

1997

Alternative Minimum Tax and Credit Limitations — Nonresidents or Part-Year Residents

P (540NR)

Attach this schedule to Form 540NR.

Name(s) as shown on Form 540NR

Your social security number

Part I Adjustments and Preferences Important: See instructions for information regarding California/federal differences.

Table with 14 main rows and sub-rows (a-n) for adjustments and preferences. Includes columns for line numbers and values. A shaded area covers lines 13a through 13n.

Part II Alternative Minimum Taxable Income (AMTI)

Table with 7 main rows for Alternative Minimum Taxable Income (AMTI) calculations, including lines 15 through 21.



**Part III Exemption Amount and Alternative Minimum Tax (AMT)**

**22 Exemption Amount.** (If this schedule is for a child under age 14, see instructions.)

<b>If your filing status is:</b>	<b>And line 21 is not over:</b>	<b>Enter on line 22:</b>	
Single or head of household	\$112,500	\$33,750	} . . . . . 22
Married filing joint or qualifying widow(er)	150,000	45,000	
Married filing separate	75,000	22,500	

If Part II, line 21 is over the amount shown above for your filing status, see instructions.

<b>23</b> Subtract line 22 from line 21. If zero or less, enter -0- . . . . .	<b>23</b>	
<b>24</b> Multiply line 23 by 7.0% (.07) . . . . .	<b>24</b>	
<b>25 a</b> Alternative minimum taxable income. Enter the amount from Part II, line 21 . . . . .	<b>25a</b>	
<b>b</b> Itemized deductions not included in Part I. See instructions . . . . .	<b>25b</b>	
<b>c</b> Total AMT adjusted gross income. Add line 25a and line 25b and complete Part IV now . . . . .	<b>25c</b>	
<b>d</b> AMT California adjusted gross income from Part IV, line 8 . . . . .	<b>25d</b>	
<b>e</b> Ratio. Divide line 25d by line 25c. This amount may be greater than 1.0000 . . . . .	<b>25e</b>	
<b>26</b> <b>Tentative minimum tax.</b> Multiply line 24 by line 25e . . . . .	<b>26</b>	
<b>27</b> Regular tax from Form 540NR, line 22 multiplied by the ratio from Form 540NR, line 25a. If an amount is entered on Form 540NR, line 26, see instructions . . . . .	<b>27</b>	
<b>28</b> <b>Alternative Minimum Tax.</b> Subtract line 27 from line 26. If zero or less, enter -0- here and on Form 540NR, line 44. Continue to Part V to figure your allowable credits. <b>Exceptions:</b> If you have a carryover credit for solar energy or commercial solar energy, first enter the result on Side 3, Part VI, Section C, line 25, or if this schedule is for a child under age 14, see instructions. . . . .	<b>28</b>	

**Part IV AMT California Adjusted Gross Income**

<b>1</b> California adjusted gross income from Schedule CA (540NR), line 32, column E. . . . .	<b>1</b>	
<b>2</b> Net operating loss (NOL) deduction, if any, included on Schedule CA (540NR), line 21, column E. Enter as a positive number . . . . .	<b>2</b>	
<b>3</b> AMTI exclusion. See instructions . . . . .	<b>3</b>	( )
<b>4</b> Combine line 1, line 2 and line 3 . . . . .	<b>4</b>	
<b>5</b> <b>Adjustments and Preferences.</b> See instructions before completing.		
<b>a</b> Investment interest expense . . . . .		
<b>b</b> Post-1986 depreciation . . . . .		
<b>c</b> Adjusted gain or loss . . . . .		
<b>d</b> Incentive stock options and CQSOS . . . . .		
<b>e</b> Passive activities . . . . .		
<b>f</b> Beneficiaries of estates and trusts . . . . .		
<b>g</b> Circulation expenditures . . . . .		
<b>h</b> Depletion . . . . .		
<b>i</b> Depreciation (pre-1987) . . . . .		
<b>j</b> Installment sales . . . . .		
<b>k</b> Intangible drilling costs . . . . .		
<b>l</b> Long-term contracts . . . . .		
<b>m</b> Loss limitations . . . . .		
<b>n</b> Mining costs . . . . .		
<b>o</b> Patron's adjustment . . . . .		
<b>p</b> Pollution control facilities . . . . .		
<b>q</b> Research and experimental . . . . .		
<b>r</b> Tax shelter farm activities . . . . .		
<b>s</b> Related adjustments . . . . .		
Add line a through line s . . . . .	<b>5</b>	
<b>6</b> Combine line 4 and line 5 . . . . .	<b>6</b>	
<b>7</b> California AMT net operating loss deduction. Do not enter more than 90% of line 6. See instructions . . . . .	<b>7</b>	
<b>8</b> AMT California adjusted gross income. Subtract line 7 from line 6. Enter here and on Part III, line 25d . . . . .	<b>8</b>	

