Instructions for Schedule P (541)

Alternative Minimum Tax and Credit Limitations – Fiduciaries

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005,** and to the California Revenue and Taxation Code (R&TC).

What's New

Natural Heritage Preservation Credit – The funding for the Natural Heritage Preservation Credit is available beginning January 1, 2010, until June 30, 2015. Currently there is no funding available to award or claim credits for the period from July 1, 2008, to December 31, 2009. However, carryover is not affected for previously awarded credits.

New Jobs Credit – For taxable years beginning on or after January 1, 2009, a new jobs credit against the net tax will be allowed for a qualified employer in the amount of $3,000 for each qualified full-time employee hired during the taxable year that increases the employer's number of full-time employees over the previous year. This is determined on an annual full-time equivalent basis. Any credits not used in the taxable year may be carried forward up to eight years. For more information go to **ftb.ca.gov** and search for **new jobs**.

Farmworker Housing Credit – For taxable years beginning on or after January 1, 2009, the farmworker housing credit has been consolidated into the low-income housing tax credit. For more information, get form FTB 3521, Low-Income Housing Credit.

Tax Increase – Beginning on January 1, 2009, the regular tax and alternative minimum tax rate increased by 0.25%.

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. 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, go to **ftb.ca.gov** and search for **conformity**. 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.

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

Net Operating Loss – For taxable years beginning in 2008 and 2009, California suspended the net operating loss (NOL) carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. **However**, taxpayers with net business income of less than $500,000 or with disaster loss carryovers are not affected by the NOL suspension rules. For more information, see form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates and Trusts.

Business tax credit limitation – For taxable years beginning on or after January 1, 2008, and before January 1, 2010, there is a limitation on the application of business tax credits for taxpayers whose net business income is $500,000 or more. The limitation is equal to 50% of the net tax before the application of any credits.

Round Cents to Dollars

Round cents to the nearest whole dollar. For example, round $50.50 up to $51 or round $25.49 down to $25. If you do not round, the Franchise Tax Board (FTB) will disregard the cents.

A Purpose

California tax law gives special treatment to some items of income and allows special deductions and credits for some items of expense. Many taxpayers who benefit from these provisions must pay at least a minimum amount of tax, the alternative minium tax (AMT), and/or limit the amount of their credits.

B Who Must File

Fiduciaries must use Schedule P (541) to figure the following:

- Income distribution deduction on an AMT basis
- Estate's or trust's alternative minimum taxable income (AMTI)
- Estate's or trust's AMT

Fiduciaries must also use Schedule P (541) if any of the following apply:

- Figure credits that must be limited by the tentative minimum tax (TMT) (Part III, line 8)
- Figure credits that may reduce the AMT (Part III, line 10)
- Claim more than one credit

Also see Schedule P (541), Part IV.

Every estate or trust that takes an income distribution deduction under IRC Section 651 or Section 661 must complete Schedule P (541), Part I, to figure its AMTI, and Part II to figure the income distribution deduction on an AMT basis. Part III should be completed only if the estate or trust is liable for AMT (Part I, line 10 is more than $39,407) or is claiming credits. In all instances, attach Schedule P (541) to Form 541.

Individuals who were residents of California for the entire taxable year must use Schedule P (540) Alternative Minimum Tax and Credit Limitations – Residents; nonresidents and part-year residents must use Schedule P (540NR) Alternative Minimum Tax and Credit Limitations – Nonresidents and Part Year Residents; estates or trusts must use Schedule P (541); and corporations must use Schedule P (100 or 100W) Alternative Minimum Tax and Credit Limitations – Corporations or Alternative Minimum Tax and Credit Limitations – Water's-Edge Filers.

C Recordkeeping

For the AMT, certain items of income, deductions, etc., receive different tax treatment than for the regular tax. Therefore, you need to refigure items for the AMT that you figured for the regular tax. In some cases, you may wish to do this by completing the applicable tax form a second time. If you do complete another form, do not attach it to your return, but keep it for your records.

For regular tax, some deductions may result in carryovers to future taxable years. Examples are investment interest expense, net operating loss (NOL), and capital loss. Because you may have to refigure these items to determine AMT for the estate or trust, the carryover amount may be different for AMT than for regular tax. Although the carryovers that you figure for AMT do not affect the carryovers for regular tax, you must keep track of the AMT carryovers in order to complete your Schedule P (541) in future years.

D Partnerships, S Corporations, or Limited Liability Companies (LLCs)

If the estate or trust is a partner in a partnership, a shareholder of an S corporation, or a member of an LLC, you must take into account the estate's or trust's distributive share of income and deductions that enter into the computation of the estate's or trust's adjustments and tax preferences.

If the estate or trust is a beneficiary of another estate or trust, you must include the adjustment for AMT shown on Schedule K-1 (541), Beneficiary's Share of Income, Deductions, Credits, etc., line 12a.

