:  
 Single or married filing separate . . . . . \$116,777  
 Married filing joint or qualifying widow(er) . . . . . \$233,556  
 Head of household . . . . . \$175,166 } **b** \_\_\_\_\_

**c** Subtract line b from line a . . . . . **c** \_\_\_\_\_

**d** Divide line c by \$2,500 (\$1,250 if married filing separate). **Note:** If the result is not a whole number, round it to the next higher whole number . . . **d** \_\_\_\_\_

**e** Multiply line d by \$6 . . . . . **e** \_\_\_\_\_

**f** Multiply line e by the number of exemptions from Form 540, line 10 . . . . . **f** \_\_\_\_\_

**g** Multiply \$70 by the number of exemptions on Form 540, line 10 . . . . . **g** \_\_\_\_\_

**h** Subtract line f from line g. If zero or less, enter -0- . . . **h** \_\_\_\_\_

**i** Multiply line e by the number of exemptions from Form 540, line 11 . . . . . **i** \_\_\_\_\_

**j** Multiply \$253 by the number of exemptions on Form 540, line 11 . . . . . **j** \_\_\_\_\_

**k** Subtract line i from line j. If zero or less, enter -0- . . . **k** \_\_\_\_\_

**l** Add line h and line k . . . . . **l** \_\_\_\_\_

If the result is more than zero, enter the result. Get and complete Schedule P (540) through Part V, line 5. If the result is zero or less than zero, enter -0- here and on Form 540, line 21. Check the box labeled "Federal AGI limit." Go to Form 540, line 22.

**WORKSHEET II — Exemption credit worksheet for taxpayers claiming the standard deduction**

**1** Enter the amount from Form 540, line 20 . . . . . **1** \_\_\_\_\_

**2** Enter the amount from Form 540, line 17 . . . . . **2** \_\_\_\_\_

**3** Exclusion. If you file federal Schedule C, D, E or F see Trade or Business Exclusion in the box to the right of this worksheet. Otherwise, enter -0- . . . . . **3** \_\_\_\_\_

**4** Subtract line 3 from line 2 . . . . . **4** \_\_\_\_\_

**5** Enter the amount for your filing status on line 5:  
 Single or head of household . . . . . \$42,945  
 Married filing joint or qualifying widow(er) . . . . . \$57,260  
 Married filing separate . . . . . \$28,630 } **5** \_\_\_\_\_

**6** Subtract line 5 from line 4. If zero or less, enter -0- . . . **6** \_\_\_\_\_

**7** Multiply line 6 by .07 . . . . . **7** \_\_\_\_\_

**8** Subtract line 7 from line 1. If zero or less, enter -0- . . . **8** \_\_\_\_\_

**9** Multiply \$70 by the amount on Form 540, line 10 . . . . . **9** \_\_\_\_\_

**10** Multiply \$253 by the amount on Form 540, line 11 . . . . . **10** \_\_\_\_\_

**11** Add line 9 and line 10 . . . . . **11** \_\_\_\_\_

**12** Enter the smaller of line 8 or line 11 . . . . . **12** \_\_\_\_\_

This is your allowable exemption credit. Enter this amount on Form 540, line 21 and check the box labeled "California TMT limit." Go to Form 540, line 22.

**WORKSHEET III — Exemption credit worksheet for taxpayers claiming itemized deductions**

**A** Enter the amount from Form 540, line 20 . . . . . **A** \_\_\_\_\_

**B** Enter the smaller of federal Schedule A, line 4 (medical and dental expense); or 2½% of Form 1040, line 33 (federal AGI) . . . . . **B** \_\_\_\_\_

**C** Enter personal property and real property taxes paid and included on federal Schedule A, line 6, line 7 or line 8 . . . . . **C** \_\_\_\_\_

**D** Enter certain interest on a home mortgage **not** used to buy, build or improve your home. 223 . . . . . **D** \_\_\_\_\_

**E** Enter miscellaneous itemized deductions from federal Schedule A, line 26 . . . . . **E** \_\_\_\_\_

**F** Add line B through line E . . . . . **F** \_\_\_\_\_

**G** Enter any refund of personal property tax or real property tax included on federal Form 1040, line 10. Do not enter the amount of your state income tax refund . . . . . **G** \_\_\_\_\_

**H** Subtract line G from line F . . . . . **H** \_\_\_\_\_

**I** Enter the amount from Form 540, line 19 . . . . . **I** \_\_\_\_\_

**J** Add line H and line I . . . . . **J** \_\_\_\_\_

**K** Exclusion. If you file federal Schedule C, D, E or F see Trade or Business Exclusion in the next box. Otherwise, enter -0- . . . . . **K** \_\_\_\_\_

