



California

Forms & Instructions

3805Z

1996

Enterprise Zone and Program
Area Business Booklet

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This booklet contains:

[Form FTB 3805Z](#), Enterprise Zone/Program Area
Deduction and Credit Summary



**State of California
Franchise Tax Board**

Instructions for Enterprise Zone and Program Area Businesses — Form FTB 3805Z

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1993** and to the California Revenue and Taxation Code (R&TC).

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General Information

California has established four types of economic development areas that have related tax incentives:

- Enterprise zones;
- Program areas;
- The Los Angeles Revitalization Zone (LARZ); and
- Local agency military base recovery areas (LAMBRA).

A business may qualify for special deductions and credits if it operates or invests in a trade or business located within the geographical boundaries of one of these economic development areas.

Note: For information about the Los Angeles Revitalization Zone tax incentives, get form FTB 3806, Los Angeles Revitalization Zone Booklet. For information about local agency military base recovery area tax incentives, get form FTB 3807, Local Agency Military Base Recovery Area Booklet.

What's New

- **Apportionment Formula.** For taxable or income years which end after December 31, 1996 generally the 4-factor apportionment formula, which includes the sales factor, must be used in order to determine apportioned enterprise zone income. For more information, including exceptions, see Part V, Doing Business Totally Within, Within and Outside an Enterprise Zone or Program Area, or in More than One Enterprise Zone or Program Area.

- **Minimum Wage.** The minimum hourly wage increased on October 1, 1996, from \$4.25 to \$4.75 pursuant to Public Law 104-188. The next increase will occur on March 1, 1997, when the California minimum wage (pursuant to the passage of Proposition 210, the Living Wage Act of 1996) increases from \$4.75 to \$5.00. The subsequent increase will occur on September 1, 1997, when the federal minimum wage (pursuant to Public Law 104-188) increases to \$5.15. See Part I for how the minimum wage increase will affect the hiring credit.
- **Jobs Credits.** The federal Jobs Credit (computed on federal Form 5884 or Form 3800, General Business Credit) expired (for employees who began work after December 31, 1994). The California Jobs Credit (computed on form FTB 3524) expired (for employees who began work after December 31, 1993).
- **Long Beach Enterprise Zone.** Taxpayers located in the Long Beach Enterprise Zone engaged in aircraft manufacturing may claim an increased enterprise zone hiring credit (up to 202% of the minimum wage) for up to 1,350 qualified employees. For more information see Part I.
- **Enterprise Zone and Program Area Unification.** Due to legislation enacted during the 1996 regular session, beginning on January 1, 1997, the existing Enterprise Zone and the Employment and Economic Incentive Act will be replaced by the Enterprise Zone Act. Enterprise zones and program areas designated or authorized to be designated as of December 31, 1996, would automatically receive designation as a new enterprise zone under the new Enterprise Zone Act. Beginning with taxable or income years beginning on or after January 1, 1997, the existing enterprise zone and program area incentives will also be replaced by new enterprise zone incentives which are substantially similar to the existing incentives. The main differences in the new enterprise zone tax incentives and the existing enterprise zone tax incentives are: a broader definition of a qualified employee for purposes of the hiring credit and the employee wage credit; and, an increase to the business expense deduction.

A Purpose

Use this booklet to determine the correct amount of deductions and credits that a business may claim for operating or investing in a trade or business within an enterprise zone or program area. Complete the worksheets in this booklet for each deduction or credit for which the business is eligible. Then enter the total deductions and credits on form FTB 3805Z, Enterprise Zone/Program Area Deduction and Credit Summary.

B How to Claim Deductions and Credits

To claim any deduction or credit, the business must attach form FTB 3805Z (included in this

booklet) to its California tax return. Attach a separate form FTB 3805Z for each enterprise zone or program area where the business operates or invests.

To assist with the processing of the tax return, indicate that the business operates or invests within an enterprise zone/program area by doing the following:

Form 540 filers: Write "EZ/PA" in the top margin of Side 1 of Form 540.

All others: Check the "yes" box for the enterprise zone, program area, Los Angeles Revitalization Zone or local agency military base recovery area question on the top of Side 1 or on Side 2 of the tax return.

Note: Be sure to keep all completed worksheets and supporting documents for your records.

C Survey

An informational survey is included in this booklet. Please take the time to fill it out, fold as indicated on the back, tape it closed, add postage and mail it to the Economic and Statistical Analysis Bureau of the Franchise Tax Board. The purpose of this survey is to gather information regarding how many businesses are using the tax incentives, which incentives the businesses are using and in which economic development areas they are using them. This information will help the California Legislature make future decisions regarding enterprise zones and program areas.

D Enterprise Zones

Enterprise zones were established in California to stimulate development in selected economically depressed areas. The Enterprise Zone Act provides special tax incentives for entities and individuals who operate or invest in a business located within a designated enterprise zone.

Businesses operating within an enterprise zone do not need to qualify or receive prior approval to take advantage of these special tax incentives. For more information, get FTB Pub. 1047, Guidelines for Enterprise Zone Tax Incentives, or call the California Trade and Commerce Agency at (916) 324-8211.

Portions of the following areas were officially designated by the California Trade and Commerce Agency as enterprise zones on the dates shown.

Altadena/Pasadena	04/10/92
Calexico	10/15/86
Coachella Valley	11/11/91
Delano	12/17/91
Eureka	10/15/86
Fresno	10/15/86
Kings County	06/22/93
Lindsay	10/06/95
Long Beach	01/08/92
Los Angeles – Central City	10/15/86

Los Angeles – Northeast Valley (formerly Pacoima)	10/15/86
Merced/Atwater	12/17/91
Oakland	09/28/93
Oroville	11/06/91
Porterville	10/15/86
Richmond	03/02/92
Sacramento Army Depot	10/04/94
San Bernardino/Riverside (Agua Mansa)	10/15/86
San Diego – Barrio Logan	10/15/86
San Diego – Otay Mesa/ San Ysidro	01/28/92
San Francisco	05/28/92
San Jose	12/31/86
Santa Ana	06/08/93
Shafter	10/04/95
Shasta Metro	11/06/91
Shasta Valley	06/22/93
Stockton	06/22/93
Yuba City/Marysville	10/15/86

Caution: The special tax incentives available to businesses operating within enterprise zones can only be taken for costs paid or incurred after the zone is designated and before the designation expires.

E Program Areas

Program areas were established in California to stimulate business in selected areas with high levels of unemployment. A qualified business operating within a program area is entitled to special tax incentives.

A "qualified business" is a business located in a program area and certified by the California Trade and Commerce Agency as meeting specified standards based on its work force in the program area during the taxable or income year. For more information, get FTB Pub. 1048, Guidelines for Program Area Tax Incentives, or call the California Trade and Commerce Agency at (916) 324-8211.

Portions of the following areas were officially designated as program areas on the dates shown.

Los Angeles – East Area	01/11/88
Los Angeles – Greater Watts	10/15/86
Los Angeles – Wilmington/ San Pedro	03/03/89
Madera	03/03/89
Pittsburg	01/11/88
Sacramento – Northgate	10/15/86
Sacramento – Oak Park/ Florin-Perkins	04/05/89
Southeast Bakersfield	10/15/86
West Sacramento	01/11/88

F Important Considerations

Enterprise zone and program area tax incentives apply **only** to investments and business activities undertaken within the zone or area **after** the enterprise zone or program area receives final designation and before the designation expires. In the case of a program area, the business must also receive final certification as a qualified business before any tax incentives apply.

Expansion. This requirement also applies to any expansion of the existing enterprise zone or program area boundaries. Thus, the business in the expanded area is eligible for the tax incentives only after the expansion receives final designation.

G Geographic Boundaries

The geographic boundaries of an enterprise zone or program area are used to determine whether tax incentives are available to a business in a specified location. Further information about the geographic boundaries of an enterprise zone or program area and certification of a program area business is available from:

ATTENTION ENTERPRISE ZONE PROGRAMS
CALIFORNIA TRADE AND COMMERCE AGENCY
801 K STREET SUITE 1600
SACRAMENTO CA 95814
Telephone: (916) 324-8211

If your business is located within and outside an enterprise zone or program area, see Part V on page 11 for instructions on how to allocate income.

H Forms Table

The titles of forms referred to in this booklet are:

Form 100	– California Corporation Franchise or Income Tax Return
Form 100S	– California S Corporation Franchise or Income Tax Return
Form 109	– California Exempt Organization Business Income Tax Return
Form 540	– California Resident Income Tax Return
Form 565	– Partnership Return of Income
Form 568	– Limited Liability Company Return of Income
Schedule CA (540)	– California Adjustments – Residents
Schedule P	– Alternative Minimum Tax and Credit Limitations
Schedule R	– Apportionment and Allocation of Income

Part I Hiring Credit

Enterprise Zones

Employers conducting a trade or business inside an enterprise zone may claim the hiring credit for a new employee who:

- Was hired after the enterprise zone received its final designation (see General Information D);
- Spends at least 90% of work time on activities directly related to the conduct of a trade or business located within an enterprise zone;
- Performs at least 50% of the work within the boundaries of the enterprise zone; and
- Was eligible at the time of hire to:
 1. Receive subsidized employment, training or services under the terms of the federal Job Training Partnership Act (JTPA); or
 2. Be registered under Greater Avenues for Independence Act (GAIN); or
 3. Be certified under the federal Targeted Jobs Tax Credit Program (TJTC) as long as that program exists.

The percentage of wages used to calculate the credit depends on the number of years the employee works for the employer in the enter-

prise zone. The applicable percentage begins at 50% and declines 10% for each year of employment.

Program Areas

Employers that conduct a qualified trade or business within a program area may claim the hiring credit for a portion of the wages paid to employees who were hired after the program area has been certified, and at the time of hire:

- Were residents of a high density unemployment area; and
- Were unemployed for three months or more.

An employer may also claim a credit for the portion of wages paid to a qualified employee who is hired no more than 90 days prior to certification as a qualified business by the California Trade and Commerce Agency.

The percentage of wages used to calculate the credit depends on the number of months the employee was unemployed and the number of years the employee works for the employer in the program area. The applicable percentage declines 10% for each year of employment.

Participation by a prospective employee in a state or federally funded job training or work demonstration program does not constitute employment, nor does it affect the eligibility of an otherwise qualified employee.

Enterprise Zones and Program Areas

The credit is based on the lesser of the following:

- The actual hourly rate paid or incurred by the employer for work performed by the employee during the taxable or income year; or
- **150% of the minimum hourly wage** established by the Industrial Welfare Commission shown in column (c) of the table below.

Where the California minimum wage is higher than the federal minimum wage, the California minimum wage is used for purposes of computing the enterprise zone and program area hiring credit. The following table represents the applicable minimum wage and 150% of the minimum wage for purposes of computing the enterprise zone and program area hiring credit:

	(a)	(b)	(c)
Wages paid or incurred during the following time periods:	Minimum wage	Minimum wage	150% of the minimum wage
Prior to October 1, 1996		\$4.25	\$6.37
October 1, 1996 through February 28, 1997		\$4.75	\$7.12
March 1, 1997 through August 31, 1997		\$5.00	\$7.50
September 1, 1997 through February 28, 1998		\$5.15	\$7.72

Long Beach Enterprise Zone. For taxable or income years beginning on or after January 1, 1996, the percentage of wages on which the hiring credit is based increased for taxpayers **engaged in aircraft manufacturing activities** (described in Codes 3721 to 3728, inclusive, and Code 3812 of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition). Qualified wages for purposes of the hiring credit

for such aircraft manufacturers located in the Long Beach Enterprise Zone, for up to a maximum of 1,350 qualified employees, are based on the lessor of:

- The actual hourly rate paid or incurred by the employer for work performed by the employee during the taxable or income year; or
- The following rates (based on the time qualified wages are paid or incurred) which represent **202% of the minimum hourly wage** shown in column (c) of the table below.

