



# Instructions for Form FTB 3885P

## Depreciation and Amortization

### General Information

#### A Purpose

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. Land is not depreciable.

Amortization is similar to the straight-line method of depreciation in that an annual deduction is allowed to recover certain costs of intangibles over a fixed period of time.

In general, California law follows federal law for assets placed in service on or after January 1, 1987, for personal income tax — see R&TC Section 17250.

Use form FTB 3885P to compute depreciation and amortization allowed as a deduction on Form 565. Attach form FTB 3885P to Form 565.

#### B Calculation Methods

California did not allow depreciation under the federal Accelerated Cost Recovery System (ACRS) for years prior to 1987.

The partnership must continue calculating the California depreciation deduction for assets placed in service before January 1, 1987, in the same manner as in prior years. Refer to the partnership's tax returns for 1986 and earlier to determine how the partnership must continue depreciating these assets. The most common methods used to calculate depreciation for years prior to 1987 were:

- Straight-line;
- Declining balance; and
- Sum-of-the-years digits.

### Specific Line Instructions

#### Line 1 – California depreciation for assets placed in service after December 31, 1995 and amortization for assets and property placed in service after December 31, 1995.

Complete column (a) through column (i) for each asset or group of assets for property placed in service after December 31, 1995. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

#### Line 2 – California depreciation for assets placed in service before January 1, 1996

Enter total California depreciation for assets placed in service prior to January 1, 1996, taking into account any differences in asset basis or differences in California and federal tax law.

#### Line 4 – California amortization for assets placed in service before January 1, 1996

Enter total California amortization for assets taking into account any differences in asset basis or differences in California and federal tax law.

California has conformed to IRC Section 197 relating to the amortization of intangibles as of January 1, 1994. No deduction is allowed under this section for any taxable year beginning prior to January 1, 1994. If a taxpayer made an election for federal purposes under the Revenue Reconciliation Act of 1993 (P.L. 103-66), relating to the election to have amendments apply to property acquired after July 25, 1991, or relating to an elective binding contract exception, a separate election for state purposes is not allowed under paragraph (3) of subdivision (e) of R&TC Section 17024.5, and the federal election is binding. In the case of an intangible that was acquired in a taxable year beginning before January 1, 1994, and that is amortized under IRC Section 197, the amount to be amortized cannot exceed the adjusted basis of that intangible as of the first day of the first taxable year beginning on or after January 1, 1994. This amount must be amortized ratably over the period beginning on or after January 1, 1994, and ending 15 years after the month in which the intangible was acquired.

#### Assets with a Federal Basis Different from California Basis

Some assets placed in service on or after January 1, 1987, will have a different adjusted basis for California purposes due to the credits claimed or accelerated write-offs of the assets. Review the list of depreciation and amortization items in the instructions for Schedule CA (540), California Adjustments — Residents, and Schedule CA (540NR), California Adjustments — Non-residents or Part-Year Residents. If the partnership has any other adjustments to make, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information.

#### Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 565, line 16a.

If depreciation or amortization is from rental real estate activities, it may be necessary to complete another form FTB 3885P for those activities. In this case, enter the amount from this second form FTB 3885P, line 6 on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S corporation, line 14. Use California amounts to determine the depreciation or amortization on federal Form 8825.

**Line 7** – Enter the IRC Section 179 expense election from the worksheet below.

**Election to Expense Certain Tangible Property (IRC Section 179)**

**Note:** Follow the instructions on federal Form 4562 for Listed Property.

- 1. Maximum dollar limitation . . . \$10,000 \_\_\_\_\_
- 2. Total cost of IRC Section 179 property placed in service during the tax year . . . . . \_\_\_\_\_
- 3. Threshold cost of IRC Section 179 property before reduction in limitation . . . . . \$200,000 \_\_\_\_\_
- 4. Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- . . . . . \_\_\_\_\_
- 5. Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0- . . . . . \_\_\_\_\_

	(a) Property	(b) Cost	(c) Elected cost
<b>6.</b>			

**7.** Listed property. Use federal Form 4562, Part V, line 24 and line 25 making any adjustments for California law and basis differences . . . . . \_\_\_\_\_

- 8. Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7 \_\_\_\_\_
- 9. Tentative deduction. Enter the smaller of line 5 or line 8. . . . . \_\_\_\_\_
- 10. Carryover of disallowed deduction from 1995. See instructions for line 9 through line 12 on the federal form 4562. . . . . \_\_\_\_\_
- 11. Income limitation. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in IRC Section 702(a) from any business actively conducted by the partnership (other than credits, tax-exempt IRC Section 179 expense deduction and guaranteed payments under IRC Section 707(c)) . . . . . \_\_\_\_\_
- 12. IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter here and on Schedule K (565), line 9 . . . . . \_\_\_\_\_
- 13. Carryover of disallowed deduction to 1997. Add line 9 and line 10 and subtract line 12. Enter on line 7 of form FTB 3885P. . . . . \_\_\_\_\_

## Instructions for Schedule D (565)

### Capital Gain or Loss

#### General Information

Use Schedule D (565) to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners.

Enter specially allocated capital gains (losses) received by the partnership as a partner in other partnerships and from fiduciaries on

Schedule D (565), line 3. Enter capital gains (losses) that are specially allocated to partners on line 4d of Schedule K (565) and Schedule K-1 (565). Do not include these amounts on Schedule D (565). See the instructions for Schedule K (565) and Schedule K-1 (565) for more information. Also refer to the instructions for federal Schedule D (1065).