**L** Subtract line K from line J . . . . . **L** \_\_\_\_\_

**M** Enter the amount for your filing status on line M:  
 Single or head of household . . . . . \$42,945  
 Married filing joint or qualifying widow(er) . . . . . \$57,260  
 Married filing separate . . . . . \$28,630 } **M** \_\_\_\_\_

**N** Subtract line M from line L. If zero or less, enter -0- . . . **N** \_\_\_\_\_

**O** Multiply line N by .07 . . . . . **O** \_\_\_\_\_

**P** Subtract line O from line A. If zero or less, enter -0- . . . **P** \_\_\_\_\_

**Q** Multiply \$70 by the amount on Form 540, line 10 . . . . . **Q** \_\_\_\_\_

**R** Multiply \$253 by the amount on Form 540, line 11 . . . . . **R** \_\_\_\_\_

**S** Add line Q and line R . . . . . **S** \_\_\_\_\_

**T** Enter the smaller of line P or line S . . . . . **T** \_\_\_\_\_

This is your allowable exemption credit. Also enter this amount on Form 540, line 21. Check the box labeled "California TMT limit." Go to Form 540, line 22.

**Trade or Business Exclusion**

If your aggregate gross receipts from trade or business income are less than \$1,000,000 as described below, enter your total taxable trade or business income on line 3 (if you are using Worksheet II) or line K (if you are using Worksheet III). You qualify for the exclusion if you:

- Own or have an ownership interest in a trade or business; and
- Have **aggregate gross receipts, less returns and allowances**, during the taxable year of less than \$1,000,000 from all trades or businesses for which you are the owner or have an ownership interest. Gross receipts may include, but are not limited to, items reported on federal Schedule C, D, E, (other than income from a trust) or F and from federal Form 4797 (figured in accordance with California law) or California Schedule D-1 (if required to complete it) that are associated with a trade or business. In the case of an ownership interest, you include only the proportional share of gross receipts of any trade or business from a partnership, S corporation, regulated investment company (RIC), real estate investment trust (REIT) or real estate mortgage investment conduit (REMIC) in accordance with your ownership interest in the enterprise. Apply the \$1,000,000 test to the return regardless of filing status. The threshold does not become \$2,000,000 for married filing joint taxpayers.

**Definitions.**

**"Aggregate gross receipts, less returns and allowances"** means the sum of the gross receipts of the trades or businesses which you own and the **proportionate interest** of the gross receipts of the trades or businesses which you own and of pass-through entities in which you hold an interest.

**"Gross receipts, less returns and allowances"** means the sum of the gross receipts from the production of business income, as defined in R&TC Section 25120(a), and the gross receipts from the production of nonbusiness income, as defined in R&TC Section 25120(d).

**"Proportionate interest"** means:

1. In the case of a pass-through entity which reports a profit for the taxable or income year, your profit interest in the entity at the end of your taxable year.
2. In the case of a pass-through entity which reports a loss for the taxable or income year, your loss interest in the entity at the end of your taxable year.
3. In the case of a pass-through entity which is sold or liquidates during the taxable or income year, your capital account interest in the entity at the time of the sale or liquidation.

**"Proportionate interest"** includes an interest in a pass-through entity including a partnership, S corporation, RIC, REIT or REMIC.

**Line 23 – Tax from Schedule G-1 and form FTB 5870A**

Check the applicable box(es) and enter the amount of taxes from:

- Schedule G-1, Tax on Lump-Sum Distributions; and
- Form FTB 5870A, Tax on Accumulation Distribution of Trusts.

**Step 6**

**Special Credits & Nonrefundable Renter's Credit**

A variety of California tax credits are available to reduce your tax if you qualify.

To figure and claim most credits, you must complete a separate form or schedule and attach it to your Form 540. The Credit Chart below describes the credits and provides the name, credit code and number of the required form or schedule. Many credits are limited by a certain percentage or a certain dollar amount. In addition, the total amount you may claim for all credits is limited by TMT. Answer the following questions before you claim any of the credits described below on your tax return.

