A GUIDE FOR THE MIC

Note: This Guide contains questions to address when determining whether the taxpayer can claim the Manufacturers' Investment Credit (MIC) and to help determine the correct amount of the credit. Because it is not possible to provide a guide that addresses every MIC question, it is the responsibility of the auditor to consider the facts and circumstances of each case and to determine the audit objectives and proper procedures to apply.

#	Item	√/Date
	GENERAL QUESTIONS	
1	See R&TC §§17053.49 and 23649, and CCR, tit. 18, §§17053.49-1 through 17053.49-11 or §§23649-1 through 23649-11.	
2	Is the MIC being claimed on a return for an income year beginning on or after 1/1/95? **Note**: For example, a taxpayer with a June 30 fiscal year-end, the period 7/1/95 - 6/30/96 would be its first tax year to claim the MIC and qualified costs paid or incurred during 1/1/94 - 6/30/96 could qualify.	
3	Did the taxpayer attach the form FTB 3535 to the tax return? If yes, did the taxpayer provide all the information requested on the form? **Note**: The taxpayer is required to provide all the information requested on the form FTB 3535 at the time of filing.	
4	Do the detailed costs foot to the total qualified property claimed for the MIC on the form FTB 3535, Line 10, and the front of the tax return?	
5	How do total costs claimed compare to the change in fixed assets reported on the Schedule L-Balance Sheet? Did the taxpayer claim 100% of the assets purchased for the year?	
6	Did you scan the list of claimed MIC assets, reviewing for assets that appear to be nonqualified property?	
7	Is any reported item material? **Note**: This should be considered when determining which items to test.	
8	Did the taxpayer obtain a Manufacturers' Partial Exemption Certificate from the California Board of Equalization (BOE)? **Note**: Only a new business (as defined by the BOE) can qualify for the sales or use tax exemption. The certificate can only be used for three years.	
9	Did the taxpayer claim the Manufacturers' Partial Exemption on the same item of property claimed for the MIC? If yes, the taxpayer cannot claim the MIC on that item of property. **Note**: The election whether to claim the partial sales or use tax	

	exemption is made on each item of property. (To obtain information from the BOE database, you may contact any FTB designee.)	
	OTHER CALIFORNIA TAX CREDITS	
10	Did the taxpayer claim a low-emissions credit or a LARZ credit for any of these assets? **Note**: The taxpayer cannot claim the low-emission credit or a LARZ credit for an item of property and claim the MIC on that same property. (CCR, tit. 18, §§17053.49-11(b) and 23649-11(b).)	
11	Did the qualified taxpayer claim the enterprise zone sales or use tax credit or business expense deduction on the same item of property for which the MIC is claimed? If yes, in addition to reducing the total cost of the asset by the amount of the sales or use tax paid, did the qualified taxpayer also reduce the MIC asset cost by the business expense deduction before computing the credit? **Note**: The taxpayer can claim the enterprise zone sales or use tax credit or business expense deduction and the MIC on the same item of qualified property. However, the MIC cost basis of the property must be reduced by both the sales or use tax paid (although this adjustment is always required) and the business expense deduction before computing the MIC.	
12	Did the qualified taxpayer claim the research and development credit on the same item of property for which the MIC is claimed? If yes, as a general rule, the taxpayer cannot claim the MIC. **Note**: To claim the MIC, the qualified taxpayer must capitalize costs paid for an item of property. Generally, if the qualified taxpayer is using the equipment in research and development, the costs for the property must be expensed under IRC §174. Unless an election was made to capitalize the costs under IRC §174, these costs are not qualified costs for the MIC.	
13	Did the qualified taxpayer claim the LARZ sales tax credit and the MIC on related capitalized labor costs for the same item of qualified property? If yes, this treatment is incorrect.	
	QUALIFIED TAXPAYER	
14	See R&TC §§17053.49(c) or 23649(c), and CCR, tit. 18, §§17053.49-3 or 23649-3.	
15	❒ Which SIC code(s) on the form FTB 3535 is reported for the taxpayer's business activity? ❒ Which SIC code(s) has the taxpayer used in the past? ❒ Are they the same? **Note**: In many cases, the Principal Business Activity (PBA) code reported on the front of the return will be the same as the SIC code	

