

1998 Depreciation and Amortization

3885P

Name as shown on return	FEIN	<table border="1" style="width:100%"> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </table>										

Assets placed in service after 12/31/97 (depreciation):			Depreciation of Assets			Amortization of Property		
Intangibles placed in service after 12/31/97 (amortization):								
1 (a) Description of property	(b) Date placed in service	(c) Cost or other basis	(d) Method of figuring depreciation	(e) Life or rate	(f) Depreciation for this year	(g) Code section	(h) Period or percentage	(i) Amortization for this year

1 Enter line 1, column (f) and column (i) totals here. 1

Depreciation			
2 California depreciation for assets placed in service before January 1, 1998	2		
Note: Be sure to make adjustments for any basis differences.			
3 Total California depreciation. Add line 1(f) and line 2.	3		
Amortization			
4 California amortization for intangibles placed in service before January 1, 1998	4		
Note: Be sure to make adjustments for any basis differences.			
5 Total California amortization. Add line 1(i) and line 4.	5		
6 Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 565, Side 1, line 16a, if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities	6		
7 Section 179 expense election from worksheet. See instructions	7		
8 Carryover of disallowed deduction to 1999.	8		

1998 Capital Gain or Loss

D (565)

Name as shown on return	FEIN	<table border="1" style="width:100%"> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </table>										

1 (a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price. See instructions.	(e) Cost or other basis. See instructions.	(f) Gain (loss) ((d) minus (e))

1 Enter line 1, column (f) total here.	1	
2 Capital gain from installment sales, form FTB 3805E, line 26 or line 37	2	
3 Partnership's share of net capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries and S corporations	3	
4 Capital gain distributions	4	
5 Net capital gain (loss). Add line 1, line 2, line 3 and line 4. Enter total on Schedule K, line 4d, and each partner's share on Schedule K-1 (565), line 4d	5	

Instructions for Form FTB 3885P

Depreciation and Amortization

General Information

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to the changes made to the IRC by the federal Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277).

California law is the same as federal law regarding:

- Exemption of the incremental cost of a fuel vehicle from the limits on depreciation for vehicles;
- Suspension of taxable income limit on percentage depletion for marginal production properties for tax years beginning after December 31, 1997, and before January 1, 2000;
- Limitations on property for which the income forecast method may be used; and
- Recognition of gain for a constructive sale of property in which the partnership held an appreciated interest.

A Purpose

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

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

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

In general, California personal income tax law follows federal law for assets placed in service on or after January 1, 1987. See California Revenue and Taxation Code (R&TC) Section 17250.

B Calculation Methods

California did not allow depreciation under the federal ACRS for years prior to 1987.

California does not conform to federal law for accelerated depreciation for property on Indian reservations.

As a result of California legislation:

- Any grapevine replaced in a California vineyard in any taxable year beginning on or after January 1, 1997, as a direct result of Pierce's Disease will be considered five-year property for accelerated cost recovery provisions; and
- The corporate provision for the five-year amortization of child care facilities has been repealed.

Specific Line Instructions

Line 1 – California depreciation for assets placed in service after December 31, 1997 and amortization for intangibles placed in service after December 31, 1997

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 1997. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

Line 2 – California depreciation for assets placed in service before January 1, 1998

Enter total California depreciation for assets placed in service prior to January 1, 1998, taking into account any differences in asset basis or differences in California and federal tax law.

Line 4 – California amortization for intangibles placed in service before January 1, 1998

Enter total California amortization for intangibles placed in service prior to January 1, 1998, taking into account any differences in asset basis or differences in California and federal tax law.

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

Assets with a Federal Basis Different from California Basis

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

Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 565, Side 1, line 16a.

If depreciation or amortization is from more than one trade or business activity, or from more than one rental real estate activity, the partnership should separately compute depreciation for each activity. Use the depreciation computed on this form to identify the net income for each activity. Report the net income from each activity on an attachment to Schedule K-1 (565) for purposes of passive activity reporting requirements. Use California amounts to determine the depreciation amount to enter on line 14 of federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation.

Form FTB 3885P Instructions

Line 7 – Enter the IRC Section 179 expense election amount from the following worksheet.

These limitations apply to the partnership and each partner.

Election to Expense Certain Tangible Property (IRC Section 179)

Note: Follow the instructions on federal Form 4562 for listed property.

- 1. Maximum dollar limitation \$ 16,000
- 2. Total cost of IRC Section 179 property placed in service during the tax year
- 3. Threshold cost of IRC Section 179 property before reduction in limitation \$200,000
- 4. Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-
- 5. Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-

(a) Property	(b) Cost	(c) Elected cost
6.		

- 7. Listed property. Use federal Form 4562, Part V, line 27, making any adjustments for California law and basis differences
- 8. Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7
- 9. Tentative deduction. Enter the smaller of line 5 or line 8
- 10. Carryover of disallowed deduction from 1997. See instructions for line 9 through line 12 on the federal Form 4562
- 11. Income limitation. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in IRC Section 702(a) from any business actively conducted by the partnership (other than credits, tax-exempt IRC Section 179 expense deduction and guaranteed payments under IRC Section 707(c))
- 12. IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (565), line 9 and on form FTB 3885P, line 7
- 13. Carryover of disallowed deduction to 1999. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885P

**Instructions for Schedule D (565)
Capital Gain or Loss**

General Information

Use Schedule D (565) to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners. Do not use this form to report the sale of business property. For sales of business properties use California Schedule D-1, Sale of Business Property.

Enter specially allocated capital gains (losses) received from limited liability companies, partnerships, S corporations and fiduciaries on Schedule D (565), line 3. Enter capital gains (losses) that are specially allocated to members on line 4d of Schedule K-1 (565). Do not include these amounts on Schedule D (565). See the instructions for Schedule K (565) and Schedule K-1 (565) for more information. Also refer to the instructions for federal Schedule D (1065).

California law now conforms to federal law for the recognition of gain for a constructive sale of property in which the partnership held an appreciated interest.

Caution: Do not enter the amount of gain that qualifies for the 50% exclusion under Revenue and Taxation Code (R&TC) Section 18152.5 on Schedule D (565). Instead, report the entire amount of the gain that qualifies for the exclusion on Schedule K (565), line 7. Each partner must determine if he or she qualifies for the exclusion at the partner level.

R&TC Section 18152.5 provides an exclusion (similar to the federal exclusion under IRC Section 1202) of 50% of the gain on the sale of qualifying small business stock originally issued after August 8, 1993, and before January 1, 1999, that was held for more than 5 years. However, for California purposes, 80% of the issuing corporations payroll must be attributable to employment located within California, and at least 80% of the value of the corporations assets must be used by the corporation to actively conduct one or more qualified trades or businesses in California.