

Alternative Minimum Tax and Credit Limitations — Residents

1996

P (540)

Attach this schedule to Form 540.

Name(s) as shown on Form 540

Your social security number

Part I Adjustments and Preferences Important: See instructions for information on a 1996 law change.

Form section for Part I Adjustments and Preferences, including lines 1 through 14 with various tax adjustment categories and a shaded area for line 13 sub-items.

Part II Alternative Minimum Taxable Income

Form section for Part II Alternative Minimum Taxable Income, including lines 15 through 21 with instructions for calculating AMTI.

Part III Exemption Amount and Alternative Minimum Tax

Form section for Part III Exemption Amount and Alternative Minimum Tax, including lines 22 through 26 with exemption rules and calculations.

**Part IV Exemption Credit Limitation.** **Note:** Be sure to attach your credit forms to Form 540.

1	Enter regular tax from Side 1, Part III, line 25 . . . . .	1	
2	Enter tentative minimum tax from Side 1, Part III, line 24 . . . . .	2	
3	Subtract line 2 from line 1. If the result is zero or less, see instructions . . . . .	3	
4	If your filing status is: Is your federal AGI, Form 540, line 13 more than: Single or Married filing separate . . . . . \$111,695 Married filing joint or Qualifying widow(er) . . . . . \$223,390 Head of Household . . . . . \$167,542 <b>No.</b> Multiply the amount from Form 540, line 11 by \$67 and enter the result. } <b>Yes.</b> Enter the amount from Form 540 Instructions, line 21, Worksheet I, line h } . . . . .	4	
5	Allowable exemption credits. Is line 3 greater than line 4? <b>Yes.</b> Enter the amount from line 4 here and on Form 540, line 21. Check the box labeled "Federal AGI limit," and complete Form 540. <b>Note:</b> If you also answered "no" on line 4, check the box labeled "Flowchart." <b>No.</b> Enter the amount from line 3 here and on Form 540, line 21. Check the box labeled "California TMT limit," and complete Form 540. } . . . . .	5	

If you are claiming additional credits, continue to Part V and complete Form 540 through line 24.

**Part V Credits that reduce tax**

6	Enter the amount from Form 540, line 24 . . . . .	6	
7	Enter the tentative minimum tax from Side 1, Part III, line 24 . . . . .	7	

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
<b>Section A – Credits that reduce excess tax</b>				
8	Subtract line 7 from line 6. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits . . . . .		8	
<b>A1 Credits that reduce excess tax and have no carryover provisions</b>				
9	Code: 170 Credit for joint custody head of household . . . . .	9		
10	Code: 173 Credit for dependent parent . . . . .	10		
11	Code: 163 Credit for senior head of household . . . . .	11		
12	Code: 162 Prison inmate labor credit . . . . .	12		
13	Code: 169 Enterprise Zone employee credit . . . . .	13		
<b>A2 Credits that reduce excess tax and have carryover provisions.</b> <b>See instructions.</b>				
14	Code: _____ Credit Name: _____	14		
15	Code: _____ Credit Name: _____	15		
16	Code: _____ Credit Name: _____	16		
17	Code: _____ Credit Name: _____	17		
18	Code: 188 Credit for prior year alternative minimum tax . . . . .	18		
<b>Section B – Credits that may reduce tax below tentative minimum tax</b>				
19	If Part V, line 8 is zero, enter the amount from line 6. If line 8 is more than zero, enter the total of line 7 and the last entry in column (c).. . . . .		19	
<b>B1 Credits that reduce net tax and have carryover provisions.</b> <b>See instructions.</b>				
20	Code: _____ Credit Name: _____	20		
21	Code: _____ Credit Name: _____	21		
22	Code: _____ Credit Name: _____	22		
23	Code: _____ Credit Name: _____	23		
<b>B2 Credits that reduce net tax and have no carryover provisions.</b>				
24	Code: 187 Other state tax credit . . . . .	24		
<b>Section C – Credits that may reduce alternative minimum tax</b>				
25	Enter your alternative minimum tax from Side 1, Part III, line 26 . . . . .		25	
26	Code: 180 Solar energy credit carryover from Section B1, column (d). . . . .	26		
27	Code: 181 Commercial solar energy credit carryover from Section B1, column (d)	27		
28	Adjusted AMT. Enter the balance from line 27, column (c) here and on Form 540, line 35 . . . . .		28	

# Instructions for Schedule P (540)

## Alternative Minimum Tax and Credit Limitations — Residents

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).

### General Information

In general, California did not conform its law to changes made to the Internal Revenue Code (IRC) by the federal Revenue Reconciliation Act of 1993 (Public Law 103-66). California legislation during 1994 and 1996 did adopt a few specific provisions of the 1993 federal changes. All other references in these instructions are to the IRC as it existed on **January 1, 1993**.

#### 1996 Law Change

As the result of California legislation enacted in 1996, for qualified taxpayers, alternative minimum taxable income shall not include income, adjustments and preference items attributable to any trade or business. See "AMTI Exclusion" in the instructions for Part I for more information.

### A Purpose

Use Schedule P (540) to determine if:

- You owe alternative minimum tax (AMT); and
- Your exemption credits or other credits must be reduced or eliminated entirely. Your credits may be limited even if you do not owe AMT, so be sure to complete both Side 1 and Side 2 of Schedule P (540).

California tax law gives special treatment to some items of income and allows deductions and credits for some items of expense. Many individuals who benefit from these provisions must pay at least a minimum amount of tax (AMT) and/or limit the amount of their credits.