	reported on the form FTB 3535. However, beginning 1/1/98, taxpayers are required to report their PBA code using the four to six digit North American Industry Classification System (NAICS) code. *Nevertheless, for purposes of the MIC, taxpayers must continue to use the 1987 edition of the SIC Manual to determine their four digit SIC code.*	
16	Does the taxpayer have at least one operating establishment described under Division D, manufacturing, of the SIC Manual? Division D includes SIC codes 2011-3999, inclusive. **Note**: Taxpayers assign their SIC code using the classification of business activity rules contained in the introductory section and appendices in the SIC Manual. The taxpayer's SIC code assignment for reporting purposes to any other federal or state government (other than the FTB) is not determinative of the SIC code that may be assigned for MIC purposes. (CCR, tit. 18, §§17053.49-3(a) and 23649-3(a).) Likewise, the PBA Code that is used for federal and state income tax return purposes may not necessarily reflect the taxpayer's SIC code assignment for purposes of the MIC.	
17	Is the taxpayer's business activity properly classified within SIC codes 2011–3999? Is the taxpayer's business activity properly classified within SIC codes 7371-7373? If yes, is the tax year beginning on or after 1/1/98? **Note**: For income years beginning on or after 1/1/98, the definition of qualified taxpayer includes SIC codes 7371-7373 (computer programming or computer software design).	
18	Does the taxpayer own more than one operating establishment in California? If yes, is the taxpayer claiming the MIC on property located in more than one of these establishments? **Note**: If property is located in more than one establishment, each operating establishment must be classified under Division D, manufacturing, and the property must be used in a qualified activity to qualify for the credit, assuming the other requirements are met.	
19	Does the taxpayer's operations involve manufacturing? **Note**: Review the cost of goods sold schedule to compare any capitalized labor costs versus capitalized inventory purchase costs. Is labor a reasonable percentage? Generally, manufacturing taxpayers capitalize (under IRC §263A) labor costs as part of inventory. (Note: If the taxpayer has a third party manufacturing the products it develops and sells, the taxpayer *may be* a retailer and assigned a SIC code under another division of the SIC Manual.)	
20	If the taxpayer is manufacturing goods, are the labor costs that are capitalized to the cost of producing inventory also claimed in the computation of the MIC?	

	Note: Capitalized labor costs must be directly allocable to the acquisition, construction, or reconstruction of qualified property. (See FTB Legal Ruling 2000-1, Manufacturers' Investment Credit Capitalized Costs Under Third-Party Contracts.) Inventory costs do not qualify for the MIC.	
21	Is the taxpayer's manufacturing establishment located within an Enterprise Zone (EZ)? If yes, the taxpayer may claim the MIC and the EZ sales or use tax credit (SUTC) or business expense deduction (BED) on the same item of property. However, for purposes of the EZ SUTC and BED, the property must be used exclusively within the zone. (See Other California Tax Credits section below.)	
22	❒ Is the taxpayer claiming costs for qualified property used in R&D? ❒ Does the R&D support the qualified taxpayer's manufacturing process? ❒ Or, is the taxpayer conducting R&D described under SIC code 8731 or some other SIC code? **Note**: R&D property can qualify for the MIC provided the qualified property is used in an R&D activity that supports the manufacturing process. An election must be made by the taxpayer to capitalize R&D costs under IRC §174 for such costs to be qualified costs for the MIC. R&D companies that are not classified under Division D, Manufacturing, SIC codes, are generally not qualified taxpayers for purposes of the MIC. For an R&D establishment to be classified under Division D, it must be classified as an auxiliary establishment. Auxiliary establishments are assigned the same SIC code as the establishment they support. For example, if the R&D activity supports an operating establishment with SIC code 3581, the R&D establishment's SIC code would also be 3581. On the other hand, if the R&D activity is classified as an operating establishment it will be assigned a SIC code based on its principal activity, Research & Development, and will be assigned a SIC code in some other division of the SIC Manual.	
23	**Plant Tour:** ❒ Did you conduct a plant tour to determine if the taxpayer's business activity, for which the MIC is being claimed, is properly described under the SIC code reported on the form FTB 3535? ❒ Did you see the location of the qualified property in the manufacturing process? ❒ Did you see the beginning and the end of the process? ❒ Did you seek the taxpayer's approval to take pictures or a video of equipment during the plant tour? **Note:** It is very important that you understand the taxpayer's manufacturing process. Therefore, prior to your site tour, request a plant map, a diagram of the manufacturing process and the location of the qualified property in the process. Also, check the Internet for company or industry information. Often a diagram of a company's manufacturing process is available on-line.	

