



California

Forms & Instructions

3807

2004

Local Agency Military Base
Recovery Area Business Booklet

This booklet contains:

**Form FTB 3807, Local Agency Military Base Recovery Area
Deduction and Credit Summary**

Tax Amnesty
see page 2

Members of the Franchise Tax Board

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STATE OF CALIFORNIA
FRANCHISE TAX BOARD

Instructions for Local Agency Military Base Recovery Area Businesses — Form FTB 3807

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2001**, and to the California Revenue and Taxation Code (R&TC).

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- Taxpayers currently under criminal investigation or prosecution on tax-related matters.
- Abusive tax shelter transactions that were eligible for relief under California's Voluntary Compliance Initiative or the 2003 IRS Offshore Voluntary Compliance Initiative. These initiatives applied to taxpayers with nonreported or underreported tax liability amounts attributable to an investment in an abusive tax shelter. Note: These taxpayers are eligible for amnesty for non-abusive tax shelter items.

For more details, visit our Website at www.ftb.ca.gov or call (800) 852-5711.

For taxable years beginning on or after January 1, 2004, California has reinstated Net Operating Loss (NOL) carryover deductions. The carryover periods for an NOL incurred in years:

- beginning before January 1, 2002, have been extended for two years.
- beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward. For more information, see forms FTB 3805V and 3805Q.

The designation authority and administrative services for Local Agency Military Base Recovery Areas are formally transferred from the California Technology, Trade and Commerce Agency (TTCA) to the Department of Housing and Community Development (HCD).

Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

Pass-Through Entities

For purposes of this booklet, the term "pass-through entity" refers to an S corporation, estate, trust, partnership, and limited liability company (LLC). References to "partnerships" include LLCs classified as partnerships.

Introduction

Economic Development Area Tax Incentives

California has established four types of economic development areas (EDAs) that have related tax incentives. These incentives have been established to stimulate growth and development in selected areas that are economically depressed. EDA tax incentives apply only to certain business transactions that are undertaken after an EDA has received final designation. Tax incentives are available to individuals and businesses operating or investing within the geographic boundaries of the following EDAs:

- Enterprise Zones (EZs)
- Local Agency Military Base Recovery Areas (LAMBRA)
- Manufacturing Enhancement Areas (MEAs)
- Targeted Tax Area (TTA)

Additional information on other EDAs can be found in the following FTB tax booklets:

- EZ tax incentives, get FTB 3805Z, Enterprise Zone Business Booklet;
- The MEA hiring credit, get FTB 3808, Manufacturing Enhancement Area Business Booklet; or
- TTA tax incentives, get FTB 3809, Targeted Tax Area Business Booklet.

Reporting Requirement

California statutes require the Franchise Tax Board (FTB) to provide information to the California Legislature regarding the number of businesses using the EDA tax incentives, types of EDA tax incentives being used, and the EDAs in which the businesses are claiming the tax incentives.

Complete items A through J on form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary, as applicable. This information will be used to meet the FTB's statutory reporting requirement.

Purpose

This booklet provides specific information on the types of available LAMBRA tax incentives. Taxpayers investing or operating within a LAMBRA or located within a LAMBRA may be

What's New

Amnesty

Recent legislation authorizes the Franchise Tax Board and the Board of Equalization to administer a Tax Amnesty Program. Tax amnesty is a limited time chance for individuals and businesses to pay past-due income, franchise, sales, or use taxes and the related interest penalty-free without the fear of criminal prosecution. Amnesty runs from February 1, 2005, through March 31, 2005. Taxpayers eligible to participate in amnesty but choose not to do so will be subject to additional penalties.

Amnesty is open to both individuals and businesses for taxable years 2002 and prior, if they did any of the following:

- Did not file required California tax returns.
- Underreported income on a previously filed tax return.
- Claimed excessive deductions.
- Did not pay income/franchise, sales or use taxes on time.

The following taxpayers or transactions are not eligible for amnesty:

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2001. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at www.ftb.ca.gov and select "Law and Legislation." Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and

eligible for the following credits and deductions:

- Hiring Credit
- Sales or Use Tax Credit
- Business Expense Deduction
- Net Operating Loss Carryover Deduction

Use this booklet to determine the correct amount of deductions and credits that the business may claim for operating or investing in a trade or business within a LAMBRA. Complete the worksheets in this booklet for each deduction or credit for which the business is eligible. Then enter the total deductions and credits on form FTB 3807.

LAMBRA Designation

LAMBRA are established to stimulate growth and development in areas that experience military base closures. These are the designated LAMBRA with their designation and expiration dates:

Southern California International Airport	
Designation Date	Expiration Date
2/1/1996	2/20/2010

Castle Air Force Base	
Designation Date	Expiration Date
6/1/1996	5/31/2012

Mare Island Naval Base	
Designation Date	Expiration Date
1/1/1999	12/31/2006

San Bernardino International Airport and Trade Center	
Designation Date	Expiration Date
4/1/2000	3/31/2008

Alameda Naval Air Station	
Designation Date	Expiration Date
6/1/2000	5/31/2008

Mather Field/McClellan Park	
Designation Date	Expiration Date
7/1/2000	6/30/2008

Liberty Station (former San Diego Naval Training Center)	
Designation Date	Expiration Date
6/1/2001	5/31/2009

Tustin Marine Corps Air Station in Tustin	
Designation Date	Expiration Date
9/1/2001	8/31/2009

For business eligibility or zone related information, including questions regarding LAMBRA geographic boundaries, contact the zone manager of the local zone in which the business is located. Local Zone managers are listed in the State's official zone website at www.hcd.ca.gov/ca/cdbg/ez.

For information that is not tax-specific or zone-specific, you may contact the Department of Housing and Community Development at:

DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT
1800 THIRD STREET, SUITE 390
SACRAMENTO CA 95814
Tel: (916) 263-0485
Website: www.hcd.ca.gov

For taxable years beginning in 2002, the designation of a LAMBRA is for an eight-year period that shall expire eight years after the state of California has determined the later of specified conditions has been met:

- The governing body has notified the state of California that legal title to the parcels on the former military base has been transferred to the governing body; or in the case of early transfer authority, the terms and conditions for satisfying the requirements of environmental clean up on the military base have been met and regulatory closure has occurred; or
- The governing body has notified the state of California that vouchers have been issued to an employer that has entered into a lease or has received title to the property located within the LAMBRA.

If your business is located totally within a LAMBRA, within and outside a LAMBRA, or in more than one LAMBRA, see Part IV for instructions on how to apportion income.

Forms Table

The titles of forms referred to in this booklet are:

Form 100	California Corporation Franchise or Income Tax Return
Form 100S	California S Corporation Franchise or Income Tax Return
Form 100W	California Corporation Franchise or Income Tax Return – Water's-Edge Filers
Form 109	California Exempt Organization Business Income Tax Return
Form 540	California Resident Income Tax Return
Long Form 540NR	California Nonresident or Part-Year Resident Income Tax Return
Form 541	California Fiduciary Income Tax Return
Form 565	Partnership Return of Income
Form 568	Limited Liability Company Return of Income
Schedule CA (540)	California Adjustments — Residents
Schedule CA (540NR)	California Adjustments — Nonresidents or Part-Year Residents
Schedule P	Alternative Minimum Tax and Credit Limitations
Schedule R	Apportionment and Allocation of Income
FTB Pub. 1061	Guidelines for Corporations filing a Combined Report S Corporation Tax Credit
Schedule C (100S)	
Schedule K-1 (100S)	Shareholder's Share of Income, Deductions, Credits, etc.
Schedule K-1 (541)	Beneficiary's share of Income, Deductions, Credits, etc.
Schedule K-1 (565)	Partner's Share of Income, Deductions, Credits, etc.
Schedule K-1 (568)	Member's Share of Income, Deductions, Credits, etc.

Who Can Claim the LAMBRA Tax Incentives?

The LAMBRA credits and deductions are available to individuals, sole proprietors, corporations, estates, trusts, and partnerships operating or investing within the designated LAMBRA.

How to Claim Deductions and Credits

To claim any LAMBRA deduction or credit, the business **must attach** a completed form FTB 3807 to its California tax return.

Attach a separate form FTB 3807 for each business you operate or invest in that is located within a LAMBRA.

- For corporations, complete Schedule Z and all the worksheets except for Worksheet IV, Section C, to report credits and deductions incurred.
- For sole proprietors, complete Schedule Z and all the worksheets to report credits and deductions incurred.
- For trusts, estates, and partnerships, complete Worksheet II through Worksheet III; Worksheet IV, Section A; and form FTB 3807, Side 1, to report credits and deductions incurred.
- Individual investors receiving pass-through LAMBRA credits or the business expense deduction, complete Worksheet IV, Section C; Schedule Z; and form FTB 3807, Side 1. All other investors complete Worksheet IV, Section A; Schedule Z; and form FTB 3807, Side 1.
- Individual investors receiving a pass-through loss, and having an overall net operating loss, complete Worksheet IV, Section C; Worksheet V, Section A and/or C; and form FTB 3807, Side 1. All other investors complete Worksheet IV, Section B; Worksheet V, Section B and/or C; and form FTB 3807, Side 1.

Note: Schedule Z is on Side 2 of form FTB 3807.

To assist with the processing of the tax return, indicate that the business operates or invests within a LAMBRA by doing the following:

- Form 540 filers:** Claim LAMBRA business tax incentives on Form 540, lines 14 and 28, as applicable.
- Long Form 540NR filers:** Claim LAMBRA business tax incentives on Long Form 540NR, lines 14 and 37, as applicable.
- Form 100 filers:** Claim LAMBRA business tax incentives on Form 100, line 15, line 21, and line 25 through line 27, as applicable.
- Form 100S filers:** Claim LAMBRA business tax incentives on Form 100S, line 12, line 19, and line 23 through line 25, as applicable.

Form 100W filers: Claim LAMBRA business tax incentives on Form 100W, line 15, line 21, and line 25 through line 27, as applicable

Form 109 filers: Check the "Yes" box for the LAMBRA question G on the top of Form 109, Side 1.

Note: Keep all completed worksheets and supporting documents for your records.

Net Increase in Jobs Requirement – To qualify for the LAMBRA business tax incentives, a business must have a net increase of one or more jobs within the first two taxable years of commencing business within the LAMBRA.

Note: Taxpayers engaged in operations within a LAMBRA are allowed to utilize the designated LAMBRA business tax incentives beginning in the first year of operation in the LAMBRA even though they have not yet fulfilled the net increase in jobs requirement. However, if after the end of the second taxable year of operations within the LAMBRA a taxpayer does not fulfill the net increase in jobs requirement, all LAMBRA business tax incentives claimed in prior years must be recaptured.

The net increase in jobs is computed on form FTB 3807.

Instructions for items A through J on form FTB 3807, Side 1

For corporations, estates, trusts, partnerships, exempt organizations, and sole proprietors, complete items A through J.

Investors of pass-through entities, complete items A through D. See page 27.

Codes for Principal Business Activity (PBA)

The FTB implemented the new Principal Business Activity (PBA) code chart that is based on the North American Industry Classification System (NAICS) published by the United States Office of Management and Budget, 1997 Edition. Accordingly, the PBA and NAICS codes are used for purposes of business classification. Enter the PBA code of the business on form FTB 3807, Side 1. The PBA codes are listed on pages 23 through 25.

Part I Net Increase in Jobs — FTB 3807, Side 1

Complete the Net Increase in Jobs Worksheet on the following pages only if you have been doing business in a LAMBRA for two years. Enter the results on form FTB 3807, Part I, line 1.

A taxpayer that conducts a trade or business within a LAMBRA and for the first two taxable years, has a net increase in jobs (defined as 2,000 paid hours per employee per year) of one or more employees in the LAMBRA, may claim certain economic incentives.

The net increase in jobs is determined by subtracting the total number of full-time employees in California prior to starting business in the LAMBRA, from the number of full-time employees in California in the second year after operation in the LAMBRA. For this purpose, the number of full-time employees for each year is determined as:

- The total number of hours worked in California by hourly employees (not to exceed 2,000 hours per employee) divided by 2,000; and

- The total number of months worked in California by salaried employees divided by 12.

If your only business in California began with your LAMBRA business, your number of California employees prior to starting business in the LAMBRA is zero.

If your business in California began during the taxable year, the first year employment information is prorated. Multiply the divisors 2,000 (hours for hourly employees) and 12 (months for salaried employees) by a fraction, the numerator is the number of months of doing business and the denominator is 12.

If your business has a net increase in jobs for the first two taxable years after commencing business operations in the LAMBRA, you must also employ one or more full-time employees within the LAMBRA in each of these years.

For this purpose, the number of full-time employees for each year is determined as:

- The total number of hours worked in the LAMBRA by hourly employees (not to exceed 2,000 hours per employee) divided by 2,000; and
- The total number of months worked in the LAMBRA by salaried employees divided by 12.

If your business in the LAMBRA began during the taxable year, the first year employment information is prorated. Multiply the divisors 2,000 (hours for hourly employees) and 12 (months for salaried employees) by a fraction, the numerator is the number of months of doing business and the denominator is 12.

Important! If your business does not have a net increase in jobs for the two taxable years after commencing business operations in the LAMBRA and employs one or more full-time employees within the LAMBRA in each of the first two years, you must recapture (in the current year) any LAMBRA credits or deductions that were previously taken.

Net Increase in Jobs Worksheet

	(a) Taxable year prior to operating in the LAMBRA	(b) 2nd taxable year after starting operations in the LAMBRA
1 Enter the total number of hours within California worked by hourly employees during the taxable year in column (a) and column (b). The total hours per employee cannot exceed 2,000. If your only business in California began with your LAMBRA business, enter zero in column (a) of line 1	_____	_____
2 Divide line 1 of each column by 2,000	_____	_____
3 Enter the total number of months within California worked by salaried employees. The total months per salaried employee cannot exceed 12	_____	_____
4 Divide line 3 of each column by 12	_____	_____
5 Add line 2 and line 4 of each column	_____	_____
6 Subtract line 5, column (a) from line 5, column (b)	_____	_____

Enter the amount on form FTB 3807, Part I, line 1a.

Note: If the amount on line 6 is equal to or greater than one, then continue to line 7. If the amount on line 6 is less than one, your business **does not** qualify for the LAMBRA business tax incentives and you **must** recapture (in the current year) any LAMBRA credits or deductions that were previously taken.

	(a) 1st taxable year after starting operations in the LAMBRA	(b) 2nd taxable year after starting operations in the LAMBRA
7 Enter the total number of hours worked within the LAMBRA by hourly employees during the taxable year in column (a) and column (b). The total hours per employee cannot exceed 2,000	_____	_____
8 Divide line 7 of each column by 2,000	_____	_____
9 Enter the total number of months worked within the LAMBRA by salaried employees. The total months per salaried employee cannot exceed 12	_____	_____
10 Divide line 9 of each column by 12	_____	_____
11 Add line 8 and line 10 of each column	_____	_____

Enter the amount from line 11, column (a) on form FTB 3807, Part I, line 1b. Enter the amount from line 11, column (b) on form FTB 3807, Part I, line 1c.

