

# Instructions for Schedule P (540NR)

## Alternative Minimum Tax and Credit Limitations — Nonresidents or Part-Year Residents

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2009**, and to the California Revenue and Taxation Code (R&TC).

### What's New

**Net Operating Loss (NOL)** – For taxable years beginning in 2010 and 2011, California suspended the NOL carryover deduction for taxpayers whose modified adjusted gross income is \$300,000 or more. Taxpayers may continue to compute and carryover NOLs during the suspension period. However taxpayers with a modified adjusted gross income of less than \$300,000 or with disaster loss carryovers are not affected by the NOL suspension rules. For more information, get form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates and Trusts.

**Tax Computation for Certain Children with Investment Income** – For taxable years beginning on or after January 1, 2010, California conforms to the provision of the Small Business and Work Opportunity Tax Act of 2007 which increased the age of children to 18 and under or a student under age 24 for elections made by parents reporting their child's interest and dividends.

**2010 New Home/First-Time Buyer Credit** – To claim The New Home/First-Time Buyer Credits of 2010 you must have received a Certificate of Allocation from Franchise Tax Board (FTB.) The credits were available if you purchased a qualified principal residence on or after May 1, 2010, and on or before December 31, 2010. Additionally, the New Home Credit is available if you purchase a qualified principal residence on or after January 1, 2011, and before August 1, 2011, pursuant to an enforceable contract executed on or before December 31, 2010. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **home credit** or get Pub 3549, New Home/First-Time Buyer Credit.

**California Film and Television Tax Credit** – For taxable years beginning on or after January 1, 2011, a film and television credit against the net tax will be allowed. The credit, which is allocated and certified by the California Film Commission (CFC), is 20 percent of expenditures attributable to a qualified motion picture and 25 percent of production expenditures attributable to an independent film or a TV series that relocates to California. A qualified taxpayer may sell a credit, attributable to an independent film, to an unrelated party once they receive the certificate from the CFC. Prior to the sale, the qualified taxpayer must notify the FTB of the sale by using form FTB 3551, Sale of Credit Attributable to an Independent Film. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **film**.

### General Information

In general, for taxable years beginning on or after January 1, 2010, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2009. 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](http://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.)

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.

Specific differences between California and federal law are noted in the instructions under the applicable line items.

#### Registered Domestic Partners (RDP)

Under California law, RDPs must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified.

If you entered into a same sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, you are required to file a California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status.

For purposes of California income tax, references to a spouse, husband, or wife also refer to a California RDP, unless otherwise specified.

When we use the initials RDP they refer to both a California registered domestic "partner" and a California registered domestic "partnership," as applicable. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

**Natural Heritage Preservation Credit** – The funding for the Natural Heritage Preservation Credit is available beginning January 1, 2010, until June 30, 2015.

**2009 New Home Credit** – For taxable years beginning on or after March 1, 2009, and before March 1, 2010, a home credit against net tax will be allowed for the purchase of a never been occupied home in an amount equal to the lesser of 5% of the purchase price of a qualified principal residence or ten thousand dollars (\$10,000). For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **home credit** or get FTB Pub. 3528, New Home Credit.

**New Jobs Credit** – For taxable years beginning on or after January 1, 2009, a new jobs credit will be allowed for a qualified employer in the amount of \$3,000 for each qualified full-time employee hired during the taxable year. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **new jobs** or get FTB 3527, New Jobs Credit.

#### Nonresident and Part-Year Resident

For taxable years beginning on or after January 1, 2002, California law changed to clarify the method used to calculate loss carryovers, deferred deductions, and deferred income for nonresident and part-year resident taxpayers. This changed the tax computation to recognize those items, and established a new method to determine percentages for computing tax for all nonresidents and part-year residents. The nonresident tax forms (Long and Short Form 540NR) were revised to more clearly show that nonresidents pay tax to California only on their California taxable income. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

#### Military Personnel

Servicemembers domiciled outside of California, and their spouses/RDPs, may exclude the servicemember's military compensation from gross income when computing the tax rate on nonmilitary income. They may also exclude the spouse's income from services performed in California if the spouse/RDP has the same residence or domicile as the military servicemember and the spouse is in California to be with the servicemember. Requirements for military servicemembers domiciled in California remain unchanged. Military servicemembers domiciled in California must include their military pay in total income. In addition, they must include their military pay in California source income when stationed in California. However, military pay is not California source income when a servicemember is permanently stationed outside of California. For more information, get FTB Pub. 1032, Tax Information for Military Personnel.