### B Who Must File

Complete Schedule P (540) to see if AMT applies to you. Attach it to your return only if:

- You owe AMT; or
- You have certain credits (such as the credit for child adoption costs, etc.) that are limited by the amount in Part III, line 24 (or in some cases, line 26); or
- The total of Part I, line 7 through line 13 is negative and you would be liable for AMT without taking those lines into account; or
- Schedule P (540), Part II, line 19 is more than Part III, line 22, and you have one or more adjustments on line 4, or line 7 through line 13n.

**Important.** To figure AMT, you need to refigure some items that you figured for regular tax. It may be helpful to complete the applicable tax form a second time. If you do complete a second set of forms in figuring your AMT, please clearly write "AMT schedule" on them and attach them to your return.

For regular tax, some deductions may result in carryovers to future taxable years. Examples are investment interest expense, net operating loss and capital loss. Because you may have to refigure these items for AMT, the carryover amount may be different for AMT than for regular tax. Although the carryovers that you figure for AMT do not affect the carryovers for regular tax, you must keep track of your AMT carryovers in order to complete your Schedule P (540) in future years. See Schedule P (540), Side 1, Part I for a list of adjustments and preferences.

**Partnerships, S Corporations, Limited Liability Companies, Estates or Trusts.** If you are a partner in a partnership, a shareholder of an S corporation or a member in a limited liability company (LLC), you must include your distributive share of adjustments and tax preference items shown on your Schedule K-1 (565), for partners; Schedule K-1 (100S), for shareholders; or Schedule K-1 (568) for members of an LLC. If you are a beneficiary of an estate or trust, you must include your AMT adjustment shown on your Schedule K-1 (541).

#### Credit for prior year alternative minimum tax

If you paid AMT in a prior year, you may be able to claim the credit for prior year alternative minimum tax. Get form FTB 3510, Credit for Prior Year Alternative Minimum Tax — Individuals or Fiduciaries, to see if you qualify.

#### Additional information

For more information, get federal Form 6251, Alternative Minimum Tax — Individuals.

### Specific Line Instructions

#### Part I Adjustments and Preferences

If you itemized your deductions for California regular tax only, and not for federal tax, use the amounts from the federal Schedule A that you completed using California figures, when these instructions refer to Schedule A.

#### AMTI Exclusion

A qualified taxpayer shall exclude income, positive and negative adjustments and preference items attributable to any trade or business when figuring AMTI. A qualified taxpayer is an individual, estate or trust who:

- Owns, or has an ownership interest in, a trade or business; **and**
- Has gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from **all** trades or businesses for which the taxpayer is the owner or has an ownership interest ("aggregate gross receipts"). Gross receipts may include but are not limited to items reported on federal Schedules C, D, E or F and from Form 4797 figured in accordance with California law (or California Schedule D-1 if you were required to complete it) that are associated with your trade or business. In the case of an ownership interest, the taxpayer should include only the proportional share of gross receipts of any trade or business from a partnership, S corporation, regulated investment company (RIC), a real estate investment trust (REIT) or a real estate mortgage investment conduit (REMIC).

If you are a qualified taxpayer, do not include any positive or negative adjustments or preference items from any of your trades or businesses in Part I.

#### Line 3 — Personal property taxes and real property taxes

Enter on this line any of the following from federal Schedule A, line 6, line 7 and line 8.

- State and local personal property taxes, and
- State, local or foreign real property taxes

#### Line 4 — Certain interest on home mortgage

Enter home mortgage interest in which the proceeds were used for purposes other than buying, building or improving your principal residence or a qualified dwelling that is your second home (see IRC Section 163(h)(4)). This may be all or part of the amount on federal Schedule A, line 10, line 11 or line 12.

**Example 1:** Gregory paid \$950 interest on a \$12,000 home equity loan used to buy a ski boat. He would enter \$950 on line 4 because the proceeds were not used to buy, build, or improve his home.

**Example 2:** Jackie paid \$1,200 interest on a \$15,000 home equity loan to install a swimming pool at her home. She would not make any entry on line 4 because the proceeds of the loan were used to improve her home.

**Exception.** Do not include interest on a mortgage you took out before July 1, 1982, if it was secured by property that was your main home or a qualified dwelling used by you or a member of your family at the time you took out the mortgage.

#### Line 5 — Miscellaneous itemized deductions

Enter on this line the amount from federal Schedule A, line 26, adjusted for differences between California and federal law.

#### Line 6 — Refund of personal property taxes and real property taxes

Enter on this line any refund of taxes you received if:

- The taxes are those described in line 3;
- The taxes are attributable to a taxable year after 1986; and
- You deducted the taxes in a taxable year after 1986.

#### Line 7 — Investment interest expense adjustment

Enter on this line any investment interest expense adjustment. If you completed form FTB 3526, Investment Interest Expense Deduction, refigure your investment interest expense using a second form FTB 3526. Complete line 1 through line 6. Follow form FTB 3526 instructions for line 1 through line 6, except:

- When completing line 1, include any interest expense from Schedule P (540), line 4, that was paid or accrued on indebtedness properly attributable to property held for investment within the meaning of IRC Section 163(d)(5). An example is interest on a home equity loan the proceeds from which were invested in stocks or bonds. This interest might be deductible as home mortgage interest for regular tax, but not for AMT; and
- When entering your 1995 disallowed investment interest expense on line 2, use your 1995 AMT disallowed investment interest expense; and
- When completing line 4, refigure your gross investment income, any net gain from the disposition of property held for investment and any investment expenses by taking into account all of your AMT adjustments and tax preferences that apply.

Your adjustment is the difference between your AMT form FTB 3526, line 6, and your regular tax form FTB 3526, line 6. If the investment interest expense figured for AMT is more than that figured for regular tax, enter the adjustment as a negative amount.