Note: If the amount on line 11, column (a) or line 11, column (b) is equal to or greater than one, your business qualifies for the LAMBRA business tax incentives. If the amount on line 11, column (a) or line 11, column (b) is less than one, your business **does not** qualify for the LAMBRA business tax incentives and you **must** recapture (in the current year) any LAMBRA credits or deductions that were previously taken.

Net Jobs Worksheet – Example:

A Corporation employs four individuals prior to establishing operations in the LAMBRA on January 1, 2003. The following is the employment information for the employees for the taxable year prior to operating in the LAMBRA:

- Employee #1: Salaried, employed for 12 months.
- Employee #2: Hourly, full-time; worked 2,080 hours per year.
- Employee #3: Hourly, part-time; worked 1,500 hours per year.
- Employee #4: Hourly, part-time, worked 1,500 hours per year.

The corporation moves its entire operations within the LAMBRA on January 1, 2003. At the end of the first year of operation within the LAMBRA, the corporation employed the following individuals:

- Employee #1: Salaried, employed for 24 months.
- Employee #2: Hourly, full-time; worked 2,080 hours during the year.
- Employee #3: Hourly, part-time; worked 2,000 hours during the year.
- Employee #4: Hourly, part-time, worked 1,600 hours during the year.
- Employee #5: Hourly, part-time, worked 1,600 hours during the year.

At the end of the 2nd year of operation in the LAMBRA, the corporation employed the following individuals:

- Employee #1: Salaried, employed for 36 months.
- Employee #2: Hourly, full-time; worked 2,080 hours during the year.
- Employee #3: Hourly, part-time; worked 2,000 hours during the year.
- Employee #4: Hourly, part-time, worked 1,700 hours during the year.
- Employee #5: Hourly, part-time, worked 1,900 hours during the year.

Net Increase in Jobs Worksheet – Example (continued)

The worksheet would be completed as follows:

	(a) Taxable year prior to operating in the LAMBRA	(b) 2nd taxable year after starting operations in the LAMBRA
1 Enter the total number of hours worked within California by hourly employees during the taxable year in column (a) and column (b). The total hours per employee cannot exceed 2,000. If your only business in California began with your LAMBRA business, enter zero in column (a) of line 1	5,000 ^a	7,600 ^b
2 Divide line 1 of each column by 2,000	2.5	3.8
3 Enter the total number of months worked within California by salaried employees. The total months per salaried employee cannot exceed 12	12 ^d	12 ^d
4 Divide line 3 of each column by 12	1	1
5 Add line 2 and line 4 of each column	3.5	4.8
6 Subtract line 5, column (a) from line 5, column (b)	1.3	

Enter the amount on form FTB 3807, Part I, line 1a.

Note: If the amount on line 6 is equal to or greater than one, then continue to line 7. If the amount on line 6 is less than one, your business **does not** qualify for the LAMBRA business tax incentives and you **must** recapture (in the current year) any LAMBRA credits or deductions that were previously taken.

	(a) 1st taxable year after starting operations in the LAMBRA	(b) 2nd taxable year after starting operations in the LAMBRA
7 Enter the total number of hours worked within the LAMBRA by hourly employees during the taxable year in column (a) and column (b). The total hours per employee cannot exceed 2,000	7,200 ^c	7,600 ^b
8 Divide line 7 of each column by 2,000	3.6	3.8
9 Enter the total number of months worked within the LAMBRA by salaried employees. The total months per salaried employee cannot exceed 12	12 ^d	12 ^d
10 Divide line 9 of each column by 12	1	1
11 Add line 8 and line 10 of each column	4.6	4.8

Enter the amount from line 11, column (a) on form FTB 3807, Part I, line 1b. Enter the amount from line 11, column (b) on form FTB 3807, Part I, line 1c.

Note: If the amount on line 11, column (a) or line 11, column (b) is equal to or greater than one, your business qualifies for the LAMBRA business tax incentives. If the amount on line 11, column (a) or line 11, column (b) is less than one, your business **does not** qualify for the LAMBRA business tax incentives and you **must** recapture (in the current year) any LAMBRA credits or deductions that were previously taken.

a	b	c	d
Employee #2 2,000	Employee #2 2,000	Employee #2 2,000	Employee #1
Employee #3 1,500	Employee #3 2,000	Employee #3 2,000	
Employee #4 1,500	Employee #4 1,700	Employee #4 1,600	
Employee #4 5,000	Employee #5 1,900	Employee #5 1,600	
	7,600	7,200	

Part II Credits and Recaptures

2a Hiring Credit

Employers conducting a trade or business within a LAMBRA may claim the hiring credit for hiring a qualified disadvantaged individual or a qualified displaced employee.

Qualified Disadvantaged Individual

A qualified disadvantaged individual is an individual who:

- Was hired after the LAMBRA received its final designation;
- Spends at least 90% of work time for the qualified employer on activities directly related to the conduct of a trade or business located within the LAMBRA; and
- Performs at least 50% of the work for the qualified employer within the boundaries of the LAMBRA.

For taxable years beginning on or after January 1, 1999, a qualified employee must be:

- A civilian or military employee of a base or former base who has been displaced as a result of a federal base closure act; or
- Anyone who immediately before starting work for the employer was any of the following:
 1. A person who has been determined eligible for services under the federal Job Training Partnership Act (JTPA);
 2. A person eligible to be a voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 (GAIN);
 3. An economically disadvantaged individual 16 years of age or older;
 4. A qualified dislocated worker;
 5. An individual who is enrolled in or has completed a state rehabilitation plan;
 6. A service-connected disabled veteran;
 7. A veteran of the Vietnam era;
 8. A veteran who recently separated from military service;
 9. An ex-offender;
 10. A person who is a recipient of:
 - Federal Supplemental Security Income (SSI) benefits;
 - Aid to Families with Dependent Children (AFDC);
 - Food stamps; or
 - State and local general assistance; or
 11. A Native American.

For additional information, refer to federal JTPA or its successor, the Workforce Investment Act (WIA).

Employers hiring qualified employees **must** get Form TCA EZ1 from the local agency responsible for verifying employee eligibility. Contact the local LAMBRA coordinator for more information on the local agency and verification process.

The percentage of wages used to compute the credit depends on the number of years the employee works for the employer in the LAMBRA. The applicable percentage begins at 50% and declines 10% for each year of employment. After the fifth year of employment, no credit can be generated.

Qualified Wages

Qualified wages means the wages paid or incurred by the employer during the taxable year to a qualified disadvantaged individual or a qualified displaced employee that does not exceed 150% of the minimum wage. The wages must be paid or incurred on or after the designation date.

Wages that qualify for the hiring credit are those wages paid to a qualified employee for the consecutive 60-month period beginning on the first date the employee commenced employment with the employer. For an employer that operates a business that has regularly occurring seasonal or intermittent employment decreases and increases, reemployment of an individual is not a new hire; rather, it is a continuation of the prior employment and does not constitute commencement of employment for the qualified wages test.

The qualified wages are the smaller of:

- The actual hourly rate paid or incurred by the business for work performed by the employee during the taxable year; or
- 150% of the minimum hourly wage established by the Industrial Welfare Commission.

Where the California minimum wage is higher than the federal minimum wage, the California minimum wage is used for purposes of computing the LAMBRA hiring credit. The current minimum wage is \$6.75 per hour. For purposes of computing the LAMBRA hiring credit, 150% of the minimum wage is \$10.12 per hour.

Example:

John Anderson was hired January 1, 2004. John's hourly rate for the first month was \$7.00. At the beginning of the second month, his hourly rate increased to \$8.00. In the third month, John's hourly rate increased to \$12.00. The hourly rate that qualifies for the credit is limited to 150% of the minimum wage, or currently \$10.12 per hour.

Month(s)	Hours per month	x Hourly rate	= Qualified wages per month
1	175	\$ 7.00	\$1,225.00
2	170	8.00	\$1,360.00
3	170	10.12	\$1,720.40

Record Keeping

Retain a copy of Form TCA EZ1 to substantiate an individual's eligibility as a "qualified employee." In addition, for each qualified employee, keep a schedule for the first 60 months of employment showing (at least):

- Employee's name;
- Date the employee was hired;
- Number of hours the employee worked for each month of employment;

- Smaller of the hourly rate of pay for each month of employment or 150% of the minimum wage;
- Total qualified wages per month for each month of employment;
- Records of any other federal or state subsidies you may have received for hiring the qualified employee; and
- Location of the employee's job site and duties performed.

2b Hiring Credit Recapture

The employer must recapture (add back to the tax liability) the amount of credit attributable to an employee's wages if the employer terminates an employee at any time during the longer of:

- The first 270 days of employment (whether or not consecutive); or
- 90 days of employment plus 270 calendar days.

Employers of seasonal employees must recapture the amount of hiring credit attributable to the employee's wages if:

- The employer terminates the employee before the completion of 270 days of employment; and
- The 270 days is during the 60-month period beginning the day the employee commences employment with the employer.

A "day of employment" means any day the employee receives wage compensation (including a paid sick day, holiday, or vacation day).

The employer must add to the current year's tax the amount of credit claimed in the year of termination and all prior years in which the credit was claimed for the terminated employee.

Note: The credit recapture does not apply if the termination of employment was:

- Voluntary on the part of the employee;
- In response to misconduct of the employee;
- Caused by the employee becoming disabled (unless the employee was able to return to work and the employer did not offer to reemploy the individual);
- Carried out so that other qualified individuals could be hired, creating a net increase in both the number of qualified employees and their hours worked; or
- Due to a substantial reduction in the employer's trade or business operations.

This credit is also subject to recapture if the net increase in jobs requirement is not met. See the instructions for form FTB 3807, Part I, Net Increase in Jobs, on page 4.

Instructions for Worksheet I — Hiring Credit & Recapture

Section A – Credit Computation

Line 1, column (a) – Enter the name of each qualified employee. Attach additional schedule(s) if necessary.

Line 1, column (b) through column (f) – Enter the qualified wages paid or incurred during the taxable year to each qualified employee listed in column (a) in the appropriate column.

Line 2, column (b) through column (f) – Add the amount of qualified wages in each column.

Line 3, column (b) through column (f) – Multiply the total in each column of line 2 by the percentage in each column.

Line 5 – The federal jobs tax credit to include on this line is the Work Opportunity Tax Credit (WOTC). Reduce the LAMBRA hiring credit by the amount of the WOTC claimed, based on the wages paid to individuals hired on or before December 31, 2001.

Note: No other California jobs tax credit may be claimed for the same wage expense paid to the employees shown in line 1, column (a).

Line 6 – For partnerships, enter the amount from line 6 on form FTB 3807, Side 1, Part II, line 2a. Also, include the current year hiring credit amount on Forms 565 and 568, Schedule K, line 14 and the distributive share of the credit to partners and members on Schedule K-1, line 14. In addition, add the entire amount of the credit on Schedule K, line 1, column (c).

For corporations, individuals, estates, and trusts, enter the amount from line 6 on Schedule Z, as follows:

- Part II, line 8B, column (b) for corporations, individuals, estates, and trusts;
- Part III, line 10, column (b) for S corporations; or
- Part IV, line 12, column (b) for corporations and S corporations subject to paying only the minimum franchise tax.

Credit Limitations

- The cumulative qualified wages used to compute the credit cannot exceed \$2,000,000. The limit applies to **each** taxpayer for **each** taxable year, regardless of the number of qualified disadvantaged individuals employed.
- The amount of hiring credit claimed may not exceed the amount of tax on LAMBRA business income in any year. Use Schedule Z to compute the credit limitation.
- Any unused credit may be carried over and applied against the tax imposed on LAMBRA business income in future years until exhausted.
- The business must reduce any deduction for wages by the amount of this credit.
- In the case where the business is qualified to take the LAMBRA hiring credit as well as

another credit (e.g., enterprise zone, MEA, or TTA hiring credit) for the same wage expense, the business may only claim one credit.

- S corporations may claim only 1/3 of the LAMBRA hiring credit against the 1.5% entity-level tax (3.5% for financial S corporations). S corporations can pass through 100% of the credit to their shareholders.
- S corporations must reduce their wage deduction by 1/3 of the amount on Worksheet I, Section A, line 4 and on Form 100S, line 7. In addition, the S corporation must make an adjustment for the entire amount of the credit on Schedule K (100S), line 1, column (c).

Example: In 2004, an S corporation qualified for a \$3,000 LAMBRA hiring credit. The S corporation can claim a credit for \$1,000 and must reduce its wage deduction by \$1,000 (\$3,000 X 1/3) on Form 100S, line 7. On Form 100S, Schedule K, line 1, column (c), the S corporation would add \$3,000 to the S corporation's ordinary income or loss to reflect the credit passed through to the shareholder(s).

For additional information about the treatment of credits for S corporations, see Part VI.

Worksheet I Hiring Credit & Recapture — LAMBRA

Section A Credit Computation

		Qualified wages paid or incurred for year of employment					
	(a) Employee's name	(b) 1st year	(c) 2nd year	(d) 3rd year	(e) 4th year	(f) 5th year	
1							
2	Total. See instructions						
3	Multiply line 2 by the percentage in each column. See instructions50	.40	.30	.20	.10	
4	Add the amounts on line 3, column (b) through column (f)						4
5	Enter the amount of 2004 federal jobs tax credit allowed. See instructions						5
6	Subtract the amount on line 5 from the amount on line 4 and enter the result here. See instructions						6

Note: You cannot take the LAMBRA hiring credit as well as another credit for the same wage expense.

Section B Credit Recapture

	(a) Terminated employee's name	(b) Recapture amount
1		
2	Total amount of credit recapture. Add the amounts in column (b). See instructions for where to report on your California tax return	2

Section B – Credit Recapture

Line 1, column (a) – Enter the name of the terminated employee. Attach additional schedule(s) if necessary.

Line 1, column (b) – Enter the amount of credit recapture for each employee listed in column (a).

Line 2 – Enter the amount from line 2, column (b) on form FTB 3807, Side 1, Part II, Line 2b.

Also include the amount of hiring credit recapture on your California tax return or schedule as follows:

- Form 100, Schedule J, line 5;
- Form 100S, Schedule J, line 5 and Schedule K-1 (100S), line 23;
- Form 100W, Schedule J, line 5;
- Form 109, Schedule K, line 4;
- Form 540, line 36;
- Long Form 540NR, line 45;
- Form 541, line 21b and Schedule K-1 (541), line 11e;
- Form 541, line 21b and Schedule K-1 (565), line 22; or
- Form 568, Schedule K, line 22 and Schedule K-1 (568), line 22.

