

2004 Other State Tax Credit

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Attach to Form 540, Long Form 540NR, or Form 541.

Your social security number

Name(s) as shown on your California tax return

FEIN

Part I Double-Taxed Income (Read Specific Line Instructions for Part I before completing this part.)

Table with 3 columns: (a) Income item(s) description, (b) Double-taxed income taxable by California, (c) Double-taxed income taxable by other state. Includes line 1 for total double-taxed income.

Part II Figure Your Other State Tax Credit (Read Specific Line Instructions for Part II before completing this part.)

Table with 2 columns: Description of credit calculation steps (lines 2-12) and corresponding input fields.

General Information

Taxpayers may qualify for a credit for income taxes paid to another state when the same income that is taxed by the other state is also taxed by California...

You must attach this schedule and a copy of your return(s) filed with the other state(s) to your California return. Partners of partnerships, members of limited liability companies (LLCs) classified as partnerships for tax purposes, and shareholders of S corporations, see section G.

Note: If you e-file, you do not need to submit returns filed with other states with your California return. Retain a copy of other state tax returns, along with a copy of this form for your records.

A Purpose

If you are an individual filing a California personal income tax return or an estate or trust filing a California fiduciary income tax return, use this form to claim a credit against California tax for net income taxes imposed by and paid to another state or U.S. possession.

Residents of California may claim a credit only if the income taxed by the other state has a source within the other state under California law. No credit is allowed if the other state allows California residents a credit for net income taxes paid to California.

Nonresidents of California may claim a credit only for net income taxes imposed by and paid to their states of residence and only if such states do not allow their residents a credit for net income taxes paid to California.

Important: See sections C and D for a complete list of states and U.S. possessions for which the other state tax credit is allowed. See section H for a description of the source of various types of income.

Beneficiaries of estates or trusts, partners of partnerships, members of LLCs classified as partnerships, and shareholders of S corporations that paid a net income tax to another state on income that must be reported to California may also claim the other state tax credit. See sections F and G for details.

B Application of the Credit

Credit is allowed for net income taxes paid to another state (not including any tax comparable to California's alternative minimum tax) on income that is also subject to California tax. The credit is applied against California net tax, less other credits. The credit cannot be applied against California alternative minimum tax.

When a joint return is filed in California, the entire amount of tax paid to the other state may be used in figuring the credit, regardless of which spouse paid the other state tax or whether a joint or separate return is filed in the other state.

When a joint return is filed in the other state and separate California returns are filed, the credit is allowed in proportion to the income reported on each California return.

If, after paying tax to the other state, you get a refund or credit due to an amended return, computation error, audit, etc., you must report the refund or credit immediately to the Franchise Tax Board (FTB). Prepare a revised Schedule S and attach it to:

- Form 540X, Amended Individual Income Tax Return, if you filed Form 540 or Long Form 540NR; or
Form 541, California Fiduciary Income Tax Return, if you filed Form 541. Check "Amended return" box below fiduciary address area on Side 1.

C California Residents

California resident individuals or estates and trusts that derived income from sources within any of the following states or U.S. possessions and paid a net income tax to that state or U.S. possession on income that is also taxed by California may claim the other state tax credit:

- Alabama, American Samoa, Arkansas, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire (business profits tax), New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Utah, Vermont, Virginia (dual residents*), Virgin Islands, West Virginia, Wisconsin, and the District of Columbia (unincorporated business tax and income tax, the latter for dual residents only).

California residents who are included in a nonresident composite partnership or S corporation return filed with the states listed above as well as Arizona, Indiana, Oregon, or Virginia may also claim a credit for their share of income taxes paid to these states, unless any of these states allow a credit for taxes paid to California on the composite return. California residents who are shareholders in a Texas S corporation may claim the other state tax credit for the tax paid by the Texas S corporation on its net taxable earned surplus. The corporation must be

treated as an S corporation for California purposes to claim the credit.

*A dual resident is any taxpayer who is defined as a California resident under California law and a Virginia resident under Virginia law. If you are a dual resident, you are allowed to claim the other state tax credit for taxes paid to Virginia on Virginia source income. Dual residents who are elected or appointed officials and staff as defined in California Revenue and Taxation Code (R&TC) Section 17014(b) may claim the other state tax credit for taxes paid to Virginia on all income taxed by Virginia whether or not it has a source in Virginia. (See section H.)

D California Nonresidents

California nonresident individuals, estates, or trusts that are residents of one of the following states or U.S. possessions and paid a net income tax to that state or U.S. possession on income that is also taxed by California may claim the other state tax credit:

Arizona, Guam, Indiana, Oregon, and Virginia.

Note: California nonresidents who are residents of any state or U.S. possession not listed may not claim this credit.

E California Part-Year Residents

Part-year residents:

- Follow the instructions for residents for the part of the year that you were a California resident, and
- Follow the instructions for nonresidents for the part of the year that you were a nonresident.

F Dual-Resident Estates and Trusts

An estate or trust may claim a credit if it is treated as a "resident" of California and also as a "resident" of another state. For this purpose, an estate or trust is considered to be a "resident" of any state that taxes all its income regardless of whether the income is derived from sources within that state. The credit is limited to:

1. The proportion of the tax paid to the other state by the estate or trust that the double-taxed income bears to the entire income of the estate or trust; and
2. The proportion of the estate's or trust's California tax that the double-taxed income bears to the total income taxed by California.

