

2002 Depreciation and Amortization

3885P

Name as shown on return FEIN

Table with columns: (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 to 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, 2002 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, 2002 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 IRC Section 179 expense election from worksheet line 12 7

8 Carryover of disallowed deduction to 2003. Enter line 13 from worksheet here 8

2002 Capital Gain or Loss

D (565)

Name as shown on return FEIN

Table with columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Sales price, (e) Cost or other basis, (f) Gain (loss).

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

Federal/State Conformity

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2001. Therefore, California has conformed to the income tax changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206), the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), Surface Transportation Revenue Act of 1998 (Public Law 105-178), the Ricky Ray Hemophilia Relief Fund Act of 1998 (Public Law 105-369), the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and to technical corrections made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16). However, there are continuing differences between California and Federal law. California has not conformed to some of the law changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) or the federal Job Creation and Worker Assistance Act of 2002 (Public Law 107-147).

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A Purpose

Use form FTB 3885P, Depreciation and Amortization, to compute depreciation and amortization allowed as a deduction on Form 565, Partnership Return of Income. 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 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). Continue to calculate California depreciation 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, 2001 and amortization for intangibles placed in service after December 31, 2001.

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 2001. 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, 2002

Enter total California depreciation for assets placed in service prior to January 1, 2002, 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, 2002

Enter total California amortization for intangibles placed in service prior to January 1, 2002, 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 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), Partner'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 line 12 of 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	1	\$ 24,000
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 28. Make 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 2001. See instructions for line 9 through line 12 on federal Form 4562	10	
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)	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 (565), line 9 and on form FTB 3885P, line 7	12	
13	Carryover of disallowed deduction to 2003. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885P	13	

Instructions for Schedule D (565) Capital Gain or Loss

Purpose

Use Schedule D (565), Capital Gain or Loss, 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 (LLCs) classified as partnerships, partnerships, S corporations, and fiduciaries on Schedule D (565), line 3. Enter capital gains (losses) that are specially allocated to partners on Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., line 4d. 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).

Note: With the enactment of AB 1115 (Stats. 2001, Ch 920) capital loss carryover and capital loss limitations for nonresident partners and part-year resident partners, for the portion of the year they were nonresidents, are determined based upon California source income and loss items only for the computation of their California taxable income. Moreover, the character of their gains and losses on the sale or exchange of property used in trade or business or certain involuntary conversions (Internal Revenue Code Section 1231) are determined for

purposes of calculating their California taxable income by netting California sources Section 1231 gains and losses only. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

California law conforms to federal law for the recognition of gain for a constructive sale of property in which the partnership 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 partnership 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 partner must determine if he or she qualifies for the gain at the partner level.