(a)	(b)	(c)
Wages paid or incurred during the following time periods:	Minimum wage	202% of the minimum wage
January 1, 1996 to September 30, 1996	\$4.25	\$ 8.58
October 1, 1996 through February 28, 1997	\$4.75	\$ 9.59
March 1, 1997 through August 31, 1997	\$5.00	\$10.10
September 1, 1997 through February 28, 1998	\$5.15	\$10.40

Credit Limitations

- The business must reduce any deduction for wages by the amount of the hiring credit.
- S corporations must reduce their wage deduction by 1/3 of the amount on Worksheet I, line 4. Make the wage deduction adjustment on Form 100S, Side 1, line 7. In addition, the S corporation must add the entire amount of the credit on Schedule K, line 1, column c.

Example: In 1996, an S corporation qualified for a \$3,000 enterprise zone hiring credit. S corporations can only claim 1/3 of the credit ($\$3,000 \times 1/3 = \$1,000$). Therefore, the S corporation must reduce its wage deduction by \$1,000. On Schedule K, line 1, column c, the S corporation would add \$3,000 to the corporation's ordinary income or loss.

For additional information about the treatment of credits for S corporations, see Part VII on page 18.

- The amount of hiring credit claimed may not exceed the amount of tax on the enterprise zone or program area business income in any year. Use Worksheet VII on Side 2 of form FTB 3805Z to compute the credit limitation.
- The business may carry over any unused hiring credit to future years until the credit is used. In the case of an S corporation, 2/3 of the credit is lost, the remaining 1/3 can be carried over if it cannot be used in the current year.

Record Keeping. For each qualified employee, keep a schedule for the first 60 months (5 years) of employment showing:

- Employee name;
- Date employee was hired;
- Number of hours employee worked per month;
- The hourly rate of pay for each month;
- Location of employee's job site; and
- Qualified wages per month.

Example:

Month	Hours	x Hourly Rate	= Qualified Wages
1	170	\$6.00	\$1,020.00
2	175	6.25	1,093.75
3	172	6.37*	1,095.64
4	170	7.12*	1,210.40
Continue to 60			

*John's hourly rate is \$7.50, however the hourly rate is limited to 150 percent of the minimum wage (\$6.37 through September 30, 1996, and \$7.12 on or after October 1, 1996).

Instructions for Worksheet I – Hiring Credit & Recapture

Section A – Credit Computation

Line 1, column (a) – Enter the name of each qualified employee.

Line 1, column (b) through column (f) – Enter the qualified wages paid or incurred during the taxable or income year to each employee in the appropriate column.

Example. If you are a 1996 calendar year taxpayer and you hired an employee on 6/1/95, on the 1996 worksheet, you would enter the total qualified wages paid to the employee for the period beginning 1/1/96 and ending 5/31/96 in column (b). You would enter the total qualified wages paid to the employee for the period beginning 6/1/96 and ending 12/31/96 in column (c).

(a) Employee Name	(b) 1st 12 months	(c) 2nd 12 months
John Doe	Amount of qualified wages earned from 1/1/96 to 5/31/96.	Amount of qualified wages earned from 6/1/96 through 12/31/96.

The qualified wages from 6/1/95 to 12/31/95 were put in column (b) on the 1995 worksheet.

Line 2, column (b) through column (f) – Add the amounts in each column.

Line 3, column (b) through column (f) – Multiply the total in each column of line 2 by the percentage in each column.

***Exception for program area businesses:** The percentage of qualified wages used to calculate the hiring credit for the employee's first 12 months of employment is determined by the number of months the employee was unemployed prior to being hired.

Use the chart below to determine the percentage to use in column (b):

Months Unemployed	Column (b) Percentage
0 – 3	0 Does not Qualify
3 – 6	.25
6 or more	.50

Line 4 – Add the amounts on line 3, column (b) through column (f). Enter this amount on line 4 and on Worksheet VII, line 8B, line 10 or line 12, column (b)

Section B – Credit Recapture

If the employer terminates an employee at any time during the first 270 days of employment (whether or not consecutive) or before the close of the 270th calendar day after the day the employee completes 90 days of employment, the employer must recapture the amount of credit attributable to that employee's wages.

The employer must add to the current year's tax the amount of credit claimed in the year of termination and all prior years in which the credit was claimed for the terminated employee.

Note: The credit recapture does not apply if the termination of employment was:

- Voluntary on the part of the employee;
- In response to misconduct of the employee;
- Caused by the employee becoming disabled, (unless the employee was able to return to work and the employer did not offer to re-employ the individual);
- Carried out so that other qualified individuals could be hired, creating a net increase in both the number of qualified employees and their hours worked; or
- Due to a substantial reduction in the employer's trade or business operations. For program areas, this substantial reduction in operations must be due to events other than any regularly occurring seasonal reduction.

Line 1, column (a) – Enter the name of the terminated employee. Attach additional schedules if necessary.

Line 1, column (b) and column (c) – Enter the amount of credit recapture for each employee. If the employee was employed in an enterprise zone, enter the amount in column (b). If the employee was employed in a program area, enter the amount in column (c).

Line 2 – Add the amounts in column (b) and column (c). Enter the amount from line 2, column (b) on form FTB 3805Z, Side 1, line 6. Enter the amount from line 2, column (c) on form FTB 3805Z, Side 1, line 7.

Include the amount of hiring credit recapture on your tax return as follows:

- Form 100, Side 2, Schedule J;
- Form 100S, Side 2, Schedule J;
- Form 109, Side 4, Schedule K;
- Form 540, line 36;
- Form 565, Schedule K and Schedule K-1 (565), line 22; or
- Form 568, Schedule K, line 20, Schedule K-1 (568), line 22.

Indicate that you included the hiring credit recapture on your tax return by writing "FTB 3805Z" in the space provided on the schedule or form.

Partnerships and limited liability companies must identify the recapture amounts for their partners and members on Schedule K-1 (565 or 568).

S corporation shareholders must recapture the portion of credit that was previously claimed, based on the terminated employee's wages. S corporations must also identify the recapture amount for shareholders on Schedule K-1 (100S). This amount will differ from the amount recaptured by the S corporation on Form 100S, Side 2, Schedule J.

Section A Credit Computation

Qualified Wages for Year of Employment

	(a) Employee Name	(b) First Year	(c) Second Year	(d) Third Year	(e) Fourth Year	(f) Fifth Year
1						
2	Totals					
3	Multiply line 2 by the percentage for each column. *Program areas see instructions.50*	.40	.30	.20	.10
4	Add the amounts on line 3, column (b) through column (f). Enter the amount here and on Worksheet VII, line 8B, line 10 or line 12, column (b)..					4

Section B Credit Recapture

	(a) Terminated Employee's Name	(b) Enterprise Zone Credit Recapture	(c) Program Area Credit Recapture
1			
2	Total amount of credit recapture. Total the amounts in column (b) and column (c). See instructions for where to report on the California tax return	2	

Part II Sales or Use Tax Credit

Enterprise Zones and Program Areas

Individuals, partnerships and limited liability companies may claim a credit equal to the sales or use tax paid or incurred to purchase the first \$1 million of qualified machinery. **Corporations** may claim a credit equal to the sales or use tax paid or incurred to purchase the first \$20 million of qualified machinery. Individuals who are S corporation shareholders may claim their allocable share of flow through credit to the extent the S corporation paid or incurred sales or use tax to purchase the first \$1 million of qualified machinery.

Qualified machinery is the machinery or machinery parts used to:

- Manufacture, process, combine or otherwise assemble a product;
- Produce renewable energy resources; or
- Control air or water pollution.

The business must use the machinery **exclusively** within the boundaries of the enterprise zone or program area.

Use tax paid on purchases of machinery outside California qualify for the credit only if machinery of a comparable quality and price was not available in California at the time it was needed.

Leased Property

The sales tax price on qualified property being purchased using a financial (conditional sales) contract qualifies for the sales or use tax credit.

To determine whether the lease qualifies as a purchase rather than a true lease see Revenue Ruling 55-540, 1955-2 C.B. 39 and FTB Legal Ruling 94-2, March 23, 1994.

Credit Limitations

- The amount of sales or use tax credit claimed may not exceed the amount of tax on the enterprise zone or program area business income in any year. After completing Worksheet II (below), use Worksheet VII on

Side 2 of form FTB 3805Z to compute the credit limitation.

- Any unused credit may be carried over and applied against the tax on enterprise zone or program area income in future years.

Election. For each item of qualified machinery physically located in a portion of the LARZ which overlaps with an enterprise zone or program area, a taxpayer is allowed to claim only one credit for that item of machinery. The credit for the machinery must be claimed by making an election on the original return filed, and thus, cannot be claimed on an amended return. For example, if an item of machinery qualifies for the LARZ sales or use tax credit, the enterprise zone/program area sales or use tax credit and the manufacturers' investment credit, the taxpayer must elect which credit to claim on the original return. Such an election cannot be revoked without the written consent of the FTB.

Depreciation. Any taxpayer that elects this credit cannot increase the basis of the qualified property with respect to the sales or use tax paid or incurred in connection with the purchase of qualified property.

To compute the difference between California and federal depreciation use the following forms:

- Form 100 filers – FTB 3885, Corporation Depreciation and Amortization;
- Form 100S filers – Schedule B, S Corporation Depreciation and Amortization;
- Form 540 filers – FTB 3885A, Depreciation and Amortization Adjustments – Individuals;
- Form 565 filers – FTB 3885P, Depreciation and Amortization – Partnerships; or
- Form 568 filers – FTB 3885L, Depreciation and Amortization – Limited Liability Companies.

Record Keeping. In order to support the sales or use tax credit claimed, keep all records that document the purchase of the machinery, such as the sales receipt and proof of payment. Additionally, keep all records that identify or describe:

- The machinery purchased (such as serial numbers, etc.);
- The amount of sales or use tax paid on its purchase; and
- The location where it is used; and
- If purchased from a manufacturer located outside California, records must be provided to substantiate that machinery of comparable quality and price was not available for purchase in California.

Instructions for Worksheet II — Sales or Use Tax Credit

Line 1, column (a) – List the items of qualified machinery and machinery parts purchased during the year. For each item, provide the location (street address and city) of its use.

Line 1, column (b) – Indicate whether the machinery is used in an enterprise zone or program area by writing "EZ" or "PA" as appropriate.

Line 1, column (c) – Enter the cost of the machinery or machinery parts listed in column (a).

Line 1, column (d) – Enter the amount of sales or use tax paid or incurred on the machinery or machinery parts listed in column (a).

Line 2, column (c) – Add the amounts in column (c).

Caution: This amount cannot exceed \$1 million for individuals, estates or trusts or \$20 million for corporations.

Line 2, column (d) – Add the amounts in column (d). Enter the total here and on Worksheet VII, line 9B, line 11 or line 13, column (b).

Caution: Only the sales or use tax paid on the cost of machinery up to the limitations on column (c) may be claimed as a credit.

Worksheet II Sales or Use Tax Credit — Enterprise Zones and Program Areas

	(a) Machinery/Parts Description/Location	(b) Enterprise Zone or Program Area	(c) Cost	(d) Sales/Use Tax
1				
2	Total the amounts in column (c) and column (d). Enter the total from column (d) on Worksheet VII, line 9B, line 11 or line 13, column (b)			2

Part III Business Expense Deduction

Enterprise Zones

Businesses conducting a trade or business within an enterprise zone may **elect** to treat a portion of the cost of qualified property as a business expense rather than a capital expense. For the year the property is placed in service, the business may deduct the cost in that year rather than depreciate it over several years.

