

**OFFICE OF TAX APPEALS  
STATE OF CALIFORNIA**

In the Matter of the Appeal of:  
**V. KARUNARATNE AND  
C. MALLORY**

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) OTA Case No. 22019396  
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**OPINION**

Representing the Parties:

For Appellants: V. Karunaratne  
C. Mallory

For Respondent: Eric R. Brown, Tax Counsel III

H. LE, Administrative Law Judge: Pursuant to Revenue and Taxation Code (R&TC) section 19045, V. Karunaratne and C. Mallory (appellants) appeal an action by the Franchise Tax Board (respondent) proposing additional tax of \$4,725, and applicable interest, for the 2017 tax year.

Appellants waived the right to an oral hearing; therefore, Office of Tax Appeals (OTA) decides this matter based on the written record.

**ISSUE**

Whether appellants have shown error in respondent’s proposed assessment for the 2017 tax year, which is based on federal adjustments.

**FACTUAL FINDINGS**

1. Appellants timely filed their 2017 California Resident Income Tax Return. Appellants claimed itemized deductions, including unreimbursed employee expenses and other expenses.
2. Subsequently, respondent received information from the IRS showing that it disallowed the same amount of itemized unreimbursed employee expenses and other expenses as claimed in appellants’ 2017 California Resident Income Tax Return. Accordingly, the

- IRS allowed the standard deduction instead of itemized deductions, revised appellants' federal taxable income to approximately \$185,000 and assessed additional federal tax.
3. Based on the federal adjustments, respondent issued a Notice of Proposed Assessment (NPA) that allowed the standard deduction instead of the itemized deductions because the standard deduction exceeded the allowable itemized deductions. The NPA revised appellants' California taxable income to approximately \$205,000.
  4. Appellants protested the NPA. Subsequently, respondent affirmed the NPA in a Notice of Action.
  5. This timely appeal followed.

### DISCUSSION

R&TC section 18622(a) provides that a taxpayer shall either concede the accuracy of a federal determination or state wherein it is erroneous. It is well settled that a deficiency assessment based on a federal adjustment is presumed to be correct and the taxpayer bears the burden of proving that respondent's determination is erroneous. (*Appeal of Valenti*, 2021-OTA-093P.)

Here, appellants do not dispute the federal adjustments. Instead, appellants argue that respondent's deficiency assessment is incorrect because their California taxable income should be the same as their federal taxable income. However, California taxable income is not the same as federal taxable income because of federal and California tax law differences.

In short, the calculation of an individual's federal taxable income starts with determining gross income, which is defined as all income from whatever source derived. (Internal Revenue Code (IRC), § 61(a).) Then, certain deductions are removed from gross income to arrive at the individual's federal adjusted gross income (AGI). (IRC, § 62(a).) Finally, federal AGI is reduced by (1) either itemized deductions or a standard deduction and (2) a deduction for personal exemptions to arrive at federal taxable income. (IRC, § 63.)

In contrast, to calculate an individual's California taxable income, federal AGI is used as the starting point. (R&TC, § 17072(a).) Then, to account for federal/California tax differences, California requires subtracting and adding certain items to determine California AGI. (R&TC, §§ 17081-17158.1.) One subtraction item is state and local tax refunds. (R&TC, §§ 17131, 17220; IRC, § 111.) Finally, California AGI is reduced by either the itemized deductions or the

standard deduction to arrive at an individual’s California taxable income. (R&TC, §§ 17201, 17073.5.)

Here, respondent properly calculated appellants’ California taxable income. Respondent started with federal AGI, reduced that amount for state and local tax refunds, and allowed the standard deduction instead of the itemized deductions. Accordingly, appellants have not shown error in respondent’s proposed assessment for the 2017 tax year.

HOLDING


Appellants have not shown error in respondent’s proposed assessment for the 2017 tax year, which is based on federal adjustments.

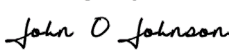
DISPOSITION

OTA sustains respondent’s action in full.

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Huy “Mike” Le  
Administrative Law Judge

We concur:

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Andrew Wong  
Administrative Law Judge

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John O. Johnson  
Administrative Law Judge

Date Issued: 1/5/2023