**Part V Exemption Credit Limitation**

<b>1</b> Enter regular tax from Part III, line 27 . . . . .	<b>1</b>	
<b>2</b> Enter tentative minimum tax from Part III, line 26 . . . . .	<b>2</b>	
<b>3</b> Subtract line 2 from line 1. If the result is zero or less, see instructions. . . . .	<b>3</b>	
<b>4</b> <b>If your filing status is:</b>		
<b>Is your federal AGI, Form 540NR, line 13 more than:</b>		
Single or married filing separate . . . . .		\$114,152
Married filing joint or qualifying widow(er) . . . . .		\$228,305
Head of household . . . . .		\$171,228
<b>No.</b> Multiply: Form 540NR, line 11 × \$68 × Form 540NR, line 25a. Enter the result.	} . . . . . 4	
<b>Yes.</b> Multiply: The amount from Form 540NR Instructions, line 23, Worksheet I, line h × Form 540NR, line 25a. Enter the result.		
<b>5</b> Allowable exemption credit. Is line 3 greater than line 4?		
<b>Yes.</b> Divide the amount on line 4 by the ratio from Form 540NR, line 25a. Enter the result here and on Form 540NR, line 23, and check the box labeled "Federal AGI limit."	} . . . . . 5	
<b>Note:</b> If you also answered "no" on line 4, check the box labeled "Flowchart" instead.		
<b>No.</b> Divide the amount on line 3 by the ratio from Form 540NR, line 25a. Enter the amount here and on Form 540NR, line 23, and check the box labeled "California TMT limit."		
If you are claiming additional credits, continue to Part VI and complete Form 540NR through line 27.		



Part VI Credits that Reduce Tax Note: Be sure to attach your credit forms to Form 540NR.

6	Enter the amount from Form 540NR, line 27 . . . . .	6	
7	Enter the tentative minimum tax from Side 2, Part III, line 26 . . . . .	7	

Section A – Credits that reduce excess tax.		(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
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. Credit from _____ Ratio from _____ Form 540NR _____ X Form 540NR, _____ = _____ instructions line 25a	9			
10	Code: 173 Credit for dependent parent. Credit from _____ Ratio from _____ Form 540NR _____ X Form 540NR, _____ = _____ instructions line 25a	10			
11	Code: 163 Credit for senior head of household. Credit from _____ Ratio from _____ Form 540NR _____ X Form 540NR, _____ = _____ instructions line 25a	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>					
See instructions.					
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 VI, 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>					
See instructions.					
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 2, Part III, line 28 . . . . .	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 540NR, line 44. . . . .	28			



# Instructions for Schedule P (540NR)

## Alternative Minimum Tax and Credit Limitations — Nonresidents or Part-Year Residents

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1997**, and to the California Revenue and Taxation Code (R&TC).

### General Information

Due to California legislation enacted in 1997, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1997, and to selected provisions of the federal Taxpayer Relief Act of 1997 (Public Law 105-34). Generally, specific differences between California and federal law are noted in the instructions under the applicable line items. See General Information C below for information regarding the California alternative minimum taxable income exclusion.

### A Purpose

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.

Use Schedule P (540NR) 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 (540NR).

### B Who Must File

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

- You have AMT; or
- You have certain credits (such as the credit for child adoption costs, etc.) that are limited by tentative minimum tax (TMT), Part III, line 26 (or in some cases, line 28); 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 21 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 (540NR) in future years.

See Schedule P (540NR), 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 the AMT adjustment shown on your Schedule K-1 (541).