Qualified property is any recovery property that is IRC Section 1245 property, which includes, but is not limited to, tangible personal property (excluding buildings), most equipment and furnishings acquired by purchase for exclusive use within an enterprise zone. Office supplies and other small nondepreciable items are not included.

The maximum aggregate deduction the business may claim in any taxable or income year is determined by the number of years that have elapsed since the enterprise zone received final designation. See Worksheet III, Section A, for the limitations and General Information D for the designation dates.

Note: For businesses located in the expansion area of an enterprise zone, the amount of the deduction is determined by using the original enterprise zone designation date.

Program Areas

Businesses conducting a qualified trade or business within a program area may elect to treat 40% of the eligible cost of qualified property as a business expense rather than a capital expense. For the year the property is placed in service, the business may deduct the cost in the current year rather than depreciate it over several years.

Qualified property consists of:

- Machinery and machinery parts purchased to:
 1. Manufacture, process, combine or otherwise assemble a product;
 2. Produce renewable energy resources; or
 3. Control air or water pollution; and
- Other depreciable property that is used as an integral part of a qualified business operating within a program area.

The maximum aggregate cost applicable to the 40% deduction the business may claim in any taxable or income year is determined by the number of years that have elapsed since the program area received its final designation. See General Information E for the designation dates.

Note: For businesses located in the expansion area of a program area, the amount of the deduction is determined by using the original program area designation date.

Enterprise Zones and Program Areas

The business must elect to treat the cost of qualified property as a business expense in the year the property is first placed in service. However, this election is not allowed if the property was:

- Transferred between members of an affiliated group;
- Acquired as a gift or inherited;
- Traded for other property;
- Received from a personal or business relation as defined in IRC Section 267; or
- Described in IRC Section 168(f).

A husband and wife filing separate returns may each claim $\frac{1}{2}$ of the allowable deduction. In the case of a partnership, the dollar limitation applies to the partnership and to each partner.

Depreciation. If the business elects to deduct the amount computed in Worksheet III, Section A or Section B, as a business expense, and if less than 100% of the cost of the property is deducted, the depreciable basis of the property must be reduced by the deduction.

Enterprise zones subtract the amount claimed as a business expense from the basis or cost of the property and depreciate the remaining basis or cost.

For program areas, normal depreciation is allowed on the cost of the property in excess of the expensed amount, starting with the year after the property was placed in service.

The deduction allowed under IRC Section 179 does not apply. Corporations may not claim the additional first-year depreciation allowed under R&TC Section 24356 on any item of property if any portion of it was deducted as a business expense.

To compute the difference between California and federal depreciation use the following forms:

- Form 100 filers – FTB 3885, Corporation Depreciation and Amortization;
- Form 100S filers – Schedule B, S Corporation Depreciation and Amortization;
- Form 540 filers – FTB 3885A, Depreciation and Amortization Adjustments – Individuals;
- Form 565 filers – FTB 3885P, Depreciation and Amortization – Partnerships; or
- Form 568 filers – FTB 3885L, Depreciation and Amortization – Limited Liability Companies.

Election. The enterprise zone and program area business expense deduction must be claimed by making an election on the original return filed, and thus cannot be claimed on an amended return. Such an election cannot be revoked without the written consent of the FTB.

Instructions for Worksheet III – Business Expense Deduction & Recapture

Section A – Enterprise Zone Property

Line 2, column (a) – Enter a description of the property and the location (street address and city) of its use.

Line 2, column (b) – Enter the cost of the property.

Line 4 – Enter the lesser of line 1 or line 3. Enter the amount here, on form FTB 3805Z, Side 1, line 2, and on the California tax return as follows:

- Form 100, line 15;
- Form 100S, line 13, Schedule K and Schedule K-1 (100S), line 8;
- Form 109, Side 2, Part II, line 24;
- Form 540, Schedule CA (540), column B, on the applicable line for your activity;
- Form 565, Schedule K and Schedule K-1 (565), line 9; or
- Form 568, Schedule K and Schedule K-1 (568), line 9.

Note: If filing Form 540, indicate that you are claiming the business expense deduction by writing “FTB 3805Z” below the dotted line to the left of the amount entered on Form 540, line 14.

Section B – Program Area Property

Line 1, column (a) – Enter a description of the property and the location (street address and city) of its use.

Line 1, column (b) – Enter the cost of the property.

Line 4 – Multiply line 3 by 40% (.40). Enter the amount here, on form FTB 3805Z, Side 1, line 2, and on the California tax return as follows:

- Form 100, line 15;
- Form 100S, line 13, Schedule K and Schedule K-1 (100S), line 8;
- Form 109, Side 2, Part II, line 24;
- Form 540, Schedule CA (540), column B, on the applicable line for your activity;
- Form 565, Schedule K and Schedule K-1 (565), line 9; or
- Form 568, Schedule K and Schedule K-1 (568), line 9.

Note: If filing Form 540, indicate that you are claiming the business expense deduction by writing “FTB 3805Z” below the dotted line to the left of the amount entered on Form 540, line 14.

Section C — Deduction Recapture

The deduction is subject to recapture (added back to income) if, before the close of the second taxable or income year after the property was placed in service, the property is sold, disposed, or no longer used exclusively in the enterprise zone or program area trade or business. In that case, add to current year income the amount previously deducted for that property.

Line 1, column (a) – Enter a description of the property.

Line 1, column (b) – Enter the amount of the business expense deduction claimed for the property that must be recaptured.

Line 2 – Add the amounts in column (b). Enter the total here, on form FTB 3805Z, Side 1, line 8, and on the California tax return as follows:

- Form 100, line 7;
- Form 100S, line 7, Schedule K and Schedule K-1 (100S), line 6;
- Form 109, Side 2, Part I, line 12;

- Form 540, Schedule CA (540), column C, on the applicable line for your activity;
- Form 565, Schedule K and Schedule K-1 (565), line 7; or
- Form 568, Schedule K and Schedule K-1 (568), line 7.

Note: If filing Form 540, indicate that you are recapturing the business expense deduction by writing “FTB 3805Z” below the dotted line to the left of Form 540, line 16.

Section A Enterprise Zone Property

1 If the designation date of the enterprise zone in which you operate a business was:

- Less than 25 months ago, enter \$5,000
- 25 months but not more than 48 months ago, enter \$7,500
- More than 48 months ago, enter \$10,000

1	
----------	--

The designation dates are listed in General Information D on page 2.

(a) Property Description / Location	(b) Cost
2	
3 Total. Add the amounts in column (b)	3
4 Enter the lesser of line 1 or line 3. This is the maximum amount deductible as a business expense for this enterprise zone. Enter here and on form FTB 3805Z, Side 1, line 2. See instructions on page 7 for where to report this amount on the California tax return	4

Section B Program Area Property

(a) Property Description / Location	(b) Cost
1	
2 Total. Add the amounts in column (b)	2
3 Enter the lesser of line 2 or \$50,000.	3
4 Multiply line 3 by 40% (.40). This is the maximum amount deductible as a business expense for this program area. Enter here and on form FTB 3805Z, Side 1, line 2. See instructions on page 7 for where to report this amount on the California tax return	4

Section C Deduction Recapture

(a) Property Description / Location	(b) Recapture Amount
1	
2 Total recapture amount. Total the amounts in column (b). Enter here and on form FTB 3805Z, Side 1, line 8. See instructions on page 8 for where to report this amount on the California tax return	2

Part IV Net Interest Deduction for Lenders

Enterprise Zones and Program Areas

A deduction from income is allowed for the amount of net interest received from loans made to a trade or business located within an enterprise zone or program area.

Net interest is defined as the full amount of interest received, less any direct expenses incurred in making the loan. Examples of direct expenses include, but are not limited to:

- Commissions paid to a loan representative;
- The cost of money incurred in funding the loan; and
- Other costs of the loan.

Types of loans that qualify for this deduction include business loans, mortgages and loans from noncommercial sources. The following requirements must be met to qualify for the deduction:

- The loan must be made to a trade or business located solely within an enterprise zone or program area;
- The money lent must be used strictly for the business activities within the enterprise zone or program area;

- The lender may not have equity or other ownership interest in the trade or business; and
- The loan must be made after the enterprise zone or program area was designated.

Note: For businesses located within a program area, the loan must be made in a taxable or income year after the business received certification as a qualified business by the California Trade and Commerce Agency.

Example: You lend \$5,000 to an enterprise zone business that meets the requirements listed above. You receive \$550 in interest and incur \$300 in expenses directly related to the loan. You may deduct \$250 (\$550 - \$300) of net interest from your taxable income.

Record Keeping. You should maintain records for each loan showing:

- The identity and location of the trade or business to which you lent the money;
- The amount of the loan, interest received and any direct expenses associated with the loan; and
- The use of the loan.

Instructions for Worksheet IV — Net Interest Deduction for Lenders

Line 1, column (e) – Enter the direct expenses incurred in making the loan. Examples of direct expenses include:

- Commissions paid to a loan representative;
- The cost incurred in funding the loan; and
- Other costs of the loan.

Line 2 – Add the amounts in column (f). Enter the total here, on form FTB 3805Z, Side 1, line 3, and on the California tax return as follows:

- Form 100, line 14;
- Form 100S, line 12, Schedule K and Schedule K-1 (100S), line 10;
- Form 109, Side 2, Part II, line 24;
- Form 540, Schedule CA (540), column B, on the applicable line for your business activity;
- Form 565, Schedule K and Schedule K-1 (565), line 9; or
- Form 568, Schedule K and Schedule K-1 (568), line 9.

Worksheet IV Net Interest Deduction for Lenders — Enterprise Zones and Program Areas

	(a) Name and Location of Business to which Loan was Made	(b) Date of Loan	(c) Amount of Loan	(d) Interest Received	(e) Direct Expenses Incurred	(f) Net interest column (d) minus column (e)
1						
2	Total. Add the amounts in column (f). Enter here and on form FTB 3805Z, Side 1, line 3. See instructions above for where to report this amount on the California tax return					2

Part V Doing Business Totally Within, Within and Outside an Enterprise Zone or Program Area, or in More than One Enterprise Zone or Program Area

The enterprise zone and program area tax incentives are limited to the tax on business income attributable to the operations within the zone or area. If the business is located totally within, both within and outside of or in more than one enterprise zone or program area, it must determine the portion of total business operations that are attributable to each enterprise zone or program area.

Use Worksheet V, Apportionment – Enterprise Zones and Program Areas, to determine the percentage of zone or area income to total income. This percentage determines the amount of the tax incentives that can be used.

Beginning in 1996, taxpayers with taxable or income years ending after December 31, 1996 generally must compute their enterprise zone or program area apportionment factor by using the 4-factor apportionment formula which includes a double weighted sales factor. **Exception:** Qualifying taxpayers who derive more than 50% of their gross business receipts from agricultural, extractive, savings and loan or bank and financial business activities must compute their enterprise zone or program area apportionment factor by using a 3-factor apportionment formula which includes a single weighted sales factor.

- **1996 calendar year taxpayers** must use Schedule A of Worksheet V to determine the enterprise zone or program area apportionment percentage; and
- **1996 fiscal year taxpayers** must use Schedule B of Worksheet V to determine the enterprise zone or program area apportionment percentage.

Note: If the business location(s) is solely within a single enterprise zone or program area, you do not have to complete this worksheet. Enter 100% on line 4.