E Allocation of Deductions to Beneficiaries

The distributable net AMTI of the estate or trust does not include amounts of depreciation, depletion, or amortization that are allocated to the beneficiaries, just as the distributable net income of the estate or trust does not include these items for regular tax.

Report separately on Schedule K-1 (541), line 12, any adjustments or tax preferences attributable to depreciation, depletion, or amortization that were allocated to beneficiaries.

F Optional Write-off for Certain Adjustments and Tax Preferences

Under IRC Section 59(e), the estate or trust may elect to deduct certain adjustments and tax preferences ratably over a period of time. If this election is made, the optional write-off period is used for regular tax and there is no AMT adjustment on Schedule P (541). The items for which this election can be made are:

- Circulation expenditures under IRC Section 173(a).
- Research and experimental expenditures under IRC Section 174(a).
- Intangible drilling and developmental expenditures under IRC Section 263(c).
- Development expenditures for mines and natural deposits under IRC Section 616(a).
- Mining and exploration expenditures under IRC Section 617(a).
- Grapevines replanted as a result of phylloxera infestation or Pierce's Disease.

The estate or trust may elect to deduct circulation expenditures over three years and intangible drilling and developmental expenditures over 60 months. The estate or trust may elect to deduct the remaining items over 10 years. For intangible drilling and developmental expenditures, the write-off period begins with the month the expenditure was paid or incurred.

The election must be made in the year of the expenditure and may be revoked only with the consent of the FTB. If the estate or trust made the election for any of the above items, do not adjust for those items on this schedule. See IRC Section 59(e) for more information.

Additional information
For more information, get federal Form 1041, Schedule I, Alternative Minimum Tax.

G Alternative Minimum Taxable Income (AMTI) Exclusion

California law conforms to the existing federal law eliminating the deduction for contributions of appreciated property as an item of tax preference. As a result, taxpayers no longer need to include, in their computation of AMTI, the amount by which any allowable deduction for contributions of appreciated property exceeds the taxpayer's adjusted basis in the contributed property. However, all carryovers from contributions made prior to January 1, 2002, are still subject to the Adjusted Gross Income (AGI) percentage limitation.

California has not conformed to the Federal Job Creation and Worker Assistance Act of 2002 that allows taxpayers to take an additional first-year depreciation deduction and AMT depreciation adjustment for property placed in service after September 10, 2001.

A qualified taxpayer shall exclude income, positive and negative adjustments, and preference items attributable to any trade or business when figuring AMTI. These adjustments and preference items must also be excluded when calculating any deductions that may result in AMT carryovers. You are a qualified taxpayer if you meet **both of the following**:

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

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

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

Proportionate interest means:

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

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

Eligibility
The exclusion is only available for the alternative minimum taxable income of the estate or trust. The exclusion may not be passed through to beneficiaries. Therefore, if the estate or trust qualifies for this exclusion, it must complete two Schedules P (541): one for the estate's or trust's computation of AMTI and AMT, and one for the computation of AMTI, adjustments and preference items on Schedule K-1 (541).

The fiduciary should complete the first Schedule P (541) for the estate or trust as follows:

1. Make no entry for AMT adjustments and tax preferences attributable to any trade or business of the estate or trust (line 4 items).
2. Enter all taxable income attributable to any trade or business of the estate or trust on line 7b.

The fiduciary should complete the second Schedule P (541) for the **beneficiary** as follows:

1. Enter the AMT adjustments and tax preferences attributable to any trade or business of the estate or trust on the appropriate lines (line 4 items).
2. Make no entry on line 7b.

Refer to this second Schedule P (541) when entering AMTI and adjustments and taxable preference items on Schedule K-1 (541), line 12. The estate or trust should also have completed a second Schedule P (541) for the prior taxable year, and refer to it to compute the amount for Schedule K-1 (541), line 11(d), if applicable.

H Internet Access

You can download, view, and print California tax forms and publications at **ftb.ca.gov**.

Access other state agencies' websites through the State Agencies Directory on California's website at **ca.gov**.

Specific Line Instructions

Part I – Fiduciary's Share of Alternative Minimum Taxable Income (AMTI)

Line 2 – Net Operating Loss (NOL) Deduction
For more information, see form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.

Line 4 – For line 4a through line 4v, enter each adjustment as a positive amount unless instructed otherwise.

Line 4a – Interest
In determining the AMTI, qualified residence interest, other than qualified housing interest defined in IRC Section 56(e), is not allowed as a deduction. Only home mortgage interest that meets the definition of "qualified housing interest" is deductible for AMT purposes. The AMT adjustment is that portion of home mortgage interest deductible for regular tax purposes that is not qualified housing interest.