Indicate that you included the hiring credit recapture on your tax return by writing “FTB 3807” in the space provided on the schedule or form.

Partnerships must identify the recapture amounts for their partners and members on Schedule K-1 (565 or 568).

S corporation shareholders must recapture the portion of the credit that was previously claimed, based on the terminated employee’s wages. S corporations must also identify the recapture amount for shareholders on Schedule K-1 (100S). This amount will differ from the amount recaptured by the S corporation on Form 100S, Schedule J.

2c Sales or Use Tax Credit

Individuals, estates, trusts, and partnerships may claim a credit equal to the sales or use tax paid or incurred to purchase up to \$1 million of qualified property.

Corporations may claim a credit equal to the sales or use tax paid or incurred to purchase up to \$20 million of qualified property. Individuals who are S corporation shareholders may claim their pro-rata share of pass-through credit to the extent the S corporation paid or incurred the sales or use tax to purchase up to \$1 million of qualified property. See the example in the third column of this page.

The qualified property must be purchased and placed in service on or after the designation date, but before the expiration date of the LAMBRA. The sales or use tax must be paid or incurred on or after the designation date.

Qualified property is:

- High technology equipment, such as computers and electronic processing equipment;
- Aircraft maintenance equipment, such as engine stands, hydraulic mules, power carts, test equipment, handtools, aircraft start carts, and tugs;
- Aircraft components, such as engines, fuel control units, hydraulic pumps, avionics, starts, wheels, and tires; and
- IRC Section 1245 property.

The business must use the property **exclusively** within the boundaries of the LAMBRA.

The use tax paid or incurred on purchases of property manufactured outside of California qualifies for the credit only if property of a comparable quality and price was not available for timely purchase and delivery from a California manufacturer.

Leased Property

The sales tax paid or incurred on qualified property being purchased using a financial (conditional sales) contract qualifies for the sales or use tax credit.

To determine whether the lease qualifies as a purchase rather than a true lease, see Revenue Ruling 55-540, 1955-2 C.B. 39 and FTB Legal Ruling 94-2, March 23, 1994.

Credit Limitations

- The amount of sales or use tax credit claimed may not exceed the amount of tax on the LAMBRA business income in any year. After completing Worksheet II, use Schedule Z to compute the credit limitation.
- In the case where the business is qualified to take the LAMBRA sales or use tax credit as well as another credit (e.g., manufacturers’ investment credit) for the same piece of property, the business may only claim one credit.
- Any unused credit may be carried over and applied against the tax on LAMBRA business income in future years until exhausted. In the case of an S corporation, 2/3 of the credit is lost and the remaining 1/3 can be carried over if it cannot be used in the current year.

For additional information about the treatment of credits for S corporations, see Part VI.

Depreciation

Any taxpayer that elects to claim this credit cannot increase the basis of the qualified property by the sales or use tax paid or incurred in connection with the purchase of qualified property.

Example:

XYZ Inc., an S corporation, purchases qualified property for \$20 million (\$20 m.). The sales tax rate is 6% (.06) and the entity-level tax rate is 1.5% (.015).

The credit allowed XYZ Inc. and the depreciable basis of the qualified property for XYZ Inc. are computed as follows:

		Depreciable basis
Qualified property	\$20 m.	\$20 m.
Sales tax paid (\$20 m. x .06)	1.2 m.	+1.2 m.
Sales or use tax credit allowed XYZ Inc.	1.2 m.	(1.2 m.)
Depreciable basis of qualified property for XYZ Inc.		\$20 m.
Credit allowed to offset the entity-level tax (\$1.2 m. x 1/3)		\$0.4 m.

XYZ Inc. has two 50% shareholders. The credit allowed the shareholders and the depreciable basis of the qualified property for the shareholders are computed as follows:

		Depreciable basis
Qualified property (purchased by XYZ Inc.)	\$20 m.	\$20 m.
Sales tax (paid by XYZ Inc.)	1.2 m.	+1.2 m.
Maximum qualified costs for sales or use tax credit	1 m.	
Sales or use tax credit allowed the shareholders (\$1 m. x .06)	.06 m.	(.06 m.)
Depreciable basis of qualified property for the shareholders		\$21.14 m.
Total amount of credit allowed the shareholders		\$.06 m.

Note: Each shareholder is allowed a \$30,000 (.06 m. ÷ 2 = .03 m.) sales or use tax credit.

To compute the difference between California and federal depreciation, use the following forms and schedules:

- Form 100 and Form 100W filers – FTB 3885, Corporation Depreciation and Amortization;
- Form 100S filers – Schedule B (100S), S Corporation Depreciation and Amortization;
- Form 109 filers – Form 109, Schedule J, Depreciation;
- Exempt trusts use form FTB 3885F, Depreciation and Amortization;
- Form 540 and Long 540NR filers – FTB 3885A, Depreciation and Amortization – Individuals;
- Form 541 filers – FTB 3885F, Depreciation and Amortization Fiduciaries;
- Form 565 filers – FTB 3885P, Depreciation and Amortization Partnerships; or
- Form 568 filers – FTB 3885L, Depreciation and Amortization Limited Liability Companies.

- Long Form 540NR, line 45;
- Form 541, line 21b and Schedule K-1 (541), line 11e;
- Form 565, Schedule K, line 22 and Schedule K-1 (565), line 22; or
- Form 568, Schedule K, line 22 and Schedule K-1 (568), line 22.

Indicate that you included the sales or use tax credit recapture on your tax return by writing "FTB 3807" in the space provided on the schedule or form.

Partnerships must identify the recapture amounts for partners and members on Schedule K-1 (565 or 568).

S corporations and their shareholders must recapture the portion of credit that was previously claimed. S corporations must also identify the recapture amount for shareholders on Schedule K-1 (100S). This amount will differ from the amount recaptured by the S corporation on Form 100S, Schedule J.

Part III Business Expense Deduction

A trade or business operating within a LAMBRA may **elect** to treat 40% of the eligible cost of qualified property as a business expense rather than a capital expense. For the year the property is placed in service, the business may deduct the cost (subject to limitations) in that year rather than depreciate it over several years. The qualified property must be purchased and placed in service on or after the designation date, but before the expiration date of the LAMBRA.

Note: The LAMBRA business expense deduction is not allowed for estates or trusts.

Qualified property is any recovery property that is IRC Section 1245 property, which includes, but is not limited to, tangible personal property (excluding buildings), most equipment, and most furnishings acquired by purchase after the LAMBRA received its final designation and before the designation expires for exclusive use within a LAMBRA. Office supplies and other small nondepreciable items are not included.

The maximum aggregate cost of the qualified property against which the 40% deduction may be claimed in any taxable year is determined by a reference to the number of taxable years that have elapsed since the LAMBRA received its final designation. See page 2, for the designation dates.

The maximum aggregate cost is:

Taxable year of designation	\$100,000
1st taxable year after designation . . .	100,000
2nd taxable year after designation . . .	75,000
3rd taxable year after designation	75,000
Each remaining taxable year after designation	50,000

Election

The business must elect to treat the cost of qualified property as a business expense in the year the property is first placed in service.

However, this deduction is not allowed if the property was:

- Transferred between members of an affiliated group;
- Acquired as a gift or inherited;
- Traded for other property;
- Received from a personal or business relation as defined in IRC Section 267 or 707(b); or
- Described in IRC Section 168(f).

The LAMBRA business expense deduction must be claimed by making an election on the original filed return, and thus cannot be claimed on an amended return. Such an election cannot be revoked without the written consent of the FTB.

A husband and wife filing separate returns may each claim 1/2 of the allowable deduction. In the case of a partnership, the dollar limitation applies to the partnership and to each partner. Each partner's business expense deduction passed through from the partnership is based on his/her allocable share of the allowable deduction.

Depreciation

Corporations may not claim the additional first-year depreciation allowed under R&TC Section 24356 on any item of property if any portion of it was deducted as a LAMBRA business expense. All other taxpayers cannot claim the deduction allowed under IRC Section 179 on any item of property if any portion of it was deducted as a LAMBRA business expense.

To compute the difference between California and federal depreciation, use the forms and schedules listed on page 9, column 3.

Instructions for Worksheet III — Business Expense Deduction & Recapture

Section A – Deduction Computation

Line 2, column (a) – Enter a description of the qualified property and the location of its use. Attach additional schedule(s) if necessary.

Line 2, column (b) – Enter the cost of the property listed in column (a).

Line 4 – Enter the amount from line 4, column (b) on form FTB 3807, Side 1, Part III, line 3a, and on your California tax return or schedule as follows:

- Form 100, line 15;
- Form 100S, line 12, Form 100S, Schedule K, line 8, and Schedule K-1 (100S), line 8;
- Form 100W, line 15;
- Form 109, Part II, line 23;
- Schedule CA (540), column B, on the applicable line for your activity;
- Schedule CA (540NR), column B, on the applicable line for your activity;

- Form 565, Schedule K, line 9 and Schedule K-1 (565), line 9; or
- Form 568, Schedule K, line 9 and Schedule K-1 (568), line 9.

Section B – Deduction Recapture

The deduction is subject to recapture (added back to income) if, before the close of the second taxable year after the property was placed in service, the property is sold, disposed of, or no longer used exclusively in the LAMBRA trade or business.

This deduction is also subject to recapture if the net increase in jobs requirement is not met. See the instructions for Net Increase in Jobs on page 4.

Income Adjustment

Add to current year income the amount previously deducted for the property.

Basis Adjustment

As of the first day of the taxable year in which the recapture event occurs, the recapture amount is added back to the basis of the property in the year of recapture and then depreciated over the remaining life of the qualified property.

Line 1, column (a) – Enter a description of the property. Attach additional schedule(s) if necessary.

Line 1, column (b) – Enter the amount of the business expense deduction claimed for each property listed in column (a).

Line 2 – Enter the total here, on form FTB 3807, Side 1, Part III, line 3b, and on your California tax return or schedule as follows:

- Form 100, line 15, as a negative amount;
- Form 100S, line 12, as a negative amount, Form 100S, Schedule K, line 6 and Schedule K-1 (100S), line 6;
- Form 100W, line 15, as a negative amount;
- Form 109, Part I, line 11;
- Schedule CA (540), column C, on the applicable line for your activity;
- Schedule CA (540NR), column C, on the applicable line for your activity;
- Form 565, Schedule K, line 7 and Schedule K-1 (565), line 7; or
- Form 568, Schedule K, line 7 and Schedule K-1 (568), line 7.

Example:

XYZ Inc. purchased a property on June 1, 2002 that qualified the corporation to take the LAMBRA business expense deduction. The property was purchased for \$10,000 and had a useful life of five years. XYZ Inc.'s tax year ends December 31 of each year. The corporation had a business expense deduction of \$4,000 for the tax year ending December 31, 2002 on the property.

Assume the corporation disposes of the property or no longer uses the property in the LAMBRA on August 5, 2004. The property was placed in service in 2002. The first year after the property was placed in service was the 2003 tax year. The second year after the

Part IV Doing Business Totally Within a LAMBRA, Within and Outside a LAMBRA, or in More Than One LAMBRA

LAMBRA business tax credits, deductions and NOLs are limited to the tax on business income attributable to operations within the LAMBRA respectively. If the business is located within and outside a LAMBRA or in more than one LAMBRA, you must determine the portion of total business operations that are attributable to each LAMBRA.

Business Income vs. Nonbusiness Income

Business income is defined as income arising from transactions and activities in the regular course of the trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. Nonbusiness income is all income other than business income. See Cal. Code Regs., tit. 18 section 25120 for further references and examples of nonbusiness income.

For an individual, business income includes but is not limited to California business income or loss from Schedules C, D, D-1 (or federal Form 4797, Sales of Business Property, in lieu of a Schedule D-1), E, and F, as well as wages. Be sure to include casualty losses, disaster losses, and any business deductions reported on federal Form 1040 Schedule A as itemized deductions.

Generally, all income which arises from the conduct of trade or business operations of a taxpayer is business income.

Note: If you elected to carry back part or all of your current year disaster loss under IRC Section 165(i)(1), do not include the amount of the loss that was carried back in your current year business income for the LAMBRA.

Pass-through entities must report to their shareholders, beneficiaries, partners, and members:

1. The distributive (or pro-rata for S corporations) share of the business income apportioned to the LAMBRA; and
2. The distributive (or pro-rata for S corporations) share of the business capital gains and losses apportioned to the LAMBRA included in item 1.

These items should be reported using the appropriate California schedules listed below:

- Schedule K-1 (100S), line 23;
- Schedule K-1 (541), line 11e;
- Schedule K-1 (565), line 22; or
- Schedule K-1 (568), line 22.

Form 540 and Long Form 540NR filers within the LAMBRA, refer to Worksheet IV, Section C

to compute business income apportioned to the LAMBRA.

For business entities, including sole proprietors, use Worksheet IV, Section A or B to compute business income/loss apportioned to the LAMBRA.

Apportionment

Business income is apportioned to the LAMBRA by multiplying the total California business income of the taxpayer by a fraction. The numerator is the property factor plus the payroll factor, and the denominator is two. Loss is apportioned to the LAMBRA by multiplying the taxpayer's net business operating loss from all sources by a fraction. The numerator is the property factor plus the payroll factor, and the denominator is two. If an employer conducts a business in more than one LAMBRA, the LAMBRA apportionment factor and credit limitations are computed separately for each LAMBRA.

Property Factor

Property is defined as the average value of all real and tangible personal property owned or rented by the business and used during the taxable year to produce business income. **Note:** Property is included in the factor if it could be used during the taxable year.

Property owned by the business is valued at its original cost. Original cost is the basis of the property for federal income tax purposes (prior to any federal adjustment) at the time of acquisition by the business, adjusted for subsequent capital additions or improvements and partial dispositions because of sale or exchange. Allowance for depreciation is not considered.

Rented property is valued at eight times the net annual rental rate. The net annual rental rate for any item of rented property is the total rent paid for the property, less aggregate annual subrental rates paid by subtenants.

When determining income or loss apportionment on Worksheet IV, Section A or B, the numerator of the property factor is the average value of real and tangible personal property owned or rented by the business and used within the LAMBRA during the taxable year to produce LAMBRA business income. See Worksheet IV, Section A/B, column (b).

When determining income apportionment on Worksheet IV, Section A, the denominator of the property factor is the total average value of all real and tangible personal property owned or rented and used during the taxable year within California. See Worksheet IV, Section A, column (a).

When determining loss apportionment on Worksheet IV, Section B, the denominator of the property factor is the total average value of all the taxpayer's real and tangible personal property owned or rented and used during the taxable year to produce business income within and outside the LAMBRA. See Worksheet IV, Section B, column (a).