**Note:** If you claimed the standard deduction instead of itemized deductions, and you had investment interest expense, do not enter an adjustment unless you reported investment interest expense on federal Schedule E. If you reported investment interest expense on federal Schedule E, follow the instructions above for completing form FTB 3526. Allocate your investment interest expense allowed

on your AMT form FTB 3526, line 6, in the same way you did for regular tax. Your adjustment is the difference between the amount allowed on your AMT federal Schedule E and the amount allowed on your regular tax federal Schedule E.

**Line 8 – Post-1986 Depreciation**

If you filed federal Schedule(s) C, E or F and have tangible property which you began depreciating after 1986, you must use the Alternative Depreciation System (ADS) to calculate AMT depreciation as follows:

**Residential rental property:** Use the straight-line method over 40 years.

**Nonresidential real property:** Use the straight-line method over 40 years.

**Other tangible property:** If you used the straight line method for regular tax, use the straight-line method over the property's ADS life. For all other tangible property, use the 150% declining balance method over the property's ADS life switching to the straight-line method in the first year it yields a larger deduction. Refer to federal Publication 534, Depreciation, or IRC Section 168(g) for more information on the ADS method.

**Grapevines replanted as a result of phylloxera infestation and being depreciated over 5 years:** Depreciate over 10 years.

**Partners and S corporation shareholders:** Enter the amount shown on the Schedule K-1 issued by your partnership or S corporation.

Enter on line 8 the difference between depreciation for regular tax and depreciation for AMT. Do not include depreciation from:

- Expenses incurred as an employee that are deducted on federal Schedule A;
- An activity for which you are not at risk;
- Amounts received from a partnership or S corporation if the basis limitations under IRC Section 704(c) or 1366(d) apply;
- A passive activity; or
- A tax shelter farm activity.

Instead, include these types of depreciation when you figure adjustments for line 5, line 11, line 13h, line 13l or line 13m, whichever applies.

If the AMT depreciation is more than the regular tax depreciation, enter the difference on line 8 as a negative number.

**Line 9 – Adjusted gain or loss**

You will have an entry on this line only if you reported a gain or loss from the sale of business or income producing property on Schedule D or Schedule D-1, federal Form 4797, Sales of Business Property or Form 4684, Casualties and Theft, Section B. Generally, if you reported a gain or loss from the sale or exchange of mutual funds, stocks or bonds you will not have an entry on this line.

To figure the amount to enter on this line:

**Step 1 –** Refigure the adjusted basis of the asset sold by taking into account any AMT adjustments you made this year or in previous years for depreciation, incentive stock options, circulation expenditures, pollution control facilities, research and experimental expenditures, and mining cost.

**Step 2 –** Refigure your gain or loss using the adjusted basis figured in Step 1.

**Step 3 –** Figure the difference between the refigured (AMT) gain or loss and the regular tax gain or loss and enter the result on line 9. Enter the difference as a negative amount if: the AMT gain is less than the regular tax gain; the AMT loss is more than the regular tax loss; or you have an AMT loss and a regular tax gain.

**Line 10 – Incentive stock options**

For regular tax, no income is recognized when an incentive stock option (ISO), as defined in IRC Section 422(b), is granted or exercised. However, this rule does not apply for AMT. Instead, you must generally include on line 10 the excess, if any, of:

- The fair market value of the option (determined without regard to any lapse restriction) at the first time your rights in the option become transferable, or when these rights are no longer subject to a substantial risk of forfeiture, over
- The amount you paid for the option.

Increase your AMT basis of any stock acquired by exercising an ISO by the amount of the AMT adjustment.

If you acquired stock by exercising an ISO and you disposed of that stock in the same year, the tax treatment under regular tax and AMT is the same (no adjustment is required).

**Line 11 – Passive activities adjustment**

**Important:** If you include AMT adjustments or tax preference items on this line, do not include them on any other line of this schedule.

You may want to complete a second form FTB 3801, Passive Activity Loss Limitations, and the other forms or schedules on which your passive activities are reported to figure this adjustment. You may enter the following types of adjustments on this line:

**Regular passive activities.** Refigure your passive activity gains and losses for AMT by taking into account all AMT adjustments and preferences and AMT prior

year unallowed losses that apply to the passive activity. The adjustment is the difference between your AMT passive activity income or loss (from activities reported on federal Schedules C, C-EZ, E, F or federal Form 4835) and your regular tax passive activity income or loss from these activities.

**Publicly traded partnership (PTP).** If you had losses from a PTP, you will have to refigure the loss using any AMT adjustments, tax preference items and any AMT prior year unallowed loss.

**Tax shelter passive farm activities.** Refigure any gain or loss from a tax shelter passive farm activity taking into account all AMT adjustments, tax preference items and AMT prior year unallowed losses. If the amount is a gain, it can be included on your AMT form FTB 3801. If the amount is a loss, your adjustment for tax shelter passive farm activity is the loss you reported for regular tax. The AMT loss to carry over is the refigured AMT loss.

**Note:** If, at the end of the taxable year, your liabilities exceed the fair market value of your assets (insolvency), increase your passive activity loss allowed by that excess (but not more than your total loss). See IRC Section 58(c)(1).

**Line 13 – Other Adjustments and Preferences**

Enter the amount of any other adjustments or preferences that apply to you on line 13a through line 13n. Enter the total on line 13.

**Line 13a – Appreciated contributions**

If you contributed appreciated property to a charity and deducted the fair market value (FMV) on federal Schedule A, refigure your contribution deduction, including capital gain and IRC Section 1231 property, using the cost or other basis rather than the FMV.

Do not include property for which you elected under IRC Section 170(b)(1)(C)(iii) to figure the contribution deduction using the property's adjusted basis rather than the FMV.

Enter on this line the amount by which your regular tax charitable contribution exceeds your AMT charitable contribution.

**Note:** California did not conform to the federal change in treatment of contributions of appreciated property for AMT.