Qualified housing interest. Qualified housing interest is interest paid or accrued by the trust or estate on debt incurred to acquire, construct, or substantially rehabilitate a residence held by the estate or trust that secures the debt and is utilized by a beneficiary of the estate or trust as his or her primary residence or second home. The beneficiary must also have a present interest or an interest in the residuary of the estate or trust.

Investment interest expense. Also enter on this line any investment interest expense adjustment. If you completed form FTB 3526, Investment Interest Expense Deduction, refigure the investment interest expense using a second form FTB 3526.

Complete line 1 through line 8. Follow the form FTB 3526 instructions for line 1 through line 8, except for the following:

- When completing line 1, include any interest expense from Schedule P (541), line 4a, that was paid or accrued on indebtedness properly attributable to property held for investment within the meaning of IRC Section 163(d)(5). An example is interest on a home equity loan whose proceeds were invested in stocks or bonds. This interest might be deductible as home mortgage interest for regular tax, but is not deductible for AMT.
- When entering the 2008 disallowed investment interest expense on line 2, use the 2008 AMT disallowed investment interest expense.
- When completing line 4f, refigure the gross investment income, any net gain from the disposition of property held for investment, and any investment expenses, by taking into account all of the AMT adjustments and tax preferences that apply.

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

Line 4b – Personal property taxes and real property taxes
Enter on this line any state and local personal property taxes and state, local, or foreign real property taxes that are included on Form 541, line 11.

Line 4c – Miscellaneous itemized deductions from Form 541, line 15b
Miscellaneous itemized deductions subject to the 2% AGI limitation are not deductible for AMT purposes.

Line 4d – Refund of personal property taxes and real property taxes
Enter on this line any refunds of taxes the estate or trust received in 2009 if all the following apply:

- Are those described in line 4b above
- Are attributable to a taxable year after 1986
- Were deducted in a taxable year after 1986

Line 4e – Post-1986 depreciation
If you filed federal Schedule C, C-EZ, Net Profit from Business, E or F and have tangible property that you began depreciating after 1986, you must use the Alternative Depreciation System (ADS) to calculate AMT depreciation as follows:

Property placed in service before 1999. For property placed in service before 1999, refigure the AMT depreciation using the ADS, with the same convention used for the regular tax. See the following table for the method and recovery period to use.

Property placed in service before 1999

IF the property is. . .	THEN use the. . .
IRC Section 1250(c) property	Straight-line method over 40 years.
Tangible property (other than the IRC Section 1250(c) property) depreciated using straight-line for the regular tax	Straight-line method over property's AMT class life.
Any other tangible property	150% declining balance method, switching to straight-line the first tax year it gives a larger deduction, over the property's AMT class life.

Property placed in service after 1998. For property placed in service after 1998, no adjustment is necessary if the property is IRC Section 1250(c) property or tangible property, other than IRC Section 1250(c) property; depreciated using the straight-line or 150% declining balance method for the regular tax. For any other tangible property, use the 150% declining balance method, switching to straight-line the first taxable year it gives a larger deduction, and the same convention and recovery period used for the regular tax.

For more information, get federal Form 1041, Schedule I; federal Publication 946, How to Depreciate Property; or see IRC Section 168(g).

Certain grapevines. Grapevines that were replanted as a result of phylloxera infestation or Pierce's Disease that are depreciated over a 5 years for regular tax, must be depreciated over 10 years for AMT.

Partners, LLC members, or S corporation shareholders. Enter the amount shown on the Schedule K-1 (565, 568, or 100S, Share of Income, Deductions, Credits, etc.,) issued by your partnership, LLC, or S corporation for post-1986 depreciation.

Enter on line 4e the difference between depreciation for regular tax and depreciation for AMT. To figure the AMT adjustment on this line, subtract the depreciation figure calculated for AMT from the depreciation allowed for regular tax. If the depreciation calculated for AMT is greater than the depreciation allowed for regular tax, enter the adjustment as a negative amount. **Do not** include depreciation from the following:

- An activity for which the estate or trust is not at risk
- Amounts received from a partnership, LLC, or S corporation if the basis limitations under IRC Section 704(d) or Section 1366(d) apply
- A passive activity
- A tax shelter farm activity

Instead, include these depreciation adjustments when figuring the adjustments on line 4l, line 4m, or line 4n, whichever applies.

Line 4f – Circulation and research and experimental expenditures paid or incurred after 1986
If the estate or trust elected the optional 3-year write-off period for circulation expenditures or the optional 10-year write-off period for research and experimental expenditures under IRC Section 59(e), skip this line.

Circulation expenditures. For regular tax, IRC Section 173 allows a deduction for the full amount of circulation expenditures in the taxable year paid or incurred. For AMT, these expenditures must be amortized over three years beginning with the year the expenditures were paid or incurred. Enter on this line the difference between the AMT deduction and the regular tax deduction. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount.