#### Estimated Tax Payments

Alternative Minimum Tax (AMT) is required to be included in the computation of the estimated tax payments in order to meet a safe harbor from the underpayment of estimated tax penalty.

### A Purpose

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

Use Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part-Year Residents, to determine if:

- You owe AMT.
- Your credits must be reduced or eliminated entirely. Your credits may be limited even if you do not owe AMT, so be sure to complete Side 1, Side 2, and Side 3 of Schedule P (540NR).

## B Who Must File

Complete Schedule P (540NR) to see if AMT applies to you. Attach it to your Long Form 540NR only if any of the following apply:

- You have AMT.
- You have certain credits that are limited by Tentative Minimum Tax (TMT), Part II, line 43 (or in some cases, AMT, Part II, line 45).
- The total of Part I, line 7 through line 13 is negative and you would be liable for AMT without taking those lines into account.
- Schedule P (540NR), Part I, line 21 is more than Part II, line 22, and you have one or more adjustments on line 4 or line 7 through line 13.

## C Record Keeping

For AMT, certain items of income, deductions, etc., receive different tax treatment than regular tax. Therefore, you need to refigure items for AMT that you figured for 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 tax return, but keep it for your tax records.

For regular tax, some deductions may result in carryovers to future taxable years. Examples are investment interest expense, net operating loss, and capital loss. Because you may have to refigure these items for AMT, 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 your AMT carryovers in order to complete your Schedule P (540NR) in future years.

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

If you are a partner in a partnership, a shareholder of an S corporation, a member of an LLC, or a beneficiary of an estate or trust, you must include your distributive share of adjustments and tax preference items shown on your Schedule K-1 (565), for partners; Schedule K-1 (100S), for shareholders; Schedule K-1 (568), for members of an LLC; or Schedule K-1 (541) for beneficiaries.

## E Credit for Prior Year Alternative Minimum Tax

If you paid AMT in a prior year, you may be able to claim the credit for prior year AMT. Get form FTB 3510, Credit for Prior Year Alternative Minimum Tax — Individuals or Fiduciaries, to see if you qualify.

The prior year alternative minimum tax (AMT) credit must be applied before any credits that can reduce regular tax below the tentative minimum tax (TMT).

## F Additional Information

For more information, get federal Form 6251, Alternative Minimum Tax — Individuals.

## G Alternative Minimum Taxable Income (AMTI) Exclusion

A qualified taxpayer must 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 Losses, 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), 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 tax return regardless of filing status. The threshold does not become \$2,000,000 for married/RDP taxpayers filing jointly.

**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 at 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 at 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 at 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.

If you are a qualified taxpayer both of the following applies:

- In Part I, **do not** include any positive or negative adjustments or preference items attributable to any trade or business.
- In Part I, line 17, enter all taxable income attributable to any trade or business.

## Specific Line Instructions

### Registered Domestic Partners (RDP)

RDPs compute their AMT using the same rules applicable to a married person. RDPs will base their California AMT on the pro forma federal return. For more information on RDPs, get FTB Pub. 737.

## Part I Alternative Minimum Taxable Income

If you are a military servicemember domiciled outside of California, subtract your military pay from your federal adjusted gross income.

In Part I, determine your adjustments and preferences that apply to your total taxable income for the year as if you were a resident in the current taxable year and all prior taxable years.

If you itemized your deductions for California regular tax only and not for federal tax, use the amounts from the federal Schedule A, Itemized Deductions, (1040 or 1040NR) that you completed using California figures when these instructions refer to Schedule A.

### Line 2 – Medical and dental expenses

Do not include any adjustment for differences between federal and California laws.

### Line 3 – Personal property taxes and real property taxes

Enter on this line any of the following from federal Schedule A (1040), line 6 and line 8:

- State and local personal property taxes
- State, local, or foreign real property taxes

### Line 4 – Certain interest on a home mortgage

Enter home mortgage interest in which the proceeds were used for purposes other than buying, building, or improving your principal residence or a qualified dwelling that is your second home. (see IRC Section 163(h)(3)). This may be all or part of the amount on federal Schedule A (1040), line 10, line 11, or line 12.

**Example 1:** John paid \$950 interest on a \$12,000 home equity loan used to buy a ski boat. He would enter \$950 on line 4 because the proceeds were not used to buy, build, or improve his home.

**Example 2:** Jackie paid \$1,200 interest on a \$15,000 home equity loan to install a swimming pool at her home. She would not make any entry on line 4 because the proceeds of the loan were used to improve her home.