1. Do you qualify to claim the nonrefundable renter's credit? (See page 26.)  
Check  **Yes** or  **No**, then go to Question 2.
2. Are you claiming any other special credits listed in the Credit Chart below?  
**No** If you checked "Yes" for Question 1 and entered an amount on Form 540, line 31, go to line 33. If you checked "No" for Question 1, skip to the instructions for line 34.  
**Yes** Figure your credit using the form, schedule, worksheet or certificate identified in the Credit Chart. Then answer the questions below to see if the total amount you may claim for all credits is limited by TMT. If you checked "Yes" for Question 1, be sure that you entered your nonrefundable renter's credit on line 31.
3. Were you instructed in Step 5 to get and complete Schedule P (540)?  
**No** Go to Question 4.  
**Yes** Get and complete Schedule P (540), Part V.

4. Did you complete Worksheet I in Step 5 and enter zero on Worksheet I, line 1?  
**Yes** Get and complete Schedule P (540), Parts I, II, III and V.  
**No** Go to Question 5.
5. Were your exemption credits limited in Step 5 by Worksheet II or Worksheet III?  
**Yes** Get and complete Schedule P (540), Part V.  
**No** Complete the following worksheet:  
a. Enter the amount from Worksheet II, line 8, or Worksheet III, line P . . . . . **a** \_\_\_\_\_  
b. Enter Schedule G-1 tax from Form 540, line 23, if any . . . . . **b** \_\_\_\_\_  
c. Add line a and line b . . . . . **c** \_\_\_\_\_  
d. Enter the amount from Form 540, line 21 . . . . . **d** \_\_\_\_\_  
e. Subtract line d from line c . . . . . **e** \_\_\_\_\_  
f. Enter the total of your credits . . . . . **f** \_\_\_\_\_  
• If line e is more than line f, your credits are not limited. Go to the instructions for Form 540, line 28.  
• If line e is less than line f, get and complete Schedule P (540).

**Line 28 through Line 30 – Additional Special Credits**

Each credit has a code number. To claim only one or two credits, enter the credit name, code number and amount of the credit on lines 28 and 29. To claim more than two credits, use Schedule P (540). List two of the credits on lines 28 and 29. Enter the total of any remaining credits from Schedule P (540) on line 30.

**Important:** Attach Schedule P (540) and any supporting schedules or statements to your Form 540.

**Carryovers:** If you claim a credit with carryover provisions and the amount of the credit available this year exceeds your tax, you may carry over any excess credit to future years until the credit is used (unless the carryover period is a fixed number of years). If you claim a credit carryover for an expired credit and were not required to complete Schedule P (540) for line 21, use form FTB 3540, Credit Carryover Summary, to figure the amount of the credit. Otherwise, enter the amount of the credit on Schedule P (540), Part V, and do not attach form FTB 3540.

**CREDIT CHART**

Credit Name	Code	Description
Child Adoption – Worksheet follows this chart.	197	50% of qualified costs in the year an adoption is ordered
Community Development Financial Institution Deposits — obtain certification from: California Organized Investment Network (COIN), Department of Insurance, 300 Capitol Mall, Suite 1460, Sacramento CA 95814	209	20% of each qualified deposit made to a community development financial institution
Dependent Parent – Worksheet follows this chart.	173	Must use married filing separate filing status and have a dependent parent
Disabled Access for Eligible Small Businesses – FTB 3548	205	Similar to the federal credit but limited to \$125 based on 50% of qualified expenditures that do not exceed \$250
Donated Agricultural Products Transportation – FTB 3547	204	50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations
Employer Child Care Contribution – FTB 3501	190	Employer: 30% of contributions to a qualified plan
Employer Child Care Program – FTB 3501	189	Employer: Cost of establishing a child care program or constructing a child care facility
Enhanced Oil Recovery – FTB 3546	203	One third of the similar federal credit and limited to qualified enhanced oil recovery projects located within California
Enterprise Zone Employee – FTB 3553	169	5% of wages from work in an enterprise zone
Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z	176	Business incentives for enterprise zone businesses
Farmworker Housing – obtain certification from: Farmworker Housing Assistance Program, California Tax Credit Allocation Committee, 915 Capitol Mall, Room 485, Sacramento CA 95814	207	50% of new construction or rehabilitation costs for farmworker housing
Joint Custody Head of Household – Worksheet follows this chart.	170	30% of tax up to \$281 for single or married filing separate taxpayers who have a child and meet support test

(continued on next page)

CREDIT CHART (continued)