Payroll Factor

Payroll is defined as the total amount paid to the business's employees as compensation for the production of business income during the taxable year.

Compensation means wages, salaries, commissions, and any other form of remuneration paid directly to employees for personal services. Payments made to independent contractors or any other person not properly classified as an employee are excluded.

Compensation Within the LAMBRA

Compensation is considered to be within the LAMBRA if any one of the following conditions is met:

1. The employee services are performed within the geographical boundaries of the LAMBRA.
2. The employee services are performed within and outside the LAMBRA, but the services performed outside the LAMBRA are incidental to the employee services within the LAMBRA.
Incidental means any temporary or transitory service performed in connection with an isolated transaction.
3. If employee services are performed within and outside the LAMBRA, employee compensation is attributed to the LAMBRA if:
 - A. The employee's base of operations is within the LAMBRA; or
 - B. There is no base of operations in any other part of the state in which some part of the service is performed, and the place from which the service is directed or controlled is within the LAMBRA; or
 - C. The base of operations or the place from which the service is directed or controlled is not in any other part of the state in which some part of the service is performed and the employee's residence is within the LAMBRA.

Base of operations is the permanent place from which employees start work and customarily return in order to receive instruction from the taxpayer or communications from their customers or other persons; to replenish stock or other material; to repair equipment; or to perform any other functions necessary in the exercise of their trade or profession at some other point or points.

When determining income or loss apportionment on Worksheet IV, Section A or B, the numerator of the payroll factor is the taxpayer's total compensation paid to employees for working within the LAMBRA during the taxable year. See Worksheet IV, Section A/B, column (b).

When determining income apportionment on Worksheet IV, Section A, the denominator of the payroll factor is the total taxpayer's compensation paid to employees working in

California. See Worksheet IV, Section A, column (a).

When determining loss apportionment on Worksheet IV, Section B, the denominator of the payroll factor is the taxpayer's total compensation paid to employees working in all business operation locations. See Worksheet IV, Section B, column (a).

Corporations which file a combined report
Business income for each corporation doing business in a LAMBRA will be its business income apportioned to California (see FTB Pub. 1061 for further information on combined reports and entity income apportionment). LAMBRA property and payroll factors used in the determination of LAMBRA business income includes only the taxpayer's California amounts in the denominator.

Example: Computation of LAMBRA business income apportioned to each entity operating within the LAMBRA

Parent Corporation A has two subsidiaries, B and C. Corporations A and B operate within the LAMBRA. The combined group operates within and outside California and apportions its income to California using Schedule R. Assume the combined group's business income apportioned to California was

\$1,000,000 and Corporation A and B's share of California business income is \$228,000 and \$250,000, respectively. Corporation A and B's separate LAMBRA and separate California property and payroll factor amounts are shown as follows.

Business income apportioned to the LAMBRA was determined as follows:

	A	B
Property Factor		
LAMBRA property	\$ 1,000,000	\$ 800,000
California property	\$ 1,000,000	\$ 1,200,000
Apportionment %	100%	66.66%
Payroll Factor		
LAMBRA payroll	\$ 800,000	\$ 800,000
California payroll	\$ 800,000	\$ 1,000,000
Apportionment %	100%	80%
Average Apportionment %		
Apportionment %	100%	73.33%
<i>(Property + Payroll Factors)</i>		
2		
Apportioned Business Income	\$ 228,000	\$ 250,000
LAMBRA business Income	\$ 228,000	\$ 183,333
<i>(Average Apportionment % X California Business Income)</i>		

Instructions for Worksheet IV

Note: If the business operates solely within a single LAMBRA and all its property and payroll are solely within that single LAMBRA, enter 100% (1.00) on Section A, line 4, column (c) and Section B, line 4, column (c). Do not complete the rest of Worksheet IV.

Section A – Income Apportionment

Use Worksheet IV, Section A, Income Apportionment, to determine the amount of business income apportioned to the LAMBRA. The apportioned LAMBRA business income determines the amount of the tax incentives that can be used.

Only California source business income is apportioned to the LAMBRA. A taxpayer's LAMBRA business income is its California apportioned business income multiplied by the specific LAMBRA apportionment percentage.

The LAMBRA property and payroll factors used in the determination of apportionable business income include only the taxpayer's California amounts in the denominator.

Worksheet IV LAMBRA

Section A – Income Apportionment

Use Worksheet IV, Section A, if your business has net income from sources within and outside a LAMBRA.

	(a) Total within California	(b) Total within a LAMBRA	(c) Percentage within a LAMBRA column (b) ÷ column (a)
PROPERTY FACTOR			
1 Average yearly value of owned real and tangible personal property used in the business (at original cost). See instructions. Exclude property not connected with the business and the value of construction in progress.			
Inventory			
Buildings			
Machinery and equipment			
Furniture and fixtures			
Delivery equipment			
Land			
Other tangible assets (attach schedule)			
Rented property used in the business. See instructions			
Total property values			
PAYROLL FACTOR			
2 Employees' wages, salaries, commissions, and other compensation related to business income included in the return.			
Total payroll			
3 Total percentage, sum of the percentages in column (c)			
4 Average apportionment percentage (1/2 of line 3). Enter here and on form FTB 3807, Side 1, line 5			

Note: The average apportionment percentage shown on line 4 represents the portion of the taxpayer's total business that is attributable to activities conducted within the LAMBRA. Also, those factors with zero balances in the totals of column (a) will not be included in the computation of the average apportionment percentage. For example, if the taxpayer does not have any payroll within or outside the LAMBRA, then the average apportionment percentage would be computed by dividing line 3 by one instead of by two as normally instructed.

Section B – Loss Apportionment

Use Worksheet IV, Section B, Loss Apportionment, to determine your net operating loss apportioned to the LAMBRA. A taxpayer's LAMBRA net operating loss is its net business operating loss from all sources multiplied by the specific LAMBRA apportionment percentage computed in Worksheet IV, Section B.

The LAMBRA property and payroll factors used in the determination of the apportioned business net operating loss include worldwide amounts in the denominator.

Section C – Income or Loss

Form 540 and Form 540NR filers, use Worksheet IV, Section C to determine the amount to enter on:

- Worksheet V, Section A, line 1;
- Worksheet V, Section C, line 1 and line 6; and
- Schedule Z, Part I, line 1 and line 3.

Do not include disaster losses in any amounts used in the table.

Only California source business income is apportioned to the LAMBRA. A taxpayer's LAMBRA business income is its California apportioned business income computed using Schedule R, multiplied by the specific LAMBRA apportionment percentage computed using Worksheet IV, Section A.

The first step is to determine which portion of the taxpayer's net income is "business income" and which portion is "nonbusiness income." Only business income is apportioned to the LAMBRA. See Part IV, Doing Business Totally Within a LAMBRA, Within and Outside a LAMBRA, or in More Than One LAMBRA, for a complete discussion of business and nonbusiness income.

Business income or loss reported on Schedules C, C-EZ, E, and F, and other schedules are reported on line 6 through line 9. Line 11 and line 12 report business gains or losses reported on Schedule D and Schedule D-1. All business income and losses should be adjusted for any differences between California and federal amounts as shown on the Schedule CA (540 or 540NR).

Part I Individual Income and Expense Items

Wages

Taxpayers with wages from a company located within and outside a LAMBRA must determine the LAMBRA wage income by entering the percentage of their time that they worked within the LAMBRA in column (b). The percentage of time should be for the same period the wages entered on line 1 were earned. This percentage must be determined based on their record of time and events such as a travel log or entries in a daily planner.

Part II Pass-Through Income or Loss

Multiple Pass-Through Entities

If you are a shareholder, beneficiary, partner, or member in multiple pass-through entities with businesses located within and outside a LAMBRA from which you received LAMBRA business tax incentives, see the example below for computing business income in the LAMBRA.

Worksheet IV Apportionment – LAMBRA (continued)

Section B Loss Apportionment (For the computation of current year net operating loss)

Use Worksheet IV, Section B, if your business has net losses from sources within and outside a LAMBRA.

	(a) Total within and outside a LAMBRA	(b) Total within a LAMBRA	(c) Percentage within a LAMBRA column (b) ÷ column (a)
PROPERTY FACTOR			
1 Average yearly value of owned real and tangible personal property used in the business (at original cost). See instructions. Exclude property not connected with the business and the value of construction in progress.			
Inventory			
Buildings			
Machinery and equipment			
Furniture and fixtures			
Delivery equipment			
Land			
Other tangible assets (attach schedule)			
Rented property used in the business. See instructions			
Total property values			
PAYROLL FACTOR			
2 Employees' wages, salaries, commissions, and other compensation related to business income included in the return.			
Total payroll			
3 Total percentage, sum of the percentages in column (c)			
4 Average apportionment percentage (1/2 of line 3). Enter here and on Worksheet V, Section B, line 4			

Note: The average apportionment percentage shown on line 4 represents the portion of the taxpayer's total business that is attributable to activities conducted within the LAMBRA. Also, those factors with zero balances in the totals of column (a) will not be included in the computation of the average apportionment percentage. For example, if the taxpayer does not have any payroll within or outside the LAMBRA, then the average apportionment percentage would be computed by dividing line 3 by one instead of by two as normally instructed.

Example:

Pass-through entity	Trade or business income from Schedule K-1 (100S, 541, 565, or 568)	Entity's LAMBRA apportionment percentage	LAMBRA apportioned income
ABC, Inc.	\$40,000	80%	\$32,000
A, B, & C	30,000	10%	3,000
ABC, LLC	10,000	50%	5,000
Total			\$40,000

Part III Taxpayer's Trade or Business

Business Income or Loss

Use business income or loss from federal Form 1040 Schedules C, C-EZ, E, and F, plus California adjustments from Schedule CA (540 or 540NR) for each trade or business. Also

include business capital gains and losses from Schedule D and business gains and losses from Schedule D-1 as adjusted on Schedule CA (540 or 540NR).

Income Computation

Note: To compute LAMBRA Business Income for Worksheet V, Section C, and Schedule Z, you must complete Worksheet IV, Section C. The instructions below refer to Worksheet IV, Section C.

Located Entirely Within the LAMBRA

Line 6 – Line 9: If your business operation reported on Schedule C, C-EZ, E, or F, or other schedule is entirely within the LAMBRA, enter the income or loss from this activity in column (a), and enter 1.00 in column (b).

Line 11 and Line 12: If the gain or loss reported on Schedule D or Schedule D-1 as adjusted on Schedule CA (540 or 540NR) was attributed to an asset used in an activity conducted entirely within the LAMBRA, enter the gain or loss reported in column (a) and enter 1.00 in column (b).

Located Entirely Within California

Line 6 – Line 9: If your business operation reported on Schedule C, C-EZ, E, or F, or other schedule is entirely within California, enter the income or loss from this activity in column (a). To determine the apportionment percentage in column (b), complete Worksheet IV, Section A. Enter the percentage from Worksheet IV, Section A, line 4, column (c) on Worksheet IV, Section C, column (b).

Worksheet IV LAMBRA

Section C Income or Loss

Part I Individual Income and Expense Items. See instructions.

	(a) Amount	(b) Percentage of time providing services in the LAMBRA	(c) Apportioned amount (a) x (b)
1 Wages			
2 Employee business expenses			
3 Subtotal: Enter the total of line 1, column (c) and line 2, column (c) on this line			

Part II Pass-Through Income or Loss. See instructions

(a) Name of entity	(b) Distributive or pro-rata share of business income or loss apportioned to the LAMBRA from Schedule K-1 (100S, 541, 565, or 568) including capital gains and losses
4	
5 Subtotal: Enter the total of line 4, column (b) on this line	

Part III Taxpayer's Trade or Business. See instructions.

	(a) Business income or loss	(b) Apportionment percentage for the LAMBRA	(c) Apportioned income or loss (a) x (b)
6 Schedule C or C-EZ			
7 Schedule E (Rentals)			
8 Schedule F			
9 Other business income or loss			
10 Subtotal: Enter the total of line 6 through line 9, column (c) on this line			

	(a) Business gain or loss	(b) Apportionment percentage for the LAMBRA	(c) Apportioned gain or loss (a) x (b)
11 Schedule D			
12 Schedule D-1			
13 Subtotal: Enter the total of line 11, column (c) and line 12, column (c) on this line			
14 Total: Enter the total of column (c) for line 3, line 10, and line 13, and line 5, column (b) on this line			

Line 11 and Line 12: If the gain or loss reported on Schedule D or Schedule D-1 as adjusted on Schedule CA (540 or 540NR) was attributed to an asset used in an activity conducted entirely within California, enter the gain or loss reported in column (a). To determine the apportionment percentage in column (b), complete Worksheet IV, Section A. Enter the percentage from Worksheet IV, Section A, line 4, column (c) on Worksheet IV, Section C, column (b).

Located Within and Outside the LAMBRA and California

Line 6 – Line 9: If your business operation reported on Schedule C, C-EZ, E, or F, or other schedule is within and outside the LAMBRA and California, get Schedule R and complete line 1 through line 18b and line 27 through line 31. Enter the amount from Schedule R, line 18b and line 31 in column (a) of this worksheet. To determine the apportionment percentage in column (b), complete Worksheet IV, Section A. Enter the percentage from Worksheet IV, Section A, line 4, column (c) on Worksheet IV, Section C, column (b).

Note: When computing Schedule R, disregard any reference to Form 100, Form 100W, Form 565, or Form 568. Also disregard any reference to Schedule R-3, Schedule R-4, or Schedule R-5, and skip line 16.

Nonresidents who have an apportioning business that operates within the LAMBRA should have already computed Schedule R, and can use those amounts when that schedule is referenced.

Residents must complete a Schedule R in order to determine their California source business income for purposes of the LAMBRA credit computation.

Line 11 and Line 12: If the gain or loss reported on Schedule D or Schedule D-1 as adjusted on Schedule CA (540 or 540NR) was attributed to an asset used in an activity conducted within and outside a LAMBRA and California, get Schedule R and complete Schedule R-1. Multiply the gain or loss reported by the percentage on Schedule R-1, line 5 and enter the result in column (a). To determine the apportionment percentage in column (b), complete Worksheet IV, Section A. Enter the percentage from Worksheet IV, Section A, line 4, column (c) on Worksheet IV, Section C, column (b).

Line 14 – If you are computing the LAMBRA NOL and the result on the Income or Loss Worksheet, line 14, column (c) is a **negative** amount, enter this amount on Worksheet V, Section A, line 1.

Note: If the amount is positive, you do not have a LAMBRA NOL.

If you are computing the LAMBRA business income and the result on the Income or Loss Worksheet, line 14, column (c) is a positive amount and:

- You have LAMBRA NOL carryovers, enter the amount on Worksheet V, Section C, line 1 and line 6 (skip line 2 through line 5). Also enter the amount from Worksheet IV, line 14, column (c) on Schedule Z, Part I, line 1 and line 3 (skip line 2) if you have LAMBRA credits; or
- You do not have LAMBRA NOL carryovers but you do have LAMBRA credits or credit carryovers, enter the amount on Schedule Z, line 1 and line 3 (skip line 2).

