



## 2020 ULTRATAX/1040-CA, v.2020.2.1

### User Bulletin 1040CA-20.2.1: Update

January 21, 2021

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This user bulletin describes special information related to UltraTax/1040-CA.

## ENHANCEMENTS

### New Forms

The following forms have been added to the system:

- Form 3568 - Alternative Identifying Information for the Dependent Exemption Credit
- Form 3849 - Premium Assistance Subsidy
- Form 3853 - Health Coverage Exemptions and Individual Shared Responsibility Penalty
- Form 3866 - New Small Business Hiring Credit (Non-calculating)
- Form 4197 - Information on Tax Expenditure Items (Non-calculating)

### New Worksheets

The following worksheets have been added to the system:

- Health Care - Individual Shared Responsibility Penalty Worksheets
- Health Care – Premium Assistance Subsidy Worksheets
- NOL Carryover Suspension Worksheet

### Replacement Form

Form 3461, California Limitation on Business Losses, replaces IRS Form 461 (Limitation on Business Losses)

### Obsolete Form

The following form was deleted from the system:

Form 3806, Los Angeles Revitalization Zone Net Operating Loss (NOL) Carryover Deduction

### New Input Screens

The following input screens were added:

- Screen CA3568, California Identifying Information for Dependent
- Screen CAHCCov, California Health Care Coverage
- Screen CAHC3895, California Form 3895 Health Insurance Marketplace Statement
- Screen CAHCPAS, California Health Care – Premium Assistance Subsidy
- Screen CA593-2, California Real Estate Withholding Tax Statement (Screen 2)
- Screen CA593-3, California Real Estate Withholding Tax Statement (Screen 3)
- Screen CA461 has been renamed to CA3461

## Health Care Mandate – Forms 3853 and 3849

### **Minimum Essential Coverage Individual Mandate / Individual Shared Responsibility Penalty**

Per FTB Form 3853 instructions:

*For taxable years beginning on or after January 1, 2020, California requires residents and their dependents to obtain and maintain minimum essential coverage (MEC), also referred to as qualifying health care coverage. Individuals who fail to maintain qualifying health care coverage for any month during taxable year 2020 will be subject to a penalty unless they qualify for an exemption.*

Use Screen CAHCCov to indicate that the entire family/household had full year minimum health care coverage (and to mark the appropriate checkbox on Form 540/540NR) or to enter data to report coverage and exemptions or to calculate the Individual Shared Responsibility health care penalty on Form 3853 and the related worksheets.

All Form 540 and 540NR filers, including full-year nonresidents, must either indicate full year MEC or complete Form 3853 to indicate exemptions or penalties. If taxpayer, spouse, and/or dependents did not have MEC during the California nonresidency period, use code “E” (Nonresident/Part-year resident) in the **Coverage and exemptions claimed for individuals** statement on Screen CAHCCov.

### **Premium Assistance Subsidy**

***Note: Certain calculations for Form 3849 have not been implemented or completed and will be available on a future release of UltraTax/1040-CA.***

Per FTB Form 3849 instructions:

*The Premium Assistance Subsidy (PAS) is available for certain people who enroll, or whose applicable household member enrolls, in a qualified health plan. The subsidy provides financial assistance to pay the premiums for a qualified health plan through the Marketplace. You must file form FTB 3849 to reconcile any PAS advanced to you with the actual PAS amount allowed based on your actual household income for the applicable taxable year, less federal Premium Tax Credit (PTC) amounts.*

Form 3849 and related worksheets calculate the credit amount and the repayment amount of any advance payment, as applicable. Use Screens CAHC3895 and CAHCPAS to enter information needed to calculate Form 3849 and the related worksheets.

### **Form 3461 – Limitation on Business Losses**

Although the calculation of limitation on business losses has been suspended at the federal level, California continues to conform to TCJA for calculation of Business Losses Limitation. FTB Form 3461, California Limitation on Business Losses, replaces the California version of IRS Form 461 (Limitation on Business Losses). The new form includes a provision for loss carryover from prior year.

Screen CA461 has been renamed to CA3461 and can be used to enter and force calculated amounts for Form 3461. Excess business loss carryover from the prior year (calculated for California purposes) proformas to Screen CA3461.

## California NOL Carryover Suspension Worksheet

Per California Franchise Tax Board:

Net Operating Loss Suspension – For taxable years beginning on or after January 1, 2020, and before January 1, 2023, California has suspended the net operating loss (NOL) carryover deduction. Taxpayers may continue to compute and carry over an NOL during the suspension period. **However**, taxpayers with net business income or modified adjusted gross income of less than \$1,000,000 or with disaster loss carryovers are **not** affected by the NOL suspension rules.