**Line 13b – Circulation expenditures**

If you elected the optional 3-year write-off period for circulation expenditures under IRC Section 59(e), skip this line.

For regular tax, IRC Section 173 allows you to deduct the full amount of circulation expenditures in the taxable year you paid or incurred them. For AMT, you must amortize these expenditures over 3 years beginning with the year you paid or incurred the expenditures. Enter the difference between your AMT circulation amortization and your regular tax circulation deduction. If your AMT circulation amortization is more than your regular tax circulation deduction, enter your adjustment as a negative amount.

**Line 13c – Depletion**

For AMT, if the depletion deduction for mines, wells and other natural deposits determined under IRC Section 611 exceeds the adjusted basis of the property at the end of your taxable year, you have a depletion tax adjustment.

California conformed in 1993 to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. See federal Form 6251 and instructions. However, your California depletion costs may continue to be different from the federal amounts because of prior differences in law and different bases. To figure your adjusted basis, use the rules in IRC Section 1016. But do not reduce the adjusted basis by current year depletion. Figure the excess amount separately for each property. Enter on this line only the depletion amount that exceeds your adjusted basis.

**Line 13d – Depreciation pre-1987**

For AMT, you must use the straight-line method to figure depreciation on property placed in service prior to January 1, 1987. Figure the depreciation separately for each property.

**15- or 18-year real property:** Use the straight-line method over the same number of years using the half-year convention and no salvage value.

**Low-income housing property:** Use the straight-line method over 15 years.

**Leased property:** Use the straight-line method. Figure the depreciation separately for each property.

**Leased recovery property (other than 15- or 18-year real property, or low-income housing):** Use the straight-line method with a half-year convention, no salvage value, and the following recovery periods:

5-year property . . . . .	8 years
10-year property . . . . .	15 years
15-year public utility property . . . . .	22 years

Enter the excess of your regular tax depreciation over your AMT depreciation.

### Line 13e – Installment sales

If, for regular tax purposes, you used the installment method to report the following, you must refigure your income for AMT purposes without regard to the installment method.

1. Any disposition after March 1, 1986, of property used or produced in your farming business that you held primarily for sale to customers; or
2. Any nondealer disposition of property that occurred after August 16, 1986, but before January 1, 1990, if an obligation that arose from the disposition was an installment obligation to which the proportionate disallowance rule applied.

Enter the difference between your AMT and regular tax income on this line. If the AMT income is smaller, enter the difference as a negative amount.

### Line 13f – Intangible drilling costs

If you elected the optional 60-month write-off under IRC Section 59(e) for all property in this category, skip this line.

Intangible drilling costs (IDCs) from oil, gas and geothermal wells are preference items if the excess IDCs exceed 65% of the net income from the wells. Figure the preference for oil and gas properties separate from geothermal properties. To figure excess IDCs:

- A. Figure the amount of your IDCs allowed for regular tax under IRC Section 263(c). Do not include any deduction for nonproductive wells. Then refigure your IDCs allowed for AMT by amortizing them over 120 months, starting with the month you placed the well in production. Then subtract your AMT IDCs from your regular tax IDCs to get your excess IDCs. You may elect to use any other method that is allowed in determining cost depletion.
- B. Figure net income by reducing the gross income from all oil, gas and geothermal wells that you received or accrued during the taxable year by any deductions allocable to these properties (reduced by the excess IDCs). Use only income and deductions allowed for AMT.
- C. Multiply the net income by 65% (.65). Subtract this figure from the excess IDCs figured in A. The result is your excess IDCs that you must enter on this line.

**Note:** In 1993 California conformed to the limited federal repeal of IDC preferences for independent producers. The limit on the benefit of the exclusion of the preference for IDCs for this group is 30% of AMT income. California did not conform to the federal increase of the benefit to 40% in 1994. See the instructions for federal Form 6251, line 14f.

### Line 13g – Long-term contracts

For regular tax, you may have figured taxable income from a long-term contract (entered into after February 28, 1986) using the completed-contract method or another method.

For AMT, you must use the percentage-of-completion method rules described in IRC Section 460(b) to determine your taxable income from any long-term contract (defined in IRC Section 460(f)) you entered into after February 28, 1986. However, this rule does not apply to: (1) any home construction contract (as defined in IRC Section 460(e)(6)) you entered into after June 20, 1988, and before 1991, if you meet the 2-year estimated completion requirement of IRC Section 460(e)(1)(B)(i) and the \$10-million ceiling on average annual gross receipts requirement of IRC Section 460(e)(1)(B)(ii), or (2) any home construction contract entered into after 1990.

**Note:** In the case of a contract described in IRC Section 460(e)(1), use the simplified procedures for allocating costs outlined in IRC Section 460(b)(4) to determine the percentage of completion.

Enter on line 13g the difference between the income you reported for regular tax and the income you recomputed for AMT. If the income reportable for AMT is less than that reported for regular tax, enter the difference as a negative amount.

### Line 13h – Loss limitations

**Important:** If you include AMT adjustments or tax preference items on this line, **do not** include them on any other line of this schedule. Do not include any passive activities on this line. Instead, use line 11. Also use line 11 for passive tax shelter farm activities. Use line 13m for nonpassive tax shelter farm activities.

For AMT, you must refigure certain limited losses using your AMT adjustments and tax preference items. Refigure your gains and losses from activities for which you are not at risk. Also, refigure your basis limitations that apply to partnerships and S corporations. Refer to IRC Sections 59(h), 465, 704(d) and 1366(d).

Enter on this line the difference between AMT limited losses (from activities reported on federal Schedules C, C-EZ, E, F or Form 4835) and your regular tax limited losses from these activities.