Note: If the amount is negative, you do not have any business income attributable to the LAMBRA and you cannot utilize any LAMBRA NOL carryover, credit(s), or credit carryover(s) in the current taxable year.

Loss Computation

To compute the NOL for Worksheet V, Section A, you must complete Worksheet IV, Section C. The following instructions refer to Worksheet IV, Section C.

Located Entirely Within the LAMBRA

Line 6 – Line 9: If your business operation reported on Schedule C, C-EZ, E, or F, or other schedule is entirely within the LAMBRA, enter the income or loss from this activity in column (a), and enter 1.00 in column (b).

Line 11 and Line 12: If the gain or loss reported on Schedule D or Schedule D-1 as adjusted on Schedule CA (540 or 540NR) was attributed to an asset used in an activity conducted entirely within the LAMBRA, enter the gain or loss reported in column (a) and enter 1.00 in column (b).

Located Within and Outside the LAMBRA

Line 6 – Line 9: If your business operation reported on Schedule C, C-EZ, E, or F, or other schedule is within and outside the LAMBRA, enter the income or loss from this activity in column (a). To determine the apportionment percentage in column (b), complete Worksheet IV, Section B. Enter the percentage from Worksheet IV, Section B, line 4, column (c) on Worksheet IV, Section C, column (b).

Line 11 and Line 12: If the gain or loss reported on Schedule D or Schedule D-1 as adjusted on Schedule CA (540 or 540NR) was attributed to an asset used in an activity conducted within and outside the LAMBRA, enter the gain or loss reported in column (a). To determine the apportionment percentage in column (b), complete Worksheet IV, Section B. Enter the percentage from Worksheet IV, Section B, line 4, column (c) on Worksheet IV, Section C, column (b).

Line 14 – See line 14 under Income Computation.

Part V Net Operating Loss (NOL) Computation and Loss Limitations

An NOL generated by a business that operates or invests within a LAMBRA can be carried forward for 15 years but cannot be carried

back. Financial institutions using the bad debt reserve method may carry over the loss for a maximum of five taxable years. In addition, up to 100% of the NOL generated in a LAMBRA can be carried forward.

The business cannot generate NOLs from activities within the LAMBRA area before the first taxable year beginning on or after the date the LAMBRA is officially designated.

Limitation

A LAMBRA NOL deduction can offset only business income attributable to operations within the LAMBRA.

Election

Taxpayers must elect and designate the carryover category (general or specific, enterprise zone, LAMBRA, TTA, or Pierce's disease NOL) on the original return for the year of a loss and file form FTB 3807 for each year in which a LAMBRA NOL deduction is being taken. The election is **irrevocable**.

Note: If you elect the LAMBRA NOL deduction, you are prohibited by law from carrying over any other type of NOL, from this year.

To determine which type of NOL will provide the greater benefit, taxpayers that have general or specific, enterprise zone, LAMBRA, TTA, NOL or that may qualify for the special NOL treatment should estimate future income and complete Worksheet V and the following forms or worksheets if applicable:

- FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Individuals, Estates, and Trusts;
- FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations;
- FTB 3805Z, Enterprise Zone Business Booklet, Schedule Z; or
- FTB 3809, Targeted Tax Area Business Booklet, Worksheet V.

Alternative Minimum Tax

Taxpayers claiming a LAMBRA NOL deduction must determine their NOL for alternative minimum tax (AMT) purposes. Use Schedule P (100, 100W, 540, 540NR, or 541) to compute the NOL for AMT purposes.

S Corporations

LAMBRA NOLs incurred prior to becoming an S corporation cannot be used against S corporation income. See IRC Section 1371(b).

However, an S corporation is allowed to deduct a LAMBRA NOL incurred after the "S" election is made. An S corporation may use the NOL as a deduction against income subject to the 1.5% entity-level tax (3.5% for financial S corporations). The expenses (and income) giving rise to the loss are also passed through to the shareholders in the year the loss is incurred.

NOL Carryover Amount — Businesses Operating Totally Within the LAMBRA

For calendar and fiscal year taxpayers with all payroll and property within a LAMBRA, the NOL carryover is determined by computing the business loss that results from business activity in the LAMBRA.

NOL Carryover Amount — Businesses Operating Totally Within and Outside the LAMBRA

If the business is located within and outside or in more than one LAMBRA, the loss amount available for carryover is determined by apportioning the total business loss of the entity attributable to the LAMBRA pursuant to the provisions of R&TC Chapter 17 (commencing with Section 25101) with certain modifications to the apportioning factors. The apportionment factors include the property and payroll factors, and they compare the LAMBRA property and payroll to total property and payroll. The loss calculation is done on Worksheet V, Section A for individuals and exempt trusts, and Worksheet V, Section B for corporations. The apportionment factor calculation is done on Worksheet IV, Section B for business entities and Worksheet IV, Section C for individuals. The loss carryover is deducted against income apportioned by each business to the LAMBRA in subsequent years. This calculation is done on Worksheet V, Section C.

Corporations that are members of a unitary group filing a combined report must separately compute the loss carryover for each corporation in the group (R&TC Section 25108) using their individual apportionment factors. Unlike the NOL treatment on a federal consolidated return, a loss carryover for one member included in a combined report may not be applied to the intrastate apportioned income of another member included in a combined report.

For any water's-edge taxpayer, R&TC Section 24416(c) imposes a limitation on the NOL deduction if the NOL is generated during a non-water's edge tax year. The NOL carryover is limited to the lesser of the NOL or the re-computed NOL. The re-computed NOL carryover is determined by computing the

income and factors of the original worldwide combined reporting group, as if the water's-edge election had been in force for the year of the loss. R&TC Section 24416(c) serves as a limitation. If this section applies, the NOL carryover for each corporation may only be decreased, not increased.

Instructions for Worksheet V — NOL Computation and Loss Limitations

Individuals and exempt trusts with a current year loss complete Section A. Corporations with a current year loss complete Section B. Individuals, exempt trusts, and corporations with current year income and a prior year LAMBRA NOL carryover complete Section C.

Section A – Computation of Current Year NOL — Individuals and Exempt Trusts

Use this section to compute the LAMBRA NOL to be carried over to future years by individuals and exempt trusts. Complete Section A only if you have a current year loss.

You must complete form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Individuals, Estates and Trusts, before you can compute the allowable LAMBRA loss.

To compute the LAMBRA NOL, separate business income and deductions from nonbusiness income and deductions. See Part IV for a complete discussion of business and nonbusiness income.

Section B – Computation of Current Year NOL — Corporations

Use this section to compute the LAMBRA NOL to be carried over to future years for corporations. Complete Section B only if the corporation has a current year loss.

You must complete form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corpora-

tions, before you can compute the allowable LAMBRA loss.

Section C – Computation of NOL Carryover and Carryover Limitations — Individuals, Exempt Trusts, and Corporations

A LAMBRA NOL deduction can offset only business income attributable to operations within the LAMBRA. Use this worksheet to compute the LAMBRA NOL deduction for corporations, individuals, and exempt trusts

Line 1 – See Part IV for a complete discussion of business and nonbusiness income.

Note to Form 540 and Form 540NR filers: Be sure to include casualty losses, disaster losses, and any business deductions reported on Schedule A as itemized deductions.

Exception: If you elected to carry back part or all of your current year disaster loss under IRC Section 165(i)(1), do not include the amount of loss that was carried back in your current year business income for the LAMBRA.

Line 2 – In modifying your income, deduct your capital losses only up to your capital gains. Enter as a positive number any net capital losses included in line 1.

Line 3 – Corporations must reduce income by the disaster loss deduction and the deduction for excess net passive income.

Line 6 – This is your modified taxable income (MTI). Reduce this amount by your LAMBRA NOL deduction. The LAMBRA NOL deduction may not be larger than your MTI. If your MTI is a loss in the current year or if it limits the amount of NOL you may use this year, you must carry over the NOL to future years.

Line 7 – Enter the amount from line 6 in column (d). If this amount is zero or negative, transfer the amounts from line 8 through line 11, column (b) to column (e). Go to line 12.

Line 8 – Line 15: Enter the amounts on line 8 through line 15 as positive numbers.

Worksheet V Net Operating Loss (NOL) — LAMBRA

Section A Computation of Current Year Net Operating Loss — Individuals and Exempt Trusts

1 Net trade or business loss from all sources. Individuals: Enter the total from Worksheet IV, Section C, line 14, column (c) as a positive number. For purposes of this worksheet section, do not include any 2004 losses or disaster loss carryovers in line 1. See instructions for definition of business income. Exempt trusts: Enter the amount from Form 109, line 10.	1	
2 Business capital losses included in line 1. Enter as a positive number.	2	
3 Business capital gains included in line 1	3	
4 If line 2 is greater than line 3, enter the difference as a positive number; otherwise enter -0-	4	
5 Subtract line 4 from line 1. If the result is zero or less, do not complete the rest of this section. You do not have a current year NOL from a LAMBRA	5	
6 Enter the amount from form FTB 3805V, Part I, Section A, line 20.	6	
7 Enter the smaller of line 5 or line 6 here and in Section C, line 16, column (e) This is the LAMBRA NOL carryover from 2004 to 2005.	7	

Worksheet V (continued)

Section B Computation of Current Year Net Operating Loss — Corporations

Note: If you have a LAMBRA NOL and a prior year general NOL, see instructions.

Check the appropriate box to describe your entity type during the year that the NOL was incurred:

C corporation S corporation Exempt corporation

1 Net loss for state purposes from Form 100, line 18 and Form 100W, line 18; Form 100S, combined amounts of line 15 and line 17; or Form 109, line 1. Enter as a positive number. Note: Apportioning corporations, enter the amount from Schedule R, line 14 plus line 17	1	
2 a 2004 disaster relief loss included in line 1. Enter as a positive number	2a	
b Nonbusiness income included in line 1. Enter as a negative number	2b	
c Nonbusiness losses included in line 1. Enter as a positive number	2c	
d Combine line 2a through line 2c	2d	
3 Subtract line 2d from line 1. If zero or less, do not complete the rest of this section; the corporation does not have a current year NOL from a LAMBRA	3	
4 Enter the average apportionment percentage from Worksheet IV, Section B, line 4	4	
5 Multiply line 3 by line 4	5	
6 Enter the amount from form FTB 3805Q, Part I, line 3	6	
7 Enter the smaller of line 5 or line 6 here and in Section C, line 16, column (e) This is the LAMBRA NOL carryover from 2004 to 2005.	7	

Section C NOL Carryover and Carryover Limitations — Individuals, Exempt Trusts, and Corporations. See instructions.

1 Enter the amount from Form 100, line 18 or Form 100W, line 18; Form 100S, combined amounts of line 15 and line 17; or Form 109, line 1 or line 10. Form 540 and Long Form 540NR filers, enter the total from Worksheet IV, Section C, line 14, column (c) on line 1 and line 6 (skip line 2 through line 5). See instructions. Note: Corporations which file a combined report, enter the taxpayer's business income assigned to California (see instructions Part IV)	1		
2 a Form 100, Form 100W, Form 100S, and Form 109 filers: Enter any nonbusiness income included in line 1 as a negative number. Form 540 and Long Form 540NR filers leave blank	2a		
b Form 100, Form 100S, and Form 109 filers: Enter any nonbusiness losses included in line 1 as a positive number. Form 540 and Long Form 540NR filers leave blank	2b		
c Combine line 2a and line 2b	2c		
3 Form 100 and Form 100W filers: Enter the amount from Form 100 or Form 100W, line 22. Form 100S filers: Enter the total of the amounts from Form 100S, line 17 and line 20. Form 540, Long Form 540NR, and Form 109 filers: Enter -0-. Enter this amount as a negative number	3		
4 Combine line 1, line 2c, and line 3. If zero or less, enter -0- on line 6	4		
5 Enter the average apportionment percentage from Worksheet IV, Section A, line 4	5		
6 Modified taxable income. Multiply line 4 by line 5. See instructions	6		

(a) Description	(b) Carryover from prior year	(c) Amount deducted this year	(d) Balance available to offset losses	(e) LAMBRA NOL carryover to 2005
7 Modified taxable income from line 6				
8 LAMBRA NOL carryover beginning in 1996				
9 LAMBRA NOL carryover beginning in 1997				
10 LAMBRA NOL carryover beginning in 1998				
11 LAMBRA NOL carryover beginning in 1999				
12 LAMBRA NOL carryover beginning in 2000				
13 LAMBRA NOL carryover beginning in 2001				
14 LAMBRA NOL carryover beginning in 2002.				
15 LAMBRA NOL carryover beginning in 2003.				
16 LAMBRA NOL carryover beginning in 2004. See instructions				
17 Total the amounts in columns (b), (c) and (e). See instructions				

In column (c), enter the smaller of the amount in column (b) or the amount in column (d) from the previous line.

In column (d), enter the result of subtracting column (c) from the balance on the previous line in column (d).

In column (e), enter the result of subtracting the amount in column (c) from the amount in column (b), as applicable.

Example:

(b) Carryover from prior year	(c) Amount deducted this year	(d) Balance available to offset losses	(e) LAMBRA NOL carryover
		\$5,000	
\$ 500	\$ 500	4,500	\$ 0

Line 16 – Enter the amount of your current year NOL in column (e). For individuals and exempt trusts, enter the amount from Section A, line 7. For corporations, enter the amount from Section B, line 7.

Line 17 – Total the amounts in column (b) and column (e). Enter the totals from column (b) and column (e) on form FTB 3807, Side 1, line 5a and line 5c, accordingly.

Your LAMBRA NOL deduction for 2004 is the total of column (c). Enter this amount on your California tax return or schedule as follows:

- Form 100, line 21;
- Form 100S, line 19;
- Form 100W, line 21;
- Form 109, line 3 or line 11;
- Schedule CA (540), line 21e, column B; or
- Schedule CA (540NR), line 21e, column B.

Part VI Computation of Credit Limitations

Credit Limitations

The amount of credit you can claim on your California tax return is limited by the amount of tax attributable to LAMBRA business income. Use Schedule Z on form FTB 3807, Side 2 to compute this limitation.

If a taxpayer owns an interest in a disregarded business entity, the amount of credit that can be utilized is limited to the difference between the taxpayer's regular tax computed with the income of the disregarded entity, and the taxpayer's regular tax computed without the income of the disregarded entity.

Partnerships must allocate the credit among the partners according to the partner's distributive share as determined in a written partnership agreement. See R&TC Section 17039(e).