**Exception:** Do not include interest on a mortgage you took out before July 1, 1982, if it was secured by property that was your main home or a qualified dwelling used by you or a member of your family at the time you took out the mortgage.

**Line 5 – Miscellaneous itemized deductions**

Enter the amount from federal Schedule A (1040), line 27 or federal Schedule A (1040NR), line 15 adjusted for differences between California and federal law.

**Line 6 – Refund of personal property taxes and real property taxes**

Enter on this line any refund of taxes you received if all of the following apply:

- The taxes are those described in line 3.
- The taxes are attributable to a taxable year after 1986.
- You deducted the taxes in a taxable year after 1986.

**Line 7 – Investment interest expense adjustment**

Enter on this line any investment interest expense adjustment. If you completed form FTB 3526, Investment Interest Expense Deduction, refigure your investment interest expense using a second form FTB 3526. Complete line 1 through line 8. Follow 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 (540NR), Part I, line 4, that was paid or accrued on indebtedness attributable to property held for investment within the meaning of IRC Section 163(d)(5). An example is interest on a home equity loan from which the proceeds were invested in stocks or bonds. This interest might be deductible as home mortgage interest for regular tax, but not for AMT.
- When entering your 2009 disallowed investment interest expense on line 2, use your 2009 AMT disallowed investment interest expense.
- When completing line 4 a-c, refigure your gross investment income, any net gain from the disposition of property held for investment, and any investment expenses by taking into account all of your AMT adjustments and preferences that apply.

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

If you did not itemize deductions and had investment interest expense, do not enter an adjustment. However, if you reported investment interest expense on federal Schedule E, follow the instructions above for completing form FTB 3526.

**Line 8 – Post-1986 depreciation**

If you filed federal Schedules C, E, or F and have tangible property which 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 table below 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 IRC Section 1250(c) property) depreciated using straight line for the regular tax	Straight-line method over the property's AMT class life
Any other tangible property	150% declining balance method, switching to straight-line the first tax year 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 method or 150% declining balance method for the regular tax. For any other tangible property, use the 150% declining balance method, switching to the straight-line method the first tax year gives a larger deduction, and the same convention and recovery period used for the regular tax.

Refer to federal Publication 946, How to Depreciate Property, or IRC Section 168(g), for more information on the ADS method.

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

**Partners, S corporation shareholders, and LLC members:** Enter the amount shown on the Schedule K-1 (565, 100S, or 568) issued by your partnership, S corporation, or LLC.

Enter on line 8 the difference between depreciation for regular tax and depreciation for AMT. Do not include depreciation from the following:

- Expenses you incurred as an employee and deducted on federal Schedule A (1040 or 1040NR).
- An activity for which you are not at risk.
- Amounts received from a partnership or S corporation if the basis limitations under IRC Section 704(c) or IRC Section 1366(d) apply.
- A passive activity.
- A tax shelter farm activity.

Instead, include these types of depreciation when you figure adjustments for line 5, line 11, line 13h, line 13m, or line 13n, whichever applies.

If the AMT depreciation is more than the regular tax depreciation, enter the difference on line 8 as a negative amount.

**Line 9 – Adjusted gain or loss**

You will have an entry on this line only if you reported a gain or loss on California Schedule D (540NR), California Capital Gain or Loss Adjustment, Schedule D-1, federal Schedule D, federal Form 4797, or federal Form 4684, Casualties and Theft, for income producing property that has a different basis for AMT than for regular tax. Generally, if you reported a gain or loss from the sale or exchange of mutual funds, stocks, or bonds, you will not have an entry on this line.

To figure the amount to enter on this line:

**Step 1 –** Refigure the adjusted basis of the asset sold. Take into account any AMT adjustments you made this year or in previous years for depreciation, incentive stock options, circulation expenditures, pollution control facilities, research and experimental expenditures, and mining costs.

**Step 2 –** Refigure your gain or loss using the adjusted basis from Step 1.

**Step 3 –** Figure the difference between the AMT gain or loss and the regular tax gain or loss and enter the result on line 9. Enter the difference as a negative amount if: the AMT gain is less than the regular tax gain; the AMT loss is more than the regular tax loss; or you have an AMT loss and a regular tax gain.