Beneficiary of an Estate or Trust

A beneficiary of an estate or trust who is a California resident and pays California tax on income that has been taxed to the estate or trust in another state may also claim the credit. The credit is limited to:

1. The proportion of the tax paid to the other state by the estate or trust that the income taxed to the beneficiary in California and also to the estate or trust in the other state bears to the entire income of the estate or trust; and
2. The proportion of the beneficiary's California tax that the income taxed to the beneficiary in California and also to the estate or trust in the other state bears to the beneficiary's total income taxed by California.

G Pass-Through Entities

A partner is allowed a credit for the partner's share of net income taxes paid by the partnership to another state. A shareholder of an S corporation is allowed a credit for the shareholder's share of taxes on or measured by income paid by the S corporation to another state that either does not allow S corporation elections or imposes tax on

S corporations. A member of an LLC classified as a partnership is allowed a credit for the member's distributive share of net income taxes paid by the LLC to another state.

Residents of California, see section C; nonresidents of California, see section D.

Attach a copy of Schedules K-1 (100S, 565, or 568) and a schedule showing your share of the net income tax paid to the other state.

H Income from Sources Within the Other State

Residents of California may claim a credit for net income taxes imposed by and paid to another state only on income which has a source within the other state.

For this purpose, California's sourcing principles apply even though the results may be contrary to the other states' principles. The following describes the sources of various types of income:

- Compensation for services rendered by employees or independent contractors has a source where the services are performed.
- Income from tangible personal property and real estate has a source where the property is located.
- Income from intangible personal property (such as interest and dividends) generally has a source where the owner resides.
- Business income has a source where the business is conducted.

Note: Those persons subject to tax as California residents solely by reason of the California R&TC Section 17014(b) (holders of federal elective offices, certain Presidential appointees, and Congressional staff members) may base their credit computation on income taxed by the other state, regardless of its source.

Get FTB Pub. 1031, Guidelines for Determining Resident Status – 2004, for additional information concerning source income.

- **Internet** – You can download, view, and print FTB Pub. 1031 (or other California tax forms and publications) from our Website at www.ftb.ca.gov.
- **Phone** – Call (800) 338-0505, select "Personal Income Tax," then select "Order Forms and Publications." Enter code **941** when instructed to do so. Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order.
- **Mail** – Write to: TAX FORMS REQUEST UNIT, FRANCHISE TAX BOARD, PO BOX 307, RANCHO CORDOVA CA 95741-0307.

Specific Line Instructions

More than one state – If you have a credit from more than one state, figure the credit separately by completing a separate Schedule S for each state. Add the credits from each state and enter the total on a separate Schedule S, line 12. You **must** attach the schedules to your return.

Part I – Double-Taxed Income

Double-taxed income is income taxed by California and the other state. In Part I, provide a breakdown of your double-taxed income by income item and amount. In column (a), identify the income item, such as wages earned in another state while a California resident, gain on sale of real estate, ABC Partnership ordinary income, etc. In column (b), enter the amount of income from that item taxed by California. In column (c), enter the amount of income from that item taxed by the other state.

For residents of California, the income that is taxed by the other state must also have a source in the other state. See section H for a description of the source of various types of income.

Nonresidents of California should enter in column (b) only the amount of double-taxed income that is included in Schedule CA (540NR), California Adjustments – Nonresidents or Part-Year Residents, line 36, column E. In column (c), enter only the amount of double-taxed income that is included in adjusted gross income taxed by your state of residence.

Note: Generally, income that is taxed by California and the other state will be the same amounts.

However, the income amounts in column (b) may be different than the amounts in column (c) because of differences in California and the other states' tax laws. For example, the amount of gain on the sale of property may be different for California and other state tax purposes because of differences in depreciation.

Line 1 – Combine the amounts in column (b). Combine the amounts in column (c). Enter the totals on this line and in Part II, line 3, and line 8.

Part II – Figure Your Other State Tax Credit

Line 2 – Enter your California tax liability from:

- Residents – Form 540, line 25 minus line 33 (without other state tax credit).
- Nonresidents – Long Form 540NR, line 28 minus line 42 (without other state tax credit).
- Estates and Trusts – Form 541, line 25 (without other state tax credit).

Line 4 – Enter your California adjusted gross income from:

- Residents – Form 540, line 17, and any lump-sum distribution from Schedule G-1.
- Nonresidents – Schedule CA (540NR), line 36, column E, and any California source lump-sum distribution from Schedule G-1.
- Estates and Trusts – Enter your adjusted gross income determined for purposes of the two percent limitation of your miscellaneous itemized deductions. See Form 541, line 15b instructions.

Line 7 – Enter the income tax liability paid to the other state. **Do not include:**

- Taxes paid to any local government, such as a city or county;
- Taxes paid to the federal government;
- Taxes paid to any foreign country; or
- Any tax comparable to California's alternative minimum tax paid to another state.

Line 9 – Adjusted gross income taxed by the other state:

- Residents – Enter only those items of total adjusted gross income taxed by the other state.
- Nonresidents – Enter total adjusted gross income taxed by the other state.
- Estates and Trusts – Enter only those items of total adjusted gross income taxed by the other state.

Note: Adjusted gross income includes all items of income and loss but does not include itemized deductions, standard deduction, deductions for federal income taxes, or personal exemptions.

Line 12 – The amount of this credit you may claim on your tax return may be limited further. Refer to the credit instructions in your California tax booklet to see if there are any limitations on the amount of credit you may claim. These instructions also explain how to claim this credit on your tax return. You must use credit code number **187** when you claim this credit.