The carryover period for suspended losses is extended by:

- Three years for losses incurred in taxable years beginning before January 1, 2020.
- Two years for losses incurred in taxable years beginning on or after January 1, 2020, and before January 1, 2021.
- One year for losses incurred in taxable years beginning on or after January 1, 2021, and before January 1, 2022.

The California NOL Carryover Suspension Worksheet calculates Business Income and Modified AGI (for NOL purposes) to determine if use of NOL carryover from prior years is allowed or suspended on Form 3805-V, Part II. Use Screen CACO to force calculated amounts on the worksheet.

### Form 3866 - Main Street Small Business Tax Credit

Certain taxpayers who applied between December 1, 2020 and January 15, 2021 may be eligible for the Main Street Small Business Tax Credit. For qualifying taxpayer, complete Form 3866 in the Non-Calculating folder. Then, enter the Code **240** credit amount on Screen CACr to include the credit on Schedule P(540).

### Form 4197 - Information on Tax Expenditure Items

Certain taxpayers may be required to include Form 4197, Information on Tax Expenditure Items, with the Form 540/540NR return. Complete the form in the Non-calculating folder.

## ELECTRONIC FILING

### Electronic Filing Status

Thomson Reuters is approved to electronically file Forms 540/540NR, the Individual Extension Payment, and Form 568 (LLC); however electronic files cannot be sent to the state until the IRS begins accepting returns for tax year 2020. When the IRS begins accepting electronic returns, a federal update will be released that enables transmission of state electronic returns.

### Form 593 withholding

California Franchise Tax Board has significantly expanded Form 593, Real Estate Withholding Statement. As a result, the electronic record has been expanded to include the optional, additional information now reflected on the form. Screen CA593 accommodates data entry for Parts I, II, and III of the revised form. New screens CA593-2 and CA593-3 have been added to accommodate data entry for Parts IV and V and Parts VI and VII, respectively. These screens are in the 593 Real Estate W/H folder. If withholding on the return reflects withholding from Form 593 and the return is being filed electronically, enter **Amount withheld from this seller** on Screen CA593-3 and other required data from Form 593 in the appropriate fields on Screens CA593, CA593-2, and CA593-3. See the *ELF Critical* Diagnostics tab for required data entry.

### **Dependent without SSN or ITIN**

Form 3568, Alternative Identifying Information for the Dependent Exemption Credit, is required for each dependent claimed on Form 540/540NR who is a resident of Mexico or Canada but is not eligible to receive or renew a federal ITIN or SSN. Use Screen CA3568 to complete the information required on the form.

Each unit of Form 3568 must also be accompanied by supporting documentation.

Use the following steps to attach the PDF for Form 3568 when filing electronically:

With the return open, visit Edit > Electronic Filing Attachments > Add.

Select California for Product and “Tax Return” for Return.

For Attachment Title, select the appropriate “CA Supporting Documentation – Form 3568 Identifying Document”.

If Form 3568 or the related documentation (PDF) is not present for a dependent who does not have SSN or ITIN, the return must be paper filed. The California Franchise Tax Board may deny exemption credit for any dependent who does not have ITIN or SSN if Form 3568 and the proper supporting documentation is not attached.

### **Returns filed and other information**

State electronic filing options are on state Screen ELF (in the state’s Electronic Filing folder). This screen includes an option to suppress electronic filing and may include other state-specific information necessary to create the electronic return. State direct deposit and electronic funds withdrawal options are on state Screen CABank. Click [State Electronic Filing Guide](#) for state electronic filing, direct deposit and electronic funds withdrawal information.

## **SPECIAL INFORMATION**

### **ACH payment date**

Enable electronic funds withdrawal on state Screen Bank (in the state’s General Information folder). If the return is filed on or before April 15, 2021, the payment date defaults to April 15, 2021. Change the default electronic funds withdrawal date by entering the desired date in the **Date of withdrawal** field. Note that the actual transfer of funds may occur on or after the requested date. Delays of several days are not uncommon.

### **Consent to Disclose Information**

State Screen ELF includes the state-mandated disclosure notice. By using software to prepare and transmit client returns electronically, the tax professional consents to the disclosure of information pertaining to use of the computer system and software to create client returns, and to the electronic transmission of client returns to the taxing authority. This information is used by the taxing authority to combat stolen-identity tax refund fraud and protect tax professionals and their clients.