**Line 10 – Incentive stock options and California qualified stock options**

**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. Instead, you must generally include on line 10 the excess of:

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

Increase your AMT basis of any stock acquired through the exercise of an ISO by the amount of the AMT adjustment. If you acquired stock by exercising an ISO and you disposed of that stock in the same year, the tax treatment under regular tax and AMT is the same (no adjustment is required).

**California qualified stock options (CQSOs).** Under R&TC Section 17502, taxpayers whose earned income from the corporation granting the CQSO was \$40,000 or less may exclude compensation

arising from the exercise of a CQSO from regular tax income. The amount of compensation excluded for regular tax must be included for AMT on this line.

**Line 11 – Passive activities adjustment**

You may want to complete a second form FTB 3801, Passive Activity Loss Limitations, and the other forms or schedules on which your passive activities are reported to figure this adjustment. You may enter the following types of adjustments on this line:

- **Regular passive activities.** Refigure your passive activity gains and losses for AMT by taking into account all AMT adjustments and preferences and AMT prior year unallowed losses that apply to the passive activity. The adjustment is the difference between your AMT passive activity income or loss (from activities reported on federal Schedules C, C-EZ, E, F, or federal Form 4835, Farm Rental Income and Expenses) and income or loss from these activities for regular tax.
- **Publicly traded partnership (PTP).** If you had losses from a PTP, you will have to refigure the losses using any AMT adjustments, preferences, and any AMT prior year unallowed losses.
- **Tax shelter passive farm activities.** Refigure any gain or loss from a tax shelter passive farm activity. Take into account all AMT adjustments, preferences, and AMT prior year unallowed losses. If the amount is a gain, include it on your AMT form FTB 3801. Do not include a tax shelter passive farm activity loss on your AMT form FTB 3801. Instead, carry the loss forward to offset against future tax shelter passive farm activities.
- **Insolvency.** If, at the end of the taxable year, your liabilities exceed the FMV of your assets, increase your passive activity loss allowed by that excess but not by more than your total loss. See IRC Section 58(c)(1).

**Line 13 – Other adjustments and preferences**

Enter the amount of any other adjustments or preferences that apply to you on line 13a through line 13o. Enter the total on line 13.

**Line 13a – Appreciated contribution carryover**

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 13b – Circulation expenditures**

If you elected the optional three year write-off period for circulation expenditures under IRC Section 59(e), skip this line.

For regular tax, IRC Section 173 allows you to deduct the full amount of circulation expenditures in the taxable year you paid or incurred them. For AMT, you must amortize these expenditures over three years beginning with the year you paid or incurred the expenditures. Enter the difference between your AMT deduction and your regular tax deduction. If your AMT deduction is more than your regular tax deduction, enter your adjustment as a negative amount.

See IRC section 56(b)(2) for a special rule that applies to losses related to circulation expenditures.

**Line 13c – 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 your taxable year, you have a depletion preference adjustment.

California conformed in 1993 to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. See federal Form 6251 and instructions. However, your California depletion costs may continue to be different from the federal amounts because of prior differences in law and different bases.

To figure your 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 your adjusted basis.

**Line 13d – Depreciation (pre-1987)**

For AMT, you must use the straight-line method to figure depreciation on property placed in service prior to January 1, 1987. Figure the depreciation separately for each property.

**15-year 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.

**Leased property.** Use the straight-line method. Figure the depreciation separately for each property.

**Leased recovery property (other than 15-year or 18-year real property, or low-income housing).** Use 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 the excess of your regular tax depreciation over your AMT depreciation on line 13d.

**Line 13e – Installment sales**

If, for regular tax purposes, you used the installment method to report a non-dealer disposition of property that occurred after August 16, 1986, but before January 1, 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 purposes 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.

**Line 13f – Intangible drilling costs (IDCs)**

If you elected the optional 60-month write-off under IRC Section 59(e) for regular tax for all property in this category, skip this line.

IDCs from oil, gas, and geothermal wells are preferences to the extent that 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:

- Figure the amount of your IDCs allowed for regular tax under IRC Section 263(c). Do not include any deduction for nonproductive wells. Then refigure your IDCs allowed for AMT by amortizing them over 120 months, starting with the month you placed the well in production. Then subtract your AMT IDCs from your regular tax IDCs to get your excess IDCs. You may elect to use any other method that is allowed in determining cost depletion.
- Figure net income by reducing the gross income from all oil, gas, and geothermal wells that you 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.
- Multiply the net income by 65% (.65). Subtract the result from the excess IDCs figured in A. This is your excess IDCs that you must enter on this line.