Credits you are otherwise eligible to claim may be limited. Do not apply credits against the minimum franchise tax (corporations and S corporations), the annual tax (partnerships, LLCs classified as partnerships, and QSub), the alternative minimum tax (corporations, exempt organizations, individuals, and fiduciaries), the built-in gains tax (S corporations), or the excess net passive income tax (S corporations).

Refer to the credit instructions in your tax booklet for more information.

S Corporations and the Application of LAMBRA Credits

An S corporation may use its LAMBRA credits to reduce LAMBRA business tax both at the corporate and shareholder levels. An S corporation may use 1/3 of the LAMBRA credits to reduce the tax on the S corporation's LAMBRA business income. In addition, S corporation shareholders may claim their pro-rata share of the entire amount of the LAMBRA credits computed under the Personal Income Tax Law.

Example: In 2004, an S corporation qualified for a \$3,000 LAMBRA hiring credit. The S corporation will be able to use 1/3 of the credit ($\$3,000 \times 1/3 = \$1,000$) to offset the tax on the corporation's LAMBRA business income. The S corporation will also pass through a \$3,000 credit to its shareholders to offset their individual tax (computed under the Personal Income Tax Law) on LAMBRA business income.

S corporations should attach form FTB 3807 to Form 100S, California S Corporation Franchise or Income Tax Return, to claim the tax credits.

Shareholders should attach Schedule(s) K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc., to their individual tax return.

Carryover

If the amount of credit available this year exceeds your LAMBRA business tax, you may carryover any excess credit to future years until exhausted. Apply the carryover to the earliest taxable year possible. In no event can the credit be carried back and applied against a prior year's tax or transferred to another taxpayer.

For S corporations, the amount of the 1/3 credit that is in excess of the 1.5% entity-level tax (3.5% for financial S corporations) in the current year may also be carried forward and used in future years to offset the 1.5% entity-level tax (3.5% for financial S corporations). See the instructions for Schedule Z, Part III for more information.

Credit Code Number

You must use credit code number **198** to claim the LAMBRA hiring and sales or use tax credits. Using an incorrect code number may cause a delay in allowing the credit(s).

Instructions for Schedule Z — Computation of Credit Limitations

Reporting Requirements of S Corporations, Estates, Trusts, and Partnerships

- **Partnerships**
Do not complete Schedule Z. However, the partners and members of these types of entities should complete Schedule Z in order to determine the amount of LAMBRA

credits that they may claim on their California tax returns.

- S corporations and their shareholders must complete Schedule Z.
- Report to shareholders, beneficiaries, partners, and members, the distributive or pro-rata share of business income, loss, and deductions apportioned to the LAMBRA; and
- Separately state the distributive or pro-rata share of any business capital gains and losses apportioned to the LAMBRA included in the amount above.

S Corporations

Complete Part I and Part III of Schedule Z if your entity-level tax before credits is more than the minimum franchise tax.

Corporations and S Corporations subject to the minimum franchise tax only

Complete only Part IV of Schedule Z.

All others: Complete Part I and Part II of Schedule Z.

Part I

Note: For filers with NOLs or NOL carryovers.

- Complete Worksheet V first if you have a current year NOL or an NOL carryover.
- Then complete Schedule Z if you have any LAMBRA credits.

If you do not have a current year NOL or any NOL carryovers:

- **Individuals:** Go to Worksheet IV, Section C. Follow the worksheet instructions. Enter the amount from Worksheet IV, Section C, line 14, column (c) on Schedule Z, Part I, line 1 and line 3 (skip line 2).
- **Corporations:** Follow the instructions for line 1 below.

Line 1 – Enter all trade or business income. See Part IV for the definition of trade or business income.

Line 2 – If your business is located entirely within the LAMBRA, enter 1.

This percentage is the apportionment percentage computed by the entity using Worksheet IV, Section A, and represents the percentage of the entity's business income attributable to the LAMBRA.

Line 6a – Compute the tax as if the LAMBRA taxable income represented all of your taxable income.

Individuals

Use the tax table or tax rate schedule in your tax booklet for your filing status.

Exempt organizations

Use the applicable tax rate in your tax booklet.

Corporations and S Corporations

Use the applicable tax rate.

Example: (Determination of LAMBRA Business Income for Shareholders, Partners, or Members of Pass-Through Entities)

John Anderson is vice president of ABC, Inc., an S corporation that has two locations: one within the LAMBRA and one outside the

LAMBRA. Eighty percent (80%) of the S corporation's business is attributable to the LAMBRA.

Note: This percentage was determined by ABC, Inc. using Worksheet IV, Section A, when ABC's California S corporation return (Form 100S) was prepared. John divides his time equally (50/50) between the two offices of ABC, Inc.

Jackie Anderson (John's spouse) works for ABC, Inc. at its office located within the LAMBRA.

John and Jackie Anderson have the following items of California income and expense for the 2004 tax year:

John's salary from ABC, Inc. \$100,000
 Jackie's salary from ABC, Inc. 75,000
 Interest on savings account 1,000
 Dividends 3,000
 Schedule K-1 (100S) from ABC, Inc.:
 Ordinary income 40,000
 LAMBRA business expense deduction (5,000)*

John's unreimbursed employee expenses from federal Schedule A . (2,000)

*The LAMBRA business expense deduction is a separately stated item on Schedule K-1 (100S), line 8.

The Anderson's LAMBRA business income (total amount to be reported on line 3) is computed as follows:

John's LAMBRA salary (\$100,000 x 50%) \$50,000
 Jackie's LAMBRA salary (\$75,000 x 100%) 75,000
 Pass-through ordinary income from ABC, Inc. (\$40,000 x 80%) 32,000

LAMBRA business expense deduction from ABC, Inc. (5,000)
 John's unreimbursed employee business expenses (2,000 x 50%) (1,000)
 Total LAMBRA business income (Schedule Z, Part I, line 3) \$151,000

Note: The standard deduction and personal or dependency exemptions are not included in the computation of LAMBRA business income since they are not related to trade or business activities.

John and Jackie must compute the tax (to be entered on Schedule Z, Part I, line 6a) on the total LAMBRA business income of \$151,000 (as if it represents all of their income). Using the instructions on their personal income tax return for filing status married filing jointly, the 2004 tax computed on \$151,000 is \$10,091.

Line 6b – Corporations and S corporations

If the amount on line 6b is the minimum franchise tax (\$800), you cannot use your LAMBRA credits this year. You should complete Part IV of the worksheet to compute the amount of credit carryover.

Part II

Use Part II of Schedule Z if you are a corporation, individual, estate, or trust.

Corporations and S corporations that are subject to paying only the minimum franchise tax, go to Part IV.

Line 8A, column (e) – Enter the amount from line 7. This is the amount of limitation based on the tax on LAMBRA business income.

Line 8A, column (f) – Enter the amount of credit that is used on Schedule P (100, 100W, 540, 540NR, or 541), column (b). The amount

cannot be greater than the amount on line 8A, column (e) or the amount computed on line 8B, column (d). Enter this amount on form FTB 3807, Side 1, line 2a.

Line 8B, column (b) – Enter the amount of the current year credit that was computed on Worksheet I, Section A, line 6.

Line 8B, column (c) – Enter the amount of the total prior year carryover of the credit. This is the amount of credit that was previously computed on Worksheet I, Section A in the prior year, minus the amount that was allowed to be taken on the prior year return.

Line 8B, column (d) – Add the amount of the current year credit on line 8B, column (b) and the amount of the total prior year carryover on line 8B, column (c).

Line 8B, column (e) – Compare the amounts on line 8A, column (e) and line 8A, column (f). Enter the smaller amount.

Line 8B, column (g) – Subtract the amount on line 8B, column (e) from the amount on line 8B, column (d). Enter the result on line 8B, column (g). This is the amount of credit that can be carried over to future years.

Note: This carryover includes both the Schedule P (100, 100W, 540, 540NR, or 541) limitation and the limitation based on LAMBRA business income.

Line 9A, column (e) – Subtract the amount on line 8B, column (e) from the amount on line 8A, column (e). If the result is zero, your remaining credits are limited and must be carried over to future years. In this case, enter the amount from line 9B, column (d) on line 9B, column (g).

Example: Part II

Assume the ABC Business has \$8,000 of tax. The business computed a credit limitation based on LAMBRA business income of \$7,000 on Schedule Z, line 5. The business has the following credits:

Hiring credit — \$ 500
 Sales or use tax credit — \$9,000

Schedule Z, Part II would be computed as follows:

Part II Limitation of Credits for Corporations, Individuals, Estates, and Trusts.

	(a) Credit name	(b) Credit amount	(c) Total prior year carryover	(d) Total credit col. (b) plus col. (c)	(e) Limitation based on LAMBRA business income	(f) Used on Schedule P can never be greater than col. (d) or col. (e)	(g) Carryover col. (d) minus col. (e)
8	Hiring credit	A			7,000	800	
		B	500	—0—	500		—0—
9	Sales or use tax credit	A			6,500	6,500	
		B	9,000	—0—	9,000	6,500	2,500

Line 9A, column (f) – Enter the amount of credit that is used on Schedule P (100, 100W, 540, 540NR, or 541), column (b). The amount cannot be greater than the amount on line 9A, column (e) or the amount computed on line 9B, column (d). Enter this amount on form FTB 3807, Side 1, line 2c.

Line 9B, column (b) – Enter the amount of the current year credit that was computed on Worksheet II, Section A, line 2, column (c).

Line 9B, column (c) – Enter the amount of the total prior year carryover of the credit. This is the amount of credit that was previously computed on Worksheet II, Section A minus the amount that was allowed to be taken on the prior year return.

Line 9B, column (d) – Add the amount of the current year credit on line 9B, column (b) and the amount of the total prior year carryover on line 9B, column (c).

Line 9B, column (e) – Compare the amounts on line 9A, column (e) and line 9A, column (f). Enter the smaller amount.

Line 9B, column (g) – Subtract the amount on line 9B, column (e) from the amount on line 9B, column (d). Enter the result on line 9B, column (g). This is the amount of credit that can be carried over to future years.

Note: This carryover includes both the Schedule P (100, 100W, 540, 540NR, or 541) limitation and the limitation based on LAMBRA business income.

Part III

Use Part III of Schedule Z only if you are an S corporation.

Line 10 and Line 11, column (b) – Enter the amount of current year credits (that were computed on Worksheet I and Worksheet II) in column (b) for line 10 and line 11, as applicable. Also enter this amount on Form 100S:

- Schedule C, line 4; and
- Schedule K, line 13.

You must adjust your Schedule C (100S) to reflect the LAMBRA business tax limitation (Part I, line 7) to your credits after completing this worksheet.

Line 10 and Line 11, column (c) – Multiply the amount on line 10, column (b) and line 11, column (b) each by 1/3. Enter the result in column (c). The amounts in column (c) are the maximum amounts of the current year credits that may be used by the S corporation to offset its 1.5% entity-level tax (3.5% for financial S corporations).

Line 10 and Line 11, column (d) – Enter the amount of the total prior year credit carryover. This is the amount of credit that was previously computed on the prior year Worksheet I or Worksheet II, minus the amount that was allowed to be taken on the prior year return.

Line 10 and Line 11, column (e) – Add the amounts of the current year credits in column (c) and the total prior year carryovers in column (d).

Line 10 and Line 11, column (f) – Enter the amount of credit that was used by the S corporation in the current year to offset its 1.5% entity-level tax (3.5% for financial S corporations). Enter the amount in column (f) for line 10 and line 11 on form FTB 3807, Side 1, line 2a and line 2c, as applicable.

Line 10 and Line 11, column (g) – Subtract the amount in column (f) for each line from the amounts in column (e). These are the amounts of credits that can be carried over to future years and used by the S corporation.

Part IV

Use Part IV of Schedule Z if you are a corporation or S corporation subject to paying only the minimum franchise tax.

Line 12 and Line 13, column (b) – Enter the amount of current year credits (that were computed on Worksheet I and Worksheet II) on line 12, column (b) and line 13, column (b), as applicable. S corporations may only enter 1/3 of the amounts from Worksheet I and Worksheet II.

Line 12 and Line 13, column (c) – Enter the amount of the total prior year carryover. These are the amounts of credits that were previously computed on Worksheet I and Worksheet II in the prior years, minus the amount that was allowed to be taken on the prior year return. S corporations may only enter 1/3 of the amounts from Worksheet I and Worksheet II.

Line 12 and Line 13, column (d) – Add the amounts in column (b) and column (c) for line 12 and line 13. These are the amounts of credits that can be carried over to future years.

FTB 3807 Codes for Principal Business Activity

This list of principal business activities and their associated codes is designed to classify a business by the type of activity in which it is engaged to facilitate the administration of the California Revenue and Taxation Code. For taxable years beginning on or after January 1, 1998, these principal business activity codes are based on the North American Industry Classification System published by the United States Office of Management and Budget, 1997 Edition.

