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CALIFORNIA RESIDENT/NON-RESIDENT ISSUES

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If you just arrived in California or are planning to move out of state, here are a few tips for you:

1. **Residents** of California are taxed on **all income within or outside** the state.
2. **Non-residents** are taxed on **California-source income only**.
3. **Part-year residents** are taxed on all income **during their residency** and on all California-source income during their period of non-residency.
4. A resident is anyone who is in the State for **other** than temporary or transitory purpose. (If you are not decided, you are a resident, for tax purposes).
5. Any individual who spends **more than nine months in the State is presumed to be a resident**. (This presumption of course is not conclusive and maybe overcome by satisfactory evidence).
6. Any individual who spends **less than six months in the State is presumed to be a non- resident** (this also is not conclusive).
7. There is a **bright line test** that allows a taxpayer to establish a conclusive presumption of non-residency for the period of absence while out of California for at least **18 consecutive months** to fulfill an employment contract. Return visits for no more than 45 days during any year would be disregarded in considering the brightline measurement. This non-residency also applies to a spouse who accompanies the taxpayer under that same employment contract.
8. **Factors to be used in determining residency are as follows:**
 - A. State driver's license
 - B. Place registered to vote
 - C. Source of income
 - D. Location of house
 - E. Where spouse and children live
 - F. Time spent in the State.
9. The tax is computed by bunching total income from all sources and determining a **ratio** of California income to total income. The ratio is then applied to the total tax on income from all sources. Without you realizing it, the computation that we just went through has the effect of taxing California income at the highest possible tax rates instead of using the lower rates (see item 14 below)
10. California **residents are taxed on all pension income** received in California regardless of where the services that 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. A new 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.

11. A non-resident's income from interest or dividend that is **not** related to trade or business is not taxed by California.
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 date of the sale 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.
14. Tax on a **new resident** will be calculated as if the individual had been a resident of California for the entire current taxable year and as if that individual had been a resident for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions. Because of this change, some taxpayers will benefit while some will end up paying more tax. New residents, part-year residents, and nonresidents must now start their tax computations in the same manner as residents.