Research and experimental expenditures. For regular tax, IRC Section 174(a) allows a deduction for research and experimental expenditures in the taxable year paid or incurred. For AMT, these expenditures must be amortized over a 10-year period. To figure the AMT adjustment, subtract the amortization figured for AMT from the amortization allowed for regular tax. If the AMT amortization is greater than regular tax amortization, enter the adjustment as a negative amount. Otherwise, enter the difference as a positive amount.

Refer to IRC Section 56(b)(2)(B) for special rules that apply to losses related to circulation or research property.

Line 4g – Mining exploration and development costs paid or incurred after 1986
If the estate or trust elected the optional 10-year write-off under IRC Section 59(e), skip this line.

For regular tax, IRC Sections 616(a) and 617(a) allow a deduction for mining exploration and development costs in the taxable year paid or incurred. For AMT, these costs must be capitalized and amortized over 10 years beginning with the taxable year the expenditures were paid or incurred. Enter the difference between the AMT mining amortization and the regular tax mining deduction. If the AMT mining amortization is more than the regular tax mining deduction, enter the adjustment as a negative amount.

Refer to IRC Section 56(a)(2)(B) for special rules that apply to losses related to mining property.

Line 4h – Long-term contracts entered into after February 28, 1986
For AMT, the percentage-of-completion method of accounting described in IRC Section 460(b) generally must be used. This rule does not apply to home construction contracts, as defined in IRC Section 460(e)(6).

To figure the AMT adjustment, subtract the amount computed using the percentage-of-completion method for AMT from the amount allowed for regular tax. If the amount for AMT is less than the amount computed for regular tax, enter the difference as a negative amount.

Line 4i – Amortization of pollution control facilities placed in service after 1986
For regular tax, the estate or trust may elect to amortize the basis of a certified pollution control facility over 60 months.

For facilities placed in service before 1999, the AMT deduction is figured using the alternative depreciation system (ADS) described in IRC Section 168(g). Use the federal Class Life Asset Depreciation Range System (ADR) under the straight-line method.

For facilities placed in service after 1998, the AMT deduction is figured under the modified accelerated cost recovery system (MACRS) using the straight-line method.

To figure the AMT adjustment on line 4i, subtract the amount figured for AMT from the amount allowed for regular tax. If the AMT pollution control facilities depreciation is more than the regular tax pollution control facilities amortization, enter the difference as a negative amount.

Line 4j – Installment sales of certain property
If, for regular tax purposes, the estate or trust used the installment method to report any nondealer disposition of property that occurred after August 16, 1986, but before the first day of your taxable year that began in 1990, and if the obligation that arose from the disposition was an installment obligation to which the proportionate disallowance rule applied, you must refigure your income for AMT without regard to the installment method.

Enter the difference between your AMT and regular tax income on this line. If the AMT income is smaller, enter the difference as a negative amount.

California conforms to the repeal of the installment method alternative minimum tax adjustment for farmers for payments received in taxable years beginning on or after January 1, 1997, for installment sales made in income years beginning after December 31, 1987.

Line 4k – Adjusted gain or loss (including incentive stock options)
The estate or trust will have an entry on this line only if it reported a gain or loss from the sale or exchange of business or income-producing property on Schedule D (541), Capital Gain and Loss, Schedule D-1, Sales of Business Property, or federal Form 4684, Casualties and Thefts.

Generally, if the estate or trust reported a gain or loss from the sale or exchange of mutual funds, stocks, or bonds, there will not be an entry on this line.

Figure the AMT adjustment for this line as follows:

Step 1 – Refigure the adjusted basis of the asset sold by taking into account any AMT adjustments you made this year or in previous years for depreciation (see line 4e, line 4r, and line 4s), incentive stock options (see line 4k), circulation and research and experimental expenditures (see line 4f), pollution control facilities (see line 4i), and mining cost (see line 4g).

Step 2 – Refigure your gain or loss using the adjusted basis figured in Step 1.

Step 3 – Figure the difference between the refigured gain or loss for AMT and the gain or loss reported for regular tax. Enter the result on line 4k. Enter the difference as a negative if any of the following apply:

- The AMT gain is less than the regular tax gain
- The AMT loss is more than the regular tax loss
- You have an AMT loss and a regular tax gain

Incentive stock options (ISOs). For regular tax, no income is recognized when an ISO, as defined in IRC Section 422(b), is granted or exercised. However, this rule does not apply for AMT for ISOs exercised after December 31, 1987. Instead, the estate or trust must include the excess, if any, of:

- The fair market value (FMV) of the option (determined without regard to any lapse restriction) at the first time the rights in the option become transferable or when these rights are no longer subject to a substantial risk of forfeiture, over
- The amount the estate or trust paid for the option.

Increase the AMT basis of any stock acquired through the exercise of an ISO by the amount of the adjustment. Do not make an AMT adjustment if the estate or trust exercised an ISO and disposed of that stock in the same year.