#### Credit for prior year AMT

If you paid AMT in a prior year, you may be able to claim the credit for prior year AMT. 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.

### C Alternative Minimum Taxable Income (AMTI) Exclusion

A qualified taxpayer shall exclude income, positive and negative adjustments and preference items attributable to any trade or business when figuring AMTI. You are a qualified taxpayer if you:

- Own or have an ownership interest in a trade or business; and
- Have **aggregate gross receipts, less returns and allowances**, during the taxable year of less than \$1,000,000 from all trades or businesses for which you are the owner or have an ownership interest. Gross receipts may include, but are not limited to, items reported on federal Schedules C, D, E (other than income from a trust) or F and from federal Form 4797 (figured in accordance with California law) or California Schedule D-1 (if required to complete it) that are associated with a trade or business. In the case of an ownership interest, you 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 real estate mortgage investment conduit (REMIC) in accordance with your ownership interest in the enterprise. Apply the \$1,000,000 test to the return regardless of filing status. The threshold does not become \$2,000,000 for married filing joint taxpayers.

**"Aggregate gross receipts, less returns and allowances"** means the sum of the gross receipts of the trades or businesses which you own and the **proportionate interest** of the gross receipts of the trades or businesses which you own and of pass-through entities in which you hold an interest.

**"Gross receipts, less returns and allowances"** means the sum of the gross receipts from the production of business income, as defined in R&TC Section 25120(a), and the gross receipts from the production of nonbusiness income, as defined in R&TC Section 25120(d).

**"Proportionate interest"** means:

1. In the case of a pass-through entity which reports a profit for the taxable or income year, your profit interest in the entity at the end of your taxable year.
2. In the case of a pass-through entity which reports a loss for the taxable or income year, your loss interest in the entity at the end of your taxable year.
3. In the case of a pass-through entity which is sold or liquidates during the taxable or income year, your capital account interest in the entity at the time of the sale or liquidation.

**"Proportionate interest"** includes an interest in a pass-through entity including a partnership, S corporation, RIC, REIT or REMIC.

If you are a qualified taxpayer:

- In Part I, **do not** include any positive or negative adjustments or preference items attributable to any trade or business; and
- In Part II, line 17, enter all taxable income attributable to any trade or business.

## 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 (1040 or 1040NR) that you completed using California figures, when these instructions refer to Schedule A.

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

Enter on this line any of the following from federal Schedule A (1040), line 6, line 7 and line 8 or federal Schedule A (1040NR), line 3:

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

#### Line 4 — Certain interest on a 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)(5)). This may be all or part of the amount on federal Schedule A (Form 1040), line 10, line 11 or line 12.

**Example 1:** BJ 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:** Karen 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 the amount from federal Schedule A (1040), line 26 or federal Schedule A (1040NR), line 15 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 8. Follow form FTB 3526 instructions for line 1 through line 8 except:

- When completing line 1, include any interest expense from Schedule P (540NR), Part I, line 4, that was paid or accrued on indebtedness property attributable to property held for investment within the meaning of IRC Section 163(d)(5). An example is interest on a home equity loan from which the proceeds 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 1996 disallowed investment interest expense on line 2, use your 1996 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 preferences that apply.

Your adjustment is the difference between your AMT form FTB 3526, line 8, and your regular tax form FTB 3526, line 8. If the amount figured for AMT is more than the amount figured for regular tax, enter the adjustment as a negative amount.

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

#### 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 946, How to Depreciate Property or IRC Section 168(g) for more information on the ADS method.

**Grapevines replanted as a result of phylloxera infestation or Pierce's Disease and being depreciated over 5 years:** Depreciate over 10 years.

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

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

- Expenses you incurred as an employee and deducted on federal Schedule A (1040 or 1040NR);
- 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 California Schedule D or Schedule D-1, or federal Schedule D, 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 you sold. Take 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 from Step 1.

**Step 3** – Figure the difference between the 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 and California qualified stock options

**Incentive stock options (ISOs).** For regular tax, no income is recognized when an 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 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 in any stock acquired through the exercise of 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.

**California qualified stock options (CQSOs).** Beginning in 1997, taxpayers whose earned income was \$40,000 or less may exclude compensation arising from the exercise of a CQSO under R&TC Section 17502 from regular tax income. The amount of compensation excluded for regular tax must be included for AMT on this line.