24	**No plant tour**: ❒ Did you obtain a description of the taxpayer's business activities in California? ❒ Did you obtain a detailed description of the taxpayer's manufacturing process or other qualified activity? ❒ Did you determine the beginning and the end of the process? ❒ Did you request a plant map, a diagram of the exact location of the qualified property used in the manufacturing process or other qualified activity, pictures or a video of material qualified property, if necessary? **Note**: When a plant tour <u>cannot</u> be conducted and you have a material asset(s) being claimed as qualified property, consider requesting the taxpayer take a picture of the asset (or make a short video of the asset) to show where and how it is being used in the manufacturing process or other qualified activity.	
	REMEMBER: If the taxpayer does not meet the Qualified Taxpayer requirement, it cannot claim the credit. You may not need to determine if the other requirements were met.	
	QUALIFIED PROPERTY	
25	See R&TC §§17053.49(d) or 23649(d) and CCR, tit. 18, §§17053.49-5 or 23649-5.	
26	Is the property being used in California? **Note**: Qualified property must be placed in service in California.	
27	Did you verify that the property was placed in service in California on or after 1/1/94? **Note**: "Placed in service" is defined by CCR, tit. 18, §§17053.49-2(i) or 23649-2(i).	
28	Is the property in the California numerator of the Schedule R property factor of the apportionment formula? Tie some assets to the California numerator workpapers to test that the asset is also being reported in the California numerator.	
29	Does the qualified taxpayer legally own the property? **Note**: With the exception of property acquired through a lease, qualified property must be owned by the taxpayer claiming the credit.	
30	Is the property tangible personal property as defined by IRC §1245(a)? Scan the depreciation or fixed assets schedule to verify that the asset is listed in an asset category (e.g., machinery and equipment) which would meet the definition of tangible personal property under IRC §1245 (a)(3)(A). **Note**: Generally, real property defined by IRC §1250 (e.g., structures	

	and structural components) does not qualify for the MIC. However, the statute specifically provides that qualified property includes Special Purpose Buildings and Foundations (real property-type assets) used by certain qualified taxpayers engaged in certain manufacturing activities. For a list of qualified taxpayers that may claim costs for Special Purpose Building and Foundations, see questions #41 - #45 below.	
31	Is the taxpayer's business activity classified in SIC codes 7371-7373? If yes, are they claiming only computers and computer peripheral equipment used primarily to develop or manufacture pre-packaged software? **Note**: For income years beginning on or after 1/1/98, qualified property also includes computer and computer peripheral equipment (as defined by IRC §168(i)(2)(B)) that is used in an operating establishment classified under SIC codes 7371-7373 to primarily develop or manufacture pre-packaged software.	
32	Is the property <u>other</u> tangible personal property as defined by IRC §1245(a)(3)(B)? If so, is it being used in petroleum refining for the production of reformulated gasoline or oxygenated gasoline? **Note**: Generally, other tangible personal property defined by IRC §1245(a)(3)(B) does not qualify for the MIC. However, CCR, tit. 18, §§17053.40-5(f) and 23649-5(f) specifically provide that qualified property includes "other tangible property" used in petroleum refining for the production of "reformulated gasoline" or "oxygenated gasoline." (IRC §1245(a)(3)(B) assets used solely for the production of lube oils, aviation or diesel fuels do not qualify.) This applies to only those taxpayers engaged in a line of business described under SIC code 2911, Petroleum Refining.	
33	Is the property an inherently permanent structure? If so, the property is not treated as tangible personal property defined by IRC §1245(a)(3)(A) and does not qualify for the MIC. See the *Whiteco Industries, Inc. v. Comr. (65T.C.664 (1975))* decision for questions that should be addressed to determine whether or not the property is inherently permanent.	
34	Is the property a structural component? If so, the property is not treated as tangible personal property defined by IRC §1245(a)(3)(A) and does not qualify for the MIC.	
	QUALIFIED ACTIVITY	
35	See R&TC §§17053.49(d)(1)(A)-(E) or 23649(d)(1)(A)-(E) and CCR, tit. 18, §§17053.49-5(b)(3)-(4) or 23649-5(b)(3)-(4).	
36	Did you verify that the qualified property is used in the manufacturing or other qualified activity? Qualified activities include: ❒ Manufacturing, processing, refining, fabricating or recycling of	