Line 4l – Certain loss limitations
If you include adjustments or preferences on this line, **do not** include them on any other line of this schedule. If the loss is from a passive activity, use line 4n instead. If the loss is from a tax shelter farm activity (that is not passive), use line 4m.

For AMT, refigure certain limited losses using the AMT adjustments and tax preferences. Refigure the gains and losses from activities for which the estate or trust is not at risk. Also, refigure the basis limitations that apply to partnerships and S corporations. Refer to IRC Sections 59(h), 465, 704(d), and 1366(d).

Enter on this line the difference between AMT limited losses (from activities reported on federal Schedules C, C-EZ, E, F, or federal Form 4835, Farm Rental Income and Expenses), and the regular tax limited losses from these activities. If the AMT limited loss is less than the regular tax limited loss, enter the difference as a negative amount.

Line 4m – Tax shelter farm activities
If you include AMT adjustments or tax preferences on this line, **do not** include them on any other line of this schedule.

Complete this line only if the estate or trust has a gain or loss from a tax shelter farm activity, as defined in IRC Section 58(a)(2), that is **not** a passive activity. If the tax shelter farm activity is a passive activity, you must include it with other passive activities on line 4n.

Refigure all gains and losses reported for regular tax from tax shelter farm activities using the AMT adjustments and preferences.

Figure the tax shelter farm activity gain or loss for AMT using the same rules used for regular tax except for the following:

- Do not take any recomputed loss unless the estate or trust is insolvent, see IRC Section 58(c)(1)
- Do not offset gains from other tax shelter farm activities with the recomputed loss.

Suspend and carry over the loss to future taxable years until one of the following applies:

- There is a gain in a future taxable year from that same activity
- The activity is disposed of

Enter on this line the difference between the tax shelter farm loss for AMT and regular tax.

Line 4n – Passive activities
If you include AMT adjustments or preferences on this line, **do not** include them on any other line of this schedule.

The estate or trust may want to complete a second form FTB 3801, Passive Activity Loss Limitations, and the other forms or schedules on which passive activities are reported to figure this adjustment.

Several types of adjustments may be entered on this line.

Regular passive activities. Refigure the passive activity gains and losses for AMT by taking into account all AMT adjustments, preferences and AMT prior year unallowed losses that apply to the passive activity. The adjustment is the difference between the AMT passive activity income or loss (from activities reported on federal Schedules C, C-EZ, E, F, or federal Form 4835) and the regular tax passive activity income or loss from these activities.

Publicly traded partnership (PTP). If the estate or trust had a loss from a PTP, it will have to refigure the loss using any AMT adjustments, tax preferences, and any AMT prior year unallowed loss.

Tax shelter passive farm activities. Refigure any gain or loss from a tax shelter passive farm activity. Take into account all AMT adjustments, tax preferences, and AMT prior year unallowed losses. If the amount is a gain, it can be included on the AMT form FTB 3801; but, if it is a loss, the adjustment for tax shelter passive farm activity is the loss reported for regular tax. The AMT loss to carry over is the refigured AMT loss.

Insolvency. If, at the end of the taxable year, the liabilities of the estate or trust exceed the FMV of its assets, increase the passive activity loss allowed by the excess (but not more than the total loss). See IRC Section 58(c)(1).

Line 4o – Beneficiaries of other trusts or decedent's estates
If the estate or trust is a beneficiary of another estate or trust, enter on this line the amount from Schedule K-1 (541), line 12a. This is the estate's or trust's share of the distributable AMTI from the other estate or trust.

Line 4p – Appreciated property charitable deduction
For taxable years prior to January 1, 2002, California did not conform to the federal treatment of contributions of appreciated property for AMT. As a result, all carryovers from these contributions are still treated as an AMT preference item and subject to the AGI percentage limitation.

Line 4q – Depletion
For AMT, if the depletion deduction for mines, wells, and other natural deposits determined under IRC Section 611 exceeds the adjusted basis of the property at the end of the taxable year, the estate or trust will have a depletion adjustment. To figure the adjusted basis, use the rules in IRC Section 1016 but do not reduce the adjusted basis by current-year depletion. Figure the excess amount separately for each property. Enter on this line only the depletion amount that exceeds the adjusted basis. Get the instructions to federal Form 1041, Schedule I, line 6 for more information.

California conforms to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. Get federal Form 6251, Alternative Minimum Tax — Individuals, and instructions. However, your California depletion costs may continue to be different from the federal amounts because of prior differences in law and different basis.

Line 4r – Accelerated depreciation of real property placed in service before 1987
For AMT, use the straight-line method to figure depreciation on this property. Figure the depreciation separately for each property.

15- or 18-year real property. Use the straight-line method over the same number of years using the half-year convention and no salvage value.

Low-income housing property. Use the straight-line method over 15 years.

Enter on this line the excess of the regular tax depreciation over the AMT depreciation. Do not enter a negative amount on this line.

