Instructions for Schedule D-1
Sales of Business Property
(Also, involuntary conversions and recapture amounts under IRC Sections 179 and 280F and R&T Code Sections 17267.2, 17267.6, 17268, 24356.5, 24356.6, 24356.7, and 24356.8). 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&T).

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 and search for conformity. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&T&C) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

Partnerships, Limited Liability Companies (LLCs) classified as partnerships, S corporations, and their partners, members, and shareholders, must follow the new procedures for reporting all sales or other dispositions of property for which the IRC Section 179 expense deduction was claimed. See Property Subject to IRC Section 179 Expense Deduction Recapture, under General Information B, Special Rules, for the reporting requirements.

The computation of recapture amounts under IRC Sections 179 and 280F when the business use of IRC Section 179 or 280F property drops to 50% or less and for property that ceases to be “qualified property” under IRC Sections 17267.2, 17267.6, 17268, 24356.5, 24356.6, 24356.7, and 24356.8.

Special Rules
Combined Reporting Groups. Each corporation that is a member of a combined reporting group should complete this form to report its share of business gains and losses apportioned to California and its nonbusiness gains and losses that are allocated to California. For more information, see Cal. Code Regs., tit. 18 section 25106.5-2 and FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Casualties and Thefts. Complete and attach federal Form 4684, Casualties and Thefts, using California amounts.

Exchange of “Like-Kind” Property. Complete and attach federal Form 8824, Like-Kind Exchanges, using California amounts.

Partnerships. Follow the instructions for federal Form 4797 under “Disposition by a Partnership or S Corporation of Section 179 Property” to report the transaction on the partnership return (including the Schedules K (565) and K-1 (565) reporting requirements).

LLCs. The gain on the property subject to the IRC Section 179 expense deduction recapture must be included in the total income for the LLC. Report the gain on property subject to the IRC Section 179 expense deduction recapture on Schedule K (565 or 568), line 10a.

The LLC must provide the following information with respect to the disposition of business property if an IRC Section 179 expense deduction was claimed in prior years:
- Description of the property.
- Date the property was acquired and placed in service.
- Date of the sale or other disposition of the property.
- Gross sales price or amount realized.
- Cost or other basis plus expense of sale (reduced as explained in the instructions for federal Form 4797, line 21).
- Depreciation allowed or allowable (determined as described in the instructions for federal Form 4797, line 22, but excluding the Section 179 expense deduction).
- Amount of IRC Section 179 expense deduction (if any).
- A statement indicating if the disposition is due to a casualty or theft.
- If this is an installment sale, any information needed to complete form FTB 3805E, Installment Sale Income.

S Corporations. Gain on property subject to the IRC Section 179 expense deduction recapture must be included in the taxable income of the S corporation. To accomplish this, the S corporation should complete...
Partners, Members, and S corporation
Section 197 intangible and to pay the tax on the exclusion of gain on the sale of a home used
For information about at-risk rules and the tax on the dotted line to the left of the amount.
Income Tax Return - Water's-Edge Filers, line 8, other additions; or line 16, other deductions.
Built-in Gains. For California purposes, when a C corporation elects to be an S corporation, certain items recognized in S corporation years are subject to the C corporation tax rate instead of the S corporation tax rate.
Built-in gains are reported on Schedule D (100S), S Corporation Capital Gains and Losses and Built-in Gains. Get the Form 100S Booklet for additional information.
Partnerships and Limited Liability Companies: See instructions for Schedule K and Schedule K-1 (565 or 568), lines 10a and 10b, and lines 11b and 11c.
Line 18a – If the amount of your California casualty and theft loss is not the same as the amount of your federal casualty and theft loss, enter the difference on Schedule CA (540 or 540NR), California Adjustments, line 41.
Line 21 – Compare your federal amount entered on line 19 with your California amount entered on line 20. If the amount on line 19 is more than the amount on line 20, enter the difference on line 21(a) and on Schedule CA (540 or 540NR), line 14, column B. If the amount on line 20 is more than the amount on line 19, enter the difference on line 21(b) and on Schedule CA (540 or 540NR), line 14, column C.
Part III
Generally, do not complete Part III for property held one year or less; use Part II instead.
Use Part III to compute recapture of depreciation and certain other items that must be reported as ordinary income upon the disposition of property. Complete line 22 through line 27 to determine the gain on the disposition of the property. If you have more than 4 transactions to report, use additional forms.
For examples of IRC Sections 1245, 1252, 1254, and 1255 property, see instructions for federal Form 4797.
Line 25 – Taxpayers other than partnerships, LLCs, or S corporations, complete the following steps to figure the amount to enter on line 25.
• Add depreciation or depletion allowed or allowable, amortization or Accelerated Cost Recovery System (ACRS) deductions if it is recovery property.
• Add the IRC Section 179 expense and R&T Section 1276.2, 1276.6, 17268, 24356.5, 24356.6, 24356.7, and 24356.8 expenses deducted.
• Subtract any IRC Sections 179 and 280F recapture amount included in gross income in a prior taxable year because the business use of the property dropped to 50% or less. Also, subtract any R&T Sections 1276.2, 1276.6, 17268, 24356.5, 24356.6, 24356.7, and 24356.8 recapture amount included in gross income in a prior taxable year because the property ceased to be qualified property.
• Use the amount claimed on your California tax return under R&T Section 17201 when adding or subtracting IRC Section 179 expense.