Business Income vs. Nonbusiness Income

Only business income is apportioned to the enterprise zone or program area to determine the incentive limitation. Program area and enterprise zone tax incentives are limited to tax on business income attributable to the operations within the zone or area.

Business income is income arising from transactions and activities in the regular course of the trade or business. Business income includes income from tangible and intangible property if the acquisition, management and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. Nonbusiness income is all income other than business income. Get Title 18 Cal. Code Regulation Section 25120 for further references and examples of nonbusiness income.

For an individual, business income includes but is not limited to California business income or loss from Schedules C, D, D-1 (or Form 4797, Sales of Business Property, if you did not have to file a Schedule D-1), E and F, and wages. Be

sure to include casualty losses, disaster losses and any business deductions reported on Schedule A as itemized deductions. **Note:** If you elected to carryback part or all of your current year disaster loss under IRC Section 165(i)(1), do not include the amount of the loss that was carried back in your current year business income for the enterprise zone or program area.

In general, all transactions and activities of the business that are dependent upon or contribute to the operations of the economic enterprise as a whole constitute the trade or business.

When a corporation is part of a group of corporations engaged in a unitary business, the income and apportionment factors of the unitary group must be combined. For more information, see Schedule R.

The enterprise zone and program area provisions follow the allocation and apportionment provisions of the Uniform Division of Income for Tax Purposes Act (UDITPA). See California Regulations 25101 through 25137-11 for more information.

Property Factor

The property factor is the average value of all real and tangible personal property owned or rented and used during the taxable or income year to produce business income.

Note: Property is included in the factor if it could be used during the year.

Property owned by the business is valued at its original cost. **Original cost** is the basis of the property for federal income tax purposes, (prior to any federal adjustment), at the time of acquisition by the business, adjusted for subsequent capital additions or improvements and partial dispositions because of sale or exchange.

Rented property is valued at eight times the net annual rental rate. The net annual rental rate for any item of rented property is the total rent paid for the property, less aggregate annual subrental rates paid by subtenants. Allowance for depreciation is not considered.

The **numerator** of the property factor is the average value of the business's real and tangible personal property owned or rented and used within an enterprise zone or program area during the year to produce enterprise zone or program area business income (column (b)).

The **denominator** of the property factor is the total average value of all real and tangible personal property owned or rented and used during the year to produce business income both within and outside the enterprise zone or program area (column (a)).

Payroll Factor

The payroll factor is the total amount paid to the business's employees for compensation for the production of business income during the taxable or income year.

Compensation means wages, salaries, commissions, and any other form of remuneration paid directly to employees for personal services.

Payments made to independent contractors or any other person not properly classified as an employee are excluded.

Compensation Within the Enterprise Zone or Program Area.

Compensation is considered to be within an enterprise zone or program area if any one of the following tests is met:

- The employee's services are performed within the geographical boundaries of an enterprise zone or program area; or
- The employee's services are performed both within and outside the enterprise zone or program area, but the services performed outside the enterprise zone or program area are incidental to the employee's service within the zone or area.

Note: Incidental means any temporary or transitory service rendered in connection with an isolated transaction.

Compensation Within and Outside the Enterprise Zone or Program Area.

If the employee's services are performed both within and outside the enterprise zone or program area, the employee's compensation will be attributed to the enterprise zone or program area if:

- The employee's base of operations is within and outside the enterprise zone or program area; or
- There is no base of operations in any other part of the state in which some part of the service is performed, but the place from which the service is directed or controlled is within the zone or area.

Base of operations is the permanent place from which employees start work and customarily return in order to: receive instruction from the taxpayer or communications from their customers or other persons; replenish stock or other material; repair equipment; or perform any other functions necessary in the exercise of their trade or profession at some other point or points.

The **numerator** of the payroll factor is the total compensation paid to employees for working within the enterprise zone or program area during the taxable or income year (column (b)).

The **denominator** of the payroll factor is the total compensation paid for the production of business income during the year both within and outside of the enterprise zone or program area (column (a)).

Sales Factor (applicable to Worksheet V, Schedule B only).

The sales factor is a double weighted factor for all taxpayers except those taxpayers with more than 50% of gross business receipts derived from extractive or agricultural business activities, or savings and loan activities.

Extractive business activities means activities relating to the production, refining or processing of oil, natural gas or mineral ore. **Agricultural business activities** means activities relating to livestock, poultry, fruit, truck farm, ranch, nursery or range. (Refer to R&TC Section 25128(c)).

Savings and loan activity means any activity performed by savings and loan associations or savings banks which have been chartered by federal or state law.

If a taxpayer derives more than 50% of its gross business receipts from conducting an extractive

or agricultural business activity or savings and loan activity, all the business income of the taxpayer must be apportioned to the enterprise zone or program area using a single weighted sales factor. Unitary corporations must apply the 50% test to the business receipts of the entire group. If the entire group satisfies one of the exceptions, all members of the group must use the single weighted sales factor. If not, all members of the group must use a double weighted sales factor.

Sales, for purposes of the sales factor, means all gross receipts derived from transactions and activities in the taxpayers regular trade or business. Gross receipts means gross sales less returns and allowances. It also includes interest income, service charges, carrying charges or time-price differential charges incidental to these gross receipts. If federal and state excise taxes (including sales taxes) are passed on to the buyer or included in the selling price of the product, they must be included in gross receipts. This applies regardless of where the accounting records are maintained or the location of the contract or other evidence of indebtedness.

The following are rules for determining sales in various situations.

1. In the case of a taxpayer engaged in manufacturing and selling goods or products, sales includes all gross receipts from the sales of such goods or products held for sale to customers in the ordinary course of its trade or business. Goods or products also include other property of a kind that would properly be included in the inventory if on hand at the close of the income year.
2. In the case of cost plus fixed fee contracts, such as the operation of a government-owned plant for a fee, sales includes the entire reimbursed cost, plus the fee.
3. In the case of a taxpayer engaged in providing services, such as the performance of equipment service contracts or research and development contracts, sales includes the gross receipts from the performance of such services, including fees, commissions and similar items.
4. In the case of a taxpayer engaged in renting real or tangible property, sales includes the gross receipts from the rental, lease or licensing the use of the property.
5. In the case of a taxpayer engaged in the sale, assignment, or licensing of intangible personal property such as patents and copyrights, sales includes the gross receipts there from.
6. In the case of a taxpayer that derives receipts from the sale of equipment used in its business, these receipts constitute sales.

Sales of Tangible Personal Property

Gross receipts from the sales of tangible personal property (except sales to the U.S. Government) are attributable to the enterprise zone or program area if the property is:

1. Delivered or shipped to a purchaser within the enterprise zone or program area regardless of the f.o.b. point or other conditions of sale; or

2. Shipped from an office, store, warehouse, factory or other place of storage within the enterprise zone or program area by any member of the combined group and no member of the combined group is taxable in the state of the purchaser.

Any transportation of goods by vehicle is a form of shipment, whether the vehicle is owned by the seller, the purchaser or a common carrier. If a seller transfers possession of goods to a purchaser at the purchaser's place of business in an enterprise zone or program area, the sale is an enterprise zone or program area sale. However, if goods are transferred to the purchaser's employee or agent at some other location in the enterprise zone or program area and the purchaser immediately transports the goods outside the enterprise zone or program area, the sale is not an enterprise zone or program area sale.

Gross receipts from sales of tangible personal property to the U.S. Government are attributable to the enterprise zone or program area if the property is shipped from an enterprise zone or program area. Only sales for which the U.S. Government makes direct payment to the seller according to the terms of a contract constitute sales to the U.S. Government. Thus, as a general rule, sales by a subcontractor to the prime contractor, the party to the contract with the U.S. Government, do not constitute sales to the U.S. Government.

Sales (Other Than From Tangible Personal Property)

Sales, other than sales of tangible personal property, are apportioned to the enterprise zone or program area if:

1. The income-producing activity is performed wholly within the enterprise zone or program area; or
2. A portion of the income-producing activity is performed outside of the enterprise zone or program area but a greater portion of this activity is performed within the enterprise zone or program area than outside the zone or area, based on costs of performance.

Income-producing activity means the transactions and activity directly engaged in by the taxpayer in the regular course of its trade or business for the ultimate purpose of earning gains or profits. Income-producing activity applies to each separate item of income. Income-producing activity does not include transactions and activities performed on behalf of another taxpayer, such as those conducted by an independent contractor.

Costs of performance means direct costs determined in a manner consistent with generally accepted accounting principles and in accordance with industry practices in that trade or business.

Special Rules. The following are special rules to determine if receipts from the income-producing

activities are attributable to the enterprise zone or program area.

1. Gross receipts from the rendering of personal services by employees or the use of tangible and intangible property by the taxpayer in performing a service are attributable to the enterprise zone or program area to the extent that the services are performed within the enterprise zone or program area.

However, when services are performed within and outside the enterprise zone or program area, the gross receipts can be attributable to the enterprise zone or program area as shown below. If services are related to a:

- Separate income producing activity – gross receipts are measured by the ratio of time spent within the enterprise zone or program area versus time performing services everywhere; or
- Single item of income – all gross receipts if a greater portion of services are performed in the enterprise zone or program area based on costs of performance.

Time spent in performing services includes the amount of time expended in the performance of a contract or other obligation that gives rise to the gross receipts.

Personal service not directly connected with the performance of the contract or other obligation (for example, time expended in negotiating the contract) is excluded from the computations.

2. Gross receipts from the sale, rental, leasing, licensing or other use of real property are attributable to the enterprise zone or program area if the real property is located within the enterprise zone or program area.
3. Gross receipts from the rental, leasing, licensing or other use of tangible personal property are attributable to the enterprise zone or program area if the property is located within the enterprise zone or program area.

If tangible personal property is located within and outside of the enterprise zone or program area during the rental, lease or licensing period, gross receipts attributable to the enterprise zone or program area are measured by the ratio which the time the property was physically present or was used within the enterprise zone or program area bears to the total time or use of the property during the period.

The **numerator** of the sales factor is the gross receipts derived during the taxable or income year from transactions and activities occurring within the enterprise zone or program area in the regular course of the taxpayers trade or business.

The **denominator** of the sales factor is the total gross receipts derived during the taxable or income year from transactions and activities occurring everywhere (worldwide) both within and outside the enterprise zone or program area in the regular course of the taxpayer's trade or business.

Worksheet V **Apportionment — Enterprise Zones and Program Areas**

Schedule A — **For Calendar Year Taxpayers** Fiscal Year Taxpayers use Worksheet V, Schedule B.

Use Worksheet V if your business has income from sources within and outside an enterprise zone or program area

	(a) Total Within and Outside Enterprise Zone/Program Area	(b) Total Within Enterprise Zone/Program Area	(c) Percent Within Enterprise Zone/Program Area Column (b) ÷ Column (a)
1 Average yearly value of owned real and tangible personal property used in the business (at original cost). See instructions on page 12. Exclude property not connected with the business and the value of construction in progress.			
Inventory			
Buildings			
Machinery and equipment			
Furniture and fixtures			
Delivery equipment			
Land			
Other tangible assets (attach schedule)			
Rented property used in the business: See instructions on page 12			
Total property values.			
2 Employees' wages, salaries, commissions and other compensation related to business income included in return.			
Total payroll.			
3 Total percent (sum of the percentages in column (c))			
4 Average apportionment percentage (½ of line 3). Enter here and on form FTB 3805Z, Side 1, line 5.			

The average apportionment percentage shown on line 4 represents the portion of the business conducted everywhere attributable to activities conducted within the enterprise zone or program area. Use this figure to apportion income and losses where these amounts are to be divided between activities within and outside the enterprise zone or program area.