### Line 13i – Mining costs

If you elected the optional 10-year write-off under IRC Section 59(e), skip this line. Otherwise, for regular tax, IRC Sections 616(a) and 617(a) allow you to deduct mining exploration and development costs in the taxable year you paid or incurred them. For AMT, you must capitalize your costs and amortize them over

10 years beginning with the taxable year you paid or incurred the expenditures. Enter the difference between your AMT mining amortization and your regular tax mining deduction. If your AMT mining amortization is more than your regular tax mining deduction, enter your adjustment as a negative amount. See IRC Section 56(a)(2)(B) for special rules that apply to losses related to mining property.

### Line 13j – Patron's adjustment

Distributions you received from a cooperative may be includible in income. Unless the distributions are nontaxable, enter on line 13j the total AMT patronage dividend and per-unit retain allocation adjustment reported to you by the cooperative.

### Line 13k – Pollution control facilities

For regular tax, you may elect to amortize the basis of a certified pollution control facility over 60 months. For AMT, you must figure depreciation under the alternative depreciation system (ADS) described in IRC Section 168(g). Use the federal Class Life Asset Depreciation Range System (ADR) under the straight-line method. Enter the difference between your AMT pollution control facilities depreciation and your regular tax pollution control facilities amortization. If your AMT pollution control facilities depreciation is more than your regular tax pollution control facilities amortization, enter the adjustment as a negative amount.

### Line 13l – Research and experimental

If you elected the optional 10-year write-off period for research and experimental expenditures under IRC Section 59(e), skip this line.

For regular tax, IRC Section 174(a) allows you to deduct your research and experimental expenditures in the taxable year you paid or incurred them. If you deducted them in the year incurred, you must amortize these expenditures over 10 years for AMT. Figure the adjustment you must enter on this line the same as for circulation expenditures (line 13b). See IRC Section 56(b)(2)(B) for special rules that apply to losses related to circulation or research property.

### Line 13m – Tax shelter farm activities

**Important:** If you include AMT adjustments or tax preference items on this line, **do not** include them on any other line of this schedule.

Complete this line only if you have a gain or loss from a tax shelter farm activity (as defined in IRC Section 58(a)(2)) that is **not** a passive activity. If the tax shelter farm activity **is** a passive activity, you must include the gain or loss with your other passive activities on line 11. Refigure all gains and losses you reported for regular tax from tax shelter farm activities using your AMT adjustments and tax preference items. Figure your tax shelter farm activity gain or loss for AMT using the same rules you used for regular tax except:

- Do not take any recomputed loss unless you are insolvent (see IRC Section 58(c)(1)); and
- Do not offset gains with your recomputed loss.

You must suspend and carry over to future taxable years your loss until you:

- Have a gain in a future taxable year from that same tax shelter farm activity; or
- Dispose of the activity.

Enter on this line the difference between the amount that would be reported for the activity on federal Schedule E or Form 4835 for AMT and the amount that was reported for the activity for regular tax.

### Line 13n – Related adjustments

If you have an entry on:

- Line 7 (if you deducted investment interest on federal Schedule E);
- Line 8 through line 11; or
- Line 13b through line 13l;

refigure the following items. They are limited based on income (other than a limit based on federal AGI or federal modified AGI) using your AMT income.

- IRC Section 179 expense;
- Taxable IRA distribution (if prior year IRA deductions were different for AMT and regular tax);
- Expenses for business use or rental use of your home; and
- Conservation expenses.

Figure the difference between AMT and regular tax amount for each item. Combine the amounts for all your related adjustments and enter the total on line 13n. Keep a copy of all computations for your records, including any AMT carryover and basis amounts.

## Part II Alternative Minimum Taxable Income

### Line 15 – Taxable income.

Enter on this line the amount from Form 540, line 19. If Form 540, line 19 is zero, subtract Form 540, line 18, from Form 540, line 17, and enter the result as a negative amount.

**Line 17 – AMTI Exclusion**

Beginning in 1996, qualified taxpayers shall exclude income from any trade or business when figuring AMTI. If you are a qualified taxpayer (refer to "AMTI Exclusion" in the instructions for Part I), enter your trade or business income on line 17. If less than zero, enter -0-.

**Line 18 – Itemized deductions limitation**

If you itemized deductions and your federal AGI is greater than the amounts shown on line 18, your itemized deductions were limited. For AMT purposes, this limitation does not apply. Enter the amount from line 9 of the Itemized Deductions Worksheet in the instructions for Schedule CA (540), Part II, line 38.

**Line 20 – Net Operating Loss (NOL) Deduction**

If you are carrying over a net operating loss or a disaster loss from a prior year, you must refigure your NOL deduction for AMT purposes as follows:

- Step 1 Alternative tax NOL for the prior year:** For the year the loss was incurred, complete another form FTB 3805V, 3805Z, 3806 or 3807 using your AMT income and expense amounts rather than your regular tax amounts.
- Step 2 Alternative tax NOL carryover to the current year:** If you incurred the NOL in 1995, the amount of the carryover is the amount figured in Step 1. Otherwise, the amount of the carryover is the amount from Step 1 minus the amounts used for AMT purposes in all preceding carryover years.
- Step 3 Alternative tax NOL deduction for the current year:** Enter on line 20 the lesser of the NOL carryover from Step 2 or 90% of the amount on line 19.

**Line 21 – Alternative minimum taxable income (AMTI)**

Married taxpayers filing separate returns must complete the following computation if line 21 is more than \$155,000.