**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 (540NR) through line 19, including the IDC preference. If the amount of the IDC preference exceeds 40% of the amount figured for line 19, enter the excess on line 13f (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 19, do not enter an amount on line 13f (the benefit of this exception is not limited).

**Line 13g – Long-term contracts**

For regular tax, you may have figured taxable income from a long-term contract (entered into after February 28, 1986) using the completed-contract method or another method.

For AMT, use the percentage-of-completion method described in IRC Section 460(b) to determine your taxable income from any long-term contract defined in IRC Section 460(f), you entered into after February 28, 1986. However, this rule does not apply to: 1) Any home construction contract as defined in IRC Section 460(e)(6), you entered into after June 20, 1988, and before 1991, if you meet the two year estimated completion requirement of IRC Section 460(e)(1)(B)(i) and

the \$10-million ceiling on average annual gross receipts requirement of IRC Section 460(e)(1)(B)(ii), or 2) Any home construction contract entered into after 1990.

In the case of a contract described in IRC Section 460(e)(1), use the simplified procedures for allocating costs outlined in IRC Section 460(b)(3) to determine the percentage of completion.

Enter on line 13g the difference between the income you reported for regular tax and the income you recomputed for AMT. If the income for AMT is less than the income for regular tax, enter the difference as a negative amount.

#### Line 13h – Loss limitations

If you include AMT adjustments or preferences on this line, **do not** include them on any other line of this schedule. Do not include any passive activities on this line. Instead, use line 11. Also use line 11 for passive tax shelter farm activities. Use line 13n for nonpassive tax shelter farm activities.

For AMT, refigure certain limited losses using your AMT adjustments and preferences. Refigure your gains and losses from activities for which you are not at risk. Also, refigure your 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) and your regular tax limited losses from these activities.

#### Line 13i – Mining costs

If you elected the optional 10-year write-off under IRC Section 59(e) for regular tax, skip this line. For AMT, you must capitalize your mining exploration and development costs and amortize them over 10 years beginning with the taxable year you paid or incurred the expenditures. Enter the difference between your AMT mining amortization and your regular tax mining deduction. If your AMT mining amortization is more than your regular tax mining deduction, enter your adjustment as a negative amount.

See IRC Section 56(a)(2)(B) for a special rule that applies to losses related to mining property.

#### Line 13j – Patron's adjustment

Distributions you received from a cooperative may be includible in income. Unless the distributions are nontaxable, enter on line 13j the total AMT patronage dividend and per-unit retain allocation adjustment reported to you by the cooperative.

#### Line 13k – Pollution control facilities

For regular tax, you 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.

Enter the difference between your AMT pollution control facilities depreciation and your regular tax pollution control facilities amortization. If your AMT pollution control facilities depreciation is more than your regular tax pollution control facilities amortization, enter the adjustment as a negative amount.

#### Line 13l – Qualified small business stock exclusion

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](http://ftb.ca.gov) and search for **qsbs**.

#### Line 13m – Research and experimental costs

Do not make this adjustment for costs paid or incurred in connection with an activity in which you materially participated under the passive activity rules or for costs for which you elected the optional 10-year write-off for the regular tax.

If you elected the optional 10-year write-off period for research and experimental expenditures under IRC Section 59(e) for regular tax, skip this line.

For regular tax, IRC Section 174(a) allows you to deduct your research and experimental expenditures in the taxable year you paid or incurred them. If you deducted them in the year incurred, amortize these expenditures over 10 years for AMT. Enter the difference between your AMT deduction and your regular tax deduction. If your AMT deduction is more than your regular tax deduction, enter your adjustment as a negative amount.

See IRC Section 56(b)(2)(B) for a special rule that applies to losses related to circulation, research, or experimental expenditures.

#### Line 13n – Tax shelter farm activities

If you include AMT adjustments or preferences on this line, **do not** include them on any other line of this schedule.

Complete this line only if you have 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, include it with your other passive activities on line 11.

Refigure all gains and losses you reported for regular tax from tax shelter farm activities using your AMT adjustments and preferences. Figure your tax shelter farm activity gain or loss for AMT using the same rules you used for regular tax except for the following:

- Do not take any refigured loss unless you are insolvent (see IRC Section 58(c)(1)).
- Do not offset gains from other tax shelter farm activities with your refigured loss.

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

- Have a gain in a future taxable year from that same activity.
- Dispose of the activity.

Enter on this line the difference between the amount that was reported for regular tax for the activity on federal Schedule E or federal Form 4835, line 13d and the amount that would be reported for the activity for AMT.