Worksheet V **Apportionment — Enterprise Zones and Program Areas**

Schedule B — **For Taxpayers with Taxable or Income Years Ending After December 31, 1996**

Use Worksheet V if your business has income from sources within and outside an enterprise zone or program area

	(a) Total Within and Outside Enterprise Zone/Program Area	(b) Total Within Enterprise Zone/Program Area	(c) Percent Within Enterprise Zone/Program Area Column (b) ÷ Column (a)
1 Average yearly value of owned real and tangible personal property used in the business (at original cost). See instructions on page 12. Exclude property not connected with the business and the value of construction in progress.			
Inventory			
Buildings			
Machinery and equipment			
Furniture and fixtures			
Delivery equipment			
Land			
Other tangible assets (attach schedule)			
Rented property used in the business: See instructions on page 12			
Total property values.			
2 Employees' wages, salaries, commissions and other compensation related to business income included in return.			
Total payroll.			
3 Sales (Gross receipts less returns and allowances).			
Total sales			
Divide Total Sales column (b) by Total Sales column (a). Multiply the result by 2 (except for agricultural and extractive industries, or savings and loan activities. See instructions). Enter this amount in column (c).			
4 Total Percent (add the percentage in column (c)).			
5 Average apportionment percentage. Divide line 4 by 4 (agricultural and extractive or savings and loan industries, divide by 3) and enter here and on form FTB 3805Z, Side 1, line 5.			

The average apportionment percentage shown on line 5 represents the portion of the business conducted everywhere attributable to activities conducted within the enterprise zone or program area. Use this figure to apportion income and losses where these amounts are to be divided between activities within and outside the enterprise zone or program area.

Part VI Net Operating Loss (NOL) Computation and Loss Limitations

An NOL generated by a business that operates or invests within an enterprise zone or program area can be carried forward for 15 years but may not be carried back. Financial institutions using bad debt reserve methods may carry over the loss for a maximum of five income years. In addition, up to 100% of the NOL generated in an enterprise zone or program area can be carried forward.

The business cannot generate NOLs from activities within the enterprise zone or program area until the first taxable or income year beginning on or after the date the enterprise zone is officially designated, or after the date the business is certified as a qualified business within a program area. See General Information D and E for designation dates.

Limitation. An enterprise zone or program area NOL deduction can only offset business income attributable to operations within the enterprise zone or program area.

Election. Businesses **must** elect and designate the carryover category (general or specific, enterprise zone, program area, LARZ or LAMBRA NOLs) on the original return for the year of a loss and file form FTB 3805Z for each year in which an NOL deduction is being taken. The election is **irrevocable**.

Note: If you elect the enterprise zone or program area NOL deduction, you are prohibited by law from carrying over any other type of NOL from this year.

To determine which type of NOL will provide the greatest benefit, businesses that have general or specific, LAMBRA, LARZ, enterprise zone or program area NOLs or that may qualify for the special NOL treatment should estimate future income and complete Worksheet VI and forms:

- FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Individuals, Estates and Trusts;
- FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations;
- FTB 3806, Los Angeles Revitalization Zone Booklet, Worksheet V; or
- FTB 3807, Local Agency Military Base Recovery Area Booklet, Worksheet IV.

Alternative Minimum Tax. Businesses claiming an enterprise zone or program area NOL deduction must determine their NOL for alternative minimum tax purposes. Use Schedule P (100, 540, 540NR or 541) to compute the NOL for alternative minimum tax purposes.

S Corporations. Enterprise zone or program area NOLs incurred prior to becoming an S corporation may not be used against S corporation income. See IRC Section 1371(b). However, an S corporation is allowed to deduct an enterprise zone or program area NOL incurred after the "S" election is made. An S corporation may use the NOL as a deduction against income subject to the 1.5% tax. The NOL is also passed through to the shareholders in the year the loss is incurred.

NOL Carryover Amount – Nonapportioning Corporations That Are Totally Within the Zone or Area

For calendar year taxpayers and fiscal year taxpayers with all sales inside the enterprise zone or program area the NOL carryover is determined by computing the business loss that results from business activity in the enterprise zone or program area.

NOL Carryover Amount – Apportioning Corporations and Nonapportioning Corporations Within and Outside the Zone or Area

If the business is located both within and outside of or in more than one enterprise zone or program area, the NOL carryover is determined by apportioning the total business loss of the corporation to the zone based on a special zone apportionment percentage computed in Worksheet V.

Corporations that are members of a unitary group filing a combined report must separately compute loss carryover for each corporation in the group (R&TC Section 25108) using their individual apportionment factors.

Unlike the NOL treatment on a federal consolidated return, a loss carryover for one member included in a combined report may not be applied to the intrastate apportioned income of another member included in a combined report.

For water's-edge purposes, each corporation's NOL carryover is limited to the amount determined by recomputing the income and factors of the original worldwide combined reporting group as if the water's-edge election had been in force for the year of the loss. The carryover may not be increased as a result of the recomputation.

Instructions for Worksheet VI – NOL Computation and Loss Limitations

Individuals and exempt organizations treated as trusts with a current year loss complete Section A. Corporations with a current year loss complete Section B. Individuals and corporations with current year income and a prior year NOL carryover complete Section C.

Section A Computation of Current Year NOL — Individuals and Exempt Organizations Treated as Trusts

Use this section to compute the NOL to be carried over to future years by individuals. Complete Section A **only** if you have a current year loss.

You must complete form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Individuals, Estates and Trusts, before you can compute the allowable enterprise zone or program area loss.

To compute an NOL, it is necessary to separate business income and deductions from nonbusiness income and deductions. See Part V, Doing Business Totally Within, Within and Outside an Enterprise Zone or Program Area, or in More than One Enterprise Zone or Program Area, for a

complete discussion of business and nonbusiness income.

Section B Computation of Current Year NOL – Corporations

Use this section to compute the NOL to be carried over to future years for corporations. Complete Section B **only** if the corporation has a current year loss.

You must complete form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations, before you can compute the allowable enterprise zone or program area loss.

Section C Computation of NOL Carryover and Carryover Limitations – Individuals and Corporations

Use this section to compute the NOL deduction for individuals and corporations to reduce current year income from the enterprise zone or program area.

Line 1 – See Part V for a discussion of business and nonbusiness income. **Note to Form 540 filers:** Be sure to include on line 1 the amount of deduction for prior year disaster losses reported on Schedule CA.

Line 2 – In modifying your income, deduct your capital losses only up to your capital gains. Enter as a positive number, any net capital losses included in line 1. **Corporations:** Enter -0-.

Line 3 – Corporations must reduce income by the disaster loss deduction and the deduction for excess net passive income.

Line 6 – This is your modified taxable income. You may reduce this amount by your enterprise zone or program area deduction. Your enterprise zone or program area NOL deduction may not be larger than your modified taxable income. If your modified taxable income is a loss in the current year or if it limits the amount of NOL you may use this year, you must carry over the NOL to future years.

Line 7 – Enter the amount from line 6. If this amount is zero or negative, transfer the amounts from line 8 through line 17 column (b) to column (e), and skip to line 18.

Line 8 through Line 17 – Enter the amounts on line 8 through line 17 as positive numbers.

In column (c), enter the smaller of the amount in column (b) or the amount in column (d) from the previous line.

In column (d), enter the result of subtracting column (c) from the balance on the previous line in column (d).

In column (e), enter the result of subtracting the amount in column (c) from the amount in column (b), as applicable.

Example:

(b) Carry-over from prior years	(c) Amount used this year	(d) Balance available to offset losses	(e) Carry-over
		\$5,000	
\$ 500	\$ 500	4,500	\$ 0
6,000	4,500	0	1,500
200	0	0	200

Line 18 – Enter the amount of your current year NOL. For individuals, enter the amount from Section A, line 13. For corporations, enter the amount from Section B, line 7.

Line 19 – Add the amounts in column (b) through column (e). Enter the totals from line 19, columns (b), (c) and (e) on form FTB 3805Z, Side 1, line 4a, line 4b, and line 4c respectively.

Your enterprise zone or program area NOL deduction for 1996 is the total of column (c). Enter this amount on the California tax return as follows:

- Form 100, line 19;
- Form 100S, line 18;
- Form 109, line 3 or line 11; or
- Form 540, Schedule CA (540), line 21(e), column B.

Worksheet VI Net Operating Loss (NOL) — Enterprise Zones and Program Areas

Section A Computation of Current Year NOL — Individuals and Exempt Organizations Treated as Trusts

1	Net trade or business loss from all sources. Enter as a positive number. See definition of business income on page 11. Exempt Organizations Treated as Trusts: Enter the amount from Form 109, line 10	1
2	Total business capital losses included in line 1. Enter as a positive number	2 3
3	Total business capital gains included in line 1.	
4	If line 2 is greater than line 3, enter the difference as a positive number; otherwise enter -0-	4
5	1996 disaster relief loss included in line 1. Enter as a positive number	5 6
6	Deduction for prior year disaster losses included in line 1. Enter as a positive number.	
7	Add line 5 and line 6	7
8	Add line 4 and line 7	8
9	Subtract line 8 from line 1. If the result is zero or more, do not complete the rest of this section. You do not have a current year NOL from an enterprise zone or program area	9
10	Enter the average apportionment percentage from Worksheet V, Schedule A, line 4 or Worksheet V, Schedule B, line 5	10
11	Multiply line 9 by line 10.	11
12	Enter the amount from form FTB 3805V, Part I, Section A, line 20	12
13	Enter the smaller of line 11 or line 12 here and in Section C, line 18, column (e) This is the enterprise zone or program area NOL carryover from 1996 to 1997.	13

Section B Computation of Current Year NOL — Corporations

Note: If you have both an enterprise zone or program area NOL and a prior year general NOL, see instructions on page 15.

During the year the corporation incurred the NOL, the corporation was a: C Corporation S Corporation Exempt Corporation

1	Net loss for state purposes from Form 100, line 17; Form 100S, combined amounts of line 15 and line 17; or Form 109, line 1. Enter as a positive number	1
2	a 1996 disaster relief loss included in line 1. Enter as a positive number	2a
	b Nonbusiness income included in line 1. Enter as a negative number.	2b
	c Nonbusiness losses included in line 1. Enter as a positive number	2c
	d Combine line 2a through line 2c.	2d
3	Subtract line 2d from line 1. If zero or less, do not complete the rest of this section; the corporation does not have a current year NOL	3
4	Enter the average apportionment percentage from Worksheet V, Schedule A, line 4 or Worksheet V, Schedule B, line 5	4
5	Multiply line 3 by line 4	5
6	Enter the amount from form FTB 3805Q, Part I, line 3	6
7	Enter the smaller of line 5 or line 6 here and in Section C, line 18, column (e) This is the enterprise zone or program area NOL carryover from 1996 to 1997.	7

Section C Computation of NOL Carryover and Carryover Limitations — Individuals and Corporations

- 1 Enter the amount from Form 100, line 17; Form 100S, combined amounts of line 15 and line 17; or Form 109, line 1 or line 10. Form 540 filers enter your trade or business income or loss. See instructions
- 2 a Form 100, 100S, and 109 Filers: Enter any nonbusiness income included in line 1 as a negative number. Form 540 filers leave blank
- b Form 100, 100S, and 109 Filers: Enter any nonbusiness loss included in line 1 as a positive number. Form 540 filers leave blank.
- c Combine line 2a and line 2b
- 3 Form 100 Filers: Enter the amount from Form 100, line 20. Form 100S Filers: Enter the total of the amounts from Form 100S, line 17 and line 19. Form 540 Filers and Form 109 Filers: Enter -0-. Enter this amount as a negative number
- 4 Combine line 1, line 2c and line 3. If zero or less, enter -0- on line 6
- 5 Enter the average apportionment percentage from Worksheet V, Schedule A, line 4 or Worksheet V, Schedule B, line 5
- 6 Modified taxable income. Multiply line 4 by line 5

1		
2a		
2b		
2c		
3		
4		
5		
	6	

(a) Description	(b) Carryover from prior years	(c) Amount deducted this year	(d) Balance available to offset losses	(e) NOL carryover
7 Modified taxable income from line 6				
8 NOL carryover beginning after October 15, 1986, and ending in 1986.				
9 NOL carryover beginning in 1987				
10 NOL carryover beginning in 1988				
11 NOL carryover beginning in 1989				
12 NOL carryover beginning in 1990				
13 NOL carryover beginning in 1991				
14 NOL carryover beginning in 1992				
15 NOL carryover beginning in 1993				
16 NOL carryover beginning in 1994				
17 NOL carryover beginning in 1995				
18 NOL carryover beginning in 1996				
19 Total the amounts in column (b) through column (e). Enter the totals from column (b), column (c) and column (e) on form FTB 3805Z, Side 1, line 4a, line 4b and line 4c respectively .				

