

Instructions for Form FTB 3885L

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 most of the changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206) and has not conformed to any changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), and the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170).

A Purpose

Use form FTB 3885L, Depreciation and Amortization, to compute depreciation and amortization allowed as a deduction on Form 568, Limited Liability Company Return of Income. Attach form FTB 3885L to Form 568.

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 an amount deducted to recover the cost of certain capital expenses over a fixed period.

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

B Federal/State Calculation Differences

California law has not always conformed to federal law with regard to depreciation methods, special credits, or accelerated write-offs. Consequently, the recovery periods and the basis on which the depreciation is calculated may be different from the amounts used for federal purposes. Reportable differences may occur if all or part of your assets were placed in service:

- **Before January 1, 1987:** California did not allow depreciation under the federal Accelerated Cost Recovery System (ACRS). California depreciation is calculated in the same manner as in prior years for those assets.
- **On or after January 1, 1987:** California provides special credits and accelerated write-offs that affect the California basis for qualifying assets. California does not conform to all the changes to federal law enacted in 1993. Therefore, the California basis or recovery periods may be different for some assets.

Additional differences may occur for the following:

- **Amortization of certain intangibles** (IRC Section 197): Property classified as Section 197 property under federal law is also Section 197 property for California purposes. There is no separate California election required or allowed. However, for Section 197 property acquired before January 1, 1994, the California adjusted basis as of January 1, 1994, must be amortized over the remaining federal amortization period.
- **Qualified Indian reservation property:** California has not conformed to the accelerated recovery periods available under the Alternative Depreciation System (ADS) for such property.
- **Grapevines subject to Phylloxera or Pierce's Disease:** For California purposes, replacement grapevines may be depreciated using a recovery period of five years instead of ten years.

Note: This list is not intended to be all-inclusive of the federal and state differences. For additional information, please refer to California's Revenue and Taxation Code.

Specific Line Instructions

Line 1 –California depreciation for assets placed in service after December 31, 1999 and amortization for intangibles placed in service after December 31, 1999.

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 1999. 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, 2000

Enter total California depreciation for assets placed in service prior to January 1, 2000, 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, 2000

Enter total California amortization for intangibles placed in service prior to January 1, 2000, taking into account any differences in asset basis or differences in California and federal tax law.

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 Limited Liability Company (LLC) 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 568, Schedule B, 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 LLC 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 (568), Member's Share of Income, Deductions, Credits, etc., 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 Partnership or an S Corporation.

Line 7 – Enter the Internal Revenue Code (IRC) Section 179 expense election amount from the following worksheet.

These limitations apply to the Limited Liability (LLC) Company and each member.

Election to Expense Certain Tangible Property (IRC Section 179)

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

1	Maximum dollar limitation	1	\$ 20,000
2	Total cost of IRC Section 179 property placed in service during the tax year	2	
3	Threshold cost of IRC Section 179 property placed in service during the tax year	3	\$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-	5	

	(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 . . .	7	
8	Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from 1999. See instructions for line 9 through line 12 on the federal Form 4562	10	
11	Income limitation. Enter the smaller of line 5 or the aggregate of the LLC's items of income and expense described in IRC Section 702(a) from any business actively conducted by the LLC (other than credits, tax-exempt IRC Section 179 expense deduction, and guaranteed payments under IRC Section 707(c))	11	
12	IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (568), line 9 and on form FTB 3885L, line 7	12	
13	Carryover of disallowed deduction to 2001. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885L	13	

Instructions for Schedule D (568)

Capital Gain or Loss

General Information

Use Schedule D (568), Capital Gain or Loss, to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any members. 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 (LLCs), partnerships, S corporations, and fiduciaries on Schedule D (568), line 3. Enter capital gains (losses) that are specially allocated to members on Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc., line 4d. Do not include these amounts on Schedule D (568). See the instructions for Schedule K (568) and Schedule K-1 (568) 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 LLC held an appreciated interest.

California Revenue and Taxation Code (R&TC) Section 18152.5 conforms to Internal Revenue Code (IRC) Section 1202, regarding the 50% exclusion of gain or losses, with modifications. In order to be eligible for the 50% exclusion of gain on qualified small business stock for stock issued after August 10, 1993, the corporation issuing the stock must meet the following conditions in addition to the conditions provided in IRC Section 1202:

- 80% of the corporation's payroll, as measured by total dollar value, is attributable to employment located in California; and
- 80% (by value) of the assets of the corporation are used by the corporation in the active conduct of a trade or business in California.

Note: The LLC also must separately state the amount of the gain that qualifies for the 50% exclusion under R&TC Section 18152.5 on Schedule K, line 7. Each member must determine if he or she qualifies for the gain at the member level.