Line 4s – Accelerated depreciation of leased personal property placed in service before 1987
For AMT purposes, use the straight-line method to figure depreciation on leased personal property. Figure the depreciation separately for each property.

For leased recovery property, other than 15- or 18-year real property or low-income housing, figure the depreciation using the straight-line method with a half-year convention, no salvage value, and the following recovery period:

5-year property . . . . . 8 years
10-year property . . . . . 15 years
15-year public utility property . . . . . 22 years

Enter on this line the excess of the regular tax depreciation over the AMT depreciation. Do not enter a negative amount on this line.

Line 4t – Intangible drilling costs
If the estate or trust elected the optional 60-month write-off under IRC Section 59(e) for all property in this category, skip this line.

For AMT, intangible drilling costs (IDCs) from oil, gas, and geothermal wells are preferences if the excess IDCs exceed 65% of the net income from the wells. Figure the preference for oil and gas properties separate from geothermal properties. To figure excess IDCs:

A. Figure the amount of the IDCs allowed for regular tax under IRC Section 263(c). Do not include any deduction for nonproductive wells. Refigure the IDCs allowed for AMT by amortizing them over 120 months, starting with the month the well was placed in production. Then subtract the AMT IDCs from the regular tax IDCs to get the excess IDCs. The estate or trust may elect to use any other method that is allowed in determining cost depletion.
B. Figure net income by reducing the gross income, from all oil, gas, and geothermal wells that was received or accrued during the taxable year by any deductions allocable to these properties (reduced by the excess IDCs). Use only income and deductions allowed for AMT.
C. Multiply the net income by 65% (.65). Subtract the result from the excess IDCs figured in Step A. This is the excess IDCs. Enter the result on line 4t.

Exception. The preference for IDCs from oil and gas wells does not apply to taxpayers who are independent producers, i.e., not integrated oil companies as defined in IRC Section 291(b)(4). However, this benefit may be limited. First, figure the IDC preference as if this exception did not apply. Then, for purposes of this exception, complete Schedule P (541) through line 6, including the IDC preference. If the amount of the IDC preference exceeds 40% of the amount figured for line 6, enter the excess on line 4t (the benefit of this exception is limited). If the amount of the IDC preference is equal to or less than 40% of the amount figured for line 6, do not enter an amount on line 4t (the benefit of this exception is not limited).

Line 4u – California qualified stock options
Include the amount of compensation excluded from the employee's gross income for regular tax from the exercise of California qualified stock options (CQSOs). This amount is the difference between the FMV of the corporation's stock on the date the option is exercised and the amount the employee paid for the stock.

Line 4v – Other adjustments
Include on this line:

- **Patron's adjustment.** Distributions the estate or trust received from a cooperative may be includible in income. Unless the distributions are nontaxable, include on line 4v the total AMT patronage dividend and per-unit retain allocation adjustment reported to the estate or trust by the cooperative.
- **Related adjustments.** AMT adjustments and tax preferences may affect deductions that are based on an income limit other than AGI or modified AGI (e.g., farm conservation expenses). Refigure these deductions using the income limit as modified for AMT. Include the difference between the regular tax and AMT deduction on line 4u. If the AMT deduction is more than the regular tax deduction, include the difference as a negative amount.
- **Qualified small business stock.** California law does not conform to federal law changes regarding the increase in the percentage of the gain exclusion for the sales of qualified small business stock acquired after February 17, 2009. California law allows an exclusion of 50% of any gain from the sale or exchange of qualified small business stock held for more than 5 years. For California purposes, 80% of the issuing corporation's payroll must be attributable to employment located within California (at time of issuance). Also, at least 80% of the value of the corporation's assets must be used by the corporation to actively conduct one or more qualified trades or businesses.

  R&TC Section 18038.5 also provides for the deferral of gain from the sale of small business stock that has been held for six months or more, if qualified replacement stock is purchased within 60 days after the sale giving rise to the gain. Report gain deferred from the sale of qualified small business stock in accordance with the instructions contained in Revenue Procedure 98-48.

  For more information, go to **ftb.ca.gov** and search for **qsbs**.

Do not make an adjustment on line 4v for an item you refigured on another line of Schedule P (541).

Line 7a – Alternative minimum tax NOL deduction
If the estate or trust's net business income for regular tax purposes is $500,000 or more, the AMT NOL deduction is suspended for the 2008 and 2009 taxable years. Net business income is reflected on line 3 and line 6 of the California Form 541, and the federal Schedule E, line 26, line 32, and line 40; and the federal Form 4797, line 9, using California amounts. Affected taxpayers may continue to compute and carryover an AMT NOL during the suspension period.

Estates or trusts with net business income for regular tax purposes less than $500,000 or with disaster loss carryovers are not affected by the NOL suspension rules.