Part VII Computation of Credit Limitations

The amount of credit you may claim on your California tax return is limited by the amount of tax attributable to the enterprise zone or program area income. Use Worksheet VII on form FTB 3805Z, Side 2 to compute this limitation.

Credits you are otherwise eligible to claim may be limited. Do not apply credits against the minimum tax (corporations, limited partnerships, limited liability partnerships, limited liability companies and S corporations), the alternative minimum tax (corporations and individuals), the built-in gains tax (S corporations) or the net passive income tax (S corporations). Refer to the credit instructions in your tax booklet for more information.

S corporations and the application of enterprise zone or program area credits.

An S corporation may use its enterprise zone or program area credits to reduce enterprise zone or program area tax both at the corporate and shareholder levels.

An S corporation may use 1/3 of the enterprise zone or program area credit to reduce the tax on the S corporation's enterprise zone or program area income. In addition, S corporation shareholders may claim their distributive share of the entire amount of the enterprise zone or program area credits calculated under the Personal Income Tax Law.

Example: In 1996, an S corporation qualified for a \$3,000 enterprise zone hiring credit. The S corporation will be able to use 1/3 of the credit ($\$3,000 \times 1/3 = \$1,000$), to offset the tax on the corporation's enterprise zone income.

The S corporation will also pass through a \$3,000 credit to its shareholders to offset their individual tax (computed under the Personal Income Tax Law) on enterprise zone income.

S corporations must attach form FTB 3805Z to Form 100S, California S Corporation Franchise or Income Tax Return, to claim the tax credits. If form FTB 3805Z is not attached to the return, the credits may be disallowed.

Shareholders must attach Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc., to their individual tax return.

Carryover. If the amount of credit available this year exceeds your tax, you may carry over any excess credit to future years. For S corporations, the amount of the 1/3 credit that is in excess of the S corporation entity level tax in the current year may also be carried forward and used in future years to offset the S corporation entity level tax. See the instructions for Worksheet VII, Part III for more information.

Credit Code Number. To claim the hiring and sales or use tax credits on your return you must use credit code number **176** for enterprise zones and number **177** for program areas. Using the incorrect code number may cause a delay in allowing the credit.

Instructions for Worksheet VII — Computation of Credits

Note: Worksheet VII is on Side 2 of form FTB 3805Z.

Partnerships and limited liability companies classified as partnerships do not complete Worksheet VII. The partners or members of these types of entities should complete Worksheet VII in order to determine the amount of enterprise zone or program area credits that they may claim on their California tax return.

The apportionment percentage, computed by, or for, the partnership at the partnership entity level on FTB 3805Z, Worksheet V (Apportionment Worksheet) filed with the entity's return (Form 565 or 568), should be reported to each partner or member. Each partner or member should use this apportionment percentage to complete Worksheet VII, Part I by applying the entity's apportionment percentage to the pass-through income reported to each partner or member on their Schedule K-1 (565 or 568). The amount computed on Worksheet VII, line 7 is the limitation based on tax attributable to the enterprise zone or program area. The amount of pass-through enterprise zone or program area credits claimed by the partners or members may not exceed this amount for the year.

S corporations: Complete only Part III of this worksheet if your entity level tax before credits is more than the minimum franchise tax.

Corporations and S corporations subject to the minimum tax only: Complete only Part IV of this worksheet.

All others: Complete Part I and Part II of this worksheet.

Part I

Line 1 – Enter all trade or business income. See Part V on page 11 for the definition of business income. **Shareholders, partners and members of S corporations, partnerships or limited liability companies:** Enter any pass-through trade or business income reported to you on Schedule K-1 (100S, 565 or 568). For shareholders, partners or members with ownership interests in multiple entities in which you received pass-through enterprise zone or program area incentives, see the instructions for line 2 below.

Line 2 – If your business is located entirely within the enterprise zone or program area, enter 1.

Shareholders, partners and members of S corporations, partnerships or limited liability companies: If the only amount that you entered on line 1 above is the pass-through trade or business income reported to you on Schedule K-1 (100S, 565 or 568) from your ownership in a single pass-through entity, the apportionment percentage that you must enter on line 2 is the apportionment percentage of the pass-through entity from which you received the Schedule K-1 (100S, 565 or 568). The S corporation, partnership or limited liability company from which you received enterprise zone or program area incentives should report this apportionment percentage to you. Specifically, this percentage is the apportionment percentage computed by the entity using FTB 3805Z, Worksheet V, and represents

the percentage of the entity's business attributable to the enterprise zone or program area.

Multiple Pass-through Entities

If you are a shareholder, partner or member in multiple pass-through entities with businesses located within and outside an enterprise zone or program area from which you received enterprise zone or program area incentives, attach a separate schedule that computes the apportioned pass-through enterprise zone or program area income. For example:

Pass-through Entity	Trade or Business Income from Schedule K-1 (100S, 565 or 568)	Entity's EZ/PA Apportionment Percentage	EZ/PA Apportioned Income
ABC, Inc.	\$40,000	80%	\$32,000
A, B & C	30,000	10%	3,000
ABC, LLC	10,000	50%	5,000
			\$40,000
			(Reported on Worksheet VII, Part I, line 3.)

Business Income

Taxpayers with enterprise zone or program area trade or business income from Schedules C, D, D-1, E (other than pass-through income as discussed above) or F use the enterprise zone or program area apportionment factor from the trade or business activity that generated such income. Attach separate schedules, if necessary, where there are multiple enterprise zone or program area business activities.

Wages

Taxpayers with wages from a company located within and outside an enterprise zone or program area must determine the enterprise zone or program area wage income by entering the percentage of their time (during the period for which the wages entered on line 1 were earned) that they worked within the enterprise zone or program area. This percentage must be determined based on their record of time and events such as a travel log or entries in a daily planner.

Line 3 – Taxpayers who received wages from a company operating within and outside an enterprise zone or program area, should compute the amount on line 3 by multiplying the percentage of their time (during the period such wages were earned) worked within the enterprise zone or program area. See line 2 above.

If the amount on line 3 is negative you are not allowed to use any incentives to offset the current year tax liability. Enter -0- on line 7. Carry-over of the unused incentives is allowed as provided. See the specific incentive for further information.

Example (Determination of Enterprise Zone or Program Area Income for Shareholders, Partners or Members of Pass-through Entities):

John Smith is vice president of ABC, Inc., an S corporation that has two locations: one in an enterprise zone and one outside an enterprise zone. Eighty percent (80%) of the S corporation's business is attributable to the enterprise zone. (Note: This percentage was determined by ABC, Inc. using FTB 3805Z, Worksheet V — Apportionment Worksheet, when ABC's S corporation return (Form 100S) was prepared). John divides his time equally (50%/50%) between the two offices of ABC, Inc.

Mary Smith (John's spouse) works for ABC, Inc. at its office located in the enterprise zone.

John and Mary Smith have the following 1996 items of California income and expense:

John's salary from ABC, Inc.	\$100,000
Mary's salary from ABC, Inc.	75,000
Interest on savings account	1,000
Dividends	3,000
Schedule K-1(100S) from ABC, Inc.:	
Ordinary income	40,000
Enterprise zone business expense deduction	(5,000)*
John's unreimbursed employee expenses from Schedule A	(2,000)

*The enterprise zone or program area business expense deduction is a separately stated item on Schedule K-1 (100S), line 8.

The Smith's enterprise zone income (total amount to be reported on line 3) is computed as follows:

John's enterprise zone salary (\$100,000 x 50%)	\$50,000
Mary's enterprise zone salary (\$75,000 x 100%)	75,000
Pass-through ordinary income from ABC, Inc. (\$40,000 x 80%)	32,000
Enterprise zone business expense deduction from ABC, Inc.	(5,000)
John's unreimbursed employee business expenses (2,000 x 50%)	(1,000)
Total enterprise zone income (Worksheet VII, Part I, line 3)	\$151,000

Note: The standard deduction and personal or dependency exemptions are not included in the

computation of enterprise zone or program area income since they are not related to trade or business activities.

John and Mary must compute the tax (to be entered on Worksheet VII, Part I, line 6a) on the total enterprise zone income of \$151,000 (as if it represents all of their income). Using the tax rate schedule in their tax booklet for filing status married filing jointly, the 1996 tax computed on \$151,000 is \$10,889.

Line 6a – Compute the tax as if the enterprise zone or program area taxable income represented all of your taxable income.

Individuals: Use the tax table or tax rate schedule for your filing status in your tax booklet.

Exempt organizations: Use the applicable tax rate in your tax booklet. **Corporations and S corporations:** Use the applicable tax rate.

Line 6b – Corporations and S corporations: If the amount on line 6b is the minimum franchise tax (\$800), you cannot use your enterprise zone or program area credits this year. You should complete Part IV of the worksheet to figure the amount of credit carryover.

Part II

Use Part II if you are a corporation, individual, estate or trust. Corporations and S corporations that are subject to paying only the minimum tax go to Part IV.

Line 8A, column (e) – Enter the amount from line 7. This is the amount of limitation based on the tax on enterprise zone or program area business income.

Line 8A, column (f) – Enter the amount of credit that is used on Schedule P (100, 540, 540NR or 541), column (b). The amount cannot be greater than the amount in column (e) or the amount computed on line 8B, column (d).

Line 8B, column (b) – Enter the amount of the current year credit that was computed on Worksheet I.

Line 8B, column (c) – Enter the amount of the total prior year carryover of the credit (this is the amount of credit that was previously figured on Worksheet I minus the amount that was allowed to be taken on the prior year return).

Line 8B, column (d) – Add the amount of the current year credit in column (b) and the amount of the total prior year carryover in column (c).

Line 8B, column (e) – Compare the amount of line 8A, column (e) and line 8A, column (f). Enter the smaller amount.

Line 8B, column (g) – Subtract the amount of column (e) from the amount of column (d). Enter the result in column (g). This is the amount of credit that can be carried over to future years. **Note:** This carryover includes both the Schedule P (100, 540, 540NR or 541) limitation and the limitation based on enterprise zone or program area business income.

Line 9A, column (e) – Subtract the amount of line 8B, column (e) from the amount of line 8A, column (e). If the result is zero, your remaining credits are limited and must be carried over to future years. In this case, enter the amounts from line 9B, column (d) on line 9B, column (g).

Line 9A, column (f) – Enter the amount of credit that is used on Schedule P (100, 540, 540NR or 541), column (b). The amount cannot be greater than the amount in column (e) or the amount computed on line 9B, column (d).