1. Enter the amount from Schedule P (540), Part II, line 21 . . . . . 1. \_\_\_\_\_
2. Maximum exemption amount . . . . . 2. \$155,000
3. Subtract line 2 from line 1 . . . . . 3. \_\_\_\_\_
4. Multiply line 3 by 25% (.25) . . . . . 4. \_\_\_\_\_
5. Enter the smaller of line 4 or \$20,000 . . . . . 5. \_\_\_\_\_
6. Add line 1 and line 5. Enter the result here and replace the amount on Schedule P (540), Part II, line 21, with this amount. . . . . 6. \_\_\_\_\_

**Part III Exemption Amount and Alternative Minimum Tax**

**Line 22 – Exemption amount.**

If you are completing this Schedule P (540) for a child who was under age 14 on January 1, 1997, or line 21 is equal to or more than the amount shown for your filing status on line 22, use the Exemption Worksheet below to figure the amount to enter on line 22.

If this Schedule P (540) is not for a child under age 14, go to the worksheet now. Otherwise, when the worksheet asks for an amount from the parent's return, see the next paragraph. Complete the Schedule P (540) through line 21 for the return of the parent and each of the parents's other children who were under age 14 on January 1, 1997, before you complete the worksheet.

**Which parent's return to use.** If the child's parents were married to each other and filed a joint return, enter the amounts from the joint return. If the parents filed separate returns, enter amounts from the return of the parent who had the higher taxable income. If the parents were unmarried, treated as unmarried or separated by a divorce or separate maintenance decree, enter the amounts from the return of the parent who had custody of the child for most of the year (the custodial parent), even if the custodial parent married and filed a joint return with the new spouse.

**Exception:** If the custodial parent and the new spouse filed separate returns, enter the amounts from the return of the person with the higher taxable income, even if that person is not the child's parent.

**Exemption Worksheet**

**Note:** If line 21 (AMTI) is equal to or more than \$232,500 (\$310,000 if married filing joint or qualifying widow(er), \$155,000 if married filing separate), your exemption is zero; enter -0- on line 22 and do not complete this worksheet.

1. Enter \$30,000 (\$40,000 if married filing joint or qualifying widow(er), \$20,000 if married filing separate) . . . . . 1. \_\_\_\_\_
2. Enter your AMTI from Schedule P (540), Part II, line 21 . . . . . 2. \_\_\_\_\_
3. Enter \$112,500 (\$150,000 if married filing joint or qualifying widow(er), \$75,000 if married filing separate) . . . . . 3. \_\_\_\_\_
4. Subtract line 3 from line 2. If zero or less, enter -0- . . . . . 4. \_\_\_\_\_
5. Multiply line 4 by 25% (.25) . . . . . 5. \_\_\_\_\_

6. Subtract line 5 from line 1. If zero or less, enter -0-. If this schedule is for a child under age 14, go to line 7. Otherwise, enter this amount on Schedule P (540), Part III, line 22 and complete Schedule P (540).. . . . . 6. \_\_\_\_\_
7. Enter the exemption from the parent's Schedule P (540), Part III, line 22. . . . . 7. \_\_\_\_\_
8. Enter the AMTI from the parent's Schedule P, Part II, line 21.. . . . 8. \_\_\_\_\_
9. Subtract line 8 from line 7. If zero or less, enter -0- on line 14 and go on to line 15.. . . . 9. \_\_\_\_\_
10. Enter the child's AMTI from Schedule P (540), Part II, line 21 . . . . . 10. \_\_\_\_\_
11. Enter the total AMTI from Schedule(s) P (540), Part II, line 21 of the parent's other children under age 14 . . . . 11. \_\_\_\_\_
12. Add line 10 and line 11. . . . . 12. \_\_\_\_\_
13. Divide line 10 by line 12 and enter the result as a decimal (rounded to two places) . . . . . 13. \_\_\_\_\_
14. Multiply line 9 by line 13. If more than \$1,000, write "C" on the dotted line to the left of the entry space for Schedule P (540), Part III, line 22. . . . . 14. \_\_\_\_\_
15. Enter the greater of \$1,000 or the amount on line 14. . . 15. \_\_\_\_\_
16. Enter the child's earned income, if any. Refer to federal Form 6251 instructions for more information. . . . . 16. \_\_\_\_\_
17. Add line 15 and line 16 . . . . . 17. \_\_\_\_\_
18. Enter the smaller of line 6 or line 17 here and on Schedule P (540), Part III, line 22. . . . . 18. \_\_\_\_\_

**Line 23 –** If the result on line 23 is zero or less, enter -0- on line 23, line 24, and line 26. Go to line 25.

**Line 25 – Regular tax before credits**

Enter on this line your regular tax from Form 540, line 20, plus any tax from form FTB 5870A, Tax on Accumulation Distribution of Trusts, included on Form 540, line 23.

**Note:** Do not include the tax from Schedule G-1, Tax on Lump-Sum Distributions, entered on Form 540, line 23. For installment obligations subject to IRC Sections 453(l)(2)(B) (timeshares and residential lots) and 453A (nondealer dispositions greater than \$150,000), do not include tax increases for interest on the deferred tax liability.

**Line 26 –** If you are completing this schedule for a child who was under age 14 on January 1, 1997, (you completed the line 22 worksheet) and line 24 is more than line 25, get form FTB 3536, Limit on Alternative Minimum Tax for Children Under Age 14. Using form FTB 3536 may reduce or eliminate the child's AMT if:

- The child's parent has regular tax that is more than the parent's tentative minimum tax (line 25 is more than line 24 on the parent's Schedule P (540)); or
- The parent has another child who was under age 14 on January 1, 1997, and that child's regular tax is more than that child's tentative minimum tax.

**Part IV Exemption Credit Limitation**

Use Part IV to determine if your exemption credits are limited.

**Line 3 –** If line 3 is zero or less, you cannot take your exemption credits. Enter -0- here and on Form 540, line 21. Also check the box labeled "California TMT limit." If you have other credits, continue to Part V.

**Part V Credits That Reduce Tax**

Complete Part V **only** if you have tax credits.

**Use Part V to determine the:**

- Amount of credit that may be used to offset tax;
- Tax that may be offset;
- Amount of credit, if any, that may be carried over to future years; and
- Order in which to claim credits, if you have more than one credit to claim.