For loss years beginning after 1986, reduce any NOL by any positive AMT adjustments in that year. Increase the NOL by negative adjustments. Also, reduce the NOL by any tax preferences, but only to the extent they increase the NOL figured for regular tax.

For loss years beginning before 1987, refigure the AMT NOL deduction using the rules in IRC Section 56(d)(2)(B).

Line 7b – AMTI Exclusion
Qualified taxpayers shall exclude income from any trade or business when figuring AMTI. If you are a qualified taxpayer (refer to General Information G, Alternative Minimum Taxable Income (AMTI) Exclusion), enter your taxable trade or business income on line 7b. If zero or less, enter -0-.

Part II – Income Distribution Deduction on an Alternative Minimum Tax Basis

Line 5 – Enter any capital gains that were paid or permanently set aside for charitable purposes from the current year's income included on Form 541, Schedule A, line 1c.

Line 6 and Line 7 – Capital gains and losses must take into account any basis adjustments from Part I, line 4k.

Line 15 – Income distribution deduction on an alternative minimum tax basis
Allocate the income distribution deduction computed on an AMT basis among the beneficiaries in the same manner as income was allocated for regular tax. Report each beneficiary's share on the respective Schedule K-1 (541), line 12a.

Part III – Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

Line 9 – Enter the total of the estate's or trust's regular tax from Form 541, line 21a.

Part IV – Credits That Reduce Tax

Complete Part IV only if you have tax credits.

Use Part IV to determine the following:

- Amount of credit that may be used to offset tax
- Tax that may be offset
- Amount of credit, if any, that may be carried over to future years
- Order in which to claim credits, if you have more than one credit to claim

Before you begin Part IV:

- Complete Form 541 through line 24.
- Figure the amount of your credits using the credit form or worksheet identified in the Credit Table on the next page. Be sure to attach the credit form to your return if one is required.

Business Tax Credit Limitation
For taxable years beginning on or after January 1, 2008, and before January 1, 2010, there is a limitation on the application of business tax credits for taxpayers whose net business income is $500,000 or more. The limitation is equal to 50% of the net tax before the application of any credits.

Taxpayers whose net business income is less than $500,000 or taxpayers who do not have business tax credits do not have a credit limitation.

How to compute the net business income
Net business income is reflected respectively, on line 3, line 6, and line 7 of the California Form 541, and the federal Schedule E, line 26, line 32, and line 40; and the federal Form 4797, line 9, using California amounts.

How to compute the limitation
The total of all business tax credits including the carryover credits for the taxable year should not reduce the net tax below 50%. The limitation only applies to business tax credits, and does not apply to the Other State Tax Credit, the New Jobs Credit or the Prior Year AMT Credit.

The combined amount of all your new business tax credits or carryover business tax credits cannot be greater than 50% of the tax after exemption credits. (The sum of Form 541 Line 21 less Form 541 Line 22.)

Business tax credits disallowed due to the 50% limitation may be carried over. The carryover period for disallowed credits are extended by the number of taxable years the credit was not allowed.

Taxpayers are required to keep track of the disallowed business tax credits on a worksheet and provide it to the FTB upon request.

To complete Part IV:

- Complete line 1 through line 3 to figure the amount of excess tax you may offset by credits.
- Identify in which sections of Part IV you may take your tax credits. Credits without carryover provisions are listed on Schedule P (541) in Section A1 and Section B2 and may be taken only in those sections. Credits with carryover provisions are listed in the Credit Table on the next page. The table identifies the sections of Part IV in which you may take these tax credits.
- If you have credits in Section B, be sure to complete line 11 in addition to the lines for your credits.
- If your credit is taken in Section A2 or Section B1, enter the credit code and the credit name in the space provided. Refer to the Credit Table for the credit code.
- Complete column (a) through column (d) for each line on which you are taking a credit. Refer to "Column Instructions" on the next page.
- If your credits are taken in more than one section, complete each section before going to the next section.
- Once you have completed Part IV, see "How to Claim Your Credits" on the next page.

Section A Instructions

Line 3 – Subtract line 2 from line 1. If the amount is zero or less, go to Question 1. If the amount is greater than zero, go to the Section A1 instructions.

1. Does the Credit Table show that you may take your credit ONLY in Section A1 or Section A2?

   Yes You may not take the credit this year. Go to question 2.
   No Go to Section B to figure the amount of credit you may take this year. Then continue to Section C if your credit is listed in that section.

2. Does the credit have carryover provisions?

   Yes Enter the credit code, credit name, and credit amount in column (a) of the section indicated by the table. Enter -0- in column (b). Enter the credit amount in column (d). This is the amount of the credit you may carry over and use in future years.
   No You may not take the credit this year or in future years.

Credit for Prior Year Alternative Minimum Tax
The prior year AMT credit must be applied before any credits that can reduce the regular tax below the TMT. Get form FTB 3510, Credit for Prior Year Alternative Minimum Tax - Individuals or Fiduciaries to see if the estate or trust qualifies for the credit.