#### Line 11 – Passive activities adjustment

**Important:** If you include AMT adjustments or preferences 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 income or loss from these activities for regular tax.

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

**Tax shelter passive farm activities.** Refigure any gain or loss from a tax shelter passive farm activity. Take into account all AMT adjustments, preferences 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.

**Insolvency.** If, at the end of the taxable year, your liabilities exceed the fair market value of your assets, increase your passive activity loss allowed by that excess but not by 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 (1040 or 1040NR), 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 does not conform to the federal treatment of contributions of appreciated property under 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 deduction and your regular tax deduction. If your AMT deduction is more than your regular tax 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 preference 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 period:

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:

- A disposition after March 1, 1986, of property used or produced in your farming business that you held primarily for sale to customers; or
- A 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.

**Note:** California did not conform to federal legislation that eliminated income from farmers' installment sales from the minimum tax computation.

**Line 13f – Intangible drilling costs (IDCs)**

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

IDCs from oil, gas and geothermal wells are preferences to the extent that the excess IDCs exceed 65% of the net income from the wells. Figure the preference for oil and gas properties separately from geothermal properties. To figure excess IDCs:

- 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.
- 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.
- Multiply the net income by 65% (.65). Subtract the result from the excess IDCs figured in A. This is your excess IDCs that you must enter on this line.

**Exception.** The preference for IDCs from oil and gas wells does not apply to taxpayers who are independent producers (i.e. not integrated oil companies as defined in IRC Section 291(b)(4)). However, this benefit may be limited. First, figure the IDC preference as if this exception did not apply. Then, for purposes of this exception, complete Schedule P (540NR) through line 19, including the IDC preference. If the amount of the IDC preference exceeds 40% of the amount figured for line 19, enter the excess on line 13f (the benefit of this exception is limited). If the amount of the IDC preference is equal to or less than 40% of the amount figured for line 19, do not enter an amount on line 13f (the benefit of this exception is not limited).

**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 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 for AMT is less than the income for regular tax, enter the difference as a negative amount.

**Line 13h – Loss limitations**

**Important:** If you include AMT adjustments or preferences 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 preferences. 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 federal 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 preferences 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 preferences. 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 your loss to future taxable years 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 was reported for regular tax for the activity on federal Schedule E or federal Form 4835 and the amount that would be reported for the activity for AMT.

**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 13i;

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 or rental use of your home; and
- Conservation expenses;
- Self-employed health insurance deduction;
- Keogh retirement plan or Simplified Employee Pension (SEP) deduction; and
- IRA deduction affected by the earned income limitation of IRC Section 219(b)(1)(B).

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 (AMTI)

### Line 15 – Taxable income

Enter on this line the amount from Form 540NR, line 19. If Form 540NR, line 19 is zero, subtract Form 540NR, line 18, from Form 540NR, 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 General Information C, "Alternative Minimum Taxable Income (AMTI) Exclusion"), enter your taxable 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 amount 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 (540NR), Part III, line 39.

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

If you are carrying over an NOL 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 the regular tax amounts.
- Step 2 Alternative tax NOL carryover to the current year** – If you incurred the NOL in 1996, 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 worksheet if line 21 is more than \$165,000.

- |                                                                                                                                           |   |           |
|-------------------------------------------------------------------------------------------------------------------------------------------|---|-----------|
| 1. Enter the amount from Schedule P (540NR), Part II, line 21 . . . . .                                                                   | 1 | _____     |
| 2. Maximum exemption amount . . . . .                                                                                                     | 2 | \$165,000 |
| 3. Subtract line 2 from line 1 . . . . .                                                                                                  | 3 | _____     |
| 4. Multiply line 3 by 25% (.25) . . . . .                                                                                                 | 4 | _____     |
| 5. Enter the smaller of line 4 or \$22,500 . . . . .                                                                                      | 5 | _____     |
| 6. Add line 1 and line 5. Enter the result here and replace the amount on Schedule P (540NR), 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 (540NR) for a child who was under age 14 on January 1, 1998, or line 21 is equal to or more than the amount shown for your filing status on line 22, use the following worksheet to figure the amount to enter on line 22.