If the straight-line depreciation is more than the IRC Section 179 expense and R&T Section 1276.2, 1276.6, 17268, 24356.5, 24356.6, 24356.7, and 24356.8 expenses deducted.

Line 29f – Refer to the instructions for federal Form 4797, line 28f. California law generally follows IRC Section 291 except IRC Sections 291(a)(3) and 281(b)(1) have been modified. Enter the ordinary income amount computed according to the federal instructions using California figures.

IRC Section 1252 Property
Partnerships, skip line 30a through line 30c. Partners should enter on the applicable lines of Part III amounts subject to IRC Section 1252 according to instructions from the partnership.

You may have ordinary income on the disposition of certain farm land held more than one year but less than 10 years.

Line 30b – Enter 100% of line 30a on line 30b if your property was held for 10 years or longer. If your property was held for less than 10 years, use the same percentage required by federal law.

Part IV
Complete column (a) of line 36 through line 38 of Part IV to figure the amount to be recaptured if the following apply:

• You took a deduction under IRC Section 179 for property placed in service on or after January 1, 1987 [other than listed property, as defined in IRC Section 280F (d)(4)]; and
• The property was not used predominantly in your trade or business at any time; or
• You took a deduction under R&T Section 1726.2, 1726.6, 17268, 24356.5, 24356.6, 24356.7, or 24356.8; and
• That property ceased to be qualified property before the close of the second taxable year after it was placed in service.

IRC Section 280F Property
If you have listed property that you placed in service in a prior year and the business use dropped to 50% or less this year, figure the amount to be recaptured.

Complete column (b), line 36 through line 38, of Part IV.

If you have more than one property subject to the recapture rules, use separate statements to figure the recapture amounts for each property and attach the statements to your tax return.

Line 36, Column (a) – Enter the IRC Section 179 expense claimed on your California tax return under R&T Section 17201, and R&T Sections 1726.2, 1726.6, 17268, 24356.5, 24356.6, 24356.7, and 24356.8 expenses that were deducted when the property was placed in service.

Column (b) – Enter the recovery deductions allowable on the property in prior tax years. Any deduction allowable under IRC Section 179 on that property is treated as if that deduction was a recovery deduction under IRC Section 168.

Line 37, Column (a) – Enter the depreciation allowable on the IRC Section 179 amount from the time it was placed in service (on or after January 1, 1987) or, under R&T Sections 1726.2, 1726.6, 17268, 24356.5, 24356.6, 24356.7, and 24356.8 from the time the property was placed in service to the current year.

Column (b) – Enter the recovery deductions that would have been allowed if the property had not been predominantly used in a qualified business. Figure the deductions from the year it was placed in service to the current year.

Line 38 – If the recapture amount on your federal Form 4797, Part IV, line 35, is different from the recapture amount on Schedule D-1, line 38, an adjustment is required on your California tax return as follows:

Individuals: Figure the difference between the federal amount and the California amount, and enter on the line for reporting the type of business income that resulted in the recapture on Schedule CA (540 or 540NR) as follows:

• If the federal amount is more than the California amount, enter the difference on Schedule CA, column B.
• If the California amount is more than the federal amount, enter the difference on Schedule CA, column C.

Corporations: Form 100 or Form 100W, line 8, other additions; or line 16, other deductions for the difference between California and federal recapture amounts.

S corporations: Form 100S, line 7, other additions; or line 13, other deductions for the difference between California and federal recapture amounts. Also, Schedules K (100S) and K-1 (100S), line 10b or line 12e.

Partnerships or Limited Liability Companies: Schedules K (565 or 568) and K-1 (565 or 568), lines 11b and 11c or line 13e.