	property. ❒ Research and development. ❒ Pollution control. ❒ Recycling. ❒ Maintaining, repairing, measuring or testing qualified property. **Note**: It is important to determine if the qualified property is actually used in the manufacturing process. If the property is not used in the manufacturing process or other qualified activity, it will not qualify for the MIC. To make this determination you need to know how the term "process" is defined for MIC purposes. See CCR, tit. 18, §17053.49-2 (l) or §23649-2(l) for the definition of "process."	
37	Is the tangible personal property used *primarily* (50% or more of the time) in a qualified activity? (See CCR, tit. 18, §§17053.49-2(k) or 23649-2(k) for the definition of the term "primarily".)	
38	Is software or hardware property being claimed? **Note**: Only "off-the-shelf" computer software upon which California sales or use tax is paid, either directly or indirectly, qualifies for the MIC as qualified property. For example, if the qualified taxpayer hires a computer consultant to develop a software program to monitor the paper usage on its assembly line, it will <u>not</u> qualify for the MIC. Because the taxpayer paid for a service, there is no sales tax paid on consulting fees. (CCR, tit. 18, §§17053.49-5(a) or 23649-5(a).)	
39	If computer software is claimed, is the property used primarily in a qualified activity? **Note**: If the software is being used for general/administrative purposes (e.g., accounting, inventory control, etc.), it will not qualify for the credit.	
40	Are any items of nonqualified property included, such as: ❒ Furniture (even if used in a qualified activity); ❒ Assets used in administrative, general management or marketing activities; ❒ Equipment used before the manufacturing process begins; ❒ Equipment used for storage of finished goods; ❒ Warehousing facilities; or ❒ Inventory. **Note**: Scan the general asset descriptions on the form FTB 3535 and the depreciation schedule for these types of assets. See RTC §§17053.49 (d)(5) or 23649(d)(5).	
	SPECIAL PURPOSE BUILDINGS & FOUNDATIONS	
41	See R&TC §§17053.49(d)(4) or 23649(d)(4) and CCR, tit. 18,	

