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CALIFORNIA TAXATION - INCOME ITEMS

By Victor Sy, CPA, MBA

Let's compare California laws with federal tax laws.

1. California does not tax [unemployment compensation](#); the federal government does.
2. California does not tax [Social security](#) but is taxed to some extent at the federal level.
3. California does not tax [California lottery](#) winnings but are subject to federal taxation. (California taxes lottery winnings from other states).
4. The federal government taxes [interest earned](#) on federal obligations while California does not. California, however, taxes interest earned from Fannie Mae, Ginnie Mae, and Freddie Mac. The federal government exempts interest earned on bonds of any state; California exempts only California bonds.
5. [Military](#) personnel are not taxed on their military pay while serving outside California under permanent orders. Non-resident military personnel serving in California are not taxed on their military pay. California exemptions of military pay are now the same as federal laws.
6. California does not tax [state income tax refunds](#) while federal does for taxpayers who itemize. Logic: California does not allow state income tax deductions while federal does.
7. Federal and California both tax [IRA distributions](#). The taxable amounts will differ though because pre-1987 deductions were different (then \$2,000 maximum for federal, \$1,500 for state).
8. IRS provides [foreign earned income exclusion](#) to citizens/residents working abroad. California does not.
9. Federal law recognizes provisions of [treaties with other countries](#); California does not.
10. Federal law contains special rules relating to [non-resident aliens](#); California does not conform to federal law and treats non-resident aliens in the same manner as any other person.
11. Residents of California are taxed on all [pension income](#) received in California regardless of where the services, which gave rise to the income, were performed. California can no longer tax the pension income of Californians who move out of the state and are non-residents at the time they receive the pension. Federal law sponsored by a Nevada republican representative prohibits states from taxing retirement income earned by individuals who are non-residents at the time they receive the income.
12. [Rent](#) received by a non-resident from real estate or from tangible personal property located in California is California source income regardless of whether it is related to trade or business.
13. California law recognizes [installment sales](#) in the same manner as federal law. Residency status as of the sale date determines whether the gain included in subsequent payments is considered California source income. Interest, however, is included in income depending on residency as of the date received.