If this Schedule P (540NR) 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 Schedule P (540NR) through line 21 for the return of the parent and each of the parent's other children who were under age 14 on January 1, 1998 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 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 \$247,500 (\$330,000 if married filing joint or qualifying widow(er), \$165,000 if married filing separate), your exemption is zero; enter -0- on line 22 and do not complete this worksheet.

- |                                                                                                                                                                                                                                         |    |       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|-------|
| 1. Enter \$33,750 (\$45,000 if married filing joint or qualifying widow(er), \$22,500 if married filing separate) . . . . .                                                                                                             | 1  | _____ |
| 2. Enter your AMTI from Schedule P (540NR), 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 (540NR), Part III, line 22 and complete Schedule P (540NR) . . . . . | 6  | _____ |
| 7. Enter the exemption from the parent's Schedule P (540NR), Part III, line 22 . . . . .                                                                                                                                                | 7  | _____ |
| 8. Enter the AMTI from the parent's Schedule P (540NR), Part II, line 21 . . . . .                                                                                                                                                      | 8  | _____ |
| 9. Subtract line 8 from line 7. If zero or less, enter -0- on line 14 below and go on to line 15 . . . . .                                                                                                                              | 9  | _____ |
| 10. Enter the child's AMTI from Schedule P (540NR), Part II, line 21 . . . . .                                                                                                                                                          | 10 | _____ |
| 11. Enter the total AMTI from Schedule(s) P (540NR), 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 \$1,300, write "C" on the dotted line to the left of Schedule P (540NR), Part III, line 22 . . . . .                                                                                       | 14 | _____ |
| 15. Enter the greater of \$1,300 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 (540NR), Part III, line 22 . . . . .                                                                                                                                  | 18 | _____ |

**Line 23** – If the result on line 23 is zero or less, enter -0- on line 23, line 24, line 26 and line 28. Go to line 27.

### Line 25b – Itemized deductions not included in Part I

Complete the following worksheet only if you claimed itemized deductions on your Form 540NR.

- |                                                                                                                   |       |
|-------------------------------------------------------------------------------------------------------------------|-------|
| A. Enter your itemized deductions from Schedule CA, line 38 . . . . .                                             | _____ |
| B. Enter the total of Schedule P (540NR), Part I, Section A, line 2 through line 5, line 7 and line 13a . . . . . | _____ |
| C. Subtract line B from line A. Enter here and on Schedule P (540NR), Part III, line 25b . . . . .                | _____ |

### Line 27 – Regular tax before credits

Enter on this line your regular tax from Form 540NR, line 22, multiplied by the ratio from Form 540NR, line 25a, plus any tax from form FTB 5870A, Tax on Accumulation Distribution of Trusts, included on Form 540NR, line 26.

**Note:** Do not include tax from Schedule G-1, Tax on Lump-Sum Distributions, entered on Form 540NR, line 26. 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 28** – If you are completing this schedule for a child who was under age 14 on January 1, 1998, (you completed the line 22 worksheet) and line 26 is more than line 27, 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 27 is more than line 26 on the parent's Schedule P (540NR)); or
- The parent has another child who was under age 14 on January 1, 1998, and that child's regular tax is more than that child's tentative minimum tax.

## Part IV Alternative Minimum Tax (AMT) California Adjusted Gross Income.

Use Schedule P (540NR), Part IV to figure AMT California adjusted gross income. The adjustments in this part apply only to items of income and deductions shown on Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents, Part II, column E.

### Line 3 – AMTI Exclusion

If you are a qualified taxpayer (refer to General Information C, “Alternative Minimum Taxable Income (AMTI) Exclusion”), enter your trade or business income attributable to a California source. These are amounts you would have included on Schedule CA(540NR), column E. If less than zero, enter -0-.

### Line 5 – Adjustments and Preferences

Follow the instructions for Part I, line 7 through line 13n. Enter amounts related to income from California sources in Part IV, line 5a through line 5s. If you are a qualified taxpayer as described under General Information C, make sure to exclude positive and negative adjustments and preferences related to your trade or business income.

### Line 7 – California AMT net operating loss (NOL) deduction

Follow the instructions for Part I, line 20. Enter the AMT NOL from California sources on Part IV, line 7, but not more than 90% of the amount on Part IV, line 6.

