

Guide for handling California Middle Class Tax Refund (MCTR) payments

Last updated December 23, 2022

This guide is an expansion of the information about the MCTR that appears on page 58 of the [TY 2022 Duck Book](#) (edition of December 9, 2022).

SECTION 1: BACKGROUND INFORMATION

California is treating the Middle Class Tax Refund (MCTR) payments made from October 2022 through January 2023 as **taxable** on the federal tax return, but **non-taxable** on the California return. “Payments” are either direct deposits or **debit cards** sent in the mail. If a direct deposit is made, *the taxpayer does not receive a letter or notice*.

- Any payments received in January 2023 are taxable on the **2023** federal tax return, not the current year (2022) tax return. If the taxpayer received a January payment, they should *not* have received a 1099-MISC for tax year 2022.
 - As of December 17, 2022, the FTB expects 2023 payments to be limited to “Direct deposit recipients who have changed their banking information since filing their 2020 tax return”.

Note: Not all tax experts agree with the FTB’s treatment of these payments as taxable on the federal return. If the FTB changes its opinion, this guide will be updated. But once the FTB issues Form 1099-MISCs (see below), in January 2023, it may be very difficult to reverse its decision.

MCTR payments are determined based on information in a taxpayer’s **2020** California tax returns. If one of the following is true, a taxpayer will not receive a MCTR payment.

- The taxpayer **did not file** a 2020 CA return.
- The taxpayer did file such a return, but one or more of the following is true:
 - **Did not live in California** for at least six months in 2020.
 - Did not file the return by **October 15, 2021**.
 - Filed a **dependent return**.
 - The taxpayer’s CA AGI on their 2020 return was **too high** (\$250,000 if filing Single; \$500,000 otherwise).

Note that a SSN is not required - taxpayers with ITINs still qualify for MCTR payments.

MCTR payments are either (a) direct deposit, if the taxpayer had a direct deposit or direct debit for their 2020 CA tax return, or (b) a debit card, mailed to the taxpayer.

MCTR amounts are:

- \$350 for a single taxpayer (again, based on the 2020 return), but phasing out starting when CA AGI reaches \$75,001
- \$700 for MFJ return with no dependents, or HoH with one or more dependents, but phasing out starting when CA AGI reaches \$150,001
- \$1,050 for MFJ return with one or more dependent, again phasing out beginning at \$150,001.

*FTB will issue 1099-MISC forms **only for payments of \$600 or more.***

SECTION 2: FORM 1040 (FEDERAL RETURN)

A. If the taxpayer has a 1099-MISC:

- Enter the 1099-MISC in TaxSlayer
- Tell TaxSlayer that this is “Other Income”
- Also go to the State Section and make a **California adjustment** (see Section 3)

B. If the taxpayer does not have a 1099-MISC:

- (1) Determine if the taxpayer should have gotten a payment (see above for the situations where the taxpayer would not have been eligible for a MCTR payment)
 - If no, then continue with other parts of the return
 - If yes, then continue with either (2) or (3):
- (2) If the taxpayer should have gotten the form, because the payment should have been \$600 or more:
 - Does the taxpayer remember getting a payment?
 - If **yes**, then handle as if the taxpayer had the form (enter as a 1099-MISC), and also make a California adjustment as described in Section 3, below.
 - If **no**, then follow local policy with regard to handling such cases (whether or not to file a federal return without entering the presumed MCTR payment). For example, if the MCTR amount will not change the amount of federal tax owed, there is no reason to omit it from the federal return.
- (3) If the taxpayer should not have gotten the form, because the payment should have been less than \$600:
 - Does the taxpayer remember getting a payment?

- If yes, then enter as “Other income”, directly (do not enter as a 1099-MISC), and also make a California adjustment as described in Section 3, below.
- If no, then follow local policy with regard to handling such cases (whether or not to file a federal return without entering the presumed MCTR payment). For example, if the MCTR amount will not change the amount of federal tax owed, there is no reason to omit it from the federal return.

SECTION 3: CALIFORNIA ADJUSTMENT

If a MCTR payment is entered on the federal return, do the following to prevent the payment from being treated as taxable income on the CA return:

Go to the State Section in TaxSlayer, and adjust the CA return:

- Select “Subtractions from Income”, then “Other Subtractions”, “Add Other Subtraction”.
- On the **Other Subtraction Information page**, enter “CA MCTR” as the description, enter the dollar amount of the MCTR payment, check “No”, and then click “Continue”.
 - *Note: it is not necessary* to adjust the CA return if, after the federal return is complete, line 33 (taxable income) on CA Form 540 is **zero**.

SECTION 4: DECEASED TAXPAYERS

For a deceased taxpayer (one included on a 2020 CA return who met all the other requirements to get an MCTR payment), California considers MCTR payments to that taxpayer **to be valid unless the taxpayer filed as Single on their 2020 CA return**.

For more information, including how to return ineligible MCTR payments, see ftb.ca.gov/about-ftb/newsroom/middle-class-tax-refund/help.html .