SPIDELL'S REFUND GRABBER CHECKLIST

"I do a thorough review of the federal return and my tax program makes the California adjustments for me." How often have we said this? But we all know the computer does what we tell it to do. So, if someone doesn't tell the computer there is a California difference, it goes unnoticed and the taxpayer usually pays more tax. Or, sometimes we think we told the computer something and we actually didn't. Here is a list of common errors made on tax returns where you might find lost money for your clients.

- [ ] NOL — Carry back.

  For the 2017 and 2018 year, was 100% of the California NOL carried back? Or was the election made to carry the loss forward?

- [ ] Railroad retirement — May be included in pension income.

  California does not tax railroad retirement. For federal purposes, Part A is treated as Social Security and Part B is fully taxable and reported on the pension line of the federal return. Be sure both are excluded for California purposes.

- [ ] IRA, Keogh, and SEP distributions — Basis?

  Taxpayers who contributed to these accounts between 1982 and 1986 probably have a California basis. Contributions in 1987–1995 may have a higher California basis if income was different. Verify that the basis has been excluded from income.

- [ ] HSA — Basis?

  California does not conform to any of the HSA provisions. Since the taxpayer does not get a California deduction for contributions and must report earnings currently, the taxpayer gets basis for California purposes. Be sure to track California basis. The expenses paid with HSA funds are a deductible medical expense.

- [ ] Depreciation — Basis differences from IRC §179 and bonus.

  California has had different depreciation methods and different §179 expensing amounts in many prior years. Be sure that the basis and method are correct for California purposes. For an older asset, the California depreciation may be greater because of a longer life or higher basis.

- [ ] Suspended passive losses — Did they carry over?

  Make sure that suspended passive losses were not accidentally dropped in a prior year.

- [ ] AMT passive losses — Were suspended losses carried over?

  Suspended passive losses for AMT purposes are often different. Also, when inputting client information into a new computer program, you must make separate entries for AMT items and regular tax items.

- [ ] AMT — Check depreciation.

  Make sure that AMT depreciation has been carried forward properly, otherwise, when the asset is sold, the AMT gain may be too high.

- ☐ AMT Credit — Don't forget.

  If the taxpayer suffers or has ever suffered from AMT, see if there is a credit for prior-year AMT and carry it forward to reduce current-year regular tax.

- ☐ AMT NOL — Correctly computed?

  If the taxpayer has California AMT, make sure that any California AMT NOL is correctly computed so it carries over to next year.

- ☐ Capital loss carryover for new clients, including AMT.

  Particularly when setting up a new client, make sure to enter capital loss carryforwards, including the AMT capital loss carryover, even if the same as for regular tax. Most software requires both entries.

- ☐ Mortgage Interest Credit — Larger itemized deduction.

  If the taxpayer has a federal mortgage interest credit, the Schedule A interest expense is reduced. For California purposes, the taxpayer may deduct the full amount of the mortgage interest.

- ☐ Carryover credits — Don't lose them.

  Most of California's credits can be carried over for many years or indefinitely. Make sure that any carryover credits were not accidentally lost from one year to the next.

- ☐ Federal credits — Larger deductions and basis.

  If the taxpayer claimed federal business credits, there is often a basis or expense deduction lost on the federal return. Be sure that the basis is increased or the deduction increased for California purposes.

- ☐ Credit for taxes paid to another state — Calculate it properly.

  If the taxpayer has income taxed by both California and another state, be sure there is a credit on the California or the other state return. Make sure it is on the correct state return.

- ☐ Interest income: Nonresident — May not be California-source.

  A nonresident is not taxed on interest income from California sources unless the income has a situs in California. Generally, interest on the note collateralizing the sale of property or business assets in California is not taxable unless the note is used as collateral on another California business or property.

- ☐ Renter's Credit — Don't forget it.

  Single renters with California AGI of $40,078 or less may qualify for a $60 credit. The Renter's Credit is $120 for MFJ and head of household renters with California AGI of $80,156 or less.

- ☐ Excess SDI — More than one employer.

  If a taxpayer had two or more jobs during the taxable year, make sure the return gives credit for any excess SDI. Include VPDI in this calculation.

- [ ] **Mental health surtax — File MFS when taxable income exceeds $1 million.**

  The California surtax applies to taxable income in excess of $1 million, regardless of filing status. So, married taxpayers benefit from filing separate, saving up to $10,000 in tax. **Caution:** If you file separate for California, you must generally also file separate for federal.

- [ ] **Credits on S corporation return.**

  When an S corporation is entitled to a tax credit, the S corporation is allowed one-third of the credit and the shareholders are entitled to 100% of the same credit. Be sure the credit was computed for both the entity and the shareholders.

- [ ] **State tax paid on group return.**

  When a member/partner/shareholder is a nonresident included on the entity's group return, include tax paid as state tax deduction on federal Schedule A. Verify that California's Schedule S was included to claim the credit for tax paid to the other state.

- [ ] **State tax withheld.**

  Check 1099s, partnership, LLC, or S corporation K-1s (or Form 592, Resident and Nonresident Withholding Statement, attachment or separate letter) for state tax withheld. Also, check for withholding on real property reported on the closing statement or Form 593, Withholding on the Sale of California Real Estate

- [ ] **California nonconformity to the Tax Cuts and Jobs Act (TCJA).**

  The TCJA makes many changes that California does not conform to, including the $10,000 limit on state and local tax deductions, the elimination of miscellaneous itemized deductions subject to the 2% floor, and reduced mortgage interest limitation. See our new Schedule CA TCJA checklist to make sure you don't miss any of these differences.

Website
To download a copy of this checklist, go to:
www.caltax.com/spidellweb/public/editorial/refundgrabber.pdf