Credit Name	Code	Description
Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax – FTB 3807	198	Business incentives for LAMBRA's
Low-Income Housing – FTB 3521	172	Similar to the federal credit but limited to low-income housing in California
Manufacturers' Investment – FTB 3535	199	6% of the cost of qualified property
Manufacturing Enhancement Area (MEA) Hiring – FTB 3808	211	Percentage of qualified wages paid to qualified disadvantaged individuals
Nonrefundable Renter's — See page 26	None	For California residents who paid rent for their principal residence for at least 6 months in 1998 and whose AGI does not exceed a certain limit
Other State Tax – Schedule S	187	Net income tax paid to another state or a U.S. possession on income also taxed by California
Prior Year Alternative Minimum Tax – FTB 3510	188	Must have paid alternative minimum tax in a prior year and have no alternative minimum tax liability in 1998
Prison Inmate Labor – FTB 3507	162	10% of wages paid to prison inmates
Research – FTB 3523	183	Similar to the federal credit but limited to costs for research activities in California
Rice Straw – obtain certification from: Rice Straw Tax Credit Program, Department of Food and Agriculture, 1220 N Street Room 409, Sacramento, CA 95814	206	\$15 per ton of purchased rice straw grown in California
Salmon & Steelhead Trout Habitat Restoration – obtain certification from: Department of Fish and Game, c/o FISH-Timber Tax Credits Program, PO Box 944209, Sacramento CA 95244-2090	200	The lesser of 10% of qualified costs or other amount determined by the Department of Fish and Game
Senior Head of Household – Worksheet follows this chart.	163	2% of taxable income up to \$861 for seniors who qualified for head of household and the qualifying individual died during 1996 or 1997
Targeted Tax Area (TTA) Hiring & Sales or Use Tax – FTB 3809	210	Business incentives for TTA businesses

**Repealed Credits:** The expiration dates for these credits have passed. However, these credits had carryover features. You may claim these credits only if there is a carryover available from prior years. If you are not required to complete Schedule P (540), get form FTB 3540, Credit Carryover Summary, to figure your credit carryover to future years.

Agricultural Products	175	Energy Conservation	182	Residential Rental & Farm Sales	186
Commercial Solar Electric System	196	Orphan Drug	185	Ridesharing	171
Commercial Solar Energy	181	Los Angeles Revitalization Zone (LARZ)		Solar Energy	180
Employee Ridesharing	194	Hiring & Sales or Use Tax	159	Solar Pump	179
Employer Ridesharing: Large employer	191	Low-Emission Vehicles	160	Water Conservation	178
Small employer	192	Political Contributions	184	Young Infant	161
Transit passes	193	Recycling Equipment	174		

**Credit for Joint Custody Head of Household — Code 170**

**Note:** You may not claim this credit if you used either the head of household or qualifying widow(er) filing status.

You may claim a credit if you were unmarried at the end of 1998 (or if married, you lived apart from your spouse for all of 1998 and you used the married filing separate filing status); and if you furnished more than one-half the household expenses for your home that also served as the home of your child, step-child or grandchild for at least 146 days but not more than 219 days of the taxable year. If the child is married, you must be entitled to claim a dependent exemption credit for the child.

Also, the custody arrangement for the child must be part of a decree of dissolution or separate maintenance or must be part of a written agreement between the parents where the proceedings have been initiated, but a decree of dissolution or separate maintenance has not yet been issued.

Use the worksheet below to figure this credit.

- Enter the amount from Form 540, line 24 . . . . . **1** \_\_\_\_\_
- Enter the form FTB 5870A tax, if any, included on Form 540, line 23 . . . . . **2** \_\_\_\_\_
- Subtract line 2 from line 1 . . . . . **3** \_\_\_\_\_
- Credit percentage — 30% . . . . . **4** x .30
- Credit amount. Multiply line 3 by line 4. Enter the result or \$281, whichever is less. . . . . **5** \_\_\_\_\_

**Credit for Dependent Parent — Code 173**

**Note:** You may not claim the credit for dependent parent if you used the single, head of household, qualifying widow(er) or married filing joint filing status.

You may claim this credit only if:

- You were married at the end of 1998 and you used the married filing separate filing status;
- Your spouse was not a member of your household during the last six months of the year; and
- You furnished over one-half the household expenses for your dependent mother's or father's home, whether or not she or he lived in your home.

To figure the amount of this credit, use the worksheet for the credit for joint custody head of household.

**Credit for Senior Head of Household — Code 163**

You may claim this credit if you:

- Were 65 years of age or older on December 31, 1998;
- Qualified as a head of household in 1996 or 1997 by providing a household for a qualifying individual who died during 1996 or 1997; and
- Did not have adjusted gross income over \$45,675 for 1998.

**Note:** If you meet all the conditions listed above, you do not need to qualify to use the head of household filing status for 1998 in order to claim this credit.