#### Line 13o – Related adjustments

If you have an entry on one of the following lines:

- Line 7 (if you deducted investment interest on federal Schedule E).
- Line 8 through line 11.
- Line 13b through line 13n.

Refigure the following items. These adjustments and preferences are limited based on income (other than a limit based on federal AGI or federal modified AGI) using your AMT income:

- IRC Section 179 expense.
- Taxable IRA distribution (if prior year IRA deductions were different for AMT and regular tax).
- Expenses for business or rental use of your home.
- Conservation expenses.
- Self-employed health insurance deduction.
- Keogh retirement plan or self-employed SEP or SIMPLE deduction.
- IRA deduction affected by the earned income limitation of IRC Section 219(b)(1)(B).

Figure the difference between AMT and regular tax amount for each item. Combine the amounts for all your related adjustments and enter the total on line 13o. Keep a copy of all computations for your records, including any AMT carryover and basis amounts.

#### Line 15 – Taxable income

Enter on this line the amount from Long Form 540NR, line 19. If Long Form 540NR, line 19 is zero, subtract Long Form 540NR, line 18 from Long Form 540NR, line 17 and enter the result as a negative amount.

**Line 17 – Alternative Minimum Tax Income exclusion**

Qualified taxpayers must 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, and enter your taxable trade or business income on line 17. If zero or less, enter -0-.

**Line 18 – Itemized deductions limitation**

If you itemized deductions and your federal AGI is more than the amount shown on line 18, your itemized deductions were limited for regular tax. For the AMT, this limitation does not apply. Enter the amount from line 9 of the Itemized Deductions Worksheet in the instructions for Schedule CA (540NR) California Adjustments – Nonresidents or Part-Year Residents, Part III, line 43.

**Line 20 – AMT Net operating loss (NOL) deduction**

If Form 540NR, line 17 is \$300,000 or more, your AMT NOL deduction is suspended for the 2010 and 2011 taxable years. Affected taxpayers may continue to compute and carryover AMT NOLs during the suspension period. Taxpayers whose modified adjusted gross income for regular taxpayers is less than \$300,000, or with disaster loss carryovers are not affected by the NOL suspension rules.

If you are carrying over an NOL from a prior taxable year, refigure your NOL deduction for AMT purposes as follows:

**Step 1 AMT NOL for prior taxable year.** For the taxable year the loss was incurred, complete another form FTB 3805D, FTB 3805V, FTB 3805Z, FTB 3806, FTB 3807, or FTB 3809 using your AMT income and expense amounts rather than the regular tax amounts.

**Step 2 AMT NOL carryover to the current taxable year.** If you incurred the NOL in 2009, the amount of the carryover is the amount figured in Step 1. Otherwise, the amount of the carryover is the amount from Step 1 minus the amounts used for AMT purposes in all preceding carryover years.

**Step 3 AMT NOL deduction for the current taxable year.** Enter on line 20 the lesser of the NOL carryover from Step 2 or 90% of the amount on line 19.

For more information, get form FTB 3805V.

**Line 21 – Alternative minimum taxable income**

Married/RDP taxpayers filing separate tax returns complete the following worksheet if line 21 is more than \$308,159.

Table with 6 rows and 2 columns for calculations related to Line 21. Row 1: Enter the amount from Schedule P (540NR), Part I, line 21. Row 2: Maximum exemption amount \$308,159. Row 3: Subtract line 2 from line 1. Row 4: Multiply line 3 by 25% (.25). Row 5: Enter the smaller of line 4 or \$39,762. Row 6: Add line 1 and line 5. Enter the result here and replace the amount on Schedule P (540NR), Part I, line 21, with this amount.

**Part II Alternative Minimum Tax (AMT)**

**Line 22 – Exemption amount**

If line 21 is more than the amount shown for your filing status in the middle column of the chart on line 22, complete the Exemption Worksheet in the next column to figure the amount to enter on line 22.

**Children Under Age 24**

If any of the three conditions under Certain Children Under Age 24 apply to you, complete the Exemption Worksheet below.

- 1. The child was under age 18 at the end of 2010.
2. The child was age 18 at the end of 2010 and did not have earned income that was more than half of their support.
3. The child was a full-time student over age 18 and under age 24 at the end of 2010 and did not have earned income that was more than half of their support.

Do not complete this worksheet if the child filed a joint tax return for 2010 or if both parents were deceased at the end of 2010.

