

2010 Prison Inmate Labor Credit

3507

Attach to your California tax return. The employer must keep the approved joint venture agreement for audit purposes.

Name(s) as shown on your California tax return	<input type="checkbox"/> SSN or ITIN <input type="checkbox"/> Corporation no. <input type="checkbox"/> FEIN
Secretary of State (SOS) file number	

1	Total qualifying wages. See instructions	1	00
2	Multiply line 1 by 10% (.10)	2	00
3	Pass-through prison inmate labor credit(s) from Schedule K-1 (100S, 541, 565, or 568). See instructions	3	00
4	Carryover from 2008 and 2009. See instructions under General Information.	4	00
5	Total available prison inmate labor credit. Add line 2, line 3, and line 4. See instructions	5	00

General Information

Business Tax Credit Limitation – For taxable years beginning on or after January 1, 2008, and before January 1, 2010, business tax credits could only offset 50% of the net tax, if a corporation’s taxable income was \$500,000 or more, or if an individual’s net business income was \$500,000 or more.

Business tax credits disallowed due to the 50% limitation could be carried over. The carryover period for disallowed credits was extended by the number of taxable years the credits were not allowed. Taxpayers were required to keep track of the disallowed business tax credits on a worksheet and provide it to the Franchise Tax Board (FTB) upon request.

Reminder: Normally there is no provision for carryover of any unused Prison Inmate Labor credit, and in no event can taxpayers carry this credit back and apply it against a prior year’s tax. However, the credit was disallowed in 2008 and 2009. As a result, the taxpayer was allowed to carryover the 2008 and 2009 credit for use on the 2010 form FTB 3507.

A Purpose

Use form FTB 3507, Prison Inmate Labor Credit, to figure a credit for wages paid to prison inmates under an approved joint venture with the California Department of Corrections. Also use this form to claim pass-through prison inmate labor credits you received from S corporations, estates or trusts, partnerships, or limited liability companies (LLCs) classified as partnerships.

S corporations, estates or trusts, partnerships, and LLCs classified as partnerships should complete form FTB 3507 to figure the amount of credit to pass through to shareholders, beneficiaries, partners, or members. Attach this form to Form 100S, California S Corporation Franchise or Income Tax Return; Form 541, California Fiduciary Income Tax Return; Form 565, Partnership Return of Income; or Form 568, Limited Liability Company Return of Income. Show the pass-through credit for each shareholder, beneficiary, partner, or member on Schedule K-1 (100S, 541, 565, or 568) Share of Income, Deductions, Credit, etc.

B Qualifications

California allows a credit equal to 10% of the wages paid to each prisoner who is employed under an approved joint venture with the California Department of Corrections.

The credit amount is based on wages paid to each qualifying employee during the taxable year for the duration of the contract agreement.

The credit applies only to wages paid pursuant to a contract agreement, between the director of corrections and the joint venture employer, executed on or before the day the individual begins work for the employer.

C Limitations

S corporations may claim only 1/3 of the credit against the 1.5% entity-level tax (3.5% for financial S corporations). The remaining 2/3 must be disregarded and may not be used as a carryover. S corporations can pass through 100% of the credit to their shareholders.

If a taxpayer owns an interest in a disregarded business entity [a single member limited liability company (SMLLC) not recognized by California, and

for tax purposes is treated as a sole proprietorship owned by an individual or a branch owned by a corporation], the usable credit amount received from the disregarded entity is limited to the difference between the taxpayer’s regular tax figured with the income of the disregarded entity, and the taxpayer’s regular tax figured without the income of the disregarded entity.

An SMLLC may be disregarded as an entity separate from its owner, and subject to certain statutory provisions that recognize otherwise disregarded entities for certain purposes, for example:

- The tax and fee of an LLC
- The return filing requirements of an LLC
- The credit limitations

Get Form 568, Limited Liability Company Tax Booklet, for more information.

This credit cannot reduce the regular tax below the minimum franchise tax (corporations and S corporations), the annual tax (limited partnerships, limited liability partnerships, and LLCs classified as a partnership), the alternative minimum tax (corporations, exempt organizations, individuals, and fiduciaries), the built-in gains tax (S corporations), or the excess net passive income tax (S corporations).

This credit cannot reduce regular tax below the tentative minimum tax (TMT). Get Schedule P (100, 100W, 540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations, for more information.

This credit is not refundable.

Corporate Members of a Unitary or Combined Group

This credit cannot be allocated or otherwise transferred to another taxpayer, even if the other taxpayer is a member of a unitary or combined group or otherwise affiliated with the taxpayer who earned the credit.

Specific Line Instructions

Line 1 – Enter the total amount of qualifying wages paid or incurred under the provisions of the approved joint venture.

Line 3 – If you received more than one pass-through credit from S corporations, estates or trusts, partnerships, or LLCs classified as partnerships, add the amounts and enter the total on line 3. Attach a schedule showing the names and identification numbers of the entities from which the credits were passed through to you.

Line 5 – The amount of this credit that you can claim on your tax return may be limited. Refer to the credit instructions in your tax booklet for more information. The instructions also explain how to claim this credit on your tax return. Use credit code number **162** when you claim this credit. Also see General Information C, Limitations.