Use the worksheet on the next page to figure this credit.

1. Enter the amount from Form 540, line 19 . . . . . **1** \_\_\_\_\_
2. Credit percentage — 2% . . . . . **2** x  .02
3. Credit amount. Multiply line 1 by line 2. Enter the result or \$861, whichever is less. . . . . **3** \_\_\_\_\_

**Step 8**  
Payments



Make sure you have your Form(s) W-2, W-2G, 1099-MISC and 1099-R before you begin this step.

If you received wages and do not have a Form W-2, see the instructions for "Sign Your Return" on page 38.

**Credit for Child Adoption Costs — Code 197**

For the year in which an order of adoption is entered, you may claim a credit for 50% of the cost of adopting a child who is a citizen or legal resident of the United States and who was in the custody of a California public agency or a California political subdivision. You may include the following costs if directly related to the adoption process:

- Fees of the Department of Social Services or a licensed adoption agency;
- Medical expenses not reimbursed by insurance; and
- Travel expenses for the adoptive family.

**Note:** Any deduction for the expenses used to claim this credit must be reduced by the amount of the child adoption costs credit claimed.

Use the worksheet below to figure this credit. If more than one adoption qualifies for this credit, complete a separate worksheet for each adoption. The maximum credit is limited to \$2,500 per minor child.

1. Enter qualifying costs for the child. . . . . **1** \_\_\_\_\_
2. Credit percentage — 50% . . . . . **2** x  .50
3. Credit amount. Multiply line 1 by line 2. Do not enter more than \$2,500 **3** \_\_\_\_\_

Your allowable credit is limited to \$2,500 for 1998. You may carry over the excess credit to future years until the credit is used.

**Line 31 — Nonrefundable renter's credit**

Go to the instructions for "Step 6" on page 34.

**Line 34 —** Subtract the amount on line 33 from the amount on line 25. Enter the result on line 34. If the amount on line 33 is more than the amount on line 25, enter -0-. If you owe interest on deferred tax from installment obligations, include the additional tax, if any, in the amount you enter on line 34. Write "IRC Section 453 interest" or "IRC Section 453A interest" and the amount on the dotted line to the left of the amount on line 34.

**Step 7**

Other Taxes

Attach the specific form or statement required for each entry in this step.

**Line 35 — Alternative Minimum Tax (AMT)**

If you claim certain types of deductions, exclusions and credits, you may owe AMT if your total income is more than: \$57,260 if married filing joint or qualifying widow(er); \$42,945 if single or head of household; or \$28,630 if married filing separate.

A child under age 14 may owe AMT if the sum of the amount on line 19 (taxable income) and any preference items listed on Schedule P (540) and included on the return is more than the sum of \$5,000 and the child's earned income.

AMT income does not include income, adjustments and items of tax preference related to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses.

Get Schedule P (540) for more information.

**Line 36 — Other Taxes and Credit Recapture**

If you used form(s) FTB 3501, Employer Child Care Program/Contribution Credit; FTB 3535, Manufacturers' Investment Credit; FTB 3805P, Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts and MSAs; FTB 3805Z, Enterprise Zone Deduction and Credit Summary; FTB 3806, Los Angeles Revitalization Zone (LARZ) Deduction and Credit Summary or FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary; include the additional tax, if any, on line 36. Write the form number on the dotted line to the left of the amount on line 36.

**Line 38 — California Income Tax Withheld**



Enter the total California income tax withheld from your:

- Form(s) W-2, box 18;
- Form(s) W-2G, box 14;
- Form(s) 1099-MISC, box 11; or
- Form(s) 1099-R, box 10.

**Caution:** Do not include city or county tax withheld or tax withheld by other states.

If you received Form(s) 1099 showing California income tax withheld ("backup withholding") on dividends and interest income, real estate sales and partnership distributions, include the amount(s) withheld in the total on line 38.

**Line 39 — 1998 CA Estimated Tax and Amount Applied from 1997 Return**

Enter the total of any:

- California estimated tax payments you made (Form 540-ES) for 1998;
- Overpayment from your 1997 California income tax return that you applied to your 1998 estimated tax;
- Payment you sent with form FTB 3519, Payment Voucher for Automatic Extension for Individuals; and
- California estimated tax payments made on your behalf by an estate or trust on Schedule K-1 (541).