	§§17053.49-5(c) or 23649-5(c).	
42	Did the taxpayer include costs for the construction or acquisition of a Special Purpose Building and Foundation?	
43	Did the qualified taxpayer construct a Special Purpose Building and Foundation principally to function as a: ❐ General purpose manufacturing, industrial or commercial building; ❐ Research facility that is used primarily prior to and/or after the manufacturing process; or ❐ Storage facility that is used primarily prior to and/or after completion of the manufacturing process? If yes, it does not qualify for the MIC.	
44	Is the qualified taxpayer using the Special Purpose Building and Foundation in any of the qualified activities described in the following SIC codes? ❐ 2833-2836 Drugs; limited to activities related to biopharmaceutical establishments; ❐ 3559 Special Industry Machinery, Not Elsewhere Classified; limited to activities related to semiconductor equipment manufacturing; only for qualified property placed in service on or after January 1, 1997; ❐ 3571-3579 Computers & Office Equipment; ❐ 3663 Radio & Television, Broadcasting & Communications Equipment; limited to activities related to space satellites & communications satellites & equipment; only for qualified property placed in service on or after January 1, 1996; ❐ 3671-3679 Electronic Component & Accessories; ❐ 3761-3769 Guided Missiles, Space Vehicles & Parts; limited to activities related to space vehicles and parts; ❐ 3812 Search, Detection, Navigation, Guidance, Aeronautical, & Nautical; limited to activities related to space satellites & communications satellites & equipment; only for qualified property placed in service on or after January 1, 1996; or ❐ 8731 Commercial Physical & Biological Research; limited to activities related to biotechnology. **Note**: Only qualified taxpayers engaged in manufacturing activities described under these SIC codes can include costs paid or incurred for Special Purpose Buildings and Foundations.	
45	Was the Special Purpose Building and Foundation constructed by the qualified taxpayer for use primarily in: ❐ A manufacturing, processing, refining, or fabricating process, or ❐ A research or storage facility used primarily in connection with a manufacturing process? If yes, qualified costs paid or incurred for the Special Purpose Building and Foundation qualify for the credit.	

	QUALIFIED COSTS	
46	See R&TC §§17053.49(b) or 23649(b) and CCR, tit. 18, §§17053.49-4 or 23649-4.	
47	Did the qualified taxpayer include costs paid or incurred for the construction, acquisition or reconstruction of qualified property on or after 1/1/94? Scan the form FTB 3535 detailed schedule for cut-off dates. **Note:** Amounts paid prior to 1/1/94 do not qualify even though there is a contract. Refer to the discussion on binding contracts in CCR, tit. 18, §§17053.49-4(e) or 23649-4(e).	
48	If the qualified taxpayer placed assets in service after 1/1/94, did the qualified taxpayer pay or incur the costs after 1/1/94 as well? **Note**: For assets placed in service after 1/1/94, only those costs actually paid or incurred after 1/1/94 will qualify.	
49	Did the qualified taxpayer's supporting workpapers use a "placed in service" date instead of a "purchase" date? If so, the taxpayer may have claimed pre-1/1/94 costs.	
50	If cut-off is a problem, did you consider lowering your materiality level for this aspect only? **Note**: The asset must be purchased and placed in service on or after 1/1/94 (the cut-off test). If the asset is purchased or placed in service prior to this date, the asset does not qualify for the MIC.	
51	Did the qualified taxpayer pay *California* sales or use tax on the items of qualified property? **Note**: For costs to be treated as qualified costs, <u>California</u> sales or use tax must be paid, directly or indirectly, as a separately stated contract amount or as determined from the books and records of the qualified taxpayer, with respect to the qualified property. Generally, while sales tax paid in another state will not qualify the property, if the property is first functionally used in service in California within 90 days of being purchased, the sales or use tax may be deemed to have been paid to California and would qualify the property for the MIC.	
52	❒ Has the qualified taxpayer informed you that a BOE audit was done or is on-going for the audit period? ❒ Did the BOE conduct a sales or use tax audit for any of the years under examination by the FTB?	
53	Did the qualified taxpayer amend its California sales and use tax returns for the audit years to pay the California sales or use tax on assets claimed in the MIC?	
54	Did the qualified taxpayer receive a California sales or use tax refund for transactions related to the audit years?	