**Exemption Worksheet**

If line 21 (AMTI) is equal to or more than \$462,253 if single or head of household; \$616,328 if married/RDP filing jointly or qualifying widow(er); \$308,159 if married/RDP filing separately, your exemption credit is zero. Do not complete this worksheet; instead, enter -0- on line 22.

Table with 10 rows for Exemption Worksheet calculations. Row 1: Enter \$59,646 if single or head of household; \$79,526 if married/RDP filing jointly or qualifying widow(er); \$39,762 if married/RDP filing separately. Row 2: Enter your AMTI from Schedule P (540NR), Part I, line 21. Row 3: Enter \$223,669 if single or head of household; \$298,224 if married/RDP filing jointly or qualifying widow(er); \$149,111 if married/RDP filing separately. Row 4: Subtract line 3 from line 2. If zero or less, enter -0-. Row 5: Multiply line 4 by 25% (.25). Row 6: Subtract line 5 from line 1. If zero or less, enter -0-. If this schedule is for a child under age 24 who meets one of the three conditions listed above, go to line 7. Otherwise, enter this amount on Schedule P (540NR), Part II, line 22 and complete Schedule P (540NR). Row 7: Child's minimum exemption amount \$6,700. Row 8: Enter the child's earned income, if any. Refer to the instructions for federal Form 6251 for more information. Row 9: Add line 7 and line 8. Row 10: Enter the smaller of line 6 or line 9 here and on Schedule P (540NR), Part II, line 22.

Line 23 – If the line 23 result is zero or less, enter -0- on line 23, line 24, and line 43. Go to line 44.

**Line 27 – AMTI exclusion**

If you are a qualified taxpayer (refer to General Information G, Alternative Minimum Taxable Income (AMTI) Exclusion), enter your trade or business income attributable to both of the following: (1) California sources for any part of the year you were a nonresident (2) your income from all sources for any part of the year you were a resident. These are the amounts you would have included on Schedule CA (540NR), column E. If zero or less, enter -0-.

**Line 29 – Adjustments and preferences**

Follow the instructions for Part I, line 7 through line 13o. Enter on line 29a through 29f the amounts that relate to income and deductions shown on Schedule CA (540NR), Part II, column E. This is income from both of the following: (1) California sources for any part of the year you were a nonresident (2) your income from all sources for any part of the year you were a resident. If you are a qualified taxpayer as described under General Information G, Alternative Minimum Taxable Income (AMTI) Exclusion, make sure to exclude positive and negative adjustments and preferences related to your trade or business income.

**Line 31 – California AMT net operating loss (NOL) deduction**

Follow the instructions for Part I, line 20. Enter the AMT NOL from California sources on Part II, line 31, but not more than 90% of the amount on Part II, line 30.

**Line 44 – Regular tax before credits**

Enter on this line your regular tax from Long Form 540NR, line 37.

**Part III Credits That Reduce Tax**

Complete Part III only if you have tax credits.

**Use Part III 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 III:**

- Complete Long Form 540NR through line 42.

- Figure the amount of your credits using the credit form or worksheet identified on the Credit Table on page 8. **Attach the credit form to your Long Form 540NR, if applicable.**

#### To complete Part III:

- Complete line 1 through line 3 to figure the amount of excess tax you may offset by credits.
- Identify which sections of Part III you may use to take your tax credits. Credits without carryover provisions are listed on Schedule P (540NR) in Section A1, Section B1, and Section B3, and may be taken only in those sections. Credits with carryover provisions are listed on the Credit Table on page 8. The table identifies the sections of Part III in which you may take these tax credits.
- If you have credits in Section B, complete line 12 in addition to the lines for your credits.
- Enter the credit code and credit name in the space provided. Refer to the Credit Table on page 8 for the credit code.
- Complete column (a) through column (d) for each line on which you are taking a credit. Refer to "Column Instructions."
- If your credits are taken in more than one section, complete each section before going to the next section.
- Once you complete Part III, see "How to Claim Your Credits."

#### Section A Instructions

**Line 3** – Subtract line 2 from line 1. If the amount is zero or less than zero, go to question 1. If the amount is more than zero, go to 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 the Credit Table shows that you may also take your credit in Section C.
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.

The prior year AMT credit must be applied before any credits that can reduce regular tax below the TMT.

#### Section A1 Instructions

**Line 4 through Line 6** – 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 7 through Line 11** – 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.

If claiming the New Jobs Credit, enter the amount from form FTB 3527, line 21, Total available jobs credit, in column (a.)