### **Electronic Signatures – e-Signature**

The IRS authorizes electronic signature of Form 8879, *IRS e-file Signature Authorization* and, for individuals, Form 8878, *IRS e-file Signature Authorization for Form 4868 or Form 2350*. Click [State Electronic Filing Guide](#) for state e-Signature capability. Refer to [User Bulletin 1040US-20.1.0, eSignature Processing Procedures](#) for more information.

When the state Bank Account Verification prints, it is also included in e-Signature behavior.

## Identity Authentication

California strongly encourages but does not require taxpayer identity authentication. Federal Screen IDAuth includes Form of identification code 4, Identification not provided. As was the case for 2019 returns, use of code 4 satisfies required identity authentication for all states' electronic filing records. The exceptions are Alabama, which requires residents to provide identification for electronic filing, and New York and Ohio, which reject e-files for the main or school district tax returns if code 4 is used.

## Form 3514 – Earned Income Credit, Young Child Tax Credit – Valid SSN

Typically, a taxpayer must have a valid Social Security number (and meet other criteria) in order to qualify for the California Earned Income Credit, as calculated by Form 3514. The California Earned Income Tax Credit – Criteria to Qualify Worksheet identifies the conditions that must be met by the taxpayer in order to claim the Earned Income Credit. The program requires the taxpayer to have a valid SSN in order to make the default EIC calculation. If a taxpayer who does not have a valid Social Security number qualifies for the EIC, go to Screen CAEIC, **Criteria to qualify (Force)** field and enter a **1** in order to calculate the Form 3514 credit.

Likewise, a child typically requires a valid SSN (and must meet other criteria) to be included as a Qualifying Child on Form 3514 for EIC purposes or Young Child Tax Credit purposes. If a child who does not have a valid SSN is a qualifying child for Form 3514 purposes, go to Screen CAEIC statement **Qualifying children** and enter a **1** in the column **Force to qualify** in order to include the child on Form 3514 as a Qualifying Child.

## Form 3514 – Earned Income Credit, Young Child Tax Credit – Qualifying Wages

UltraTax calculates amounts for Form 3514, line 13 wages and line 18 business income (via the related EIC – Self-Employment Worksheet) under California law. However, certain compensation income may be categorized as self-employment income for federal purposes and wage income for California purposes. Form 3514 instructions state that if such compensation is categorized *differently* between federal law and California law, use the amount computed under federal law for lines 13 and 18. UltraTax does not determine the *reason* for differences between wage amounts and Schedule C business income amounts calculated under federal law and the corresponding amounts calculated under California law. If compensation amounts differ between federal law and California law due to a difference in how the income is *categorized*, use the **Total wages (force)** field and **Self-employment income (Force)** field on Screen CAEIC to change the amounts reported on Form 3514, lines 13 and 18 to reflect compensation amounts computed under federal law.

## Schedule CA(540/540NR) Adjustments to federal income

Calculations related to the following California adjustments to federal AGI are not finalized and will be available on a future release of UltraTax/1040-CA:

- Charitable contribution deduction
- Section 67(e) – excess deduction on termination of trust

The aforementioned deductions are allowable on the California return only as *itemized* deductions.

Under new legislation, a taxpayer may be regarded as a contractor for federal purposes but as an employee for California purposes with regard to certain compensation income. For affected taxpayers, use the appropriate screens to adjust certain amounts reported on Schedule CA(540) or Schedule CA(540NR) as follows:

- Wages – Screen CAAdj
- Schedule C income – Screen CAC
- Deductible portion of Self-employment tax deduction – Screen CAAdj-2
- Self-employed health insurance deduction – Screen CAAdj-2

**Form 3806 – LARZ credits and deductions expired**

Form 3806, Los Angeles Revitalization Zone Net Operating Loss (NOL) Carryover Deduction, has been discontinued. All related credit carryover and net operating loss deduction carryover has expired and can no longer be used toward tax year 2020 or beyond.

**Physical Address, County**

Form 540 filers who are at least 18 years old must provide a physical address on Form 540, page 1. Use Screen CAGen to enter the county name and physical address information if different from the mailing address.

**Forms Approval**

Forms that are in the process of being approved by the state taxing authority and payment vouchers that are marked for SSN masking display “CLIENT COPY” upon printing and should not be submitted as a paper filed return to the Franchise Tax Board.