**Before you begin Part V:**

- Complete Form 540 through line 24.
- Figure the amount of your credit(s) using the credit form or worksheet identified in the Credit Table. Attach the credit form to your return, if applicable.

**To complete Part V:**

- Complete line 6 through line 8 to figure the amount of excess tax you may offset by credits.
- Identify in which section(s) of Part V you may take your tax credit(s). Credits without carryover provisions are listed on Schedule P in Section A1 and Section B2 and may be taken only in those sections. Credits with carryover

provisions are listed on the Credit Table on the next page. The table identifies the section(s) of Part V in which you may take these tax credits.

- If you have credit(s) in Section B, be sure to complete line 19 in addition to the line(s) for your credit(s).
- If your credit is taken in Section A2 or B1, enter the credit code and the credit name in the space provided. Refer to the Credit Table for the credit code.
- Complete column (a) through column (d) for each line on which you are taking a credit. Refer to Column Instructions on this page.
- If your credit(s) are taken in more than one section, complete each section before going to the next section.
- Refer to the example on page 8 for illustration.
- Once you complete Part V, see How to Claim Your Credits on this page.

**Section A Instructions**

**Line 8** – Subtract line 7 from line 6. If the amount is zero or less than zero, continue to question 1. If the amount is greater than zero, go to Section A1 Instructions.

1. Does the Credit Table show that you may take your credit ONLY in Section A1 or Section A2?
  - Yes.** You may not take the credit this year. Go to question 2.
  - No.** Go to Section B to figure the amount of credit you may take this year. Then continue to Section C if the Credit Table shows that you may also take your credit in Section C.
2. Does the credit have carryover provisions?
  - Yes.** Enter the credit code, credit name and credit amount in column (a) of the section indicated by the table. Enter -0- in column (b). Enter the credit amount in column (d). This is the amount of the credit you may carry over and use in future years.
  - No.** You may not take the credit this year or in future years.

**Section A1 Instructions**

**Line 9 through line 13** – If you have any of the credits listed in this section, complete column (a) through column (c) for each credit in the order listed.

**Section A2 Instructions**

**Line 14 through Line 18** – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

**Note:** Generally it is to your advantage to apply credits with limited carryovers before credits with no limitation on carryover. However, you may want to apply credits with no limitation on carryover first if it is more advantageous to you.

**Section B1 Instructions**

**Line 20 through Line 23** – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

**Note:** Generally it is to your advantage to apply credits with limited carryovers before credits with no limitation on the carryover. However, you may want to apply credits with no limitation on carryover first if it is more advantageous to you.

**Section B2 Instructions**

**Line 24** – If you have other state tax credit, complete column (a) through column (d).

**Section C Instructions**

**Line 26 and Line 27** – If you have any of the credits listed in this section, complete column (a) through column (d) for each credit in the order listed.

**Column Instructions** – In column:

- (a) Enter the amount of credit available to offset tax;
- (b) Figure the amount of credit you are able to use this year by entering the smaller of the amount in column (a) or the amount in column (c) from the previous line;
- (c) Figure the amount of tax remaining to be offset by other credits by subtracting the amount in column (b) from the balance in column (c) of the previous line; and
- (d) Enter the amount of credit carryover available to use in future years by subtracting the amount in column (b) from the amount in column (a).

**How to Claim Your Credits**

Claim your credits by transferring them to Form 540 as follows:

**Credits on line 9 through line 24** – If you claim only one, two or three credits, enter the name, code number and amount of the credit from column (b) on Form 540, line 28, line 29 and/or line 30. To claim credits that are listed in more than one section, total column (b) of the credits that have the same code numbers. Then enter the name, code number and amount of the credit on Form 540, line 28, line 29 and line 30.

**Other Credits** – If you have any other credits to claim, add the amounts from column (b) for those credits. Enter the total on Form 540, line 31.

**Credit Table Instructions**

To use the table:

1. Find your credit(s) in the table.
2. See which sections are identified under "Offset tax in Section:".
3. Take the credit only in the section(s) the table identifies for your credit.
4. Use the credit in the earliest section possible.
5. Complete each section before going to the next section.

**Credit Table**

Code	Current Credits	Form	Offset tax in Section:			
			A1	A2	B1	B2
197	Child Adoption (See the instructions for Form 540.)	Worksheet		A2		
173	Dependent Parent	Worksheet	A1			
205	Disabled Access	FTB 3548		A2		
204	Donated Agricultural Products Transportation	FTB 3547		A2		
189	Employer Child Care Program	FTB 3501		A2		
190	Employer Child Care Contribution	FTB 3501		A2		
203	Enhanced Oil Recovery	FTB 3546		A2		
169	Enterprise Zone Employee	FTB 3553	A1			
176	Enterprise Zone Hiring & Sales or Use Tax 1 = hiring credit 2 = sales or use tax credit	FTB 3805Z		A2 <sub>1</sub> A2 <sub>2</sub>	B1 <sub>1</sub> B1 <sub>2</sub>	
170	Joint Custody Head of Household	Worksheet	A1			
159	Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax	FTB 3806		A2	B1	
198	Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax	FTB 3807		A2		
172	Low-Income Housing	FTB 3521		A2	B1	
199	Manufacturers' Investment	FTB 3535		A2	B1	
187	Other State Tax Credit	Sch. S				B2
188	Prior Year Alternative Minimum Tax	FTB 3510		A2		
162	Prison Inmate Labor	FTB 3507	A1			
177	Program Area Hiring & Sales or Use Tax	FTB 3805Z		A2	B1	
183	Research	FTB 3523		A2	B1	
200	Salmon & Steelhead Trout Habitat Restoration	N/A		A2		
163	Senior Head of Household	Worksheet	A1			
Code	Expired credits with carryover provisions	Form	Offset tax in Section:			
175	Agricultural Products	FTB 3540		A2		
196	Commercial Solar Electric System	FTB 3540		A2	B1	
181	Commercial Solar Energy	FTB 3540		A2	B1	C
194	Employee Ridesharing	FTB 3540		A2		
191						
192	Employer Ridesharing	FTB 3540		A2		
193						
182	Energy Conservation	FTB 3540		A2		
160	Low-Emission Vehicles	FTB 3540		A2		
185	Orphan Drug	FTB 3540		A2	B1	
184	Political Contributions	FTB 3540		A2		
174	Recycling Equipment	FTB 3540		A2		
186	Residential Rental & Farm Sales	FTB 3540		A2		
171	Ridesharing	FTB 3540		A2		
180	Solar Energy	FTB 3540		A2	B1	C
179	Solar Pump	FTB 3540		A2		
178	Water Conservation	FTB 3540		A2		
161	Young Infant	FTB 3540		A2		