#### Section B1 Instructions

**Line 13 through Line 16** – If you have any of the credits listed in this section, complete column (a) through column (c) for each credit in the order listed.

Enter the lesser of the prorated credit or the maximum allowed for the credit from the worksheet for line 55 instructions in the Long Form 540NR.

#### Section B2 Instructions

**Line 17 through Line 20** – 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.

Generally, it is to your advantage to apply credits with limited carryovers before credits with no limitation on carryover. However, you may apply

credits with no limitation on carryover first, if that is to your advantage.

#### Section B3 Instructions

**Line 21** – If you have other state tax credit, complete column (a) through column (c). Get Schedule S, Other State Tax Credit, for more information.

#### Section C Instructions

**Line 23 and Line 24** – 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 a 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 a 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).

#### How to Claim Your Credits

Claim your credits by transferring them to Long Form 540NR as follows:

**Credits from Part III, Line 13, Line 14 and Line 15,** – Add the amounts from column (b) of line 13, line 14, and line 15. Enter the total on Long Form 540NR, line 55. Write "Schedule P (540NR)" to the left of Long Form 540NR, line 55. **Do not** complete Long Form 540NR, line 51 through line 54.

**Credits from Part III Line 4 through Line 11, and Line 17 through Line 21** – Transfer these credits as follows:

- If you are claiming the New Jobs Credit, enter the amount of the credit from column (b) on Form 540NR, Line 57, and form FTB 3527, Line 22a.
- If you claim one or two other credits, enter the name, code number and amount of the credit from column (b) on Form 540NR line 58 and/or line 59.
- If you have any remaining credits to claim from Section A or Section B, add the amounts from column (b) for those credits. Enter the total on Form 540NR, line 60.

**Line 16 Nonrefundable Renter's Credit** – Enter the total amount of nonrefundable renter's credit from column (b), Section B1 on Form 540NR, Line 61.

#### Credit Table Instructions

1. Find your credits in the Credit Table on page 8.
2. See which sections are identified under "Offset Tax in Section."
3. Take the credit only in the sections the Credit Table identifies for your credit.
4. Use the credit in the earliest section possible.
5. Complete each section before going to the next section.

**Credit Table**

Code	Current Credits	Form	Offset Tax in Section
197	Child Adoption*	Worksheet	B2
209	Community Development Financial Institution Deposits*	N/A	A2
173	Dependent Parent*	Worksheet	B1
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	B2 <sub>1</sub> B2 <sub>2</sub>
218	Environmental Tax	FTB 3511	A2
222	2010 First-Time Buyer	Pub 3549	A2
170	Joint Custody Head of Household*	Worksheet	B1
198	Local Agency Military Base Recovery Area Hiring & Sales or Use Tax	FTB 3807	A2
172	Low-Income Housing	FTB 3521	B2
211	Manufacturing Enhancement Area Hiring	FTB 3808	A2
213	Natural Heritage Preservation	FTB 3503	B2
219	2009 New Home	Pub 3528	A1
221	2010 New Home	Pub 3549	A1
220	New Jobs	FTB 3527	A2
None	Nonrefundable Renter's Credit*	Worksheet	B1
187	Other State Tax	Sch. S	B3
188	Prior Year Alternative Minimum Tax	FTB 3510	A2
162	Prison Inmate Labor	FTB 3507	A1
183	Research	FTB 3523	B2
163	Senior Head of Household*	Worksheet	B1
210	Targeted Tax Area Hiring & Sales or Use Tax	FTB 3809	B2

Code	Repealed Credits with Carryover Provisions	Form	Offset Tax in Section:
175	Agricultural Products	FTB 3540	A2
196	Commercial Solar Electric System	FTB 3540	B2
181	Commercial Solar Energy	FTB 3540	B2 C
194	Employee Ridesharing	FTB 3540	A2
191	Employer Ridesharing (Large)	FTB 3540	A2
192	Employer Ridesharing (Small)		
193	Employer Ridesharing (Transit Passes)		
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 Hiring & Sales or Use Tax	FTB 3806	B2
160	Low-Emission Vehicles	FTB 3540	A2
199	Manufacturers' Investment	FTB 3540	B2
185	Orphan Drug	FTB 3540	B2
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	B2 C
179	Solar Pump	FTB 3540	A2
217	Solar or Wind Energy System	FTB 3540	A2
178	Water Conservation	FTB 3540	A2
161	Young Infant	FTB 3540	A2

\*See the Credit Chart in the Form 540NR Booklet.