If you and your spouse paid joint estimated tax but are filing separate returns, either spouse may claim all of the amount paid or may claim a part of it. Attach a statement signed by you and your spouse explaining how you want your payments divided. Show both social security numbers on the separate returns. If you or your spouse made separate estimated tax payments, but are now filing a joint income tax return, add the amounts you each paid. Attach a statement to the front of Form 540 explaining that payments were made under both social security numbers.

**Line 41 — Excess California SDI (or VPD) Withheld**

If more than \$158.84 of California State Disability Insurance (SDI) or Voluntary Plan Disability Insurance (VPDI) was withheld from your wages by a single employer, or if an employer withheld SDI (or VPD) at a rate of more than .5% of your gross wages, you may **not** claim excess SDI (or VPD) on your Form 540, line 41 for the amount over-withheld by your employer. Contact the employer for a refund.

You may claim a credit for excess SDI (or VPD) only if you meet the following conditions:

- You had **two or more** employers during 1998;
- You received more than \$31,767 in wages during 1998 from these employers;
- Your employers combined withheld more than \$158.84 of SDI (or VPD) from your wages; and
- The amounts of SDI (or VPD) withheld appear on your Forms W-2. Be sure to attach your Forms W-2 to your Form 540.

Complete the worksheet on page 37 to figure the amount to enter on line 41. If you are married and file a joint return, you must figure the amount of excess SDI (or VPD) **separately for each spouse**.

	You	Your Spouse
1. Add amounts of SDI (or VPDI) withheld shown on your Forms W-2. Enter the total here. . . . .	1	
2. 1998 SDI (or VPDI) limit . . . . .	2	
	\$158.84	\$158.84
3. Excess SDI (or VPDI) withheld. Subtract line 2 from line 1. Enter the result here and on Form 540, line 41 . . . . .	3	

**Note:** If zero or less, enter -0- on line 41.

**Step 9**  
Overpaid Tax or Tax Due

To avoid a delay in the processing of your return, be sure you enter the correct amounts on line 43 through line 46.

**Line 43 – Overpaid Tax**

If the amount on line 42 is more than the amount on line 37, subtract the amount on line 37 from the amount on line 42. Enter the result on line 43. Your payments and credits are more than your tax.

**Line 44 – Amount You Want Applied to Your 1999 Estimated Tax**

You may apply all or part of the amount on line 43 to your estimated tax for 1999. Enter on line 44 the amount of line 43 that you want applied to 1999.

**Line 45 – Overpaid Tax Available This Year**

If you entered an amount on line 44, subtract it from the amount on line 43. Enter the result on line 45. You may have this entire amount refunded to you or you may make contributions to the California Seniors Special Fund or make voluntary contributions from this amount. If you make a contribution, skip line 46 and go to the instructions for "Step 10."

**Line 46 – Tax Due**

If the amount on line 42 is less than the amount on line 37, subtract the amount on line 42 from the amount on line 37. Enter the result on line 46. Your tax is more than your payments and credits.

There is a penalty for not paying enough tax during the year. You may have to pay a penalty if:

- The tax due on line 46 is \$200 or more (\$100 or more if married filing separate); and
- The amount of state income tax withheld on line 38 is less than 80% of the amount of your total tax on line 37.

If you owe a penalty, the Franchise Tax Board will compute the penalty and send you a bill.

You may make contributions to the California Seniors Special Fund or make voluntary contributions by adding them to the tax due. You must pay the full amount of tax due, including contributions, when you file your Form 540.

**Step 10**  
Contributions

You may make contributions in whole-dollar amounts only. If you make one or more contributions, you must complete "Step 10." You may contribute to only the following funds and cannot change the amount you contributed after the return is filed.

If you have overpaid tax available on line 45, the amount you contribute must be subtracted from your overpaid tax available. If you have tax due on line 46, your total contributions must be added to your tax due.

**Line 47 – Contribution to California Seniors Special Fund**

If you or your spouse claim the senior exemption credit on line 9, you may each make a contribution of up to \$70 to the California Seniors Special Fund. Your contribution will be used to support the work of the area Agency on Aging Council of California in its role as an advocate for California seniors. All contributions over those needed for this work will be used to provide direct services to senior citizens such as meals, adult day care and transportation. The actual use of the funds will be determined at the local level by the Area Agency on Aging, its Advisory Council of Seniors and the senior community. On line

47, enter the amount of your contribution. If you contribute, do not enter more than \$70; if you and your spouse contribute, do not enter more than \$140.

**Voluntary Contributions**

You may make voluntary contributions of \$1 or more in whole-dollar amounts.