55	Was the total California sales or use tax paid, including county and local taxes, excluded from the claimed costs for the MIC? **Note**: The California sales and use tax is not a cost upon which the sales and use tax has been paid and does not qualify.	
56	Were freight charges, duties, custom fees, bond costs, re-stocking charges, warranty costs or other miscellaneous costs included in qualified costs? **Note**: If so, was California sales or use tax paid on these costs? If not, the cost is not a qualified cost for the MIC.	
57	Did the taxpayer elect to claim an IRC §§179, 179A or 179-type provision deduction? If so, was the asset basis reduced by these amounts? **Note**: If one of these elections is made, the qualified taxpayer must reduce the cost basis of the property by the amount expensed before computing the MIC.	
58	Is the cost included in the basis of the asset for purposes of computing depreciation? If not, the cost does not qualify.	
59	Did a vendor or contractor construct the property? If yes, consider requesting a copy of the contract and/or bid proposals submitted to the taxpayer in the bidding phase of the project.	
	CAPITALIZED LABOR COSTS	
60	See CCR, tit. 18, §§17053.49-4(d) or 23649-4(d) and FTB Legal Rulings 98-1 and 2000-1.	
61	Did the qualified taxpayer capitalize the costs paid or incurred for qualified property? Check the listing of fixed assets or depreciation schedule to verify the qualified property was capitalized. **Note**: Generally, regardless of whether the taxpayer self-constructed or contracted the construction of the asset, the amount claimed for MIC purposes should be lower than the amount capitalized for depreciation purposes. Remember, not all costs capitalized under IRC §263A qualify for the MIC. For example, indirect labor, training costs, sales or use tax may be capitalized under IRC §263A but do not qualify for the MIC.	
62	Did you obtain the taxpayer's capitalization policy for minimum dollar limits and asset life requirements? **Note**: Request a listing of all items capitalized. Generally, a description of the costs capitalized (e.g., labor, installation, sales or use, etc.,) will not be provided on the depreciation schedule. Therefore, you should request supporting documentation such as contracts and invoices to "back out" IRC §263A items capitalized for depreciation purposes but not allowed for MIC purposes.	

63	**Capitalized Labor Costs:** ❒ Did the qualified taxpayer include capitalized labor costs for the construction, modification or installation of qualified property? ❒ Did the taxpayer allocate labor costs between qualified and nonqualified property? ❒ Did the taxpayer include only direct labor costs? **Note**: For purposes of the MIC, only direct labor costs as defined under IRC §263A qualify. Direct labor costs includes such items as wages, overtime, vacation, holiday and sick pay, payroll taxes, etc., and these costs must be directly allocable to the construction, modification or installation of the qualified property. For example, if an engineer was paid to install qualified property, his direct labor expenses qualify. But, if the engineer's boss only supervised the job, the boss' wages would not qualify for the MIC. See FTB Legal Rulings 98-1 and 2000-1.	
	LEASES	
64	See R&TC §§17053.49(f) or 23649(f) and CCR, tit. 18, §§17053.49-6 or 23649-6.	
65	Were any assets acquired by lease? Did the lessor acquire the qualified property on or after 1/1/94? Was the lease commenced with the qualified taxpayer on or after 1/1/94? If no, then the lessee cannot claim the MIC. **Note**: Review the taxpayer's financial statements to determine if they have any lease commitments. If they do, ask the taxpayer what assets are leased and to provide copies of the lease agreements.	
66	❒ Is the lessee a qualified taxpayer? ❒ Is the leased property used in a qualified activity described above? **Note**: The lessee must be a qualified taxpayer and use the qualified property (the leased property) in a qualified activity. If the lessee does not meet these requirements, they cannot claim the MIC.	
67	Is the lease an *operating (true) lease* or *finance (capital) lease* under California sales or use tax law? **Note**: Under sales or use tax law, all leases are deemed to be a finance lease. However, if the lease meets one of the following two exceptions it will be treated as an operating lease. 1) The tangible personal property is: • Leased in substantially the same form as acquired by the lessor and/or transferor, and • The lessor or transferor has paid sales tax reimbursement or has paid use tax measured by the purchase price of the property. **OR** 2) A lease not containing a nominal option price. California sales or use tax law generally treats the option price as nominal if it does not exceed the lesser of $100 or 1% of the total contract price.	