Line 9B, column (b) – Enter the amount of the current year credit that was computed on Worksheet II.

Line 9B, column (c) – Enter the amount of the total prior year carryover of the credit (this is the amount of credit that was previously figured on Worksheet II minus the amount that was allowed to be taken on the prior year return).

Line 9B, column (d) – Add the amount of the current year credit in column (b) and the amount of the total prior year carryover in column (c).

Line 9B, column (e) – Compare the amount of line 9A, column (e) and line 9A, column (f). Enter the smaller amount.

Line 9B, column (g) – Subtract the amount of column (e) from the amount of column (d). Enter the result in column (g). This is the amount of credit that can be carried over to future years. **Note:** This carryover includes both the Schedule P (100, 540, 540NR or 541) limitation and the limitation based on enterprise zone or program area business income.

Example: Part II

The ABC Business has \$8,000 of tax. The business computed a credit limitation based on zone income of \$7,000 on Worksheet VII, line 7. The business has the following credits:

Hiring Credit — \$500 and a \$300 carryover from a prior year
 Sales or Use Tax Credit — \$9,000

Worksheet VII, Part II would be computed as follows:

Part II Limitation of credits for Corporations, Individuals and Estates and Trusts

	(a) Credit Name	(b) Credit Amount	(c) Total Prior Year Carryover	(d) Total Credit Add Col. (b) and Col. (c)	(e) Limitation Based on EZ/PA Business Income	(f) Used on Schedule P (Can never be greater than Col. (d) or Col. (e).)	(g) Carryover Col. (d) Minus Col. (e)
8	Hiring Credit	A			7,000	800	
		B	500	300	800		-0-
9	Sales or Use Tax Credit	A			6,200	6,200	
		B	9,000	-0-	9,000	6,200	2,800

Part III

Use Part III only if you are an S corporation.

Line 10 and Line 11, column (b) – Enter the credit computed this year from the appropriate worksheet. Also enter this amount on Form 100S:

- Schedule C, line 5; and
- Schedule K, line 13.

You may need to adjust your Schedule C (100S) to reflect the enterprise zone or program area tax limitation (Part I, line 7) to your credits after completing this worksheet.

Line 10 and line 11, column (c) – Multiply the amount on line 10 and 11, column (b) by 1/3. Enter these amounts in column (c). The amounts in column (c) are the maximum amounts of the current year credits that may be used by the S corporation to offset its entity level S corporation tax.

Line 10 and line 11, column (d) – Enter the amount of the total prior year carryover of the credit (these are the amount of credits that were previously figured on Worksheet I or Worksheet II, minus the amount that was allowed to be taken on the prior year return).

Line 10 and line 11, column (e) – Add the amounts of the current year credits in column (c) and the total prior year carryovers in column (d).

Line 10 and line 11, column (f) – Enter the amount of credit that was used by the S corporation in the current year to offset its entity level S corporation tax.

Line 10 and line 11, column (g) – Subtract the amounts in column (f) from the amounts in column (e). These are the amount of credits that can be carried over to future years and used by the S corporation.

Part IV

Use Part IV if you are a corporation or S corporation subject to paying only the minimum tax.

Line 12 and line 13, column (b) – Enter the amount of current year credits that were computed on Worksheet I and Worksheet II. **S corporations** may only enter 1/3 of the amounts from Worksheet I and II.

Line 12 and line 13, column (c) – Enter the amount of the total prior year carryover of the credit (these are the amounts of credits that were previously figured on Worksheet I and Worksheet II, minus the amount that was allowed to be taken on the prior year return).

Line 12 and line 13, column (d) – Add the amounts in column (b) and column (c). These are the amount of credits that can be carried over to future years.

1996

Enterprise Zone/Program Area Deduction and Credit Summary

3805Z

Attach to your California tax return.

Name(s) as shown on return California Identification Number

- A. Check the appropriate box for the activity reported on this form: [] Enterprise Zone [] Program Area
B. Enter the name of the enterprise zone or program area business and its location:

C. Total number of employees employed in the enterprise zone or program area.
D. Number of employees included in the computation of the hiring credit

Part I Credits Used and Carried Over to Future Years

- 1 Hiring and sales or use tax credit claimed on the current year return:
a Hiring credit from Worksheet VII, line 8A column (f) or line 10 column (f)
b Sales or use tax credit from Worksheet VII, line 9A column (f) or line 11 column (f)
Add line 1a and line 1b

Part II Equipment Purchases Deducted as Business Expense

- 2 Enter the cost of qualified property purchased for the enterprise zone or program area that is being deducted as a current year business expense

ELECTION: The act of deducting a portion of the cost of any property as a current year expense rather than adding it to the capital account constitutes an election to treat that property in accordance with R&TC Sections 17252.5, 17265, 24356.2 or 24356.3.

Part III Net Interest Deduction for Lenders

- 3 Enter the amount of net interest received on loans to businesses located in the enterprise zone or to qualified businesses in the program area from Worksheet IV, line 2

Part IV Net Operating Loss (NOL) Carryover and Deduction

- 4a Enter the NOL carryover from prior years from Worksheet VI, Section C, line 19, column (b)
4b Enter the total NOL deduction used in the current year from Worksheet VI, Section C, line 19, column (c)
4c Enter the NOL carryover to future years from Worksheet VI, Section C, line 19, column (e)

ELECTION: For those taxpayers eligible for an NOL carryover under more than one subdivision of R&TC Sections 17276.2 or 24416.2, the act of claiming an NOL carryover on this form constitutes the irrevocable election to apply the loss under subdivision (a), for qualified businesses within a program area, or subdivision (b), for taxpayers operating a trade or business within an enterprise zone.

Part V Portion of Business Attributable to Enterprise Zone or Program Area

- 5 Enter the average apportionment percentage of your business that is in the enterprise zone or program area from Worksheet V, Schedule A, line 4 or Worksheet V, Schedule B, line 5.

Part VI Recapture of Deduction and Credits

- 6 Enterprise zone recapture of hiring credit from Worksheet I, Section B, line 2, column (b)
7 Program area recapture of hiring credit from Worksheet I, Section B, line 2, column (c)
8 Recapture of business expense deduction from Worksheet III, Section C, line 2.

Worksheet VII Computation of Credit Limitation — Enterprise Zones and Program Areas

Part I Computation of Limitation. See Instructions.

1	Trade or business income. See instructions on page 11	1	
2	Enter the average apportionment percentage from Worksheet V, Schedule A, line 4 or Worksheet V, Schedule B, line 5. See instructions.	2	
3	Multiply line 1 by line 2. See instructions	3	
4	Enter the enterprise zone or program area NOL deduction from Worksheet VI, Section C, line 19, column (c).	4	
5	Enterprise zone or program area taxable income. Subtract line 4 from line 3	5	
6a	Compute the amount of tax due using the amount on line 5. See instructions on page 19	6a	
6b	Enter the amount of tax from Form 540, line 24; Form 100, line 22 or Form 100S, line 21. Corporations and S corporations see instructions.	6b	
7	Enter the smaller of line 6a or line 6b. This is the limitation based on zone income. Go to Part II, Part III or Part IV. See instructions.	7	

Part II Limitation of Credits for Corporations, Individuals and Estates and Trusts

	(a) Credit Name	(b) Credit Amount	(c) Total Prior Year Carryover	(d) Total Credit Add Col. (b) and Col. (c)	(e) Limitation Based on EZ/PA Business Income	(f) Used on Schedule P (Can never be greater than Col. (d) or Col. (e).)	(g) Carryover Col. (d) Minus Col. (e)
8	Hiring Credit	A					
		B					
9	Sales or Use Tax Credit	A					
		B					

Part III Limitation of Credits for S Corporations Only

	(a) Credit Name	(b) Credit Amount See Instructions	(c) S Corporation Credit (Multiply Col. (b) by 1/3)	(d) Total Prior Year Carryover	(e) Total Credit Add Col. (c) and Col. (d)	(f) Credit Used this Year by S Corporation	(g) Carryover (Col. (e) Minus Col. (f))
10	Hiring Credit						
11	Sales or Use Tax Credit						

Part IV Limitation of Credits for Corporations and S Corporations Subject to Paying Only the Minimum Tax

	(a) Credit Name	(b) Credit Amount	(c) Total Prior Year Carryover	(d) Total Credit Carryover. (Add Col. (b) and Col. (c))
12	Hiring Credit			
13	Sales or Use Tax Credit			

1996

Enterprise Zone/Program Area Deduction and Credit Summary

3805Z

Attach to your California tax return.

Name(s) as shown on return California Identification Number

- A. Check the appropriate box for the activity reported on this form: [] Enterprise Zone [] Program Area
B. Enter the name of the enterprise zone or program area business and its location:

C. Total number of employees employed in the enterprise zone or program area.
D. Number of employees included in the computation of the hiring credit

Part I Credits Used and Carried Over to Future Years

- 1 Hiring and sales or use tax credit claimed on the current year return:
a Hiring credit from Worksheet VII, line 8A column (f) or line 10 column (f)
b Sales or use tax credit from Worksheet VII, line 9A column (f) or line 11 column (f)
Add line 1a and line 1b

Part II Equipment Purchases Deducted as Business Expense

- 2 Enter the cost of qualified property purchased for the enterprise zone or program area that is being deducted as a current year business expense

ELECTION: The act of deducting a portion of the cost of any property as a current year expense rather than adding it to the capital account constitutes an election to treat that property in accordance with R&TC Sections 17252.5, 17265, 24356.2 or 24356.3.

Part III Net Interest Deduction for Lenders

- 3 Enter the amount of net interest received on loans to businesses located in the enterprise zone or to qualified businesses in the program area from Worksheet IV, line 2

Part IV Net Operating Loss (NOL) Carryover and Deduction

- 4a Enter the NOL carryover from prior years from Worksheet VI, Section C, line 19, column (b)
4b Enter the total NOL deduction used in the current year from Worksheet VI, Section C, line 19, column (c).
4c Enter the NOL carryover to future years from Worksheet VI, Section C, line 19, column (e)

ELECTION: For those taxpayers eligible for an NOL carryover under more than one subdivision of R&TC Sections 17276.2 or 24416.2, the act of claiming an NOL carryover on this form constitutes the irrevocable election to apply the loss under subdivision (a), for qualified businesses within a program area, or subdivision (b), for taxpayers operating a trade or business within an enterprise zone.

Part V Portion of Business Attributable to Enterprise Zone or Program Area

- 5 Enter the average apportionment percentage of your business that is in the enterprise zone or program area from Worksheet V, Schedule A, line 4 or Worksheet V, Schedule B, line 5.

Part VI Recapture of Deduction and Credits

- 6 Enterprise zone recapture of hiring credit from Worksheet I, Section B, line 2, column (b)
7 Program area recapture of hiring credit from Worksheet I, Section B, line 2, column (c)
8 Recapture of business expense deduction from Worksheet III, Section C, line 2.

Worksheet VII Computation of Credit Limitation — Enterprise Zones and Program Areas

Part I Computation of Limitation. See Instructions.