## Part V Exemption Credit Limitation

Use Part V 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 540NR, line 23. Also check the box labeled “California TMT limit.” If you have other credits, continue to Part VI.

## Part VI Credits That Reduce Tax

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

### Use Part VI 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 VI:

- Complete Form 540NR through line 27.
- Figure the amount of your credit(s) using the credit form or worksheet identified in the Credit Table on the next page. Be sure to attach the credit form to your return, if applicable.

### To complete Part VI:

- 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 VI you may take your tax credit(s). Credits without carryover provisions are listed on Schedule P (540NR) 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 VI in which you may take these tax credits.
- If you have a 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 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 7 for illustration.
- Once you complete Part VI, see “How to Claim Your Credits” on the next 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 more 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 a future year.

**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 of your credits 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 that is to your advantage.

### 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 carryover. However, you may want to apply credits with no limitation on carryover first if that is to your advantage.

### 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 a 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 a 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 540NR as follows:

**Credits from Part VI, line 9, line 10, or line 11** — Add the amounts from column (b) of line 9 through line 11, and enter the total on Form 540NR, line 36. Write “Schedule P (540NR)” on the dotted line to the left of Form 540NR, line 36. Do not complete Form 540NR, line 31 through line 33.

**Credits from Part VI, line 12 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 540NR, line 37, line 38 and/or line 39. 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 540NR, line 37, line 38 and line 39.

**Other Credits** – If you have any other credits to claim, add the amounts from column (b) for those credits. Enter the total on Form 540NR, line 40.

### Credit Table Instructions

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 (see the example on the next page).
5. Complete each section before going to the next section.

**Credit Table**

Code	Current Credits	Form	Offset Tax in Section:			
197	Child Adoption (See the instructions for Form 540NR.)	Worksheet		A2		
209	Community Development Financial Institution Deposits Credit	N/A		A2		
173	Dependent Parent	Worksheet	A1			
205	Disabled Access for Eligible Small Businesses	FTB 3548		A2		
204	Donated Agricultural Products Transportation	FTB 3547		A2		
190	Employer Child Care Contribution	FTB 3501		A2		
189	Employer Child Care Program	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>	
207	Farmworker Housing	N/A		A2		
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 (only 1996 fiscal-year pass through)	FTB 3805Z		A2	B1	
183	Research	FTB 3523		A2	B1	
206	Rice Straw	N/A		A2		
200	Salmon & Steelhead Trout Habitat Restoration	N/A		A2		
163	Senior Head of Household	Worksheet	A1			
Code	Repealed 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	Employer Ridesharing Large Employer					
192	Small Employer	FTB 3540		A2		
193	Transit					
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:** BJ and Karen 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. BJ and Karen 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 VI they will:

- Step 1. Complete Part VI, 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 1997.
  - \$2,500 in column (b). This is the amount of credit they will be able to use in 1997 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 1997 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 540NR, 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 540NR, line 38.

**Part V – Credits that Reduce Tax** Note: Be sure to attach your credit forms to Form 540NR.

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	

**Section A – Credits that reduce excess tax.**

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
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	
A1	<b>Credits that reduce excess tax and have no carryover provisions.</b>			
9	Code: 170	Credit for joint custody head of household		

**A2 Credits that reduce excess tax and have carryover provisions.**

See instructions.

14	Code: 197	Credit Name: <u>Child Adoption</u>	14	2,500	2,500	1,500	0
15	Code: 185	Credit Name: <u>Orphan Drug</u>	15	3,700	1,500	0	2,200
16	Code: _____	Credit Name: _____	16				
17	Code: _____	Credit Name: _____	17				
18	Code: 188	Credit for prior year alternative minimum tax	18				

**Section B – Credits that may reduce tax below tentative minimum tax.**

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			1,000	
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**B1 Credits that reduce net tax and have carryover provisions.**

See instructions.

20	Code: 185	Credit Name: <u>Orphan Drug</u>	20	2,200	1,000	0	1,200
21	Code: _____	Credit Name: _____	21				
22	Code: _____	Credit Name: _____	22				
23	Code: _____	Credit Name: _____	23				