**Example:** Gregory and Jackie have a child adoption credit of \$2,500. Looking on the Credit Table, they see that they may take this credit only in Section A2. The table does not identify any other sections for this credit. Gregory and Jackie also have an orphan drug credit carryover from a prior year of \$3,700. Looking on the table again, they see that they may take the carryover credit in Section A2 and Section B1. To complete Part V they will:

- Step 1. Complete Part V, line 6 through line 8. See the filled-in form below for illustration.
- Step 2. Skip to Section A2 and complete line 14 for the child adoption credit and make the following entries:
  - \$2,500 in column (a). This is the amount of the credit they are eligible to take in 1996.
  - \$2,500 in column (b). This is the amount of credit they will be able to use in 1996 because the excess tax that may be offset by credits, \$4,000 on line 8, column (c), is more than the credit amount of \$2,500, on line 14, column (a).
  - \$1,500 in column (c). This is the amount of excess tax remaining to be offset by their other credit (\$4,000 - \$2,500 = \$1,500).
  - \$-0- in column (d). They were able to use all of the credit this year and there is no carryover to next year.
- Step 3. Complete line 15, column (a) through column (d) for the orphan drug credit carryover and make the following entries:
  - \$3,700 in column (a). This is the amount of the credit carryover from prior years.
  - \$1,500 in column (b). This is the amount of credit they will be able to use in 1996 because the excess tax remaining to be offset by credits, \$1,500 on line 14, column (c), is less than the credit carryover amount of \$3,700, line 15, column (a).
  - \$-0- in column (c). This is no more excess tax remaining to be offset.
  - \$2,200 in column (d). This is the credit carryover that cannot be used to offset excess tax this year. (\$3,700 - \$1,500 = \$2,200).
- Step 4. Skip to Section B, and complete line 19, column (c).
- Step 5. Skip to Section B1, complete line 20, column (a) through column (d) for the orphan drug credit carryover and make the following entries:
  - \$2,200 in column (a). This is the amount of credit carryover, from line 15, column (d), they may use to offset net tax.
  - \$1,000 in column (b). This is the amount of credit carryover they will be able to use to offset net tax because the net tax remaining to be offset by credits, \$1,000 on line 19, column (c), is less than the credit carryover amount of \$2,200, line 20, column (a).
  - \$-0- in column (c). This is no more net tax remaining to be offset.
  - \$1,200 in column (d). This is the credit carryover that cannot be used to offset net tax this year. (\$2,200 - \$1,000 = \$1,200)

This credit cannot be claimed in any other section so the \$1,200 credit remaining in column (d) is carried forward to next year.
- Step 6. Ignore Section C because they do not have any other credits.
- Step 7. For the child adoption credit, enter the credit name, code 197 and \$2,500 from line 14, column (b) on Form 540, line 37.
- Step 8. For the orphan drug credit carryover, enter the credit name, code 185 and \$2,500 (the total of the amounts on line 15, column (b) and line 20, column (b)) on Form 540, line 38.

**Part V – Credits that reduce tax**

6 Enter the amount from Form 540, line 24 . . . . .	6	5,000	
7 Enter the tentative minimum tax from Side 1, Part III, line 24 . . . . .	7	1,000	

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
<b>Section A – Credits that reduce excess tax</b>				
8 Subtract line 7 from line 6. If zero or less enter -0- and see instructions. This is your excess tax which may be offset by credits. . . . .			4,000	
<b>A1 Credits that reduce excess tax and have no carryover provisions</b>				
9 Code: 170 Credit for joint custody head of household . . . . .				

<b>A2 Credits that reduce excess tax and have carryover provisions.</b> See instructions.				
14 Code: <u>197</u> Credit Name: <u>Child Adoption</u> . . . . .	2,500	2,500	1,500	0
15 Code: <u>185</u> Credit Name: <u>Orphan Drug</u> . . . . .	3,700	1,500	0	2,200
16 Code: _____ Credit Name: _____ . . . . .				
17 Code: _____ Credit Name: _____ . . . . .				
18 Code: 188 Credit for prior year alternative minimum tax. . . . .				

<b>Section B – Credits that may reduce tax below tentative minimum tax</b>				
19 If Part V, line 8 is zero, enter the amount from line 6. If line 8 is more than zero enter the total of line 7 and the last entry in column (c). . . . .			1,000	

<b>B1 Credits that reduce net tax and have carryover provisions.</b> See instructions.				
20 Code: <u>185</u> Credit Name: <u>Orphan Drug</u> . . . . .	2,200	1,000	0	1,200
21 Code: _____ Credit Name: _____ . . . . .				
22 Code: _____ Credit Name: _____ . . . . .				
23 Code: _____ Credit Name: _____ . . . . .				