Agriculture, Forestry, Fishing, and Hunting

Code

Crop Production

- 111100 Oilseed & Grain Farming
- 111210 Vegetable & Melon Farming (including potatoes & yams)
- 111300 Fruit & Tree Nut Farming
- 111400 Greenhouse, Nursery, & Floriculture Production
- 111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet, & all other crop farming)

Animal Production

- 112111 Beef Cattle Ranching & Farming
- 112112 Cattle Feedlots
- 112120 Dairy Cattle & Milk Production
- 112210 Hog & Pig Farming
- 112300 Poultry & Egg Production
- 112400 Sheep & Goat Farming
- 112510 Animal Aquaculture (including shellfish & finfish farms & hatcheries)
- 112900 Other Animal Production

Forestry and Logging

- 113110 Timber Tract Operations
- 113210 Forest Nurseries & Gathering of Forest Products
- 113310 Logging

Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

Support Activities for Agriculture and Forestry

- 115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)
- 115210 Support Activities for Animal Production
- 115310 Support Activities for Forestry

Mining

- 211110 Oil & Gas Extraction
- 212110 Coal Mining
- 212200 Metal Ore Mining
- 212310 Stone Mining & Quarrying
- 212320 Sand, Gravel, Clay, & Ceramic & Refractory

Minerals Mining & Quarrying

- 212390 Other Nonmetallic Mineral Mining & Quarrying
- 213110 Support Activities for Mining

Utilities

- 221100 Electric Power Generation, Transmission & Distribution
- 221210 Natural Gas Distribution
- 221300 Water, Sewage, & Other Systems

Construction

Code

Construction of Buildings

- 236110 Residential Building Construction
- 236200 Nonresidential Building Construction

Heavy and Civil Engineering Construction

- 237100 Utility System Construction
- 237210 Land Subdivision
- 237310 Highway, Street, & Bridge Construction
- 237990 Other Heavy & Civil Engineering Construction

Specialty Trade Contractors

- 238100 Foundation, Structure, & Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, & siding)
- 238210 Electrical Contractors
- 238220 Plumbing, Heating, & Air-Conditioning Contractors
- 238290 Other Building Equipment Contractors
- 238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, & finish carpentry)
- 238900 Other Specialty Trade Contractors (including site preparation)

Manufacturing

Food Manufacturing

- 311110 Animal Food Mfg
- 311200 Grain & Oilseed Milling
- 311300 Sugar & Confectionery Product Mfg
- 311400 Fruit & Vegetable Preserving & Specialty Food Mfg
- 311500 Dairy Product Mfg
- 311610 Animal Slaughtering and Processing
- 311710 Seafood Product Preparation & Packaging
- 311800 Bakeries & Tortilla Mfg
- 311900 Other Food Mfg (including coffee, tea, flavorings, & seasonings)

Beverage and Tobacco Product Manufacturing

- 312110 Soft Drink & Ice Mfg
- 312120 Breweries
- 312130 Wineries
- 312140 Distilleries
- 312200 Tobacco Manufacturing

Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills

Apparel Manufacturing

- 315100 Apparel Knitting Mills

Code

- 315210 Cut & Sew Apparel Contractors
- 315220 Men's & Boys' Cut & Sew Apparel Mfg
- 315230 Women's & Girls' Cut & Sew Apparel Mfg
- 315290 Other Cut & Sew Apparel Mfg
- 315990 Apparel Accessories & Other Apparel Mfg

Leather and Allied Product Manufacturing

- 316110 Leather & Hide Tanning & Finishing
- 316210 Footwear Mfg (including rubber & plastics)
- 316990 Other Leather & Allied Product Mfg

Wood Product Manufacturing

- 321110 Sawmills & Wood Preservation
- 321210 Veneer, Plywood, & Engineered Wood Product Mfg
- 321900 Other Wood Product Mfg

Paper Manufacturing

- 322100 Pulp, Paper, & Paperboard Mills
- 322200 Converted Paper Product Mfg

Printing and Related Support Activities

- 323100 Printing & Related Support Activities

Petroleum and Coal Products Manufacturing

- 324110 Petroleum Refineries (including integrated)
- 324120 Asphalt Paving, Roofing, & Saturated Materials Mfg
- 324190 Other Petroleum & Coal Products Mfg

Chemical Manufacturing

- 325100 Basic Chemical Mfg
- 325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg
- 325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg
- 325410 Pharmaceutical & Medicine Mfg
- 325500 Paint, Coating, & Adhesive Mfg
- 325600 Soap, Cleaning Compound, & Toilet Preparation Mfg
- 325900 Other Chemical Product & Preparation Mfg

Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

Nonmetallic Mineral Product Manufacturing

- 327100 Clay Product & Refractory Mfg
- 327210 Glass & Glass Product Mfg
- 327300 Cement & Concrete Product Mfg
- 327400 Lime & Gypsum Product Mfg
- 327900 Other Nonmetallic Mineral Product Mfg

Primary Metal Manufacturing

- 331110 Iron & Steel Mills & Ferroalloy Mfg
- 331200 Steel Product Mfg from Purchased Steel
- 331310 Alumina & Aluminum Production & Processing
- 331400 Nonferrous Metal (except Aluminum) Production & Processing
- 331500 Foundries

Fabricated Metal Product Manufacturing

- 332110 Forging & Stamping
- 332210 Cutlery & Handtool Mfg
- 332300 Architectural & Structural Metals Mfg
- 332400 Boiler, Tank, & Shipping Container Mfg
- 332510 Hardware Mfg
- 332610 Spring & Wire Product Mfg
- 332700 Machine Shops, Turned Product, & Screw, Nut, & Bolt Mfg

Code

- 332810 Coating, Engraving, Heat Treating, & Allied Activities
- 332900 Other Fabricated Metal Product Mfg

Machinery Manufacturing

- 333100 Agriculture, Construction, & Mining Machinery Mfg
- 333200 Industrial Machinery Mfg
- 333310 Commercial & Service Industry Machinery Mfg
- 333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
- 333510 Metalworking Machinery Mfg
- 333610 Engine, Turbine, & Power Transmission Equipment Mfg
- 333900 Other General Purpose Machinery Mfg

Computer and Electronic Product Manufacturing

- 334110 Computer & Peripheral Equipment Mfg
- 334200 Communications Equipment Mfg
- 334310 Audio & Video Equipment Mfg
- 334410 Semiconductor & Other Electronic Component Mfg
- 334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
- 334610 Manufacturing & Reproducing Magnetic & Optical Media

Electrical Equipment, Appliance, and Component Manufacturing

- 335100 Electric Lighting Equipment Mfg
- 335200 Household Appliance Mfg
- 335310 Electrical Equipment Mfg
- 335900 Other Electrical Equipment & Component Mfg

Transportation Equipment Manufacturing

- 336100 Motor Vehicle Mfg
- 336210 Motor Vehicle Body & Trailer Mfg
- 336300 Motor Vehicle Parts Mfg
- 336410 Aerospace Product & Parts Mfg
- 336510 Railroad Rolling Stock Mfg
- 336610 Ship & Boat Building
- 336990 Other Transportation Equipment Mfg

Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

Miscellaneous Manufacturing

- 339110 Medical Equipment & Supplies Mfg
- 339900 Other Miscellaneous Manufacturing

Wholesale Trade

Merchant Wholesalers, Durable Goods

- 423100 Motor Vehicle & Motor Vehicle Parts & Supplies
- 423200 Furniture & Home Furnishings
- 423300 Lumber & Other Construction Materials
- 423400 Professional & Commercial Equipment & Supplies
- 423500 Metal & Mineral (except Petroleum)
- 423600 Electrical & Electronic Goods
- 423700 Hardware, & Plumbing & Heating Equipment & Supplies
- 423800 Machinery, Equipment, & Supplies
- 423910 Sporting & Recreational Goods & Supplies
- 423920 Toy & Hobby Goods & Supplies
- 423930 Recyclable Materials
- 423940 Jewelry, Watch, Precious Stone, & Precious Metals
- 423990 Other Miscellaneous Durable Goods

<i>Code</i>	
Merchant Wholesalers, Nondurable Goods	
424100	Paper & Paper Products
424210	Drugs & Druggists' Sundries
424300	Apparel, Piece Goods, & Notions
424400	Grocery & Related Products
424500	Farm Product Raw Materials
424600	Chemical & Allied Products
424700	Petroleum & Petroleum Products
424800	Beer, Wine, & Distilled Alcoholic Beverages
424910	Farm Supplies
424920	Book, Periodical, & Newspapers
424930	Flower, Nursery Stock, & Florists' Supplies
424940	Tobacco & Tobacco Products
424950	Paint, Varnish, & Supplies
424990	Other Miscellaneous Nondurable Goods
Wholesale Electronic Markets and Agents and Brokers	
425110	Business to Business Electronic Markets
425120	Wholesale Trade Agents & Brokers

Retail Trade

Motor Vehicle and Parts Dealers	
441110	New Car Dealers
441120	Used Car Dealers
441210	Recreational Vehicle Dealers
441221	Motorcycle Dealers
441222	Boat Dealers
441229	All Other Motor Vehicle Dealers
441300	Automotive Parts, Accessories, & Tire Stores
Furniture and Home Furnishings Stores	
442110	Furniture Stores
442210	Floor Covering Stores
442291	Window Treatment Stores
442299	All Other Home Furnishings Stores
Electronics and Appliance Stores	
443111	Household Appliance Stores
443112	Radio, Television, & Other Electronics Stores
443120	Computer & Software Stores
443130	Camera & Photographic Supplies Stores
Building Material and Garden Equipment and Supplies Dealers	
444110	Home Centers
444120	Paint & Wallpaper Stores
444130	Hardware Stores
444190	Other Building Material Dealers
444200	Lawn & Garden Equipment & Supplies Stores
Food and Beverage Stores	
445110	Supermarkets and Other Grocery (except Convenience) Stores
445120	Convenience Stores
445210	Meat Markets
445220	Fish & Seafood Markets
445230	Fruit & Vegetable Markets
445291	Baked Goods Stores
445292	Confectionery & Nut Stores
445299	All Other Specialty Food Stores
445310	Beer, Wine, & Liquor Stores
Health and Personal Care Stores	
446110	Pharmacies & Drug Stores
446120	Cosmetics, Beauty Supplies, & Perfume Stores
446130	Optical Goods Stores
446190	Other Health & Personal Care Stores
Gasoline Stations	
447100	Gasoline Stations (including convenience stores with gas)

<i>Code</i>	
Clothing and Clothing Accessories Stores	
448110	Men's Clothing Stores
448120	Women's Clothing Stores
448130	Children's & Infants' Clothing Stores
448140	Family Clothing Stores
448150	Clothing Accessories Stores
448190	Other Clothing Stores
448210	Shoe Stores
448310	Jewelry Stores
448320	Luggage & Leather Goods Stores
Sporting Goods, Hobby, Book, and Music Stores	
451110	Sporting Goods Stores
451120	Hobby, Toy, & Game Stores
451130	Sewing, Needlework, & Piece Goods Stores
451140	Musical Instrument & Supplies Stores
451211	Book Stores
451212	News Dealers & Newsstands
451220	Prerecorded Tape, Compact Disc, & Record Stores

General Merchandise Stores	
452110	Department stores
452900	Other General Merchandise Stores
Miscellaneous Store Retailers	
453110	Florists
453210	Office Supplies & Stationery Stores
453220	Gift, Novelty, & Souvenir Stores
453310	Used Merchandise Stores
453910	Pet & Pet Supplies Stores
453920	Art Dealers
453930	Manufactured (Mobile) Home Dealers
453990	All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)
Nonstore Retailers	
454110	Electronic Shopping & Mail-Order Houses
454210	Vending Machine Operators
454311	Heating Oil Dealers
454312	Liquefied Petroleum Gas (Bottled Gas) Dealers
454319	Other Fuel Dealers
454390	Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)

Transportation and Warehousing

Air, Rail, and Water Transportation	
481000	Air Transportation
482110	Rail Transportation
483000	Water Transportation
Truck Transportation	
484110	General Freight Trucking, Local
484120	General Freight Trucking, Long-distance
484200	Specialized Freight Trucking
Transit and Ground Passenger Transportation	
485110	Urban Transit Systems
485210	Interurban & Rural Bus Transportation
485310	Taxi Service
485320	Limousine Service
485410	School & Employee Bus Transportation
485510	Charter Bus Industry
485990	Other Transit & Ground Passenger Transportation
Pipeline Transportation	
486000	Pipeline Transportation
Scenic & Sightseeing Transportation	
487000	Scenic & Sightseeing Transportation

<i>Code</i>	
Support Activities for Transportation	
488100	Support Activities for Air Transportation
488210	Support Activities for Rail Transportation
488300	Support Activities for Water Transportation
488410	Motor Vehicle Towing
488490	Other Support Activities for Road Transportation
488510	Freight Transportation Arrangement
488990	Other Support Activities for Transportation
Couriers and Messengers	
492110	Couriers
492210	Local Messengers & Local Delivery
Warehousing and Storage	
493100	Warehousing & Storage (except lessors of miniwarehouses & self-storage units)

Information

Publishing Industries (except Internet)	
511110	Newspaper Publishers
511120	Periodical Publishers
511130	Book Publishers
511140	Directory & Mailing List Publishers
511190	Other Publishers
511210	Software Publishers
Motion Picture and Sound Recording Industries	
512100	Motion Picture & Video Industries (except video rental)
512200	Sound Recording Industries
Broadcasting (except Internet)	
515100	Radio & Television Broadcasting
515210	Cable & Other Subscription Programming
Internet Publishing and Broadcasting	
516110	Internet Publishing & Broadcasting
Telecommunications	
517000	Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, & other telecommunications)
Internet Service Providers, Web Search Portals, and Data Processing Services	
518111	Internet Service Providers
518112	Web Search Portals
518210	Data Processing, Hosting, & Related Services
Other Information Services	
519100	Other Information Services (including news syndicates & libraries)

Finance and Insurance

Depository Credit Intermediation	
522110	Commercial Banking
522120	Savings Institutions
522130	Credit Unions
522190	Other Depository Credit Intermediation
Nondepository Credit Intermediation	
522210	Credit Card Issuing
522220	Sales Financing
522291	Consumer Lending
522292	Real Estate Credit (including mortgage bankers & originators)
522293	International Trade Financing
522294	Secondary Market Financing
522298	All Other Nondepository Credit Intermediation
Activities Related to Credit Intermediation	
522300	Activities Related to Credit Intermediation (including loan brokers, check clearing, & money transmitting)

<i>Code</i>	
Securities, Commodity Contracts, and Other Financial Investments and Related Activities	
523110	Investment Banking & Securities Dealing
523120	Securities Brokerage
523130	Commodity Contracts Dealing
523140	Commodity Contracts Brokerage
523210	Securities & Commodity Exchanges
523900	Other Financial Investment Activities (including portfolio management & investment advice)
Insurance Carriers and Related Activities	
524140	Direct Life, Health, & Medical Insurance & Reinsurance Carriers
524150	Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers
524210	Insurance Agencies & Brokerages
524290	Other Insurance Related Activities (including third-party administration of insurance and pension funds)
Funds, Trusts, and Other Financial Vehicles	
525100	Insurance & Employee Benefit Funds
525910	Open-End Investment Funds (Form 1120-RIC)
525920	Trusts, Estates, & Agency Accounts
525930	Real Estate Investment Trusts (Form 1120-REIT)
525990	Other Financial Vehicles (including closed-end investment funds)
"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under Management of Companies (Holding Companies) on next page.	
Real Estate and Rental and Leasing	
Real Estate	
531110	Lessors of Residential Buildings & Dwellings
531114	Cooperative Housing
531120	Lessors of Nonresidential Buildings (except Miniwarehouses)
531130	Lessors of Miniwarehouses & Self-Storage Units
531190	Lessors of Other Real Estate Property
531210	Offices of Real Estate Agents & Brokers
531310	Real Estate Property Managers
531320	Offices of Real Estate Appraisers
531390	Other Activities Related to Real Estate
Rental and Leasing Services	
532100	Automotive Equipment Rental & Leasing
532210	Consumer Electronics & Appliances Rental
532220	Formal Wear & Costume Rental
532230	Video Tape & Disc Rental
532290	Other Consumer Goods Rental
532310	General Rental Centers
532400	Commercial & Industrial Machinery & Equipment Rental & Leasing
Lessors of Nonfinancial Intangible Assets (except copyrighted works)	
533110	Lessors of Nonfinancial Intangible Assets (except copyrighted works)
Professional, Scientific, and Technical Services	
Legal Services	
541110	Offices of Lawyers
541190	Other Legal Services

