

New requirement for property tax deduction
The FTB may require taxpayers to include
parcel numbers on Schedule CA.

Oct. 5, 2011

The FTB is planning to add a section to Schedule CA of Form 540 asking taxpayers who deduct property tax as an itemized deduction to list the address and parcel number of the property. The form is currently only a draft, so this decision is not final. However, be prepared for the fact that your clients may need to bring copies of their property tax statements to prepare 2011 returns.

The draft version of Schedule CA requesting the additional property tax information can be found at:

[www.ftb.ca.gov/forms/
drafts/11_540cadraft.pdf](http://www.ftb.ca.gov/forms/drafts/11_540cadraft.pdf)

The form instructions will provide a brief discussion of what is and is not deductible, but you will need to take a close look at each property tax bill to determine whether the listed items are deductible.

Multiple properties

The form includes space to list two properties. The instructions do not address how to handle more than two properties. However, the FTB has verbally stated that if the taxpayer has more than two properties, he or she must list the first two and add the total and deductible amounts from the other properties off the form.

Rental property The FTB is requesting information only for residences and other property used for personal or investment. Taxpayers who deduct property tax on Schedules C, E, and F will not be asked for this information. Deductible property taxes California conforms to federal law regarding a taxpayer's real estate tax deduction.¹

Taxpayers may deduct the tax if it is based on the assessed value of the real property and the taxing authority charges a uniform rate on all property in its jurisdiction.² The tax must be for the welfare of the general public and not a payment for a special privilege granted or service rendered to the property owner.

Taxpayers may not deduct the amounts they pay for local benefits that tend to increase the value of their property (such as the construction of streets, sidewalks, or water and sewer systems).³ In other words, Mello-Roos taxes are not deductible and there may be other items on the bill that are not deductible. However, amounts paid for maintenance, repair, or interest charges related to those benefits, are deductible. If only a part of the assessed amount is for maintenance, repair, or interest charges, the taxpayer must be able to show the amount of that part to claim the deduction. Charges for services provided to the property are also not deductible. Taxpayers may not deduct any of the following charges as a real estate tax:

- A unit fee for the delivery of a
- service, such as water;
- A periodic charge for a residential
- service, such as trash collection; or
- A flat fee charged for a single service provided by the local government, such as mowing the property's lawn.

Spidell Publishing, Inc.® has requested the FTB provide an education campaign to alert taxpayers of the correct computation of the deduction. We have explained the potential problems with a program that might attempt to match property tax deducted with what is allowable. For example, we have advised the FTB that many counties do not provide adequate information to determine whether an assessment is deductible. Also some properties have multiple parcel numbers. Finally, taxpayers with out-of-state property may have difficulty determining the deductible amount. We will let you know what the FTB's final decision is.