**Line 48 – Alzheimer’s Disease/Related Disorders Fund**

Contributions entered on line 48 will be used to conduct a program for researching the cause and cure of Alzheimer’s disease and related disorders and research into the care and treatment of persons suffering from dementing illnesses.

**Line 49 – California Fund for Senior Citizens**

Contributions entered on line 49 will be used by the California Fund for Senior Citizens which supports direct services to seniors and the work of the California Senior Legislature. The California Senior Legislature is a non-partisan, volunteer, grass roots body of seniors 60 years of age or older, elected by their peers. The California Senior Legislature has been instrumental in creating and steering senior legislation through the regular legislature; legislation, such as: Alzheimer Studies and Research; Adult Day Health Care Centers; nutrition centers; respite care; long term care; the funding and broadening of In Home Support Services; programs to abolish abuse of seniors; skilled nursing facility reforms; and many more. All donations over those needed to carry out the California Senior Legislature’s work, will be distributed for direct services to needy seniors.

**Line 50 – Rare and Endangered Species Preservation Program**

Contributions entered on line 50 will help to protect and conserve California’s many threatened and endangered species and the wild lands that they need to survive, for the enjoyment and benefit of you and future generations of Californians.

**Line 51 – State Children’s Trust Fund for the Prevention of Child Abuse**

Contributions entered on line 51 will be used to fund programs for the prevention, intervention and treatment of child abuse and neglect.

**Line 52 – California Breast Cancer Research Fund**

Contributions entered on line 52 will be used to conduct research relating to the prevention, screening, cure and treatment of breast cancer.

**Line 53 – California Firefighters’ Memorial Fund**

Contributions entered on line 53 will be used for the construction of a memorial on the grounds of the State Capitol honoring the hundreds of firefighters who have died protecting our neighborhoods, our homes, our families and our dreams. These brave men and women answered the call when fire alarms sounded or when hazardous, cancer-causing elements needed to be removed, and their sacrifices and the sacrifices of their families deserve to be remembered.

**Line 54 – California Public School Library Protection Fund**

Contributions entered on line 54 will be expended for the purchase of books and other library resources through grants awarded for implementing a school library improvement plan.

**Line 55 – D.A.R.E. California (Drug Abuse Resistance Education) Fund**

Contributions entered on line 55 will be used to support local D.A.R.E. programs and provide proven effective, in-classroom anti-drug, anti-gang and anti-violence education for California school children.

**Line 56 – California Military Museum Fund**

Contributions entered on line 56 will be used to support the museum’s effort to: 1) collect, exhibit, and preserve California’s military history from 1775 to date; 2) assist in educating the general public, especially school children, about our American military heritage and thus instill pride therein; 3) recognize all branches of the U.S. Armed Forces and the contributions of ethnicities and their members throughout our proud military history; and 4) maintain and operate the facilities required.

**Line 57 – California Mexican American Veterans’ Memorial**  
Contributions entered on line 57 will be used to pay for the construction, beautification, enhancement, maintenance or repair of the California Mexican American Veterans’ Memorial.

**Line 58 – Emergency Food Assistance Program Fund**  
Contributions entered on line 58 will help local food banks feed California’s hungry. Your contribution will fund the purchase of much-needed food for delivery to food banks, pantries and soup kitchens throughout the state. The State Department of Social Services will monitor its distribution to ensure the food is given to those most in need.

**Line 59 – Total Contributions**  
Add line 47 through line 58. Enter the result on line 59. If you show an amount on Form 540, line 45, you must subtract the amount you contribute from the amount of overpaid tax. If you show an amount on Form 540, line 46, you must add your total contributions to your tax due.

**Step 11**  
Refund or Amount You Owe

Be sure to add or subtract correctly to figure the amount of your refund or the amount you owe.

**Line 60 – Refund or No Amount Due**  
If you did not enter an amount on line 59, enter the amount from line 45 on line 60. This is the amount that will be refunded to you. If this amount is less than \$1, you must attach a written statement to your Form 540 requesting the refund.  
If you entered an amount on line 59, subtract it from the amount on line 45. If the result is zero or more, enter it on line 60. Then skip to the instructions for Step 12.  
If the result is less than zero, your contributions are more than your overpaid tax available on line 45. In this case, do not enter an amount on line 60. Instead, subtract the amount on line 45 from the amount on line 59. Enter the result on line 61 and see the instructions for line 61.



**Want a fast refund?** Get your refund within 7 to 10 calendar days (or within 5 to 7 banking days with direct deposit!). E-file your return!