	Note: A lease may be a *finance (capital)* lease for GAAP/income tax purposes and be an *operating (true)* lease for BOE/MIC purposes.	
68	Who paid the California sales or use tax on the leased property? **Note**: First determine if the lease is an operating or finance lease applying the BOE sales and use tax rules. The lessor must pay the sales and use tax under an *operating lease*. Under a *finance lease*, either the lessor or the lessee can pay the tax. You may have to look to the financial statements to see if the taxpayer has lease commitments. If so, ask what assets are being leased.	
69	In the case of an operating lease, was an election made by the lessor to pay the sales or use tax based on his or her acquisition price at the time the property was acquired, (i.e., up-front)? In the case of a finance lease, was an election made by either the lessor or lessee to pay the sales or use tax based on the lessee's acquisition price of the property, (i.e., up-front)? **Note**: Under either type of lease, if sales or use tax is not paid up-front, the lessee cannot claim the MIC on the item of property.	
70	Did you review the invoice(s) for the purchase price, asset description, payment of sales or use tax, where shipped (should be California) and date purchased? **Note**: The asset must be purchased and placed in service in California on or after 1/1/94 (the cut-off test). If assets purchased and placed in service prior to this date, the asset does not qualify for the MIC.	
	S CORPORATIONS	
71	❒ Is the qualified taxpayer an S corporation? ❒ Did the S corporation claim only one third of the credit? ❒ Did the S corporation pass through 100% of the credit to the shareholders? **Note**: S corporations may only claim one third of the credit. However, the shareholders can claim 100% on their tax returns.	
	PARTNERSHIPS	
72	Is the partnership a qualified taxpayer that paid or incurred qualified costs for qualified property? **Note**: The MIC is determined at the partnership level and allocated between the partners. If there is no written partnership agreement to the contrary, the MIC will be allocated amongst the partners in the same ratio that general profits are allocated to the partners. If this ratio	

	changes during the taxable year of the partnership, the ratio as of the date the property is placed in service governs the allocation of the MIC. In the event of any MIC to be carried forward, the determination of the applicable carryover period will be made at the partnership level.	
	REORGANIZATIONS	
73	Is recapture required as a result of the reorganization?	
74	Did the qualified taxpayer pay California sales or use tax on any stepped-up asset basis for which the MIC is claim?	
75	Did the qualified taxpayer claim the MIC on the acquisition of assets from a stock acquisition? If so, ownership of the assets may not have changed and the assets may not qualify for the MIC.	
	OTHER ISSUES	
7**6**	Is qualified property listed on the subsequent income tax return? Check the subsequent year's depreciation schedule or fixed assets schedule to see if the qualified property is listed. If not, the taxpayer may be subject to the recapture provisions. See the next item.	
77	If the asset(s) is not listed on the depreciation or fixed asset schedule, did you write the taxpayer and ask for a detailed explanation on the disposition of the asset, including the date of disposition? **Note**: If the asset is removed from this state, used in a nonqualified activity or disposed of to an unrelated party within one year from the date it was placed in service in California, the credit claimed on that item of property is subject to recapture.	
78	Did the qualified taxpayer transfer or allocate the MIC to an affiliated taxpayer, corporation or a member of a unitary group? **Note**: A qualified taxpayer that places qualified property in service and properly generates a MIC may not allocate the credit to an affiliated corporation. A corporation that is a member of a unitary group may not allocate, share, or otherwise transfer the credit to any other member of the unitary group. Each taxpayer, who claims a MIC, must qualify independently for each aspect of the credit in order to claim the credit.	
79	Sample testing can be used. If assets over $X are tested, what dollar amount and percentage of the total MIC is being covered? **Note**: If, as a result of sampling, a specific type of error occurs this error should be identified, quantified and a proposed adjustment should be made to correct the error.	
80	Did you determine whether the accuracy related penalty or failure to provide information penalty should be assessed?	

Note: There are three key requirements that must be satisfied before the MIC can be claimed: qualified taxpayer, qualified property, and qualified costs. When proposing adjustments, if your primary issue is whether or not the taxpayer is a qualified taxpayer and the audit determination is not a clear cut result, you may need to consider examining the other MIC issues, as secondary audit positions.

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