Section A1 Instructions

Line 4 and Line 5 – If you have any of the credits listed in this section, complete column (a) through column (c) for each credit in the order listed.

Section A2 Instructions

Line 6 through Line 10 – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

Section B1 Instructions

Line 12 through Line 15 – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) before going to the next section.

Generally, it is to your advantage to apply credits with limited carryovers before credits with no limitation on the carryover. However, you may want to apply credits with no limitation on carryover first if that is more advantageous in your case.

Section B2 Instructions

Line 16 – If you have an other state tax credit, complete column (a) through column (c).

Section C Instructions

Line 18 and Line 19 – If you have any of the credits listed in this section, complete column (a) through column (d) for each credit in the order listed.

Column Instructions – In column:

(a) Enter the amount of credit available to offset tax.

(b) Figure the amount of credit you are able to use this year by entering the smaller of the amount in column (a) or the amount in column (c) from the previous line.

(c) Figure the amount of tax remaining to be offset by other credits by subtracting the amount in column (b) from the balance in column (c) of the previous line.

(d) Enter the amount of credit carryover available to use in future years by subtracting the amount in column (b) from the amount in column (a).

Credit Table Instructions

To use the table:

1. Find your credits listed in the table.
2. See which sections are identified in the columns under "Offset Tax in Section:"
3. Take the credit only in sections the table identifies for your credit.
4. Use the credit in the earliest section possible.
5. Complete each section before going to the next section.

How to claim your credits:

Form 541 filers: If only one credit is claimed, enter the credit code number and amount of the credit from Part IV, column (b), on Form 541, line 23. If two or more credits are claimed, add the amounts from Part IV, column (b), line 4 through line 10 and line 12 through line 16. Enter the total on Form 541, line 23.

Form 109 filers: Add the amounts from Part IV, column (b), line 4 through line 10, and line 12 though line 16. Enter the total on Form 109, line 11c.

Credit Table

Code	Current Credits	Form	Offset Tax in Section
209	Community Development Financial Institution Deposits	N/A	A2
205	Disabled Access for Eligible Small Businesses	FTB 3548	A2
204	Donated Agricultural Products Transportation	FTB 3547	A2
190	Employer Child Care Contribution	FTB 3501	A2
189	Employer Child Care Program	FTB 3501	A2
203	Enhanced Oil Recovery	FTB 3546	A2
169	Enterprise Zone Employee	FTB 3553	A1
176	Enterprise Zone Hiring & Sales or Use Tax 1 = hiring 2 = sales or use tax	FTB 3805Z	$B1_1$ $B1_2$
218	Environmental Tax	FTB 3511	A2
198	Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax	FTB 3807	A2
172	Low-Income Housing	FTB 3521	B1
211	Manufacturing Enhancement Area (MEA) Hiring	FTB 3808	A2
213	Natural Heritage Preservation	FTB 3503	B2
220	New Jobs	FTB 3527	A2
187	Other State Tax	Sch. S	B2
188	Prior Year Alternative Minimum Tax	FTB 3510	A2
162	Prison Inmate Labor	FTB 3507	A1
183	Research	FTB 3523	B1
210	Targeted Tax Area (TTA) Hiring & Sales or Use Tax	FTB 3809	B1
Code	**Repealed Credits with Carryover Provisions**	**Form**	**Offset Tax in Section**
175	Agricultural Products	FTB 3540	A2
196	Commercial Solar Electric System	FTB 3540	B1
181	Commercial Solar Energy	FTB 3540	B1 C
194	Employee Ridesharing	FTB 3540	A2
191 192 193	Employer Ridesharing (Large) Employer Ridesharing (Small) Employer Ridesharing (Transit Passes)	FTB 3540	A2
182	Energy Conservation	FTB 3540	A2
207	Farmworker Housing	FTB 3540	A2
215	Joint Strike Fighter – Wages	FTB 3540	A2
216	Joint Strike Fighter – Property	FTB 3540	A2
159	Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax	FTB 3806	B1
160	Low-Emission Vehicles	FTB 3540	A2
199	Manufacturers' Investment	FTB 3540	B1
185	Orphan Drug	FTB 3540	B1
184	Political Contributions	FTB 3540	A2
174	Recycling Equipment	FTB 3540	A2
186	Residential Rental & Farm Sales	FTB 3540	A2
206	Rice Straw	FTB 3540	A2
171	Ridesharing	FTB 3540	A2
200	Salmon & Steelhead Trout Habitat Restoration	FTB 3540	A2
180	Solar Energy	FTB 3540	B1 C
179	Solar Pump	FTB 3540	A2
217	Solar or Wind Energy System	FTB 3540	A2
178	Water Conservation	FTB 3540	A2

*See the Credit Chart in the Form 541 Tax Booklet.