**Line 61 – Amount You Owe**  
If you did not enter an amount on line 59, enter the amount from line 46 on line 61. This is the amount you owe with your Form 540.  
If you entered an amount on line 59, add that amount to the amount on line 46. Enter the result on line 61. This is the amount you owe with your Form 540.  
• Make your check or money order payable to the “Franchise Tax Board” for the full amount you owe. Do not send cash. Write your social security number and “1998 Form 540” on your check or money order.  
• Attach your check or money order to your return. See “Assembling your return” on page 8.

A penalty may be imposed for a check returned by your bank for insufficient funds. To avoid a late filing penalty, file your Form 540 by the due date even if you cannot pay the amount you owe.

Do not combine your 1998 tax payment and any 1999 estimated tax payment in the same check. You must send two separate checks and mail each check in a separate envelope to different addresses.

If you cannot pay the full amount shown on line 61 with your return, you may request to make monthly payments. See page 49, “Installment Payments,” for more information.

**Step 12**  
Interest & Penalties

If you file your return or pay your tax after the due date, you may owe interest and penalties on the tax due.

**Note:** Do not reduce the amount on line 43 or increase the amount on line 46 by any penalty or interest amounts.

**Line 62 – Interest and Penalties**  
Enter on line 62 the amount of interest and late penalties included in your payment.

**Interest**  
Interest will be charged on any late filing or late payment penalty from the original due date of the return to the date paid. In addition, if other penalties are not paid within 15 days, interest will be charged from the date of the billing notice until the date of payment. Interest compounds daily and the interest rate is adjusted twice a year.

**Late Filing of Return**  
The maximum total penalty is 25% of the tax not paid if the return is filed after October 15, 1999. The minimum penalty for filing a return more than 60 days late is \$100 or 100% of the balance due, whichever is less.

**Late Payment of Tax**  
The penalty is 5% of the tax not paid when due plus 1/2% for each month, or part of a month, the tax remains unpaid.

**Other Penalties**  
There are also other penalties that can be imposed for a check returned for insufficient funds, negligence, substantial understatement of tax and fraud.

**Line 63 – Underpayment of Estimated Tax**  
If line 46 is \$200 (\$100 if married filing separate) or more and more than 20% of the sum of the tax shown on line 34 (excluding the tax on lump-sum distributions on line 23), or you underpaid your 1998 estimated tax liability for any payment period, you may owe a penalty. The Franchise Tax Board can figure the penalty for you when you file your return and send you a bill. Or to see if you owe a penalty and to figure the amount of the penalty, get form FTB 5805, Underpayment of Estimated Tax by Individuals and Fiduciaries (or form FTB 5805F, Underpayment of Estimated Tax by Farmers and Fishermen). If you complete one of these forms, be sure to attach it to the front of your Form 540 on top of any check, money order, Form W-2, Form 1099 or special documentation. Enter the amount of the penalty on line 63 and check the box at line 63. You must complete and attach the form if you claim a waiver, use the annualized income installment method or pay tax according to the schedule for farmers and fishermen even if you do not owe a penalty.

See page 6, Tax Time Tips, for more information on estimated tax payments and how to avoid the underpayment penalty.

**Line 64 – 1999 Tax Forms**  
If your Form 540 is prepared by someone else, or if you do not need forms mailed to you next year, check the box at line 64.

**Sign Your Return**

You must sign your return in the space provided on Side 2. If you file a joint return, your spouse must sign it also.

**Paid Preparer’s Information**  
If you pay a person to prepare your California income tax return, that person must sign and complete the area at the bottom of Side 2. A paid preparer must give you two copies of your return: one copy to file with the Franchise Tax Board and one to keep for your records.



**Attach Your Forms W-2 to Your Return**  
You must attach Copy 2 of all Form(s) W-2, W-2G, and 1099-R to the front of your return. If you do not receive your Form W-2 by January 31, 1999, contact your employer. Only your employer can give or correct a Form W-2.

If you cannot get a copy of your Form(s) W-2, you must complete form FTB 3525, Substitute for Form W-2, Wage and Tax Statement, or Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. See “Order Forms” on the back cover.



If you forget to send your Form(s) W-2 with your income tax return, do not send it separately. Wait until the Franchise Tax Board requests the Form(s) W-2 from you.

**Check Your Social Security Number(s)**  
Make sure that you have written your social security number(s) in the spaces provided at the top of Form 540 in “Step 1a.”

**Attaching Federal Form 1040** See “Attachments to your return,” on page 8.



**Mailing Addresses**  
See, “Mailing your return,” on page 6.