Code
Accounting, Tax Preparation, Bookkeeping, and Payroll Services
541211 Offices of Certified Public Accountants
541213 Tax Preparation Services
541214 Payroll Services
541219 Other Accounting Services
Architectural, Engineering, and Related Services
541310 Architectural Services
541320 Landscape Architecture Services
541330 Engineering Services
541340 Drafting Services
541350 Building Inspection Services
541360 Geophysical Surveying & Mapping Services
541370 Surveying & Mapping (except Geophysical) Services
541380 Testing Laboratories
Specialized Design Services
541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)
Computer Systems Design and Related Services
541511 Custom Computer Programming Services
541512 Computer Systems Design Services
541513 Computer Facilities Management Services
541519 Other Computer Related Services
Other Professional, Scientific, and Technical Services
541600 Management, Scientific, & Technical Consulting Services
541700 Scientific Research & Development Services
541800 Advertising & Related Services
541910 Marketing Research & Public Opinion Polling
541920 Photographic Services
541930 Translation & Interpretation Services
541940 Veterinary Services
541990 All Other Professional, Scientific, & Technical Services

Management of Companies (Holding Companies)

551111 Offices of Bank Holding Companies
551112 Offices of Other Holding Companies

Administrative and Support and Waste Management and Remediation Services

Administrative and Support Services
561110 Office Administrative Services
561210 Facilities Support Services
561300 Employment Services
561410 Document Preparation Services
561420 Telephone Call Centers
561430 Business Service Centers (including private mail centers & copy shops)
561440 Collection Agencies
561450 Credit Bureaus
561490 Other Business Support Services (including repossession services, court reporting, & stenotype services)

Code
561500 Travel Arrangement & Reservation Services
561600 Investigation & Security Services
561710 Exterminating & Pest Control Services
561720 Janitorial Services
561730 Landscaping Services
561740 Carpet & Upholstery Cleaning Services
561790 Other Services to Buildings & Dwellings
561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)
Waste Management and Remediation Services
562000 Waste Management & Remediation Services

Educational Services

611000 Educational Services (including schools, colleges, & universities)

Health Care and Social Assistance

Offices of Physicians and Dentists

621111 Offices of Physicians (except mental health specialists)
621112 Offices of Physicians, Mental Health Specialists
621210 Offices of Dentists

Offices of Other Health Practitioners

621310 Offices of Chiropractors
621320 Offices of Optometrists
621330 Offices of Mental Health Practitioners (except Physicians)
621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists
621391 Offices of Podiatrists
621399 Offices of All Other Miscellaneous Health Practitioners

Outpatient Care Centers

621410 Family Planning Centers
621420 Outpatient Mental Health & Substance Abuse Centers
621491 HMO Medical Centers
621492 Kidney Dialysis Centers
621493 Freestanding Ambulatory Surgical & Emergency Centers
621498 All Other Outpatient Care Centers

Medical and Diagnostic Laboratories

621510 Medical & Diagnostic Laboratories

Home Health Care Services

621610 Home Health Care Services

Code
Other Ambulatory Health Care Services
621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)

Hospitals
622000 Hospitals

Nursing and Residential Care Facilities

623000 Nursing & Residential Care Facilities

Social Assistance

624100 Individual & Family Services
624200 Community Food & Housing, & Emergency & Other Relief Services
624310 Vocational Rehabilitation Services
624410 Child Day Care Services

Arts, Entertainment, and Recreation

Performing Arts, Spectator Sports, and Related Industries

711100 Performing Arts Companies
711210 Spectator Sports (including sports clubs & racetracks)
711300 Promoters of Performing Arts, Sports, & Similar Events
711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures
711510 Independent Artists, Writers, & Performers

Museums, Historical Sites, and Similar Institutions

712100 Museums, Historical Sites, & Similar Institutions

Amusement, Gambling, and Recreation Industries

713100 Amusement Parks & Arcades
713200 Gambling Industries
713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)

Accommodation and Food Services

Accommodation
721110 Hotels (except Casino Hotels) & Motels
721120 Casino Hotels
721191 Bed & Breakfast Inns
721199 All Other Traveler Accommodation
721210 RV (Recreational Vehicle) Parks & Recreational Camps
721310 Rooming & Boarding Houses

Code
Food Services and Drinking Places
722110 Full-Service Restaurants
722210 Limited-Service Eating Places
722300 Special Food Services (including food service contractors & caterers)
722410 Drinking Places (Alcoholic Beverages)

Other Services

Repair and Maintenance

811110 Automotive Mechanical & Electrical Repair & Maintenance
811120 Automotive Body, Paint, Interior, & Glass Repair
811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)
811210 Electronic & Precision Equipment Repair & Maintenance
811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance
811410 Home & Garden Equipment & Appliance Repair & Maintenance
811420 Reupholstery & Furniture Repair
811430 Footwear & Leather Goods Repair
811490 Other Personal & Household Goods Repair & Maintenance

Personal and Laundry Services

812111 Barber Shops
812112 Beauty Salons
812113 Nail Salons
812190 Other Personal Care Services (including diet & weight reducing centers)
812210 Funeral Homes & Funeral Services
812220 Cemeteries & Crematories
812310 Coin-Operated Laundries & Drycleaners
812320 Drycleaning & Laundry Services (except Coin-Operated)
812330 Linen & Uniform Supply
812910 Pet Care (except Veterinary) Services
812920 Photofinishing
812930 Parking Lots & Garages
812990 All Other Personal Services

Religious, Grantmaking, Civic, Professional, and Similar Organizations

813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations (including condominium and homeowners associations)

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Go to our Website:

www.ftb.ca.gov

Local Agency Military Base Recovery Area Deduction and Credit Summary

Attach to your California tax return.

Social security Corporation number FEIN

Name(s) as shown on return

Secretary of State file number

A. Check the appropriate box for your entity type:

- Individual Estate Trust C corporation S corporation Partnership Exempt organization Limited liability company Limited liability partnership

B. Enter the name of the Local Agency Military Base Recovery Area (LAMBRA) business:

C. Enter the address (actual location) where the LAMBRA business is conducted:

D. Enter the name of the LAMBRA in which the business and/or investment activity is located.

E. Principal Business Activity Code number of the LAMBRA business Enter the six-digit number from the Codes for Principal Business Activity.

F. Total number of employees in the LAMBRA

G. Number of employees included in the computation of the hiring credit, if claimed

H. Number of new employees included in the computation of the hiring credit, if claimed

I. Gross annual receipts of the business

J. Total asset value of the business

Part I Net Increase in Jobs

Note: Complete Part I only if you have been doing business in a LAMBRA for two years.

- 1 a Net increase in jobs within California 1a b Full-time employees within the LAMBRA during the 1st taxable year 1b c Full-time employees within the LAMBRA during the 2nd taxable year 1c

Part II Credits Used and Recaptured

2 Hiring and sales or use tax credits claimed on the current year return:

- a Hiring credit from Schedule Z, line 8A, column (f) or line 10, column (f) 2a b Hiring credit recapture from Worksheet I, Section B, line 2 2b c Sales or use tax credit from Schedule Z, line 9A, column (f) or line 11, column (f) 2c d Sales or use tax credit recapture from Worksheet II, Section B, line 2 2d e Add line 2a and line 2c 2e

Note: To compute the amount of credits to carryover, complete Schedule Z on Side 2.

Part III Business Expense Deduction for Equipment Purchases and Recaptures

- 3 a Enter the cost of qualified property purchased for the LAMBRA that is being deducted as a current year business expense from Worksheet III, Section A, line 4 3a ELECTION: The act of deducting a portion of the cost of any property as a current year expense rather than adding it to the capital account constitutes an election to treat that property in accordance with R&TC Section 17268 or 24356.8. That election may not be revoked except with the written consent of the Franchise Tax Board (FTB). b Business expense deduction recapture from Worksheet III, Section B, line 2 3b

Part IV Portion of Business Attributable to the LAMBRA

- 4 Enter the average apportionment percentage of your business that is in the LAMBRA from Worksheet IV, Section A, line 4. If your business is wholly within one LAMBRA, the average apportionment percentage is 100% (1.00) 4

Part V Net Operating Loss (NOL) Carryover and Deduction

- 5 a Enter the total NOL carryover from prior years from Worksheet V, Section C, line 17, column (b) 5a b Enter the total NOL deduction used in the current year from Worksheet V, Section C, line 17, column (c). Enter this amount on Schedule CA (540 or 540NR), line 21e, column B; Form 100, line 21; Form 100W, line 21; Form 100S, line 19; or Form 109, line 3 or line 11 5b c Enter the total NOL to carryover to future years from Worksheet V, Section C, line 17, column (e) 5c ELECTION: For those taxpayers eligible for an NOL carryover under R&TC Section 17276.2, 17276.4, 17276.5, 17276.6, 24416.2, 24416.4, 24416.5, or 24416.6, the act of claiming an NOL carryover on this form constitutes the irrevocable election to apply the loss under R&TC Section 17276.5 or 24416.5, for qualified businesses with a LAMBRA. If you elect to carryover an NOL under any of these provisions, you are prohibited by law from carrying over any other type of NOL from this year.

Schedule Z Computation of Credit Limitations — LAMBRA

Part I Computation of Credit Limitations. See instructions.

1 Trade or business income. Individuals: Enter the amount from Worksheet IV, Section C, line 14, column (c) on this line and on line 3 (skip line 2). See instructions. Note: Corporations which file a combined report, enter the taxpayer's business income assigned to California (see instructions for Part IV)	1	
2 Corporations: Enter the average apportionment percentage from Worksheet IV, Section A, line 4. See instructions	2	
3 Multiply line 1 by line 2	3	
4 Enter the LAMBRA NOL deduction from Worksheet V, Section C, line 15, column (c)	4	
5 LAMBRA taxable income. Subtract line 4 from line 3	5	
6 a Compute the amount of tax due using the amount on line 5. See instructions	6a	
b Enter the amount of tax from Form 540, line 24; Long Form 540NR, line 27; Form 541, line 21; Form 100, line 24; Form 100W, line 24; Form 100S, line 22; or Form 109, line 7 or line 15. Corporations, combined groups, and S corporations, see instructions	6b	
7 Enter the smaller of line 6a or line 6b. This is the limitation based on LAMBRA business income. Go to Part II, Part III, or Part IV and see the applicable instructions	7	

Part II Limitation of Credits for Corporations, Individuals, Estates, and Trusts. See instructions.

(a) Credit name	(b) Credit amount	(c) Total prior year carryover	(d) Total credit col. (b) plus col. (c)	(e) Limitation based on LAMBRA business income	(f) Used on Schedule P can never be greater than col. (d) or col. (e)	(g) Carryover col. (d) minus col. (e)
8 Hiring credit	A					
	B					
9 Sales or use tax credit	A					
	B					

Part III Limitation of Credits for S Corporations Only. See instructions.

(a) Credit name	(b) Credit amount	(c) S corporation credit col. (b) multiplied by 1/3	(d) Total prior year carryover	(e) Total credit col. (c) plus col. (d)	(f) Credit used this year by S corporation	(g) Carryover col. (e) minus col. (f)
10 Hiring credit						
11 Sales or use tax credit						

Part IV Limitation of Credits for Corporations and S Corporations Subject to Paying Only the Minimum Franchise Tax. See instructions.

(a) Credit name	(b) Credit amount	(c) Total prior year carryover	(d) Total credit carryover col. (b) plus col. (c)
12 Hiring credit			
13 Sales or use tax credit			

Refer to page 3 for information on how to claim deductions and credits.

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Go to our Website:

www.ftb.ca.gov

How to Get California Tax Information

(Keep This Page For Future Use)

Your Rights as a Taxpayer

Our goal at the Franchise Tax Board (FTB) is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you can request written advice from the FTB on whether a particular transaction is taxable. See "Where to Get Tax Forms and Publications" below.

Where to Get Tax Forms and Publications

By Internet – You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov.

Information about other state agencies can be accessed through the State Agency Index located on the California State Website at www.ca.gov.

By phone – To order California tax forms, publications, and the current year federal booklets, call our automated phone service. To order a form:

- Refer to the list in your tax booklet and find the code number for the form you want to order.
- Call (800) 338-0505 and follow the instructions.

Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order.

In person – Many libraries and post offices provide free California personal income tax booklets during the filing season. Most libraries and some quick print businesses have forms and schedules for you to photocopy (a nominal fee may apply).

Note: Employees at libraries, post offices, and quick print businesses cannot provide tax information or assistance.

By mail – Write to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

Letters

If you write to us, be sure your letter includes your FEIN, Secretary of State file number, California corporation number, or social security number, your daytime and evening telephone numbers, and a copy of the notice (if applicable). Send your letter to:

PROFESSIONAL RESOURCES AND
EDUCATION SECTION MS F-228
FRANCHISE TAX BOARD
PO BOX 1468
SACRAMENTO CA 95812-1468

We will respond to your letter within ten weeks. In some cases, we may need to call you for additional information. **Note:** Do not attach correspondence to your tax return unless the correspondence relates to an item on your return.

General Toll-Free Phone Service

Telephone assistance is available year-round from 7 a.m. until 7 p.m. Monday through Friday, except state holidays. We may modify these hours without notice to meet operational needs.

From within the United States,
call (800) 852-5711
From outside the United States,
call (not toll-free) (916) 845-6500

Assistance for persons with disabilities:
The FTB complies with the Americans with Disabilities Act. Persons with hearing or speech impairments, call:

From TTY/TDD (800) 822-6268
(Direct line to FTB customer service)

Asistencia bilingüe en español:

Asistencia telefónica esta disponible todo el año durante las 7 a.m. y las 7 p.m. lunes a viernes, excepto días festivos estatales. Sin embargo, podríamos modificar este horario sin aviso previo para cumplir necesidades de operación.

Dentro de los Estados Unidos,
llame al (800) 852-5711
Fuera de los Estados Unidos,
llame al (cargos aplican) . (916) 845-6500

Página Electrónica:
www.ftb.ca.gov

Asistencia para personas discapacitadas:

El FTB está en conformidad con el Acta de Americanos Discapacitados. Personas con problemas auditivos o de habla pueden llamar:

De TTY/TDD – Línea directa al servicio de clientes del FTB (800) 822-6268

LAMBRA Contact Information

For business eligibility or zone related information, including questions regarding LAMBRA geographic boundaries, contact the zone manager of the local zone in which the business is located. Local Zone managers are listed in the State's official Zone website at www.hcd.ca.gov/ca/cdbg/ez.

For information that is not tax-specific or zone-specific, you may contact the Department of Housing and Community Development at:

DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT
1800 THIRD STREET, SUITE 390
SACRAMENTO CA 95814
Tel: (916) 263-0485
Website: www.hcd.ca.gov

or, you may contact:

FRANCHISE TAX BOARD
Telephone: (916) 845-3464
FAX: (916) 845-6791
Website: www.ftb.ca.gov