1	Trade or business income. See instructions on page 11	1	
2	Enter the average apportionment percentage from Worksheet V, Schedule A, line 4 or Worksheet V, Schedule B, line 5. See instructions.	2	
3	Multiply line 1 by line 2. See instructions	3	
4	Enter the enterprise zone or program area NOL deduction from Worksheet VI, Section C, line 19, column (c).	4	
5	Enterprise zone or program area taxable income. Subtract line 4 from line 3	5	
6a	Compute the amount of tax due using the amount on line 5. See instructions on page 19	6a	
6b	Enter the amount of tax from Form 540, line 24; Form 100, line 22 or Form 100S, line 21. Corporations and S corporations see instructions.	6b	
7	Enter the smaller of line 6a or line 6b. This is the limitation based on zone income. Go to Part II, Part III or Part IV. See instructions.	7	

Part II Limitation of Credits for Corporations, Individuals and Estates and Trusts

	(a) Credit Name	(b) Credit Amount	(c) Total Prior Year Carryover	(d) Total Credit Add Col. (b) and Col. (c)	(e) Limitation Based on EZ/PA Business Income	(f) Used on Schedule P (Can never be greater than Col. (d) or Col. (e).)	(g) Carryover Col. (d) Minus Col. (e)
8	Hiring Credit	A					
		B					
9	Sales or Use Tax Credit	A					
		B					

Part III Limitation of Credits for S Corporations Only

	(a) Credit Name	(b) Credit Amount See Instructions	(c) S Corporation Credit (Multiply Col. (b) by 1/3)	(d) Total Prior Year Carryover	(e) Total Credit Add Col. (c) and Col. (d)	(f) Credit Used this Year by S Corporation	(g) Carryover (Col. (e) Minus Col. (f))
10	Hiring Credit						
11	Sales or Use Tax Credit						

Part IV Limitation of Credits for Corporations and S Corporations Subject to Paying Only the Minimum Tax

	(a) Credit Name	(b) Credit Amount	(c) Total Prior Year Carryover	(d) Total Credit Carryover. (Add Col. (b) and Col. (c))
12	Hiring Credit			
13	Sales or Use Tax Credit			

FOLD HERE FIRST

Place
Stamp
Here

ECONOMIC AND STATISTICAL ANALYSIS BUREAU
ENTERPRISE ZONE/PROGRAM AREA SURVEY
FRANCHISE TAX BOARD
PO BOX 1468
SACRAMENTO CA 95812-1468

FOLD HERE SECOND

PLACE
TAPe
HERE



PLACE
TAPe
HERE



How to Get California Tax Information

(Keep This Page For Future Use)

Regular Toll-Free Phone Service

Our regular toll-free telephone service is available from 7:00 a.m. until 8:00 p.m. Monday through Friday from January 2 through April 15, 1997. The best times to call are between 7:00 and 10:00 in the morning and between 6:00 and 8:00 in the evening. Service is also available on Saturdays, April 5 and April 12, from 8:00 a.m. until 5:00 p.m. After April 15, service is available Monday through Friday, between 8:00 a.m. and 5:00 p.m.

From within the United States,
call 1-800-852-5711
From outside the United States,
call (not toll-free) 1-916-845-6500

For federal tax questions, call the IRS at 1-800-829-1040.

Bilingual Assistance

Para obtener servicio bilingüe de información sobre impuestos o formularios, llame al número de teléfono (anotado arriba) que le corresponde.

Hearing Impaired

Toll-free phone service is provided for the hearing impaired with a Telecommunications Device (TDD). Call 1-800-822-6268.

Letters

If you find it necessary to write rather than call, please address your letter to:

ATTN RESOURCE DEVELOPMENT UNIT
FRANCHISE TAX BOARD
PO BOX 1468
SACRAMENTO CA 95812-1468

Please allow six to eight weeks for a reply. Include your California identification number and daytime telephone number on all correspondence.

Geographic Boundaries

Further information about geographic boundaries of the enterprise zones or program areas and certification is available from:

ATTN ENTERPRISE ZONE PROGRAMS
CALIFORNIA TRADE AND COMMERCE
AGENCY
801 K STREET SUITE 1600
SACRAMENTO CA 95814
Telephone: (916) 324-8211

Your Rights as a Taxpayer

Our goal at the Franchise Tax Board is to make certain that your rights are protected, so that you will have the highest confidence in the integrity, efficiency and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program and how you can request written advice from the Franchise Tax Board on whether a particular transaction is taxable. You can order FTB Pub. 4058 by writing or calling the Franchise Tax Board using the address or phone numbers listed on this page.

Where to Get Income Tax Forms

By Internet – If you have Internet access, you may download, view and print California tax forms and publications. Our Internet address is: <http://www.ftb.ca.gov>

By phone – Use F.A.S.T. to order 1994, 1995 and 1996 California tax forms and 1996 federal forms. To order a form call 1-800-338-0505.

By mail – We will send you two copies of each tax form and one copy of each set of instructions you order. Please allow two weeks to receive your order. Address your envelope to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

In person – Most libraries, post offices and banks provide free California tax booklets during the filing season. Many libraries and some quick print businesses have forms and schedules for you to photocopy (you may have to pay a nominal fee). Note that employees at libraries and quick print businesses cannot provide tax information or assistance.



F.A.S.T. Toll-Free Phone Service

Fast Answers about State Taxes is the F.A.S.T. toll-free phone service you can use to get recorded answers to many of your questions about California taxes. You can also find out about your tax refund and order California or federal income tax forms using the F.A.S.T. number.

F.A.S.T. is available in English and Spanish to callers with touch-tone or rotary dial telephones.

To Find Out About Your Personal Income Tax Refund

You should wait at least eight weeks after you file your tax return before you call to find out about your refund. To use F.A.S.T. you must know the first social security number shown on your tax return and the exact dollar amount of your refund.

To Get Information

If you need an answer to any of the following questions below, call 1-800-338-0505, select general tax information, follow the recorded instructions and enter the three-digit code when you are instructed to do so.

How To Use F.A.S.T.

1. Have paper and pencil handy to take notes.
2. Call the F.A.S.T. toll-free number:
From within the United States 1-800-338-0505
From outside the United States
(not toll-free) 1-916-845-6600

When Is F.A.S.T. Available?

To answer your questions, F.A.S.T. is available 24 hours a day, seven days a week. To order forms or to find out about your tax refund, F.A.S.T. is available from 6:00 a.m. to 10:00 p.m., seven days a week, except state holidays.

Personal Income Tax Information

Code – Question

Filing Assistance:

- 100 – Do I need to file a return?
- 111 – Which form should I use?
- 112 – How do I file electronically and get a fast refund?
- 200 – Where can I pick up a form today?
- 201 – How can I get an extension to file?
- 202 – There is no envelope in the booklet. Where do I send my return?
- 203 – How much do I get for renter's credit?
- 204 – I never received a Form W-2. What do I do?
- 205 – I have no withholding taken out. What do I do?
- 206 – Do I have to attach a copy of my federal return?
- 207 – Should I file my return even though I do not have the money to pay?
- 208 – How do I figure my estimate tax payments?
- 209 – I lived in California for part of the year. Do I have to file a return?
- 210 – I do not live in California. Why do I have to file a return?
- 211 – How do I figure my IRA deduction?
- 212 – How do I claim my disaster related loss?
- 215 – Who is the qualifying individual for the purpose of head of household filing status?
- 216 – I'm due a refund. Do I still need to file a return?
- 217 – I am currently/was in the military. Do I have to file a California return?
- 218 – I'm in the military. Do I have to use the same filing status as federal?
- 219 – I sold my personal residence. How do I report the sale to California?
- 220 – There is no difference in my state and federal depreciation, business income and capital gain income. What do I do?

- 221 – What is community property?
 - 222 – How much can I deduct for vehicle license fees?
 - 227 – How do I get a refund of excess SDI?
 - 239 – Where can I get help with filing my income tax return?
 - 240 – Does a tax return have to be filed for a deceased taxpayer?
- Refunds:**
- 300 – My spouse has passed away. You sent a refund with both our names on it. What do I do?
 - 301 – I got a letter saying you sent my refund to another agency. Why?
- Penalties:**
- 400 – I have an extension of time to file my return. Why did I get a penalty?
 - 401 – I filed my return on time. Why did I get a penalty?
 - 402 – How can I protest a penalty?
 - 403 – What is the estimate penalty rate?

- Notices and Bills:**
- 500 – I received a bill and I cannot pay it in full. What do I do?
 - 501 – Why didn't you give me credit for my withholding?
 - 502 – You didn't give me credit for my child as a dependent. What do I do?
 - 503 – I don't have a homeowner's exemption. Why did you deny my renter's credit?
 - 504 – I'm head of my house. Why was I denied head of household filing status?
 - 505 – Why was my IRA denied?
 - 506 – How do I get my Form 1099-G corrected?
 - 507 – Why did I receive a questionnaire?
 - 508 – I received a notice that didn't show all payments made. How do I get credit for them?

Tax For Children Under 14:

- 601 – Can my child take a personal exemption credit when I claim her or him as a dependent on my return?
- 602 – Federal law limits the standard deduction. Is the state law the same?

Miscellaneous

- 610 – Can I pay my taxes with a credit card?
- 611 – What address do I send my payment to?
- 612 – I mailed my return and haven't heard anything. Should I send a copy of my return?
- 613 – I forgot to attach my Form(s) W-2 when I mailed my return. What do I do?
- 614 – I forgot to attach a copy of my federal return. What do I do?
- 615 – How do I get a copy of my state tax return?
- 616 – What should I do if my federal tax return was examined or changed by the IRS?
- 617 – What are the current interest rates?

Corporation Franchise and Income Tax Information

Code – Question

- Filing Assistance**
- 715 – If my actual tax is less than the minimum franchise tax, what figure do I put on line 22 of Form 100?
 - 717 – What are the tax rates for corporations?
 - 718 – How do I get an extension of time to file?
 - 722 – When do I have to file a short-period return?
 - 730 – May I claim net operating losses in the first year?
 - 731 – Are corporations allowed to use MACRS/ACRS or Section 179 expensing?
 - 733 – Can the prepayment to the Secretary of State be applied to my last year of business?

- 734 – What is the difference between franchise tax and income tax?
- S Corporations**
- 704 – Is an S corporation subject to the minimum franchise tax?
 - 705 – Are S corporations required to file estimate payments?
 - 706 – What forms do S corporations file?
 - 707 – The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 21 of Form 100S?
 - 708 – Where do S corporations make the state tax adjustment on Schedule K-1 (100S)?

- Exempt Organizations**
- 709 – How do I get tax-exempt status?
 - 710 – Does an exempt organization have to file Form 199?
 - 735 – How can an exempt organization incorporate without paying corporation fees and costs?
 - 736 – I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

- Minimum Tax and Estimate Tax**
- 711 – Why can't I claim my prepayment tax as credit or estimate payment on my return?
 - 712 – What is the minimum franchise tax?
 - 714 – I'm not doing business; do I have to pay the minimum franchise tax?
 - 716 – When are my estimate payments due?

- Billings and Miscellaneous Notices**
- 723 – I received a bill for \$250. What is this for?
 - 728 – Why was my corporation suspended?
 - 729 – Why is my subsidiary getting a request for a return when we file a combined report?

- Tax Clearance**
- 724 – How do I dissolve my corporation?
 - 725 – What do I have to do to get a tax clearance?
 - 726 – How long will it take to get a tax clearance certificate?
 - 727 – My corporation was suspended/forfeited. Can I still get a tax clearance?

- Miscellaneous**
- 617 – What are the current interest rates?
 - 700 – Who do I need to contact to start a business?
 - 701 – I need a state ID number for my business. Who do I contact?
 - 702 – Can you send me an employer's tax guide?
 - 703 – How do I incorporate?
 - 719 – How do I properly identify my corporation when dealing with the Franchise Tax Board?
 - 720 – How do I change my corporation name?
 - 721 – How do I change my accounting period?
 - 732 – What is the Water's-Edge Election?
 - 737 – Where do I send my payment?
 - 738 – What is electronic funds transfer?
 - 739 – How do I get a copy of my state corporate tax return?

